



Oregon Society of Certified Public Accountants

10206 SW Laurel Street Beaverton, Oregon 97005-3209 • PO Box 4555 Beaverton, Oregon 97076-4555
503-641-7200 / 1-800-255-1470 • Fax 503-626-2942
oscpa@orcpa.org • www.orcpa.org

Oregon Legislative Assembly – 2017 Regular Session Hearing Senate Committee on Finance and Revenue

Testimony related to Senate Bill 165 Pass-Through Entity Income Reduced Tax Rate (OR-PTE)

DATE: February 16, 2017

Good morning Chair Senator Mark Hass, Vice-Chair Senator Boquist and Members of the Senate Committee on Finance and Revenue. For the record, my name is Jason Orme. I am a member and Past Chair of the Oregon Society of Certified Public Accountants (OSCPA). I am a Certified Public Accountant with the firm of Talbot, Korvola & Warwick LLP in Lake Oswego, OR. I appreciate the opportunity to participate in today's hearing.

On behalf of over 4,500 members of the OSCP, I respectfully testify related to Senate Bill 165 – Pass-Through Entity Income Reduced Tax Rate (OR-PTE).

POSITION:

We respectfully urge you to reject Senate Bill 165 as it adds ambiguity and increased complexity to already complex law. It also may have a detrimental effect on businesses who cannot find experienced employees.

The areas of ambiguity and additional complexity include:

- What is the definition of full-time equivalent employee?
 - Is full-time 2,080 hours per year, or some other amount?
 - How does the definition of full-time based on hours apply to salaried employees?
 - Are paid vacation, sick leave and holiday hours included in determining the number of hours to calculate the full-time equivalency factor?
 - Can a single employee be treated as more than one full-time equivalent? For example, if an employee works 2,496 hours, and 2,080 hours is deemed to be full-time, does this employee count as 1.2 full-time equivalents, or just 1.0 full-time equivalent?
- What is the definition of "net increase" in full-time equivalent employees? Does even a small percentage of one FTE qualify as a net increase, or will there be a rounding adjustment?
- Many employers do not keep records of total hours worked by salaried employees. These employers would now be required to have salaried employees complete time sheets to support the number of hours worked per year.
- In determining "average hourly wage", is the denominator the total hours worked by the employee (including paid time off) or some other amount?

The above is not an all-inclusive list.

Many taxpayers will be required to keep new records solely to determine if they qualify for the pass-through entity tax benefit. After maintaining these new records, the taxpayers may discover that there is no benefit because they have not met both the increase in full-time equivalent employees and the equal or higher hourly wage requirements.

Some industries are suffering a shortage in their experienced workforce. Since experienced workers are not available, these companies hire less experienced employees at lower wages and train them to be able to fill the positions required. The employee's wages then increase as they gain experience. While they may be hiring more inexperienced people which is a benefit to the State's economy, they may not receive the benefit of the lower pass-through entity tax rates under the proposed legislation. During the first few years, they may satisfy the net increase in full-time equivalent employees requirement, but not the equal or higher average hourly wage requirement. In subsequent years as wages increase, they would meet the equal or higher hourly wage requirement, but not the increase in full-time equivalent employees requirement.

The Bill will reduce the benefit of the lower tax rates for pass-through entities while increasing the recordkeeping and compliance burden of taxpayers. It also increases ambiguity and complexity. We respectively request that Senate Bill 165 be rejected.

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