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Blog post

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Will the Oregon Senate stick with the GOP playbook on pass-through income?

by Daniel Hauser



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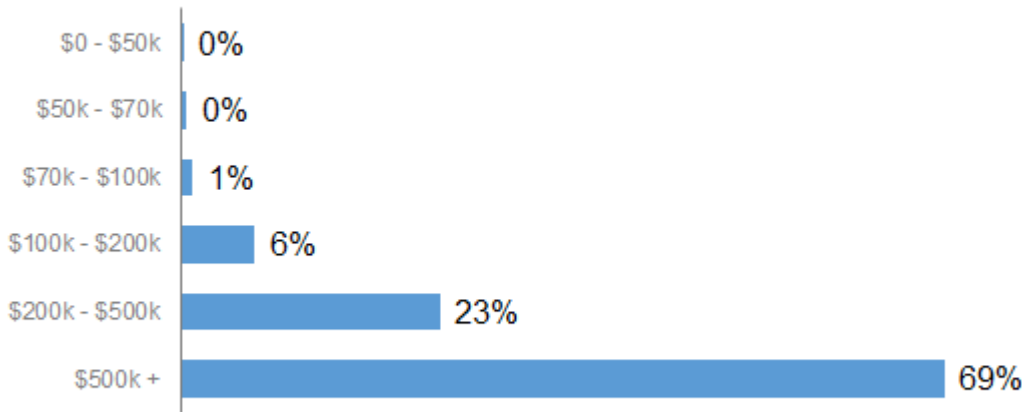
The federal [tax plan that Congress recently passed](#) is stuffed with tax cuts for the wealthy, and one of the biggest is the tax cut on pass-through business income. That income is the profits passed through from certain types of businesses — S-corporations and partnerships, for example — to their owners, who pay the tax on that income on their personal income tax returns instead of corporate returns.

The regressive nature of cutting taxes on pass-through income is no surprise here in Oregon. A [similar policy has been in place since 2013](#), when the legislature rewarded the richest Oregonians with a tax cut on pass-through income.

In 2016, 69 percent of the tax cut went to those making more than \$500,000 per year ([in 2015, the last year data is available, about \\$390,000 per year puts you in the top 1 percent](#)). Another 23 percent went to those making between \$200,000 and \$500,000 in 2016, leaving just 7 percent for Oregonian's who made less than \$200,000.

Rich Oregonians get bulk of pass-through income tax break

Share of revenue impact by income group from the reduced tax rate for pass-through business income



Totals do not add up to 100% because of rounding.

Source: OCPP analysis of preliminary Oregon Legislative Revenue Office data on the 2016 tax year.

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The Oregon tax break on pass-through income is already estimated to cost upwards of \$300 million in future budget periods. Instead of further flooding the bank accounts of the top 1 percent, those funds could put more teachers in classrooms, help more low-income children attend preschool, lower college tuition, and better protect foster children, for example.

The cost of this giveaway could grow even more in the years to come, now that the GOP majority in Congress has passed a federal tax cut for pass-through income. This tax cut could incentivize some employees to incorporate themselves as a "business" and thus artificially transform their wages into pass-through income, in order to pay lower federal taxes.

While the best course of action would be to eliminate the Oregon pass-through tax break entirely, [the Oregon house took a step in the right direction in 2017](#) by approving a bill that would have reined it in. Regrettably, the bill died in the Senate without making it to the floor for a vote.

In February, the legislature will convene for a one-month session. A bill will be introduced to once again rein in the tax break on pass-through income.

Oregon legislators, and especially Senators, need to look in the mirror and ask themselves which path they will take. Will they stick with the GOP tax playbook? Or will they rein in the pass-through business tax loophole and better fund education and other vital public services?

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