

February 6, 2018

Testimony on SB 1527-1 and SB 1528-3

Chair Hass, Vice-Chair Boquist, members of the Committee:

My name is Daniel Hauser, tax policy analyst for the Oregon Center for Public Policy, and I respectfully submit this testimony on Senate Bill 1527-1, and Senate Bill 1528-3.

While there are clearly a lot of amendments bouncing around this building – I want to address a few key principles underlying these two bills and their various amendments.

- **Fairness:** Pass-through business owners should not receive special treatment, either in reduced rates or special deductions. Business profits should not be taxed less than wages earned by an employee. Both the federal and state pass-through tax breaks perpetuate income inequality in Oregon. The state reduced tax rate is clearly a perk for wealthier Oregonians: 69 percent of the tax benefits flow to people making more than \$500,000 a year, and less than 1 percent is going to Oregonians making under \$100,000.
- **Priorities:** Oregon does not have hundreds of millions of dollars in extra revenue to send back to pass-through business owners who are already running profitable businesses. We should instead prioritize investments in education, affordable housing, and any number of other crucial public services.

Based on these core principles, I encourage this committee to:

- **Disconnect from the new federal pass-through tax deduction as found in IRC 199A(a).**
 - This is accomplished in Section 10 of SB 1528-3 and this provision of the bill should be supported.
- **Eliminate Oregon's reduced tax rate for pass-through business profits.**
 - None of the proposed legislation accomplishes this, but Section 10 of SB 1527-1 is a start. SB 1528-3 has a similar policy, but should not include sole proprietors – which expand the scope and cost of this misguided policy. It is, however, an improvement to remove two industries from being able to use this unfair tax break, as seen in Section 12 of SB 1528-3.

Neither SB 1527-1 nor SB 1528-3 go far enough, but both have certain provisions that would improve Oregon's tax system. I urge this committee to disconnect from the federal pass-through business tax deduction and eliminate Oregon's reduced tax rate for pass-through businesses.