

**Oregon Legislative Assembly – 2018 Session
Senate Committee on Finance and Revenue
Testimony of Richard B. Solomon, CPA
Regarding Proposed Amendments to SB 1528
(relating to deductions for Pass-Through Entities)**

DATE: February 6, 2018

Chair Hass, Vice-Chair Boquist and Members of the Committee, thank you for the opportunity to address you today. For the record, my name is Richard B. Solomon. I am a Certified Public Accountant who has practiced in Portland for over 40 years. My work is limited to tax planning and preparation of tax returns, primarily for professionals and high net worth individuals.

By way of background, you may recall that on September 21, 2016 and February 16, 2017, I testified before the committee regarding the PTE Reduced Tax Rate.

When I previously testified, I opposed the reduced tax rate for pass-through entities because I felt:

- a) It was a waste of the State's resources, and
- b) it was unfair because it favored some forms of business entity, such as S-Corporations, partnerships and multi-member LLCs, over other forms including sole proprietorships or single member LLCs.

Section 12 of SB 1528 reduces the revenue impact to the state by:

- reducing the benefit to only the first \$250,000 of a taxpayer's income, and
- excludes income from professional services from the reduced rate.

Section 12 also makes the system fairer by making it applicable to sole proprietorships and, presumably, single member LLCs. So, while I continue to oppose the concept of reducing taxes on pass-through entities, Section 12 results in improvements.

But the main reason I'm here today is to support the change made by Section 10 of SB 1528 which decouples Oregon tax from the changes made by the 2017 federal tax bill, the Tax Cuts and Jobs Act. New Internal Revenue Code Section 199A, provides for a 20% deduction for income from pass-through entities. If the Oregon Legislature fails to act and Section 199A is incorporated in Oregon tax law, huge revenue losses will occur.

At this point in time, we don't know the full impact of Section 199A and how much it will cost the state. We do know that it is poorly drafted with many details unclear. We also know that many workers currently treated as employees may try to change their form of doing business in order to claim the Section 199A 20% deduction from income.

You have the difficult task of deciding between competing values in allocating state resources.

Doing nothing - allowing Section 199A to take effect - benefits a small number of high income Oregon taxpayers while losing a huge but undeterminable amount of state revenue. Decoupling gives you time to accurately assess the revenue impact of Section 199A while maintaining much needed basic services like schools, higher education, health care and services for the elderly. The conservative approach is to decouple now and revisit the issue at a later date when costs can be more precisely calculated.

Another reason I favor decoupling is that Section 199A does not address the primary problem for employers today. In this era of record low unemployment, the biggest challenge for Oregon businesses is not high income taxes but finding educated, skilled workers. I urge you to use the funds saved by decoupling to solve the skills gap by providing aid to Oregon students, colleges and universities.

Finally, as a tax return preparer, I would observe that the elimination of the deduction provided by Section 199A is simple to implement on the Oregon tax return. It involves no complex computations.

Summary

In summary, I continue to oppose reduced tax rates for pass-through entities. I urge you to support the improvements made by Sections 10 and 12 of SB 1528.

Thank you for the opportunity to address you today. I am happy to answer your questions.