From:	kris alman
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Chairs Barnhart and Hass and members of the House Revenue Committee and Senate Senate Finance and Revenue Committee,

The GOP tax will have varied effects on Oregon’s general fund if we fully connect to the Internal Revenue Code.[1]

A total of roughly 115 provisions in 3 categories:

- 30 Individual (includes pass-through deduction), generally tax years 2018 - 2025
- 65 business, generally tax years 2018+
- 20 international, generally tax years 2018+

Individuals			Businesses			International		
Policy	Federal Tax	Oregon Tax	Policy	Federal Tax	Oregon Tax	Policy	Federal Tax	Oregon Tax
Tax rates	-	+	Tax rates	-		Repatriation	+	
Personal exemption	+	-	Interest deduction	+	+			
Standard deduction	-	+	NOLs	+	+	Territorial System		
Itemized deductions	+	+	R&D amortization	+	+			
Modify the AMT	-	+	Bonus Depreciation	-	-			
Child/ Dependent credit	-	+	AMT repeal	-	-			
PTE deduction	-	-	Deduction limitations	+	+			
Inflation adjustment	+	-						

Updating the connection date to federal Internal Revenue Code and other provisions of federal tax law gives Oregon lawmakers the opportunity to disconnect from specific provisions.

Oregon is one of 21 states that have "fixed date" conformity[2] to the Internal Revenue Code. Unlike rolling conformity, which adopts IRC provisions automatically, *affirmative legislative action* is required to update the state's tax code to conform to the IRC as of a specific date. Oregon did not decouple or disconnect from specific tax provisions in 2011, though we did in 2008.[3]

Oregon should disconnect from at least 3 tax provisions.

- Small business pass-through
- 529 college savings accounts
- Section 179 expensing limits

Connecting to the federal government on the federal small business pass-through tax break will be devastating to Oregon’s general fund. This tax break is a 20% deduction, with a phase-out starting at $315,000 of income for couples.[4] If Oregon connects to this deduction, the estimated loss in Oregon is $400 Million per biennium. Senator Hass (on a panel convened by Congressman Blumenauer January 13) emphasized, with the backing of a CPA in the audience, how this tax break would be so harmful.

Since Measure 25 was passed in 1996, the Oregon legislature has required a 3/5 supermajority vote to fix bad tax breaks. With a simple majority vote NOW, we can disconnect from the federal pass-through tax break. [5]

The legislature needs to fix *both* Oregon’s and the federal small business pass-through tax breaks. It is not an either/or situation. Both the Oregon and federal pass-through tax breaks favor the highest earning businesses—which are arguably not small. As is true of my SB 1527 testimony, the vast majority of businesses benefiting from the federal tax break are not “small” businesses. [6]

Nationally, pass-throughs make up more than 95 percent of business tax filings; and more than 70 percent of small-business employers have adjusted gross incomes below $200,000. Thus, connecting to the IRC on this specific tax break will send revenue from the general fund primarily to the wealthiest small business owners. These are the kinds of businesses who can pay CPAs to calculate whether it is more advantageous to organize as a corporation[7] or as “small” business.

With the federal tax break, partnerships and other types of businesses can “pass through” income to silent investors, whose income is taxed at the individual tax rate. Indeed, very large law firms, hedge funds and multibillion-dollar businesses like Georgia-Pacific (a Koch Industries subsidiary) and Fidelity Investments claim an outsized share of pass-through income. High-earning, capital-intensive real estate investors (like the Trump organization[8]) will see their tax rates dip from 39.6% to 29.6%.

Oregon should also disconnect from the provisions that allow 529 college savings accounts to be extended to K-12 private school tuition.

Oregon should not connect to new Section 179 expensing limits that increase from $500,000 to $1 Million.

Oregon Business and Industry Chairman Sam Tannahill[9] said that "it is in the best interests of our state to give Oregon businesses incentives to make *job-creating capital investments*, including the full depreciation and expensing provisions" in the new federal law. While this tax break phases out over time, Oregon can't depend on these businesses to spend this money on creating new jobs.

	Tax Year									
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Businesses										
Bonus Depreciation	-$76	-$77	-$57	-$36	-$25	-$11	$6	$19	$27	$23

Respectfully,

Kris Alman

[1] https://olis.leg.state.or.us/liz/2017I1/Downloads/CommitteeMeetingDocument/139556

[2] https://www.scstatehouse.gov/Archives/CitizensInterestPage/TRAC/021910Meeting/Conformity.pdf

[3] https://www.cbpp.org/research/states-can-avert-new-revenue-loss-and-protect-their-economies-by-decoupling-from-federal

[4] https://www.nytimes.com/interactive/2017/12/15/us/politics/final-republican-tax-bill-cuts.html

[5] https://www.cbpp.org/research/six-reasons-why-supermajority-requirements-to-raise-taxes-are-a-bad-idea

[6] https://www.nytimes.com/interactive/2017/12/20/us/politics/small-business-tax-cut-pass-throughs.html

[7] ibid. The top income tax rate for corporations will fall to 21 percent next year. Though not directly comparable, the top pass-through rate will effectively fall to 29.6 percent with the deduction. On the other hand, corporations are taxed twice, first on income and then on returns to investors, resulting in a higher tax burden overall.

[8] https://www.nytimes.com/2017/12/16/business/the-winners-and-losers-in-the-tax-bill.html

[9] http://kuow.org/post/federal-tax-cut-leaves-oregon-its-own-budget-hole

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