



February 28, 2018

House Committee on Revenue
Oregon State Legislature
900 Court Street NE
Salem, OR 97301

Chair Barnhart and Members of the Committee,

Re: 1528B

Children First represents the interests of Oregon's 880,000 children and believes that together, with communities and leaders across the state, we can build a state where all children thrive. Beginning in 2015, Children First has worked with our partners to identify legislative proposals that will help achieve that vision.

We started working with our partners to compile the 2018 Children's Agenda last fall when Congress was focused on repealing the Affordable Care Act, not passing a massive restructure of the federal tax code. Many of us thought the major revenue conversation this session might be addressing the failure of Measure 101, if that were to happen. In that environment, looking at Oregon's current pass-through tax rates emerged as one of the items on the 2018 Children's Agenda.

However, we are in a different place now. The passage of the Tax Cuts and Jobs Act of 2017 has meant that many of the conversations in this committee have needed to focus on the implications of the passage of the massive federal tax restructuring on Oregon. In considering SB 1528B, we urge you to focus on charting the right course for Oregon, and pass 1528B to "disconnect" from the federal pass-through breaks, rather than following the federal government's lead on this topic. Those businesses will still receive a significant reduction in taxes from the federal tax changes, and many of those Oregon businesses will still qualify for Oregon's pass-through tax break.

When you passed the 2017-19 budget, the new federal tax breaks and how Oregon's tax collections would be impacted were not part of the revenue picture. Our economy continues to grow, so while there may not be a hole in the current budget, we know Oregon has a structural revenue problem. We think that making a decision right now to allow federal tax changes to impact Oregon's tax collections from pass-through businesses, thereby lowering state revenue, is not in the best interest of Oregon's children and families.



I can easily provide a long list of investments that would help ensure children in Oregon can thrive. Oregon ranks 46th in the nation due to severe underfunding of early childhood programs. This underfunding hits children from low-income families and children of color the hardest. To close the opportunity gaps for children experiencing poverty, children of color, English language learners (ELLs), disabled children, and children living in rural areas, Oregon must make a significant investment in building a comprehensive early childhood system. Two priorities we are supporting this session are HB 4066 — Culturally Specific Early Learning (\$2.5 million) and restoring the approximately \$5.4 million cut in 2017 from Employment-Related Day Care to support childcare for working families.

We have often heard that the short session is not the time for new programs; not the time to rush through policies that haven't had time to be thoroughly vetted. There are currently so many unanswerable questions about how the recent federal tax changes will impact taxpayer behavior. We understand why the time might not be right to look at Oregon's specific pass-through tax break, however, we also don't think it is time for Oregon to expand tax benefits for pass-through businesses, beyond what they will receive at the federal level. In addition, groups across the ideological spectrum agree that it is bad policy. The Oregon Center for Public Policy¹ and the Tax Foundation² have both called for the legislature to disconnect from this provision of the federal tax changes.

Please support HB 1528B. We can't afford to decrease Oregon's revenue by adding additional tax breaks for pass-through businesses. We believe that those dollars should be invested in our children.

Sincerely,
Chris Coughlin
Legislative Director

¹ <https://www.ocpp.org/2018/02/15/disconnect-federal-tax-law-oregon/>

² <https://olis.leg.state.or.us/liz/2018R1/Downloads/CommitteeMeetingDocument/141465>