

# Senate Democrats jettison business tax reforms and low and middle-income breaks from tax plan

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Sen. Mark Hass, D-Beaverton, speaks on the Senate floor in 2017. Stephanie Yao Long/Staff(Stephanie Yao Long)

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Oregon lawmakers' response to the federal tax overhaul no longer contains tax cuts for low and middle-income wage earners and reforms to the state's own business tax break, after Senate Democrats removed those

provisions on Tuesday.

Sen. Mark Hass of Beaverton, chair of the Senate Finance and Revenue Committee that drafted the plan, originally hoped to accomplish several things: respond to the federal changes, update a controversial state business tax break and deliver a tax cut to low and middle-income Oregonians.

That proposal was much more expansive than lawmakers' original goal to address any major state revenue losses or impacts to Oregon taxpayers from the new federal tax law.

On Tuesday, Hass said at least one of the reform provisions – a proposal to expand an Oregon business tax break to include sole proprietors – "didn't seem to get traction." He had hoped the combination of tax cuts and increases would appeal to some Republicans, but instead the party lined up against the plan.

As of last week, it was unclear whether Senate Democrats even had enough votes in their own caucus to pass the bill. Democrats hold a 17-13 seat edge in the Senate and only need a simple majority to pass the plan.

But a key supporter, Sen. Chuck Riley of Hillsboro, was absent while he recovered from surgery. Meanwhile, voters reportedly started to call lawmakers and complain about the bill, in what lawmakers said appeared to be an organized effort.

The version of Senate Bill 1528 that is now headed to the Senate floor would ensure Oregon does not give state taxpayers the same new tax deduction they'll get on their

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federal taxes under new federal rules on income from so-called "pass-through businesses." People who receive income from these businesses, which include S corporations and partnerships, report it on their personal returns.

Economists for the Legislature predicted that if Oregon were to copy the federal tax law, as the state generally does, it could save those taxpayers – and cost the state general fund – as much as \$258 million in the current two-year budget. In future budgets, the state's tax receipts could fall by at least \$400 million, they said.

If the Legislature passes the latest version of the tax plan, the upshot for state coffers would be a projected gain of roughly \$100 million in the current budget rather than the \$100 million loss expected if the state were to copy federal tax law.

Democrats have argued that people who earn income from pass-through businesses don't need another tax break, because they already get to pay lower tax rates than wage earners under a 2013 state law. They actually wanted to trim the state tax break this session, based on evidence it's benefitted lawyers and doctors more than the manufacturing and export businesses it was supposed to grow. But provisions to limit the tax break to the first \$250,000 in income and eliminate it entirely for the two industry sectors that include doctors, lawyers and some other professionals were removed from the bill on Tuesday.

Democrats also removed language from the bill that would have expanded the state business tax break to include sole proprietors, who are not currently eligible, and shared some of the savings with low and middle-income families by increasing their personal tax exemptions by \$50.

Lawmakers kept a strategy in the bill to help high net worth households avoid the new \$10,000 federal cap on deductions for state taxes. The state would allow those taxpayers to buy up to \$14 million a year of new tax credits to raise money for an existing need-based scholarship program for in-state college students. The federal law did not cap charitable deductions, so the theory is that people who purchase the tax credits could turn around and claim that deduction on their federal returns.

Senate Bill 1528 wasn't yet scheduled for a floor vote as of Tuesday afternoon, but could receive one as soon as Thursday. Riley is reportedly trying to return to the Legislature by the end of the week.