



Oregon Society of Certified Public Accountants

10206 SW Laurel Street Beaverton, Oregon 97005-3209 • PO Box 4555 Beaverton, Oregon 97076-4555
503-641-7200 / 1-800-255-1470 • Fax 503-626-2942
oscpa@orcpa.org • www.orcpa.org

Oregon Legislative Assembly – 2019 Regular Session Hearing Senate Committee on Finance and Revenue Testimony related to Pass-Through Entity Income Reduced Tax Rate (OR-PTE)

DATE: February 12, 2019

Good morning Chair Senator Mark Hass, Vice-Chair Senator Cliff Bentz and Members of the Senate Committee on Finance and Revenue. For the record, my name is Douglas Henne. I am a member of the Taxation Committee of the Oregon Society of Certified Public Accountants (OSCPA). I am a Certified Public Accountant and I retired May 31, 2017 after spending over 25 years as an owner of the firm of Isler Northwest, LLC and the preceding entity called Isler & Co. LLC. I appreciate the opportunity to participate in today's hearing.

On behalf of the approximately 4,400 members of the OSCP, I respectfully testify related to Pass-Through Entity Income Reduced Tax Rate (OR-PTE).

BACKGROUND:

CPAs are highly trained and must meet rigorous criteria to obtain and maintain their licenses. We work directly with our clients in a variety of areas. As our clients' Trusted Business Advisors, planning is of significant importance as well as preparation itself.

ISSUE:

- Two taxpayers with similar tax returns can come out with two different answers from the OR-PTE
- The OR-PTE was adopted during the Grand Bargain. As the PTE legislation has been in effect for 2015-2018, we now have some experience under our belts in how it works.
- SB 211 would revise the PTE rules, for 2019 and subsequent years, to provide that the reduced tax rates would only apply to the first \$415,000 of qualifying business income (\$207,500 for other taxpayers). Business income in excess of those limits would be taxed at the normal tax rates.
- The Oregon PTE rules were designed to provide pass-through entities a potentially lower tax on business income. For 2018 returns, the potentially lower tax rate was expanded to apply to proprietorships.
- For 2018 tax returns, Federal tax law has been modified to provide a similar tax benefit, but in the form of a tax deduction, instead of as a reduced tax rate. This Federal deduction can be as high as 20% of the qualifying income. Both the Oregon and Federal rules are quite complicated, and accomplish a very similar goal in totally different ways.

Recommendation:

I respectfully encourage that members of the committee consider the complexity of these Federal and Oregon returns, and try to minimize the inherent differences in the rules.

Thank you for the opportunity to share my experiences and observations related to this important topic.

###