

February 17, 2026

House Committee on Revenue
Oregon State Legislature | 2026 Regular Session

**RE: SB1507 – UNINTENDED CONSEQUENCES OF SECTION 5;
PENALIZATION OF SMALL BUSINESS THAT FOLLOWED THE RULES**

Chair Nathanson,

My name is Daniel Bunn. I am the President of Rubicon Investments Corporation, a fifth-generation Oregon family business and a member of the Governor’s Council of Economic Advisors.¹ I write to bring to your attention a potentially unintended consequence of Section 5 of SB1507² which was passed by the Senate yesterday and referred by the Speaker to your committee for consideration.

First, I must express my gratitude for the diligent work of legislators and their staffs in recent months to find a way to appropriately react to HR 1 (the “One Big Beautiful Bill”). Congress threw us a curveball and on balance, SB 1507 is a good, workable compromise. Targeted disconnects make sense. **But Section 5 completely removes the Qualified Small Business Stock deduction, rather than simply disconnecting from the changes of HR 1. This wholesale revocation of the program amounts to changing the rules on small business after years of voluntarily paying taxes at a higher rate. It is unfair and contributes to the perception that Oregon is unfriendly to private business.**

History and Purpose of IRC 1202 (the QSBS deduction)

The Qualified Small Business Stock deduction, found in Section 1202 of the Internal Revenue Code, was signed into law by President Clinton in 1993. It was designed to encourage investment in small, domestic C-corporations by allowing non-corporate taxpayers to exclude a portion of capital gains from the sale of stock held more than 5 years. The program was expanded in 2009 and 2010 under President Obama to increase the exclusion allowed and to remove AMT preference treatment.

The practical mechanics of the program work as follows:

- A small business founder or early investor contributes equity to a company.
- The company *voluntarily elects* to be taxed as a C-Corporation (required for QSBS eligibility).
 - NOTE: Most small business are formed as an LLC with a passthrough tax structure; by choosing to be taxed as a C-Corp, the business will pay corporate taxes and overall income will be subject to “double taxation” (compared to a pass-through entity).

¹ This testimony is submitted in my individual capacity, not on behalf of the Governor’s Council of Economic Advisors. To the best of my knowledge, neither my company nor its shareholders are impacted by Section 5 of SB 1507.

² Section 5 of the A-Engrossed bill was added by the adoption of the -7 amendment in the Senate Committee on Finance and Revenue.

- C-Corp tax status (i.e., dividend tax) encourages owners to keep money in the business and re-invest – not to pull it out as profits for the benefit of shareholders.
- After holding ownership for at least 5 years, shareholders may sell and receive preferential tax treatment on their capital gains.

HR 1. Changes to Section 1202

The One Big Beautiful Bill made changes to Section 1202 **effective July 4, 2026 on a going forward basis**. HR 1 increased the threshold definition of “small business” and allowed and allowed for the deduction to be claimed after 3 or 4 years of ownership at a 50% or 75% rate respectively (as opposed to the 100% deduction allowed after 5 years of ownership). Importantly, HR 1 did nothing to impact businesses that had relied on the deduction for the past 30+ years.

The Problem

Many businesses have irrevocably elected C-corp status and paid higher taxes for 5+ years (and potentially, up to 30+ years) in reliance of the Section 1202 deduction. Section 5 not only removes the deduction, but imposes a higher cumulative rate than would otherwise be incurred. This effect is exacerbated in the Portland Metro area (where local income tax follows state statute).

Admittedly, the number of businesses impacted by Section 5 in Oregon is small. However, my principal concern is for the cumulative effect of such actions on our reputation as a place to do business. Whether fair or not, realistic or not, Oregon has an image problem when it comes to business friendliness. The Governor’s [Prosperity Roadmap](#) refers to extensive work completed by University of Oregon analyzing why businesses leave Oregon.³

A survey of Oregon Mayors, City Managers, and Economic Development Professionals shows anemic belief that Oregon supports business. This does not reflect the view of businesses leaders, but rather the local officials working to improve their communities:

Exhibit 6. Perceptions of Oregon Business Environment by Oregon Economic Development Professionals, City Managers, and Mayors, 2024

Statement	Strongly Agree	Agree	Neither Agree Nor Disagree	Disagree	Strongly Disagree
Oregon is a desirable place for business	3%	33%	26%	26%	11%
Oregon has a supportive business climate	0%	26%	31%	33%	11%
Oregon's taxation system is supportive of business	1%	14%	27%	32%	26%

Source: Oregon Statewide Economic Development Needs Assessment, IPRE, 2024

³ [External Business Recruitment: Are Businesses Leaving Oregon and if so, Why?](#) University of Oregon Institute for Policy Research and Engagement. January 2025.

There is no one cause for this sentiment, and it will take a coordinated effort across government and the private sector to return our economy to the health that policymakers and Oregonians desire. But one important step is to be cognizant of the message we are sending. Section 5 says: “*Thank you for paying more taxes up front and playing by the rules... we’re changing our end of the bargain.*” It doesn’t have to be that way.

A Solution

There are several ways to avoid the reputational damage that Section 5 will cause. Disconnecting from Section 1202 on a go-forward basis would be consistent with the Committee’s policy direction while not penalizing businesses that relied on the existing tax code. Alternatively, Oregon could Disconnect only from the HR 1. Provisions adopted last year. This would leave a bipartisan deduction in place while not adopting an unaffordable provision of federal tax policy.

Again, I wish to express my thanks to the members of the legislature who have worked to bring this compromise solution forward. I firmly believe that we cannot let the perfect be the enemy of the good, but Section 5 is an unforced error that will have repercussions far more sweeping than the meager amount of revenue it raises.

If you have any questions or if I can be of assistance to your committee or staff, please do not hesitate to reach out to me directly.

A handwritten signature in black ink, appearing to read "Dan Bunn". The signature is stylized with a large, sweeping "D" and "B".

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