TAX FAIRNESS OREGON

SB 164 The Business Owners' Tax Break – End It or Demand Much More

Testimony for Senate Finance and Revenue – Jody Wiser – 5.1.2017

We oppose this bill because the idea that a business owner should pay lower taxes than an employee is just plain wrong headed.

In testimony about SB 165 on the same topic, you heard from CPAs that it has provided as much as $60,000 in annual benefit to a business owner. That benefit may well continue with SB 164. This bill is an inadequate solution to the ill-conceived notion that business owners deserve another tax break, just because they are business owners.

In rejecting the idea that increased employment – above the current requirement of one employee working 57.7% of full time – would be an improvement, we heard in this room that the original purpose of the legislation was not job creation, but to deliver capital to business owners in a tight capital market. However, this broad legislation provided capital to recipients who didn't necessarily have any unmet business need for capital. Taxpayers might just as likely use the tax savings for a trip to Europe. A business with nearly $5 million in taxable income is in fact unlikely to have difficulty getting capital, yet they are benefitting under the law, and will continue to do so with SB 164, unless you amend it lowering the eligibility threshold.

There are better approaches. Last session, with SB 1589 you set aside money to guarantee $30 million in loans for businesses needing access to capital, and of course the Credit Enhancement Fund includes the expectation that business owners repay their loans. The business owners' tax break was a radically different approach – a gift to business owners whether they need capital or not.

This bill limits who might get the tax break, to some degree. But t**he only truly acceptable solution is ending the business owners' tax break enshrined in ORS 316.043 and returning the tax rates for partnerships and s-corporate business owners to the same rates their employees pay**.

If you decide you can't get the votes to end this legislation, then please, strengthen the language in the bill to reward only those business owners who bring significant numbers of new, high-quality jobs to the state rather than rewarding everyday growth of jobs we might well have to subsidize. To achieve this, add these elements to the bill:

1. The employer must triple their direct hire, permanent Oregon workforce, increasing the FTE hours of employment by 3 times above the FTE of the beginning of the fiscal year.
2. The increase must be made through expansion, not by buying another business and acquiring the FTE associated with that acquisition.
3. Wages paid must be 1.5 times the average wages of the Oregon county in which the employees work the majority of their hours. This salary requirement might avoid giving this tax break business – where employees will be so poorly paid that they'll still qualify for subsidized housing or TANF.
4. Except for their own direct hires, jobs created through employment agencies and professional employer organizations are not eligible.
5. The maximum benefit shall not be more than 3% of wages paid to employees hired to fill the new positions eligible under this bill. This last provisions makes sure that the state will still receive some of the income taxes of the employees.

As we understand it, ending the business owners' tax break will return to the General Fund $200 million next biennium.

Instead this $200 million could be used to:

- **Retain 1176 teachers for the next two years rather than laying them off**
- **Prop up PERS**
- **Keep an adequate number of foster care workers to protect our vulnerable children, or**
- **Continue the Oregon Promise made to community college students and more fully fund the Oregon Opportunity Grant program.**

Truly, we hope in considering your priorities, you will end this unfocused subsidy.