February 5, 2018

Chairs Barnhart and Hass and members of the House and Senate Committees

SB1527, 1528, 1529, HB34080

Early in the 2000's it was my privilege to spend time in the Oregon House Revenue Committee, chaired by then Representative Lane Shetterly.

When discussing an issue of connection to the Federal Tax Code, Representative Shetterly used a very graphic description of how the Federal Code operates and what effect the Federal Code could have on Oregon.

He described Oregon as a little dingy, which, if we were attached to the entire Federal Code in the form of a submarine, would go under water and drown. He pointed out that while the Federal Government can borrow to make up for tax cuts and thus is safe in the submarine, Oregon must have a balanced budget, with no submarine protection.

In 2018 the message is the same. Attaching to all the parts of the newly enacted tax code would have the same effect on Oregon.

There are at least three parts of the new tax law to which OWRC would suggest Oregon should not connect.

Section 179 Bonus Depreciation

Section 529 College Savings Programs

Pass Through Income

Bonus depreciation proponents suggest that more jobs will be created with the ability to purchase equipment and achieve the tax savings instantly. We believe that the possibility is there, yet there is the possibility of even further automating of processes and thus loss of jobs. If bonus depreciation is connected, then those utilizing the tax credit should have to provide documentation of jobs created and provide that documentation for 5 years.

Section 529 College Savings Programs were designed to provide for saving for the ever-increasing cost of college, which has now become more difficult for even "middle class" Oregonians to afford. Connecting to the misguided Federal expansion to K-12 Private Education undermines the public education system. By creating a system that "churns" withdrawals at earlier and more frequent intervals, the ability of the savings plans to achieve higher levels of investment return could decrease. It also allows for those who are already providing private education for K-12 Oregon children to game the system. It is a matter of equity. Public school children should not be providing tax breaks for private schoolers to be educated.

The Pass-Through Income on the Federal level is infinitely worse than the misguided state pass through as it allows for passive income. On the state level the pass through is not aiding as many small businesses as anticipated, it is enabling higher income Oregonians lower level of taxation compared to hard working wage earners.

The Pass Through is the most critical of the three to avoid. I quote a January 2017 Tax Foundation Paper.

"On the flip side, some lawmakers have proposed creating a new, lower tax rate for pass-through business income. Aside from concerns that this approach would create opportunities for tax avoidance, it is also difficult to justify why income from pass-through businesses should be subject to lower tax rates than income from wages and salaries." (Scott Greenburg, Tax Foundation, *Pass Through Businesses-Data and Policy*, January 17, 2017)

Marcia Kelley

Public Policy Advocate

Email: owrcadvocacy@gmail.com PO Box 3025, Portland OR 97208