SB 211: Addressing Oregon's Employers' Tax Break
Testimony for Senate Finance and Revenue – Robert Sisk – 2.12.2019

As you know, Tax Fairness Oregon has opposed this pass-through tax break since 2013. Frankly, though it has been in effect for many years, there is no evidence it provides economic benefit state. So, we are glad to see you discussing it as it deserves serious deliberation and reconsideration. We have assumed that major reform of this very expensive provision will be part of the work of the Joint Committee on Student Success, particularly if the Committee chooses to raise the Corporate Income Tax rates – something TFO is strongly urging for both long needed fairness and much needed revenue. And if the Committee brackets and rates mirror those raises for individual tax filers, the rational for lower tax rates for pass-through and sole proprietor employers disappears. We strongly urge you, end the tax break entirely. The resulting revenue should be part of the Educational Funding Bill, which is in dire need of additional funding. In view of that, how can the committee justify continuing to provide business owners – who are the wealthiest of Oregonians – lower tax rates than hard working people struggling to provide for their families?

However, if polling clearly proves that leaving a vestige of it in place will help defend the business tax changes Oregon simply must have if we are to begin making truly significant improvements to our schools while still providing basic other services for the needs of our citizens, then the break must be dramatically reduced. If Legislators do not end this tax break entirely, then the limits should be no more than two times the average household income in this state, $120,000 indexed not to the CPI, but to average wages. And that should be a hard limit. Any household with income above that cut-off amount should get no benefit from this employers' tax break.

In 2017, according to the most recent information from LRO, 99% of the discounted benefits go to taxpayers with incomes greater than $100,000 and two- thirds go to those with income greater than $500,000. In the 2018 special session, additional businesses that are sole proprietors became eligible and the percent of the benefits going to the top will shrink, but not by much. In 2017 the mean Oregon household income was $60, 212.

The top 1% of household income for Oregonians was $358, 917, according to the Economic Policy Institute. This means that the limit of SB 211 will even exceed the income level of the top 1% in Oregon. And, it is also seven times the mean Oregon income. That is not sensible and it is not fair to the rest of Oregonians, especially those of low and below average incomes.

We implore the Committee to not continue supporting something that works against providing for the quality education and basic vital services in this state that benefit all, and especially the many who are low income or below average income and are dependent on how we can help them provide the quality of life to their families all Oregonians have a right to.

If Legislators are unwilling to end this tax break entirely, then they really should look at what it is.

Under current law, smaller businesses are getting a lower rate reduction than those with higher incomes.

- Businesses with less than $250,000 of taxable income get a 1.8% reduction in their tax rate.
- For businesses with more profits, $250,000-$500,000, the reduction is 2.7%. The sweet spot.
- With the next current bracket a slow glide down to a 0.9% reduction begins.

The current and proposed law benefits best those employers with more than $100,000 in taxable income.

This is not right.

If you're going to do something short of elimination, look at the rates and rationalize them, and reduce the benefits to only small businesses with employees.

To the extent that you can either eliminate or reduce the expenditure, it will allow you to have lower tax rates under other taxes in order to raise the $2 billion you've been charged with raising for education funding.

What could you do? <u>The taxable income limits</u> should be no more than 2 times the average household income in this state, $120,000 for joint filers. <u>And that should be a hard limit</u>. Any household with income above that amount should get no benefit from this Employers Tax Break.

<u>A rate change</u> could give a 2.5% reduction in the first $40,000 of income a 2% reduction for incomes of $40,000 to $50,000 and a 1.5% reduction for those with income between $50,000 and $60,000 for single fillers and twice these numbers for joint filers. This still advantages business owners over their employees, but at least it focuses the benefits on those who perhaps need it and leaves the General Fund with the assets to provide education, human services, public safety, health care and economic development for these employers and for all other Oregonians.

These changes would give you more revenue to work with an carve back the excesses of the original 2013 legislation and its changes since.

We read the bills and follow the money