

June 7, 2021

Testimony in Support of SB 139-10

Chair Burdick, Vice-Chair Boquist, and Members of the Committee,

My name is Daniel Hauser, tax policy analyst for the Oregon Center for Public Policy, and I respectfully submit this testimony in support of SB 139-10 on behalf of the Center.

The pass-through reduced tax rates currently in law are fundamentally flawed and inequitable, and they should be eliminated.

The -10 amendments are a modest improvement that makes the policy less generous to the very richest business owners and provides additional sideboards to this tax break.

The current policy sends about two-thirds of this tax break to business owners with profits of more than half-a-million dollars each year. Their employees do not receive this generous tax break. The -10 amendments fail to remedy these structural inequities.

However, SB 139-10 does prevent some of the very richest business owners from taking this tax break on their profits, saving the state tens of millions of dollars every year that could be reinvested in services for low-income Oregonians. That is a modest improvement, but an improvement nonetheless, and leads OCPP to support this amendment.

We are concerned about the fact that the -10 amendments make an already very complicated policy even more complicated. With complexity comes opportunities for savvy taxpayers to game the system through restructuring businesses and other avoidance techniques.

To ensure this legislation doesn't create new problems and to assess the effectiveness of the reform, SB 139-10 should be amended to require the Legislative Revenue Office to study the policy and report back during the 2023 legislative session to the House and Senate Revenue Committees. The evaluation should assess the racial and ethnic distribution of the tax policy, examine how taxpayers are adjusting incorporation statuses to take advantage of the reforms, and reevaluate the revenue impact.

Reduced tax rates on pass-through income is an inherently inequitable policy that should be eliminated. However, scaling back this subsidy, as SB 139-10 does, is a move in the right direction. We urge you to amend SB 139 to include a study and then pass this legislation.