

June 8, 2021

Dear Chair Burdick, Vice Chair Boquist and Members of the Committee:

Associated General Contractors – Oregon Columbia Chapter represents a broad cross-section of the commercial construction industry throughout the state of Oregon, including open shop and union, rural and metro, highway and building contractors. Unlike in many other states, Oregon’s construction industry is dominated by small and homegrown businesses, directly impacted by the -7 and -10 amendments to SB 139.

For these small and homegrown businesses in our industry, it is difficult to get started, especially in light of the high start-up costs. These start-up businesses must be able to carry months of costs, including payroll costs, which can be difficult in the early years of these companies. The current pass-through entity provisions of Oregon’s tax code give a much-needed assist to these small, homegrown construction businesses that provide excellent paying jobs, particularly in Oregon’s smaller communities where they are most needed.

We oppose the changes proposed to the tax treatment of pass-through entities in the -7 and -10 amendments to SB 139. The current law was originally created as part of the Grand Bargain in the 2013 Special Session. It was intended to help smaller businesses. While the proposed changes do slightly lower the tax percentage for those with a profit of \$250,001 to \$1M, the overall changes it makes to those eligible leads AGC to oppose the -7 amendment and the pass-through entity portion of the -10 amendment. Oregon businesses are already disadvantaged by the disconnect from the Federal tax code in 2018, which cost hundreds of thousands of businesses the tax benefit on their Oregon income taxes that they would have received if the state had remained connected to the federal 20% pass-through deduction.

The changes proposed in the -7 and -10 amendments would substantially reduce the number of Oregon’s businesses able to avail themselves of the benefits of this tax treatment. As Legislative Revenue Office reported in their presentation to the Joint Committee on Tax Expenditures on June 4, 2021, twenty-two percent of pass-through entities currently operating under this would no longer be able to, due to the size of their profit. This cut-off is arbitrary, and removes entities that are critical to Oregon’s economy and have relied on this tax treatment.

AGC’s membership is made up primarily of small businesses. These small businesses pay good family wages, and provide an important function for Oregon’s economy.

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The proposed amendments to SB 139 will penalize those businesses that are providing good jobs and building Oregon's infrastructure.

Also important to note is that these amendments raise taxes on certain pass through entities at a time when Oregon's financial health is excellent, as evidenced by the most recent revenue forecast. These changes to Oregon's pass-through entity tax treatment affect the bottom line of small businesses in Oregon, at such a time when the state of Oregon does not need this influx of money.

We respectfully request that you do not adopt the changes to pass through entity taxation in the -7 or -10 amendments. Thank you for your time.

Best Regards,

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