SB 1515 -1: Children's Service Districts

Senate Finance and Revenue – Jody Wiser – 2.15.2018

This bill gives the option to local communities to enact Children's Service Districts.

Opposition comes from areas where instituting it it will add to compression. A quick preview of the average tax rates in our 36 counties finds that 20 have average tax rates below $15 per thousand. That means, based upon whether the districts are identified as educational or local government, they shouldn't generate compression in many of not all of the parts of those counties.

If we allow park districts, cemetery, health, vector control and service districts, its hard to see why would not allow children's districts. However, you do need to identify them as not education districts.

There is no county that no properties in compression, so implementation of this program will mean that not every dollar intended will be collected, and in some areas of the jurisdiction, other services would be impacted.

Under current law, the profits of corporations are taxed twice by Oregon, first under the Corporate Income Tax (CIT at 6.7% or 7.7%) or Corporate Minimum Tax rates (~.2%), and then the distributed profits are taxed at the owners' Personal Income Tax (PIT) rates. Profits of businesses reporting as sole proprietors are taxed one time at the owners' PIT rates. Meanwhile, businesses organized as pass-throughs are taxed one time, as Personal Income Taxes, or for some actively engaged owners with one or more employees, owners are taxed at the reduced PIT pass-through income rates.

To your constituents, whether their grocer, hardware store, construction contractor, housekeeping service, or lawyer has their business organized as a sole proprietor, a pass-through entity or as a c-corp is a matter of indifference. So why are we treating one group of business owners different than the rest?

With a General Foods product, the corp will pay a CIT and the Shareholders will pay PIT. A potential of 7.6% plus 9.9% = 17.5% on Oregon profits.

With a FishPeople product, some shareholders will pay the PIT and others will pay the reduced pass-through PIT rate, until that business has profits of more than $5 million. A potential of 9.9% or less on Oregon profits. This is illogical.

We are currently funding many support services for start-up businesses, from ONAMI, OTRADI and the Food Innovation Center to trade support or loans from Business Oregon. This seems the most direct approach to getting help where it is needed.

If you MUST continue to fund pass-through entities through tax breaks, we would recommend the following:

Change from requiring only one to requiring at least 10 employees, each working a minimum of 1200 hours through employment of no less than 30 hours a week. Limit the benefit to the list of traded-sector business types who can use the pass thru rates that are in in -8s of HB 2830. Phase out the rate reduction at $3 m in profits rather than $5 m, and eliminate businesses with more than 25 full-time equivalent employees.

We read the bills and follow the money