



SB 138 Tax Fairness Oregon supports reducing who qualifies for lower pass-through rates

Testimony for the Senate Committee on Finance and Revenue – John Calhoun – 2.25.2021

Tax Fairness Oregon has always opposed this preferential tax treatment for business owners. It is a perfect example of giving to the rich and taking from the poor using our tax code. Oregon workers paid minimum wage get to the second highest state tax bracket of 8.75% on income under \$10,000 while the bosses they work for are currently paying only 7% on their first \$250,000 in income.

For those who claim that business owners take more risk and work harder, I suggest they go into the fields to pick crops, work as roofer risking their life, or work in kitchens scrubbing pots and pans and tell me that they deserve lower tax rates than the workers who do that every workday for a lifetime.

I will also state that I was a small business owner for 25 years without this tax benefit and somehow managed to survive, create jobs, and add to my wealth.

This preferential rate is sometimes defended in comparison to C corporation rates which are lower than our personal income tax rates. My response is that those who want those rates should organize their businesses as C corporations. Of course, then they would have to pay the corporate rate and then the personal dividend rate for any payments they made to themselves. I owned businesses that were C Corps and **later pass-throughs or partnerships** without these preferences.

The pass-through/partnership structure allowed us to **take profits ~~make distributions~~** without paying taxes twice. **The pass-through structure avoids the corporate income tax on top of the personal income tax. It does not need a lowered rate in any circumstance.**

While we would prefer a bill that eliminates these preferential rates entirely, we are pleased to see this committee consider narrowing who gets the benefits. Excluding lawyers, accountants, physicians and other consulting professions is a positive step. So is reducing the cap from \$5 million of income per partner to \$415,000.

However, we still do not understand why anyone earning that much continues to benefit from lower rates. The median family income in 2019 was \$67,000. If the committee must continue this preference why not put the cap at \$150,000, a little more than twice the median income level. Surely that is enough largess.