



SB 139: Tax Fairness Oregon supports eliminating or reducing pass through tax expenditures

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

Tax Fairness Oregon, a network of volunteers who support a rational and equitable tax code, has always opposed a 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 was a small business owner for 25 years without this tax benefit and somehow managed to survive, create jobs, and add to my wealth. I owned businesses that were C Corps and later partnerships/pass throughs without these preferences. So did all Oregon business owners until the law was changed in 2013.

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 both the corporate rate and also the personal income tax rate for any dividend payments they made to themselves.

The pass-through/partnership structure allows owners to avoid paying taxes twice. 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 professionals 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 as much as \$415,000 continues to benefit from lower rates. The median Oregon family income in 2019 was \$67,000. If the committee must continue this inequitable preference why not put the cap nearer the median income. Why should families earning more than average get lower than average tax rates?

We read the bills and follow the money