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No second helpings until everyone else gets through the line

SB 1528 eliminates double-dipping on tax breaks for the wealthy

SALEM – Senate Democrats protected state services that help everyday Oregonians get ahead, instead of providing an extra tax windfall to the wealthy.

Senate Bill 1528 – which passed on the Senate floor today – will stop owners of pass-through businesses from double-dipping on a 20-percent tax deduction at the expense of everyday Oregonians.

“This bill will not cause any small business in Oregon to pay one cent more in taxes than it did last year,” Sen. Mark Hass, D-Beaverton, said. “The folks we’re talking about already enjoy a lower state tax rate on their net income, and they just got a 20-percent federal deduction. We’re simply unhitching the state from the Trump tax train so they aren’t double-dipping on the deduction. Nobody should be able to get a second helping of tax breaks until everyone else has gone through the line for a first helping.”

The bill detaches the state from the federal tax code that provides a 20-percent deduction to pass-through entities such as S corporations, business partnerships and limited liability companies. Those businesses are not taxed, but individual owners pay taxes on the earnings the businesses generate. The federal change was part of President Donald Trump’s Tax Cut and Jobs Act that passed in Congress late last year. It allows business owners to pay taxes on 80 percent of their net earnings – or pass-through income – as opposed to 100 percent. Pass-through business owners still would get the additional 20-percent federal tax deduction; they just wouldn’t get the same break on their state taxes.

Senate Bill 1528 even found support from The Tax Foundation – a conservative-leaning think tank in Washington, D.C., that generally is critical of tax increases.

“Proponents of pass-throughs argue that they represent small businesses, but that isn’t always the case. Some of the largest businesses are organized under this structure,” Nicole Kaeding wrote on The Tax Foundation’s website. “The deduction was predicated on growing small businesses. Instead, it adds complexity to the tax code, and encourages creative accounting to take advantage of the large deduction. … Senator Hass’s proposal to limit the special pass-through deduction in Oregon is the right choice, protecting the state’s budget, while advancing sound tax policy.”

If the state does not disconnect from this tax break, there will be $244 million less to fund schools and other services in the current budget, and an additional $376 million hole will be blasted in the next biennial budget. In terms of education, $244 million is equal to 1,400 teachers or 10 school days.

Oregon’s current tax code already is extremely kind to pass-through business owners. In 2013, the Oregon Legislature lowered the tax rate paid on this type of income. An individual in Oregon pays the state’s top income tax rate for $125,000 or more, while a pass-through business owner doesn’t pay the 9.9 percent rate until reaching $5 million or more in net income.

Research from the non-partisan Legislative Revenue Office revealed that the existing tax breaks for the same individuals who would benefit from the double-dipping of deductions comprises mostly the wealthy. The research shows that 61 percent of the benefit will go to the top 5 percent of earners, making more than $200,000 per year. In addition, 84 percent of savings would go to the top 20 percent of tax filers who own pass-through businesses.

“This is a matter of fairness,” Senate Majority Leader Ginny Burdick, D-Portland, said. “Without Senate Bill 1528, a pass-through business owner with $100,000 in profits would pay roughly the same dollar amount in state taxes as a working family with an income of $62,000. Owners of these businesses already pay lower state tax rates than bus drivers, store clerks and their own employees. It’s one thing to give business owners a tax break for taking risks and creating jobs, but this hurts everyday Oregonians and puts more money in wealthy people’s pockets.”

The bill now goes to the House of Representatives for consideration.

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