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Senate begins unhitching Oregon from the Trump tax train

SB 1528: Nobody should get seconds on tax breaks until everyone gets through the line

SALEM –Senate Democrats have taken the first step toward disconnecting Oregon from a portion of the federal tax code that benefits wealthy Oregonians and leaves the working class behind.

Senate Bill 1528 – which passed on a party-line vote in the Senate Finance and Revenue Committee – 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 they generate. Oregon already offers a reduced tax rate for income derived from pass-through businesses. The federal change was part of the tax code revisions that passed in Congress late last year.

“The people who benefit from these tax breaks already enjoy reduced taxes in this state,” Sen. Mark Hass, D-Beaverton, said. “Oregon has been cutting taxes for pass-through business owners for years, and now the federal tax code is doubling up on that. The people benefitting from this will get their federal tax break, and continue with their reduced tax rate, but they shouldn’t get seconds – or sometimes thirds – until everybody else has had a chance to get through the line.”

Remaining tied to this portion of the federal tax code is expected to cost the state $81.4 million in the current biennium, $136 million in 2019-21 and $171 million in 2021-23. In addition to retaining that state revenue that goes toward K-12, early childhood, community colleges and higher education, the bill also helps working families prepare for their children's futures.

"Many of those who will benefit from this tax break pay a little over 7 percent in state taxes for earnings under $1 million, while working families pay 9 percent," Senate Majority Leader Ginny Burdick, D-Portland, said. "It's not fair to give them an extra break on their state taxes. We've had a lower tax rate for these folks for about 5 years with the idea that it would create jobs. It has not created jobs. We shouldn't cut budgets for public services just so we can waste money on tax breaks that don't create jobs."

The middle class and working Oregonians will be able to benefit from the Oregon Opportunity Grant Tax Credit. This would raise money for the Oregon Opportunity Grant, which covers community college tuition for eligible students, through a tax credit auction. Taxpayers would be able to claim purchasing those credits as a charitable deduction on federal taxes. That auction would be administered by the Higher Education Coordinating Commission.

"The federal tax code changes will have a significant impact on Oregon's revenue, which funds public education, health and human services and so many other services Oregonians depend on," Hass said. "The best way to create jobs and boost the middle class is not giving tax breaks to those who already are sitting pretty. It's to provide a well-educated workforce."

The bill is finding some support in unlikely places. The Tax Foundation – a conservative-leaning think tank in Washington, D.C., that generally is critical of tax increases – even agrees in written testimony that it makes sense for Oregon to detach from this part of the federal code.

"The case for decoupling is particularly strong in Oregon, where the pass-through businesses already receive the advantage of a separate rate schedule," Tax Foundation Senior Policy Analyst Jared Walczak wrote. "The pass-through deduction, however, does not make the tax code more neutral. It is a targeted preference, and there is no reason Oregon or any other state should feel bound to it."

The bill now goes to the Senate floor for debate and a vote.

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