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Senate passes ‘pass-through’ business tax bill

By Claire Withycombe
Capital Bureau

The Oregon Senate on Friday passed a controversial bill that would prevent certain Oregon business owners from claiming a deduction included in the recent federal tax reform law on their state taxes.

But the bill could face a court challenge if passed by the House because critics contend the Senate origins of the legislation violate the Oregon Constitution.

Oregon’s income tax code is largely based on the federal code. Tax deductions created by federal tax law are available on state tax returns unless those provisions are specifically disconnected from Oregon law.

The bill passed by the Senate would disconnect Oregon law from a federal deduction for owners of so-called “pass-through” businesses, whose business income “passes through” to be claimed on their personal income taxes.

Recent federal tax changes signed into law by President Donald J. Trump allow owners of those businesses — such as LLCs and S-corporations — to deduct up to 20 percent of their income from their tax return. The bill eliminates that deduction from Oregon income taxes.

The bill, after more than an hour of at-times acrimonious debate in the Senate, now heads to the Oregon House of Representatives.

All Republicans present voted against the measure, as did one Democrat, Sen. Betsy Johnson of Scappoose.

Sen. Brian Boquist, R-Dallas, says he plans to sue the state of Oregon over the revenue package.

Under the state’s Constitution, bills for “raising revenue” require a three-fifths majority vote rather than a simple majority, and must be-



File photo

The Oregon Senate on Friday passed a measure eliminating from state tax code a deduction for certain business owners provided by the recent federal tax reform.

gin in the House of Representatives.

Boquist believes the bill qualifies as a bill for raising revenue and thus must meet those guidelines. However, to date there has been no opinion from the legislature’s attorneys on that question. Boquist told colleagues on the Senate floor that he’d requested an opinion Feb. 14.

Earlier versions of the legislation laid out broader tax changes, but the bill was pared down early this week in an amendment after what the bill’s sponsor described as “general” negative feedback.

Senate Democrats have cast the amended bill as allowing Oregon to assert its “self-determination,” in the words of Senate Majority Leader Ginny Burdick, D-Portland, and tout the support of the pro-business Tax Foundation for repealing the deduction.

Opponents of the “plan argue that this is a tax hike on Oregon businesses, an argument that stretches the imagination,” wrote Nicole Kaeding, director of special projects at the Tax Foundation, in a post on the organization’s website Thursday. “No business currently receives this deduction in Oregon; preventing it from exist-

ing in the state doesn’t cause a tax increase.”

State Sen. Mark Hass, D-Beaverton, sponsor of the bill and chair of the Senate Committee on Finance and Revenue, contended the deduction, when combined with the favorable state tax rates for pass-through businesses that the legislature passed in 2013, would be another giveaway to the same group of people.

“This bill will not cause any small business in Oregon to pay one cent more in taxes than it did last year,” Hass said in a statement after the bill’s passage. “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.”

The move is expected to allow the state to collect \$244 million more in taxes through mid-2019 than if Oregon allowed the deduction from state income taxes.

Republicans cast the measure as a “hit” to small business owners in the state and claimed it would put small businesses at a disadvantage compared to larger companies, which are benefiting from dramatically lower federal tax rates as a result of tax reform.

“Democrats claim that (the bill) will merely prevent businesses from ‘double-dipping,’” Boquist said in a statement. “This is wrong.”

According to the National Federation of Independent Business-Oregon, about 22,000 tax filers qualified for the preferential small business rates in 2016, but there are about 357,000 small businesses in the state, most of which are structured as “pass-through” entities.

LEGISLATIVE BRIEFCASE

Bill expands return-to-play power for kids with concussion

A bill to expand the types of health professionals who can medically release a student athlete to play after a concussion is headed to the Oregon House.

The Senate unanimously approved Senate Bill 1547 Feb. 19, and the House Health Care Committee voted 9 to 2 Friday, Feb. 23, to send the legislation to a full vote of the House as early as next week.

Health care committee members Rep. Knute Buehler, an orthopedic surgeon, and Rep. Cedric Hayden, a dentist, voted against the proposal. The bill also was opposed by the Oregon Medical Association, Oregon Association of Orthopedic Surgeons and the Osteopathic Physicians and Surgeons of Oregon.

The Senate Health Committee proposed the law change, describing it as a “child safety” bill, after convening a work group on treatment of athlete concussions and hearing the group’s recommendations. Under existing law, only medical doctors, osteopathic doctors, physician assistants, nurse practitioners and psychologists are allowed

to medically release a student athlete with a suspected concussion. The bill would expand that authority — with online training and certification — to athletic trainers, physical therapists, occupational therapists, chiropractic physicians and naturopathic physicians.

Senate passes ‘Equifax bill’

The Oregon Senate has unanimously passed a bill to protect consumers when hackers steal their personal information from credit reporting bureaus and other companies.

The legislation requires companies to notify consumers within 45 days after discovering a data breach of their personal information and prohibits companies from charging consumers for a security freeze. A security freeze is one of the best ways to secure a breached account and stop identity theft, according to the Oregon Department of Justice.

Under Senate Bill 1551, consumers would be entitled to place a credit freeze with each credit reporting agency for free-of-charge at any time for any reason. Companies also would be prohibited from charging for removal of

a freeze, or a temporary lifting of a freeze. The bill now heads to the House of Representatives for consideration.

Senate approves change to hit-and-run law

The Oregon Senate unanimously passed a bill Monday, Feb. 26, that requires drivers in hit-and-run crashes to return to the scene once they learn there was a collision.

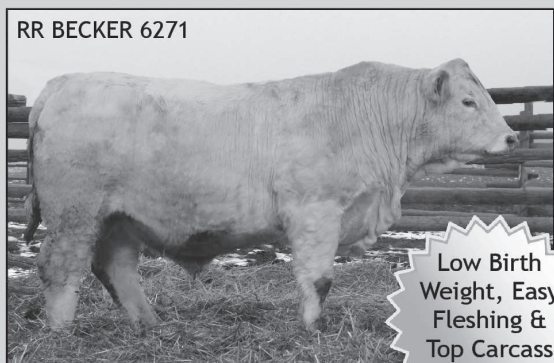
The bill, passed unanimously in the House Feb. 14, was spurred by the deaths of two young girls who were struck and killed by a vehicle while playing in a pile of leaves in the street in front of their house in Forest Grove.

The parents of Anna Dieter-Eckert, 6, and her sister, Abigail Robinson, 11, testified in favor of the bill in both the House and Senate judiciary committees earlier this month.

“In making this change, someone in the future already trying to survive their perfect storm will not be faced with what we have had to go through over the last four years, years of reliving our tragedy,” Susan Dieter-Robinson, Anna’s mother and Abigail’s stepmother, testified Feb. 6.

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