

REVENUE: Revenue Impact Issued

FISCAL: Fiscal Impact Issued

Action: Do Pass with Amendments and be Printed A-Engrossed, and be referred to Ways and Means by Prior Reference

Vote: 6-4-0

Yeas: Bailey, Gelser, Kahl, Read, Riley, Barnhart

Nays: Bentz, Berger, Bruun, Sprenger

Exc.: 0

Prepared By: Chris Allanach, Economist

Meeting Dates: 4/23, 5/22, 5/26, 6/2, 6/3, 6/4

WHAT THE BILL DOES: Increases the C-corporation minimum tax from \$10 to an amount that ranges from \$150 for corporations with less than \$500,000 in Oregon sales to \$100,000 for corporations with Oregon sales of more than \$100 million. Increases the minimum tax on S-corporations from \$10 to \$150. Imposes a \$150 entity tax on entities filing a partnership return. Creates a second marginal corporate tax rate of 7.9% that is applied to taxable income greater than \$250,000 for tax years 2009 and 2010; reduces the rate to 7.6% for tax years 2011 and 2012. For tax years after 2012 the top tax rate of 7.6% applies to net income greater than \$10 million. Other tax changes are applicable beginning with tax year 2009. Increases the Secretary of State filing from \$50 to \$100 for domestic corporations and to \$275 for foreign corporations. Increases fee to file a 5-year uniform commercial code financing statement from \$10 to \$15 and increases the application fee for a 4-year notary public commission from \$20 to \$40. Becomes effective 91 days following sine die.

ISSUES DISCUSSED:

- Use of state services by corporations
- How Oregon would compare to other states
- Protection of small businesses
- Fairness of tax system
- Role of a minimum tax
- Structural change of corporation taxes
- Balance of tax increase with budget cuts
- Use of gross sales in determining tax

EFFECT OF COMMITTEE AMENDMENTS: Replaces bill

BACKGROUND: The corporation excise tax was created in 1929 for the primary purpose of property tax relief. The tax rate was 5%, used an equally weighted three-factor apportionment formula, and had a minimum tax of \$25. In 1931 the rate was increased to 8% and the minimum tax reduced to \$10. The corporation income tax was created in 1955 with a tax rate equal to that of the excise tax, 8%. The rates have changed over time and have been a flat 6.6% since 1987; the minimum excise tax of \$10 has not changed since 1931. The federal law allowing for the creation of S-corporations was enacted in 1958. The Oregon minimum tax for S-corporations was established in 1989 at \$10.

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