

**REVENUE: Revenue statement issued**

**FISCAL: Minimal fiscal impact, no statement issued**

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**Action:** Do Pass as Amended and Be Printed Engrossed  
**Vote:** 10 - 0 - 0  
**Senate Yeas:** Burdick, Devlin, Ferrioli, Winters, Courtney  
**Senate Nays:** 0  
**House Yeas:** Barnhart, Buckley, McLane, Parrish, Kotek  
**House Nays:** 0  
**Prepared By:** Chris Allanach, Economist  
**Meeting Dates:** 10/1

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**WHAT THE MEASURE DOES:** Makes personal and corporate tax changes applicable beginning tax year 2013 unless otherwise specified. Increases corporate tax rate from 6.6% to 7.6% on taxable income between \$1 million and \$10 million. Modifies trigger for corporate tax collections dedicated to Rainy Day Fund from 6.6% to 7.5% for tax years 2013 to 2016, and to 7.2% for tax years 2017 and beyond. Eliminates all personal exemption credits for joint filers with adjusted gross income above \$200,000, and for single filers with adjusted gross income above \$100,000. Converts additional medical deduction to a subtraction, creates cap, phases-out subtraction as income increases, and gradually raises eligibility age to 66 by 2020. Establishes 2.5% tax rate for Interest-Charge – Domestic International Sales Corporations (IC-DISCs) and exempts same from corporate minimum tax. Increases earned income tax credit (EITC) from 6% of federal credit to 8% beginning tax year 2014. Creates preferential marginal tax rate structure for certain business income reported on personal income tax returns beginning tax year 2015. Nonpassive income earned from S-corporations, partnerships, and LLCs that file tax returns as either type of entity may, at taxpayer's election, be subject to preferential rates that range from 7% to 9%. Eligibility requirements include material participation by taxpayer and at least one noninvestor employee. Increases cigarette tax by 13 cents beginning January 1, 2014, to 14 cents January 1, 2016, and to 15 cents January 1, 2018. Dedicates 10 cents of increase to mental health services and 3 cents to General Fund for years 2014 and 2015. Dedicates full increase to mental health services in 2016. Requires approval by three-fifths majority. Effective 91<sup>st</sup> day after adjournment *sine die*.

**ISSUES DISCUSSED:**

- Details of how the preferential tax rates for nonpassive income could be adjusted
- The impact of increasing the cigarette tax but excluding other tobacco products
- The applicability of the bill to LLCs

**EFFECT OF COMMITTEE AMENDMENT:**

- Clarifies that the medical subtraction pertains only to medical expenses of the eligible individual
- Modifies the IC-DISC provisions to mirror the federal treatment by creating a deduction for commission payments made to an IC-DISC and a subtraction for dividends received from an IC-DISC
- Clarifies that depreciation adjustments are incorporated into the calculation of nonpassive income
- Clarifies language pertaining to the tax form requirement for the nonpassive income tax calculation
- Clarifies that income eligible for the preferential tax rates for part-year and non-resident tax filers must be income earned in Oregon
- Requires the Legislative Revenue Officer, instead of the Department of Revenue, to make the estimates described in Section 13
- Clarifies that the rate adjustment calculation to be performed in 2022 is based on current estimates for tax years 2019 and 2020
- Makes changes to the size of the triggers for the potential adjustment of the preferential tax rates
- Deletes reference to the sale of 10-pack cigarettes
- Creates an expiration date for expired cigarette stamps

**BACKGROUND:** The policies contained in this bill were discussed during the 2013 regular session. Many of them were either contained in HB 2456B or discussed during the drafting and modification of that bill.

10/1/2013 11:06:00 PM

***This summary has not been adopted or officially endorsed by action of the committee.***