

Fiscal: May have fiscal impact, but no statement yet issued
Revenue: May have revenue impact, but no statement yet issued
Meeting Dates: 02/10

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WHAT THE MEASURE DOES:

Makes two clarifications of the tax policy related to the preferential tax rates for non-passive income of pass-thru entities. The intent is to align federal and state tax law for special circumstances. The first clarification pertains to situations where a taxpayer has elected to group related businesses as an integrated economic unit under section 469 of the Internal Revenue Code (IRC). All of such income would be considered either passive or non-passive income. There would be no requirement to separate the two. The second clarification pertains to situations where joint filers have chosen to have certain income treated as a qualified joint venture. A qualified joint venture is a business where the only members are a husband and wife filing a joint return, both spouses materially participate in the business, yet the spouses have elected not to be treated as a partnership. This election would be followed for state tax purposes.

ISSUES DISCUSSED:

The technical aspect of the changes within the bill.
The intent of the grand bargain as implemented with HB 3601 in the 2013 special session.

EFFECT OF COMMITTEE AMENDMENT:

(-2) Clarifies that the income subject to the preferential tax rates must be from an Oregon source and moves the effective date for the bill from tax year 2016 to 2015.

BACKGROUND:

In the fall of 2013, the Legislature passed, and the Governor signed, HB 3601. Among other policies, a set of preferential tax rates were enacted that apply to the non-passive income of S-corporations and partnerships (i.e. pass-thru entities) as they are taxed through the personal income tax system. In 2014, SB 1534 made technical clarifications to various policies enacted in HB 3601. This bill contains additional clarifications.