

**Fiscal:** May have fiscal impact, but no statement yet issued  
**Revenue:** May have revenue impact, but no statement yet issued

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**WHAT THE MEASURE DOES:**

Makes clarifications of the tax policy related to the preferential tax rates for non-passive income of pass-thru entities. The first clarification is that the income subject to the preferential tax rates must be from an Oregon source. The intent of the next two provisions is to align federal and state tax law for special circumstances. The first alignment 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 such income would be considered either passive or non-passive income. There would be no requirement to separate the income by business. The second alignment pertains to situations where joint filers have chosen to have business 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. The final clarification is that IRC Section 1231 (property used in a trade or business and involuntary conversions) gains would not be subject to the lower tax rates.

**ISSUES DISCUSSED:**

**EFFECT OF COMMITTEE AMENDMENT:**

No amendment.

**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.