

STAFF MEASURE SUMMARY

Senate Committee On Finance and Revenue

Fiscal: Has minimal fiscal impact
Revenue: No revenue impact, statement issued (Indeterminate Impact)

Action Date: 04/02/15

Action: Do Pass.

Meeting Dates: 04/02

Vote:

Yeas: 5 - Baertschiger Jr, Boquist, Edwards, Hass, Riley

Prepared By: Christine Broniak, Economist

WHAT THE MEASURE DOES:

Replaces penalty for substantial understatement of taxable income with a penalty for the substantial understatement of net tax. Provides for adjustment of net tax threshold amounts for inflation. Sets the net tax understatement amount that would trigger a 20 percent penalty at \$2,400 for personal income tax and \$3,500 for corporate income tax.

ISSUES DISCUSSED:

- The application of a penalty for understatement of net tax instead of understatement of income
- The threshold for the penalty

EFFECT OF COMMITTEE AMENDMENT:

No amendment.

BACKGROUND:

Currently the Department of Revenue issues penalties for a substantial understatement of taxable income equal to 20 percent of the amount of tax attributable to this understatement of income. Taxpayers who file a part-year resident form may understate Oregon taxable income without receiving a penalty if their federal taxable income is not understated. Linking the penalty instead to an understatement of net tax would circumvent this possibility. This measure would change the penalty instead to a penalty on the understatement of net tax. This is a more comprehensive penalty that can include an overstatement of income, an overstatement of credits, or an overstatement of subtractions. The current thresholds for the penalty were set in 1987 and not indexed to inflation. The measure also adds indexing for inflation of the thresholds for the substantial understatement of net tax.