

SB 165 STAFF MEASURE SUMMARY

Senate Committee On Finance and Revenue

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Sub-Referral To: Joint Committee On Tax Credits

Meeting Dates: 2/16, 4/11

WHAT THE MEASURE DOES:

Modifies the eligibility for income subject to the preferential tax rates for nonpassive income. Adds the requirement that the number of employees (FTE) must increase from the prior year along with no decrease in the employee average hourly wage. Applies to tax years beginning on or after January 1, 2018.

ISSUES DISCUSSED:

EFFECT OF AMENDMENT:

BACKGROUND:

HB 3601 from the 2013 Special Session gives taxpayers the option of having certain income from partnerships, S-corporations, and LLCs (that file as either type of entity) taxed at lower marginal rates. The policy objective is to provide a more favorable rate structure for business income earned by taxpayers who actively manage their own businesses. To that end, the primary requirement is that the taxpayer must “materially participate” in the business so that the income is considered “non-passive” income. Two additional requirements are that the business has at least one full-time, non-investor employee and at least 1,200 aggregate hours of work in Oregon are performed annually by qualifying employees. To meet this requirement, only hours worked in a week in which an employee worked at least 30 hours count toward the requirement.