

FISCAL IMPACT OF PROPOSED LEGISLATION

79th Oregon Legislative Assembly – 2017 Regular Session
Legislative Fiscal Office

Measure: HB 2830 - 5

*Only Impacts on Original or Engrossed
Versions are Considered Official*

Prepared by: Meg Bushman-Reinhold
Reviewed by: John Borden
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Measure Description:

Creates the Oregon Commercial Activities Tax.

Government Unit(s) Affected:

Department of Revenue(DOR), Department of Consumer and Business Services (DCBS), Department of Education (OED), Department of Transportation (ODOT), Secretary of State (SOS).

Analysis:

HB 2830 creates an Oregon Commercial Activities Tax (CAT) effective January 1, 2019 that is imposed for the privilege of doing business in Oregon. The corporate excise and corporate income taxes are repealed for tax years beginning on or after January 1, 2019. Otherwise, the CAT is in addition to all other tax programs.

The CAT is measured by gross receipts attributable to Oregon with no deductions allowed. Taxpayers with annual taxable gross receipts of \$150,000 or less have no CAT filing requirement. Taxpayers with annual taxable gross receipts that exceed \$150,000 but do not exceed \$3,000,000 pay a minimum tax of \$250 and file an annual CAT return on a calendar year basis. Taxpayers with annual taxable gross receipts above \$3,000,000 pay the \$250 minimum tax plus a rate based CAT on their taxable gross receipts in excess of \$3,000,000 with returns and payments due each calendar quarter. CAT returns and payments are due the last day of the month following the close of the tax period. The first CAT returns and payments will be due April 30, 2019.

HB 2830 provides five separate tax rates. The tax rate imposed on a CAT taxpayer would depend on the taxpayer's primary business activity. Taxpayers engaged in business activities that constitute a unitary business are required to register, file and pay the tax due as a single taxpayer, and may exclude receipts from transactions among its members. Pass-through entities will be allowed an entity level 50% tax credit against their CAT liability for 2019. This credit will be reduced to 25% in 2020.

CAT taxpayers are required to complete a one-time registration with the Department of Revenue (DOR) before filing their first return. DOR will send CAT registrants a registration number.

In addition, the bill includes a bridge plan that will retroactively raise corporate income tax rates for the 2017 and 2018 tax years, and will retroactively repeal the reduced rate for pass-through entity income for tax years beginning on or after January 1, 2017. Also, personal income tax rates are reduced and the Earned Income Tax Credit percentage is increased to 10% for tax years beginning on or after January 1, 2019.

Funds received pursuant to the CAT are deposited into the Education Strategic Investment Fund or the State Highway Fund for taxes paid based on the sale of motor vehicle fuel. The DOR is authorized to use CAT receipts for administrative expenses prior to the distribution of any funds; however, DOR will require Other Funds expenditure limitation and associated position authority.

2017-2019

The changes for the 2017 and 2018 tax year to both personal income taxes and the corporate income and excise taxes will have a minimal impact to DOR; however, implementing the CAT for the 2019 tax

year, while administering the current corporate income and excise tax program through 2020, will require additional DOR resources

Implementation will occur in phases. Outreach, rulemaking and information technology contracting and development will need to be completed prior to January 1, 2019. DOR's preliminary fiscal impact is for \$5.2 million Other Funds and 22 positions (12.64 FTE) for the 2017-2019 biennium.

Expenditure limitation and position authority for DOR will be evaluated either in the end-of-session omnibus measure for this Legislative session or during the Legislative session in February 2018.

Until CAT receipts are received, DOR may require short-term funding for the agency's administrative costs.

2019-2021

For the 2019-2021 biennium, DOR will phase out the corporate income and excise tax and continue phasing in the CAT. Additional auditors and collection staff may be needed during this period. DOR's preliminary fiscal impact is for \$7.6 million Other Funds and 39 positions (35.79 FTE) for the 2019-2021 biennium.

2021-2023

The complete phase-in of the CAT and the decline of the existing corporate excise tax may result in cost savings to DOR's General Fund budget.

Other Agencies

DOR may enter into agreements with the Department of Consumer and Business Services, the Department of Education, the Department of Transportation and the Secretary of State to share information related to CAT taxpayers. Any fiscal impact on these agencies, as well as the State Treasurer, will likely be minimal.