



## Small Business Pass-Through Tax Rates

LRO Information (from 12/12/2016 presentation to Senate Finance and Revenue)

In December, LRO reported that over 13,000 filers had used the Small Business Pass-Through Rates

- **The policy objective is to provide a more favorable rate structure for business income earned by taxpayers who actively manage their own businesses**
- Taxpayers can have income from partnerships, S-corporations, and LLCs taxed at lower marginal rates
- Policy is NOT intended to benefit passive investment or rental income
- Primary requirement is the taxpayer must “materially participate” in the business (regular, continuous, and substantial participation in the business)
  - Have at least one full-time, non-investor employee
  - Qualifying employees must work at least 1,200 hours in Oregon

74.0% of these filers had their 2015 tax burden reduced by \$5,000 or less. For 86.7%, it was reduced by \$10,000 or less. **NFIB’s take: for the vast majority of filers, the tax savings alone do not offset the cost of a new employee’s annual salary, but are certainly part of the equation for small business owners looking to hire, reinvest, and grow their business.**

NFIB/Oregon Member Survey – February 2017

- 65% of survey respondents were structured as a partnership, S-corp, or LLC
- 28% of survey respondents reported using the Small Business Pass-Through Rates in 2015
- 20% of survey respondents were aware of the rate structure **before** filing their 2015 taxes
- 42% of survey respondents are planning to use the rate structure in 2016

**NFIB’s take: small businesses were largely unaware of the change in tax policy, but upon learning more about the tax structure, which types of business entities qualify, and what types of income qualify, small business owners are much more likely to integrate the use of the Small Business Pass-Through Tax Rates into their business plans.**

Many respondents indicated that they will be following up with their CPA’s for more information.

One respondent summed it up very well: The Small Business Pass-Through Rates “*help the small business owner to reinvest into the company, to upgrade, replace or purchase new equipment or to hire more employees and better serve our customers and community.*”

NFIB represents nearly 7,000 small businesses here in Oregon, many being the smallest of small businesses. Nationwide, NFIB advocates for over 325,000 small and independent businesses from every industry. Although 90 percent of NFIB/OR members have fewer than 25 employees – and 70 percent have fewer than 10 employees, the small businesses we represent account for over 60,000 Oregon jobs.