

The background of the slide is a light gray gradient with several realistic water droplets of various sizes scattered across it. The droplets have highlights and shadows, giving them a three-dimensional appearance.

C-CORPORATION TAX 101:

A PAINFUL YET “SIMPLE” EXAMPLE

OREGON LEGISLATIVE REVENUE OFFICE 2/13/2017

For entertainment purposes only

BUSINESS INCOME TAXATION IN OREGON

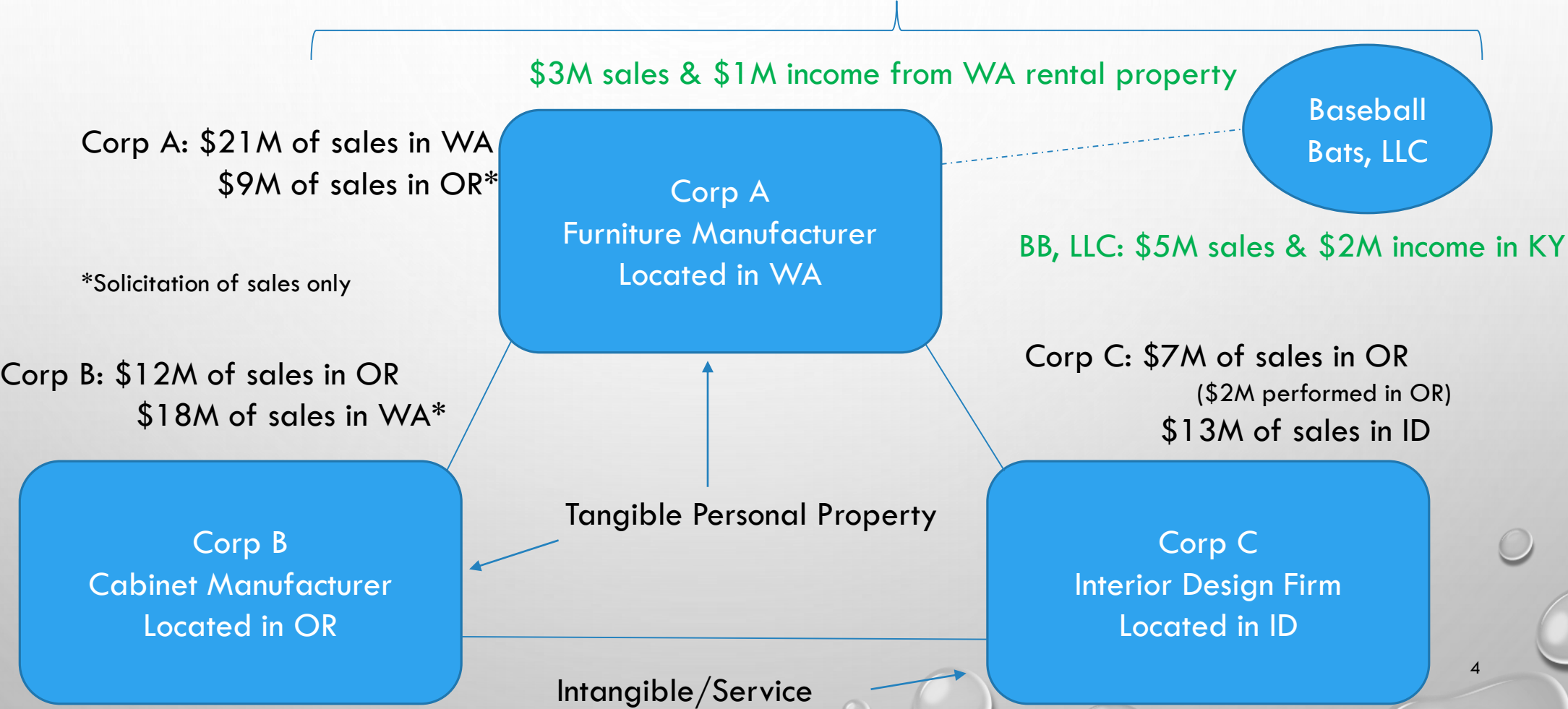
- PERSONAL INCOME TAX
 - SOLE PROPRIETORS (SCHEDULES C & F)
 - PASS-THRU ENTITIES
 - PARTNERSHIPS (SCHEDULE E)
 - S-CORPORATIONS (SCHEDULE E)
 - LIMITED LIABILITY COMPANIES (SCHEDULE E)
- CORPORATION EXCISE TAX
 - S-CORPORATIONS
 - C-CORPORATIONS
 - OREGON ONLY (NEXUS, UNITARY, BUSINESS/NON-BUSINESS, APPORTIONMENT ARE NOT ISSUES)
 - MULTI-STATE, SEPARATE (UNITARY IS NOT AN ISSUE)
 - MULTI-STATE, COMBINED/CONSOLIDATED (NEXUS, UNITARY, BUSINESS/NON-BUSINESS, APPORTIONMENT ARE SIGNIFICANT ISSUES) --- **FOCUS OF THIS PRESENTATION**

KEY TERMS

- 1) NEXUS
- 2) UNITARY
- 3) BUSINESS INCOME / NON-BUSINESS INCOME
- 4) ALLOCATION (NON-BUSINESS INCOME)
- 5) APPORTIONMENT (BUSINESS INCOME)
 - SINGLE SALES
 - TANGIBLE AND INTANGIBLE/SERVICES
 - JOYCE VS FINNIGAN
 - COST OF PERFORMANCE VS MARKET BASED
 - THROWBACK SALES
 - PUBLIC LAW 86-272

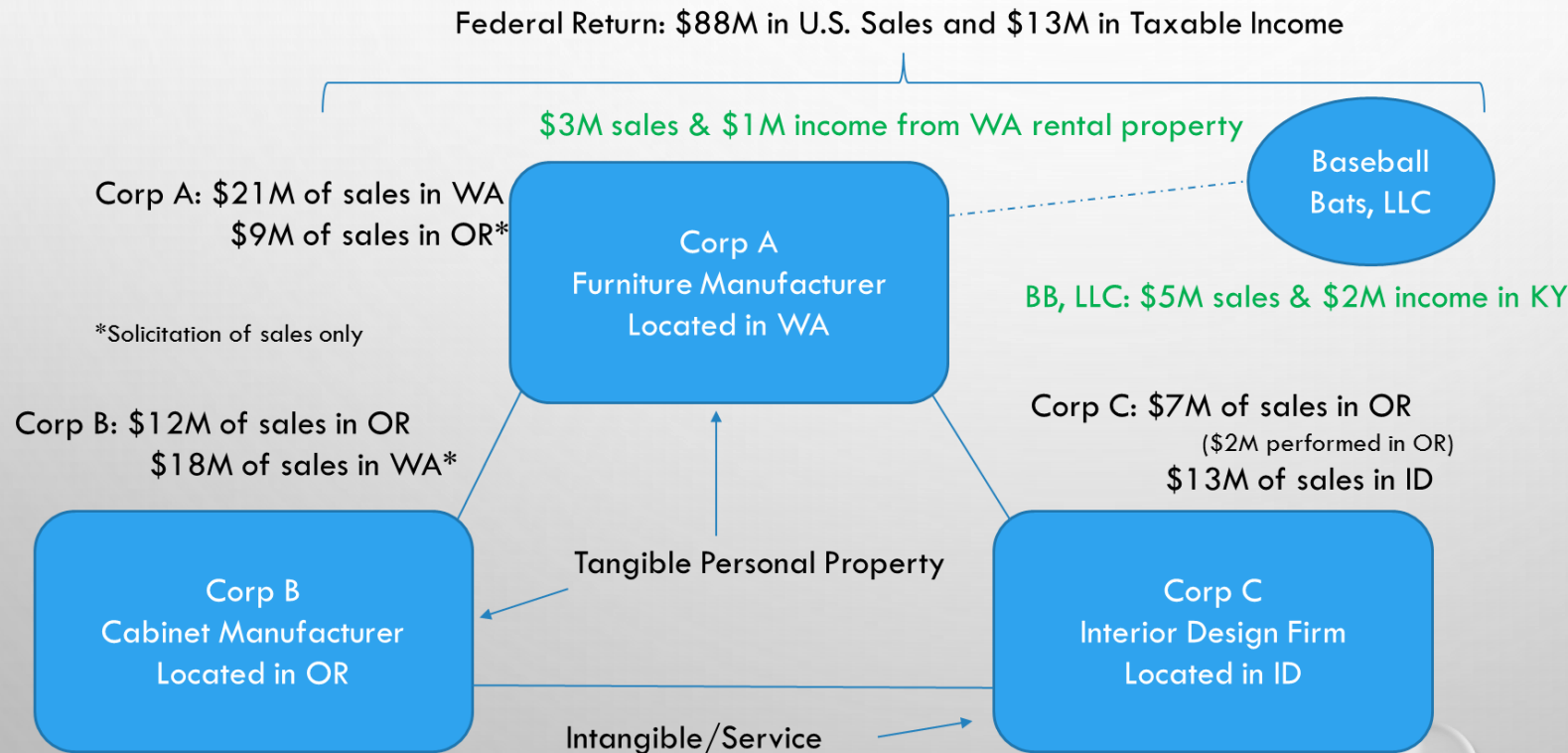
ONE C-CORPORATION TAXPAYER

Federal Return: \$88M in U.S. Sales and \$13M in Taxable Income



UNITARY DETERMINATION

- 1) NEXUS: THE CORPORATION FILED A TAX RETURN, INDICATING SOME LEVEL OF NEXUS
- 2) UNITARY: THE CORPORATION CLAIMS A, B, & C ARE UNITARY, BUT BB, LLC IS NOT
- 3) BUSINESS INCOME / NON-BUSINESS INCOME



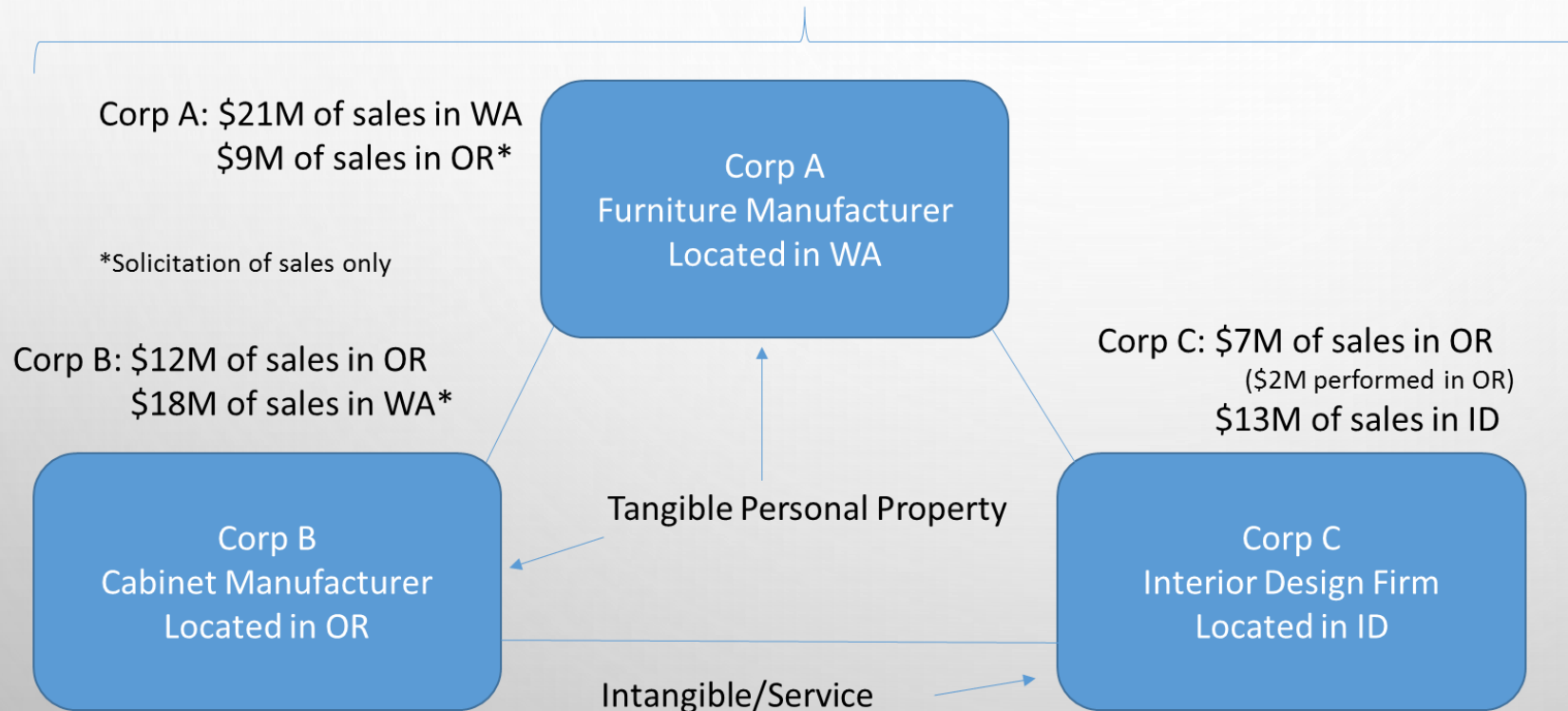
Unitary: Remove BB, LLC
(\$5M sales & \$2M income)

Non-business Income: Remove WA
rental property (\$3M sales & \$1M
income)

Sales: \$88M - \$8M = \$80M
Income: \$13M - \$3M = \$10M

5) APPORTIONMENT (OF BUSINESS INCOME)

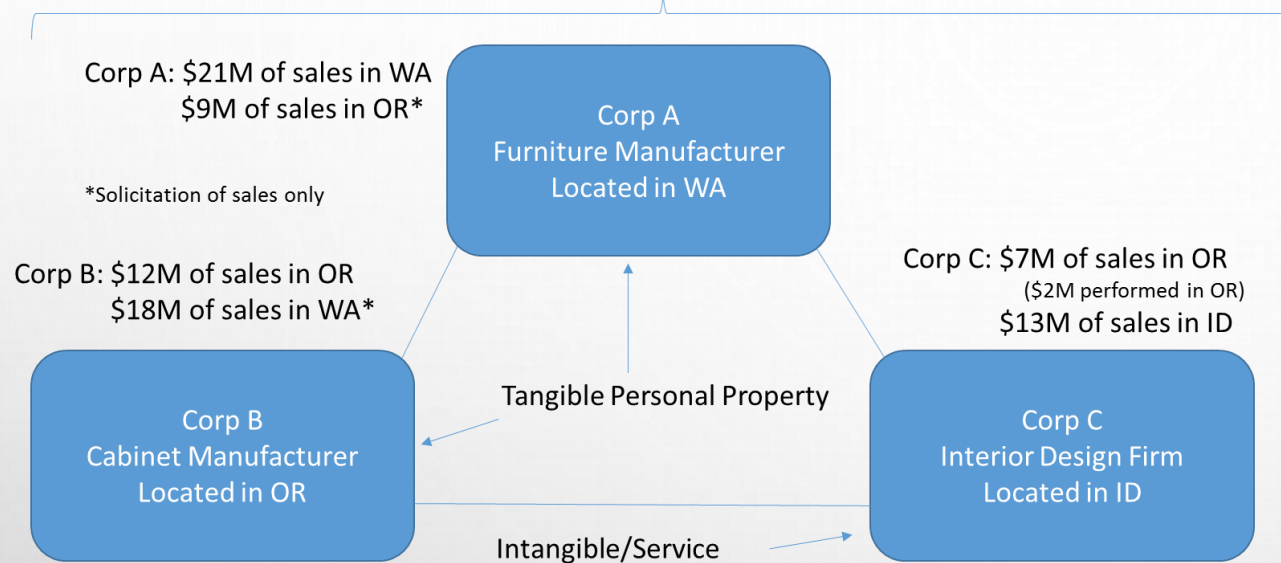
\$80M in U.S. Sales and \$10M in Taxable Income



1. Federal Taxable Income (FTI): \$10 million
2. How much can be taxed by OR, WA, ID?
3. OR uses the share of U.S. sales attributable to Oregon
4. Apportionment (App%) = $\frac{OR\text{sales}}{US\text{sales}}$
5. OR Taxable Income = $FTI * App\%$
6. The task then moves to which sales go in the numerator?

SCENARIO 1 OF 4 : OR SALES (NUMERATOR)

\$80M in U.S. Sales and \$10M in Taxable Income



- Tangible and Intangible/Services
- Joyce vs Finnigan
- Cost of Performance vs Market Based
- Throwback sales
- Public Law 86-272

Current Law

Joyce: A is not taxable (OR activity is solicitation of sales); B is taxable (located in OR); Corp C is taxable (some services performed in OR)

COP: Relevant only for determining which Corp C sales are included

$$\text{Oregon Sales} = \$0 \text{ (A)} + \$12\text{M} \text{ (B)} + \$18\text{M} \text{ (B)} + \$2\text{M} \text{ (C)} = \$32\text{M}$$

A: OR activities protected by PL 86-272 so the \$9M into OR is throwback to WA

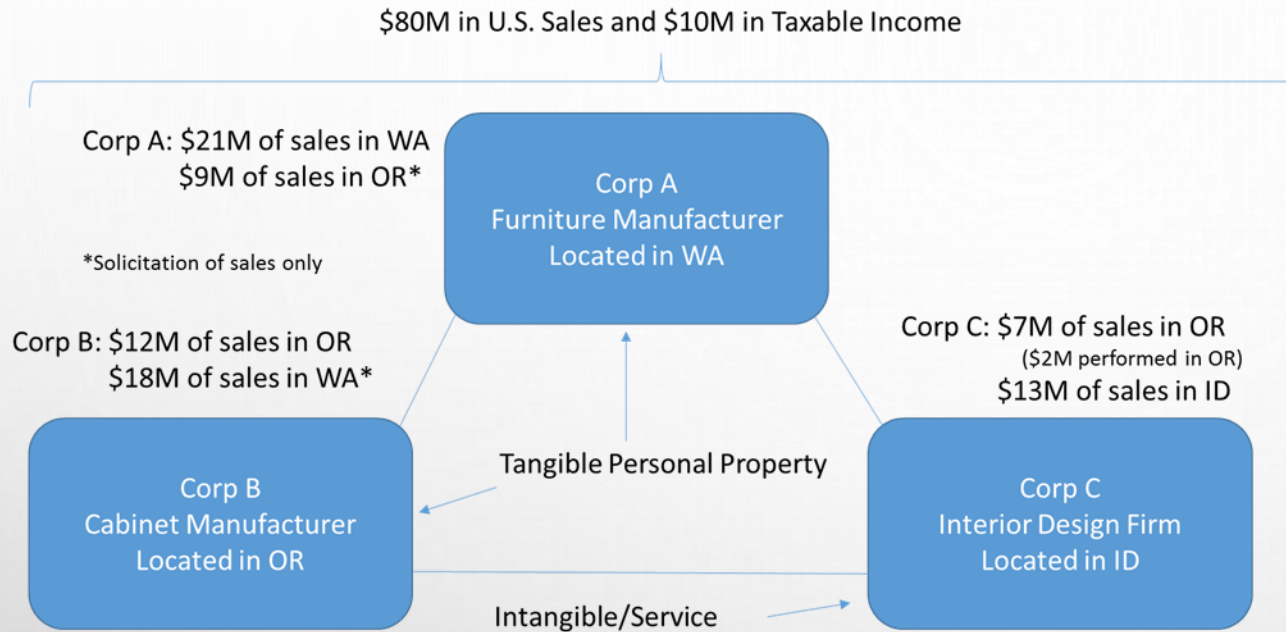
B: \$12M of OR sales; WA activity protected by PL 86-272 so \$18M is throwback to OR

C: \$2M of the OR services performed in Oregon, Income Producing Activity (IPA) in OR

$$\text{App\%} = \$32\text{M} / \$80\text{M} = 40\%$$

$$\text{OTI} = \$10\text{M} * 40\% = \$4\text{M}$$

SCENARIO 2 OF 4 : OR SALES (NUMERATOR)



- Tangible and Intangible/Services
- Joyce vs Finnigan
- Cost of Performance vs Market Based
- Throwback sales
- Public Law 86-272

SB 28

Finnigan: Corp B has nexus with Oregon, so all 3 are taxable in Oregon

COP: Relevant only for determining which Corp C sales are included

$$\text{Oregon Sales} = \$9\text{M (A)} + \$12\text{M (B)} + \$2\text{M (C)} = \$23\text{M}$$

$$\text{App\%} = \$23\text{M} / \$80\text{M} = 28.75\%$$

$$\text{OTI} = \$10\text{M} * 28.75\% = \$2.875\text{M}$$

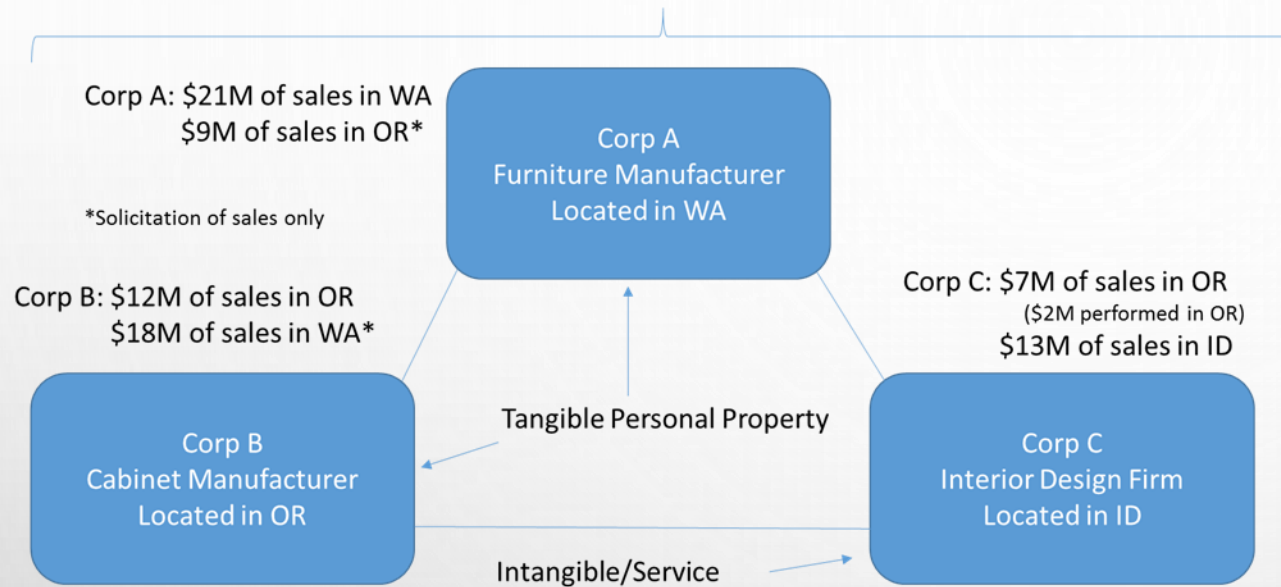
A: \$9M sales in OR; taxable in OR so no throwback to WA

B: \$12M sales in OR; taxable in WA so no throwback to OR

C: \$2M of the OR services performed in Oregon, IPA in OR

SCENARIO 3 OF 4 : OR SALES (NUMERATOR)

\$80M in U.S. Sales and \$10M in Taxable Income



- Tangible and Intangible/Services
- Joyce vs Finnigan
- Cost of Performance vs Market Based
- Throwback sales
- Public Law 86-272

SB 28 -1

Joyce: A is not taxable (OR activity is solicitation of sales); B is taxable (located in OR); Corp C is taxable (some services performed in OR)

MKT: Relevant only for determining which Corp C sales are included

$$\text{Oregon Sales} = \$0\text{M (A)} + \$12\text{M (B)} + \$18\text{M (B)} + \$7\text{M (C)} = \$37\text{M}$$

A: OR activities protected by PL 86-272 so the \$9M into OR is throwback to WA

$$\text{App\%} = \$37\text{M}/\$80\text{M} = 46.25\%$$

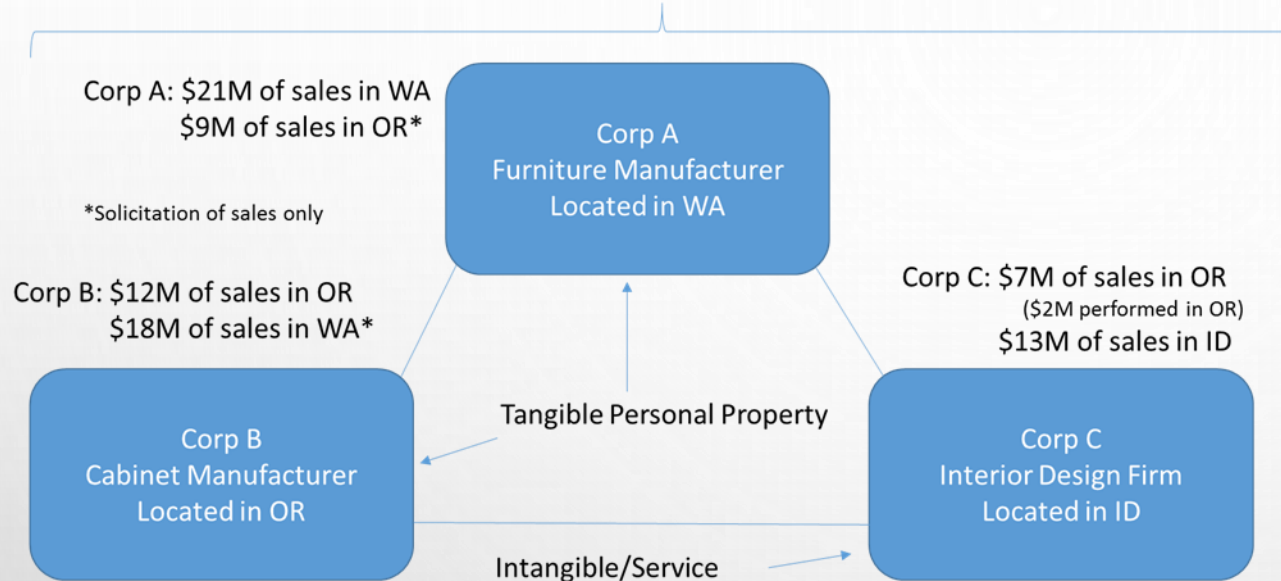
B: \$12M of OR sales; WA activity protected by PL 86-272 so \$18M is throwback to OR

C: \$7M of the OR services delivered in Oregon, production costs don't matter

$$\text{OTI} = \$10\text{M} * 46.25\% = \$4.625\text{M}$$

SCENARIO 4 OF 4 : OR SALES (NUMERATOR)

\$80M in U.S. Sales and \$10M in Taxable Income



- Tangible and Intangible/Services
- Joyce vs Finnigan
- Cost of Performance vs Market Based
- Throwback sales
- Public Law 86-272

Both policy changes

Finnigan: Corp B has nexus with Oregon, so all 3 are taxable in Oregon

MKT: Relevant only for determining which Corp C sales are included

$$\text{Oregon Sales} = \$9\text{M (A)} + \$12\text{M (B)} + \$7\text{M (C)} = \$28\text{M}$$

$$\text{App\%} = \$28\text{M}/\$80\text{M} = 35\%$$

$$\text{OTI} = \$10\text{M} * 35\% = \$3.5\text{M}$$

A: \$9M of sales in OR; taxable in OR so no throwback to WA

B: \$12M sales in OR; taxable in WA so no throwback to OR

C: \$7M of the OR services delivered in Oregon, production costs don't matter