

**HB 2060 A STAFF MEASURE SUMMARY**

**Carrier:** Rep. Barnhart

**House Committee On Revenue**

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**Action Date:** 06/21/17

**Action:** Do pass with amendments. (Printed A-Eng.)

**Vote:** 5-3-1-0

**Yeas:** 5 - Barnhart, Hernandez, Marsh, Nosse, Smith Warner

**Nays:** 3 - Buehler, Johnson, Smith G

**Exc:** 1 - Bentz

**Fiscal:** No fiscal impact

**Revenue:** Revenue impact issued

**Prepared By:** Chris Allanach, Senior Economist

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**WHAT THE MEASURE DOES:**

Limits eligibility for the pass-thru entity tax rates to business operating in one of the following seven economic sectors: agriculture, mining, manufacturing, wholesale trade, transportation and warehousing, information, or accommodation & food services. Increases the employment requirement for eligibility from one employee to ten employees. Applies to tax years 2017 and later.

**ISSUES DISCUSSED:**

- Intent of original policy for increasing access to capital and employment growth among traded sector businesses
- First-year use of the policy across sectors
- Ability to focus policy

**EFFECT OF AMENDMENT:**

Replaces bill.

**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.