

Pass-Through Tax Rate Reduction Policy

Senate Interim Committee on Finance and Revenue - 1/12/2018

Legislative Revenue Office

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Policy Description & Requirements

- The policy objective is to provide a more favorable rate structure for business income earned by taxpayers who actively manage their own businesses (ORS 316.043 & 316.044 – HB 3601 (2013 S.S.))
- 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
 - "Taxpayer shall be treated as materially participating in an activity only if the taxpayer is involved in the operations of the activity on a basis which is: regular, continuous, and substantial. (IRC 469)
- Have at least one full-time, non-investor employee
- Qualifying employees must work at least 1,200 hours in Oregon

Preliminary Tax Year 2015 & 2016 Data, Full-Year Filers

Income	Number of Claimants		
	TY 2015	TY 2016	% Ch.
\$0 - \$50k	293	761	160%
\$50k-\$70k	442	908	105%
\$70k-\$100k	938	1,953	108%
\$100k-\$200k	3,697	6,722	82%
\$200k-\$500k	4,861	7,633	57%
> \$500k	3,133	4,471	43%
Total	13,364	22,448	68%

LRO 1/10/2018

Oregon Pass Through Entities Impacted by New Federal PTE: 270,846 Oregon Small Businesses

	2015
<u>Sole Proprietors</u>	
Nonfarm (Sole)	236,940
LLC (single member)	16,670
Farm (Sole)	30,036
	283,646
 <u>Partnerships</u>	
LLC	42,928
Other	20,807
	63,735
S-Corporations	63,768

SB 1528A Revenue Impacts for the disconnect (federal pass-thru deduction)

2017-19: \$258 million
 2019-21: \$405 million
 2021-23: \$455 million

Above data is extracted from a Legislative Revenue Office request by Senator Boquist.

Federal PTE: 270,846
 State PTE: 22,448

 Difference 248,398 (92%)