HB 4301: Extend Oregon's Pass-Through Tax Rates to Sole Proprietors

Taxpayers who receive non-passive income from either a partnership or an S-corporation have the option of having that income taxed at preferential tax rates. If taxpayers choose this option, their eligible income may be taxed at a rate as low as 7% instead of 9% or 9.9%. The table below contains the estimated cost of extending the existing policy to sole proprietors.

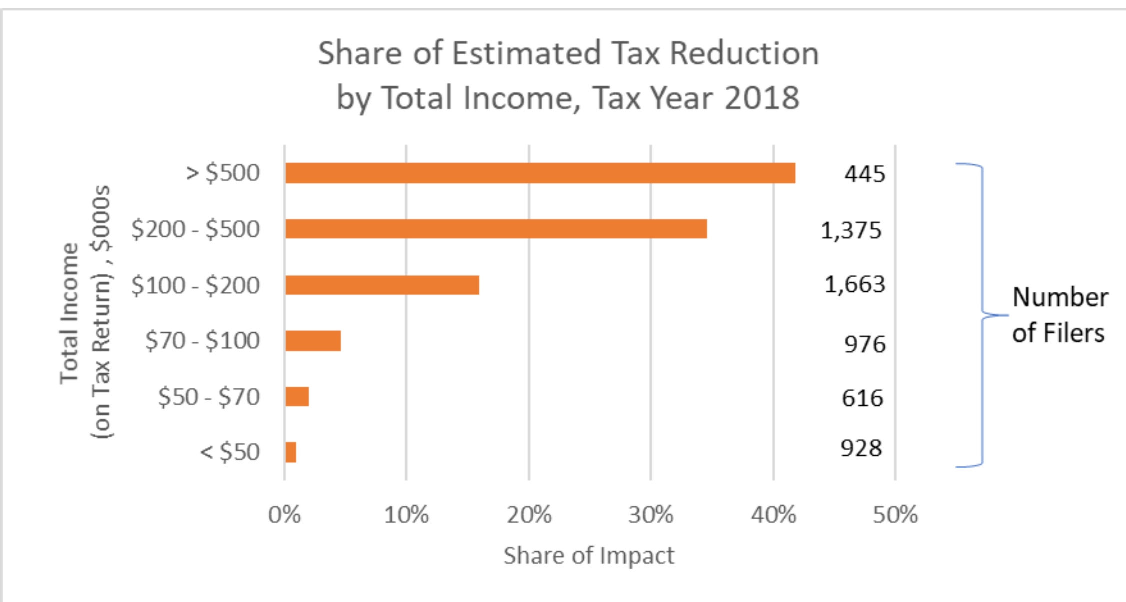
	Tax Year, $M					
Policy	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**
Extend to Sole Proprietors	-$11.3	-$11.8	-$12.5	-$13.1	-$13.7	-$14.3

Number of Filers / Participants

A total of 305,700 sole proprietors are projected to file an Oregon full-year return in 2018. Based on historical data, roughly 12,000 filers would be program eligible. Individual circumstances are expected to play a factor in whether or not a given filer opts in to the program, such as labor costs, use of deductions, and the irrevocable nature of the opt-in. Also, the program is relatively new so it may still be in an initial take-up phase. Taken together, the estimated impact is based on a projected 50 percent participation rate. This translates into an average tax reduction of roughly $1,900 for participants. Taxpayers with the smallest tax impacts are among those least likely to participate.

Distributional Impact

The chart below shows the projected 2018 distribution of tax reductions, by total income, for sole proprietors. Roughly 40 percent of the total impact is projected to go taxpayers with at least $500,000 of total income. The second highest income group, those with total income between $200,000 and $500,000, are projected to receive roughly one-third of the tax reduction. Filers with income under $100,000 are projected to receive just under 8% of the tax reduction.



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