

# Revenue Framework for School Funding

- **Guiding Principles**

- A revenue source dedicated to funding a successful school system
- Broad business tax base with low rates
- Destination-based tax
- Balanced treatment across business structures
- Add stability to the revenue system

- **Structural Mechanics**

- **Business**

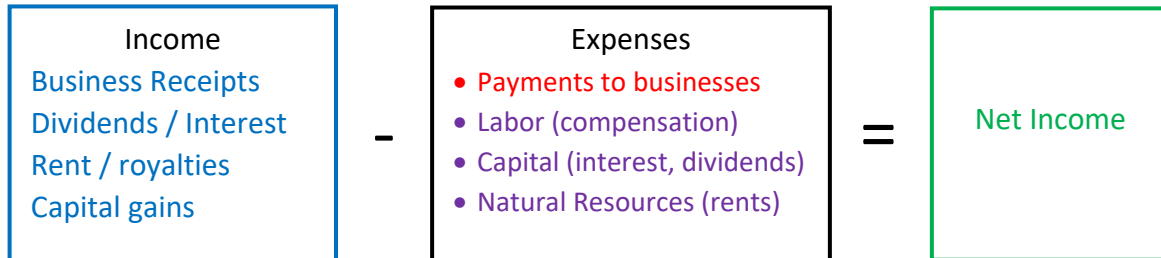
- Base on receipts derived from destination-based sales in Oregon
- All businesses are subject to the tax
  - A minimum threshold is required to file
- Potential special circumstances (e.g. financials and insurance)
- Potential exemptions
  - Government transactions
  - Transactions among closely related entities

- **Personal Income tax burden reductions**

- Reduce lower personal income tax rates
- Increase the standard deduction
- Increase/create tax credits, targeted to lower income filers

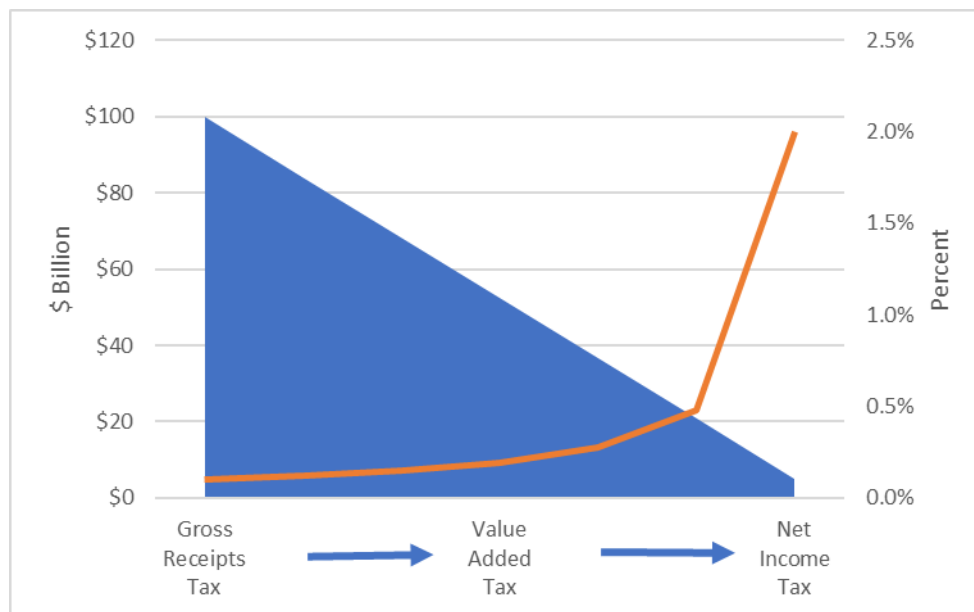
# Alternative Tax Bases

## Simplified view of business cash-flow



## Tax Base: from gross receipts to value added to income

The chart below displays, conceptually, the tax base and tax rate combination needed to raise \$100M. With a gross receipts tax base of \$100B, a tax rate of 0.1% would raise \$100M. At the other end of the spectrum, an income tax base of \$5B would require a tax rate of 2% to raise \$100M.



## ***Ohio Commercial Activities Tax***

### **1. Description**

An annual tax imposed on the privilege of “doing business” in Ohio, measured by taxable gross receipts from most business activities. It became effective on 1-1-2005 and was phased in over five years. “Doing business” means engaging in any activity that is conducted for, or results in, gain, profit, or income, at any time during the calendar years. Most receipts generated in the ordinary course of business are subject to the CAT, but only those gross receipts that are situated to Ohio. Applies only to businesses with at least \$150,000 of taxable gross receipts. Some sectors are subject to a different tax: financials, insurance, public utilities, petroleum activities.

### **2. Tax Base**

The total amount realized, without deduction, in transactions that contribute to the production of gross income, including the fair market value of any property and any services received, and any debt transferred or forgiven. Gross receipts include, but are not limited to the following amounts:

- Receipts from the sale, exchange, or disposition of property to or with another;
- Receipts from the performance of a service;
- Receipts from rents or another's use or possession of property or capital; or
- Any combination of the above

### **3. Tax Calculation**

0.26% times the Taxable Gross Receipts above \$1M. There is an annual minimum tax as follows:

<u>Taxable Gross Receipts</u>	<u>Annual Minimum Tax</u>
\$1 Million or less	\$150
More than \$1 Million but less than or equal to \$2 Million	\$800
More than \$2 Million but less than or equal to \$4 Million	\$2,100
More than \$4 Million	\$2,600

## Washington Business & Occupation Tax

### 1. Description

The B&O tax is a gross receipts tax, assessed against an entity for conducting business in Washington. It applies to the gross income of the business. Tax rates vary, and the appropriate tax classification depends on the business activity. Businesses performing more than one activity may be subject to tax under more than one classification.

### 2. Tax Base

It is measured on the value of products, gross proceeds of sale, or gross income of the business. There are no deductions allowed for labor, materials, taxes or other costs of doing business. Income that is attributable to both Washington and other states is subject to apportionment.

### 3. Tax Calculation

Tax base = gross amount - deductions

Tax base \* tax rate = tax due

B&O classification	Tax Rate
Retailing	0.4710%
Wholesaling	0.4840%
Manufacturing	0.4840%
Service & other activities	1.5000%

There are also roughly 30 special rates for more specific sectors.

B&O classification	Tax Rate
Extracting, Extracting for Hire	0.4840%
Extracting Timber, Extracting for Hire Timber	0.3424%
Slaughtering, Breaking and Processing Perishable Meat; Manufacturing Wheat into Fl	0.1380%
Travel Agent Commission; Tour Operators; International Charter Freight Brokers; Stev	0.2750%
Insurance Agents/Insurance Brokers Commissions; Child Care	0.4840%
Prescription Drug Warehousing; Manufacturing Bio/Alcohol Fuel; Splitting/Processing	0.1380%
Publication of Newspapers	0.3500%
Processing for Hire; Printing and Publishing	0.4840%
Processing for Hire Timber Products	0.3424%
Sale of Standing Timber	0.3424%
Non-Manufacturing Aerospace Product Development	0.9000%
Federal Aviation Administration (FAR) Part 145 Repair Stations	0.2904%
Manufacturing of Timber or Wood Products	0.3424%
Manufacturing of Aluminum Smelter	0.2904%
Manufacturing of Commercial Airplanes, Components, or Aerospace Tooling	0.2904%
Wholesaling of Commercial Airplanes, Components, or Aerospace Tooling	0.2904%
Retailing of Commercial Airplanes, Component, or Aerospace Tooling	0.2904%
Manufacturers/Processors for Hire of Semiconductor Materials	0.2750%
Royalties	1.5000%
Wholesaling of Timber or Wood Products	0.3424%
Wholesaling of Manufactured Aluminum	0.2904%
Warehousing; Radio & TV Broadcasting; Public Road Construction; Government Con	0.4840%
Radioactive Waste Disposal	3.3000%
Public or Nonprofit Hospitals; Qualified Co-ops	1.5000%
For Profit Hospitals; Scientific R&D	1.5000%
Cleanup of Radioactive Waste for US Government	0.4710%
Service & Other Activities; Gambling Contests of Chance (less than \$50,000 a year)	1.5000%
Gambling Contests of Chance (\$50,000 a year or greater)	1.6300%
Parimutuel Wagering	0.1300%
Retailing of Interstate Transportation Equipment	0.4840%
Manufacturing or Wholesaling of Solar Energy	0.2750%

## ***Nevada Commerce Tax***

### **1. Description**

The Commerce Tax is a tax on the privilege of engaging in business in Nevada, created in 2015. In some ways it's similar to the Washington B&O tax. It's imposed on businesses with a Nevada gross revenue exceeding \$4,000,000 in the taxable year. All businesses are required to file a Commerce Tax return, regardless of liability. "Engaging in business" means, in part, commencing, conducting or continuing a business.

### **2. Tax Base**

Total Gross Revenue (TGR) = sale of inventory + service performance + rent/royalty/lease + interest + damages + insurance + forgiven debt + other

Taxable Revenue (TR) = TGR - deductions - \$4M

### **3. Tax Calculation**

TR \* tax rate, where tax rate depends on the economic sector in the following table

<b>NAICS Category</b>	<b>Tax Rate</b>
Agriculture, Forestry, Hunting	0.063%
Mining, Quarrying, Oil and Gas Extraction	0.051%
Utilities and Telecommunications	0.136%
Construction	0.083%
Manufacturing	0.091%
Wholesale Trade	0.101%
Retail Trade	0.111%
Air Transportation	0.058%
Truck Transportation	0.202%
Rail Transportation	0.331%
Other Transportation	0.129%
Warehousing and Storage	0.128%
Publishing, Software, Data Processing	0.253%
Finance and Insurance	0.111%
Rental & Leasing	0.250%
Professional, Scientific or Technical Services	0.181%
Management of Companies and Enterprises	0.137%
Administrative and Support Services	0.154%
Waste Management and Remediation Services	0.261%
Education Services	0.281%
Health Care and Social Assistance	0.190%
Arts, Entertainment and Recreation	0.240%
Accommodations	0.200%
Food Services and Drinking Places	0.194%
Other Services	0.142%
Unclassified	0.128%

## ***Texas Franchise Tax***

### 1. Description

A tax imposed for the privilege of doing business in Texas. It is a hybrid of a tax on gross receipts and a tax on income, based on a taxable entity's "margin". It's imposed on entities that are either organized in Texas or doing business in Texas, but does not apply to some entities, such as sole proprietors or single member LLCs. Threshold of \$1.13M in Total Revenue required to file. "Margin" is total revenue less certain costs.

### 2. Tax Base

Total Revenue = Gross receipts + dividends + interest + rent + royalties + capital gains + other  
These amounts are generally taken from the federal income tax return.

### 3. Tax Calculation

Gross tax is the least of four calculations:

- A. 70% of Total Revenue
- B. Total Revenue - Cost of Goods Sold
- C. Total Revenue - Compensation
- D. Total Revenue - \$1M

Apportioned Margin = Margin \* apportionment

(apportionment is Texas gross receipts / total gross receipts)

Gross Tax = 0.375% \* Apportioned Margin, if wholesaler or retailer  
= 0.75% \* Apportioned Margin, if other sector

## ***Michigan Single Business Tax***

### **1. Description**

The SBT is a type of value added tax, based on the addition method, imposed on all entities engaging in “business activity” within Michigan. It consists of three components -- labor costs, capital costs, and profits. “Business activity” includes any transaction that results in an economic benefit, such as the sale of real or personal property, rental income, or the performance of a service. Every entity engaged in business activity in Michigan with apportioned or allocated gross receipts of \$350,000 must file a SBT return.

### **2. Tax Base**

Starts with federal taxable income, then compensation is added, and then certain additions and subtractions are incorporated to derive the cost of capital. For entities operating in more than one state an apportionment factor is used, 90% sales, 5% property, and 5% payroll.

### **3. Tax Calculation**

Tax Base = business income + compensation + additions - subtractions  
(apportioned if necessary)

Adjusted Tax Base (ATB) = Tax Base - adjustments

Taxpayers may choose one of four calculations:

- A.  $ATB * 1.9\%$
- B.  $(ATB - \text{excess compensation}) * 1.9\%$
- C.  $50\% \text{ of gross receipts } * 1.9\%$
- D. Adjusted Business Income (ABI) = income + compensation + officer/shareholder fees + carryforwards + carrybacks.  
Then,  $ABI * 2\%$

## ***New Hampshire Business Enterprise Tax***

### **1. Description**

The Business Enterprise Tax (BET) is an apportioned entity level tax imposed upon all business enterprises that carry on any business activity in New Hampshire including corporations, limited liability companies, partnerships, sole proprietorships and certain non-profit organizations. The current tax rate is 0.675% for taxable periods ending on or after December 31, 2018. The rate is scheduled to further decline, to 0.6% on or after December 31, 2019 and then to 0.5% on or after December 31, 2021. Enterprises with more than \$217,000 of gross receipts from all their activities; or an enterprise value tax base more than \$108,000 are required to file a return. Non-profits are subject to the tax unless exempt from federal taxes as described in IRC 501(c)(3)

### **2. Tax Base**

The enterprise value tax base for the BET is the total amount of interest paid or accrued, dividends paid or accrued, and compensation paid or accrued (each component is broadly defined) after special adjustments and apportionment. Activity of a business enterprise outside of New Hampshire is accounted for by apportioning the elements of the BET base. Each element of the enterprise value tax base has a separate apportionment formula that is applied to that component to determine the New Hampshire value.

Taxable Enterprise Value (TEV) = Dividends paid + compensation paid + interest paid

### **3. Tax Calculation**

$0.675\% * TEV = \text{Business Enterprise Tax}$



## ***Modifications to Existing Oregon Business Taxes***

### Corporate Excise & Income Taxes

1. Increase the 6.6% and 7.6% rates
2. Change the minimum tax to a percentage
3. Align S-corporation minimum tax with C-corporation minimum tax

<b>C-Corporations</b>	
<b>Taxable Income</b>	<b>Tax Before Credits</b>
Not over \$1M	6.6% of taxable income
Over \$1M	\$66,000 + 7.6% of income over \$1M

<b>C-Corporate Minimum Tax</b>	
<b>Oregon Sales (\$)</b>	<b>Minimum Tax (\$)</b>
< \$500,000	\$150
\$500,000 to \$1 Million	\$500
\$1 Million to \$2 Million	\$1,000
\$2 Million to \$3 Million	\$1,500
\$3 Million to \$5 Million	\$2,000
\$5 Million to \$7 Million	\$4,000
\$7 Million to \$10 Million	\$7,500
\$10 Million to \$25 Million	\$15,000
\$25 Million to \$50 Million	\$30,000
\$50 Million to \$75 Million	\$50,000
\$75 Million to \$100 Million	\$75,000
\$100 Million or more	\$100,000

## ***Modifications to the Oregon Personal Income Tax***

1. Reduce the marginal tax rates

<b>Single Income Tax Rates</b>	
Taxable Income (\$)	Tax Rate
< \$3,550	5.0%
\$3,550 to \$8,900	7.0%
\$8,900 to \$125,000	9.0%
\$125,000 or more	9.9%

<b>Joint Income Tax Rates</b>	
Taxable Income (\$)	Tax Rate
< \$7,100	5.0%
\$7,100 to \$17,800	7.0%
\$17,800 to \$250,000	9.0%
\$250,000 or more	9.9%

2. Increase the standard deduction

Single filers: \$2,270

Joint filers: \$4,545

Head-of-household: \$3,655

3. Increase or create tax credits, targeted to lower income filers