



Personal Income Tax (PIT) Business Entity Taxation OR Pass Through Entity (PTE) Reduced Rates

Senate Committee on Finance and Revenue – 1/26/2021

Legislative Revenue Office



Business Entity Types

Personal Income Tax

- Sole proprietorship
- Partnership
- S-Corporation
- Limited Liability Company (LLC)

Corporate Income/Excise Tax

- C-Corporation
- Partnership
- Limited Liability Company (LLC)





PIT: Business Pass Through Income

Concept: Business income (or loss) is passed through from the business entity to the taxpayer

Business income – business expenses = amount passed through

- S-Corps: Income/loss to shareholders
- Partnerships: To individual partners
- Sole props: To taxpayer (single entity)

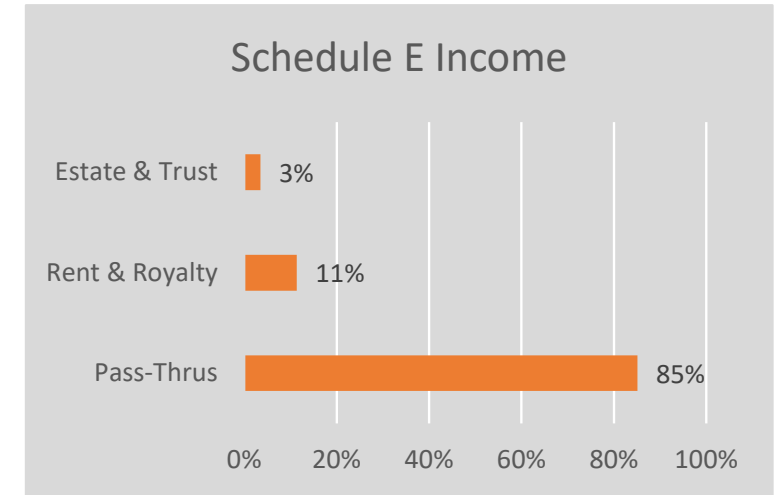
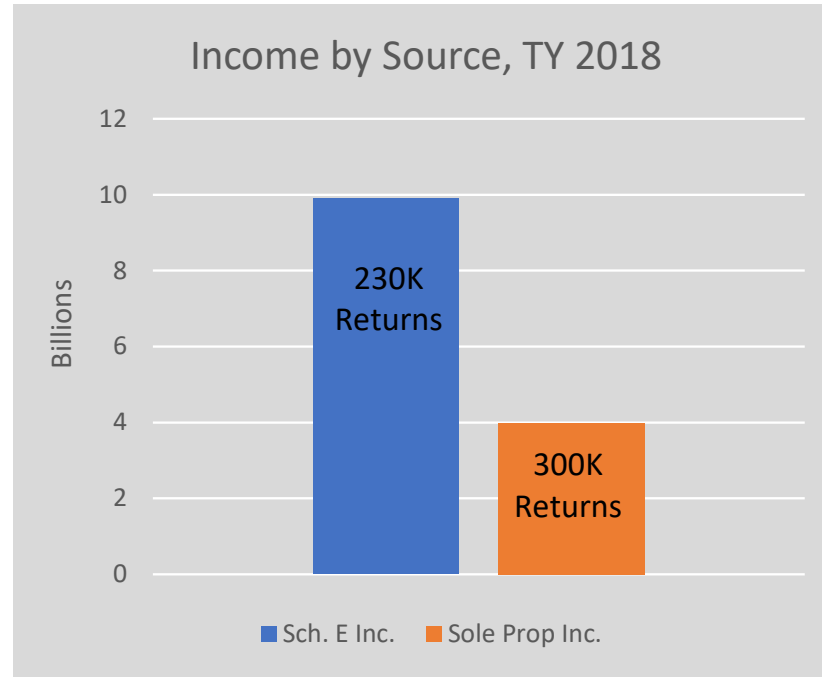




Business Income

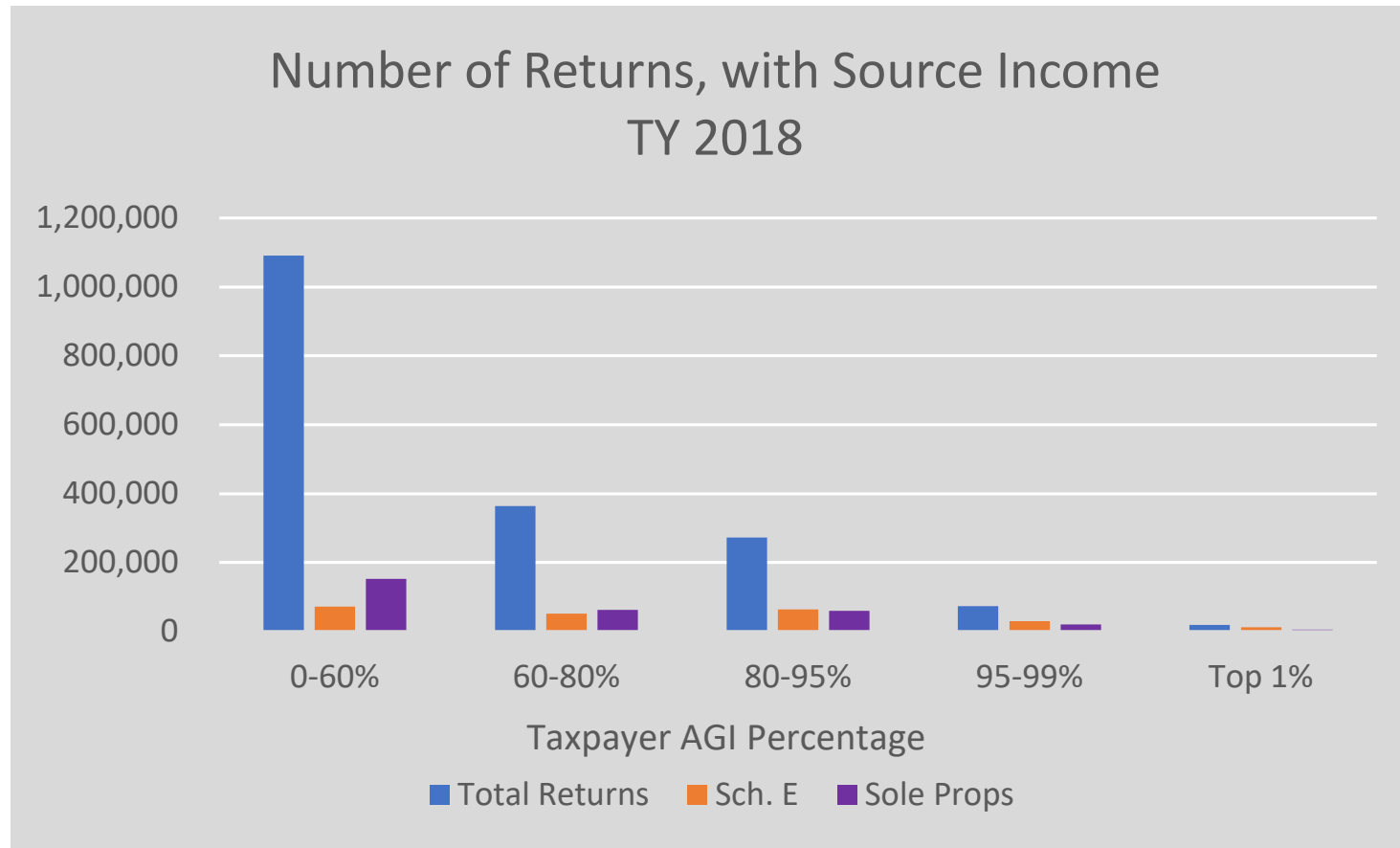
Components of Income (\$Millions)

Type	Amount	% of Tot.
Wages	86,109	64%
Retirement	19,419	14%
Business	14,217	11%
Net Capital Gains	9,483	7%
Dividends & Interest	4,657	3%
Other	507	0%
Gross Income	134,392	100%





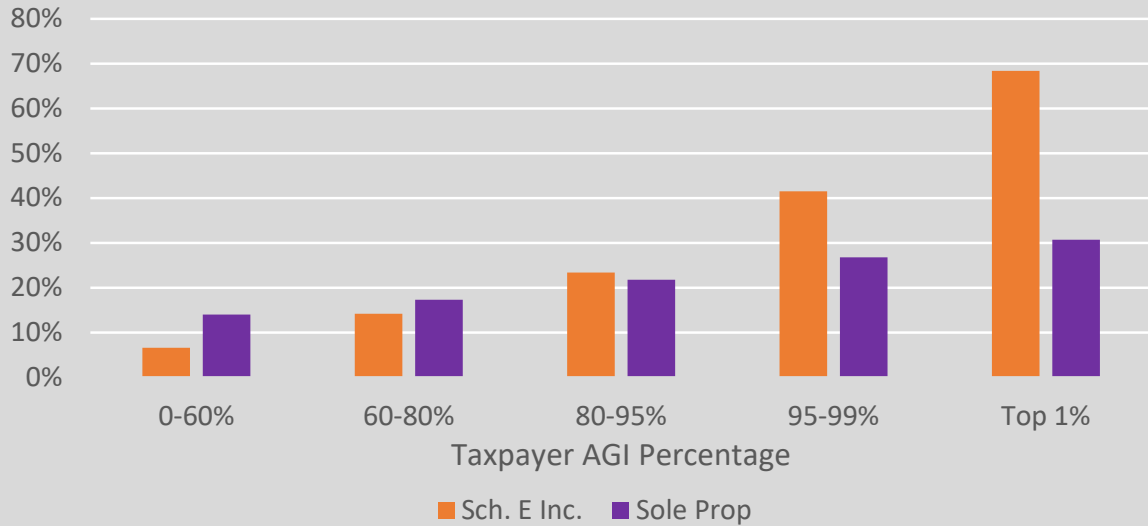
Returns with Business Income



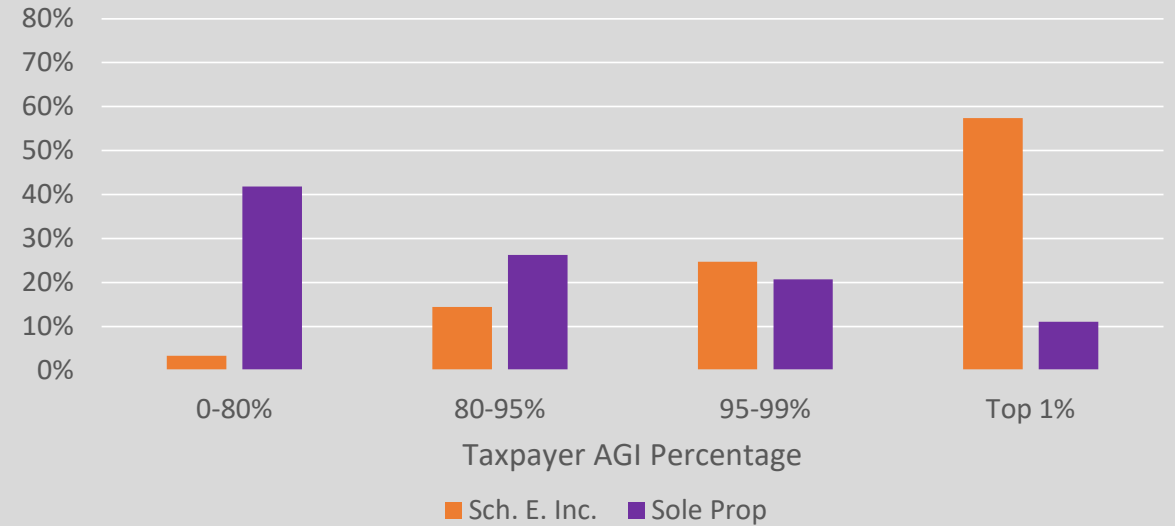


Concentration of Business Income

Percent of Returns with Income from Source TY 2018



Percent of Income from Source TY 2018





Business Income Taxation

Federal Qualified Business Income Deduction (Oregon not connected)

- Deduction allows eligible taxpayers to deduct up to 20% of their qualified business income
- Income limits exist, limited availability for higher income specified service trade or business (fields of health, law, accounting, consulting, etc.)

Oregon's reduced rates for PTE income





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.), HB 4301 (2018 S.S.)
- Taxpayers can have income from partnerships, S-corporations, sole proprietorships 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





2018 Tax Rates & Brackets

Joint Income Tax Rates	
Taxable Income (\$)	Tax Rate
≤ \$6,900	5.0%
\$6,901 to \$17,400	7.0%
\$17,401 to \$250,000	9.0%
Over \$250,000	9.9%

Non-Passive Income Tax Rates	
Taxable Income (\$)	Tax Rate
≤ \$250,000	7.0%
\$250,001 to \$500,000	7.2%
\$500,001 to \$1 Million	7.6%
\$1 Million to \$2.5 Million	8.0%
\$2.5 Million to \$5 Million	9.0%
Over \$5 Million	9.9%





Gross Tax Calculation: Taxpayer Opt-In

Base approach -- Gross Tax A is calculated under traditional method:

$$(All\ Income - Deductions) \times (Regular\ Rates) = Gross\ Tax\ A$$

Opt-in approach -- Gross Tax B is calculated under the new law:

$$(Non-passive\ Income) \times (New\ Rates) = Gross\ Tax\ B.1$$

$$(All\ Other\ Income - Deductions) \times (Regular\ Rates) = Gross\ Tax\ B.2$$

$$(Gross\ Tax\ B.1) + (Gross\ Tax\ B.2) = Gross\ Tax\ B$$

The taxpayer will choose the lesser of the two gross tax amounts:

$$Gross\ Tax = Lesser\ of\ "Gross\ Tax\ A"\ or\ "Gross\ Tax\ B"$$





Revenue Impact – Tax Year 2018

Number of Claimants & Revenue Impact - TY 2018					
Income	FY Filers	Claimants	Share	Rev Imp.	% Tot.
\$0 - \$50k	995,802	769	0.1%	-\$0.1	0.1%
\$50k-\$70k	222,545	939	0.4%	-\$0.3	0.3%
\$70k-\$100k	228,892	2,138	0.9%	-\$1.0	0.9%
\$100k-\$200k	275,660	7,247	2.6%	-\$6.9	6.2%
\$200k-\$500k	80,105	9,020	11.3%	-\$27.4	24.7%
> \$500k	16,163	5,079	31.4%	-\$75.0	67.7%
Total	1,819,167	25,192	1.4%	-\$110.7	100.0%

FY Filers: 2018 full-year filers

Income: Refers to total income

Source: Department of Revenue - Research, Personal Income Tax Returns





Revenue Impact – Tax Years 2017 & 2018

Tax Year 2017 & 2018 Data, Full-Year Filers

Revenue Impact (\$M)			
Income	TY 2017	TY 2018	Difference
\$0 - \$50k	-\$0.1	-\$0.1	\$0.0
\$50k-\$70k	-\$0.2	-\$0.3	-\$0.1
\$70k-\$100k	-\$0.8	-\$1.0	-\$0.2
\$100k-\$200k	-\$5.7	-\$6.9	-\$1.2
\$200k-\$500k	-\$22.5	-\$27.4	-\$4.9
> \$500k	-\$66.6	-\$75.0	-\$8.3
Total	-\$95.9	-\$110.7	-\$14.8

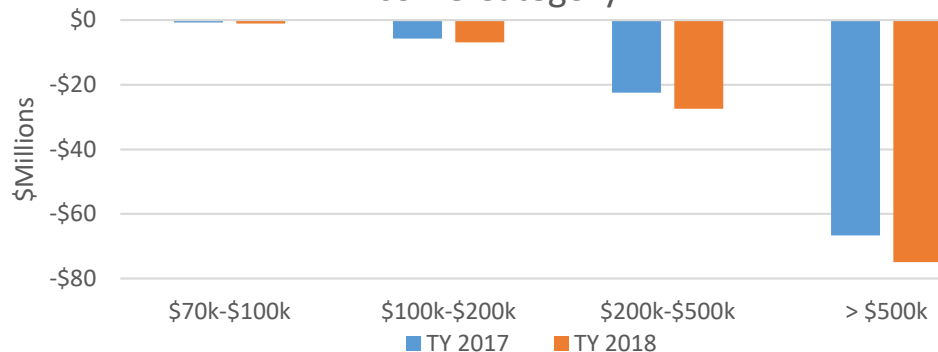
Means (\$) -\$4,504 -\$4,394

Income: Refers to total income | 2018 Full year filers

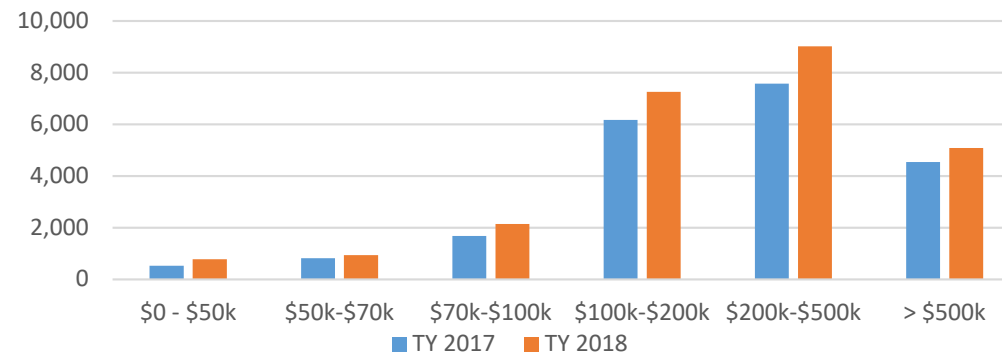
Number of Claimants			
Income	TY 2017	TY 2018	% Ch.
\$0 - \$50k	527	769	46%
\$50k-\$70k	812	939	16%
\$70k-\$100k	1,675	2,138	28%
\$100k-\$200k	6,165	7,247	18%
\$200k-\$500k	7,569	9,020	19%
> \$500k	4,532	5,079	12%
Total	21,289	25,192	18%

Source: DOR - Research, Personal Income Tax Returns

Estimated Revenue Impact (Full Year Filers) by Income Category



Claimants (Full Year Filers) by Income Category

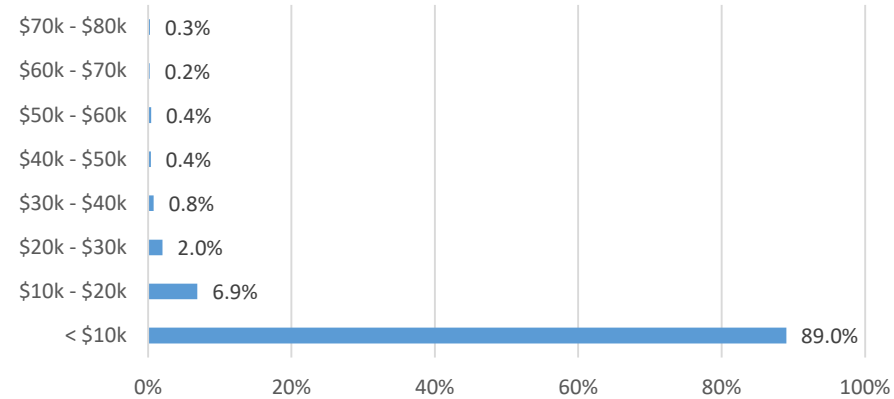




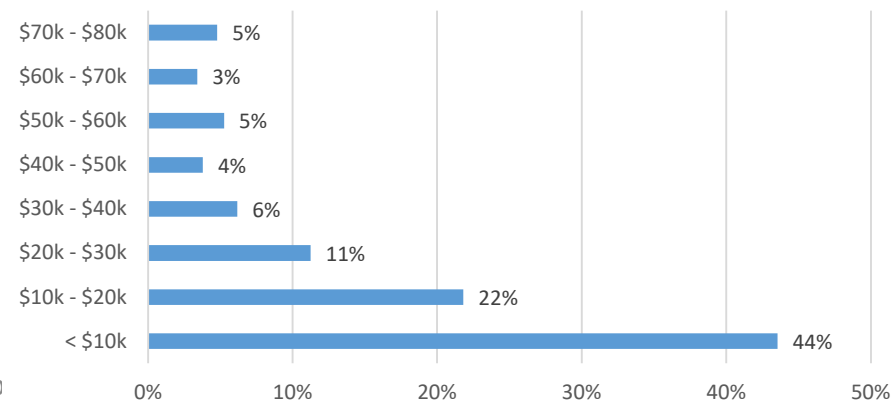
Tax Reduction Distribution

Tax Cut	Returns		Tax Cut	
	Number	Share	\$ Million	Share
< \$5k	19,367	76.9%	\$27.2	24.6%
\$5k - \$10k	3,058	12.1%	\$21.0	18.9%
\$10k - \$15k	1,132	4.5%	\$14.0	12.6%
\$15k - \$20k	599	2.4%	\$10.2	9.2%
\$20k - \$25k	292	1.2%	\$6.5	5.9%
\$25k - \$30k	219	0.9%	\$5.9	5.4%
\$30k - \$35k	123	0.5%	\$4.0	3.6%
\$35k - \$40k	76	0.3%	\$2.8	2.6%
\$40k - \$45k	50	0.2%	\$2.1	1.9%
\$45k - \$50k	44	0.2%	\$2.1	1.9%
\$50k - \$55k	45	0.2%	\$2.4	2.2%
\$55k - \$60k	60	0.2%	\$3.4	3.1%
\$60k - \$66k	44	0.2%	\$2.7	2.5%
\$66k - \$70k	15	0.1%	\$1.0	0.9%
\$70k - \$76k	15	0.1%	\$1.1	1.0%
\$76k - \$80K	55	0.2%	\$4.2	3.8%
Total	25,192	100.0%	\$110.7	100.0%

Share of Claimants by Tax Cut Amount
TY 2018



Share of Revenue Impact by Tax Cut Amount
TY 2018





Impacts by County – Tax Year 2018

County	Filers	Claimants	Share	Tax Change	
				Total (\$M)	Mean (\$)
Baker	6,489	129	2.0%	-\$0.2	-\$1,431
Benton	36,950	533	1.4%	-\$2.3	-\$4,257
Clackamas	187,593	3,701	2.0%	-\$20.9	-\$5,652
Clatsop	16,854	263	1.6%	-\$0.7	-\$2,800
Columbia	22,297	157	0.7%	-\$0.7	-\$4,411
Coos	25,282	291	1.2%	-\$0.9	-\$3,260
Crook	10,062	132	1.3%	-\$0.4	-\$2,753
Curry	9,454	90	1.0%	-\$0.4	-\$4,432
Deschutes	86,719	2,026	2.3%	-\$7.7	-\$3,793
Douglas	43,007	430	1.0%	-\$1.4	-\$3,287
Gilliam	757	NA	NA	NA	NA
Grant	2,906	32	1.1%	\$0.0	-\$1,412
Harney	2,843	28	1.0%	-\$0.1	-\$2,804
Hood River	11,075	233	2.1%	-\$0.7	-\$3,135
Jackson	94,338	1,470	1.6%	-\$5.5	-\$3,763
Jefferson	9,383	98	1.0%	-\$0.3	-\$2,582
Josephine	34,588	365	1.1%	-\$1.4	-\$3,905
Klamath	26,047	289	1.1%	-\$0.8	-\$2,809

County	Filers	Claimants	Share	Tax Change	
				Total (\$M)	Mean (\$)
Lake	2,890	48	1.7%	-\$0.1	-\$2,065
Lane	158,635	2,417	1.5%	-\$10.4	-\$4,287
Lincoln	20,359	189	0.9%	-\$0.6	-\$3,010
Linn	53,445	534	1.0%	-\$1.8	-\$3,424
Malheur	9,733	128	1.3%	-\$0.3	-\$2,145
Marion	141,620	1,665	1.2%	-\$7.4	-\$4,419
Morrow	4,449	26	0.6%	-\$0.1	-\$2,546
Multnomah	365,850	4,729	1.3%	-\$22.7	-\$4,800
Polk	34,530	413	1.2%	-\$1.7	-\$4,106
Sherman	780	NA	NA	NA	NA
Tillamook	11,629	156	1.3%	-\$0.4	-\$2,829
Umatilla	29,712	261	0.9%	-\$0.8	-\$3,171
Union	10,756	184	1.7%	-\$0.5	-\$2,587
Wallowa	3,305	101	3.1%	-\$0.1	-\$1,170
Wasco	10,847	128	1.2%	-\$0.4	-\$2,798
Washington	262,170	3,213	1.2%	-\$15.8	-\$4,913
Wheeler	515	NA	NA	NA	NA
Yamhill	44,070	592	1.3%	-\$2.6	-\$4,460
Other*	29,280	141	0.5%	-\$0.6	-\$5,008
TOTAL	1,819,167	25,192	1.4%	-\$110.7	-\$4,394

Source: Department of Revenue - Research, Personal Income Tax Returns

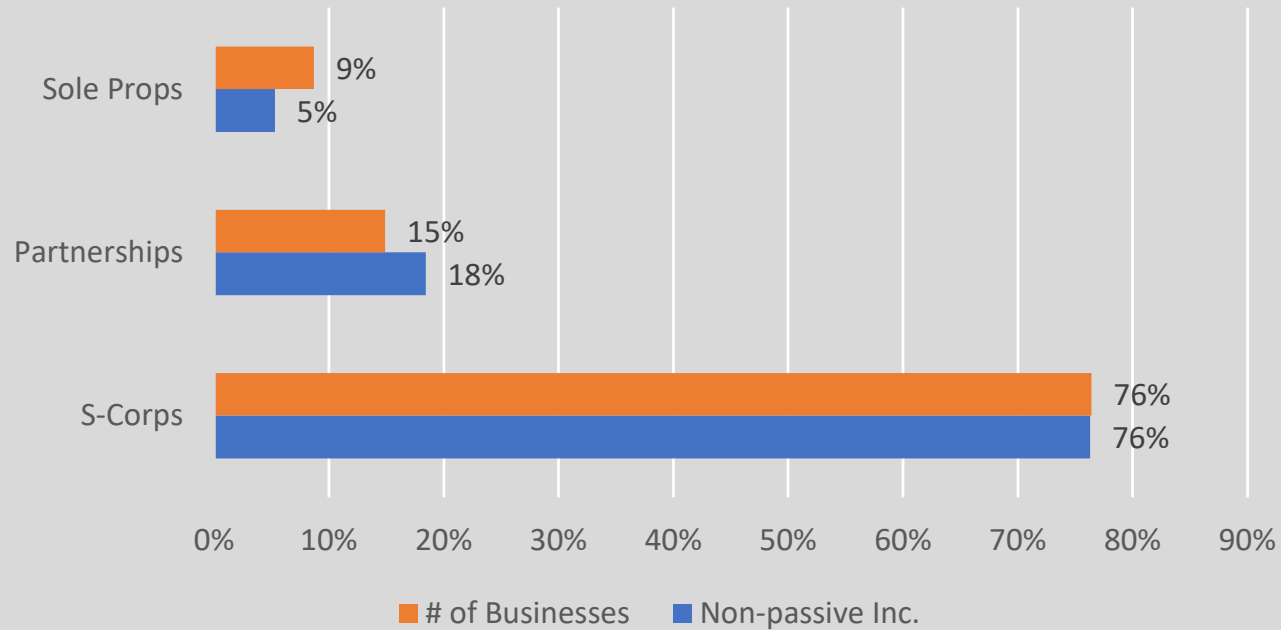
* Out-of-state, Gilliam, Sherman, Wheeler





Entity Type

Share of Total by Entity Type - TY 2018



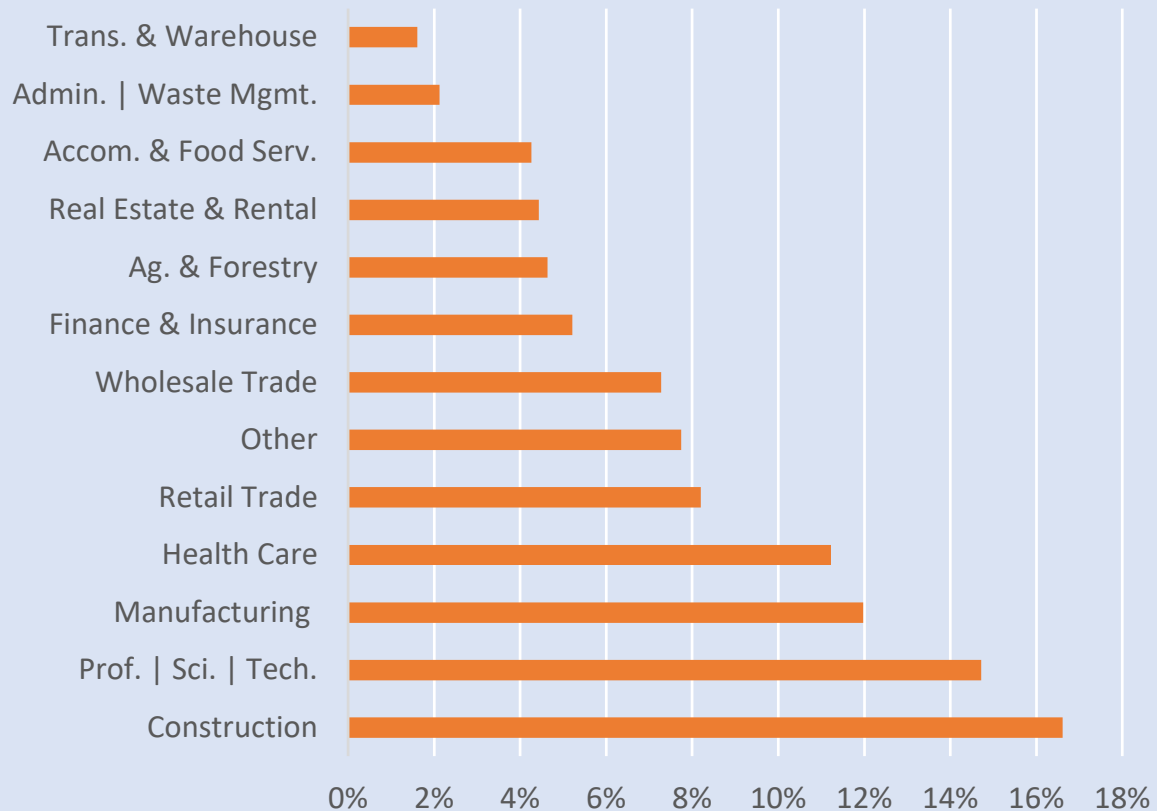
Tax Year 2018 FY Filers \$ Millions		
	Number	Rev. Imp.
S-Corp & Partnerships	23,000	-106
Sole Proprietorships	2,200	-5



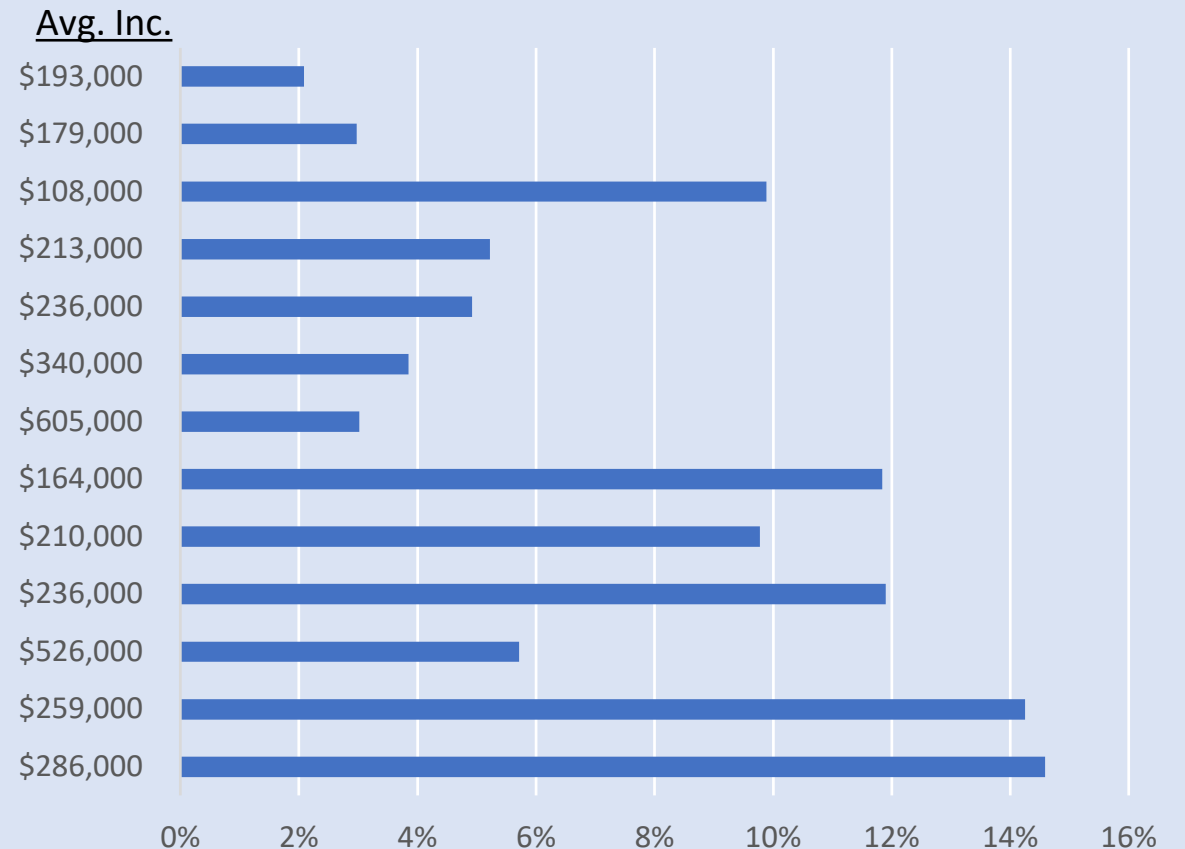


Oregon PTE by Sector – Tax Year 2018

Share of Non-Passive Income by Sector



Share of Businesses by Sector

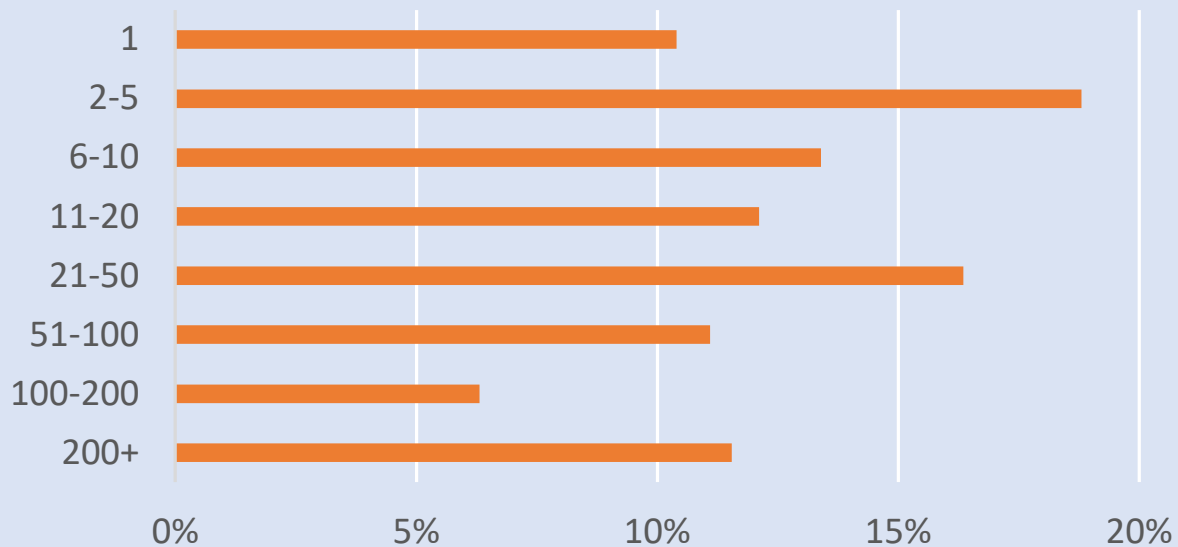




Oregon PTE by Number of Employees

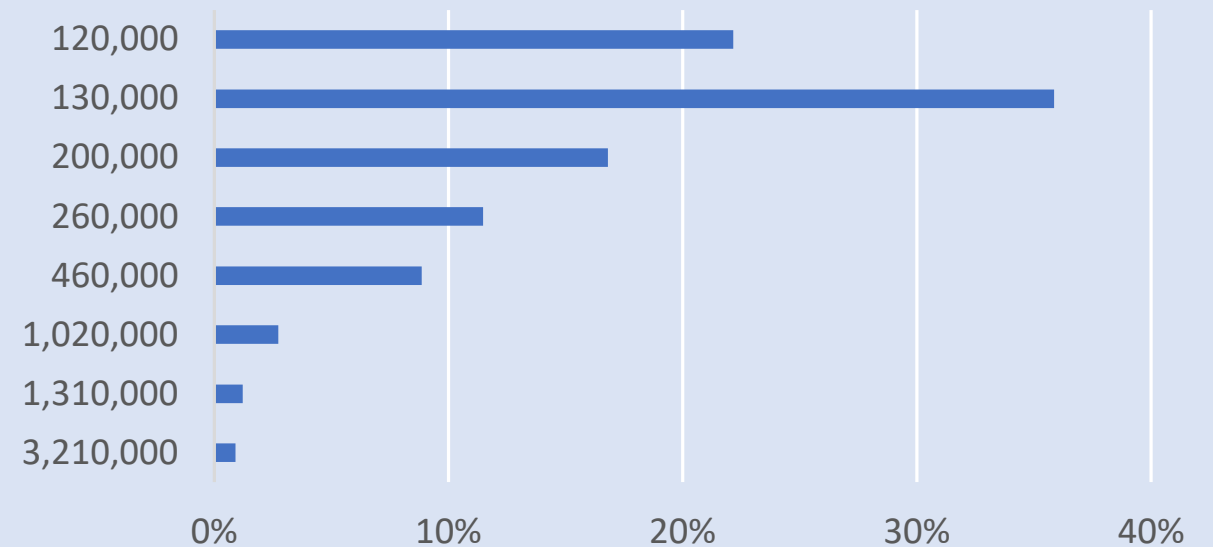
Tax Year 2018

Share of Non-Passive Income by Number of Employees



Share of Businesses by Number of Employees

Avg. Inc.





Estimated Impact & Actual

Potential Future Adjustment

Comparison of Estimate & Actual Rev. Imp. Tax Year 2018 (Millions)		
	Orig. Estimate	Actual
S-Corps & Part.	-\$106	-\$106
Sole. Props.	-\$11	-\$5
Total	-\$117	-\$111

- By July 1, 2022: LRO compares estimated and actual impacts for tax years 2019 & 2020. If the difference exceeds 25%, the PTE tax rates are adjusted upwards such that the difference is 115%. The new rates apply beginning with tax year 2023.

