

HB 2604 STAFF MEASURE SUMMARY

House Committee On Revenue

Prepared By: Kyle Easton, Economist

Meeting Dates: 2/25

WHAT THE MEASURE DOES:

Modifies income tax rates available to taxpayers with certain non-passive pass-through income. Reduces employee hour requirement needed to be met for trade or business income to potentially qualify for reduced tax rates. Applies to tax years beginning on or after January 1, 2022.

ISSUES DISCUSSED:

EFFECT OF AMENDMENT:

No amendment.

BACKGROUND:

During the 2013 special session, the Legislature made non-passive income received by personal income taxpayers from either a partnership or S-corporation (or an LLC filing as either) taxable at preferential rates. Taxpayers had the choice of opting into the program where non-passive income could be taxed at a rate as low as seven percent. The amount of eligible income was the net non-passive income from all qualifying entities. A qualifying entity is one that employed at least one person who is not an owner, member, or partner; had at least an annual 1,200 of hours work performed in Oregon by qualifying employees; and only hours worked in a week in which an employee worked at least 30 hours count toward the total. In the Special Session of 2018, Oregon expanded its reduced rate tax option, with applicable existing requirements, to taxpayers with income from a sole proprietorship.

Measure modifies rates available to specified taxpayers with qualified non-passive pass through income. Marginal tax rates and brackets are lowered for qualified income under \$500,000 and increased for qualified income of \$500,000 to \$5 million. Measure reduces the aggregate hours worked in Oregon requirement from 1,200 to 1,000 and eliminates the 30 hours per week requirement.