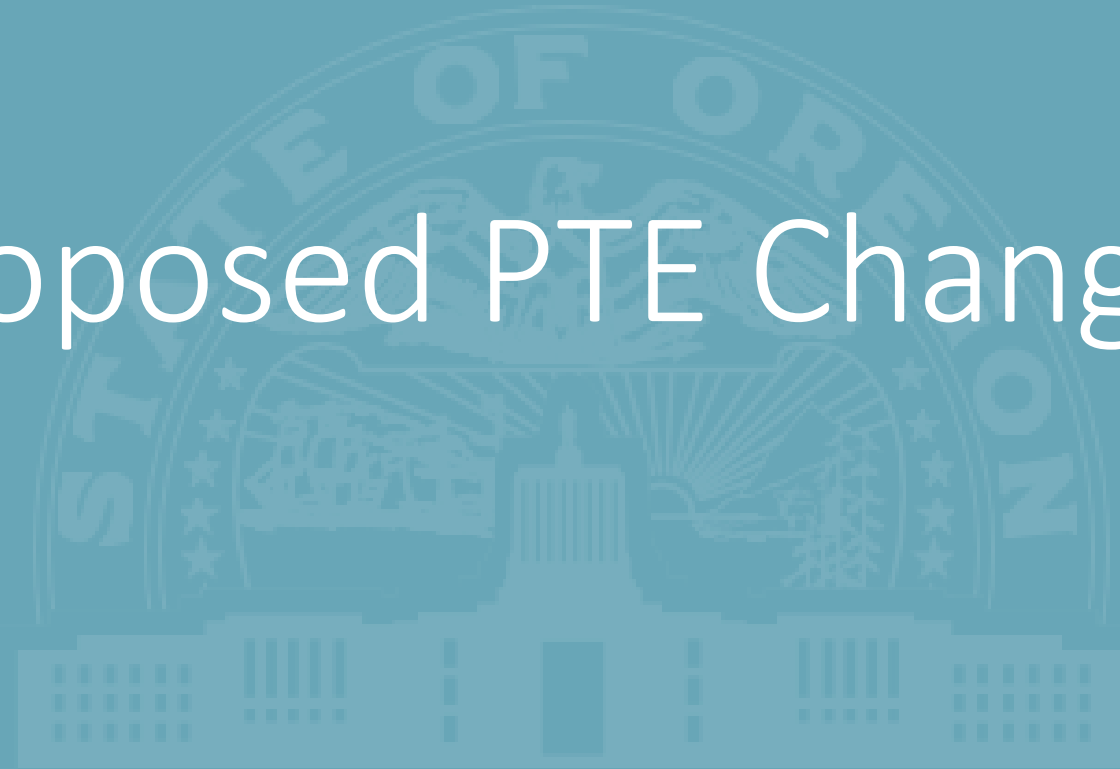


Proposed PTE Changes





Proposed Changes

Policy Requirements			
	Individual Taxpayer	S-Corps & Partnerships (entity requirements)	Sole Proprietorships
Current Law	<ul style="list-style-type: none"> Material participation 	<ul style="list-style-type: none"> Employ 1 full-time, non-owner employee, meet 1,200 hours requirement 	<ul style="list-style-type: none"> Employ 1 full-time, non-owner employee, meet 1,200 hours requirement
Proposal	<ul style="list-style-type: none"> Material participation 	<ul style="list-style-type: none"> Employ 1 full-time, non-owner employee, meet 1,200 hours requirement 	<ul style="list-style-type: none"> Employ 1 full-time, non-owner employee, meet 1,200 hours requirement
	<ul style="list-style-type: none"> <i>Reduce rates</i> 	<ul style="list-style-type: none"> <i>Ordinary business income (OBI) (aka - profit) ≤ \$5 million in the year</i> <i>Meet one (or both) of the following:</i> <ol style="list-style-type: none"> <i>Meet or exceed OR employee to OR owner ratio, adjusted based on OBI</i> <i>Distributions of income ≤ 25% of OBI, (reinvest at least 75% of profit)</i> 	<ul style="list-style-type: none"> <i>No change</i>





Rate Changes

Rate Changes

- Widen 7.0% bracket
- Reduce from 7.6% to 7.5% for PTE income \$500K - \$1M
- About 20% of PTE taxpayers benefit from rate changes

Non-Passive Income Tax Rates		
Taxable Income (\$)	Tax Rate	Proposal
≤ \$250,000	7.0%	7.0%
\$250,001 to \$500,000	7.2%	7.0%
\$500,001 to \$1 Million	7.6%	7.5%
\$1 Million to \$2.5 Million	8.0%	8.0%
\$2.5 Million to \$5 Million	9.0%	9.0%
Over \$5 Million	9.9%	9.9%





Limit on Ordinary Business Income (OBI)

Income – expenses = OBI (aka, profit)

- Pass through income from entities with OBI exceeding \$5 million excluded from PTE reduced rates

Entities and PTE Income by OBI Category

Ord. Bus. Inc.	% of Entities	% of PTE Inc.
LT 500K	87%	35%
500 - 1M	7%	14%
1M - 2.5M	4%	17%
2.5M - 5M	1%	12%
5M+	1%	22%





OR Employee to OR Owner Ratio

- Requirement in addition to existing 1 employee requirement
- OR employee: uses existing ORS PTE language (30 hrs. per week, aggregate 1,200 hours)
- OR owner: Oregon resident owners

Entity OBI	OR Emp. To OR Owner Ratio
≤ 500K	1:1
500K - 1M	2:1
1 - 2.5M	4:1
2.5 - 5M	10:1

Entities Meeting Employee to Owner Ratio		
OBI	% of Tot. Meeting Ratio	
	Meet Ratio	Fail Ratio
≤ 500K	88%	12%
500K - 1M	82%	18%
1 - 2.5M	76%	24%
2.5 - 5M	61%	39%
Total	87%	13%





Profit Reinvestment Requirement

- Entity reinvestment requirement

$$\frac{\text{Distributions}}{\text{Ordinary Business Income}} \leq 25\%$$

- Said another way, 75% of profit must be reinvested in business
- Determined using current tax year plus most recent two full tax years

Entities Meeting Reinvestment		
OBI	% of Total	
	Meet Reinvest	Fail Reinvest
≤ 500K	26%	74%
500K - 1M	12%	88%
1 - 2.5M	9%	91%
2.5 - 5M	6%	94%
Total	24%	76%





Effect of All Proposed Changes

- Table compares S-corps and partnerships qualifying under existing PTE law and qualification under proposed
- About 90% of entities overall continue to qualify
- Entities that continue to qualify represent about 66% of PTE income (S-corps & partnerships) subject to reduced rates

Entities that Qualify or Fail to Qualify under New Proposal				
Ord. Bus. Income	Continue to Qualify		Fail to Qualify	
	N %	PTE Inc. %	N %	PTE Inc. %
≤ 500K	92%	92%	8%	8%
500K - 1M	86%	86%	14%	14%
1 - 2.5M	78%	78%	22%	22%
2.5 - 5M	71%	72%	29%	28%
5M+	0%	0%	100%	100%
Total	90%	66%	10%	34%





Upshot

- About 20,000 S-corps & partnerships have income qualifying for PTE reduced rates
- About 2,000 S-corps/partnerships expected not to qualify under proposal
- Majority of impact (66%) on PTE income expected from excluding entities with OBI exceeding \$5 million
- Expected to affect about 3,500 – 4,500 PIT taxpayers
- Net impact on revenue estimated at positive \$30 - \$40M per year over next three biennia

