

**FISCAL IMPACT OF PROPOSED LEGISLATION**

Measure: SB 727 - A5

81st Oregon Legislative Assembly – 2021 Regular Session  
Legislative Fiscal Office***Only Impacts on Original or Engrossed  
Versions are Considered Official***Prepared by: Michael Graham  
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Date: June 24, 2021**Measure Description:**

Establishes elective entity-level, pass-through business alternative income tax. Repeals the tax and tax credit if the federal limitation on the deduction for state and local taxes is repealed.

**Government Unit(s) Affected:**

Department of Revenue (DOR), Oregon State Treasurer (OST), Oregon Judicial Department (OJD), Department of Justice (DOJ)

**Summary of Fiscal Impact:**

Costs related to the measure may require budgetary action - See analysis.

**Summary of Expenditure Impact:**

	2021-23 Biennium	2023-25 Biennium
<b>Department of Revenue (DOR)</b>		
General Fund		
Personal Services	518,568	440,764
Services and Supplies	141,987	194,459
Capital Outlay	57,342	
<b>Total General Fund</b>	<b>\$717,897</b>	<b>\$635,223</b>
Other Funds		
Personal Services	10,583	8,995
Services and Supplies	2,898	3,968
Capital Outlay	1,170	
<b>Total Other Funds</b>	<b>\$14,651</b>	<b>\$12,963</b>
<b>TOTAL FISCAL IMPACT</b>	<b>\$732,548</b>	<b>\$648,186</b>
Positions	8	7
FTE	2.89	2.14

**Analysis:**

Senate Bill 727, as amended by the -A5 amendments, creates a new entity-level income tax on qualified pass-through entities, known as the Business Alternative Income Tax (BAIT). Qualifying entities are those that have individual owners who are subject to the personal income tax or other pass-through entities whose owners are subject to the personal income tax. The tax is elective and, if paid, the business owners will be allowed an offsetting income tax credit claimed on their Oregon personal income tax returns. Each owner would be allowed a tax credit for their *pro rata* share of the entity tax. The new BAIT tax and credit are effective for tax years 2022 and 2023. However, if the federal limitation on the state and local tax deduction is repealed, then the Oregon BAIT tax will be repealed. The measure takes effect 91 days after adjournment *sine die*.

**Department of Revenue**

The measure would have a fiscal impact on the Department of Revenue (DOR). Partnership and S Corps will be able to elect to pay the BAIT tax, which would otherwise be reported and paid by the individual. Individual taxpayers will still pay their portion of the tax, but they will also receive a refundable credit in the amount paid by

the entity. The new refundable credit will require a new code for personal income tax and fiduciary/estate on the addition, subtraction and credit (ASC) form.

The BAIT tax will be a new and separate tax program for which DOR will need additional staffing. The costs include capital outlay for furniture and equipment, legal costs, salary and related expenses for the following positions:

- One limited duration, part-time Operations and Policy Analyst 3 to conduct outreach, letters, system edits, answering technical questions, and trainings.
- One permanent, full-time Tax Auditor 2 to assist with the implementation of the BAIT tax and answer technical questions.
- One permanent, part-time Operations and Policy Analyst 2 to update forms and instructions, answer technical questions, assist with outreach, review forms, test forms with external vendors, maintain system specifications test data capture system and monitor the day-to-day operations.
- One permanent, part-time Data Entry Operator to key additional schedule and fields on paper returns into Quick Modules for processing into GenTax.
- One permanent, part-time Tax Auditor 2 to process appeals of BAIT tax returns.
- One permanent, part-time Information Systems Specialist 6 for GenTax and Quick Modules development.
- One permanent, part-time Operations and Policy Analyst 3 for GenTax testing and business entity analysis.
- One limited duration, part-time Public Service Representative 3 to answer phone calls and emails from taxpayers and businesses about the new BAIT tax and the offsetting credit.

DOR estimates the fiscal impact of this measure to be \$732,548 total funds, including \$717,897 General Fund, and 8 positions (2.89 FTE) for the 2021-23 biennium and \$648,186 total funds, including \$635,223 General Fund, and 7 positions (2.14 FTE) for the 2023-25 biennium.

#### **Other Agencies**

The measure is anticipated to have a minimal fiscal impact on the Oregon Judicial Department and the Department of Justice and no fiscal impact on the Oregon State Treasurer.