House Bill 2577

Sponsored by Representative RESCHKE (Presession filed.)

SUMMARY

The following summary is not prepared by the sponsors of the measure and is not a part of the body thereof subject to consideration by the Legislative Assembly. It is an editor's brief statement of the essential features of the measure as introduced.

Increases threshold amount of understated income tax above which penalty applies. Applies to tax years beginning on or after January 1, 2023. Takes effect on 91st day following adjournment sine die.

A BILL FOR AN ACT

Relating to the penalty for understatement of net tax; creating new provisions; amending ORS 314.402; and prescribing an effective date.

Be It Enacted by the People of the State of Oregon:

SECTION 1. ORS 314.402 is amended to read:

314.402. (1) If the Department of Revenue determines that there is a substantial understatement of net tax for any tax year under any law imposing a tax on or measured by net income, there shall be added to the amount of tax required to be shown on the return a penalty equal to 20 percent of the amount of any underpayment of tax attributable to the understatement.

(2)(a) A substantial understatement of net tax exists for any tax year if the amount of the understatement for the tax year exceeds $1 million.

[(a) Except as provided in paragraph (b) of this subsection, $2,400.]

[(b) In the case of a corporation other than an S corporation, as defined in section 1361 of the Internal Revenue Code, or a personal holding company, as defined in section 542 of the Internal Revenue Code, $3,500.]

[(c)(A) For a calendar year beginning on or after January 1, [2017] 2025, the Department of Revenue shall make a cost-of-living adjustment to the net tax threshold amounts described in paragraphs (a) and (b) of this subsection.

(B) The cost-of-living adjustment for a calendar year is the percentage by which the monthly averaged U.S. City Average Consumer Price Index for the 12 consecutive months ending August 31 of the prior calendar year exceeds the monthly averaged index for the period beginning September 1, [2015] 2023, and ending August 31, [2016] 2024.

(C) As used in this paragraph, “U.S. City Average Consumer Price Index” means the U.S. City Average Consumer Price Index for All Urban Consumers (All Items) as published by the Bureau of Labor Statistics of the United States Department of Labor.

(D) If any adjustment determined under subparagraph (B) of this paragraph is not a multiple of $50, the adjustment shall be rounded to the next lower multiple of $50.

(E) The adjustment shall apply to all tax years beginning in the calendar year for which the adjustment is made.

(3) In the case of any item attributable to an abusive tax shelter:

(a) [No] A reduction of the amount of the understatement [shall] may not be made with regard

NOTE: Matter in boldfaced type in an amended section is new; matter in italic and bracketed is existing law to be omitted. New sections are in boldfaced type.

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to that item regardless of the existence of substantial authority for the treatment of the item by the
taxpayer.

(b) [No] A reduction of the amount of the understatement [shall] may not be made with regard
to that item regardless of the disclosure of the facts affecting the tax treatment of the item unless,
in addition to the disclosure, the taxpayer reasonably believed that the tax treatment of the item
was more likely than not the proper treatment.

(4) As used in this section:

(a) “Abusive tax shelter” means any partnership, corporation or other organization or entity,
any investment plan or arrangement or any other plan or arrangement, which has as its principal
purpose the evasion or improper avoidance of federal or state income tax. “Abusive tax shelter”
includes any investment or activity in connection with which tax benefits derived by investors are
not clearly intended under the tax laws or any investment or activity that involves little or no
economic reality, making use of unrealistic allocations of income or expenses, inflated appraisals of
asset values, losses substantially in excess of investment, mismatching of income and expenses, fi-
nancing techniques that do not conform to standard commercial business practice or mischaracte-

(b) “Understatement” means the excess of the amount of the net tax required to be shown on
the return for the tax year over the amount of the net tax shown on the return, reduced by any
portion of the understatement that is attributable to:

(A) The tax treatment of any item by the taxpayer if there is or was substantial authority for
such treatment; or

(B) Any item with respect to which:

(i) The relevant facts affecting the item’s tax treatment are adequately disclosed in the return
or in a statement attached to the return; and

(ii) There is a reasonable basis for the tax treatment of the item by the taxpayer.

(5) The penalty imposed under this section is in addition to any other penalty imposed by law.
A penalty imposed under this section shall be treated for all purposes as an additional deficiency
subject to the provisions of ORS 305.265, but shall not bear interest.

(6) The department may waive all or any part of the penalty imposed under this section on a
showing by the taxpayer that there was reasonable cause for the understatement, or any portion
thereof, and that the taxpayer acted in good faith.

SECTION 2. The amendments to ORS 314.402 by section 1 of this 2023 Act apply to tax
years beginning on or after January 1, 2023.

SECTION 3. This 2023 Act takes effect on the 91st day after the date on which the 2023
regular session of the Eighty-second Legislative Assembly adjourns sine die.