



Pass-Through Tax Rate Reduction Policy

Senate Interim Committee on Finance and Revenue - 1/12/2018

Legislative Revenue Office

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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.))
- ▶ Taxpayers can have income from partnerships, S-corporations, 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

2016 Tax Rate Brackets

Joint Income Tax Rates	
Taxable Income (\$)	Tax Rate
≤ \$6,700	5.0%
\$6,701 to \$16,900	7.0%
\$16,901 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 2016

Number of Claimants & Revenue Impact - TY 2016					
Income	FY Filers	Claimants	Share	Rev Imp.	% Tot.
\$0 - \$50k	1,020,557	761	0.1%	-\$0.1	0.1%
\$50k-\$70k	208,862	908	0.4%	-\$0.3	0.3%
\$70k-\$100k	212,355	1,953	0.9%	-\$0.9	0.9%
\$100k-\$200k	238,522	6,722	2.8%	-\$6.2	6.5%
\$200k-\$500k	64,019	7,633	11.9%	-\$22.2	23.3%
> \$500k	12,895	4,471	34.7%	-\$65.7	69.0%
Total	1,757,210	22,448	1.3%	-\$95.3	100.0%

FY Filers: All 2016 full year filers

Income: Refers to total income

Source of return data and preliminary revenue impact: Oregon Department of Revenue – Research Section, Personal income tax returns and schedules

Revenue Impacts

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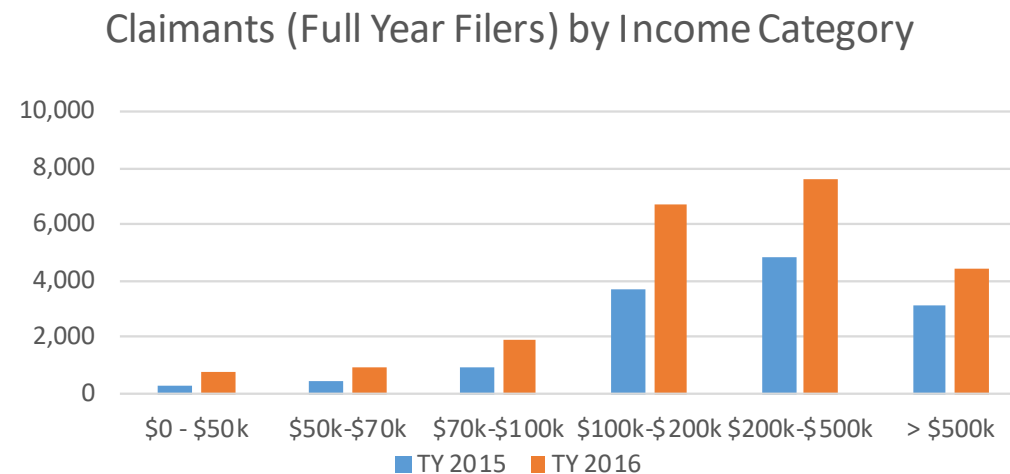
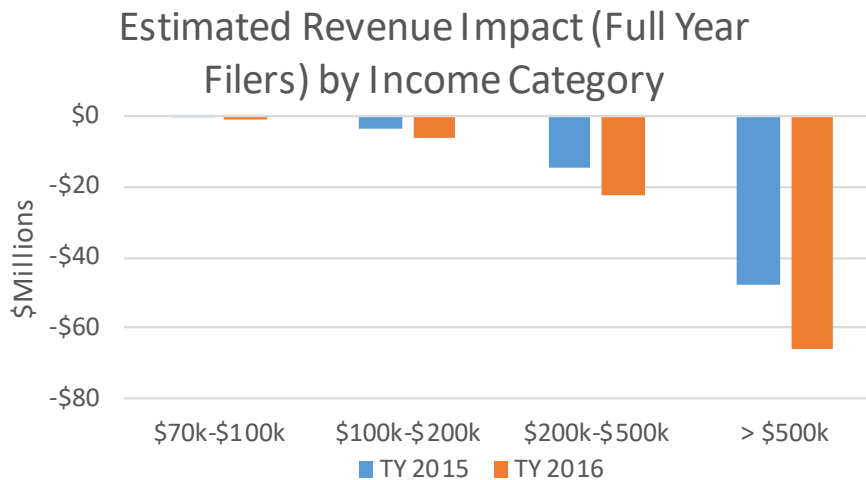
Preliminary Tax Year 2015 & 2016 Data, Full-Year Filers

Revenue Impact (\$M)			
Income	TY 2015	TY 2016	Difference
\$0 - \$50k	\$0.0	-\$0.1	-\$0.1
\$50k-\$70k	-\$0.1	-\$0.3	-\$0.1
\$70k-\$100k	-\$0.4	-\$0.9	-\$0.4
\$100k-\$200k	-\$3.5	-\$6.2	-\$2.6
\$200k-\$500k	-\$14.5	-\$22.2	-\$7.6
> \$500k	-\$47.6	-\$65.7	-\$18.1
Total	-\$66.3	-\$95.3	-\$29.0

Number of Claimants			
Income	TY 2015	TY 2016	% Ch.
\$0 - \$50k	293	761	160%
\$50k-\$70k	442	908	105%
\$70k-\$100k	938	1,953	108%
\$100k-\$200k	3,697	6,722	82%
\$200k-\$500k	4,861	7,633	57%
> \$500k	3,133	4,471	43%
Total	13,364	22,448	68%

Means (\$) -\$4,958 -\$4,244

LRO 1/10/2018



Comparison of Revenue Impacts

Original Estimated Rev. Imp. - HB 3601 (2013 S.S.)

	2013-15	2015-17	2017-19	2019-21	2021-23
\$'s in Millions	-\$38	-\$205	-\$239	-\$277	-\$332

Comparison of Orig. 2013 & Current Preliminary Revenue Impact

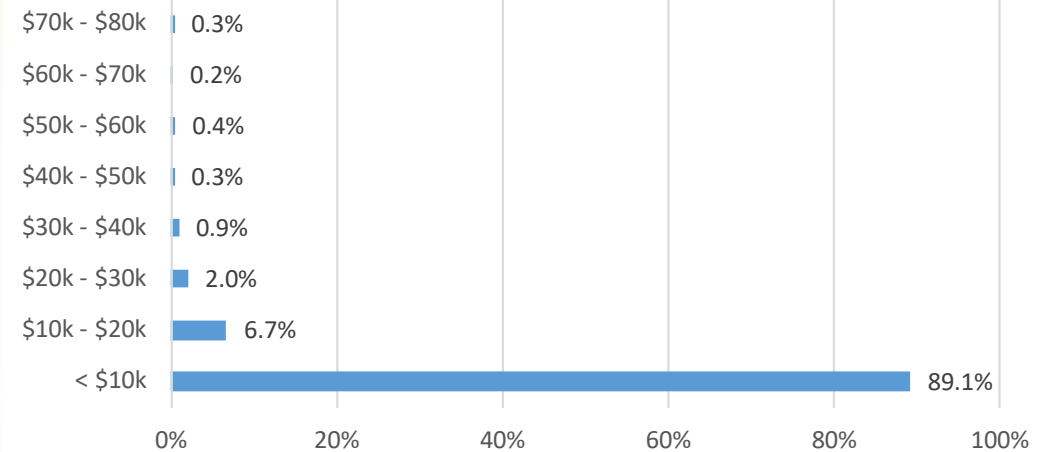
	Tax Year (\$M)	
	2015	2016
2013 Estimate	-\$91.1	-\$98.5
Current Preliminary	-\$66.3	-\$95.3
Difference	\$24.9	\$3.2

Tax Reduction Distribution – TY 2016

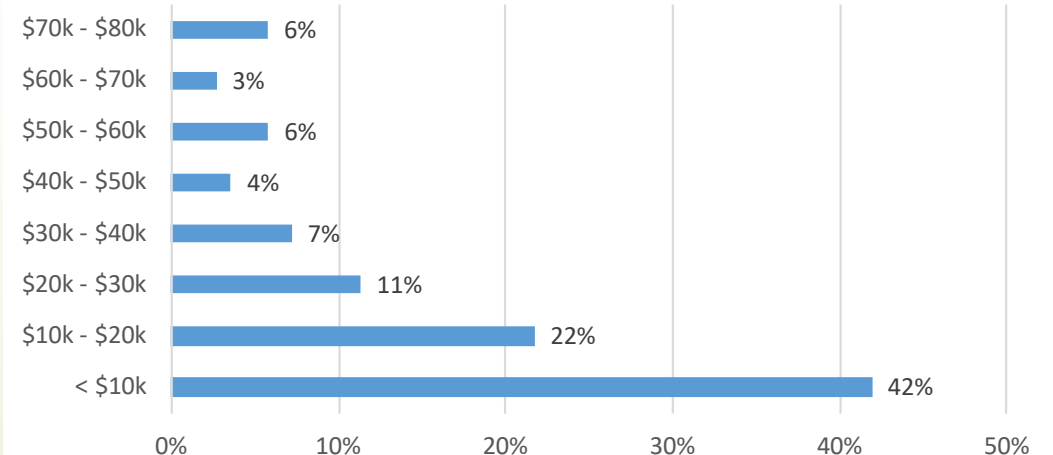
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Tax Cut	Returns		Tax Cut	
	Number	Share	\$ Million	Share
< \$5k	17,541	78.1%	\$23.0	24.1%
\$5k - \$10k	2,467	11.0%	\$16.9	17.8%
\$10k - \$15k	1,020	4.5%	\$12.5	13.1%
\$15k - \$20k	486	2.2%	\$8.2	8.6%
\$20k - \$25k	283	1.3%	\$6.3	6.6%
\$25k - \$30k	165	0.7%	\$4.5	4.7%
\$30k - \$35k	113	0.5%	\$3.7	3.8%
\$35k - \$40k	87	0.4%	\$3.2	3.4%
\$40k - \$45k	41	0.2%	\$1.7	1.8%
\$45k - \$50k	36	0.2%	\$1.7	1.8%
\$50k - \$55k	53	0.2%	\$2.8	2.9%
\$55k - \$60k	49	0.2%	\$2.8	2.9%
\$60k - \$65k	27	0.1%	\$1.7	1.7%
\$65k - \$70k	14	0.1%	\$0.9	1.0%
\$70k - \$75k	15	0.1%	\$1.1	1.1%
\$75k - \$80k	58	0.3%	\$4.4	4.7%
Total	22,448	100.0%	\$95.3	100.0%

Share of Claimants by Tax Cut Amount
TY 2016



Share of Revenue Impact by Tax Cut Amount
TY 2016



Impacts by County – TY 2016

County	Filers	Claimants	Share	Tax Change		County	Filers	Claimants	Share	Tax Change	
				Total (\$M)	Mean (\$)					Total (\$M)	Mean (\$)
Baker	6,221	130	2.1%	-\$0.2	-\$1,581	Lake	2,764	34	1.2%	\$0.0	-\$1,100
Benton	34,314	494	1.4%	-\$1.9	-\$3,751	Lane	146,292	2,074	1.4%	-\$9.6	-\$4,648
Clackamas	173,934	3,256	1.9%	-\$17.8	-\$5,454	Lincoln	18,512	129	0.7%	-\$0.4	-\$3,072
Clatsop	15,329	235	1.5%	-\$0.7	-\$3,029	Linn	48,097	474	1.0%	-\$1.3	-\$2,684
Columbia	20,399	146	0.7%	-\$0.6	-\$4,044	Malheur	9,145	124	1.4%	-\$0.2	-\$1,824
Coos	23,506	231	1.0%	-\$0.7	-\$3,044	Marion	128,752	1,369	1.1%	-\$5.4	-\$3,952
Crook	8,815	107	1.2%	-\$0.3	-\$2,683	Morrow	3,933	24	0.6%	\$0.0	-\$1,906
Curry	8,640	105	1.2%	-\$0.3	-\$3,215	Multnomah	334,063	4,014	1.2%	-\$18.5	-\$4,608
Deschutes	76,265	1,752	2.3%	-\$6.3	-\$3,588	Polk	31,543	351	1.1%	-\$1.2	-\$3,480
Douglas	40,089	346	0.9%	-\$0.9	-\$2,740	Tillamook	10,735	136	1.3%	-\$0.5	-\$3,858
Gilliam	713	12	1.7%	\$0.0	-\$578	Umatilla	27,626	213	0.8%	-\$0.7	-\$3,398
Grant	2,720	39	1.4%	-\$0.1	-\$2,643	Union	10,120	157	1.6%	-\$0.3	-\$2,202
Harney	2,729	34	1.2%	\$0.0	-\$886	Wallowa	3,050	117	3.8%	-\$0.1	-\$1,038
Hood River	10,216	198	1.9%	-\$0.6	-\$3,187	Wasco	10,017	86	0.9%	-\$0.3	-\$2,984
Jackson	87,333	1,327	1.5%	-\$4.9	-\$3,671	Washington	238,209	2,744	1.2%	-\$13.3	-\$4,863
Jefferson	8,393	59	0.7%	-\$0.2	-\$3,019	Yamhill	40,349	496	1.2%	-\$1.9	-\$3,769
Josephine	31,852	354	1.1%	-\$1.4	-\$3,928	Other*	118,138	830	0.7%	-\$3.8	-\$4,613
Klamath	24,397	241	1.0%	-\$0.6	-\$2,525						
						TOTAL	1,757,210	22,448	1.3%	-\$95.3	-\$4,244

* County missing, out-of-state, Sherman, or Wheeler

Future Policy Adjustments

- ▶ By July 1, 2018: LRO compares estimated and actual impacts for tax years 2015 & 2016. If actual exceeds the estimate by 15%, then the PTE tax rates are proportionately increased such that the difference is reduced to 5%. The new rates apply beginning with tax year 2019.
- ▶ By July 1, 2022: LRO compares estimated and actual impacts for tax years 2019 & 2020. If the difference exceeds 25% in either direction, the PTE tax rates are adjusted upwards or downwards such that the difference is 115% or 85%. The new rates apply beginning with tax year 2023.