



# Pass-Through Tax Rate Reduction Policy

1

Legislative Revenue Office

12/12/2016

# 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
- ▶ 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
  - ▶ Basically, taxpayer must have regular, continuous, and substantial participation in the business
- ▶ Have at least one full-time, non-investor employee
- ▶ Qualifying employees must work at least 1,200 hours in Oregon

# 2015 Tax Rate Brackets

<b>Joint Income Tax Rates</b>	
Taxable Income (\$)	Tax Rate
< \$6,700	5.0%
\$6,700 to \$16,800	7.0%
\$16,800 to \$250,000	9.0%
\$250,000 or more	9.9%

<b>Non-Passive Income Tax Rates</b>	
Taxable Income (\$)	Tax Rate
< \$250,000	7.0%
\$250,000 to \$500,000	7.2%
\$500,000 to \$1 Million	7.6%
\$1 Million to \$2.5 Million	8.0%
\$2.5 Million to \$5 Million	9.0%
\$5 Million or more	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 Impacts

	2013-15	2015-17	2017-19	2019-21	2021-23
Projected Revenue Impact, \$M	-38	-205	-239	-277	-332

## Preliminary Tax Year 2015 Data, Full-Year Filers

Revenue Impact (\$M)			
Income	Estimated Preliminary Difference		
\$0 - \$50k	-\$0.8	\$0.0	\$0.8
\$50k-\$70k	-\$1.4	-\$0.1	\$1.3
\$70k-\$100k	-\$4.0	-\$0.4	\$3.6
\$100k-\$200k	-\$15.9	-\$3.5	\$12.3
\$200k-\$500k	-\$28.9	-\$14.5	\$14.4
> \$500k	-\$40.1	-\$47.6	-\$7.5
<b>Total</b>	<b>-\$91.1</b>	<b>-\$66.3</b>	<b>\$24.9</b>

Number of Claimants			
Income	FY Filers	Claimants	Share
\$0 - \$50k	1,009,876	293	0.0%
\$50k-\$70k	201,760	442	0.2%
\$70k-\$100k	205,415	938	0.5%
\$100k-\$200k	224,363	3,697	1.6%
\$200k-\$500k	59,144	4,861	8.2%
> \$500k	11,936	3,133	26.2%
<b>Total</b>	<b>1,712,494</b>	<b>13,364</b>	<b>0.8%</b>

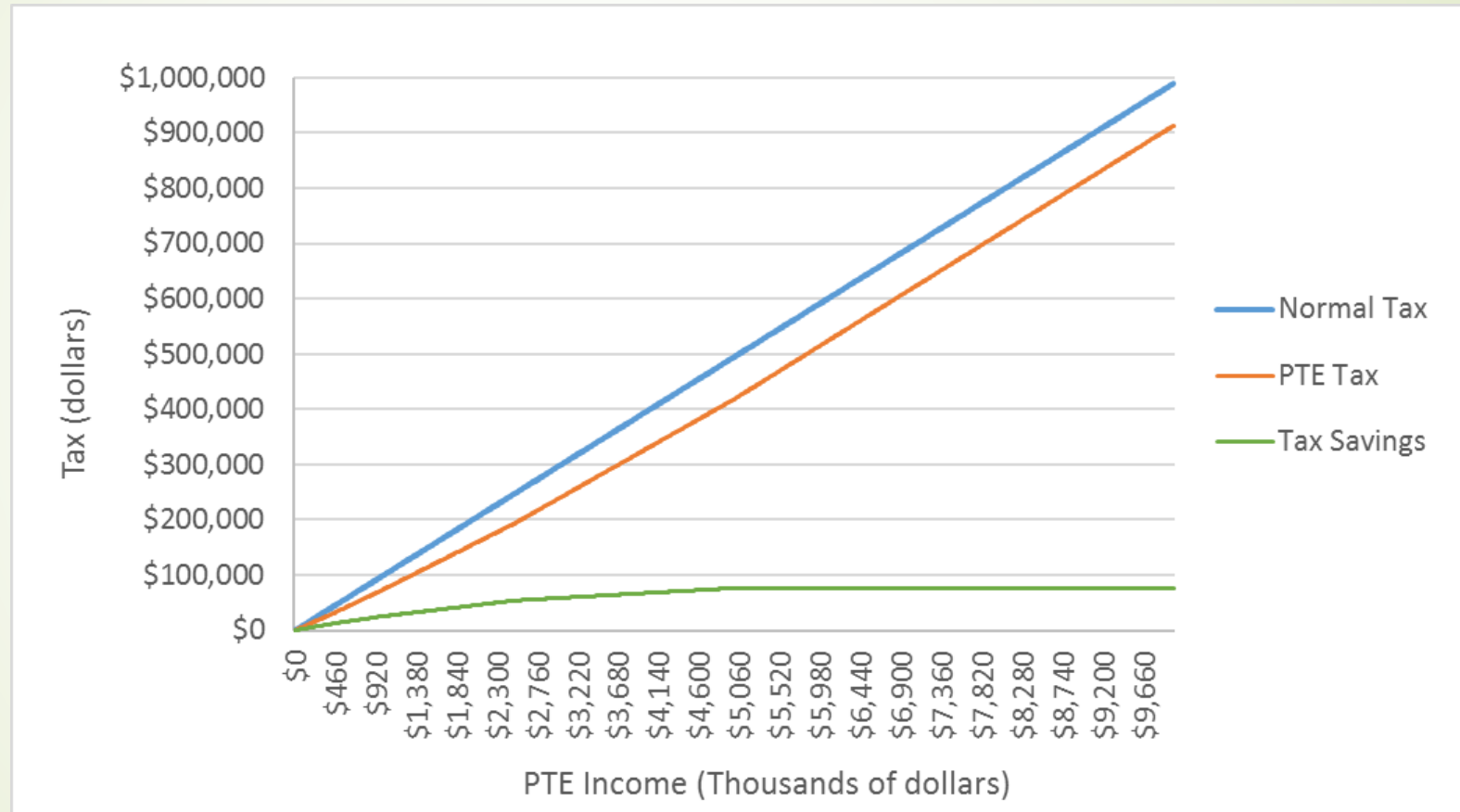
**Means (\$)**      -\$1,171      -\$4,958

# Tax Reduction Distribution

Tax Cut	Returns		Tax Cut	
	Number	Share	\$ Million	Share
< \$5k	9,813	74.0%	\$14.5	21.8%
\$5k - \$10k	1,692	12.8%	\$11.6	17.5%
\$10k - \$15k	684	5.2%	\$8.4	12.7%
\$15k - \$20k	358	2.7%	\$6.1	9.1%
\$20k - \$25k	210	1.6%	\$4.7	7.1%
\$25k - \$30k	144	1.1%	\$3.9	5.9%
\$30k - \$35k	86	0.6%	\$2.8	4.2%
\$35k - \$40k	61	0.5%	\$2.3	3.4%
\$40k - \$45k	48	0.4%	\$2.0	3.0%
\$45k - \$50k	29	0.2%	\$1.3	2.0%
\$50k - \$55k	36	0.3%	\$1.9	2.9%
\$55k - \$60k	24	0.2%	\$1.4	2.0%
\$60k - \$65k	17	0.1%	\$1.0	1.5%
\$65k - \$70k	11	0.1%	\$0.7	1.1%
\$70k - \$75k	15	0.1%	\$1.1	1.6%
\$75k - \$80k	36	0.3%	\$2.8	4.1%
<b>Total</b>	<b>13,261</b>	<b>100.0%</b>	<b>\$66.5</b>	<b>100.0%</b>

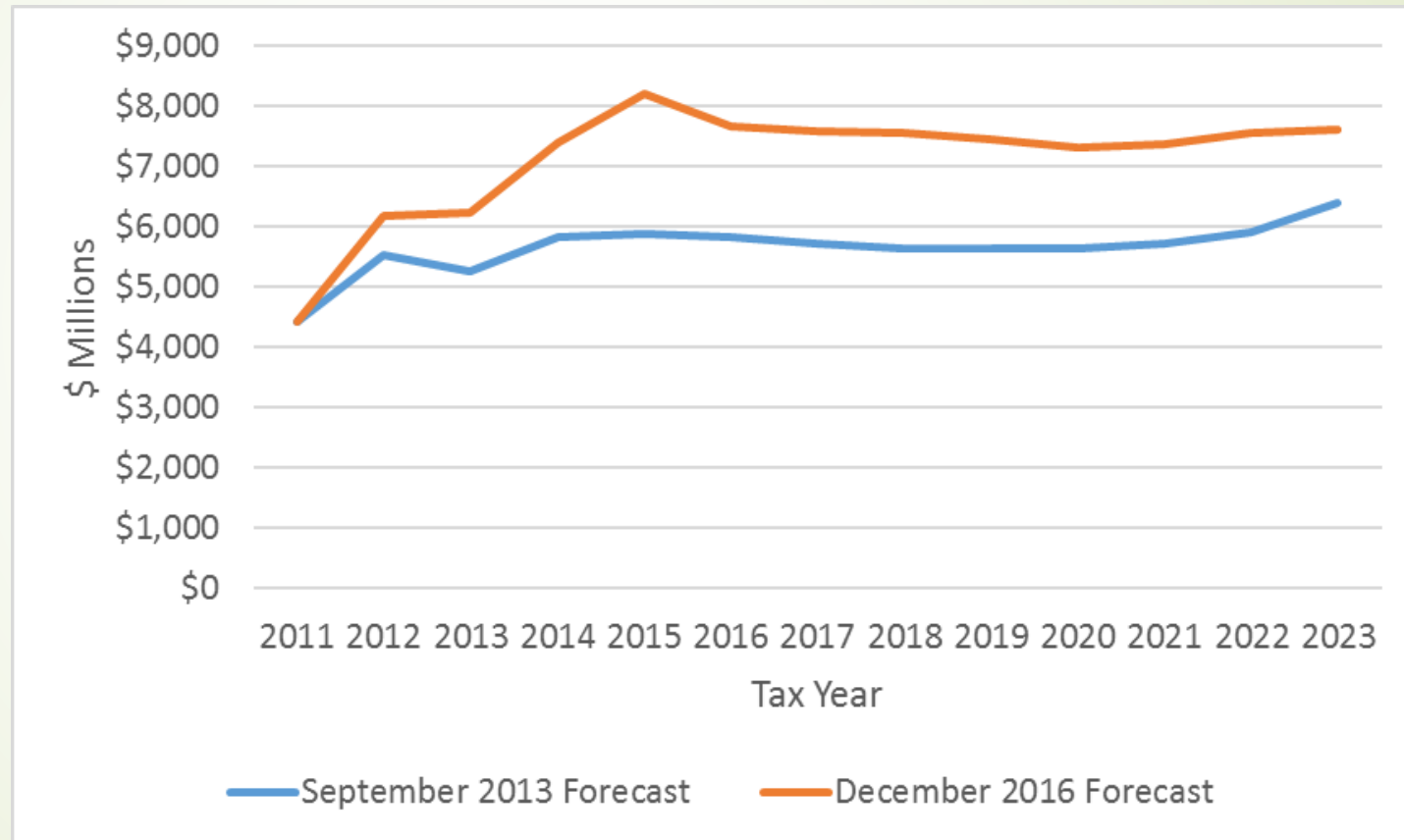


# Tax by Income



# Schedule E Income Forecast

(Office of Economic Analysis)





# Impacts by County

County	Filers	Claimants	Share	Tax Change		County	Filers	Claimants	Share	Tax Change	
				Total (\$M)	Mean (\$)					Total (\$M)	Mean (\$)
Baker	6,131	65	1.1%	-\$0.1	-\$1,384	Lake	2,697	20	0.7%	\$0.0	-\$2,132
Benton	33,376	284	0.9%	-\$1.2	-\$4,340	Lane	143,386	1,441	1.0%	-\$8.1	-\$5,589
Clackamas	169,535	2,036	1.2%	-\$12.3	-\$6,065	Lincoln	18,122	77	0.4%	-\$0.2	-\$2,040
Clatsop	14,844	108	0.7%	-\$0.5	-\$4,893	Linn	46,990	248	0.5%	-\$1.0	-\$3,833
Columbia	19,847	82	0.4%	-\$0.3	-\$3,737	Malheur	9,043	50	0.6%	-\$0.1	-\$1,680
Coos	23,284	167	0.7%	-\$0.5	-\$2,711	Marion	125,464	898	0.7%	-\$4.1	-\$4,610
Crook	8,449	50	0.6%	-\$0.1	-\$2,853	Morrow	4,000	16	0.4%	\$0.0	-\$3,125
Curry	8,583	57	0.7%	-\$0.2	-\$3,444	Multnomah	328,573	2,360	0.7%	-\$12.9	-\$5,479
Deschutes	72,564	780	1.1%	-\$3.4	-\$4,336	Polk	30,562	203	0.7%	-\$0.8	-\$4,040
Douglas	39,457	155	0.4%	-\$0.7	-\$4,215	Tillamook	10,478	93	0.9%	-\$0.3	-\$3,160
Grant	2,677	30	1.1%	\$0.0	-\$1,649	Umatilla	27,133	161	0.6%	-\$0.6	-\$3,756
Harney	2,677	18	0.7%	\$0.0	-\$2,052	Union	9,987	98	1.0%	-\$0.3	-\$2,908
Hood River	9,933	144	1.4%	-\$0.4	-\$3,071	Wallowa	3,019	65	2.2%	-\$0.1	-\$1,459
Jackson	85,554	809	0.9%	-\$3.3	-\$4,135	Wasco	9,694	41	0.4%	-\$0.2	-\$3,766
Jefferson	8,121	31	0.4%	-\$0.1	-\$4,540	Washington	232,809	1,650	0.7%	-\$8.9	-\$5,423
Josephine	31,405	221	0.7%	-\$1.1	-\$4,924	Yamhill	39,162	267	0.7%	-\$1.1	-\$4,133
Klamath	24,026	173	0.7%	-\$0.5	-\$2,693	Other*	110,912	455	0.4%	-\$2.6	-\$5,769
<b>TOTAL</b>	<b>560,463</b>	<b>13,364</b>	<b>2.4%</b>	<b>-\$66.3</b>	<b>-\$4,958</b>						

\* County missing, out-of-state, Gilliam, 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.