HB 4026 -2

This amendment replaces the introduced version of the bill with the following policies:
1. Repatriation fix
2. Disconnect from the federal pass-thru income deduction
3. Income cap for the Oregon pass-thru income policy

Repatriation (Sections 1-2)
- U.S. multinational C-corporations will be paying federal tax on accumulated foreign earnings not previously taxed by the U.S.
- The mechanism used involves a Dividend Received Deduction
- Due to a technicality in Oregon law, corporations would get a federal deduction and an Oregon deduction

<table>
<thead>
<tr>
<th>Line</th>
<th>Description/Explanation</th>
<th>Current Law</th>
<th>HB 4026 -3</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Untaxed income, 'deemed dividend'</td>
<td>$1,000,000</td>
<td>$1,000,000</td>
</tr>
<tr>
<td>2</td>
<td>IRC §965 Deduction to effect 8%/15.5% tax rates¹</td>
<td>$750,000</td>
<td>$750,000</td>
</tr>
<tr>
<td>3</td>
<td>Increase in federal taxable income</td>
<td>$250,000</td>
<td>$250,000</td>
</tr>
<tr>
<td>4</td>
<td>Addback of federal DRD; references IRC §243 and §245, not §965</td>
<td>$0</td>
<td>$750,000</td>
</tr>
<tr>
<td>5</td>
<td>Oregon DRD, 80% of 'deemed dividends'²</td>
<td>$800,000</td>
<td>$0</td>
</tr>
<tr>
<td>6</td>
<td>Change in OR taxable income: Line 3 + Line 4 - Line 5</td>
<td>-$550,000</td>
<td>$1,000,000</td>
</tr>
</tbody>
</table>

¹ Assumes 10% cash, 90% non-cash
² Assumes 20% ownership
Federal pass-through entity deduction (Sections 3-5)
- Enacted as part of Tax Cut and Jobs Act (Dec. 2017)
- Provides tax deduction available to pass-through entities and sole proprietorships equal to 20% of qualified business income, with certain limitations
- Due to Oregon’s rolling reconnect to the definition of federal taxable income, absent law change, Oregon automatically connected to the federal pass through deduction

Oregon pass-through entity policy (Sections 6-10)
- 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

| Full disconnect from federal Pass | 180 | 190 | 200 | 210 | 220 | 240 |
| Limit Oregon Pass Through Rates to 250K | 40 | 40 | 50 | 50 | 50 |

Net Total Impact
- Total
  - 180
  - 230
  - 240
  - 260
  - 270
  - 290

LRO | HB 4026 -2 | House Committee on Revenue | 2/6/2018