

SB 1528 A STAFF MEASURE SUMMARY**Carrier:** Sen. Hass**Senate Committee On Finance and Revenue****Action Date:** 02/09/18**Action:** Do pass with amendments. (Printed A-Eng.)**Vote:** 3-2-0-0**Yeas:** 3 - Hass, Riley, Taylor**Nays:** 2 - Baertschiger Jr, Boquist**Fiscal:** Fiscal impact issued**Revenue:** Revenue impact issued**Prepared By:** Kyle Easton, Economist**WHAT THE MEASURE DOES:**

Makes available credit against personal or corporate income/excise taxes to taxpayers that make certified Opportunity Grant contributions to the Opportunity Grant Fund. Requires Department of Revenue, in cooperation with Higher Education Coordinating Commission to conduct auction of tax credits. Limits fiscal year certifications of tax credits to no more than \$14 million. Allows unused portion of tax credit to be carried forward up to three succeeding tax years. Applies to tax years beginning on or after January 1, 2018 and before January 1, 2024.

Established Opportunity Grant Fund in the State Treasury, separate and distinct from the General Fund. Directs moneys in the fund to be continuously appropriated to Higher Education Coordinating Commission. After paying administrative costs, directs funds to be used for the Oregon Opportunity Grant program.

Effective for tax years beginning on or after January 1, 2018, requires addition to federal taxable income for amount allowable as a deduction under section 199A(a) of the Internal Revenue Code.

Applicable beginning January 1, 2018. Makes available to sole proprietorships preferential tax rates on business income. Limits preferential tax rates available to sole proprietorships and nonpassive income of partnerships or S corporations to first \$250,000 of qualified taxable income. Limits use of preferential rates to businesses not classified in certain North American Industry Classification System industries.

For tax years 2018 - 2025, increases Oregon personal exemption credit from \$90 to \$113. After adjusting for inflation per Oregon law, change in personal exemption credit reflects an approximate increase in the personal exemption credit of \$50 beginning in tax year 2018.

Eliminates reporting requirement of Legislative Revenue Office.

ISSUES DISCUSSED:

- Federal pass through deduction created by Tax Cuts and Jobs Act
- CPA's thoughts on OR pass through entity (PTE) rates
- Whether changes in -3 more focuses the reduced rate to the original intent, views of CPAs
- Need for uniformity in balancing federal and OR policy
- Time needed to more fully understand federal changes
- Complexity of federal deduction, may be years before fully understood
- Delineation between passive or active income for sole props
- Timing of changes in the -3 in regards to OR reduced rates for PTEs
- Sole proprietorship taxation in general, complexity comparison of states
- OR Opportunity Grant Program, how funds would be expended, Higher Education Coordinating Commission's request for changes to -3 amendment
- Solicitation of view from union representation regarding OR's broad based tax cut contained in -3 (rate reductions)

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- Oregon \$250,000 proposed new pass through rate threshold limit, opinion from business community on what they would support
- Potential revenue reduction options other than the proposed rate reductions for Oregon's first two income tax brackets.

EFFECT OF AMENDMENT:

Replaced content of measure.

BACKGROUND:

Enacted in 2013 and effective beginning with the 2015 tax year, taxpayers with nonpassive income attributable to a partnership or S-corporation may irrevocably elect to subject their nonpassive income to be taxed at reduced marginal rates for the tax year.

Income Bracket | Tax Rate

<250K	7.0%
250-500K	7.2%
500-1M	7.6%
1M-2.5M	8.0%
2.5M-5M	9.0%
\$5M+	9.9%

In December 2017, the Tax Cuts and Jobs Act was enacted by Congress and signed by the President. Included in the Act was a provision allowing specified pass through entities a deduction generally equal to twenty percent of the pass through's qualified business income. Due to Oregon's connection to the federal definition of taxable income, the twenty percent deduction, absent any law change in Oregon, automatically becomes part of Oregon's taxable income starting point for determining Oregon tax liability.

In 2013, the Legislature eliminated the personal exemption credit for joint filers with income above \$200,000 and single filers with income above \$100,000.