C-CORPORATION TAX 101:

A *PAINFUL* YET "SIMPLE" EXAMPLE

OREGON LEGISLATIVE REVENUE OFFICE 2/14/2017

For entertainment purposes only

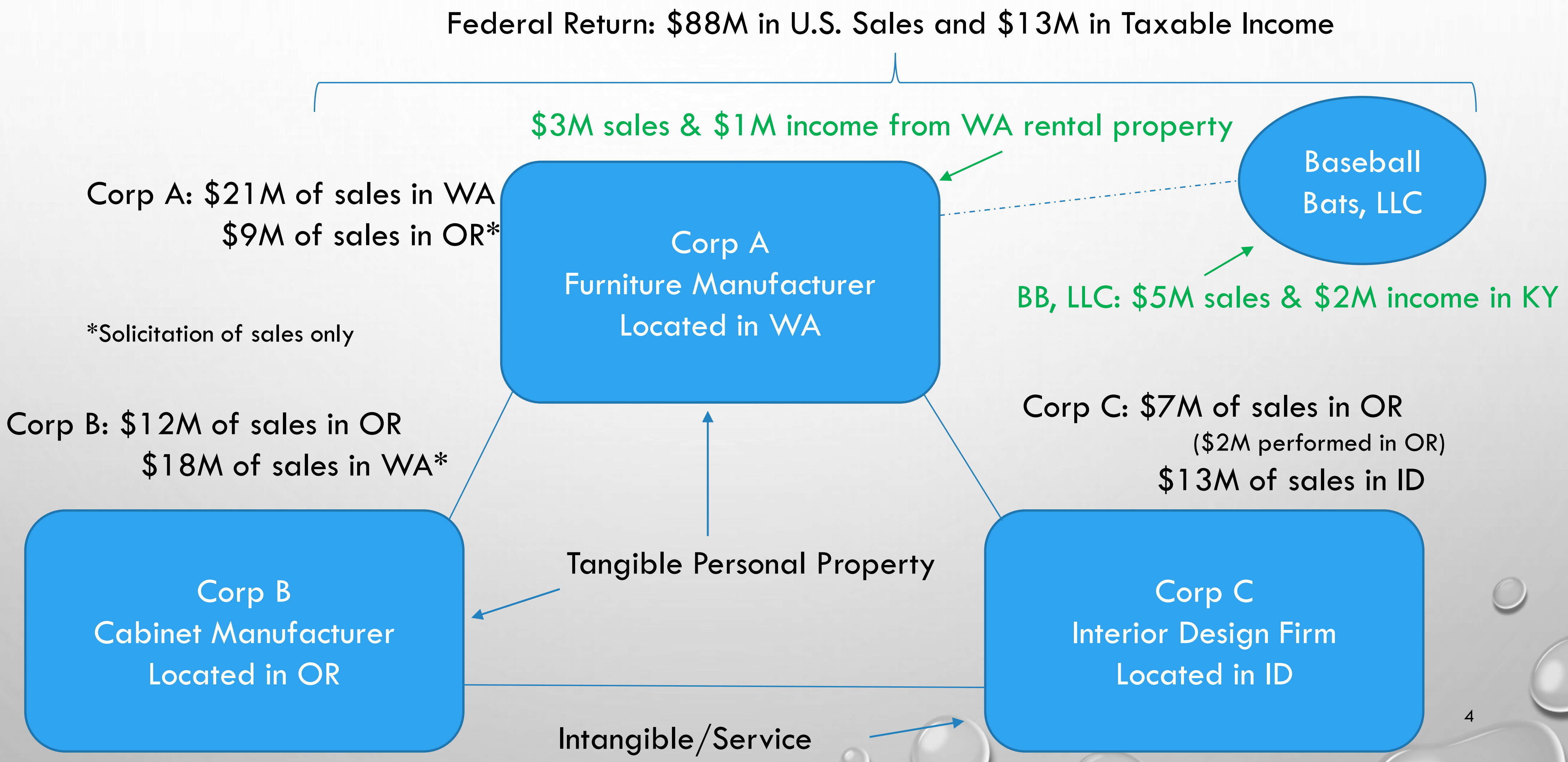
BUSINESS INCOME TAXATION IN OREGON

- PERSONAL INCOME TAX
  - SOLE PROPRIETORS (SCHEDULES C & F) : ~275,000 / $200M
  - PASS-THRU ENTITIES : ~120,000 / $475M
    - PARTNERSHIPS (SCHEDULE E)
    - S-CORPORATIONS (SCHEDULE E)
    - LIMITED LIABILITY COMPANIES (SCHEDULE E)
- CORPORATION EXCISE TAX
  - S-CORPORATIONS : ~60,000 / $10M (MIN TAX)
  - C-CORPORATIONS : ~30,000 / $510M
    - OREGON ONLY (NEXUS, UNITARY, BUSINESS/NON-BUSINESS, APPORTIONMENT ARE NOT ISSUES) : ~15,000 / $50M
    - MULTI-STATE, SEPARATE (UNITARY IS NOT AN ISSUE)
    - MULTI-STATE, COMBINED/CONSOLIDATED (NEXUS, UNITARY, BUSINESS/NON-BUSINESS, APPORTIONMENT ARE SIGNIFICANT ISSUES) --- FOCUS OF THIS PRESENTATION : ~15,000 / $460M

KEY TERMS

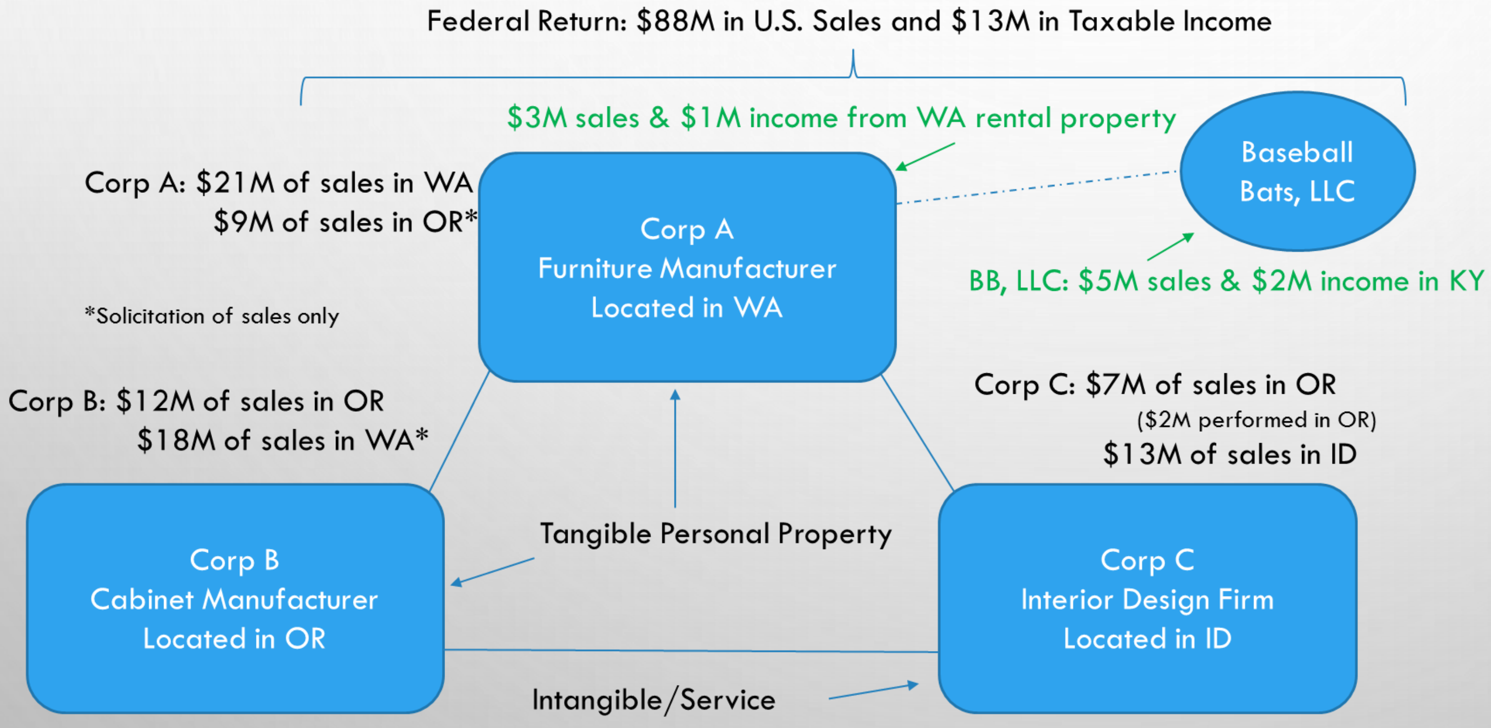
1) NEXUS
2) UNITARY
3) ALLOCATED INCOME (NON-BUSINESS INCOME)
4) APPORTIONED INCOME (BUSINESS INCOME)
   - SINGLE SALES FACTOR
   - TANGIBLE AND INTANGIBLE/SERVICES
   - JOYCE VS FINNIGAN
   - COST OF PERFORMANCE VS MARKET BASED
   - THROWBACK SALES
   - PUBLIC LAW 86-272

ONE C-CORPORATION TAXPAYER



NEXUS, UNITARY, ALLOCATED

1) NEXUS: THE CORPORATION FILED A TAX RETURN, INDICATING SOME LEVEL OF NEXUS
2) UNITARY: THE CORPORATION CLAIMS A, B, & C ARE UNITARY, BUT BASEBALL BATS, LLC IS NOT
3) ALLOCATED INCOME (NON-BUSINESS INCOME)

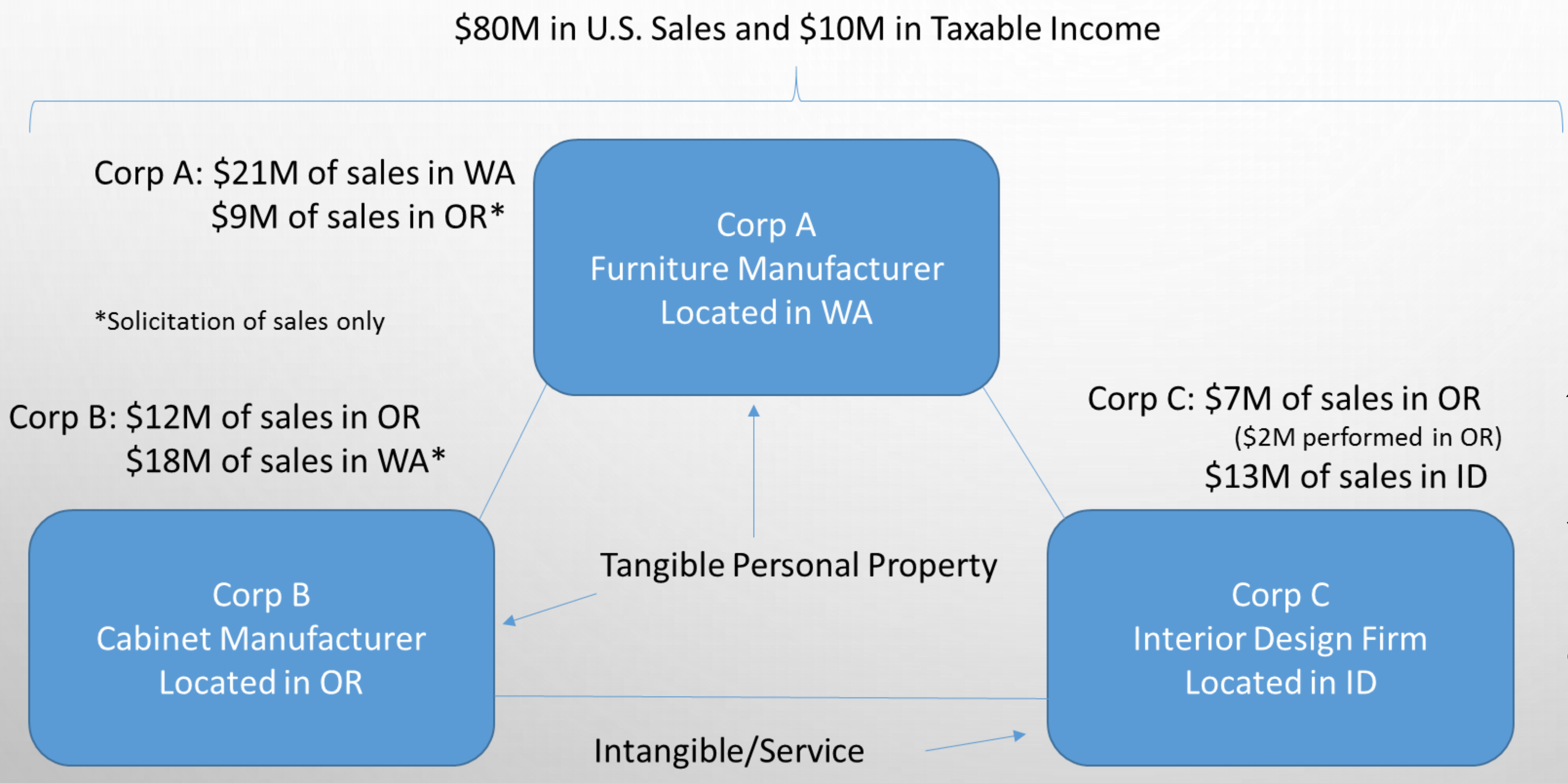


Unitary: Remove BB, LLC
($5M sales & $2M income)

Non-business Income: Remove WA rental property ($3M sales & $1M income)

Sales: $88M - $8M = $80M
Income: $13M - $3M = $10M

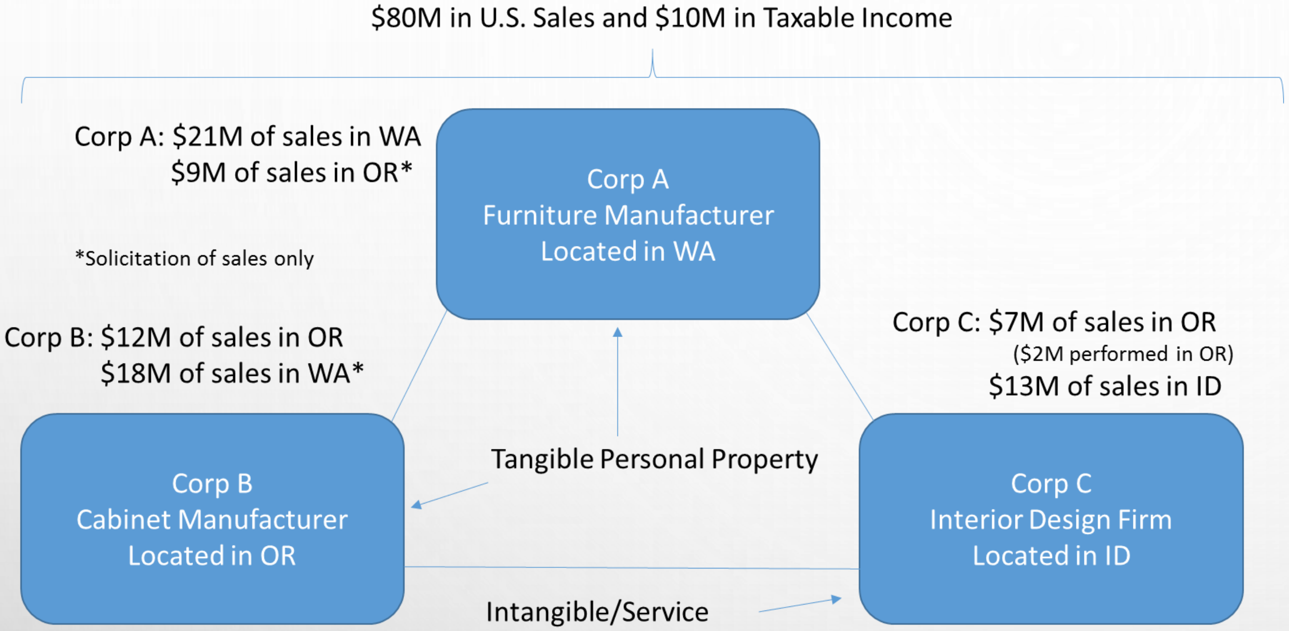
4) APPORTIONMENT (OF BUSINESS INCOME)



1. Federal Taxable Income (FTI): $10 million
2. How much can be taxed by OR, WA, ID?
3. OR uses the share of U.S. sales attributable to Oregon
4. Apportionment (App%) = ORsales/USsales
5. OR Taxable Income = FTI * App%

6. The task then moves to which sales go in the numerator?

SCENARIO 1 OF 4 : OR SALES (NUMERATOR)



- Tangible and Intangible/Services
- Joyce vs Finnigan
- Cost of Performance vs Market Based
- Throwback sales
- Public Law 86-272

Current Law

Joyce: A is not taxable (OR activity is solicitation of sales); B is taxable (located in OR)

COP: Corp C is taxable (some services performed in OR)

Oregon Sales = $0 (A) + $12M (B) + $18M (B) + $2M (C) = $32M

A: OR activities protected by PL 86-272 so the $9M into OR is throwback to WA

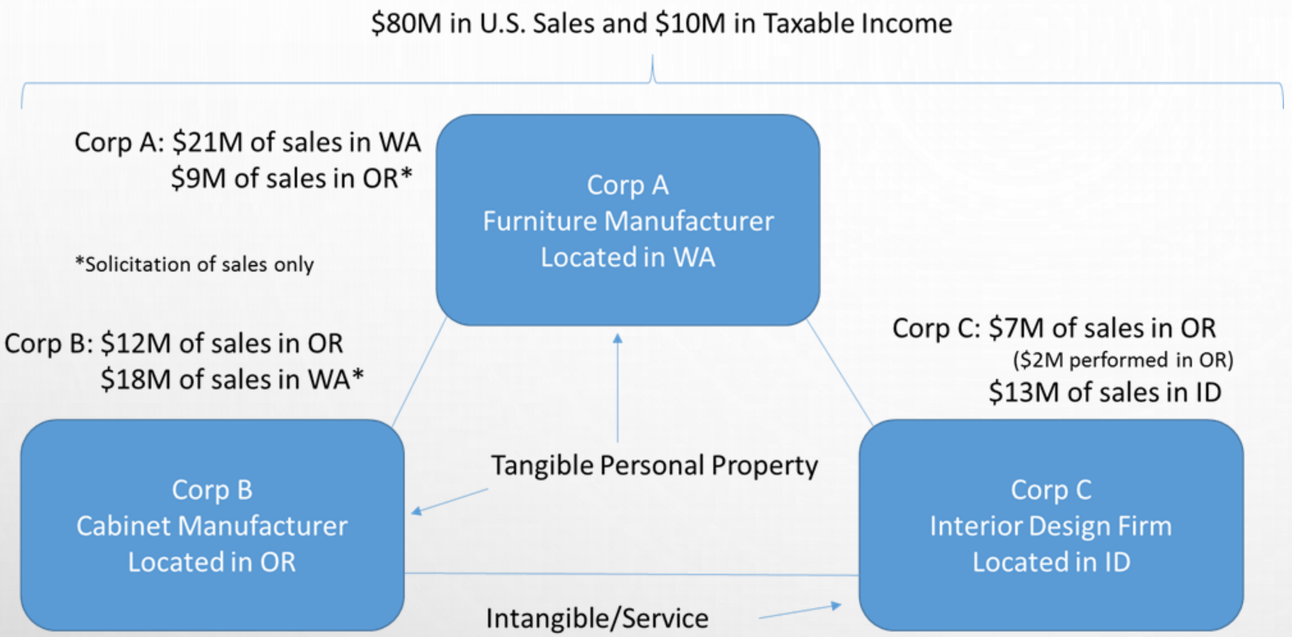
B: $12M of OR sales; WA activity protected by PL 86-272 so $18M is throwback to OR

C: $2M of the OR services performed in Oregon, Income Producing Activity (IPA) in OR

App% = $32M/$80M = 40%

OTI = $10M * 40% = $4M

SCENARIO 2 OF 4 : OR SALES (NUMERATOR)



- Tangible and Intangible/Services
- Joyce vs Finnigan
- Cost of Performance vs Market Based
- Throwback sales
- Public Law 86-272

SB 28

Finnigan: Corp B has nexus with Oregon, so all 3 are taxable in Oregon

COP: Corp C is taxable (some services performed in OR)

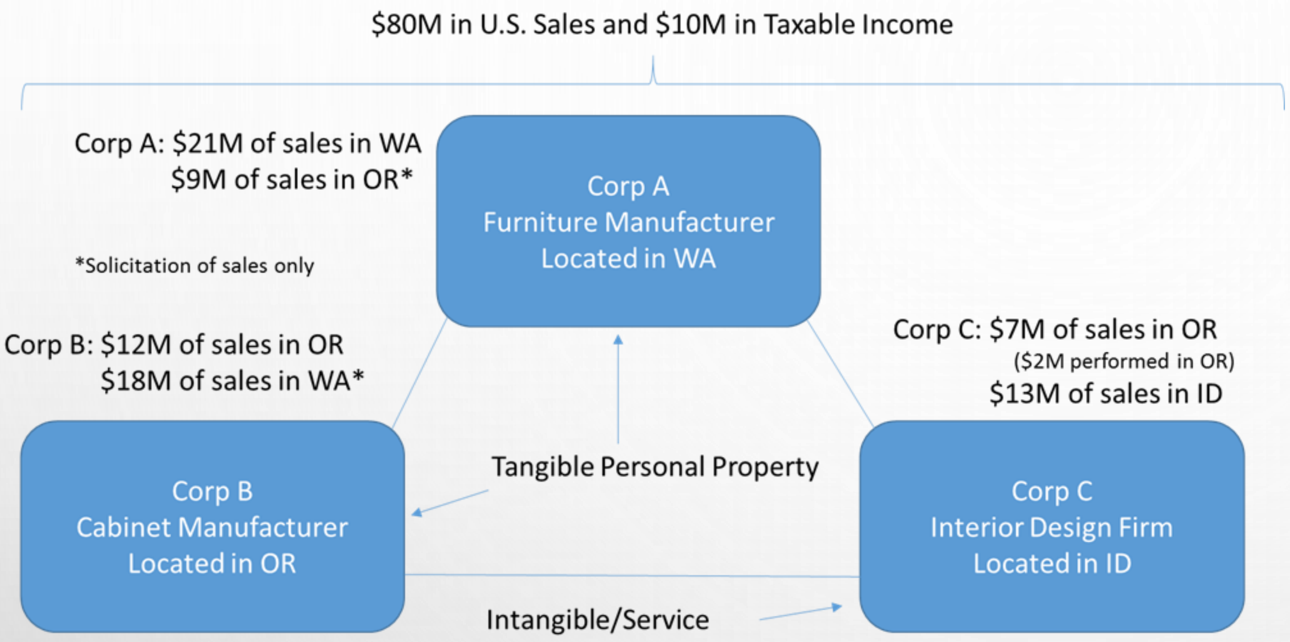
Oregon Sales = $9M (A) + $12M (B) + $2M (C) = $23M

App% = $23M/$80M = 28.75%

OTI = $10M * 28.75% = $2.875M

A: $9M sales in OR; taxable in OR so no throwback to WA
B: $12M sales in OR; taxable in WA so no throwback to OR
C: $2M of the OR services performed in Oregon, IPA in OR

SCENARIO 3 OF 4 : OR SALES (NUMERATOR)



- Tangible and Intangible/Services
- Joyce vs Finnigan
- Cost of Performance vs Market Based
- Throwback sales
- Public Law 86-272

HB 2274

Joyce: A is not taxable (OR activity is solicitation of sales); B is taxable (located in OR)

MKT: Corp C is taxable (sales delivered in OR)

Oregon Sales = $0M (A) + $12M (B) + $18M (B) + $7M (C) = $37M

A: OR activities protected by PL 86-272 so the $9M into OR is throwback to WA

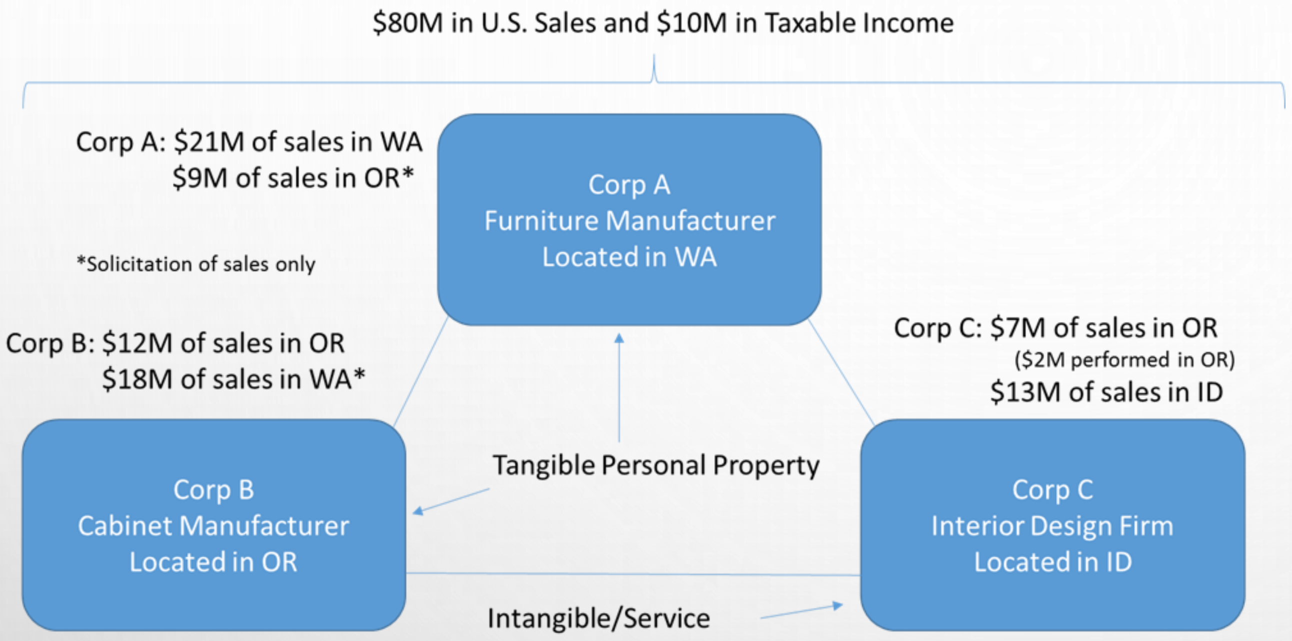
B: $12M of OR sales; WA activity protected by PL 86-272 so $18M is throwback to OR

C: $7M of the OR services delivered in Oregon, production costs don't matter

App% = $37M/$80M = 46.25%

OTI = $10M * 46.25% = $4.625M

SCENARIO 4 OF 4 : OR SALES (NUMERATOR)



- Tangible and Intangible/Services
- Joyce vs Finnigan
- Cost of Performance vs Market Based
- Throwback sales
- Public Law 86-272

Both policy changes

Finnigan: Corp B has nexus with Oregon, so all 3 are taxable in Oregon

MKT: Corp C is taxable (sales delivered in OR)

Oregon Sales = $9M (A) + $12M (B) + $7M (C) = $28M

App% = $28M/$80M = 35%

OTI = $10M * 35% = $3.5M

A: $9M of sales in OR; taxable in OR so no throwback to WA

B: $12M sales in OR; taxable in WA so no throwback to OR

C: $7M of the OR services delivered in Oregon, production costs don't matter