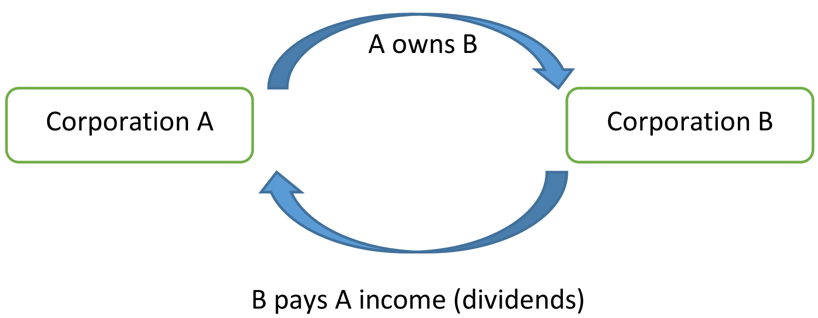
HB 4026 -2

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



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

[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

--------Estimated Revenue Impacts: Pass Through Entities--------

	-----Component Revenue Impacts----- Tax Year $'s in Millions					
	2018	2019	2020	2021	2022	2023
Full disconnect from federal Pass Through Deduction	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