SB 727 B STAFF MEASURE SUMMARY

Carrier: Rep. Nathanson

House Committee On Revenue

Action Date:	06/24/21
Action:	Do pass with amendments. (Printed B-Eng.)
Vote:	5-2-0-0
Yeas:	5 - Levy, Marsh, Nathanson, Reschke, Smith G
Nays:	2 - Pham, Valderrama
Fiscal:	Fiscal impact issued
Revenue:	Revenue impact issued
Prepared By:	Chris Allanach, Legislative Revenue Officer
Meeting Dates:	6/24

WHAT THE MEASURE DOES:

Creates a new, voluntary entity-level income tax on qualified pass-through entities. Defines terms. The first $250,000 of income is taxed at a 9 percent rate while income above $250,000 is taxed at 9.9 percent. Qualifying entities have owners who are individuals subject to the Personal Income Tax or other pass-through entities whose owners are subject to the Personal Income Tax. The tax is elective and, if paid, the business owners are allowed an offsetting income tax credit claimed on their Oregon personal income tax returns. Each owner would be allowed a tax credit for their pro rata share of the entity tax. The new tax and credit would be administered by the Department of Revenue and effective for tax years 2022 and 2023. Repeals the tax and credit if Congress repeals the limitation on the deduction for State and Local Taxes (SALT). Corrects an ORS reference. Takes effect on the 91st day following adjournment sine die.

ISSUES DISCUSSED:

- State responses to the State and Local Tax (SALT) Deduction limitation from federal action in 2017
- Revenue neutrality for Oregon
- Impact on participating business owners, but not all taxpayers affected by the SALT limitation
- 3/5 vote requirement and possible scenarios
- Impact of deductions on the progressivity of tax systems
- Expected workload for the Department of Revenue to implement
- Number of other states implementing or working on a similar policy
- Potential inequities depending on who may benefit from the policy

EFFECT OF AMENDMENT:

Repeals the tax and credit if Congress repeals the limitation on the deduction for State and Local Taxes (SALT). Corrects an ORS reference.

BACKGROUND:

Prior to tax year 2018, individuals who itemized their deductions on their federal personal income tax returns were allowed to deduct (with some phase-out limitations) their state and local taxes - primarily property taxes and either income or sales taxes. In 2017, Congress enacted the Tax Cut and Jobs Act and limited this deduction to $10,000. Since that time, states have explored options for a policy response. Recently, the IRS has allowed some actions by states, such as the New Jersey legislation. State taxes paid by pass-through entities may be fully deducted against federal income taxes. This bill contains such a policy option for Oregon, where taxes are effectively shifted from certain business owners to their businesses. The net impact and intent is a lower federal tax liability while keeping state taxes, on net, unchanged.

This summary has not been adopted or officially endorsed by action of the committee.