

FISCAL IMPACT OF PROPOSED LEGISLATION

Measure: SB 158 - 3

82nd Oregon Legislative Assembly – 2023 Regular Session

Legislative Fiscal Office

Only Impacts on Original or Engrossed Versions are Considered Official

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Measure Description:

Extends sunsets for pass-through business alternative income tax and related personal income tax credit.

Government Unit(s) Affected:

Department of Revenue, Oregon Judicial Department

Summary of Fiscal Impact:

Costs related to the measure may require budgetary action - See analysis.

Summary of Expenditure Impact:

Department of Revenue		
General Fund		
Personal Services	\$371,901	\$603,937
Services and Supplies	\$85,420	\$42,301
Total General Fund	\$457,321	\$646,238
Total Fiscal Impact	\$457,321	\$646,238
<i>Total Positions</i>	4	4
<i>Total FTE</i>	2.52	4.00

Analysis:

Senate Bill 158, as amended by the -3 amendments, extends the applicability of the pass-through entity elective tax (PTE-E) and related personal income tax credit by two years, which will apply to tax years beginning on or after January 1, 2022, and before January 1, 2026. The measure allows trusts to be members of a pass-through entity electing to be liable for Oregon's pass-through business alternative income tax. A pass-through entity must add back any amount of Oregon tax deducted by the pass-through entity, at the entity level, for purposes of determining liability for Oregon's pass-through business alternative income tax. Any overpayment of pass-through business alternative income tax may be applied against an installment of taxpayer's subsequent tax year estimated tax. The measure applies to tax years beginning on or after January 1, 2023, and before January 1, 2026, and takes effect 91 days after adjournment *sine die*.

Department of Revenue

The measure is anticipated to have a fiscal impact on DOR. DOR began accepting PTE-E tax returns in January 2023 for tax year 2022. While DOR has already implemented processes to accept registrations to elect to file the PTE-E tax, process tax returns, receive payments, and process the related personal income tax credit, DOR will need information technology (IT) programming to add new tax return line(s), including a new additions line and a credit carry forward line. A new explanation code to the PTE-E tax returns (Form OR-21) and a new a credit code on the trust's tax return (Form OR-41) will also be required. DOR anticipates needing to hire vendors for these IT programming services. Some program areas will absorb the work for updating booklet instructions and other program areas will need to hire a vendor to complete this service. DOR will incur an estimated \$32,000 General Fund in the 2023-25 biennium in one-time IT professional services.

DOR has faced challenges to match PTE-E tax payments to each member's respective personal income tax credit, which has resulted in increased workloads to manually review payments and credits. With the inclusion of trusts, DOR will experience an increase in the number of PTE-E returns filed, payment and credit mismatching, and appeals. DOR will need additional staff to review these returns and respond to inquiries from the public and practitioners. DOR may need as many as four limited duration, full-time positions (2.52 FTE), including two Administrative Specialist 2 positions (0.76 FTE) to review PTE-E suspended returns and process appeals; and one Public Services Representative 3 position (0.88 FTE) and one Public Services Representative 4 position (0.88 FTE) to respond inquiries from the public and practitioners. The total estimated cost of these positions, including related services and supplies and professional IT services, is \$457,321 General Fund in 2023-25 and \$646,238 General Fund in 2025-27.

The measure warrants a subsequent referral to the Joint Committee on Ways and Means for consideration of its impact to the State's General Fund.

Oregon Judicial Department

The measure is anticipated to have a minimal fiscal impact on the Oregon Judicial Department.