

Corporate Activity Tax Orientation

Senate Committee on Finance and Revenue



Orientation Topics

- Which businesses owe Corporate Activity Tax (CAT)
- Overview of CAT Calculation
- Statistics for Tax Year 2020

Note that tax return data throughout this presentation comes from Dept. of Revenue, Research Section (www.Oregon.gov/DOR/Stats)





Corporate Activity Tax

- Applies to all business types (Corporations, Partnerships, Proprietors, etc.)
- Based on Commercial Activity in Oregon
 - “The total amount realized by a person arising from transactions and activity in the regular course of the person’s trade or business, without deduction for expenses incurred by the trade or business”
- Does not apply to exports (commercial activity outside Oregon)
- Threshold of \$1 million for filing and paying tax
- Allows 35% subtraction for Labor Costs or Cost of Goods Sold





Nexus (ORS 317A.116)

- Broad nexus standard with the following examples.
A business has nexus if it
 - Owns or uses capital in Oregon
 - Has a certificate from Secretary of State authorizing it to do business in Oregon
 - Has \$50,000 of property or payroll in Oregon including
 - Employees in Oregon
 - Contractors in Oregon acting on behalf of business
 - Has \$750,000 of Commercial Activity in Oregon
 - Has 25% of its property, payroll, or Commercial Activity in Oregon
 - Has Oregon domicile

- CAT is not subject to Public Law 86-272





Combined Reporting

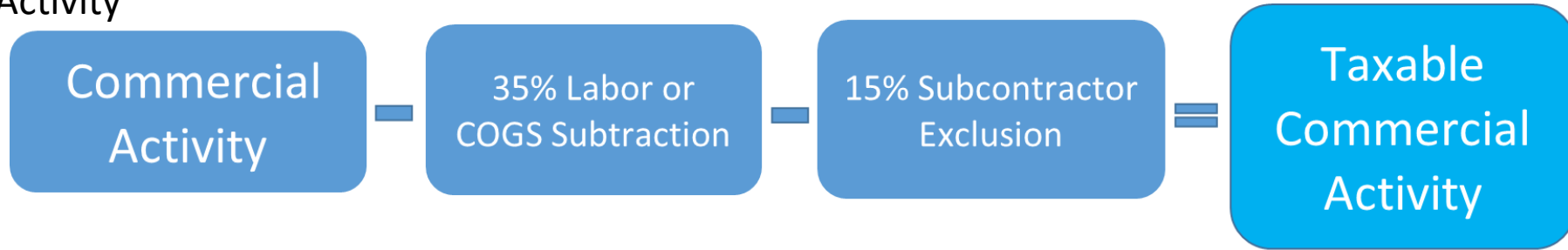
- A Unitary Group pays as a single taxpayer
 - Unitary means the members share some flow of value between them, like common management, administration, or goods
 - Excludes transactions among members
- Commercial Activity from all group members counts toward \$1 million threshold





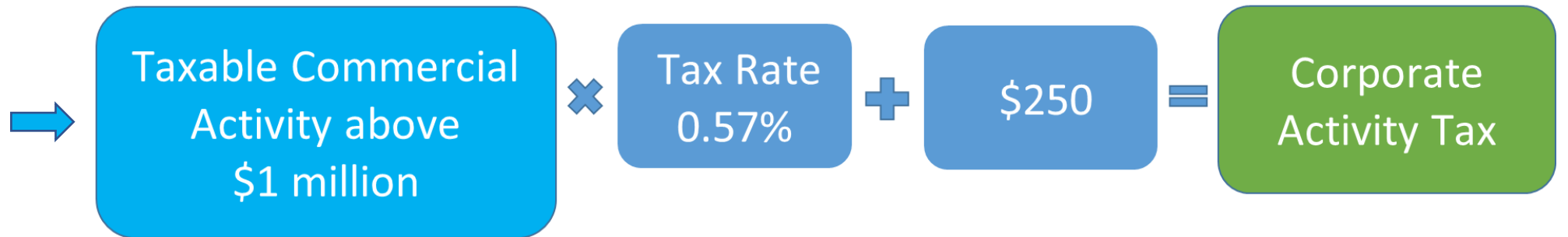
CAT Calculation

Filing Threshold at \$1 million
Commercial Activity



Tax Threshold at \$1 million
Taxable Commercial Activity

If Taxable
Commercial
Activity
greater than
\$1 million





Excluded Entities

- The CAT has both Excluded Entities and Excluded Activity
 - There is overlap between exclusions.
- Excluded entities (examples)
 - Nonprofit organizations
 - Farmers cooperatives exempt from federal tax
 - Hospitals and long-term care facilities subject to medical provider taxes





Excluded Activities

- Commercial Activity does not include (a few examples)
 - Funds raised for charity
 - Tax refunds
 - Taxes collected for various programs (e.g. 911 tax, transient lodging tax)
 - Tips at restaurants that are passed on to employees
 - Motor vehicle fuel
 - Groceries for home consumption eligible for purchase with SNAP benefits (wholesale or retail sale)
 - Farmer sales to agricultural co-op
 - Milk sold by dairy farmers that are not members of agricultural co-op
- 15% of subcontractor labor costs for single-family residential construction





35% Cost Subtraction

- Labor Costs
 - Compensation paid to employees up to \$500,000 for a single employee
 - Excludes payroll taxes
 - Does not include independent contractors (non-employees)
- Costs of Goods Sold (Cost inputs)
 - Generally from federal tax return
 - Direct cost of purchasing or producing products
 - Might include labor (e.g. manufacturing)



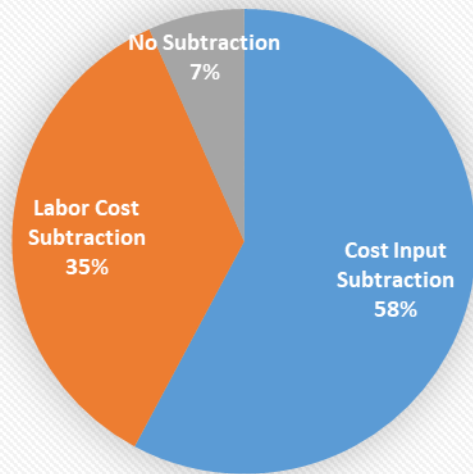


Subtraction

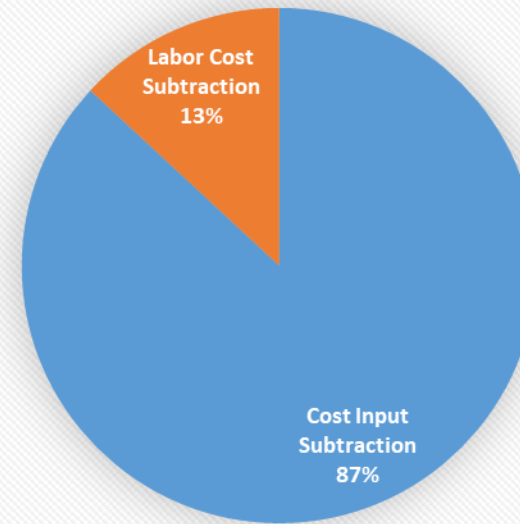
	Number of Returns	Percent
Cost Input Subtraction	12,001	57.8%
Labor Cost Subtraction	7,362	35.5%
No Subtraction	1,391	6.7%
Total	20,754	100.0%

	Subtraction Amount (\$ million)	Percent
Cost Input Subtraction	\$45,602	86.9%
Labor Cost Subtraction	\$6,878	13.1%
Total	\$52,480	100.0%

Number of Tax Returns by Subtraction Type



Amount Subtracted by type





CAT Tax Liability by Industry, Tax Year 2020

(\$ millions)

Retail Trade	\$165.5
Manufacturing	\$125.0
Management of Companies and Enterprises	\$120.4
Wholesale Trade	\$105.2
Construction	\$94.7
Finance and Insurance	\$78.2
Information	\$73.5
Real Estate, Rental, and Leasing	\$42.2
Professional, Scientific, and Technical Services	\$39.2
Health Care and Social Assistance	\$29.1
All Others	\$107.7
Total	\$980.5





CAT Tax Liability by Oregon Commercial Activity, TY 2020

Oregon Commercial Activity	# of Returns	% of Total Returns	Net Tax (\$ millions)	% of Total Net Tax
Less than \$1 million	1,339	6.5%	\$0.0	0.0%
\$1 million to \$1.5 million	4,658	22.4%	\$2.6	0.3%
\$1.5 million to \$2 million	2,883	13.9%	\$7.5	0.8%
\$2 million to \$3 million	3,203	15.4%	\$18.5	1.9%
\$3 million to \$5 million	2,871	13.8%	\$34.8	3.5%
\$5 million to \$7 million	1,341	6.5%	\$28.9	2.9%
\$7 million to \$10 million	1,149	5.5%	\$37.0	3.8%
\$10 million to \$15 million	958	4.6%	\$47.5	4.8%
\$15 million to \$25 million	847	4.1%	\$68.4	7.0%
\$25 million to \$50 million	771	3.7%	\$115.0	11.7%
\$50 million to \$100 million	379	1.8%	\$116.3	11.9%
Over \$100 million	355	1.7%	\$504.1	51.4%
Total	20,754	100%	\$980.5	100%

Concentration
in Tax Liability



For More Information

- LEGISLATIVE REVENUE OFFICE
- 503-986-1266
- <https://www.oregonlegislature.gov/lro>