

HB 2197 STAFF MEASURE SUMMARY

House Committee On Revenue

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Meeting Dates: 3/4, 4/15

WHAT THE MEASURE DOES:

Creates subtraction from taxable income for Oregon Corporate Income Tax, and an exclusion from the Oregon Corporate Activity Tax based on interest earned by financial institutions making loans for purchase or improvement of agricultural real estate, rural residences, or coastal fishing boats. Applies to tax years beginning on or after January 1, 2026, and before January 1, 2032. Takes effect 91st day following adjournment sine die.

ISSUES DISCUSSED:

- Community bank's role in rural areas
- Cost increases affecting rural and coastal areas
- Other uses of funds raised from Corporate Income Tax and Corporate Activities Tax
- Competition from tax-exempt agricultural lenders

EFFECT OF AMENDMENT:

No amendment.

BACKGROUND:

Interest income is taxable under the corporate income tax as a component of corporations' net income. Interest income of financial institutions is taxable under the Corporate Activity Tax as commercial activity because earning income from loans is part of financial institutions' regular business (other businesses generally exclude interest earnings unless the source is credit sales).

This measure creates a subtraction from income for the Corporate Income/Excise Tax, and excludes income from commercial activity for the Corporate Activity Tax based on interest received by financial institutions for extending loans for the following:

- Agricultural real estate where the loan term is between 5 and 40 years and the property is used for production of farm products. The loan must be secured by a first lien interest in real estate (or second lien interest if first lien is held by the financial institution) and for up to 85 percent of the appraised value of the property. It may exceed 85 percent of the value if private mortgage insurance covers the amount in excess of 85 percent.
- Commercial fishing boats with valid Oregon, Washington, or California license/permit valid for operation in the ocean fishery. The loan must be made to an Oregon resident for up to 85 percent of the appraised value of the boat.
- Rural residences if the loan is substantially used for the purchase or improvement of an Oregon principal residence in a rural area as defined by the United States Department of Agriculture and not within a metropolitan statistical area or is in a city with fewer than 2,500 residents.

The corporate income tax subtraction is calculated as net income multiplied by the ratio of qualified interest income to total interest income. The Corporate Activity Tax exclusion uses the same calculation.