REVENUE IMPACT OF PROPOSED LEGISLATION

83rd Oregon Legislative Assembly
2025 Regular Session
Legislative Revenue Office

Bill Number:	**SB 111 - 7**
Revenue Area:	**Income Taxes**
Economist:	**Kyle Easton**
Date:	**6/6/2025**

Only Impacts on Original or Engrossed Versions are Considered Official

---

Measure Description:

Extends applicability of pass-through business alternative income tax (BAIT) and related personal income tax credit by two years, from tax years beginning before January 1, 2026, to tax years beginning before January 1, 2028. Applicable to tax years 2025 through 2027, allows trusts to be members of a pass-through entity electing to be liable for Oregon's BAIT, and allows a member(s) of a pass-through entity to opt out of election to participate in BAIT. Applicable to overpayments made before January 1, 2027, allows a pass-through entity that has made a BAIT overpayment to have such overpayment credited as an estimated payment for the subsequent tax year.

Revenue Impact:

The underlying business alternative income tax and credit program is designed to be revenue neutral for Oregon, with a federal tax benefit for participating taxpayers. The BAIT and associated credit effectively provide a partial workaround of the federal limitation on itemized deductions of state and local taxes (SALT). This workaround is accomplished by shifting state income tax liability from the individual owner (where deductibility is limited) to the pass-through entity where such taxes are fully deductible against federal taxes. The SALT limitation is set to expire under federal law at the end of 2025 though current federal legislation is proposing to extend the SALT cap at a higher amount of $40K (phased down for higher income taxpayers) and limit state SALT cap workarounds for specified service businesses. Oregon’s BAIT is only applicable in specified years and when the federal SALT limitation is also applicable. Participation in the program is voluntary and is driven by the extent to which personal business owners have state tax liabilities large enough to exceed the $10,000 federal SALT limit. For tax year 2023, preliminary data indicates about 20,000 business entities and 25,000 individual taxpayers participated in the BAIT program reducing their federal income tax liability by roughly $200 million.

Extending applicability of the business alternative income tax and credit for two years will allow Oregon’s program to remain applicable should federal legislation extend the federal SALT limit. Allowing trusts to be members of a participating pass-through entity will expand the potential use of the tax and credit program as only grantor trusts are currently allowed to be members of a participating pass-through entity. Based on an analysis of information provided by the Department of Revenue, several hundred additional partnerships could qualify for the BAIT, causing an associated reduction in federal tax liability of about $4 million in total per year (pending federal legislation could decrease this reduction in federal tax liability). Allowing overpayments to be applied against subsequent estimated tax payments is primarily an administrative change. The BAIT is designed to be revenue neutral for Oregon though there could be a temporal shift of funds across fiscal years or biennia due to changes in timing of entity tax payments and tax credits being claimed. Changes allowing trusts are only applicable if the federal SALT limit is extended.

Creates, Extends, or Expands Tax Expenditure: Yes ☐ No ☒

State Capitol Building
900 Court St NE
Salem, Oregon 97301-1347

Phone (503) 986-1266
Fax (503) 986-1770
https://www.oregonlegislature.gov/lro