



# Taxation of Business Income

Legislative Revenue Office

House Revenue

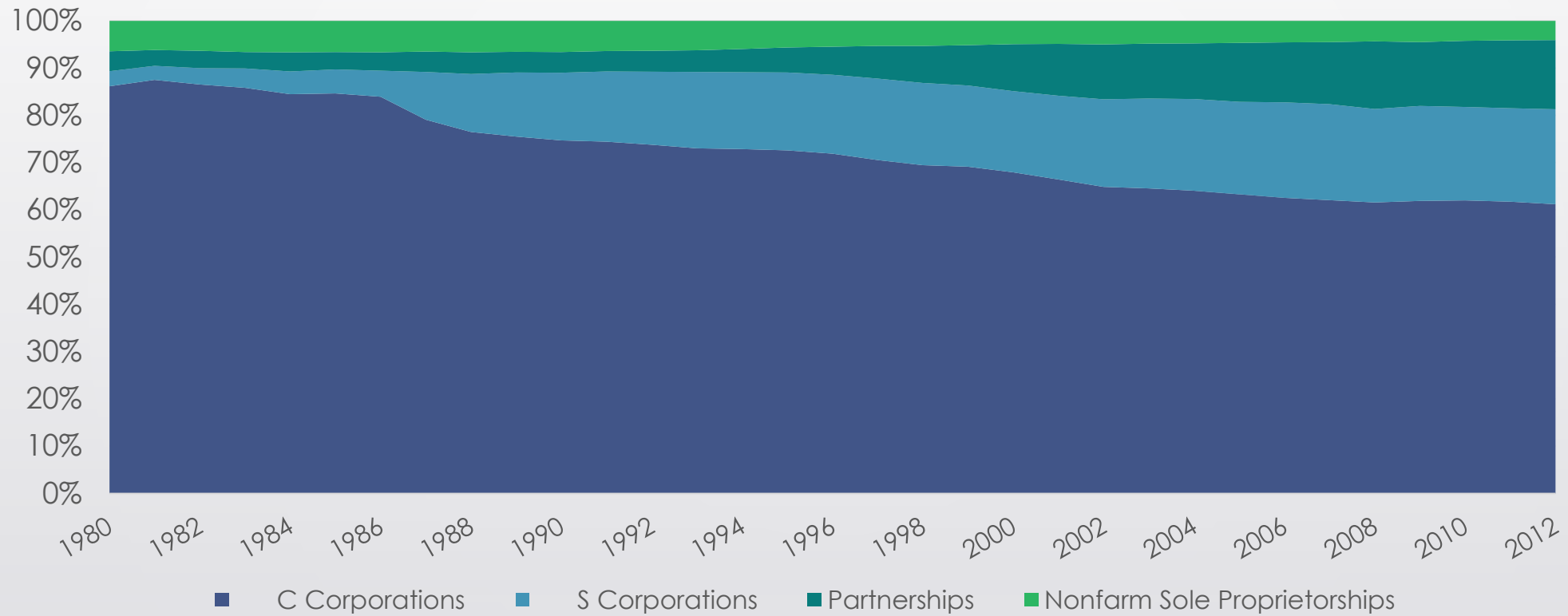
November 2017



# Business Entity Types

- Sole Proprietor
- Partnership
- S-Corporation
- C-Corporation
- LLC

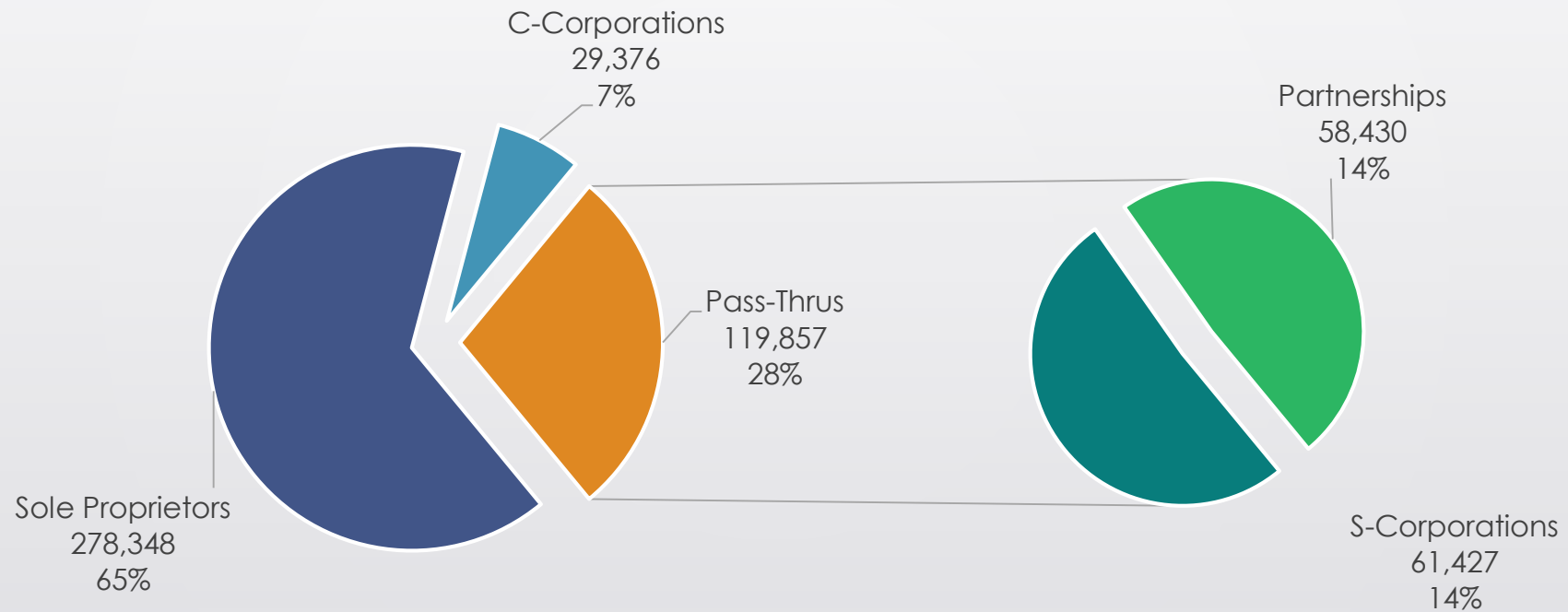
# Share of U.S. Business Receipts



Data Source: Internal Revenue Service

# 2014 Tax Returns with Business Income

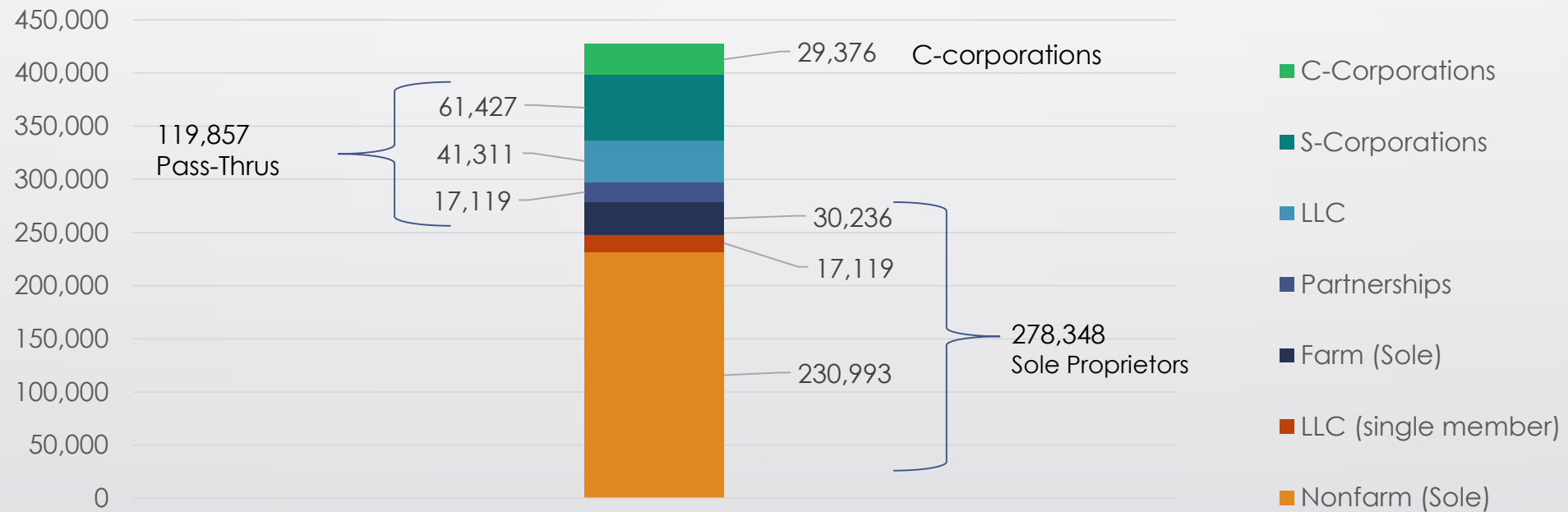
Self-employed	278,348
Other	149,233
Total	427,581



Data Source: Oregon Department of Revenue

# 2014 Tax Returns with Business Income

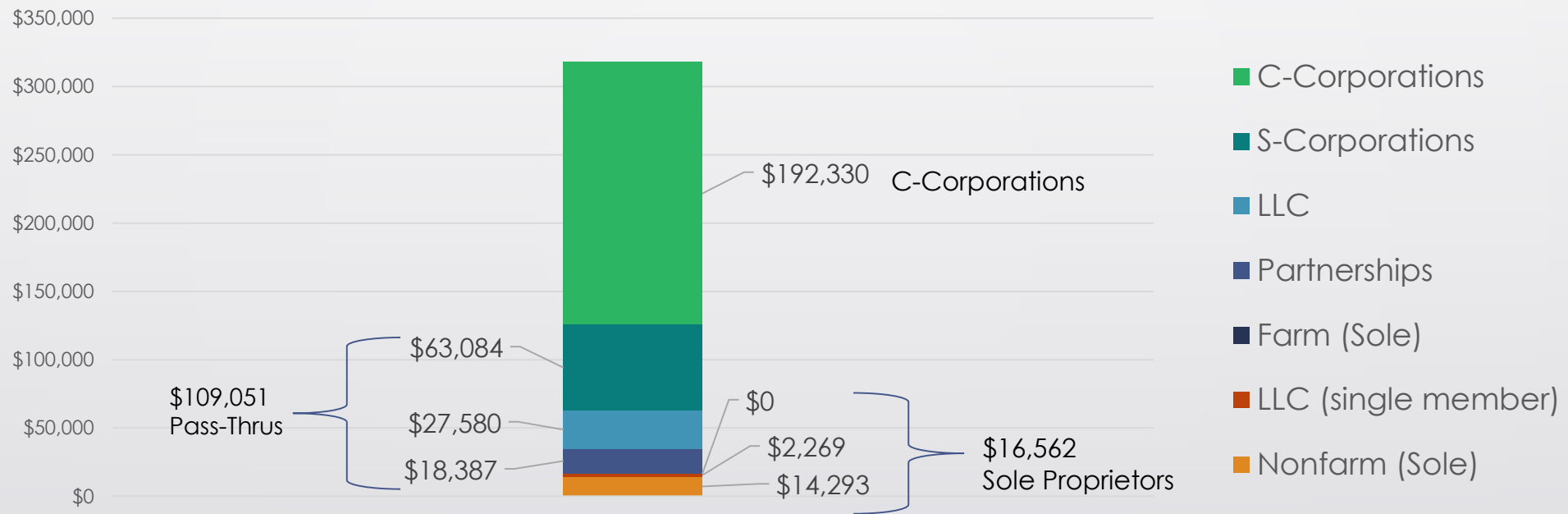
427,581



Data Source: Oregon Department of Revenue, Internal Revenue Service

# 2014 Estimated Oregon Sales

## \$317,944 Million

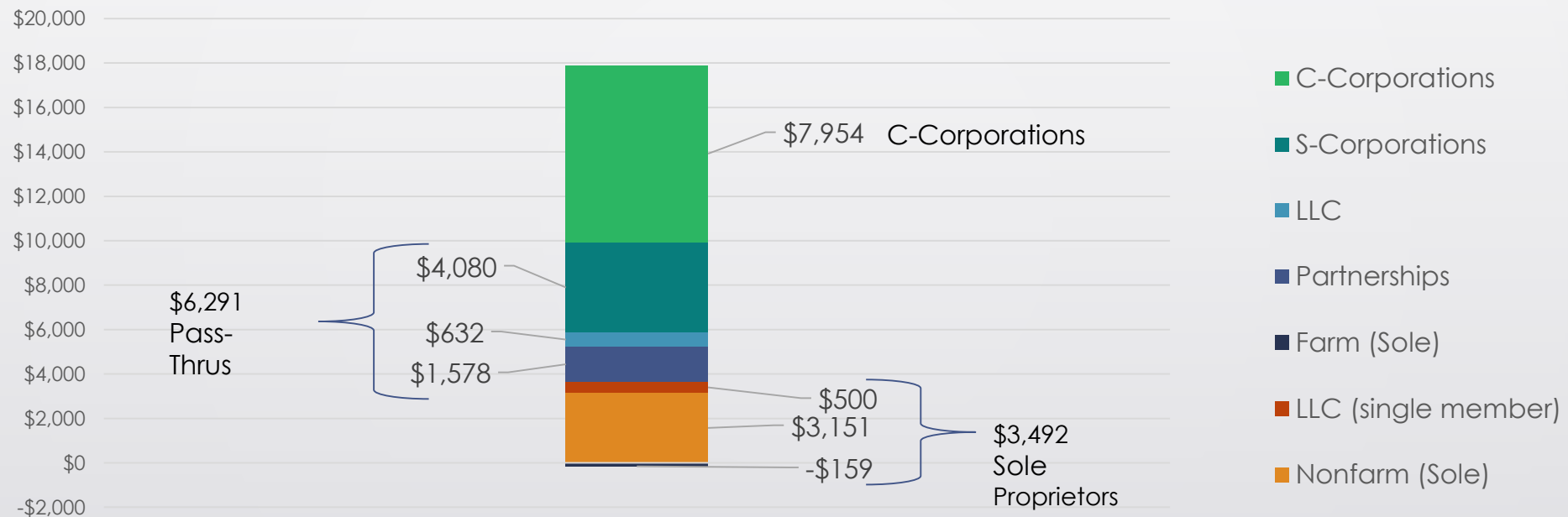


Data Source: Oregon Department of Revenue, Internal Revenue Service



# 2014 Estimated Business Income

## \$17,737 Million



Data Source: Oregon Department of Revenue

# Share of key metrics, 2014



Data Source: Oregon Department of Revenue, Internal Revenue Service





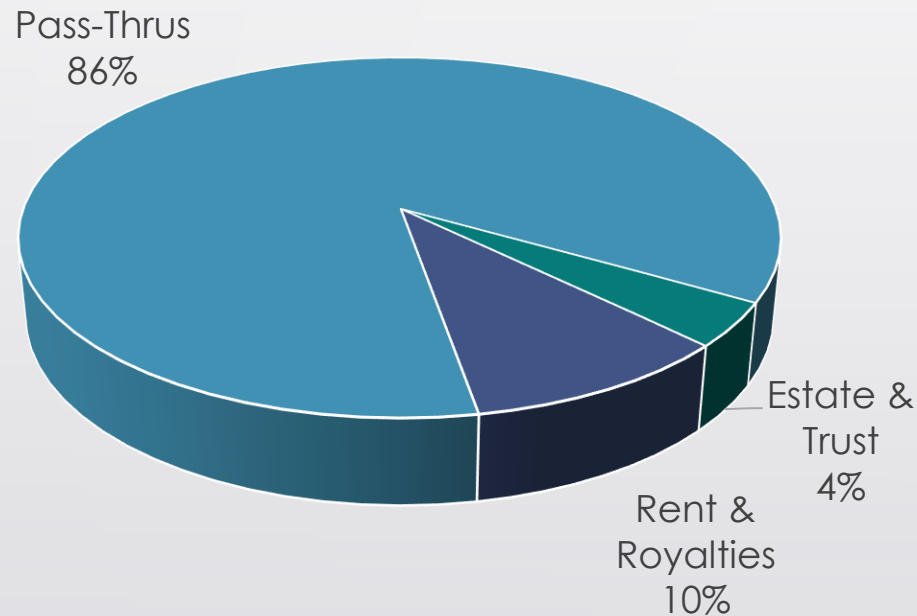
## 2014 Estimated Effective Tax Rates

\$Millions

	Number	Sales	Income	Tax	Tax/Income	Tax/Sales
Sole Proprietors	278,348	\$16,562	\$3,492	\$207	5.9%	1.25%
Pass-Thrus	119,857	\$109,051	\$6,291	\$570	9.1%	0.52%
C-Corporations	29,376	\$192,330	\$7,954	\$522	6.6%	0.27%
Total	427,581	\$317,944	\$17,737	\$1,299	7.3%	0.41%
Pass-Thrus (w/ PTE)	119,857	\$109,051	\$6,291	\$470	7.5%	0.43%

Data Source: Oregon Department of Revenue, Internal Revenue Service

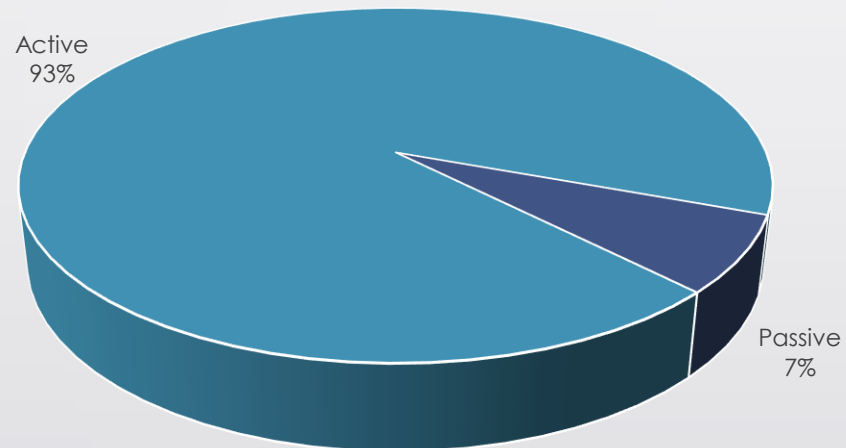
# Schedule E Income: Passive or Active?



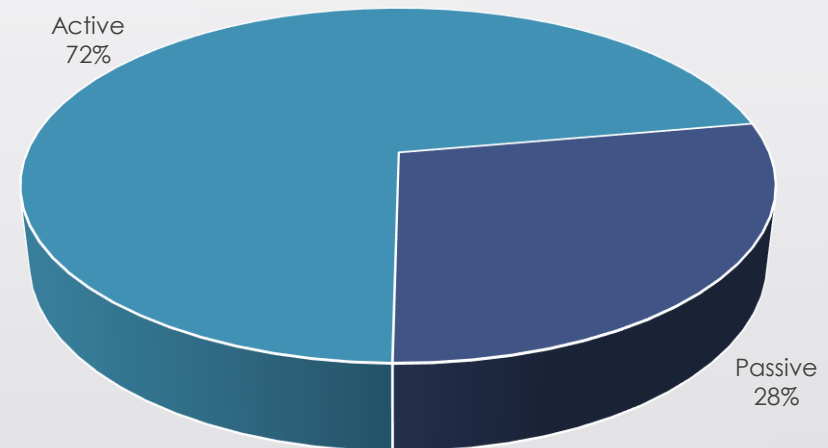
- Federal Policy
  - Net Investment Income Tax
  - Since 2013, 3.8% tax for ACA
- Oregon Policy
  - Pass-thru tax rate for Non-passive Income
  - Since 2015, 7% to 9% tax rate

# Active vs Passive Income

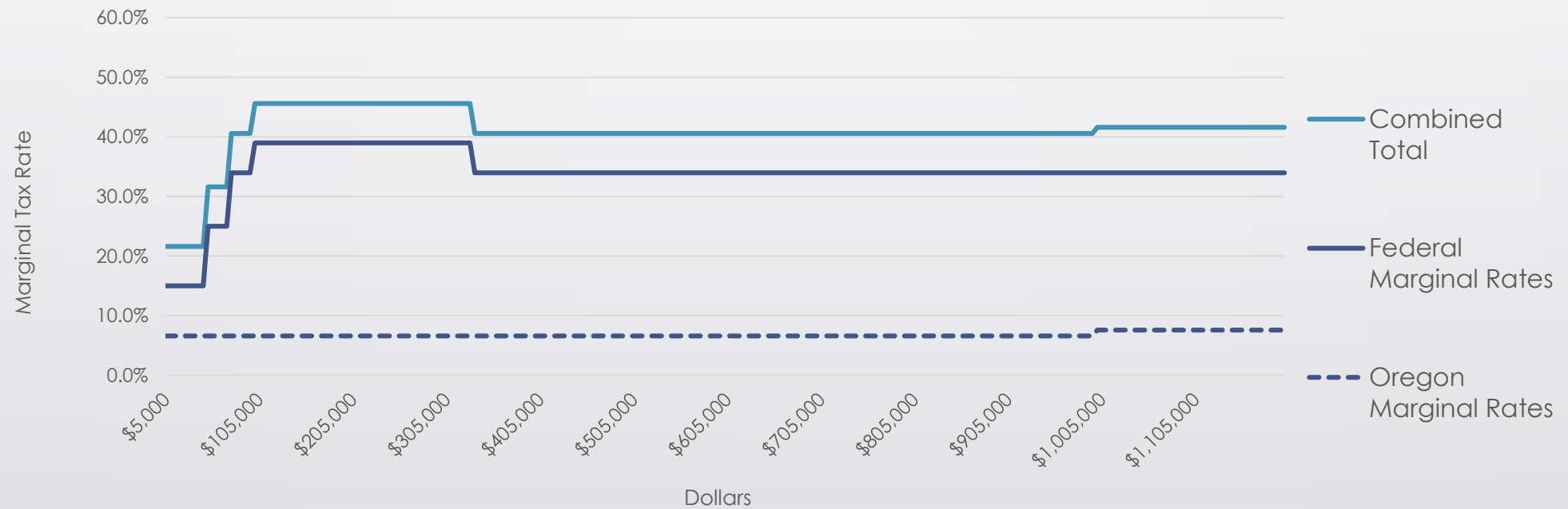
## S-corporation



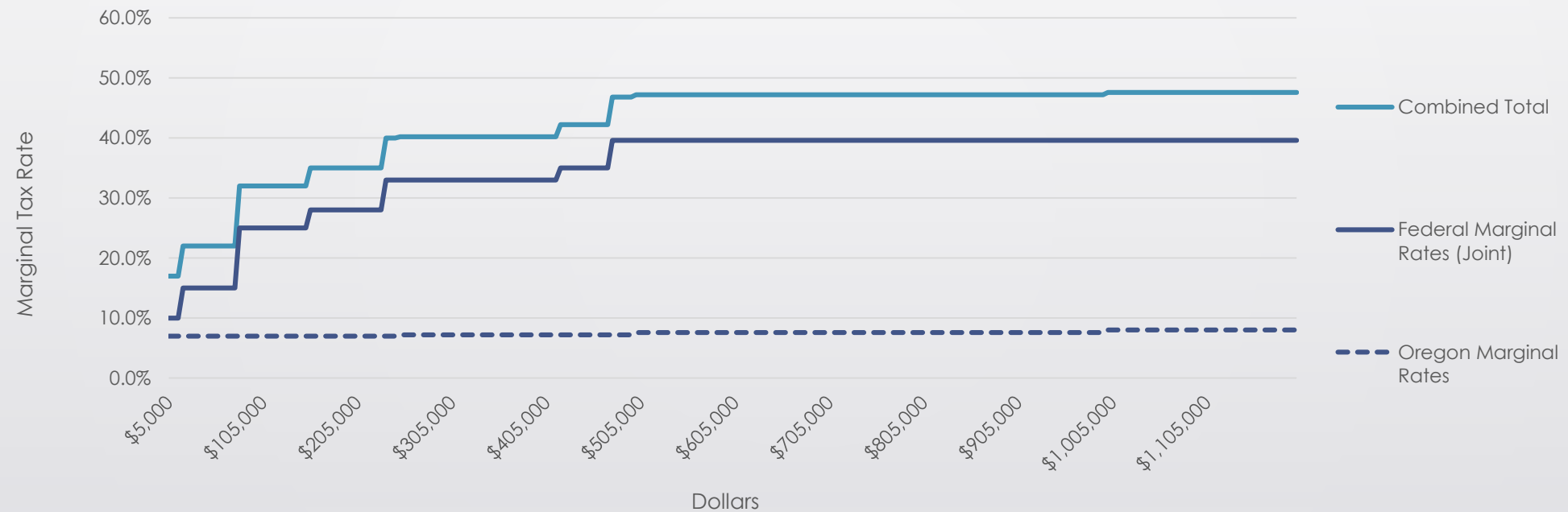
## Partnerships



# C-Corporation Marginal Tax Rates



# Pass-Thru Marginal Tax Rates: Active Income



# Tax Calculation Examples

	Sole Proprietor		Pass-Thru		C-Corporation	
Number of Taxpayers	1		2		1	
Profit	\$1,000,000		\$1,000,000		\$1,000,000	
<b>Federal</b>						
Business Income Tax					34.0%	\$340,000
Personal Income Tax <sup>1</sup>	39.6%	\$295,666	35.0%	\$230,760		\$0
Effective tax rate	29.6%		23.1%		34.0%	
<b>Oregon</b>						
Business Income Tax			min	\$150	6.6%	\$66,000
Personal Income Tax <sup>2</sup>	9.9%	\$89,960	7.2%	\$71,000		\$0
Effective tax rate	9.0%		7.1%		6.6%	
<b>Total (Federal &amp; Oregon)</b>						
Effective tax rate	38.6%		30.2%		40.6%	

<sup>1</sup> If passive income, then an addition 3.8% on income over threshold

<sup>2</sup> If passive income for a pass-thru entity, the top marginal rate would be 9.9%



# Dividends and Double Taxation

	C-Corporation	Scenario 1		Scenario 2	
		Corporate Dividends		Corporate Dividends	
		Individual	Tax-Exempt	Individual	Tax-Exempt
Number of Taxpayers	1	1	1	1	1
Profit	\$1,000,000	\$297,000	\$297,000	\$178,200	\$415,800
<b>Federal</b>					
Business Income Tax	34.0% \$340,000				
Personal Income Tax <sup>1</sup>	\$0	23.8% \$61,186	\$0	\$35,640	\$0
<i>Effective tax rate</i>	34.0%	20.6%	0.0%	20.0%	0.0%
<b>Oregon</b>					
Business Income Tax	6.6% \$66,000				
Personal Income Tax <sup>2</sup>	\$0	9.9% \$22,751	\$0	\$11,917	\$0
<i>Effective tax rate</i>	6.6%	7.7%	0.0%	6.7%	0.0%
<b>Total (Federal &amp; Oregon)</b>	<b>\$406,000</b>	<b>\$83,937</b>	<b>\$0</b>	<b>\$47,557</b>	<b>\$0</b>
<i>Effective tax rate</i>	40.6%	28.3%	0.0%	26.7%	0.0%
<i>Combined Effective tax rate</i>			49.0%		45.4%

<sup>1</sup> If passive income, then an addition 3.8% on income over threshold

<sup>2</sup> If passive income for a pass-thru entity, the top marginal rate would be 9.9%