REVENUE IMPACT OF PROPOSED LEGISLATION

81st Oregon Legislative Assembly
2021 Regular Session
Legislative Revenue Office

Bill Number:	**SB 727 - A5**
Revenue Area:	**Income Taxes**
Economist:	**Chris Allanach**
Date:	**6/24/21**

Only Impacts on Original or Engrossed Versions are Considered Official

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Measure Description:

Creates a new entity-level income tax on qualified pass-through entities with an offsetting personal income tax credit. The first $250,000 is taxed at a 9 percent rate while income above $250,000 is taxed at 9.9 percent. Payment of the tax is elective and, if paid, the business owners are allowed an offsetting income tax credit claimed on their Oregon personal income tax returns. Each owner would be allowed a tax credit for their pro rata share of the entity tax. The new tax and credit would be effective for tax years 2022 and 2023. The new tax and credit are repealed if Congress repeals the limitation on the deduction for State and Local Taxes (SALT).

Revenue Impact:

The program is designed such that the net impact is revenue neutral. The income tax credits are designed to offset the tax paid by the business entity. Participation in the program is voluntary and should be driven by the extent to which business owners have state tax liabilities large enough to exceed the limit on the federal deduction for state and local taxes. For some context regarding potential use, in tax year 2019 roughly 51,000 personal income tax filers claimed roughly $9 billion of income on their federal Schedule E tax form and owed at least $10,000 in Oregon income tax. Depending on participation and taxpayer responses, there could be a temporal shift of funds across fiscal years or biennia if there is a difference in timing between paying the entity tax and when the tax credit affects payments within the personal income tax system.

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

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