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Governor's Proposed Change in Corporate Taxation

Oregon imposes a tax upon corporations that have business activity in the state. The tax is measured by net income (i.e., gross income less expenses of producing that income). The tax liability is computed by applying a 7 1/2 percent tax rate to the net income earned in Oregon. In determining Oregon's net income the taxpayer would start with a federal corporate return. After modifications to the taxpayer's federal net income the Oregon net income would be determined. Then the Oregon tax rate would apply and any tax credits.

This new Oregon method of corporate income tax is based on the federal filing method of the taxpayer. Thus corporations would file with Oregon in the same manner as they elected to file their federal return. Oregon would use the standard method consisting of three factors (property, payroll and sales) to compute the portion of federal base income attributible to the Oregon business activity. If a corporation is doing business in Oregon and is a member of a group that files a consolidated federal return, Oregon then would require a consolidated return. Only income and factors for consolidated group members operating in a unitary manner would be considered in computing Oregon base income. Corporations filing separate returns for federal purposes would use this same filing status in Oregon.

In several areas the current Oregon corporate income tax defines the base income of a corporation in terms of federal corporate income tax definitions. The Governor's proposal would be to expand this to include all major definitions to be the same under Oregon law as under federal law. Major changes would be:

1. Oregon will increase maximum deductions for charitable contributions from 5 percent to 10 percent of net income. Excess contributions would be carried forward for up to five years.

2. Oregon will limit the deduction of capital loss to the amount of capital gain reported for the year. Excess loss will be eligible for a three year carry back five year carry over.

3. Dividends from foreign subsidiaries would be treated like domestic unaffiliated dividends under the federal code. Thus, 15 percent of the foreign dividend would be included in the income base subject to apportionment to Oregon.

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