Governor

STATE OF OREGON

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Governor's Office

INTEROFFICE MEMO

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TO: Governor Vic Atiyeh

DATE: May 4, 1984

FROM: Richard A. Munn
Director, Department of Revenue

SUBJECT: Corporate Excise Tax

Based on our April 23, 1984 meeting I requested Tom Everall, Corporate Audit Manager, Audit Division to describe the federal base concept agreed to and any issues unresolved. Attached is Tom's description.

I also have Richard Yates, Supervisor, Research Section working on the federal credit and its revenue impact. Revenue loss from the federal credit will be in addition to the $3 - $5 million. When his memo is completed, I will send you a copy.

Finally, I am contacting a variety of knowledgeable tax people to get their reactions. When my work is completed I will provide you with a memo with a description of each reaction.

RAM/ml
enc.

81-125-1387

OREGON DEPARTMENT OF REVENUE

TO: Richard Munn
Director

DATE: May 1, 1984

FROM: Thomas Everall
Audit Division

TELEPHONE: 378-3745

SUBJECT: Review of Governor's Proposed Changes to Oregon's Method of Taxing Corporations

The purpose of this report is to describe the Governor's proposed Federal Base concept. The report is divided into two parts. The proposed filing methods are discussed in the first section. The second part discusses the issues involved in computing base income.

Filing Method

Corporations would file with Oregon in the same manner as elected in filing their federal return. Oregon would use formula apportionment to compute the federal base income attributable to Oregon sources. 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 considerd in computing Oregon base income. Corporations filing separate returns for federal purposes would be allowed the same filing status for Oregon.

Base Income

Corporations would generally compute base income subject to Oregon's jurisdiction to tax in the same manner as computed on their federal return. Exceptions would be as follows:

1. Modify the federal base to include interest and dividends attributable to U.S., state and local obligations.

2. Continue to not allow a deduction for state and foreign income taxes.

3. Oregon's current depletion allowances would be followed. Depletion allowances, except for metal mines, are limited to an amortization of cost. Metal mines are allowed to elect a percentage depletion allowance based on gross income.

4. Follow federal rules concerning the deferral of gain in the case of an exchange or involuntary conversion, except that the replacement property must be located in Oregon.

Major changes Oregon will make in adopting a federal base are:

1. Foreign source dividends will be included in base income if taxpayers make a federal election to claim a foreign tax credit. A proposed method of relief is to allow a percentage of the foreign tax credit as a tax credit for Oregon.

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

3. Oregon will limit the deduction of capital losses to the amount of capital gains reported for the year. Excess loses will be eligible for a three year carryback/five year carryover.

4. Oregon will allow all federal methods of computing depreciation to include ACRS.

A decision was not made concerning adoption of federal net operating loss carryback/carryover provisions.

The rough estimate of a revenue loss due to this base is $3-5 million per year.

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