



Last week Oregon Gov. Kate Brown signed [H.B. 3427](#) into law to adopt the new Oregon corporate activity tax (CAT). The Oregon CAT, effective Jan. 1, 2020, passes into law following contentious debate in the Oregon Legislative Assembly. The Oregon Senate passed the bill along a party line vote only after Senate Republicans failed to attend earlier sessions so that the chamber could not obtain a quorum. Industry groups and Senate Republicans are expected to organize a popular referendum on the CAT for the 2020 general election.

DETAILS ON THE OREGON CORPORATE ACTIVITY TAX

The Oregon CAT is imposed on all businesses including corporations, pass-through entities (such as partnerships and LLCs), and sole proprietorships. Corporate taxpayers in Oregon are now subject to the CAT in addition to the Oregon Corporate Income or Excise Tax.

The CAT is set to be levied pursuant to the following rules:

- The CAT is imposed at a 0.57 percent rate on taxable receipts from Oregon consumers above \$1 million. Taxpayers with fewer than \$1 million in receipts are exempt.
- Taxable receipts for purposes of the CAT include gross receipts from the sale of goods or services to Oregon consumers, subject to a 35 percent deduction for apportioned "cost inputs" or "labor costs." Cost inputs are defined as "the cost of goods sold as calculated under section 471 of the Internal Revenue Code," and "labor costs" are defined as "total compensation of all employees, not to include compensation paid to any single employee in excess of \$500,000." The deduction for cost inputs or labor costs is limited to 95 percent of the taxpayer's Oregon taxable receipts.
- Taxpayers must file an annual CAT return every April 15 and make quarterly estimated payments. Taxpayers report the CAT on a unitary basis, meaning "a group of persons with more than 50 percent common ownership, either direct or indirect, that is engaged in business activities that constitute a unitary business."
- Groceries and fuel are exempt from the CAT.

CONTROVERSY ON TAXATION AND PUBLIC EDUCATION

H.B. 3427 was dubbed the "Student Success Act" as a measure designed to raise \$1 billion to fund public education in Oregon through the levy of the CAT. On May 8, 2019, public teachers statewide in Oregon walked out of their classrooms to protest underfunding for public education. They are [seeking funding](#) to lessen the burden of overcrowded classrooms and additional support staff such as school nurses and mental health counselors.

Industry groups argue that the CAT is harmful to the state economy. Anthony Smith, the Oregon state director for the National federation of Independent Business, [states that](#) the tax is "a hidden sales tax in disguise." These groups argue that the CAT inhibits small business growth by taxing such businesses, particularly in low-margin industries, because it is levied on gross receipts regardless of profitability. We are following developments as the Oregon Legislature considers technical corrections and other groups make efforts for a referendum vote on the CAT.



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