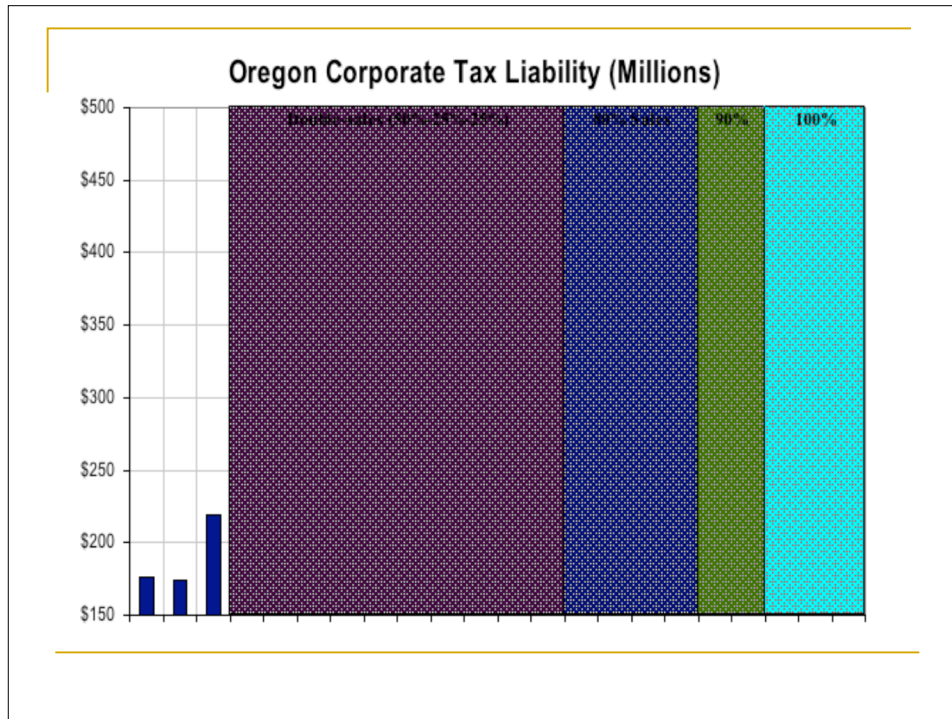

Corporate Income Tax Apportionment in Oregon

FTA 2004, Burlington, VT
Michael Kennedy, Senior Economist
Office of Economic Analysis

History

- 1991 – Apportionment factors changed from equal to double-sales weighting (50%-25%-25%).
 - 2001 Session (HB2281) – Sales factor increased to 80% for tax years beginning on or after May 1, 2003. (80%-10%-10%)
 - 2003 Session (HB3183) – Sales factor increased to 100%: to 90% on July 1, 2006; to 100% on July 1, 2008.
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Estimation Methodology

- Employed 1996-2000 multi-state Oregon corporate tax returns.
- Computed individual tax liabilities under 50%, 80%, 90% and 100% sales-weight schemes.
- Computed average change in multi-state corporate liability between each sales-weight. Used historical relationship between multi-state and total liability to generate static impact values associated with corporate liability forecast.
- Computed economic feedback estimates using the Oregon Tax Incidence Model (CGE)
- Adjusted corporate liability forecast for affected tax years.

Multi-state Returns, Tax Year 2000

Sector (SIC)	C-Corp Returns		Oregon Taxable Income		Oregon Tax Liability	
	Filers	Dist.	Millions	Dist.	Millions	Dist.
Manufacturing (31-33)	544	4.6%	\$2,117.4	38.1%	\$123.6	37.3%
Trade (42, 44-45)	2,277	19.3%	\$1,140.4	20.5%	\$74.0	22.3%
Fin./Ins. (52)	1,007	8.5%	\$776.4	14.0%	\$42.1	12.7%
Mngmnt/Admin. (55, 56)	492	4.2%	\$384.0	6.9%	\$23.1	7.0%
All Others	7,471	63.4%	\$1,133.0	20.4%	\$68.8	20.7%
Total	11,791	100.0%	\$5,551.2	100.0%	\$331.5	100.0%

Impact of 80% to 100% Sales Weight

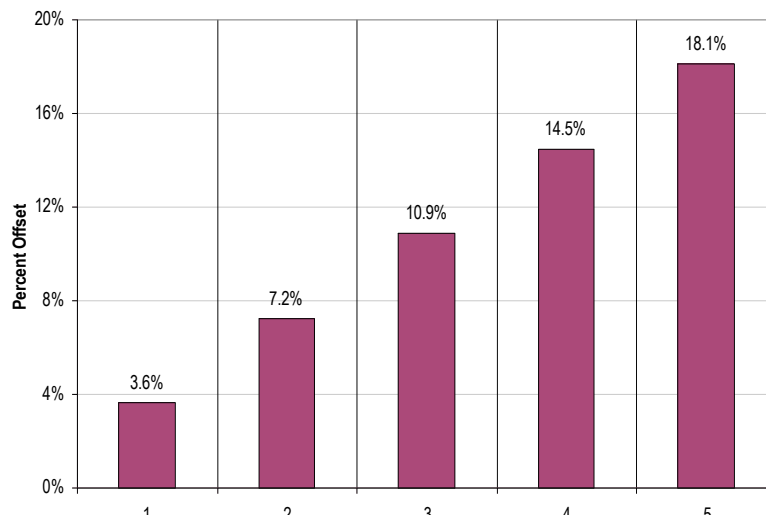
Increased Tax Liability (2,686 Returns, 64.6%)	80% Sales Factor	100% Sales Factor	%change
Taxable Income (\$Mil)	2,044,727	2,274,930	11.3%
Tax Liability (\$Mil)	130,738	145,917	11.6%
Decreased Tax Liability (1,475 Returns, 35.4%)	80% Sales Factor	100% Sales Factor	%change
Taxable Income (\$Mil)	2,045,351	1,256,874	-38.5%
Tax Liability (\$Mil)	123,982	74,231	-40.1%
All Affected Returns (4,161 Returns*)	80% Sales Factor	100% Sales Factor	%change
Taxable Income (\$Mil)	4,090,078	3,531,804	-13.6%
Tax Liability (\$Mil)	254,720	220,148	-13.6%

*Minimum tax, insurance tax, or utilities exclusion accounts for 7,630 unaffected returns.

80% to 100% Impact by Industry

Sector (SIC)	Returns	Taxable Income		Tax Liability		
		Change	%Ch	Change	%Ch	Dist.
Manufacturing (31-33)	262	-605.2	-56.5%	-37.7	-59.7%	109.0%
Trade (42, 44-45)	1,112	63.3	5.0%	4.2	5.1%	-12.0%
Fin./Ins. (52)	172	-7.9	-2.4%	-0.5	-2.7%	1.5%
Mngmnt/Admin. (55, 56)	206	-38.8	-13.6%	-2.6	-14.8%	7.4%
All Others	2,395	30.4	2.6%	2.0	2.8%	-5.9%
Total	4,161	-558.3	-13.6%	-34.6	-13.6%	100.0%

Dynamic Feedback



Apportionment Change Estimates*

	Change in weight of sales component		
	50-80%	80-90%	90-100%
Change in Multi-state Liability	-12.3%	-3.4%	-3.2%
<i>Cumulative Change</i>	-12.3%	-15.7%	-18.9%
Static Overall Impact	-10.4%	-2.9%	-2.7%
<i>Cumulative Change</i>	-10.4%	-13.3%	-16.1%
Full feedback offset	1.9%	2.4%	2.9%
Net Final Impact	-8.5%	-10.9%	-13.1%

* All other factors assumed constant.

Findings

- Increased sales weighting is a revenue-losing policy in Oregon, and likely for any state with a manufacturing intensive economy.
- Given the volatility of manufacturing in general, increased sales weighting could decrease the variance in corporate income tax.
- Need to update estimates for changes in industrial composition of state economy.

Additional Resources

Oregon Department of Revenue

Corporate Tax Statistics (Tax years 2000, 2001)

- www.dor.state.or.us/statistical/102-405-03/pdf/full.pdf
- www.dor.state.or.us/statistical/102-405-2001/102-405-01.pdf

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Additional Resources (cont.)

Legislative Revenue Office

- www.leg.state.or.us/comm/lro/home.htm

Revenue impact statements (HB2281, HB3183)

- www.leg.state.or.us/comm/sms/ris01/rhb2281.pdf
- www.leg.state.or.us/comm/sms/ris03/rhb3183b08-25-2003.pdf

Oregon Tax Incidence Model (OTIM)

- www.leg.state.or.us/comm/lro/rr2-01otim_finalreport.pdf

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