Oregon's new $1.4 billion tax: What is your business's share?

By Connor Moran

In May 2019, Oregon imposed a new 0.57% tax on Oregon gross receipts above $1 million that is set to go into effect for 2020. The tax is expected to raise $1.4 billion per year. It is important to know how it will affect business in Oregon.

This new tax only allows deductions of a small percentage of certain specific expenses. This regime is different from an income tax, which allows deductions for ordinary and necessary business expenses. The following is a step by step approach to figuring out the tax:

Step 1: Does the Tax Apply?

The tax applies to businesses run by a sole proprietor, a corporation, a limited liability company, a partnership, or any other business arrangement. The tax applies to an out-of-state business if the business has sales in Oregon of over $750,000 or if the business has Oregon connections like employees or property.

If the same individual or individuals own more than 50% of a group of businesses that operate together, the group is taxed as one business.

Step 2: Gross Receipts

If the tax applies, the starting point for computing the tax is gross receipts—all the money the business earns. The tax then excludes certain kinds of gross receipts. Some of the most important exclusions are groceries, fuel, and certain taxes collected from customers to be paid over to the government.

If businesses are grouped as one business for the purposes of the tax, amounts paid within the group are excluded from gross receipts. Businesses may wish to be grouped together if the related businesses are likely to pay each other substantial sums. Grouping has the disadvantage that the whole group only gets one $1 million exemption.

At this step, a business totals all of its gross receipts and then subtracts any of the exclusions that apply.

Step 3: Deductions

Oregon's new tax allows very limited deductions. A business can deduct 35% of labor costs. If higher, it can instead deduct 35% of inventory expenses (cost inputs also known as cost of goods sold).

Labor costs include everything paid to employees—wages, benefits, etc. Compensation over $500,000 to a single employee is not deductible. Partnerships or LLCs apparently cannot deduct payments to partners or members because they are not "employees." Wages paid to a shareholder of a corporation who is an employee are deductible.

Multistate businesses only get a portion of these deductible costs, apportioned the same way as Oregon's income tax. That portion is generally based on a businesses' proportion of Oregon sales.

To apply this step, calculate inventory expenses and labor costs apportioned to Oregon and determine which is greater. Then multiply by 35%, then subtract the result from gross receipts computed in Step 2

Step 4: Compute Tax

After deductions in Step 2, the next step is to subtract the $1 million exclusion and apply the .57% tax rate. Putting everything together, following is a sample of how a business might compute the tax:

Sample

	Step	Example
1.	Enter Oregon gross receipts	$6,000,000.00
2.	Enter all applicable exclusions	$1,000,000.00
3.	Subtract #2 from #1. These are nonexempt gross receipts	$5,000,000.00
4.	Enter all compensation paid to employees, apportioned to Oregon	$3,500,000.00
5.	Enter cost of goods sold for the year, apportioned to Oregon (Line 2 on federal income tax return for a corporation, S corporation, or partnership) (Line 4 of Schedule C of federal income tax return for sole proprietor)	$2,000,000.00
6.	Enter the greater of #4 or #5	$3,500,000.00
7.	Multiply #6 by .35	$1,225,000.00
8.	Subtract #7 from #3	$3,775,000.00
9.	Subtract $1,000,000 from #8	$2,775,000.00
10.	**If #9 is $0 or less, no tax applies. Otherwise, multiply #9 by .0057 and add $250. THIS AMOUNT IS THE TAX OWED**	**$16,067.50**

Oregon's new tax is a change to how Oregon businesses may think about their tax liabilities. To determine the result for a specific business, a tax professional specializing in Oregon tax can assist in planning for and complying with this new tax.