Oregon Corporate Excise and Income Tax

Characteristics of Corporate Taxpayers

2007 Edition

Covering Fiscal Year 2007 Corporate Tax Receipts
and Tax Year 2005 Corporate Tax Returns

OREGON DEPARTMENT OF REVENUE

150-102-405 (Rev. 12-07)

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Oregon Department of Revenue
Salem OR 97301-2555

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Oregon Corporate Tax Receipts 2006-07 Fiscal Year	
Corporate Tax Revenue	$413.2 million
Percent of General Fund	6.4%

Corporations in Oregon have paid a form of income tax since 1929. These revenues were 6.4 percent of the General Fund in the 2006-07 fiscal year, and are projected to be about 6.5 percent of total General Fund revenue in the 2007-09 biennium. Furthermore, corporate tax revenues in tax year 2005 were above the forecast by more than 2% and triggered a kicker refund.[1]

This summary report describes the characteristics of Oregon corporate taxpayers and is divided into three sections:

Section 1 contains background information on the taxation of corporations in Oregon. It includes descriptions of the computation of tax and how payments are received.

Section 2 provides descriptive information based on corporate tax receipts through fiscal year 2007. Tax law requires corporations to make quarterly estimated payments on anticipated taxes for the current year in addition to making payments or receiving refunds at the end of a tax year. This receipt data is a rich source of information that allows for timely analysis of trends in overall corporation payments and in the specific sectors.

Section 3 focuses on corporate tax returns corresponding to tax year 2005. Corporations must file tax returns that contain detailed information about their income and the calculation of final tax liability. These details allow for more thorough analysis of the characteristics of Oregon corporations. Yet because corporations do not file tax returns until well after the end of a tax year and often obtain deadline extensions before filing their returns, the information from return data is not as current as the data from receipts.

Together, these three sections provide a comprehensive description of corporate taxpayers in Oregon using the most current information available at the time of publication.

[1] The Oregon surplus credit, or kicker, occurs if revenues exceed the forecast by more than 2 percent. Oregon refunds this surplus to corporate taxpayers in the form of a credit. See Appendix D for more information and a history of kicker amounts.

Although commonly referred to as "corporate income tax," corporations are subject to either the corporate excise tax or the corporate income tax.

Corporations doing business in Oregon pay the **excise tax**. Doing business means any transaction or transactions in the course of a corporation's activities conducted within Oregon. A corporation is doing business when it engages in any profit-seeking activity in the State of Oregon. Corporations not doing business in Oregon but with income from an Oregon source pay the **income tax**. Most corporations pay the excise tax.

Current tax law also treats corporations differently according to their organizational structure. For example, C corporations pay corporate excise or income taxes on their income, while the income of S corporations passes through to shareholders who are then taxed under the personal income tax system. Upcoming sections of this report discuss these distinctions in greater detail.

History

Oregon began taxing corporate net income in 1929, the same year that the state began taxing personal income. The state initially enacted these taxes to offer relief from property taxation. The 1929 law states that "…the revenue derived from the tax shall reduce by corresponding amount the direct tax levy which the tax commission would otherwise apportion to the several counties of the state" (*Corporation Excise of 1929*, Oregon Laws 1929, Chapter 427, sec. 23).

Legislation enacted in 1951 broke this explicit tie to the property tax. From that time forward, revenues from the corporate tax have contributed to the General Fund for general appropriations.

Tax Calculation

Below is a basic description of the calculation of taxes for corporations subject to the Oregon corporation excise or income tax. Because the corporate tax program is complex, not every detail is presented here. Instead, this discussion focuses on the major components of the computation of this tax. Exhibit 1.1 provides a flowchart of this computation that will be discussed below. For additional information, please refer to the Oregon Department of Revenue's Corporation Tax Forms and Instructions available on the department's website at www.oregon.gov/DOR/.

Starting Point: Federal Taxable Income

Oregon's definition of taxable income for corporations is tied to federal taxable income. Federal taxable income is essentially gross income minus the costs of doing business such as salaries, repair and maintenance, employee benefit programs, and depreciation. The Oregon corporate return modifies federal taxable income through additions and subtractions.

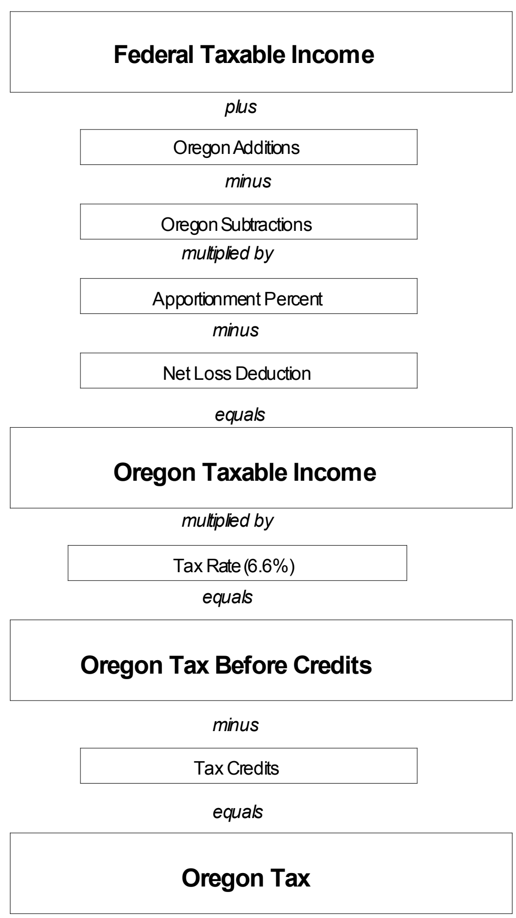
Additions

Additions are sources of gross income that are taxable in Oregon but not by the federal government or deductions allowed under federal law but not allowed under state law. Some common Oregon additions include state or municipal interest income, and Oregon excise tax or other state taxes measured by net income or profits.

Subtractions

Subtractions are sources of gross income that are taxable at the federal level but not by Oregon, or deductions allowed by state law but not allowed under federal law. Subtractions include dividend deductions and land donations to school districts.

Exhibit 1.1
Computation of the Oregon Corporate Income Tax



Additions and subtractions may be any number of adjustments necessary to arrive at the appropriate bottom-line Oregon income.

Apportionment of Business Income

For the purposes of state taxation, the income of corporations that conduct business exclusively in Oregon is taxed only by Oregon. Corporations doing business in more than one state must determine the share of their income attributable to Oregon activities.

For these corporations prior to tax year 1991, income was apportioned to Oregon by a three-factor formula. The factors used in this formula were: Oregon payroll relative to total payroll in all states, Oregon property relative to total property in all states, and Oregon sales relative to total sales in all states. An Oregon percentage was calculated for each of these factors and these three percentages were weighted equally to determine an overall apportionment percentage.

In 1991, Oregon switched to a double-weighted sales factor and for tax years that began before May 2003, the sales factor was “double-weighted” to arrive at the apportionment percent. Tax years starting on or after May 1, 2003 used super-weighted sales (i.e. the apportionment percent was 80 percent of the sales factor plus 10 percent each of the property and payroll factors).Tax years starting on or after July 1, 2005 use only Oregon sales relative to sales in all states to determine apportionment.[2] Refer to Exhibit 1.2 for a table summarizing the changes to apportionment.

Exhibit 1.2—Contribution of Factors to Apportionment Percentage

	Property	Payroll	Sales
Three factor (pre-1991)	33%	33%	33%
Double-weighted sales (1991)	25%	25%	50%
Super-weighted sales (2003)	10%	10%	80%
Single sales factor (2005)	0%	0%	100%

The increase in the weight of the sales factor reduces Oregon taxes for those companies with significant property and payroll within Oregon but with most of their sales outside the state. At the same time, taxes increase for out-of-state companies with sales in Oregon but with small shares of property and payroll in the state.

Allocation of Nonbusiness Income

Income that does not arise from the regular activities of a taxpayer's trade or business is not apportioned using the apportionment formula, but is instead allocated to a specific state. This income, known as nonbusiness income, is generally allocated to the state where the income producing activity occurs. For instance, rental income or loss that is not associated with the taxpayer's regular business would be assigned to the state where the rental takes place. Nonbusiness income from intangible assets is assigned to the state of the taxpayer's headquarters.

Net Loss Deduction

Apportioned losses carried forward from prior years may reduce a corporation's current-year taxable income. Oregon law allows an operating loss to be used to offset future tax liability for up to 15 years. Oregon law does not allow operating losses to offset past tax liability. Capital losses may be used to reduce the amount of capital gain income taxed by Oregon. Capital losses may be carried back up to three years, or carried forward up to five years.

Taxable Income and Tax Before Credits

Oregon taxable income is what remains after applying apportionment and allocation and then subtracting losses. Multiplying Oregon taxable income by the tax rate produces tax before credits. The tax rate has changed a number of times since corporate tax was introduced in 1929, with rates ranging from 5 to 9 percent. The current rate is 6.6 percent, where it has been since its

[2] The apportionment methods described here are used for most corporations. Since 2003, certain wood products companies are required to continue using a double-weighted sales apportionment formula. Utilities and telecommunications companies may elect to use a double-weighted sales formula. These two exceptions and the effect on these corporations' tax are described in more detail in the *State of Oregon 2007-09 Tax Expenditure Report*, which is available at www.oregon.gov/DOR/STATS/. Insurance companies use Oregon Form 20-INS and use different factors for income apportionment, as described in detail in Section 1C.

1987 reduction from 7.5 percent. Exhibit 1.3 on the following page provides a history of Oregon corporation tax rates.

Exhibit 1.3—Corporate Tax Rates, 1929 to Present

Year	Tax Rate	Type of Corporation
1929	5.0%	All Corporations
1932	8.0%	All Corporations
1955	4.0%	All Corporations
1957	6.0%	Regular Corporations
	7.0%	Public Utilities
	9.0%	Financial Corporations
1959	6.0%	Regular Corporations
	6.0%	Public Utilities
	9.0%	Financial Corporations
1963	6.0%	Regular Corporations
	6.0%	Public Utilities
	8.0%	Financial Corporations
1976	6.5%	Regular Corporations
	6.0%	Public Utilities
	6.5%	Financial Corporations
1977	7.0%	All Corporations
1978	7.5%	All Corporations
1987	6.6%	All Corporations

Credits

A corporation can claim any of over 35 applicable credits to reduce its Oregon tax liability. Only one of the credits is refundable, but most allow unused credit amounts to be carried forward and used in later years. See pages 3-10 to 3-13 of this report for information on credit usage by C corporations. The *State of Oregon 2007-09 Tax Expenditure Report* also provides a thorough discussion of corporate tax credits. The report is available on the Internet at www.oregon.gov/DOR/STATS/.

Oregon Tax

A corporation's net tax liability is the result of subtracting credits from the tax liability before credits. When established in 1929, the corporation excise tax included a minimum tax of $25. The 1931 Legislature decreased the minimum excise tax to $10, its current level. Minimum tax for the income tax program is $0.

The taxation of S corporations varies from this structure because nearly all income of S corporations is passed on to the corporation's shareholders and taxed as personal income. The taxation of insurance corporations also varies from this structure. Insurance corporations use different definitions and application of apportionment factors and a different computation of taxable income which is based on their annual statement filed with the Oregon Insurance Commissioner. See Section 1B for more information on S corporations and Section 1C for additional information on insurance corporations.

For further information, please refer to Oregon Department of Revenue's Corporation Tax Forms and Instructions available at www.oregon.gov/DOR/.

Certain corporations are known as "pass-through" entities because their income (or loss) passes through to the individual shareholders and is then taxed as personal income. These S corporations (so named because of the section in the IRS Code describing them) must be U.S. corporations subject to certain limitations. S corporations must have:

- One class of stock;
- No more than 100 shareholders;
- Only U.S. citizens or residents as shareholders; and
- Only individuals, estates, or certain trusts as shareholders.

In exchange for these limitations, the S corporation receives certain tax advantages. A regular, or C corporation, pays taxes on income first at the corporate level. This income is taxed again when individual shareholders receive it as dividends. An S corporation avoids this double taxation because the income is not taxed at the corporate level. Oregon recognizes the S corporation election made for federal purposes allowing a corporation to function as a pass-through entity.

The number of S corporations has been steadily increasing in recent years. For tax year 1990, 18,437 S corporations filed returns in Oregon. For tax year 2005, 52,534 S corporations filed returns, 4 percent more than tax year 2004.

S corporations generally pass their income through to their corporate owners. As a result, relatively few S corporations have income that is subject to Oregon corporate tax. This type of income generally occurs when a corporation converts from a C corporation to an S corporation.

S corporations that are paying either the income or the excise tax file Oregon tax Form 20-S. Most S corporation filers pay the excise minimum tax of $10. For more statistics on S corporations, please refer to Section 3C.

For additional information, please refer to Oregon Department of Revenue's S Corporation Tax Instructions, Form 20-S, available at www.oregon.gov/DOR/.

Prior to 1997, foreign (out-of-state) insurers paid a retaliatory tax and gross premiums tax instead of the corporate excise tax. In response to legal challenges by foreign insurers, the 1995 Legislature enacted laws that made both foreign and domestic insurers subject to the same taxes. Starting with tax year 1997, all foreign and domestic insurance corporations have been subject to the corporate excise tax. Insurers file Form 20-INS.

For tax years beginning on or after January 1, 1997, and before January 1, 2002, Oregon law required foreign insurers to pay a transition tax to the Department of Consumer and Business Services (DCBS) as the gross premiums tax was being phased out. For tax years after 2001, foreign insurers are no longer subject to the transition tax, but they still are subject to the retaliatory tax that is paid to DCBS.[3] The excise tax is paid to the Department of Revenue. Oregon requires insurance companies to file their excise tax returns on a calendar-year basis.

Until 2007, insurers were required to use an apportionment formula with three equally weighted factors. These factors were:

- the Oregon share of real estate income and interest relative to total real estate income and interest,
- the Oregon share of wages and commissions relative to total wages and commissions, and
- the Oregon share of insurance sales (total premiums written) relative to the total insurance sales.

Senate Bill 179, passed during regular legislative session in 2007, changed the apportionment formula for insurance companies from three equally weighted factors to a single sales factor for the tax years starting on or after January 1, 2007. This change made treatment of the insurance companies similar to other corporations for the matters of apportionment.

Title insurers file Form 20 instead of Form 20-INS and use the same apportionment factors as most other corporations.

For additional information, please refer to Oregon Department of Revenue's Insurance Excise Tax Instructions and Form 20-INS, available at www.oregon.gov/DOR/.

[3] The retaliatory tax is based on a comparison of the taxes, fees, assessments, penalties, and fines that an Oregon insurance company would pay in the foreign state to the taxes, fees, assessments, penalties, and fines that the foreign insurer actually pays in Oregon. If another state heavily taxes Oregon insurance companies that do business in that state, the retaliatory tax applies that level of tax to the foreign state's companies that do business in Oregon.

SECTION 2
CORPORATE TAX RECEIPTS

This section presents summary information based on corporate receipts. Receipts received in any one fiscal year will be associated with multiple tax years as shown in Exhibit 2.1. The numbers presented below are net payments—composed of estimated payments, final payments associated with a return, and refunds issued to taxpayers.

Timing of Tax Payments

Corporations file a tax return after the end of their tax year, which is usually the same as a calendar year. However, for some corporations, the tax year covers a period of time significantly different from a calendar year.[4] Because corporations may get extensions to file returns, and they make quarterly estimated payments, nearly all of the payments associated with the Oregon Corporate Excise and Income tax are received before the corresponding tax returns are filed. Other payments or refunds occur after the tax returns are filed due to amended or audited returns. Payments received by the Oregon Department of Revenue during any fiscal year represent tax liabilities from many different tax years.

Exhibit 2.1 provides details on the tax years for which payments were received in fiscal year 2007. Most of the payments were received for tax years 2006 and 2007, while refunds issued for earlier tax years were significant. Exhibit 3.3 provides detailed information on the timing of corporate receipts for the tax year 2005.

Exhibit 2.1—Corporate Tax Receipts for FY 2007 By Tax Year

Dollars in thousands

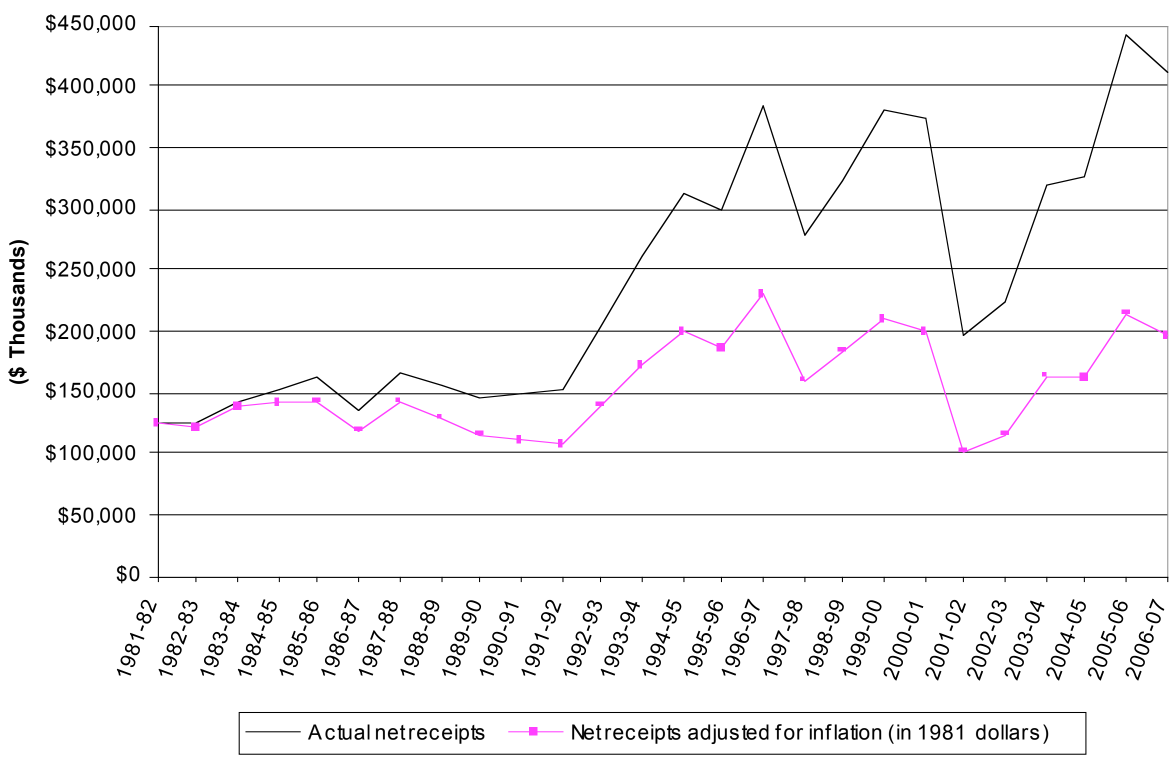
Tax Year	Net Receipts	Percent of Total
2001 and prior	17,633	4.3%
2002	3,196	0.8%
2003	1,701	0.4%
2004	-10,309	-2.5%
2005	-204,936	-49.6%
2006	480,696	116.3%
2007	125,247	30.3%
Total	**$413,226**	**100.0%**

[4] For more detail on corporations' fiscal years and the due dates of corporations' tax returns, see Appendix C.

Trends in Corporate Tax Receipts

Exhibit 2.2 shows net corporate tax receipts since fiscal year 1981-82. The actual net receipts were relatively flat throughout the 1980s, fluctuated throughout the 1990s, and sharply declined in fiscal year 2001-02, coinciding with recession. Beginning fiscal year 2002-03, receipts have been on a rise and nearly quadrupled by fiscal year 2005-06 from fiscal year 1981-82. The lower line shows that real receipts (receipts adjusted for inflation) did not grow as much: they have only doubled their value over the same period of time. The swings from fiscal year 1996 to fiscal year 1998 and from fiscal year 2006 to fiscal year 2007 are related to the distribution of corporate "kickers".[5]

Exhibit 2.2
Oregon Corporation Excise and Income Tax Net Receipts



[5] The Oregon surplus credit, or kicker, occurs if revenues exceed the forecast by more than 2 percent. Oregon refunds this surplus to corporate taxpayers in the form of a credit. See Appendix D for more information and a history of kicker amounts.

Exhibit 2.3 shows corporate receipts history for the 30 most recent fiscal years.

Exhibit 2.3—Corporate Receipts History

Dollars in thousands

Fiscal Year*	Net Receipts	Percent Change
1977-78	$125,474	37.7%
1978-79	$165,855	32.2%
1979-80	$177,176	6.8%
1980-81	$155,441	-12.3%
1981-82	$123,783	-20.4%
1982-83	$125,150	1.1%
1983-84	$144,003	15.1%
1984-85	$153,822	6.8%
1985-86	$161,660	5.1%
1986-87	$135,309	-16.3%
1987-88	$166,779	23.3%
1988-89	$157,026	-5.8%
1989-90	$146,842	-6.5%
1990-91	$149,074	1.5%
1991-92	$150,884	1.2%
1992-93	$204,605	35.6%
1993-94	$262,841	28.5%
1994-95	$311,848	18.6%
1995-96	$299,977	-3.8%
1996-97	$383,976	28.0%
1997-98	$277,481	-27.7%
1998-99	$324,295	16.9%
1999-00	$381,908	17.8%
2000-01	$372,969	-2.3%
2001-02	$196,272	-47.4%
2002-03	$225,525	14.9%
2003-04	$320,164	42.0%
2004-05	$324,936	1.5%
2005-06	$442,306	36.1%
2006-07	$413,226	-6.6%

* Fiscal year starts July 1.

Receipts by Industry Sector

Exhibits 2.4 and 2.5 (on the next page) show a comparison between corporate receipts in fiscal years 2006 and 2007, and provide some detail of which sectors contributed to the changes. Total receipts decreased by about 7 percent.

Exhibit 2.4
Corporate Tax Receipts By Industry Sector

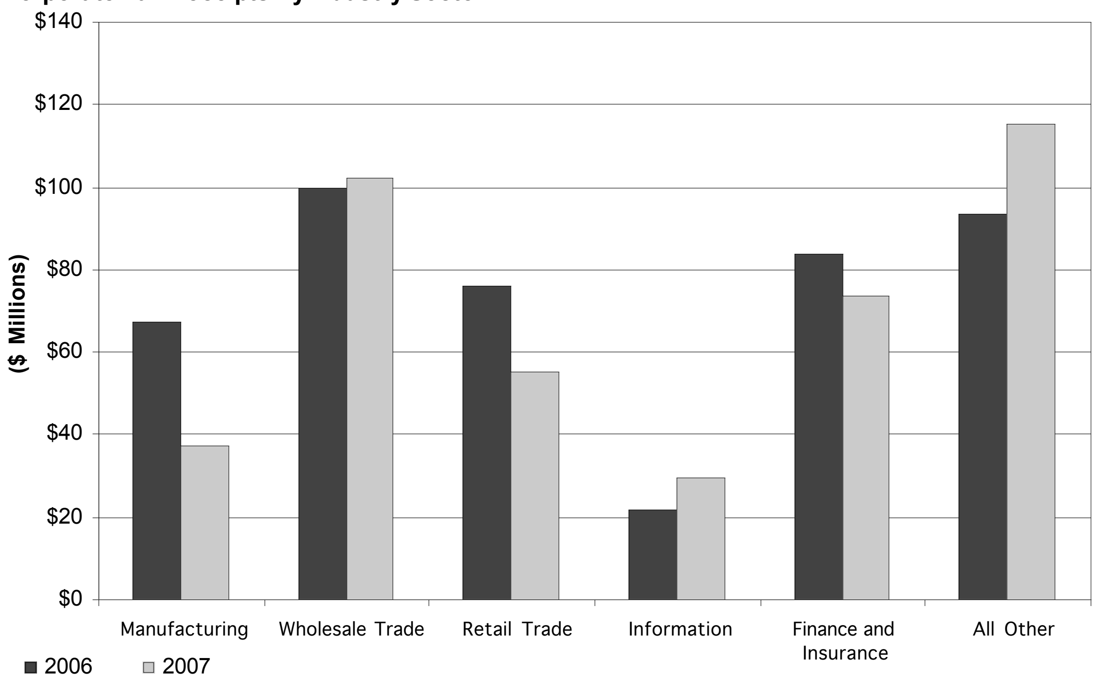


Exhibit 2.5 provides the detail of receipts from all sectors in fiscal years 2006 and 2007.

Exhibit 2.5—Corporate Tax Receipts
By Industry Sector

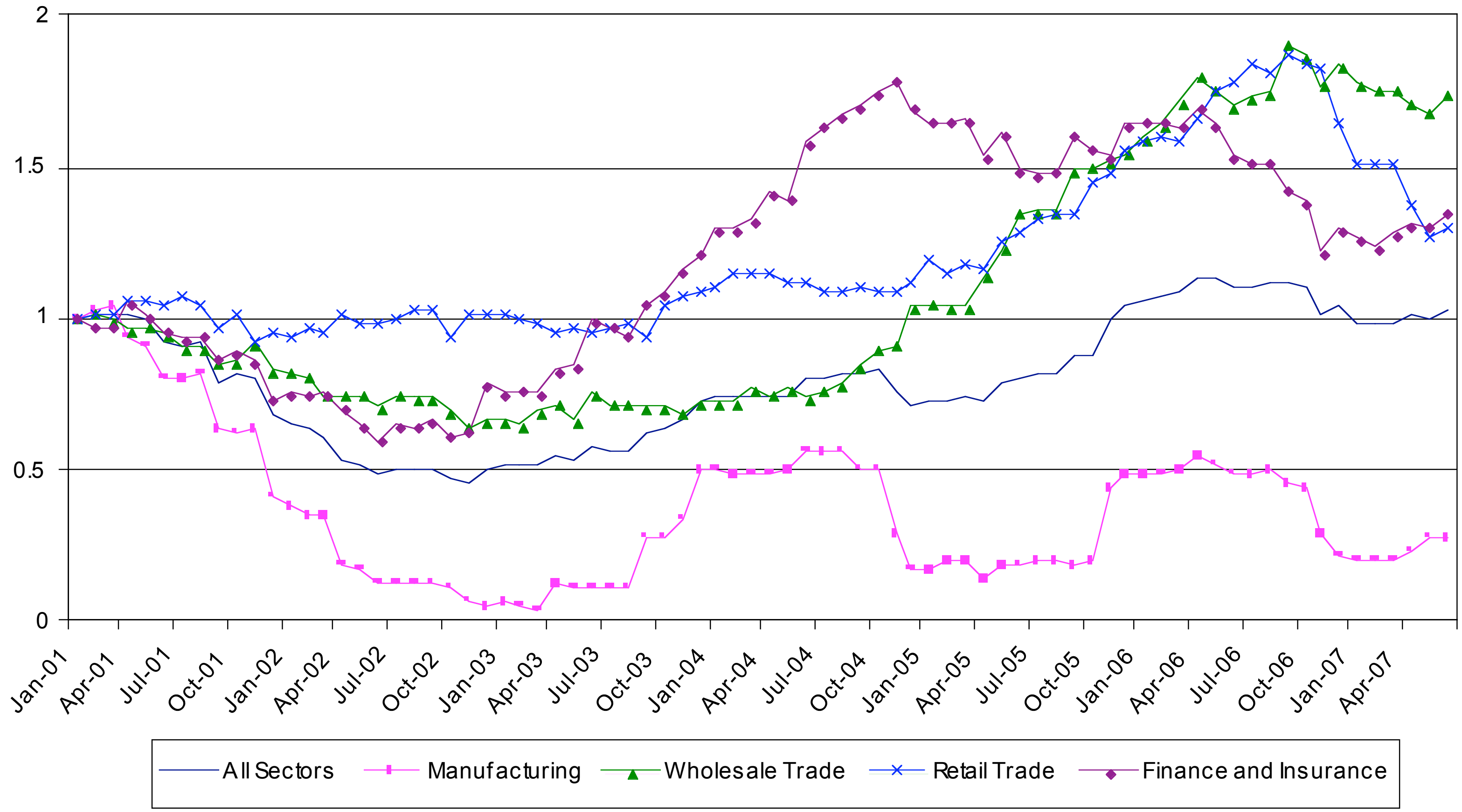
Dollars in thousands

Industry Sector *	FY 2006	FY 2007	Percent Change
Agriculture, Forestry, Fishing, and Hunting	$3,821	$630	-84%
Mining	$565	$972	72%
Utilities	$8,593	$18,030	110%
Construction	$15,138	$17,526	16%
Manufacturing	$67,365	$37,515	-44%
Wholesale Trade	$99,661	$102,084	2%
Retail Trade	$75,851	$55,245	-27%
Transportation and Warehousing	$12,168	$12,220	0%
Information	$21,768	$29,499	36%
Finance and Insurance	$84,035	$73,678	-12%
Real Estate, Rental, and Leasing	$5,902	$7,378	25%
Professional, Scientific, and Technical Services	$8,163	$7,995	-2%
Management of Companies and Enterprises	$14,949	$21,388	43%
Administrative, Support, and Waste Management	$3,328	$4,275	28%
Educational Services	$1,134	$1,421	25%
Health Care and Social Assistance	$7,584	$7,808	3%
Arts, Entertainment, and Recreation	$778	$666	-14%
Accommodation and Food Services	$6,224	$4,682	-25%
Other Services (except Public Administration)	$5,127	$7,896	54%
Unknown	$152	$2,317	**
Total	**$442,306**	**$413,226**	**-7%**

* The order and definitions for these sectors is from the North American Industry Classification System. For additional information on NAICS sectors, please see Appendix B — "Selected Glossary of Industry Sectors."
** The magnitude of change is not meaningful for this category. The number of unclassified corporations and receipts attributable to them will drop significantly with time due to the on-going efforts to improve NAICS codes assignment to corporate taxpayers.

Another way to look at changes in corporate tax receipts is to look at indexed values for the largest sectors. Exhibit 2.6 (on the next page) shows 12-month cumulative receipts of selected sectors, relative to their value in January 2001. Total receipts were decreasing through December 2002, and then were on the rise through November 2004. As of December 2006, total receipts have grown back to their January 2001 level and stayed that way through June 2007. Receipts from the retail trade have grown to almost twice their level by January 2007, while receipts from the manufacturing sector are currently less than half of their January 2001 level. Retail trade receipts were declining from the beginning of 2007.

Exhibit 2.6 Corporate Tax Receipts Index of 12-Month Totals (January 2001 = 1)
January 2001 through June 2007



This section focuses on completed tax returns.

Summary of All Corporate Returns

Corporations may file one of five Oregon tax returns depending on their business structure and nature of their business.

- ***Form 20, Excise Tax.*** Corporations doing business in Oregon file Form 20 and pay the corporation excise tax. The minimum corporation excise tax is $10.
- ***Form 20-I, Income Tax.*** Corporations not doing business in Oregon, but with income from one or more Oregon sources, pay the income tax and file Form 20-I. Income is from an Oregon source if it is derived from tangible or intangible property located in Oregon or any activity carried on in Oregon, whether intrastate, interstate, or foreign commerce. Income tax filers are subject to a minimum tax of $0.
- ***Form 20-S, S Corporation.*** An S corporation is one that has chosen to pass net income through to its shareholders for taxation. This election is made with the Internal Revenue Service. S corporations subject to either the excise or the income tax file Form 20-S. Shareholders must include S corporation income or loss on their personal income tax returns.
- ***Form 20-INS, Insurance.*** Insurance corporations file form 20-INS and pay the excise tax.

If a corporation or group of corporations files a consolidated federal return, it also must file a consolidated Oregon return, reflecting the activities of all the members that are engaged in a single trade or business as defined by ORS 317.705.

Exhibit 3.1—Tax Year 2005 Corporation Tax Returns
Type of Return Filed

Dollars in thousands

Oregon Tax Form Filed	Number of Returns	Oregon Taxable Income	Oregon Net Tax
20 Oregon Corporation Excise Tax Return*	31,953	$6,908,273	$263,848
20-I Oregon Corporation Income Tax Return	236	$2,555	$108
20-INS Oregon Insurance Excise Tax Return	1,159	$624,978	$22,990
20-S Oregon S Corporation Tax Return	52,534	$16,211	$1,333
Total	**85,882**	**$7,552,016**	**$288,278**

* Includes 5 or fewer Form 20-MTC (Multistate Tax Commission Return).

Timing of Filing Tax Returns

Corporations' tax years may cover a period of time significantly different from a calendar year.[6] Because of differing tax years and extensions for filing returns, tax year 2005 returns were received during a period of two years.

Exhibit 3.2 shows when the returns were received. By December 2006, about 77 percent of the tax for tax year 2005 had been reported on returns.

Exhibit 3.2—Tax Year 2005 Corporation Tax Returns Received By Month

Dollars in thousands

Month	Number of Returns *	Net Tax Reported	Percent of Total Net Tax Reported	Cumulative Net Tax	Cumulative Percent
February 2006 or prior	5,839	$1,036	0.4%	$1,036	0.4%
March-06	19,011	$9,485	3.3%	$10,521	3.6%
April-06	15,137	$11,017	3.8%	$21,538	7.5%
May-06	2,489	$1,118	0.4%	$22,656	7.9%
June-06	3,163	$2,189	0.8%	$24,845	8.6%
July-06	2,765	$2,432	0.8%	$27,277	9.5%
August-06	3,843	$5,049	1.8%	$32,326	11.2%
September-06	13,127	$26,832	9.3%	$59,158	20.5%
October-06	7,930	$130,368	45.2%	$189,526	65.7%
November-06	1,686	$25,194	8.7%	$214,720	74.5%
December-06	2,168	$6,940	2.4%	$221,660	76.9%
January-07	1,828	$10,767	3.7%	$232,427	80.6%
February-07	1,364	$4,366	1.5%	$236,792	82.1%
March-07	1,440	$13,565	4.7%	$250,358	86.8%
April-07	991	$10,849	3.8%	$261,207	90.6%
May-07	524	$3,333	1.2%	$264,540	91.8%
June-07	908	$7,177	2.5%	$271,717	94.3%
July 2007 or later	1,669	$16,562	5.7%	$288,278	100.0%
Total	**85,882**	**$288,278**	**100.0%**		

* Net tax and number of returns reported in this table are based on ammended or audited returns if they exist, otherwise this table accounts for original returns.

[6] For more detail on corporations' fiscal years and the due dates of corporations' tax returns, see Appendix C.

Timing of Receipts for Tax Year 2005

Because corporations generally are required to make quarterly estimated payments of tax liability before their return is filed, and because of differences in filing periods, payments for any tax year will be received during several calendar years. Exhibit 3.3 shows that corporations significantly overpaid their 2005 tax liability as of September 2006. Large corporations that pay less than their actual tax liability can face penalties, so it is likely that they overpay to avoid those penalties. The resulting overpayments lead to significant refunds beginning in October 2006. Overpayments were also magnified by the presence of the corporate kicker in 2005.[7]

Exhibit 3.3—Tax Year 2005 Corporation Tax Receipts By Month

Dollars in thousands

Month	Net Reciepts for Tax Year*	Percent of Total Receipts for Tax Year	Cumulative Receipts	Cumulative Percent
March 2005 or prior	$1,773	0.6%	$1,773	0.6%
April-05	$27,798	9.5%	$29,570	10.1%
May-05	$16,396	5.6%	$45,967	15.7%
June-05	$67,778	23.1%	$113,744	38.8%
July-05	$12,707	4.3%	$126,451	43.2%
August-05	$2,940	1.0%	$129,391	44.2%
September-05	$86,471	29.5%	$215,862	73.7%
October-05	$28,251	9.6%	$244,113	83.4%
November-05	$39,242	13.4%	$283,356	96.8%
December-05	$112,139	38.3%	$395,495	135.1%
January-06	$19,706	6.7%	$415,200	141.8%
February-06	$18,247	6.2%	$433,448	148.0%
March-06	$28,320	9.7%	$461,768	157.7%
April-06	$32,770	11.2%	$494,538	168.9%
May-06	$16,570	5.7%	$511,108	174.5%
June-06	$3,799	1.3%	$514,907	175.8%
July-06	$9,167	3.1%	$524,073	179.0%
August-06	$4,024	1.4%	$528,097	180.3%
September-06	$7,715	2.6%	$535,812	183.0%
October-06	-$30,253	-10.3%	$505,559	172.6%
November-06	-$124,471	-42.5%	$381,088	130.1%
December-06	-$26,458	-9.0%	$354,629	121.1%
January 2007 or later	-$61,793	-21.1%	$292,836	100.0%
Total	**$292,836**	**100.0%**		

* Net receipts for the tax year will not match the tax liability reported on returns. This is primarily due to penalty and interest payments.

[7] The Oregon surplus credit, or kicker, occurs if revenues exceed the forecast by more than 2 percent. Oregon refunds this surplus to corporate taxpayers in the form of a credit. See Appendix D for more information and a history of kicker amounts.

History of Tax Returns Filed

Exhibit 3.4 shows the recent history of corporate tax returns filed in Oregon. The total number of returns has increased somewhat steadily since 1990. A decline in the number of C corporation returns since 1998 is compensated by the growth in the number of S corporation returns.

Exhibit 3.4—Corporate Return History

Dollars in thousands

Tax Year	Number of S Corporation Returns	Number of C Corporation Returns	Total Number of Returns	Tax After Credits (Before Kicker)	Oregon Net Tax*
1990	18,437	35,510	53,947	$175,944	$175,857
1991	21,090	35,200	56,290	$173,644	$173,769
1992	23,731	35,660	59,391	$218,832	$215,751
1993	26,751	36,879	63,630	$324,148	$325,300
1994	29,752	38,344	68,096	$339,291	$339,423
1995	32,689	39,496	72,185	$449,406	$225,351
1996	35,337	38,852	74,189	$346,684	$376,841
1997	37,711	38,607	76,318	$401,527	$232,174
1998	40,567	39,735	80,302	$356,391	$357,981
1999	42,153	38,930	81,083	$392,577	$392,631
2000	44,047	38,410	82,457	$357,701	$357,996
2001	45,179	37,458	82,637	$242,790	$242,878
2002	46,702	36,368	83,070	$235,708	$235,692
2003	48,662	35,334	83,996	$287,789	$287,935
2004	50,547	34,330	84,877	$311,100	$311,145
2005	52,534	33,348	85,882	$449,865	$288,278

* Net tax differs from tax after credits by the Oregon surplus refund (kicker) and adjustments for Last In, First Out (LIFO) benefit recapture. For additional information on kicker refunds, please see Appendix D — "Surplus Kicker."

The following sections provide additional information about corporate taxpayers:

- Section 3B gives details for C corporation taxpayers, which file Forms 20, 20-I, and 20-INS.
- Section 3C summarizes information for S corporations, 20-S filers.

This section provides detail on C corporation taxpayers. C corporations paid more than 99 percent of the total corporate excise and income tax payments for tax year 2005. The taxpayers who are doing business in Oregon must file one of the following tax forms: 20, 20-INS. Only a handful of taxpayers are subject to corporate income tax. They are not doing business in Oregon and file tax Form 20-I. For ease of reading, the sections and exhibits that follow show the information pooled from these three return types, describing all C corporation taxpayers.

Summary characteristics are presented for the following types of C corporation tax returns:

- **Taxable income category**
- **Industry sector**
- **State of commercial domicile**
- **Apportioned returns**
  - Total
  - By industry sector
- **Credit usage**
  - All credits
  - Additional detail for business energy facilities credit
  - Additional detail for pollution control credit
  - Additional detail for qualified research activities credit
- **Minimum tax returns**
  - By income group
  - Reason for minimum tax payment
  - By industry sector

Exhibit 3.5 shows the distribution of returns by taxable income category. Taxable income and book income are not necessarily the same because of differences in accounting rules. For example, a company that reports a profit on its public financial statements may have no taxable income. This exhibit shows the concentration of the corporate tax. The top 44 taxpayers paid 40 percent of the total tax.

Exhibit 3.5—Tax Year 2005 C Corporation Tax Returns
Taxable Income Category

Dollars in thousands

Oregon Taxable Income Category	Number of Returns	Oregon Taxable Income	Oregon Net Tax
Zero Income or Loss *	20,231	$0	$201
$1 - $50,000	8,545	$102,725	$4,245
$50,000 - $100,000	1,482	$102,358	$4,202
$100,000 - $250,000	1,167	$183,412	$7,423
$250,000 - $500,000	621	$221,579	$8,718
$500,000 - $1 million	449	$319,322	$12,968
$1 million to $5 million	608	$1,319,114	$52,435
$5 million to $10 million	113	$769,496	$29,334
$10 million to $25 million	88	$1,347,540	$52,113
Over $25 million	44	$3,170,260	$115,306
Total	**33,348**	**$7,535,806**	**$286,946**

Percentage Distribution of Taxable Returns

Oregon Taxable Income Category	Number of Returns	Oregon Taxable Income	Oregon Net Tax
Zero Income or Loss *	60.7%	0.0%	0.1%
$1 - $50,000	25.6%	1.4%	1.5%
$50,000 - $100,000	4.4%	1.4%	1.5%
$100,000 - $250,000	3.5%	2.4%	2.6%
$250,000 - $500,000	1.9%	2.9%	3.0%
$500,000 - $1 million	1.3%	4.2%	4.5%
$1 million to $5 million	1.8%	17.5%	18.3%
$5 million to $10 million	0.3%	10.2%	10.2%
$10 million to $25 million	0.3%	17.9%	18.2%
Over $25 million	0.1%	42.1%	40.2%
Total	**100.0%**	**100%**	**100%**

* Includes losses in current year, as well as losses carried forward from prior years that result in $0 income.

Exhibit 3.6 shows the distribution of returns by industry sector. For tax year 2005, the finance and insurance, wholesale trade, retail trade, and manufacturing sectors together contributed 73 percent of total tax payments.

Exhibit 3.6—Tax Year 2005 C Corporation Tax Returns
Industry Sector

Dollars in thousands

Industry Sector *	Number of Returns	Oregon Taxable Income	Oregon Net Tax
Agriculture, Forestry, Fishing, and Hunting	1,762	$51,335	$2,115
Mining	94	$3,602	$140
Utilities	85	$119,731	$2,552
Construction	3,788	$282,200	$11,749
Manufacturing	2,451	$1,425,731	$51,495
Wholesale Trade	3,654	$1,497,793	$60,747
Retail Trade	2,753	$1,125,521	$45,709
Transportation and Warehousing	983	$173,635	$7,241
Information	935	$297,951	$12,328
Finance and Insurance	2,690	$1,491,113	$51,883
Real Estate, Rental, and Leasing	1,817	$83,172	$3,496
Professional, Scientific, and Technical Services	3,531	$124,592	$5,117
Management of Companies and Enterprises	827	$390,423	$13,106
Administrative, Support, and Waste Management	1,237	$73,787	$2,943
Education Services	210	$18,773	$785
Health Care and Social Assistance	1,930	$143,073	$5,769
Arts, Entertainment, and Recreation	393	$11,245	$454
Accommodation and Food Services	1,016	$93,996	$3,972
Other Services (except Public Administration)	1,842	$120,243	$5,043
Unknown	1,350	$7,888	$302
Total	**33,348**	**$7,535,804**	**$286,946**

Percentage Distribution

Industry Sector *	Number of Returns	Oregon Taxable Income	Oregon Net Tax
Agriculture, Forestry, Fishing, and Hunting	5.3%	0.7%	0.7%
Mining	0.3%	0.0%	0.0%
Utilities	0.3%	1.6%	0.9%
Construction	11.4%	3.7%	4.1%
Manufacturing	7.3%	18.9%	17.9%
Wholesale Trade	11.0%	19.9%	21.2%
Retail Trade	8.3%	14.9%	15.9%
Transportation and Warehousing	2.9%	2.3%	2.5%
Information	2.8%	4.0%	4.3%
Finance and Insurance	8.1%	19.8%	18.1%
Real Estate, Rental, and Leasing	5.4%	1.1%	1.2%
Professional, Scientific, and Technical Services	10.6%	1.7%	1.8%
Management of Companies and Enterprises	2.5%	5.2%	4.6%
Administrative, Support, and Waste Management	3.7%	1.0%	1.0%
Education Services	0.6%	0.2%	0.3%
Health Care and Social Assistance	5.8%	1.9%	2.0%
Arts, Entertainment, and Recreation	1.2%	0.1%	0.2%
Accommodation and Food Services	3.0%	1.2%	1.4%
Other Services (except Public Administration)	5.5%	1.6%	1.8%
Unknown	4.0%	0.1%	0.1%
Total	**100.0%**	**100.0%**	**100.0%**

* The order and definitions for these sectors is from the North American Industry Classification System. For additional information on NAICS sectors, please see Appendix B — "Selected Glossary of Industry Sectors."

Exhibit 3.7 shows the distribution of returns by the state of commercial domicile as reported on the tax return. The location of a corporation's headquarters determines its state of domicile. The state of domicile is not necessarily the same state as the address on the return or the state under whose laws the corporation was incorporated.

For tax year 2005, most of the corporate tax liability did not come from corporations domiciled in the state of Oregon. Corporations domiciled outside of Oregon accounted for over two-thirds of the total liability.

Exhibit 3.7—Tax Year 2005 C Corporation Tax Returns
State of Commercial Domicile

Dollars in thousands

Region*	Number of Returns	Oregon Taxable Income	Oregon Net Tax	Percent of Total Tax
Northeast	2,031	$883,100	$35,830	12.5%
Midwest	2,126	$1,343,358	$47,299	16.5%
South	2,464	$1,196,392	$48,933	17.1%
West	26,471	$4,099,523	$154,323	53.8%
Outside U.S.	256	$13,432	$561	0.2%
Total	**33,348**	**$7,535,805**	**$286,946**	**100%**

* Northeast includes Connecticut, Maine, Massachusetts, New Hampshire, New Jersey, New York, Pennsylvania, Rhode Island, and Vermont.

Midwest includes Illinois, Indiana, Iowa, Kansas, Michigan, Minnesota, Missouri, Nebraska, North Dakota, Ohio, South Dakota, and Wisconsin.

South includes Alabama, Arkansas, Delaware, Florida, Georgia, Kentucky, Louisiana, Maryland, Mississippi, North Carolina, Oklahoma, South Carolina, Tennessee, Texas, Virginia, Washington D.C., and West Virginia.

West includes Alaska, Arizona, California, Colorado, Hawaii, Idaho, Montana, Nevada, New Mexico, Oregon, Utah, Washington, and Wyoming.

Tax Year 2005 C Corporation Tax Returns
State of Commercial Domicile
Western States

Dollars in thousands

State	Number of Returns	Oregon Taxable Income	Oregon Net Tax	Percent of Total Tax
Alaska	40	$1,099	$42	0.0%
Arizona	171	$28,631	$1,196	0.4%
California	1,766	$1,387,961	$56,449	19.7%
Colorado	251	$42,823	$1,809	0.6%
Hawaii	20	$27,011	$980	0.3%
Idaho	167	$37,338	$1,395	0.5%
Montana	34	$6,219	$263	0.1%
New Mexico	15	$74	$3	0.0%
Nevada	110	$27,841	$1,176	0.4%
Oregon	22,580	$2,026,541	$76,664	26.7%
Utah	129	$21,379	$905	0.3%
Washington	1,179	$492,016	$13,417	4.7%
Wyoming	9	$590	$25	0.0%

Taxpayers doing business in multiple states must apportion their business income using an apportionment formula. Tax years beginning July 1, 2005 Oregon uses 100 percent sales factor apportionment.[8]

Exhibit 3.8—Tax Year 2005 C Corporation Tax Returns
Apportioned Returns

Dollars in thousands

Apportionment	Number of Returns	Oregon Taxable Income	Oregon Net Tax	Percent of Total Tax
Multistate (Apportioned)	12,243	$6,753,414	$255,196	88.9%
Nonapportioned	21,105	$782,392	$31,750	11.1%
Total	**33,348**	**$7,535,806**	**$286,946**	**100%**

Exhibit 3.9 shows the distribution of the multistate (apportioned) tax returns by industry sector.

Exhibit 3.9 Tax Year 2005 C Corporation Tax Returns
Industry Sector for Multistate (Apportioned) Returns

Dollars in thousands

Industry Sector	Number of Returns	Oregon Taxable Income	Oregon Net Tax	Percent of Total Oregon Tax
Agriculture, Forestry, Fishing, and Hunting	176	$18,979	$787	0.3%
Mining	30	$2,963	$113	0.0%
Utilities	32	$117,696	$2,468	1.0%
Construction	997	$213,339	$8,831	3.5%
Manufacturing	969	$1,320,055	$47,185	18.5%
Wholesale Trade	2,251	$1,422,633	$57,683	22.6%
Retail Trade	697	$1,061,425	$43,134	16.9%
Transportation and Warehousing	384	$165,217	$6,888	2.7%
Information	463	$284,258	$11,760	4.6%
Finance and Insurance	1,819	$1,243,098	$42,117	16.5%
Real Estate, Rental, and Leasing	455	$46,857	$1,983	0.8%
Professional, Scientific, and Technical Services	1,388	$94,778	$3,869	1.5%
Management of Companies and Enterprises	640	$375,307	$12,513	4.9%
Administrative, Support, and Waste Management	447	$61,035	$2,428	1.0%
Education Services	72	$17,375	$725	0.3%
Health Care and Social Assistance	183	$131,083	$5,254	2.1%
Arts, Entertainment, and Recreation	102	$7,155	$300	0.1%
Accommodation and Food Services	182	$63,546	$2,687	1.1%
Other Services (except Public Administration)	347	$100,937	$4,269	1.7%
Unknown	609	$5,680	$202	0.1%
All	**12,243**	**$6,753,414**	**$255,196**	**100%**

[8] Section 1A provides more detail on changes in Oregon's corporate apportionment formula.

A number of credits are available to corporate taxpayers. Not all taxpayers claiming a credit are able to use the full amount because their credits exceed their tax liability. Most unused credits may be carried forward for up to five years to offset future tax liability. Corporations must claim the full amount of credit, to the extent of their liability, before the credit may be carried forward.

Exhibit 3.10—Tax Year 2005 C Corporation Tax Returns
Credit Usage

Dollars in thousands

Credit	Number of Taxpayers Claiming Credit	Amount of Credit Claimed	Number of Taxpayers with Reduction in Tax Liability	Amount of Credit Used*
General Corporation Credits				
Business Energy Facilities	249	$26,864	198	$20,078
Dependent Care Assistance	22	$1,725	17	$1,123
Farm-Worker Housing Lender's Credit	6	$963	6	$689
Oregon Affordable Housing Credit	29	$4,592	28	$3,428
Pollution Control	103	$20,147	88	$10,919
Qualified Research Activities	167	$36,249	81	$5,879
Reclaimed Plastics Credit	5 or fewer	$49	5 or fewer	$35
Long-Term Care Facilities	8	$4	7	$2
Contribution of Computers Credit	5 or fewer	$497	5 or fewer	$117
Farm-Worker Housing Construction	10	$1,004	8	$974
Oregon Trust for Cultural Development	13	$28	13	$28
Other Corporation Credits	22	$423	17	$385
Insurance Only Credits				
Fire Insurance Credit	267	$5,855	226	$3,806
Oregon Life and Health IGA Assessments	62	$70	43	$40
Workers' Compensation Assessments	74	$2,379	68	$1,039
Total**	**901**	**$100,849**	**679**	**$48,542**

* The revenue impacts are lower than credit usage amounts due to the kicker. See Appendix D for more information on kickers and interaction between kicker and credit use.

** The total number of taxpayers does not match detail due to taxpayers claiming multiple credits.

The three corporation tax credits with the highest total claims were business energy facilities, qualified research activities, and pollution control. Additional details for taxpayers claiming these credits are in the next three exhibits.

Exhibit 3.11—Tax Year 2005 C Corporation Tax Returns
Business Energy Facilities
Credit Usage by Industry Sector and Taxable Income

Dollars in thousands

Industry Sector	Number of Taxpayers Claiming Credit	Amount of Credit Claimed	Number of Taxpayers with Reduction in Tax Liability	Amount of Credit Used*
Agriculture, Forestry, Fishing, and Hunting	17	$128	9	$59
Utilities	5 or fewer	$3,675	5 or fewer	$3,675
Construction	13	$140	10	$134
Manufacturing	59	$3,448	48	$3,024
Wholesale Trade	28	$6,660	26	$1,626
Retail Trade	38	$2,698	29	$2,630
Transportation and Warehousing	6	$52	6	$13
Information	5 or fewer	$13	5 or fewer	$13
Finance and Insurance	24	$7,286	23	$7,285
Real Estate, Rental, and Leasing	8	$31	5 or fewer	$20
Professional, Scientific, and Technical Services	8	$41	5 or fewer	$26
Management of Companies and Enterprises	16	$2,510	10	$1,420
Administrative, Support, and Waste Management	7	$53	7	$32
Health Care and Social Assistance	5 or fewer	$82	5 or fewer	$77
Accommodation and Food Services	5 or fewer	$5	5 or fewer	$5
Other Services (except Public Administration)	8	$6	6	$4
All Other and Unknown	5 or fewer	$36	5 or fewer	$35
Total	**249**	**$26,864**	**198**	**$20,078**

Oregon Taxable Income Category	Number of Taxpayers Claiming Credit	Amount of Credit Claimed	Number of Taxpayers with Reduction in Tax Liability	Amount of Credit Used*
Zero Income or Loss **	50	$5,707	0	$0
$1 - $50,000	40	$125	39	$38
$50,000 - $100,000	25	$118	25	$67
$100,000 - $250,000	14	$132	14	$94
$250,000 - $500,000	18	$147	18	$140
$500,000 - $1 million	14	$100	14	$100
$1 million to $5 million	37	$1,140	37	$1,059
$5 million to $10 million	14	$681	14	$670
$10 million to $25 million	16	$1,422	16	$1,422
Over $25 million	21	$17,291	21	$16,488
Total	**249**	**$26,864**	**198**	**$20,078**

* The revenue impacts are lower than credit usage amounts due to the kicker. See Appendix D for more information on kickers and interaction between kicker and credit use.

** Includes losses in current year, as well as losses carried forward from prior years that result in $0 income.

Exhibit 3.12—Tax Year 2005 C Corporation Tax Returns
Pollution Control
Credit Usage by Industry Sector and Taxable Income

Dollars in thousands

Industry Sector	Number of Taxpayers Claiming Credit	Amount of Credit Claimed	Number of Taxpayers with Reduction in Tax Liability	Amount of Credit Used*
Agriculture, Forestry, Fishing, and Hunting	12	$155	11	$21
Utilities	5 or fewer	$460	5 or fewer	$459
Construction	5 or fewer	$169	5 or fewer	$169
Manufacturing	31	$9,774	27	$5,849
Wholesale Trade	18	$3,332	15	$410
Retail Trade	10	$575	9	$100
Finance and Insurance	5 or fewer	$791	5 or fewer	$791
Management of Companies and Enterprises	5 or fewer	$3,791	5 or fewer	$2,727
Administrative, Support, and Waste Management	9	$452	8	$237
All Other and Unknown	7	$648	5 or fewer	$156
Total	**103**	**$20,147**	**88**	**$10,919**

Oregon Taxable Income Category	Number of Taxpayers Claiming Credit	Amount of Credit Claimed	Number of Taxpayers with Reduction in Tax Liability	Amount of Credit Used*
Zero Income or Loss**	15	$4,806	0	$0
$1 - $50,000	14	$157	14	$18
$50,000 - $100,000	9	$102	9	$28
$100,000 - $250,000	10	$61	10	$61
$250,000 - $500,000	7	$1,090	7	$156
$500,000 - $1 million	5 or fewer	$353	5 or fewer	$149
$1 million to $5 million	21	$1,358	21	$1,357
$5 million to $10 million	5 or fewer	$2,136	5 or fewer	$367
$10 million to $25 million	10	$2,401	10	$2,401
Over $25 million	8	$7,683	8	$6,382
Total	**103**	**$20,147**	**88**	**$10,919**

* The revenue impacts are lower than credit usage amounts due to the kicker. See Appendix D for more information on kickers and interaction between kicker and credit use.

**Includes losses in current year, as well as losses carried forward from prior years that result in $0 income.

Exhibit 3.13—Tax Year 2005 C Corporation Tax Returns
Qualified Research Activities
Credit Usage by Industry Sector and Taxable Income

Dollars in thousands

Industry Sector	Number of Taxpayers Claiming Credit	Amount of Credit Claimed	Number of Taxpayers with Reduction in Tax Liability	Amount of Credit Used*
Manufacturing	58	$13,954	36	$3,577
Wholesale Trade	29	$5,679	16	$1,532
Information	29	$7,530	8	$418
Professional, Scientific, and Technical Services	35	$7,129	13	$226
All Other and Unknown	16	$1,957	8	$126
Total	**167**	**$36,249**	**81**	**$5,879**

Oregon Taxable Income Category	Number of Taxpayers Claiming Credit	Amount of Credit Claimed	Number of Taxpayers with Reduction in Tax Liability	Amount of Credit Used*
Zero Income or Loss**	85	$21,535	0	$0
$1 - $50,000	13	$330	12	$10
$50,000 - $100,000	8	$276	8	$29
$100,000 - $250,000	15	$1,341	15	$154
$250,000 - $500,000	11	$1,349	11	$185
$500,000 - $1 million	6	$490	6	$188
$1 million to $5 million	14	$5,653	14	$729
$5 million to $10 million	8	$2,161	8	$1,579
$10 million to $25 million	5 or fewer	$978	5 or fewer	$978
Over $25 million	5 or fewer	$2,135	5 or fewer	$2,027
Total	**167**	**$36,249**	**81**	**$5,879**

* The revenue impacts are lower than credit usage amounts due to the kicker. See Appendix D for more information on kickers and interaction between kicker and credit use.
**Includes losses in current year, as well as losses carried forward from prior years that result in $0 income.

About 64 percent of all C corporation taxpayers paid the minimum tax for tax year 2005. Exhibit 3.14 shows the number of C corporations paying the minimum tax for various income levels. Taxpayers in higher income categories paying the minimum tax have credits that reduce their tax liability to the minimum tax amount.

Exhibit 3.14—Tax Year 2005 C Corporation Tax Returns
Minimum Tax Returns

Oregon Taxable Income Category	Tax Returns Paying Minimum Tax	Total Number of Returns	Percent Paying Minimum
Zero Income or Loss*	20,227	20,231	99.98%
$1 - $50,000	1,044	8,545	12.22%
$50,000 - $100,000	33	1,482	2.23%
$100,000 - $250,000	32	1,167	2.74%
$250,000 - $500,000	23	621	3.70%
$500,000 - $1 million	7	449	1.56%
$1 million to $5 million	13	608	2.14%
$5 million to $10 million	5 or fewer	113	N/A
$10 million to $25 million	5 or fewer	88	N/A
Over $25 million	5 or fewer	44	N/A
Total	**21,386**	**33,348**	**64.1%**

* Includes losses in current year, as well as losses carried forward from prior years that result in $0 income.

Most taxpayers paying the minimum had no income in the current year or used a loss carried forward from another year to result in zero taxable income. Exhibit 3.15 details the reasons for minimum tax payments.

Exhibit 3.15—Tax Year 2005 C Corporation Tax Returns
Minimum Tax Payment Details

Reason For Minimum Tax Payment	Number of Returns
Current Income	
Zero income or loss in current year	14,177
Minimal income in current year	1,317
Losses Carried Forward	
Losses carried forward from prior years result in zero income or loss	5,365
Losses carried forward from prior years result in minimal income	296
Credits	
Credits reduce tax to minimum	189
Combination	
Combination of losses carried forward and credits reduce tax to minimum	42
Total	**21,386**

Minimum tax returns appear in all industry sectors. Exhibit 3.16 shows minimum tax returns by sector.

Exhibit 3.16—Tax Year 2005 C Corporation Tax Returns
Minimum Tax Returns By Industry Sector

Industry Sector	Returns Paying Minimum Tax	Total Returns	Percent Paying Minimum
Agriculture, Forestry, Fishing, and Hunting	1,203	1,762	68.3%
Mining	69	94	73.4%
Utilities	62	85	72.9%
Construction	2,512	3,788	66.3%
Manufacturing	1,497	2,451	61.1%
Wholesale Trade	1,971	3,654	53.9%
Retail Trade	1,687	2,753	61.3%
Transportation and Warehousing	622	983	63.3%
Information	672	935	71.9%
Finance and Insurance	1,484	2,690	55.2%
Real Estate, Rental, and Leasing	1,130	1,817	62.2%
Professional, Scientific, and Technical Services	2,340	3,531	66.3%
Management of Companies and Enterprises	515	827	62.3%
Administrative, Support, and Waste Management	797	1,237	64.4%
Education Services	140	210	66.7%
Health Care and Social Assistance	1,443	1,930	74.8%
Arts, Entertainment, and Recreation	292	393	74.3%
Accommodation and Food Services	662	1,016	65.2%
Other Services (except Public Administration)	1,270	1,842	68.9%
Unknown	1,018	1,350	75.4%
Total	[illegible]	[illegible]	[illegible]

With few exceptions, S corporations pass their income (or loss) through to their shareholders. The income is not taxed at the corporation level; rather, it is taxed as income of the shareholders. S corporation income is taxed at the corporate level when an S corporation has built-in gains or net excess passive income.

S corporations paying either the income or the excise tax file Form 20-S. The minimum tax for excise taxpayers is $10 and the minimum tax for income taxpayers is $0. Corporations doing business in Oregon are subject to the minimum excise tax even if they pass their income through to shareholders.

Exhibit 3.17—Tax Year 2005 S Corporation Tax Returns
S Corporation Summary

Dollars in thousands

Type of Filer	Number of Returns	Number Paying Minimum Tax	Oregon Taxable Income	Oregon Net Tax
Excise Tax	51,747	51,488	$15,410	$1,299
Income Tax	787	753	$800	$34
Total 20-S	**52,534**	**52,241**	**$16,211**	**$1,333**

Exhibit 3.18 shows that most 20-S filers do not apportion their income between Oregon and other states, and most are domiciled (i.e., have their headquarters) in Oregon.

Exhibit 3.18—Tax Year 2005 S Corporation Tax Returns
S Corporation Characteristics

Dollars in thousands

	Number of Returns	Oregon Taxable Income	Oregon Net Tax
Apportionment for 20-S Filers			
Multistate (Apportioned)	6,619	$10,276	$606
Nonapportioned	45,915	$5,935	$727
State of Domicile for 20-S Filers			
Oregon	47,309	$7,484	$920
Other	5,225	$8,727	$413

Additions. Those modifications required by Oregon law that are added to federal taxable income in computing Oregon taxable income.

Apportionment. A method of attributing income to the states in which a multistate or multinational corporation is doing business. The corporation's business income is divided (based on an apportionment formula) among the taxing states.

Allocation. A method of attributing income to the states from which a multistate or multinational corporation receives nonbusiness income.

Apportionment Formula. Taxpayers doing business (or with income sourced) both in Oregon and in other states use the specified formula to apportion their income to Oregon. For Oregon, this is the weighted average of three factors multiplied by the taxpayer's business income. For tax year 2004, the three factors were: property, payroll, and sales. Most corporations used double-weighted sales. Corporations that began their tax year on or after May 1, 2003 used 80 percent sales plus 10 percent each from property and payroll. For tax years beginning on or after July 1, 2005, 100 percent sales apportionment (with a few exceptions) should be used.

Biennium. The period of two fiscal years for which the state budgets are determined. For example, July 1, 2005 to June 30, 2007 is referred to as the 2005-07 biennium.

Business Income. Income that arises from the regular course of a taxpayer's trade or business. It includes income from tangible and intangible property, if such property constitutes an integral part of the taxpayer's regular trade or business.

C Corporation. Refers to Internal Revenue Code subchapter "C." These corporations are "regular" corporations—they pay tax at the corporate level.

Combined Reporting. A method of measuring the tax liability of a corporation. An apportionment formula is applied to the combined unitary income of the corporation and its affiliates. For Oregon, this is the applicable method for tax years that began before January 1, 1986. See *Consolidated Reporting* for the applicable method for tax years that began on or after January 1, 1986.

Commercial Domicile. Under ORS 314.610(2), the principal place from which the trade or business of a taxpayer is directed or managed (generally, the headquarters).

Consolidated Reporting. Under federal law IRC 1504, a filing method that allows certain related corporations (more than 80 percent ownership) the convenience of filing a single tax return and paying one tax amount.

Under ORS 317.710, Oregon requires unitary corporations included in the consolidated federal return to file consolidated Oregon returns for tax years that began on or after January 1, 1986. See *Unitary Group.*

Credits. Dollar-for-dollar reductions in tax liability. Corporation tax credits include credits for pollution control, research and development, business energy credit, and affordable housing credit. A comprehensive list of tax credits can be found in the *State of Oregon 2007-09 Tax Expenditure Report*, available online at www.oregon.gov/DOR/STATS/.

Doing Business. A taxpayer is doing business when it engages in any profit-seeking activity in the State of Oregon. What transaction or transactions need be entered into within this state in the course of such an activity to constitute the doing or carrying on of business within the state is primarily a question of fact, depending upon the circumstances in each case. For example, a corporation is doing business in Oregon if it:

- provides services to customers in Oregon,
- has sales activity in Oregon,
- inventory in Oregon,
- an office in Oregon, or
- a place of business in Oregon where affairs of the corporation are regularly carried on.

Domestic Corporation. An Oregon domestic corporation is a corporation that is organized (incorporated) under the laws of this state.

For federal corporation tax purposes, the term refers to U.S. corporations (as opposed to corporations organized in foreign countries).

Excise Tax. A tax imposed on corporations for the privilege of doing business in a state. This tax is measured by income. The minimum excise tax is $10.

Federal Taxable Income. The starting point for determining Oregon taxable income (line 28 of federal Form 1120). More specifically, income or loss determined under Chapter 1, subtitle A of the Internal Revenue Code (IRC Sections 1 through 1563).

Foreign Corporation. For Oregon purposes, a corporation organized under the laws of another state. For federal corporation tax purposes, a corporation organized in a foreign country (Oregon identifies these as “alien” corporations).

Income Tax. A tax on the income of those corporations that have Oregon-source income but are not doing business here. See *Doing Business*.

Interest on Installment Sales. Interest on deferred tax liability for certain installment sales. It is added to Oregon tax before credits.

Minimum Tax. Each Oregon corporate excise taxpayer must pay at least a $10 minimum tax. If a corporation has a negative Oregon income, it is still required to pay the minimum tax. There is no minimum tax for corporate income taxpayers, but the smallest amount an income tax payer can pay is $0, making it the effective minimum.

Multinational Corporation. A corporation that conducts business in, or has income sourced to, more than one country.

Multistate Corporation. A corporation that conducts business in, or has income sourced to, more than one state.

Net Receipts. Net corporate collections received. Estimated payments and final payments, less refunds, equals net receipts.

Nexus. A connection or link between a corporation and a state sufficient to empower the state to tax the corporation's income.

Nonbusiness Income. Under ORS 314.610(5), nonbusiness income is all income that does not arise from the taxpayer's normal business activities. Each item of nonbusiness income is generally allocated to one state rather than being apportioned to all states where the corporation does business.

Nonunitary Business. A business entity that does not belong in a unitary group. See *Unitary Group.*

Oregon Net Tax. Net tax differs from Oregon tax after credits by the Oregon surplus refund (kicker) and adjustments for Last In, First Out (LIFO) benefit recapture. For additional information on kicker refunds, please see Appendix D – "Surplus Kicker".

Oregon Taxable Income. Federal taxable income after Oregon's statutory modifications have been applied. For multistate corporations, this is after the apportionment percentage is applied.

Parent Corporation. A corporation that owns or otherwise controls other corporations. These other corporations are called "subsidiaries."

Passive Investment Income. Gross receipts derived from royalties, rents, dividends, interest, annuities, and certain sales or exchanges of stock or securities. A small number of S corporations are required to pay corporation income tax because they have passive investment income.

Payroll Factor. One of three factors used in apportioning the business income of multistate or multinational corporations. The payroll factor is expressed as a fraction: the numerator is Oregon payroll, and the denominator is total payroll.

Property Factor. One of three factors used in apportioning the business income of multistate or multinational corporations. The property factor is expressed as a fraction: the numerator is the average value of business property located or used in Oregon, and the denominator is the average value of business property located or used everywhere.

Retaliatory Tax. A tax based on a comparison of the taxes, fees, assessments, penalties, and fines that an Oregon insurance company would pay in another state to those that an insurer from that state actually pays in Oregon. If the tax burden to the other state is higher for an Oregon insurance company doing business in that state, the retaliatory tax applies that same level of taxation to the foreign state's companies that do business in Oregon.

S Corporation. Refers to Internal Revenue Code subchapter "S." S corporations are "pass-through" entities, in which the corporation's income and losses are passed through to the

S corporation's shareholders, where they are taxed as personal income. A corporation qualifying under this section can have no more than 100 shareholders, which should be U.S. citizens or residents. Also there should be only one class of stock (though there may be voting and nonvoting shares). Trusts holding stock must meet certain conditions as well.

Sales Factor. One of the three factors used in apportioning the business income of multistate or multinational corporations. The sales factor is expressed as a fraction: the numerator is Oregon sales, and the denominator is total sales.

Single Sales Factor. Use of only the sales factor to apportion multistate or multinational income. In Oregon, most corporations use the single sales factor for apportioning income for tax years that began on or after July 1, 2005

State Surplus Refund (Kicker). Oregon is required by law to refund excess revenue when revenues collected for the biennium are more than 2 percent higher than forecast at the time the budget was adopted. Refunds are made in the form of a credit on the tax return for the second year of the biennium.

Subsidiary Corporation. A corporation controlled or owned by another corporation. See *Parent Corporation.*

Subtractions. Those modifications allowed by Oregon law that are subtracted from federal taxable income in computing Oregon taxable income.

Super Weighted Sales Factor. Using a sales factor of greater than 50 percent in the formula used to apportion multistate or multinational income. In Oregon, most corporations used this method for apportioning income in tax years that begin on or after May 1, 2003, but before July 1, 2005.

Tax After Credits. Amount of tax liability after subtracting credits.

Tax Due. Amount of final tax liability after subtracting tax credits, when applicable.

Tax Liability. The amount of tax owed by a taxpayer.

Unitary Business. A unitary business is one that has, directly or indirectly between members or parts of the enterprise, either a sharing or an exchange of value shown by:

- Centralized management or a common executive force.
- Centralized administrative services or functions resulting in economies of scale.
- Flow of goods, capital resources, or services showing functional integration.

See also *Unitary Group.*

Unitary Group. Under ORS 317.705(2), a corporation or group of corporations engaged in business activities that constitute a single trade or business.

Sector classification information is based on the 2002 North American Industry Classification System (NAICS) sectors.

A brief description of industries found in each sector appears below. Additional information regarding the NAICS system may be found on the U.S. Census Bureau website at www.census.gov.

NAICS Sector Code	NAICS Sector Title and Description
11	**Agriculture, Forestry, Fishing, and Hunting.** Includes farming, animal production, logging, and support activities.
21	**Mining.** Includes the extraction of mineral solids, liquid minerals, and gases. Also includes mineral quarrying such as crushed gravel and sand mining.
22	**Utilities.** Includes electric, natural gas, and water utilities.
23	**Construction.** Includes residential and commercial construction, as well as specialty trade construction.
31	**Manufacturing.** Includes food, apparel, wood products, paper, chemical, plastics, machinery, computer products, electronics, and furniture manufacturing.
42	**Wholesale Trade.** Includes wholesalers for durable and nondurable goods. Also includes wholesale trade agents and brokers.
44	**Retail Trade.** Includes motor vehicle dealers. Includes furniture, building material, garden equipment, food, drug, clothing, sporting goods, music, and general merchandise stores. Includes nonstore retailers such as electronic and mail order firms.
48	**Transportation and Warehousing.** Includes air, rail, water, and truck transportation. Includes charter buses and sightseeing operations. Includes postal service and courier services.
51	**Information.** Includes book, newspaper, radio, and television broadcasting. Includes telecommunications, data processing, and libraries.
52	**Finance and Insurance.** Includes banks, mortgage lenders, insurance companies, and pension funds.
53	**Real Estate and Rental and Leasing.** Includes offices of real estate agents and brokers. Includes automobile, video tape, consumer electronics, and industrial machinery rental and leasing services.

NAICS Sector Code	NAICS Sector Title and Description
54	**Professional, Scientific, and Technical Services.** Includes legal services, architectural and engineering firms, accounting, advertising, photographic, marketing, and veterinary services.
55	**Management of Companies and Enterprises.** Includes offices of bank holding companies and other holding companies.
56	**Administrative and Support and Waste Management and Remediation Services.** Includes employment and security agencies. Includes exterminating, janitorial, and landscaping services. Includes waste management and remediation.
61	**Educational Services.** Includes technical and trade schools. Includes educational support services.
62	**Health Care and Social Assistance.** Includes offices of doctors and dentists. Includes hospitals, nursing care facilities, and day care facilities.
71	**Arts, Entertainment, and Recreation.** Includes performing arts, sports, museums, theme parks, golf and skiing facilities, and bowling centers.
72	**Accommodation and Food Services.** Includes hotels and restaurants.
81	**Other Services (except Public Administration).** Includes automotive, electronic equipment, industrial equipment repair, and household goods repair. Includes personal care services, dry cleaning, and photo finishing services.

Collections and Returns Data

The Integrated Tax Accounting (ITA) system used by the Oregon Department of Revenue provides information on corporation income and excise tax payments. We used tax return data for the most recent year with complete information.

Due Dates for Returns

Corporations are required to file a tax return after the end of their tax year. For many corporations, the calendar year is their tax year. However, others file on a fiscal year basis. These fiscal year filers extend the length of time needed to obtain a complete database of return information. As you can see from Exhibit C.1, a corporate taxpayer that starts its fiscal year on December 1 would start tax year 2005 in December 2005. The taxpayer's tax year would end November 2006. The taxpayer's Oregon return would be due by March 15, 2007. Then the taxpayer could submit a federal filing extension, extending the time to file both federal and state returns by six months. So a corporation that starts its fiscal year on December 1, may file its 2005 Oregon return as late as September 15, 2007.

Taxes must be paid by the original due date of the return, whether an extension is filed or not. Therefore, payment data for a given year is complete sooner than return data.

Exhibit C.1—Corporate Filing Calendar

Tax Year Begins	Tax Year Ends	Oregon Corporation Return Due Date*	Due Date with Extension
January 1	December 31	April 15	October 15
February 1	January 31	May 15	November 15
March 1	February 28	June 15	December 15
April 1	March 31	July 15	January 15
May 1	April 30	August 15	February 15
June 1	May 31	September 15	March 15
July 1	June 30	October 15	April 15
August 1	July 31	November 15	May 15
September 1	August 31	December 15	June 15
October 1	September 30	January 15	July 15
November 1	October 31	February 15	August 15
December 1	November 30	March 15	September 15

* Federal corporation returns are due on the 15th day of the third month after the end of the corporation's tax year. Oregon returns are due one month after federal returns.

The corporation excise and income tax database is revised for amended and audited returns. These returns replace the original where applicable. Modified returns received subsequent to finalizing the publication master database will not be reflected in the analysis.

Tax Period

Although corporations may have varying fiscal years, most are calendar year filers. Exhibit C.2 shows the filing period for all tax year 2005 C corporation returns. A corporation's tax year 2005 is based on a filing period that begins any time in calendar year 2005. If the tax year starts on July 1 and ends on June 30, then tax year ending month is June.

Exhibit C.2—Tax Year 2005 C Corporation Tax Returns
Tax Year Ending Month

Dollars in thousands

	Number of Returns	Oregon Taxable Income	Oregon Net Tax	Percent of Oregon Tax
January	646	$617,531	$25,467	8.9%
February	510	$51,985	$2,191	0.8%
March	2,028	$365,579	$13,323	4.6%
April	668	$70,393	$2,822	1.0%
May	637	$276,789	$10,535	3.7%
June	2,758	$368,433	$15,225	5.3%
July	512	$72,121	$3,048	1.1%
August	622	$140,642	$4,472	1.6%
September	2,157	$345,687	$13,989	4.9%
October	922	$125,666	$5,213	1.8%
November	450	$25,688	$1,068	0.4%
December	20,305	$5,016,762	$187,267	65.3%
Part year with/Dec.*	613	$29,930	$1,158	0.4%
Part year without Dec.**	520	$28,597	$1,168	0.4%
Total	**33,348**	**$7,535,806**	**$286,946**	**100.0%**

* Part-year returns with ending date in December.
** Part-year returns with ending date other than December.

The Department of Revenue Research Section checks the tax return data for errors to construct finalized data set used for our analysis. Certain discrepancies or minor errors may not be resolved. In addition, taxpayers may file amended or delinquent returns that would impact some of the results presented.

Sector Classification

NAICS codes are assigned based on information reported by the Oregon Employment Department. The Employment Department classifies firms based on their reported principal activity in Oregon. For certain multistate corporations, their activity in Oregon may differ from their primary activity in the U.S. as a whole. For example, a certain manufacturer may produce a product at several plants in the U.S. However, in Oregon, its only activity may be the wholesale trade of the manufactured good. This classification also may differ from the sector reported on the taxpayer's federal or state tax return. The Research Section attempts to assign a sector classification for taxpayers lacking this information and makes other changes as appropriate.

The state surplus refund, or kicker, refers to the provision in Oregon law that returns money to taxpayers if actual revenues exceed forecasted revenues by at least 2 percent.

The kicker is determined by separating all General Fund money into corporate taxes and all other General Fund revenue and comparing collections at the end of a biennium to the forecast at the close of the regular session. If collections in either of these two categories are at least 2 percent greater than the forecast for that category, then all of the excess (including the 2 percent) is returned to taxpayers.

If corporate tax collections exceed the forecast, the money is refunded as a credit on the tax return for the tax year in which the biennium ends. In tax year 2005, a surplus refund of 35.94 percent was applied to corporate tax liability after other credits were taken. Because the surplus refund applied to tax after credits, the revenue impact of credits in 2005 was reduced by about the percentage of the surplus refund. For example: In tax year 2004, if a corporation had a liability of $2000 before credits, and an energy conservation tax credit of $1,000, the energy credit would reduce the corporation's final tax by the full $1,000 because there was no surplus refund. However, under the same circumstances in 2005, the surplus refund would reduce the amount owed to $1,281 without the energy credit, and to $641 with the energy credit. The corporation would have used the $1,000 credit in each year, however the liability would only be reduced by $640 in 2005.

The current kicker law was part of Measure 86, passed in 2000. It provided that the legislature may vote to suspend the kicker with a two-thirds majority vote. During the 2007 legislative session, the corporate kicker was suspended and diverted into the Rainy Day fund. In 2007, the legislature also changed the kicker distribution. Beginning in 2009, any kicker will be calculated on the basis of tax liability after credits, as opposed to how it was calculated for tax year 2005, using before credit tax liability.

Exhibit D.1 shows the recent history of the corporation kicker.

Exhibit D.1—Recent Corporation Kicker History

Biennium	Tax Year	Surplus/Shortfall ($ Million)	Percentage	Surplus Credited* ($ Million)	Mean Credit for C Corps ($)	Mean for C Corps Receiving Benefit ($)
1989-91	1991	-$23	None	NA	NA	NA
1991-93	1993	$18	Suspended	NA	NA	NA
1993-95	1995	$167	50.1%	$224	$5,664	$12,239
1995-97	1997	$203	42.2%	$169	$4,378	$10,782
1997-99	1999	-$69	None	NA	NA	NA
1999-01	2001	-$44	None	NA	NA	NA
2001-03	2003	-$440	None	NA	NA	NA
2003-05	2005	$101	35.9%	$161	$4,829	$13,462
2005-07	2007	$344	Suspended	NA	NA	NA

* Since the percentage credit is based on estimated liability, the amount refunded as a "surplus credit" differs from the surplus amount.