

Oregon Corporate Excise and Income Tax

Characteristics of Corporate Taxpayers

2008 Edition

Covering Fiscal Year 2008 Corporate Tax Receipts
and Tax Year 2006 Corporate Tax Returns



150-102-405 (Rev. 12-08)

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and Tax Year 2006 Corporate Tax Returns**

**Prepared by
Research Section
Oregon Department of Revenue
Salem OR 97301-2555**

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INTRODUCTION

Corporations in Oregon have paid a form of income tax since 1929. These revenues were 6.3 percent of the General Fund in the 2007-08 fiscal year, and are projected to be about 6.2 percent of total General Fund revenue in the 2007-09 biennium.

Oregon Corporate Tax Receipts 2007-08 Fiscal Year	
Corporate Tax Revenue	\$438.3 million
Percent of General Fund	6.3%

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 2008. 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 2006. 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 corporate taxpayers. However, 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.

Background

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.

Although commonly referred to as "Oregon 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 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.

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 is discussed below. For additional information, please refer to the Oregon Department of Revenue's Corporation Tax Forms and Instructions available at www.oregon.gov/DOR/BUS/forms-corporation.shtml.

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 including 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

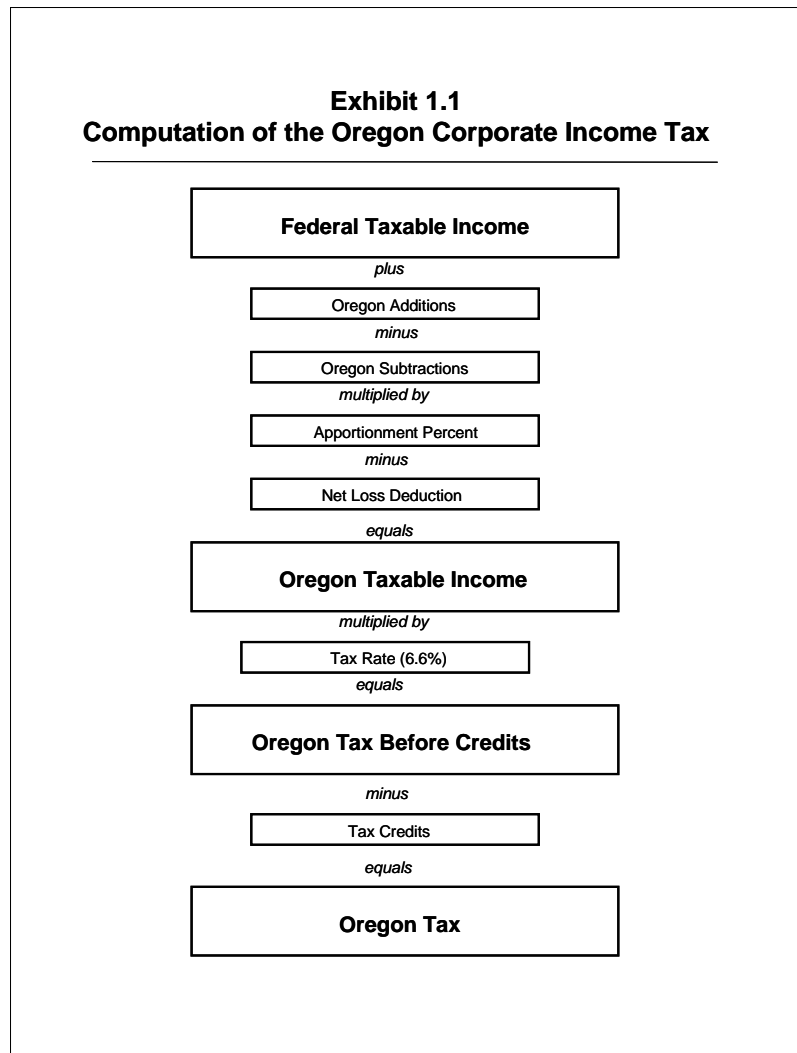
Subtractions are sources of gross income that are taxable at the federal level but not by Oregon, or deductions allowed by state law but not allowed under federal law. Subtractions include dividend deductions and land donations to school districts. The *State of Oregon 2009-11 Tax Expenditure Report* provides a detailed discussion of subtractions, available for corporations. The report is available at www.oregon.gov/DOR/STATS/.

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 earned from Oregon activities.

Prior to tax year 1991, a corporation's 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 to arrive at the apportionment percent: 50 percent of the sales factor plus 25 percent of both property and payroll factors. 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 percentage.¹ Refer to Exhibit 1.2 for a table summarizing the changes to apportionment.

	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 commercial domicile (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, then subtracting losses. Multiplying Oregon taxable income by the tax rate produces tax before credits. The tax rate has changed many 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 1987 reduction from 7.5 percent. Exhibit 1.3 provides a history of Oregon corporation tax rates.

¹ The apportionment methods described here are used for most corporations. Since 2003, certain wood-products companies must 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 2009-11 Tax Expenditure Report*, which is available at www.oregon.gov/DOR/STATS/. Insurance companies use Oregon Form 20-INS and different factors for income apportionment, as described in detail in Section 1C.

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 more than 35 applicable credits to reduce its Oregon tax liability. Only one of the credits is refundable. Most allow unused credit amounts to be carried forward and used in later years. See pages 3-10 to 3-13 for information on credit usage by C corporations. The *State of Oregon 2009-11 Tax Expenditure Report* also provides a thorough discussion of corporate tax credits. The report is available 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. Beginning with tax year 2006, minimum tax is calculated by multiplying \$10 by the total number of corporations doing business in Oregon and included in the consolidated return.

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 more information, please refer to Oregon Department of Revenue's Corporation Tax Forms and Instructions at www.oregon.gov/DOR/BUS/forms-corporation.shtml.

Certain corporations are known as "pass-through" entities because their income (or loss) passes through to the individual shareholders, 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 (no more than 75 shareholders prior to 2004);
- 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.

S corporations that are paying either the income or the excise tax file Oregon tax Form 20-S. Since S corporations generally pass their income through to their shareholders, relatively few of them 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. Most S corporation filers pay the excise minimum tax of \$10, even though they pass their income through to their shareholders.

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 2006, 54,471 S corporations filed returns, 3 percent more than tax year 2005. For more statistics on S corporations, please refer to Section 3C.

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

Before 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 are subject to the retaliatory tax that is paid to DCBS.² 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 more information, please refer to Oregon Department of Revenue's Insurance Excise Tax Instructions and Form 20-INS, available at www.oregon.gov/DOR/BUS/forms-corporation.shtml

² 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.

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.³ 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—Corporate Tax Receipts in FY 2008 By Tax Year

Dollars in thousands	
Tax Year	Net Receipts
2002 and prior	\$26,885
2003	-\$2,417
2004	\$2,932
2005	-\$17,155
2006	-\$129,115
2007	\$434,908
2008	\$122,275
Total	\$438,313

Exhibit 2.1 provides details on the tax years for which payments were received in fiscal year 2008. These are net payments—composed of estimated payments, final payments associated with a return, and refunds issued to taxpayers.

Most of the payments were received for tax years 2007 and 2008, 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 2006.

Trends in Corporate Tax Receipts

Exhibit 2.2 shows net corporate tax receipts since fiscal year 1982-83. 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 with fiscal year 2002-03, receipts have been on a rise and nearly quadrupled by fiscal year 2005-06 from fiscal year 1982-83. The lower line on the chart shows that real receipts (receipts adjusted for inflation) did not grow as much. They have only doubled their value over the same period. The swings from fiscal year 1995-96 to fiscal year 1997-98 and from fiscal year 2005-06 to fiscal year 2006-07 are related to the distribution of corporate “kickers.”⁴

³ For more detail on corporations’ fiscal years and the due dates of corporations’ tax returns, see Appendix C.

⁴ 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 2.2 - Oregon Corporation Excise and Income Tax Net Receipts

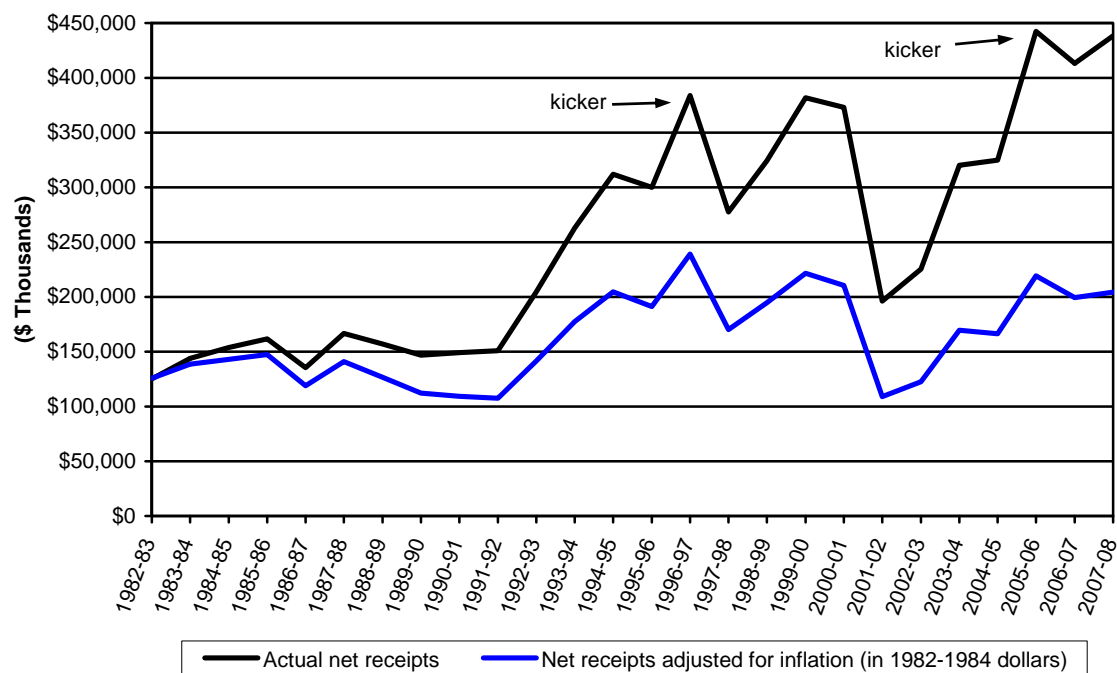


Exhibit 2.3 shows corporate receipts history for the 20 most recent fiscal years.

Exhibit 2.3—Corporate Receipts History		
Dollars in thousands		
Fiscal Year*	Net Receipts	Percent Change
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%
2007-08	\$438,313	6.1%

* 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 2007 and 2008, and provide some detail of which sectors contributed to the changes. Total receipts increased by about 6 percent.

**Exhibit 2.4 - Corporate Tax Receipts
by Industry Sector**

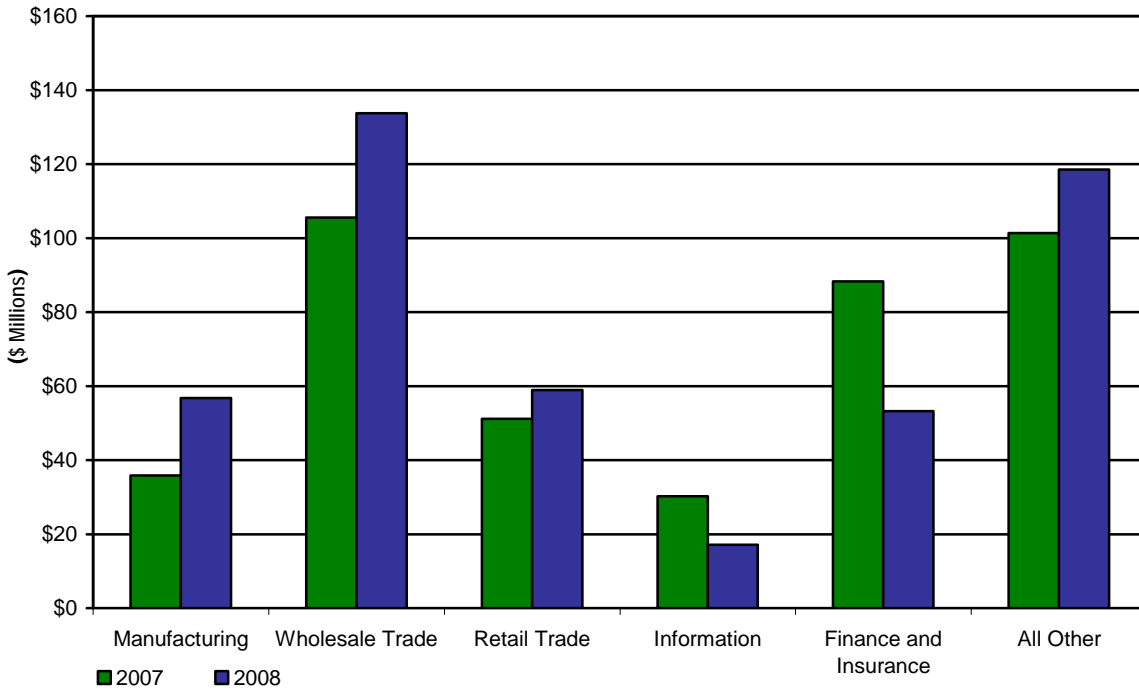


Exhibit 2.5 provides the detail of receipts from all sectors in fiscal years 2007 and 2008.

Exhibit 2.5—Corporate Tax Receipts

By Industry Sector

Dollars in thousands

Industry Sector *	FY 2007	FY 2008	Percent Change
Agriculture, Forestry, Fishing, and Hunting	\$633	\$3,836	506%
Mining	\$972	\$3,162	225%
Utilities	\$18,030	\$9,946	-45%
Construction	\$17,550	\$21,271	21%
Manufacturing	\$35,841	\$56,760	58%
Wholesale Trade	\$105,546	\$133,768	27%
Retail Trade	\$51,109	\$58,929	15%
Transportation and Warehousing	\$12,323	\$14,237	16%
Information	\$30,270	\$17,122	-43%
Finance and Insurance	\$88,266	\$53,196	-40%
Real Estate, Rental, and Leasing	\$7,403	\$6,432	-13%
Professional, Scientific, and Technical Services	\$6,975	\$15,816	127%
Management of Companies and Enterprises	\$10,388	\$19,825	91%
Administrative, Support, and Waste Management	\$3,915	\$5,648	44%
Educational Services	\$514	\$329	-36%
Health Care and Social Assistance	\$7,863	-\$2,319 **	-129%
Arts, Entertainment, and Recreation	\$656	\$710	8%
Accommodation and Food Services	\$4,531	\$4,375	-3%
Other Services (except Public Administration)	\$7,957	\$11,314	42%
Unknown	\$1,614	\$3,956	***
Total	\$412,356	\$438,313	6%

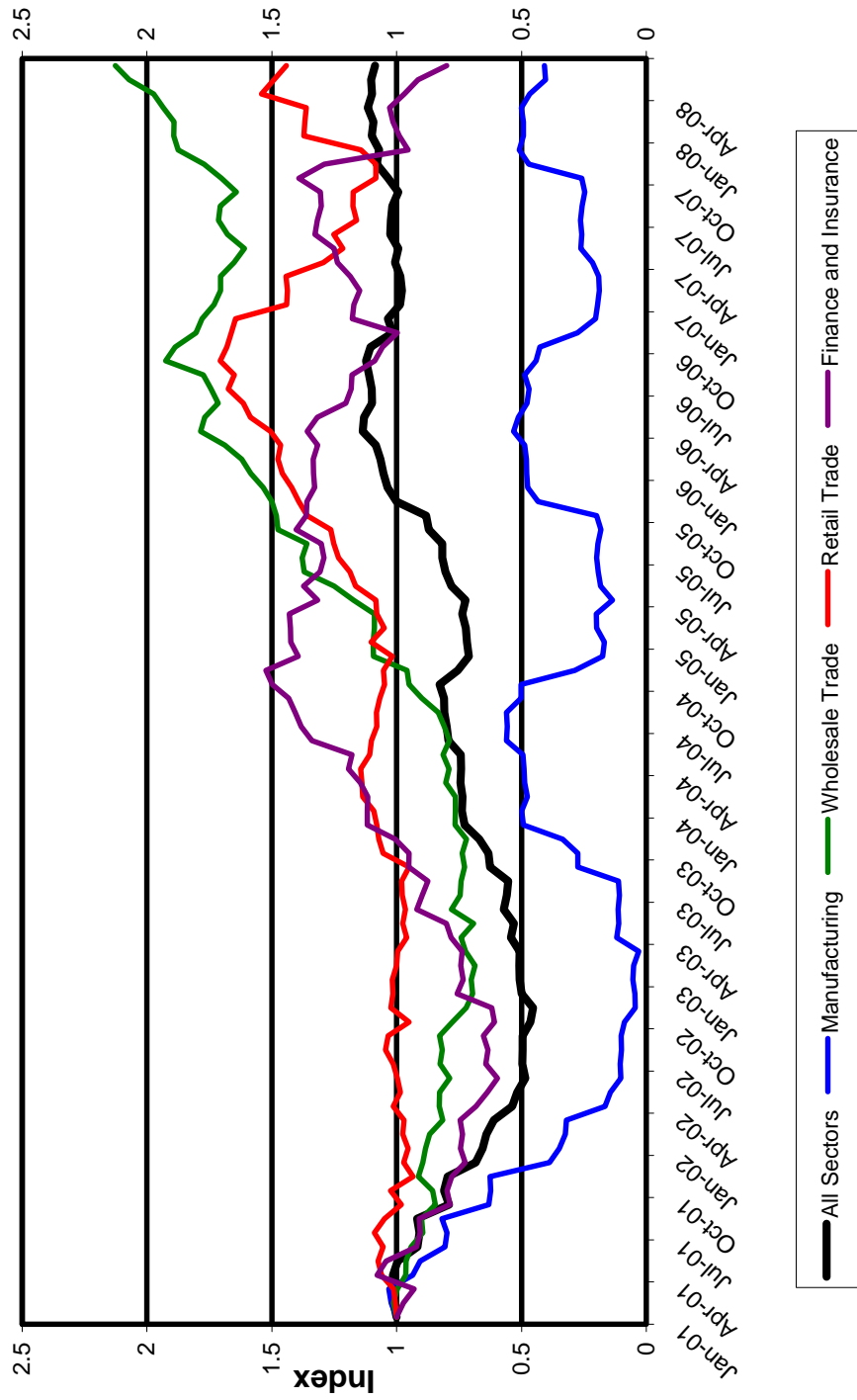
* The order and definitions for these sectors is from the North American Industry Classification System (NAICS). For additional information on NAICS sectors, please see Appendix B — "Selected Glossary of Industry Sectors."

** Negative amount for this sector is a result of significant refunds issued for tax years prior to 2006.

*** 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 code 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 shows 12-month cumulative receipts of selected sectors, relative to their value in January 2001. Total receipts were decreasing through December 2002, then rose through November 2004. As of December 2006, total receipts returned back to their January 2001 level and stayed that way through June 2007. Receipts from the retail trade grew 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 2008**



Summary of All Corporate Returns

Corporations may file one of four Oregon tax returns depending on their business structure and nature of their business. C corporations may file Forms 20, 20-I or 20-INS, while S corporations file Form 20-S.

- **Form 20, Excise Tax.** Corporations doing business in Oregon file Form 20 and pay the corporation excise tax. For tax years beginning on or after January 1, 2006, the minimum corporation excise tax is \$10 multiplied by the number of affiliates in the group that are doing business in Oregon.
- **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 not subject to a minimum tax.
- **Form 20-INS, Insurance.** Insurance corporations file Form 20-INS and pay the excise tax. They are subject to the same minimum tax requirement as filers of the Form 20.
- **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. Excise taxpayers pay a minimum tax of \$10. Income taxpayers are not subject to a minimum 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 business activities that constitute a unitary business as defined by ORS 317.705.

Exhibit 3.1—Tax Year 2006 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	31,743	\$6,925,089	\$403,652
20-I Oregon Corporation Income Tax Return	235	\$4,193	\$277
20-INS Oregon Insurance Excise Tax Return	1,152	\$772,121	\$43,592
20-S Oregon S Corporation Tax Return	54,771	\$26,484	\$2,448
Total	87,901	\$7,727,887	\$449,969

Timing of Filing Tax Returns

Corporations' tax years may cover a period of time significantly different from a calendar year.⁵ Because of differing tax years and extensions for filing returns, tax year 2006 returns were received during a two-year period.

Exhibit 3.2 shows when the returns were received. By December 2007, about 77 percent of the tax for tax year 2006 had been reported on returns.

Exhibit 3.2—Tax Year 2006 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 2007 or prior	5,831	\$2,021	0.4%	\$2,021	0.4%
March-07	18,556	\$13,474	3.0%	\$15,496	3.4%
April-07	15,808	\$27,326	6.1%	\$42,821	9.5%
May-07	2,498	\$3,090	0.7%	\$45,912	10.2%
June-07	3,192	\$8,008	1.8%	\$53,920	12.0%
July-07	2,901	\$4,444	1.0%	\$58,364	13.0%
August-07	3,883	\$10,372	2.3%	\$68,736	15.3%
September-07	13,884	\$48,938	10.9%	\$117,674	26.2%
October-07	8,553	\$182,372	40.5%	\$300,045	66.7%
November-07	1,868	\$35,620	7.9%	\$335,665	74.6%
December-07	2,279	\$9,903	2.2%	\$345,568	76.8%
January-08	1,915	\$16,092	3.6%	\$361,660	80.4%
February-08	1,496	\$6,675	1.5%	\$368,335	81.9%
March-08	1,517	\$13,958	3.1%	\$382,293	85.0%
April-08	960	\$19,350	4.3%	\$401,644	89.3%
May-08	536	\$14,804	3.3%	\$416,448	92.6%
June-08	885	\$9,019	2.0%	\$425,467	94.6%
July 2008 or later	1,339	\$24,503	5.4%	\$449,970	100.0%
Total	87,901	\$449,970	100.0%		

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

⁵ For more detail on corporations' fiscal years and the due dates of corporations' tax returns, see Appendix C.

Timing of Receipts for Tax Year 2006

Because corporations generally must 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 2006 tax liability as of September 2007. 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 2007.

Exhibit 3.3—Tax Year 2006 Corporation Tax Receipts

By Month

Dollars in thousands

Month	Net Receipts for Tax Year*	Percent of Total Receipts for Tax Year	Cumulative Receipts	Cumulative Percent
March 2006 or prior	\$3,020	0.7%	\$3,020	0.7%
April-06	\$35,691	7.8%	\$38,712	8.4%
May-06	\$16,367	3.6%	\$55,078	12.0%
June-06	\$70,373	15.3%	\$125,451	27.3%
July-06	\$13,638	3.0%	\$139,089	30.2%
August-06	\$4,980	1.1%	\$144,069	31.3%
September-06	\$91,244	19.8%	\$235,313	51.2%
October-06	\$42,028	9.1%	\$277,341	60.3%
November-06	\$91,559	19.9%	\$368,900	80.2%
December-06	\$96,436	21.0%	\$465,335	101.2%
January-07	\$12,749	2.8%	\$478,084	103.9%
February-07	\$20,283	4.4%	\$498,367	108.3%
March-07	\$33,042	7.2%	\$531,409	115.5%
April-07	\$38,724	8.4%	\$570,133	123.9%
May-07	\$15,789	3.4%	\$585,922	127.4%
June-07	\$20,225	4.4%	\$606,147	131.8%
July-07	\$11,591	2.5%	\$617,738	134.3%
August-07	\$7,162	1.6%	\$624,900	135.8%
September-07	\$9,070	2.0%	\$633,970	137.8%
October-07	-\$2,731	-0.6%	\$631,240	137.2%
November-07	-\$61,283	-13.3%	\$569,957	123.9%
December-07	-\$54,289	-11.8%	\$515,668	112.1%
January 2008 or later	-\$55,655	-12.1%	\$460,013	100.0%
Total	\$460,013	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.

History of Tax Returns Filed

Exhibit 3.4 shows the recent history of corporate tax returns filed in Oregon. The number of returns has increased steadily since 1990. A decline in the number of C corporation returns since 1998 is balanced 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	46,744	36,527	83,271	\$236,827	\$237,051
2003	48,842	35,991	84,833	\$285,120	\$285,720
2004	50,980	34,883	85,863	\$313,245	\$313,480
2005	53,341	34,242	87,583	\$458,336	\$294,015
2006	54,771	33,130	87,901	\$449,916	\$449,970

* 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 2006. Taxpayers doing business in Oregon must file one of the following tax forms: 20 or 20-INS. Only a few 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 largest 275 corporations paid 65 percent of the total tax.

Exhibit 3.5—Tax Year 2006 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*	19,703	\$0	\$379
\$1 - \$50,000	8,548	\$103,597	\$6,673
\$50,000 - \$100,000	1,511	\$105,858	\$6,742
\$100,000 - \$250,000	1,224	\$196,615	\$12,390
\$250,000 - \$500,000	701	\$249,736	\$15,387
\$500,000 - \$1 million	493	\$346,341	\$21,591
\$1 million to \$5 million	675	\$1,509,002	\$91,774
\$5 million to \$10 million	139	\$974,987	\$59,595
\$10 million to \$25 million	84	\$1,283,828	\$75,886
Over \$25 million	52	\$2,931,438	\$157,104
Total	33,130	\$7,701,403	\$447,522

Percentage Distribution of Taxable Returns

Oregon Taxable Income Category	Number of Returns	Oregon Taxable Income	Oregon Net Tax
Zero Income or Loss*	59.5%	0.0%	0.1%
\$1 - \$50,000	25.8%	1.3%	1.5%
\$50,000 - \$100,000	4.6%	1.4%	1.5%
\$100,000 - \$250,000	3.7%	2.6%	2.8%
\$250,000 - \$500,000	2.1%	3.2%	3.4%
\$500,000 - \$1 million	1.5%	4.5%	4.8%
\$1 million to \$5 million	2.0%	19.6%	20.5%
\$5 million to \$10 million	0.4%	12.7%	13.3%
\$10 million to \$25 million	0.3%	16.7%	17.0%
Over \$25 million	0.2%	38.1%	35.1%
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 2006, the finance and insurance, wholesale trade, retail trade, and manufacturing sectors together contributed 70 percent of total tax payments.

Exhibit 3.6—Tax Year 2006 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	1,698	\$58,530	\$3,759
Mining	90	\$13,050	\$848
Utilities	86	\$373,319	\$13,898
Construction	3,556	\$273,996	\$17,676
Manufacturing	2,340	\$852,086	\$44,237
Wholesale Trade	3,588	\$1,792,164	\$113,151
Retail Trade	2,593	\$1,029,016	\$64,823
Transportation and Warehousing	951	\$215,906	\$13,959
Information	907	\$289,453	\$18,513
Finance and Insurance	2,631	\$1,714,178	\$92,961
Real Estate, Rental, and Leasing	1,811	\$116,581	\$7,607
Professional, Scientific, and Technical Services	3,471	\$179,721	\$11,607
Management of Companies and Enterprises	932	\$355,288	\$15,996
Administrative, Support, and Waste Management	1,191	\$66,339	\$4,236
Education Services	194	\$11,814	\$754
Health Care and Social Assistance	1,891	\$135,960	\$8,781
Arts, Entertainment, and Recreation	383	\$10,304	\$645
Accommodation and Food Services	957	\$75,126	\$4,953
Other Services (except Public Administration)	1,743	\$118,439	\$7,817
Unknown	2,117	\$20,133	\$1,300
Total	33,130	\$7,701,403	\$447,521
Percentage Distribution			
Industry Sector *	Number of Returns	Oregon Taxable Income	Oregon Net Tax
Agriculture, Forestry, Fishing, and Hunting	5.1%	0.8%	0.8%
Mining	0.3%	0.2%	0.2%
Utilities	0.3%	4.8%	3.1%
Construction	10.7%	3.6%	3.9%
Manufacturing	7.1%	11.1%	9.9%
Wholesale Trade	10.8%	23.3%	25.3%
Retail Trade	7.8%	13.4%	14.5%
Transportation and Warehousing	2.9%	2.8%	3.1%
Information	2.7%	3.8%	4.1%
Finance and Insurance	7.9%	22.3%	20.8%
Real Estate, Rental, and Leasing	5.5%	1.5%	1.7%
Professional, Scientific, and Technical Services	10.5%	2.3%	2.6%
Management of Companies and Enterprises	2.8%	4.6%	3.6%
Administrative, Support, and Waste Management	3.6%	0.9%	0.9%
Education Services	0.6%	0.2%	0.2%
Health Care and Social Assistance	5.7%	1.8%	2.0%
Arts, Entertainment, and Recreation	1.2%	0.1%	0.1%
Accommodation and Food Services	2.9%	1.0%	1.1%
Other Services (except Public Administration)	5.3%	1.5%	1.7%
Unknown	6.4%	0.3%	0.3%
Total	100.0%	100.0%	100.0%

* The order and definitions for these sectors is from the North American Industry Classification System (NAICS). 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 (the location of corporation's headquarters) as reported on the tax return. 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 2006, most of the corporate tax liability did not come from corporations domiciled in Oregon. Corporations domiciled outside of Oregon accounted for three-quarters of the total liability.

**Exhibit 3.7—Tax Year 2006 C Corporation Tax Returns
Region of Commercial Domicile**

Dollars in thousands				
Region*	Number of Returns	Oregon Taxable Income	Oregon Net Tax	Percent of Total Tax
Northeast	2,101	\$1,030,863	\$63,816	14.3%
Midwest	2,157	\$1,601,611	\$93,510	20.9%
South	2,510	\$1,299,389	\$84,906	19.0%
West	26,098	\$3,756,352	\$204,430	45.7%
Outside U.S.	264	\$13,188	\$860	0.2%
Total	33,130	\$7,701,403	\$447,522	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 2006 C Corporation Tax Returns
State of Commercial Domicile
Western Region**

Dollars in thousands				
State	Number of Returns	Oregon Taxable Income	Oregon Net Tax	Percent of Total Tax
Alaska	36	\$3,018	\$157	0.0%
Arizona	164	\$38,213	\$2,523	0.6%
California	1,781	\$851,019	\$53,882	12.0%
Colorado	254	\$70,685	\$4,667	1.0%
Hawaii	25	\$9,307	\$614	0.1%
Idaho	162	\$16,865	\$760	0.2%
Montana	38	\$5,837	\$287	0.1%
New Mexico	16	\$107	\$7	0.0%
Nevada	121	\$31,259	\$2,064	0.5%
Oregon	22,201	\$2,125,925	\$112,767	25.2%
Utah	141	\$14,549	\$962	0.2%
Washington	1,147	\$588,847	\$25,691	5.7%
Wyoming	12	\$722	\$48	0.0%
Total	26,098	\$3,756,352	\$204,430	45.7%

Taxpayers doing business in multiple states must apportion their business income using an apportionment formula. For tax years beginning July 1, 2005 Oregon uses 100 percent sales factor apportionment.⁶

**Exhibit 3.8—Tax Year 2006 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)	12,293	\$6,900,039	\$397,887	88.9%
Nonapportioned	20,837	\$801,364	\$49,634	11.1%
Total	33,130	\$7,701,403	\$447,521	100%

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

**Exhibit 3.9 Tax Year 2006 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 Tax
Agriculture, Forestry, Fishing, and Hunting	168	\$22,038	\$1,449	0.4%
Mining	29	\$8,411	\$541	0.1%
Utilities	32	\$370,940	\$13,743	3.5%
Construction	912	\$208,942	\$13,383	3.4%
Manufacturing	905	\$722,756	\$36,294	9.1%
Wholesale Trade	2,212	\$1,722,398	\$108,723	27.3%
Retail Trade	682	\$965,087	\$60,846	15.3%
Transportation and Warehousing	361	\$206,573	\$13,361	3.4%
Information	461	\$274,319	\$17,514	4.4%
Finance and Insurance	1,792	\$1,528,904	\$82,194	20.7%
Real Estate, Rental, and Leasing	487	\$62,051	\$4,022	1.0%
Professional, Scientific, and Technical Services	1,400	\$135,414	\$8,840	2.2%
Management of Companies and Enterprises	743	\$332,819	\$14,920	3.7%
Administrative, Support, and Waste Management	416	\$51,051	\$3,301	0.8%
Education Services	73	\$10,548	\$670	0.2%
Health Care and Social Assistance	177	\$118,633	\$7,631	1.9%
Arts, Entertainment, and Recreation	93	\$5,533	\$362	0.1%
Accommodation and Food Services	154	\$47,540	\$3,137	0.8%
Other Services (except Public Administration)	308	\$91,629	\$6,041	1.5%
Unknown	888	\$14,451	\$915	0.2%
All	12,293	\$6,900,039	\$397,887	100%

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

⁶ Section 1A provides more detail on changes in Oregon's corporate apportionment formula.

Many 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 several 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 2006 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	271	\$46,898	229	\$22,895
Dependent Care Assistance	15	\$960	13	\$479
Oregon Affordable Housing Credit	25	\$5,735	25	\$3,579
Pollution Control	99	\$29,863	87	\$12,228
Qualified Research Activities	195	\$48,839	100	\$7,976
Long-Term Care Facilities	7	\$4	7	\$4
Farm-Worker Housing Construction	13	\$1,996	11	\$1,473
Oregon Trust for Cultural Development	15	\$32	13	\$27
Other Corporation Credits	46	\$7,329	41	\$5,972
Insurance Only Credits				
Fire Insurance Credit	281	\$6,786	262	\$3,775
Oregon Life and Health IGA Assessments	66	\$62	51	\$33
Workers' Compensation Assessments	79	\$5,059	73	\$1,772
Total*	952	\$153,563	766	\$60,213

* 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, pollution control and qualified research activities. Details for taxpayers claiming these credits are in the next three exhibits.

Exhibit 3.11—Tax Year 2006 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	19	\$129	14	\$68
Utilities	5 or fewer	\$7,883	5 or fewer	\$3,956
Construction	12	\$244	11	\$240
Manufacturing	66	\$16,858	55	\$4,702
Wholesale Trade	38	\$7,106	34	\$808
Retail Trade	40	\$629	33	\$569
Transportation and Warehousing	10	\$159	6	\$106
Information	5 or fewer	\$12	5 or fewer	\$12
Finance and Insurance	22	\$9,527	22	\$8,338
Real Estate, Rental, and Leasing	10	\$102	9	\$90
Professional, Scientific, and Technical Services	11	\$47	8	\$12
Management of Companies and Enterprises	12	\$3,896	10	\$3,720
Administrative, Support, and Waste Management	8	\$43	7	\$26
Health Care and Social Assistance	5 or fewer	\$219	5 or fewer	\$207
Accommodation and Food Services	5 or fewer	\$11	5 or fewer	\$11
Other Services (except Public Administration)	5 or fewer	\$12	5 or fewer	\$9
All Other and Unknown	5 or fewer	\$20	5 or fewer	\$20
Total	271	\$46,898	229	\$22,895

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*	41	\$6,582	0	\$0
\$1 - \$50,000	50	\$130	49	\$49
\$50,000 - \$100,000	29	\$165	29	\$76
\$100,000 - \$250,000	19	\$184	19	\$89
\$250,000 - \$500,000	22	\$206	22	\$201
\$500,000 - \$1 million	28	\$325	28	\$310
\$1 million to \$5 million	36	\$3,263	36	\$1,556
\$5 million to \$10 million	17	\$921	17	\$921
\$10 million to \$25 million	14	\$3,459	14	\$3,459
Over \$25 million	15	\$31,663	15	\$16,235
Total	271	\$46,898	229	\$22,895

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

Exhibit 3.12—Tax Year 2006 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	15	\$120	12	\$43
Utilities	5 or fewer	\$10,148	5 or fewer	\$4,625
Construction	5 or fewer	\$158	5 or fewer	\$158
Manufacturing	30	\$8,826	27	\$2,366
Wholesale Trade	13	\$4,447	10	\$1,275
Retail Trade	9	\$370	8	\$116
Finance and Insurance	5 or fewer	\$320	5 or fewer	\$320
Management of Companies and Enterprises	7	\$4,612	6	\$3,007
Administrative, Support, and Waste Management	11	\$345	11	\$107
All Other and Unknown	6	\$517	5 or fewer	\$213
Total	99	\$29,863	87	\$12,228

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*	12	\$4,202	0	\$0
\$1 - \$50,000	10	\$85	10	\$16
\$50,000 - \$100,000	9	\$275	9	\$34
\$100,000 - \$250,000	14	\$132	14	\$84
\$250,000 - \$500,000	8	\$431	8	\$129
\$500,000 - \$1 million	9	\$1,265	9	\$242
\$1 million to \$5 million	18	\$1,756	18	\$1,307
\$5 million to \$10 million	8	\$3,303	8	\$457
Over \$10 million	11	\$18,412	11	\$9,959
Total	99	\$29,863	87	\$12,228

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

Exhibit 3.13—Tax Year 2006 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	68	\$20,325	49	\$4,230
Wholesale Trade	31	\$6,767	17	\$2,737
Information	34	\$8,203	8	\$588
Professional, Scientific, and Technical Services	38	\$8,769	15	\$247
All Other and Unknown	24	\$4,775	11	\$174
Total	195	\$48,839	100	\$7,976

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*	94	\$25,884	0	\$0
\$1 - \$50,000	15	\$783	14	\$20
\$50,000 - \$100,000	5 or fewer	\$107	5 or fewer	\$12
\$100,000 - \$250,000	15	\$188	15	\$115
\$250,000 - \$500,000	16	\$1,289	16	\$239
\$500,000 - \$1 million	12	\$2,498	12	\$307
\$1 million to \$5 million	24	\$11,063	24	\$2,475
\$5 million to \$10 million	9	\$1,384	9	\$1,119
\$10 million to \$25 million	5 or fewer	\$1,443	5 or fewer	\$1,442
Over \$25 million	5 or fewer	\$4,200	5 or fewer	\$2,246
Total	195	\$48,839	100	\$7,976

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

About 63 percent of all C corporation taxpayers paid the minimum tax for tax year 2006. Exhibit 3.14 shows the number of C corporations paying the minimum tax for various income levels. For tax years beginning on or after January 1, 2006, each corporation doing business in Oregon that is part of an affiliated group is subject to a \$10 minimum tax. Taxpayers in higher taxable income categories paying the minimum tax have credits that reduce their tax liability to the minimum tax amount.

**Exhibit 3.14—Tax Year 2006 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*	19,691	19,703	99.94%
\$1 - \$50,000	969	8,548	11.34%
\$50,000 - \$100,000	35	1,511	2.32%
\$100,000 - \$250,000	35	1,224	2.86%
\$250,000 - \$500,000	29	701	4.14%
\$500,000 - \$1 million	13	493	2.64%
Over \$1 million	31	950	3.26%
Total	20,803	33,130	62.8%

* 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 2006 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	14,458
Minimal income in current year	1,189
Losses Carried Forward	
Losses carried forward from prior years result in zero income or loss	4,770
Losses carried forward from prior years result in minimal income	130
Credits	
Credits reduce tax to minimum	216
Combination	
Combination of losses carried forward and credits reduce tax to minimum	40
Total	20,803

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

**Exhibit 3.16—Tax Year 2006 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	1,139	1,698	67.1%
Mining	62	90	68.9%
Utilities	64	86	74.4%
Construction	2,249	3,556	63.2%
Manufacturing	1,407	2,340	60.1%
Wholesale Trade	1,875	3,588	52.3%
Retail Trade	1,553	2,593	59.9%
Transportation and Warehousing	598	951	62.9%
Information	668	907	73.6%
Finance and Insurance	1,405	2,631	53.4%
Real Estate, Rental, and Leasing	1,124	1,811	62.1%
Professional, Scientific, and Technical Services	2,284	3,471	65.8%
Management of Companies and Enterprises	573	932	61.5%
Administrative, Support, and Waste Management	763	1,191	64.1%
Education Services	127	194	65.5%
Health Care and Social Assistance	1,371	1,891	72.5%
Arts, Entertainment, and Recreation	263	383	68.7%
Accommodation and Food Services	597	957	62.4%
Other Services (except Public Administration)	1,142	1,743	65.5%
Unknown	1,539	2,117	72.7%
Total	20,803	33,130	62.8%

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

SECTION 3C
CORPORATE TAX RETURNS
SUMMARY OF S CORPORATION TAX RETURNS

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. Income tax filers are not subject to a minimum tax. 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 2006 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	54,000	53,683	\$25,913	\$2,411
Income Tax	771	736	\$571	\$38
Total 20-S	54,771	54,419	\$26,484	\$2,448

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 2006 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)	6,928	\$21,512	\$1,570
Nonapportioned	47,843	\$4,972	\$879
State of Domicile for 20-S Filers			
Oregon	49,179	\$11,847	\$1,429
Other	5,592	\$14,637	\$1,019

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 tax years beginning on or after July 1, 2005, 100 percent sales apportionment (with a few exceptions) should be used. Section 1A describes apportionment history in detail.

Biennium. The period of two fiscal years for which the state budgets are determined. For example, July 1, 2007 to June 30, 2009 is referred to as the 2007-09 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 2009-11 Tax Expenditure Report*, available at www.oregon.gov/DOR/STATS/.

Doing Business. A taxpayer is doing business when it engages in any profit-seeking activity in 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. For tax years beginning on or after January 1, 2006, an affiliated group of C corporations filing a consolidated return in Oregon should pay the \$10 minimum corporate excise tax multiplied by the number of corporations in the group that are doing business in Oregon. S corporations that are excise tax filers are subject to a \$10 minimum tax. There is no minimum tax for corporate income taxpayers.

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 must 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. A comprehensive list of subtractions can be found in the *State of Oregon 2009-11 Tax Expenditure Report*, available online at www.oregon.gov/DOR/STATS/.

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 unitary 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 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, and 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, 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 2006 in December 2006. The taxpayer’s tax year would end November 2007. The taxpayer’s Oregon return would be due by March 15, 2008. 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 2006 Oregon return as late as September 15, 2008.

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 after 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 2006 C corporation returns. A corporation's tax year 2006 is based on a filing period that begins any time in calendar year 2006. 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 2006 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	620	\$569,604	\$36,700	8.2%
February	484	\$59,581	\$3,922	0.9%
March	1991	\$331,945	\$20,380	4.6%
April	633	\$76,349	\$4,974	1.1%
May	618	\$156,642	\$8,020	1.8%
June	2723	\$424,322	\$27,310	6.1%
July	494	\$72,831	\$4,736	1.1%
August	608	\$127,565	\$6,035	1.3%
September	2024	\$321,089	\$20,242	4.5%
October	902	\$96,465	\$6,040	1.3%
November	388	\$32,221	\$2,062	0.5%
December	20520	\$5,123,340	\$295,975	66.1%
Part year with/Dec.*	615	\$276,278	\$8,950	2.0%
Part year without Dec.**	510	\$33,170	\$2,177	0.5%
Total	33,130	\$7,701,403	\$447,522	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 a 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 affect 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 United States as a whole. For example, a certain manufacturer may produce a product at several plants in the United States. 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. We try to assign a sector classification for taxpayers lacking this information and make 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 of corporate taxes are at least 2 percent greater than the forecast, then all of the excess (including the 2 percent) is returned to corporate taxpayers. If the collections of all other General Fund revenues are at least 2 percent greater than the forecast, then all of the excess (including the 2 percent) is returned to personal income 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. 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. Small corporations with Oregon sales of less than \$5 million were allowed to claim one-time small sales credit. The amount of the credit was equal to 67 percent of the tax after all other credits. The 2007 Legislature also changed the kicker distribution. Beginning in 2009, any kicker will be calculated based on 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.