

## How to calculate CAT liability

No two businesses are exactly alike. The facts and circumstances of each business is unique, but every business will need the same information to determine its liability under the Corporate Activity Tax. The two examples below are meant to provide general guidance on how to calculate a business's CAT liability. If you have additional questions, please send them to the CAT policy team at [cat.help.dor@oregon.gov](mailto:cat.help.dor@oregon.gov).

To calculate your business's CAT liability, you will need the following information:

- **Amount of commercial activity sourced to Oregon.** Determine the total amount of commercial activity sourced to Oregon that the business realized over the course of the year. Do not include receipts from items that are specifically excluded from commercial activity. This is the amount of your Oregon commercial activity.
- **Amount of everywhere commercial activity plus exclusions.** Determine the total amount of commercial activity everywhere that the business realized over the course of the year plus any receipts from items that are specifically excluded from commercial activity. This is the amount of your everywhere commercial activity plus exclusions.
- **Amount of labor costs.** Determine the total amount of labor costs the business paid or incurred over the course of the year. "Labor costs" means total compensation of all employees, not to include compensation paid to any single employee in excess of \$500,000.
- **Amount of cost inputs.** Determine the total amount of cost inputs the business paid or incurred over the course of the year. "Cost inputs" means the cost of goods sold as calculated in arriving at federal taxable income under the Internal Revenue Code.
- **Amount of qualifying payments to subcontractors for labor.** If you are claiming an exclusion from commercial activity for labor costs paid to subcontractors for the construction of single-family residential construction in Oregon pursuant to Oregon Laws 2019, chapter 579, §58, determine the total amount of qualifying labor payments.

### Calculation:

Step 1: Determine your commercial activity ratio

- $\text{Oregon commercial activity} / (\text{everywhere commercial activity plus exclusions}) = \text{commercial activity ratio}$ . Rounding: When computing your commercial activity ratio, round the percentage to four decimal places. For example, 12.34558 percent should be 12.3456 percent.

Step 2: Determine your cost subtraction

- $\text{Commercial activity ratio} \times \text{total labor costs} \times 35 \text{ percent} = \text{labor costs apportioned to Oregon}$ .
- $\text{Commercial activity ratio} \times \text{total cost inputs} \times 35 \text{ percent} = \text{cost inputs apportioned to Oregon}$ .
- The greater of either your labor costs apportioned to Oregon or your cost inputs apportioned to Oregon is your cost subtraction. Your cost subtraction may not exceed 95 percent of your Oregon commercial activity.

As an alternative to this method of determining your cost subtraction you may use separate accounting to identify which specific labor costs or cost inputs are solely attributable to Oregon Commercial activity. Your cost

subtraction may not include any labor costs or cost inputs that are not attributable to Oregon commercial activity or any items specifically excluded from commercial activity.

If you are claiming an exclusion from commercial activity for labor costs paid to subcontractors for the construction of single-family residential construction in Oregon, you must reduce everywhere cost inputs by an amount equal to the amount excluded from commercial activity. See Example 2 below.

Step 3: Determine your taxable Oregon commercial activity

- Oregon commercial activity – cost subtraction = taxable Oregon commercial activity.

Step 4: Determine your Oregon Corporate Activity Tax liability

- (Taxable Oregon commercial activity – \$1 million threshold) x 0.57 percent tax rate + \$250 = Oregon Corporate Activity Tax liability

If your taxable Oregon commercial activity is \$1 million or less your CAT tax liability is zero.

### Example 1:

Grocery & TV Mart has \$10 million of Oregon commercial activity and \$70 million of everywhere commercial activity plus exclusions (\$50 million in commercial activity and \$20 million in exclusions from commercial activity). Grocery & TV Mart has an everywhere labor cost of \$28 million and everywhere cost inputs of \$26 million. Grocery & TV Mart computes their Oregon subtraction as follows:

Step 1: Determine your commercial activity ratio

- Oregon commercial activity of \$10 million / everywhere commercial activity plus exclusions of \$70 million = 14.2857 percent commercial activity ratio.

Step 2: Determine your cost subtraction

- In this example, labor costs are greater than cost inputs. Using the \$28 million of total labor costs x commercial activity ratio of 14.2857 percent x 35 percent = \$1,399,999 labor costs apportioned to Oregon.

Step 3: Determine your taxable Oregon commercial activity

- \$10 million Oregon commercial activity – \$1,399,999 cost subtraction = \$8,600,001 taxable Oregon commercial activity

Step 4: Determine your Oregon commercial activity tax liability

- (\$8,600,001 taxable Oregon commercial activity – \$1 million threshold) x 0.57 percent tax rate + \$250 = \$43,570 Oregon Corporate Activity Tax liability

### Example 2:

Construction Company XYZ has \$10 million of Oregon commercial activity and \$70 million of everywhere commercial activity plus exclusions (\$50 million in commercial activity and \$20 million in exclusions from commercial activity). Construction Company XYZ has an everywhere labor cost of \$2 million and everywhere

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cost inputs of \$38 million. A total of \$3 million of Construction Company XYZ's cost input represents labor costs paid to subcontractors for the construction of single-family residential construction in Oregon.

Step 1: Determine your commercial activity ratio

- Oregon commercial activity of \$10 million / everywhere commercial activity plus exclusions of \$70 million = 14.2857 percent commercial activity ratio.

Step 2: Determine your cost subtraction

- In this example, cost inputs are greater than labor costs. If Construction Company XYZ excludes labor costs paid to subcontractors from their commercial activity pursuant to Oregon Laws 2019, chapter 579, §58, their everywhere cost input must be reduced by an amount equal to this exclusion. The \$38 million of total costs inputs must be reduced by \$450,000 (15 percent of the \$3 million of qualifying labor costs paid to subcontractors). Adjusted cost inputs of \$37,550,000 (\$38 million - \$450,000) x commercial activity ratio of 14.2857 percent x 35 percent = \$1,877,498 cost subtraction.

Step 3: Determine your taxable Oregon commercial activity

- \$10 million Oregon commercial activity – \$450,000 (15 percent of the \$3 million of qualifying labor costs paid to subcontractors) – \$1,877,498 cost subtraction = \$7,672,502 taxable Oregon commercial activity

Step 4: Determine your Oregon commercial activity tax liability

- (\$7,672,502 taxable Oregon commercial activity – \$1 million threshold) x 0.57 percent tax rate + \$250 = \$38,283 Oregon Corporate Activity Tax liability