

Publication OR-PTE

Qualifying Business Income Reduced Tax Rate Instructions for Schedules OR-PTE-FY, OR-PTE-PY, and OR-PTE-NR

2025

General information

If you have qualifying income from a sole proprietorship, partnership, or an S corporation, you may elect to use a reduced tax rate for that income. The reduced tax rate can be claimed for qualifying income up to \$5 million. For non-residents, the qualifying income **must be earned in Oregon**.

Important: The qualifying business income reduced tax rate is an irrevocable election that must be made each year on an original return. You can't amend to revoke or make the election after your original return is filed **unless** you file an amended return on or before the original due date of **April 15, 2026**, or if filing on extension, **October 15, 2026**. See the "Amending" section for more information.

The annual election is made by filing the appropriate reduced rate schedule with your Oregon return. Use Schedule OR-PTE-FY if you're filing a full-year Oregon return. If you're an Oregon nonresident, use Schedule OR-PTE-NR. Use Schedule OR-PTE-PY if you relocated to or from Oregon during the tax year.

Qualifications

Generally

To be eligible for the reduced tax rate, you must materially participate in the business, have at least the minimum number of qualifying Oregon employees, and meet any specific requirements for a sole proprietorship or for a partnership or S corporation.

Qualifying business income. For your income to qualify for the reduced tax rate, it must be nonpassive income from a sole proprietorship, partnership, or S corporation. Income from trusts or estates doesn't qualify for the reduced tax rate. For nonresidents, the nonpassive income must be **earned in Oregon**.

"Nonpassive income" is income other than that from passive activities as defined in Section 469 of the Internal Revenue Code (IRC). This includes, but isn't limited to, nonpassive income reported on federal Schedules C (line 31), E [line 28, column (k)], and F (line 34); IRC Section 1231 gains treated as ordinary income; guaranteed payments; and royalties. Nonpassive income **doesn't** include wages, interest, dividends, or capital gains for the purpose of the reduced tax rate.

Nonpassive income may only be modified for Oregon depreciation adjustments before applying the reduced tax rate. No other additions, subtractions, or deductions are allowed when calculating the reduced tax.

Material participation. Material participation has the same meaning as defined for federal purposes under IRC Section 469. A taxpayer materially participates in an activity if

they work on a regular, continuous, and substantial basis in operations, and must meet any one of the seven material participation tests in Treasury Regulation Section 1.469-5T(a).

Grouping activities. You may group trade, business, or rental activities into a single activity if they form an appropriate economic unit for the purpose of meeting the material participation test under Treasury Regulation Section 1.469-4(c). This treatment is also allowed for the purposes of the qualifying business income reduced tax rate and the material participation requirement.

Employee requirements. The business must have the required number of employees who performed work for the business **in Oregon** for the required number of hours during the tax year. Only the hours worked in a week in which an employee worked at least 30 hours in Oregon can be counted. Hours worked by an employee who is a spouse or other family member and isn't an owner, member, or limited partner can be used to meet the hour requirements. Independent contractors can't be used for the employee requirement.

Temporary or "leased" employees. If a qualifying business contracts with a professional employer organization to employ temporary or "leased" employees, those employees can be used to qualify a business for the reduced tax rate if the employees meet the hour requirements.

Sole proprietorship

To be eligible for the reduced tax rate, a sole proprietor must:

- Have qualifying business income from the sole proprietorship;
- Materially participate in the business; and
- Employ one or more employees in Oregon who meet the employee requirements for at least 1,200 aggregate hours during the tax year.

Partnership or S corporation

To be eligible for the reduced tax rate, a partner or S corporation shareholder must have qualifying income from and materially participate in a partnership or S corporation that:

- Has ordinary business income that doesn't exceed \$5 million;
- Employs one or more employees in Oregon who meet the employee requirements described below; and
- If ordinary business income is more than \$250,000, complies with the employee-to-owner ratio requirement or meets the income distribution requirement described below.

Employee-to-owner ratio requirement. Unless the income distribution requirement is met, partnerships and S corporations with more than \$250,000 in ordinary business income must have, at a minimum, the number of qualifying employees in Oregon per owner as shown in this table. The combined total of hours worked by the qualifying

employees, up to 1,200 hours per employee, must be at least the number shown in this table.

Partnership and S corporation employee requirements:

Ordinary business income is at least	But not more than	Employees required	Aggregate hours worked by employees
\$0	\$250,000	One	1,200
\$250,001	\$500,000	One per owner	1,200 per owner
\$500,001	\$1,000,000	Two per owner	2,400 per owner
\$1,000,001	\$2,500,000	Four per owner	4,800 per owner
\$2,500,001	\$5,000,000	Ten per owner	12,000 per owner

Income distribution requirement. A partnership or S corporation with more than \$250,000 in ordinary business income may still qualify for the reduced tax rate even if the employee-to-owner ratio shown in this table isn't met, so long as income distributions don't exceed 25 percent of ordinary business income. Calculate the percentage using the total distributions and total ordinary business income for the current tax year and up to two of the most recent tax years. Treat an annual amount of less than zero as zero for that year.

Tiered entities. If you received nonpassive income that an upper-tier entity passed through to you from a qualifying lower-tier entity, that income qualifies for the reduced tax rate if the lower-tier entity meets the employee requirement.

Coordination with pass-through entity elective tax (PTE-E tax). Certain partnerships and S corporations may elect to pay PTE-E tax. This means they have elected to pay Oregon income tax at the entity level. Individuals who are direct or indirect members of an electing entity are allowed a tax credit for the PTE-E tax paid by the entity. Individuals must also report an addition for any PTE-E tax deducted on an entity-level federal return. The addition amount may be added to qualified business income, but only to the extent that the ordinary business income reported on the entity-level federal return qualifies for the reduced tax rate. See the instructions for lines 1 through 3, field (b), for additional information.

Example 1: Bryant is the sole shareholder of an S corporation. Marcus is the sole shareholder of an S corporation. The two S corporations each have a 50 percent ownership in a partnership. Bryant and Marcus both materially participate in the partnership, which has ordinary business income of \$2 million. The partnership employs ten full-time employees in Oregon. Bryant and Marcus receive a distributive share of nonpassive income from the partnership that passes through their respective S corporations. They also receive a salary as reasonable compensation for the work performed for the partnership. The distributive share of nonpassive income they receive from the partnership qualifies for the reduced

tax rate since the partnership (as passed through to them from their respective S corporations) meets the ordinary business income and employee requirements. However, the salary received from the partnership doesn't qualify for the reduced tax rate.

Example 2: A sole proprietorship had one employee that worked a total of 1,440 hours during the year in Oregon. The employee worked 32 hours per week for 30 weeks and worked 24 hours per week for 20 weeks. The total qualifying hours is 960 (32 hours x 30 weeks) since the proprietor can't count hours worked less than 30 hours in a week. Because the total qualifying hours worked in Oregon is less than 1,200, the nonpassive income from the sole proprietorship doesn't qualify for the reduced tax rate.

Example 3: A partnership with three partners employed six employees during the year in Oregon. One employee worked 32 hours a week for 30 weeks and the other five employees each worked 20 hours per week for 40 weeks in a job share position. Only the hours worked by the employee that worked 32 hours per week can be used toward the 1,200 hour requirement. Since the total hours (30 weeks x 32 hours per week = 960 total hours) worked by that employee don't exceed the 1,200 hour requirement, and the other five employees don't qualify for purposes of the employee ratio requirement, the income from the partnership doesn't qualify for the reduced tax rate.

Example 4: An S corporation with two shareholders and annual ordinary business income of \$800,000 has three employees, all of whom work 35-hour weeks. The office manager and the two shareholders each work 50 weeks a year, a sales clerk works for 30 weeks a year, and a delivery driver works 20 weeks a year, for a total of 3,500 hours worked by non-owner employees. Annual income distributions to the shareholders include \$150,000 in ordinary business income. With only three employees, this business doesn't meet the employee ratio requirement; however, because it distributes less than 25 percent of its ordinary business income to the shareholders each year, its nonpassive income still qualifies for the reduced tax rate.

Amending

Revoke or make election. You can't amend to revoke or make the election after your original return is filed **unless** the amended return is filed on or before the original due date of **April 15, 2026**, or if filing on extension, **October 15, 2026**.

Example 5: Liam filed his original return on March 3, 2026, and didn't elect the reduced tax rate. He files an amended return on April 11, 2026, and makes the election. His amended return will be accepted allowing the reduced tax rate because it was filed before the original due date.

Example 6: Maggie filed her original return on March 12, 2026, and didn't elect the reduced tax rate or file an extension. She files an amended return on May 2, 2026, and elects the reduced tax rate. The reduced tax rate will be denied since the amended return was filed after the original due date of April 15, 2026, and she did not file an extension.

Example 7: Allen filed his original return on a timely filed extension on May 5, 2026, and elected to use the reduced tax rate. He files an amended return on July 1, 2026, and doesn't use the reduced tax rate. Allen's amended return will be treated as the original return, allowing him to revoke his earlier election to use the reduced rate.

Other amendments. If you made the election to use the reduced tax rate on your original return, you must amend the schedule if:

- An IRS audit (or other state audit) resulted in a change that affects your Oregon return;
- You amended your federal (or other state) return and the changes you made affect your Oregon return;
- You have a net operating loss (NOL) carryback; or
- You need to correct income or deductions you originally reported.

Note: You must use the reduced tax rate on an amended return filed **after** the due date (including extension) if you made the election to use it on your original return, even if using the reduced rate is no longer beneficial.

Schedule instructions

Follow the instructions for the reduced rate schedule that goes with your return. If you elect to use the reduced rate, include the completed schedule when you file your return.

Section A

Lines 1 through 3. Complete one line for each qualifying sole proprietorship, partnership, or S corporation. Only list businesses that qualify. Use additional schedules if necessary. If using more than one schedule, enter the total from all schedules on line 4 of the first page.

Note: You must list **all** nonpassive income (or loss) from qualifying sole proprietorships, partnerships, and S corporations for each individual making the election. **You can't selectively choose which qualifying income (or losses) to report.**

For each qualifying business, enter the business name, federal employer identification number (FEIN), number of qualifying employees, business code number, and entity type.

Business code number. Enter the business code number (or North American Industry Classification System code) as reported on line C of federal Form 1065, line B of federal Form 1120-S, or line B of federal Schedules C or F.

Entity type. Enter the appropriate code for how the business files for tax purposes: **SP** for a sole proprietorship, **SC** for an S corporation, or **P** for a partnership. **Don't** enter LLC or anything other than the codes listed.

Field (a). Enter nonpassive losses attributable to the qualifying sole proprietorship, partnership, or S corporation. Include qualifying nonpassive losses such as IRC Section 1231 losses treated as ordinary losses.

Field (b). For partnerships and S corporations only. Enter Section 179 expense deduction you reported in Part II, Section 28, column (i) of your federal Schedule E attributable to

the qualifying partnership or S corporation. If the business is a sole proprietorship, leave this field blank.

Field (c). Enter nonpassive income attributable to the qualifying sole proprietorship, partnership, or S corporation. Also include qualifying nonpassive income such as royalties and IRC Section 1231 gains treated as ordinary income. **Don't** include passive income, capital gains, interest income, wages, or dividends.

Field (d). If you are not a member of an entity (including a tiered entity) that elected to pay PTE-E tax, enter 0. Otherwise, if **all** of the ordinary business income passed through from the electing entity qualifies for this reduced tax rate, enter the amount from Schedule OR-21-K-1, line 2. However, if **not all** of the ordinary business income passed through from the entity qualifies for this reduced tax rate, use the federal Schedule K-1 (or Oregon Schedule OR-K-1), the Schedule OR-21-K-1 issued by the electing entity, and this formula to determine the amount to enter in field (d):

$$\begin{array}{r} \text{Qualifying business} \\ \text{income from} \\ \text{electing entity} \end{array} \times \begin{array}{r} \text{Addition from} \\ \text{Schedule} \\ \text{OR-21-K-1, line 2} \end{array} = \begin{array}{r} \text{Amount to} \\ \text{enter in} \\ \text{field (d)} \end{array}$$

$$\begin{array}{r} \text{Ordinary business} \\ \text{income from} \\ \text{Schedule K-1, box 1} \end{array}$$

See Form OR-21 Instructions and our website for information about the PTE-E tax.

Line 4. Enter the totals for fields (a), (b), (c), and (d). If more than one page is used, report the total of all pages on the first page.

Line 7. If line 7 is 0 or less, you can't use the reduced tax rate. Skip the rest of the schedule and complete your return without making the election. If line 7 is more than 0, enter the amount on line 2b of Section B.

Section B

Complete Section B to determine if using the reduced tax rate will benefit you.

Lines 4 and 7. Report only the depreciation modification attributable to the qualifying sole proprietorships, partnerships, or S corporations listed in Section A.

Example 8: Liam reports an Oregon addition for a depreciation adjustment attributable to his qualifying sole proprietorship. He also claims an Oregon subtraction for a depreciation adjustment attributable to a qualifying partnership. In Section B, Liam will report the addition on line 4 and the subtraction on line 7.

Line 10a. Use **Tax rate chart A** below for the taxable income reported on line 8a.*

Full-year and nonresident filers—lines 11b through 14a

Line 11b. Use **Tax rate chart B** below for the taxable income reported on line 9b. This is your reduced tax on qualifying income.

Line 12a. Add your tax on nonqualifying income from line 10a to your reduced tax on qualifying income from line 11b. **This is your total tax if you elect to use the reduced rate.**

Line 13a. Use **Tax rate chart A** below for the taxable income reported on line 1a.* This is your tax if you **don't elect** to use the reduced rate.

Line 14a. Is line 12a less than line 13a?

- **Yes.** Enter the amount from line 12a here and on the tax line of your return (Form OR-40, line 20; Form OR-40-N, line 46). Check the box below the tax line to indicate your election to use the reduced rate to figure your tax (Form OR-40, box 20c; Form OR-40-N, box 46c). Include the schedule when you file your return.
- **No.** You won't benefit from electing to use the reduced tax rate. Enter the amount from **line 13a** on the tax line of your return (Form OR-40, line 20; Form OR-40-N, line 46).

Part-year filers—lines 11a through 19a

Lines 11a and 14b. Enter your Oregon percentage from Form OR-40-P, line 35. You must multiply the tax on your nonqualifying, qualifying, and total income by your Oregon percentage.

Line 12a. Multiply the tax from line 10a by the percentage on line 11a. The result is your tax on nonqualifying income.

Lines 13b and 15b. Use **Tax rate chart B** below for the taxable income reported on line 9b. Enter the tax on line 13b, then multiply by the percentage on line 14b. The result on line 15b is your reduced tax on qualifying income.

Line 16a. Add your tax on nonqualifying income from line 12a to your reduced tax on qualifying income from line 15b. **This is your total tax if you elect to use the reduced rate.**

Line 17a. Use **Tax rate chart A** below for the taxable income reported on line 1a.*

Line 18a. Multiply the tax from line 17a by the percentage on line 11a. This is your tax if you **don't elect** to use the reduced rate.

Line 19a. Is line 16a less than line 18a?

- **Yes.** Enter the amount from line 16a here and on **both** tax lines on Form OR-40-P, lines 44 **and** 45. **Don't** multiply the tax again by the Oregon percentage as instructed on line 45. Check box 44c to indicate your election to use the reduced rate to figure your tax. Include the schedule when you file your return.
- **No.** You won't benefit from electing to use the reduced tax rate. On Form OR-40-P, enter the amount from **line 17a** on line 44.

*If you have other income that qualifies for farm income averaging or the reduced rate for farm liquidation long-term capital gains, use Publication OR-FIA with the appropriate schedule(s) or Publication OR-FCG to calculate the tax on lines 1a and 10a. **Don't** include any of the nonpassive income from line 8a for that calculation.

Do you have questions or need help?

www.oregon.gov/dor
503-378-4988 or 800-356-4222
questions.dor@dor.oregon.gov

Contact us for ADA accommodations or assistance in other languages.

Tax rate chart A

2025 tax rate chart—Use this chart only for income reported on lines 1a and 8a of Section B.

Chart S: For persons filing single or married filing separately:

If your taxable income isn't over \$4,400your tax is 4.75% of taxable income
If your taxable income is over \$4,400 but not over \$11,100your tax is \$209 plus 6.75% of excess over \$4,400
If your taxable income is over \$11,100 but not over \$125,000your tax is \$661 plus 8.75% of excess over \$11,100
If your taxable income is over \$125,000 your tax is \$10,627 plus 9.9% of excess over \$125,000

Chart J: For persons filing jointly, head of household, or qualifying widow(er) with dependent child:

If your taxable income isn't over \$8,800your tax is 4.75% of taxable income
If your taxable income is over \$8,800 but not over \$22,200your tax is \$418 plus 6.75% of excess over \$8,800
If your taxable income is over \$22,200 but not over \$250,000your tax is \$1,323 plus 8.75% of excess over \$22,200
If your taxable income is over \$250,000your tax is \$21,256 plus 9.9% of excess over \$250,000

Tax rate chart B

Qualified business income reduced tax rate chart—Use this chart only for qualifying income reported on line 9b of Section B.

If your taxable income isn't over \$500,000 your tax is 7% of qualifying income
If your taxable income is over \$500,000 but not over \$1 millionyour tax is \$35,000 plus 7.5% of excess over \$500,000
If your taxable income is over \$1 million but not over \$2.5 million your tax is \$72,500 plus 8% of excess over \$1 million
If your taxable income is over \$2.5 million but not over \$5 millionyour tax is \$192,500 plus 9% of excess over \$2.5 million
If your taxable income is over \$5 millionyour tax is \$417,500 plus 9.9% of excess over \$5 million