

Oregon Corporate Excise and Income Tax

Characteristics of Corporate Taxpayers

2006 Edition

Covering Fiscal Year 2006 Corporate Tax Receipts
and Tax Year 2004 Corporate Tax Returns



150-102-405 (Rev. 12-06)

To order additional copies, please contact:

**Publications
Oregon Department of Revenue
955 Center Street NE
Salem OR 97301-2555
503-945-8636**

**Statistical publications are also available on our website:
www.oregon.gov/DOR/STATS/**

Taxpayer assistance

General tax information..... www.oregon.gov/DOR
Salem 503-378-4988
Toll-free from an Oregon prefix 1-800-356-4222

Asistencia en español:

Salem 503-945-8618
Gratis de prefijo de Oregon 1-800-356-4222

TTY (hearing or speech impaired; machine only):

Salem 503-945-8617
Toll-free from an Oregon prefix 1-800-886-7204

Americans with Disabilities Act (ADA): Call one of the help numbers for information in alternative formats.

Oregon Corporate Excise and Income Tax:

Characteristics of Corporate Taxpayers

2006 EDITION

**Covering Fiscal Year 2006 Corporate Tax Receipts
and Tax Year 2004 Corporate Tax Returns**

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

150-102-405 (Rev. 12-06)

Contents

| | |
|---|------|
| Introduction | iii |
| Section 1 How Corporations Are Taxed | |
| A) History and Tax Calculation | 1-1 |
| B) S Corporations..... | 1-5 |
| C) Insurance Corporations | 1-6 |
| Section 2 Corporate Tax Receipts | 2-1 |
| Timing of Tax Payments | 2-1 |
| Trends in Corporate Tax Receipts | 2-2 |
| Receipts by Industry Sector | 2-4 |
| Section 3 Corporate Tax Returns | |
| A) Summary of Corporate Returns | 3-1 |
| Timing of Filing Tax Returns | 3-2 |
| Timing of Receipts for Tax Year | 3-3 |
| History of Tax Returns Filed..... | 3-4 |
| B) Summary of C Corporation Tax Returns | 3-5 |
| Taxable Income Category | 3-6 |
| Industry Sector | 3-7 |
| State of Commercial Domicile..... | 3-8 |
| Apportioned Returns | 3-9 |
| Credit Usage | 3-10 |
| Minimum Tax Returns | 3-14 |
| C) Summary of 20-S Returns | 3-16 |
| Appendices | |
| A—Glossary of Corporate Terms..... | A-1 |
| B—Selected Glossary of Industry Sectors | B-1 |
| C—Data Construction | C-1 |
| D—Surplus Kicker | D-1 |

Exhibits

Background

| | |
|--|-----|
| Exhibit 1.1—Components of Oregon Corporate Income Tax..... | 1-2 |
| Exhibit 1.2—Contribution of Factors to Apportionment Percentage..... | 1-3 |
| Exhibit 1.3—Corporate Tax Rates, 1929 to Present..... | 1-4 |

Corporation Tax Receipts

| | |
|--|-----|
| Exhibit 2.1—Receipts by Tax Year..... | 2-1 |
| Exhibit 2.2—Net Receipts (Graph)..... | 2-2 |
| Exhibit 2.3—Receipts History..... | 2-3 |
| Exhibit 2.4—Receipts by Industry Sector (Graph)..... | 2-4 |
| Exhibit 2.5—Receipts by Industry Sector..... | 2-5 |
| Exhibit 2.6—Receipts Index of 12-Month Totals (Graph)..... | 2-6 |

Overview of Corporate Tax Returns for Tax Year 2004

| | |
|---|-----|
| Exhibit 3.1—Type of Return Filed..... | 3-1 |
| Exhibit 3.2—Returns Received by Month..... | 3-2 |
| Exhibit 3.3—Receipts for Tax Year by Month..... | 3-3 |
| Exhibit 3.4—Return History..... | 3-4 |

C Corporation Tax Returns for Tax Year 2004

| | |
|---|------|
| Exhibit 3.5—by Taxable Income Category..... | 3-6 |
| Exhibit 3.6—by Industry Sector..... | 3-7 |
| Exhibit 3.7—by State of Commercial Domicile..... | 3-8 |
| Exhibit 3.8—Apportioned Returns..... | 3-9 |
| Exhibit 3.9—Industry Sector for Multistate (Apportioned) Returns..... | 3-9 |
| Exhibit 3.10—Credit Usage..... | 3-10 |
| Exhibit 3.11—Business Energy Facilities Credit Claimants by Industry Sector and Taxable Income..... | 3-11 |
| Exhibit 3.12—Pollution Control Credit Claimants by Industry Sector and Taxable Income..... | 3-12 |
| Exhibit 3.13—Qualified Research Activities Credit Claimants by Ind. Sector and Taxable Income..... | 3-13 |
| Exhibit 3.14—Minimum Tax Returns..... | 3-14 |
| Exhibit 3.15—Minimum Tax Payment Details..... | 3-14 |
| Exhibit 3.16—Minimum Tax Returns by Industry Sector..... | 3-15 |

S Corporation Tax Returns for Tax Year 2004

| | |
|---|------|
| Exhibit 3.17—S Corporation Summary..... | 3-16 |
| Exhibit 3.18—S Corporation Characteristics..... | 3-16 |

Appendices

| | |
|---|-----|
| Exhibit C.1—Corporate Filing Calendar..... | C-1 |
| Exhibit C.2—Tax Year 2004 C Corporation Tax Returns Tax-Year Ending Month..... | C-2 |
| Exhibit D.1—Corporation Kicker History..... | D-1 |

INTRODUCTION

Corporations in Oregon have paid a form of income tax since 1929. These revenues were 7 percent of the General Fund in the 2005-06 fiscal year, and are projected to be about 6 percent of total General Fund revenue in the 2005-07 biennium.

| Oregon Corporate Tax Receipts 2005-06 Fiscal Year | |
|--|-----------------|
| Corporate Tax Revenue | \$442.3 million |
| Percent of General Fund | 7.0% |

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 2006. 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 or within subsectors of the economy.

Section 3 focuses on corporate tax returns corresponding to tax year 2004. Corporations must file tax returns that contain detailed information about their income and the calculation of final tax liability. These details allow for more thorough analysis of the characteristics of Oregon corporations. Yet because corporations do not file tax returns until well after the end of a tax year and often obtain deadline extensions before filing their returns, the information from return data is not as current as the data from receipts.

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

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

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

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

History

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

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

Tax Calculation

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

Starting Point: Federal Taxable Income

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

Additions

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

Subtractions

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

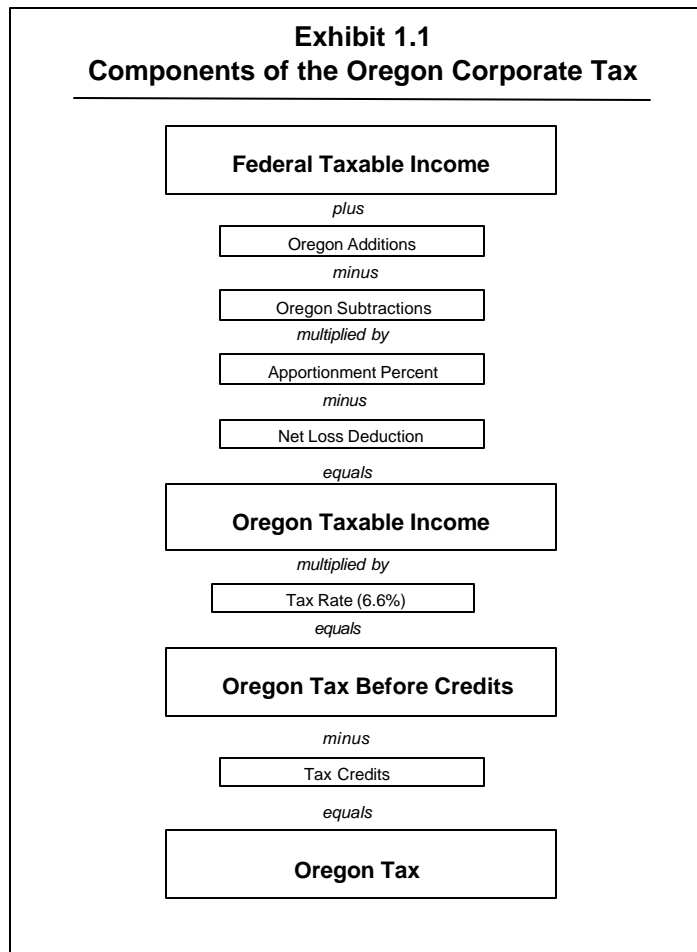
Additions and subtractions may be any number of adjustments necessary to arrive at the appropriate bottom-line Oregon income.

Apportionment of Business Income

For the purposes of state taxation, the income of corporations that conduct business exclusively in Oregon is taxed only by Oregon. Corporations doing business in more than one state must determine the share of their income attributable to Oregon activities.¹ For these corporations, tax year 2004 income is apportioned to Oregon by a three-factor formula.

The factors used in this formula are: 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 is calculated for each of these factors and these three percentages are weighted to determine an overall apportionment percentage.

Prior to tax year 1991, Oregon used equally weighted property, payroll, and sales factors when apportioning income for multistate corporations. In 1991, Oregon switched to a double-weighted sales factor. For tax years that began before May 2003, the sales factor was “double-weighted” to



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

arrive at the apportionment percent. Tax years starting on or after May 1, 2003 used super-weighted sales (i.e. the apportionment percent was 80 percent of the sales factor plus 10 percent each of the property and payroll factors). Tax years starting on or after July 1, 2005 use only Oregon sales relative to sales in all states to determine apportionment. 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 movement toward a single sales factor will reduce Oregon taxes for those companies with significant property and payroll within Oregon but with most of their sales outside the state. Taxes will 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 taxpayers regular business would be assigned to the state where the rental takes place. Nonbusiness income from intangible assets is assigned to the state of the taxpayer's headquarters.

Net Loss Deduction

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

Taxable Income and Tax Before Credits

Oregon taxable income is what remains after applying apportionment and allocation and then subtracting losses. Multiplying Oregon taxable income by the tax rate produces tax before credits. The tax rate has changed a number of times since corporate tax was introduced in 1929, with rates ranging from 5 to 9 percent. The current rate is 6.6 percent, where it has been since its 1987 reduction from 7.5 percent. Exhibit 1.3 on the following page provides a history of Oregon corporation tax rates.

Exhibit 1.3—Corporate Tax Rates, 1929 to Present

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

Credits

A corporation can claim any of over 35 applicable credits to reduce its Oregon tax liability. Only one of the credits is refundable, but most allow unused credit amounts to be carried forward and used in later years. See pages 3-8 to 3-11 of this report for information on credit usage by C corporations. The *State of Oregon 2007-09 Tax Expenditure Report* also provides a thorough discussion of corporate tax credits. The report is available on the Internet at www.oregon.gov/DOR/STATS/.

Oregon Tax

A corporation's net tax liability is the result of subtracting credits from the tax liability before credits. When established in 1929, the corporation excise tax included a minimum tax of \$25. The 1931 Legislature decreased the minimum excise tax to \$10, its current level. There is no minimum income tax.

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

For further information, please refer to Oregon Department of Revenue's corporation tax forms and instructions available at <http://www.oregon.gov/DOR/>.

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

- One class of stock;
- No more than 75 shareholders (no more than 100 shareholders for tax years beginning after 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 accepts the S corporation election made for federal purposes and allows the corporation to function as a pass-through entity.

The number of S corporations has been steadily increasing in recent years. For tax year 1990, 18,437 S corporations filed returns in Oregon. For tax year 2004, 50,017 S corporations filed returns, 9 percent more than tax year 2003.

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

S corporations that are paying either the income or the excise tax file Oregon tax Form 20-S. The excise minimum tax is \$10, which most S corporation filers pay.

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

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

For tax years beginning on or after January 1, 1997, and before January 1, 2002, Oregon law required foreign insurers to pay a transition tax to the Department of Consumer and Business Services (DCBS) as the gross premiums tax was being phased out. For tax years after 2001, foreign insurers are no longer subject to the transition tax, but they still are subject to the retaliatory tax that is paid to DCBS.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.

Insurers use a three-factor apportionment formula. The three factors used for 20-INS filers are:

- 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.

All three factors are weighted equally to produce the overall apportionment percentage.

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

For additional information, please refer to Oregon Department of Revenue's insurance excise tax instructions and Form 20-INS, available at www.oregon.gov/DOR/.

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.

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

Timing of Tax Payments

Corporations file a tax return after the end of their tax year, which is usually the same as a calendar year. However, for some corporations, the tax year is a year that 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 provides details on the tax years for which payments were received in fiscal year 2006. Most of the payments were received for tax years 2005 and 2006, while refunds issued for earlier tax years were significant.

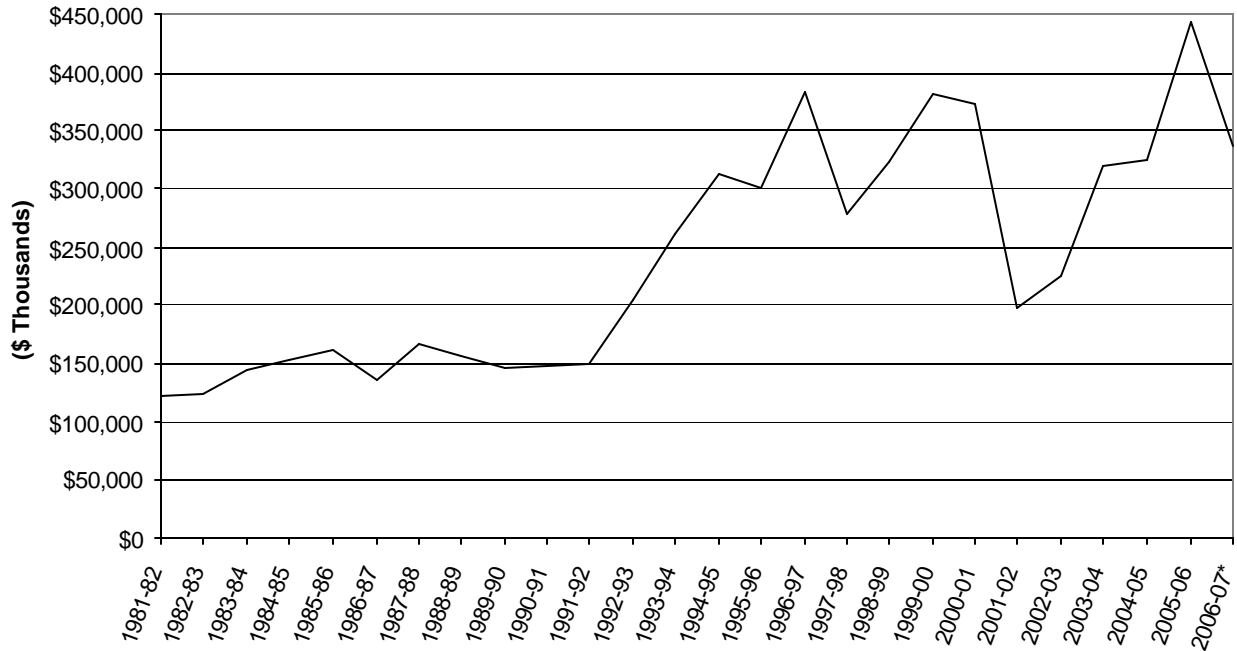
| Dollars in thousands | | |
|-----------------------------|---------------------|-------------------------|
| Tax Year | Net Receipts | Percent of Total |
| 2000 and prior | 12,447 | 2.8% |
| 2001 | 1,101 | 0.2% |
| 2002 | 1,692 | 0.4% |
| 2003 | -9,355 | -2.1% |
| 2004 | -90,194 | -20.4% |
| 2005 | 401,162 | 90.7% |
| 2006 | 125,451 | 28.4% |
| Total | \$442,306 | 100.0% |

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

Trends in Corporate Tax Receipts

Exhibit 2.2 shows net corporate tax receipts since fiscal year 1981-82. These net receipts were relatively flat throughout the 1980s, grew throughout the 1990s, and declined in fiscal year 2001-02. The swings from fiscal year 1996 to fiscal year 1998 are related to the distribution of corporate “kickers.” 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



* Dec 2006 forecast by Dept of Admin. Services, Office of Economic Analysis

Exhibit 2.3 shows corporate receipts history for the 30 most recent fiscal years and the estimate of receipts for the fiscal year ending June 30, 2007.

| Exhibit 2.3—Corporate Receipts History | | |
|---|---------------------|-----------------------|
| Dollars in thousands | | |
| Fiscal Year * | Net Receipts | Percent Change |
| 1976-77 | \$91,104 | 36.7% |
| 1977-78 | \$125,474 | 37.7% |
| 1978-79 | \$165,855 | 32.2% |
| 1979-80 | \$177,176 | 6.8% |
| 1980-81 | \$155,441 | -12.3% |
| 1981-82 | \$123,783 | -20.4% |
| 1982-83 | \$125,150 | 1.1% |
| 1983-84 | \$144,003 | 15.1% |
| 1984-85 | \$153,822 | 6.8% |
| 1985-86 | \$161,660 | 5.1% |
| 1986-87 | \$135,309 | -16.3% |
| 1987-88 | \$166,779 | 23.3% |
| 1988-89 | \$157,026 | -5.8% |
| 1989-90 | \$146,842 | -6.5% |
| 1990-91 | \$149,074 | 1.5% |
| 1991-92 | \$150,884 | 1.2% |
| 1992-93 | \$204,605 | 35.6% |
| 1993-94 | \$262,841 | 28.5% |
| 1994-95 | \$311,848 | 18.6% |
| 1995-96 | \$299,977 | -3.8% |
| 1996-97 | \$383,976 | 28.0% |
| 1997-98 | \$277,481 | -27.7% |
| 1998-99 | \$324,295 | 16.9% |
| 1999-00 | \$381,908 | 17.8% |
| 2000-01 | \$372,969 | -2.3% |
| 2001-02 | \$196,272 | -47.4% |
| 2002-03 | \$225,525 | 14.9% |
| 2003-04 | \$320,164 | 42.0% |
| 2004-05 | \$324,936 | 1.5% |
| 2005-06 | \$442,306 | 36.1% |
| 2006-07 ** | \$336,862 | -23.8% |

* Fiscal year starts July 1.

** Dec. 2006 forecast by Dept. of Admin. Services, Office of Economic Analysis

Receipts by Industry Sector

Exhibits 2.4 and 2.5 (on the next page) show a comparison between corporate receipts in fiscal years 2005 and 2006, and provide some detail of which sectors contributed to the changes. Total receipts increased by about 36 percent.

Exhibit 2.4
Corporate Tax Receipts By Industry Sector

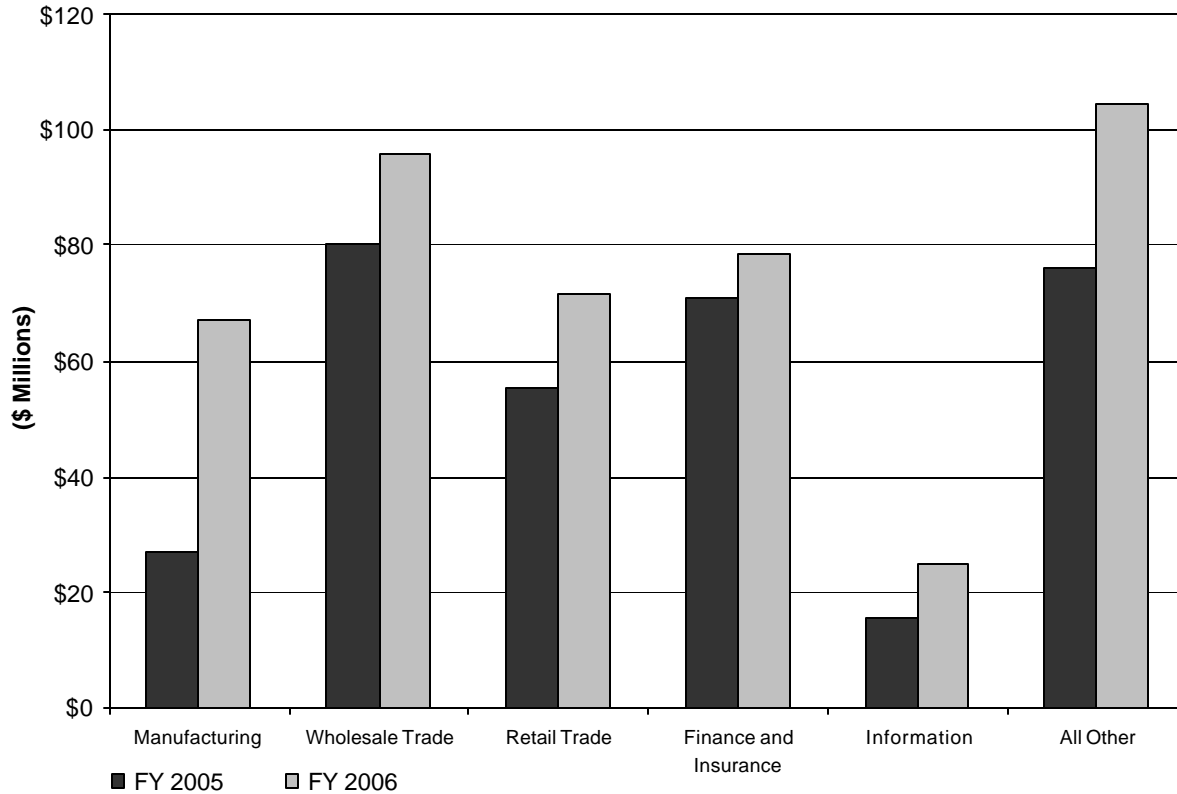


Exhibit 2.5 provides the detail of receipts from all sectors in fiscal years 2005 and 2006.

**Exhibit 2.5—Corporate Tax Receipts
By Industry Sector**

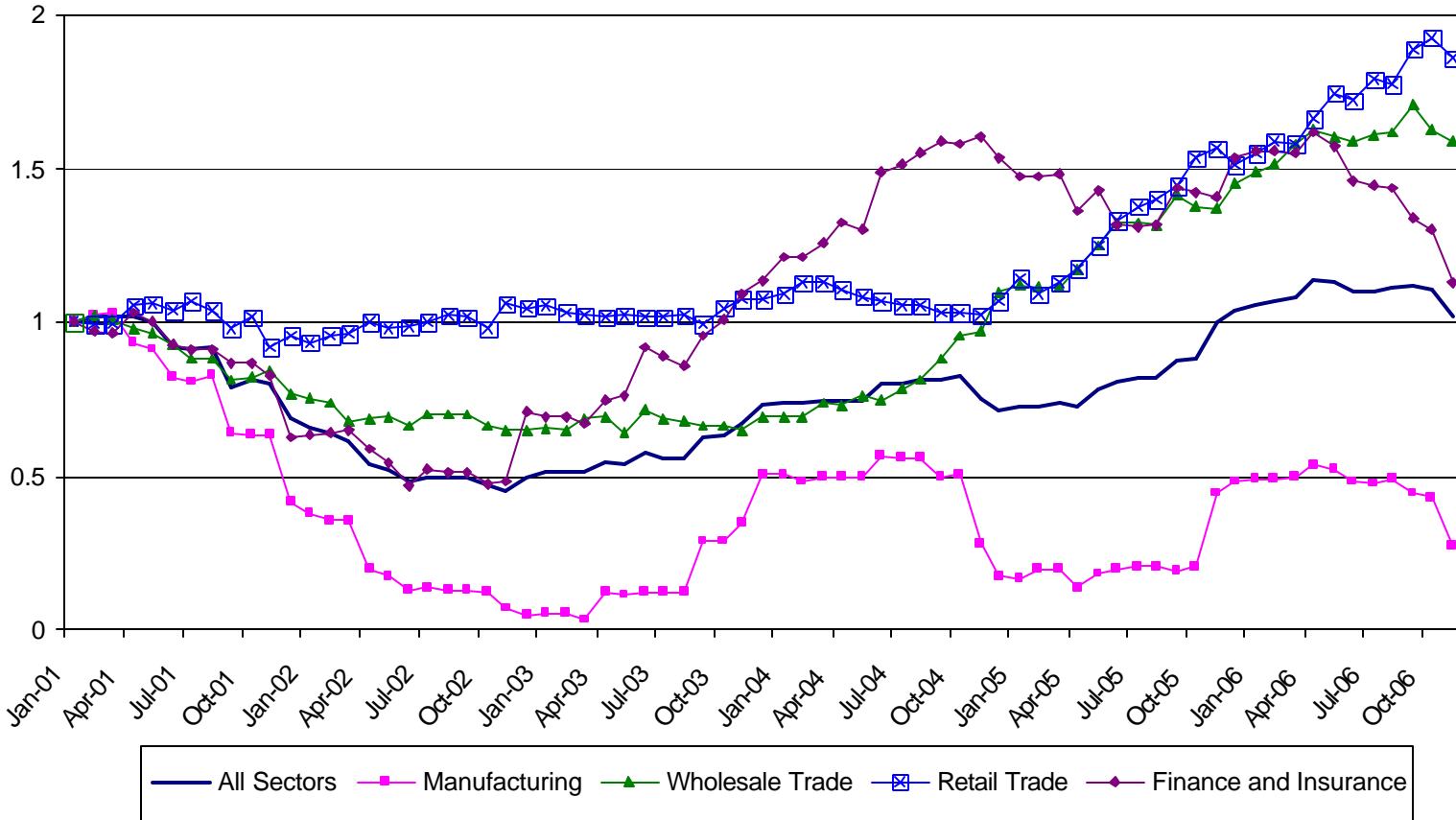
Dollars in thousands

| Industry Sector * | FY 2005 | FY 2006 | Percent Change |
|--|------------------|------------------|----------------|
| Agriculture, Forestry, Fishing, and Hunting | \$6,621 | \$4,488 | -32% |
| Mining | \$89 | \$503 | 465% |
| Utilities | \$2,806 | \$4,372 | 56% |
| Construction | \$11,730 | \$20,308 | 73% |
| Manufacturing | \$27,084 | \$66,944 | 147% |
| Wholesale Trade | \$79,952 | \$95,840 | 20% |
| Retail Trade | \$55,460 | \$71,553 | 29% |
| Transportation and Warehousing | \$8,797 | \$11,815 | 34% |
| Information | \$15,304 | \$24,765 | 62% |
| Finance and Insurance | \$70,747 | \$78,627 | 11% |
| Real Estate, Rental, and Leasing | \$7,003 | \$8,575 | 22% |
| Professional, Scientific, and Technical Services | \$9,884 | \$11,324 | 15% |
| Management of Companies and Enterprises | \$6,799 | \$9,272 | 36% |
| Administrative, Support, and Waste Management | \$5,259 | \$6,369 | 21% |
| Educational Services | \$1,302 | \$1,129 | -13% |
| Health Care and Social Assistance | \$4,955 | \$8,253 | 67% |
| Arts, Entertainment, and Recreation | \$662 | \$715 | 8% |
| Accommodation and Food Services | \$4,411 | \$10,204 | 131% |
| Other Services (except Public Administration) | \$5,175 | \$6,148 | 19% |
| Unknown | \$423 | \$1,103 | 161% |
| Total | \$324,462 | \$442,306 | 36% |

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

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

**Exhibit 2.6 Corporate Tax Receipts Index of 12-Month Totals (January 2001 = 1)
January 2001 through November 2006**



This section focuses on completed tax returns.

Summary of All Corporate Returns

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

- **Form 20, Excise Tax.** Corporations doing business in Oregon file Form 20 and pay the corporation excise tax. The minimum corporation excise tax is \$10.
- **Form 20-I, Income Tax.** Corporations not doing business in Oregon, but with income from one or more Oregon sources, pay the income tax and file Form 20-I. Income is from an Oregon source if it is derived from tangible or intangible property located in Oregon or any activity carried on in Oregon, whether intrastate, interstate, or foreign commerce. Income tax filers are not subject to a minimum tax.
- **Form 20-S, S Corporation.** An S corporation is one that has chosen to pass net income through to its shareholders for taxation. This election is made with the Internal Revenue Service. S corporations subject to either the excise or the income tax file Form 20-S. Shareholders must include S corporation income or loss on their personal income tax returns.
- **Form 20-INS, Insurance.** Insurance corporations file form 20-INS and pay the excise tax.
- **Form 20-MTC, Multistate Tax Commission (MTC).** Certain corporations whose only activity in Oregon is sales (under \$100,000) and that have no property in Oregon may file Form 20-MTC. This form allows simplified filing for Oregon.

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

Exhibit 3.1—Tax Year 2004 Corporation Tax Returns

Type of Return Filed

Dollars in thousands

| Oregon Tax Form Filed | Number of Returns | Oregon Taxable Income | Oregon Tax |
|---|-------------------|-----------------------|------------------|
| 20 Oregon Corporation Excise Tax Return* | 32,296 | \$4,747,879 | \$276,034 |
| 20-I Oregon Corporation Income Tax Return | 232 | \$3,157 | \$209 |
| 20-INS Oregon Insurance Excise Tax Return | 1,159 | \$591,596 | \$33,219 |
| 20-S Oregon S Corporation Tax Return | 50,017 | \$19,469 | \$1,862 |
| Total | 83,704 | \$5,362,101 | \$311,323 |

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

Timing of Filing Tax Returns

Corporations' tax years may cover a period of time significantly different from a calendar year.⁴ Because of differing tax years and extensions for filing returns, tax year 2004 returns were received during a period of two years.

Exhibit 3.2 shows when the returns were received. By December 2005, about 75 percent of the tax for tax year 2004 had been reported on returns.

Exhibit 3.2—Tax Year 2004 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 2005 or prior | 5,814 | \$2,331 | 0.7% | \$2,331 | 0.7% |
| March-05 | 19,107 | \$11,595 | 3.7% | \$13,926 | 4.5% |
| April-05 | 14,099 | \$20,208 | 6.5% | \$34,134 | 11.0% |
| May-05 | 2,444 | \$1,742 | 0.6% | \$35,876 | 11.5% |
| June-05 | 3,096 | \$3,621 | 1.2% | \$39,498 | 12.7% |
| July-05 | 2,828 | \$3,623 | 1.2% | \$43,121 | 13.9% |
| August-05 | 4,580 | \$5,605 | 1.8% | \$48,726 | 15.7% |
| September-05 | 12,258 | \$35,882 | 11.5% | \$84,608 | 27.2% |
| October-05 | 7,101 | \$112,821 | 36.2% | \$197,429 | 63.4% |
| November-05 | 1,696 | \$29,506 | 9.5% | \$226,935 | 72.9% |
| December-05 | 2,252 | \$8,709 | 2.8% | \$235,644 | 75.7% |
| January-06 | 1,836 | \$11,940 | 3.8% | \$247,585 | 79.5% |
| February-06 | 1,351 | \$5,248 | 1.7% | \$252,833 | 81.2% |
| March-06 | 1,380 | \$13,596 | 4.4% | \$266,429 | 85.6% |
| April-06 | 956 | \$12,830 | 4.1% | \$279,259 | 89.7% |
| May-06 | 556 | \$4,177 | 1.3% | \$283,436 | 91.0% |
| June-06 | 816 | \$13,716 | 4.4% | \$297,152 | 95.4% |
| July 2006 or later | 1,534 | \$14,171 | 4.6% | \$311,323 | 100.0% |
| Total | 83,704 | \$311,323 | 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.

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

Timing of Receipts for Tax Year 2004

Because corporations generally are required to make quarterly estimated payments of tax liability before their return is filed, and because of differences in filing periods, payments for any tax year will be received during several calendar years. Exhibit 3.3 shows that corporations significantly overpaid their 2004 tax liability as of September 2005. 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 2005.

Exhibit 3.3—Tax Year 2004 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 2004 or prior | \$1,780 | 0.6% | \$1,780 | 0.6% |
| April-04 | \$27,893 | 8.8% | \$29,673 | 9.4% |
| May-04 | \$6,375 | 2.0% | \$36,048 | 11.4% |
| June-04 | \$48,603 | 15.4% | \$84,651 | 26.7% |
| July-04 | \$9,922 | 3.1% | \$94,573 | 29.9% |
| August-04 | \$2,049 | 0.6% | \$96,622 | 30.5% |
| September-04 | \$55,292 | 17.5% | \$151,914 | 48.0% |
| October-04 | \$27,358 | 8.6% | \$179,272 | 56.6% |
| November-04 | \$57,847 | 18.3% | \$237,119 | 74.9% |
| December-04 | \$78,439 | 24.8% | \$315,558 | 99.7% |
| January-05 | \$15,853 | 5.0% | \$331,411 | 104.7% |
| February-05 | \$9,363 | 3.0% | \$340,774 | 107.7% |
| March-05 | \$21,933 | 6.9% | \$362,707 | 114.6% |
| April-05 | \$20,060 | 6.3% | \$382,767 | 120.9% |
| May-05 | \$14,807 | 4.7% | \$397,574 | 125.6% |
| June-05 | \$17,272 | 5.5% | \$414,846 | 131.1% |
| July-05 | \$6,101 | 1.9% | \$420,948 | 133.0% |
| August-05 | \$5,544 | 1.8% | \$426,492 | 134.7% |
| September-05 | \$7,395 | 2.3% | \$433,887 | 137.1% |
| October-05 | -\$7,778 | -2.5% | \$426,109 | 134.6% |
| November-05 | -\$36,135 | -11.4% | \$389,975 | 123.2% |
| December-05 | -\$41,280 | -13.0% | \$348,694 | 110.2% |
| January 2006 or later | -\$32,177 | -10.2% | \$316,517 | 100.0% |
| Total | \$316,517 | 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 total number of returns has increased somewhat steadily since 1990.

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 | Oregon Tax (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 | 42,144 | 38,915 | 81,059 | \$391,372 | \$391,372 |
| 2000 | 44,023 | 38,372 | 82,395 | \$357,154 | \$357,477 |
| 2001 | 45,130 | 37,373 | 82,503 | \$241,749 | \$241,411 |
| 2002 | 46,599 | 36,233 | 82,832 | \$234,788 | \$234,785 |
| 2003 | 48,409 | 35,058 | 83,467 | \$285,396 | \$285,325 |
| 2004 | 50,017 | 33,687 | 83,704 | \$311,285 | \$311,323 |

* Net tax differs from Oregon tax 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 corporations, the most common returns filed in Oregon. C corporation taxpayers file Forms 20, 20-I, 20-INS, and 20-MTC.
- 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 2004. The taxpayers who are doing business in Oregon must file one of the following tax forms: 20, 20-INS, or 20-MTC. Only a handful of taxpayers are subject to corporate income tax. They are not doing business in Oregon and file tax Form 20-I. For ease of reading, the sections and exhibits that follow show combined returns from all four return types and present results for 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. Eighty-seven taxpayers paid almost half of the total tax.

Exhibit 3.5—Tax Year 2004 C Corporation Tax Returns
Taxable Income Category

| Oregon Taxable Income Category | Number of Returns | Oregon Taxable Income (\$000) | Oregon Tax (\$000) |
|----------------------------------|-------------------|-------------------------------|--------------------|
| Zero Income or Loss [*] | 21,415 | \$0 | \$231 |
| \$1 - \$50,000 | 8,389 | \$96,050 | \$6,194 |
| \$50,000 - \$100,000 | 1,301 | \$91,124 | \$5,836 |
| \$100,000 - \$250,000 | 974 | \$152,258 | \$9,482 |
| \$250,000 - \$500,000 | 534 | \$186,236 | \$11,708 |
| \$500,000 - \$1 million | 380 | \$270,159 | \$16,677 |
| \$1 million to \$5 million | 513 | \$1,130,556 | \$69,349 |
| \$5 million to \$10 million | 94 | \$653,250 | \$38,430 |
| \$10 million to \$25 million | 55 | \$867,290 | \$51,365 |
| Over \$25 million | 32 | \$1,895,709 | \$100,189 |
| Total | 33,687 | \$5,342,632 | \$309,461 |

Percentage Distribution of Taxable Returns

| Oregon Taxable Income Category | Number of Returns | Oregon Taxable Income | Oregon Tax |
|----------------------------------|-------------------|-----------------------|-------------|
| Zero Income or Loss [*] | 63.6% | 0.0% | 0.1% |
| \$1 - \$50,000 | 24.9% | 1.8% | 2.0% |
| \$50,000 - \$100,000 | 3.9% | 1.7% | 1.9% |
| \$100,000 - \$250,000 | 2.9% | 2.8% | 3.1% |
| \$250,000 - \$500,000 | 1.6% | 3.5% | 3.8% |
| \$500,000 - \$1 million | 1.1% | 5.1% | 5.4% |
| \$1 million to \$5 million | 1.5% | 21.2% | 22.4% |
| \$5 million to \$10 million | 0.3% | 12.2% | 12.4% |
| \$10 million to \$25 million | 0.2% | 16.2% | 16.6% |
| Over \$25 million | 0.1% | 35.5% | 32.4% |
| 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. Missing information prevents classification of about 10 percent of corporations into appropriate sectors, though the total tax paid by unclassified corporations is less than 1 percent. For tax year 2004, the finance and insurance, wholesale trade, retail trade, and manufacturing sectors together contributed over 70 percent of total tax payments.

Exhibit 3.6—Tax Year 2004 C Corporation Tax Returns
Industry Sector

| Industry Sector * | Number of Returns | Oregon Taxable Income (\$000) | Oregon Tax (\$000) |
|--|--------------------------|--------------------------------------|---------------------------|
| Agriculture, Forestry, Fishing, and Hunting | 1,686 | \$75,697 | \$3,985 |
| Mining | 58 | \$1,563 | \$83 |
| Utilities | 51 | \$9,766 | \$220 |
| Construction | 4,005 | \$203,409 | \$13,259 |
| Manufacturing | 2,255 | \$920,407 | \$48,083 |
| Wholesale Trade | 3,557 | \$1,054,300 | \$66,509 |
| Retail Trade | 2,819 | \$805,042 | \$50,325 |
| Transportation and Warehousing | 907 | \$108,813 | \$7,064 |
| Information | 789 | \$182,114 | \$10,437 |
| Finance and Insurance | 2,220 | \$1,144,500 | \$63,723 |
| Real Estate, Rental, and Leasing | 1,341 | \$91,216 | \$5,995 |
| Professional, Scientific, and Technical Services | 3,108 | \$114,898 | \$7,229 |
| Management of Companies and Enterprises | 293 | \$220,460 | \$11,478 |
| Administrative, Support, and Waste Management | 1,400 | \$87,366 | \$5,045 |
| Education Services | 220 | \$16,017 | \$1,039 |
| Health Care and Social Assistance | 2,109 | \$74,956 | \$3,296 |
| Arts, Entertainment, and Recreation | 330 | \$16,047 | \$1,027 |
| Accommodation and Food Services | 1,241 | \$85,408 | \$5,604 |
| Other Services (except Public Administration) | 1,731 | \$67,339 | \$4,382 |
| Unknown | 3,567 | \$63,314 | \$678 |
| Total | 33,687 | \$5,342,632 | \$309,461 |

Percentage Distribution

| Industry Sector * | Number of Returns | Oregon Taxable Income | Oregon Tax |
|--|--------------------------|------------------------------|-------------------|
| Agriculture, Forestry, Fishing, and Hunting | 5.0% | 1.4% | 1.3% |
| Mining | 0.2% | 0.0% | 0.0% |
| Utilities | 0.2% | 0.2% | 0.1% |
| Construction | 11.9% | 3.8% | 4.3% |
| Manufacturing | 6.7% | 17.2% | 15.5% |
| Wholesale Trade | 10.6% | 19.7% | 21.5% |
| Retail Trade | 8.4% | 15.1% | 16.3% |
| Transportation and Warehousing | 2.7% | 2.0% | 2.3% |
| Information | 2.3% | 3.4% | 3.4% |
| Finance and Insurance | 6.6% | 21.4% | 20.6% |
| Real Estate, Rental, and Leasing | 4.0% | 1.7% | 1.9% |
| Professional, Scientific, and Technical Services | 9.2% | 2.2% | 2.3% |
| Management of Companies and Enterprises | 0.9% | 4.1% | 3.7% |
| Administrative, Support, and Waste Management | 4.2% | 1.6% | 1.6% |
| Education Services | 0.7% | 0.3% | 0.3% |
| Health Care and Social Assistance | 6.3% | 1.4% | 1.1% |
| Arts, Entertainment, and Recreation | 1.0% | 0.3% | 0.3% |
| Accommodation and Food Services | 3.7% | 1.6% | 1.8% |
| Other Services (except Public Administration) | 5.1% | 1.3% | 1.4% |
| Unknown | 10.6% | 1.2% | 0.2% |
| Total | 100.0% | 100.0% | 100.0% |

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

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

For tax year 2004, most of the corporate tax liability did not come from corporations domiciled in the state of Oregon. Corporations domiciled outside of Oregon accounted for over two-thirds of the total liability.

Exhibit 3.7—Tax Year 2004 C Corporation Tax Returns State of Commercial Domicile

Dollars in thousands

| Region* | Number of Returns | Oregon Taxable Income | Oregon Tax | Percent of Total Tax |
|--------------|-------------------|--------------------------|------------------|----------------------|
| Northeast | 1,939 | \$588,467 | \$35,150 | 11.4% |
| Midwest | 2,057 | \$924,838 | \$51,671 | 16.7% |
| South | 2,366 | \$926,340 | \$56,163 | 18.1% |
| West | 27,103 | \$2,888,107 | \$165,499 | 53.5% |
| Outside U.S. | 222 | \$14,880 | \$979 | 0.3% |
| Total | 33,687 | \$5,342,632 | \$309,461 | 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 2004 C Corporation Tax Returns State of Commercial Domicile Western States

Dollars in thousands

| State | Number of Returns | Oregon Taxable Income | Oregon Tax | Percent of Total Tax |
|--------------|-------------------|--------------------------|------------------|----------------------|
| Alaska | 45 | \$1,757 | \$115 | 0.0% |
| Arizona | 159 | \$16,339 | \$1,041 | 0.3% |
| California | 1,686 | \$887,391 | \$52,512 | 17.0% |
| Colorado | 243 | \$30,785 | \$2,028 | 0.7% |
| Hawaii | 25 | \$28,043 | \$1,776 | 0.6% |
| Idaho | 161 | \$13,671 | \$887 | 0.3% |
| Montana | 39 | \$5,223 | \$345 | 0.1% |
| New Mexico | 20 | \$141 | \$9 | 0.0% |
| Nevada | 100 | \$14,529 | \$957 | 0.3% |
| Oregon | 23,319 | \$1,467,912 | \$87,158 | 28.2% |
| Utah | 118 | \$12,025 | \$794 | 0.3% |
| Washington | 1,181 | \$409,978 | \$17,856 | 5.8% |
| Wyoming | 7 | \$313 | \$21 | 0.0% |
| Total | 27,103 | \$2,888,107 | \$165,499 | 53.5% |

Taxpayers doing business in multiple states must apportion their business income using an apportionment formula. The Oregon apportionment percentage is a weighted average percent of sales, payroll, and property.⁵

Exhibit 3.8—Tax Year 2004 C Corporation Tax Returns Apportioned Returns

Dollars in thousands

| Apportionment | Number of Returns | Oregon Taxable Income | Oregon Tax | Percent of Total Tax |
|--------------------------|-------------------|-----------------------|------------------|----------------------|
| Multistate (Apportioned) | 11,893 | \$4,622,829 | \$267,812 | 86.5% |
| Nonapportioned | 21,794 | \$719,804 | \$41,649 | 13.5% |
| Total | 33,687 | \$5,342,632 | \$309,461 | 100% |

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

Exhibit 3.9 Tax Year 2004 C Corporation Tax Returns Industry Sector for Multistate (Apportioned) Returns

Dollars in thousands

| Industry Sector* | Number of Returns | Oregon Taxable Income | Oregon Tax | Percent of Total Oregon Tax |
|--|-------------------|-----------------------|------------------|-----------------------------|
| Agriculture, Forestry, Fishing, and Hunting | 205 | \$52,336 | \$2,499 | 0.9% |
| Mining | 17 | \$1,231 | \$61 | 0.0% |
| Utilities | 16 | \$8,598 | \$148 | 0.1% |
| Construction | 1,090 | \$157,629 | \$10,261 | 3.8% |
| Manufacturing | 730 | \$825,668 | \$42,191 | 15.8% |
| Wholesale Trade | 2,131 | \$945,928 | \$59,499 | 22.2% |
| Retail Trade | 733 | \$739,466 | \$46,174 | 17.2% |
| Transportation and Warehousing | 325 | \$102,683 | \$6,655 | 2.5% |
| Information | 366 | \$172,273 | \$9,802 | 3.7% |
| Finance and Insurance | 1,393 | \$984,427 | \$54,574 | 20.4% |
| Real Estate, Rental, and Leasing | 360 | \$64,927 | \$4,274 | 1.6% |
| Professional, Scientific, and Technical Services | 1,109 | \$85,516 | \$5,297 | 2.0% |
| Management of Companies and Enterprises | 180 | \$205,354 | \$10,599 | 4.0% |
| Administrative, Support, and Waste Management | 541 | \$65,355 | \$3,690 | 1.4% |
| Education Services | 82 | \$14,668 | \$950 | 0.4% |
| Health Care and Social Assistance | 253 | \$64,749 | \$2,618 | 1.0% |
| Arts, Entertainment, and Recreation | 85 | \$11,361 | \$718 | 0.3% |
| Accommodation and Food Services | 272 | \$55,444 | \$3,643 | 1.4% |
| Other Services (except Public Administration) | 404 | \$57,690 | \$3,738 | 1.4% |
| Unknown | 1,601 | \$7,526 | \$423 | 0.2% |
| All | 11,893 | \$4,622,829 | \$267,812 | 100% |

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

⁵ Section 1A provides more detail on changes in Oregon's corporate apportionment formula.

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

Exhibit 3.10—Tax Year 2004 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 | 187 | \$12,249 | 134 | \$7,111 |
| Dependent Care Assistance | 19 | \$2,706 | 14 | \$823 |
| Farm-Worker Housing Lender's Credit | 5 or fewer | \$476 | 5 or fewer | \$475 |
| Oregon Affordable Housing Credit | 27 | \$3,787 | 23 | \$3,206 |
| Pollution Control | 99 | \$23,121 | 78 | \$11,298 |
| Qualified Research Activities | 178 | \$36,892 | 78 | \$5,963 |
| Reclaimed Plastics Credit | 5 or fewer | \$76 | 5 or fewer | \$33 |
| Long-Term Care Facilities | 6 | \$3 | 6 | \$2 |
| Contribution of Computers Credit | 5 or fewer | \$128 | 5 or fewer | \$89 |
| Farm-Worker Housing Construction | 9 | \$639 | 8 | \$622 |
| Oregon Trust for Cultural Development | 11 | \$22 | 10 | \$18 |
| Other Corporation Credits | 35 | \$5,150 | 20 | \$3,335 |
| Insurance Only Credits | | | | |
| Fire Insurance Credit | 264 | \$5,791 | 213 | \$2,322 |
| Oregon Life and Health IGA Assessments | 115 | \$282 | 78 | \$71 |
| Workers' Compensation Assessments | 63 | \$2,419 | 58 | \$1,262 |
| Total * | 905 | \$93,741 | 636 | \$36,630 |

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

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

Exhibit 3.11—Tax Year 2004 C Corporation Tax Returns**Business Energy Facilities****Credit Usage by Industry Sector and Taxable Income**

| Industry Sector | Number of Taxpayers Claiming Credit | Amount of Credit Claimed (\$000) | Number of Taxpayers with Reduction in Tax Liability | Amount of Credit Used (\$000) |
|--|--|---|--|--------------------------------------|
| Agriculture, Forestry, Fishing, and Hunting | 20 | \$146 | 11 | \$28 |
| Utilities | 5 or fewer | \$940 | 5 or fewer | \$636 |
| Construction | 9 | \$79 | 9 | \$76 |
| Manufacturing | 47 | \$1,923 | 31 | \$1,629 |
| Wholesale Trade | 22 | \$4,627 | 17 | \$960 |
| Retail Trade | 26 | \$2,021 | 20 | \$1,971 |
| Transportation and Warehousing | 6 | \$42 | 5 or fewer | \$23 |
| Information | 5 or fewer | \$44 | 5 or fewer | \$41 |
| Finance and Insurance | 15 | \$717 | 14 | \$712 |
| Real Estate, Rental, and Leasing | 5 or fewer | \$25 | 5 or fewer | \$15 |
| Professional, Scientific, and Technical Services | 5 or fewer | \$6 | 5 or fewer | \$3 |
| Management of Companies and Enterprises | 8 | \$1,219 | 8 | \$671 |
| Administrative, Support, and Waste Management | 5 or fewer | \$104 | 5 or fewer | \$87 |
| Health Care and Social Assistance | 5 or fewer | \$240 | 5 or fewer | \$236 |
| Accommodation and Food Services | 5 or fewer | \$27 | 5 or fewer | \$14 |
| Other Services (except Public Administration) | 5 or fewer | \$26 | 5 or fewer | \$9 |
| All Other and Unknown | 5 or fewer | \$64 | 5 or fewer | \$0 |
| Total | 187 | \$12,249 | 134 | \$7,111 |

| Oregon Taxable Income Category | Number of Taxpayers Claiming Credit | Amount of Credit Claimed (\$000) | Number of Taxpayers with Reduction in Tax Liability | Amount of Credit Used (\$000) |
|---------------------------------------|--|---|--|--------------------------------------|
| Zero Income or Loss [*] | 50 | \$4,413 | 0 | \$0 |
| \$1 - \$50,000 | 29 | \$104 | 26 | \$31 |
| \$50,000 - \$100,000 | 9 | \$51 | 9 | \$21 |
| \$100,000 - \$250,000 | 17 | \$211 | 17 | \$107 |
| \$250,000 - \$500,000 | 9 | \$63 | 9 | \$62 |
| \$500,000 - \$1 million | 8 | \$184 | 8 | \$166 |
| \$1 million to \$5 million | 28 | \$484 | 28 | \$464 |
| \$5 million to \$10 million | 12 | \$1,546 | 12 | \$1,545 |
| \$10 million to \$25 million | 12 | \$1,357 | 12 | \$881 |
| Over \$25 million | 13 | \$3,838 | 13 | \$3,833 |
| Total | 187 | \$12,249 | 134 | \$7,111 |

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

Exhibit 3.12—Tax Year 2004 C Corporation Tax Returns**Pollution Control****Credit Usage by Industry Sector and Taxable Income**

| Industry Sector | Number of Taxpayers Claiming Credit | Amount of Credit Claimed (\$000) | Number of Taxpayers with Reduction in Tax Liability | Amount of Credit Used (\$000) |
|---|--|---|--|--------------------------------------|
| Agriculture, Forestry, Fishing, and Hunting | 11 | \$132 | 6 | \$14 |
| Construction | 5 or fewer | \$94 | 5 or fewer | \$93 |
| Manufacturing | 31 | \$16,605 | 21 | \$8,038 |
| Wholesale Trade | 20 | \$2,299 | 18 | \$332 |
| Retail Trade | 11 | \$203 | 10 | \$151 |
| Finance and Insurance | 5 or fewer | \$407 | 5 or fewer | \$407 |
| Management of Companies and Enterprises | 5 or fewer | \$2,523 | 5 or fewer | \$1,610 |
| Administrative, Support, and Waste Management | 10 | \$729 | 9 | \$550 |
| All Other and Unknown | 6 | \$130 | 5 or fewer | \$104 |
| Total | 99 | \$23,121 | 78 | \$11,298 |

| Oregon Taxable Income Category | Number of Taxpayers Claiming Credit | Amount of Credit Claimed (\$000) | Number of Taxpayers with Reduction in Tax Liability | Amount of Credit Used (\$000) |
|---------------------------------------|--|---|--|--------------------------------------|
| Zero Income or Loss * | 21 | \$7,007 | 0 | \$0 |
| \$1 - \$50,000 | 12 | \$79 | 12 | \$12 |
| \$50,000 - \$100,000 | 9 | \$51 | 9 | \$37 |
| \$100,000 - \$250,000 | 10 | \$798 | 10 | \$109 |
| \$250,000 - \$500,000 | 7 | \$42 | 7 | \$42 |
| \$500,000 - \$1 million | 5 or fewer | \$61 | 5 or fewer | \$61 |
| \$1 million to \$5 million | 19 | \$1,412 | 19 | \$1,357 |
| \$5 million to \$10 million | 7 | \$1,053 | 7 | \$1,053 |
| \$10 million to \$25 million | 5 or fewer | \$1,860 | 5 or fewer | \$947 |
| Over \$25 million | 6 | \$10,757 | 6 | \$7,680 |
| Total | 99 | \$23,121 | 78 | \$11,298 |

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

Exhibit 3.13—Tax Year 2004 C Corporation Tax Returns**Qualified Research Activities****Credit Usage by Industry Sector and Taxable Income**

| Industry Sector | Number of Taxpayers Claiming Credit | Amount of Credit Claimed (\$000) | Number of Taxpayers with Reduction in Tax Liability | Amount of Credit Used (\$000) |
|--|--|---|--|--------------------------------------|
| Construction | 5 or fewer | \$263 | 0 | \$0 |
| Manufacturing | 53 | \$14,132 | 27 | \$2,643 |
| Wholesale Trade | 32 | \$3,506 | 17 | \$1,271 |
| Retail Trade | 5 or fewer | \$274 | 5 or fewer | \$59 |
| Information | 37 | \$9,044 | 10 | \$1,541 |
| Professional, Scientific, and Technical Services | 33 | \$8,351 | 13 | \$320 |
| Management of Companies and Enterprises | 5 or fewer | \$623 | 5 or fewer | \$49 |
| Other Services (except Public Administration) | 5 or fewer | \$82 | 5 or fewer | \$63 |
| All Other and Unknown | 13 | \$615 | 5 or fewer | \$17 |
| Total | 178 | \$36,892 | 78 | \$5,963 |

| Oregon Taxable Income Category | Number of Taxpayers Claiming Credit | Amount of Credit Claimed (\$000) | Number of Taxpayers with Reduction in Tax Liability | Amount of Credit Used (\$000) |
|---------------------------------------|--|---|--|--------------------------------------|
| Zero Income or Loss [*] | 98 | \$21,585 | 0 | \$0 |
| \$1 - \$50,000 | 16 | \$843 | 14 | \$15 |
| \$50,000 - \$100,000 | 9 | \$829 | 9 | \$40 |
| \$100,000 - \$250,000 | 13 | \$929 | 13 | \$67 |
| \$250,000 - \$500,000 | 5 or fewer | \$923 | 5 or fewer | \$72 |
| \$500,000 - \$1 million | 6 | \$457 | 6 | \$222 |
| \$1 million to \$5 million | 22 | \$6,793 | 22 | \$2,084 |
| \$5 million to \$10 million | 5 or fewer | \$833 | 5 or fewer | \$832 |
| \$10 million to \$25 million | 5 or fewer | \$1,947 | 5 or fewer | \$1,360 |
| Over \$25 million | 5 or fewer | \$1,751 | 5 or fewer | \$1,271 |
| Total | 178 | \$36,892 | 78 | \$5,963 |

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

The minimum excise tax is \$10. About 67 percent of all C corporation excise taxpayers paid the minimum tax for tax year 2004. Exhibit 3.14 shows the number of C corporations paying the minimum tax for various income levels. Taxpayers in higher income categories paying the minimum tax have credits that reduce their tax liability to \$10.

**Exhibit 3.14—Tax Year 2004 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 [*] | 21,405 | 21,415 | 99.95% |
| \$1 - \$50,000 | 1,131 | 8,389 | 13.48% |
| \$50,000 - \$100,000 | 27 | 1,301 | 2.08% |
| \$100,000 - \$250,000 | 34 | 974 | 3.49% |
| \$250,000 - \$500,000 | 13 | 534 | 2.43% |
| \$500,000 - \$1 million | 12 | 380 | 3.16% |
| \$1 million to \$5 million | 13 | 513 | 2.53% |
| \$5 million to \$10 million | 5 or fewer | 94 | N/A |
| \$10 million to \$25 million | 5 or fewer | 55 | N/A |
| Over \$25 million | 5 or fewer | 32 | N/A |
| Total | 22,648 | 33,687 | 67.2% |

* 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 reason for minimum tax payment for the minimum excise tax returns.

**Exhibit 3.15—Tax Year 2004 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 | 15,356 |
| Minimal income in current year | 1,392 |
| Losses Carried Forward | |
| Losses carried forward from prior years result in zero income or loss | 5,527 |
| Losses carried forward from prior years result in minimal income | 140 |
| Credits | |
| Credits reduce tax to minimum | 183 |
| Combination | |
| Combination of losses carried forward and credits reduce tax to minimum | 47 |
| Total | 22,645 |

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

**Exhibit 3.16—Tax Year 2004 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 | 1,188 | 1,686 | 70.5% |
| Mining | 43 | 58 | 74.1% |
| Utilities | 38 | 51 | 74.5% |
| Construction | 2,808 | 4,005 | 70.1% |
| Manufacturing | 1,493 | 2,255 | 66.2% |
| Wholesale Trade | 2,060 | 3,557 | 57.9% |
| Retail Trade | 1,732 | 2,819 | 61.4% |
| Transportation and Warehousing | 591 | 907 | 65.2% |
| Information | 579 | 789 | 73.4% |
| Finance and Insurance | 1,220 | 2,220 | 55.0% |
| Real Estate, Rental, and Leasing | 823 | 1,341 | 61.4% |
| Professional, Scientific, and Technical Services | 2,105 | 3,108 | 67.7% |
| Management of Companies and Enterprises | 171 | 293 | 58.4% |
| Administrative, Support, and Waste Management | 948 | 1,400 | 67.7% |
| Education Services | 145 | 220 | 65.9% |
| Health Care and Social Assistance | 1,595 | 2,109 | 75.6% |
| Arts, Entertainment, and Recreation | 234 | 330 | 70.9% |
| Accommodation and Food Services | 859 | 1,241 | 69.2% |
| Other Services (except Public Administration) | 1,209 | 1,731 | 69.8% |
| Unknown | 2,807 | 3,567 | 78.7% |
| Total | 22,648 | 33,687 | 67.2% |

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

SECTION 3C
CORPORATE TAX RETURNS
SUMMARY OF 20-S 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 and the minimum tax for income taxpayers is \$0. Corporations doing business in Oregon are subject to the minimum excise tax even if they pass their income through to shareholders.

| Exhibit 3.17—Tax Year 2004 S Corporation Tax Returns | | | | |
|---|--------------------------|----------------------------------|------------------------------|-------------------|
| S Corporation Summary | | | | |
| Dollars in thousands | | | | |
| Type of Filer | Number of Returns | Number Paying Minimum Tax | Oregon Taxable Income | Oregon Tax |
| Excise Tax | 49,251 | 48,997 | \$19,215 | \$1,845 |
| Income Tax | 766 | 673 | \$254 | \$17 |
| Total 20-S | 50,017 | 49,670 | \$19,469 | \$1,862 |

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 2004 S Corporation Tax Returns | | | |
|---|--------------------------|------------------------------|-------------------|
| S Corporation Characteristics | | | |
| Dollars in thousands | | | |
| | Number of Returns | Oregon Taxable Income | Oregon Tax |
| Apportionment for 20-S Filers | | | |
| Multistate (Apportioned) | 5,637 | \$13,771 | \$1,001 |
| Nonapportioned | 44,380 | \$5,698 | \$861 |
| State of Domicile for 20-S Filers | | | |
| Oregon | 45,278 | \$15,679 | \$1,575 |
| Other | 4,739 | \$3,790 | \$287 |

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. A portion of the corporation's business income is divided (based on an apportionment formula) among the taxing states.

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

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

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

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

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

Combined Reporting. A method of measuring the tax liability of a corporation. An apportionment formula is applied to the combined unitary income of the corporation and its affiliates. For Oregon, this is the applicable method for tax years that began before January 1, 1986. See *Consolidated Reporting* for the applicable method for tax years that began on or after January 1, 1996.

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 2005-07 Tax Expenditure Report*, available online at www.oregon.gov/DOR/STATS/.

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

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

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

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

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

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

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

Income Tax. A tax on the income of those corporations that have Oregon-source income but are not doing business here. See *Doing Business*. There is no minimum income tax.

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

Minimum Tax. Each Oregon corporate excise taxpayer must pay at least a \$10 minimum tax. If a corporation has a negative Oregon income, it is still required to pay the minimum tax.

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

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

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

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

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

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

S Corporation. Refers to Internal Revenue Code subchapter "S." S corporations are "pass-through" entities, in which the corporation's income and losses are passed through to the S corporation's shareholders, where they are taxed as personal income. A corporation qualifying under this section can have no more than 75 shareholders (no more than 100 shareholders for tax years beginning after 2004), 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 will use the single sales factor for apportioning income for tax years that begin on or after July 1, 2005

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

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

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

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

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

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

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

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

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

See also *Unitary Group*.

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

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

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

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

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

Collections and Returns Data

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

Due Dates for Returns

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

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

Exhibit C.1—Corporate Filing Calendar

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

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

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

Tax Period

Although corporations may have varying fiscal years, most are calendar year filers. Exhibit C.2 shows the filing period for all tax year 2004 C corporation returns. A corporation's tax year 2004 is based on a filing period that begins any time in calendar year 2004. If the tax year starts on July 1 and ends on June 30, the tax year ending month is June.

| Exhibit C.2—Tax Year 2004 C Corporation Tax Returns | | | | |
|--|--------------------------|------------------------------|-------------------|------------------------------|
| Tax Year Ending Month | | | | |
| Dollars in thousands | | | | |
| | Number of Returns | Oregon Taxable Income | Oregon Tax | Percent of Oregon Tax |
| January | 680 | \$452,246 | \$29,468 | 9.5% |
| February | 539 | \$66,286 | \$4,347 | 1.4% |
| March | 2,054 | \$192,217 | \$11,467 | 3.7% |
| April | 705 | \$59,964 | \$3,581 | 1.2% |
| May | 664 | \$183,138 | \$10,008 | 3.2% |
| June | 2,782 | \$306,911 | \$19,229 | 6.2% |
| July | 544 | \$46,171 | \$3,037 | 1.0% |
| August | 652 | \$130,018 | \$6,750 | 2.2% |
| September | 2,196 | \$237,624 | \$14,729 | 4.8% |
| October | 954 | \$73,924 | \$4,751 | 1.5% |
| November | 459 | \$31,711 | \$2,003 | 0.6% |
| December | 20,392 | \$3,527,417 | \$197,787 | 63.9% |
| Part year with/Dec.* | 608 | \$16,324 | \$1,073 | 0.3% |
| Part year without Dec.** | 458 | \$18,682 | \$1,233 | 0.4% |
| Total | 33,687 | \$5,342,632 | \$309,461 | 100.0% |

* Part-year returns with ending date in December.

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

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

Sector Classification

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

The state surplus refund, or kicker, refers to the provision in Oregon law that requires to return money to taxpayers if actual revenues differ from forecasted revenues by more than 2 percent.

The kicker is calculated by dividing all General Fund money into one of two categories:

- Corporate taxes, or
- All other General Fund revenue.

Collections at the end of a biennium are compared to the forecast at the close of the regular session. If collections in either of these two categories are at least 2 percent greater than the forecast for that category, then all of the excess (including the 2 percent) is returned to taxpayers.

The money is returned to taxpayers via a check or a credit. 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 provides that the legislature may vote to suspend the kicker with a two-thirds majority vote.

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% | \$138** | NA | NA |
| 2005-07 | 2007 | \$275 ** | 67.3% ** | \$275** | NA | NA |

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

** Dec. 2006 forecast by Dept. of Admin. Services, Office of Economic Analysis

