Oregon Investment Advantage

Corporate Income Tax Exemption

A multi-year taxable income exemption for a certified business in an eligible location. (It is different from the property tax abatement in an Oregon enterprise zone, but in a number of places, the two benefits can be combined.)

Eligible locations

The site of the facility to be exempt must be:

- Inside a county that presently or during one of the past two years was qualified in terms of annual unemployment or per capita income, based on the most recently available statistics as applied to the year running from July 1 through June 30; and
- On land zoned for industrial uses or located inside the urban growth boundary (UGB) of a city with a population of 15,000 or less.

Meeting both of the geographic criteria only matters when making application for preliminary certification.

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Business Oregon
is an agency of the
state of Oregon

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Business operation criteria

There is no restriction on the size of the investment or the business. Any type of business activity, in any industrial or commercial sector, may qualify.

All of the following criteria must be met:

- The business has not recently operated another facility anywhere in Oregon that is the same as the proposed facility, and the proposed operations are new to the facility.
- Proposed operations will not compete with existing businesses in the local area where the facility is located.
- Facility results in the hiring of five or more new full-time, year-round employees.
- The above five new employees must each, at a minimum, receive annual "compensation" (including all nonmandatory financial benefits) that is equal to or greater than the following:
  - 150% of local income* or
  - 100% of local income*, if employees at the facility receive health insurance coverage that is equivalent to or better than that of local city, port or county personnel.

** Local income means the most recently available figure for per capita personal income in the county, where the facility will be located, at the time of the application for preliminary certification.*

Application and timing

To be certified for this exemption, there are two application forms, completed by the business/taxpayer and submitted to Business Oregon.

1. **Preliminary Certification**, before hiring or any construction, modifications or installations of new property/improvements at the location of the facility that will be the subject of the exemption; and
2. **Annual Certification**, within 30 days after each applicable income tax/fiscal year, ending no later than the ninth tax year following the tax year, in which facility operations commenced. The first such submission must be at least 24 months after the date that operations commenced (which need to be within a reasonable amount of time after preliminary certification).

EXAMPLE:
Facility income deduction for state corporate excise taxes

Initial qualification

- Corporation XYZ might currently sell products and undertake some business in Oregon, or it might be totally new to the state.
- XYZ proposes a facility to make, distribute, provide, *etc.*, a good or service unlike anything it has recently done in Oregon.
- XYZ's facility located at any industrially-zoned site or inside UGB of a city (≤ 15,000 population) in an eligible county.
- Prior to hiring or making facility improvements, XYZ submits application for preliminary certification to Business Oregon.
- No local objection; department preliminarily certifies facility.

References:

Oregon Revised Statute (ORS)
Chapter 285C, Chapter 316, Chapter 317
oregonlegislature.gov/bills_laws/Pages/ORS.aspx

Oregon Administrative Rule
OAR 123–635
arcweb.sos.state.or.us/pages/rules/oars_100/ oar_123/123_635.html

Annual certification (first of up to eight to nine consecutive times)

- Facility property acquired/built and investment completed; at least five new, full–time employees are hired,* and operations commence.
- Department annually certifies facility.
- XYZ's current income tax year concludes; application for annual certification submitted to department within 30 days, but not less than 24 months after having completed investment and hiring, and commenced operations.

Claiming exemption (Department of Revenue Form 20, tax return)†

• XYZ's corporate taxable income after state additions and subtractions and multi-state apportionment to Oregon is	$3,000,000
• Among XYZ's total statewide presence, the certified facility's: — Payroll accounts for 60% and — Average property value represents 80% Combined intrastate ratio of XYZ's facility equals [60 + 80 = 140 ÷ 2 =]	70%
• Exempt income for XYZ equals [$3,000,000 x 0.7 =]	$2,100,000
• Before credits, XYZ's remaining tax liability would be [$3.0M - $2.1M = $0.9M x 0.066‡ =]	$59,400
• Annual state corporate tax savings for XYZ equal [$100,000 x 0.066 + $2,000,000 x 0.076‡ =]	$158,600

**If preliminarily certified after 12/31/2010, these new hires must meet minimum compensation requirement, too.*
† For multi-state corporation, see Note following line 10 instructions of Schedule AP-2.
‡Notwithstanding minimum tax. Corporate excise/income tax rate, 6.6% on taxable income of less than $1 million, 7.6% above that.

Non-corporate formula

Claiming Oregon Investment Advantage Exemption

Pursuant to Annual Certification of facility by Business Oregon—on facility income for businesses that pay state income taxes as individual/personal filers, including partnerships, S Corporations, *etc.*, under ORS 316.778,* using Oregon Department of Revenue Form 40 "Other subtractions" line; Code [342]

Formula to compute exempt income

Exempt income = federal taxable income x Ratio A x Ratio B x Ratio C† (Note: all ratios must be between 0 and 100%)

Ratio A	Business income from certified exempt facility‡ ÷ Total business income
Ratio B	Federal adjusted gross income (AGI) from business ÷ Total AGI
Ratio C	Oregon adjusted gross income (AGI) ÷ Total AGI

**Within 30 days following issuance of annual certification, partnership or S Corporation is obligated to report information to business's owners (shareholders) necessary to compute exemption, for which Department of Revenue may permit extensions.*
†This Ratio C (to isolate Oregon-sourced income) is applicable only to non-resident or part–time resident taxpayers.
‡See OAR 150–316.778 (http://arcweb.sos.state.or.us/pages/rules/oars_100/oar_150/150_316.html)