

# Oregon Investment Advantage Tax Exemption

## Business development 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 above geographic criteria matters *only* at the time “preliminary certification” is made.

## Business operation criteria

There is no restriction in 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 same business does not operate another facility anywhere in Oregon that is the same as the proposed facility—business operations must be new to this state.
- Business 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, but the first such submission must be at least 24 months after the date that operations commenced.

## References:

Oregon Revised Statute (ORS)  
Chapter 285C, Chapter 316,  
Chapter 317

[www.leg.state.or.us/ors/home.htm](http://www.leg.state.or.us/ors/home.htm)

Oregon Administrative Rule  
OAR 123-635

[arcweb.sos.state.or.us/rules/OARS\\_100/  
OAR\\_123/123\\_635.html](http://arcweb.sos.state.or.us/rules/OARS_100/OAR_123/123_635.html)

Department Web Site  
[www.oregon4biz.com](http://www.oregon4biz.com)

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# Oregon Investment Advantage Tax Exemption

## 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 urban growth boundary of a city ( $\leq 15,000$  population) in an eligible county.
- Prior to hiring or making facility improvements, **XYZ** submits application for preliminary certification to state, Business Oregon.
- No local objection; department preliminarily certifies facility.

### 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.
- **XYZ**'s current income tax year concludes; application for annual certification submitted to department within 30 days.
- Department annually certifies facility.

### 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  $[60 + 80 = 140 \div 2 = ]$  ..... 70%
- Exempt income for **XYZ** equals  $[\$3,000,000 \times 0.7 = ]$  .....\$2,100,000
- Before credits, **XYZ**'s remaining tax liability would be  
 $[\$3.0M - \$2.1M = \$0.9M \times 0.066^\dagger = ]$  ..... \$59,400
- Annual state corporate tax savings for **XYZ** equal  $[\$2,100,000 \times 0.066^\dagger = ]$  ..... \$138,600

\*If preliminarily certified after 12/31/2010, these new hires must meet minimum compensation requirement, too.

†Corporate excise/income tax rate, 6.6%



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# Oregon Investment Advantage Tax Exemption

## 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.

Oregon Department of Revenue Form 40 “Other subtractions” line

Code [342]

Formula to compute exempt income

$$\text{Exempt income} = \text{federal taxable income} \times \text{Ratio A} \times \text{Ratio B} \times \text{Ratio C}^\dagger$$

(Note: all ratios must be between 0 and 100%)

#### Ratio A

Business income from certified/exempt facility<sup>‡</sup> ÷ Total business income

#### Ratio B

Federal adjusted gross income (AGI) from business ÷ Total AGI

#### Ratio C

Oregon adjusted gross income (AGI) ÷ Total AGI

The Department of Revenue Form 40 is available at <https://secure.dor.state.or.us/piti/index.cfm?action=topic&id=0098>

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\*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/rules/OARS\\_100/OAR\\_150/150\\_316.html](http://arcweb.sos.state.or.us/rules/OARS_100/OAR_150/150_316.html))



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