

BUSINESS INCENTIVE: Oregon Investment Advantage

Corporate Income Tax Exemption

The Oregon Investment Advantage is a 10-year taxable income exemption for a certified business in eligible locations. It can often be combined with property tax abatement programs.

ELIGIBLE LOCATIONS

The site of the facility to be exempt must be:

- Inside a county that currently (or in the past two years) qualifies for the program, in terms of annual unemployment and per capita income, and
- On land zoned for industrial uses or located inside the urban growth boundary (UGB) of a city that has a population of 15,000 or less.

Meeting both geographic criteria matters only when applying for preliminary certification.

BUSINESS 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.

Criteria for preliminary certification:

- 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.

Criteria for continued annual certification:

- Facility has resulted in the hiring of five or more new full-time, year-round employees.
- The average wage of new employees must equal or exceed the most current average county annual wage.
- At least five new employees must also each—at a minimum—receive annual “compensation” (including all non-mandatory financial benefits) that is equal to or greater than the following:
 - 150% of local income* or
 - 130% of local income*, if facility is located outside a federally designated metropolitan statistical area, 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.

* most recently available figure for per capita personal income in applicable county at time of application for preliminary certification.

APPLICATION AND TIMING

To be certified for this exemption, two forms must be 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, for which this application may be first submitted. 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).

BUSINESS OREGON

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Business Oregon is an agency of the state of Oregon.

References:

Oregon Revised Statute (ORS)
Chapter 285C, Chapter 316,
Chapter 317
[oregonlegislature.gov/bills_laws/
Pages/ORS.aspx](http://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](http://arcweb.sos.state.or.us/pages/rules/oars_100/oar_123/123_635.html)



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 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 smaller city in an eligible county.
- XYZ submits application for preliminary certification to Business Oregon before any hiring or commencing any improvements or installations at the facility for newly proposed operations.
- No local objection within maximum of 60 days, and Business Oregon preliminarily certifies facility.

ANNUAL CERTIFICATION (first of up to 10 consecutive times)

- Facility property acquired/built and investment completed; at least five new, full-time employees are hired,* and new operations commence.
- 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.
- Business Oregon certifies facility for the tax year.

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

**These new hires must meet minimum compensation requirement if preliminary certification application made on or after July 1, 2011, and they must meet average wage requirement, if made on or after October 6, 2017.*

† 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 FOR CLAIMING EXEMPTION

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 with 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 150-316-0600 (http://arcweb.sos.state.or.us/pages/rules/oars_100/oar_150_316.html)