Corporate Activity Tax
Frequently Asked Questions

The 2019 Legislature created the Corporate Activity Tax (CAT) as a means of establishing an additional, dedicated funding source for K-12 education. Revenues are dedicated to the Fund for Student Success and are separate from the state’s General Fund. The tax took effect on January 1, 2020 with the first estimated tax payments due in April of 2020. This document provides brief answers to commonly asked questions about the CAT.

1. **What is the Corporate Activity Tax?**
The Corporate Activity Tax (CAT) is a tax imposed on companies for the privilege of doing business in Oregon. It is a tax on commercial activity – the sale of goods and services – in Oregon. Exports (goods and services sent out of Oregon) are not subject to the tax. Oregon law (ORS 217A(1)(a)(A)) defines commercial activity as “...the total amount realized by a person, arising from transactions and activity in the regular course of the person’s trade or business...”

2. **Why was the CAT created?**
According to the results of the Quality Education Model (QEM; final reports found here), funding for K-12 public education in Oregon has not been sufficient to achieve the state’s desired goals for almost two decades. Since the passage of property tax reductions in the 1990s, a majority of school funding has been through state resources. Consequently, school funding is in direct competition with other General Fund demands as well as being subject to the volatility of the income tax.

3. **How much revenue is expected?**
Estimates made during the 2019 legislative session while the policy was being crafted projected $1.6 billion in collections during the 2019-21 biennium. In subsequent years, the tax was projected to raise roughly $1 billion per year for Oregon schools.¹

4. **What are some key features of the tax?**
After businesses calculate their commercial activity, they are allowed to reduce that amount by a 35% deduction. Then they are allowed to subtract $1 million to arrive at the taxable amount.

5. **What is the 35% deduction?**
Each business is allowed a deduction equal to 35% of the greater of their Cost-of-Goods-Sold (COGS) or their employee labor costs. The COGS amount is taken from calculations made for federal income tax purposes. Labor costs is employee compensation, up to $500,000 per employee. For example, if a business has COGS of $500,000 and labor costs of $600,000, the deduction would be $210,00 — 35% of $600,000.

¹ Given the current landscape with COVID-19 these estimates are in the process of being updated.
6. **How is the tax calculated?**

   The tax is $250 + 0.57% of taxable commercial activity in Oregon above $1 million. Taxable commercial activity is the amount after the 35% deduction. As an example, assuming Oregon commercial activity of $2,000,000 and a 35% deduction of $210,000 -- and including the $1 million threshold -- taxable commercial activity would be $790,000 ($2,000,000 - $210,000 - $1,000,000). The tax liability is then $4,753 ($250 + 0.0057*$790,000).

7. **When are payments due?**

   Estimated payments are required quarterly, and tax returns are required annually. For example, for tax year 2020 estimated tax payments are due in April, July and October of 2020, and January of 2021. Tax returns for 2020 are due on April 15, 2021. At that time, taxpayers will reconcile their 2020 tax liability with their estimated payments by either making an additional payment or receiving a refund, just as is done with income taxes.

8. **Which companies must make quarterly payments?**

   Quarterly payments are estimates of the tax due for the commercial activity of the prior quarter. For example, April estimated payments are based on commercial activity for January through March. Department of Revenue rules state that these estimated payments are due if the annual tax liability is expected to be more than $5,000.

9. **Are exports taxed?**

   No, the sale of goods and services sent out of Oregon are not part of commercial activity and are not subject to the tax. In the context of this tax, ‘exports’ include goods and services that are sold outside the U.S. as well as those sold elsewhere in the U.S. but outside Oregon.

10. **Are services subject to the tax?**

    Yes, both goods and services sold in Oregon are subject to the tax.

11. **Are any items excluded from the tax?**

    There are some goods and services that are exempt. For example, the retail and wholesale sale of groceries, the sale of motor fuel, and farmer sales to agricultural cooperatives are exempt.

12. **Is anyone exempt from the tax?**

    Non-profit entities, governmental entities, and those healthcare entities that are subject to Oregon’s Medical Provider Taxes (e.g. hospitals and long-term care facilities) are exempt.

13. **Who will pay the tax?**

    Any entity doing business in Oregon may owe the tax if they have more than $1 million of commercial activity in Oregon. This includes C-corporations, S-corporations, Partnerships, LLCs, and sole proprietors. The tax is applied only to commercial activity amounts above $1 million dollars. There are an estimated 450,000 businesses in Oregon; roughly 40,000 of them are projected to have a CAT liability. The table to the right provides some projections as to the number of businesses by amount of Oregon commercial activity.

<table>
<thead>
<tr>
<th>Commercial Activity ($M)</th>
<th>Number of Businesses</th>
<th>Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt; $1M</td>
<td>410,000</td>
<td>91%</td>
</tr>
<tr>
<td>$1M to $2M</td>
<td>17,000</td>
<td>4%</td>
</tr>
<tr>
<td>$2M to $5M</td>
<td>13,000</td>
<td>3%</td>
</tr>
<tr>
<td>&gt; $5M</td>
<td>10,000</td>
<td>2%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>450,000</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>
14. Are out-of-state companies subject to the tax?
Yes. The location of the business does not matter. If they sell goods or services into Oregon, they are subject to the tax. The $1 million threshold of Oregon commercial activity still applies.

15. What is registration and why is it required?
Because this is a new tax, a one-time registration is required when businesses reach $750,000 of Oregon commercial activity. Registration is simply a notification of nearing a potential tax liability and is filed with the Department of Revenue in an effort to avoid any tax compliance issues.

16. Is the CAT a sales tax?
Sales taxes are calculated at the time each transaction, or sale, occurs. As such, sales taxes are often referred to as transactional taxes. The CAT is not sales tax because the actual tax liability is calculated on the aggregate sale of goods and services in Oregon above $1 million and after the 35% deduction. Consequently, the tax cannot be calculated precisely for each particular transaction.

17. Can businesses pass the CAT on to customers?
There is nothing in the law that prevents businesses from changing their pricing policies. Depending on the market for specific goods or services, business responses are likely to vary.

18. Why create a new revenue source instead of increasing existing taxes?
The 2019 Legislature considered several options. One concern about increasing existing taxes was the volatility associated with the state’s income tax revenue. One of the goals of the legislation was adding a revenue stream that is considered more stable than that of income taxes.

19. How will the funds be spent?
All revenue is dedicated to education. The single largest share of resources for 2019-21 will be a transfer to the State School Fund to pay for general education systems. After this transfer, revenues are directed into three spending accounts. The Student Investment Account (SIA) receives at least 50%; the Statewide Education Initiatives Accounts (SEIA) receives up to 30%; and the Early Learning Account (ELA) receives at least 20%. The SIA account is for specific purposes including increased learning time, student health and safety, and reduced class sizes. The SEIA and ELA funds are allocated to specific programs including the High School Graduation & College and Career Readiness program (Measure 98) and for the Oregon Prekindergarten Program. The Issue Brief found here provides additional detail on these accounts.

20. When will the revenue be spent?
School districts throughout the state have been having discussions with their local community stakeholders on what their needs are for these funds. They are working on plans to submit to the Oregon Department of Education with the goal of having programs in place to start in the 2020-21 school year.

21. Where can I find additional detail on the tax, such as administrative rules?
The Department of Revenue website provides additional detail that can be found here.