



MCDONALD JACOBS

ACCOUNTANTS & CONSULTANTS

Strength in Numbers

July 2009

Dear Client:

In order to balance the budget, the Oregon Legislature recently passed a tax act that affects income taxes paid by both entities and individuals. Many clients have contacted us asking details about the new Oregon tax rates. For entities, there is a new minimum tax. For individuals, there is a new higher tax bracket. The following discussion outlines the Oregon tax impact by the type of taxpayer.

S-Corporations

Under prior law, there was a minimum tax of \$10. For tax years beginning on or after January 1, 2009, there is a minimum tax of \$150.

LLCs and Partnerships

Under prior law, there was no minimum tax. For tax years beginning on or after January 1, 2009, there is a minimum tax of \$150.

Corporations (taxable corporations other than S-Corps)

Under prior law, there was a minimum tax of \$10. For tax years beginning on or after January 1, 2009, there is a minimum tax based on the following chart:

Oregon sales	Minimum Tax
Less than \$500,000	\$150
\$500,000 to \$999,999	\$500
\$1,000,000 to \$1,999,999	\$1,000
\$2,000,000 to \$2,999,999	\$1,500
\$3,000,000 to \$4,999,999	\$2,000
\$5,000,000 to \$6,999,999	\$4,000
\$7,000,000 to \$9,999,999	\$7,500
\$10,000,000 to \$24,999,999	\$15,000
\$25,000,000 to \$49,999,999	\$30,000
\$50,000,000 to \$74,999,999	\$50,000
\$75,000,000 to \$99,999,999	\$75,000
\$100,000,000 and up	\$100,000

Note that the above chart is based on Oregon sales, not total sales. If a corporation uses an approved method of apportioning business income among multiple states, only the Oregon sales are used to compute the minimum tax liability. If the normal computed tax liability is greater than the minimum tax, you would pay the normal computed income tax (not both).

Effective for tax years beginning on or after January 1, 2009, Oregon has a new higher corporate income tax bracket. In the past, the only corporate tax rate was 6.6%. Starting in 2009, Oregon corporate taxable income over \$250,000 will be taxed at a 7.9% rate.

Effective for tax years beginning on or after January 1, 2011 the tax rate for income over \$250,000 becomes 7.6% for two years, after which the new 7.6% rate applies to income over \$10 million.

Individuals

Effective January 1, 2009, Oregon has new higher tax brackets. In the past, the maximum tax bracket was 9%. Oregon taxable income over \$5,000 was taxed at the 9% rate, so Oregon effectively had a very flat tax rate structure.

Starting in 2009, personal tax returns will have a new bracket for Oregon taxable income over \$125,000 but not over \$250,000 which will be taxed at a 10.8% rate. Taxable income over \$250,000 would be taxed at an 11% rate.

After 2011 the tax bracket for income over \$125,000 but not over \$250,000 becomes 9.9% and income over \$250,000 would continue to be taxed at an 11% rate.

Additionally, the deduction on the Oregon return for your federal income taxes paid (maximum of \$5,500) is being scaled back for taxpayers with Oregon taxable income of \$125,000 or more (\$250,000 for joint returns).

The \$1,500 Oregon credit for the purchase of a hybrid vehicle will be terminated effective January 1, 2010.

Please contact us if you have any questions.

Sincerely,

McDonald Jacobson, P.C.