STATE OF OREGON

INTEROFFICE MEMO

Governor
cc: Gerry
2451

TO: Governor Vic Atiyeh

DATE: June 8, 1984

RECEIVED
JUN 11 1984
Governor's Office

FROM: Richard A. Munn, Director
Department of Revenue
RAM

SUBJECT: Corporate Excise Tax Changes

You questioned the revenue impact of your proposal on the corporate excise tax change. I asked Richard Yates, Supervisor, Research Section, to review the revenue estimate. The key to your proposal is the treatment of foreign dividends. Richard Yates shows the way to reduce the cost is by taxing all or a part of foreign dividends.

RAM/ml

81-125-1387

STATE OF OREGON

INTEROFFICE MEMO

DEPT.

TELEPHONE

TO: Richard A. Munn, Director

DATE: June 7, 1984

FROM: Richard C. Yates, Supervisor
Research

SUBJECT: Revenue Impact of Proposed Corporate Income Tax

The Executive Department has estimated the cost of adopting federal ACRS provisions at 44 million for the 1985-87 Biennium. These revenues would also be lost under the proposed system and therefore do not constitute an impact of the proposal.

The main area where we expect revenue losses is with domestic parents doing business in foreign countries and with foreign parents doing business in Oregon. If foreign source income is not taxed (i.e., either dividend income is exempt or a tax credit is allowed which effectively exempts foreign source income), the loss in tax revenue is estimated at $18 to $22 million per year. This loss in revenue could be reduced by including dividends in taxable income or by including all foreign source income in taxable income and allowing a deduction for foreign taxes paid.

Including dividends from foreign affiliates in taxable income with no deduction for foreign taxes paid would cut the revenue loss in half - to about $10 million a year.

Including dividends, the gross up and subpart F income in taxable income and allowing a deduction for foreign taxes paid would cut the revenue loss to about $8 million a year. In this case where the foreign affiliate is not wholly owned (first, second or third tier), the amount of income and foreign tax paid would have to be apportioned.

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