

**Checklist of forms and schedules**

<b>Form number</b>	<b>Who must file</b>
Form 20-S .....	Every S corporation doing business in Oregon (or authorized if not protected by P.L. 86-272).
Schedule C, Form 20-S	Every S corporation doing business both inside and outside Oregon.
U.S. Form 1120S* .....	Every S corporation required to file (with Schedule K-1 for each shareholder).
Form 20-ES .....	Every S corporation that estimates its 1996 corporate tax liability to be \$500 or more.
Form 37 .....	Every S corporation with an underpayment of estimated tax.

\*In general, Oregon is tied to the Internal Revenue Code (IRC) as amended on or before April 15, 1995, even if the amendments take effect after that date. Oregon's corporation income will be the same as for federal income tax purposes, except for certain modifications.

This publication is a guide. It isn't a complete statement of Oregon laws or Oregon Department of Revenue rules. For more information, refer to the laws and rules.

**RETROACTIVE TIE TO FEDERAL LAW**

Your 1993 and 1994 Oregon tax liability may have changed. Oregon retroactively adopted the federal Revenue Reconciliation Act of 1993. For example, the provisions of Oregon's retroactive tie to federal include:

- Employer-provided educational assistance deductions.
- Depreciation of nonresidential real property.
- Amortization of goodwill and related intangibles.
- Business meals and entertainment.
- Election to expense certain tangible property (Section 179 expense).

You must amend your 1993 and 1994 returns to claim the changes. For IRC Sec. 179 only, you have until April 15, 1998 to amend for both years, or you may choose a one-time adjustment for the differences on your **1996** Oregon tax return.

**DOUBLE WEIGHTED SALES FACTOR**

All business income will be apportioned to Oregon by multiplying the income by a fraction, the numerator of which is the property factor plus the payroll factor plus two times the sales factor, and the denominator of which is four. The denominator is reduced by the number of factors with a denominator of zero. If the sales factor denominator is zero, the sum of the factors is divided by two. See ORS 314.650.

**GENERAL INSTRUCTIONS**

**Corporations required to file an excise tax return**

**Excise tax filers are subject to a \$10 minimum tax.**

Form 20-S must be filed under the **excise** tax provisions in ORS Chapter 317 by S corporations:

- Incorporated in Oregon.
- Doing business in Oregon.
- Registered to do business in Oregon, even if not doing business in Oregon, and not protected by P.L. 86-272.

"Doing business" is defined as having sales activity in Oregon **and** one or more of the following:

- A stock of goods.
- An office.
- A place of business (other than an office) where affairs of the corporation are regularly carried on.

"Doing business" also includes providing services to customers as the primary business activity or incidentally to the sale of tangible or intangible personal property.

**S corporations required to file an income tax return**

**Income tax filers are not subject to a minimum tax.**

Form 20-S must be filed under the **income** tax provisions under ORS Chapter 318 by S corporations that derive income from sources within Oregon, but the income producing activity doesn't actually constitute "doing business."

Income is from an Oregon source if it is derived from:

- Tangible or intangible property located in Oregon.
- Any activity carried on in Oregon, whether intrastate, interstate, or foreign commerce.

**When you file your first S corporation return**

Attach a copy of your federal S corporation election, federal Form 2553, to your first Oregon Form 20-S.

**Due date of the Oregon return**

Returns for the calendar year are due on or before April 15. When the 15th falls on a Saturday or Sunday, the due date will be the following Monday. Returns for other tax periods are due on or before the 15th day of the month following the due date of the federal return for the tax year.

Oregon won't charge a late filing penalty if the return is filed within 30 days of the federal due date, including extensions. But interest and a 5 percent late payment penalty are charged if the tax isn't paid by the Oregon due date.

**Extension of time to file**

If you need more time to file **both** your federal and your Oregon returns:

- Oregon accepts the extension you have for your federal return.

- Attach a copy of your federal extension to your Oregon return and mark the extension box at the top of Form 20-S.
- To avoid penalty and interest, mail any tax due on or before the original due date of your return. Attach the payment to a separate copy of your federal extension.
- Include the amount you paid with your extension on Form 20-S, line 6, Schedule B, when you file your return.

If you need an extension of time to file for **Oregon only**, send us a federal extension form. Write "For Oregon Only" across the top. Include your payment. Mail the extension request to: Oregon Department of Revenue, PO Box 14777, Salem OR 97309-0960. We'll notify you only if your extension is denied. **More time to file doesn't mean more time to pay your tax!** Even if you have an extension, any tax due is payable on the original due date of the return.

Include a copy of your extension with your return when you file. Put the extension at the back of the Oregon return and schedules. It should be the last item before the federal corporation return. Check the appropriate box at the top of Form 20-S if you have attached an extension.

### Penalty and interest

**Penalty.** Include a penalty payment if you:

- Mail your tax due after the original due date (even if you have an extension).
- File your excise tax return after the due date, including any extension.

Penalty is 5 percent of the unpaid balance of your tax.

If you get an extension, the penalty won't be charged if you:

- Pay at least 90 percent of the tax due on or before the original due date of the return, **and**
- Pay the balance of tax and interest when you file within the extension period, **and**
- Pay any interest due either when the return is filed or within 30 days of billing by the department.

If you **file more than three months** after the original or extended due date, add an additional penalty of 20 percent of the unpaid tax. If you don't file returns for three consecutive years by the due date of the third year's return, including extensions, you must pay a 100 percent penalty on the tax liability for each tax year. Include any penalty due on Form 20-S, line 15.

**Interest.** If you don't pay the tax by the due date, interest will be charged on the unpaid tax.

The current interest rate is .8333 percent per month (.0274 percent per day, effective January 1995). The interest rate may change once a calendar year.

Interest is figured daily for periods of less than a month. A month, for example, is May 16 to June 15. Here's how to figure daily interest:

$$\text{Tax} \times \text{Daily interest rate} \times \text{Number of days}$$

Interest accrues during an extension of time to file.

**Additional interest on deficiencies and delinquencies.** Interest will increase by one-third of 1 percent per month (4 percent yearly) on deficiencies or delinquencies if the following occurs:

- You file a return showing taxes due (self-assess a tax liability), or the Department of Revenue has assessed an existing deficiency, **and**

- The assessment isn't paid within 60 days after the notice of assessment is issued.

**Interest on underpayment of estimated tax.** You have an underpayment if you paid less than 97 percent of the tax due on each estimated tax payment due date. You don't have an underpayment if you owe less than \$500 tax on your 1995 return. The tax you owe is the net tax on line 12. If you have an underpayment, you must file Oregon Form 37, "Underpayment of Estimated Taxes." **Attach Form 37 to your return.**

Use Form 37 to figure:

- The amount of underpayment of estimated tax.
- The amount of interest you owe on the underpayment.
- Any exception to the payment of interest.

To get Form 37, see "Assistance" on page 4.

On Form 20-S, line 15, include interest for payment of tax after the original return due date **and** interest due from underpayment of estimated tax. Check the appropriate box at the top of Form 20-S if you have attached Form 37.

### Federal audit changes

If the IRS changes your federal net income for any tax year, you must notify the Oregon Department of Revenue. File an amended Oregon return and attach a copy of the federal audit report. Mail this separately from your current year's return to: Oregon Department of Revenue, PO Box 14777, Salem OR 97309-0960. If you don't amend, or send a copy of the federal report, the Oregon Department of Revenue has two years from the date the department is notified of the change by the IRS to issue a deficiency notice. You **must** file within two years after the date of the federal report to receive a refund.

### Amended returns

If you change net income by amending your federal return, you must file an amended Oregon return within 90 days. Attach a copy of the amended federal return to the amended Oregon return and explain the adjustments made.

On the line for prepayments, enter the net tax per the original return. Add or subtract prior tax adjustments to your original return. Pay all tax and interest due when you file an amended return. Otherwise, you may be charged the 5 percent late payment penalty.

### Shareholder returns

Shareholders who meet the Oregon filing requirements must file individual income tax returns. See the Oregon full-year resident, and the nonresident and part-year resident tax booklets.

Full-year residents file Form 40, part-year residents file Form 40P and nonresidents file Form 40N. The nonresident shareholders may choose to file individual nonresident tax returns or join together to file a multiple nonresident tax return. Call (503) 945-8436 to get a copy of the Multiple Nonresident Income Tax return instructions.

Resident shareholders are taxed on their pro rata share of S corporation income, loss, and deductions from the federal K-1s. Those amounts are modified by the Oregon additions and subtractions on Schedule A-2. Nonresident shareholders are taxed on their share of modified income multiplied by

the S corporation's apportionment percentage from line 6, Schedule C-1. See ORS 314.734.

## LINE INSTRUCTIONS

**Instructions are for lines not fully explained on the form.**

**Heading.** Use the mailing label in the name and address space. Correct the name, address, or federal employer identification number, if necessary. If you didn't receive a label, type or print the required information.

**If this is your first return,** a filing number will be assigned when the return is received.

### SCHEDULE A-1 — TAX COMPUTATION FOR S CORPORATIONS WITH FEDERAL TAXABLE INCOME OR LIFO BENEFIT RECAPTURE

**Line 1. Income taxed on federal Form 1120S.** On line 1(a), enter the amount from Form 1120S, Schedule D, Part IV, line 26. On line 1(b), enter the amount from Form 1120S, Schedule D, Part III, line 17. To determine the amount to enter on line 1(c), you will need to refer to the instructions for Form 1120S. Contained in those instructions for line 22(a) is a worksheet. You should enter the amount from line 10 of that worksheet on line 1(c). Enter the total of lines 1(a), (b), and (c) on line 1.

**Line 2. Additions.** Enter only additions that apply to taxable income included in line 1. See ORS 317.259 through 317.478. Examples of additions that apply to S corporation income are:

- State, municipal, or other interest income excluded from federal taxable income. Income tax filers should not include interest on State of Oregon obligations.
- Other state or foreign taxes on or measured by net income or profits.
- Federal depreciation in excess of Oregon depreciation included in line 1. This modification applies to assets placed in service during tax years beginning after December 31, 1980 and before January 1, 1985. If so, you must refigure your depreciation using 1980 federal law.

Also, the election to use ADR for Oregon only applies to assets placed in service in tax years starting after October 3, 1977.

You will need the Oregon Depreciation Schedule and instructions. See "Assistance" on page 4.

- The difference in gain or loss on sale of business assets when the Oregon basis is less than it is for federal purposes.

**Line 3. Subtractions.** Enter only subtractions that apply to income included in line 1. See ORS 317.259 through 317.478. Examples of subtractions for S corporations are:

- Oregon depreciation in excess of federal depreciation included in line 1. See instructions for line 2.
- Interest on obligations of the United States and its instrumentalities included in line 1. **This applies to income tax filers only.**
- The difference in gain or loss on sale of assets when the Oregon basis is greater than it is for federal purposes.

**Line 8. Credits against tax.** Only credits carried forward from C corporation years shall be allowed to offset the tax on

built-in gains. See ORS 314.740(5)(b). No credits are allowed to offset the tax on excess net passive income. See the information circulars "Tax Credits for Corporations" (150-102-694) and "Additional Tax Credits for Corporations" (150-102-699) for more information on credits. Attach a schedule and the required credit form listed below. Credits with a carryover provision are:

- Pollution control facility (form 150-102-029).
- Farmworker housing project investment.
- Fish screening device.
- Dependent care (form 150-102-032).
- Bone marrow donation.
- Youth apprenticeship program.
- Crop gleaning (form 150-101-240).
- Fish habitat improvement.
- Fish gleaning (form 150-101-068).
- Reclaimed plastics product.

**Line 10. 1993–1995 state surplus refund.** Oregon's 1993–1995 surplus corporate revenue is being refunded to taxpayers. The refund takes the form of a reduction to your 1995 tax liability. If a tax liability is shown on your Form 20-S, line 9 (except for the \$10 minimum tax), fill out this line. The amount on this line will reduce your tax.

**Line 11. Tax adjustment for LIFO benefit recapture.** Make this adjustment in the first three years after a C corporation becomes an S corporation. Add one-third of the tax that was deferred on the last C corporation return.

**Line 12. Net tax.** Line 9 minus line 10 plus line 11 (if applicable).

**Line 16. Total now due.** All payments are applied first to any penalty and interest due, then to tax due.

### SCHEDULE A-2 — OREGON MODIFICATIONS PASSED THROUGH TO SHAREHOLDERS

**Line 1. Interest on government bonds of other states.** Enter interest the corporation received from states and local governments **other than Oregon and its municipalities.**

**Example.** Include interest from State of Washington bonds or from San Francisco city bonds. But leave out interest from Oregon government bonds.

**Line 2. Difference in depreciation for Oregon.** Did the corporation depreciate property placed in service after December 31, 1980 and before January 1, 1985? If so, it must refigure depreciation for Oregon using 1980 federal law on all corporate assets. If Oregon depreciation is less than federal depreciation, enter the difference here.

If you have differences between Oregon and federal depreciation you will need the Oregon Depreciation Schedule and instructions. See "Assistance" on page 4.

**Line 3. Gain or loss on the sale of depreciable property.** Enter the difference in gain or loss on the sale of business assets when the Oregon basis is less than it is for federal purposes. See ORS 316.716.

**Line 4. Other.** See ORS 316.680 through 316.785. Examples of other additions are:

- Gain from involuntary conversion. The S corporation shall make the election to defer gain from the involuntary conversion of property owned by it. Nonresident shareholders cannot join in the election to defer the gain. See ORS 314.290 and OAR 150-314.290.

- Depletion in excess of basis.
- High yield discount obligation interest.

**Line 6. Interest from U.S. Government.** Enter the interest from the U.S. Government, its instrumentalities, and organizations that invest in their securities.

**Line 7. Difference in depreciation for Oregon.** If Oregon depreciation is more than federal depreciation, enter the difference here. See instructions for line 2.

**Line 8. Gain or loss on the sale of depreciable property.** Enter the difference in gain or loss on the sale of business assets when the Oregon basis is greater than it is for federal purposes. See ORS 316.716.

**Line 9. Federal targeted jobs tax credit wages.** Were salaries and wages on federal Form 1120S reduced for the targeted jobs tax credit? Enter the amount of reduction here.

**Line 10. Other.** See ORS 316.680 through 316.785 and ORS 314.734(4) and (5). You may subtract the Oregon corporation tax paid on built-in gains reported on line 1. Examples of other subtractions are:

- Local government bond interest.
- Like-kind exchanges.
- High yield discount obligation dividends.
- Sale of public utility dividend reinvestment plan stock.

Each shareholder's share of the additions and subtractions must be reported to the shareholder. These amounts may be added to the K-1s and labeled "Oregon additions" and "Oregon subtractions." Nonresident shareholders must report their ownership percentage of modifications, multiplied by the S corporation's Oregon apportionment percentage.

Shareholders should fill in their share of Oregon additions and subtractions on Form 40, 40N, or 40P.

## Schedule C-2

**Line 2. Minus: Net nonbusiness income and gains from prior year installment sales included in line 1.** OAR 150-314.615-(G) requires that installment gains be apportioned to Oregon using the average percent from the year of the sale rather than the year payment is received.

**Line 6. Add: Net nonbusiness income allocated entirely to Oregon and gains from prior year installment sales apportioned to Oregon.** Multiply the installment gains subtracted on line 2 by the average percent from the year of the sale.

**Line 8. Net loss deduction.** Only the Oregon net loss carried over from a year in which the corporation was a C corporation shall be allowed as a deduction. It is limited to the income from built-in gains. See ORS 314.740(4).

## Questions

Answer questions A through M. Furnish additional information where necessary.

**Question L.** If you have employees performing services inside either the Tri-County Metropolitan Transportation District (Clackamas, Multnomah, and Washington counties) or the Lane County Mass Transit District, you must register as an employer on form 150-211-055. To request a registration form, see "Assistance" below or phone (503) 945-8091. The employer payroll tax is payable quarterly.

## NONRESIDENT SHAREHOLDERS

Nonresident shareholders will apportion income to Oregon using the **average percent** as computed on line 6, Schedule C-1.

## ASSISTANCE

For questions about the Oregon S Corporation Tax, write or call:

Corporation Audit, Oregon Department of Revenue, 955 Center St NE, Salem OR 97310.

Call: Salem (503) 378-4988  
Toll-free within Oregon 1-800-356-4222

The toll-free number is only available January through April.

From outside of Oregon, call Salem (503) 378-4988 (not toll-free) at all times.

A line is available all year for those who speak Spanish. The number in Salem is (503) 945-8618.

**Habla Español?** Las personas que necesitan asistencia en Español pueden llamar al número en Salem (503) 945-8618.

**TTY** (hearing or speech impaired only): The year-round toll-free number within Oregon is 1-800-886-7204. In Salem, the number is (503) 945-8617. These numbers are answered only by machine and are not for voice use.

To order forms and instructions, write to: Forms, Oregon Department of Revenue, PO Box 14999, Salem OR 97309-0990. For information circulars, write to: Publications (at the same address). Our internet address is: <http://www.dor.state.or.us>

In compliance with the Americans with Disabilities Act (ADA), this information is available in alternative formats upon request by calling (503) 378-4988.

## MULTNOMAH COUNTY BUSINESS INCOME TAX

Effective January 1, 1994, this tax program is administered by the City of Portland's Business License Section. For information call (503) 823-5157 or write to the following address:

Bureau of Licenses  
1120 SW 5<sup>th</sup> Avenue, Room 1206  
Portland OR 97204