

**OAR 150-314-0078**

**Example 1:** Assume the following facts for an airline for the 2016 tax year:

1. Aubrey Airline has ten 747's ready for flight and in revenue service at an average per unit cost of \$40,000,000 for nine (9) of the aircraft. The value of these nine aircraft for apportionment purposes is \$360,000,000. Aubrey Airline rents the remaining 747 from another airline for \$9,000,000 per year. At eight times rents, the latter is valued at \$72,000,000 for apportionment purposes. The total value of the ten aircraft is \$360,000,000 (nine owned aircraft) + \$72,000,000 (one leased aircraft). Total 747 valuation is, therefore, \$432,000,000 for property factor denominator purposes.

2. Aubrey Airline has twenty 727's ready for flight and in revenue service at an average per unit cost of \$20,000,000. Total 727 valuation is, therefore, \$400,000,000 for property factor denominator purposes.

3. Aubrey Airline has nonflight tangible property (n.t.p.) valued at original cost of \$200,000,000.

4. Aubrey Airline has the following annual payroll:

flight personnel	\$ 60,000,000
nonflight personnel	<u>\$ 40,000,000</u>
Total	\$100,000,000

5. From Aubrey Airlines operations, it has total sales of \$50,000,000, apportionable net income of \$1,000,000 and no nonapportionable income.

6. Aubrey Airline has the following within Oregon:

- a. 10% of its 747 flight departures (\$43,200,000);
- b. 20% of its 727 flight departures (\$80,000,000);
- c. 5% of its n.t.p. (\$10,000,000); and
- d. 15% of its nonflight personnel payroll (\$6,000,000).

Oregon's corporate tax rate is 6.6% of the first \$1 million of taxable income, and 7.6% of any taxable income in excess of \$1 million.

The airline's tax liability to Oregon would be determined as follows:

Property Factor:

$$\frac{43,200,000 (747s) + 80,000,000 (727s) + 10,000,000 (n.t.p.)}{432,000,000 (747s) + 400,000,000 (727s) + 200,000,000 (n.t.p)} = \frac{133,200,000}{1,032,000,000} = 12.9070\%$$

Sales Factor:

$$\frac{43,200,000 (747s) + 80,000,000 (727s)}{432,000,000 (747s) + 400,000,000 (727s)} = \frac{123,200,000}{832,000,000} = 14.8077\%$$

Payroll Factor:

$$\frac{6,000,000 (nonflight) + 8,884,620 (.148077 \times 60,000,000)(flight)}{100,000,000} = \frac{14,884,620}{100,000,000} = 14.8846\%$$

Average ratio – (Property, sales, and payroll factors) =

$$\frac{12.9070\% + (2 \times 14.8077\%) + 14.8846\%}{4} = \frac{57.4070\%}{4} = 14.3518\%$$

Taxable Income in Oregon: .143578 x \$1,000,000 = \$143,518

Tax Liability to Oregon: .066 x \$143,518 = \$9,472

**Example 2:** Same facts except that paragraph 6 is changed to read:

6. Aubrey Airline has the following within Oregon:

- a. 6% of its 747 flight departures (\$25,920,000)
- b. 31% of its 727 flight departures (\$124,000,000)
- c. 3% of its nonflight tangible property (\$6,000,000)
- d. 7% of its nonflight personnel payroll (\$2,800,000)

The airline's tax liability to Oregon would be determined as follows:

Property Factor:

$$\frac{25,920,000 (747s) + 124,000,000 (727s) + 6,000,000 (n.t.p.)}{432,000,000 (747s) + 400,000,000 (727s) + 200,000,000 (n.t.p)} = \frac{155,920,000}{1,032,000,000} = 15.1085\%$$

Sales Factor:

$$\frac{25,920,000 (747s) + 124,000,000 (727s)}{432,000,000 (747s) + 400,000,000 (727s)} = \frac{149,920,000}{832,000,000} = 18.0192\%$$

Payroll Factor:

$$\frac{2,800,000 (nonflight) + 10,811,520 (.180192 \times 60,000,000)(flight)}{100,000,000} = \frac{13,611,520}{100,000,000} = 13.6115\%$$

Average Ratio:

$$\frac{15.1085\% + (2 \times 18.0192\%) + 13.6115\%}{4} = \frac{64.7584\%}{4} = 16.1896\%$$

Taxable Income in Oregon:  $.161896 \times \$1,000,000 = \$161,896$

Tax Liability to Oregon:  $.066 \times \$161,896 = \$10,685$