

SB 305: A Change in the Tax Base

Tax Base

The 43 states with an income tax start with one of the following four tax bases:

1. Federal Adjusted Gross Income (AGI) – 28 states
2. Federal Taxable Income – 8 states
3. State Defined – 5 states
4. Interest and Dividends – 2 states

Oregon's Current Tax Base

Under current law, Oregon's personal income tax calculation starts with federal taxable income and then makes modifications by both adding and subtracting various provisions.

2009 Full-Year Returns (\$B)

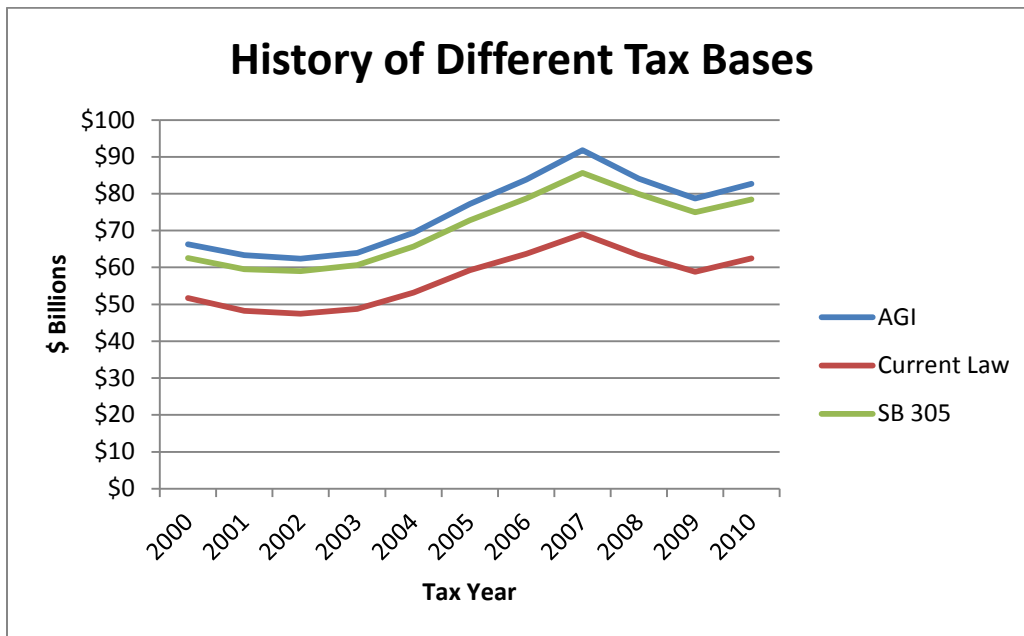
Current Law Tax Base	
Federal AGI	\$78.7
Oregon Adjustments	
Additions (+)	\$0.6
Subtractions (-)	\$7.6
Deductions (-)	\$16.1
Taxable Income	\$58.8

Oregon Additions	
Interest on S&L Bonds	\$0.2
Basis adjustments	\$0.2
QPAI	\$0.1
Other	\$0.1
Total	\$0.6

Oregon Subtractions	
Federal Taxes	\$3.0
Social Security	\$2.3
Federal Pensions	\$1.0
Tax Refunds	\$0.5
Military Pay	\$0.2
Other	\$0.6
Total	\$7.6

SB 305 Tax Base	
Federal AGI	\$78.7
Oregon Adjustments	
Additions (+)	\$0.6
Subtractions (-)	\$7.6
Taxable Income	\$74.9

Oregon Deductions	
Mortgage Interest	\$6.5
S&L Taxes Paid	\$2.2
Charitable Contributions	\$1.9
Medical Expenses	\$1.7
Other	\$1.0
Additional Medical Expenses	\$0.8
Standard Deduction	\$2.0
Total	\$16.1



Oregon Itemized Deductions

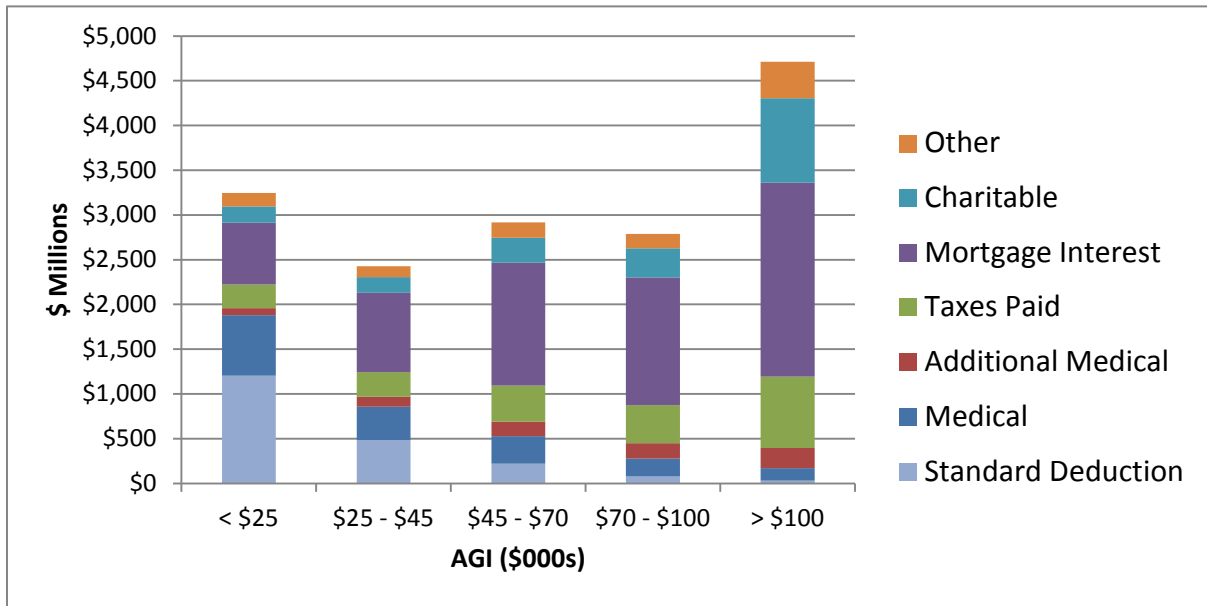
Oregon personal income tax filers have the option of taking either the standard deduction or itemizing their deductions. Generally, taxpayers deduct the larger amount. Oregon and federal itemized deductions are identical with two exceptions. First, Oregon does not allow the deduction for state income taxes paid. Second, Oregon allows an additional medical deduction for taxpayers age 62 and older. Itemized deductions are generally reported on federal Schedule A and consist of medical expenses above 7.5 percent of AGI¹, state and local taxes, home mortgage interest, charitable contributions and miscellaneous deductions.

2009 Total by Deduction Type

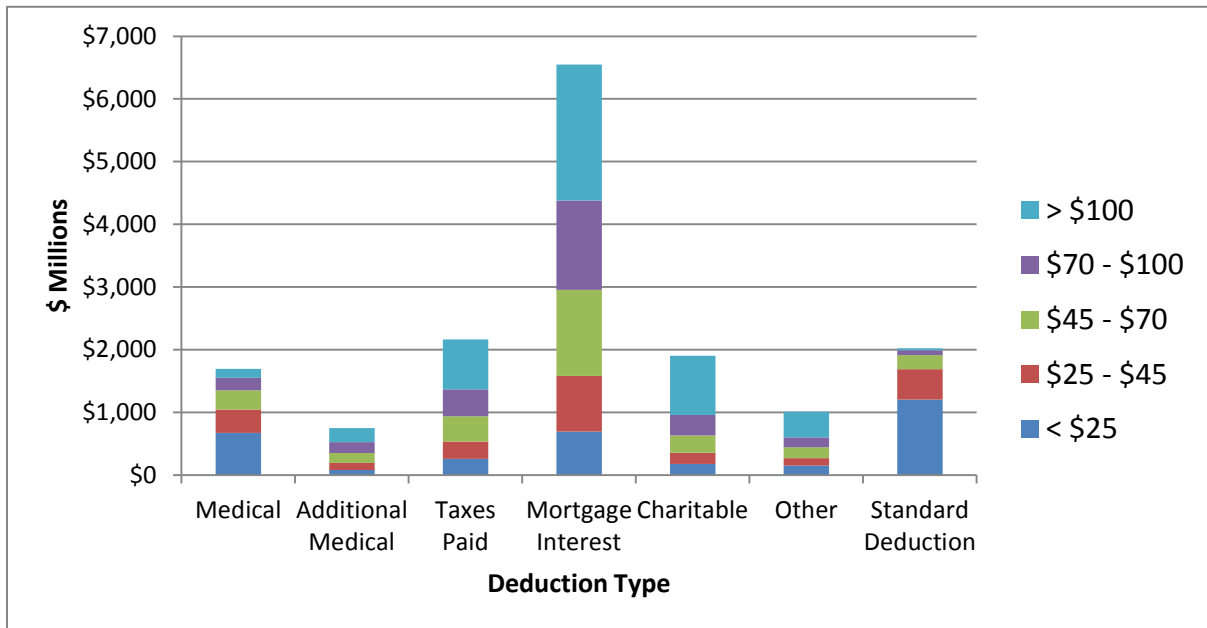
	Returns	Total (\$M)	Share	Mean (\$)
Medical (Federal)	186,597	\$1,692	12%	\$9,070
Additional Medical (Oregon)	234,772	\$752	5%	\$3,204
Local Taxes (excluding state income taxes)	588,920	\$2,163	15%	\$3,672
Home Mortgage Interest	547,777	\$6,547	47%	\$11,951
Charitable Contributions	512,803	\$1,905	14%	\$3,714
Other	145,071	\$1,011	7%	\$6,966
Total	807,223	\$14,069	100%	\$17,429

¹ The Health Care Act of 2010 increased the threshold from 7.5% to 10% for most taxpayers beginning in tax year 2013. If the taxpayer or spouse is age 65 or older, the 10% threshold is not effective until tax year 2017.

The following chart shows the amount of deductions claimed by income group. For comparison purposes, the standard deduction is included. Each group represents roughly 20% of all Oregon itemizers (roughly 160,000 filers) in 2009.

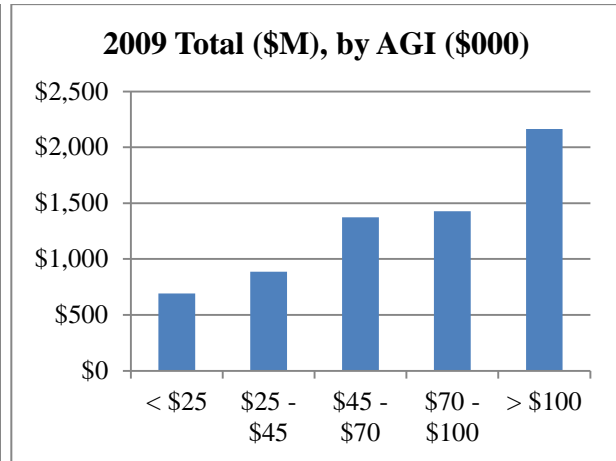
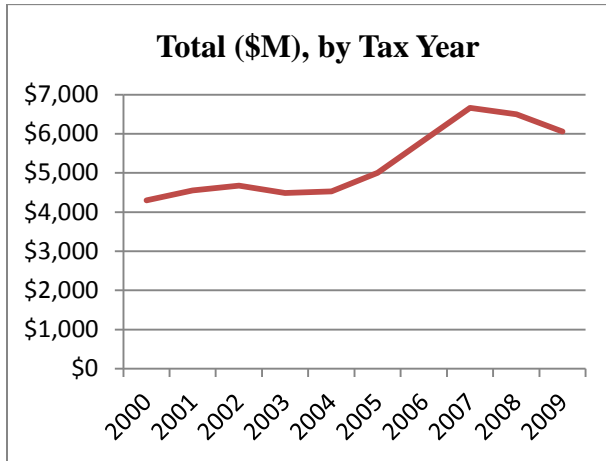


The chart below shows the amount of deductions by type of deduction (for the five income groups).



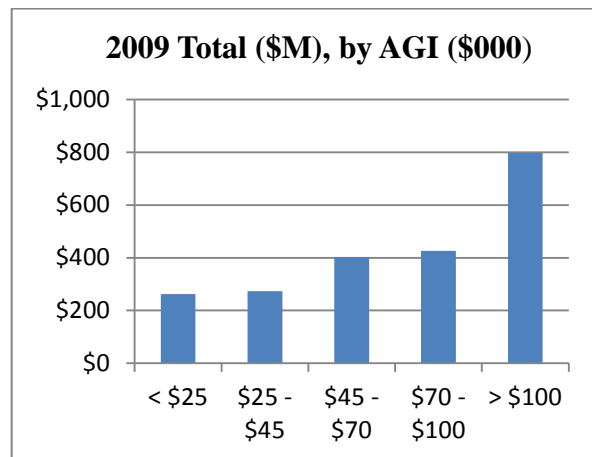
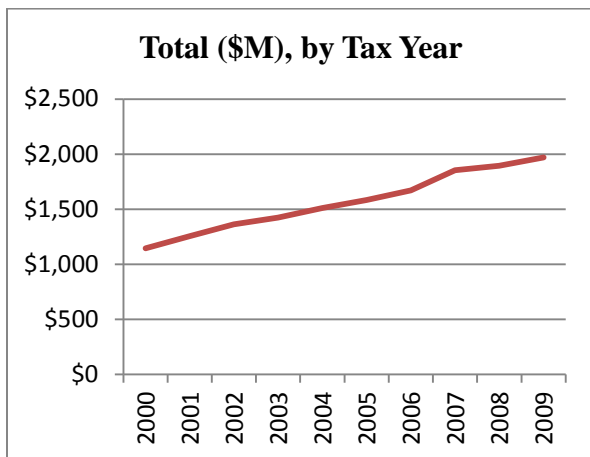
Home Mortgage Interest

- Interest paid on a mortgage secured by a primary or secondary residence is deductible
- Original 1913 federal income tax code contained a deduction for all interest paid
- Since 1987, a limit of \$1 million for combined primary and secondary residential debt plus up to \$100,000 of home equity debt



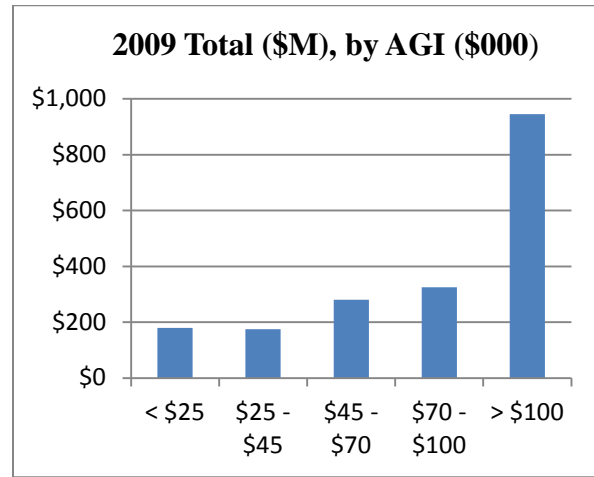
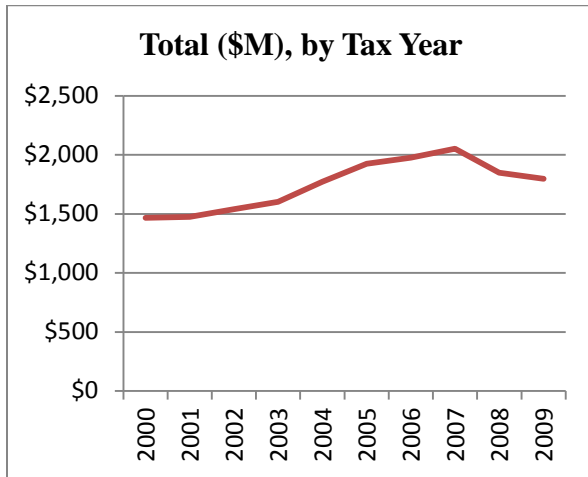
Taxes Paid

- Real estate taxes paid on residential property are deductible
- Original 1913 federal income tax code allowed a deduction for all federal, state, and local taxes



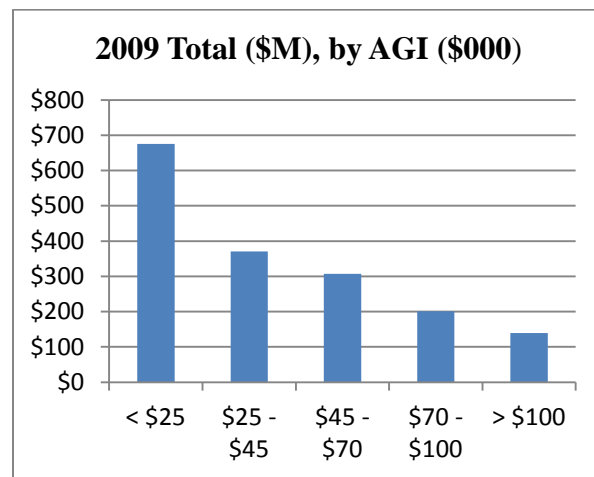
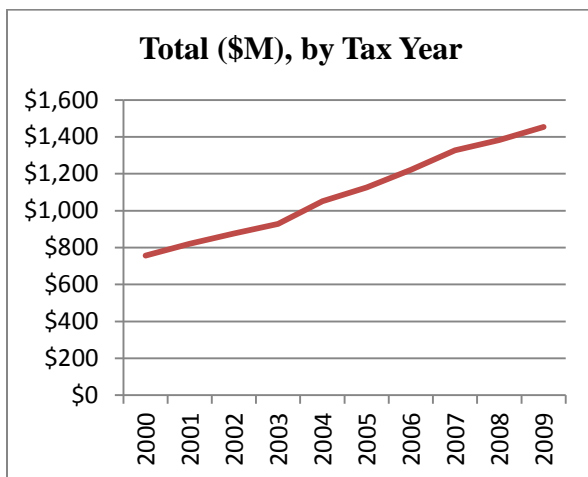
Charitable Contributions

- Contributions up to 50 percent of AGI are deductible
- Was added to the federal tax code in 1917



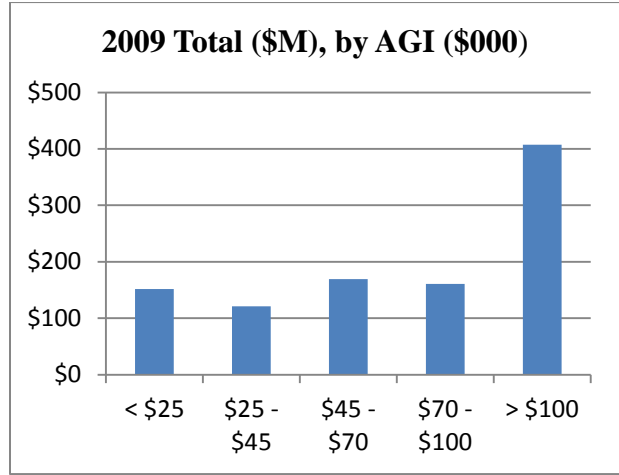
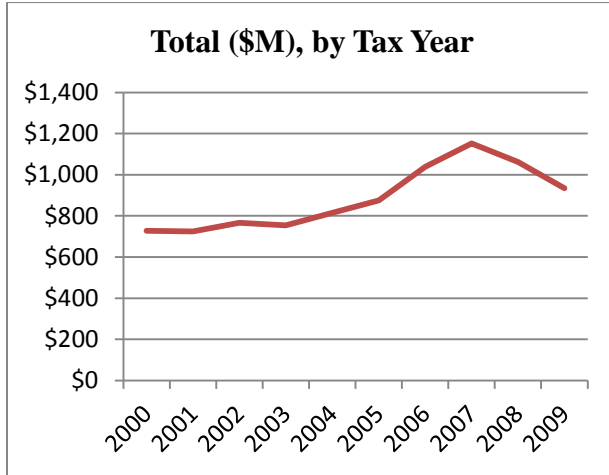
Medical Expenses

- Non-reimbursed medical and dental expenses incurred by the taxpayer, spouse, or dependent to the extent they exceed 10 percent of AGI. (Threshold was 7.5% through 2012; if at least 65 years old, the 10% doesn't apply until 2017.)
- Must be for the diagnosis, treatment, mitigation, or prevention of disease
- Established in 1942 with a five percent threshold and a cap of \$1,250/\$2,500
- Many changes over the years but basically in its current form since 1986



Other Deductions

- Unreimbursed casualty and theft losses
- Unreimbursed employee expenses
- Interest paid on borrowed money used for property held for investment



Additional Medical Expenses

- Non-reimbursed medical and dental expenses incurred by the taxpayer, spouse, or dependent to the extent they are less than 7.5 percent of AGI.
- Taxpayer or spouse must be at least 62 years old
- This deduction is a complement to the medical expenses discussed above

