

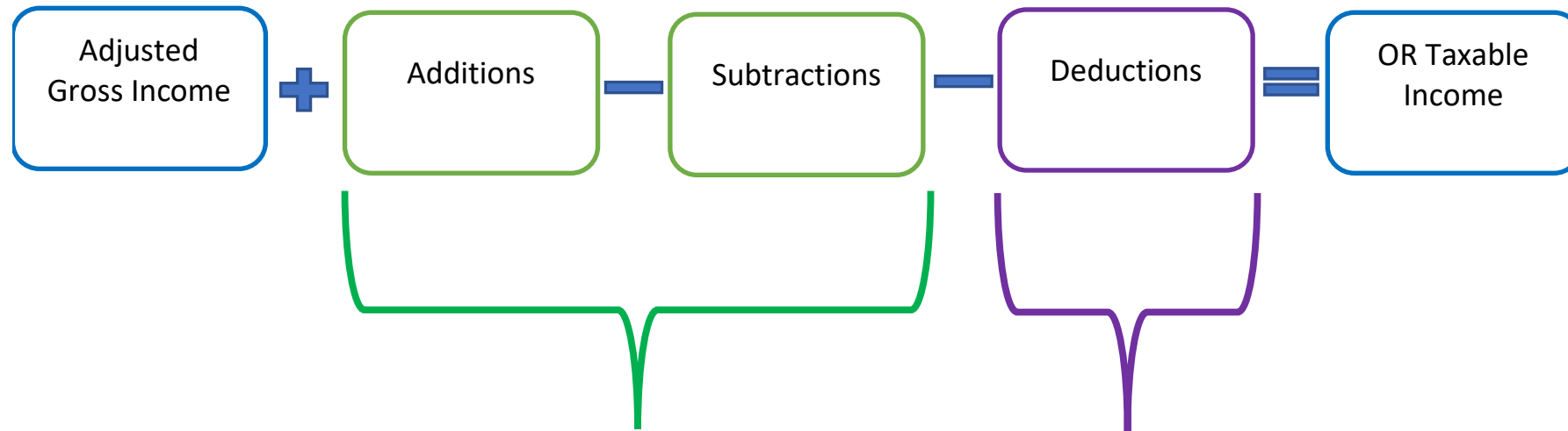
Income Tax Connection to Federal Law: Itemized Deductions

LEGISLATIVE REVENUE OFFICE – 9/26/2018

SENATE INTERIM COMMITTEE ON FINANCE AND REVENUE



Personal Income Tax: Adjusted Gross Income to Oregon Taxable Income



Additions & Subtractions

- Originate in Oregon statute
- Some required by federal law or OR Constitution

Deductions

Most originate in federal law with applicability in Oregon due to Oregon's connection to taxable income

**SCHEDULE A
(Form 1040)**Department of the Treasury
Internal Revenue Service (99)

Name(s) shown on Form 1040

Itemized Deductions► Information about Schedule A and its separate instructions is at www.irs.gov/schedulea.

► Attach to Form 1040.

OMB No. 1545-0074

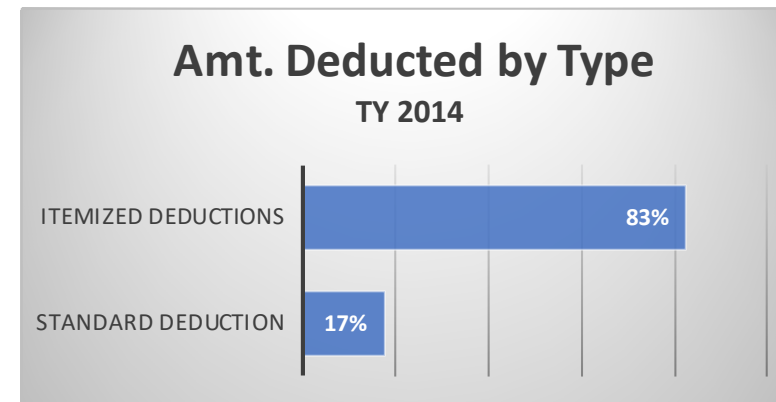
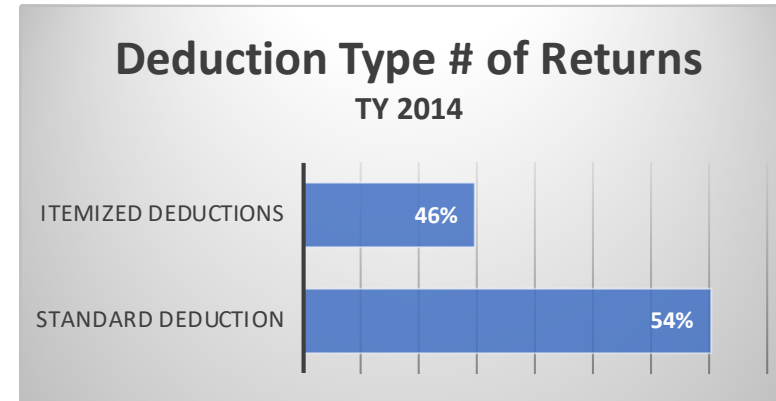
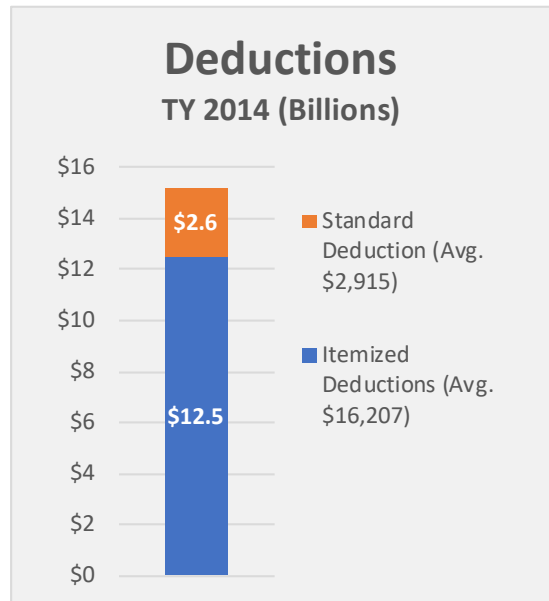
2016Attachment
Sequence No. **07**

Your social security number

Medical and Dental Expenses	Caution: Do not include expenses reimbursed or paid by others.			
	1 Medical and dental expenses (see instructions)	1		
	2 Enter amount from Form 1040, line 38 2			
	3 Multiply line 2 by 10% (0.10). But if either you or your spouse was born before January 2, 1952, multiply line 2 by 7.5% (0.075) instead	3		
	4 Subtract line 3 from line 1. If line 3 is more than line 1, enter -0-			4
Taxes You Paid	5 State and local (check only one box):			
	a <input type="checkbox"/> Income taxes, or	5		
	b <input type="checkbox"/> General sales taxes			
	6 Real estate taxes (see instructions)	6		
	7 Personal property taxes	7		
	8 Other taxes. List type and amount ►	8		
	9 Add lines 5 through 8			9
Interest You Paid	10 Home mortgage interest and points reported to you on Form 1098	10		
	11 Home mortgage interest not reported to you on Form 1098. If paid to the person from whom you bought the home, see instructions and show that person's name, identifying no., and address ►	11		
	12 Points not reported to you on Form 1098. See instructions for special rules	12		
	13 Mortgage insurance premiums (see instructions)	13		
	14 Investment interest. Attach Form 4952 if required. (See instructions.)	14		
	15 Add lines 10 through 14			15
Gifts to Charity	16 Gifts by cash or check. If you made any gift of \$250 or more, see instructions.	16		
	17 Other than by cash or check. If any gift of \$250 or more, see instructions. You must attach Form 8283 if over \$500	17		
	18 Carryover from prior year	18		
	19 Add lines 16 through 18			19
Casualty and Theft Losses	20 Casualty or theft loss(es). Attach Form 4684. (See instructions.)			20
	Job Expenses and Certain Miscellaneous Deductions			
	21 Unreimbursed employee expenses—job travel, union dues, job education, etc. Attach Form 2106 or 2106-EZ if required. (See instructions.) ►	21		
	22 Tax preparation fees	22		
	23 Other expenses—investment, safe deposit box, etc. List type and amount ►	23		
	24 Add lines 21 through 23	24		
	25 Enter amount from Form 1040, line 38 25			
	26 Multiply line 25 by 2% (0.02)	26		
	27 Subtract line 26 from line 24. If line 26 is more than line 24, enter -0-			27
Other Miscellaneous Deductions	28 Other—from list in instructions. List type and amount ►			28
Total Itemized Deductions	29 Is Form 1040, line 38, over \$155,650?			
	<input type="checkbox"/> No. Your deduction is not limited. Add the amounts in the far right column for lines 4 through 28. Also, enter this amount on Form 1040, line 40.			29
	<input type="checkbox"/> Yes. Your deduction may be limited. See the Itemized Deductions Worksheet in the instructions to figure the amount to enter.			
	30 If you elect to itemize deductions even though they are less than your standard deduction, check here			

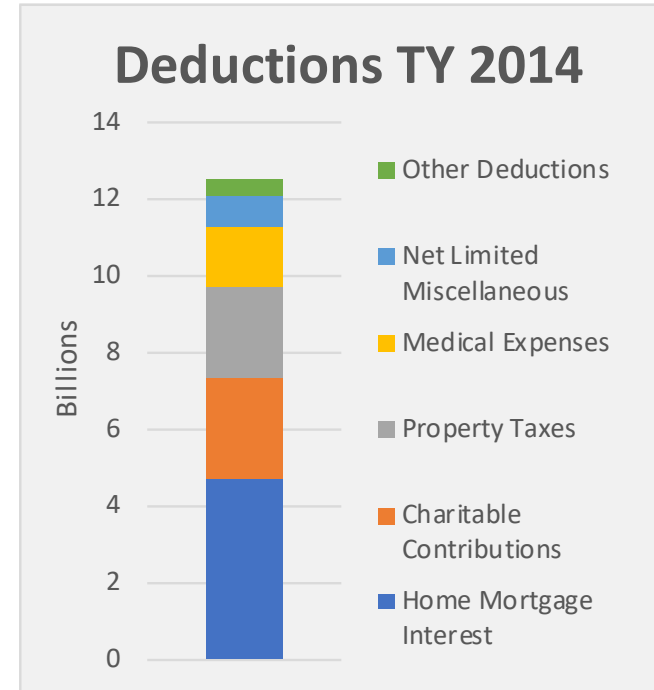
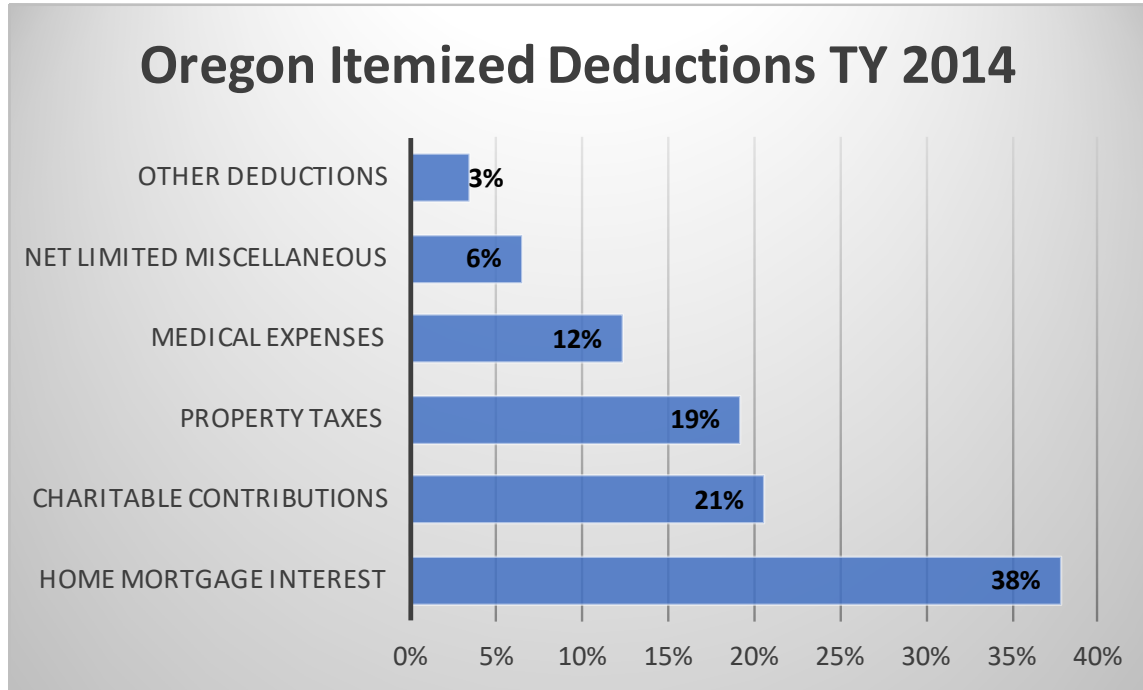
Oregon Standard & Itemized Deductions

Deduction Type - TY 2014			
	# Returns	Amount (Billions)	Avg.
Itemized Deductions	771,552	\$12.5	\$16,207
Standard Deduction	908,058	\$2.6	\$2,915
Total	1,679,610	\$15.2	\$9,021



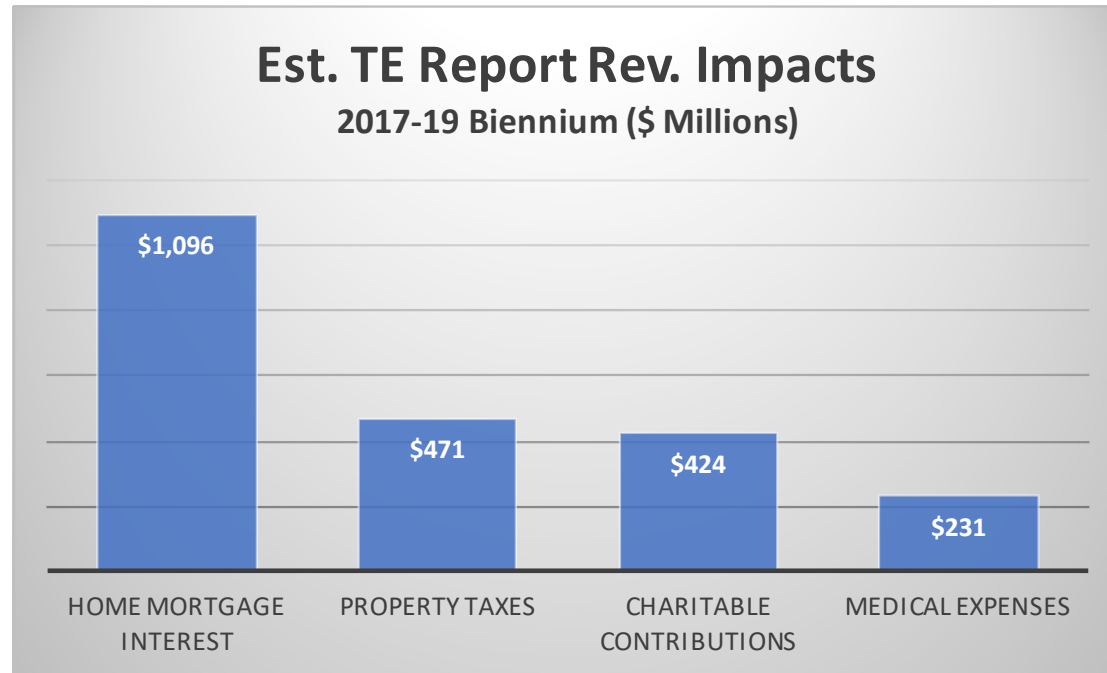
Page Sources: Oregon DOR Published Tables

Oregon Itemized Deductions



Page Sources: Oregon DOR Published Tables

Oregon Deductions – Revenue Impacts



Key Concepts

- Itemized deductions heavily weighted
- TCJA limited the number of federal returns expected to itemize – impact on underlying deduction policy
- Interaction of itemized deductions “stacking”

Page Sources: 2017-19 Oregon Tax Expenditure Report

State and Local Taxes (SALT)

Pre Tax Cuts and Jobs Act (TCJA)	Current Law (Post TCJA)	OR Tax
<ul style="list-style-type: none"> Individuals permitted a deduction for: <ul style="list-style-type: none"> State & local real/personal property taxes State & local income taxes <u>or</u> state & local sales taxes Individuals subject to alternative minimum tax (AMT), no itemized deduction for property, income or sales tax 	<ul style="list-style-type: none"> SALT deduction limitation for individuals set at \$10,000 (for SALT taxes not paid or accrued in carrying on a trade or business) <p><u>Oregon Specific Effect</u></p> <ul style="list-style-type: none"> Limits deduction for property and local income taxes paid to ≤ \$10,000 	+

	-----Federal-----		-----Oregon-----	
	<i>Pre TCJA</i>	<i>Post TCJA</i>	<i>Pre TCJA</i>	<i>Post TCJA</i>
Itemized Deductions	35,100	24,500	25,500	24,500
Home Mortgage	11,000	11,000	11,000	11,000
SALT	20,600	10,000	11,000	10,000
Property Taxes	11,000	11,000	11,000	11,000
State Income	9,600	9,600	N/A	N/A
Charitable	3,500	3,500	3,500	3,500

Home Mortgage Interest

Pre Tax Cuts and Jobs Act (TCJA)	Current Law (Post TCJA)	OR Tax
<ul style="list-style-type: none"> Interest on principal and one other residence allowed as an itemized deduction <ul style="list-style-type: none"> Mortgage¹ limited to \$1 million Home equity loan limited to \$100,000 but may not exceed: fair market value - mortgage amt. 	<ul style="list-style-type: none"> Mortgage originated after 12/14/2017: <ul style="list-style-type: none"> Mortgage limited to \$750,000 Home equity loan no longer deductible if equity loan proceeds are not used to buy, build or substantially improve the taxpayer's home that secures the loan 	+

¹ Term used in IRC is "Acquisition indebtedness", mortgage is used here for simplification purposes
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Casualty and Theft Losses

Pre Tax Cuts and Jobs Act (TCJA)	Current Law (Post TCJA)	OR Tax
<ul style="list-style-type: none"> • Deductible personal casualty losses arising from fire, storm, shipwreck or other casualty or from theft • Losses are deductible only if they exceed \$100 per casualty or theft and are not reimbursed by insurance • Deduction is for losses that exceed 10% of a taxpayer's adjusted gross income 	<ul style="list-style-type: none"> • Limited deduction to casualty losses attributable to a disaster declared by the President 	+

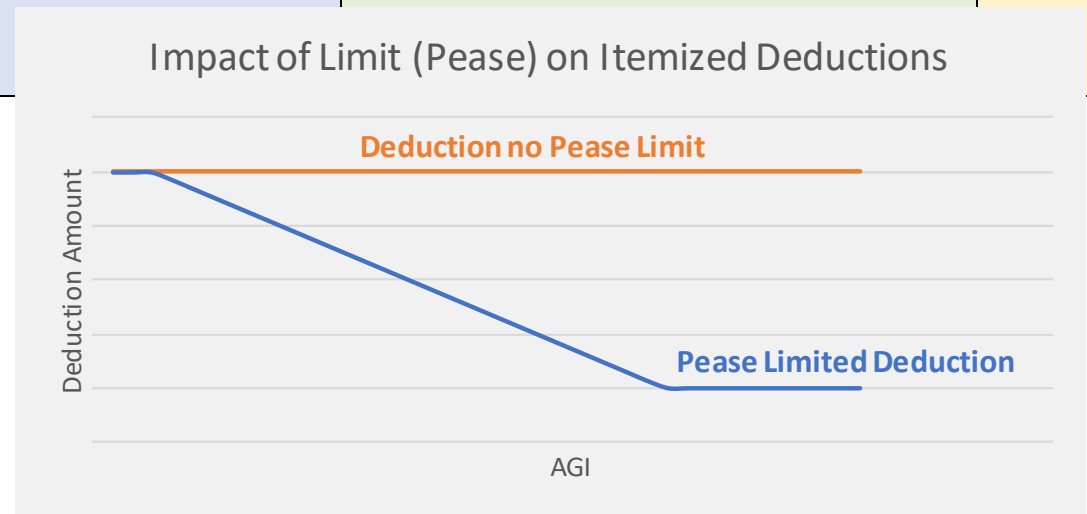
Casualty & Theft Losses Example	
AGI	\$100,000
10% Threshold	\$10,000
Casualty Loss	\$15,000
Deduction	\$5,000

Charitable Contributions Limit

Pre Tax Cuts and Jobs Act (TCJA)	Current Law (Post TCJA)	OR Tax
<p>Deduction for contributions to certain organizations eligible to receive charitable contributions.</p> <p><u>Contribution Percentage Limits</u></p> <ul style="list-style-type: none"> • 50% of AGI for ordinary income property and/or cash contributed to public charities & operating foundations <ul style="list-style-type: none"> ◦ Contributions exceeding limit generally carried forward for 5 years • Payments to higher education institution for rights to athletic seating may be deducted at 80% of payment amount 	<ul style="list-style-type: none"> • Increased contribution limit from 50% of AGI to 60% • Eliminates deductibility of payments made in exchange for athletic seating 	<p>±</p>

Limit on Itemized Deductions

Pre Tax Cuts and Jobs Act (TCJA)	Current Law (Post TCJA)	OR Tax
<ul style="list-style-type: none"> Overall limitation on itemized deductions (Pease limitation)² <ul style="list-style-type: none"> Otherwise allowable total itemized deductions are reduced by 3% of amount by which taxpayer's AGI exceeds specified applicable threshold (up to 80% of otherwise allowable itemized deductions) 2017 thresholds <ul style="list-style-type: none"> (S) 261,500 (HOH): 287,650 (J) 313,800 (MFS): 156,900 	<ul style="list-style-type: none"> No limit on itemized deductions (limit repealed) 	-



² Limit on itemized deductions not applicable to all itemized deductions. Deductions not subject to limitation include: medical and dental expenses, casualty and theft losses, investment interest and gambling losses.

Wagering Losses

Pre Tax Cuts and Jobs Act (TCJA)	Current Law (Post TCJA)	OR Tax
<ul style="list-style-type: none">• Wagering losses are allowed as a deduction only to the extent that they offset wagering gains	<ul style="list-style-type: none">• Clarified that wagering losses include other expenses incurred by individual in connection to conduct of individual's gambling<ul style="list-style-type: none">◦ Example: Traveling costs to casino are deductible costs, but are now subject to overall limitation on wagering losses (i.e. cannot exceed wagering gains)	+

Medical Expenses

Pre Tax Cuts and Jobs Act (TCJA)	Current Law (Post TCJA)	OR Tax
<ul style="list-style-type: none">• Deduction for unreimbursed medical expenses but only to extent that unreimbursed expenses exceed 10% of AGI	<ul style="list-style-type: none">• For tax years 2017 and 2018:<ul style="list-style-type: none">◦ Threshold for deducting unreimbursed medical expenses is 7.5% of AGI• For tax years 2019 and later, threshold returns to 10% of AGI	-

Certain Miscellaneous Expenses

Pre Tax Cuts and Jobs Act (TCJA)	Current Law (Post TCJA)	OR Tax
<ul style="list-style-type: none"> Certain expenses can be deducted as a miscellaneous itemized deduction to extent expenses exceed 2% of AGI $\text{Deduction} = \text{Qualified expenses} - \text{AGI} * 2\%$ $\$2,500 = \$4,500 - \$100,000 * 2\%$ <p><u>Three general expense categories</u></p> <ol style="list-style-type: none"> Unreimbursed employee expenses <ul style="list-style-type: none"> E.G. - Job travel, union or prof. society dues, job education, tools/supplies Tax preparation fees Other expenses <ul style="list-style-type: none"> E.G. - Investment fees and expenses, hobby expenses, safe deposit box, tax advice fees, clerical help in caring for investments 	<ul style="list-style-type: none"> Deduction eliminated, certain expenses no longer able to be deducted as a miscellaneous itemized deduction 	+

Other Miscellaneous Expenses

Pre Tax Cuts and Jobs Act (TCJA)	Current Law (Post TCJA)	OR Tax
<ul style="list-style-type: none"> • Certain expenses can be deducted as a miscellaneous itemized deduction (no 2% AGI limit) <p><u>Examples of other Miscellaneous Expenses</u></p> <ul style="list-style-type: none"> • Casualty & theft losses of income producing property • Gambling losses up to gambling winnings • Impairment-related work expenses • Losses from Ponzi-type investment schemes • Unrecovered investment in annuity 	<ul style="list-style-type: none"> • Unchanged 	N/A