

# House Bill 2061

Introduced and printed pursuant to House Rule 12.00. Pre-session filed (at the request of House Interim Committee on Revenue)

## SUMMARY

The following summary is not prepared by the sponsors of the measure and is not a part of the body thereof subject to consideration by the Legislative Assembly. It is an editor's brief statement of the essential features of the measure **as introduced**.

For purposes of personal income taxation, changes connection point from federal taxable income to federal adjusted gross income by eliminating allowance of itemized deductions or standard deduction. Decreases personal income tax rates.

Applies to tax years beginning on or after January 1, 2018.

Takes effect on 91st day following adjournment sine die.

## A BILL FOR AN ACT

1  
2 Relating to taxation; creating new provisions; amending ORS 316.037, 316.117, 316.130, 316.362,  
3 316.687 and 316.695; and prescribing an effective date.

4 **Be It Enacted by the People of the State of Oregon:**

5 **SECTION 1.** ORS 316.695 is amended to read:

6 316.695. (1) In addition to the modifications to federal taxable income contained in this chapter,  
7 there shall be added to or subtracted from federal taxable income:

8 (a) If, in computing federal income tax for a tax year, the taxpayer deducted itemized deductions,  
9 as defined in section 63(d) of the Internal Revenue Code, the taxpayer shall add the amount of  
10 itemized deductions deducted (the itemized deductions less an amount, if any, by which the itemized  
11 deductions are reduced under section 68 of the Internal Revenue Code).

12 (b) If, in computing federal income tax for a tax year, the taxpayer deducted the standard de-  
13 duction, as defined in section 63(c) of the Internal Revenue Code, the taxpayer shall add the amount  
14 of the standard deduction deducted.

15 *[(c)(A) From federal taxable income there shall be subtracted the larger of (i) the taxpayer's item-  
16 ized deductions or (ii) a standard deduction. Except as provided in subsection (8) of this section, for  
17 purposes of this subparagraph, "standard deduction" means the sum of the basic standard deduction  
18 and the additional standard deduction.]*

19 *[(B) For purposes of subparagraph (A) of this paragraph, the basic standard deduction is:]*

20 *[(i) \$3,280, in the case of joint return filers or a surviving spouse;]*

21 *[(ii) \$1,640, in the case of an individual who is not a married individual and is not a surviving  
22 spouse;]*

23 *[(iii) \$1,640, in the case of a married individual who files a separate return; or]*

24 *[(iv) \$2,640, in the case of a head of household.]*

25 *[(C)(i) For purposes of subparagraph (A) of this paragraph for tax years beginning on or after  
26 January 1, 2003, the Department of Revenue shall annually recompute the basic standard deduction for  
27 each category of return filer listed under subparagraph (B) of this paragraph. The basic standard de-  
28 duction shall be computed by dividing the monthly averaged U.S. City Average Consumer Price Index  
29 for the 12 consecutive months ending August 31 of the prior calendar year by the average U.S. City*

**NOTE:** Matter in **boldfaced** type in an amended section is new; matter *[italic and bracketed]* is existing law to be omitted. New sections are in **boldfaced** type.

1 *Average Consumer Price Index for the second quarter of 2002, then multiplying that quotient by the*  
 2 *amount listed under subparagraph (B) of this paragraph for each category of return filer.]*

3 *[(ii) If any change in the maximum household income determined under this subparagraph is not*  
 4 *a multiple of \$5, the increase shall be rounded to the next lower multiple of \$5.]*

5 *[(iii) As used in this subparagraph, "U.S. City Average Consumer Price Index" means the U.S.*  
 6 *City Average Consumer Price Index for All Urban Consumers (All Items) as published by the Bureau*  
 7 *of Labor Statistics of the United States Department of Labor.]*

8 *[(D) For purposes of subparagraph (A) of this paragraph, the additional standard deduction is the*  
 9 *sum of each additional amount to which the taxpayer is entitled under subsection (7) of this section.]*

10 *[(E) As used in subparagraph (B) of this paragraph, "surviving spouse" and "head of household"*  
 11 *have the meanings given those terms in section 2 of the Internal Revenue Code.]*

12 *[(F) In the case of the following, the standard deduction referred to in subparagraph (A) of this*  
 13 *paragraph shall be zero:]*

14 *[(i) One of the spouses in a marriage filing a separate return where the other spouse has claimed*  
 15 *itemized deductions under subparagraph (A) of this paragraph;]*

16 *[(ii) A nonresident alien individual;]*

17 *[(iii) An individual making a return for a period of less than 12 months on account of a change*  
 18 *in the individual's annual accounting period;]*

19 *[(iv) An estate or trust;]*

20 *[(v) A common trust fund; or]*

21 *[(vi) A partnership.]*

22 *[(d) For the purposes of paragraph (c)(A) of this subsection, the taxpayer's itemized deductions are*  
 23 *the amount of the taxpayer's itemized deductions as defined in section 63(d) of the Internal Revenue*  
 24 *Code (reduced, if applicable, as described under section 68 of the Internal Revenue Code) minus the*  
 25 *deduction for Oregon income tax (reduced, if applicable, by the proportion that the reduction in federal*  
 26 *itemized deductions resulting from section 68 of the Internal Revenue Code bears to the amount of*  
 27 *federal itemized deductions as defined for purposes of section 68 of the Internal Revenue Code).]*

28 (2)(a) There shall be subtracted from federal taxable income any portion of the distribution of  
 29 a pension, profit-sharing, stock bonus or other retirement plan, representing that portion of contri-  
 30 butions which were taxed by the State of Oregon but not taxed by the federal government under  
 31 laws in effect for tax years beginning prior to January 1, 1969, or for any subsequent year in which  
 32 the amount that was contributed to the plan under the Internal Revenue Code was greater than the  
 33 amount allowed under this chapter.

34 (b) Interest or other earnings on any excess contributions of a pension, profit-sharing, stock  
 35 bonus or other retirement plan not permitted to be deducted under paragraph (a) of this subsection  
 36 may not be added to federal taxable income in the year earned by the plan and may not be sub-  
 37 tracted from federal taxable income in the year received by the taxpayer.

38 (3)(a) Except as provided in subsection (4) of this section, there shall be added to federal taxable  
 39 income the amount of any federal income taxes in excess of the amount provided in paragraphs (b)  
 40 to (d) of this subsection, accrued by the taxpayer during the tax year as described in ORS 316.685,  
 41 less the amount of any refund of federal taxes previously accrued for which a tax benefit was re-  
 42 ceived.

43 (b) The limits applicable to this subsection are:

44 (A) \$5,500, if the federal adjusted gross income of the taxpayer for the tax year is less than  
 45 \$125,000, or, if reported on a joint return, less than \$250,000.

1 (B) \$4,400, if the federal adjusted gross income of the taxpayer for the tax year is \$125,000 or  
2 more and less than \$130,000, or, if reported on a joint return, \$250,000 or more and less than  
3 \$260,000.

4 (C) \$3,300, if the federal adjusted gross income of the taxpayer for the tax year is \$130,000 or  
5 more and less than \$135,000, or, if reported on a joint return, \$260,000 or more and less than  
6 \$270,000.

7 (D) \$2,200, if the federal adjusted gross income of the taxpayer for the tax year is \$135,000 or  
8 more and less than \$140,000, or, if reported on a joint return, \$270,000 or more and less than  
9 \$280,000.

10 (E) \$1,100, if the federal adjusted gross income of the taxpayer for the tax year is \$140,000 or  
11 more and less than \$145,000, or, if reported on a joint return, \$280,000 or more and less than  
12 \$290,000.

13 (c) If the federal adjusted gross income of the taxpayer is \$145,000 or more for the tax year, or,  
14 if reported on a joint return, \$290,000 or more, the limit is zero and the taxpayer is not allowed a  
15 subtraction for federal income taxes under ORS 316.680 (1) for the tax year.

16 (d) In the case of spouses in a marriage filing separate tax returns, the amount added shall be  
17 in the amount of any federal income taxes in excess of 50 percent of the amount provided for indi-  
18 vidual taxpayers under paragraphs (a) to (c) of this subsection, less the amount of any refund of  
19 federal taxes previously accrued for which a tax benefit was received.

20 (e) For purposes of this subsection, the limits applicable to a joint return shall apply to a head  
21 of household or a surviving spouse, as defined in section 2(a) and (b) of the Internal Revenue Code.

22 (f)(A) For a calendar year beginning on or after January 1, 2008, the Department of Revenue  
23 shall make a cost-of-living adjustment to the federal income tax threshold amounts described in  
24 paragraphs (b) and (d) of this subsection.

25 (B) The cost-of-living adjustment for a calendar year is the percentage by which the monthly  
26 averaged U.S. City Average Consumer Price Index for the 12 consecutive months ending August 31  
27 of the prior calendar year exceeds the monthly averaged index for the period beginning September  
28 1, 2005, and ending August 31, 2006.

29 (C) As used in this paragraph, "U.S. City Average Consumer Price Index" means the U.S. City  
30 Average Consumer Price Index for All Urban Consumers (All Items) as published by the Bureau of  
31 Labor Statistics of the United States Department of Labor.

32 (D) If any adjustment determined under subparagraph (B) of this paragraph is not a multiple of  
33 \$50, the adjustment shall be rounded to the next lower multiple of \$50.

34 (E) The adjustment shall apply to all tax years beginning in the calendar year for which the  
35 adjustment is made.

36 (4)(a) In addition to the adjustments required by ORS 316.130, a full-year nonresident individual  
37 shall add to taxable income a proportion of any accrued federal income taxes as computed under  
38 ORS 316.685 in excess of the amount provided in subsection (3) of this section in the proportion  
39 provided in ORS 316.117.

40 (b) In the case of spouses in a marriage filing separate tax returns, the amount added under this  
41 subsection shall be computed in a manner consistent with the computation of the amount to be  
42 added in the case of spouses in a marriage filing separate returns under subsection (3) of this sec-  
43 tion. The method of computation shall be determined by the Department of Revenue by rule.

44 (5) Subsections (3)(d) and (4)(b) of this section shall not apply to married individuals living apart  
45 as defined in section 7703(b) of the Internal Revenue Code.

1 (6)(a) For tax years beginning on or after January 1, 1981, and prior to January 1, 1983, income  
 2 or loss taken into account in determining federal taxable income by a shareholder of an S corpo-  
 3 ration pursuant to sections 1373 to 1375 of the Internal Revenue Code shall be adjusted for purposes  
 4 of determining Oregon taxable income, to the extent that as income or loss of the S corporation,  
 5 they were required to be adjusted under the provisions of ORS chapter 317.

6 (b) For tax years beginning on or after January 1, 1983, items of income, loss or deduction taken  
 7 into account in determining federal taxable income by a shareholder of an S corporation pursuant  
 8 to sections 1366 to 1368 of the Internal Revenue Code shall be adjusted for purposes of determining  
 9 Oregon taxable income, to the extent that as items of income, loss or deduction of the shareholder  
 10 the items are required to be adjusted under the provisions of this chapter.

11 (c) The tax years referred to in paragraphs (a) and (b) of this subsection are those of the S  
 12 corporation.

13 (d) As used in paragraph (a) of this subsection, an S corporation refers to an electing small  
 14 business corporation.

15 *[(7)(a) The taxpayer shall be entitled to an additional amount, as referred to in subsection (1)(c)(A)  
 16 and (D) of this section, of \$1,000:]*

17 *[(A) For the taxpayer if the taxpayer has attained age 65 before the close of the taxpayer's tax year;  
 18 and]*

19 *[(B) For the spouse of the taxpayer if the spouse has attained age 65 before the close of the tax year  
 20 and an additional exemption is allowable to the taxpayer for such spouse for federal income tax pur-  
 21 poses under section 151(b) of the Internal Revenue Code.]*

22 *[(b) The taxpayer shall be entitled to an additional amount, as referred to in subsection (1)(c)(A)  
 23 and (D) of this section, of \$1,000:]*

24 *[(A) For the taxpayer if the taxpayer is blind at the close of the tax year; and]*

25 *[(B) For the spouse of the taxpayer if the spouse is blind as of the close of the tax year and an  
 26 additional exemption is allowable to the taxpayer for such spouse for federal income tax purposes under  
 27 section 151(b) of the Internal Revenue Code. For purposes of this subparagraph, if the spouse dies  
 28 during the tax year, the determination of whether such spouse is blind shall be made immediately prior  
 29 to death.]*

30 *[(c) In the case of an individual who is not married and is not a surviving spouse, paragraphs (a)  
 31 and (b) of this subsection shall be applied by substituting "\$1,200" for "\$1,000."]*

32 *[(d) For purposes of this subsection, an individual is blind only if the individual's central visual  
 33 acuity does not exceed 20/200 in the better eye with correcting lenses, or if the individual's visual acuity  
 34 is greater than 20/200 but is accompanied by a limitation in the fields of vision such that the widest  
 35 diameter of the visual field subtends an angle no greater than 20 degrees.]*

36 *[(8) In the case of an individual with respect to whom a deduction under section 151 of the Internal  
 37 Revenue Code is allowable for federal income tax purposes to another taxpayer for a tax year begin-  
 38 ning in the calendar year in which the individual's tax year begins, the basic standard deduction (re-  
 39 ferred to in subsection (1)(c)(B) of this section) applicable to such individual for such individual's tax  
 40 year shall equal the lesser of:]*

41 *[(a) The amount allowed to the individual under section 63(c)(5) of the Internal Revenue Code for  
 42 federal income tax purposes for the tax year for which the deduction is being claimed; or]*

43 *[(b) The amount determined under subsection (1)(c)(B) of this section.]*

44 **SECTION 2.** ORS 316.037 is amended to read:

45 316.037. (1)(a) A tax is imposed for each taxable year on the entire taxable income of every

1 resident of this state. The amount of the tax shall be determined in accordance with the following  
 2 table:

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3	4	5	6
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11	12	13	14
15	16	17	18
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35	36	37	38
39	40	41	42
43	44	45	46

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(b) For tax years beginning in each calendar year, the Department of Revenue shall adopt a table that shall apply in lieu of the table contained in paragraph (a) of this subsection, as follows:

(A) Except as provided in subparagraph (D) of this paragraph, the minimum and maximum dollar amounts for each bracket for which a tax is imposed shall be increased by the cost-of-living adjustment for the calendar year.

(B) The rate applicable to any rate bracket as adjusted under subparagraph (A) of this paragraph shall not be changed.

(C) The amounts setting forth the tax, to the extent necessary to reflect the adjustments in the rate brackets, shall be adjusted.

(D) The rate brackets applicable to taxable income in excess of \$125,000 may not be adjusted.

(c) For purposes of paragraph (b) of this subsection, the cost-of-living adjustment for any calendar year is the percentage (if any) by which the monthly averaged U.S. City Average Consumer Price Index for the 12 consecutive months ending August 31 of the prior calendar year exceeds the monthly averaged index for the second quarter of the calendar year 1992.

(d) As used in this subsection, "U.S. City Average Consumer Price Index" means the U.S. City Average Consumer Price Index for All Urban Consumers (All Items) as published by the Bureau of

1 Labor Statistics of the United States Department of Labor.

2 (e) If any increase determined under paragraph (b) of this subsection is not a multiple of \$50,  
3 the increase shall be rounded to the next lower multiple of \$50.

4 (2) A tax is imposed for each taxable year upon the entire taxable income of every part-year  
5 resident of this state. The amount of the tax shall be computed under subsection (1) of this section  
6 as if the part-year resident were a full-year resident and shall be multiplied by the ratio provided  
7 under ORS 316.117 to determine the tax on income derived from sources within this state.

8 (3) A tax is imposed for each taxable year on the taxable income of every full-year nonresident  
9 that is derived from sources within this state. The amount of the tax shall be determined in ac-  
10 cordance with the table set forth in subsection (1) of this section.

11 **SECTION 3.** ORS 316.130 is amended to read:

12 316.130. (1) The taxable income for a full-year nonresident individual is adjusted gross income  
13 attributable to sources within this state determined under ORS 316.127, with the modifications (ex-  
14 cept those provided under subsection (2) of this section) as otherwise provided under this chapter  
15 and other laws of this state applicable to personal income taxation, less the deductions allowed un-  
16 der subsection (2) of this section.

17 (2)(a) *[A full-year nonresident individual shall be allowed the deduction for a standard deduction*  
18 *or itemized deductions allowable to a resident under ORS 316.695 (1) in the proportion provided in*  
19 *ORS 316.117.]*

20 *[(b)]* A full-year nonresident individual shall be allowed to deduct the amount of any accrued  
21 federal income taxes and foreign country income taxes as provided in ORS 316.690 in the proportion  
22 provided in ORS 316.117.

23 *[(c)(A)]* **(b)(A)** A full-year nonresident individual shall be allowed to deduct the amount of any  
24 alimony or separate maintenance payments paid during such individual's taxable year in the pro-  
25 portion provided in ORS 316.117 except that in determining the proportion the taxpayer's adjusted  
26 gross income shall not include a deduction for alimony. For purposes of this paragraph, "alimony  
27 or separate maintenance payment" has the meaning given the phrase in section 215 of the Internal  
28 Revenue Code.

29 **(B)** No deduction shall be allowed under this paragraph if the alimony or separate maintenance  
30 payment is not includable in the gross income of the nonresident individual for federal income tax  
31 purposes under section 682 of the Internal Revenue Code.

32 (3)(a) A full-year nonresident who is a self-employed individual shall be allowed to deduct that  
33 individual's contributions to a qualified plan, deductible on that individual's federal income tax re-  
34 turn pursuant to section 401 of the Internal Revenue Code, in the proportion that the individual's  
35 earned income from Oregon sources bears to the individual's earned income from all sources.  
36 "Earned income" has the meaning given in section 401(c)(2) of the Internal Revenue Code. If the  
37 numerator of the fraction described in this paragraph is greater than the denominator, the proration  
38 of 100 percent shall be used.

39 (b) A full-year nonresident shall be allowed to deduct that individual's qualified retirement con-  
40 tributions, deductible on that individual's federal income tax return pursuant to section 219 of the  
41 Internal Revenue Code, in the proportion that the individual's compensation from Oregon sources  
42 bears to the individual's compensation from all sources. "Compensation" has the meaning given in  
43 section 219(f)(1) of the Internal Revenue Code.

44 (c) A full-year nonresident individual shall be allowed to deduct the aggregate amounts paid in  
45 cash to a medical savings account, deductible on the individual's federal income tax return pursuant

1 to section 220 of the Internal Revenue Code, in the proportion that the individual's compensation  
 2 from Oregon sources bears to the individual's compensation from all sources. Distributions from a  
 3 medical savings account, if excluded from income for federal income tax purposes, shall be excluded  
 4 for Oregon income tax purposes. Distributions from a medical savings account, if included in income  
 5 for federal tax purposes, shall be included in income for Oregon tax purposes to the extent that an  
 6 exclusion has been allowed for contributions to the medical savings account for Oregon tax purposes  
 7 in a previous year.

8 **SECTION 4.** ORS 316.362 is amended to read:

9 316.362. (1) An income tax return with respect to the tax imposed by this chapter shall be made  
 10 by the following:

11 (a) Every resident individual:

12 (A) Who is required to file a federal income tax return for the taxable year; or

13 (B) Who has gross income greater than the sum of:

14 (i) [*The basic standard deduction allowed under ORS 316.695 (1)(c)(B);*]

15 [(ii) *Any additional standard deduction allowed to the taxpayer under ORS 316.695 (7)*] **33 percent**  
 16 **of the entire standard deduction allowed under section 63 of the Internal Revenue Code;** and  
 17 [(iii)] (ii) An amount equal to the income equivalent of one personal exemption credit under ORS  
 18 316.085 (3)(b) if unmarried, or equal to the income equivalent of two personal exemption credits un-  
 19 der ORS 316.085 (3)(b) if married.

20 (b) Every nonresident individual who has federal gross income from sources in this state of more  
 21 than [*the basic standard deduction allowed under ORS 316.695 (1)(c)(B)*] **33 percent of the basic**  
 22 **standard deduction allowed under section 63 of the Internal Revenue Code.**

23 (c) Every resident estate or trust that is required to file a federal income tax return.

24 (d) Every nonresident estate that has federal gross income of \$600 or more for the taxable year  
 25 from sources within this state.

26 (e) Every nonresident trust that for the taxable year has from sources within this state any  
 27 taxable income, or gross income of \$600 or more regardless of the amount of taxable income.

28 (2) Nothing contained in this section shall preclude the Department of Revenue from requiring  
 29 any individual, estate or trust to file a return when, in the judgment of the department, a return  
 30 should be filed.

31 (3) For purposes of this section, the income equivalent of a personal exemption credit under ORS  
 32 316.085 (3)(b) shall be determined as follows:

33 (a) Divide the personal exemption credit amount by the rate applicable to the lowest income  
 34 bracket under ORS 316.037.

35 (b) If the resulting quotient is less than the maximum amount of income subject to the rate used  
 36 in paragraph (a) of this subsection, the quotient is the income equivalent.

37 (c) If the resulting quotient is more than the maximum amount of income subject to the rate  
 38 used in paragraph (a) of this subsection:

39 (A) Multiply the maximum amount of income subject to the rate used in paragraph (a) of this  
 40 subsection by the rate used in paragraph (a) of this subsection.

41 (B) Determine the difference between the product calculated under subparagraph (A) of this  
 42 paragraph and the personal exemption credit amount.

43 (C) Divide the difference determined in subparagraph (B) of this paragraph by the rate applica-  
 44 ble to the income bracket that is the next succeeding the lowest income bracket under ORS 316.037.

45 (D) Add the quotient determined in subparagraph (C) of this paragraph to the maximum amount

1 of income subject to the rate used in paragraph (a) of this subsection. The sum is the income  
 2 equivalent.

3 **SECTION 5.** ORS 316.687 is amended to read:

4 316.687. There shall be added to federal taxable income of a parent who makes an election under  
 5 section 1(g)(7)(B) of the Internal Revenue Code any amount in excess of the standard deduction al-  
 6 lowed for a child under [ORS 316.695 (8)] **section 63(c)(5) of the Internal Revenue Code** but not  
 7 in excess of the amount described in section 1(g)(7)(B)(i) of the Internal Revenue Code (twice the  
 8 amount in effect for the taxable year under section 63(c)(5)(A) of the Internal Revenue Code). The  
 9 addition under this section shall be made for each child whose income is included in the taxable  
 10 income of the parent under section 1(g)(7)(B) of the Internal Revenue Code.

11 **SECTION 6.** ORS 316.117 is amended to read:

12 316.117. (1) Except as provided under subsection (2) of this section, the proportion for making  
 13 a proration for nonresident taxpayers of [*the standard deduction or itemized deductions,*] the personal  
 14 exemption credits and any accrued federal or foreign income taxes, or for part-year resident tax-  
 15 payers of the amount of the tax, between Oregon source income and income from all other sources  
 16 is the federal adjusted gross income of the taxpayer from Oregon sources divided by the taxpayer's  
 17 federal adjusted gross income from all sources. If the numerator of the fraction described in this  
 18 subsection is greater than the denominator, the proportion of 100 percent shall be used in the pro-  
 19 ration required by this section. As used in this subsection, "federal adjusted gross income" means  
 20 the federal adjusted gross income of the taxpayer with the additions, subtractions and other mod-  
 21 ifications to federal taxable income that relate to adjusted gross income for personal income tax  
 22 purposes.

23 (2) For part-year resident trusts, the proration made under this section shall be made by refer-  
 24 ence to the taxable income of the fiduciary.

25 **SECTION 7.** The amendments to ORS 316.037, 316.117, 316.130, 316.362, 316.687 and 316.695  
 26 by sections 1 to 6 of this 2017 Act apply to tax years beginning on or after January 1, 2018.

27 **SECTION 8.** This 2017 Act takes effect on the 91st day after the date on which the 2017  
 28 regular session of the Seventy-ninth Legislative Assembly adjourns sine die.

29