

Federal CARES Act & Oregon Tax Implications

House Interim Committee on Revenue | May 29th, 2020 | LRO

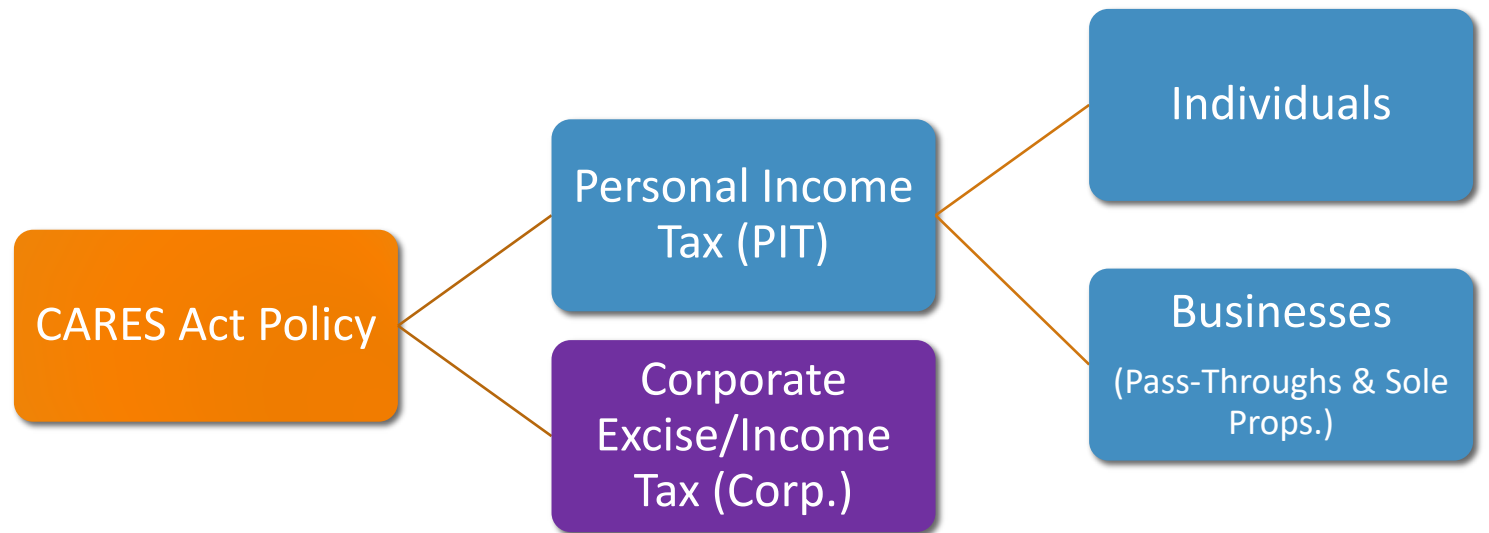


CARES Act

Overview of Discussion

- Examination of prominent CARES Act policies and Oregon impacts
 - Pre-CARES Act | Post CARES Act (current law) | Oregon Impact
- CARES Act research report on LRO's website

Federal Provision	Biennium (\$ Million)		
	2019-21	2021-23	2023-25
Recovery Rebate	103.0	9.0	0.0
Retirement Min. Distribution	-47.0	5.7	6.9
Charitable Contributions	-24.9	9.1	2.7
Business Loss Limitations	-89.2	-10.0	0.5
Net Operating losses	-91.4	-85.9	38.2
Business Interest Limitation	-44.4	-8.3	-1.9
Other Provisions	11.0	-8.3	-11.8
Total	-182.9	-88.7	34.5



Recovery Rebate Credit

Pre-CARES Act	Post CARES Act (Current Law)	Oregon Impact
<ul style="list-style-type: none">N/A	<ul style="list-style-type: none">Tax year (TY) 2020 refundable personal income tax credit to be paid as advance refund through direct deposit or checkCredit equals sum of: \$1,200 (S) \$2,400 (J) + \$500 multiplied by number of qualifying childrenPhase outs beginning at AGI:<ul style="list-style-type: none">\$75,000 (S) \$112,500 (HOH) \$150,000 (J)\$5 reduction in credit for every \$100 in AGI over thresholdLarger credit elongates phase-out rangeCredits are not considered taxable income	<ul style="list-style-type: none">No direct impactInteracts with Oregon tax liability through Oregon's federal income tax subtractionDecrease in federal tax liability may cause increase in OR tax liability

Recovery Rebate Credit

Oregon's Federal Tax Subtraction

- OR allows taxpayers to subtract federal income tax liability
 - Subtraction limited to \$6,800 (TY 2019, indexed to inflation)
 - Max subtraction phase out AGI range
 - \$125K - \$145K (S)
 - \$250K - \$290K (J)
- Taxpayers with no OR tax liability change due to recovery rebate credits
 - Tax subtraction is fully phased out (high AGI)
 - Federal tax liability net of recovery rebate credit greater than subtraction limit
 - \$0 or negative federal tax liability

Example Impact of Federal Recovery Rebate Credit on OR Tax Liability			
Filer Status	Children under 17	Potential Federal Credit Value	Potential OR Tax Change ¹
Single			
	0	\$1,200	\$105
	1	\$1,700	\$149
Married Filing Jointly			
	0	\$2,400	\$210
	1	\$2,900	\$254
	2	\$3,400	\$298
Head of household			
	1	\$1,200	\$105
	2	\$2,200	\$193
¹ Simplified example where value of federal tax credit is assumed to reduce Oregon federal income tax subtraction by equal amount, assumed OR tax rate of 8.75%.			

Recovery Rebate Credit

OR General Fund Revenue Change

Federal Provision	Biennium (\$ Million)		
	2019-21	2021-23	2023-25
Recovery Rebate	103.0	9.0	0.0

Federal & OR Tax Change

- Table does not include individuals not filing tax returns

Estimated Taxpayers Affected by Recovery Rebate Credit - Tax Year 2020, FY Filers												
Income Group (\$000)	Single Filers						Joint Filers					
	Federal Tax Change			OR Tax Change			Federal Tax Change			OR Tax Change		
	Returns	Total	Average	Returns	Total	Average	Returns	Total	Average	Returns	Total	Average
		(\$M)	(\$)		(\$M)	(\$)		(\$M)	(\$)		(\$M)	(\$)
< 10	128,400	-\$162.6	-\$1,300	300	\$0.0	\$15	24,400	-\$62.0	-\$2,500	0	\$0.0	N/A
10 - 20	168,400	-\$221.2	-\$1,300	70,300	\$2.2	\$30	28,300	-\$74.2	-\$2,600	100	\$0.0	\$30
20 - 30	176,700	-\$240.8	-\$1,400	119,400	\$10.7	\$90	39,800	-\$109.2	-\$2,700	4,700	\$0.1	\$20
30 - 40	144,100	-\$197.9	-\$1,400	109,500	\$10.9	\$100	45,000	-\$127.2	-\$2,800	17,000	\$1.1	\$65
40 - 50	101,200	-\$134.6	-\$1,300	89,700	\$9.0	\$100	45,900	-\$133.0	-\$2,900	22,600	\$2.9	\$130
50 - 70	131,300	-\$170.9	-\$1,300	118,300	\$11.8	\$100	98,100	-\$277.4	-\$2,800	69,900	\$12.1	\$175
70 - 100	95,900	-\$91.0	-\$900	21,500	\$2.2	\$100	155,800	-\$430.9	-\$2,800	141,400	\$27.2	\$190
100 - 200	8,100	-\$9.1	-\$1,100	1,200	\$0.1	\$110	259,700	-\$640.4	-\$2,500	84,200	\$14.4	\$170
200+	<100	\$0.0	-\$800	<100	\$0.0	\$50	7,900	-\$5.5	-\$700	200	\$0.0	\$125
Total	954,200	-\$1,228	-\$1,300	530,100	\$46.9	\$90	704,900	-\$1,860	-\$2,600	340,100	\$57.8	\$170

Retirement Minimum Distribution

Pre-CARES Act	Post CARES Act (Current Law)	Oregon Impact
<ul style="list-style-type: none"> Generally, certain retirement plans and IRAs require minimum withdrawals once account holder reaches age of 72 	<ul style="list-style-type: none"> Temporarily waives minimum distribution requirement for calendar year 2020 	<ul style="list-style-type: none"> Direct connection Less distributions leads to less taxable income Greater distributions in later years

Federal Provision	Biennium (\$ Million)		
	2019-21	2021-23	2023-25
Retirement Min. Distribution	-47.0	5.7	6.9

Charitable Contributions

Pre-CARES Act	Post CARES Act (Current Law)	Oregon Impact
<p>Charitable contribution deduction limits</p> <ul style="list-style-type: none"> <u>Individuals</u> <ul style="list-style-type: none"> Individual cash charitable contribution deduction limited to 60% of AGI Unused carried forward 5 years <u>Corporations</u> <ul style="list-style-type: none"> Corp. charitable contributions limited to 10% of taxable income, 15% for food inventory contributions Unused carried forward 5 years 	<ul style="list-style-type: none"> Charitable contribution limits – Applicable to cash donations made in CY 2020 <ul style="list-style-type: none"> Suspends individual limits on cash contributions Increase limit on corp. charitable & food inventory contributions to 25% Above-the-line charitable deduction <ul style="list-style-type: none"> Creates new above-the-line deduction for TY 2020 <ul style="list-style-type: none"> Max is \$300, available only to PIT non-itemizers 	<ul style="list-style-type: none"> Direct connection Near term increase in charitable deductions with less carried forward in later years Disallow potential double deduction

Federal Provision	Biennium (\$ Million)		
	2019-21	2021-23	2023-25
Charitable Contributions	-24.9	9.1	2.7

Non-Corporate Business Loss Limitation

Pre-CARES Act	Post CARES Act (Current Law)	Oregon Impact
<ul style="list-style-type: none"> Enacted in TCJA, applicable TYs 2018-2025, not applicable to C-Corps Excess business loss for the TY is limited to: \$250,000 (S) \$500,000 (J) (limits are indexed) Business losses above respective limits may not offset other sources of income (e.g. portfolio income) Unused losses are converted to net operating losses (NOLs) that are carried forward 	<ul style="list-style-type: none"> TYs 2018, 2019 & 2020: Eliminates net business loss limitation Technical and administrative changes aligning with original intent of legislation (per Joint Committee on Taxation) 	<ul style="list-style-type: none"> Direct impact Near term loss in revenue due to increased use of losses to offset income

Federal Provision	Biennium (\$ Million)		
	2019-21	2021-23	2023-25
Business Loss Limitations	-89.2	-10.0	0.5

Net Operating Losses Modification - PIT

Pre-CARES Act	Post CARES Act (Current Law)	Oregon Impact
<u>Personal Income Tax</u> <ul style="list-style-type: none"> Net operating Loss (NOL): Amount by which taxpayer's business deductions exceed their gross income NOL can be carried forward to succeeding tax years NOL generated in TY 2018 and later limited to 80% of taxable income when used in succeeding tax years NOL policy recently changed by TCJA (2017) 	<u>Personal Income Tax</u> <ul style="list-style-type: none"> NOLs originating in TYs 2018, 2019 & 2020 may be carried back up to 5 years NOLs originating in TYs 2018 & 2019 and carried forward, allowed to offset 100% of taxable income in TYs 2019 & 2020 (suspension of 80% limitation) Clarifying and technical changes 	<u>Personal Income Tax</u> <ul style="list-style-type: none"> Direct impact NOL carrybacks via amended returns as far back as TY 2013 Reduced tax liability in 2019-21 & 2021-23 biennia, increased liability reflects less NOLs carried forward in 2023-25

Federal Provision	Biennium (\$ Million)		
	2019-21	2021-23	2023-25
Net Operating losses	-91.4	-85.9	38.2

Net Operating Losses for Corporations

Pre-CARES Act	Post CARES Act (Current Law)	Oregon Impact
<u>Corporate Taxation</u> <ul style="list-style-type: none"> NOLs <ul style="list-style-type: none"> Amount a taxpayer's business deductions exceed gross income Oregon connects to the federal definition of taxable income prior to NOLs and special deductions for corporations Thus, changes to NOLs at the federal level do not automatically affect corporate collections in Oregon Federal policy for corporations prior to CARES <ul style="list-style-type: none"> Carryforward allowed, 80% limitation 	<u>Corporate Taxation</u> <ul style="list-style-type: none"> Federal changes with CARES Act <ul style="list-style-type: none"> Allows carryback of losses incurred in tax years 2018 through 2020, for up to five years 80% limit increased to 100% at the federal level Oregon is not connected to these federal provisions for corporations 	<u>Corporate Taxation</u> <ul style="list-style-type: none"> No impact

Business Interest Limitation Modification

Pre-CARES Act	Post CARES Act (Current Law)	Oregon Impact											
<ul style="list-style-type: none">Interest expense deduction for businessesAllowed to deduct the sum of<ul style="list-style-type: none">Business interest incomeFloor plan financing interest expense30% of adjusted taxable income (ATI)	<ul style="list-style-type: none">30% calculation is increased to 50% of ATI for tax years 2019 and 20202019 ATI can be used to make the 50% calculation instead of 2020<ul style="list-style-type: none">Assumes 2019 ATI will be larger than 2020 due to economic conditionsPartnership-specific provision allows the partner to fully deduct 50% of the excess interest expense without regard to limits	<ul style="list-style-type: none">Direct impact to OregonRevenue loss expectedLargest impact in current biennium, tapering off in later years											
	<table><tr><th rowspan="2">Federal Provision</th><th colspan="3">Biennium (\$ Million)</th></tr><tr><th>2019-21</th><th>2021-23</th><th>2023-25</th></tr><tr><td>Business Interest Limitation</td><td>-44.4</td><td>-8.3</td><td>-1.9</td></tr></table>	Federal Provision	Biennium (\$ Million)			2019-21	2021-23	2023-25	Business Interest Limitation	-44.4	-8.3	-1.9	
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Other provisions with minor revenue impacts described in [LRO report](#)

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