



# Personal Income Tax Orientation



House Committee on Revenue

Legislative Revenue Office – 1/23/2019

# Orientation Overview

- ▶ Who files
  - ▶ PIT Income and Tax Computation
  - ▶ OR Pass-Through Entity Reduced Rates
  - ▶ What's New
  - ▶ Other States
- 
- ▶ Note on Sources: Unless otherwise noted, source of underlying information presented in charts/tables is Department of Revenue, Research Section, Published Personal Income Tax Reports and Tables

# Who Files Personal Income Taxes (PIT)

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# Personal Income Tax Filers

- ▶ Full-year Oregon resident
  - ▶ You think of Oregon as your permanent home, Oregon center of you financial, social and family life, and Oregon place you intend to return to when you're away
- ▶ Nonresident
  - ▶ Permanent home was outside of Oregon the entire year
  - ▶ Examples:
    - ▶ Lives in Vancouver, WA and commutes to work in Oregon
    - ▶ Absentee landlord
- ▶ Part-year resident
  - ▶ Moved into or out of Oregon during the tax year

Income Tax Liability by Residency TY 2016 (\$'s in Billions)		
Residency	Net Liability	% of Tot.
Full Year	\$6.9	92%
Part Year	\$0.2	2%
Nonresident	\$0.4	6%
<b>Total</b>	<b>\$7.5</b>	<b>100%</b>

# Filing Status

- Single
- Married filing jointly
- Married filing separately (MFS)
- Head of household (HOH)
  - Unmarried and provide a home for certain other persons and paid over half the cost of keeping up your main home
- Qualifying widower (QW)
  - Spouse died in previous two tax years and didn't remarry, widower has a child that can be claimed as a dependent

Number and Net Tax by Filing Status TY 2016 (\$000s)			
	N	Net Tax	% of Tot.
Single	837,719	\$1,783,907	26%
Joint	700,192	\$4,749,269	68%
MFS	30,619	\$100,301	1%
HOH	181,807	\$334,143	5%
QW	801	\$2,472	0%
<b>Total</b>	<b>1,751,138</b>	<b>\$6,970,092</b>	<b>100%</b>

**17** **Standard deduction.** Your standard deduction is based on your filing status:

<b>Single</b>	\$2,215
<b>Married filing jointly</b>	\$4,435
<b>Married filing separately</b>	
• If spouse claims standard deduction	\$2,215
• If spouse claims itemized deductions	-0-
<b>Head of household</b>	\$3,570
<b>Qualifying widow(er)</b>	\$4,435

# Standard Tax Rates and Brackets

## 2018 Tax rate chart A

**2018 tax rate chart**—Use this chart only for income reported on lines 1a and 8a of Section B, the Tax worksheet. Report the tax on lines 10a and 13a of the worksheet.

**Chart S:** For persons filing single or married filing separately:

If your taxable income isn't over \$3,450 ..... your tax is 5% of taxable income  
 If your taxable income is over \$3,450 but not over \$8,700 ..... your tax is \$173 plus 7% of excess over \$3,450  
 If your taxable income is over \$8,700 but not over \$125,000 ..... your tax is \$540 plus 9% of excess over \$8,700  
 If your taxable income is over \$125,000 ..... your tax is \$11,007 plus 9.9% of excess over \$125,000

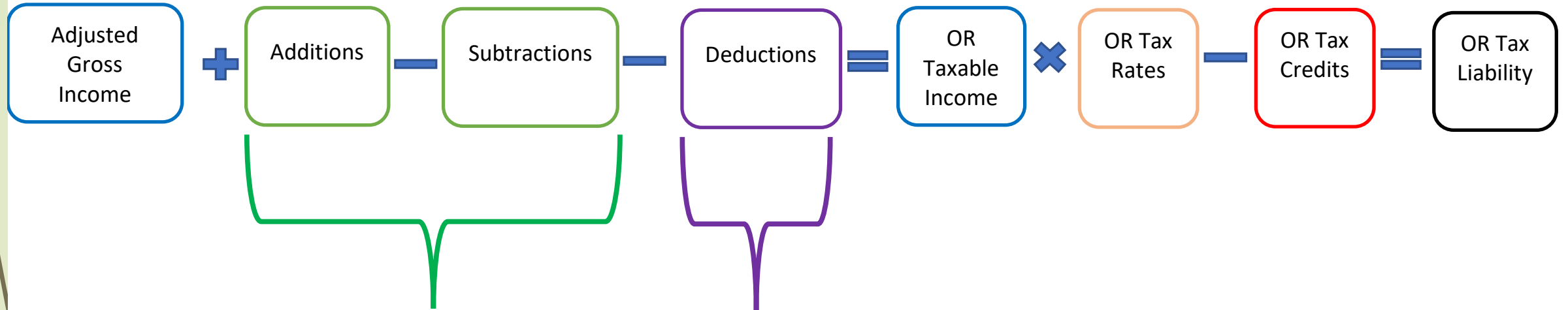
**Chart J:** For persons filing jointly, head of household, or qualifying widow(er) with dependent child:

If your taxable income isn't over \$6,900 ..... your tax is 5% of taxable income  
 If your taxable income is over \$6,900 but not over \$17,400 ..... your tax is \$345 plus 7% of excess over \$6,900  
 If your taxable income is over \$17,400 but not over \$250,000 ..... your tax is \$1,080 plus 9% of excess over \$17,400  
 If your taxable income is over \$250,000 ..... your tax is \$22,014 plus 9.9% of excess over \$250,000

# PIT Income and Tax Computation



# Personal Income Tax: Adjusted Gross Income to Oregon Taxable Income & Tax Computation



## Additions & Subtractions

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

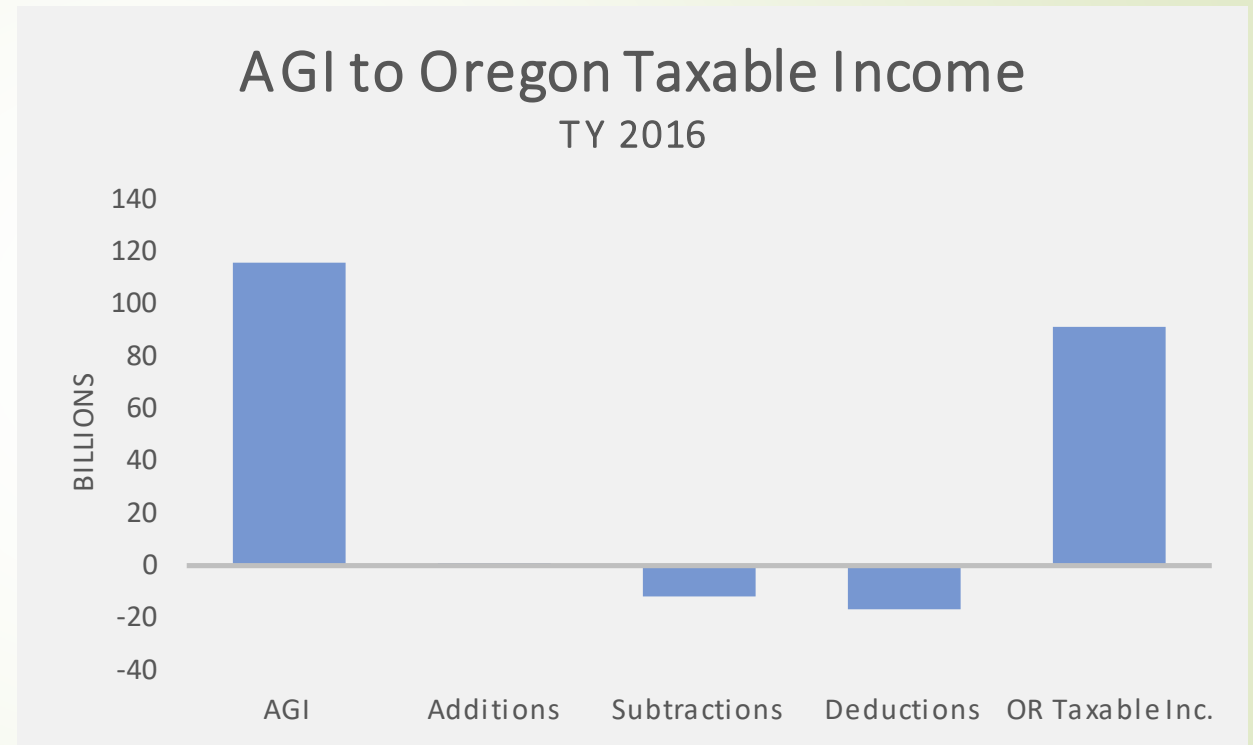
## Deductions

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



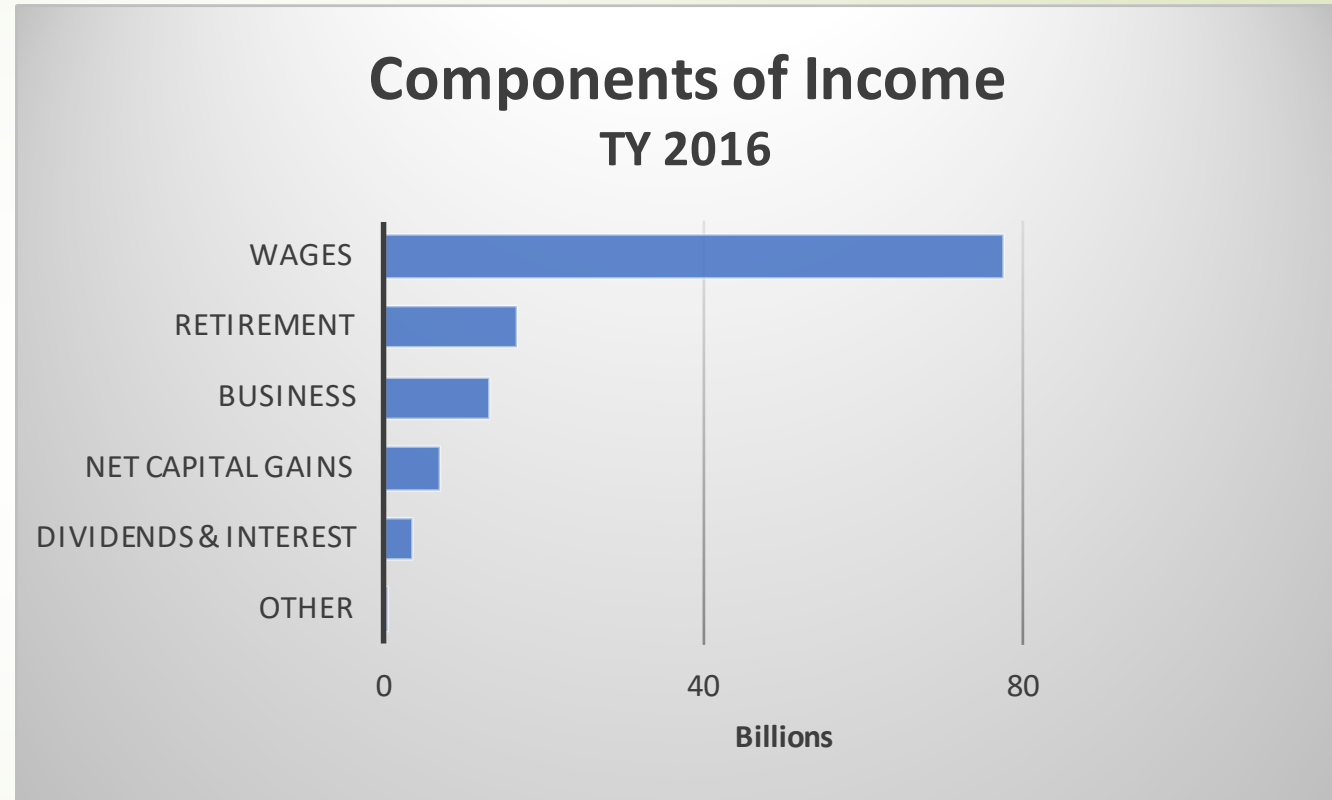
# Personal Income Tax: Adjusted Gross Income (AGI) to Oregon Taxable Income

Amount Reported on Tax Returns TY 2016 (Billions)	
AGI	116.1
Additions	0.5
Subtractions	11.8
Deductions	16.2
OR Taxable Inc.	91.2
<b>Gross Tax</b>	<b>7.7</b>
Credits	0.8
<b>Net Tax Liability</b>	<b>6.9</b>



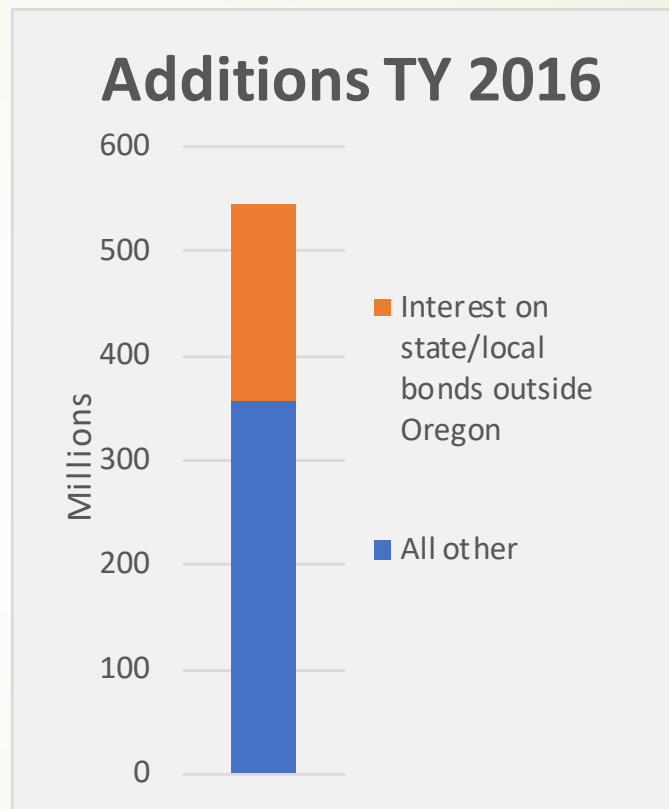
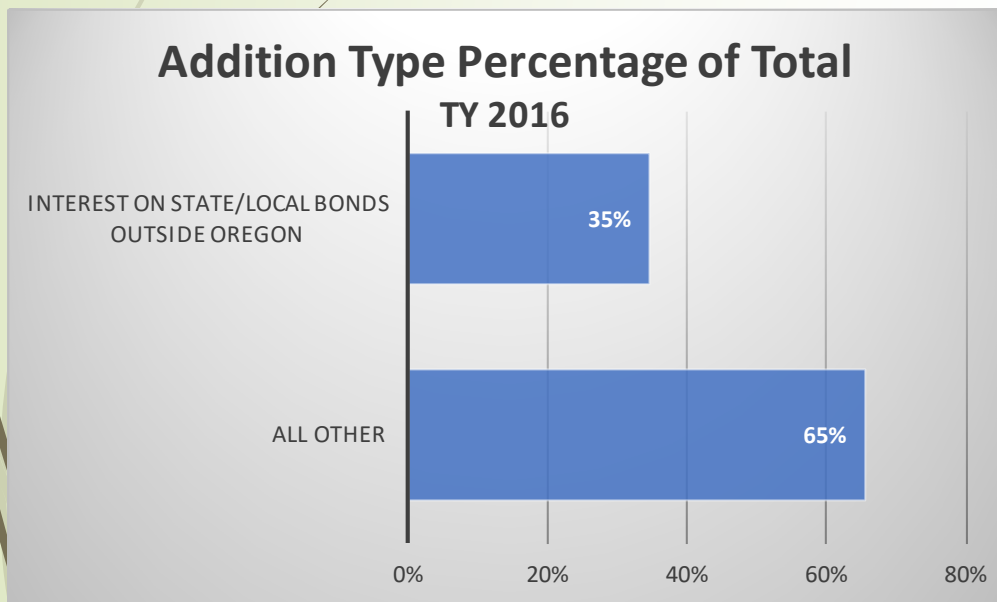
# Components of Income

Components of Income (\$Millions)		
Type	Amount	% of Tot.
Wages	77,435	66%
Retirement	16,692	14%
Business	13,230	11%
Net Capital Gains	6,966	6%
Dividends & Interest	3,651	3%
Other	188	0%
<b>Gross Income</b>	<b>118,163</b>	<b>100%</b>



# Additions

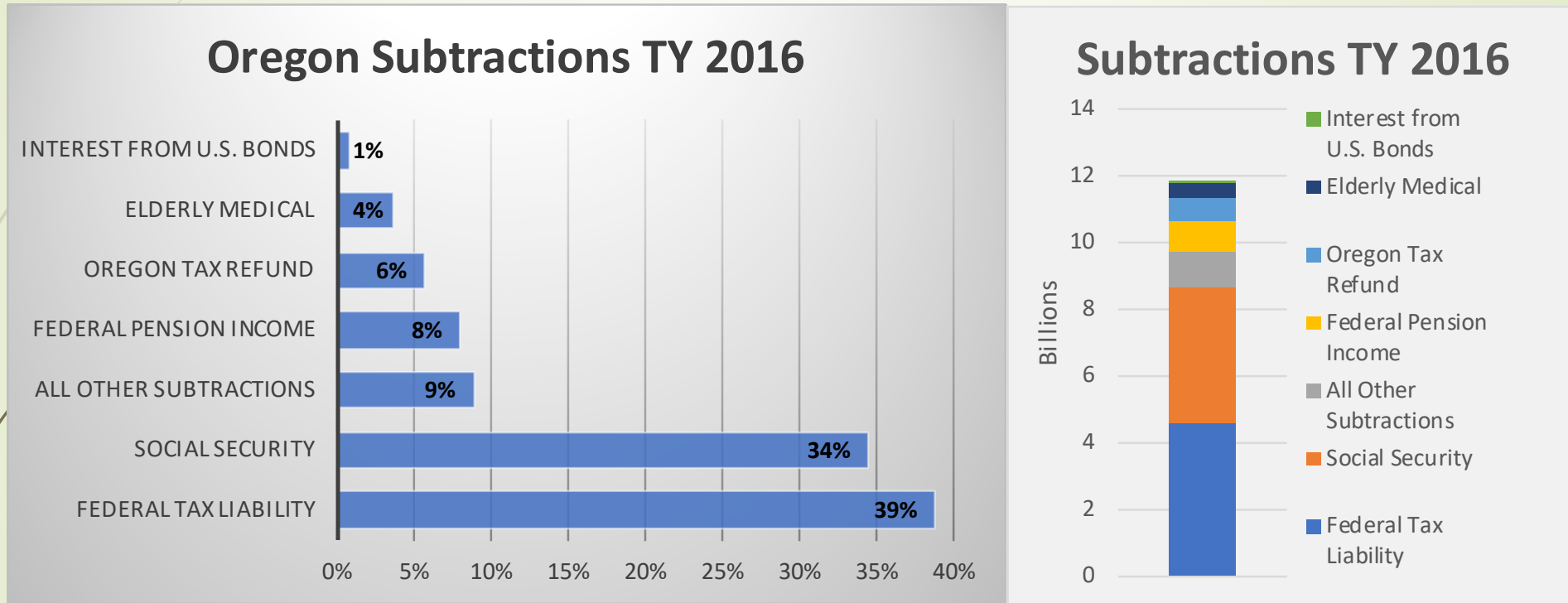
Additions TY 2016	
Interest on state/local bonds outside Oregon	188,119,122
All other	356,275,898
<b>Total</b>	<b>544,395,020</b>



## Other addition examples:

- Federal income tax refund following audit/amend
- Domestic production activities (federal QPAI deduction)
- Depreciation difference in Oregon

# Oregon Subtractions



- Federal law prohibits Oregon from taxing interest from U.S. bonds and federal pension income
- Social Security subtraction is in Oregon's Constitution

# Federal & Oregon Deductions

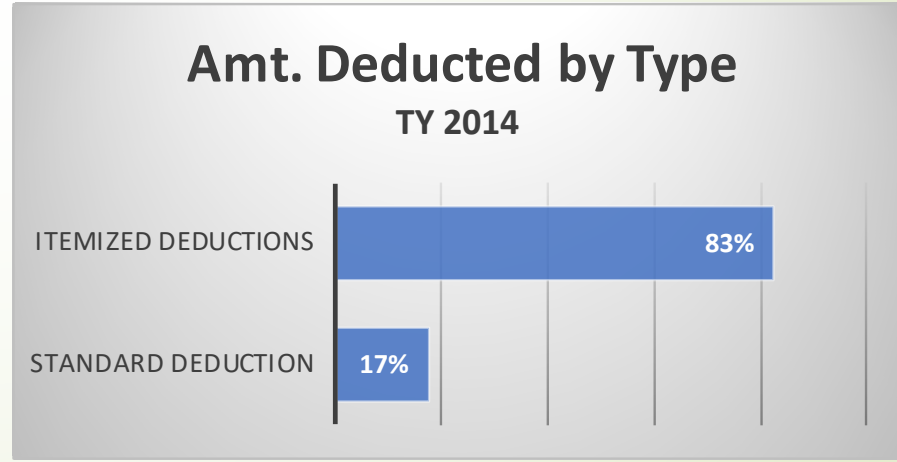
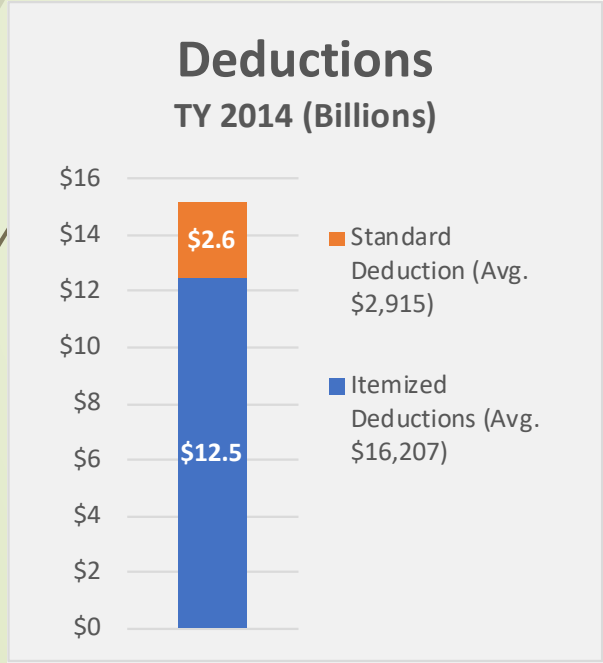
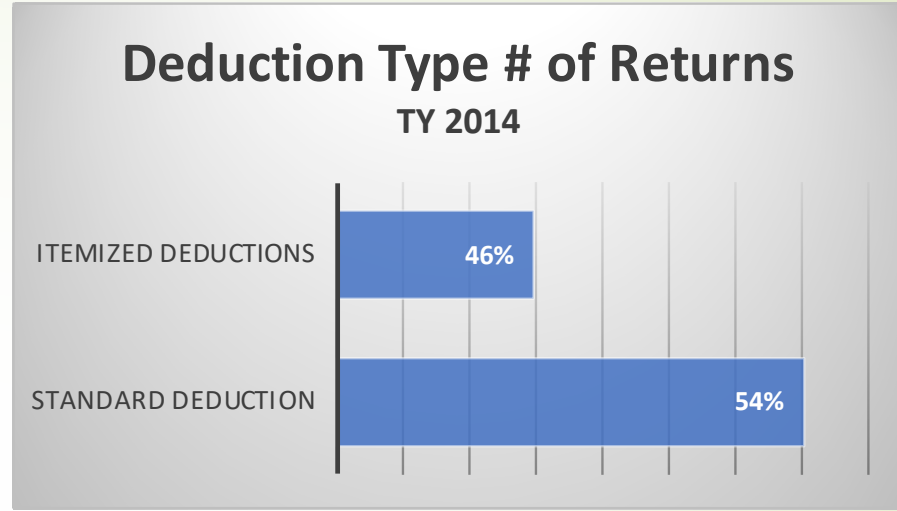
<b>Standard Deduction Amounts: Federal &amp; Oregon</b>			
	-----Federal-----		Oregon
	2017 (Pre TCJA)	TY 2018	TY 2018
Single	6,350	12,000	2,215
Joint	12,700	24,000	4,435
% Itemize	40%	15%	45%

## Key Relevant Components of Tax Cuts and Jobs Act (TCJA)

- Limited SALT deduction to  $\leq$  \$10,000
- Repealed Pease limitation on itemized deductions
- Lowered limits for interest on mortgage debt & eliminated home equity deductibility
- Elimination of certain miscellaneous deductions (e.g. unreimbursed employee expenses, tax preparation fees)
- Increased limits on deductibility of charitable donations

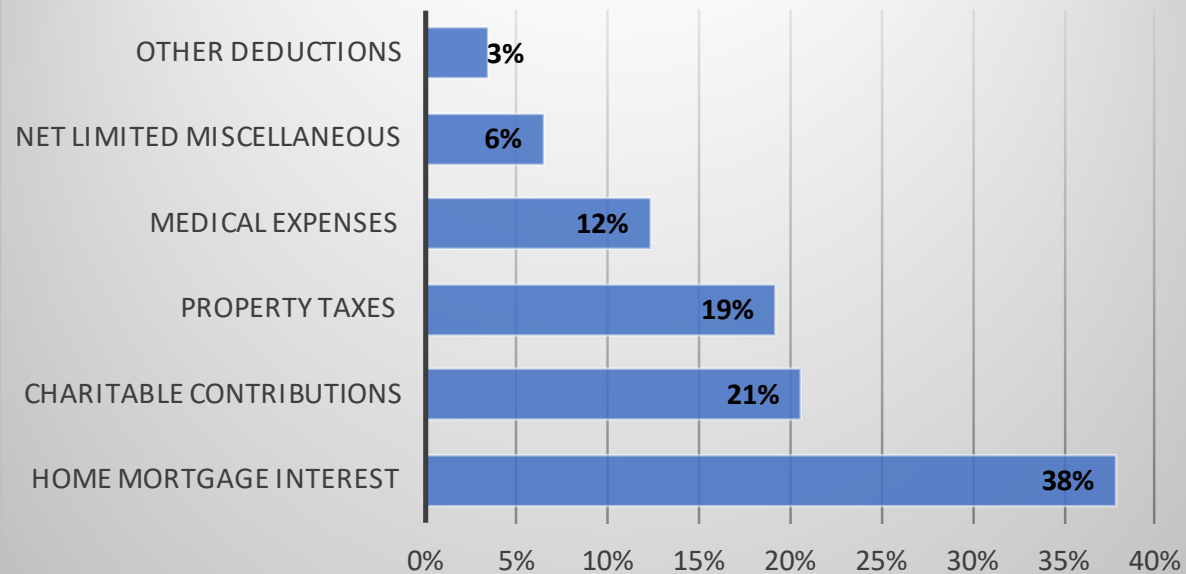
# Oregon Standard & Itemized Deductions

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

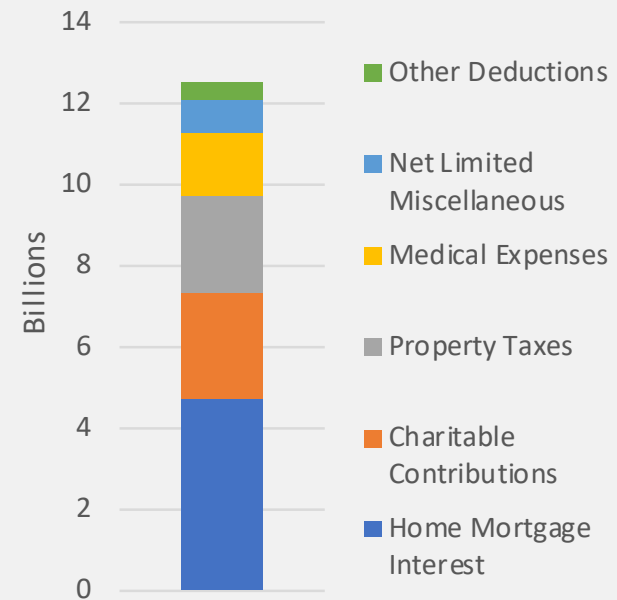


# Oregon Itemized Deductions

## Oregon Itemized Deductions TY 2014

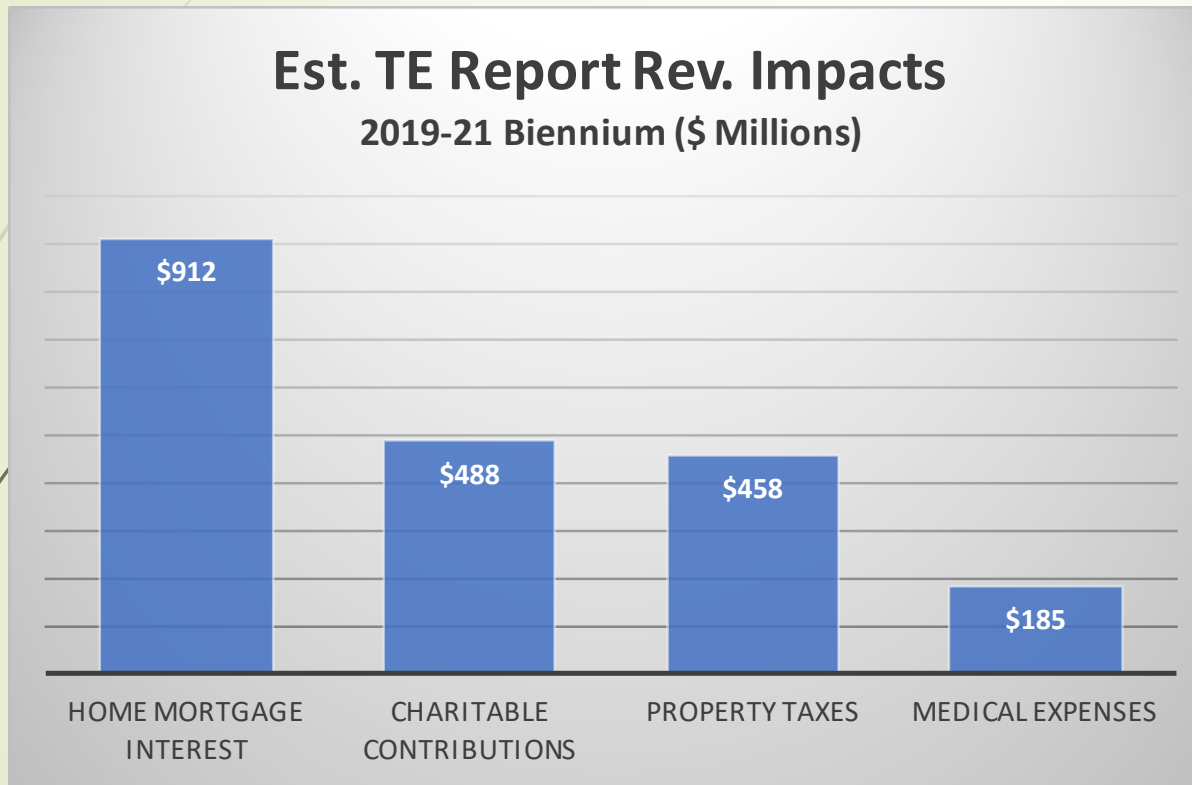


## Deductions TY 2014





# Oregon Deduction – 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”

# Deduction Examples

## Interaction with Standard Deduction: Federal & Oregon

	Federal	OR	Federal	OR
<b>AGI</b>	35,000	35,000	100,000	100,000
<b>Standard Ded.</b>	24,000	4,435	24,000	4,435
Difference	N/A	6,465	1,000	15,065
<b>Itemized Deds.</b>	12,125	10,900	25,000	19,500
HMI	6,800	6,800	12,000	12,000
State Inc. Tax	1,225	N/A	5,500	N/A
Prop. Taxes	3,700	3,700	5,000	5,000
Charitable	400	400	2,500	2,500
<b>Deduction Type</b>	<i>Standard</i>	<i>Itemize</i>	<i>Itemize</i>	<i>Itemize</i>

Note: Example is of jointly filed return

## Example of Deduction "Stacking"

	Ex. 1	Ex.2
<b>AGI</b>	50,000	50,000
<b>Standard Ded.</b>	4,435	4,435
Difference	4,365	N/A
<b>Itemized Deds.</b>	8,800	3,800
HMI	5,000	N/A
Prop. Taxes	3,500	3,500
Charitable	300	300
<b>Deduction Type</b>	<i>Itemize</i>	<i>Standard</i>

Note: Example is of jointly filed return

# Personal Income Tax Credits

OR Personal Income Tax Credits TY 2016 Full Year Filers	
Credit Name	Amount
Personal Exemption	556.1
Tax Paid to Other States	47.4
Earned Income	43.3
Working Family Child Care	34.2
Residential Energy	16.5
Political Contributions	6.0
Oregon Cultural Trust Donation	3.8
Other Credits	63.7
<b>Total</b>	<b>771.1</b>

Note: Red text identifies credits that have sunset

- Personal exemption credit was \$201 in TY 2018 and is indexed to inflation
- Personal Exemption Credit is limited to taxpayers with Adjusted Gross Income
  - Single: ≤ \$100,000
  - Joint: ≤ \$200,000

# Oregon Reduced Rates for Certain Income of Pass-Through & Sole Proprietors

# Policy Description & Requirements

- ▶ The policy objective is to provide a more favorable rate structure for business income earned by taxpayers who actively manage their own businesses ORS 316.043 & 316.044 – HB 3601 (2013 S.S.), HB 4301 (2018 S.S.)
- ▶ Taxpayers can have income from partnerships, S-corporations, sole proprietorships and LLCs taxed at lower marginal rates
- ▶ Policy is NOT intended to benefit passive investment or rental income
- ▶ Primary requirement is the taxpayer must “materially participate” in the business
- ▶ “Taxpayer shall be treated as materially participating in an activity only if the taxpayer is involved in the operations of the activity on a basis which is: regular, continuous, and substantial. (IRC 469)
- ▶ Have at least one full-time, non-investor employee
- ▶ Qualifying employees must work at least 1,200 hours in Oregon

# 2017 Tax Rate Brackets

<b>Joint Income Tax Rates</b>	
Taxable Income (\$)	Tax Rate
≤ \$6,800	5.0%
\$6,801 to \$17,000	7.0%
\$17,001 to \$250,000	9.0%
Over \$250,000	9.9%

<b>Non-Passive Income Tax Rates</b>	
Taxable Income (\$)	Tax Rate
≤ \$250,000	7.0%
\$250,001 to \$500,000	7.2%
\$500,001 to \$1 Million	7.6%
\$1 Million to \$2.5 Million	8.0%
\$2.5 Million to \$5 Million	9.0%
Over \$5 Million	9.9%

# Gross Tax Calculation: Taxpayer Opt-In

**Table 5. Gross Tax Calculation**

**Base approach** -- Gross Tax A is calculated under traditional method:

$$(All\ Income - Deductions) \times (Regular\ Rates) = Gross\ Tax\ A$$

**Opt-in approach** -- Gross Tax B is calculated under the new law:

$$(Non-passive\ Income) \times (New\ Rates) = Gross\ Tax\ B.1$$

$$(All\ Other\ Income - Deductions) \times (Regular\ Rates) = Gross\ Tax\ B.2$$

$$(Gross\ Tax\ B.1) + (Gross\ Tax\ B.2) = Gross\ Tax\ B$$

The taxpayer will choose the lesser of the two gross tax amounts:

$$Gross\ Tax = Lesser\ of\ "Gross\ Tax\ A"\ or\ "Gross\ Tax\ B"$$



# Revenue Impacts TY 2017

<b>Number of Claimants &amp; Revenue Impact - TY 2017</b>					
<b>Income</b>	<b>FY Filers</b>	<b>Claimants</b>	<b>Share</b>	<b>Rev Imp.</b>	<b>% Tot.</b>
\$0 - \$50k	1,019,264	527	0.1%	-\$0.1	0.1%
\$50k-\$70k	216,353	812	0.4%	-\$0.2	0.2%
\$70k-\$100k	220,952	1,675	0.8%	-\$0.8	0.8%
\$100k-\$200k	255,634	6,165	2.4%	-\$5.7	5.9%
\$200k-\$500k	71,449	7,569	10.6%	-\$22.5	23.5%
> \$500k	14,495	4,532	31.3%	-\$66.6	69.5%
<b>Total</b>	<b>1,798,147</b>	<b>21,289</b>	<b>1.2%</b>	<b>-\$95.9</b>	<b>100.0%</b>

FY Filers: All 2017 full year filers | Totals do not sum due to non-disclosure requirements

Income: Refers to total income

Source: Department of Revenue - Research, Personal Income Tax Returns

# Revenue Impacts

## Preliminary Tax Year 2016 & 2017 Data, Full-Year Filers

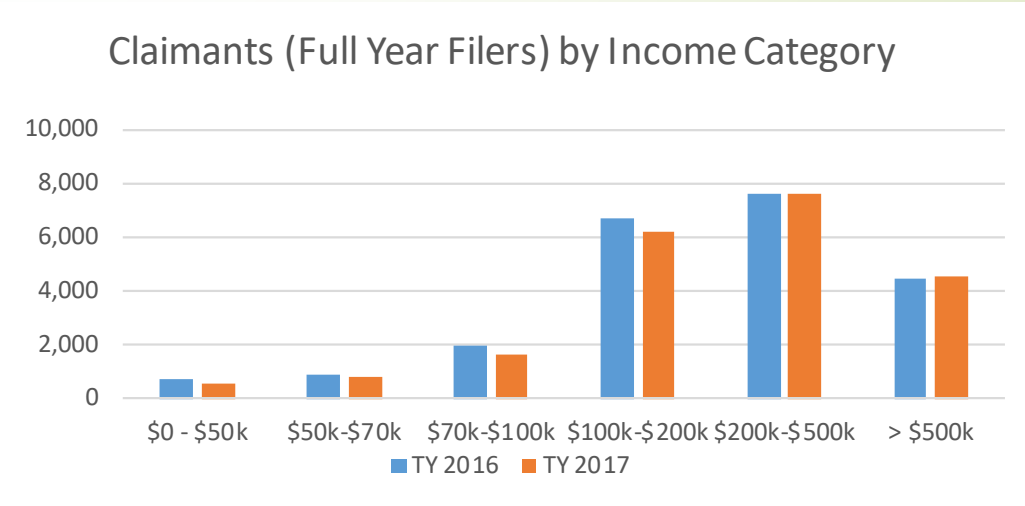
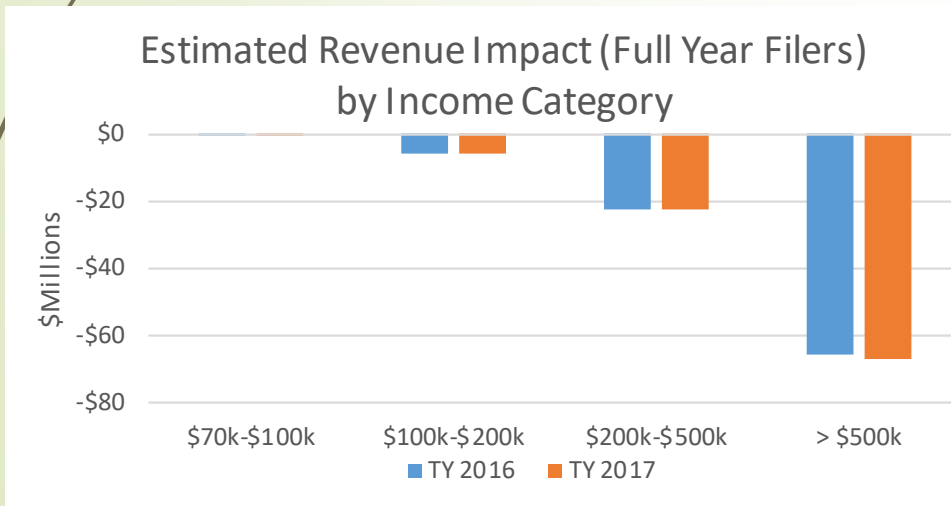
Revenue Impact (\$M)			
Income	TY 2016	TY 2017	Difference
\$0 - \$50k	-\$0.1	-\$0.1	\$0.0
\$50k-\$70k	-\$0.3	-\$0.2	\$0.0
\$70k-\$100k	-\$0.9	-\$0.8	\$0.1
\$100k-\$200k	-\$6.2	-\$5.7	\$0.5
\$200k-\$500k	-\$22.2	-\$22.5	-\$0.3
> \$500k	-\$65.7	-\$66.6	-\$0.9
<b>Total</b>	<b>-\$95.3</b>	<b>-\$95.9</b>	<b>-\$0.6</b>

Number of Claimants			
Income	TY 2016	TY 2017	% Ch.
\$0 - \$50k	761	527	-31%
\$50k-\$70k	908	812	-11%
\$70k-\$100k	1,953	1,675	-14%
\$100k-\$200k	6,722	6,165	-8%
\$200k-\$500k	7,633	7,569	-1%
> \$500k	4,471	4,532	1%
<b>Total</b>	<b>22,448</b>	<b>21,289</b>	<b>-5%</b>

**Means (\$)**    -\$4,244    -\$4,504

Source: DOR - Research, Personal Income Tax Returns

Income: Refers to total income | 2017 Full year filers | Totals may not sum due to disclosure requirements



# Comparison of Revenue Impacts

## Original Estimated Rev. Imp. - HB 3601 (2013 S.S.)

	2013-15	2015-17	2017-19	2019-21	2021-23
\$'s in Millions	-\$38	-\$205	-\$239	-\$277	-\$332

## Comparison of Orig. 2013 & Current Preliminary Revenue Impact

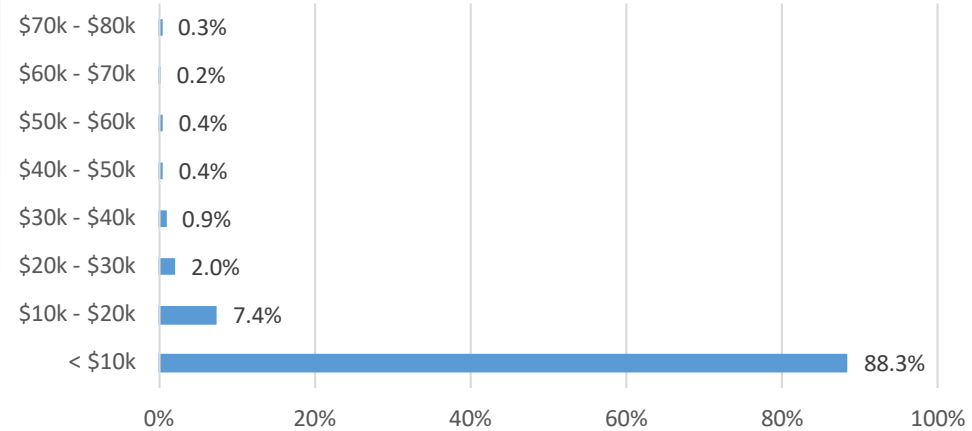
	Tax Year (\$M)		
	2015	2016	2017
2013 Estimate	-\$91.1	-\$98.5	-\$105.6
Current Preliminary	-\$66.3	-\$95.3	-\$95.9
Difference	\$24.9	\$3.2	\$9.7

# Tax Reduction Distribution – TY 2017

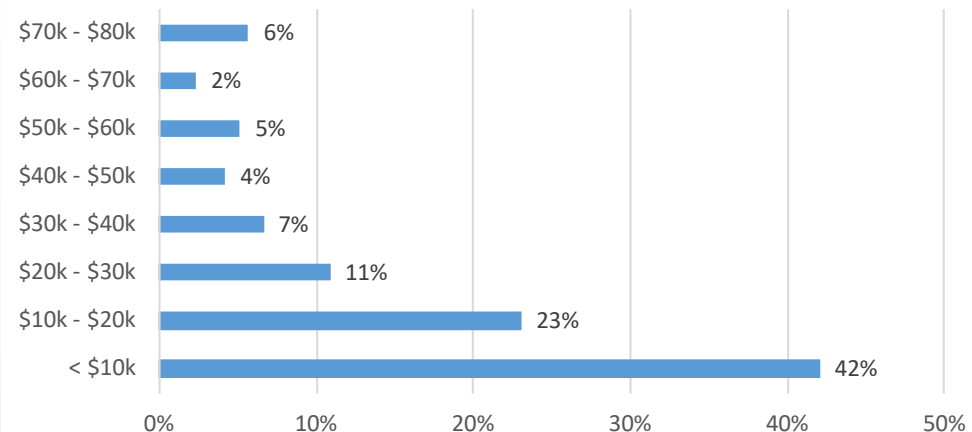
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Tax Cut	Returns		Tax Cut	
	Number	Share	\$ Million	Share
< \$5k	16,211	76.1%	\$22.5	23.5%
\$5k - \$10k	2,597	12.2%	\$17.8	18.5%
\$10k - \$15k	1,009	4.7%	\$12.4	12.9%
\$15k - \$20k	569	2.7%	\$9.7	10.1%
\$20k - \$25k	259	1.2%	\$5.8	6.0%
\$25k - \$30k	170	0.8%	\$4.7	4.9%
\$30k - \$35k	120	0.6%	\$3.9	4.0%
\$35k - \$40k	67	0.3%	\$2.5	2.6%
\$40k - \$45k	52	0.2%	\$2.2	2.3%
\$45k - \$50k	39	0.2%	\$1.8	1.9%
\$50k - \$55k	43	0.2%	\$2.3	2.4%
\$55k - \$60k	47	0.2%	\$2.7	2.8%
\$60k - \$65k	22	0.1%	\$1.4	1.4%
\$65k - \$70k	13	0.1%	\$0.9	0.9%
\$70k - \$75k	11	0.0%	\$0.8	0.8%
\$75k - \$80k	62	0.3%	\$4.7	4.9%
<b>Total</b>	<b>21,289</b>	<b>100.0%</b>	<b>\$95.9</b>	<b>100.0%</b>

Share of Claimants by Tax Cut Amount  
TY 2017



Share of Revenue Impact by Tax Cut Amount  
TY 2017



# Impacts by County – TY 2017

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County	Filers	Claimants	Share	Tax Change		County	Filers	Claimants	Share	Tax Change	
				Total (\$M)	Mean (\$)					Total (\$M)	Mean (\$)
Baker	6,453	106	1.6%	-\$0.2	-\$1,645	Lake	2,924	37	1.3%	-\$0.1	-\$1,620
Benton	36,557	411	1.1%	-\$1.7	-\$4,211	Lane	156,691	2,080	1.3%	-\$9.9	-\$4,758
Clackamas	185,605	3,210	1.7%	-\$18.8	-\$5,844	Lincoln	20,127	138	0.7%	-\$0.4	-\$2,921
Clatsop	16,428	221	1.3%	-\$0.8	-\$3,604	Linn	52,308	428	0.8%	-\$1.5	-\$3,600
Columbia	22,006	146	0.7%	-\$0.5	-\$3,695	Malheur	9,745	115	1.2%	-\$0.2	-\$1,692
Coos	24,995	231	0.9%	-\$0.8	-\$3,360	Marion	140,393	1,349	1.0%	-\$5.8	-\$4,291
Crook	9,629	94	1.0%	-\$0.2	-\$2,566	Morrow	4,321	21	0.5%	-\$0.1	-\$3,693
Curry	9,297	102	1.1%	-\$0.3	-\$2,910	Multnomah	362,951	4,044	1.1%	-\$19.4	-\$4,801
Deschutes	84,042	1,733	2.1%	-\$6.6	-\$3,831	Polk	33,980	340	1.0%	-\$1.3	-\$3,687
Douglas	42,662	368	0.9%	-\$1.1	-\$3,029	Sherman	724	13	1.8%	\$0.0	-\$1,705
Gilliam	757	NA	NA	NA	NA	Tillamook	11,446	134	1.2%	-\$0.4	-\$3,211
Grant	2,835	33	1.2%	\$0.0	-\$1,484	Umatilla	29,523	204	0.7%	-\$0.7	-\$3,310
Harney	2,782	21	0.8%	\$0.0	-\$1,393	Union	10,693	155	1.4%	-\$0.4	-\$2,263
Hood River	10,932	201	1.8%	-\$0.6	-\$3,093	Wallowa	3,229	93	2.9%	-\$0.2	-\$1,666
Jackson	93,282	1,246	1.3%	-\$4.8	-\$3,858	Wasco	10,710	104	1.0%	-\$0.3	-\$2,621
Jefferson	9,187	66	0.7%	-\$0.1	-\$2,107	Washington	258,431	2,696	1.0%	-\$13.9	-\$5,150
Josephine	34,253	314	0.9%	-\$1.5	-\$4,766	Wheeler	506	NA	NA	NA	NA
Klamath	25,900	263	1.0%	-\$0.7	-\$2,519	Yamhill	43,544	465	1.1%	-\$2.1	-\$4,573
						Other*	29,562	107	0.4%	-\$0.5	-\$5,107
<b>TOTAL</b>	<b>1,798,147</b>	<b>21,289</b>	<b>1.2%</b>	<b>-\$95.9</b>	<b>-\$4,505</b>						

Source: Department of Revenue - Research, Personal Income Tax Returns

**TOTAL** 1,798,147 21,289 1.2% -\$95.9 -\$4,505

\* County missing, out-of-state, Gilliam and/or Wheeler

# Future Policy Adjustments

- ▶ By July 1, 2018: LRO compares estimated and actual impacts for tax years 2015 & 2016. If actual exceeds the estimate by 15%, then the PTE tax rates are proportionately increased such that the difference is reduced to 5%. The new rates apply beginning with tax year 2019.
- ▶ By July 1, 2022: LRO compares estimated and actual impacts for tax years 2019 & 2020. If the difference exceeds 25% in either direction, the PTE tax rates are adjusted upwards or downwards such that the difference is 115% or 85%. The new rates apply beginning with tax year 2023.



# What's New

- ▶ Federal Tax Cuts and Jobs Act (TCJA) – Enacted December, 2017
  - ▶ Tax Rates
  - ▶ Deductions
  - ▶ Other
  
- ▶ 2018 Session & 2018 Special Session
  - ▶ OR reduced rates for certain pass-through income made available to sole proprietorships
  - ▶ OR legislation following TCJA
  - ▶ Credits and Subtraction



# Other States

- ▶ Most states that have a personal income tax connect to federal definition of adjusted gross income (AGI) as starting point for state income tax
- ▶ States not connected to AGI
  - ▶ About half connect to federal definition of taxable income as state starting point (how Oregon connects)
  - ▶ About half use a state definition of income as starting point

Source: Tax Policy Center

# State Personal Income Tax Collections

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## 2017 State Tax PIT Collections as Percentage of Total State Revenue

Alabama	34.8	Kentucky	36.9	North Dakota	9.2
Alaska	--	Louisiana	26.6	Ohio	27.6
Arizona	24.8	Maine	36.3	Oklahoma	36.4
Arkansas	29.1	Maryland	42.0	<b>Oregon</b>	<b>70.3</b>
California	54.1	Massachusetts	53.5	Pennsylvania	31.9
Colorado	51.5	Michigan	33.1	Rhode Island	37.9
Connecticut	48.7	Minnesota	42.8	South Carolina	42.1
Delaware	32.9	Mississippi	23.6	South Dakota	--
D.C.	25.6	Missouri	49.2	Tennessee	1.8
Florida	--	Montana	44.4	Texas	--
Georgia	49.0	Nebraska	43.7	Utah	46.2
Hawaii	29.8	Nevada	--	Vermont	23.8
Idaho	36.8	New Hampshire	2.6	Virginia	58.8
Illinois	34.9	New Jersey	43.2	Washington	--
Indiana	30.1	New Mexico	23.2	West Virginia	35.6
Iowa	37.5	New York	56.0	Wisconsin	43.0
Kansas	28.5	North Carolina	45.0	Wyoming	--
				<b>Total</b>	<b>37.1</b>

Source: Federation of Tax Administrators

