

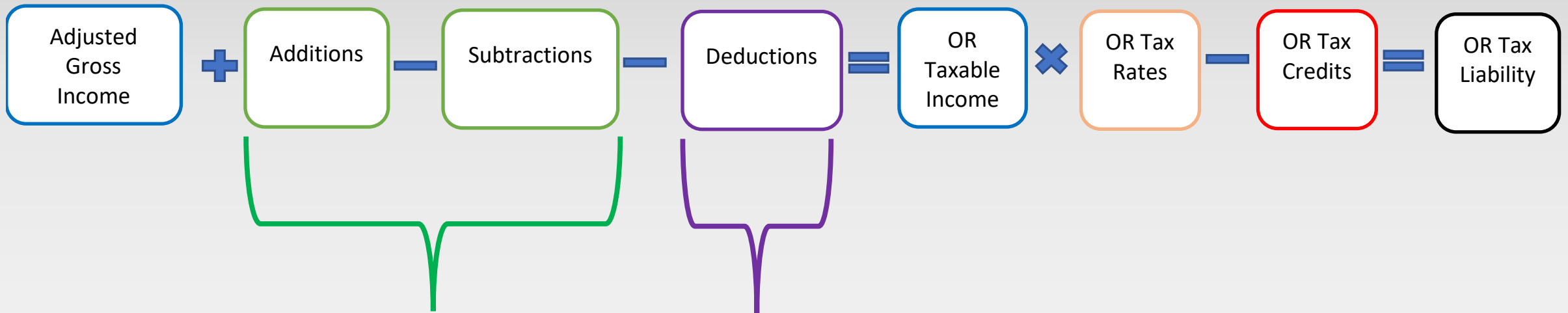
# OR Personal Income Tax Orientation/Update

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SENATE COMMITTEE ON FINANCE AND REVENUE

LEGISLATIVE REVENUE OFFICE – 1/22/2019

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



## Additions & Subtractions

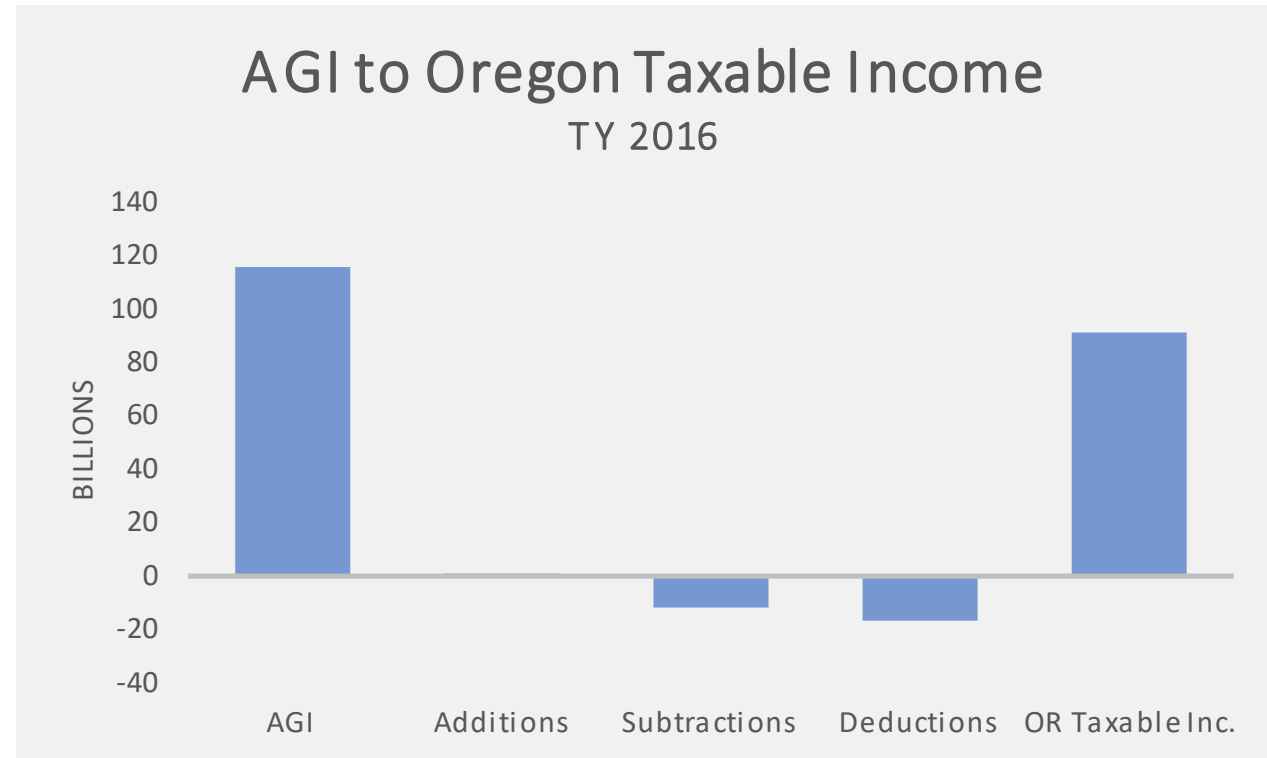
- Originate in Oregon statute
- Some required by federal law or OR Constitution

## 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

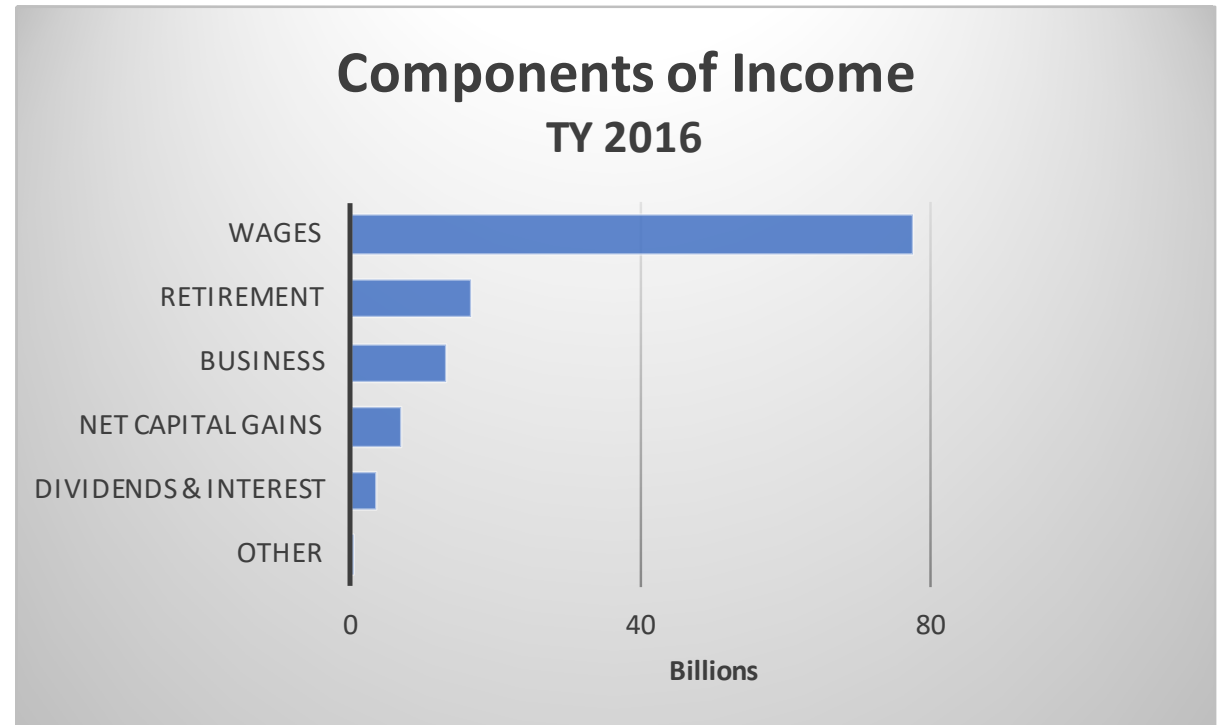
Amount Reported on Tax Returns TY 2016 (Billions)	
AGI	116.1
Additions	0.5
Subtractions	11.8
Deductions	16.2
OR Taxable Inc.	91.2
<b>Gross Tax</b>	<b>7.7</b>
Credits	0.8
<b>Net Tax Liability</b>	<b>6.9</b>



Page Sources: Oregon DOR Published Tables

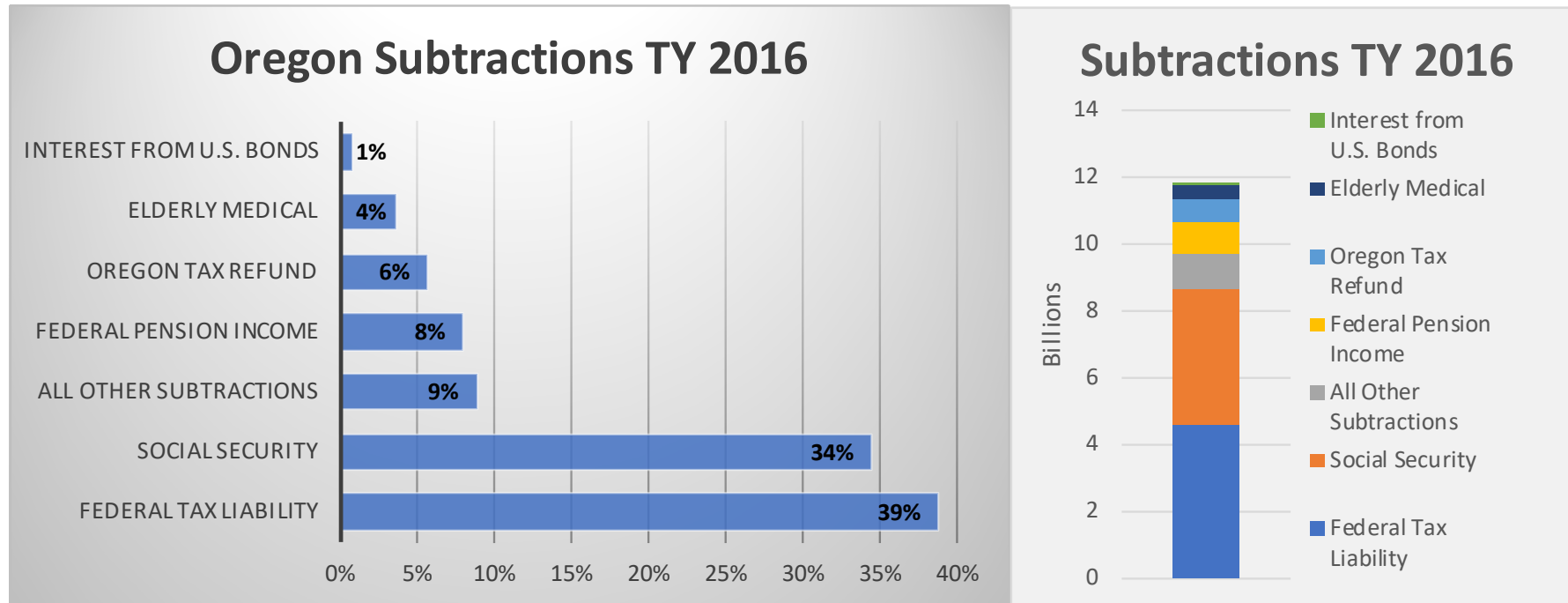
# Components of Income

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>	



Page Sources: Oregon DOR Published Tables

# 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

Page Sources: Oregon DOR Published Tables

# Federal & Oregon Deductions

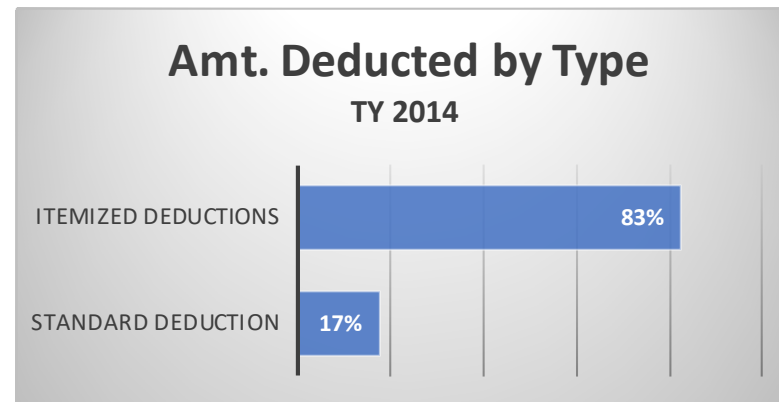
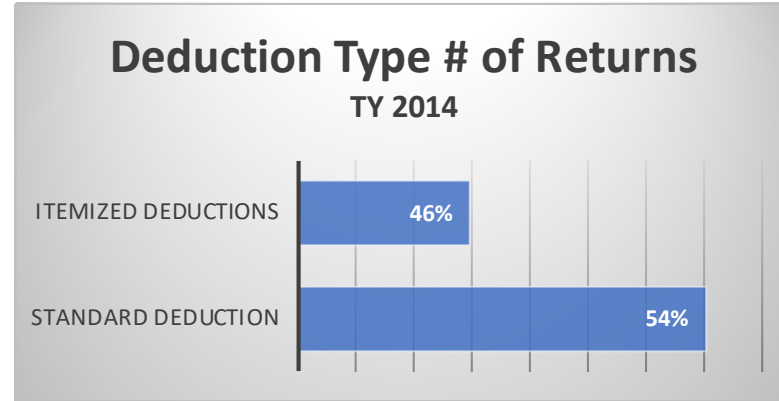
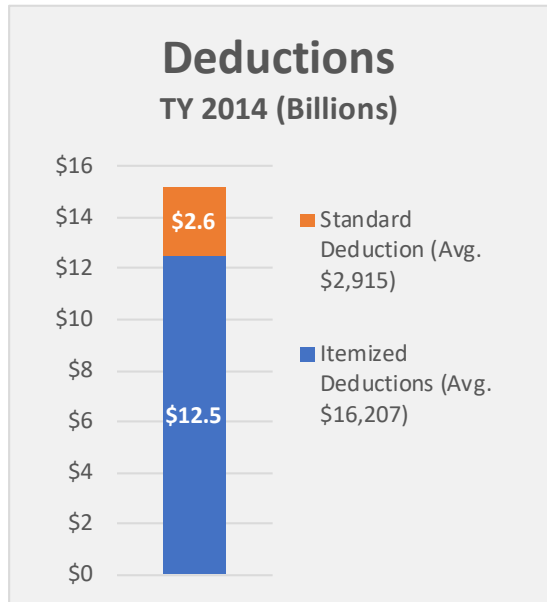
<b>Standard Deduction Amounts: Federal &amp; Oregon</b>			
	-----Federal-----		Oregon
	2017 (Pre TCJA)	TY 2018	TY 2018
Single	6,350	12,000	2,215
Joint	12,700	24,000	4,435
% Itemize	40%	15%	45%

## Key Relevant Components of 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

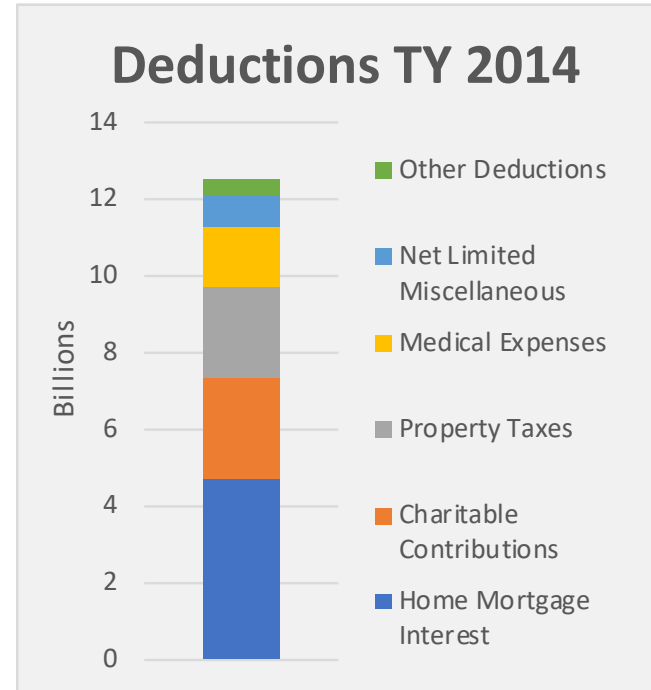
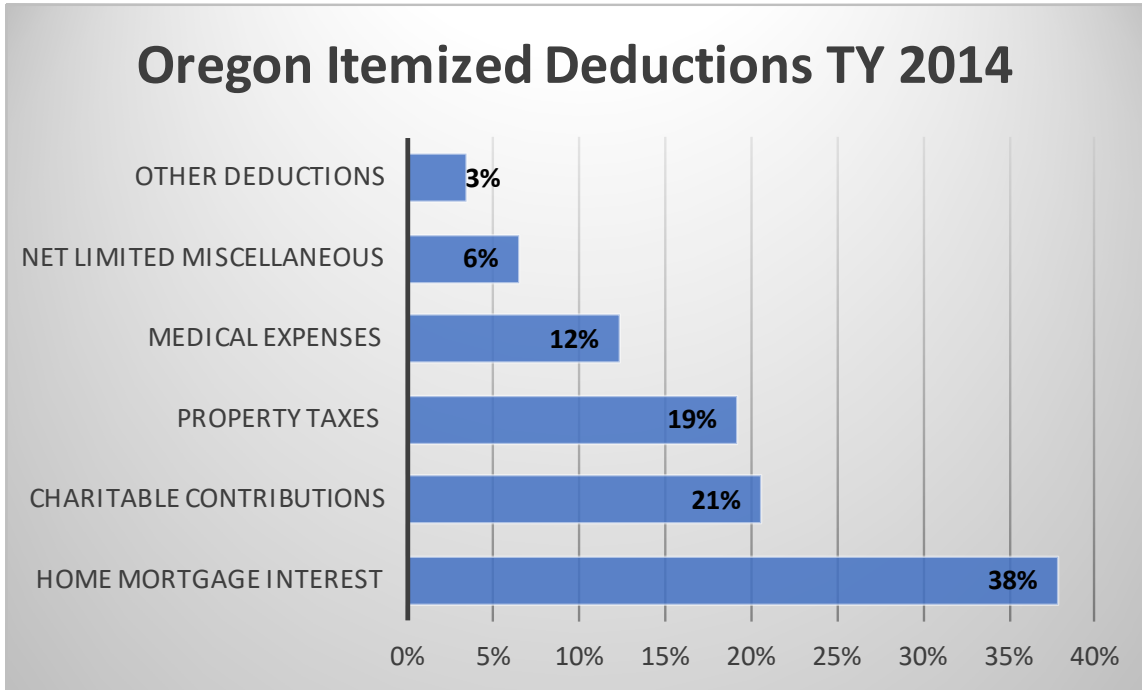
# Oregon Standard & Itemized Deductions

Deduction Type - TY 2014			
	# Returns	Amount (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>



Page Sources: Oregon DOR Published Tables

# Oregon Itemized Deductions



Page Sources: Oregon DOR Published Tables



# Oregon Pass-Through & Sole Proprietorship Reduced Rate Policy

- 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

<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%

# Oregon Reduced Rate Policy

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

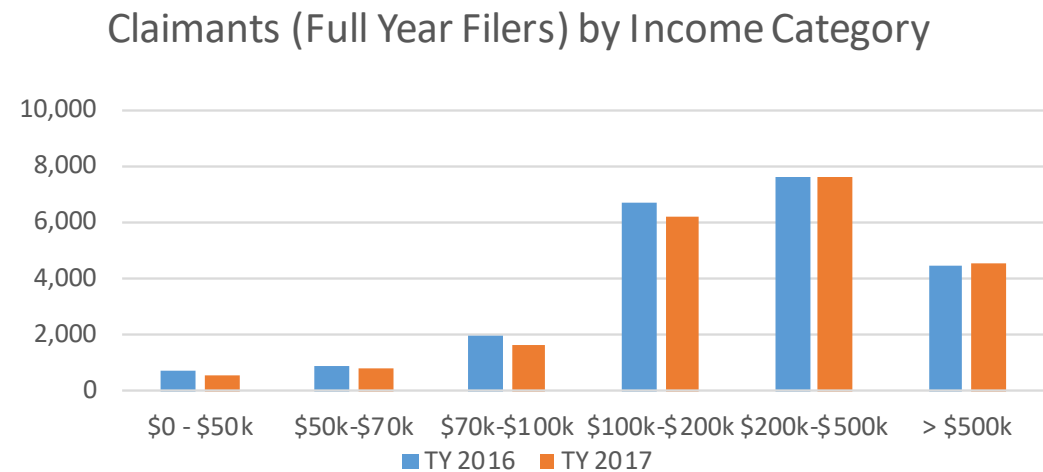
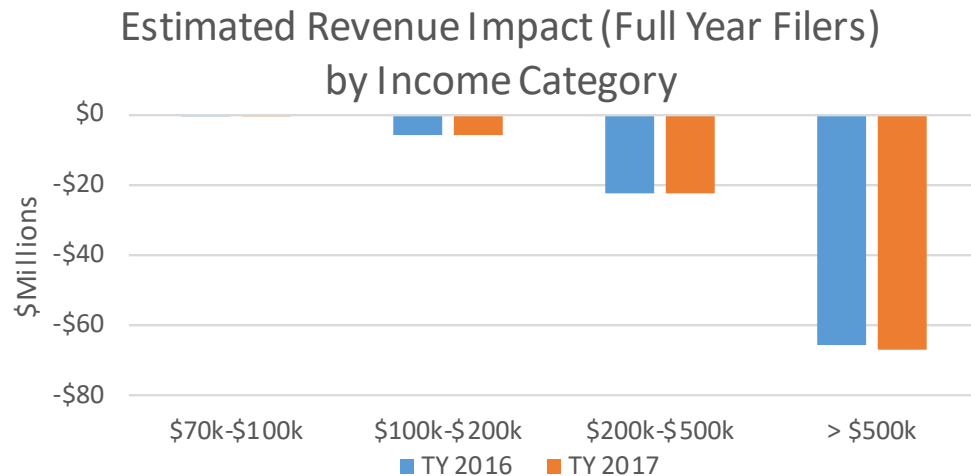
Revenue Impact (\$M)			
Income	TY 2016	TY 2017	Difference
\$0 - \$50k	-\$0.1	-\$0.1	\$0.0
\$50k-\$70k	-\$0.3	-\$0.2	\$0.0
\$70k-\$100k	-\$0.9	-\$0.8	\$0.1
\$100k-\$200k	-\$6.2	-\$5.7	\$0.5
\$200k-\$500k	-\$22.2	-\$22.5	-\$0.3
> \$500k	-\$65.7	-\$66.6	-\$0.9
<b>Total</b>	<b>-\$95.3</b>	<b>-\$95.9</b>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

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

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

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>

Source: DOR - Research, Personal Income Tax Returns



# Oregon Reduced Rate Policy

## Sole Prop Expansion – HB 4301 (2018 S.S.)

### Measure Description:

Expands availability of elective reduced personal income tax rate for certain pass-through income to taxpayers doing business as sole proprietors.

### Revenue Impact (in \$Millions):

	Biennium		
	2017-19	2019-21	2021-23
General Fund	-\$14.8	-\$24.7	-\$27.2

### Impact Explanation:

Estimates were based on an analysis of sole proprietor data for tax years 2015 and 2016 and then projected forward to tax years 2018 and later. The analysis incorporated information on factors such as business income, total income, and labor costs. For tax year 2018, roughly 12,000 sole proprietors are projected to be eligible to participate in the program. Model simulations indicate roughly 50 percent are likely to opt-in. Consequently, roughly 6,000 taxpayers with income from a sole proprietor are projected to take advantage of the preferential rates. Their average tax reduction is estimated to be roughly \$1,900 in 2018. The estimated revenue impact is assumed to grow at an average annual rate of five percent, based on recent history and the most recent economic forecast.