

Background on Itemized Deduction for State and Local Taxes (SALT)

House Interim Committee on Revenue

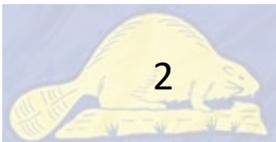
January, 11th 2022

Legislative Revenue Office



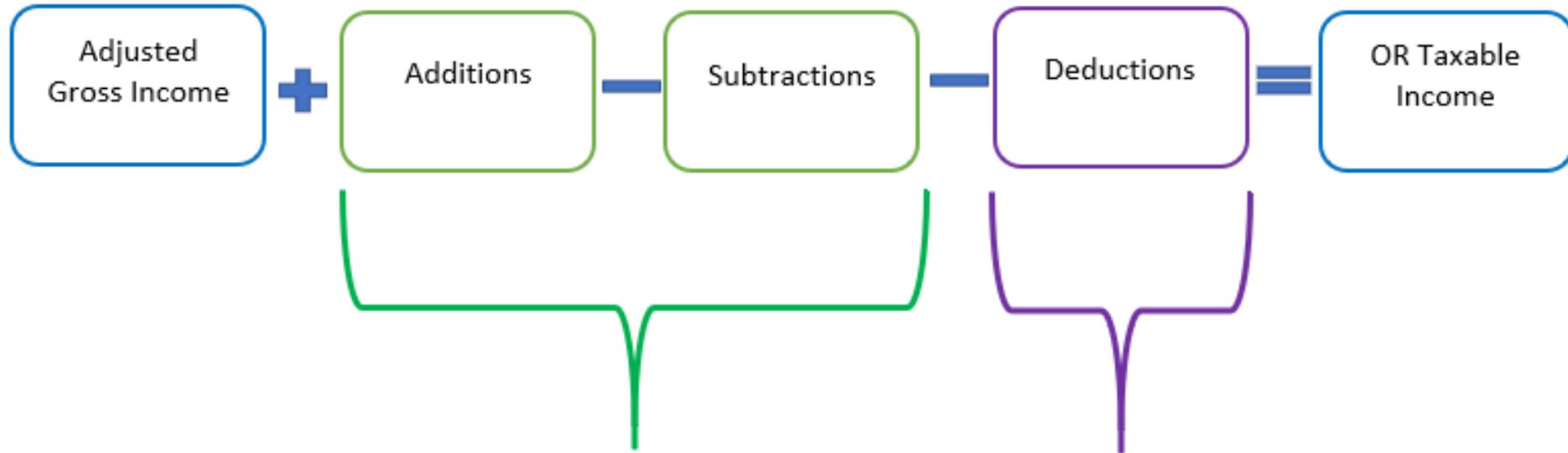
Overview of Presentation

- What is the State and Local Tax (SALT) deduction
- Example of SALT benefit to taxpayer
- History of SALT deduction
- Current law SALT deduction framework and impact from recent changes
- SALT deduction proposals & other developments





Personal Income Tax Flow Chart

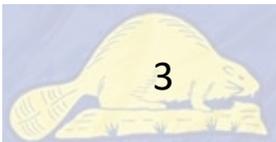


Additions & Subtractions

- 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





What is the SALT Deduction?

- Personal income tax **itemized** deduction for state and local taxes (SALT)
 - Only taxpayers that itemize deductions may claim SALT deduction
 - Taxpayers subject to alternative minimum tax (AMT), no SALT deduction
 - Taxes on businesses are deducted as business expenses (not part of SALT deduction)
- Examples of SALT deduction
 - State & local income taxes
 - State & local property taxes (real & personal property)
 - General state & local sales taxes (can only be taken in lieu of income tax)



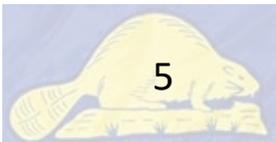


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Cannot deduct Oregon income tax on Oregon income tax return

- Examples of SALT deduction
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Example of SALT Deduction Benefit

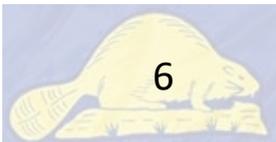
- Benefit to taxpayer (reduced tax liability)

*SALT Deduction Amount * Marginal Tax Rate = Tax Benefit*

$$\$25,000 * 35\% = \$8,750$$

- Benefit to State (lower net cost of raising revenue)

State Income Tax	\$25,000
Taxpayer's Change in Federal Tax Liability	(\$8,750)
<hr/>	
State Revenue	\$25,000
Net Tax Paid by Taxpayer	\$16,250





Federal & State SALT Deduction

- Taxpayers cannot deduct Oregon state income taxes on their Oregon state income tax return
 - Property taxes, state (non-Oregon) and local income taxes are deductible on Oregon return

SALT Deduction	Federal	Oregon
State Inc. Tax	\$25,000	N/A
Property Tax	\$12,000	\$12,000
<i>Total</i>	<i>\$37,000</i>	<i>\$12,000</i>





History of SALT Deduction

- Adopted in 1913

“All national, State, county, school and municipal taxes paid...not including those assessed against local benefits”

- 1986 – Narrowed deduction, state/local sales taxes not deductible
- 2004 – Deduction allowed for income or sales tax, not both
- 2017 – SALT cap, deduction limited to \$10,000 for tax years 2018 through 2025

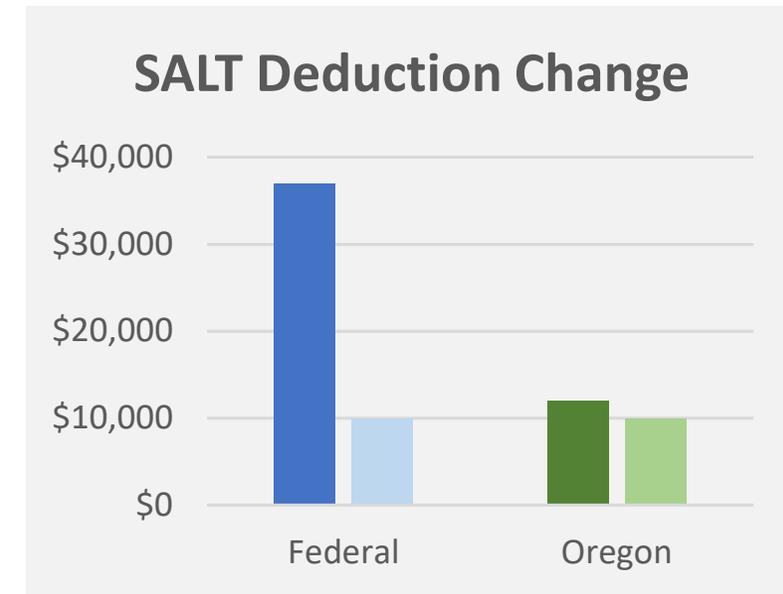




Mechanics of SALT Cap

Simplified contextual example

Salt Deduction	-----Federal-----		-----Oregon-----	
	Pre 2018	2018	Pre 2018	2018
State Inc. Tax	\$25,000	\$25,000	N/A	N/A
Property Tax	\$12,000	\$12,000	\$12,000	\$12,000
Total	\$37,000	\$10,000	\$12,000	\$10,000
Tax Benefit	\$12,950	\$3,500	\$1,188	\$990
Tax Increase		\$9,450		\$198



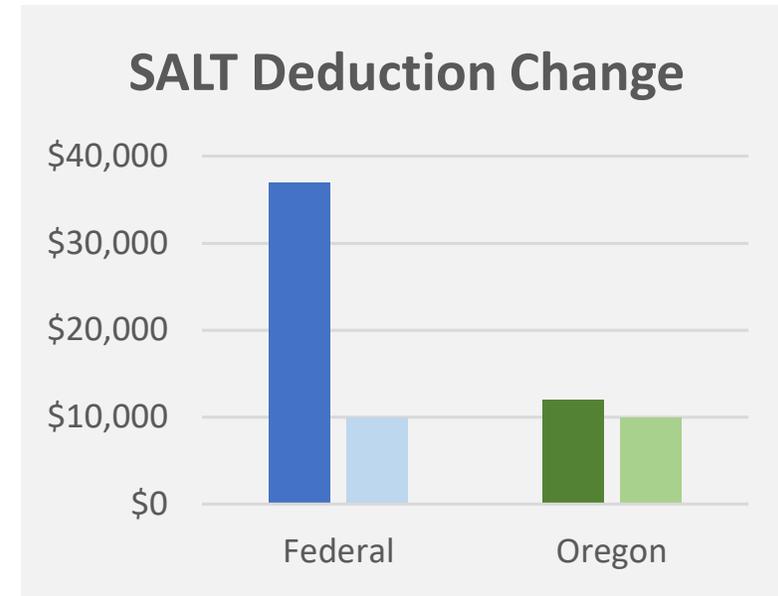


Mechanics of SALT Cap

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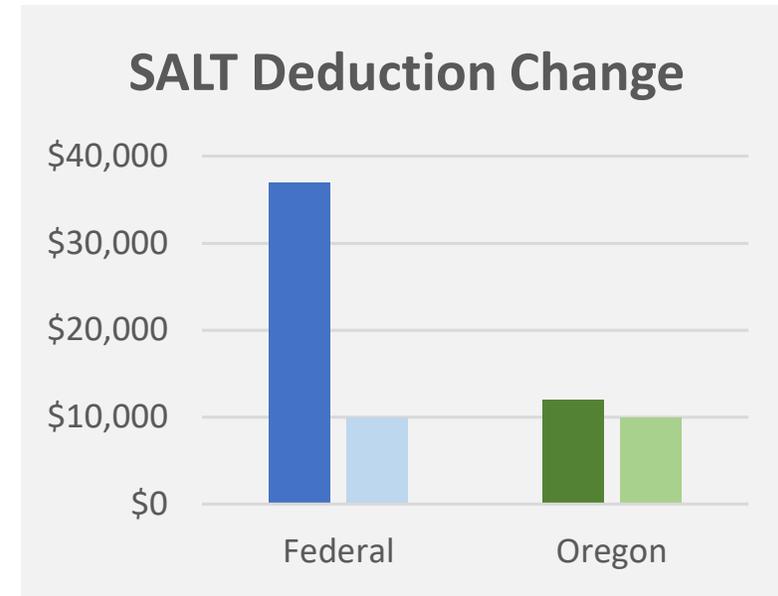
Significant reduction in federal SALT deduction



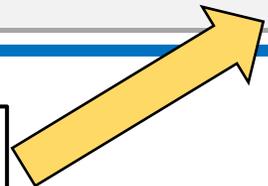


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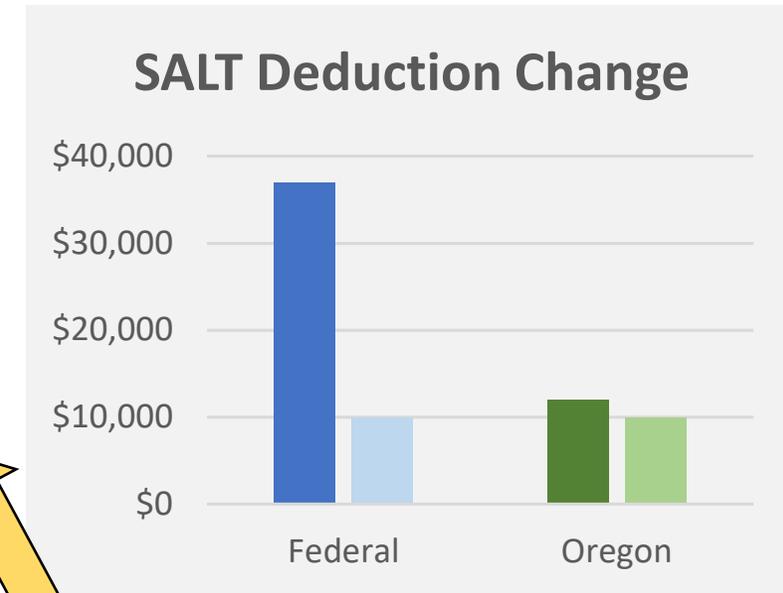
Deduction limit causes increase in federal tax liability





Mechanics of SALT Cap

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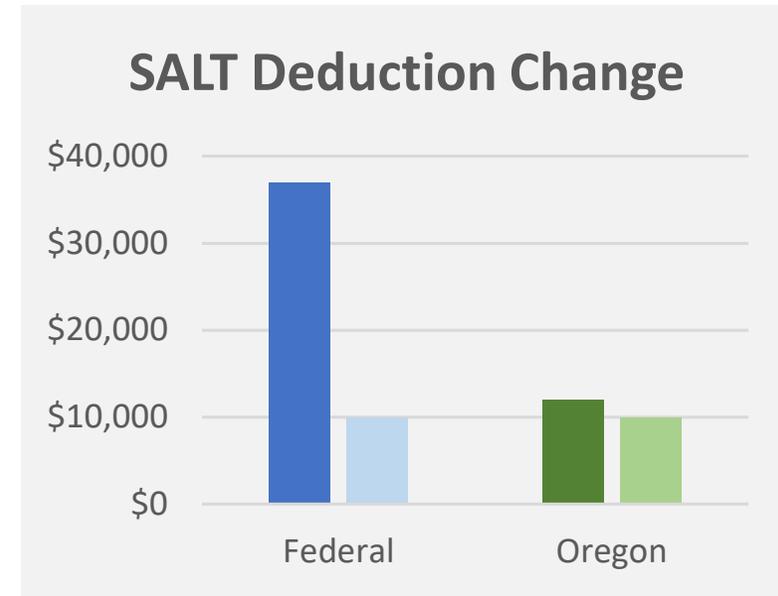
More modest change in SALT deduction in Oregon



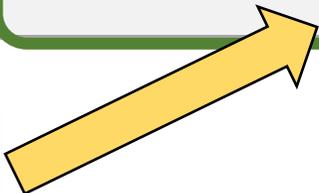


Mechanics of SALT Cap

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Again, more modest change in OR tax liability



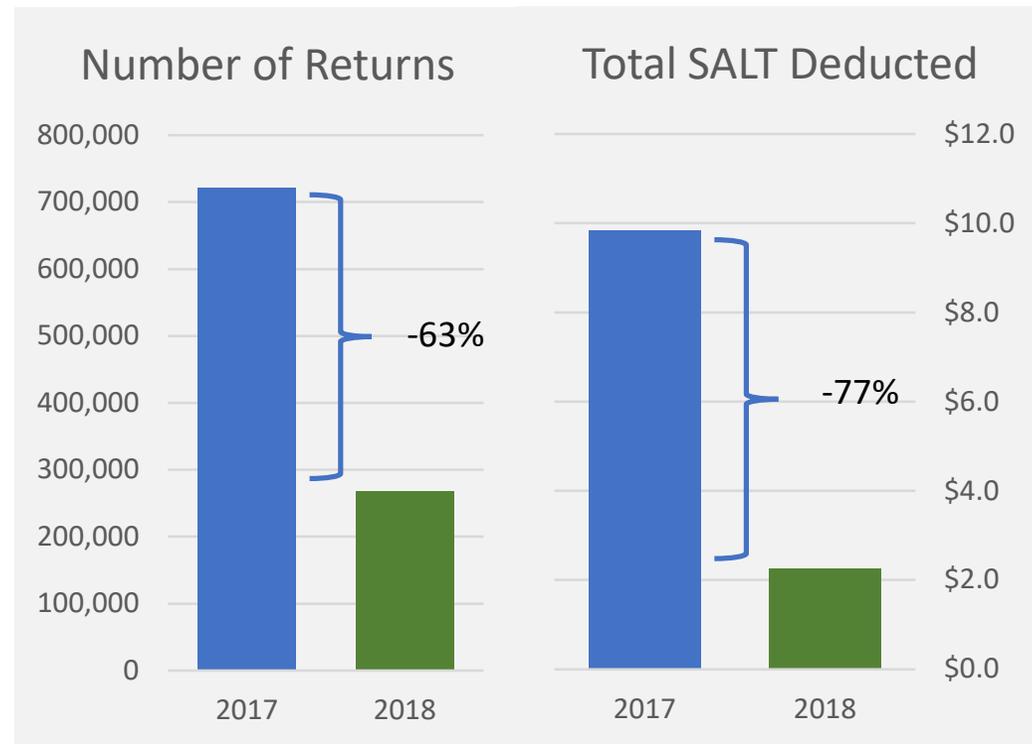


Impact of SALT Cap - Federal

- SALT cap implemented as part of Tax Cuts & Jobs Act (TCJA, 2017)
 - TCJA made multiple tax changes influencing amount of itemized deductions

SALT Deduction Claimed on OR Federal Returns			
2017		2018	
# Returns	Amount	# Returns	Amount
721,390	\$9.8	267,320	\$2.3

Source: IRS Statistics of Income - Oregon
\$'s in billions



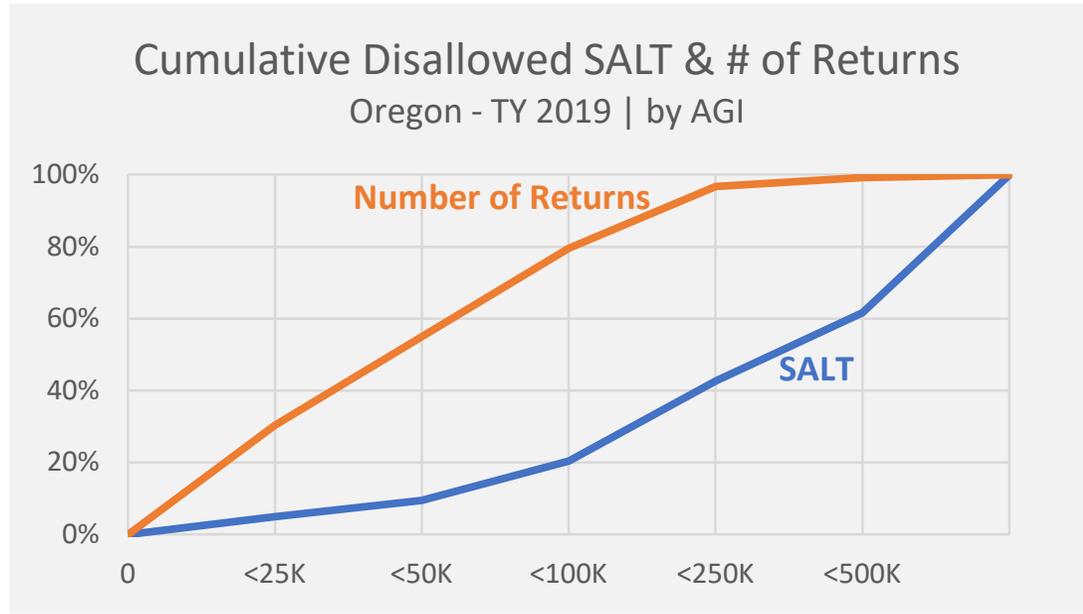


Impact of SALT Cap – Oregon Full Year Filers

- Oregon SALT Deduction
 - Property taxes, state (non-Oregon) and local income taxes are deductible on Oregon return

Oregon SALT Deduction - TY 2019	
SALT pre cap	\$3.5B
SALT post cap	\$3.2B
SALT disallowed	\$350M

Oregon SALT Disallowed TY 2019		
AGI	% of Tot.	
<25K	5%	■
25-50K	5%	■
50-100K	11%	■
100-250K	22%	■
250-500K	19%	■
500K+	38%	■
Total	100%	



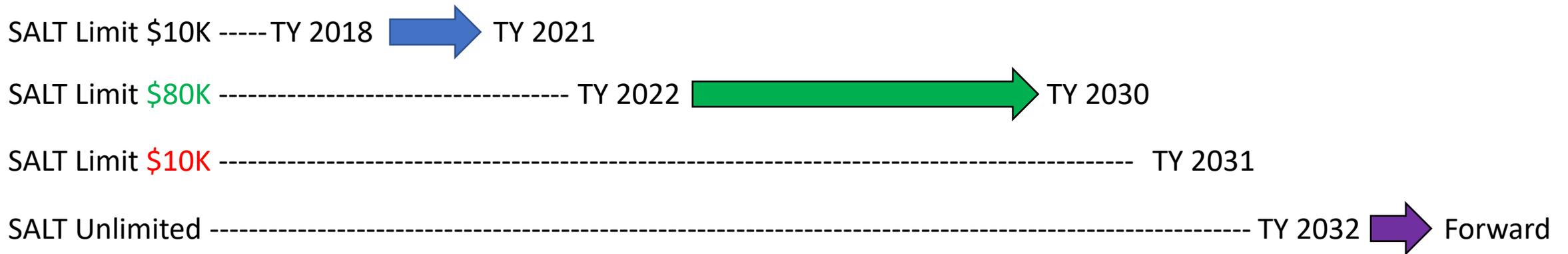


SALT Deduction – Current Law & Potential Changes

- Current Law



- Federal Proposal





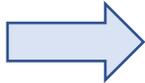
SALT Deduction – Current Law & Potential Changes

• Current Law

SALT Limit \$10K ----- TY 2018  TY 2025

SALT Unlimited ----- TY 2018 ----- TY 2025

• Federal Proposal

SALT Limit \$10K ----- TY 2018  TY 2021

SALT Limit \$80K ----- TY 2022

SALT Limit \$10K ----- TY 2031

SALT Unlimited ----- TY 2032  Forward

Upshot

- Deduction expanded: 2022 – 2025
- Deduction reduced: 2026 – 2031





Other SALT Deduction Developments

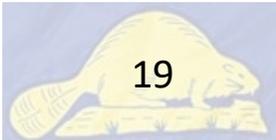
- 20+ States enacted/proposed SALT deduction workarounds
 - Oregon SB 727 (2021)
 - Business SALT deduction not limited
 - Establish tax on pass-through business entities, provide tax credit to individuals, intended to be revenue neutral for state, net reduction in federal tax liability
- Metro & Multnomah Co. local income taxes





Summary

- SALT deduction is an itemized deduction
- Oregon is connected to the federal deduction
- No Oregon deduction for Oregon income taxes paid
- SALT deduction benefit greatest at higher incomes where tax liability is greatest
- Current law SALT deduction expires after tax year 2025



For More Information

- Legislative Revenue Office
- 900 Court St. NE, Room 160
- Salem, OR 97301
- 503-986-1266
- <https://www.oregonlegislature.gov/lro>

State of Oregon

LEGISLATIVE REVENUE OFFICE

