

SB 727 -2 STAFF MEASURE SUMMARY

Senate Committee On Finance and Revenue

Prepared By: Chris Allanach, Legislative Revenue Officer

Meeting Dates: 3/17, 3/29, 5/5

WHAT THE MEASURE DOES:

Requires the Legislative Revenue Officer to study policy options for addressing the federal limitation on the (personal income) itemized tax deduction allowed for state and local taxes. The report findings are due to the interim Revenue Committees no later than September 15, 2022.

ISSUES DISCUSSED:

- State responses to the State and Local Tax (SALT) Deduction limitation within the Tax Cuts and Jobs Act of 2017.
- Revenue neutral for the state
- Impact on participating business owners
- 3/5 vote requirement

EFFECT OF AMENDMENT:

-2 Creates a new entity-level income tax on pass-through entities. The tax is elective and, if paid, the business owners are allowed an offsetting income tax credit claimed on their Oregon personal income tax returns. Each owner would be allowed a tax credit for their pro rata share of the entity tax. The new tax and credit would be effective for tax years 2022 and 2023.

BACKGROUND:

Prior to tax year 2018, individuals who itemized their deductions on their federal personal income tax returns were allowed to deduct (with some phase-out limitations) their state and local taxes - primarily property taxes and either income or sales taxes. In 2017, Congress enacted the Tax Cut and Jobs Act and limited this deduction to \$10,000. Since that time, states have explored options for a policy response. Recently, the IRS has allowed some actions by states, such as the New Jersey legislation. This bill is intended to explore such options for Oregon.