

Personal Income Tax Orientation

Senate Committee on Finance & Revenue
Legislative Revenue Office – 1/18/2022



Orientation Overview

- Federal connection
- Who files
- Personal income and tax computation
- Business taxation
 - OR Pass-through Entity Elective Tax Return
 - OR pass-through entity reduced rates

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





Income Defined & Federal Connection

- Defining income for the tax base
- What is connection to federal law
 - Most states connect in some way
 - Selecting a connection point
 - Connection timing
 - Rolling reconnect
 - Point-in-time
 - Hybrid





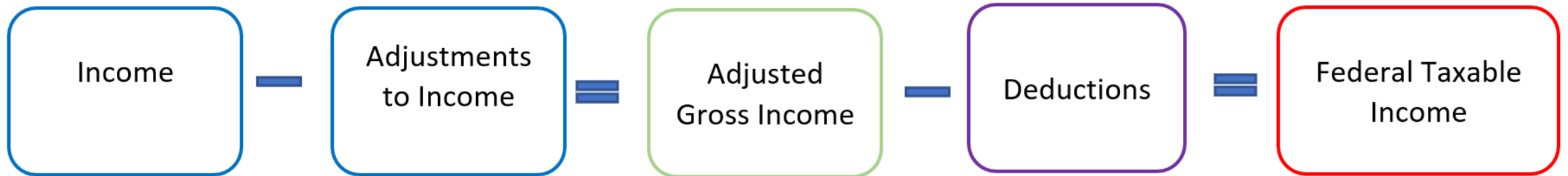
Purpose of Federal Connection

- Administrative
 - Government
 - Federal statutes, rulings and interpretations (e.g. definition of 501(c)(3) nonprofit)
 - Tax enforcement & assessment (federal audit & enforcement)
 - Taxpayer
 - Consistency of definitions, requirements, etc.
 - Tax compliance





Federal Connection



Oregon federal income tax connection

- Connected to federal definition of taxable income (rolling reconnect)
- Static point-in-time connection (everything else)
- Annual reconnect legislation
- Implication of federal connection
 - Federal tax law changes can impact Oregon tax law/revenue
 - Example: Exclusions from income (e.g. Employer paid medical benefits)



Relative Importance of Personal Income Tax (PIT)

The background of the slide features a large, faint watermark of the official seal of the University of Indonesia. The seal is circular and contains a central emblem with a sunburst and a building, surrounded by the text 'UNIVERSITAS INDONESIA' and '1945'. The watermark is centered behind the main text.



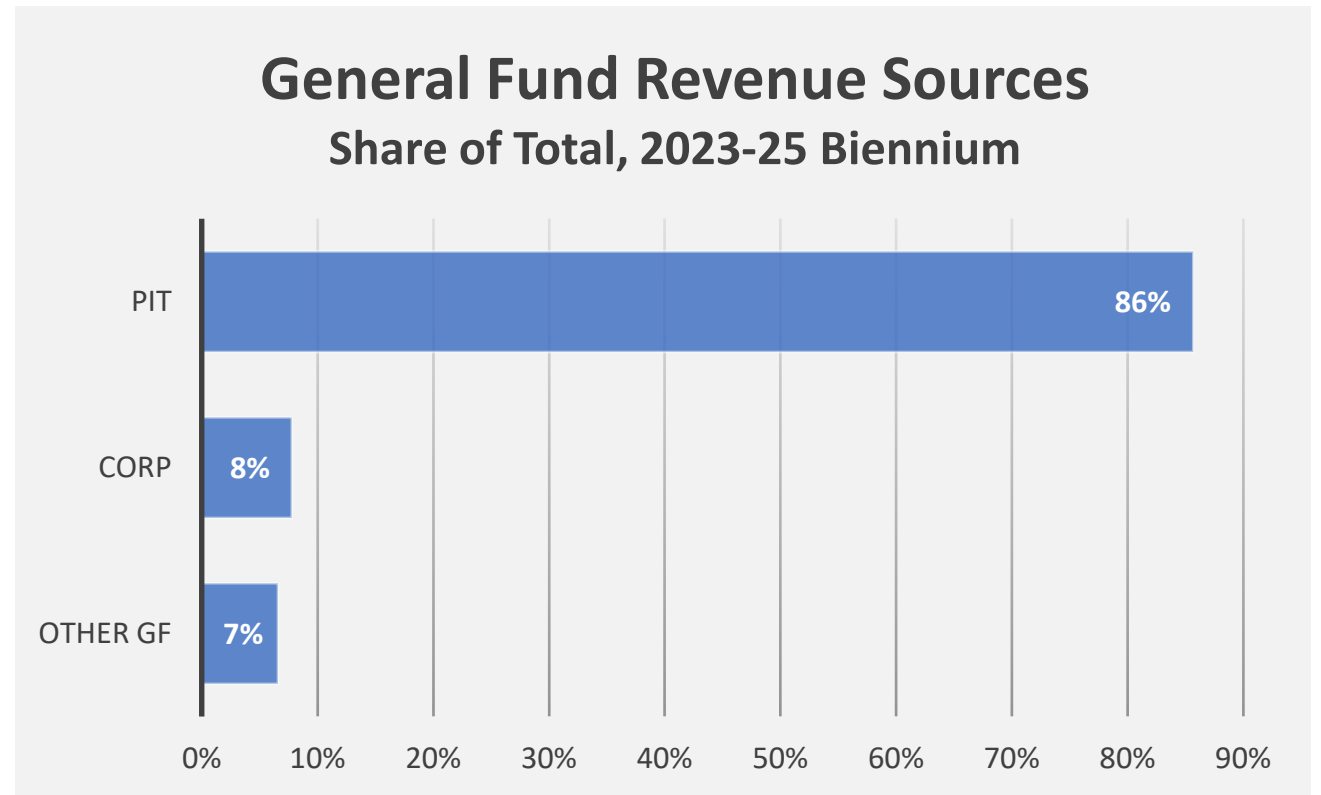
PIT and other Revenue Sources

Projected 2023-25 General Fund Revenue by Source (\$'s in Millions)

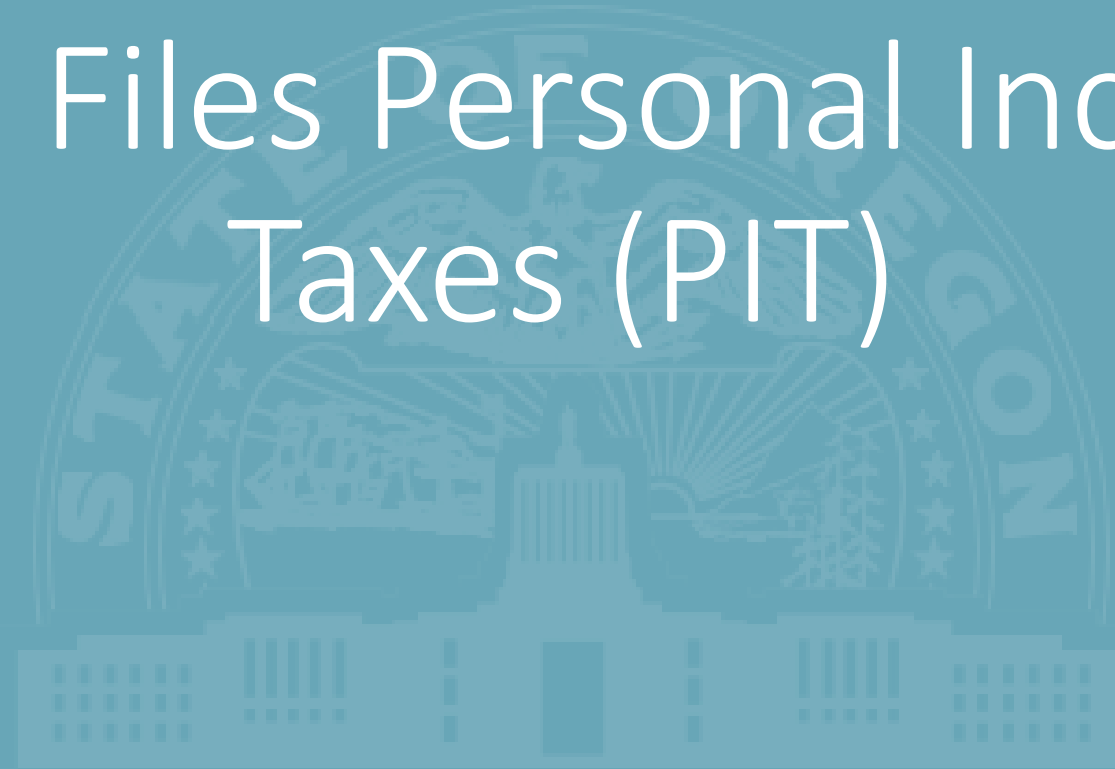
	Amount	Pct. Of Total
PIT	\$21,540	86%
C-Corp	\$1,956	8%
Other GF	\$1,650	7%
Total GF	\$25,146	100%

Source: OEA Dec. Revenue Forecast

- PIT represents about 72% of: GF revenue + lottery + corporate activities tax (CAT) + marijuana
- Oregon more reliant on PIT as share of state revenue than other states



Who Files Personal Income Taxes (PIT)





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 2020 (\$'s in Billions)		
Residency	Net Tax	% of Tot.
Full Year	\$9.0	92%
Part Year	\$0.3	3%
Nonresident	\$0.5	5%
Total	\$9.8	100%





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 Surviving Spouse (QSS)
 - Spouse died in previous two tax years and didn't remarry, surviving spouse has a child that can be claimed as a dependent

Returns and Net Tax by Filing Status TY 2020 (\$000s)			
	N	Net Tax	% of Tot.
Single	977,598	\$2,469,113	27%
Joint	715,526	\$5,960,399	66%
MFS	37,492	\$152,727	2%
HOH	187,885	\$448,118	5%
QSS	911	\$3,917	0%
Total	1,919,412	\$9,034,274	100%

17 **Standard deduction.** Generally, your standard deduction is based on your filing status, as shown in Table 6:

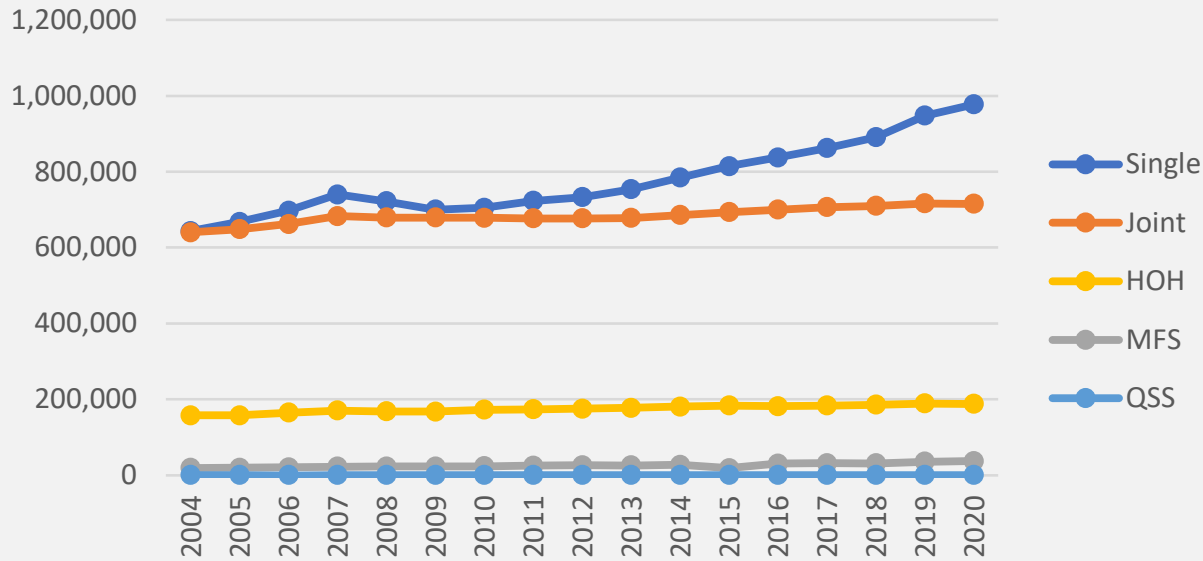
Table 6. Standard deduction

Single	\$2,315
Married filing jointly	\$4,630
Married filing separately	
• If spouse claims standard deduction	\$2,315
• If spouse claims itemized deductions	0
Head of household	\$3,725
Qualifying widow(er)	\$4,630

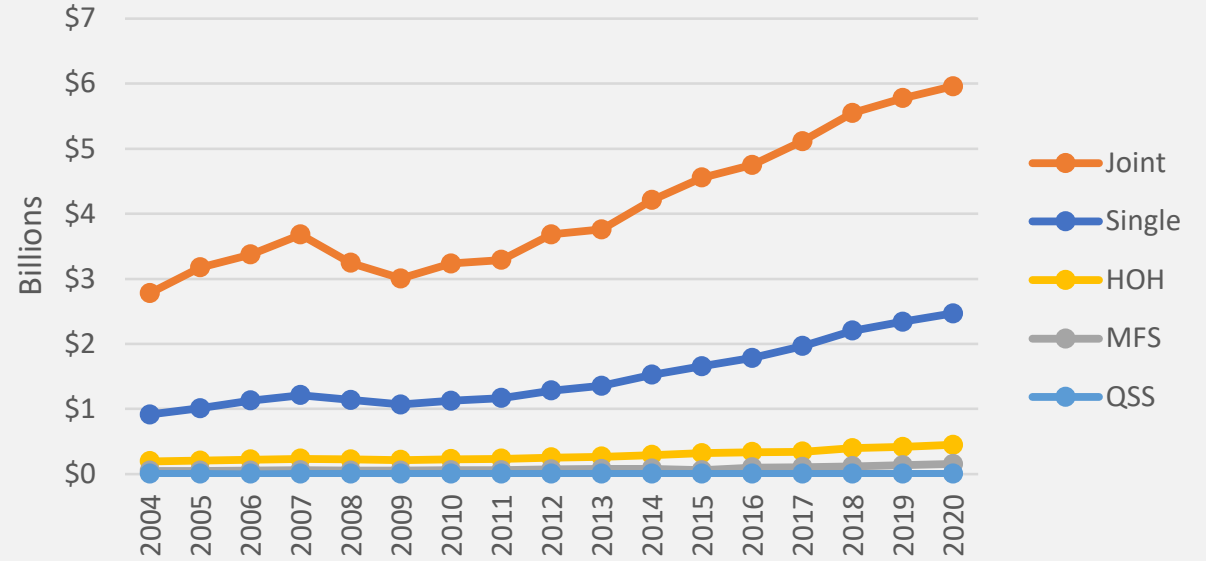


Filer Status over Time

Number of Returns by Filer Status Full Year Returns



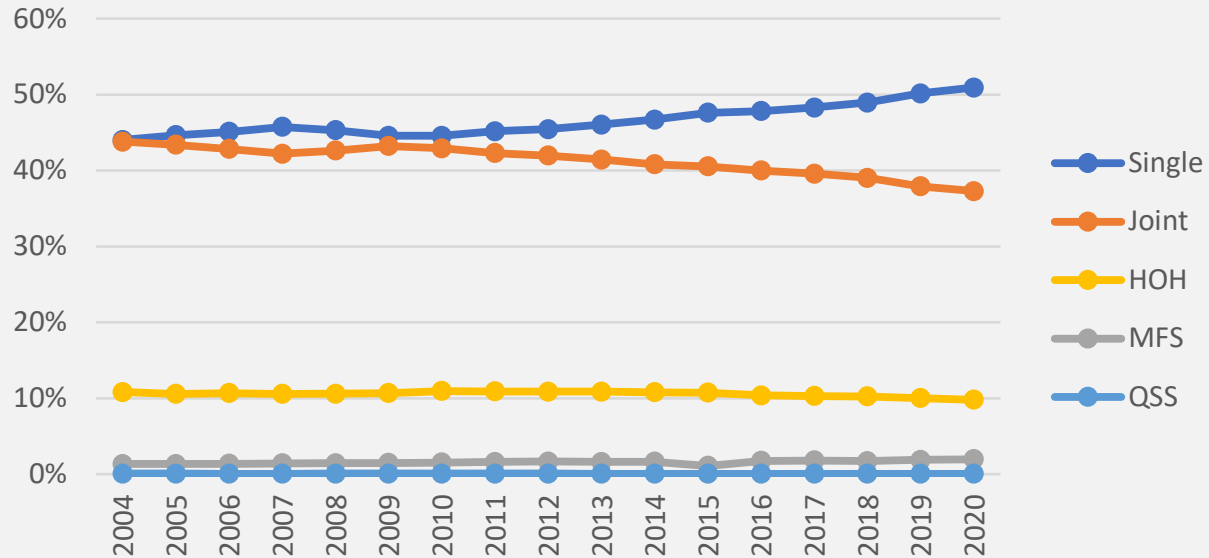
Net Tax Liability by Filer Status Full Year Returns



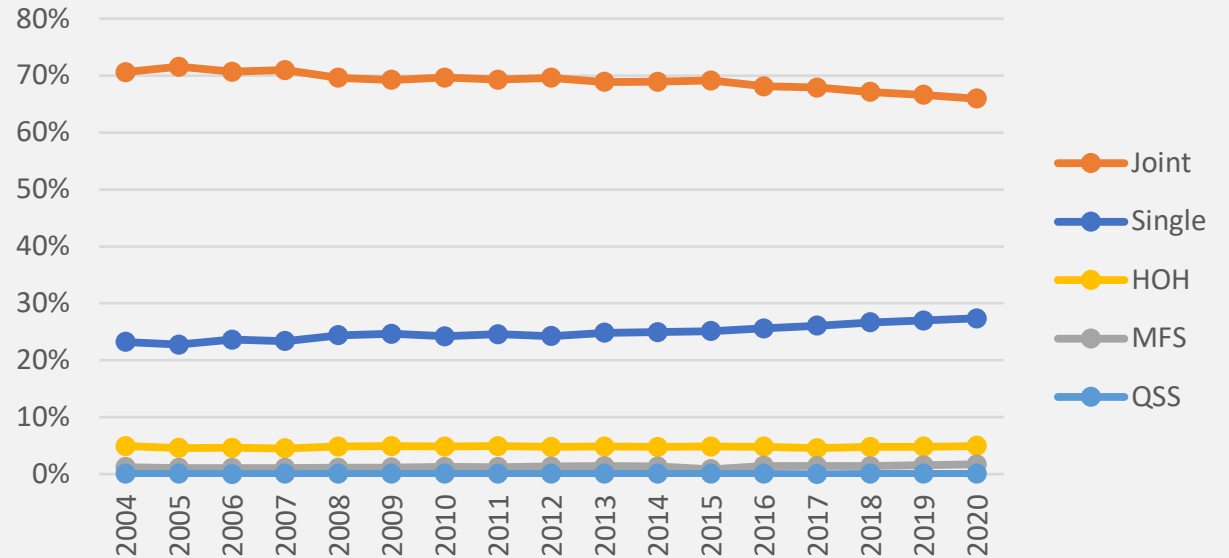


Filer Status – Percentage Share

Percent of Total Returns by Filer Status Full Year Returns



Percent of Tax Liability by Filer Status Full Year Returns





Filing Threshold

When to file a return

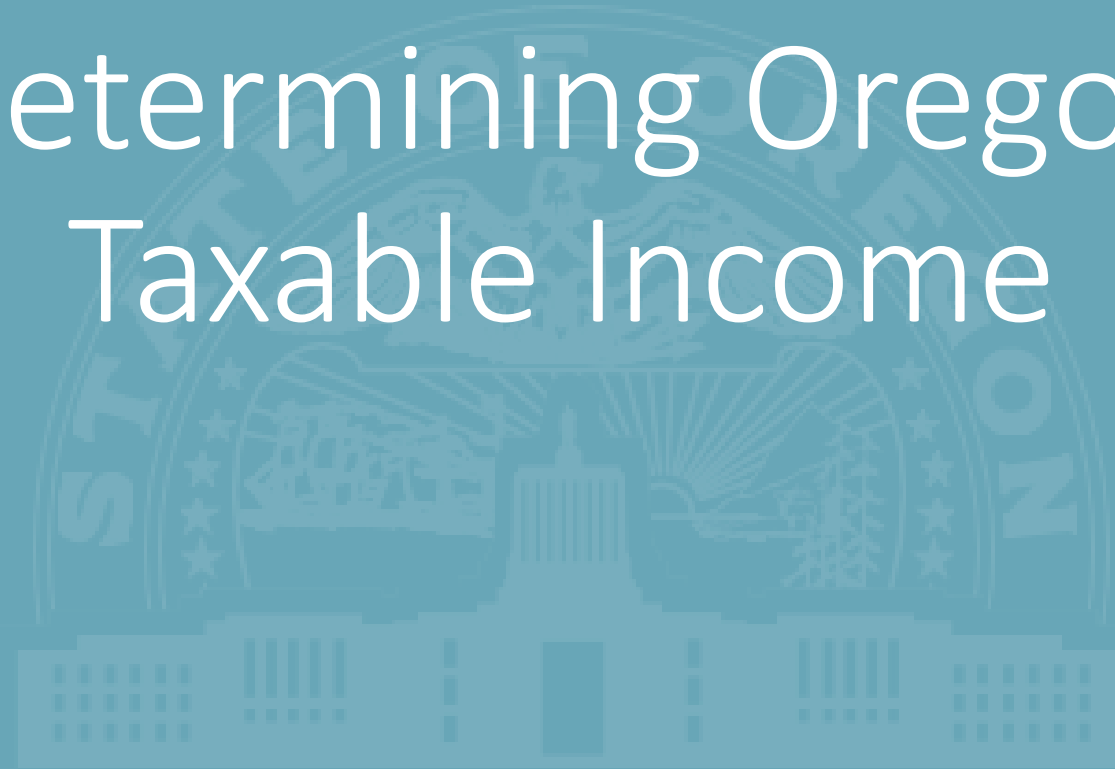
- If gross income is more than the filing status threshold amount
- If required to file federal return
- Had income tax withheld and want to claim a refund

Amounts apply to full-year residents only.

Your filing status is:	Number of boxes checked on line 17 of return:	And your gross income is more than:
Dependent	Any	\$1,100*
	0	\$6,495
Single	1	\$7,695
	2	\$8,895
	0	\$12,990
Married filing jointly	1	\$13,990
	2	\$14,990
	3	\$15,990
	4	\$16,990
	0	\$6,495
Married filing separately	1	\$7,495
	2	\$8,495
	0	\$8,150
Head of household	1	\$9,350
	2	\$10,550
	0	\$9,055
Qualifying widow(er)	1	\$10,055
	2	\$11,055

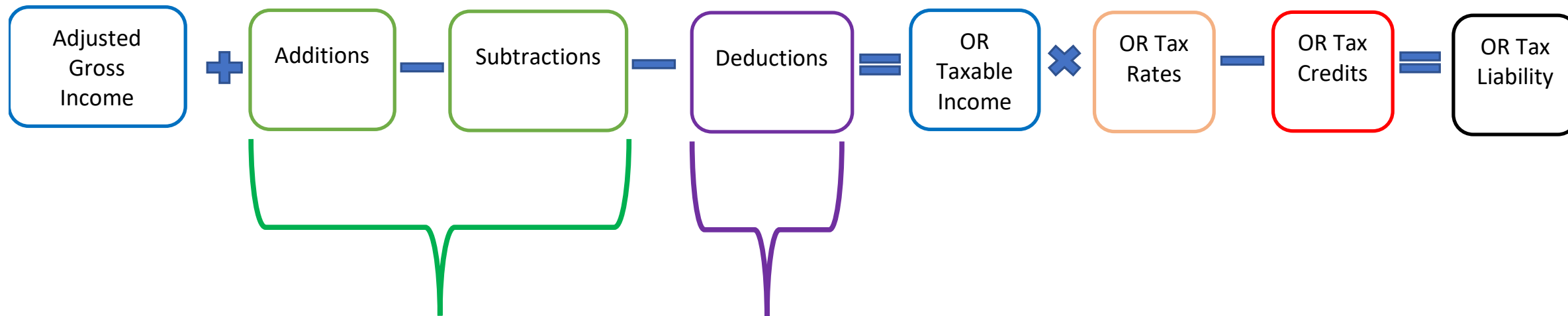


Determining Oregon Taxable Income





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

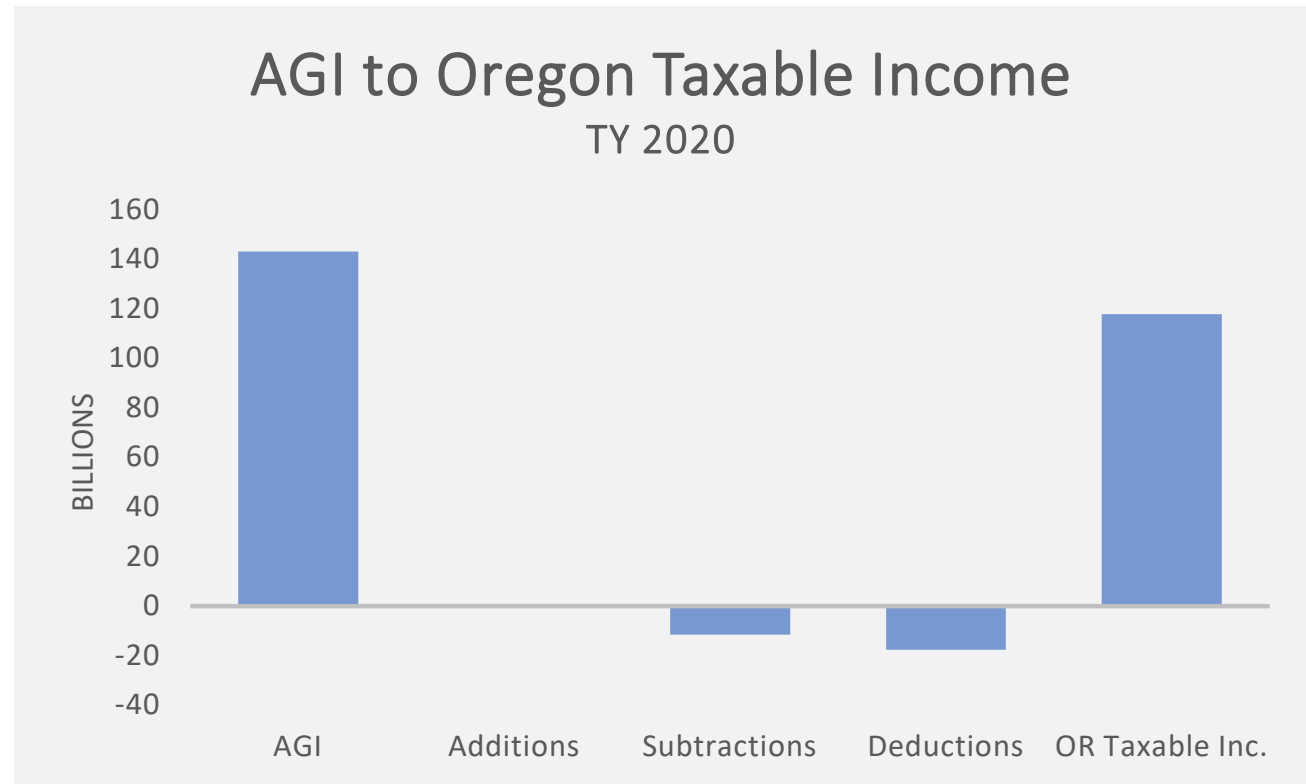
Deductions

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



PIT: Adjusted Gross Income (AGI) to Oregon Taxable Income

Amount Reported on FY Tax Returns TY 2020 (Billions)	
AGI	\$143.0
Additions	\$0.4
Subtractions	\$11.5
Deductions	\$17.6
OR Taxable Inc.	\$117.9
Gross Tax	\$9.8
Credits	\$0.8
Net Tax Liability	\$9.1



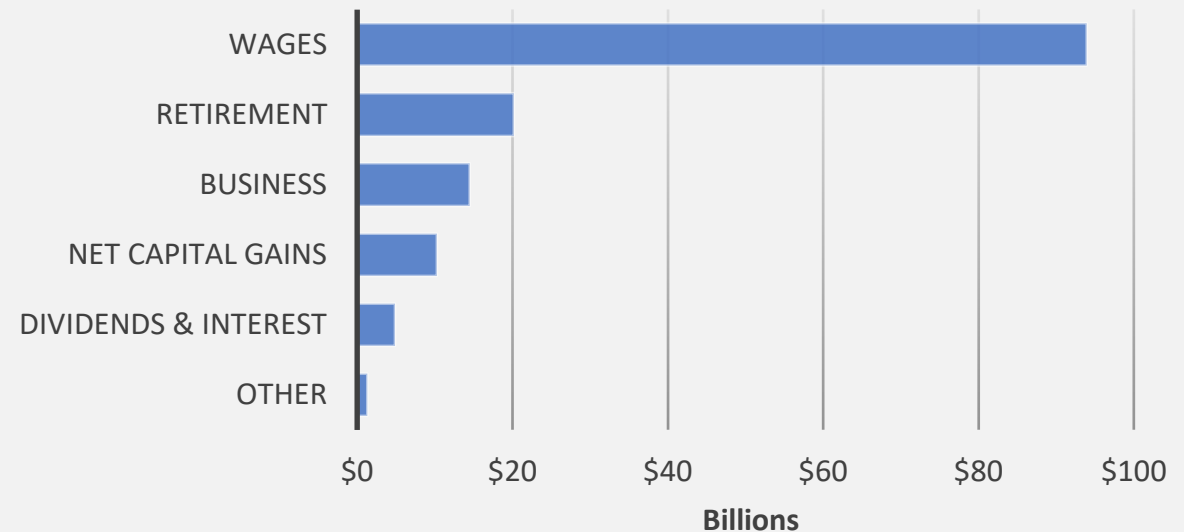


Components of Income

Components of Income (\$Millions)

Type	Amount	% of Tot.
Wages	\$93,937	66%
Retirement	\$20,169	14%
Business	\$14,501	10%
Net Capital Gains	\$10,265	7%
Dividends & Interest	\$4,841	3%
Other	\$1,305	1%
Gross Income	\$143,032	100%

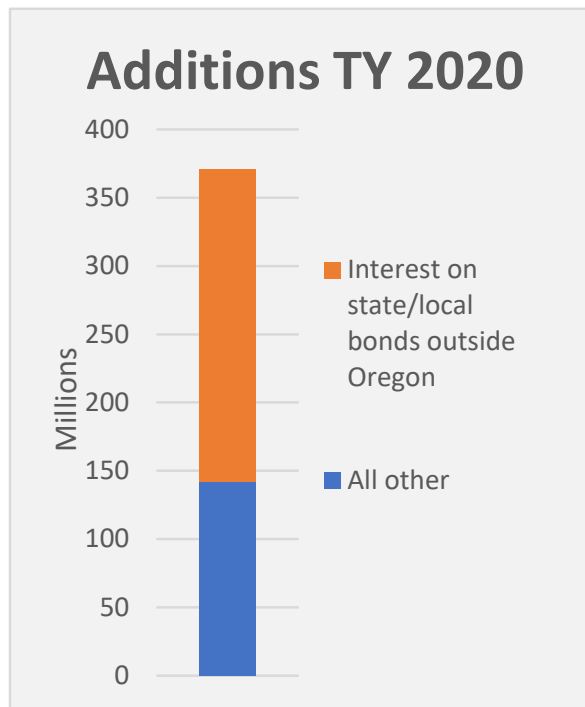
Components of Income TY 2020





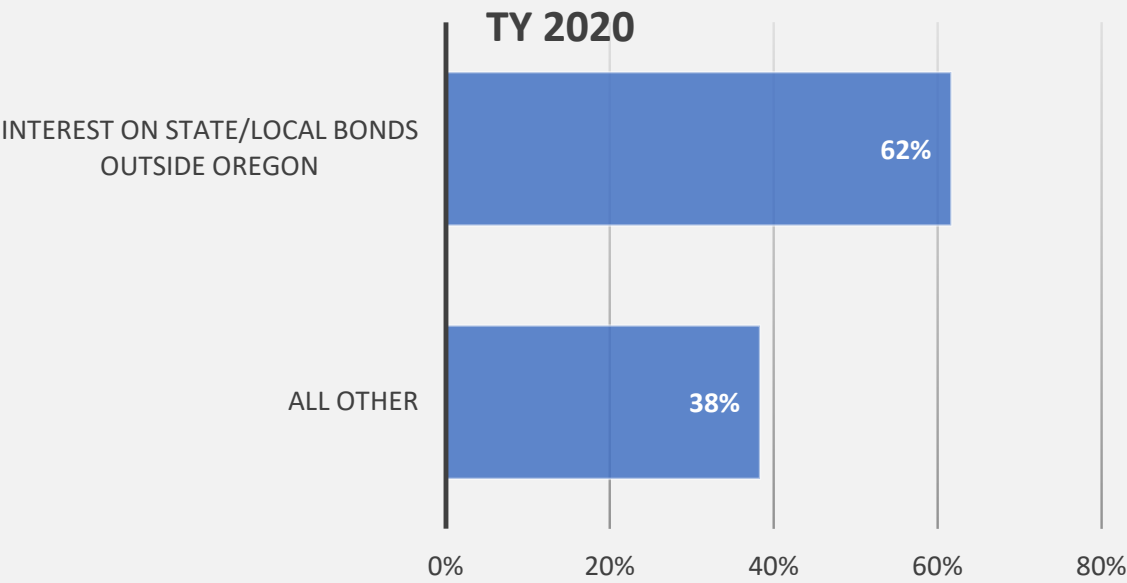
Additions (Increase taxable income)

Additions TY 2020	
Interest on state/local bonds outside Oregon	\$228,690,806
All other	\$142,135,469
Total	\$370,826,275



Addition Type Percentage of Total

TY 2020



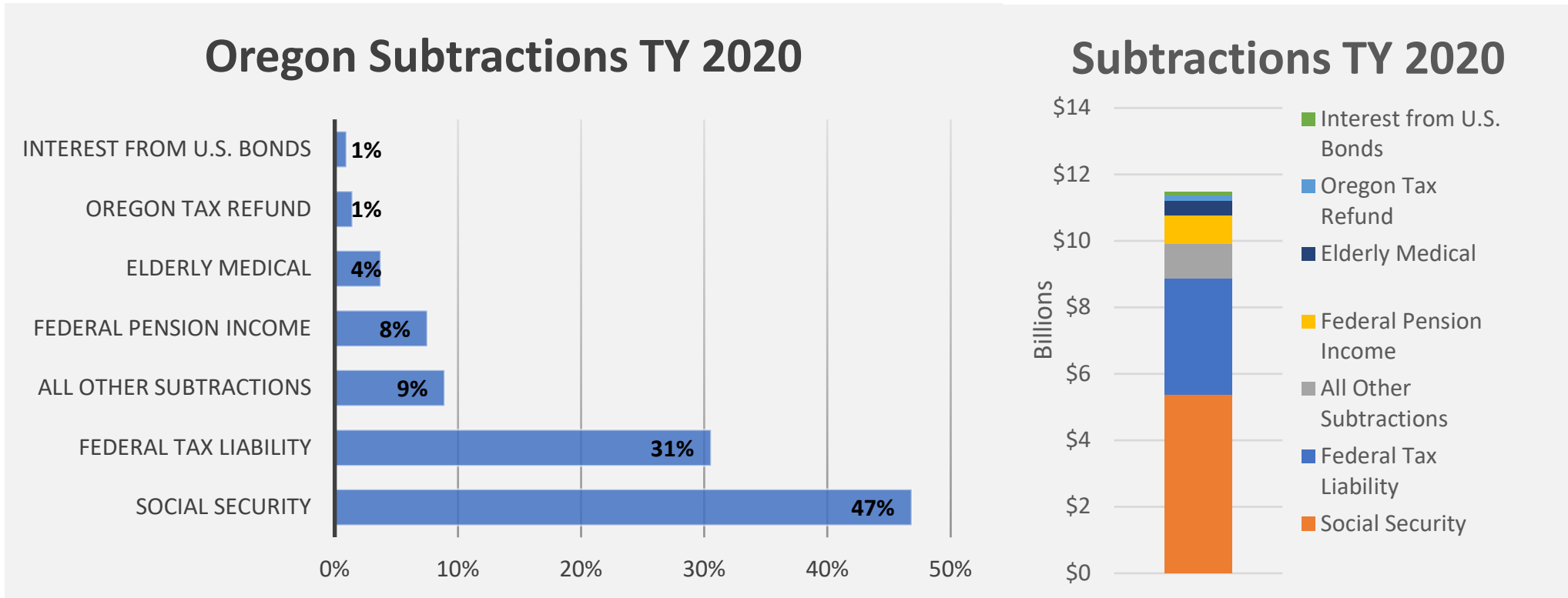
Other Addition Examples

- Oregon tax policy differs from federal (e.g. Oregon disconnects from federal change)
- Federal income tax refund following audit/amend
- Nonqualified withdrawals





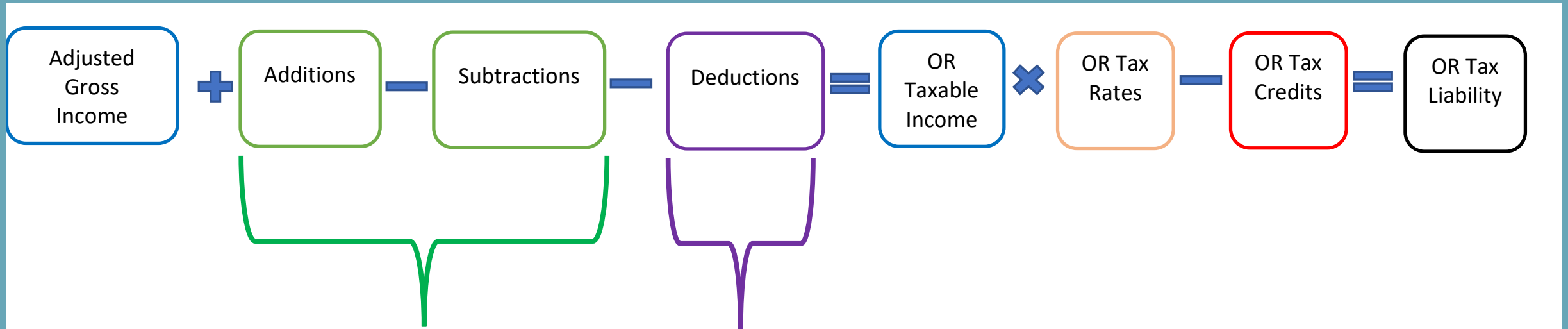
Subtractions (Decrease taxable income)



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



Deductions



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



Deductions (Decrease taxable income)

- Federal standard deduction differs from Oregon standard deduction

Standard Deduction Amounts: Federal & Oregon			
	-----Federal-----		Oregon
	2017 (Pre TCJA)	TY 2018	TY 2018
Single	6,350	12,000	2,215
Joint	12,700	24,000	4,435
% Itemize	39%	15%	43%

Recent Federal Changes to Deductions

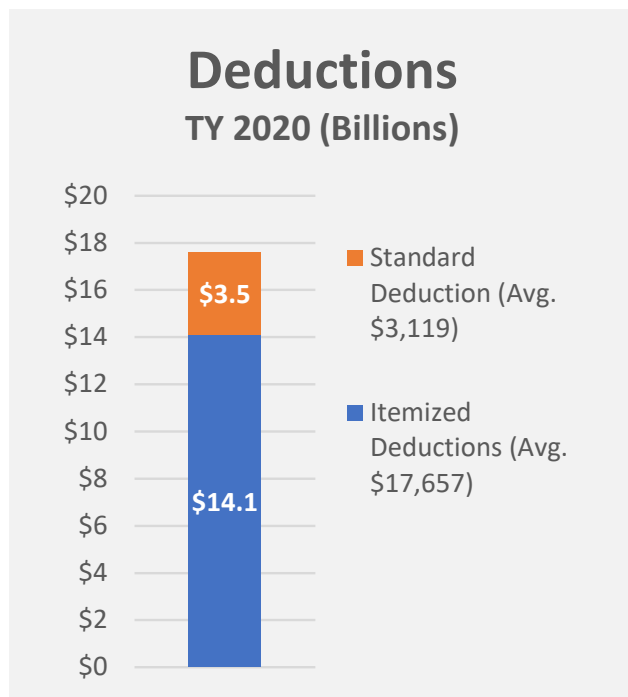
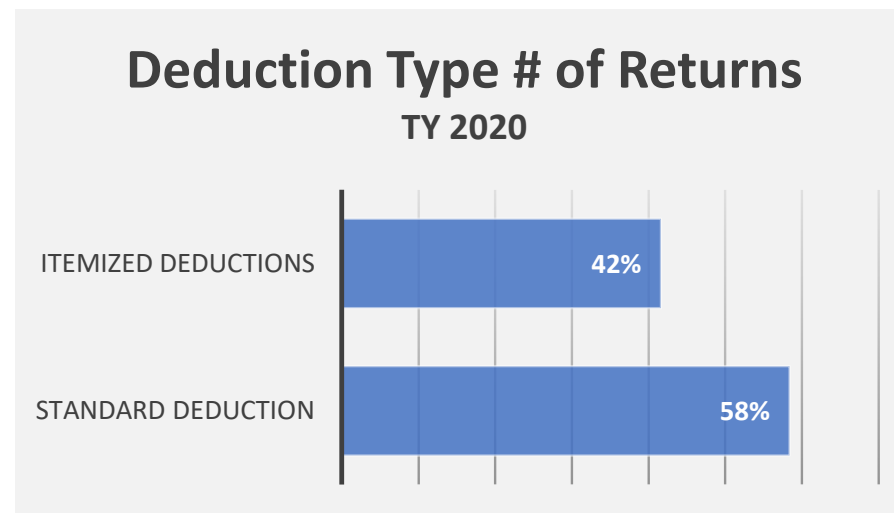
- Limited SALT deduction to \leq \$10,000
- Repealed Pease limitation on itemized deductions
- Lowered limits for interest on mortgage debt & limited home equity deductibility
- Elimination of certain miscellaneous deductions (e.g. unreimbursed employee expenses, tax preparation fees)
- Increased limits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



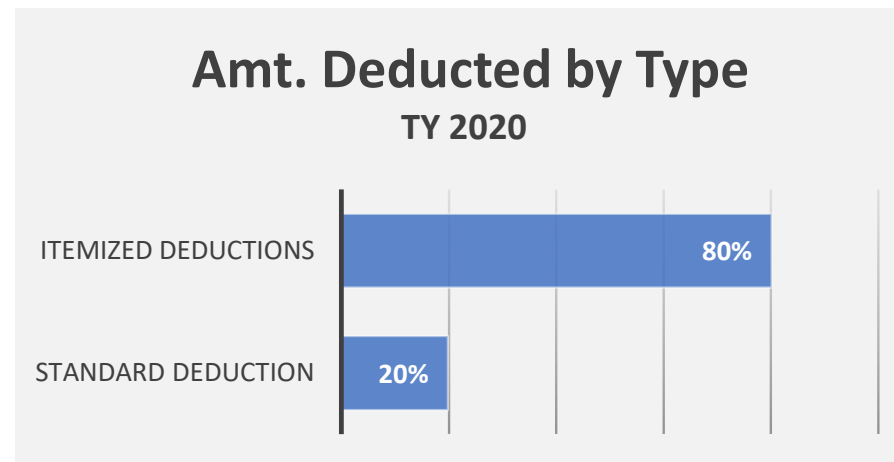


Oregon Standard & Itemized Deductions

Deduction Type - TY 2020			
	# Returns	Amount (Billions)	Avg.
Itemized Deductions	798,962	\$14.1	\$17,657
Standard Deduction	1,120,450	\$3.5	\$3,119
Total	1,919,412	\$17.6	\$9,170



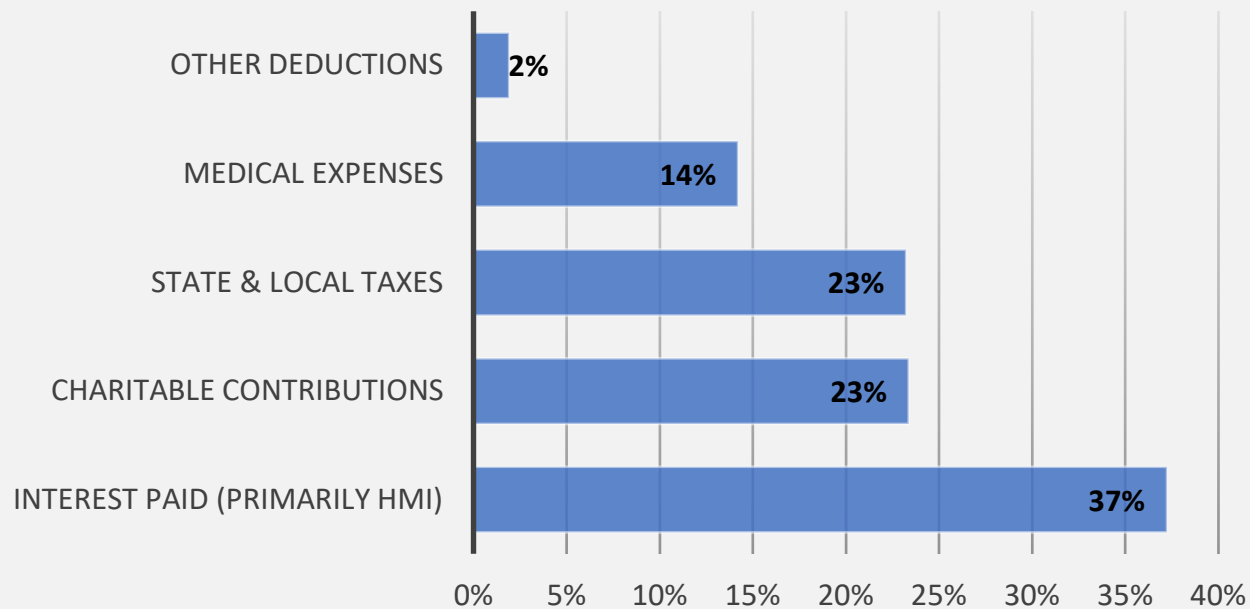
Oregon Standard Deduction - TY 2020	
Status	Amount
Single	\$2,315
MFJ, QSS	\$4,630
MFS	\$2,315
HOH	\$3,725



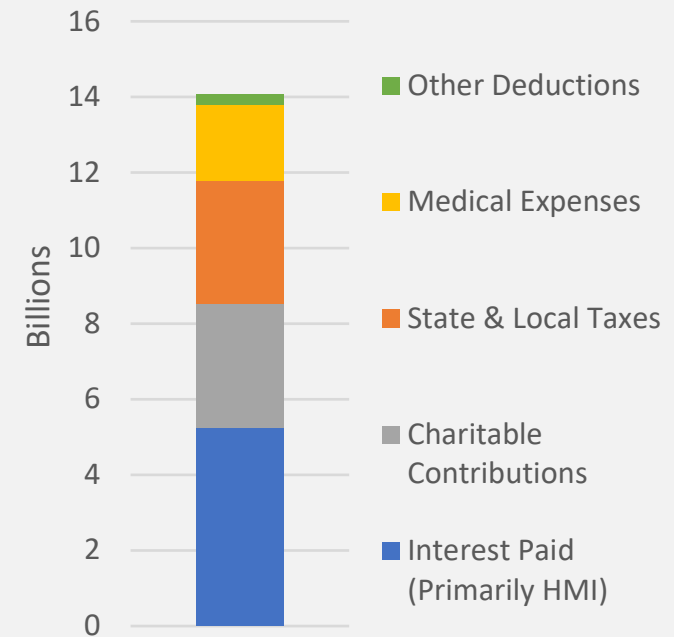


Oregon Itemized Deductions

Oregon Itemized Deductions TY 2020



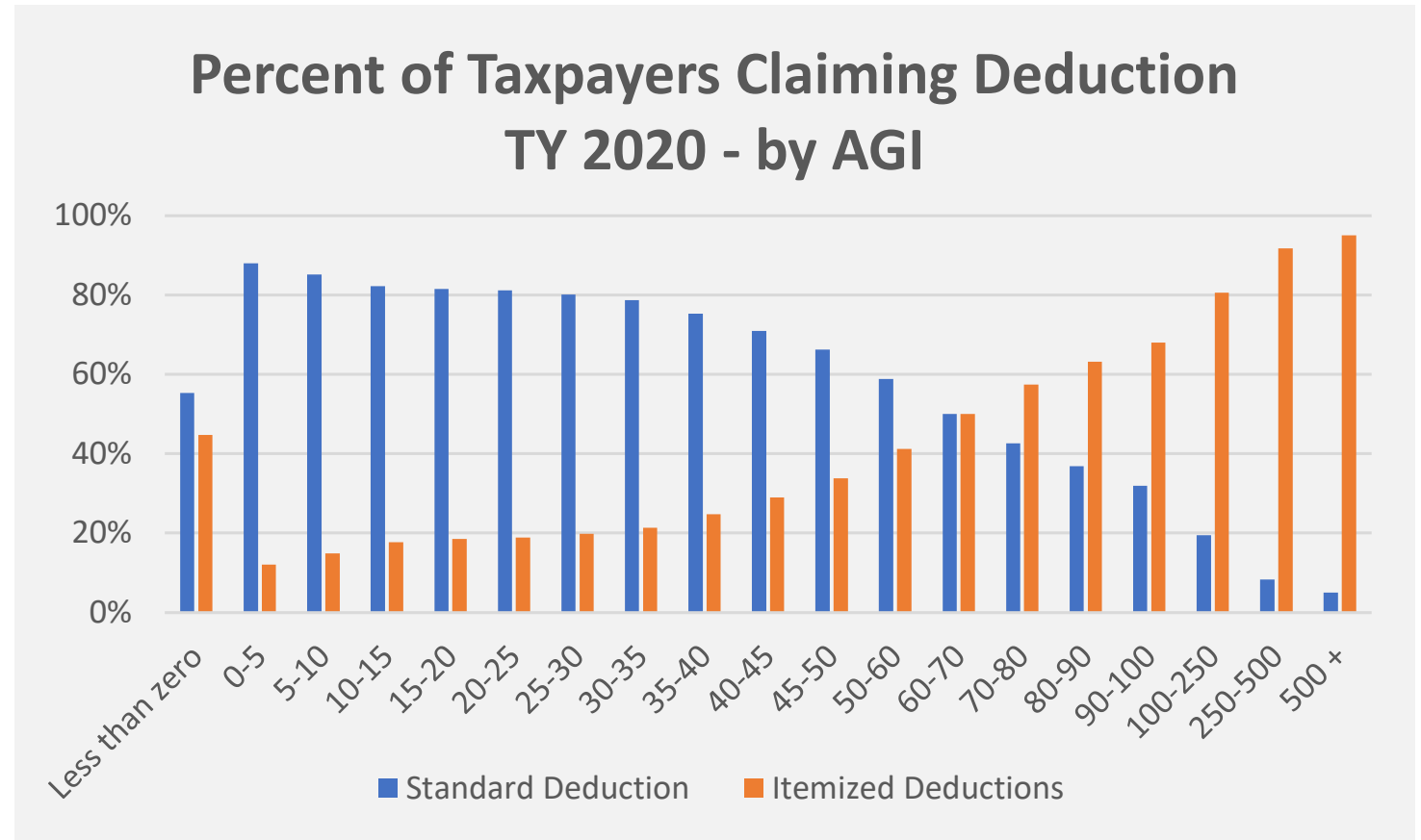
Deductions TY 2020





Taxpayers Using Deductions

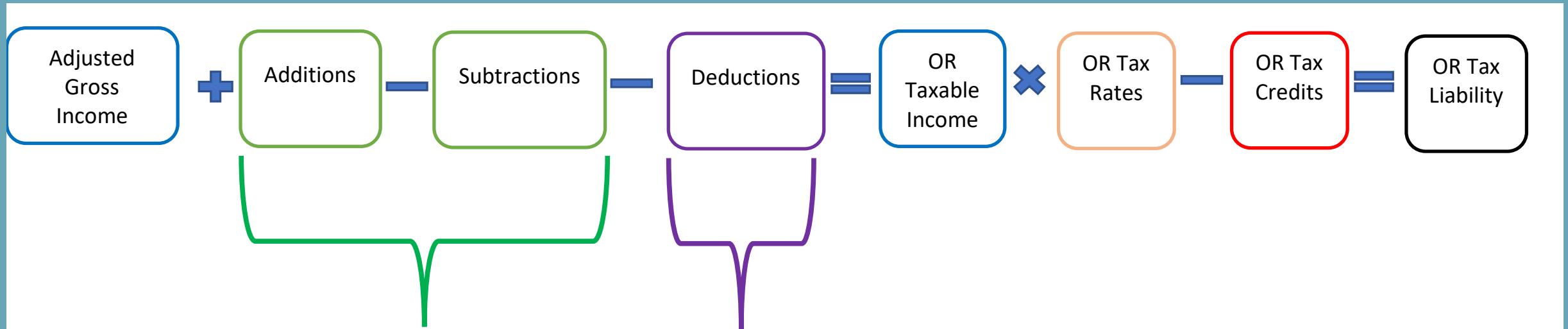
- Percentage of taxpayers claiming itemized deductions increases as AGI increases



Oregon Tax Rates/Brackets & Tax Credits

The background features a large, faint watermark of the Oregon State Seal. The seal is circular and contains the text "STATE OF OREGON" around the top and "1859" at the bottom. In the center, there is a figure holding a torch and a plow, with a building below. The seal is rendered in a light blue color that blends with the background.

Oregon Tax Rates and Brackets



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



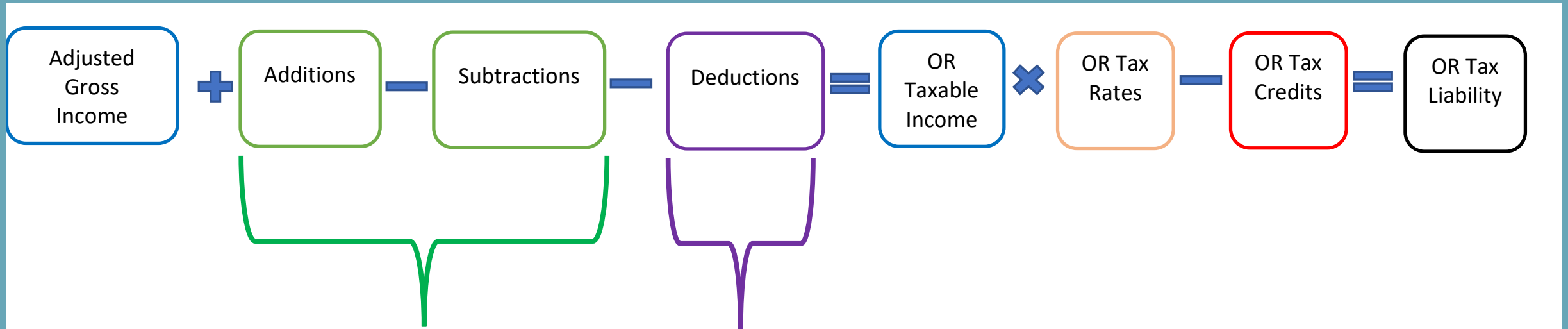
Standard Tax Rates and Brackets

Oregon Marginal Tax Rates - TY 2022					
Status	Income	Rate	Status	Income	Rate
	\$0 - \$3,750	4.75%		\$0 - \$7,500	4.75%
Single,	\$3,751 - \$9,450	6.75%	MFJ,	\$7,501 - \$18,900	6.75%
MFS	\$9,451 - \$125,000	8.75%	HOH,	\$18,901 - \$250,000	8.75%
	Over \$125,000	9.90%	QSS	Over \$250,000	9.90%

- Preferential rates for certain pass-through income (discussed later)



Personal Income Tax Credits



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 Credits

Oregon Personal Income Tax Credits - TY 2020	
All Filers, \$ Millions	
Credit Name	Amount
Personal Exemption Credit	\$625
Taxes Paid to Another State	\$141
Earned Income	\$51
Working Family Household and Dependent Care	\$17
Film Production Development Contributions	\$13
Opportunity Grant Contributions	\$13
Contributions to 529 Education Account	\$9
Individual Development Account Contributions	\$7
Rural Medical Providers	\$7
Political Contributions	\$5
Child with a Disability	\$5
Severe Disability	\$4
Oregon Cultural Trust	\$4
<i>Other</i>	\$14
Total	\$914

- Personal exemption credit is \$219 in TY 2022 and is indexed to inflation
 - Personal Exemption Credit is limited to taxpayers with Adjusted Gross Income
 - Single: ≤ \$100,000
 - Joint: ≤ \$200,000





Personal Income Tax Credits

Credits with Sunsets (credits being reviewed)

- 26 credits with sunsets (PIT & Corp)
 - Absent legislative change, credit ends as of sunset date
 - Sunset facilitates standard tax credit review process

Credits without sunsets

- Generally considered part of tax base, examples
 - Personal exemption credit
 - Taxes paid to another state

Pass-through Entity Elective (PTE-E) Tax (SALT cap workaround)

- Offsetting personal income tax credit (more on this later)



Oregon Tax Liability





Goals of Oregon's Personal Income Tax

- ORS 316.003 describes goals of Oregon's personal income tax
 - Fairness and equity as its basic values, and
 - Includes seven guiding principles
 - 1) Ability to pay
 - 2) Fairness
 - 3) Efficiency
 - 4) Even distribution
 - 5) Equity
 - 6) Adequacy
 - 7) Flexibility





Oregon Tax Liability – TY 2020

Adjusted Gross Income and Net Tax Liability - TY 2020 (\$Millions)								
AGI Category	Number Returns	% of Tot.	Total AGI	% of Tot.	Total Liability	% of Tot.	Avg. Net Tax	Eff. Tax Rate
0 - 15K	358,616	19%	\$2,593	2%	\$29	0%	\$81	1.1%
15K - 30K	321,645	17%	\$7,217	5%	\$255	3%	\$792	3.5%
30K - 60K	472,722	25%	\$20,504	14%	\$1,034	11%	\$2,187	5.0%
60K - 100K	341,018	18%	\$26,591	18%	\$1,439	16%	\$4,220	5.4%
100K - 250K	329,755	17%	\$48,117	33%	\$3,063	34%	\$9,290	6.4%
250K - 500K	50,097	3%	\$16,669	11%	\$1,293	14%	\$25,811	7.8%
500K+	17,945	1%	\$23,780	16%	\$1,921	21%	\$107,077	8.1%
Total	1,891,798	100%	\$145,471	100%	\$9,034	100%	\$4,776	6.2%

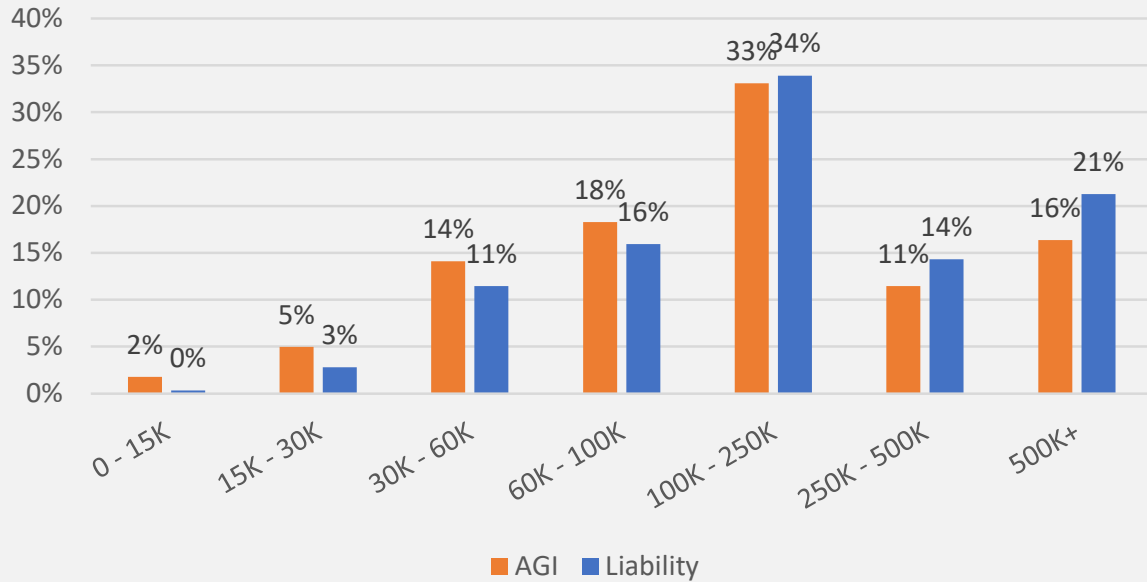
Note: Table excludes taxpayers with negative AGI



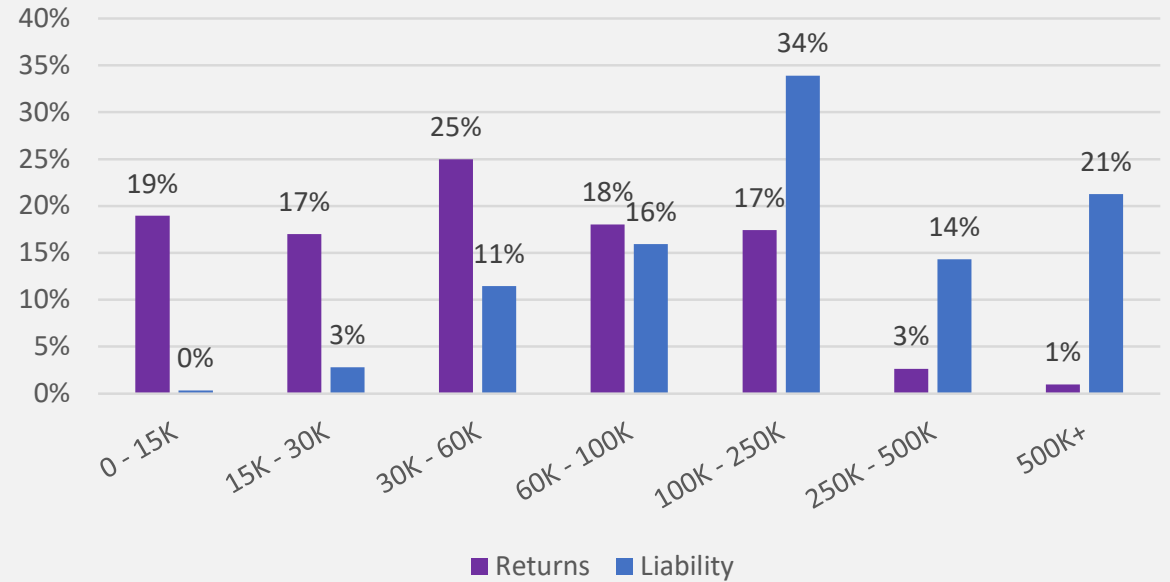


Oregon Tax Liability – TY 2020

Share of AGI and Net Tax Liability - TY 2020



Share of Returns and Net Tax Liability - TY 2020



- About 20% of taxpayers pay 70% of PIT





Oregon Tax Liability – TY 2020

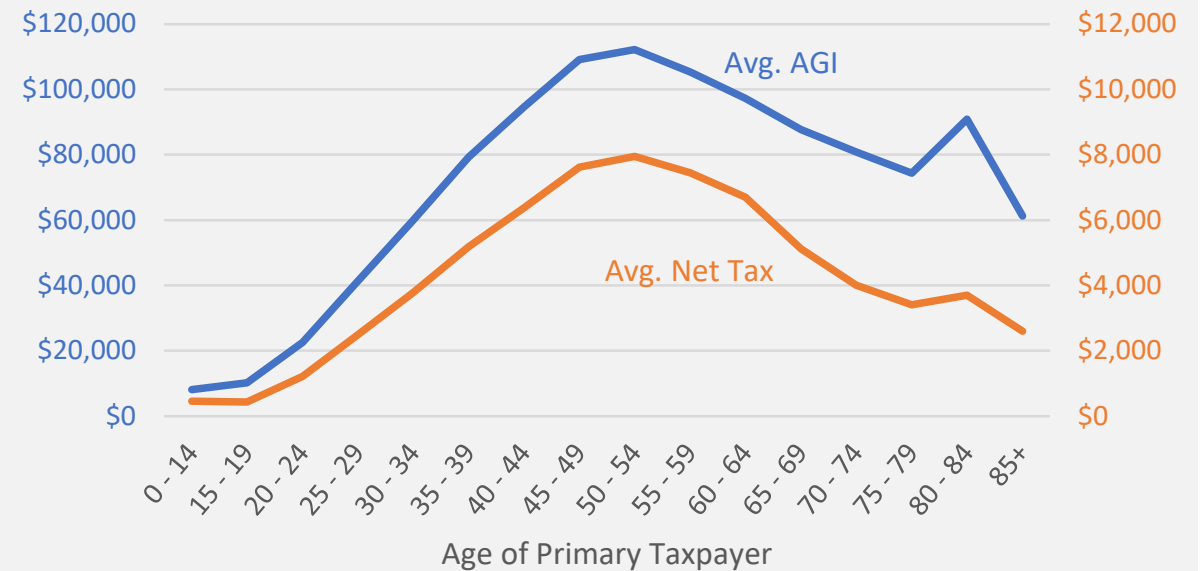
Approximate Median Income & Net Tax - TY 2020

Filing Status	Income	Net Tax
Single	\$28,007	\$1,527
HOH	\$33,947	\$1,183
MFS	\$43,285	\$2,559
MFJ	\$90,714	\$4,731

Other factors influencing high level summary data

- Characteristics of the taxpayer, such as
 - Filing status
 - Age

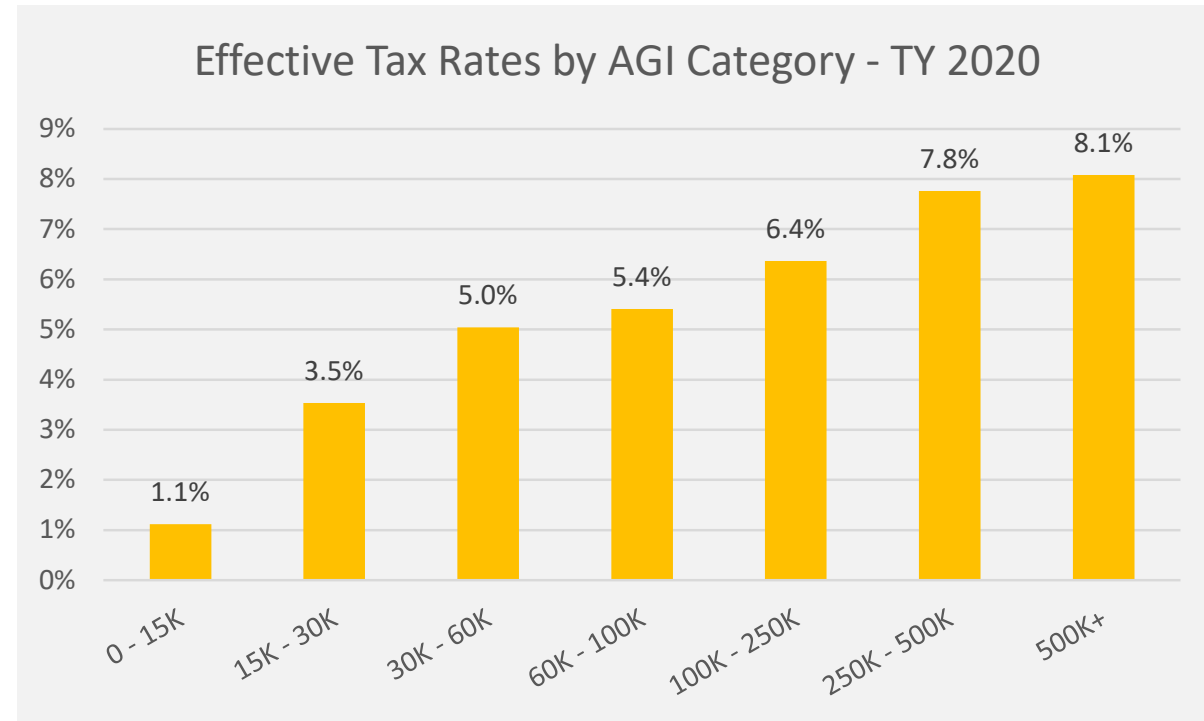
Average AGI & Avg. Net Tax by Age - TY 2020





Oregon Effective Tax Rates – TY 2020

- Effective tax rate increases as AGI increases
- Kicker credit can influence effective tax rates in odd numbered years



Income Tax Business Taxation





Business Entity Types

Personal Income Tax

- Sole proprietorship
- Partnership
- S-Corporation
- Limited Liability Company (LLC)

Corporate Income/Excise Tax

- C-Corporation
- Partnership
- Limited Liability Company (LLC)





PIT: Business Pass Through Income

Concept: Business income (or loss) is passed through from the business entity to the taxpayer

Business income – business expenses = amount passed through

- S-Corps: Income/loss to shareholders
- Partnerships: To individual partners
- Sole props: To taxpayer (single entity)



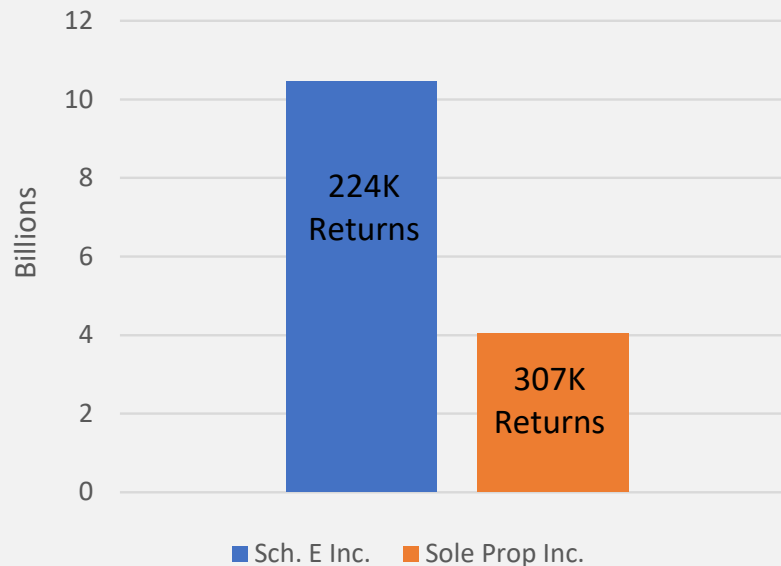


Components of Income

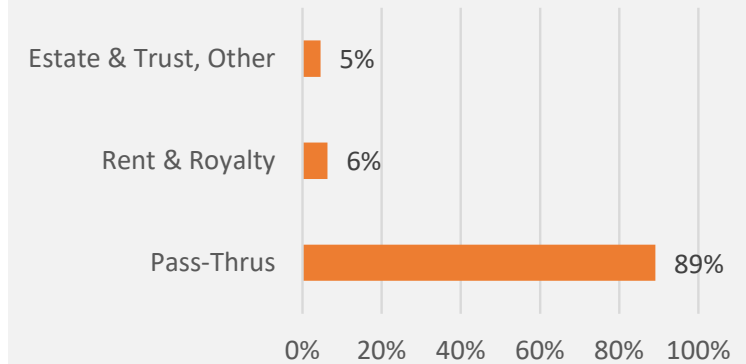
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Net Capital Gains	\$10,265	7%
Dividends & Interest	\$4,841	3%
Other	\$1,305	1%
Gross Income	\$143,032	100%

Income by Source, TY 2020



Schedule E Income - TY 2020



Source: IRS statistics of income (US Taxpayers)



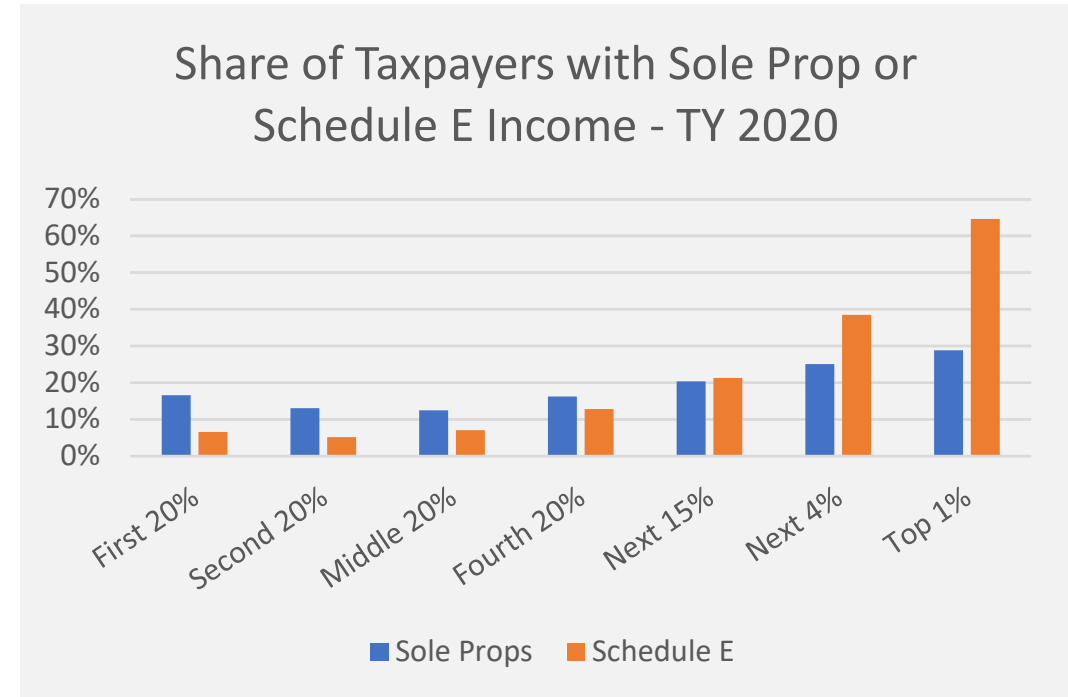


Business Income Distribution

- Returns with sole proprietor business income more evenly spread amongst taxpayers of varying AGI
- Returns with Schedule E income more concentrated as AGI increases

Quintile Groups for Full-Year Resident Returns

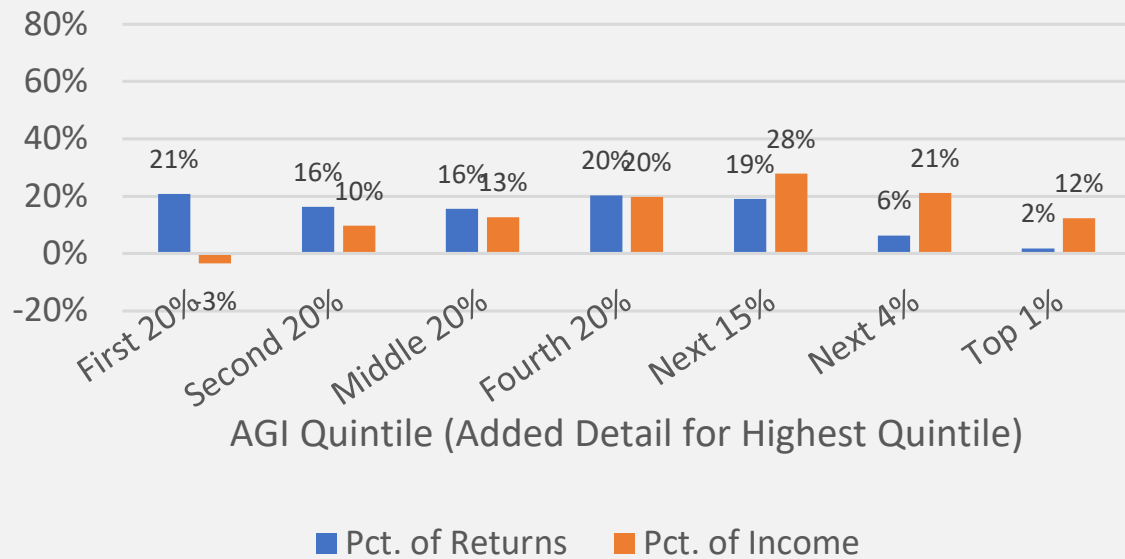
Quintile Group	AGI Range
First 20%	under \$14,900
Second 20%	\$14,900-\$32,900
Middle 20%	\$32,900-\$57,500
Fourth 20%	\$57,500-\$102,200
Next 15%	\$102,200-\$210,400
Next 4%	\$210,400-\$481,200
Top 1%	over \$481,200



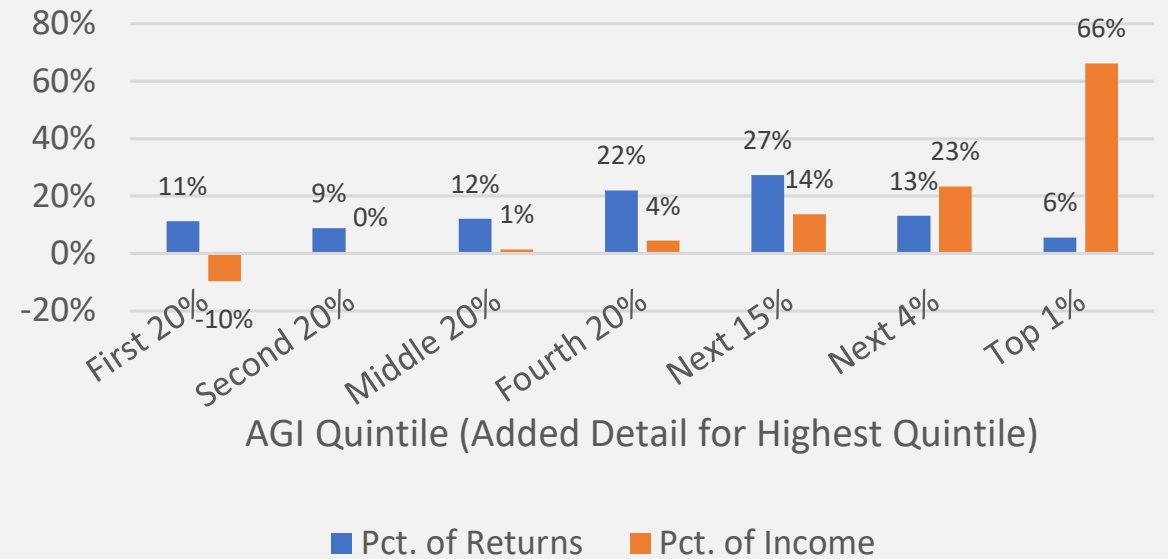


Business Income Distribution

Sole Props - Share of Returns & Business Inc. by AGI Category - TY 2020



Schedule E - Share of Returns & Business Inc. by AGI Category - TY 2020





Business Income Taxation - Policies

Oregon's reduced rates for Pass Through Entity (PTE) income

- Reduced income tax rates for qualifying pass-through income

Oregon's Pass-through Entity Elective (PTE-E) Tax

- Intent: provide reduction in federal income tax, revenue neutral for Oregon





Oregon's Pass-through Entity Elective (PTE-E) Tax

Oregon's Pass-through Entity Elective (PTE-E) Tax

- Enacted by SB 727 (2021)
- Intended to work around federal limitation on state and local income tax deduction
- Elective entity tax for certain partnerships or S-Corps
 - Pass-through entity (PTE) pays the entity tax (which is deductible for the PTE)
 - PTE owners claim Oregon tax credit equal to share of tax paid by PTE
 - Intended to be revenue neutral for Oregon, decreases taxpayer's federal tax liability
- Applies to TYs 2022 & 2023





PTE Policy Description & Requirements

- The policy objective is to encourage small business growth and investment by providing 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.), SB 139 (2021)
- 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
- PTE required to meet employment minimums, and/or minimum reinvestment of income
- For S-Corps & partnerships: must have ordinary business income \leq \$5 million





2021 Tax Rates and Brackets

Joint Income Tax Rates	
Taxable Income (\$)	Tax Rate
≤ \$7,300	4.75%
\$7,301 to \$18,400	6.75%
\$18,401 to \$250,000	8.75%
Over \$250,000	9.90%

Non-Passive Income Tax Rates	
Taxable Income (\$)	Tax Rate
≤ \$500,000	7.0%
\$500,001 to \$1 Million	7.5%
\$1 Million to \$2.5 Million	8.0%
\$2.5 Million to \$5 Million	9.0%
Over \$5 Million	9.9%





PTE Reduced Rates: Policy Requirements

- Individual
 - 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)
- Business Entity
 - Have at least one full-time, non-investor employee
 - As ordinary business income increases, meet one of following
 - Increased employee to owner ratio,
 - Exceeds minimum profit reinvestment requirement
 - Qualifying employees must work at least 1,200 aggregate hours of work in Oregon (to count, must be 30 hours per week)





OR PTE – Business Entity Requirements

Entity Employee Requirements		
Entity Ordinary Business Income	OR Employee to Owner Ratio	Aggregate Employee Hours
≤ \$250K	1 employee	1,200
\$250K - \$500K	1:1	1,200
\$500K - \$1M	2:1	2,400
\$1M - \$2.5M	4:1	4,800
\$2.5M - \$5M	10:1	12,000

Entity reinvestment requirement

(if PTE's OBI > \$250K)

$$\frac{\text{Distributions}}{\text{Ordinary Business Income}} \leq 25\%$$

- Said another way, 75% of profit must be reinvested in business
- Determined using current tax year plus most recent two full tax years





Revenue Impacts – TYs 2019 & 2020

Tax Year 2019 & 2020 Data, Full-Year Filers

Revenue Impact (\$M)			
Income	TY 2019	TY 2020	Difference
\$0 - \$50k	-\$0.1	-\$0.1	\$0.0
\$50k-\$70k	-\$0.3	-\$0.2	\$0.1
\$70k-\$100k	-\$1.0	-\$0.7	\$0.3
\$100k-\$200k	-\$7.1	-\$5.3	\$1.8
\$200k-\$500k	-\$28.2	-\$24.2	\$4.0
> \$500k	-\$78.4	-\$88.6	-\$10.1
Total	-\$115.1	-\$119.0	-\$3.9

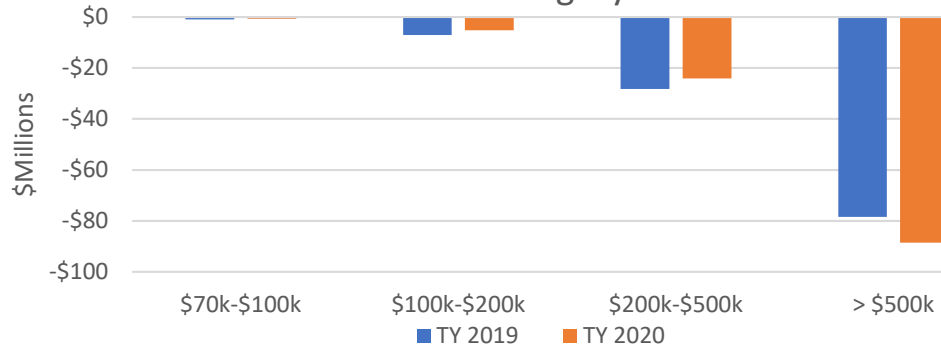
Number of Claimants			
Income	TY 2019	TY 2020	% Ch.
\$0 - \$50k	776	631	-19%
\$50k-\$70k	1,006	850	-16%
\$70k-\$100k	2,083	1,607	-23%
\$100k-\$200k	7,344	6,060	-17%
\$200k-\$500k	9,248	8,414	-9%
> \$500k	5,315	5,578	5%
Total	25,772	23,140	-10%

Means (\$) -\$4,467 -\$5,142

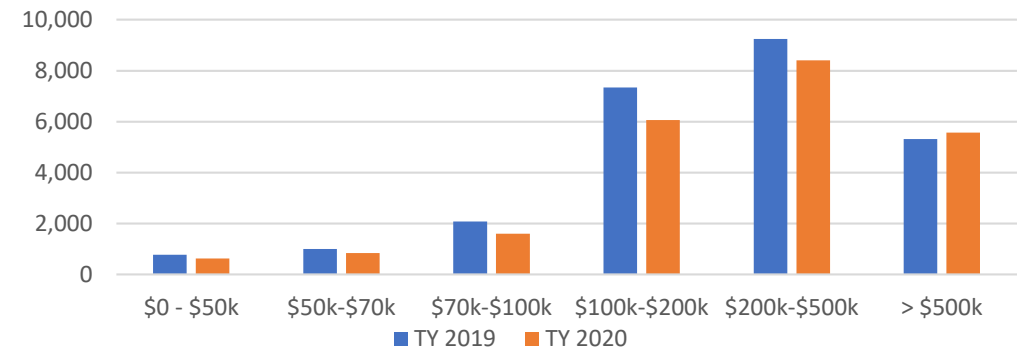
Income: Refers to total income | 2020 Full year filers

Source: DOR - Research, Personal Income Tax Returns

Estimated Revenue Impact (Full Year Filers) by Income Category



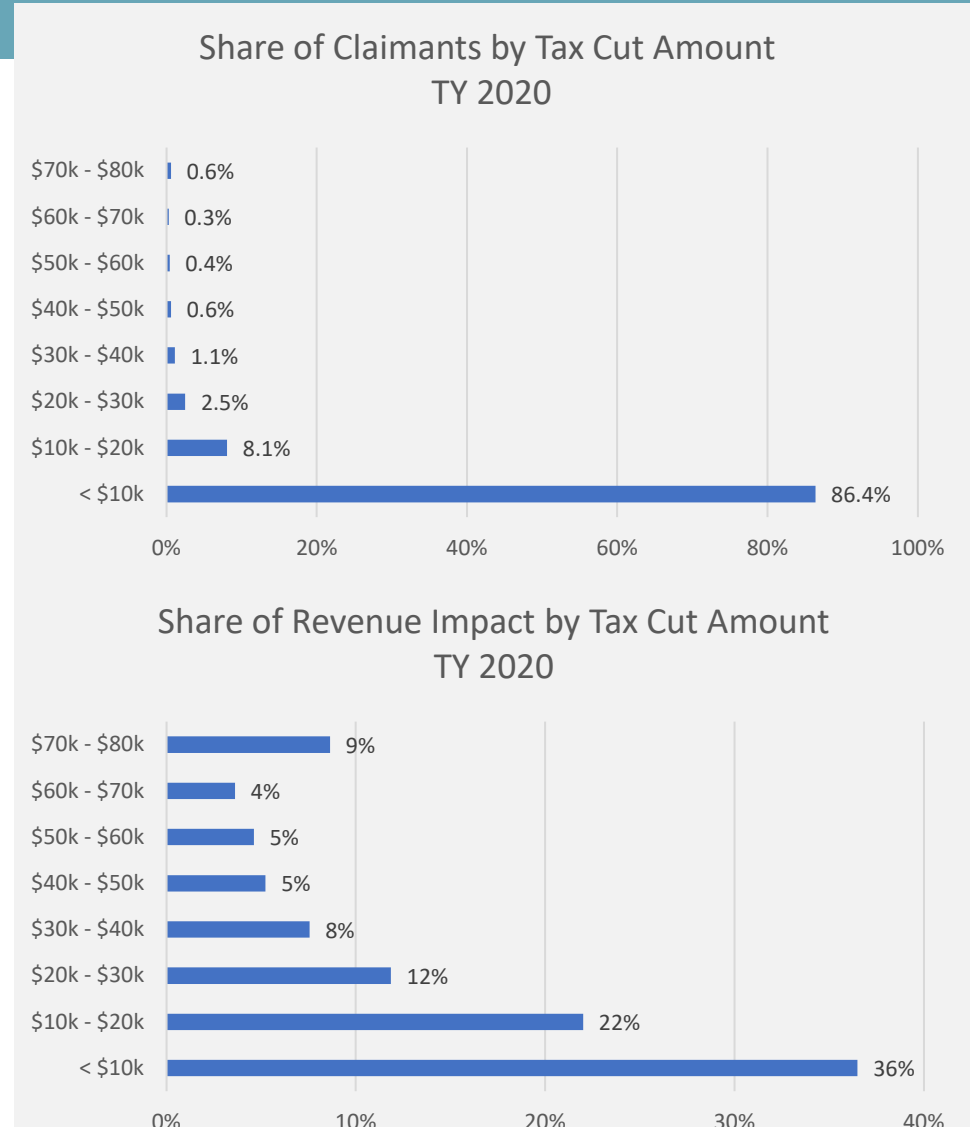
Claimants (Full Year Filers) by Income Category





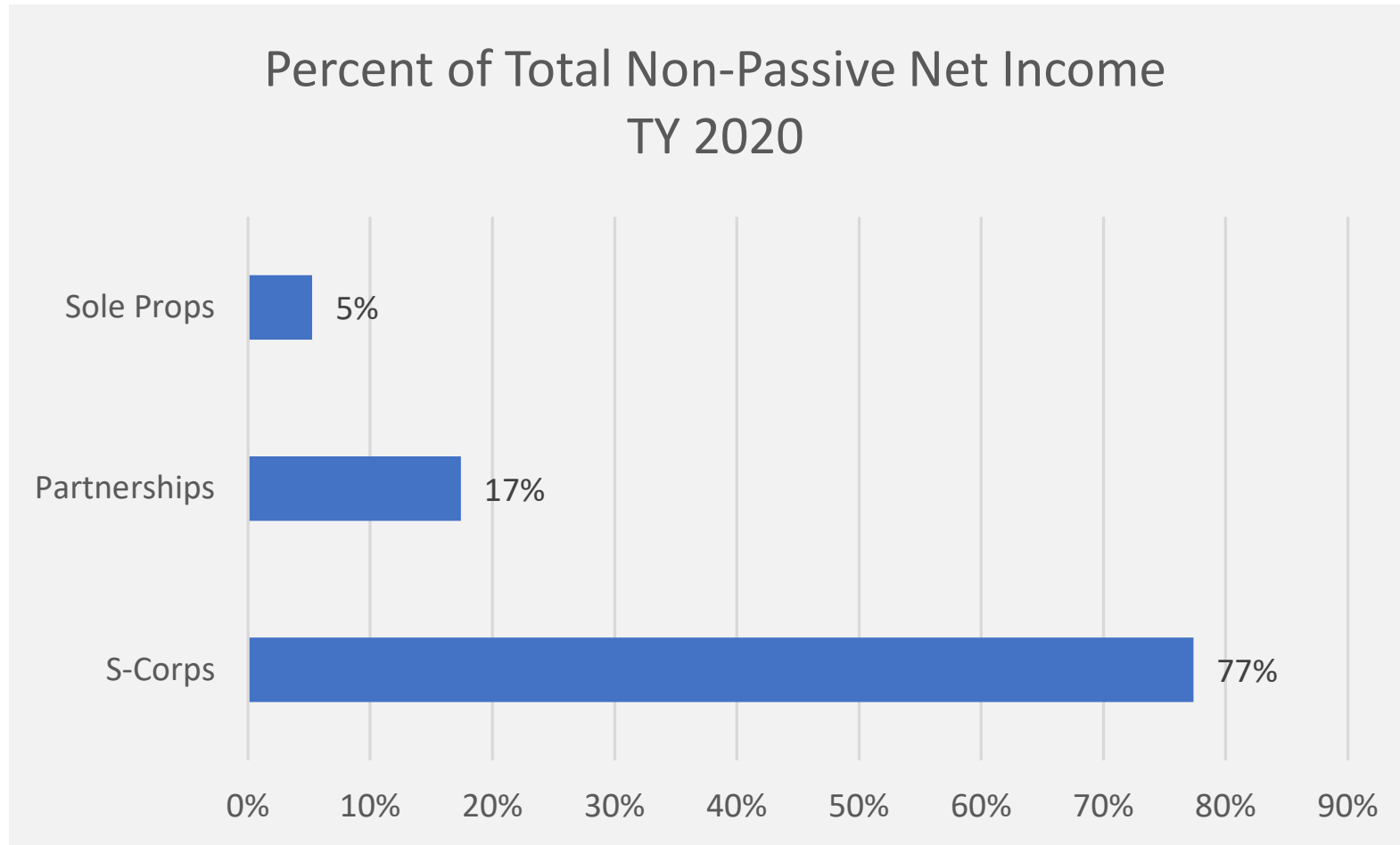
Tax Reduction Distribution – TY 2020

Tax Cut	Returns		Tax Cut	
	Number	Share	\$ Million	Share
< \$5k	17,134	74.0%	\$23.7	19.9%
\$5k - \$10k	2,858	12.3%	\$19.7	16.6%
\$10k - \$15k	1,212	5.2%	\$14.9	12.5%
\$15k - \$20k	658	2.8%	\$11.2	9.5%
\$20k - \$25k	338	1.5%	\$7.5	6.4%
\$25k - \$30k	240	1.0%	\$6.5	5.5%
\$30k - \$35k	159	0.7%	\$5.2	4.3%
\$35k - \$40k	104	0.4%	\$3.8	3.2%
\$40k - \$45k	72	0.3%	\$3.0	2.5%
\$45k - \$50k	68	0.3%	\$3.2	2.7%
\$50k - \$55k	34	0.1%	\$1.8	1.5%
\$55k - \$60k	64	0.3%	\$3.7	3.1%
\$60k - \$66k	50	0.2%	\$3.1	2.6%
\$66k - \$70k	17	0.1%	\$1.2	1.0%
\$70k - \$76k	40	0.2%	\$2.9	2.5%
\$76k - \$80K	96	0.4%	\$7.3	6.2%
Total	23,140	100.0%	\$118.9	100.0%



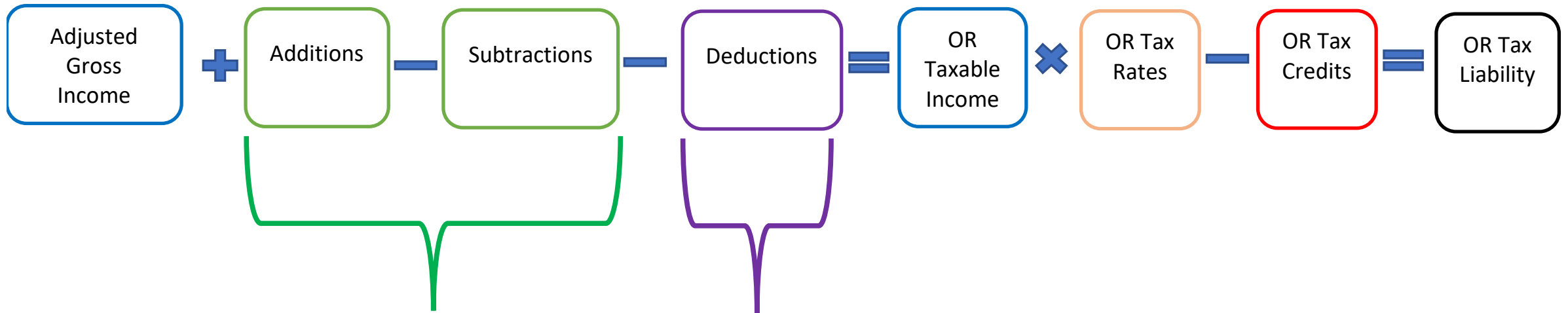


PTE Reduced Rates: Entity Type





One last look: Personal Income Tax



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

Legislative Revenue Office

<https://www.oregonlegislature.gov/lro>

503-986-1266

State of Oregon

LEGISLATIVE REVENUE OFFICE

