

Tax subtraction for renting rooms in a principle residence

Background

Senate Bill 2 creates a personal income tax subtraction for renting a room in the taxpayer's principal residence. To qualify for the tax subtraction the individual renting a room must pay and occupy the rented room for at least three consecutive months during the tax year. The subtraction may not exceed \$1,000 a month or \$12,000 a year per room. The subtraction applies to tax years 2024 through 2029.

Administrative Discussions

For administrative purposes, we suggest the committee consider defining additional terms in the bill to provide clarity for taxpayer reporting and department administration of the subtraction.

Terms and Definitions:

- Location of residence: The bill does not define that the residence must be within the state. Adding "located in Oregon" on line 7 after the word "residence" will clarify the location.
- Owner occupied: The bill does not address homes that are rented and not owned by the taxpayer. Including the language "must be owner occupied" will clarify the homes are owned by the taxpayer.
- Rent received: Rent received must be reported as taxable income on the federal personal income tax return. Taxpayers first report their gross rental income (gross rent) then subtract rental expenses to arrive at net rental income or losses (net rent). The net rent flows through to the Oregon tax return to increase or decrease Oregon taxable income.

The bill uses the term "rent received" but it is not defined. Clarity on the term "rent received" will help taxpayers determine if they report a subtraction against gross or net rent. If rent received is defined as gross rent, this may result in a double deduction reported on their Oregon tax return.

- Renter: The bill does not further define who a renter may be. A taxpayer's dependent child may be a renter, and this will qualify the taxpayer for the subtraction. If the intent is to exclude dependent children, adding language to exclude dependents reported on the taxpayer's return may resolve this.
- Room: Rooms can be in detached garages, attached duplexes, or other structures on the same property, and each with their own kitchen and bathroom. Federal law considers these as self-contained units and as a separate residence, and therefore not "rooms" in the owner's home. Defining a "room" will further support administrative duties of the department and education to taxpayers.

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