H.R. 1, Section VII Overview

Interim House Committee on Revenue

October 1, 2025

LRO

LEGISLATIVE REVENUE OFFICE

Presentation Outline

- Personal provisions of Section VII
- Business provision of Section VII
- Link to LRO's report

Personal Provisions

How Oregon Interacts with Federal Tax Law Changes

Direct Impacts

- Oregon connected to federal definition of taxable income
- Generally, federal changes modifying taxable income cause a corresponding change to Oregon's income tax base
- Federal changes directly flow through to Oregon tax policy
    - Example
        - Specified type of income or expense is deducted from income
- Changes may be subject to Oregon disconnects, preventing or mitigating impact

How Oregon Interacts with Federal Tax Law Changes, cont.

Indirect Impacts (FTS)

- Federal law modifying federal income tax liability can change a taxpayer's Oregon subtraction of federal income taxes
    - Inverse impacts
    - Reduction in federal tax liability reduces/increases federal tax subtraction (FTS) which can increase/decrease Oregon taxable income

Example

Federal tax ↓

Oregon tax ↑

- Example
    - New federal tax credit reduces federal income tax liability

Table of Prominent H.R. 1, Title VII Tax Impacts (Individuals)

Prominent H.R. 1, Title VII Provisions			
Provision	**Direct / Indirect**	**Fed. Rev. Ch.**	**OR Rev. Ch.**
Individual – New provisions			
Overtime pay deduction	D	–	–
Tips deduction	D	–	–
Qualified vehicle loan interest	D	–	–
Floor (0.5%) on deduction of charitable contributions	D	+	+
Charitable contributions deduction for non-itemizers	D	–	–
Senior deduction	FTS	–	+

Table of Prominent H.R. 1, Title VII Tax Impacts (Individuals)

Provision	Direct / Indirect	Fed. Rev. Ch.	OR Rev. Ch.
Individual – TCJA extended and/or modified provisions			
Limitation on state and local tax deduction (SALT)	D	−	−
Mortgage interest deduction (limits & insurance)	D	+/−	−
Limitation on itemized deductions	D	+	+
Casualty loss deduction	D	−	−
Opportunity Zones	D	+	+
Dependent care assistance exclusion	D	−	−
Employer payments of student loans exclusion	D	−	−
Small business stock gain exclusion	D	−	−
Tax rates / bracket changes	FTS	−	+
Increased standard deduction	FTS	−	+
Eliminate personal exemptions	FTS	+	−
Child tax credit	FTS	−	+
Alternative minimum tax	FTS	−	+
Child and dependent care tax credit	FTS	−	+
Individual – Other Provisions			
Ending various energy credits	FTS	+	-

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Mortgage interest deduction (limits & insurance)	D	+/−	−
Limitation on itemized deductions	D	+	+
Casualty loss deduction	D	−	−
Opportunity Zones	D	+	+
Dependent care assistance exclusion	D	−	−
Employer payments of student loans exclusion	D	−	−
Small business stock gain exclusion	D	−	−
Tax rates / bracket changes	FTS	−	+
Increased standard deduction	FTS	−	+
Eliminate personal exemptions	FTS	+	−
Child tax credit	FTS	−	+
Alternative minimum tax	FTS	−	+
Child and dependent care tax credit	FTS	−	+
Individual – Other Provisions			
Ending various energy credits	FTS	+	-

Revenue Impacts of Select H.R. 1, Title VII Tax Provisions

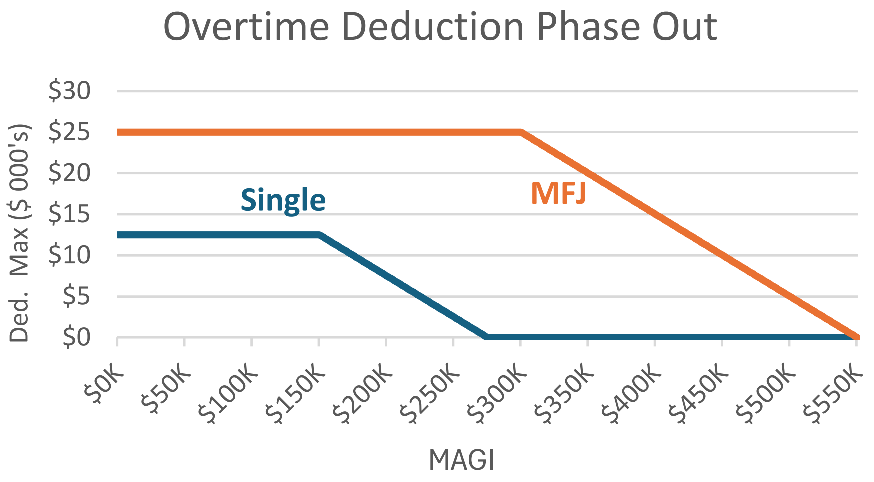
- Impacts were incorporated in September Revenue Forecast
- Estimates reflect policy deviation from baseline assumption that TCJA provisions were extended

Policy	Years Effective	Revenue Impact $'s in Millions		
		Biennium		
		2025-27	2027-29	2029-31
New Provisions				
Overtime ded.	2025 - 2028	-$221	-$157	$0
Tips deduction	2025 - 2028	-$78	-$53	$0
Vehicle loan interest deduction	2025 - 2028	-$68	-$80	-$7
Charitable contributions floor	2026 →	$53	$116	$128
Charitable cont. non-itemizers	2026 →	-$8	-$19	-$21
Extended and/or modified				
SALT limit ded.	2025 →	-$81	-$80	-$26
Mortgage interest deduction	2026 →	-$12	-$26	-$26
Itemized deduction limit	2026 →	$11	$17	$18
Casualty loss deduction	2026 →	-$0.2	-$0.4	-$0.5
Opportunity zones	2026 →	$5	$15	$8

New Personal Provisions

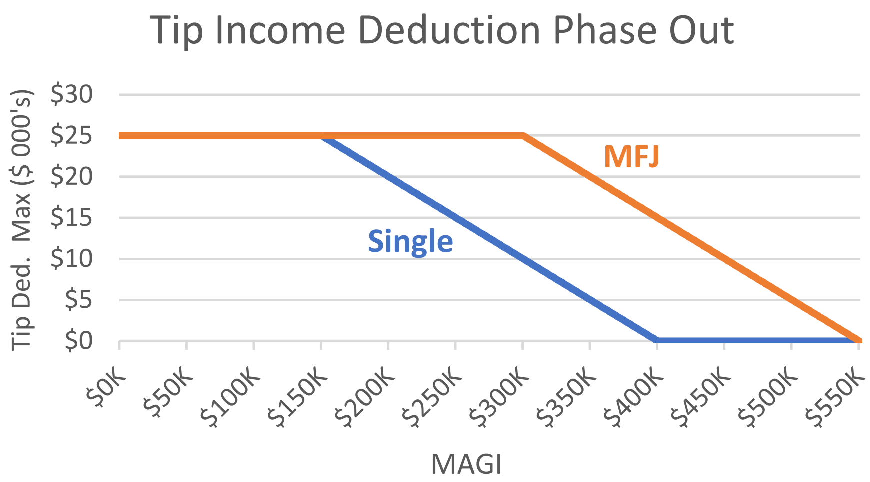
Overtime Pay Deduction

- Personal income tax deduction available to itemizers and non-itemizers
- "**Qualified overtime compensation**" – overtime compensation required under section 7 of the Fair Labor Standards Act of 1938 that is in **excess of** the regular rate – i.e., the half in time-and-a-half
- Taxpayer must have an SSN
- Deduction max of $12,500 (single), $25,000 (married filing jointly)
- Deduction phases out as income increases
    - Single: $150K – $275K
    - MFJ: $300K – $550K
- Applies tax years 2025 through 2028
- TY 2026: W2 & information return reporting, and withholding modification



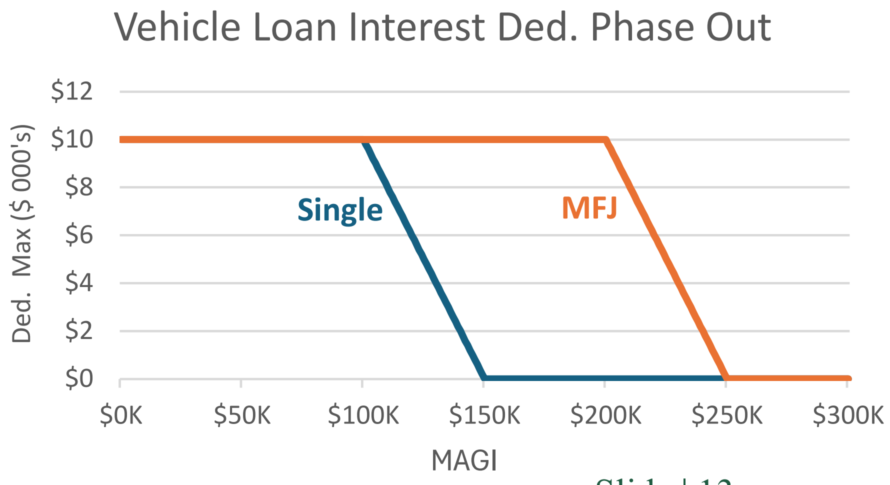
Tip Income Deduction

- Personal income tax deduction available to itemizers and non-itemizers
- Deduction for reported "**qualified tips**"
    - Received in an occupation which customarily and regularly received tips
    - Tip is paid voluntarily without any consequence in the event of nonpayment, is not subject of negotiation, and is determined by the payor
    - Not received by individual in a specified service trade or business
- Taxpayer must have an SSN
- Deduction max of $25,000 and phase out
    - Single: $150K – $400K
    - MFJ: $300K – $550K
- Applies tax years 2025 through 2028
- Withholding modification beginning in 2026



Qualified Vehicle Loan Interest

- Personal income tax deduction available to itemizers and non-itemizers
- Deduction for "**qualified passenger vehicle loan interest**"
  - Interest paid or accrued on indebtedness incurred by taxpayer after 12/31/2024 on an "applicable passenger vehicle" for personal use
  - Applicable passenger vehicle
    - Originally used by the taxpayer
    - Manufactured primarily for use on public streets/roads/highways
    - Minimum two wheels
    - Car, minivan, van, sport utility vehicle, pickup truck, or motorcycle
    - Motor vehicle for purposes of title II of the Clean Air Act
    - Gross vehicle weight rating of less then 14,000 pounds, and
    - Had final assembly in the U.S.
- Deduction max of $10,000 and phases out as income increases
  - Single: $100K – $150K
  - MFJ: $200K – $250K
- Information return provided by loan provider containing interest paid
- Applies tax years 2025 through 2028



Personal Charitable Contributions

New charitable contributions deduction floor

- Limits charitable deduction to total charitable contributions exceeding 0.5% of AGI (corresponding corporate limit is 1.0%)

- Limited contributions may be carried over to subsequent years though carryovers are also subject to limit (pre-H.R. 1 carryovers not subject to floor)

$$Charitable\ deduction = charitable\ contribution - .005 * AGI$$

Example	
AGI	$250,000
Charitable Floor	$1,250
Charitable Contribution	$10,000
Charitable Deduction	$8,750

Charitable contributions deduction for non itemizers

- Deduction of charitable contributions available to taxpayers claiming the standard deduction
- Maximum deduction is $1,000 (single), $2,000 (joint)

- Both provisions effective tax years 2026 and later

TCJA Extended and/or Modified and Other Personal Provisions

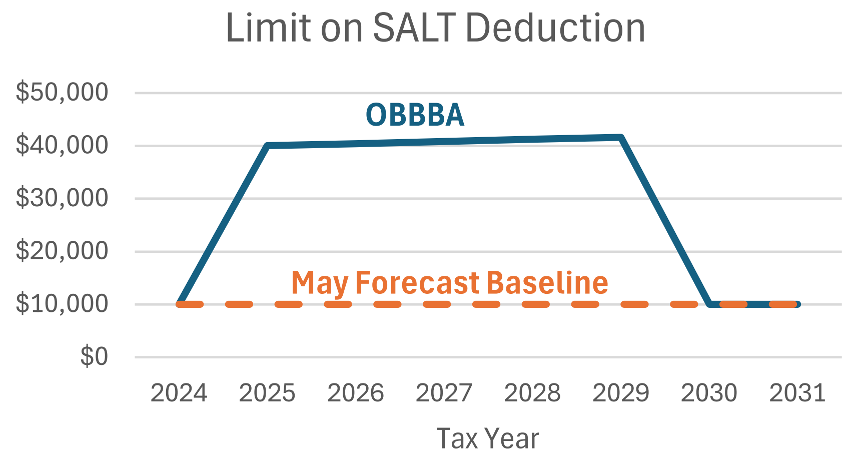
Limitation on SALT Deduction

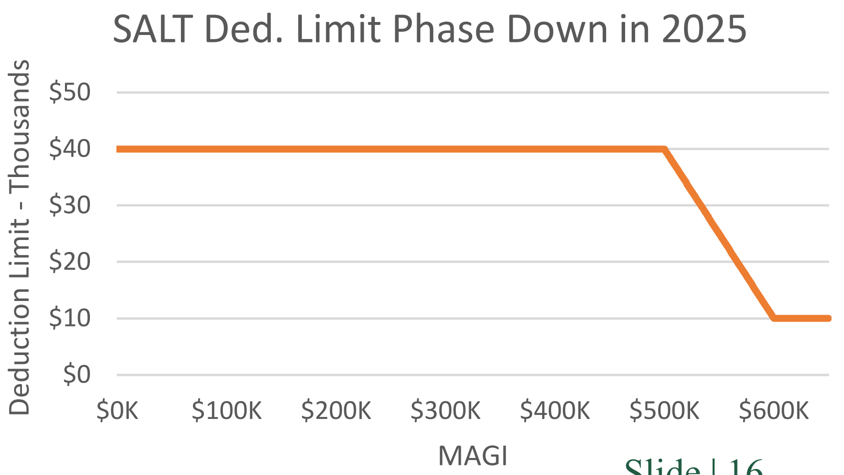
- Limitation on itemized deduction of state and local income taxes or general sales taxes, and state/local property taxes (SALT)

- May revenue forecast assumed SALT limit of $10,000 continued indefinitely

- New SALT limit beginning in tax year…
  - 2025: $40,000 (half for married filing separately)
  - 2026: $40,400
  - 2027 – 2029: limit grows by 1% of previous year
  - 2030 and later: $10,000

- SALT deduction phase down applicable to tax years 2025 through 2029
  - Limit phases down to $10,000 by 30% of income exceeding $500K (1% growth and half for MFS)
  - E.G. - $40,000 limit phases down to $10,000 at income of $500K – $600K (1% growth and half for MFS)





Mortgage Interest Deduction

- Makes permanent two TCJA mortgage interest deduction (MID) limitations
    - Limit on acquisition indebtedness of $750K ($375K MFS)
    - Deductible home equity indebtedness must be associated with the home
    - Both provisions were included in May baseline forecast

- Expands MID to include mortgage insurance premiums
    - Deduction was most recently allowed in TY 2021
    - Phases out from AGI of $100K - $110K ($50K – $55K, MFS)
    - Not part of TCJA extension therefore not part of May baseline forecast

- Applies tax years 2026 and later

Overall Limit on Itemized Deductions

- TCJA temporarily repealed the “Pease limitation” on itemized deductions for tax years 2018 – 2025

- H.R. 1, Title VII permanently repeals the Pease limitation and creates new limitation on itemized deductions
    - Reduces itemized deductions by up to 2/37ths for taxpayer in top (37%) federal tax bracket (in 2025, top brackets were - $626,350 for single and $751,600 for married filing jointly)
    - Effectively limits itemized deductions to equivalence with taxpayers in 35% tax bracket (for most taxpayers)

Casualty Loss Deduction

Policy pre - H.R. 1, Title VII

- Deduction available to taxpayers claiming itemized deductions
- Taxpayers may deduct casualty losses attributable to a federally declared disaster that exceed 10% of taxpayer's AGI
- Limited to federally declared disaster(s) by TCJA in 2017 and applicable to tax years 2018 – 2025
- Oregon allows subtraction of casualty losses incurred in Oregon and resulting from event subject to Governor declared state of emergency or Emergency Conflagration Act
    - Applies TYs 2020 – 2025 (HB 2812, 2023)

H.R. 1, Title VII changes

- Makes TCJA provisions permanent but also allows deduction for casualty loss from "**state declared disasters**" (e.g., natural catastrophe, fire, flood, explosion) of sufficient severity to be deductible as determined by Governor and U.S. Treasury Secretary
- Applies TYs 2026 and later

Opportunity Zones – As enacted in 2017 by TCJA

"Opportunity Zone tax incentives are designed to be broad incentives to retain investment in or shift investment toward specific geographic areas"
(Source: Congressional Research Service)

Zone Designation

- Qualified opportunity zones (QOZ) are "low-income community" census tracts designated by state Governors

Tax Benefits

- Taxpayers invest previously unrealized capital gains into a QOZ and potentially receive tax benefits
  1) Temporary deferral of tax on invested gains until 12/31/2026
  2) Permanent reduction in taxation of invested capital gains
     - 10% reduction if invested and held for five years
     - 15% reduction if invested and held for seven years
  3) Permanent exclusion of future capital gains on amount invested in QOZ if held for at least ten years

Sunset: Policy applied to investments sold or exchanged before 12/31/2026

Opportunity Zones – Changes in H.R. 1, Title VII

Permanently extends QOZ program in revolving manner

Zone designation

- QOZs designated every 10 years, beginning on January 1, 2027
- Narrows definition of “low-income communities”
- Eliminates QOZ qualification for “contiguous tracts”
- Creates new “qualified rural opportunity fund”, 90% of assets in qualified OZ property in rural area
  - “Rural area” means any area other than a city/town with population > 50K or urbanized area contiguous and adjacent to city/town with population > 50K

Tax Benefits

1) Temporary five-year deferral of tax on invested gains
2) Permanent reduction in taxation of invested capital gains
   - 10% reduction if invested and held for five years
   - ~~15% reduction if invested and held for seven years~~
   - 30% reduction if invested and held for five years in qualified rural opportunity fund
3) Permanent exclusion (up to 30 years) of future capital gains on amount invested in QOZ if held for at least ten years

Business Provisions

Select Business Provisions in HR1

- Revenue Effects
- How Corporate (business) income is tied to Federal Definition
- Depreciation and Expensing
  - Extra Detail and Examples
- Research and Experimental Expensing
  - Very similar to Depreciation and Expensing
- International (focus on GILTI/FDII)

Select Business Policies

Policy	Years Effective	Revenue Impact ($ in Millions) Biennium		
		2025-27	2027-29	2029-31
New Provisions				
100% Bonus Depreciation	1/20/2025 →	($196)	($43)	($22)
Qualified Production Property	1/20/2025 - 2028	($116)	($128)	($57)
Section 179 Expensing	2025 →	($39)	($23)	($17)
Research and Experimental Expensing	2022 →	($166)	($40)	($11)
International Taxation	2026 →	($10)	($10)	$5

Grossly Simplified
Federal Taxable Income for Corporations

+ Gross Receipts

-Business Costs

Cost of Goods Sold
Employee Compensation
Advertising/Marketing
Interest
Certain State/Local Taxes
Depreciation/Amortization

= Federal Taxable Income

-Net Operating Loss Carryforward

-Special Deductions

= Net Federal Taxable Income

NOTES:

Each line has its own complexity not reflected here

Oregon net income components treated differently from federal are reflected as "additions and subtractions" on the state tax return

- *Cursory descriptions for Additions and Subtractions are in instructions for Oregon Corporate Form 20 , and Personal Income Tax Publication OR-17*

Oregon connects to Federal Taxable Income, and uses state-specific calculations for NOL Carryforward

C-Corporations that pay corporate tax on their business income calculate net taxable income and pay tax at the corporate level.

Very similar for pass-through businesses like S-Corps and Partnerships which calculate taxable income that is "distributed" to owners who pay individual-level tax on the income

Depreciation for Tax Purposes

Assets like machinery, equipment, buildings, and some intangible assets (like software and patents) used in business generally contribute to income (and lose value) over time

Depreciation deductions offset taxable income, and reduce the tax value (basis) in the property

The Tax Reform Act of 1986 created depreciation tables under the Modified Accelerated Cost Recovery System (MACRS) that must be used for most tangible property. MACRS is represented in tables based on the number of years an asset is depreciated over (and based on which part of the year it is placed in service)

Effect is split between tax on Personal Income and tax on Corporate Income

Example Depreciation (MACRS) Categories

Depreciable Value of an Asset (Generally Cost minus Salvage Value)

- MACRS tables based on depreciation timeline and Quarter placed in service

Category	Examples
3-Year Property	Qualified Rent-to-Own property Racehorse over 2 years old
5-Year Property	Automobiles, helicopters Breeding and Dairy Cattle
10-Year Property	Barges, tugboats, and similar water transport equipment Trees and vines bearing fruit or nuts
15-Year Property	Land improvements: roads, fences, shrubbery Certain utility distribution/transmission property
20-Year Property	Multi-Purpose farm buildings Clearing and grading for electric distribution and transmission
25-Year property	Water utility property
Some Real Property treated differently (e.g. residential rental property) Land is not depreciated	

MACRS Depreciation Table Example

Year	Deprec	
	3-year	5-year
1	33.33%	20.00%
2	44.45	32.00
3	14.81	19.20
4	7.41	11.52
5		11.52
6		5.76

Table A-1. **3-, 5-, 7-, 10-, 15-, and 20-Year Property Half-Year Convention**

Year	Depreciation rate for recovery period					
	3-year	5-year	7-year	10-year	15-year	20-year
1	33.33%	20.00%	14.29%	10.00%	5.00%	3.750%
2	44.45	32.00	24.49	18.00	9.50	7.219
3	14.81	19.20	17.49	14.40	8.55	6.677
4	7.41	11.52	12.49	11.52	7.70	6.177
5		11.52	8.93	9.22	6.93	5.713
6		5.76	8.92	7.37	6.23	5.285
7			8.93	6.55	5.90	4.888
8			4.46	6.55	5.90	4.522
9				6.56	5.91	4.462
10				6.55	5.90	4.461
11				3.28	5.91	4.462
12					5.90	4.461
13					5.91	4.462
14					5.90	4.461
15					5.91	4.462
16					2.95	4.461
17						4.462
18						4.461
19						4.462
20						4.461
21						2.231

Bonus Depreciation

Available for Property with Recovery Period up to 20 years

Allows additional deduction in first year – 60% for 2024

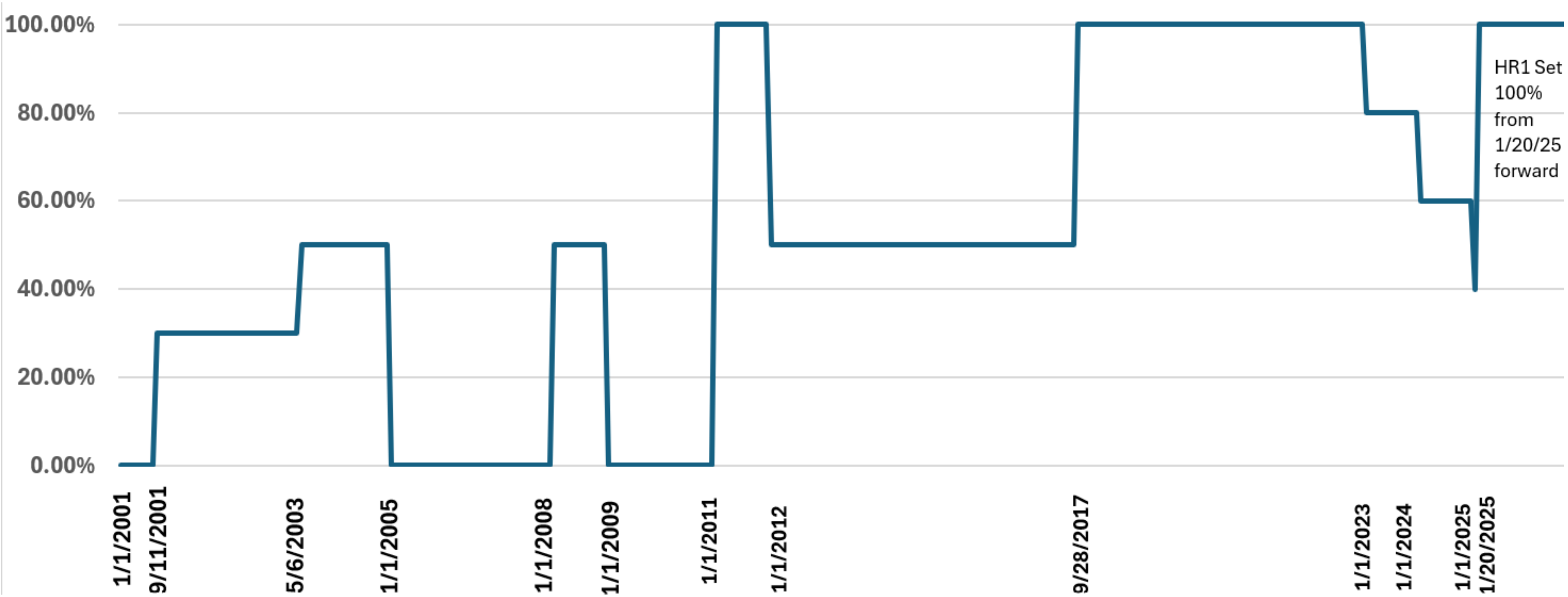
Changes timing of deductions -- Total amount does not change

Bonus depreciation is deducted first, then remainder is deducted as usual

100% Bonus depreciation is also called “expensing” because full depreciable value is an expense in first year rather than depreciated over time

Can create a net loss that can be carried over to future years

Bonus Depreciation History and Future (Current Oregon Law)



- Oregon disconnected from changes in Bonus Depreciation for 2009 and 2010 (2009 HB 2078 & 2011 SB 301). Federal bonus depreciation for 2009 and 2010 was 50% for 1/1/08 to 9/8/10 and 100% for 9/9/10 to 12/31/10.
- Without HR1 Bonus Depreciation would have been 40% for 2025, 20% for 2026, and 0% for 2027 or after.
- *Source: Thomson Reuters, Oregon DOR Pub 17 ½, and HR 1*

Bonus Depreciation Comparison to MACRS

5-Yr Property (Half-Year Convention)

$10,000 Depreciable Value

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Total
MACRS	$2,000	$3,200	$1,920	$1,152	$1,152	$576	$10,000

MACRS	$1,200	$1,920	$1,152	$691	$691	$346	$10,000
+ 40% Bonus Depreciation	$4,000						
Change in Depreciation vs MACRS	$3,200	($1,280)	($768)	($461)	($461)	($230)	$0

100% Expensing	$10,000	$0	$0	$0	$0	$0	$10,000
Change in Depreciation vs MACRS	$8,000	($3,200)	($1,920)	($1,152)	($1,152)	($576)	$0

Single Corporation Tax Implication

Fixed annual 5% growth in receipts and Other Costs

MACRS ($ Millions)

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Total
Gross Receipts	85.00	89.25	93.71	98.40	103.32	108.48	**578.16**
Depreciation	2.00	3.20	1.92	1.15	1.15	0.58	**10.00**
Other Costs	70.00	73.50	77.18	81.03	85.09	89.34	**476.13**
Taxable Income	13.00	12.55	14.62	16.21	17.08	18.57	**92.03**
OR Tax	0.98	0.94	1.10	1.22	1.29	1.40	**6.93**

Expensing ($ Millions)

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Total
Gross Receipts	85.00	89.25	93.71	98.40	103.32	108.48	**578.16**
Depreciation	10.00						**10.00**
Other Costs	70.00	73.50	77.18	81.03	85.09	89.34	**476.13**
Taxable Income	5.00	15.75	16.54	17.36	18.23	19.14	**92.03**
OR Tax	0.37	1.19	1.25	1.31	1.38	1.44	**6.93**

- Depreciation deductions total same amount over life of property (here tax is the same as well, but there could be differences due to tax brackets in some cases)
- Net loss status of individual business could also impact tax difference
- Because expensing allows immediate deduction, cash flow is significantly impacted

New Provision: Expensing of Qualified Production Property

Nonresidential Real Property used for qualified production with construction beginning 1/20/2025 through 2028, and placed in service before 2031

Includes manufacture, production, or refining agricultural or chemical products

Does not include parts of property not used for manufacturing (e.g. offices, parking, research space)

Section 179 Expensing

Cost of certain property taken as expense (100% depreciation) in the year it is placed in service.

Annual Limit: For 2024 businesses can expense up to $1.22 million

Phase-out targets smaller businesses: Section 179 expensing phases out (dollar for dollar) if total purchases exceed $3.05 million (2024)

Cannot create a net loss

Section 179 History (Oregon)

	Max Expensing	Phase-Out Begins			Max Expensing	Phase-Out Begins
2001-02	$24,000	$200,000		**2011 to 2017**	$500,000	$2.0 million
2003	$100,000	$400,000		**2018**	$1 million	$2.5 million
2004	$102,000	$410,000		**2019**	$1.02 million	$2.55 million
2005	$105,000	$420,000		**2020**	$1.04 million	$2.59 million
2006	$108,000	$430,000		**2021**	$1.05 million	$2.62 million
2007	$125,000	$500,000		**2022**	$1.08 million	$2.7 million
2008	$250,000	$800,000		**2023**	$1.16 million	$2.89 million
2009	$133,000	$530,000	*Disconnected	**2024**	$1.22 million	$3.05 million
2010	$134,000	$530,000	*Disconnected	**HR1 -- 2025**	$2.5 million	$4.0 million
					Increased for Inflation 2026+	

- Oregon disconnected from changes in Section 179 for 2009 and 2010 (2009 HB 2078 & 2011 SB 301). Federal Section 179 maximum expensing was $250,000 for 2009 and 2010 with phaseout starting at $800,000.
- Without HR 1, Section 179 would have allowed maximum expensing of $1.25 million with phaseout starting at $3.13 million for 2025

Source: Congressional Research Service, Dept. of Revenue, IRS Rev Procs 2008-66, 2009-50,2024-40, and HR 1

Research and Experimental Expensing

1954 through 2021, the Internal Revenue Code allowed immediate expensing in year that research expenses were incurred

- Taxpayers had the option to take the deduction over a period of at least five years (amortization)

TCJA mandated amortization starting in 2022 (portion of the expense taken over several years)

- 5 years for domestic research
- 15 years for foreign research

HR1 allows expensing for domestic research (no change for foreign)

- Allows retroactive expensing for 2022 to 2024
- Claimed on 2025 tax return or split on 2025 and 2026
- Small businesses (less than $31 million average gross receipts for prior three years) can amend returns for 2022 to 2024 to expense.

Background: TCJA Changed Corporate Tax on International Income

- TCJA moved the US Corporate Tax System away from taxing US businesses on income earned worldwide toward taxing income earned within US
  - From Worldwide to Territorial system
- Accounting for income earned in each country can lead to "Income Shifting"
  - Recognize receipts in low tax country
  - Recognize costs in high tax country

- Federal TCJA policies intended to limit income shifting
  - BEAT – Base Erosion and Anti-Abuse Tax (no OR connection)
    - Minimum tax for very large companies to eliminate interest paid by US companies on loans by foreign subsidiaries
  - GILTI – Global "Intangible" Low Taxed Income
    - Foreign income deemed intangible and subject to low tax rated added to US income and taxed at lower rate
  - FDII – Foreign-Derived "Intangible" Income
    - Export Income deemed intangible taxed at lower rate

GILTI → NCTI

GILTI (2018-2025) imposes additional tax on earning of foreign subsidiaries

- Deems return on investment* over 10% to be from intangible earnings.
- Oregon includes federal taxed GILTI income and allows 80% dividend received deduction

HR1 Changes to Net CFC Tested Income -- NCTI (2026 and later)

- Changes treatment and allocation of certain costs, and eliminates the 10% instead applying to all "tested income"
- A federal (but not Oregon) deduction of 50% of GILTI income was available for 2018 to 2025, and scheduled to decrease to 37.5% in 2026. HR1 changed the deduction to 40% going forward
- Oregon treats the income as a foreign dividend from an affiliate and allows 80% deduction.

FDII ➔ FDDEI

FDII (2018-2025) reduces tax on foreign-source income

- Deems return on investment over 10% to be from intangible earnings.
- Oregon connects to federal deduction which allowed of 37.5% of FDII income

HR1 Changes to Foreign-Derived Deduction Eligible Income – FDDEI (2026 and later)

- Changes treatment and allocation of certain costs, and eliminates application to deemed intangible income instead applying to all "tested income"
- Deduction was scheduled to decrease to 21.875% beginning in 2026, but HR1 changed the deduction to 33.34%

Tax System Goals

Tax System Goals in ORS 316.003 Goals

(1) The goals of the Legislative Assembly are to achieve for the people of this state a tax system that recognizes:

- (a) Fairness and equity as its basic values; and
- (b) That the total tax system should use seven guiding principles as measures by which to evaluate tax proposals.

(2) Those guiding principles are:

- (a) Ability to pay;
- (b) Fairness;
- (c) Efficiency;
- (d) Even distribution;
- (e) The tax system should be equitable where the minimum aspects of a fair system are:
  - (A) That it shields genuine subsistence income from taxation;
  - (B) That it is not regressive; and
  - (C) That it imposes approximately the same tax burden on all households earning the same income;
- (f) Adequacy; and
- (g) Flexibility.

(3) To meet those goals of Oregon's tax system, any tax must be considered in conjunction with the effects of all other taxes on Oregonians. [1991 c.457 §1a; 2017 c.315 §22]

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