

D R A F T

SUMMARY

Disallows, for purposes of personal income taxation, mortgage interest deduction for residence other than taxpayer's principal residence. Disallows deduction for interest for principal residence based upon income thresholds. Limits deduction for taxpayers below income thresholds. Transfers amount equal to estimated increase in revenue attributable to restrictions on deduction of mortgage interest to accounts in Oregon Housing Fund.

Applies to tax years beginning on or after January 1, 2017.

Takes effect on 91st day following adjournment sine die.

A BILL FOR AN ACT

1
2 Relating to tax treatment of mortgage interest; creating new provisions;
3 amending ORS 316.695; and prescribing an effective date.

4 **Be It Enacted by the People of the State of Oregon:**

5 **SECTION 1.** ORS 316.695 is amended to read:

6 316.695. (1) In addition to the modifications to federal taxable income
7 contained in this chapter, there shall be added to or subtracted from federal
8 taxable income:

9 (a) If, in computing federal income tax for a tax year, the taxpayer de-
10 ducted itemized deductions, as defined in section 63(d) of the Internal Reve-
11 nue Code, the taxpayer shall add the amount of itemized deductions deducted
12 (the itemized deductions less an amount, if any, by which the itemized de-
13 ductions are reduced under section 68 of the Internal Revenue Code).

14 (b) If, in computing federal income tax for a tax year, the taxpayer de-
15 ducted the standard deduction, as defined in section 63(c) of the Internal
16 Revenue Code, the taxpayer shall add the amount of the standard deduction
17 deducted.

1 (c)(A) From federal taxable income there shall be subtracted the larger
2 of (i) the taxpayer's itemized deductions or (ii) a standard deduction. Except
3 as provided in subsection (8) of this section, for purposes of this subpara-
4 graph, "standard deduction" means the sum of the basic standard deduction
5 and the additional standard deduction.

6 (B) For purposes of subparagraph (A) of this paragraph, the basic stand-
7 ard deduction is:

8 (i) \$3,280, in the case of joint return filers or a surviving spouse;

9 (ii) \$1,640, in the case of an individual who is not a married individual
10 and is not a surviving spouse;

11 (iii) \$1,640, in the case of a married individual who files a separate return;

12 or

13 (iv) \$2,640, in the case of a head of household.

14 (C)(i) For purposes of subparagraph (A) of this paragraph for tax years
15 beginning on or after January 1, 2003, the Department of Revenue shall an-
16 nually recompute the basic standard deduction for each category of return
17 filer listed under subparagraph (B) of this paragraph. The basic standard
18 deduction shall be computed by dividing the monthly averaged U.S. City
19 Average Consumer Price Index for the 12 consecutive months ending August
20 31 of the prior calendar year by the average U.S. City Average Consumer
21 Price Index for the second quarter of 2002, then multiplying that quotient
22 by the amount listed under subparagraph (B) of this paragraph for each
23 category of return filer.

24 (ii) If any change in the maximum household income determined under
25 this subparagraph is not a multiple of \$5, the increase shall be rounded to
26 the next lower multiple of \$5.

27 (iii) As used in this subparagraph, "U.S. City Average Consumer Price
28 Index" means the U.S. City Average Consumer Price Index for All Urban
29 Consumers (All Items) as published by the Bureau of Labor Statistics of the
30 United States Department of Labor.

31 (D) For purposes of subparagraph (A) of this paragraph, the additional

1 standard deduction is the sum of each additional amount to which the tax-
2 payer is entitled under subsection (7) of this section.

3 (E) As used in subparagraph (B) of this paragraph, “surviving spouse” and
4 “head of household” have the meanings given those terms in section 2 of the
5 Internal Revenue Code.

6 (F) In the case of the following, the standard deduction referred to in
7 subparagraph (A) of this paragraph shall be zero:

8 (i) One of the spouses in a marriage filing a separate return where the
9 other spouse has claimed itemized deductions under subparagraph (A) of this
10 paragraph;

11 (ii) A nonresident alien individual;

12 (iii) An individual making a return for a period of less than 12 months
13 on account of a change in the individual’s annual accounting period;

14 (iv) An estate or trust;

15 (v) A common trust fund; or

16 (vi) A partnership.

17 (d) For the purposes of paragraph (c)(A) of this subsection, the taxpayer’s
18 itemized deductions are the amount of the taxpayer’s itemized deductions as
19 defined in section 63(d) of the Internal Revenue Code (reduced, if applicable,
20 as described under section 68 of the Internal Revenue Code) minus:

21 (A) The deduction for Oregon income tax (reduced, if applicable, by the
22 proportion that the reduction in federal itemized deductions resulting from
23 section 68 of the Internal Revenue Code bears to the amount of federal
24 itemized deductions as defined for purposes of section 68 of the Internal
25 Revenue Code)[.];

26 **(B) Any portion of the deduction for qualified residence interest**
27 **paid or accrued on indebtedness with respect to a qualified residence**
28 **other than the taxpayer’s principal residence; and**

29 **(C)(i) Any portion of the deduction for qualified residence interest**
30 **paid or accrued on indebtedness with respect to the taxpayer’s princi-**
31 **pal residence, if a taxpayer has federal adjusted gross income in excess**

1 of \$100,000, or, if reported on a joint return, in excess of \$200,000; or

2 (ii) If a taxpayer has federal adjusted gross income not in excess
3 of \$100,000, or, if reported on a joint return, not in excess of \$200,000,
4 the amount by which qualified residence interest paid or accrued for
5 the taxpayer's principal residence exceeds \$15,000.

6 (e)(A) For tax years beginning in each calendar year, the Depart-
7 ment of Revenue shall annually adjust the limit on deductible interest
8 in paragraph (d)(C)(ii) of this subsection by multiplying \$15,000 by the
9 percentage, if any, by which the monthly averaged U.S. City Average
10 Consumer Price Index for the 12 consecutive months ending August
11 31 of the preceding calendar year exceeds the monthly averaged U.S.
12 City Average Consumer Price Index for the 12 consecutive months
13 ending August 31, 2016.

14 (B) As used in this paragraph, "U.S. City Average Consumer Price
15 Index" means the U.S. City Average Consumer Price Index for All
16 Urban Consumers (All Items) as published by the Bureau of Labor
17 Statistics of the United States Department of Labor.

18 (2)(a) There shall be subtracted from federal taxable income any portion
19 of the distribution of a pension, profit-sharing, stock bonus or other retire-
20 ment plan, representing that portion of contributions which were taxed by
21 the State of Oregon but not taxed by the federal government under laws in
22 effect for tax years beginning prior to January 1, 1969, or for any subsequent
23 year in which the amount that was contributed to the plan under the Inter-
24 nal Revenue Code was greater than the amount allowed under this chapter.

25 (b) Interest or other earnings on any excess contributions of a pension,
26 profit-sharing, stock bonus or other retirement plan not permitted to be de-
27 ducted under paragraph (a) of this subsection may not be added to federal
28 taxable income in the year earned by the plan and may not be subtracted
29 from federal taxable income in the year received by the taxpayer.

30 (3)(a) Except as provided in subsection (4) of this section, there shall be
31 added to federal taxable income the amount of any federal income taxes in

1 excess of the amount provided in paragraphs (b) to (d) of this subsection,
2 accrued by the taxpayer during the tax year as described in ORS 316.685, less
3 the amount of any refund of federal taxes previously accrued for which a tax
4 benefit was received.

5 (b) The limits applicable to this subsection are:

6 (A) \$5,500, if the federal adjusted gross income of the taxpayer for the tax
7 year is less than \$125,000, or, if reported on a joint return, less than \$250,000.

8 (B) \$4,400, if the federal adjusted gross income of the taxpayer for the tax
9 year is \$125,000 or more and less than \$130,000, or, if reported on a joint
10 return, \$250,000 or more and less than \$260,000.

11 (C) \$3,300, if the federal adjusted gross income of the taxpayer for the tax
12 year is \$130,000 or more and less than \$135,000, or, if reported on a joint
13 return, \$260,000 or more and less than \$270,000.

14 (D) \$2,200, if the federal adjusted gross income of the taxpayer for the tax
15 year is \$135,000 or more and less than \$140,000, or, if reported on a joint
16 return, \$270,000 or more and less than \$280,000.

17 (E) \$1,100, if the federal adjusted gross income of the taxpayer for the tax
18 year is \$140,000 or more and less than \$145,000, or, if reported on a joint
19 return, \$280,000 or more and less than \$290,000.

20 (c) If the federal adjusted gross income of the taxpayer is \$145,000 or more
21 for the tax year, or, if reported on a joint return, \$290,000 or more, the limit
22 is zero and the taxpayer is not allowed a subtraction for federal income taxes
23 under ORS 316.680 (1) for the tax year.

24 (d) In the case of spouses in a marriage filing separate tax returns, the
25 amount added shall be in the amount of any federal income taxes in excess
26 of 50 percent of the amount provided for individual taxpayers under para-
27 graphs (a) to (c) of this subsection, less the amount of any refund of federal
28 taxes previously accrued for which a tax benefit was received.

29 (e) For purposes of this subsection, the limits applicable to a joint return
30 shall apply to a head of household or a surviving spouse, as defined in sec-
31 tion 2(a) and (b) of the Internal Revenue Code.

1 (f)(A) For a calendar year beginning on or after January 1, 2008, the De-
2 partment of Revenue shall make a cost-of-living adjustment to the federal
3 income tax threshold amounts described in paragraphs (b) and (d) of this
4 subsection.

5 (B) The cost-of-living adjustment for a calendar year is the percentage by
6 which the monthly averaged U.S. City Average Consumer Price Index for the
7 12 consecutive months ending August 31 of the prior calendar year exceeds
8 the monthly averaged index for the period beginning September 1, 2005, and
9 ending August 31, 2006.

10 (C) As used in this paragraph, "U.S. City Average Consumer Price
11 Index" means the U.S. City Average Consumer Price Index for All Urban
12 Consumers (All Items) as published by the Bureau of Labor Statistics of the
13 United States Department of Labor.

14 (D) If any adjustment determined under subparagraph (B) of this para-
15 graph is not a multiple of \$50, the adjustment shall be rounded to the next
16 lower multiple of \$50.

17 (E) The adjustment shall apply to all tax years beginning in the calendar
18 year for which the adjustment is made.

19 (4)(a) In addition to the adjustments required by ORS 316.130, a full-year
20 nonresident individual shall add to taxable income a proportion of any ac-
21 crued federal income taxes as computed under ORS 316.685 in excess of the
22 amount provided in subsection (3) of this section in the proportion provided
23 in ORS 316.117.

24 (b) In the case of spouses in a marriage filing separate tax returns, the
25 amount added under this subsection shall be computed in a manner consist-
26 ent with the computation of the amount to be added in the case of spouses
27 in a marriage filing separate returns under subsection (3) of this section. The
28 method of computation shall be determined by the Department of Revenue
29 by rule.

30 (5) Subsections (3)(d) and (4)(b) of this section shall not apply to married
31 individuals living apart as defined in section 7703(b) of the Internal Revenue

1 Code.

2 (6)(a) For tax years beginning on or after January 1, 1981, and prior to
3 January 1, 1983, income or loss taken into account in determining federal
4 taxable income by a shareholder of an S corporation pursuant to sections
5 1373 to 1375 of the Internal Revenue Code shall be adjusted for purposes of
6 determining Oregon taxable income, to the extent that as income or loss of
7 the S corporation, they were required to be adjusted under the provisions
8 of ORS chapter 317.

9 (b) For tax years beginning on or after January 1, 1983, items of income,
10 loss or deduction taken into account in determining federal taxable income
11 by a shareholder of an S corporation pursuant to sections 1366 to 1368 of the
12 Internal Revenue Code shall be adjusted for purposes of determining Oregon
13 taxable income, to the extent that as items of income, loss or deduction of
14 the shareholder the items are required to be adjusted under the provisions
15 of this chapter.

16 (c) The tax years referred to in paragraphs (a) and (b) of this subsection
17 are those of the S corporation.

18 (d) As used in paragraph (a) of this subsection, an S corporation refers
19 to an electing small business corporation.

20 (7)(a) The taxpayer shall be entitled to an additional amount, as referred
21 to in subsection (1)(c)(A) and (D) of this section, of \$1,000:

22 (A) For the taxpayer if the taxpayer has attained age 65 before the close
23 of the taxpayer's tax year; and

24 (B) For the spouse of the taxpayer if the spouse has attained age 65 before
25 the close of the tax year and an additional exemption is allowable to the
26 taxpayer for such spouse for federal income tax purposes under section 151(b)
27 of the Internal Revenue Code.

28 (b) The taxpayer shall be entitled to an additional amount, as referred to
29 in subsection (1)(c)(A) and (D) of this section, of \$1,000:

30 (A) For the taxpayer if the taxpayer is blind at the close of the tax year;
31 and

1 (B) For the spouse of the taxpayer if the spouse is blind as of the close
2 of the tax year and an additional exemption is allowable to the taxpayer for
3 such spouse for federal income tax purposes under section 151(b) of the
4 Internal Revenue Code. For purposes of this subparagraph, if the spouse dies
5 during the tax year, the determination of whether such spouse is blind shall
6 be made immediately prior to death.

7 (c) In the case of an individual who is not married and is not a surviving
8 spouse, paragraphs (a) and (b) of this subsection shall be applied by substi-
9 tuting “\$1,200” for “\$1,000.”

10 (d) For purposes of this subsection, an individual is blind only if the
11 individual’s central visual acuity does not exceed 20/200 in the better eye
12 with correcting lenses, or if the individual’s visual acuity is greater than
13 20/200 but is accompanied by a limitation in the fields of vision such that
14 the widest diameter of the visual field subtends an angle no greater than 20
15 degrees.

16 (8) In the case of an individual with respect to whom a deduction under
17 section 151 of the Internal Revenue Code is allowable for federal income tax
18 purposes to another taxpayer for a tax year beginning in the calendar year
19 in which the individual’s tax year begins, the basic standard deduction (re-
20 ferred to in subsection (1)(c)(B) of this section) applicable to such individual
21 for such individual’s tax year shall equal the lesser of:

22 (a) The amount allowed to the individual under section 63(c)(5) of the
23 Internal Revenue Code for federal income tax purposes for the tax year for
24 which the deduction is being claimed; or

25 (b) The amount determined under subsection (1)(c)(B) of this section.

26 **SECTION 2. On or before July 1 of each year, beginning with July**
27 **1, 2018, the Department of Revenue shall:**

28 **(1) For tax years beginning on or after January 1 of the preceding**
29 **year and ending before January 1 of the current year, estimate the**
30 **increase, if any, in the amount of personal income tax revenue re-**
31 **ceived by the department that is attributable to the amendments to**

1 **ORS 316.695 by section 1 of this 2017 Act; and**

2 **(2) Transfer an amount equal to the estimate required under sub-**
3 **section (1) of this section to the Oregon Housing Fund created under**
4 **ORS 458.620, to be credited to the following accounts in the fund:**

5 **(a) Fifty percent to the Home Ownership Assistance Account;**

6 **(b) Twenty-five percent to the General Housing Account; and**

7 **(c) Twenty-five percent to the Emergency Housing Account.**

8 **SECTION 3. The amendments to ORS 316.695 by section 1 of this**
9 **2017 Act apply to tax years beginning on or after January 1, 2017.**

10 **SECTION 4. This 2017 Act takes effect on the 91st day after the date**
11 **on which the 2017 regular session of the Seventy-ninth Legislative**
12 **Assembly adjourns sine die.**

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