

# Personal Income Tax Orientation

House Committee on Revenue  
Legislative Revenue Office – 1/25/2021



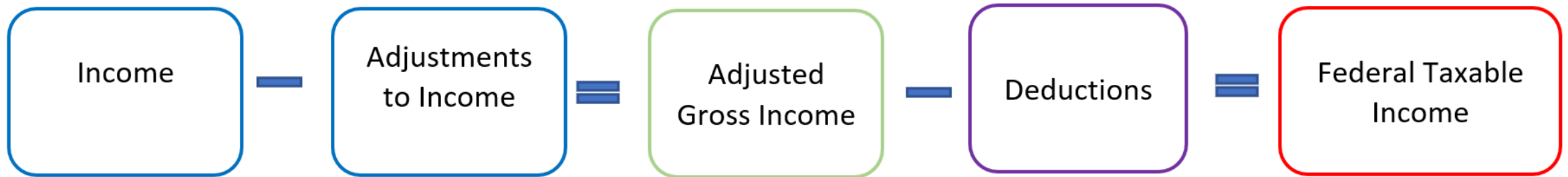
# Orientation Overview

- Federal connection
  - Who files
  - PIT income and tax computation
  - Business taxation
  - 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





# Federal Connection

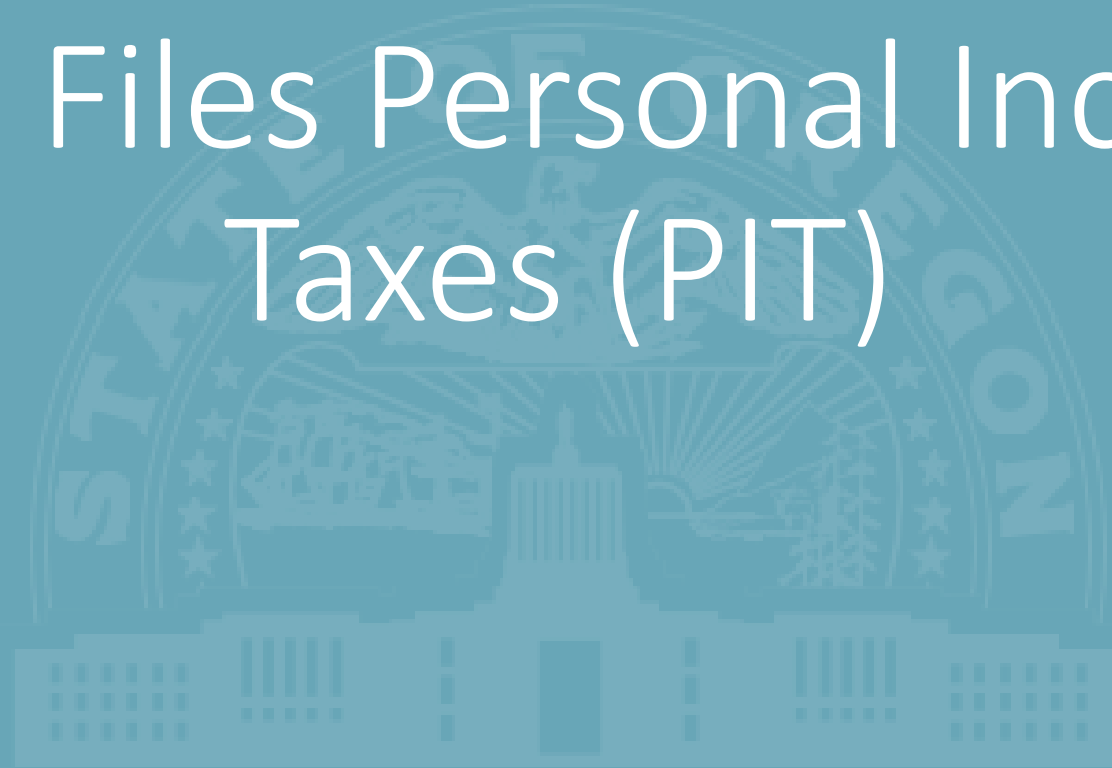


## Oregon federal income tax connection

- Connected to federal definition of taxable income (rolling reconnect)
- Static connection (everything else)



# 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 your 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 2018 (\$'s in Billions)			
Residency	Net Liability	% of Tot.	
Full Year	\$8.3	92%	
Part Year	\$0.2	3%	
Nonresident	\$0.5	5%	
<b>Total</b>	<b>\$9.0</b>	<b>100%</b>	





# 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 widower (QW)
  - Spouse died in previous two tax years and didn't remarry, widower has a child that can be claimed as a dependent

Returns and Net Tax by Filing Status TY 2018 (\$000s)				
	N	Net Tax		% of Tot.
Single	890,787	\$2,204,873		27%
Joint	710,094	\$5,557,072		67%
MFS	31,267	\$117,321		1%
HOH	186,144	\$415,806		5%
QW	875	\$3,385		0%
<b>Total</b>	<b>1,819,167</b>	<b>\$8,298,457</b>		<b>100%</b>

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

**Table 6. Standard deduction**

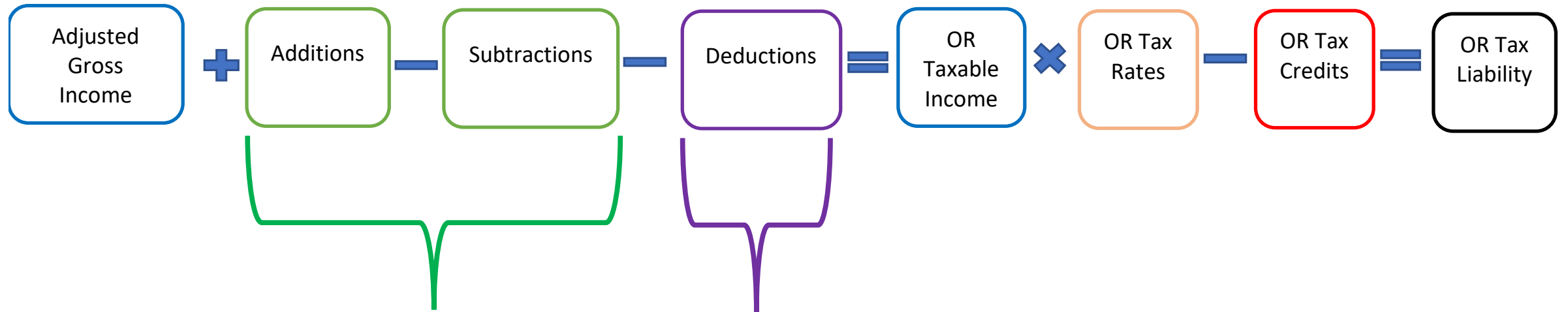
<b>Single</b>	\$2,315
<b>Married filing jointly</b>	\$4,630
<b>Married filing separately</b>	
• If spouse claims standard deduction	\$2,315
• If spouse claims itemized deductions	0
<b>Head of household</b>	\$3,725
<b>Qualifying widow(er)</b>	\$4,630

# Income and Tax Computation





# 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

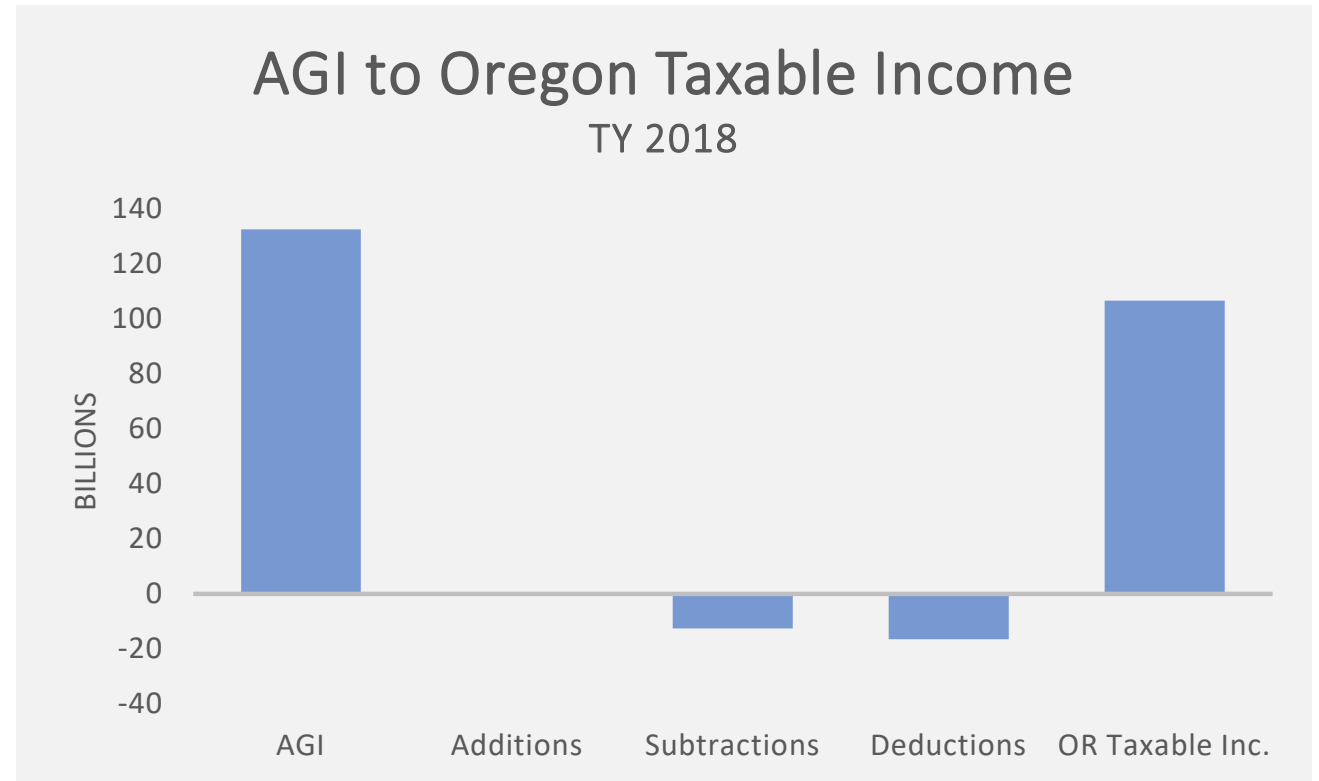
Most originate in federal law with applicability in Oregon due to Oregon's connection to taxable income





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

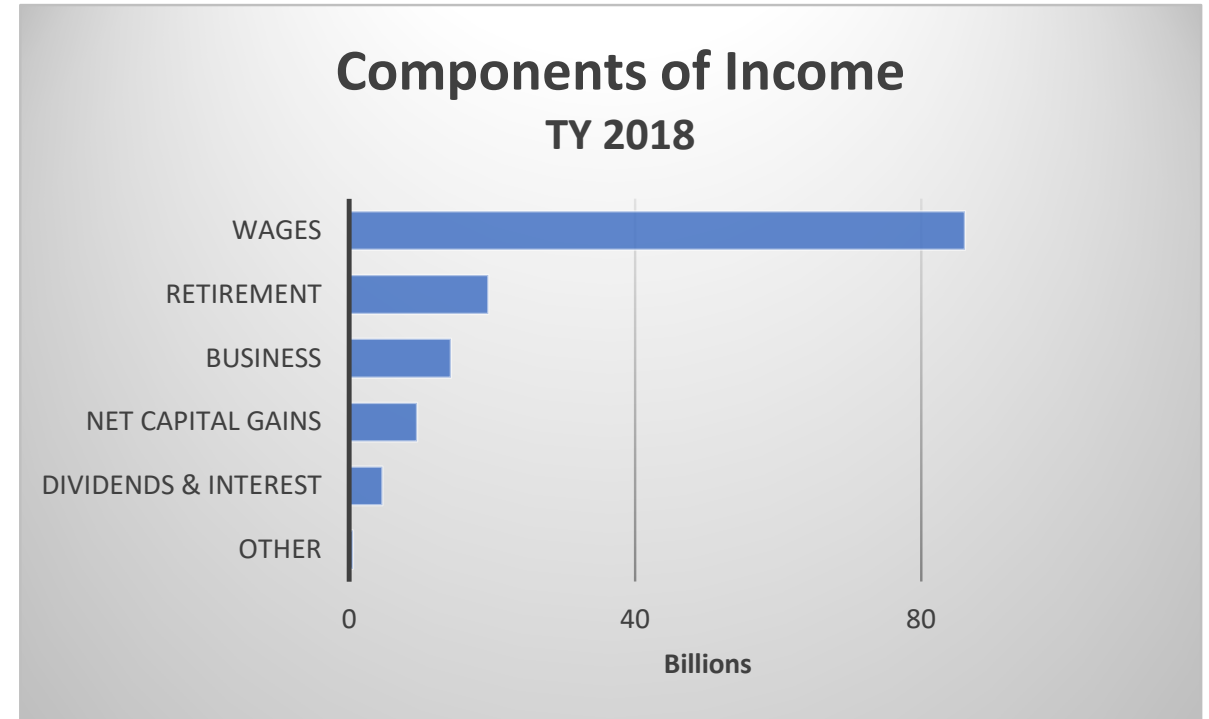
Amount Reported on Tax Returns TY 2018 (Billions)	
AGI	132.5
Additions	0.4
Subtractions	12.5
Deductions	16.4
OR Taxable Inc.	106.5
<b>Gross Tax</b>	<b>9.1</b>
Credits	0.8
<b>Net Tax Liability</b>	<b>8.3</b>





# Components of Income

Components of Income (\$Millions)			
Type	Amount	% of Tot.	
Wages	86,109	64%	
Retirement	19,419	14%	
Business	14,217	11%	
Net Capital Gains	9,483	7%	
Dividends & Interest	4,657	3%	
Other	507	0%	
<b>Gross Income</b>	<b>134,392</b>	<b>100%</b>	



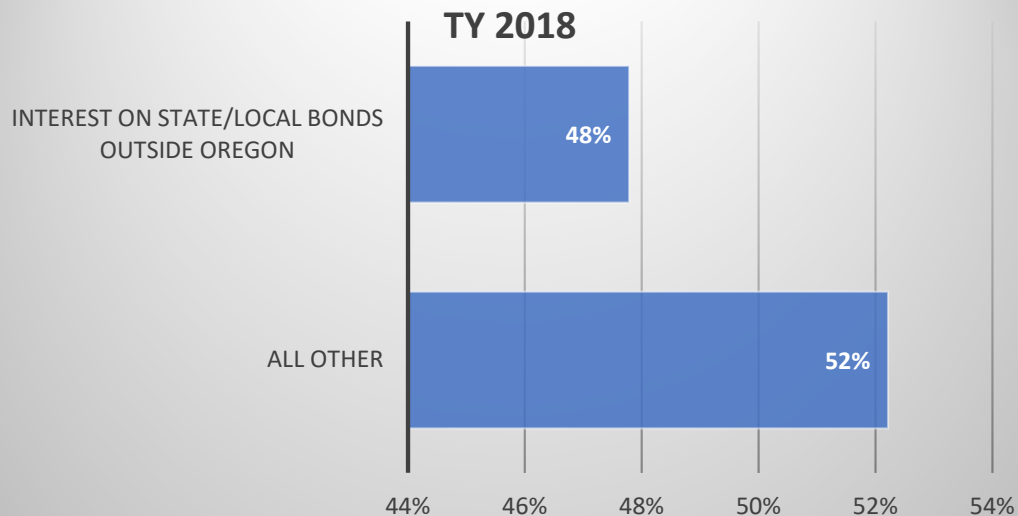


# Additions

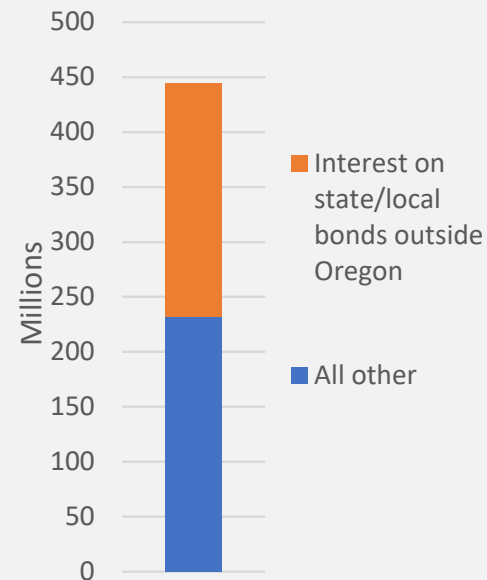
## Additions TY 2018

Interest on state/local bonds outside Oregon	212,543,037
All other	232,263,649
<b>Total</b>	<b>444,806,686</b>

## Addition Type Percentage of Total



## Additions TY 2018



## Other Addition Examples

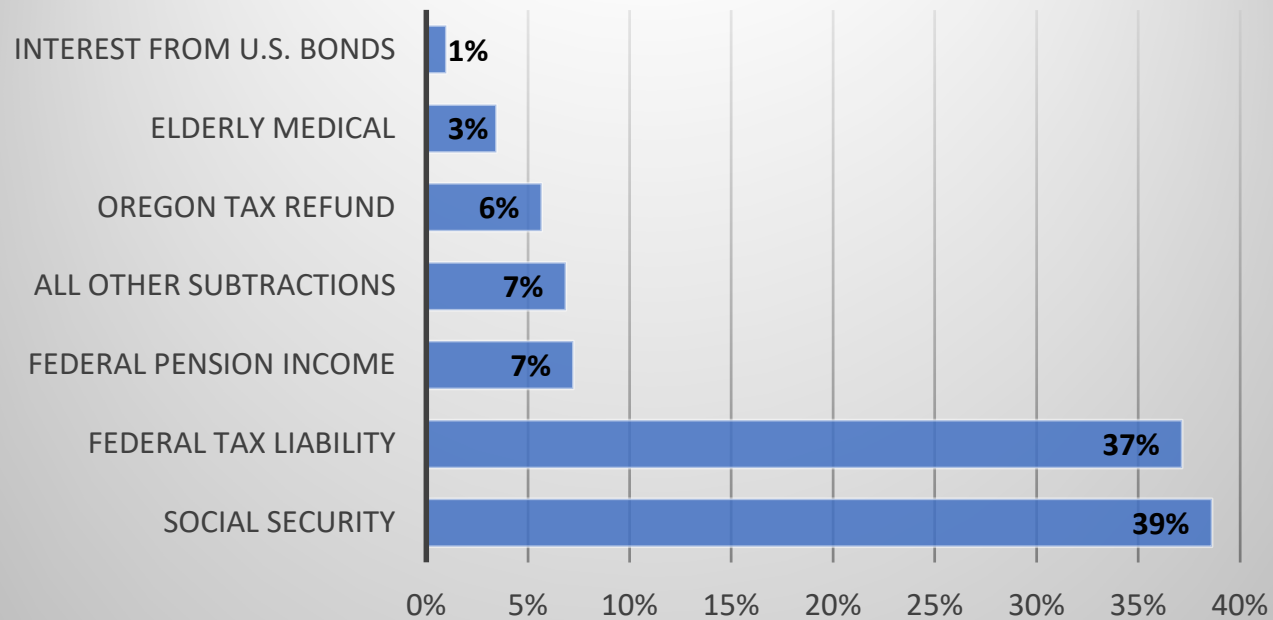
- Oregon tax policy differs from federal (e.g. Oregon disconnects from federal change)
- Federal income tax refund following audit/amend
- Depreciation difference in Oregon
- Nonqualified withdrawals



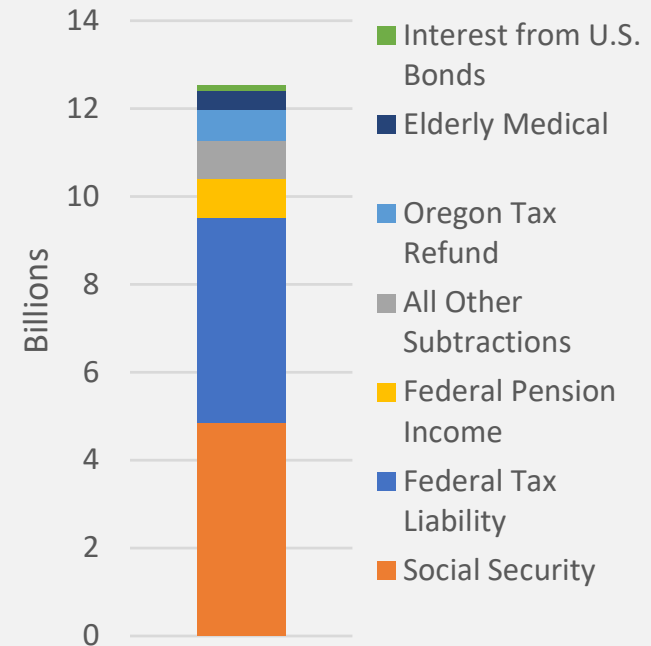


# Oregon Subtractions

## Oregon Subtractions TY 2018



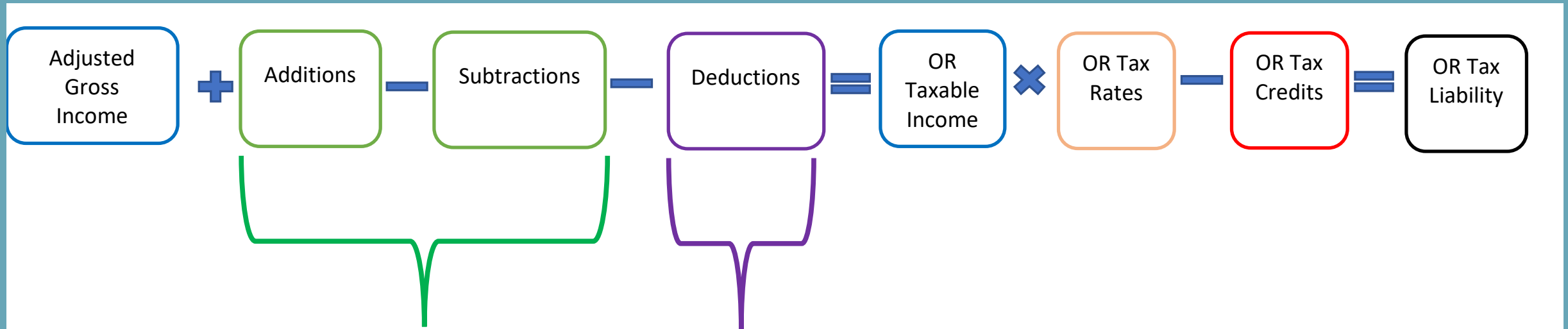
## Subtractions TY 2018



- 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



## Concept: Deductions reduce income subject to taxation

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



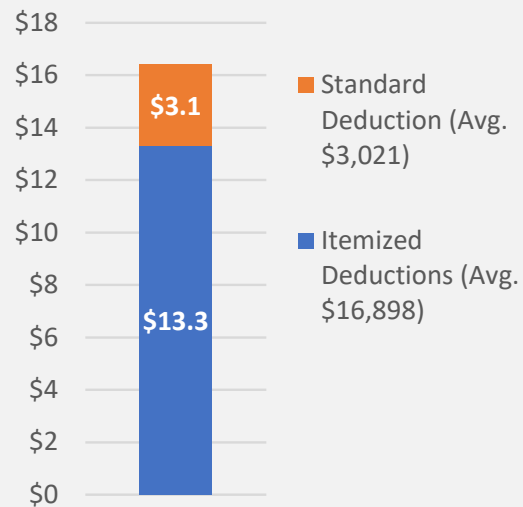


# Oregon Standard & Itemized Deductions

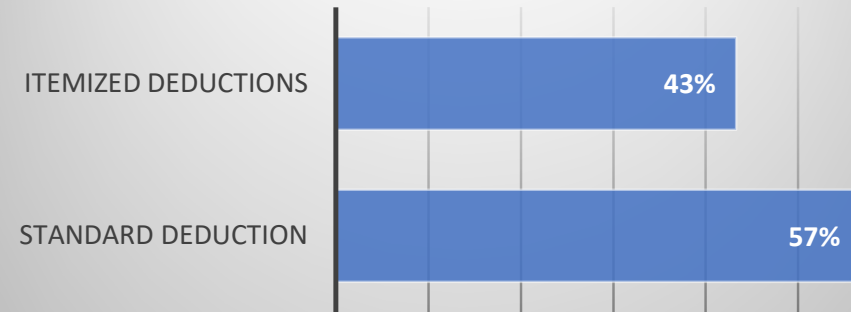
**Deduction Type - TY 2018**

	# Returns	Amount (Billions)	Avg.
Itemized Deductions	787,032	\$13.3	\$16,898
Standard Deduction	1,032,135	\$3.1	\$3,021
<b>Total</b>	<b>1,819,167</b>	<b>\$16.4</b>	<b>\$9,024</b>

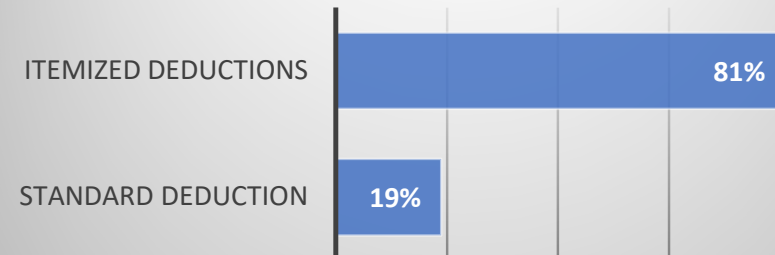
**Deductions  
TY 2018 (Billions)**



**Deduction Type # of Returns  
TY 2018**



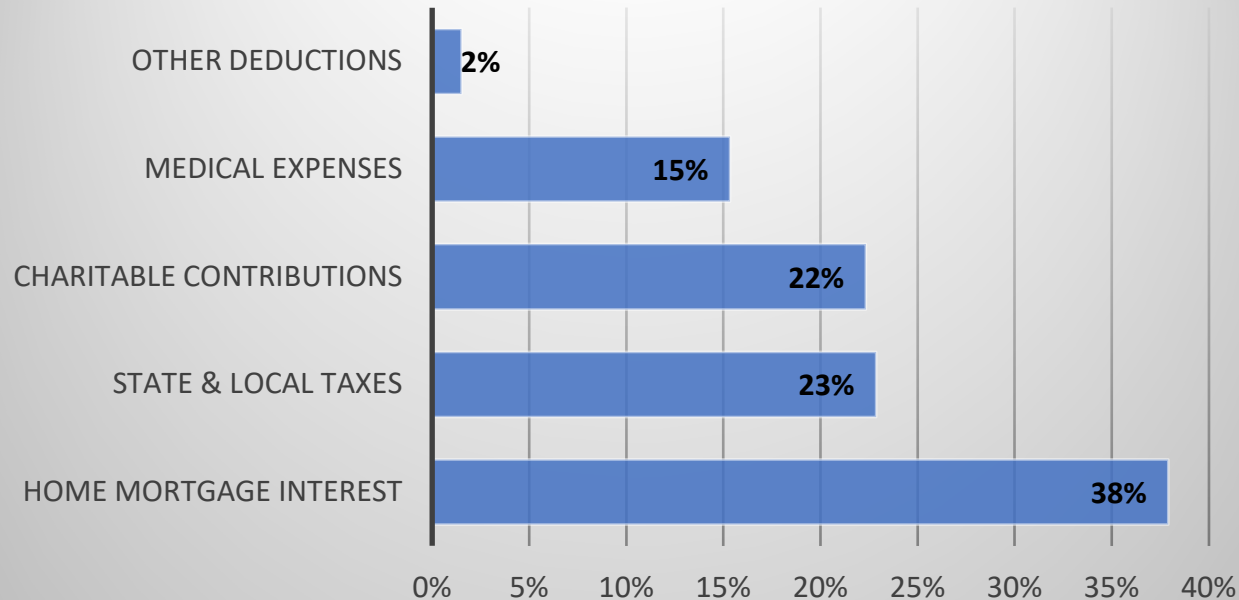
**Amt. Deducted by Type  
TY 2018**



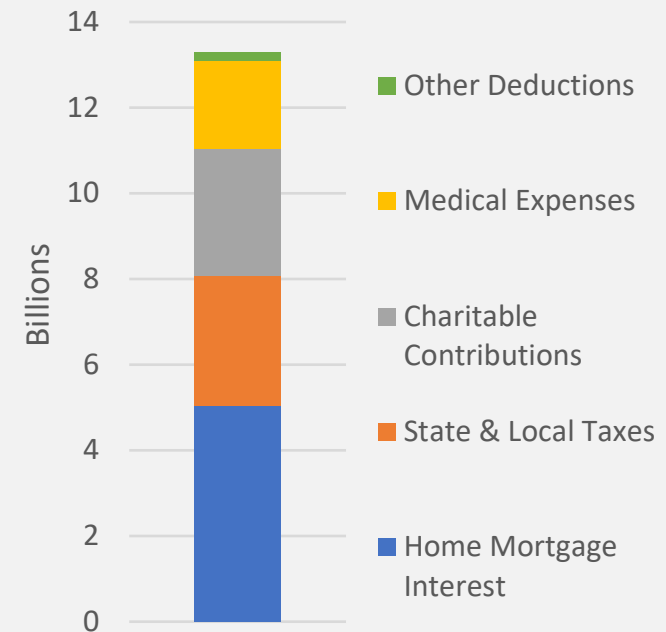


# Oregon Itemized Deductions

## Oregon Itemized Deductions TY 2018



## Deductions TY 2018

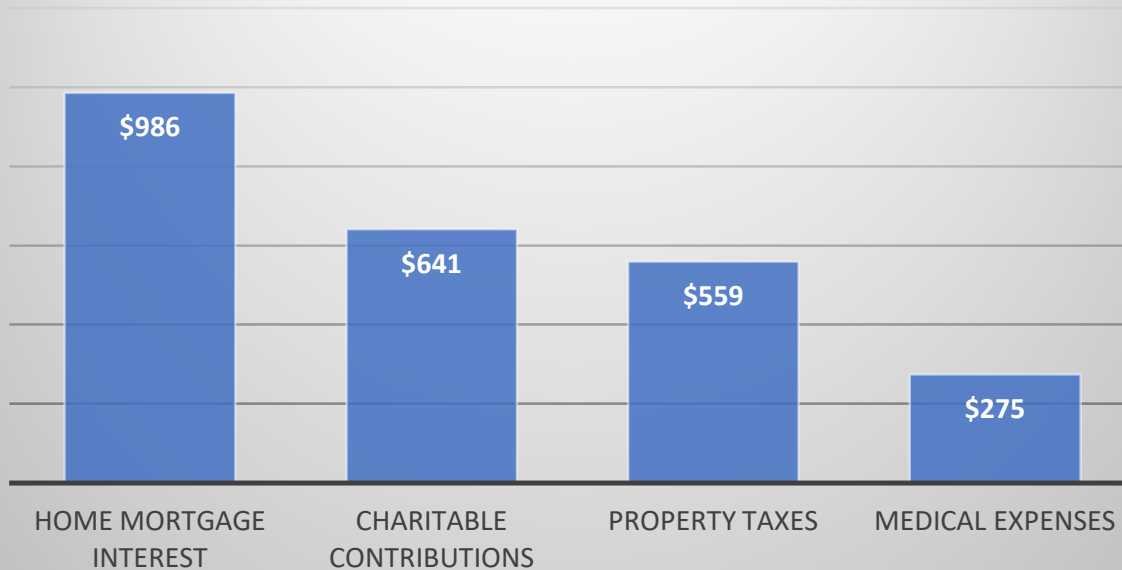






# Oregon Deduction – Revenue Estimates

**Est. TE Report Rev. Impacts**  
2019-21 Biennium (\$ Millions)



## Upshot of Deductions

- Itemized deductions heavily weighted
- Federal changes (TCJA) limited the number of federal returns itemizing – impact on underlying deduction policy
- Interaction of itemized deductions “stacking”





# Deduction Examples

**Interaction with Standard Deduction: Federal & Oregon**

	Federal	OR	Federal	OR
<b>AGI</b>	35,000	35,000	100,000	100,000
<b>Standard Ded.</b>	24,000	4,435	24,000	4,435
Difference	N/A	6,465	500	15,065
<b>Itemized Deds.</b>	12,125	10,900	24,500	19,500
HMI	6,800	6,800	12,000	12,000
State Inc. Tax	1,225	N/A	6,000	N/A
Prop. Taxes	3,700	3,700	5,000	5,000
Charitable	400	400	2,500	2,500
<b>Deduction Type</b>	<i>Standard</i>	<i>Itemize</i>	<i>Itemize</i>	<i>Itemize</i>

Note: Example is of jointly filed return

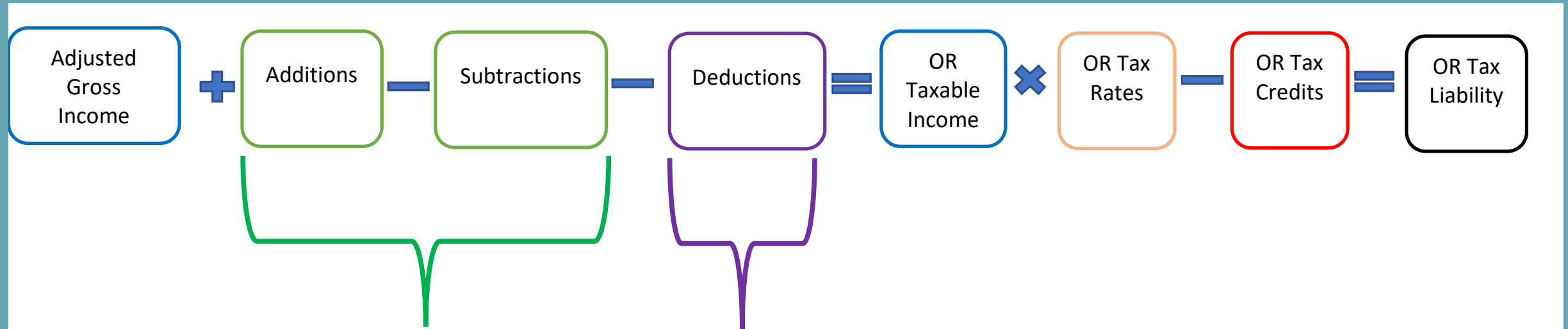
**Example of Deduction "Stacking"**

	Ex. 1	Ex.2
<b>AGI</b>	50,000	50,000
<b>Standard Ded.</b>	4,435	4,435
Difference	4,365	N/A
<b>Itemized Deds.</b>	8,800	3,800
HMI	5,000	N/A
Prop. Taxes	3,500	3,500
Charitable	300	300
<b>Deduction Type</b>	<i>Itemize</i>	<i>Standard</i>

Note: Example is of jointly filed return



# 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

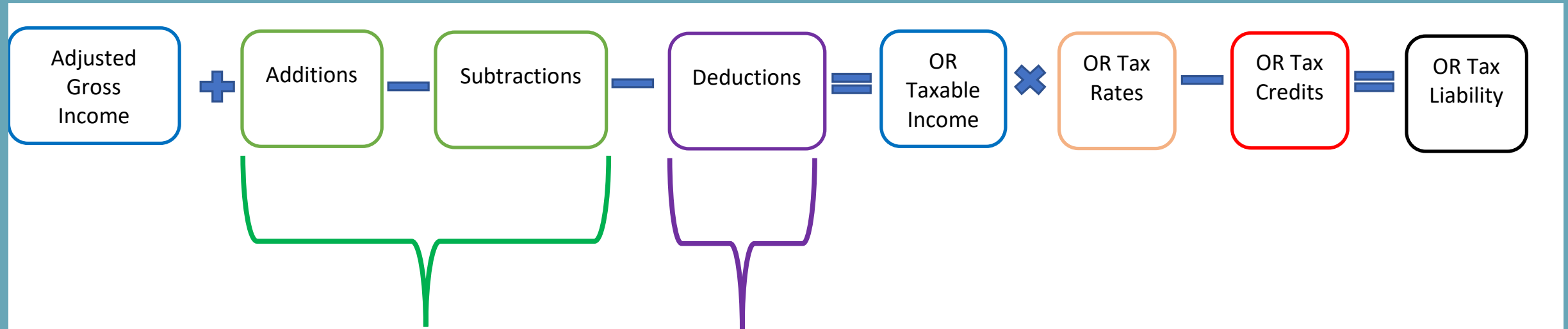
## 2021 TAX YEAR RATE SCHEDULE

SINGLE RETURNS		JOINT RETURNS	
Taxable Income	Tax Before Credits	Taxable Income	Tax Before Credits
Not over \$3,650	4.75% of taxable income	Not over \$7,300	4.75% of taxable income
\$3,650 to \$9,200	\$173 + 6.75% of income over \$3,650	\$7,300 to \$18,400	\$347 + 6.75% of income over \$7,300
\$9,200 to \$125,000	\$548 + 8.75% of income over \$9,200	\$18,400 to \$250,000	\$1,096 + 8.75% of income over \$18,400
Over \$125,000	\$10,681 + 9.9% of income over \$125,000	Over \$250,000	\$21,361 + 9.9% of income over \$250,000

- 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 2018	
All Filers, \$ Millions	
Credit Name	Amount
Personal Exemption Credit	\$611
Taxes Paid to Another State	\$122
Earned Income	\$48
Working Family Household and Dependent Care	\$32
Film Production Development Contributions	\$14
Opportunity Grant Contributions	\$9
Rural Medical Providers	\$7
Individual Development Account Contributions	\$7
Political Contributions	\$5
Severe Disability	\$4
Child with a Disability	\$4
Oregon Cultural Trust	\$4
<i>Other</i>	\$34
<b>Total</b>	<b>\$902</b>

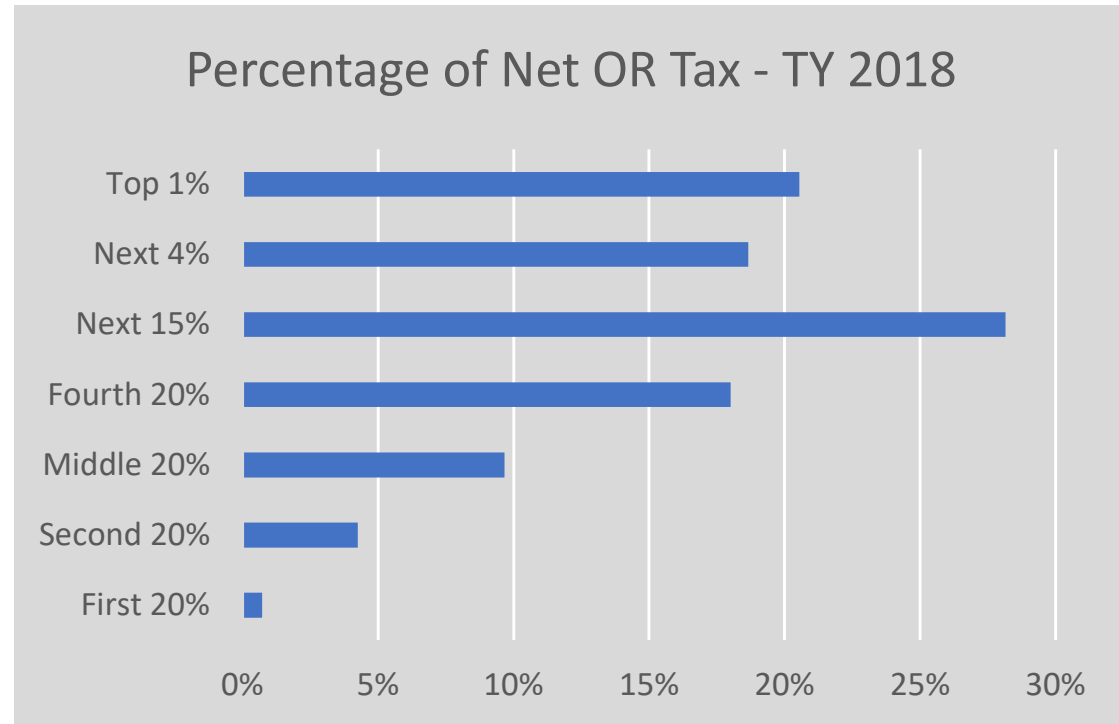
- Personal exemption credit was \$210 in TY 2020 and is indexed to inflation
  - Personal Exemption Credit is limited to taxpayers with Adjusted Gross Income
    - Single:  $\leq \$100,000$
    - Joint:  $\leq \$200,000$





# Oregon Tax Liability

Net Tax Liability - TY 2018 (\$Millions)		
Quintile	Tax Liability	Pct. of Tot.
First 20%	60	1%
Second 20%	352	4%
Middle 20%	802	10%
Fourth 20%	1,495	18%
Next 15%	2,336	28%
Next 4%	1,548	19%
Top 1%	1,705	21%
<b>Total</b>	<b>8,298</b>	<b>100%</b>



# 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)

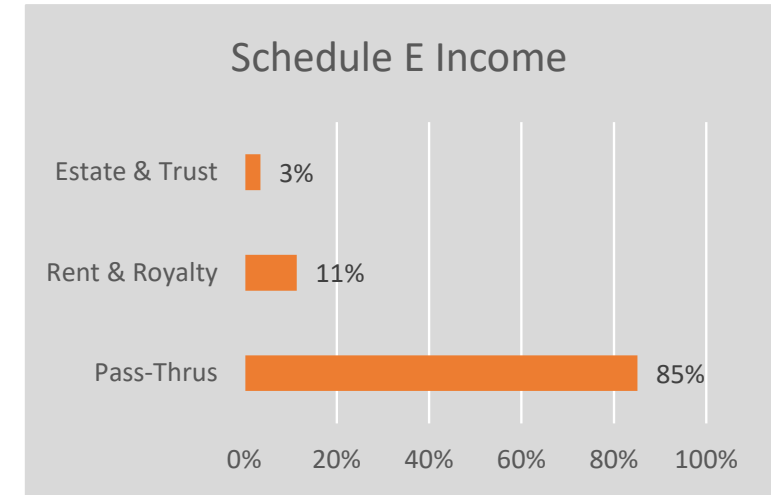
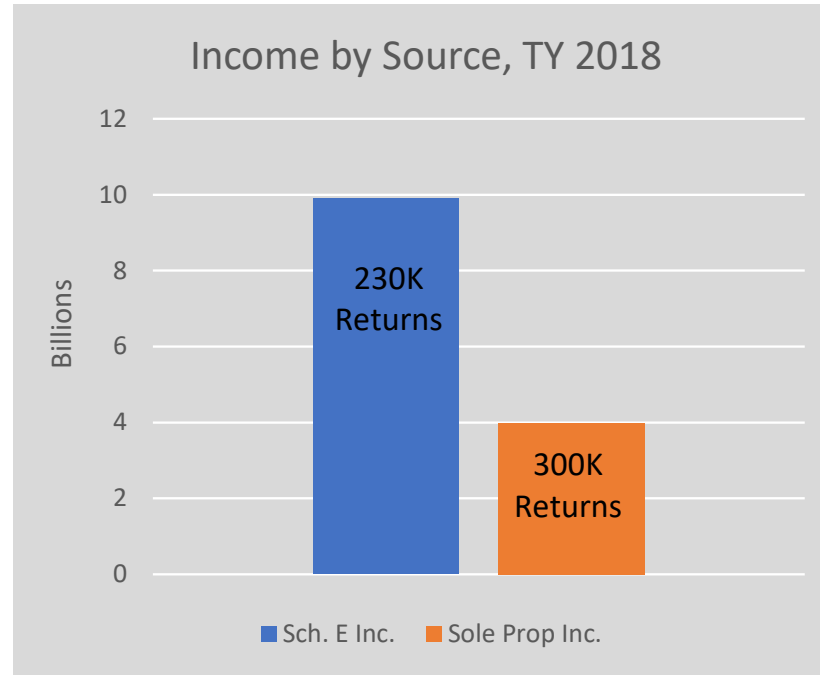




# Business Income

## Components of Income (\$Millions)

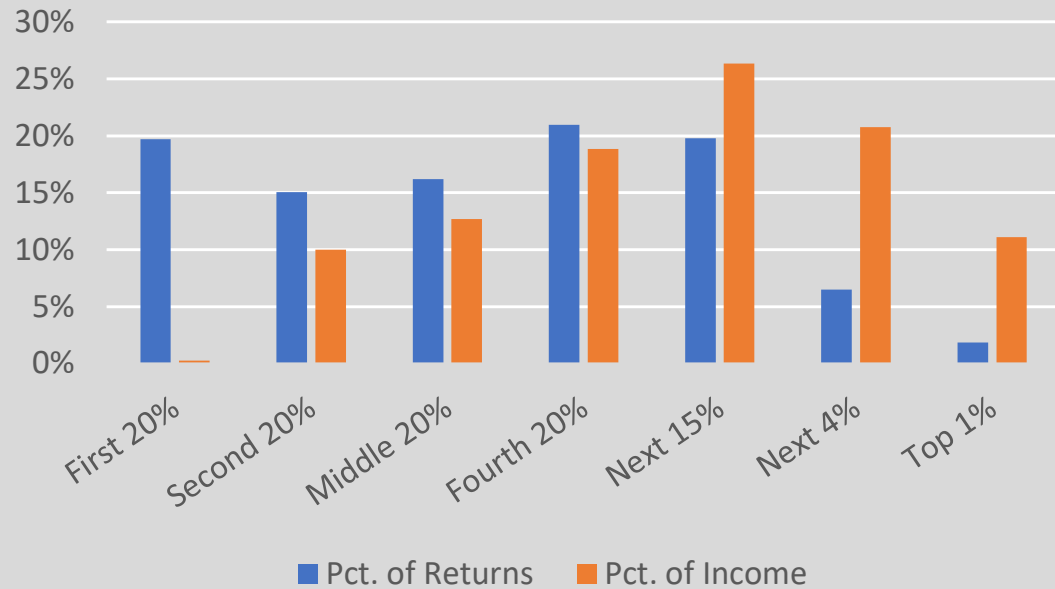
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Business	14,217	11%
Net Capital Gains	9,483	7%
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Other	507	0%
<b>Gross Income</b>	<b>134,392</b>	<b>100%</b>



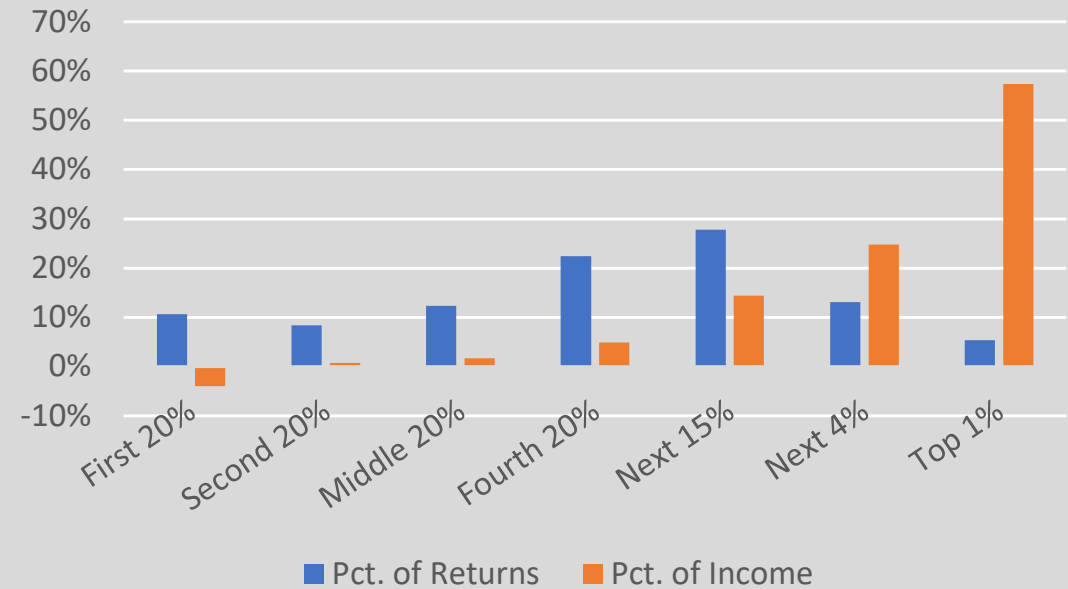


# Business Income Distribution

## Sole Props



## Schedule E





# Business Income Taxation

## Federal Qualified Business Income Deduction (Oregon not connected)

- Deduction allows eligible taxpayers to deduct up 20% of their qualified business income
- Income limits exist, limited availability for higher income specified service trade or business (fields of health, law, accounting, consulting, etc.)

## Oregon's reduced rates for PTE income





# Policy Description & Requirements

- The policy objective is to provide 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.)
- 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
- Primary requirement is the 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)
- Have at least one full-time, non-investor employee
- Qualifying employees must work at least 1,200 hours in Oregon





# 2018 Tax Rates & Brackets

Joint Income Tax Rates	
Taxable Income (\$)	Tax Rate
≤ \$6,900	5.0%
\$6,901 to \$17,400	7.0%
\$17,401 to \$250,000	9.0%
Over \$250,000	9.9%

Non-Passive Income Tax Rates	
Taxable Income (\$)	Tax Rate
≤ \$250,000	7.0%
\$250,001 to \$500,000	7.2%
\$500,001 to \$1 Million	7.6%
\$1 Million to \$2.5 Million	8.0%
\$2.5 Million to \$5 Million	9.0%
Over \$5 Million	9.9%





# Revenue Impacts

## Tax Year 2017 & 2018 Data, Full-Year Filers

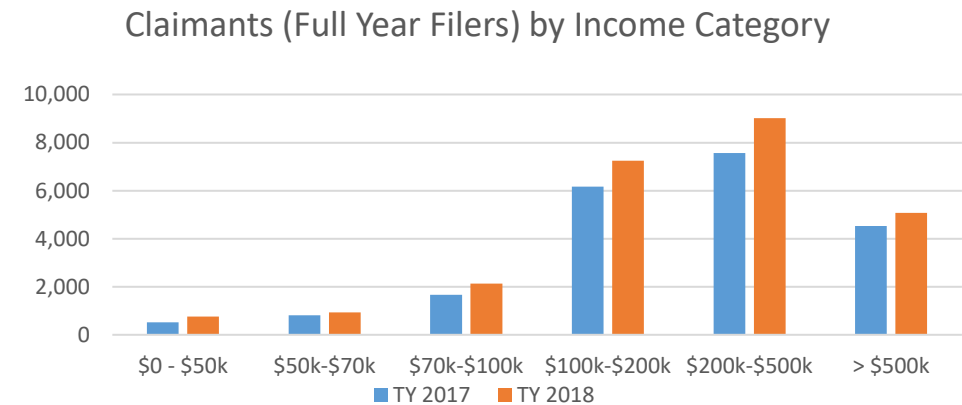
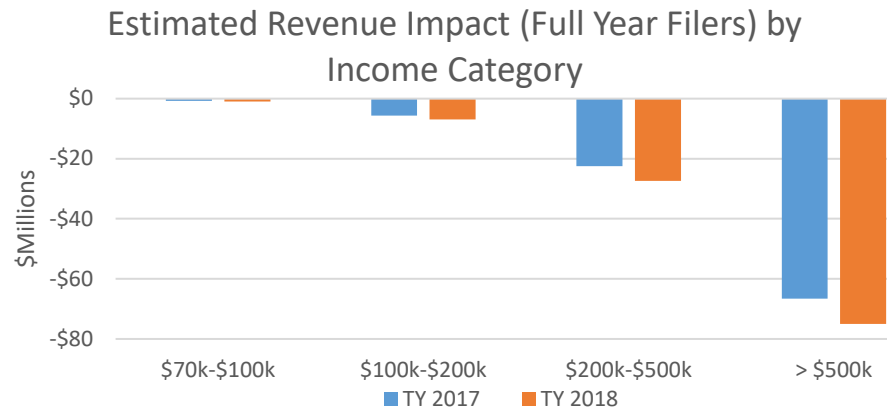
Revenue Impact (\$M)			
Income	TY 2017	TY 2018	Difference
\$0 - \$50k	-\$0.1	-\$0.1	\$0.0
\$50k-\$70k	-\$0.2	-\$0.3	-\$0.1
\$70k-\$100k	-\$0.8	-\$1.0	-\$0.2
\$100k-\$200k	-\$5.7	-\$6.9	-\$1.2
\$200k-\$500k	-\$22.5	-\$27.4	-\$4.9
> \$500k	-\$66.6	-\$75.0	-\$8.3
Total	-\$95.9	-\$110.7	-\$14.8

**Means (\$)**      -\$4,504      -\$4,394

Income: Refers to total income | 2018 Full year filers

Number of Claimants			
Income	TY 2017	TY 2018	% Ch.
\$0 - \$50k	527	769	46%
\$50k-\$70k	812	939	16%
\$70k-\$100k	1,675	2,138	28%
\$100k-\$200k	6,165	7,247	18%
\$200k-\$500k	7,569	9,020	19%
> \$500k	4,532	5,079	12%
Total	21,289	25,192	18%

Source: DOR - Research, Personal Income Tax Returns



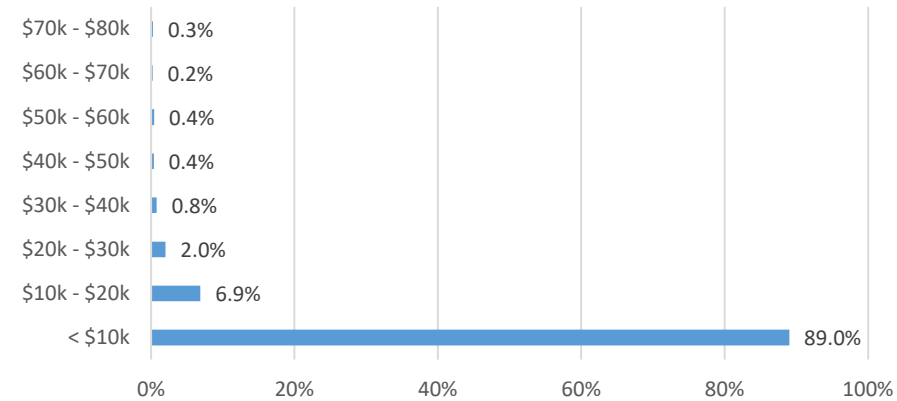




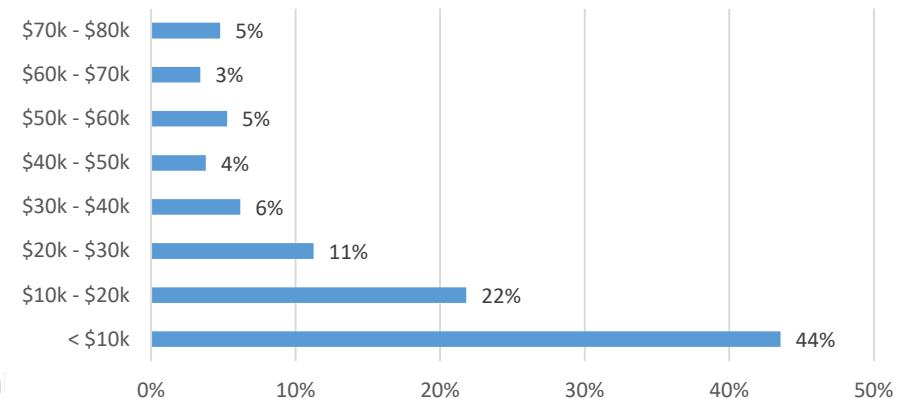
# Tax Reduction Distribution – TY 2018

Returns			Tax Cut	
Tax Cut	Number	Share	\$ Million	Share
< \$5k	19,367	76.9%	\$27.2	24.6%
\$5k - \$10k	3,058	12.1%	\$21.0	18.9%
\$10k - \$15k	1,132	4.5%	\$14.0	12.6%
\$15k - \$20k	599	2.4%	\$10.2	9.2%
\$20k - \$25k	292	1.2%	\$6.5	5.9%
\$25k - \$30k	219	0.9%	\$5.9	5.4%
\$30k - \$35k	123	0.5%	\$4.0	3.6%
\$35k - \$40k	76	0.3%	\$2.8	2.6%
\$40k - \$45k	50	0.2%	\$2.1	1.9%
\$45k - \$50k	44	0.2%	\$2.1	1.9%
\$50k - \$55k	45	0.2%	\$2.4	2.2%
\$55k - \$60k	60	0.2%	\$3.4	3.1%
\$60k - \$66k	44	0.2%	\$2.7	2.5%
\$66k - \$70k	15	0.1%	\$1.0	0.9%
\$70k - \$76k	15	0.1%	\$1.1	1.0%
\$76k - \$80K	55	0.2%	\$4.2	3.8%
<b>Total</b>	<b>25,192</b>	<b>100.0%</b>	<b>\$110.7</b>	<b>100.0%</b>

Share of Claimants by Tax Cut Amount  
TY 2018

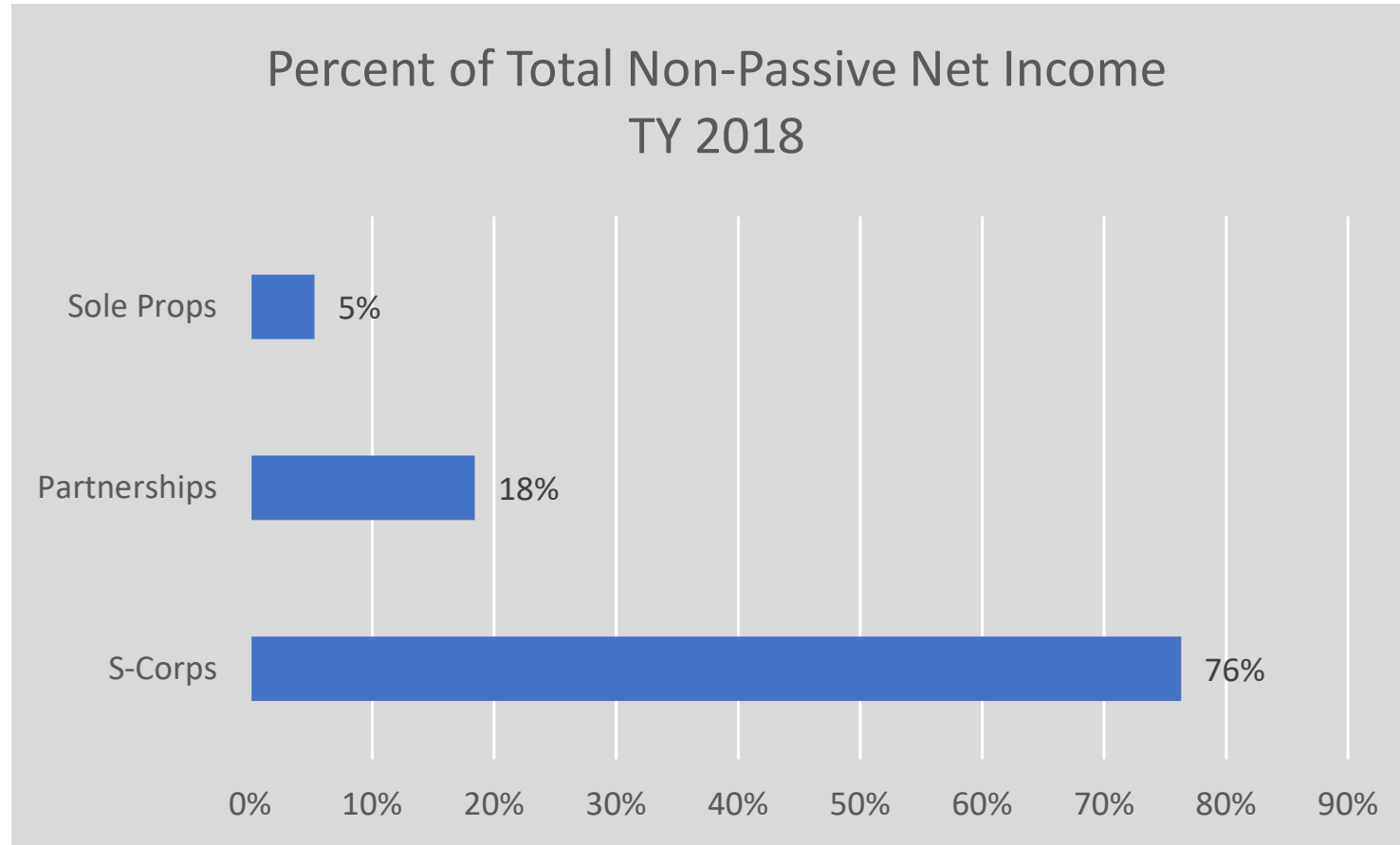


Share of Revenue Impact by Tax Cut Amount  
TY 2018





# Entity Type



Questions?

