

# Oregon Connection to Federal Tax Law

Legislative Revenue Office



# Overview of Presentation

- What is connection to federal tax law
- Purpose of connection
- Personal income tax (PIT)
  - Forms of connection, details on Oregon's connection
- Corporate excise/income tax (Corp)
  - Forms of connection, details on Oregon's connection





# Connection (Conformity) to Federal Law

- State adoption of federal tax code
  - Use federal code as income starting point:
    - PIT: Adjusted gross income (AGI) or taxable income
    - Corp: Taxable income before or after NOLs & special deductions
  - Selective connection





# Purpose of Connection to Federal Law

- Administrative
  - Government
    - Federal statutes, rulings and interpretations
    - Tax enforcement & assessment (federal audit & enforcement)
  - Taxpayer
    - Consistency of definitions, requirements, etc.
    - Tax compliance



# Personal income tax (Pit)





# How states connect

- Selecting a connection point
  - AGI, taxable income, other



- Connection type: “Rolling”, point-in-time, hybrid?
  - Rolling connection is continuous (state automatically connected to federal law changes, states must opt-out of federal law changes)
  - Point-in-time
    - Select specific date & update (states opt-in to federal law changes)





# Oregon's connection - PIT

- Oregon has a hybrid connection
  - OR has a rolling reconnect to definition of federal taxable income
    - Not connected to policies “downstream” from taxable income such as: tax rates, credits, federal surtaxes (indirect connection occurs through Oregon’s federal tax subtraction)
  - Point-in-time connection for everything unrelated to definition of taxable income

(b) Except where the Legislative Assembly has provided otherwise, a reference to the laws of the United States or to the Internal Revenue Code refers to the laws of the United States or to the Internal Revenue Code as they are amended and in effect:

(A) On December 31, [2018] **2019**; or

(B) If related to the definition of taxable income, as applicable to the tax year of the taxpayer.





# Example of PIT Connection

Example: Federal law change exempts first \$500 in interest income from taxable income. Oregon's rolling reconnect causes exemption to flow through to Oregon tax law.

Fictional Taxpayer Example				
Income	Current Law		Fed. Law Change	
	Federal	Oregon	Federal	Oregon
Wages	\$50,000	\$50,000	\$50,000	\$50,000
Interest	\$500	\$500	\$0	\$0
Total Inc.	\$50,500	\$50,500	\$50,000	\$50,000
Income Diff.			-\$500	-\$500







# Oregon's connection - PIT

Connection Type	Policy Considerations
Connect to taxable income	<ul style="list-style-type: none"><li>• Further “downstream” (than AGI) connection incorporates more federal changes</li><li>• Less automatic policy discretion for state</li><li>• State is opted-in to more federal changes</li></ul>
Connect to AGI	<ul style="list-style-type: none"><li>• Further “upstream” from taxable income connection</li><li>• Greater automatic policy discretion for state</li><li>• May capture fewer federal changes than taxable income (e.g. does not capture changes to deductions)</li><li>• Some states also include a static connection to specified deductions</li></ul>
Rolling reconnect	<ul style="list-style-type: none"><li>• State is continuously and automatically connected to federal statute</li><li>• Federal changes are automatically and immediately incorporated into Oregon law (default is state opted-in to any changes)</li><li>• Requires state to pass legislation to not adopt a federal provision</li><li>• Timing challenges of disconnecting</li></ul>
Static connection	<ul style="list-style-type: none"><li>• State connection to federal code at specific point-in-time</li><li>• State legislation required to update connection date (default is state opted-out of federal changes)</li><li>• Timing challenges of connecting</li></ul>



# Corporate Taxation (Corp)





# Corporate Tax Connection

- **Forms of connection**

- **Method of Conformity**

- Rolling vs. Static Connection
    - Rolling connection means....

- **Starting Point**

- Line 28 vs. Line 30
      - Line 28 Form 1120: "Taxable income before net operating loss deduction and special deductions"
      - Line 30 Form 1120: "Taxable Income"





# Corporate Tax Connection

- Starting Point

- Refers to *where* Oregon's tax definitions tie to Federal tax definitions
- Line 28 vs. Line 30
  - Line 28 Form 1120: "Taxable income before net operating loss deduction and special deductions"
  - Line 30 Form 1120: "Taxable Income"





# Federal Form 1120

Form **1120**  
Department of the Treasury  
Internal Revenue Service

**U.S. Corporation Income Tax Return**  
For calendar year 2019 or tax year beginning \_\_\_\_\_, 2019, ending \_\_\_\_\_, 20 \_\_\_\_\_  
▶ Go to [www.irs.gov/Form1120](http://www.irs.gov/Form1120) for instructions and the latest information.

OMB No. 1545-0123  
**2019**

Deduction	28	Taxable income before net operating loss deduction and special deductions. Subtract line 27 from line 11. . . . .	28	
	29a	Net operating loss deduction (see instructions) . . . . .	29a	
	b	Special deductions (Schedule C, line 24) . . . . .	29b	
	c	Add lines 29a and 29b . . . . .	29c	
rd	30	<b>Taxable income.</b> Subtract line 29c from line 28. See instructions . . . . .	30	

- Line 28
  - Taxable income before NOLs and special deductions
- Lines 29a – 29b
  - NOLs and special deductions
- Line 30
  - Taxable income





# Oregon's Corp. tax connection Form 1120

Deduction	<b>28</b>	Taxable income before net operating loss deduction and special deductions.
	<b>29a</b>	Net operating loss deduction (see instructions) . . . . .
	<b>b</b>	Special deductions (Schedule C, line 24) . . . . .
	<b>c</b>	Add lines 29a and 29b . . . . .
nd	<b>30</b>	<b>Taxable income.</b> Subtract line 29c from line 28. See instructions . . . . .

- Oregon is effectively connected to line 28
- Example from CARES Act – Corporate NOLs





# Oregon's Corp. Tax Connection Form 1120

Deduction	<b>28</b>	Taxable income before net operating loss deduction and special deductions.
	<b>29a</b>	Net operating loss deduction (see instructions) . . . . .
	<b>b</b>	Special deductions (Schedule C, line 24) . . . . .
	<b>c</b>	Add lines 29a and 29b . . . . .
	<b>30</b>	<b>Taxable income.</b> Subtract line 29c from line 28. See instructions . . . . .

- Oregon is effectively connected to line 28
- CARES Act
  - NOL changes to corporations do not automatically affect Oregon
  - If we were connected to line 29 (NOLs and special deductions) the CARES NOL changes would flow through.







# Example of PIT Connection

Example: Federal law change exempts all interest income from taxation. Oregon is automatically tied to this change given our tie to the concept of taxable income.

Fictional Taxpayer Example - Oregon Only Business				
	Curent Law		Federal Law Change	
	Federal	Oregon	Federal	Oregon
Income (other than interest income)	\$200,000,000	\$200,000,000	\$200,000,000	\$200,000,000
Interest Income	\$100,000	\$100,000	\$0	\$0
Total income	\$200,100,000	\$200,100,000	\$200,000,000	\$200,000,000
Income Diff.			-\$100,000	-\$100,000





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