

Oregon's Personal Income Tax Federal Tax Subtraction

Senate Committee on Finance & Revenue – 4/5/2021

Legislative Revenue Office



Overview

- What is Oregon's federal tax subtraction?
- Oregon's personal income tax calculation
- Conceptual example
- Specifics of Oregon's federal tax subtraction
- Potential taxpayer outcomes following federal tax changes
- Examples





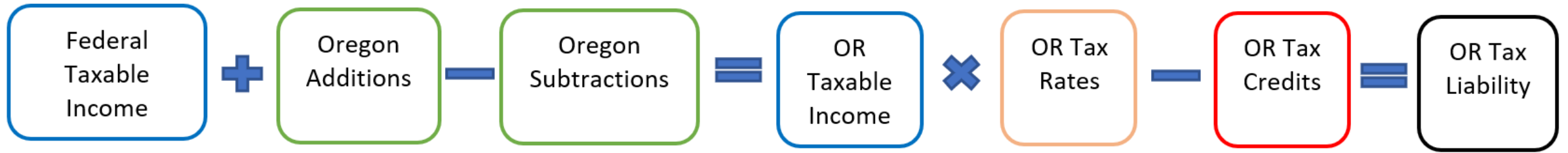
Oregon's Federal Tax Subtraction

- Taxpayers allowed a limited subtraction for their current year's federal income tax liability after credits
- For some taxpayers, changes in federal income tax liability can cause inverse changes in Oregon tax
 - Federal tax increase = Oregon tax decrease
 - Federal tax decrease = Oregon tax increase



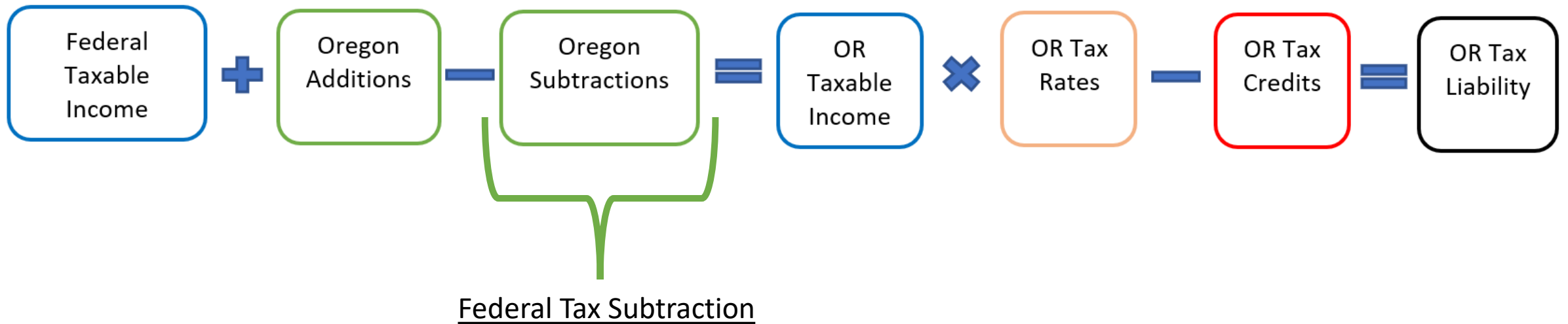


Tax Calculation Flow Chart



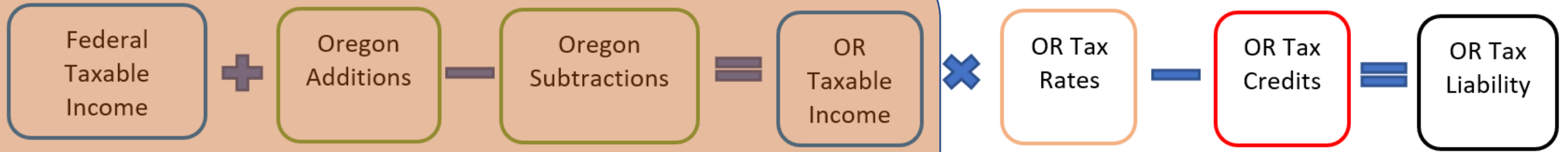


Tax Calculation Flow Chart





Tax Calculation Flow Chart

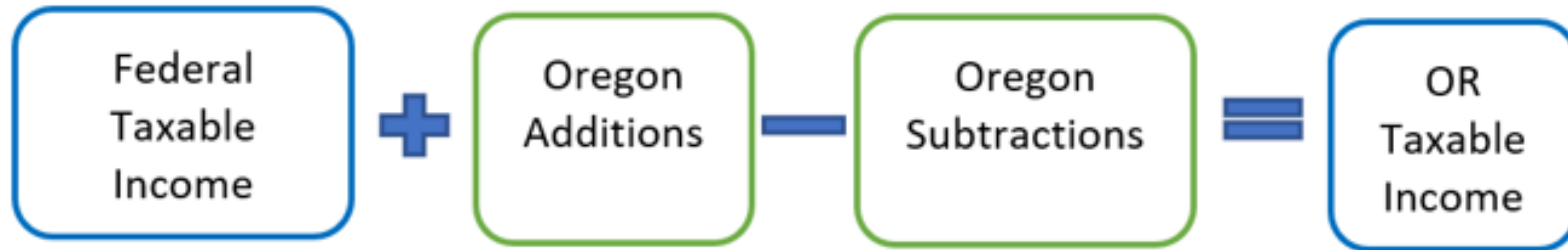


Focusing in!





Conceptual Example



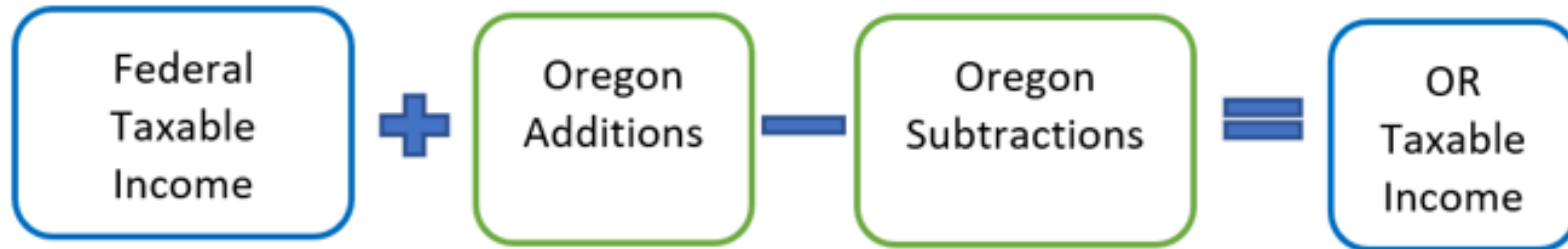
$$\$75,000 + \$0 - \$6,000 = \$69,000$$

$$\$75,000 + \$0 - \$4,000 = \$71,000$$



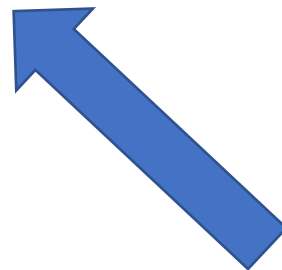


Conceptual Example



$$\$75,000 + \$0 - \$6,000 = \$69,000$$

$$\$75,000 + \$0 - \$4,000 = \$71,000$$



New \$2,000 federal tax credit, causes Oregon federal tax subtraction to decrease by \$2,000





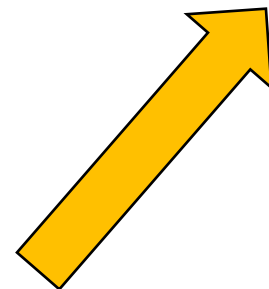
Conceptual Example



$$\$75,000 + \$0 - \$6,000 = \$69,000$$

$$\$75,000 + \$0 - \$4,000 = \$71,000$$

Federal tax subtraction decreases
Oregon taxable income increases

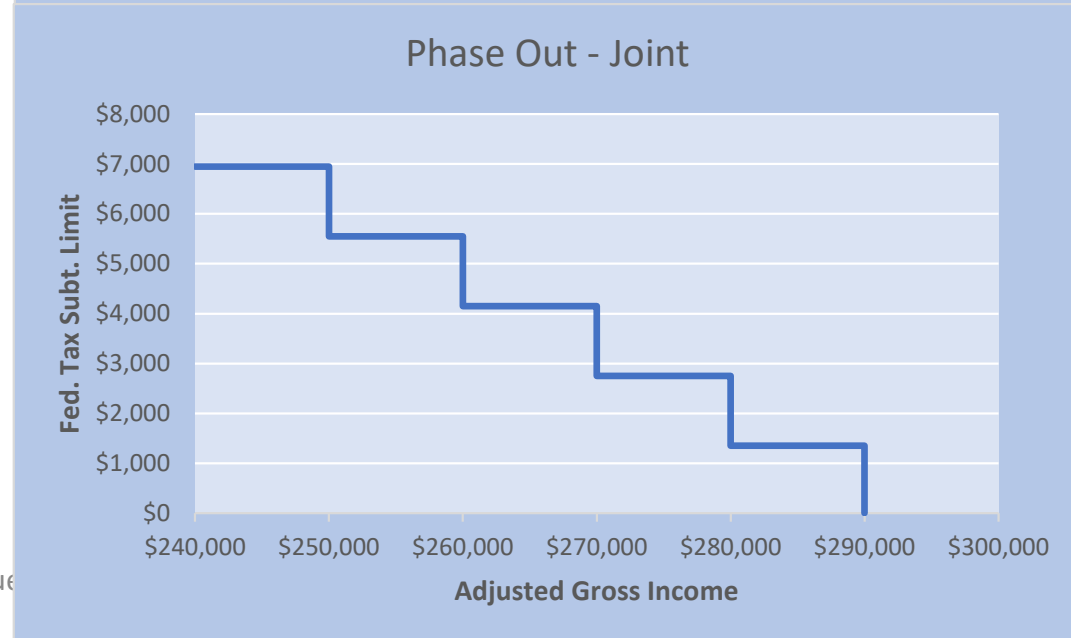
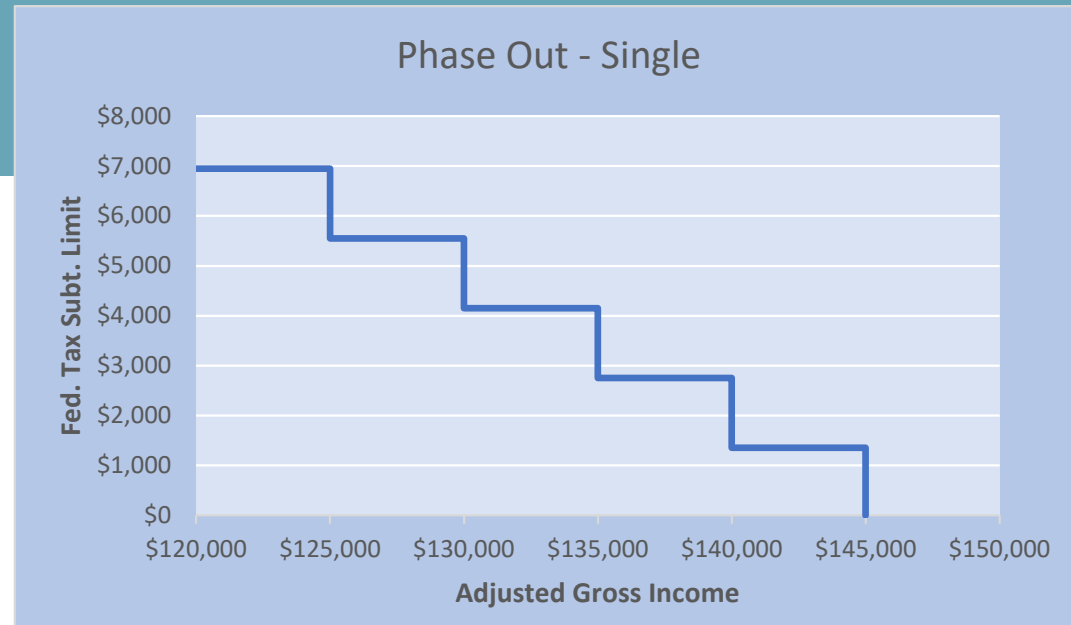




Oregon's Federal Tax Subtraction

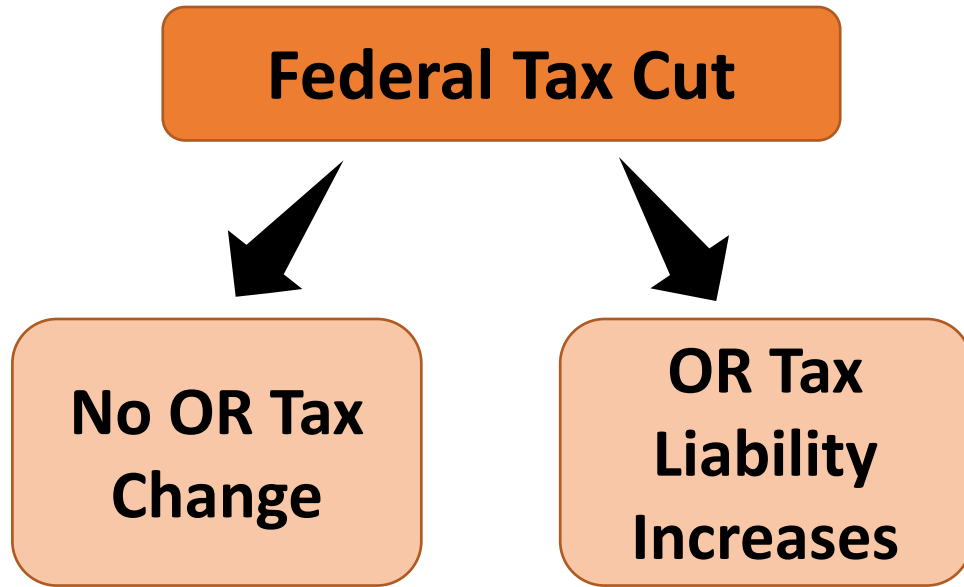
	Maximum Subt. Amount	Phase Out AGI	
		Begins	Fully Phased Out
Single	\$6,950	\$125K	\$145K
Joint	\$6,950	\$250K	\$290K

- Maximum subtraction amount is indexed to inflation
- Phase out range not indexed



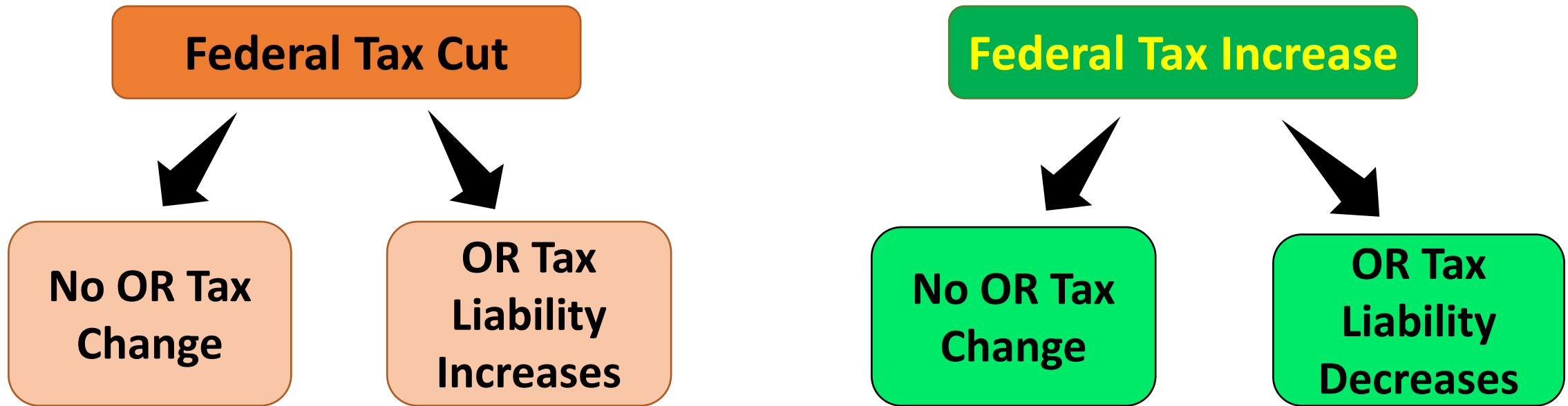


Taxpayer Scenarios





Taxpayer Scenarios





Taxpayer Scenarios

No OR Tax Change

OR Tax Change





Taxpayer Scenarios

No OR Tax Change



**Taxpayer has
no federal tax
liability**

OR Tax Change





Taxpayer Scenarios

No OR Tax Change

OR Tax Change



**Taxpayer has
no federal tax
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**Taxpayer's AGI
above full
phase out
threshold**





Taxpayer Scenarios

No OR Tax Change

OR Tax Change

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**Taxpayer federal tax
liability above OR subt.
limit (\$6,950 in 2020)**





Taxpayer Scenarios

No OR Tax Change

OR Tax Change

Taxpayer has no federal tax liability

Taxpayer's AGI above full phase out threshold

Taxpayer federal tax liability above OR subt. limit (\$6,950 in 2020)

Fed Tax



OR Tax





Taxpayer Scenarios

No OR Tax Change

Taxpayer has no federal tax liability

Taxpayer's AGI above full phase out threshold

Taxpayer federal tax liability above OR subt. limit (\$6,950 in 2020)

OR Tax Change

Fed Tax ↑

OR Tax ↓

Fed Tax ↓

OR Tax ↑





Taxpayer Conceptual Examples

Taxpayer Above OR Fed. Tax Subt. Limit		
Pre Recovery Rebate		Post. Rec. Rebate
AGI	115,000	115,000
Fed. Tax Liab.	17,000	17,000
Rec. Rebate	0	1,800
Net Fed. Liab.	17,000	15,200
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OR AGI	115,000	115,000
Deduction	13,000	13,000
Fed. Tax Subt.	6,950	6,950
OR Taxable Inc.	95,050	95,050





Taxpayer Conceptual Examples

Taxpayer Above OR Fed. Tax Subt. Limit		
	Pre Recovery Rebate	Post. Rec. Rebate
AGI	115,000	115,000
Fed. Tax Liab.	17,000	17,000
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Net Fed. Liab.	17,000	15,200
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Fed. Tax Subt.	6,950	6,950
OR Taxable Inc.	95,050	95,050

Taxpayer Partially Above OR Fed. Tax Subt. Limit		
	Pre Recovery Rebate	Post. Rec. Rebate
AGI	65,000	65,000
Fed. Tax Liab.	7,200	7,200
Rec. Rebate	0	1,800
Net Fed. Liab.	7,200	5,400
OR AGI	65,000	65,000
Deduction	9,000	9,000
Fed. Tax Subt.	6,950	5,400
OR Taxable Inc.	49,050	50,600
Income Difference	1,550	
OR Tax Change	\$136	





Taxpayer Conceptual Examples

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Income Difference 1,550
 OR Tax Change \$136

Partial offset of OR. Fed. tax subtraction

OR taxable income increases, OR tax liability increases





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Deduction	9,000	9,000
Fed. Tax Subt.	6,950	5,400
OR Taxable Inc.	49,050	50,600

Joint Taxpayer Below OR Fed. Tax Subt. Limit		
	Pre Recovery Rebate	Post. Rec. Rebate
AGI	90,000	90,000
Fed. Tax Liab.	6,500	6,500
Rec. Rebate	0	3,600
Net Fed. Liab.	6,500	2,900
OR AGI	90,000	90,000
Deduction	13,000	13,000
Fed. Tax Subt.	6,500	2,900
OR Taxable Inc.	70,500	74,100

Income Difference 1,550
 OR Tax Change \$136

Difference 3,600
 OR Tax Change \$315





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OR Taxable Inc.	70,500	74,100

Income Difference 1,550
OR Tax Change \$136

Difference 3,600
OR Tax Change \$315

Recovery rebate fully reduces OR federal tax subtraction





Taxpayer Conceptual Examples

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Income Difference 1,550
 OR Tax Change \$136

Difference 3,600
 OR Tax Change \$315

Partial offset of OR. Fed. tax subtraction
 OR taxable income increases, OR tax liability increases

Recovery rebate fully reduces OR federal tax subtraction





The Upshot

- Changes in federal tax liability can cause changes in OR tax liability
- Changes in OR tax liability depends on taxpayer circumstances
- OR tax liability change is inverse to federal tax liability change
- Federal earned income tax credit is not taken into account in determining OR federal tax subtraction





Questions?

<https://www.oregonlegislature.gov/lro>