HB 2549 STAFF MEASURE SUMMARY

House Committee On Revenue

Prepared By: Jonathan Hart, Economist
Meeting Dates: 2/14

WHAT THE MEASURE DOES:
Allows subtraction from taxable income to fully expense qualified business property in first year and requires additions to income in later years to adjust for difference in depreciation allowances between Oregon and federal law. Establishes a connection to the Internal Revenue Code of December 21, 2017 for for deductibility of net interest expense, allowing unlimited deduction of certain business net interest expense. Applies to tax years starting on or after January 1, 2023. Takes effect on the 91st day following adjournment sine die.

ISSUES DISCUSSED:

EFFECT OF AMENDMENT:
No amendment.

BACKGROUND:
In calculating taxable income, businesses deduct the expenses for long-lived assets over time through depreciation. As depreciation is recognized, it reduces taxable income. The Tax Cuts and Jobs Act (TCJA) of 2017 increased the amount of depreciation that could be taken in the first year qualified property was placed in service, by expanding and extending a provision known as "bonus depreciation." Qualified assets are those with a useful life of 20 years or less including vehicles, manufacturing equipment, and heavy machinery. For qualified property placed in service after September 27, 2017 and before January 1, 2023 bonus depreciation was 100% for qualified property. At 100%, the provision is also referred to as "full-expensing." For 2023, bonus depreciation is 80 percent, phasing down each year until it expires January 1, 2027.

TCJA also limited net interest deductible by businesses to 30 percent of business income before interest, depreciation, and amortization for 2018 to 2021. Starting in 2022, the limit is based on income before interest expense (removing the adjustments for depreciation and amortization). The limit does not apply to taxpayers with gross receipts of $25 million or less, or regulated utilities. Real estate and farming businesses can opt out of the limit.

The intent of HB 2549 is to establish a connection to federal law as it applied to qualified property placed in service after September 27, 2017 and before January 1, 2023 for bonus depreciation, and to establish a connection to federal law as of December 21, 2017 for deduction of net interest expense . The bill allows full expensing for qualified property to continue for property placed in service January 1, 2023 or later by allowing an Oregon subtraction for the difference versus the allowable federal depreciation in the first year. Because federal taxable income in subsequent years would include depreciation for the qualified property that would already be fully expensed for Oregon, the bill requires an addition to income for those years. HB 2549 also removes the TCJA limit for deduction of net business interest.