

### Background

House Bill 2083 -2 extends the pass-through entity elective tax program (PTE-E) from tax year 2023 to 2025.

Prior to tax year 2018, many personal income taxpayers were allowed to fully deduct their State and Local income taxes (SALT) on their federal tax return. Most taxpayers benefited from this by deducting state income taxes and real estate taxes paid. Individual owners and members of pass-through entities (PTEs – S Corporation and Partnerships) would report and pay their distributive share of PTE income on their Oregon personal income tax return. The payment of Oregon taxes would then be deducted on their federal tax return.

The 2017 Federal Tax Cuts and Jobs Act (TCJA) limited SALT deductions on personal income tax returns to \$10,000, TCJA began in tax year 2018. Many owners and members were not able to fully deduct their Oregon tax payments on their federal return.

In response to the TCJA limitations, [SB 727 \(2021\)](#) created a revenue neutral program we now call PTE-E. For the purposes of PTE-E, members include individual owners, shareholders, and partners. With the permission of all members, PTE's may elect to report and pay Oregon taxes on their member's share of distributive income. Members would offset their share of taxes paid by the PTE by claiming a personal income tax credit. Members would still be required to report their share of the PTE's distributive income on their Oregon personal income tax return.

By electing to have the PTE to pay taxes, and members to claim a tax credit, the net change of zero tax would lead to a revenue neutral impact for Oregon while allowing taxpayers to benefit from a tax deduction on the federal return that would otherwise be disallowed due to TCJA.

### Implementation

This filing season (tax year 2022) is the first-year taxpayers can file returns and make payments for the PTE-E program. PTEs sign up and file tax returns using the department's online portal (Revenue Online) or through e-file software. PTE-E payments sent to the department are reconciled with the filed PTE-E tax return.

As of 6/15/2023 the data shows:

- 20,500 PTEs signed up for the program;
- 10,300 PTE-E returns filed; and
- \$300,000,000 tax credits claimed, with more under review.

### Agency Contact

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