SB 111 STAFF MEASURE SUMMARY

Senate Committee On Finance and Revenue

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Sub-Referral To:	Joint Committee On Tax Expenditures
Meeting Dates:	3/5

WHAT THE MEASURE DOES:

Extends applicability of pass-through business alternative income tax and related personal income tax credit by two years, from tax years beginning on or before January 1, 2026 to tax years beginning on or before January 1, 2028. Takes effect on 91st day following adjournment sine die.

ISSUES DISCUSSED:

EFFECT OF AMENDMENT:

No amendment.

BACKGROUND:

Prior to tax year 2018, individuals who itemized their deductions on their federal personal income tax returns were allowed to deduct (with some phase-out limitations) their state and local taxes (SALT) - primarily property taxes and either income or sales taxes. In 2017, Congress enacted the Tax Cut and Jobs Act and limited this deduction to $10,000 for tax years 2018 through 2025. Future applicability of the federal SALT limitation is under discussion at the federal level. Following the federal SALT limitation, a majority of states enacted legislation intending to workaround the federal limitation by imposing a tax on a pass-through entity (where the tax is deductible from federal tax) and providing a related personal income tax credit for the owners of the pass through entity. These state SALT workarounds provide a means to reduce a taxpayer's federal income tax liability while leaving net state revenue unchanged.

Oregon enacted its own SALT workaround in 2021 with the passage of SB 727 which established Oregon's pass-through entity elective tax (PTE-E) and related personal income tax credit. Under current law, Oregon's PTE-E tax is applicable to tax years 2022 through 2025 and provides a mechanism in which to reduce federal income tax liability for taxpayers while leaving net Oregon revenue unchanged. Measure as introduced extends the applicability of Oregon's PTE-E tax and related credit to include tax years 2026 and 2027.