

Appendix I. Tax Law Changes 1980 to 1997

This appendix is a synopsis of tax law changes from 1980 to 1997 that should be kept in mind when comparing the personal income tax statistics from year to year.

Adjusted Gross Income (AGI)

The definition of Oregon adjusted gross income has been the same as federal adjusted gross income except for tax year 1984. In 1983, changes in federal tax law began the taxation of part of Social Security income and eliminated the disability income exclusion. Oregon has never taxed Social Security income and continued the disability income exclusion for tax year 1984. Oregon AGI was computed, for tax year 1984 only, as federal AGI minus taxable Social Security and disability income exclusion. Starting with tax year 1985, Oregon AGI has been the same as federal AGI, and federally taxed Social Security income has been treated as a subtraction from adjusted gross income.

Personal Exemptions and Exemption Credits

Prior to 1983, personal exemptions were deductions from Oregon adjusted gross income. In 1983, the personal exemption deduction was replaced by an \$85 exemption credit. Beginning in tax year 1987, the personal exemption credit was indexed for inflation, using the Portland Consumer Price Index (CPI) as the gauge of inflation. See Appendix II for a chart of personal income tax rates and personal exemption deductions and credits over the years.

Surplus Refunds

Under a law passed in 1979, the state must refund excess revenue to taxpayers when actual General Fund revenues come in more than two percent higher for the biennium than was forecast at the close of the legislative session in which the budget for that biennium was adopted. This limitation, termed the “two percent kicker,” is applied separately to corporate income tax revenues and to the sum of personal income tax and “all other” General Fund revenues. The state is required to refund to corporate and personal income tax filers the full amount by which each forecast was exceeded, not just the amount exceeding the two percent limit.

Prior to 1994, both corporation and personal income tax surplus refunds were always made in the last year of the biennium through tax credits proportionately reducing the final tax liability of each tax filer. Under the kicker law, refunds were credited to taxpayers in 1985, 1987, and 1989 through tax credits on the return. The surplus percentages were 7.7 percent on 1985 returns, 16.6 percent on 1987 returns, and 9.8 percent on 1989 returns. The legis-

lature overrode the law in 1991 by deciding not to allow a surplus refund credit on either personal or corporate taxes. In 1993 they overrode the law for corporate tax surplus refunds. Personal income tax filers were not due to receive a surplus refund because personal income and “all other” General Fund revenues came in slightly under the forecast.

The 1995 Legislature changed the law governing the way in which unanticipated surplus revenue is returned to personal income taxpayers. Up through 1993, refunds were made in the form of a credit on the tax return for the second year of the biennium. Starting in 1995, refunds were made as direct payments to taxpayers based on their tax liability for the first year of the biennium.

Personal income tax and “all other” General Fund revenues for the 1995 biennium exceeded the 1993 close of session estimate by \$163.6 million. Filers of 1994 tax returns received a check in December, 1995 for 6.27 percent of their 1994 tax liability. Personal income tax and “all other” General Fund revenues for the 1997 biennium exceeded the 1995 close of session estimate by \$431.5 million. Filers of 1996 tax returns received checks in mid-November of 1997 for 14.37 percent of their 1996 tax liability.

The legislature did not change the way in which corporation income tax surplus refunds are returned to filers.

Part-year Resident and Non-resident Returns

Before 1983, both part-year residents and non-residents were taxed on the portion of federal income attributable to Oregon sources. Oregon tax law was changed so that tax for both part-year residents and non-residents was computed on federal AGI and then prorated based on the ratio of Oregon to federal adjusted gross income. This resulted in higher tax for most filers. Objections by Washington residents led to a special legislative session in 1984. The tax computation for non-resident filers was changed back to the way it had been before 1983, but part-year residents’ tax continued to be computed on federal income and prorated.

Federal Tax Reform Act of 1986

Oregon personal income taxes were affected in several ways by federal tax laws which went into effect in tax year 1987.

Computation of federal adjusted gross income was changed by:

- Eliminating preferential treatment of capital gains, making capital gains 100 percent taxable.
- No longer allowing “passive activity” losses to shelter income from other sources.

- Modifying Accelerated Cost Recovery System (ACRS). The most significant change was the increase in the depreciation period for real estate investments.
- Repealing income averaging.
- Eliminating the dividend exclusion, the deduction for married couples when both work, and the moving expense deduction except as an itemized deduction.
- More stringent requirements on eligibility for the adjustment for Individual Retirement Account contributions.
- Adding a new adjustment for self-employed health insurance deduction.
- An increase in the credit for the permanently and totally disabled from 15 percent to 40 percent of the federal amount.
- A decrease in the maximum subtraction for federal tax from \$7,000 to \$3,000 for single, joint, and head of household returns and from \$3,500 to \$1,500 for married filing separate returns.
- An increase in the standard deduction amounts for each filing status and removal of AGI as a factor in determining the standard deduction. The standard deduction amounts are single, \$1,800; joint, \$3,000; head of household, \$2,640; and married filing separately, \$1,500.
- An increase in the maximum subtraction for U. S. public retirement from \$3,400 to \$5,000 per person and the adoption of less restrictive requirements.

Federal changes to personal exemptions and deductions:

- Itemized deductions were curtailed in several ways: elimination of deduction for sales tax, more stringent limitations to medical expenses and miscellaneous itemized deductions, and phase-out of deductions for consumer credit interest.
- The additional personal exemption for those 65 or older or blind was changed to an additional standard deduction.
- Persons claimed as another's dependent can no longer claim personal exemptions on their own returns. The standard deduction for those claiming zero exemptions is the greater of \$500 or their earned income, up to the standard deduction amount of their filing status.

In response to the 1986 federal changes, Oregon's 1987 personal income tax law was changed as follows:

- Oregon adopted the federal definition of adjusted gross income.
- Oregon decreased the number of marginal tax brackets and reduced the Oregon maximum tax rate.
- Oregon adopted the federal definition of itemized deductions.
- Oregon changed the additional personal exemption for those 65 or older or blind to an additional standard deduction. The additional standard deduction is \$1,200 for single or head of household filers and \$1,000 for married filing either jointly or separately.
- Oregon no longer allowed persons who can be claimed as another's dependent to claim personal exemptions on their own returns. The standard deduction for those claiming zero exemptions is the greater of \$500 or their earned income, up to the standard deduction amount of their filing status.

Other Oregon tax law changes which went into effect for tax year 1987 returns:

- A new exemption for disabled children.
- Indexing of the personal exemption credit.

Tax Law Changes Since 1987

Tax year 1988:

- Two new lines were added to 1988 federal Form 1040: Individual Retirement Account (IRA) distributions are reported separately from pension income and capital gain distributions are reported separately from Schedule D capital gains.
- Two new credits were added to Oregon "Other credits:" Dependent care assistance for employers and health insurance for small business employers.

Tax year 1989:

- Beginning with tax year 1989, federal tax law allowed parents to elect to report minor children's investment income on their own federal return rather than filing a separate return for each child. Oregon did not adopt the federal method of computing the child's tax liability, so a new addition for "federal election on interest and dividends of a minor child" was added to Oregon forms.
- Oregon's child care credit computation changed. A separate Oregon rate schedule based on federal taxable income was applied to federally allowed child care expenses.

Tax year 1990:

- The United States public retirement subtraction was no longer limited to \$5,000 per person.
- Federal tax law required that filers pay interest on the deferred tax liability for certain installment sales. Oregon required that filers compute interest using the current Oregon interest rate and add the interest to Oregon tax before credits.

Tax year 1991:

- On the federal income tax return, itemized deductions, except medical and dental expenses, investment interest expense, non-business casualty and theft losses, and gambling losses were limited for filers with adjusted gross income over \$100,000 (\$50,000 for married filing separate returns).
- Federal personal exemption deductions were limited for filers with adjusted gross income over thresholds based on filing status: joint returns, \$150,000; single returns, \$100,000; head of household returns, \$125,000; and married filing separate returns, \$75,000.
- The Oregon subtractions for Oregon and United States public retirement income were eliminated. They were replaced by a credit available to all taxpayers age 58 and over who meet the income limit and have retirement income, public or private.
- Other subtractions from Oregon income were expanded to include: IRA and Keogh distributions on which tax has already been paid to another state while the taxpayer was not an Oregon resident, oil heat tank cleanup costs, special medical deductions, active duty pay for Persian Gulf service and other service outside Oregon, and underground storage tanks pollution grants.
- New credits for bone marrow programs, child development contributions, and youth apprenticeship programs were added to other credits.
- The Homeowner and Renter Refund Program (HARRP) was eliminated, and the Elderly Rental Assistance Program (ERA) was expanded.

Tax year 1992:

- On the federal income tax return, the adjusted gross income threshold for limiting itemized deductions was increased to \$105,250 (\$52,625 if married filing separately).
- The thresholds for limiting federal personal exemption deductions were increased to: joint returns, \$157,900; single returns, \$105,250; head of household returns, \$131,550; and married filing separate returns, \$78,950.
- The federal deduction for 25 percent of health insurance costs of self-employed individuals ended June 30. Oregon allowed this deduction for all of 1992, with the amount from July 1 to December 31 claimed as an other subtraction.
- On the Oregon return, military active duty pay earned outside Oregon continued as an other subtraction.
- Other credits expanded to include: a credit for the involuntary moving of a mobile home and a credit for small business employers who provide medical insur-

ance for their employees or to employees who purchase their own insurance, either through the Oregon Medical Insurance Pool or under one of the plans provided through the Insurance Pool Governing Board. Other credits for business energy, pollution control, and reclaimed plastics were limited to those giving preference to Oregon producers of the recycled materials.

- The credit for income tax paid to another state was changed so it is claimed on the non-resident return of people taxed by both Oregon and one of the following: Arizona, California, Indiana, Virginia, or Guam. For income taxed by other states, Oregon allows the credit to Oregon residents.

Tax year 1993:

- The thresholds for limiting federal itemized deductions were increased to \$108,450 or \$54,225 if married filing a separate return.
- The thresholds for limiting federal personal exemption deductions were increased to: joint returns, \$162,700; single returns, \$108,450; head of household returns, \$135,600; and married filing separate returns, \$81,350.
- The federal deduction for 25 percent of health insurance costs of self-employed individuals was reinstated retroactive to June 30, 1992. Oregon allows this deduction under a separate law.
- The following federal law changes were not allowed on Oregon returns for 1993, but the 1995 legislative session reconnected retroactively:
 - employer-provided educational assistance deduction.
 - depreciation of non-residential real property placed in service on or after May 13, 1993.
 - expensing of qualifying assets (Section 179 expenses).
 - deduction for business meals and entertainment expenses.
- On the Oregon return, active duty pay income continued to be subtracted as an other subtraction.
- The eligibility age for Oregon's retirement income credit and special medical deduction increased to 59.
- Credit for income tax paid to another state must be taken on the non-resident return if income is taxed by Oregon and one of the following: Arizona, California, Indiana, or Virginia.
- Three credits included as "Other Credits" were revised:
 - Disabled child was expanded to include serious emotional disturbance and traumatic brain injury.
 - Rural medical practice no longer has a required three-year period.
 - Crop gleaning was extended indefinitely.

- Minimum amount for a refund check increased to \$5.
- Requirements for computing estimated tax for 1994 have changed.

Tax year 1994:

- The thresholds for federal limitations for itemized deductions were increased to \$111,800 or \$55,900 if married filing a separate return.
- The thresholds for limiting federal personal exemption deductions were increased to: joint returns, \$167,700; single returns, \$111,800; head of household returns, \$139,750; and married filing separate returns, \$83,850.
- Capital gain distributions were reported with capital gains rather than on a separate line.
- The federal deduction for 25 percent of health insurance costs of self-employed individuals that expired December 31, 1993, was retroactively reinstated and made permanent in April 1995. On 1994 returns, Oregon allowed this deduction under a separate law.
- Moving expenses were changed from an itemized deduction to an adjustment, and some of the requirements were made more stringent. For 1994 returns, Oregon followed prior federal law until the Legislature reconnected to federal law as of April 15, 1995.
- Other federal law provisions affected by the reconnect are:
 - employer-provided educational assistance deductions.
 - depreciation of non-residential real property.
 - amortization of goodwill and related intangibles.
 - business meals and entertainment.
 - and the election to expense certain tangible property (Section 179 expenses).

Tax year 1995:

- The thresholds for federal limitations for itemized deductions were increased to \$114,700 or \$57,350 if married filing a separate return.
- The thresholds for limiting federal personal exemption deductions were increased to: joint returns, \$172,050; single returns, \$114,700; head of household returns, \$143,350; and married filing separate returns, \$86,025.
- Oregon law follows federal law as of April 15, 1995. Most items are treated the same on Oregon returns and federal returns. Unused business credits that may be taken as a deduction on the federal return, how-

ever, are not allowed on the Oregon return. They require an Oregon addition.

- Military active duty pay continues to be subtracted from Oregon income if it was earned outside Oregon.
- The minimum age requirement for retirement income credit and special Oregon medical deduction is 60.

Tax year 1996:

- Oregon law follows federal law as of April 15, 1995.

Federal law:

- Federal tax rates were 15, 28, 31, 36, and 39.6 percent except for capital gains, which were taxed at 28 percent.
- Federal personal exemptions were \$2,550. The phase-out thresholds were \$176,950 for joint returns, \$147,450 for head of household returns, \$117,950 for single returns, and \$88,475 for married filing separate returns.
- The thresholds for federal limitations for itemized deductions were increased to \$117,950 or \$58,975 if married filing a separate return.

Oregon Law:

- Certain depreciation differences due to the Omnibus Budget Reconciliation Act of 1993 require a one-time adjustment on the 1996 tax return or an amended 1993 or 1994 return. If an Oregon addition or subtraction was taken for 1993 or 1994 for Section 179 expense, the taxpayer may either amend the 1993 or 1994 return or take a one-time adjustment on the 1996 Oregon return. For assets placed in service between 1981 and 1985 (ACRS assets), the taxpayer must make a one-time adjustment on the 1996 return to align the Oregon basis with the federal basis. The one-time adjustment does not apply to depreciation of non-residential real property placed in service in 1993 or 1994. Instead, the 1993 or 1994 return must be amended.
- Beginning in 1996, gain on the sale of certain business assets may be deferred if the proceeds are reinvested in qualifying business assets within six months. The “Oregon deferral of reinvested gain” subtraction was added to form 40.
- The addition for the “federal election on interest and dividends of a minor child” was combined with other additions on Oregon Form 40.
- The minimum age requirement for retirement income credit and special Oregon medical deduction is 60.

Tax year 1997:

- Oregon law is now permanently tied to federal law. Most items are treated the same way on Oregon and federal returns.

Federal law:

- Federal tax rates were 15, 28, 31, 36, and 39.6 percent except for capital gains. For individuals, the maximum long-term capital gain tax rates for sales or exchanges of property after May 6, 1997, were 20 percent for taxpayers in the 28 percent or greater tax bracket, and 10 percent for taxpayers in the 15 percent tax bracket.
 - Standard deductions were \$4,150 for single filers, \$6,900 for joint returns, \$3,450 for married filing separate returns, and \$6,050 for head of household. Additional standard deductions for those over age 65 or blind were \$1,000 for single or head of household filers and \$800 for married filing either joint or separate returns. For filers with zero exemptions, the standard deduction was the larger of \$650 or the amount of earned income up to the amount of the appropriate standard deduction based on filing status.
 - Itemized deductions were limited for taxpayers with adjusted gross income over \$121,200, (\$60,600 if married filing a separate return).
 - Deductions for personal exemptions increased to \$2,650. The deduction is phased out for high income taxpayers with adjusted gross income over \$181,800 for joint returns, \$151,500 for head of household returns, \$121,200 for single returns, or \$90,900 for separate returns.
 - Medical savings are a new federal adjustment allowed to persons covered only under a high deductible health plan.
- The maximum individual retirement arrangement (IRA) for a spouse with little or no income has been increased to \$2,000.
 - A new tax credit may be claimed for qualified adoption expenses paid in 1997. The maximum credit is \$5,000, (\$6,000 for a child with special needs).

Oregon law:

- The standard deduction for a person who can be claimed on another's tax return was increased to the greater of \$650 or the amount of earned income up to the standard deduction for the person's filing status.
- Two new credits began in 1997, the earned income credit and the working family credit. The earned income credit is equal to 5 percent of the federal earned income credit. The amount of working family credit depends upon household size and adjusted gross income. Both new credits may be taken together with the child care credit, but the total of all Oregon credits cannot exceed the Oregon tax.
- The minimum age requirement for the retirement income credit and special Oregon medical deduction is 61. Effective January 1, 1996, the credit is figured on pension income only if it is included in Oregon taxable income. Prior to 1996, the credit was figured on pension income included in federal taxable income. Taxpayers may need to amend their 1996 returns due to this tax law change.