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NOTICE OF PROPOSED RULEMAKING

INCLUDING STATEMENT OF NEED & FISCAL IMPACT

CHAPTER 150
DEPARTMENT OF REVENUE

FILED
10/29/2025 4:10 PM
ARCHIVES DIVISION
SECRETARY OF STATE

FILING CAPTION: Proration of Income and Deductions for Nonresidents and Part-Year Residents

LAST DAY AND TIME TO OFFER COMMENT TO AGENCY: 12/01/2025 5:00 PM

The Agency requests public comment on whether other options should be considered for achieving the rule's substantive goals while reducing negative economic impact of the rule on business.

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HEARING(S)

Auxiliary aids for persons with disabilities are available upon advance request. Notify the contact listed above.

DATE: 12/01/2025
TIME: 10:00 AM
OFFICER: Robert Oakes

REMOTE HEARING DETAILS
MEETING URL: Click here to join the meeting
PHONE NUMBER: 503-446-4951
SPECIAL INSTRUCTIONS:
Join by video: https://www.microsoft.com/en-us/microsoft-teams/join-a-meeting
Meeting ID: 237 401 070 039 9
Passcode: eG7Av2oM

Join by phone: 503-446-4951
Phone conference ID: 604 895 997#

NEED FOR THE RULE(S)

The recent federal House Resolution 1 (H.R. 1) created four new federal personal income tax deductions that do not relate to Adjusted Gross Income (AGI) and are not itemized deductions. Because of Oregon’s automatic tie to the federal definition of taxable income, these deductions apply to Oregon taxpayers as well.
A rule must be amended and another rule adopted to address these provisions because current statute and rule do not prescribe the way in which nonresidents calculate the deductions for Oregon tax purposes. The new car loan interest and charitable contribution deductions will be prorated by the Oregon percentage, while the tips and overtime compensation deductions will be limited by Oregon-source tips and overtime compensation received.

DOCUMENTS RELIED UPON, AND WHERE THEY ARE AVAILABLE

H.R. 1 (Public Law 119-21).

STATEMENT IDENTIFYING HOW ADOPTION OF RULE(S) WILL AFFECT RACIAL EQUITY IN THIS STATE

No impacts to racial equity in this state have been identified. The rules will apply to statewide demographics for all personal income taxpayers.

FISCAL AND ECONOMIC IMPACT:

There is no fiscal impact from the rules. The economic impact of the rules will be limited to ensuring nonresidents receive a proportional amount of the new federal deductions on the Oregon return, aligning with the treatment of existing federal deductions.

COST OF COMPLIANCE:

(1) Identify any state agencies, units of local government, and members of the public likely to be economically affected by the rule(s). (2) Effect on Small Businesses: (a) Estimate the number and type of small businesses subject to the rule(s); (b) Describe the expected reporting, recordkeeping and administrative activities and cost required to comply with the rule(s); (c) Estimate the cost of professional services, equipment supplies, labor and increased administration required to comply with the rule(s).

(1) Nonresident individuals filing an Oregon return are currently required to track income earned in Oregon, so identifying tip and overtime compensation tied to Oregon should not impose any additional burden. State agencies and local governments should experience no impact.
(2)(a) Professional tax preparers already help their clients file personal income tax returns, and the rules can be incorporated into tax filing seasons going forward.
The Oregon Board of Tax Practitioners lists 3,475 individual licensees and more than 1,200 registered tax preparation businesses. The Oregon Board of Accountancy regulates 8,027 Certified Public Accountants (CPAs) and Public Accountants (CPAs), as well as 868 public accounting firms registered with the Board.
(b) N/A
(c) N/A

DESCRIBE HOW SMALL BUSINESSES WERE INVOLVED IN THE DEVELOPMENT OF THESE RULE(S):

Small businesses including tax preparers, restaurants and car dealers were invited to the Rule Advisory Committee on October 14, 2025 and may participate in the public hearing.

WAS AN ADMINISTRATIVE RULE ADVISORY COMMITTEE CONSULTED? YES

RULES PROPOSED:
150-316-0135, 150-316-0136

AMEND: 150-316-0135

RULE SUMMARY: This rule explains the treatment of four new federal tax deductions for nonresident Oregon taxpayers.

CHANGES TO RULE:

150-316-0135
Proration of Income and Deductions for Nonresidents and Part-Year Residents ¶

(1)<u> As used in this rule, "fraction" means the Oregon percentage. The Oregon percentage is the fraction established for proration under ORS 316.117.¶</u>

(2) For tax years beginning on or after January 1, 1983, the numerator of the fraction is the taxpayer's federal adjusted gross income from Oregon sources, with the Oregon modifications to that income, which relate to adjusted gross income.¶
(~~2~~3) The denominator of the fraction is the taxpayer's federal adjusted gross income, from all sources, with the Oregon modifications to that income, which relate to adjusted gross income.¶
(~~3~~4) For the fiduciary returns of estates and trusts, the numerator of the fraction is the federal taxable income of the fiduciary from Oregon sources, with the Oregon modifications to that income. The denominator of the fraction is the federal taxable income of the fiduciary, from all sources, with Oregon modifications to that income.¶
(~~4~~5) ~~Use the following list to help determine which Oregon modifications relate to adjusted gross income. [List not included. See ED. NOTE.]~~Oregon modifications related to adjusted gross income are the Oregon additions, subtractions, and modifications that affect:¶
(a) Amounts included in or excluded from adjusted gross income; or¶
(b) Deductions allowed in arriving at adjusted gross income.¶
(~~5~~6) Under no circumstances may the percentage exceed 100 percent.¶
(~~6~~7) If the taxpayer has positive modified Oregon income and negative or zero modified federal adjusted gross income, the allowable percentage is 100 percent. If the taxpayer's modified federal adjusted gross income from Oregon sources and modified federal adjusted gross income are both losses, the allowable percentage will be computed as follows:¶
(a) If the Oregon loss is smaller than the federal loss, 100 percent.¶
(b) If the Oregon loss is greater than the federal loss, divide the federal loss by the Oregon loss.¶
Example 1: A taxpayer has modified federal adjusted gross income from Oregon sources of ($100) and modified federal adjusted gross income of ($1,000). Since the Oregon loss is less than the federal loss, the percentage is 100 percent.¶
Example 2: A taxpayer has federal adjusted gross income from Oregon sources of ($1,000) and federal adjusted gross income of ($100). The percentage is 10 percent.¶
(~~7~~8) If the taxpayer has negative or zero modified Oregon income and positive modified federal adjusted gross income, the allowable percentage is zero.¶
(~~8~~9) Nonresident taxpayers shall prorate the following deductions and modifications not relating to adjusted gross income using the fraction provided in this rule:¶
(a) The greater of:¶
(A) Net Oregon itemized; or¶
(B) The standard deduction.¶
(b) Federal tax liability.¶
(c) Additional federal tax paid from a prior year.¶
(d) Gambling losses (itemized).¶
(e) Federal income tax refunds from amended or audited returns.¶
(~~9~~f) Car loan interest.¶
(g) Charitable contributions not included in itemized deductions.¶
(10) Nonresident taxpayers shall not prorate the following deductions and modifications not relating to adjusted gross income.¶
(a) Art object donation~~ deduction; and~~;¶
(b) Fiduciary adjustment~~.~~;¶
(c) Tips (see OAR 150-316-0136); and¶
(d) Overtime compensation (See OAR 150-316-0136).¶
(11~~0~~) Under no circumstances may the percentage used in computing the allowable portion of the deductions exceed 100 percent.¶
(1~~1~~2) For part-year residents Oregon source income is:¶
(a) For the portion of the year the taxpayer is a resident see OAR 150-316-0060.¶
(b) For the portion of the year the taxpayer is a nonresident see ORS 316.127 and the rules pertaining thereto.
Statutory/Other Authority: ORS 305.100
Statutes/Other Implemented: ORS 316.117

ADOPT: 150-316-0136

RULE SUMMARY: The federal One Big Beautiful Bill Act created new tax explains the treatment of two of these deductions for nonresident taxpayers.

CHANGES TO RULE:

150-316-0136
Nonresident Deductions Limited to Oregon Sources
(1) Nonresident individuals who are allowed the following deductions for federal purposes shall also be allowed a deduction, not to exceed 100 percent of the federal deduction, for Oregon purposes:¶
(a) Tips under IRC 224; and¶
(b) Overtime compensation under IRC 225.¶
(2) For tips, the deduction for Oregon is equal to the federal deduction calculated using only tips attributable to Oregon sources.¶
(3) For overtime compensation, the deduction for Oregon is equal to the federal deduction calculated using only overtime compensation attributable to Oregon sources.
Statutory/Other Authority: ORS 305.100
Statutes/Other Implemented: ORS 316.130