

OREGON CONNECTION TO FEDERAL TAX LAW

SENATE & HOUSE INTERIM REVENUE COMMITTEES

Legislative Revenue Office – September 23rd, 2020

OVERVIEW OF PRESENTATION

- What is connection to federal tax law
- Purpose of connection
- Personal income tax (PIT)
 - Forms of connection, details on Oregon's connection
- Corporate excise/income tax (Corp)
 - Forms of connection, details on Oregon's connection

WHAT IS CONNECTION (CONFORMITY) TO FEDERAL LAW

- State adoption of federal tax code
 - Use federal code as income starting point:
 - PIT: Adjusted gross income (AGI) or taxable income
 - Corp: Taxable income before or after net operating losses & special deductions
 - Selective connection

PURPOSE OF CONNECTION TO FEDERAL LAW

- Administrative
 - Government
 - Federal statutes, rulings and interpretations
 - Tax enforcement & assessment (federal audit & enforcement)
 - Taxpayer
 - Consistency of definitions, requirements, etc.
 - Tax compliance

PERSONAL INCOME TAX (PIT)

HOW STATES CONNECT

- Selecting a connection point
 - AGI, taxable income, other



- Connection type: “Rolling”, point-in-time, hybrid?
 - Rolling connection is continuous (state automatically connected to federal law changes, states must opt-out of federal law changes)
 - Point-in-time
 - Select specific date & update (states opt-in to federal law changes)

OREGON'S CONNECTION - PIT

- Oregon has a hybrid connection
 - OR has a rolling reconnect to definition of federal taxable income
 - Not connected to policies “downstream” from taxable income such as: tax rates, credits, federal surtaxes (indirect connection occurs through Oregon’s federal tax subtraction)
 - Point-in-time connection for everything unrelated to definition of taxable income

(b) Except where the Legislative Assembly has provided otherwise, a reference to the laws of the United States or to the Internal Revenue Code refers to the laws of the United States or to the Internal Revenue Code as they are amended and in effect:

(A) On December 31, [2018] **2019**; or

(B) If related to the definition of taxable income, as applicable to the tax year of the taxpayer.

OREGON'S CONNECTION - PIT

Connection Type	Policy Considerations
Connect to taxable income	<ul style="list-style-type: none"> • Further “downstream” (than AGI) connection incorporates more federal changes • Less automatic policy discretion for state • State is opted-in to more federal changes
Connect to AGI	<ul style="list-style-type: none"> • Further “upstream” from taxable income connection • Greater automatic policy discretion for state • May capture fewer federal changes than taxable income (e.g. does not capture changes to deductions) • Some states also include a static connection to specified deductions
Rolling reconnect	<ul style="list-style-type: none"> • State is continuously and automatically connected to federal statute • Federal changes are automatically and immediately incorporated into Oregon law (default is state opted-in to any changes) • Requires state to pass legislation to not adopt a federal provision • Timing challenges of disconnecting
Static connection	<ul style="list-style-type: none"> • State connection to federal code at specific point-in-time • State legislation required to update connection date (default is state opted-out of federal changes) • Timing challenges of connecting

CORPORATE TAX (CORP)

CORPORATE TAX CONNECTION

- **Forms of connection**
 - **Method of Conformity**
 - Rolling vs. Static Connection
 - Rolling connection means....
 - **Starting Point**
 - Line 28 vs. Line 30
 - Line 28 Form 1120: “Taxable income before net operating loss deduction and special deductions”
 - Line 30 Form 1120: “Taxable Income”

CORPORATE TAX CONNECTION

- Starting Point
 - Refers to *where* Oregon's tax definitions tie to Federal tax definitions
 - Line 28 vs. Line 30
 - Line 28 Form 1120: "Taxable income before net operating loss deduction and special deductions"
 - Line 30 Form 1120: "Taxable Income"

Line 28

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Line 29c

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Line 30

Federal Form 1120

Form 1120 Department of the Treasury Internal Revenue Service	U.S. Corporation Income Tax Return For calendar year 2019 or tax year beginning _____, 2019, ending _____, 20 ____ ▶ Go to www.irs.gov/Form1120 for instructions and the latest information.	OMB No. 1545-0123 <div style="font-size: 2em; font-weight: bold; text-align: center;">2019</div>
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28	Taxable income before net operating loss deduction and special deductions. Subtract line 27 from line 11.		28
29a	Net operating loss deduction (see instructions)	29a	
b	Special deductions (Schedule C, line 24)	29b	
c	Add lines 29a and 29b		29c
30	Taxable income. Subtract line 29c from line 28. See instructions		30

- Line 28
 - Taxable income before NOLs and special deductions
- Lines 29a – 29b
 - NOLs and special deductions
- Line 30
 - Taxable income

OREGON'S CORP. TAX CONNECTION FORM 1120

Deduction	28	Taxable income before net operating loss deduction and special deductions.
	29a	Net operating loss deduction (see instructions)
	b	Special deductions (Schedule C, line 24)
	c	Add lines 29a and 29b
	30	Taxable income. Subtract line 29c from line 28. See instructions

- Oregon is effectively connected to line 28
- Example from CARES Act – Corporate NOLs

OREGON'S CORP. TAX CONNECTION FORM 1120

Deduction	28	Taxable income before net operating loss deduction and special deductions.
	29a	Net operating loss deduction (see instructions)
	b	Special deductions (Schedule C, line 24)
	c	Add lines 29a and 29b
	30	Taxable income. Subtract line 29c from line 28. See instructions

- Oregon is effectively connected to line 28
- CARES Act
 - NOL changes to corporations do not automatically affect Oregon
 - If we were connected to line 29 (NOLs and special deductions) the CARES NOL changes would flow through.

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