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**OREGON**

**Publication OR-17**

**Individual Income Tax Guide**



# Publication OR-17

Oregon Individual Income Tax Guide  
2016 Edition

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**Publication OR-17, Oregon Individual Income Tax Guide**, supplements information in the Oregon income tax instruction booklet and the Internal Revenue Service Tax Guide: **Publication 17, Your Federal Income Tax For Individuals**.

This publication is a guide. It is not a complete statement of Oregon laws and rules. There may have been law or rule changes after this publication was printed. If you are a professional tax practitioner, you should refer to the Oregon Revised Statutes (ORS) and Oregon Administrative Rules (OAR). These are available online at [www.oregon.gov/dor](http://www.oregon.gov/dor).

## Forms and publications

For tax forms and publications online, visit [www.oregon.gov/dor/forms](http://www.oregon.gov/dor/forms). You may also order forms and publications by writing to:

Forms  
Oregon Department of Revenue  
PO Box 14999  
Salem OR 97309-0990

## Practitioner assistance

Tax professionals can email us for assistance. **Please research your question before contacting us.** We can assist you with Oregon income tax law and policy questions only. We will not prepare returns or make computations. We cannot provide or discuss specific taxpayer information and we won't open attachments (\*.txt files are acceptable).

The practitioner email address for personal and partnership income tax questions is [prac.revenue@oregon.gov](mailto:prac.revenue@oregon.gov). Please include your question, name, business name, and telephone number with area code in your email. We will respond within three business days. You can also use the following email addresses:

- Corporate income or excise tax: [corp.help.dor@oregon.gov](mailto:corp.help.dor@oregon.gov)
- Corporate minimum tax: [minimum.tax.help@oregon.gov](mailto:minimum.tax.help@oregon.gov)
- Payroll and business taxes: [payroll.help.dor@oregon.gov](mailto:payroll.help.dor@oregon.gov)
- Inheritance/estate tax: [estate.help.dor@oregon.gov](mailto:estate.help.dor@oregon.gov)

## "Revenews" practitioner listserv

The "Revenews" listserv is a quick and efficient way for us to pass information to professional tax preparers. To subscribe, go to: [www.oregon.gov/dor/preparers](http://www.oregon.gov/dor/preparers) and navigate to "Revenews." Once you have subscribed, you will automatically receive department messages. You are on the list until you unsubscribe. This is not a question-and-answer list. Do not reply to a "Revenews" email. Please see the information above on practitioner email if you have technical questions, or see below for specific taxpayer questions.

## Oregon Revenue Bulletin (ORB)

We periodically issue ORBs to provide general information concerning a variety of tax topics in simple and straightforward language. ORBs don't replace competent legal or accounting advice, don't have the force of law, and aren't binding. Visit [www.oregon.gov/dor](http://www.oregon.gov/dor), and use the search function to find these bulletins.

## Do you have questions or need help?

[www.oregon.gov/dor](http://www.oregon.gov/dor)  
(503) 378-4988 or 1 (800) 356-4222  
[questions.dor@oregon.gov](mailto:questions.dor@oregon.gov)

Contact us for ADA accommodations or assistance in other languages.

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## Federal tax law

**No extension to pay.** Oregon does not allow an extension of time to pay your tax, even if the IRS is allowing an extension. Your 2016 Oregon tax is due April 18, 2017.

**Federal law connection.** Oregon is tied to **December 31, 2015** federal income tax laws. Oregon has a rolling tie to federal changes made to the definition of taxable income, with two exceptions:

- IRC section 139A for Federal Subsidies for Prescription Drug Plans.
- IRC section 199 for Income Attributable to Domestic Production Activities, also known as Qualified Production Activity Income (QPAI).

Income under these sections is specifically exempt from tax on the federal return. If you have any of these types of income, you will have an addition on your Oregon tax return.

## New information

**Marijuana business expenses.** Oregon allows licensed marijuana businesses to subtract certain expenses that are not allowed on the federal return. See page 73 for more information.

**Federal tax liability subtraction.** The federal tax subtraction limit is \$6,500 for 2016 and may be limited further based on adjusted gross income (AGI). See page 66.

**Achieving a Better Life Experience (ABLE) Accounts.** Oregon now has a subtraction for contributions made to an ABLE account for the benefit of a person with a disability. For more information about this subtraction, see page 63.

**Oregon 529 College Savings Network.** Contribution limits have increased to \$4,620 for taxpayers filing joint return and \$2,310 for all others. See page 74 for more details.

**Credit changes.** Several tax credits have changed for 2016:

- The credit for installing residential alternative fuel devices has increased to 50 percent of the cost or \$750, whichever is smaller. See page 116 for more information about the residential energy credit.
- The following credits expired on December 31, 2015: Working Family Child Care (WFC), child and dependent care credit, credit for the elderly or disabled, the Individual Development Account withdrawal credit, the credit for employer dependent care assistance (carryforward still allowed), loss of use of limbs credit, and the credit for low-income caregivers.

- The wolf depredation credit is no longer available because the wolf was taken off of the Endangered Species List in 2015.
- The additional exemption credits for severely disabled taxpayers and for disabled children are not available for taxpayers whose adjusted gross income is over \$100,000. For more information about these credits, see page 96.

**Special Oregon medical subtraction.** For tax year 2016, you or your spouse must be age 64 or older on December 31, 2016 to qualify for the subtraction. See page 77 for more details.

**Elderly Rental Assistance (ERA) Program.** As of January 1, 2017, the Oregon Department of Revenue no longer administers the ERA program. This program is now administered by the Oregon Housing and Community Services Department.

**New codes.** See pages 126-129 for a complete list of our standard numeric codes for identifying credits, additions, subtractions, adjustments, and modifications.

**Administrative Rule Renumbering.** In order to comply with changes required by the Oregon Secretary of State, the Department of Revenue has renumbered all Administrative Rules that begin with 150. Administrative Rules will continue to be searchable by the old number. Visit [sos.oregon.gov](http://sos.oregon.gov) for more information.

**Charitable donation add-back.** Charitable donations to organizations that fail to spend at least 30 percent of their annual functional expenses for program services are no longer deductible on your Oregon return. See page 56 for more information about the add-back requirement.

**Working Family Household and Dependent Care (WFHDC) credit.** This new refundable credit takes the place of the Child and Dependent Care credit and the Working Family Credit. For more information about the WFHDC, see page 118.

## Important reminders

**Revenue Online.** Revenue Online provides convenient, secure access to tools for managing your Oregon tax account—completely free! With Revenue Online, you may:

- View your tax account.
- Make payments.
- View correspondence we sent you.
- Request changes to your tax account.
- Check the status of your refund.

For more information and instructions on setting up your personal Revenue Online account, visit our main website, [www.oregon.gov/dor](http://www.oregon.gov/dor).



**Military pay.** Oregon does not tax your military pay if you are not an Oregon resident. Also, if you performed active military service in 2016, and your Defense Finance and Accounting System payroll address was outside Oregon, Oregon considers you to be a nonresident and will not tax your military pay. If you are an Oregon resident, you may continue to subtract federally taxable military pay from your Oregon income if you earned it outside Oregon from August 1, 1990, through the date the president sets as the end of combat activities in the Persian Gulf. The president had not declared an end to combat activities when this publication was printed. For more information about residency and the Oregon military pay subtractions, see the **Military personnel** section beginning on page 21 .

**Payment options.** The department accepts payment of tax by debit card, credit card, check, and money order. See page 26 for information and instructions.

**Direct deposit.** Instead of receiving your refund check in the mail, you may have your refund deposited directly into your account at a bank, credit union, or other financial institution. See page 26. You can also have your refund deposited directly into an Oregon 529 college savings network account. You may choose up to four accounts. See our full-year and part-year/nonresident booklets for more information.

**Minimum refund.** Under Oregon law, the minimum refund that can be issued is \$1.

**Minor child's return and signature.** If your child must file a tax return, you may sign the child's name as his or her legal agent. Sign the child's name and then write "By [your signature], parent (or legal guardian) for minor child."

**Deceased person's return.** You must file a final return for a person who died during the calendar year if a return would normally be required. If a return must

be filed, please check the "deceased" box after the person's name on the return.

If you filed a final return with a refund and are unable to cash the refund check, you will need to return the check to the department along with Form 243, *Claim to Refund Due a Deceased Person*. Go to our website to download the form or contact us to order it.

If you are a court appointed personal representative or have filed a small estate affidavit and you need more information about trusts or estates, contact our Estate Unit at [estate.help.dor@oregon.gov](mailto:estate.help.dor@oregon.gov).

**Oregon tax credits.** Most Oregon tax credits are limited to your tax liability. However, report the full amount of each credit on Schedule OR-ASC or OR-ASC-NP, even if you cannot use all of the credit this year. Some credits allow a carryforward of any unused amount. When you prepare your 2016 return, refer to your 2015 Schedule OR-ASC or OR-ASC-N/P to see if you have any unused credit to carry forward. See the **Credits** section beginning on page 95 to find out which credits you can carry forward to future years.

**Registered Domestic Partners.** For Oregon tax purposes, same-sex Registered Domestic Partners (RDPs) are treated the same as married couples. References to "spouse" within this publication include RDPs.

**Disaster relief.** You do not need to file a return if you are working in Oregon solely to provide relief during a declared disaster or emergency. See page 10 for more information.

**No more amended schedules.** Oregon no longer accepts the *Oregon Amended Schedule* when you file an amended return. If you are amending an Oregon return, see page 30 for more information.

# General information

## Do I have to file an Oregon income tax return?

Use the following charts and examples to determine whether you are required to file an Oregon personal income tax return. See the explanations in this publication if you are unsure about:

- Residency status – page 14.
- Filing status – page 17.
- Taxable income – page 42.
- Deductions – page 90.

**Note:** You do not have to file an Oregon return if you are an out-of-state employee or the operator of an out-of-state business who is in Oregon solely for purposes of performing disaster or emergency-related work on or after October 5, 2015. See ORS 401.690.

## Full-year residents

**Note:** Amounts on the chart apply to all taxable income from all sources.

You must file an Oregon return if:

Your filing status is:	Number of boxes checked on line 6e of return:	And your gross income is more than:
Single, can be claimed on another's return	Any	See "Dependents" below
Single	0	\$5,900
	1	\$7,100
	2	\$8,300
Married filing joint	0	\$11,805
	1	\$12,805
	2	\$13,805
	3	\$14,805
	4	\$15,805
Married filing separate	0	\$5,900
	1	\$6,900
	2	\$7,900
Head of household	0	\$7,375
	1	\$8,575
	2	\$9,775

Qualifying widow(er)	0	\$8,215
	1	\$9,215
	2	\$10,215

### In addition, file a return if:

- You're required to file a federal return.
- You had \$1 or more of Oregon income tax withheld from your wages.

## Dependents

1. Enter gross income from all taxable sources. 1. \$ \_\_\_\_\_
2. Earned income \$\_\_\_ plus \$350. Enter total. 2. \_\_\_\_\_
3. Set amount. 3. 1,050
4. Enter the larger of line 2 or 3. 4. \_\_\_\_\_
5. Enter the standard deduction for a single person: 5. \_\_\_\_\_
  - Basic standard deduction: \$2,155.
  - Over age 65 or blind: \$3,355.
  - Over age 65 and blind: \$4,555.
6. Enter the smaller of line 4 or 5. 6. \$ \_\_\_\_\_

If line 1 is more than line 6, you must file an Oregon return. If line 6 is more than line 1, you are not required to file an Oregon return.

**Example 1:** Emily is single, age 20, and a full-time college student. Her parents claim her as a dependent. Emily has earned income of \$800 from her job. She also has \$29 of interest income from her savings account.

1. Enter gross income from all taxable sources: \$800 plus \$29. 1. \$ 829
2. Earned income \$800 plus \$350. Enter total. 2. 1,150
3. Set amount. 3. 1,050
4. Enter the larger of line 2 or 3. 4. 1,150
5. Enter the standard deduction for a single person: 5. 2,155
  - Basic standard deduction: \$2,155.
  - Over age 65 or blind: \$3,355.
  - Over age 65 and blind: \$4,555.
6. Enter the smaller of line 4 or 5. 6. \$ 1,150

Because line 6 (\$1,150) is more than line 1 (\$829), Emily is not required to file an Oregon return.

**Note:** If Emily had any Oregon income tax withheld from her income, she should file an Oregon return to claim her refund.

**Example 2:** Norman is single, age 17, and claimed as a dependent by his parents. Norman has earned income of \$3,015 from his part-time job. He does not have any other income.

- |  |                   |
|--|-------------------|
| 1. Enter gross income from all taxable sources.      | 1. <u>\$3,015</u> |
| 2. Earned income \$3,015 plus \$350. Enter total.    | 2. <u>3,365</u>   |
| 3. Set amount.                                       | 3. <u>1,050</u>   |
| 4. Enter the larger of line 2 or 3.                  | 4. <u>3,365</u>   |
| 5. Enter the standard deduction for a single person: | 5. <u>2,155</u>   |
| • Basic standard deduction: \$2,155.                 |                   |
| • Over age 65 <u>or</u> blind: \$3,355.              |                   |
| • Over age 65 and blind: \$4,555.                    |                   |
| 6. Enter the smaller of line 4 or 5.                 | 6. <u>\$2,155</u> |

Because line 1 (\$3,015) is more than line 6 (\$2,155), Norman is required to file an Oregon return.

**Example 3:** Katrina is single, age 19, a full-time student, and claimed as a dependent by her mother. Katrina did not work but had \$1,057 of unearned interest income from her certificate of deposit.

- |  |                   |
|--|-------------------|
| 1. Enter gross income from all taxable sources.      | 1. <u>\$1,057</u> |
| 2. Earned income \$0 plus \$350. Enter total.        | 2. <u>350</u>     |
| 3. Set amount.                                       | 3. <u>1,050</u>   |
| 4. Enter the larger of line 2 or 3.                  | 4. <u>1,050</u>   |
| 5. Enter the standard deduction for a single person: | 5. <u>2,155</u>   |
| • Basic standard deduction: \$2,155.                 |                   |
| • Over age 65 <u>or</u> blind: \$3,355.              |                   |
| • Over age 65 <u>and</u> blind: \$4,555.             |                   |
| 6. Enter the smaller of line 4 or 5.                 | 6. <u>\$1,050</u> |

Because line 1 (\$1,057) is more than line 6 (\$1,050), Katrina is required to file an Oregon return.

### Part-year residents and nonresidents

Amounts apply to Oregon-source gross income and gross income received while an Oregon resident. You must file an Oregon return if:

Your filing status is:	And your Oregon gross income is more than:
Single, can be claimed on another's return	\$1,050*
Single	\$2,155
Married filing joint	\$4,315
Married filing separate <i>If spouse claims standard deduction</i>	\$2,155

<i>If spouse itemizes deductions</i>	-0-
Head of household	\$3,475
Qualifying widow(er)	\$4,315
<i>*The larger of \$1,050 or your earned income plus \$350, up to your standard deduction amount.</i>	

If your Oregon income is less than your standard deduction, you are not required to file a return.

If you have Oregon state income tax withholding and aren't required to file a return, you still must file a return to claim a refund of withholding.

### Nonresidents with rental property in Oregon

If your only Oregon-source income is from rental property, and you have a loss from the rental activity for the taxable year, you are not required to file an Oregon return. However, please note that you must file Oregon returns for all applicable loss years if:

- You later sell the rental property in a fully-taxable transaction;
- The sale results in gain that would otherwise be taxed by Oregon;
- You have suspended passive activity losses from the rental activity; and
- You are deducting your suspended losses from that gain on your federal return.

### Electronic filing for Oregon

Electronic filing is a fast, efficient, and accurate way to file an Oregon income tax return. Returns filed electronically require fewer manual steps to process compared to paper returns.

Practitioners are automatically approved for Oregon electronic filing after the IRS acceptance of Form 8633, *Application to Participate in the Electronic Filing Program*. There is no separate registration required for Oregon.

Paid preparers who meet the requirements of the federal e-file mandate must also e-file Oregon personal income tax returns. For information on waivers of this requirement, see the information for tax professionals on our website, [www.oregon.gov/dor](http://www.oregon.gov/dor).

The copy of a tax return provided to a client must be an exact copy of the tax return submitted to us.

## 2-D barcode filing for Oregon

2-D barcode filing is an alternative way to file a paper Oregon return. Oregon-approved tax software packages are required to print a 2-D barcode on Forms OR-40, OR-40-N, and OR-40-P. The 2-D barcode on the tax return is a “picture” of the information on the return, which is printed on the top right-hand corner of the return’s front page. A machine reads the barcode information so it doesn’t have to be entered manually into our computer system.

If changes are made to the return after it has been printed, the entire return **must** be re-printed so that the barcode will reflect the correct information.

The copy of a 2-D barcode return provided to a taxpayer must be an exact copy of the tax return you submit to us.

## Why Oregon needs a federal return

Most information to support the amounts on your Oregon return comes from your federal return. Even when Oregon law differs from federal law (such as additions, subtractions, and credits), we still need information from your federal return. The request for your federal return is authorized by ORS 314.380.

If you file an electronic return, we will receive your federal return with your Oregon return. If you are filing a paper return, you must include a copy of the front and back of federal Form 1040, 1040A, 1040EZ, or 1040NR, including any “as if” returns. If you’re not filing a federal return, include a “substitute” federal return with your Oregon return; fill out the return as if it were an actual federal return. Do not send copies of your federal schedules. Keep them with your tax records. We may ask for copies later.

## Record-keeping requirements

### Why is record keeping important?

- Keeping records of your income and deductions will help you prepare an accurate tax return and pay the correct tax.
- You must be able to prove all items on your return with adequate records and sufficient evidence. Keep records that verify the income, deductions, credits, and other items reported on your tax return. Estimates or approximations do not qualify as proof.
- Accurate records will help you if the department selects your tax return for examination. Usually, an examination will occur one to three years after a return is filed (or later if you have had a federal

audit). If you’ve kept good records, you can clear up any questionable items and easily arrive at the correct tax. If you haven’t, you may have to spend time getting statements and receipts from various sources. You may also have to pay more tax if you can’t prove the figures you used.

### How should I keep my records?

You must keep accurate records, but no particular system is required for keeping them. Your records should contain all the information you used to figure your income, deductions, credits, and other items shown on your income tax return.

### What records should I keep?

If you report an item on your tax return, you must have adequate records to verify it. Here’s a partial list of records you should keep:

- Receipts and sales documents for deductible expenses on Schedule A, self-employment, farm, rentals, sale of assets, etc.
- Dated and signed receipts for any cash payments that might be deductible.
- Income statements, including Form W-2 for your wages and Form 1099 for interest, dividends, rents, and nonemployee compensation.
- All payroll records including copies of W-2s and 1099s issued.
- Pay statements if you have deductible expenses withheld from your paycheck.
- Receipts and certificates to verify Oregon tax credits claimed.
- Copies of your tax returns, including complete federal returns with all federal schedules.
- Copies of your “as if” returns if you were required to prepare them to claim a special filing status.
- Worksheets, summary statements, calendars, log books, journals, etc.
- Cancelled checks, substitute checks or carbon copies of checks, bank deposit slips, and receipts.
- Checking and savings account statements for both personal and business accounts.
- If you deduct alimony payments, keep copies of cancelled checks and the written separation agreement or the divorce, separate maintenance, or support decree.
- For property you own, keep the purchase price, any purchase expenses, the cost of any improvements, and any other basis adjustments, such as depreciation and deductible casualty losses. If you received property as a gift, you must have records that show the donor’s adjusted basis just before the property was given to you, its fair market value on the date of the gift, and any gift tax paid on it.
- The sale of a capital asset (and certain other assets). This type of sale is reported as a capital gain or

loss. Your records must show when and how the asset was acquired, how it was used, and when and how it was disposed of. Records must also show your cost or other basis, the gross selling price, and the expenses of the sale.

- Year-end statements showing total interest paid on loans, mortgages, or notes.
- Statements and cancelled checks, mortgage statements, and other documents for your real estate and personal property taxes paid.
- Proof of payment to your care provider if you are claiming the Oregon Working Family Household and Dependent Care credit.

### **How do I document deductible expenses?**

A receipt is the best evidence to prove the amount of an expense. A cancelled check, together with a bill or invoice from the payee, ordinarily establishes the cost. A cancelled check might not prove a business expense without other evidence to show that it was for a business purpose. All records should show:

- The date,
- The amount, and
- The purpose of the expense.

To be deductible, a business expense must be both ordinary and necessary.

### **How do I document car or truck expenses?**

You must have written records to verify vehicle expenses. To deduct car or truck expenses, you must be able to prove:

- The amount of each separate expense for a vehicle, such as the cost of purchase, capital improvements, lease payments, maintenance, and repairs.
- The mileage for each business or investment use of the vehicle and the total miles for the tax year.
- The date of the expense or use. Keep a trip log at the time of use, showing the date and mileage for each business use, including odometer readings.
- The business or investment reason for the expense or use of the vehicle.

Keep the proof you need for these items in an account book, diary, log, statement of expense, trip sheet, etc. Include all documents needed to verify the item.

### **How long should I save my records?**

Keep records that support an item of income or a deduction on your return at least until the statute of limitations expires for that return. A statute of limitations is the period of time after which no legal action can be brought. Usually this is three years from the date the return was filed, or two years from the date the tax was paid, whichever is later. Returns filed before the due date are treated as if they were filed on the due date.

**Exceptions:** There are times you should keep records longer, including the following:

- Keep records that support your basis in property for at least four years after you sell or dispose of the property (including all capital improvements).
- If your return was audited by the federal government, Oregon has two years from the date we receive the federal audit report to review your Oregon return for adjustments.
- If you have employees, we recommend you keep all of your employment tax records for at least five years after the date the tax becomes due or is paid, whichever is later. This includes copies of a Wage and Tax Statement (Form W-2) for each employee, and all payroll records.
- If you did not report some income and it is more than 25 percent of the income shown on your return, the return may be audited within five years after it was filed. If a return is false or fraudulent or if no return is filed, there is no time limit.

### **What if I do not have all of my records?**

If records have been destroyed and your return is selected for review, the auditor will advise you about reconstructing your records.

# Filing an Oregon return

In order to correctly file an Oregon personal income tax return, you must know:

- Your residency status.
- Which form to file.
- Your filing status.

## Residency ORS 316.027

**General rule.** Oregon taxes residents on all sources of income. Oregon taxes nonresidents on income from Oregon sources.

### Residents

An Oregon resident is someone who is domiciled in this state. “Domicile” is defined below.

An Oregon resident may also be someone who is not domiciled in Oregon, but:

- Maintains a residence in Oregon, and
- Spends a total of more than 200 days in Oregon during the taxable year.

A fraction of a day is considered to be a whole day when figuring the 200 days. We will not consider you to be a resident if you are in Oregon for a temporary purpose. The burden of proof is on you to show your stay here is only temporary.

Consider both your domicile and the place where you live to determine how you are taxed.

**Domicile.** Domicile is a tax-law concept. It is the place you consider to be your home and where you plan to return after an absence. Domicile is not the same as home, abode, or residence. Intent is the deciding factor when you determine your domicile. The law assumes you have a domicile somewhere. It also assumes you have only one domicile.

**Home.** If you have one home, your domicile is generally where that home is located. If you have two homes, your domicile follows your center of activity.

To determine your center of activity and your domicile, consider:

- Physical characteristics of the place.
- Time you spend there.
- Things you do there.
- People and property there.
- Your attitude toward the place.
- Your intent to return to the place when you are away.

**Family relations.** Generally, spouses living together have the same domicile. The domicile of minor

children is determined by the domicile of the person who has legal custody of them.

When living apart, a husband and wife each may establish their own domicile if they meet the requirements for a change of domicile.

**Change of domicile.** Intent is the most important factor in determining a change of domicile. If intent relies on uncertain events, you have not changed your domicile. Once domicile is established, it is never lost until **all** of the following happen:

- You intend to abandon the old domicile, and
- You intend to acquire a specific new domicile, and
- You are physically present in the new domicile.

The important points are physical presence at a new dwelling and the intent to make the new dwelling a home.

**Special-case Oregon residents (Oregon residents living in another US state).** Even if you are domiciled in Oregon, you will be taxed as a nonresident if you meet **all** of the following requirements:

- You do not maintain a permanent residence in Oregon for yourself or your family during any part of the year, and
- You maintain a permanent residence outside Oregon during the entire year, and
- You spend less than 31 days of the year in Oregon.

**Oregon residents living in a foreign country.** Certain Oregon residents living in a foreign country may be taxed as foreign nonresidents.

To qualify as a foreign nonresident, you must meet one of these two tests:

1. The “physical presence” test, or
2. The “bona fide residence” test.

In general, you’re considered a nonresident if you qualify for a foreign earned income or housing exclusion under federal law.

You may be an Oregon nonresident if you are in the civil service or military serving in a foreign country. This is true even if you cannot claim these exclusions. See **Military personnel filing information** beginning on page 21 for more details.

**Physical presence test.** To meet the requirements of the physical presence test:

- Your tax home must be in a foreign country, and
- You must be present in a foreign country or countries for 330 full days out of any consecutive 12-month period.

“Tax home” is generally your regular place of business, the location where you work, regardless of where you live. For more information on tax home, please refer to Internal Revenue Service Publication 17, *Your Federal Income Tax for Individuals*.

A “full day” means a period of 24 consecutive hours beginning at midnight. The 12-month period may begin on any date in the calendar year. The period ends the day before that same date, one year later. For example, a 12-month period beginning October 10 would end October 9 of the following year.

The 330 full days must fall within that 12-month period.

**Bona fide residence test.** To meet the requirements of the bona fide residence test, you must:

- Establish, to the satisfaction of the Secretary of the U.S. Treasury, bona fide residence in a foreign country, and
- Maintain a bona fide residence for an uninterrupted period that includes a full tax year.

**Example 1:** Juan arrives in England on April 24, 2014, at noon. He establishes his tax home in England and remains there until 2 p.m. on March 21, 2016, when he leaves England to return to the United States. Juan is physically present in a foreign country for 330 full days during at least one 12-month period:

- One 12-month period starts on his first full day in England, April 25, 2014, and ends April 24, 2015.
- Another 12-month period starts on March 21, 2015, and ends March 20, 2016, his last full day in England.

Juan may use any 12-month period that begins after his arrival in England and ends before he returned to the United States to meet the physical presence test.

Juan qualifies for nonresident treatment for the months he was out of the country during 2014, 2015, and 2016. He should file Oregon part-year returns for 2014 and 2016, and a nonresident return for 2015.

**Example 2:** Use the facts in Example 1, but change Juan’s arrival date to June 23, 2015. In this case, Juan will not qualify for nonresident treatment because he was not physically present in a foreign country for 330 days. He must file a full-year resident return for 2015 and 2016.

**Example 3:** Sandra is a calendar-year taxpayer. She establishes a bona fide residence in Russia on August 12, 2015. On June 10, 2016, she moves out of her residence and spends six weeks at a hotel in Alaska. On July 22, 2016, she establishes a bona fide residence in South Korea. She is transferred back to the United States on May 8, 2017. She does not meet the requirements of the bona fide residence test because

she does not maintain a bona fide residence for an uninterrupted period that includes a full tax year. She also does not qualify for the physical presence test because she is not physically present in a foreign country for 330 full days out of a consecutive 12-month period.

**Example 4:** Use Example 3, but instead of going to South Korea, Sandra continues to work in Russia until February 2017. She would now qualify under the bona fide residence test. Her residence was established for a full tax year. Sandra should file a nonresident return for 2016. Sandra also qualifies for nonresident treatment for the months in 2015 and 2017 that she maintained the bona fide foreign residence. She should file Oregon part-year returns for 2015 and 2017.

For more information about physical presence or bona fide residence, see IRS Publication 54, *A Tax Guide for U.S. Citizens and Resident Aliens Abroad*.

## Nonresidents

If you were domiciled outside Oregon and lived outside Oregon for the entire year, you were a nonresident of Oregon. If you are a nonresident, Oregon taxes only income you earned in Oregon and received from Oregon sources. In some cases, however, a taxpayer domiciled in Oregon can be treated as a nonresident. See **Special-case Oregon residents** on page 14.

**Example 1:** Misha was a permanent California resident in 2016. She temporarily worked in Medford as a computer consultant for two months in 2016. Misha is a nonresident of Oregon. She will pay Oregon tax on the income she earned in Oregon. California will also tax Misha’s income because she is a resident of that state. Because both Oregon and California will tax her income, Misha may claim a credit for taxes paid to another state. For information about this credit, see page 97.

**Example 2:** Nash was a permanent Nevada resident in 2016. He has rental property in Oregon. Nash is a nonresident of Oregon. He will pay Oregon tax on the income from his Oregon rental property.

## Part-year residents

If you were domiciled in Oregon for part of the year and in another state for part of the year, you were a part-year Oregon resident. Oregon taxes all of your income for the part of the year you were an Oregon resident. Oregon also taxes any income earned in Oregon or received from Oregon sources for the part of the year you were a nonresident.

**Example 1:** Gustav was a resident of Minnesota through July 21, 2016. On July 22, he moved to Oregon and established a new domicile here. Gustav is

considered to be a part-year Oregon resident for tax year 2016.

**Example 2:** Bailey was a resident of Oregon from 1997 through March 2016. She permanently changed her residence from Oregon to Delaware on April 1, 2016. Bailey is considered a part-year Oregon resident for tax year 2016.

## Extensions of time to file

If you cannot file your Oregon return by the due date, you may be able to get a six-month extension of time to file. For 2016 returns, this means you have until October 16, 2017 to file.

### An extension of time to file your return does not mean you have more time to pay your taxes.

You must pay any tax you expect to owe by April 18, 2017. If you do not pay all of the tax due with your extension, you will owe interest on the unpaid balance from April 19, 2017, until the date it is paid. To avoid penalty and interest charges, include enough payment with your extension to cover your tax liability. Once you file your return, if you have overpaid, you will receive a refund. See page 32 for more information about interest and penalties.

### Were you stationed in a designated combat zone?

If you were in the military and stationed in a designated combat zone, you may qualify for an automatic extension of time to file your return. See **Military personnel filing information** beginning on page 21 for extension details.

### Was your home or business located in a presidentially-declared disaster area?

Did you receive additional time to file your federal tax return and pay your federal tax? If so, you may qualify for additional time to file your Oregon return and pay your Oregon tax. Please call us for information and instructions on filing your return.

### Extension for filing returns

Oregon accepts your federal extension. If you did not file for a federal extension, and you need more time to file your Oregon return and you owe tax, submit your payment using Form OR-40-V and check the extension box on the form. Follow the instructions on Form OR-40-V for submitting your extension payment. Your extension payment must be received by April 18, 2017 to avoid penalties and interest.

Whether you owe tax or are expecting a refund, mark the "Extension" box on your Oregon return and file your return by October 16, 2017.

## Which form do I file?

Oregon has three types of personal income tax forms. The form you use will depend on your residency status.

### Resident—Form OR-40

Use Form OR-40 if you are a full-year Oregon resident.

### Part-year resident—Form OR-40-P

Use Form OR-40-P if any **one** of the following is true:

- You are a part-year resident, or
- You are filing jointly and one spouse is a full-year Oregon resident and one is a part-year resident, or
- You qualified as an Oregon resident living abroad for part of the year.

### Nonresident—Form OR-40-N

Use Form OR-40-N if any **one** of the following is true:

- You are a nonresident, or
- You are a special-case Oregon resident (see page 14), or
- You and your spouse are filing jointly and one (or both) of you is a nonresident, or
- You meet the military personnel nonresident requirements (see page 21), or
- You qualified as an Oregon resident living in a foreign country for the entire year (see page 14).

You may need to file other forms, depending on your circumstances. See below or visit our website for more information.

### Sales of Oregon real property by nonresidents.

**Withholding on real property sales.** Authorized escrow agents may be required to withhold taxes due when a **nonresident** sells real property located in Oregon. Unless an exception applies, once escrow closes, the agent must withhold and remit the lesser of:

- Four percent of the consideration;
- The net proceeds from the sale; or
- Eight percent of the gain includible in Oregon taxable income.

For more information about this requirement and its exceptions, see the instructions for Form OR-18, available on our website. The escrow agent will submit this form to the Department of Revenue along with the amount withheld. The agent should ask you



to complete Form OR-WC to determine whether an exception to the withholding requirement applies. Form OR-WC is for the escrow agent's use in preparing Form OR-18, but you should keep a copy for your own records.

## Pass-through entities (PTEs)

**Reduced tax rate - ORS 316.043.** Did you receive non-passive distributive income from a partnership or S corporation? If so, your PTE income may qualify for the PTE reduced tax rate. See the Schedule OR-PTE applicable to your residency status for more information. If you elect to use the PTE reduced tax rate, you must submit the Schedule OR-PTE with your return. Note: The PTE reduced tax rate is an irrevocable election for each tax year that must be made on the original return or an amended return filed before the due date, excluding extensions. Indicate that you are using the reduced tax rate by marking the PTE box on your Oregon return.

**Partnerships.** Except for publicly-traded partnerships taxed as corporations, every partnership with one or more Oregon resident partners, and every partnership having income or loss derived from or connected with Oregon sources, must file Form OR-65. See the Form OR-65 instructions for further details. **Note: Oregon follows federal filing guidelines including the due date for filing a partnership return. If you are not required to file a federal partnership return, you do not need to file one for Oregon.**

**S Corporations.** S corporations doing business in Oregon or receiving income from Oregon sources are required to file Form OR-20-S. S corporation income is generally taxable to the shareholders rather than the corporation. However, S Corporations do pay Oregon tax on certain kinds of income. Please see the information for corporations on our website, [www.oregon.gov/dor](http://www.oregon.gov/dor) or the instructions for Form OR-20-S for more details.

**LLCs.** Oregon LLCs and foreign LLCs doing business in Oregon are taxed and classified the same as for federal income tax purposes. Oregon follows federal tax treatment.

- LLCs that choose to be taxed as corporations file the same forms as corporations (Form OR-20 or Form OR-20-I).
- LLCs with two or more members who choose to be taxed as partnerships file using the same form as partnerships (Form OR-65).
- A single-member LLC that chooses to be taxed as a sole proprietorship files federal Schedule C, Schedule E, or Schedule F with their individual income tax return.

## Pass-through entities with nonresident owners—ORS 314.778, 314.784

**Composite tax return.** A PTE must file Form OR-OC on behalf of nonresident owners who elect to be included on the return. For forms and instructions, go to [www.oregon.gov/dor](http://www.oregon.gov/dor).

**Nonresident withholding.** A PTE must withhold tax on a nonresident owner's share of Oregon-source income if the nonresident owner elects not to be included on Form OR-OC, unless the nonresident owner's share of Oregon-source income is less than \$1,000 or other exceptions listed in ORS 314.784 apply. For more information, see Form OR-19 instructions on our website.

## Filing status

### General rule

The filing status on your Oregon return must be the same as your filing status on your federal return. See exceptions below.

**Example 1:** Minerva filed her federal return using the filing status of single. She must use the single filing status on her Oregon return.

**Example 2:** Peter and Della are married and both are full-year Oregon residents. They filed a joint federal return. Peter and Della must use the married filing jointly filing status on their Oregon return.

**Example 3:** Tia and Colin are married and choose the married filing separately filing status on their federal returns. They must use the married filing separately filing status on each of their separate Oregon returns.

### Exception: Filing status for married taxpayers with different residency status

If you and your spouse file a joint federal return but each of you has a different residency status, you have a choice of two different filing statuses to use for Oregon:

- You and your spouse may file one Oregon return using the married filing jointly status, or
- You and your spouse may each file a separate Oregon return using the married filing separately status.

You may not file as head of household (see ORS 316.122).

**Note:** This exception does not apply to RDPs or married nonresident aliens because these taxpayers may not file joint federal returns. For information on RDP filing, see page 20.

## Which forms do we file?

- **Full-year resident and part-year resident.** If you file separate Oregon returns, the full-year resident files Form OR-40 and the part-year resident files Form OR-40-P. If you choose to file a joint return for Oregon, file Form OR-40-P. The full-year resident reports all income from all sources for the year. The part-year resident reports all income while a resident and all Oregon-source income while a nonresident.
- **Full-year resident and nonresident.** If you file separate Oregon returns, the full-year resident files Form OR-40 and the nonresident files Form OR-40-N. If you choose to file a joint return for Oregon, file Form OR-40-N. The full-year resident reports all income from all sources for the year. The nonresident reports only Oregon-source income.
- **Nonresident and part-year resident.** If you file separate Oregon returns, the nonresident files Form OR-40-N and the part-year resident files Form OR-40-P. If you choose to file a joint return for Oregon, file Form OR-40-N. The nonresident reports only Oregon-source income. The part-year resident reports all income while a resident and Oregon-source income while a nonresident.

**Note:** If you file separate federal returns, you must file separate Oregon returns. If you are a nonresident spouse without Oregon income, and you are filing separately for Oregon, you are not required to file an Oregon return. If you and your spouse are both nonresidents of Oregon and you are filing a joint federal return, you must file a joint Oregon return as well.

## What information goes on each return?

On each spouse's separate Oregon return, enter the filer's name and Social Security number first, then the spouse's name and Social Security number. Mark the 'Married filing separately' box.

**"As if" federal returns.** You must include an "as if" federal Form 1040 or Form 1040A showing how the return would have appeared if you had filed a separate federal return, along with a copy of the joint federal Form 1040 or 1040A that you actually filed. Mark the 'Calculated using "as if" federal return' box on each Oregon return. If you are filing paper returns, mail both Oregon returns, the "as if" federal returns, and the actual federal return in the same envelope, but do not staple them together.

**Income and deductions.** You and your spouse each report your own share of income and deductions. Also, report your share of any Oregon additions, subtractions, modifications, or adjustments, including the federal tax subtraction. See **Federal tax subtraction**, below.

Use the following guidelines when preparing your return:

**Your percentage.** Use the following formula to compute your share of certain deductions:

$$\frac{\text{Your share of federal AGI}}{\text{Joint federal AGI}} = \text{Your percentage (not to exceed 100\%)}$$

If your share is less than -0-, your percentage is -0-.

**Federal tax subtraction.** Each spouse may subtract a portion of his or her joint federal tax liability. Multiply the joint federal tax liability (after all credits except the earned income credit) by your percentage to determine your federal tax subtraction. See the example below, and page 66 for limitations.

**Itemized deductions.** Multiply the itemized deductions by your percentage to compute your share. Or, you may itemize separately if you can clearly determine each spouse's deductions. Remember to use "Net Oregon itemized deductions." For more information about itemized deductions, see page 90.

- **Standard deduction.** The Oregon standard deduction is \$2,155 for each spouse.
- **Age 65 or older, or blind.** Each taxpayer is entitled to an additional deduction if he or she is age 65 or older, or if he or she is blind. The additional deduction is \$1,000 for married taxpayers filing separately. A taxpayer who is both age 65 or older and blind may claim two additional deductions, plus the regular \$2,155 standard deduction.
- **Exception:** If one spouse claims itemized deductions, the other spouse cannot claim the standard deduction. The other spouse may only claim itemized deductions.

**Exemption credits.** You cannot prorate exemptions. You may claim exemptions for yourself and any dependents allowed on your federal return. You cannot claim an exemption for the same dependent claimed on your spouse's return.

**Example:** Jim worked and lived in Oregon all year. Mary moved from Idaho to Oregon in July and married Jim. They filed a joint federal return and are filing separate returns for Oregon. Mary earned \$30,000 in Oregon and \$22,000 in Idaho. Jim earned \$41,000 in Oregon. Their total federal adjusted gross income (AGI) was \$93,000. Jim and Mary claimed \$12,200 itemized deductions, including \$4,900 Oregon withholding tax, on their joint federal return. Mary's Oregon withholding tax was \$2,200. Jim's Oregon withholding tax was \$2,700. Their joint federal income tax liability was \$14,400. Jim, a full-year Oregon resident, files Form OR-40 and reports his income of \$41,000. On the return, he enters his own name and SSN first, then enters Mary's information, and marks the 'married filing separately' box. He creates his separate "as

if” federal return, marks the ‘Calculated using “as if” federal return’ box on the Oregon return, and claims the following federal tax liability and deductions:

$$\begin{aligned} \text{His share:} & \quad \$41,000 \div \$93,000 = 0.44 \text{ (44\%)} \\ \text{Federal tax:} & \quad 0.44 \times \$14,400 = \$6,336 \\ & \quad \text{(His subtraction is limited to \$3,250)} \end{aligned}$$

$$\begin{aligned} \text{Total} \\ \text{itemized} \\ \text{deductions:} & \quad 0.44 \times \$12,200 = \$5,368 \\ \text{Deduction} \\ \text{for Oregon} \\ \text{tax:} & \quad 0.44 \times \$4,900 = \$2,156 \end{aligned}$$

Jim will have net Oregon itemized deductions of \$3,212 (\$5,368 – \$2,156). He will claim his own Oregon withholding of \$2,700 on his separate Oregon return. Jim follows the line instructions for Oregon Form OR-40 to complete his return.

Mary, a part-year resident, files Form OR-40-P and reports \$52,000 federal AGI (\$30,000 from Oregon sources). On her return, she enters her own name and SSN first, then enters Jim’s information, and marks the ‘married filing separately’ box. She creates her separate “as if” federal return, marks the ‘Calculated using “as if” federal return’ box on the Oregon return, and claims the following federal tax liability and deductions:

$$\begin{aligned} \text{Her share:} & \quad \$52,000 \div \$93,000 = 0.56 \text{ (56\%)} \\ \text{Federal tax:} & \quad 0.56 \times \$14,400 = \$8,064 \\ & \quad \text{(Her subtraction is also limited to \$3,250)} \end{aligned}$$

$$\begin{aligned} \text{Total} \\ \text{itemized} \\ \text{deductions:} & \quad 0.56 \times \$12,200 = \$6,832 \\ \text{Deduction} \\ \text{for Oregon} \\ \text{tax:} & \quad 0.56 \times \$4,900 = \$2,744 \end{aligned}$$

Mary will have net Oregon itemized deductions of \$4,088 (\$6,832 – \$2,744). She will claim her own Oregon withholding of \$2,200 on her separate Oregon return. Mary follows the line instructions for Form OR-40-P to complete her return.

### Married filing separately with community property income

An Oregon resident whose spouse lives in a community property state may have community property income that is taxable by Oregon. There are nine community property states: Arizona, California, Idaho, Louisiana, Nevada, New Mexico, Texas, Washington, and Wisconsin.

Some residents of community property states are not subject to community property laws for various reasons. You will need to check with your community property state for details. IRS Publication 555, *Community Property*, also contains information that may be helpful to you.

Here are examples of how to file for Oregon:

**Example 1:** Paul and Marie are married, but they are legally separated. Paul is an Oregon resident. Marie is a resident of California, a community property state. They maintain separate households, do not combine funds, and have no plans to get back together. They file a joint return with the IRS. When Paul files his separate return for Oregon on Form OR-40, he does not have to include any community property income because California’s community property laws do not apply to him and Marie.

**Example 2:** Renton is an Idaho resident. His wife, Julie, lives in Oregon. Julie plans to move to Idaho next year, but for now they will live separately. Julie’s 2016 income is \$40,000 in wages, \$3,000 in capital gain, and \$100 in interest.

Because Renton is domiciled in Idaho, he and Julie are subject to Idaho’s community property laws. His income for 2016 is \$60,000 in wages and \$500 in interest. They plan to file a joint return with the IRS, but are not sure whether they want to file jointly for Oregon.

If they file a joint return for Oregon, they will file on Form OR-40-N. The Oregon column will contain all of Julie’s income, because Oregon taxes all of her income from all sources. In addition to Julie’s separate income, she has \$30,250 of community property income for 2016—half of Renton’s wages and bank interest. Line 34F (federal column) of their joint Form OR-40-N is \$103,600, which is equal to their federal adjusted gross income. Line 34S (Oregon column) is \$73,350—Julie’s wages, capital gain, interest, and community property income (\$40,000 + \$3,000 + \$100 + \$30,250). They are also eligible for a credit for taxes paid to Idaho on Julie’s mutually-taxed income of \$30,250. (See **Credit for income taxes paid to another state** for more information on this credit.)

If they file separate returns for Oregon, Julie will file using Form OR-40. Julie will fill out a federal return as if she had filed separately. She will include all of her separate income and community property income —\$73,350. This amount flows through to Line 7 of her Oregon Form OR-40. She is eligible for a credit for taxes paid to Idaho, because she must also file a nonresident Idaho return to report her community property income of \$30,250.

**Example 3:** Kevin lives and works in California and is subject to California’s community property laws.

Lori, his wife, moved to Oregon with their kids two years ago. Kevin supports them and will be ready to transfer to Oregon within the next two years. Kevin has \$110,000 in wages. Kevin and Lori have joint income of \$2,000 in interest and \$4,000 in capital gain. Lori has separate income of \$5,000 from her business. They decide to file separate returns for the IRS. Lori's federal adjusted gross income is \$63,000: half of Kevin's wages, half of their joint income, and all of her business income. Kevin's federal adjusted gross income is \$58,000; half of his wages and half of their joint income. Lori must file using the married filing separate filing status for Oregon on Form OR-40 because she did so on her federal return. She is eligible for a credit for taxes paid to another state, but must claim it on her California nonresident return. Kevin is not required to file for Oregon.

**Important:** You must check the laws of the community property state to see if you, or your spouse, are subject to those laws even if your situation is similar to one of the examples.

## Registered domestic partners (RDP) ORS 314.023

### Filing your Oregon income tax return

*The following section applies only to Oregon same-sex registered domestic partners who have not been legally married. If you were legally married at the end of the 2016 tax year, you are considered married for federal and Oregon purposes. You do not need to complete an "as-if" federal return. Instead, attach your actual federal return to your Oregon return and follow the instructions for married individuals.*

In Oregon, a domestic partnership is a civil contract entered into between two individuals of the same sex, where at least one of the individuals is an Oregon resident. Registered domestic partners (RDPs) are subject to the same tax statutes and regulations that apply to married filers. As an RDP, you are no longer eligible to use the single filing status on your Oregon return; generally, you must use the "married filing jointly" or "married filing separately" status. See IRS Publication 17, *Your Federal Income Tax for Individuals*, for information about other filing status requirements. Like married joint filers, RDPs filing jointly will be held jointly and severally liable for their entire tax liability. To correctly figure your Oregon tax liability, you need to complete a federal income tax return "as if" you are married filing jointly or married filing separately for federal purposes. Use the information you calculated on the "as if" federal return to complete your Oregon income tax return. The "as if" return will not be submitted to the IRS,

but a copy must be included with your Oregon tax return. Mark the "Calculated using 'as if' federal return" box on the Oregon return.

### General filing instructions for RDPs

If you were an Oregon RDP on December 31, 2016, or if you were an RDP during 2016 and your partner died and you did not enter into a new registered domestic partnership or marry during 2016, please follow these directions for filing your 2016 income tax return:

1. Complete your federal forms (1040, 1040A, 1040EZ) for each partner, using the appropriate federal filing status, such as single or head of household. File these returns with the IRS.
2. Use another federal form to complete a return that assumes you were allowed to file a joint or separate federal return. Use all the same IRS rules and procedures that apply to married couples, except for the federal tax liability (see below). This is called the "as if" federal return. **Important!** Do not file this "as if" form with the IRS. Note: If your wage statement includes the imputed value of health or education benefits you received from your employer for your partner or qualifying dependents, subtract the amount included in your wages on the 'other income' line of your "as if" federal return.
3. Complete your Oregon return using the same filing status you used on the "as if" federal return. Information used to fill out the Oregon return must be taken from the "as if" federal return and not the individual federal return that you actually filed with the IRS, except for the federal income tax liability subtraction. You will use the amount each partner actually paid in federal tax to compute the correct federal tax subtraction.
4. Submit your actual federal return, your "as if" federal return, and your Oregon return to the Oregon Department of Revenue. If you and your partner file separate Oregon returns, please send the returns in the same envelope, but do not staple your separate returns together.

It is very important to keep copies of all "as if" returns with your tax records for future reference. For more information on filing your tax return as an Oregon registered domestic partner, visit [www.oregon.gov/dor/](http://www.oregon.gov/dor/), and search for RDP information.

## Individual Taxpayer Identification Number

The Internal Revenue Service (IRS) issues individual taxpayer identification numbers (ITINs) to taxpayers and their dependents who do not have Social Security numbers. If you have your own Social Security number, **do not** apply for an ITIN; use your Social Security number. If you already have an ITIN, enter your ITIN wherever your Social Security number is requested.

### Requesting an ITIN from the IRS

You must file your federal return and attach Form W-7, *Application for IRS Individual Taxpayer Identification Number*. The IRS will issue an ITIN, associate the ITIN with your return, and process your return. For Form W-7, go to the IRS website at [www.irs.gov](http://www.irs.gov) or call 1-800-829-1040.

### Filing your Oregon return before receiving your ITIN

You may file your Oregon return without a Social Security number (SSN) or ITIN. Please follow these instructions if you, your spouse, or your dependents do not have an ITIN when you file your Oregon return:

1. Complete and file each ITIN application (federal Form W-7) according to IRS instructions.
2. On your Oregon tax return, mark the 'Applied for SSN' box wherever the SSN is required for you or your family members who have applied for an ITIN. You do not need the ITIN(s) to file your Oregon tax return. Do not attach your ITIN application to your Oregon tax return.
3. File your 2016 Oregon tax return before April 18, 2017.
4. The IRS will send you a letter with your ITIN information. We need this information to issue your refund and so your future tax payments will be correctly applied to your account. **Refunds will not be issued without a valid SSN or ITIN.** Please send us your:
  - Name (and the name of your spouse and dependents if they applied for an ITIN).
  - Current address.
  - Previous SSNs or ITINs used when filing an Oregon return (if any); and
  - A copy of each of the letters you receive from the IRS with the ITINs for you, your spouse, or your dependents.

Send this information to:

Oregon Department of Revenue  
PO Box 14999  
Salem OR 97309-0990

## Military personnel filing information

### Changes in Oregon Law

Recent changes in Oregon law may affect you if you were stationed in Oregon on or after January 1, 2010 and were considered to be an Oregon resident during any part of that time.

Oregon follows federal law, including the Service-member's Civil Relief Act (SCRA). Under the SCRA, military pay of a nonresident for service within Oregon is not considered to be income from Oregon sources. As a member of the military, if you are stationed in Oregon, but you are not domiciled in Oregon, your military pay is not taxed by Oregon. See below for information about military residency and domicile.

If you are domiciled in Oregon, but stationed outside of the state, you could be treated as a nonresident for tax purposes if you meet the "special-case nonresident" requirements, which are described below. If you are domiciled in Oregon, and performing military service in Oregon, your military pay is subject to tax, although the pay could qualify for certain subtractions, described below.

Oregon Revised Statute 316.027 has been amended to allow military personnel performing active service within Oregon to be treated as nonresidents for tax purposes if their address in the payroll records of the Defense Finance and Accounting System (DFAS) is outside Oregon, regardless of where they are domiciled.

This amendment is retroactive to January 1, 2012 for tax on military pay for active service within Oregon, and tax on non-Oregon source income. If you performed active service in Oregon after 2011, but had an address outside of Oregon in the DFAS payroll records during that time, you may file an amended return to claim a refund of the tax paid on your military pay and income from non-Oregon sources, along with a refund of any penalties and interest you paid on that tax. File Oregon Form 40N, following the instructions below, by December 31, 2017 to claim the refund.

If you were charged penalties or interest on your 2010 or 2011 Oregon returns, contact us to find out how to get a refund of the penalties and interest paid, or to request a waiver of any unpaid penalties or interest,

as a result of being taxed on these items. The tax itself is not refundable for years prior to 2012.

**Note:** Are you the spouse of a military member? See **Military spouses** on page 25.

## Residency of military personnel

**Domicile.** Generally, you are considered to be an Oregon resident if your domicile is in Oregon. Your domicile is the place that you consider to be your home. It is the place where you are from, and where you plan to return when you are away. Your domicile does not change if you are assigned to perform military service in another state, unless you take other actions to establish a new domicile there. Domicile and residency are explained in more detail in the **Residency** section beginning on page 14.

## Exceptions to Oregon residency

Even if you are domiciled in Oregon, you may be treated as a nonresident for tax purposes if you meet the requirements listed in A or B, below:

**A. Special-case nonresident.** You are treated as a “special-case” nonresident of Oregon if you are stationed outside of Oregon and all three of the following are true:

1. You did not have a permanent residence in Oregon for yourself or your family during any part of the tax year, and
2. Your permanent residence was outside Oregon during the entire tax year, and
3. You spent less than 31 days in Oregon during the tax year.

**B. DFAS address outside of Oregon.** You are treated as a nonresident of Oregon, regardless of where you are stationed, if both of the following are true:

1. You are performing “active service” as that term is defined in 10 USC 101(d)(3), other than annual training duty or inactive-duty training, and
2. You are a resident of another state according to DFAS payroll records.

If you meet the requirements in either A or B above, you are treated as a nonresident for Oregon tax purposes and Oregon won't tax your military pay. You will owe Oregon tax only if you had income from another Oregon source. This income may be from an Oregon property sale, a business, or rental property located in Oregon. If you have had Oregon income tax withheld from your military pay, you should file an Oregon nonresident tax return to get a refund of the withheld tax. If you continue to be a nonresident, file an Oregon-only Form W-4 with your pay clerk as described on page 24.

## Oregon residents

**Stationed in Oregon.** If you are domiciled in Oregon and stationed in Oregon, you are taxed on income from all sources, both inside and outside Oregon. This includes your military pay for service in Oregon if either of the following is true for you:

- Your address in the DFAS payroll records is in Oregon, or
- Your military pay is from annual training duty, inactive-duty training, or other service in Oregon that is not “active service” as defined in 10 USC 101(d)(3).

If neither of these are true, see the **Exceptions to Oregon residency**, above, to see if you qualify for treatment as a nonresident for tax purposes.

**Stationed outside Oregon.** If you are domiciled in Oregon, but you are stationed outside of the state, see the **Exceptions to Oregon residency**, above, to find out whether you can be treated as a nonresident of Oregon for tax purposes. If you qualify for nonresident treatment, see the **Nonresident** section, below. If you do not qualify as a nonresident, you will be taxed as a resident on your income from all sources, both inside and outside Oregon.

## Military pay subtractions

You may qualify for more than one subtraction for military pay. To be eligible for the subtractions, the military pay must be included in federal adjusted gross income (AGI). Military pay includes active duty pay, reenlistment bonuses, and pay for guard and reserve annual training, weekend drills, and inactive duty training.

The Oregon military pay subtractions are:

- **Stationed outside Oregon.** As of August 1, 1990, you can subtract military pay earned while stationed anywhere outside Oregon until the date the president sets as the end of combat zone activities in the Persian Gulf Desert Shield area. The date was not set when this material was printed. You are not required to be stationed in a designated combat zone to be eligible for this subtraction.
- **Guard and reserve away from home.** National Guard members and reservists assigned away from home for 21 days or longer can subtract their military pay earned during this time.
- **Other military pay.** You can subtract any remaining taxable military pay after taking the above subtractions, up to \$6,000.

**Total subtraction.** You may qualify for more than one military pay subtraction. However, your total subtraction can't be more than the total military pay included in federal AGI.

**Note:** Certain forms of military pay that are not included in federal AGI, such as combat pay, are not taxed in Oregon. They are not subtracted on your return because they are not included in your federal taxable income.

The following examples show the military pay subtractions described above.

**Example 1:** Seth, an Oregon resident, enlisted in the Navy. He earned \$10,000 of active duty pay in Spain and \$8,000 of military pay inside Oregon during the year. His address in the DFAS payroll records is in Oregon. He included the \$18,000 in his federal AGI. Seth's total military pay subtraction is \$16,000. Seth can subtract the \$10,000 earned outside Oregon, and \$6,000 of his military pay earned in Oregon. Seth files Oregon Form OR-40 and claims his military pay subtraction on Schedule OR-ASC using subtraction code 319.

**Example 2:** Brett is an Oregon resident and files jointly with his wife, who lives and maintains a residence in Oregon. Brett served in a designated combat zone for five months this year and earned \$8,000 in combat pay. He served in Germany for the rest of the year and earned \$15,000 of military pay. The president did not declare an end to combat zone activities this year. Because Brett excluded his combat pay on his federal return, he does not have to subtract it on his Oregon return. Therefore, Brett's Oregon subtraction is the \$15,000 of military pay earned outside Oregon and included in federal AGI. Brett and his wife will file Oregon Form OR-40 and claim the subtraction on Schedule OR-ASC using subtraction code 319.

**Example 3:** Gertrude and Merlin are married, filing a joint return. Both are Oregon residents, and their address in the DFAS payroll records is in Oregon. Gertrude was on active duty overseas (not in a combat zone) this year. She had \$21,000 active duty pay. Merlin served in the Oregon National Guard and was away from home overnight from April to July and again for two weeks in November. He served in Oregon when away from home. Merlin earned \$1,500 military pay for his weekend drills. He also earned \$8,000 while away from home from April to July and \$1,000 for the two weeks in November. Gertrude and Merlin will include \$31,500 of military pay in their federal AGI. Then they will determine their Oregon subtraction.

- **Stationed outside Oregon:** All \$21,000 of Gertrude's active duty pay is eligible for this subtraction because she was stationed outside Oregon.
- **Guard and reserve away from home:** \$8,000 of Merlin's pay is eligible for this subtraction because he was away from home for more than 21 consecutive days from April to July. The pay he received for

the two weeks he was away from home in November does not qualify.

- **Other military pay:** Gertrude doesn't have any other military pay not already eligible for the other subtractions. Merlin's remaining military pay is the \$1,500 he earned for weekend drills and the \$1,000 he earned for two weeks in November. The total for the remaining pay is \$2,500, which is less than the \$6,000 maximum allowed per military member, so he is allowed to subtract the entire \$2,500.

Combined, Gertrude and Merlin have a military pay subtraction of \$31,500, because all of their military pay is eligible for at least one of Oregon's military pay subtractions. They will file Oregon Form OR-40 and claim the subtraction on Schedule OR-ASC using subtraction code 319.

## Nonresidents stationed in Oregon

Oregon does not tax your military pay if you are domiciled in another state. You do not need to file an Oregon return unless you had other income from an Oregon source or had Oregon tax withheld from your pay. Examples of Oregon-source income include:

- Wages from a job held on off-duty hours.
- Earnings from an Oregon business or rental property.

**Note:** Nonresidents' interest income from an Oregon bank account generally is not taxable by Oregon.

If you had Oregon tax withheld from your military pay, you should file a return to claim a refund. You should also contact your payroll clerk to stop withholding Oregon taxes if Oregon is not your state of domicile.

**Example 1:** Selina is a nonresident of Oregon in the U.S. Navy stationed in Portland. She has no other Oregon-source income and doesn't have Oregon income tax withheld from her military pay. Selina is not required to file an Oregon return.

**Example 2:** Jared is a nonresident of Oregon in the U.S. Coast Guard stationed in Astoria. In his off-duty hours he works part-time for an Oregon employer. Because Jared has Oregon income other than his military wages, he will file Oregon Form OR-40-N for a nonresident.

**Example 3:** Caitlyn was domiciled in Oregon when she joined the US Army in 2006, and she has not established a new domicile in another state. Since July 2014 she has been stationed at the Army's chemical depot in Umatilla, and she lives in an apartment in Kennewick, Washington. Along with her military pay, in 2016 she earned interest from a savings account in an Oregon bank and has wages from an off-duty job in Kennewick. Since Caitlyn is treated as a nonresident

for tax purposes, her military pay is not taxed by Oregon. The interest she earned from the Oregon bank is also not taxed, because she is considered to be a nonresident. She is also not taxed on the wages from her Kennewick job. Caitlyn is not required to file an Oregon return for 2016 unless Oregon tax was withheld from her military pay.

## Filing your nonresident return

If you have other income from Oregon sources, use Form OR-40-N. Enter your military income on Line 7 in the federal column only. Do not enter your military pay in the Oregon column. Report other income taxable by Oregon in the Oregon column. On Schedule OR-ASC-NP, Section 3, enter the military wage income you reported in the federal column on line 7, but only in the federal column. In the Oregon column, enter -0-. Use subtraction code 319. It is important to enter your military pay this way because it affects the amount of deductions and credits you're entitled to claim. Mark the "Military" box on the return.

If you and your spouse file a joint federal return, and you are both nonresidents of Oregon, you must file a joint Oregon return as well. Use Form OR-40-N. If your spouse is an Oregon resident, you have the option of filing married filing separate returns in Oregon. Your spouse would file Form OR-40, or Form OR-40-P if a part-year Oregon resident, and you would file Form OR-40-N. If you file a joint return, use Form OR-40-N.

## Filing and payment date

The due date for filing a calendar year return and payment of the tax is April 15. If the 15th falls on a Saturday, Sunday, or legal holiday, the due date is the next working day of the month. If you are outside the United States for military duty on the due date, the due date is extended by two months. Mark the "Extension" box on your return. See the **Extensions** section on page 16 for more information.

If you owe tax on your Oregon income tax return, you must pay the entire amount by the due date. Interest and penalty will be added to all unpaid balances.

## Extension for filing your return

You can get an extension to file your return, but you cannot get an extension to pay your tax. More information can be found in the **Extension** section on page 16.

**Combat Zone/Contingency Area.** Were you stationed in a combat zone or contingency area? Did you receive additional time from the IRS to file your federal return and pay your 2016 tax? If so, Oregon allows the same additional time to file and pay your Oregon tax. Mark the "Extension filed" and "Military" boxes

on your return. Keep your payroll records or other proof of your combat zone/contingency area service and the IRS extension with your tax records; we may request a copy at a later date.

## Interest and collections

If your active duty service (Title 10) has materially affected your ability to pay your Oregon tax debt, you may qualify for relief of interest and collection activity while on active duty and up to 180 days thereafter. The interest rate on tax debt owed by military members is limited to 6 percent annually. File a claim for relief by writing to us within 180 days after your active duty service has ended. Relief may not be available for the period prior to receiving your request. Include a copy of orders showing your active duty status and dates.

You may qualify for relief of interest and collection activity under Oregon law if you meet all of the following requirements:

- You have a tax liability that came due while on active duty under Title 10,
- You have been on active duty for more than 90 consecutive days,
- Your active duty service (Title 10) occurred on or after September 11, 2001, and
- You notify us within 180 days after your active duty service has ended.

Guard members called into active state service by the governor under Title 32 may qualify for relief of interest and collection activities on any tax owed prior to active state service. Send a written request for relief to the department within 180 days after the active state service has ended. Include a copy of your orders.

To get relief, you have to notify us that you are on active duty or send a written request. Relief may not be available for the period prior to receiving your notification.

## Withholding exemption

You have the option to stop Oregon withholding from your military pay if **all** of the following are true:

- You had a right to a refund of all 2016 Oregon income tax withheld because you had no tax liability, **and**
- You expect a refund of all 2017 Oregon income tax withheld because you reasonably believe you won't have any tax liability, **and**
- You expect to be stationed outside of Oregon all of 2017, or you expect to be on active service within Oregon but will continue to have an address outside of Oregon in the DFAS payroll records for all of 2017.



If all of the above are true and you do not want Oregon tax withheld from your military pay, you must file another Form W-4 with your payroll office. This Form W-4 is for Oregon tax purposes only and is in addition to your federal Form W-4. When completing a Form W-4 for Oregon only, write “Exempt” on line 7. At the top, write “For Oregon Only—Stationed Outside Oregon” or “For Oregon Only—DFAS Address Outside Oregon” in blue or black ink. Give this Form W-4 to your pay clerk.

## Military spouses

If you’re a military spouse, the state where you live may be different from the state where you are domiciled. See the **Residency** section beginning on page 14 for more information about determining your domicile.

Oregon follows federal law, including the Military Spouse Residency Relief Act (MSRRA). Under MSRRA, your income may not be taxable to Oregon if your spouse is stationed in Oregon, you are living in Oregon to be with your spouse, and you and your spouse are domiciled outside of Oregon.

In addition, your income may not be taxable if you are domiciled in Oregon, but you are living in another state where your spouse is stationed. See the **Residency** section for information about “special-case” Oregon residents for details.

## Nonresident spouse of military member stationed in Oregon

MSRRA prevents Oregon from taxing your Oregon wages if you meet certain criteria. If you moved to Oregon only to be with your spouse who is stationed here, and you both are domiciled outside of Oregon, your Oregon wages are exempt from Oregon tax and are not considered to be Oregon-source income. **Note:** This exemption doesn’t apply to spouses who are also members of the military.

You are not required to file an Oregon return unless you had other income from an Oregon source or Oregon taxes withheld from your pay. Examples of Oregon-source income include:

- Non-military wages earned by your spouse (the military member) in Oregon.
- Income from a business you operate in Oregon.
- Rental income from Oregon property.

If you file an Oregon return, use Form OR-40-N. Include all of your wages on Line 7 in the federal

column **only**. Don’t include your exempt income (or your spouse’s military pay) in the Oregon column. There is no further adjustment for your exempt wages. For information about the subtraction for your spouse’s military pay, see **Filing your nonresident return**, above.

If Oregon taxes were withheld from your exempt wages, you should file another Form W-4 with your employer. At the top, write “For Oregon Only—Exempt Military Spouse” and write “Exempt” on Line 7. This Form W-4 is in addition to the one you file for federal purposes. Your employer may require proof that you qualify for the exemption.

## Oregon resident spouse of military member stationed outside Oregon

If your spouse is stationed outside of Oregon, but you are an Oregon resident living in Oregon, your income is taxable for Oregon purposes. If you file a joint return with your spouse, use Form OR-40-N, and include all of your income in the Oregon column. If you and your spouse file a joint federal return, and your spouse is not a resident of Oregon, you have the option to file joint or separate returns. If you file a joint return, use Form OR-40-N; if you file married filing separate returns, you will use Form OR-40 (or Form OR-40-P if you are a part-year resident of Oregon) and your spouse with income taxable to Oregon will use Form OR-40-N. If your spouse does not have income taxable to Oregon, they are not required to file a separate Oregon return. Use the general instructions for all taxpayers.

Do you qualify to be treated as a nonresident because you meet the “special-case resident” requirements? If so, you are not taxed on your out-of-state wages or self-employment income. This is the case even if the other state cannot tax you because of MSRRA. You don’t have to file an Oregon return unless you had Oregon tax withheld or other Oregon source income, such as rental income or retirement pay. See the **Residency** section for more information about “special-case” Oregon residency. If you file an Oregon return, use Form OR-40-N.

# Payments and refunds

## Payment options

Payment is due on April 18, 2017, regardless of any extension you may have to file your return. If payment is not made by the due date, interest and penalties may be charged. See page 32 for more information about penalties and interest.

### Electronic payments from your checking or savings account

If you have filed a return with us, you can pay your prior year income taxes, current year income taxes, and 2017 estimated income taxes directly from your checking or savings account. You also have the option to pay by direct debit when you file your return. There is no fee for this. Visit [www.oregon.gov/dor](http://www.oregon.gov/dor) for more information.

### Credit card payments

You can pay your current-year balance due, make estimated tax payments for 2017, and pay prior year taxes with your American Express, Discover, MasterCard, or Visa credit card.

To pay online by credit card, you must have filed a return with us. To make an online payment, go to Revenue Online at [www.oregon.gov/dor](http://www.oregon.gov/dor). A convenience fee may be charged for this service. Keep the payment confirmation number for your records.

### Payment by check or money order

- Make your check or money order payable to **Oregon Department of Revenue**.
- Write your daytime telephone number and the tax year to apply the payment on your check.
- Use blue or black ballpoint pen. Do not use red or purple ink or gel pens.
- Do not send cash or a postdated check.
- Include the payment voucher, Form OR-40-V with your payment. Form OR-40-V is available in our tax booklets, and is available for download on our website.

## Direct deposit of refund

Your income tax refund can be deposited directly into your account at a bank or other financial institution, including credit unions.

If you are filing a joint return, both you and your spouse must sign the tax return. Without both

signatures, we cannot deposit the refund directly into your account.

**Note:** Some banks may not accept direct deposits into accounts that are payable through another bank. Also, some banks do not permit the deposit of a joint refund into an individual account. In addition, the department cannot direct deposit a refund if the final destination is a foreign bank account.

Contact your bank to make sure your deposit will be accepted. Make sure you have your correct routing number (from a check, not from a deposit slip) and account number. See the sample check for help in identifying these numbers.

- **Routing numbers** are nine digits and must begin with 01 through 12, 21 through 32, or 61 through 72.
- **Account numbers** can be up to 17 characters, both numbers and letters. Include hyphens, but do not include spaces or special symbols. If your account number is fewer than 17 characters, leave the unused boxes (on your return) blank.

It is your responsibility to make sure your bank information is correct. The department cannot correct deposits made to an incorrect bank account approved by you.

The Oregon Department of Revenue is not responsible when a bank rejects a direct deposit. If the direct deposit is rejected, the department will issue a check and send it to the mailing address shown on your return.

## Application of refund

If you are due a refund of taxes paid on your Form OR-40, OR-40-N, or OR-40-P, you may apply some or all of your refund to any of the following:

- Your open estimated tax account.
- A charitable contribution.
- An Oregon 529 College Savings Plan.

**Estimated tax payment.** If you choose to apply some or all of your refund as an estimated tax payment to a later tax year, you may only apply your refund to an open estimated tax account. The election to apply your refund to an open estimated tax account is **irrevocable**. An open estimated tax account is an account that is set up prior to the due date of your personal income tax return, for which no return has been filed. The account closes when your return is filed, or if no return is filed, by the due date of the return.

**Example 1:** Beth filed her 2016 Form OR-40 on April 5, 2017 claiming a refund of \$500 that she elected to apply to her estimated tax account. The \$500 payment will be applied as an estimated tax payment to Beth's 2017 estimated tax account.

**Example 2:** Ray filed his 2015 return on May 12, 2017. Ray claimed a \$2,500 refund on his 2015 return and elected to apply \$2,000 of the refund as an estimated tax payment. Ray's estimated tax account for 2016 closed on April 18, 2017, the due date of his 2016 tax return. Ray's estimated tax payment of \$2,000 must be applied to his 2017 estimated tax account. Ray will claim the \$2,000 as an estimated payment when he files his 2017 return.

**Example 3:** Sally filed her 2015 Oregon amended return on March 2, 2017. Sally claimed a \$1,500 refund on the amended return and elected to apply \$500 of her refund as an estimated tax payment. Sally has two estimated tax accounts open, tax year 2016 (January 1, 2016 through April 18, 2017) and tax year 2017 (January 1, 2017 through April 17, 2018). The department will apply the \$500 overpayment to Sally's 2017 estimated tax account, and Sally will claim the \$500 payment when she files her 2017 return. Sally needs to contact the department if she would like the overpayment applied to tax year 2016 instead.

**Charitable Contribution or 529 College Savings Plan account deposit.** Please see the form instructions for filing your return for details on using your refund to

make a charitable contribution or deposit to an Oregon 529 College Savings Plan account.

## Refund processing

### How long will it take to get my refund?

Return processing times vary depending on many factors, including complexity of the return and our verification processes. Electronically filed returns process faster. Paper returns must have all supporting documentation included to ensure smooth processing. Paper can also take longer as the due date approaches, when the largest number of returns are received. See **Refund delays**, below, for some typical reasons why a return might require additional review.

**To check the status of your refund, go to [www.oregon.gov/dor](http://www.oregon.gov/dor) and click on Revenue Online.**

### Refund delays

Several things might delay processing of your tax return or your refund:

- Change in name. If you have a different name in our records from a previous filing, special handling will be required.
- If you notified us about identity theft, special handling will be required.
- Change in Social Security number.

## Direct deposit—necessary numbers

SAMPLE

**Paul Maple  
Deborah Maple**  
1234 Windy Oaks Drive  
Anytown OR 90000

PAY TO THE ORDER OF \_\_\_\_\_ \$

\_\_\_\_\_ DOLLARS

ANYTOWN BANK  
Anytown OR 90000

For \_\_\_\_\_

**Routing number**  
250 2500 25

**Account number**  
20 20 20 "" 86 "" 1 2 3 4

**Do not include the check number**

1234  
15-0000/0000

- Application for an individual taxpayer identification number (ITIN).
- Failure to attach Forms W-2, 1099, or a similar form as proof of Oregon withholding.
- Failure to attach a copy of your federal return.
- Claiming the Working Family Household and Dependent Care Credit. These refundable tax credit claims are reviewed manually and take additional time to process.
- Claiming a manufactured home park closure credit.
- Failure to identify additions, subtractions, adjustments, modifications, or credits. Numeric codes are shown in the **Appendix**.
- Debt to other agencies. If you or your spouse owe money to other agencies (for such things as student loans, unpaid parking tickets, or back child support), your refund might be delayed or used to offset your debt.
- Incorrect bank account information. Verify your bank account information for direct deposit refunds. If your bank information is incorrect, the department must wait for the bank to return the funds before issuing a refund check.

## Injured spouse refund claims ORS 314.415(7)

Are you filing a joint return with a spouse who is separately liable for a debt to a state agency? If so, you may request that your joint refund be apportioned.

When your return is processed, we will notify you of our intent to apply the joint refund to any debts owed to the state of Oregon. When you receive our notice, send us a request to divide the refund. Please respond within 30 days of the date of our notice.

You may use federal Form 8379, *Injured Spouse Allocation*, and fill in the Oregon refund numbers, or create your own worksheet. Separate your withholding, tax payments, and items of income. Income from jointly held property must be split evenly, including interest earned on joint bank accounts.

If the debt is owed to another state agency (not for state taxes), address your refund request to:

**Attention: Accounts Resolution Team**  
**Oregon Department of Revenue**  
 955 Center Street NE  
 Salem OR 97301-2555

If the debt is owed for Oregon state taxes (that is, any program administered by the Department of Revenue), address your refund request to:

**Oregon Department of Revenue**  
 955 Center Street NE  
 Salem OR 97301-2555

**Note:** Oregon does not apportion refunds that are offset to debts owed to **federal** agencies through the State Reciprocal Program (SRP). For information about SRP offsets, visit the U.S. Department of the Treasury's website at [www.treasury.gov](http://www.treasury.gov).

For additional information, visit our website at [www.oregon.gov/dor](http://www.oregon.gov/dor).

## Oregon statute of limitations on refunds

Oregon law limits the time you have to claim a refund of Oregon tax. The allowable time depends on your circumstances. Some examples are listed below.

### Withholding and estimated tax refunds

You must file your original return within three years of the due date to claim a refund of tax withheld or estimated tax payments. The due date does not include extensions. If you file more than three years after the due date, the excess tax withheld or estimated tax payments cannot be refunded or reduce tax you owe for another year.

### Amended returns

If your original return was filed within three years of the due date, you may amend (change) your return and file for a refund within:

- Three years of the due date of your original return, or
- Three years of the date you filed your original return, or
- Two years of the date you paid your tax or paid any part of your tax, whichever is latest.

If you file your amended return after three years, but within two years of the date you paid tax, your refund cannot be more than the amount of tax you paid during that two-year period.

**Note:** If the Oregon Department of Revenue adjusted items on your return and your right to appeal has expired, you cannot use the above rules. **You cannot claim a refund for those items.**

**Example 1:** Bob filed his 2013 Oregon return and paid \$300 tax due on time. In March 2016, he discovered he had forgotten to report some interest income. He amended his return. He paid \$220 additional tax on April 1, 2016. On August 4, 2017, Bob discovers he failed to claim a large charitable contribution he made in 2013. Bob must amend his 2013 return by April 1, 2018. His refund will be limited to \$220, the additional tax he paid within the last two years.

**Federal or other state corrections to tax returns**

Sometimes when the IRS or another state corrects your return, the changes will affect your Oregon return, resulting in a refund. You have two years from the date of the correction to amend your Oregon return and claim a refund. This is true even if the three-year statute of limitations has expired.

# Amended returns

## Reasons to file an amended return

- An IRS audit (or other state audit) resulted in a change to your original return that affects your Oregon return.
- You amended your federal (or other state) return and the changes you made affect your Oregon return.
- You have a net operating loss (NOL) and will carry back the NOL to a prior year.
- You need to correct the income or deductions you originally reported.

## How do I amend my Oregon return?

You will need the following items:

- The tax form and instruction booklet for the year that you are amending. This will usually be the same form type as your original return, unless:
  - You filed Form 40S, but can no longer use that form. Use that year's Form 40 instead; or
  - You filed the incorrect form for your residency status. Use the correct form type to amend.
- A copy of the Oregon tax return that you originally filed for the year being amended.
- A copy of any previously amended returns you filed for the year being amended.
- A copy of all notices from us, another state, or the IRS for the tax year being amended.

Follow these steps to amend your return:

1. Read through these instructions before filling out your form.
2. Mark the "Amended" box on the return.
3. If we sent you a notice with corrections to your return, use the figures from that notice when amending your return.
4. Use the worksheet for amended returns in the instruction booklet. Fill out the entire worksheet using the corrected information. **Note:** You cannot elect to donate your amended refund to a charitable checkoff or political party or deposit your amended refund to an Oregon 529 College Savings Plan account.
5. Do not re-enter any refund amount that you already asked us to apply to your next year's estimated tax.

## How long do I have to file for a refund?

In most cases, you must file for a refund within three years from the due date of your original return, or the date you filed your original return, whichever is later.

For more information about time limits for filing a return to claim a refund, see **Oregon statute of limitations on refunds** on page 28.

## When should I file and pay if I owe additional tax?

File your amended return as soon as you know that a change needs to be made. Interest is calculated from the day after the due date of the original return up to the date the tax is paid. Pay any tax and interest due as soon as possible to avoid additional interest. There may also be a penalty.

## How do I file a protective claim for refund?

You can file a protective claim for refund when the outcome of a court case or legislative action is expected to be known after the time for requesting a refund has expired. Use Form OR-PCR when your claim to a refund is contingent on a pending court decision or legislative action. Notify the department every six months on the status of the claim. If the court decision or legislative action changes your Oregon income tax, file an amended return within 90 days of the determination.

## How long will it take to process my amended return?

Processing time for amended returns varies. It may take six months or longer to process your amended return.

## How do I amend for a net operating loss (NOL)?

You may claim a refund from a net operating loss (NOL) carryback within three years after the due date (including extensions) of the return that showed the NOL. Mark the "Amended return" box and enter the year of the NOL. See page 83 for more instructions.

## Do I change my federal tax liability on my amended return?

Usually not, but follow these special instructions for federal tax liability:

- Did we correct the federal tax subtraction on your original return? If so, use the corrected amount from our notice.
- Did you amend your **federal** return before the due date (not including extensions) of the original return? If so, the federal tax on your amended federal return is the amount you will use for your amended Oregon return. There will be no addition or subtraction in a later year.

- Did you pay additional federal tax because you were audited or filed an amended return after the due date of the original return? If so, claim the additional federal tax as a subtraction on your Oregon return **in the year you paid the additional tax**.
- Did you get a refund of federal tax because you were audited or filed an amended return after the due date of the original return? If so, show the federal tax refund as an addition on your Oregon return in the year you received the refund, but only if you received a **tax benefit**. See **Federal income tax refunds** in the **Additions** section for more information.

Were you unable to take some or all of the federal tax subtraction on your original return due to Oregon's adjusted gross income (AGI) limitation, but your amended AGI is now below one or more of the limits? You may change the federal tax liability on your amended return **only if the taxes you are deducting were paid or accrued during the tax year you are amending**. Change the liability to reflect what you could have claimed if your AGI had been below the limit on your original return. **Do not** make any changes based on additional taxes paid or refunds received as a result of amending your federal return.

**Example 1:** Sergei received a notice from the Oregon Department of Revenue in May and is filling out an amended return in July. The notice stated that his federal tax subtraction was reduced from \$3,500 to \$3,000. He will use the corrected federal tax subtraction of \$3,000 on his amended return.

**Example 2:** Alicia paid additional federal tax in 2016 for an audit adjustment on her 2013 federal tax return. She will include the adjusted items when she completes her amended 2013 Oregon tax return, but will not change the 2013 federal tax subtraction. Because she paid the additional tax in 2016, she will subtract this amount, up to the annual limit, on her 2016 Oregon return. See page 68 for the federal tax subtraction limits.

**Example 3:** Tonya, a single taxpayer, timely filed her original 2015 return, with an AGI of \$138,000. She paid \$35,000 in federal taxes during 2015. Her federal tax subtraction was limited to \$2,550 because of her AGI. In 2016, she amended her federal return to claim expenses she had left off of her original return. Her amended AGI is now \$133,000. Tonya may change her federal tax liability on her amended return to \$3,850, the amount she could have claimed on her original return, because her limitation amount has changed.

# Interest and penalties

## Interest

Interest rates are the same for taxes owed and refunds. Interest is charged on tax only and is paid on tax only. Interest is not charged on penalty. We do not charge compound interest. The following table shows interest rates since 2004. For interest rates before 2004, contact us. The dates listed below are when the interest rates were adjusted each year.

Interest dates	Interest percentage rates		
	Annual	Monthly	Daily
January 1, 2004	6%	0.5%	0.0164%
January 1, 2005	5%	0.4167%	0.0137%
January 1, 2006	7%	0.5833%	0.0192%
January 1, 2007	9%	0.75%	0.0247%
January 1, 2009	6%	0.5%	0.0164%
January 1, 2010	5%	0.4167%	0.0137%
January 1, 2013	4%	0.3333%	0.0110%
January 1, 2017	5%	0.4167%	0.0137%

The annual interest rate is 5 percent beginning January 1, 2017. The interest rate may be changed once per calendar year. An interest period is one full month; for example, April 16 through May 15 is one interest period. Interest is figured daily for a fraction of a month, based on a 365-day year. Additional interest of 4 percent per year is charged as described under **Two-tiered interest on deficiencies and delinquencies**, below.

### How to figure interest on tax you owe

You must figure interest on the amount of tax not paid by the due date of your return. Interest owed on income tax starts the day after the original return's due date and goes to the date of your payment. Even if you get an extension to file, you still owe interest if you pay after the return's original due date. **An extension to file is not an extension to pay.**

If you file an amended return, or if your taxable income changed because of a federal or state audit, and you have tax to pay, you will be charged interest starting the day after the due date of the original return until the date of your payment.

**Example:** Nick filed an amended income tax return for tax year 2014 on March 18, 2017. His original 2014

return was due on April 15, 2015. He paid additional tax of \$500 with his amended return. Here is how Nick figures the interest that he owes:

April 16, 2015 to April 15, 2016	1 full year = 1 annual interest period at 4%	0.04 x \$500 x 1 year .....=\$20.00
April 16, 2016 to December 15, 2016	8 full months = 8 interest periods at 0.3333%	0.003333 x \$500 x 8 months .....=\$13.33
December 16, 2016 to December 31, 2016	16 days at a daily rate of 0.0110%	0.000110 x \$500 x 16 days .....=\$ 0.88
January 1, 2017 to February 28, 2017	2 full months = 2 interest periods at 0.4167%	0.004167 x \$500 x 2 months .....=\$ 4.17
March 1, 2017 to March 18, 2017	18 days at a daily rate of 0.0137%	0.000137 x \$500 x 18 days ..... = \$ 1.23
<b>Total interest</b>		<b><u>\$39.61</u></b>

### Two-tiered interest on deficiencies and delinquencies

Additional interest of 4 percent per year will be charged on deficiencies or delinquencies if:

- You have filed a return showing tax due (a self-assessed tax liability) and do not pay the tax due within 60 days after you file your return, or
- The Department of Revenue has assessed an existing deficiency, and you do not pay the assessment within 60 days after the date on the *Notice of Assessment*.

If you appeal to the Department of Revenue (or, in a hardship situation, to the Oregon Tax Court) without paying the tax, the increased interest rate will start with interest periods beginning 61 days after:

- The date of the department's written objection decision, **or**
- The date of the department's conference decision letter (CDL), **or**
- The date the Magistrate Division enters its decision, **or**
- The date the Tax Court or the Oregon Supreme Court enters its judgment.



## How to figure interest on refunds of personal income tax

Interest is paid on refunds due to you if the department does not issue your refund by the 45th day after receiving your original return or the due date if the return was filed early. If you amend your return after the original due date, interest will be paid on refunds after the 45th day following the due date of the original return or the date the original was received, whichever is later. If you file your return before the due date, it is considered received on the due date. If the department issues your refund before the 45th day after receiving your return, you will not be paid interest.

Interest on net operating loss carrybacks is computed starting on the 45th day after the filing date or due date of the return for the loss year, whichever is later.

**Example 1:** Irina filed her original 2015 income tax return on February 14, 2017 to claim a refund of tax paid in the amount of \$1,895. The return was due on April 18, 2016. The department issued the refund on May 3, 2017, more than 45 days after Irina filed the return. The interest on the refund is calculated as follows:

February 15, 2017 to March 31, 2017 45 days, no interest paid	
April 1, 2017 to April 30, 2017 0.004167 x \$1,895 x 1 month.....	= \$7.90
May 1, 2017 to May 3, 2017 .000137 x \$1,895 x 6 days .....	= \$1.56
Total interest:	<u>\$9.46</u>

**Example 2:** Jean filed her original 2014 return on April 15, 2015. She then filed an amended 2014 return on April 23, 2017, which shows a \$1,000 refund. Here is how we figure the interest due on Jean's refund:

April 16, 2015 to May 30, 2015 45 days, no interest paid	
May 31, 2015 to May 30, 2016 0.04 x \$1,000 x 1 year .....	= \$40.00
May 31, 2016 to December 30, 2016 0.003333 x \$1,000 x 7 months .....	= \$23.33
December 31, 2016 0.000110 x \$1,000 x 1 day .....	= \$ 0.11

January 1, 2017 to March 31, 2017 0.004167 x \$1,000 x 3 months .....	= \$12.50
April 1, 2017 to April 23, 2017 0.000137 x \$1,000 x 23 days .....	= \$ 3.15
Total interest	<u>\$79.09</u>

**Note:** Interest is calculated on the amount that is a refund of tax paid, including any refund amount that you choose to donate by charitable check-off or deposit into an Oregon 529 College Savings Plan account.

Interest is not paid on the portion of a refund resulting from an increase in the Earned Income Credit. Also, interest does not accrue on refunds applied as an estimated payment to a later year's tax. See page 26.

## Two-tiered interest on refunds

The interest rate will increase if we are unable to issue a refund within 60 days from the date of a Tax Court or Supreme Court judgment. The rate will increase from 5 percent to 9 percent yearly beginning 61 days after the date the judgment is entered.

## Penalties

### 5 percent failure-to-pay penalty

You must pay a penalty if you do not pay your tax by the original due date. This is true even if you have an extension of time to file. The failure-to-pay penalty is 5 percent of your unpaid tax.

You will not be charged the 5 percent failure-to-pay penalty if you meet **all** of the following requirements:

- You file federal Form 4868, *Extension of Time to File U.S. Individual Income Tax Return* (the automatic extension of time to file), or sent us a payment according to the instructions in Publication OR-EXT; and
- You pay at least 90 percent of your tax after credits by the original due date; and
- You file your return within the extension period; and
- You pay the balance of tax due when you file your return; and
- You pay the interest on the balance of tax due when you file your return or within 30 days of the date of the bill you receive from the department.

If you file with a valid extension but did not pay 90 percent of your tax by the original due date, you will be charged the 5 percent failure-to-pay penalty.

## 20 percent failure-to-file penalty

You must pay a penalty if you do not file your return within three months after the due date (including extensions). The penalty is 20 percent of the unpaid tax. The failure-to-file penalty is in addition to the 5 percent failure-to-pay penalty.

**Example:** Rosa filed her 2016 return on July 21, 2017. Her return was due April 18, 2017. She did not have an extension. She paid the tax due of \$2,000 with the return. Here is how she figures her penalty:

Penalty (failure-to-pay)	
0.05 × \$2,000 tax.....	= \$100
Penalty (failure-to-file)	
0.20 × \$2,000 tax .....	= \$400
Total penalties	<u>\$500</u>

**Note:** Rosa will also owe interest for late payment of tax.

You will not be charged the 20 percent failure-to-file penalty if you:

- File federal Form 4868, *Extension of Time to File U.S. Individual Income Tax Return* (the automatic extension of time to file), or
- Make a payment according to the instructions in Publication OR-EXT, **and**
- File the return within three months after the due date (including extensions).

## 100 percent failure-to-file penalty

If you do not file returns for three consecutive years by the due date of the third year's return, including extensions, you must pay a 100 percent failure-to-file penalty on the tax due for each year.

## 100 percent intent to evade penalty

Filing a falsely prepared return with the intent to avoid tax will result in a penalty equal to 100 percent of the tax deficiency determined by the Department of Revenue. In addition, you could be charged with tax evasion, a class C felony. You could be fined up to \$125,000, serve a jail sentence, or both.

## Total penalties

The total of these penalties cannot be more than 100 percent of the tax due. **Exceptions:** Penalties for substantial understatement of net tax, filing a frivolous return, and abusive tax avoidance transactions, as discussed below, may be imposed in addition to other penalties.

## 20 percent substantial understatement of net tax penalty

If we determine that you have substantially understated your net tax on your return, you must pay a penalty equal to 20 percent of the understated tax. A penalty will be assessed if net tax has been understated by more than \$2,400 for all taxpayers (other than C corporations) or \$3,500 for a C corporation. Substantially understated net tax includes net tax on income attributable to an abusive tax shelter, even if fully disclosed.

This penalty is in addition to all other penalties provided by law.

## \$250 frivolous return penalty

If you file a frivolous return that is meant to deliberately delay or block the administration of tax laws, you must pay a \$250 penalty. "Frivolous" includes, but is not limited to:

- An argument, without any good basis, that there has been a violation of your constitutional rights.
- Reliance on a "gold standard" or "war tax" deduction.
- An argument that wages or salary are not taxable income.
- An argument that the 16th Amendment to the U.S. Constitution was not properly adopted.
- An argument that "unenfranchised, sovereign, freemen, or natural persons" are not subject to tax laws.

## Abusive Tax Avoidance Transactions (ATAT) penalties

Penalties can be imposed on income items identified by the IRS as abusive tax avoidance transactions (ATAT), including listed transactions, reportable transactions, and promotion of tax shelters, as follows:

- A penalty of 60 percent of the understated net income from a listed transaction understatement. This penalty is in addition to and not in lieu of any other penalties.
- Failure to report a reportable transaction will result in a penalty of \$3,300 for an individual taxpayer or \$16,700 for a corporation.
- If the reportable transaction is also a listed transaction, the penalty is \$33,000 for an individual taxpayer, and \$66,000 for a corporation.
- A promoter of tax shelters will be assessed a penalty of 100 percent of the gross income derived from promoting the shelter. This penalty is in addition to and not in lieu of any other penalties.

In addition to these penalties, if the department finds that there is a deficiency in tax paid as a result of the use of a listed transaction reported or reflected by the return, the statute of limitations for issuing a notice of that deficiency is increased from three years to nine years after the return was filed.

# Audits and appeals

## What to do if your return is audited

### General information

We examine returns for several reasons. Many examinations are based on adjustments already made by the Internal Revenue Service (IRS), with whom we share information. Other returns are selected because there are sections of tax law that require additional focus due to difficulties in tax law application.

An audit is the process of reviewing a return to make sure it was prepared correctly. If your return is chosen for an audit, it does not mean you made an error or are dishonest.

By law, we must keep your tax information private. People who prepare your return or represent you must also keep your information confidential. You have the right to know why we are asking for information, exactly how we will use any information you provide, and what might happen if you do not provide the information.

Our goal is to treat taxpayers fairly. We strive to be responsive to the issues and reasonable in our decisions and actions. We will explain any changes we make to your return. We encourage you to ask about anything you do not understand.

For more information, read our publication *Your Rights as an Oregon Taxpayer*. See the publication on our website or call us to order a copy.

### Types of reviews

**Processing adjustments.** Processing adjustments are corrections we make to a return while we process it.

**Federal audits.** These audits are based on information from the Internal Revenue Service (IRS). This information includes the IRS's CP2000 program and federal Revenue Agent Reports. The CP2000 program matches W-2 and Form 1099 information reported by payers to what is shown on a return. A Revenue Agent Report is a federal audit report showing adjustments the IRS made to a return. If you received either of these reports from the IRS, you need to determine if the changes made by the IRS affect your Oregon return. If they do, you should amend your Oregon return as soon as possible. Interest charges accrue until all tax is paid. If you do not amend your Oregon return, you may receive a notice from us showing adjustments we have made to your return.

**Correspondence audits.** These are written requests asking you to confirm items on a return. The letter

will explain what items are being reviewed and what we need to verify them. You will be asked to send copies of the documents to the auditor who will review the information and notify you of the results. Correspondence audits usually do not require a meeting with the auditor.

**Field audits.** These audits are more in-depth. They include the review of income and expenses from businesses, farms, partnerships, corporations, or rentals. Field audits usually require a meeting with the auditor. The time and place of the meeting will be arranged between you and the auditor.

### What records will I need for the audit?

You'll get a letter from the department asking questions and requesting copies of specific documents. Answer the questions completely and send copies of the requested documents by the deadline in the letter. It's important that you provide a complete copy of your state and federal tax records. See **Record-keeping requirements** in the **General information** section for additional tips. You should also keep a copy of your response to the audit letter.

If you get a letter asking you to make an appointment, contact the auditor who sent the letter. We try to schedule audit appointments at your convenience. It may be held at your home or office, at your representative's office, or at one of our field offices.

The letter will explain the records needed for the audit. Organize the information for the appointment. The auditor may ask you to leave the records while the audit is being conducted. You may ask for a receipt for the records you leave.

Generally, your return is examined in the district where you live. If your return can be examined more quickly and easily in another district (such as where the books and records are located), you may ask to have the audit transferred.

### Who can represent me?

Throughout any audit, you can represent yourself, have someone accompany you, or designate someone to represent you. You may represent yourself in all stages of your audit and appeal. However, if your case is hard to understand or involves many issues, you may want someone to help you. Also, if someone else prepared the return, you may want their help. You may authorize someone to receive your confidential information, or you may designate someone to represent you, who would be able to make decisions for you. People who can represent you are Oregon-licensed:

- Lawyers.
- Public accountants or certified public accountants.
- Tax consultants.
- Enrolled agents.

Out-of-state CPAs may practice in Oregon if they meet the substantial equivalency requirements of ORS 673.010:

1. Licensed in another state; and
2. Have an accredited baccalaureate degree with at least 150 semester hours; and
3. Passed the Uniform CPA exam; **and**
4. Have a minimum of one year of experience.

If you own a business and have an employee who regularly does your tax work, that employee can also represent you.

You must give written authorization to a person you want to represent you. Use our *Tax Information Authorization and Power of Attorney for Representation* form. The auditor handling the case can provide a copy of this form, or you can download it from our website or call us to order a copy.

### What if I disagree with the audit results?

When we propose any changes to your return, we will explain the reasons for them. It's important that you understand why we propose any changes. Please ask about anything that is unclear to you.

If you disagree with the action of the department, you can appeal. Appeal rights will be included with the notice you receive. See **Appeals**, below, for more information.

### What if the IRS or another state has audited my return?

We have an agreement with the IRS to exchange tax return information. If the IRS audits an Oregon taxpayer, we may receive a copy of that information. If your federal return or the return you filed with another state is adjusted, you should amend your Oregon tax return if that adjustment also affects your Oregon return.

If your return was previously audited by the IRS and the notice you receive from us has a different adjustment, send a copy of the final audit adjustments or cancellation from the IRS to us.

If you filed an appeal with the IRS or the other state and you get a notice from us, send a copy of the IRS or other state appeal notification. We will suspend further action until your IRS or other state case is resolved.

You have two years from the date of the correction to claim a refund of Oregon tax as a result of the audit

adjustment. See **Oregon statute of limitations for refunds** in the **Payments and Refunds** section for more information.

## Appeals

If you disagree with an action taken by the Oregon Department of Revenue, you have the right to appeal. Follow the appeal procedures outlined below if you have a disagreement with:

- A *Notice of Deficiency* or *Notice of Proposed Refund Adjustment*.
- Our notice based on a federal audit report or an audit by another state.
- Penalties or interest charges shown on our notice.
- Interest charged on underpayment of estimated tax.
- A *Notice of Assessment*.

You may be able to resolve certain issues without a formal appeal process. Contact us if your disagreement concerns:

- The date or amount of payments made to your account.
- A withholding adjustment.

### Appealing a Notice of Deficiency or Notice of Proposed Refund Adjustment within 30 days

If you disagree with a *Notice of Deficiency* or a *Notice of Proposed Refund Adjustment*, **you may submit an appeal online by logging in to Revenue Online and following the instructions on your notice.** Or, you may submit an appeal in writing within 30 days from the date on our notice. Choose just one of these two options: written objection or conference request.

**Written objection.** Write to us explaining why you disagree with the *Notice of Deficiency* or *Notice of Proposed Refund Adjustment*. Include any new information you have. We will review your explanation, try to resolve the matter, and send you a written decision. If an auditor adjusted your return, that auditor will review your explanation, along with any information you provide, and send you a written decision.

**Conference.** Request a conference by sending us an explanation of why you disagree with our *Notice of Deficiency* or *Notice of Proposed Refund Adjustment*. Include any new information you have. Be sure to indicate that you are requesting a conference. A conference officer will discuss the matter with you or with someone you choose to represent you, usually by telephone. The conference officer will send you a written decision. You may choose to receive the decision by either regular or certified mail.

If you disagree with the auditor's or conference officer's decision, you may continue your appeal and will receive new appeal instructions.

### **Appealing a Notice of Proposed Refund Adjustment after 30 days have passed**

If you do not send us a written objection or conference request, but you still want to appeal a *Notice of Proposed Refund Adjustment*, you must file a complaint with the Magistrate Division of the Oregon Tax Court no later than 120 days from the date of the notice. If you do not file a complaint within 120 days, your appeal rights will expire and the adjustment cannot be changed.

See the section **Appealing to the Oregon Tax Court**, below, for more information.

### **Appealing a deficiency based on federal audit reports or audit reports of other states**

Do you have an appeal in progress with the Internal Revenue Service (IRS) or another state? If so, you may have extra time to file an appeal with the Magistrate Division of the Oregon Tax Court. To see if the appeal rights apply to you, answer the following questions:

1. Did you receive an Oregon notice of a deficiency on the same item billed by the IRS or another state?
2. Did you file a timely appeal with the IRS or another state?

If you answered "no" to either question, use the appeal procedures included with your Oregon notice. If you answered "yes" to both questions, you need to send us proof of your appeal to the IRS or other state. This should include a copy of the notice from the IRS or other state, plus a copy of your written appeal request.

The time allowed for filing your proof of federal or other state's appeal varies:

- Did you receive a *Notice of Deficiency* from us? If so, send us proof of your IRS or other state appeal within 30 days of the date on the *Notice of Deficiency*. Your account will be assessed without penalty and held until the appeal with the IRS or other state is resolved.
- Did you receive a *Notice of Assessment* from us before sending us proof of the appeal? If so, send us proof of your IRS or other state appeal as soon as possible. After you file proof of your appeal, we will delay any further action on your account until the appeal process is completed.

**Note:** Interest will continue to accrue on any unpaid tax.

You must notify us within 30 days of the final resolution of your appeal with the IRS or the other state. We

will review the information and determine whether any adjustments need to be made to your Oregon tax return. You will receive written notification of our determination. If you disagree with our determination, you may appeal within 90 days to the Magistrate Division of the Oregon Tax Court. Your complete appeal rights will be explained with the written determination.

### **Appealing penalty or interest**

Do you believe there is reasonable cause for a reduction of penalties or interest? If so, you may ask for a waiver or reduction of part or all of the penalty and interest charges. However, please note that the department generally will not waive interest charges.

Waiver criteria are outlined in the Oregon Administrative Rules (OAR) under OAR 150-305-0060. You must explain how your situation meets any of the criteria. We will review your waiver request and let you know our decision in writing. If you disagree with the decision, you will receive further appeal instructions.

### **How to start the appeal process**

**All appeals must be submitted through Revenue Online or sent to us in writing.** If you are sending us a written appeal, you may submit it by regular mail, fax, or email.

Your written appeal must include:

- Your full name.
- Your current mailing address.
- Your Social Security number (SSN) or individual taxpayer identification number (ITIN).
- The tax year(s) involved.
- A detailed explanation of why you are appealing.
- Proof of your IRS or other state appeal, if applicable.
- The waiver criteria in OAR 150-305-0060 if you are requesting a reduction of penalty or interest.
- Any new information you want us to consider; and
- A telephone number where you can be reached during the day.

Be sure to indicate whether you are making a written objection, requesting a conference, or requesting a waiver or reduction of penalties or interest. Keep us informed of any changes to your address or telephone number.

**Regular mail.** Send your written appeal to:

**Oregon Department of Revenue  
PO Box 14725  
Salem OR 97309-5018**

If you are appealing interest on underpayment of estimated tax (UND), include "Attention: UND Team" with the mailing address.

**Email.** If you are appealing a determination made by an auditor, you may send a written objection or request for a conference to that auditor by email. The auditor's email address should be included in the contact information in the notice you received. Please note that the Department of Revenue cannot guarantee the security of information sent by email.

**Fax:** You may fax your written appeal to 503-945-8738.

**Revenue Online:** You may submit your appeal using your Revenue Online account. After logging in, simply click on the "Appeals" link and follow the instructions. Be sure that the type of appeal you select is the one you intend to choose. Go to [www.oregon.gov/dor](http://www.oregon.gov/dor), for more information about setting up your Revenue Online account.

### Appealing to the Oregon Tax Court

If you disagree with a *Notice of Assessment* or a written determination following your written objection, conference, or waiver request, you have the right to appeal. You must appeal to the Magistrate Division of the Oregon Tax Court **within 90 days** of the date of the *Notice of Assessment* or our written determination. Complaint forms for appealing to the Magistrate Division are available from the Tax Court's website, [www.courts.oregon.gov/tax](http://www.courts.oregon.gov/tax), or you may contact the Oregon Tax Court by mail or phone:

**Oregon Tax Court  
Magistrate Division  
1163 State Street  
Salem OR 97301-2563  
(503) 986-5650  
TTY (503) 986-5651**

Mail the signed complaint form along with the filing fee and a copy of the *Notice of Assessment* or other written determination to the above address.

**Note:** You cannot appeal tax that you said you owed when you filed your return.

### Further appeal rights

**Tax paid in full.** If you pay the tax due in the *Notice of Deficiency* in full, your deficiency is considered to be assessed either on the date of your payment or 30 days from the date of the notice, whichever is later.

If you do not file a timely appeal, **you have two years from the date your liability is paid in full to appeal** the assessment. Appeal to the Magistrate Division of the Oregon Tax Court as outlined above.

**Doubtful liability.** In certain situations, we may consider your case even if you did not file a timely appeal. Visit our website or contact us to see if you meet the conditions for "doubtful liability" relief.

### Interest charges

Appealing a deficiency or an assessment will not stop interest from accruing on the taxes owed. Interest is computed from the day after the due date of the original return, without extensions, to the date of payment. Interest is charged even if you have a valid extension. If your appeal results in a reduction of the tax due, the interest charges will also be reduced.

### Paying your taxes during the appeal

You may pay your balance due at any step of the appeal process. Payment does not mean you agree with the notice. Payment stops interest charges from accruing on your liability.

If you don't pay before the tax is assessed, a 5 percent failure-to-pay penalty will be added to your balance due. If your appeal is successful, you will receive a refund of any overpayment, including interest.

See **Payments and refunds** for payment options, and **Interest and penalties** for more information about the failure-to-pay penalty.

# Failure to file an Oregon income tax return

For information about penalties for failing to file an Oregon income tax return, see the **Penalties** section of this publication.

## Filing a return after tax is assessed

When you do not file a tax return but were required to file, we will “assess” your tax. This means we compute how much tax you owe based on information we have available. You will then receive a *Notice of Assessment*.

Even if we have assessed your tax for one or more years, you may still file returns for those years.

### Why you should file

We compute your tax assessment using the information available to us about your income, filing status, exemptions, and withholding or estimated tax payments.

Because we don't have all your tax information, we may not be able to give you all the deductions or credits you may be entitled to. Once you file a tax return, we may be able to change the tax we assessed.

### You may receive a refund

If your withholding and/or estimated tax payments add up to more than the tax due, we may be able to refund the excess to you. However, there are time limits. If you paid more tax than you should have, a refund will be allowed only if you file your return within three years of the due date of the original return, not including extensions.

For example, the return for 2014 was due April 15, 2015. Three years after that date is April 15, 2018. To receive a refund of excess tax payments for 2014, your return must be postmarked on or before April 15, 2018.

### Where to mail your return after tax is assessed

Send paper returns, with a copy of your federal Form 1040, 1040A, or 1040EZ, to:

Oregon Department of Revenue  
PO Box 14600  
Salem OR 97309-5049

### Reviewing your return

After reviewing your return, if we agree with the tax you show, we will change the tax assessed. If the income, deductions, credits, or payments shown

on your return do not match our information, we will notify you. The notice we send will explain our adjustments and what to do if you disagree.

Your return must include information about filing status, exemptions, income, deductions, credits, tax, and payments. It must be signed and include a statement that, to the best of your knowledge and belief, is true, correct, and complete. The full statement is printed on the forms provided by us and appears directly above the signature lines. If you change this statement on the form, your return may not be accepted. Your return also may not be accepted if:

- It contains a frivolous argument concerning the payment of taxes, or
- You file a return you know is not true or correct.

You will receive a *Notice of Rejection* if your return is not accepted. This notice can be appealed to the Magistrate Division of the Oregon Tax Court **within 90 days** of the date of the notice, but only if your return was sent to us **within 90 days** of the date on the *Notice of Assessment*.

### Appealing the Notice of Assessment to the Oregon Tax Court

You may also choose to file an appeal with the Magistrate Division of the Oregon Tax Court. Your appeal must be made within 90 days of the date of the *Notice of Assessment* or within two years after the tax, penalty, and interest shown on the notice is paid in full. If you file an appeal with the Magistrate Division, you will usually be required to file a tax return before the court will change our assessment.

You can get a complaint form for filing an appeal at:

Oregon Tax Court  
Magistrate Division  
1163 State Street  
Salem OR 97301-2563  
(503) 986-5650  
TTY (503) 986-5651  
[www.courts.oregon.gov/tax](http://www.courts.oregon.gov/tax)

Within 90 days of the date on your notice, mail the following items to the address above:

- Your completed and signed complaint form.
- Your filing fee, and
- A copy of the *Notice of Assessment*.

Appealing does not stop interest from being charged on the tax you owe. If you appeal and your tax assessment is reduced, the penalty and interest charges will also be reduced.



### **Paying your taxes during the appeal process**

You can pay your balance due at any step of the appeal process. Payment does not mean you agree with the assessment. Payment stops more interest from being charged. If you pay, you can still appeal any time within two years of the date you pay the tax, penalty, and interest shown on the *Notice of Assessment*. See the **Payments and refunds** section for payment options.

### **Requesting a waiver of penalty or interest**

You can ask for a discretionary waiver of part or all of the penalty and interest charges. Waiver criteria are outlined in section 150-305-0060 of the Oregon

Administrative Rules. Most penalty and interest charge disagreements can be resolved with us. For more information on your appeal rights when requesting a discretionary waiver, see **Appealing penalty or interest** on page 38.

If you believe part or all of the penalty and interest charges should be adjusted, write to:

**Oregon Department Revenue**  
**PO Box 14725**  
**Salem OR 97309-5018**

# Income

## What income is taxable in Oregon?

**Full-year residents (Form OR-40).** You are taxed on income from all sources.

**Part-year residents (Form OR-40-P).** You are taxed on income from all sources earned or received **while an Oregon resident**. For the period of time you were not an Oregon resident, Oregon taxes only certain income **from Oregon sources**. See “Nonresidents” below.

**Nonresidents (Form OR-40-N).** You are taxed on income from Oregon sources. This includes income shown on your federal return from Oregon wages or Oregon fees or for services performed in Oregon. Other income from Oregon sources includes:

- Businesses, S corporations, partnerships, and limited liability companies taxed as partnerships located or doing business in Oregon.
- Unemployment compensation received because of an Oregon job.
- Severance pay you received because of an Oregon job.
- Oregon farms.
- Oregon estates and trusts.
- Sales of Oregon property.
- Rents and royalties for use of Oregon property.

**Note: Community property income.** Oregon is not a community property state. If you’re a resident of Oregon and your spouse is a resident of a state with community property laws, you may be taxed on part of your spouse’s income. Community property laws in the state where your spouse lives determine if you are taxed on any of your spouse’s income. See the **Residency** section beginning on page 14 for more information about community property.

## Air carrier employees OAR 150-316-0173

**Nonresidents.** You are exempt from Oregon tax on wages earned while working on aircraft in Oregon, if you meet **all** of the following qualifications:

- You are a nonresident of Oregon; and
- You perform regularly assigned duties on aircraft in Oregon and at least one other state as an employee of an air carrier; and
- Your scheduled flight time in Oregon is 50 percent or less of your total scheduled flight time during the calendar year.

**Additionally, the air carrier you work for must provide:**

- Interstate or foreign air transportation of passengers or property by aircraft as a common carrier for compensation; or
- Interstate or foreign transportation of mail by aircraft.

If you are a federal, state, or local government employee, you may not exclude your income under this section. (U.S. Postal Service employees are considered employees of the federal government.)

If you meet all of these qualifications, file Form OR-40-N and mark the “Employment exception” box on the return. (For more information about the “Employment exception” box, see **Interstate Transportation Wages (Amtrak Act)**, below.) Show that your income is exempt by excluding it from the Oregon column. If all of your wages are exempt, enter -0- in the Oregon column.

**Example 1:** Chantell is a nonresident who works as a pilot for an Oregon-based corporation, transporting the corporation’s executives to various job locations in the United States. Chantell is not exempt from Oregon tax because she does not work for an air carrier that provides air transportation for compensation. Her wages are subject to Oregon tax to the extent services are performed in Oregon.

**Example 2:** George is a nonresident who works as an office manager for an air carrier. Each calendar year, he works as a substitute pilot outside of Oregon in order to log the minimum amount of flight time required to retain his pilot’s license. George does not qualify as exempt from Oregon tax because his “regularly assigned duties” are not on an aircraft, but as a manager in an office.

**Example 3:** Allison is a nonresident and works as a flight attendant for Delta Airlines. She regularly works on flights in California, Oregon, and Washington. Her scheduled flight time in Oregon amounts to 35 percent of her total scheduled flight time this year. Because Allison meets the qualifications mentioned above, she can exclude, from the Oregon column, all of her wages from Delta Airlines on her Oregon nonresident return.

**Oregon withholding.** To stop withholding of Oregon income tax from your exempt wages, complete Form W-4 and write “Exempt” on line 7. At the top of Form W-4 write “For Oregon Only—Air Carrier Employee.” Give this Form W-4 to your payroll clerk.

## Alimony received

**Full-year residents.** Oregon taxes all alimony you received during the year.

**Part-year residents.** Oregon taxes any alimony you received for the part of the year you were a resident of Oregon.

**Nonresidents.** Oregon does not tax any alimony you received while a nonresident of Oregon.

## Business income or loss

**Full-year residents.** Oregon taxes all of your business income (or allows your business loss) received during the year.

**Part-year residents.** Oregon taxes all of your business income (or allows your business loss) while you're an Oregon resident. Oregon also taxes income (or allows losses) from an Oregon business while a nonresident.

**Nonresidents.** Oregon taxes your income (or allows your loss) from an Oregon business. This includes apportioned business income and allocated nonbusiness income from sole proprietorships.

## Federal Schedule E and F income

**Full-year residents.** Oregon taxes the income reported on federal Schedules E and F, including rent, royalty, Real Estate Mortgage Investment Conduits (REMIC), Real Estate Investment Trust (REIT), partnership, S corporation, estate, trust, and farm income.

**Part-year residents.** Oregon taxes the income reported on federal Schedules E and F that you received while you were an Oregon resident. Oregon also taxes this income if you received or earned it from Oregon sources while a nonresident.

**Nonresidents.** Oregon taxes the income reported on federal Schedules E and F that you received or earned from Oregon sources.

## Gain, loss, and distributions

### Capital gain, loss, and distributions

**Full-year residents.** Oregon taxes your gain or distribution received (or allows losses you incurred) during the year. Limit net losses to \$3,000 (\$1,500 if married filing separately). The capital loss carryforward allowed on your full-year Oregon return will be the same carryforward allowed on your federal return.

**Part-year residents.** Oregon taxes your gain or distribution received (or allows losses you incurred) while

you were an Oregon resident. Oregon also taxes gain or distributions received (or allows losses you incurred) from Oregon sources while a nonresident. Limit net losses to \$3,000 (\$1,500 if married filing separately). If you're an Oregon resident at the end of the year, your capital loss carryforward for Oregon is the same as the amount allowed on your federal return.

**Nonresidents.** Oregon taxes your gain or distribution (or allows your loss) from Oregon sources. Limit net losses to \$3,000 (\$1,500 if married filing separately).

**Note:** See **Capital loss carryover difference** in the **Additions** section for information about an addition to Oregon income for capital losses carried over under certain circumstances.

### Other gain or loss

**Full-year residents.** Oregon taxes your gain (or allows your loss) received during the year.

**Part-year residents.** Oregon taxes your gain (or allows your loss) while an Oregon resident. Add to that figure the amount from Oregon sources while a nonresident.

**Nonresidents.** Oregon taxes your gain (or allows your loss) from Oregon sources.

## Hydroelectric dam workers ORS 316.127(8)

**Full-year residents.** Oregon taxes all of your wages earned while working on the McNary, John Day, The Dalles, or Bonneville dams.

**Part-year residents.** Follow the same instructions in the "Nonresidents" paragraph below, but exempt only the wages earned during the part of the year you were a nonresident of Oregon. Mark the "Employment exception" box on your return and exclude the wages you earned while working on any of the dams identified below.

**Nonresidents.** You are exempt from Oregon tax on wages earned while working on the McNary, John Day, The Dalles, or Bonneville dams. Mark the "Employment exception" box on Form OR-40-N, and show that this income is exempt by entering -0- in the Oregon column for these wages. If you have any other Oregon income from Oregon sources, you must show that income in the Oregon column.

**Oregon withholding.** To stop withholding of Oregon income tax from your exempt wages, complete Form W-4 and write "exempt" on line 7. At the top of Form W-4 write "For Oregon Only—(name of the dam)." Give this Form W-4 to your payroll clerk.

## Individual Retirement Account (IRA) distributions

**Full-year residents.** Oregon taxes any taxable IRA distribution you received during the year and any amounts reported in federal income that you converted from a regular IRA into a Roth IRA.

**Part-year residents.** Oregon taxes any taxable IRA distribution you received while you were an Oregon resident. Oregon also taxes income amounts from IRA conversions if you were an Oregon resident at the time of the conversion.

**Nonresidents.** Oregon does not tax any amount unless you are a nonresident domiciled in Oregon. If you are domiciled in Oregon but otherwise taxed as a nonresident, your Oregon-source IRA will still be taxed by Oregon. See **Retirement income**, below.

## Interest and dividend income

### Interest

Generally, interest income is only taxed by your state of residence. It includes any interest received or credited to your account that you could withdraw and any interest you received on tax refunds.

**Full-year residents.** Oregon taxes the interest income you received and reported on your federal return.

**Part-year residents.** Oregon taxes the interest income you received while you were an Oregon resident. Oregon also taxes Oregon business activity interest income received while a nonresident.

**Nonresidents.** Oregon taxes the interest income you received on funds used for business activity in Oregon. Oregon does **not** tax interest received on installment sales.

### Dividends

Generally, dividend income is only taxed by your state of residence. Include the stock dividends you received under a public utility dividend reinvestment plan in Oregon income.

**Full-year residents.** Oregon taxes the dividends you received during the year.

**Part-year residents.** Oregon taxes all dividends you received while an Oregon resident that are included on your federal return. Oregon also taxes any S corporation or partnership dividends taxable to you during the part of the year you were a nonresident.

**Nonresidents.** Oregon taxes dividends passed through to you from an S corporation or partnership that has no business activity outside Oregon. These

are dividends your S corporation or partnership received on the stock of another corporation.

### Exceptions:

- Interest and dividends on government bonds of other states, page 60.
- Interest and dividends on US bonds and notes, page 71.

## Interstate Transportation Wages (Amtrak Act) OAR 150-316-0173

**Nonresidents.** Are you a nonresident of Oregon with regularly assigned duties in Oregon and at least one other state? If you meet the qualifications below, Oregon will not tax you on these wages. File Form OR-40-N and show this income is exempt by entering -0- in the Oregon column for these wages. Check the "Employment exception" box on your return.

The Amtrak Reauthorization and Improvement Act of 1990, Public Law 101-322, prohibits states and local governments from taxing compensation of certain nonresident employees who have regularly assigned duties in more than one state.

If you are a federal, state, or local government employee, you may not exclude your income under the Amtrak Act. (U.S. Postal Service employees are considered employees of the federal government.)

### Who qualifies?

To qualify, you must work for:

- An interstate railroad, or
- An interstate motor carrier, or
- An interstate motor private carrier.

**Note:** You may receive overtime payment at the discretion of your employer and be subject to the jurisdiction of the U.S. Secretary of Transportation. Refer to your employer to determine if you are subject to the U.S. Secretary of Transportation or the Fair Labor Standards Act. You cannot be subject to both.

In addition, you must:

- Be a nonresident of Oregon; and
- Have regularly assigned duties in more than one state (This means you perform duties in each state on a regular basis. Duties you perform on an "on-call" or "as-needed" basis or on a sporadic or intermittent basis during the year are not considered "regularly assigned duties."); and
- Be subject to the jurisdiction of the U.S. Secretary of Transportation; and

- Not be covered under the overtime requirements of the Fair Labor Standards Act.

**For employees of interstate motor carriers or motor private carriers, you must:**

- Perform work that directly affects the safety of a commercial motor vehicle. This means you are required by your regularly assigned routine and duties to work directly with a commercial motor vehicle or its contents. The duties must be direct and hands-on, requiring you to physically move, touch, or affect the vehicle or its contents. Supervisory, managerial, consulting, or other duties that indirectly affect the safety of a motor vehicle do not meet the definition of “directly affects,” **and**
- Work as:
  - An operator of a commercial motor vehicle,
  - A mechanic,
  - A freight handler, or
  - Someone, other than an employer, who directly affects the safety of a motor vehicle.

**A commercial motor vehicle** is any self-propelled or towed vehicle used on highways in interstate commerce to transport passengers or property if such vehicle:

- Has a gross vehicle weight rating of more than 10,000 pounds, or
- Is designed or used to transport passengers for compensation, except for vehicles providing taxi cab service when the vehicle has a capacity of eight or fewer passengers and is not operated on a regular route or between specified places, or
- Is designed to transport more than 15 passengers, including the driver, and is not used to transport passengers for compensation, or
- Is used and labeled for the transportation of hazardous materials.

**Example 1:** Adam is a nonresident who works for an Oregon interstate motor carrier as a commercial motor vehicle driver. He has a regular route from Idaho to Oregon, delivering products in Oregon. Because Adam is the driver of a commercial motor vehicle and has regularly assigned duties in more than one state, this income is exempt from Oregon tax. Adam must file Form OR-40-N and show this income is exempt by entering a zero in the Oregon column for these wages.

**Example 2:** Brenda is a nonresident who works for an interstate motor carrier as a mechanic directly affecting the safety of commercial motor vehicles engaged in interstate commerce. She has regular duties in a Washington terminal and an Oregon terminal. She

works one day a week in Washington and four days a week in Oregon.

Because Brenda directly affects the safety of a commercial motor vehicle in interstate commerce and performs regularly assigned duties in two states, she is exempt from Oregon tax. It does not matter that the majority of her work is performed in Oregon. Brenda must file a Form OR-40-N and show this income is exempt by entering a zero in the Oregon column for these wages.

**Example 3:** Jorge is a nonresident who works as a mechanic for an interstate motor carrier, directly affecting the safety of commercial motor vehicles engaged in interstate commerce. He regularly works in Medford but is required to be on-call some weekends to perform minor repair work. Several times a year he may travel to California to repair a flat tire, do minor engine work, etc.

Jorge does not have **regularly assigned duties** in more than one state. Duties that are performed on an on-call or as-needed basis are not considered to be regularly assigned. Jorge’s wages earned in Oregon are taxable by Oregon. He must file Form OR-40-N and report his wages in the Oregon column.

**Example 4:** Carl is a nonresident who works for an interstate motor carrier as a driver. Carl picks up a lumber delivery truck every morning in Washington and receives delivery assignments for the day. Depending on where the lumber needs to be delivered, he may not come to Oregon on a daily basis. Carl may pick up and deliver lumber only within Washington or only within Oregon. Carl drives to Oregon at least once a month.

Due to the nature of the business, the company may not be able to assign regular duties to Carl. The company itself does not know what each day’s delivery route will be until customers place orders. Although Carl may not have a regular route in Washington and Oregon, he does drive to Oregon at least once a month. Carl is considered to have **regularly assigned duties in two states, as long as all routes are assigned randomly among all drivers on a regular basis**. Carl’s wages earned in Oregon are exempt from Oregon tax. Carl must file Form OR-40-N and show this income is exempt by entering a zero in the Oregon column for these wages.

**Example 5:** Ed is a nonresident who works for an Oregon wholesaler as a shipping clerk. The company has one terminal in Oregon and one terminal in Washington. Ed regularly works in both terminals.

Although he has regularly assigned duties in two states, Ed’s Oregon wages are not considered exempt within the scope of the Amtrak Act. He is not a

driver, mechanic, or freight handler. His duties do not directly affect the safety of a vehicle. Ed's wages earned in Oregon are taxable by Oregon. He must file Form OR-40-N and include his income in the Oregon column.

**Example 6:** Frieda is a nonresident who works for an Oregon retail store as a freight handler. Her regularly assigned duties are to load and unload freight. Occasionally, Frieda is asked to fill in as a driver and, over the course of a year, may drive several routes in and out of Oregon. Frieda does not have "regularly assigned duties in more than one state" and she does not work for an interstate motor carrier. Her Oregon-source wages are taxable by Oregon. Frieda must file Form OR-40-N and include her income in the Oregon column.

**Example 7:** Butch is a nonresident who works for an Oregon-based interstate trucking carrier as a supervisor. His regular duties within the state of Oregon include safety training. Also, Butch frequently drives to Washington to conduct safety training.

Wages for performing supervisory duties do not qualify as exempt under the Amtrak Act. The employee's duties must directly affect the safety of a commercial vehicle. Conducting safety training only indirectly affects the safety of a commercial motor vehicle. Butch's wages are taxable by Oregon. He must file Form OR-40-N and include his wages in the Oregon column.

**Example 8:** Connie Sue is a nonresident who works for an interstate trucking carrier at her company's Oregon and Washington yards. She has a variety of duties, including helping load trucks. Connie Sue is allowed overtime as a result of being subject to the Fair Labor Standards Act.

Because she is covered under the Fair Labor Standards Act and is not subject to the jurisdiction of the Secretary of Transportation, Connie Sue does not qualify for the Amtrak Act exemption. Her wages are taxable by Oregon. She must file Form OR-40-N and include her wages in the Oregon column.

**Example 9:** Ken is a nonresident who works as a line repairman for a utility company. He uses a company truck with a gross vehicle weight of more than 10,000 pounds to make service calls in both Oregon and Washington.

Ken's wages are not exempt from Oregon taxation because the utility company's truck is not a "commercial motor vehicle" (a motor vehicle used to transport passengers or property). Ken's Oregon wages are taxable by Oregon. He must file Form OR-40-N and include his wages in the Oregon column.

## Employer withholding

If your wages are exempt from Oregon tax under the Amtrak Act, Oregon tax does not have to be withheld from your wages. You may claim exemption from Oregon withholding on a separate Form W-4 you file with your employer. On this Form W-4 write "For Oregon Only—Amtrak" and attach an explanation of qualifying duties. You must still file an Oregon tax return even if you claim exemption from withholding under the Amtrak Act.

## Like-kind exchange or involuntary conversion

### ORS 316.738, 317.327

You may elect to defer gain on like-kind business or investment property that is exchanged or converted. If Oregon property is exchanged for like-kind property located outside of Oregon, include Form OR-24 with your Oregon return in the year of the exchange or conversion. Download the form from our website or call us to order it.

**Full-year residents.** You will report the gain on the sale or other disposition of the acquired property to Oregon when it's reported on your federal return.

**Part-year residents.** If you were an Oregon resident at the time of the exchange and deferral of gain, file an Oregon return and report the Oregon portion of the gain when you report the gain on your federal return. If you were a nonresident at the time you exchanged your Oregon property and deferred the gain, see the "Nonresident" section below.

**Nonresidents.** If you are not an Oregon resident when the gain is reported on your federal return, you will need to file an Oregon Form OR-40-N to report the gain.

## Retirement income

**Full-year and part-year residents.** Most retirement income is subject to Oregon tax when received by an Oregon resident. This is true even if you were a nonresident when you earned the income. However, if you have federal pension income, you may subtract some or all of it from Oregon income. See **Federal pension income** in the **Subtractions** section for more information.

For other exceptions, see **Previously taxed employee retirement plans** and **Previously taxed IRA conversions** in the **Subtractions** section.

**Nonresidents.** Oregon does not tax your retirement income if you are a nonresident who is not domiciled

in Oregon. If you are an Oregon nonresident who is still domiciled in Oregon, any Oregon-source retirement income is taxable by Oregon. This applies to most forms of retirement income taxed by Oregon, including public pension plans, corporate retirement plans, Keogh plans, simplified employee pensions (SEPs), and IRAs. For the definition of “domicile,” see page 14.

**Example:** Hiro has always resided and worked in Oregon. On January 5, 2016, he retired, sold his Oregon residence, and moved temporarily to Arizona to work. He intends to remain in Arizona for two years and then return to Oregon.

He did not acquire another residence outside Oregon. He receives an Oregon-sourced pension and interest income.

Hiro has not given up his Oregon driver’s license, and his vehicles are registered with the state of Oregon. He has not changed his voter registration to another state.

Hiro has not shown an intent to give up Oregon as his home and acquire a permanent home elsewhere. Based on these facts, Hiro is domiciled in the state of Oregon. Although Hiro is taxed as a nonresident (his interest income is not taxed by Oregon), his Oregon-source retirement income is taxable by Oregon.

#### **Retirement income means income from:**

- Qualifying employer pension and profit-sharing plans exempt from federal tax under Internal Revenue Code (IRC) Section 401(a).
- Annuity plans [IRC Sec. 403(a) and IRC Sec. 403(b)].
- Cash or deferred compensation arrangements [IRC Sec. 401(k) plans and IRC Sec. 457 plans].
- Simplified employee pension plans [IRC Sec. 408(k)].
- Individual retirement arrangements [IRC Sec. 408(a) and IRC Sec. 408(b)].
- Plans for federal, state, or local government employees [IRC Sec. 414(d)].
- Pay for uniformed service members under chapter 71 of Title 10 of the United States Code.
- Trusts that were created before June 25, 1959 [IRC Sec. 501(c)(18)].

Payments received after termination of employment qualify if the payment is made under a plan, program, or arrangement maintained solely for the purpose of providing retirement benefits that exceed the amounts allowed under the qualified retirement plans described above.

Payments received from nonqualified deferred compensation plans [as described in IRC Sec. 3121(v)(2)(C)]

qualify if the payments are part of a series of substantially equal periodic payments made:

- For the life or life expectancy of the recipient, or
- For a period of at least 10 years.

**Retirement income does not include** income received from:

- Social Security,
- Stock options,
- Restructured stock plans,
- Severance plans, or
- Unemployment compensation.

### **Social Security and Railroad Retirement Board benefits ORS 316.054**

Oregon does not tax any amount of your Social Security, Railroad Retirement Board, or railroad unemployment benefits. For information on the Railroad Retirement Board and Social Security benefits subtractions, see the **Subtractions** section.

### **State and local income tax refunds**

If you received a refund of income tax from another state or local government that is included in your federal income, and you deducted those taxes on a prior year’s Oregon return, include the refund in your Oregon income. This refund is not taxable to Oregon if you did not deduct the taxes on an Oregon return.

See the **Subtractions** section for information on the Oregon income tax refund subtraction.

### **Unemployment compensation and other taxable income**

**Full-year residents.** Oregon taxes unemployment compensation and any other taxable income you received during the year.

**Part-year residents.** Oregon taxes unemployment compensation and any other taxable income you received while an Oregon resident. Oregon also taxes any unemployment compensation and other taxable income from Oregon sources or based on Oregon sources received while a nonresident.

**Nonresidents.** Oregon taxes any unemployment compensation and any other taxable income included in federal adjusted gross income received from Oregon sources or based on Oregon sources.

## Wages, salaries, and other pay for work

**Full-year residents.** Oregon taxes all of your earnings for services you performed inside and outside Oregon.

**Part-year residents.** \*Oregon taxes all of your earnings while an Oregon resident. Oregon also taxes the amount you earned working in Oregon while you were a nonresident. If your Oregon wages are not stated separately on your W-2, compute your Oregon-source income using the formula below.

**Nonresidents.** \*Oregon taxes the income you earned while working in Oregon. Oregon does not tax any amount you earned while you were working outside Oregon.

*\*Nonresident exceptions: To see if you qualify to exclude certain income, see **Air carrier employees, Interstate transportation wages (Amtrak Act), or Hydroelectric dam workers, above or Waterway workers, below.***

If the amount you earned working in Oregon differs from the Oregon wages shown on your Form W-2, compute your Oregon-source income using the formula below.

You should ask your employer to provide you with a signed explanation of the wage difference, written on company letterhead. Keep the explanation with your tax records, as we may ask for it at a later date.

**Important information for using this formula:** When you count the number of days you actually worked in Oregon and the number of days you actually worked everywhere, do not include holidays, vacation days, or sick days. These aren't days that you actually worked. Your employer paid you for these days based on the days you worked. However, include your sick pay, holiday pay, and vacation pay in total wages.

Use the formula below to determine total wages taxable by Oregon.

$$\frac{\text{Days actually worked in Oregon}}{\text{Total days actually worked everywhere}} \times \frac{\text{Total wages}}{\text{wages}} = \frac{\text{Oregon wages}}{\text{wages}}$$

If you only worked in Oregon, do not use the formula above. All your earnings are taxable by Oregon, and you must report them on your Oregon return.

## Waterway workers ORS 316.127

**Full-year residents.** Oregon taxes all the income you earned while working on a watercraft in interstate waters.

**Part-year residents.** Oregon taxes all the income you earned while working on a watercraft in interstate waters during the part of the year you were an Oregon resident. For the part of the year you were a nonresident, see below.

**Nonresidents.** Certain nonresident employees serving on watercraft who have regularly assigned duties in interstate navigable waters are not subject to Oregon income tax.

To qualify you must:

- Be engaged on a vessel to perform assigned duties in more than one state as a pilot licensed under 46 U.S.C. 7101 or licensed or authorized under the laws of the state, or
- Perform regularly assigned duties while engaged as a master, officer, or member of a crew on a vessel operating in navigable waters in two or more states.

If you qualify, Oregon will not tax these wages. File Form OR-40-N (or Form OR-40-P if a part-year resident) and show this income is exempt by entering a zero in the Oregon column for these wages. Mark the "Employment exception" box on your return. See the **Interstate Transportation Wages (Amtrak Act)** section, above, for more information.

To stop withholding of Oregon income tax from your exempt wages, complete an additional Form W-4 and write "exempt" on line 7. At the top of Form W-4 write "For Oregon Only—Waterway Worker." Give this Form W-4 to your payroll clerk.



# Adjustments

The following items are adjustments reported in the “Adjusted Gross Income” section of federal Form 1040. For full-year residents, these items flow through to your Oregon return, so no adjustments are needed. Part-year residents and nonresidents must report these items on Form OR-40-P or OR-40-N. Items with an adjustment code must be reported in Section 1 of Schedule OR-ASC-NP. Enter the total amount from Section 1 on your return.

## Alimony paid

The alimony you paid must be taxable income to your former spouse.

**Full-year residents.** Oregon allows the same deduction you claimed on your federal return. The federal deduction flows through to your Oregon return via your federal adjusted gross income. Do not claim an additional deduction on your Oregon return.

**Part-year residents.** Oregon allows a deduction for alimony you paid while an Oregon resident. Oregon also allows a partial deduction for alimony paid while a nonresident if you had Oregon-source income. Use the formula below to determine your nonresident deduction amount. Add these amounts together for your total deduction.

**Nonresidents.** Oregon allows a partial deduction for alimony you paid while a nonresident if you had Oregon-source income. Use the formula below to determine your deduction.

$$\frac{\text{Oregon-source income while a nonresident}}{\text{Total income received while a nonresident}} \times \text{Alimony you paid while a nonresident} = \text{Nonresident deduction}$$

## Certain business expenses of reservists, performing artists, and fee-basis government officials

[Adjustment code 002]

### Reservists

**Full-year residents.** Oregon allows the deduction you claimed on your federal return. The federal deduction flows through to your Oregon return via your federal adjusted gross income. You may not claim an additional deduction on your Oregon return.

**Part-year residents.** Oregon allows a deduction for the expenses you incurred while you were an Oregon resident. Enter the full amount in the federal column

and the Oregon amount in the Oregon column of Schedule OR-ASC-NP.

**Nonresidents.** Your reservist income is not taxed by Oregon; therefore, you may not take an expense deduction. Enter the full amount in the federal column and -0- in the Oregon column of Schedule OR-ASC-NP.

### Performing artists

**Full-year residents.** Oregon allows the deduction you claimed on your federal return. The federal deduction flows through to your Oregon return via your federal adjusted gross income. Do not claim an additional deduction on your Oregon return.

**Part-year residents.** Oregon allows the deduction claimed on your federal return for expenses paid while you were an Oregon resident. Oregon also allows a partial deduction for these business expenses while you were a nonresident if you had Oregon-source income. Use the formula below under **Nonresidents** to determine your nonresident deduction amount. Enter the sum of the Oregon amounts in the Oregon column of Schedule OR-ASC-NP, and the full federal amount in the federal column.

**Nonresidents.** Oregon allows a partial deduction for your performing artist employee business expenses while you were a nonresident if you had income from and Oregon source. Your Oregon deduction cannot be more than your federal deduction. Use the formula below to determine your deduction.

$$\frac{\text{Oregon-source income while a nonresident}}{\text{Total income from all sources while a nonresident}} \times \frac{\text{Performing artist employee business expenses paid while a nonresident}}{\text{Total income from all sources while a nonresident}} = \text{Nonresident deduction}$$

### Fee-basis government officials

If you are a government official who is paid on a fee basis instead of wages or salary, the expenses you have for performing services may be claimed on your federal return as an adjustment instead of being claimed as an itemized deduction. This section explains how these expenses are treated on your Oregon return.

**Full-year residents.** Oregon allows the deduction you claimed on your federal return. The federal deduction flows through to your Oregon return via your federal adjusted gross income. You may not claim an additional deduction on your Oregon return.

**Part-year residents.** Oregon allows a deduction for the expenses you paid while you were an Oregon

resident. Oregon also allows a partial deduction for the expenses you paid while you were a nonresident, if you had Oregon-source income. Use the formula below under **Nonresidents** to determine your nonresident deduction. Add your resident and nonresident amounts together for your total Oregon deduction. Enter this amount in the Oregon column and the federal amount in the federal column of Schedule OR-ASC-NP. **Note:** Your Oregon deduction cannot be more than the deduction allowed on your federal return.

**Nonresidents.** Oregon allows a partial deduction for your expenses for performing official services while you were a nonresident, if you had Oregon-source income. Use the formula below to determine your deduction. Enter this amount in the Oregon column and the federal amount in the federal column of Schedule OR-ASC-NP. Your Oregon deduction cannot be more than the deduction allowed on your federal return.

$$\frac{\text{Oregon-source income while a nonresident}}{\text{Total income from all sources while a nonresident}} \times \text{Official business expenses paid while a nonresident} = \text{Non-resident deduction}$$

## Domestic production activities deduction ORS 316.836

### [Adjustment code 006]

Oregon's tie to federal income tax law does not include the federal deduction for domestic production activities contained in Section 199 of the Internal Revenue Code. This deduction is also known as the "Qualified Production Activities Income" deduction, or QPAI.

Part-year residents and nonresidents who take this deduction on their federal return must report the deduction as an adjustment to income in Section 1 of Schedule OR-ASC-NP using adjustment code 006. Enter the full amount of the deduction in the federal column and -0- in the Oregon column. **You will also have an addition on Schedule OR-ASC-NP to add the full amount of the deduction back to federal income.** See the **Additions** section for more information.

## Educator expenses

**Full-year residents.** Oregon allows the deduction claimed on your federal return. The federal deduction

flows through to your Oregon return via your federal adjusted gross income. You will not claim an additional deduction on your Oregon return.

**Part-year residents.** Oregon allows a deduction for the qualified educator expenses you paid while you were an Oregon resident. Oregon also allows the amount of qualified educator expenses you paid while working in an Oregon elementary or secondary school during the part of the year you were a nonresident of Oregon. You may deduct the total you paid but not more than \$250.

**Nonresidents.** Oregon allows a deduction for the qualified educator expenses you paid while working in an Oregon elementary or secondary school. You may deduct the total you paid but not more than \$250.

## Health Savings Account deduction

### [Adjustment code 003]

**Full-year residents.** Oregon allows the deduction you claimed on your federal return. The federal deduction flows through to your Oregon return via your federal adjusted gross income. You may not claim an additional deduction on your Oregon return.

**Part-year residents.** Oregon allows a deduction for your Health Savings Account contribution made while you were an Oregon resident. Oregon also allows a partial deduction for your contribution while you were a nonresident if you had Oregon-source income. Use the formula below under **Nonresidents** to determine your nonresident deduction amount. Add these amounts together and enter the sum in the Oregon column of Schedule OR-ASC-NP. Enter the federal amount in the federal column of the schedule.

**Nonresidents.** Oregon allows a partial deduction for your Health Savings Account contribution while you were a nonresident if you had Oregon-source income. Use the formula below to determine your deduction. Enter this amount in the Oregon column and the federal amount in the federal column of Schedule OR-ASC-NP.

$$\frac{\text{Oregon-source income while a nonresident}}{\text{Total income from all sources while a nonresident}} \times \text{Health Savings Account contribution made while a nonresident} = \text{Nonresident deduction}$$

## Interest penalty on early withdrawal of savings

[Adjustment code 004]

**Full-year residents.** Oregon allows the same deduction you claimed on your federal return. The federal deduction flows through to your Oregon return via your federal adjusted gross income. You may not claim an additional deduction on your Oregon return.

**Part-year residents.** Oregon allows the same deduction you claimed on your federal return if the penalty is related to interest taxed by Oregon. Enter the federal and Oregon amounts on Schedule OR-ASC-NP.

**Example:** Liam claimed a deduction of \$1,795 on his federal return for an early withdrawal penalty. Only 30 percent of the interest income related to this penalty is taxable by Oregon and reportable in the Oregon column. Liam's Oregon deduction is also limited to 30 percent of the penalty, so his deduction will be \$539.

**Nonresidents.** Because Oregon generally does not tax interest of a nonresident, there is no deduction for a nonresident. Enter the full amount in the federal column on Schedule OR-ASC-NP and -0- in the Oregon column.

## IRA or self-employed SEP and SIMPLE contributions

Oregon follows the federal definition of earned income and compensation used to calculate your IRA and other retirement plan deductions.

**Note:** If any part of your contribution deduction came from the rollover of an Individual Development Account (IDA), you must add back the amount already subtracted as an IDA contribution. See the **Additions** section for more information.

**Full-year residents.** Oregon allows the same deduction you claimed on your federal return. The federal deduction flows through to your Oregon return via your federal adjusted gross income. You may not claim an additional deduction on your Oregon return.

**Part-year residents and nonresidents.** You may be limited in the amount of IRA or other retirement plan contributions you can deduct for Oregon. Use the formulas below to figure your deduction.

**IRA formula.** For the part of the year you were a nonresident, use the formula below to determine your Oregon deduction.

$$\frac{\text{Oregon compensation while a nonresident}}{\text{Total compensation while a nonresident}} \times \frac{\text{IRA contributions made while a nonresident}}{\text{Total compensation while a nonresident}} = \text{Nonresident deduction}$$

Add the amount you paid while an Oregon resident to your nonresident deduction. The deduction in the Oregon column is limited by:

- The federal limitations, and
- Income taxed by Oregon.

**Self-employed simplified employee pensions (SEP), savings incentive match plan for employees (SIMPLE), and other qualified plans.** Use the formula below to determine your Oregon deduction for the part of the year you were a nonresident.

$$\frac{\text{Oregon earned income while a nonresident}}{\text{Total earned income while a nonresident}} \times \frac{\text{Contributions made while a nonresident}}{\text{Total earned income while a nonresident}} = \text{Nonresident deduction}$$

Add the amount you paid while an Oregon resident to your nonresident deduction. The deduction in the Oregon column is limited by:

- The federal limitations, and
- Income taxed by Oregon.

## Moving expenses OAR 150-316-0181

**Full-year residents.** Oregon allows you the same deduction you claimed on your federal return. The federal deduction flows through to your Oregon return via your federal adjusted gross income. You may not claim an additional deduction on your Oregon return.

**Part-year residents.** Oregon allows a deduction for your moving expenses only if they were connected to employment in Oregon.

**Example 1:** Helen moved from Seattle, Washington to Portland, Oregon in order to take a job in Portland. Her moving expenses are deductible for Oregon.

**Example 2:** Ezra moved out of Oregon to take a job in another state. His moving expenses are not deductible for Oregon.

**Nonresidents.** Oregon allows this deduction only if your moving expenses were paid in connection to Oregon employment.

**Example 3:** Javier moved from Texas to Payette, Idaho, to take a job in Ontario, Oregon. His moving expenses are deductible for Oregon.

## Self-employed health insurance

This deduction is limited to earned income from your trade or business for which the insurance plan was established.

**Full-year residents.** Oregon allows you the same deduction you claimed on your federal return. The federal deduction flows through to your Oregon return via your federal adjusted gross income. Do not claim an additional deduction on your Oregon return.

**Part-year residents and nonresidents.** Oregon allows a deduction for 100 percent of your health insurance premiums related to your self-employment for the part of the year you were an Oregon resident. Add the health insurance premiums paid by an Oregon business from which you received self-employment income while a nonresident. Your total Oregon deduction cannot be more than your federal deduction and is limited to the earnings from self-employment reported in the Oregon column.

## Self-employment tax

**Full-year residents.** Oregon allows the deduction you claimed on your federal return. The federal deduction flows through to your Oregon return via your federal adjusted gross income. Do not claim an additional deduction on your Oregon return.

**Part-year residents and nonresidents.** Oregon allows a deduction for self-employment tax related to earnings taxed by Oregon. Your Oregon deduction cannot be more than your federal deduction. Use the following formula:

$$\frac{\text{Self-employment earnings taxed by Oregon}}{\text{Total self-employment earnings}} \times \frac{\text{Federal deduction for self-employment tax}}{\text{self-employment tax}} = \text{Oregon deduction}$$

## Student loan interest

**Full-year residents.** Oregon allows the deduction you claimed on your federal return. The federal deduction flows through to your Oregon return via your federal adjusted gross income. Do not claim an additional deduction on your Oregon return.

**Part-year residents.** Oregon allows a deduction for the student loan interest you paid while you were an Oregon resident. Oregon also allows a partial deduction for student interest you paid while you were a nonresident if you had Oregon-source income. Use the formula below under **Nonresidents** to determine your nonresident deduction amount. Add these

amounts together for your total deduction. Your total Oregon deduction cannot be more than your federal deduction.

**Nonresidents.** Oregon allows a partial deduction for the student loan interest you paid while you were a nonresident if you had Oregon-source income. Your Oregon deduction cannot be more than your federal deduction. Use the formula below to determine your deduction.

$$\frac{\text{Oregon-source income while a nonresident}}{\text{Total income from all sources while a nonresident}} \times \frac{\text{Student loan interest paid while a nonresident}}{\text{interest paid while a nonresident}} = \text{Nonresident deduction}$$

## Tuition and fees

**Full-year residents.** Oregon allows the deduction you claimed on your federal return. The federal deduction flows through to your Oregon return via your federal adjusted gross income. Do not claim an additional deduction on your Oregon return.

**Part-year residents.** Oregon allows a deduction for the qualified tuition and fees you paid while you were an Oregon resident. Oregon also allows a partial deduction for your tuition and fees expense paid while you were a nonresident if you had Oregon-source income. Use the formula below to determine your nonresident deduction amount. Add these amounts together for your total deduction. Your total deduction for Oregon cannot be more than the federal limit.

**Nonresidents.** Oregon allows a partial deduction for the tuition and fees you paid while you were a nonresident if you had Oregon-source income.

Use the formula below to determine your deduction amount. Your total Oregon deduction cannot be more than the federal limit.

$$\frac{\text{Oregon-source income while a nonresident}}{\text{Total income from all sources while a nonresident}} \times \frac{\text{Qualified tuition and fees paid while a nonresident}}{\text{tuition and fees paid while a nonresident}} = \text{Nonresident deduction}$$

**Education recapture.** If you are required to recapture an education credit taken on your federal return, you may need to amend your Oregon return to reduce the subtraction you claimed. See **Amended returns** for more instructions .

## Write-in adjustments on federal Form 1040, Line 36

### [Adjustment code 005]

Did you include any of the following write-in deductions from federal income on Form 1040, Line 36 or Form 1040NR, Line 35? If so, enter the full amount in the federal column on Schedule OR-ASC-NP, and any amount incurred while an Oregon resident or which are deductible from Oregon-source income while a nonresident in the Oregon column.

- Archer MSA deduction (see Form 8853, Archer MSAs and Long-Term Care Insurance Contracts).
- Jury duty pay if you gave the pay to your employer because your employer paid your salary while you served on the jury.
- Deductible expenses related to income from the rental of personal property, where the rental activity was engaged in for profit.
- Reforestation amortization and expenses (see Pub. 535, *Business Expenses*).

- Repayment of supplemental unemployment benefits under the Trade Act of 1974 (see Pub. 525, *Taxable and Nontaxable Income*).
- Contributions to section 501(c)(18)(D) pension plans (see Pub. 525, *Taxable and Nontaxable Income*).
- Contributions by certain chaplains to section 403(b) plans (see Pub. 517, *Social Security and Other Information for Members of the Clergy & Religious Workers*).
- Attorney fees and court costs for actions involving certain unlawful discrimination claims, but only to the extent of gross income from such actions (see Pub. 525, *Taxable and Nontaxable Income*).
- Attorney fees and court costs you paid in connection with an award from the IRS for information you provided that helped the IRS detect tax law violations, up to the amount of the award includible in your gross income.
- Scholarship and fellowship grants excluded from federal income, reported on Form 1040NR, Line 31 (see Pub. 970, *Tax Benefits for Education*).

# Additions

Generally, additions are items the federal government does not tax but Oregon does. Additions increase your income taxed by Oregon.

Numeric codes are provided with the explanation for most additions. For part-year residents and nonresidents, some additions will be reported as modifications. This is required when an amount you are adding must be adjusted for Oregon tax purposes. When this is the case, a modification code is provided with the explanation for that addition. Enter the numeric code and the dollar amount of each addition or modification on Schedule OR-ASC or Schedule OR-ASC-NP. The total dollar amount of additions and modifications is then reported on your return.

If there is no numeric code provided for an addition (or modification), the amount is reported directly on your return.

## Accumulation distribution from a trust ORS 316.298

[Addition code 132]

Did you receive a distribution of a trust's accumulated income from prior years? If so, it is fully taxable on your Oregon return. Oregon has no "throwback" provision for reporting this income the way the federal government does. However, Oregon will allow you a credit for the Oregon income tax paid by an Oregon trust. The tax must have been paid in past years on the same income that was distributed to you this year. For details, call the Department of Revenue or email the Fiduciary Unit at [estate.help.dor@oregon.gov](mailto:estate.help.dor@oregon.gov).

## Capital loss carryover difference

[Addition code 162]

In certain circumstances, the amount of capital loss carried over for Oregon purposes may not be the same as the amount carried over for federal. This is due to a difference in the tax benefit you receive from the loss on your federal and Oregon returns in a year when your adjusted gross income (AGI) is within a certain range. For example, if your AGI is near or below zero, you may receive little to no tax benefit from the capital loss reported on your return. If this is the case, then some or all of the capital loss you claimed last year continues to be carried over to be applied to gain in a later year. On the other hand, if

your AGI is above a certain amount, you receive the same tax benefit from the loss on both your Oregon and federal returns.

You will have an addition on your Oregon return only if you are carrying over a capital loss from last year's return and last year's federal AGI was within the limits in the table below. If so, contact us for instructions for calculating your Oregon addition.

If you claimed:	and your federal AGI was between:
The standard deduction on both your federal and Oregon returns.	Oregon standard deduction minus \$3,000 and federal standard deduction.
Itemized deductions on both your federal and Oregon returns.	Net Oregon itemized deductions minus \$3,000 and federal itemized deductions.
The standard deduction on your federal return and itemized for Oregon only.	Net Oregon itemized deductions minus \$3,000 and federal standard deduction.

You have an addition on your Oregon return.

## Child Care Fund contributions ORS 315.213

[Addition code 142] [Modification code 642]

If you claimed a deduction on Schedule A for the amount you paid for your Child Care Fund contribution tax credit, you will have an Oregon addition for the portion of your deduction included in your credit.

**Example:** Fern made a contribution to the Child Care Fund in the amount of \$10,000. On her Oregon return she will claim a credit of \$5,000 for her contribution (she is limited to 50 percent of her contribution, or her tax liability, in any given year). If Fern claims the \$10,000 contribution as an itemized deduction on her Schedule A, she must add back \$5,000 to her income using addition code 142.

For more information on the Child Care Fund tax credit, see the **Credits** section.

**Part-year residents and nonresidents.** See page 92 for instructions on how to report your addition using modification code 642 on Schedule OR-ASC-NP.

## Claim of right income repayments ORS 315.068

[Addition code 103] [Modification code 649]

Did you repay over \$3,000 of income taxed by Oregon in a prior year and claim a federal claim of right deduction under IRC § 1341? If so, you may claim an Oregon credit based on the Oregon tax you paid in that earlier year for the income that you repaid.

**Note:** Repayments of \$3,000 or less do not qualify for an Oregon credit.

If you claimed a federal deduction on Schedule A for your repayment, you may choose to allow the deduction to flow through to your Oregon return, or you may claim the Oregon credit, but you may not do both. If you choose to allow the deduction to flow through, there is nothing more to do. If you choose to claim the credit, however, you must add back your federal deduction on your Oregon return using addition code 103. For information about the Oregon claim of right credit, see the **Credits** section.

**Part-year residents and nonresidents.** See page 92 for instructions on how to report your addition using modification code 649 on Schedule OR-ASC-NP.

## Depletion ORS 316.680(2)(d)

[Addition code 151]

Depletion is using up natural resources by mining, quarrying, drilling, or felling. The depletion deduction allows an owner or operator to account for the reduction of a product's reserves.

If you claim percentage depletion on your federal return, you must add to your Oregon income any depletion that is more than your adjusted basis in the property. The addition includes any depletion in excess of basis taken by an S corporation or partnership of which you are a shareholder or partner. Usually you need to add to Oregon income any depletion that is a preference item subject to the federal alternative minimum tax.

## Discharge of indebtedness from reacquisition of debt instrument ORS 316.739

For tax years 2009 and 2010 Oregon was not tied to the deferral and required an addition on your Oregon return. As of 2011, Oregon is tied to this federal law and no addition is required.

## Disposition of inherited Oregon farmland or forestland ORS 316.844

[Addition code 106]

You may have an addition on your return if:

- You dispose of farmland you inherited from someone who died on or after October 5, 1973, and before January 1, 1987, or
- You dispose of forestland you inherited from someone who died on or after November 1, 1981, and before January 1, 1987.

You may have this addition because the valuation of the land for Oregon inheritance tax purposes may differ from the valuation for federal estate tax purposes. Generally, the federal valuation is the fair market value of the property at the date of the previous owner's death. The Oregon valuation is usually less than the federal valuation, because for inheritance tax purposes the property may have been valued as farm-use or forestland.

**Farm-use value.** If the previous owner died on or after October 5, 1973, but before September 12, 1975, use the farm-use value for the **year preceding death**. If death occurred on or after September 13, 1975, use the farm-use value for the **year of death**. You will not have this addition if the carryover basis was elected for a death after December 31, 1976, but before November 7, 1978.

**Forest-use value.** Use the forest-use value for the year of death.

**How to figure the addition.** This addition is equal to the difference between:

- The taxable gain or loss, using the Oregon valuation as your basis, and
- The taxable gain or loss, using the federal valuation as your basis.

This addition will increase the gain or reduce the loss you reported on your federal return.

**Transfers of property.** An addition is required when the beneficiary sells the inherited property. It is also required when:

- You recognize gain or loss on property that acquired the inherited property's basis due to a nontaxable exchange or involuntary conversion.
- You recognize gain or loss on property you received as a gift from a donor who inherited it.

**Example:** Anne inherited farmland from a relative who died on March 1, 1982. She sold the land on May 1, 2016, for \$1,100,000. The fair market value at the date of the relative's death was \$180,000. The farm-use

value of the land on the 1982–83 property tax statement was \$50,000. Anne must show a \$130,000 addition on her 2016 Oregon return using addition code 106. Here is how she figures her addition:

Oregon valuation:			
Selling price	\$ 1,100,000		
Less: Farm-use value	– 50,000		
Gain			\$1,050,000
Federal valuation:			
Selling price	\$ 1,100,000		
Less: Fair market value on March 1, 1982	– 180,000		
Gain			– 920,000
Difference in total gain (addition)			\$ 130,000

## Disqualified charitable donations ORS 128.760, 128.763

**[Addition code 160] [Modification code 650]**

The Oregon Department of Justice (DOJ) is now issuing disqualification orders to charitable organizations that fail to spend at least 30% of their annual functional expenses for program services. Names of disqualified organizations can be found by contacting DOJ. For more information, visit the DOJ website, [www.doj.state.or.us](http://www.doj.state.or.us). The organization is required to notify you that your donation may not be deducted on your Oregon return. If you made such a donation, you must add back the amount of the donation that you deducted on your federal Schedule A. Enter the amount on Schedule OR-ASC using addition code 160.

**Part-year residents and nonresidents.** See page 92 for instructions on how to report the addition on Schedule OR-ASC-NP using modification code 650.

## Domestic production activities deduction ORS 316.836

**[Addition code 102]**

Oregon’s tie to federal income tax law does not include the federal deduction for domestic production activities contained in Section 199 of the Internal Revenue Code. This deduction is also known as the “Qualified Production Activities Income” deduction, or QPAI. If you have taken this deduction on your federal return, you must add back the amount of the deduction on your Oregon return.

**Full-year residents.** Report the amount you deducted as an addition on Schedule OR-ASC, Section 1.

**Part-year residents and nonresidents.** Enter the full amount of the deduction in the federal column and -0- in the Oregon column of Schedule OR-ASC-NP, Section 2. **You must also report the amount deducted on your federal return as an adjustment.** See the **Adjustments** section for instructions.

## Federal election on interest and dividends of a minor child ORS 316.372

**[Addition code 107]**

Did you report the interest or dividends of your minor child on **your** federal return? If so, you must add the amount subject to the special federal tax to Oregon income. You must also include any interest or dividends your child received on bonds or notes of another state or political subdivision of another state that you did not include on your federal return.

**Full-year residents.** Oregon taxes the smaller of line 13 or 14 from federal Form 8814. Oregon also taxes any interest or dividends your child received from state and local governments outside Oregon.

**Part-year residents.** Oregon taxes the interest and dividends your child received while you were an Oregon resident.

**Nonresidents.** Oregon generally does not tax interest or dividends received while you were a nonresident.

## Federal estate tax ORS 316.680(2)(c)

**[Addition code 157] [Modification code 605]**

Federal estate tax on income in respect of a decedent (IRD) is allowed as a deduction on your federal return. If any of this tax is on income not taxed by Oregon, you must show an addition on your Oregon return.

Use the following formula to figure the Oregon addition:

$$\frac{\text{IRD not taxable by Oregon}}{\text{IRD included in federal taxable income}} \times \frac{\text{Federal estate tax deducted on the federal return}}{\text{Federal estate tax deducted on the federal return}} = \text{Oregon addition}$$

## Federal income tax refunds ORS 316.685

**[Addition code 109] [Modification code 601]**

Did you get a federal tax refund because of a federal audit or amended return? If so, you may need to add part or all of that refund to your Oregon income. An



explanation of the federal tax liability subtraction can be found in the **Subtractions** section.

**Tax benefit doctrine.** You need to add back only refunds of federal tax for which you received a benefit in a **prior** year.

**Example 1:** Rosa subtracted her entire federal tax liability of \$2,800 on her 2014 Oregon return. This year, she amended her 2014 federal return. Rosa reduced her federal tax to \$2,300 and received a federal refund of \$500. She received a \$500 tax benefit because she subtracted \$500 more on her 2014 Oregon return than her corrected federal tax liability. Rosa will have an addition of \$500 on her 2016 return.

**When to report the refund.** As a general rule, report the refund in the year you get it. The rules for figuring the addition are explained below. But first, note these exceptions:

### Exception 1

If there is an error on your federal return, the Oregon Department of Revenue may correct your federal tax liability when your Oregon return is processed. This may decrease your federal tax subtraction. When the IRS later refunds the difference between your correct federal liability and the liability on your original return, do not report the refund as an addition. Because the tax subtraction on your original Oregon return was corrected, you didn't receive a tax benefit from the total federal tax subtracted on your original return.

**Example 2:** The Jacksons showed a \$3,700 federal tax liability on their 2015 federal return. They claimed a federal tax subtraction for that same amount on their Oregon return. When their 2015 Oregon return was processed, the Oregon Department of Revenue discovered a math error on their federal return. The department figured the Jacksons' correct federal tax as \$2,400 and reduced their Oregon federal tax subtraction to that amount. In 2016, the Jacksons received the IRS refund of \$1,300. They will not report the refund as an addition on their 2016 Oregon return because they did not receive a tax benefit for it.

### Exception 2

If you file an amended return before the filing due date for that tax year, your amended return is treated as your original return for that year. In this case, the federal tax subtraction on your amended return is your corrected federal tax liability.

**Example 3:** Heather filed her 2016 federal and Oregon returns on February 17, 2017. Her federal tax liability was \$4,800, which she subtracted in full on her Oregon return. On March 22, 2017, she amended her 2016 federal return to claim additional deductions.

She refigured her 2016 federal tax as \$3,000. She also amended her 2016 Oregon return to claim the same additional deductions and reduce her federal tax subtraction by \$1,800 (from \$4,800 to \$3,000). The \$1,800 federal refund she receives in 2017 will not be reported as income on her 2017 Oregon return. Because Heather filed the amended Oregon return **before** the April 18 due date, her amended return is treated as her original return this year.

**Figuring the addition.** You must report as an addition the amount of refund from which you received a tax benefit. The tax benefit is the amount of federal tax you deducted in a prior year and received as a refund in a later year, if the amount you received reduced your Oregon taxable income in the prior year.

Use the following worksheet to figure your tax benefit.

- |   |          |
|---|----------|
| 1. Fill in your original federal tax liability from a prior year (2015 limit \$6,450, 2014 limit \$6,350, 2013 limit \$6,250).  | 1. _____ |
| 2. Fill in your corrected federal tax liability from a prior year (2015 limit \$6,450, 2014 limit \$6,350, 2013 limit \$6,250). | 2. _____ |
| 3. Line 1 minus line 2. This is the tax benefit you received from your refund.  | 3. _____ |

**Example 4:** Jill's 2014 federal tax liability was \$6,500. She was limited to \$6,350, which she subtracted on her Oregon return. Jill amended her 2014 federal return and received a refund of \$6,500 in 2016. The addition on Jill's 2016 return will be \$6,350, figured as follows:

1. Tax benefit received: Federal tax subtracted on Jill's 2014 Oregon return (limit \$6,350).	\$6,350
2. Less: Corrected federal tax (\$6,500 - \$6,500) (limit \$6,350).	-0-
3. Tax benefit received and Jill's Oregon addition.	<u>\$6,350</u>

**Example 5:** Ella was a part-year resident in 2014. Her original federal tax was \$4,200. She amended her 2014 federal and Oregon returns in January 2016. She received a \$1,000 federal refund in 2016. Her 2014 corrected federal tax is \$3,200. Ella's addition is \$1,000. She figures her tax benefit as follows:

1. Original 2014 federal tax liability (limit \$6,350).	\$4,200
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2. Less: Corrected federal tax liability (limit \$6,350).	- <u>3,200</u>
3. Tax benefit received and Ella's Oregon addition.	\$ <u>1,000</u>

**Nonresidents.** A nonresident's tax benefit from federal tax refunds is the difference between the tax actually subtracted on the prior year's return and the tax that would have been subtracted had the federal return been correct. If the amounts on your federal return changed because you amended your federal return or because it was audited, your Oregon percentage may also change. Use the corrected percentage to figure the tax benefit.

**Example 6:** Brokston was a nonresident with Oregon-source income in 2014. His original federal tax was \$8,600. His Oregon percentage was 40 percent. In March 2016, he amended his 2014 federal and Oregon returns. He received a \$4,500 federal refund in 2016. His revised Oregon percentage for 2014 was 50 percent. He received a \$490 tax benefit from the refund. He figures his tax benefit as follows:

1. Original federal tax liability (limit \$6,350)	\$ 6,350	
× original Oregon percentage.	× 0.40	
		\$ 2,540
2. Less: Corrected federal tax (\$8,600 - \$4,500) (limit \$6,350)	\$ 4,100	
× revised Oregon percentage.	× 0.50	
		- <u>2,050</u>
3. Tax benefit received and Brokston's Oregon addition.		\$ <u>490</u>

### Gambling losses claimed as an itemized deduction ORS 461.560

**[Addition code 134] [Modification code 604]**

If you claimed gambling losses as an itemized deduction on your federal Schedule A, you may have an addition on your Oregon return.

Your gambling losses are limited to the amount of your gambling winnings taxed by Oregon.

Oregon does not tax Oregon Lottery winnings of \$600 or less from a single ticket or play. See the **Subtractions** section for more information.

**Example:** Angela reported total gambling income of \$580 on her federal return (\$500 from the Oregon Lottery plus \$80 from the horse races). On her federal Schedule A, Angela deducted \$300 of gambling losses.

Angela will subtract \$500 from her Oregon income. This is the amount of her Oregon Lottery winnings. Her net gambling winnings, taxable by Oregon, are reduced to \$80. Angela may not claim more in gambling losses than her gambling winnings taxable by Oregon.

Because her gambling winnings taxable by Oregon are only \$80, she may not claim more than \$80 in gambling losses on her Oregon return. She is required to reduce her deduction for gambling losses from \$300 to \$80. The difference of \$220 is an Oregon addition.

Gambling winnings reported in federal AGI	\$ 580
Less subtraction for Oregon Lottery winnings	(500)
Net gambling winnings taxable by Oregon	<u>\$ 80</u>
Gambling losses claimed on Federal Schedule A	\$ 300
Net gambling winnings included in Oregon income	<u>80</u>
Reduction in gambling losses—	
Oregon addition	<u>\$ 220</u>

**Part-year residents and nonresidents.** See page 92 for instruction on how to report your addition on Schedule OR-ASC-NP.

### Income taxes paid to another state ORS 316.082

**[Addition code 148]**

Did you claim a credit for income taxes paid to another state and claim those same taxes as an itemized deduction? If so, you may have an Oregon addition.

#### **Addition when credit taken by individuals**

You cannot take a deduction and a credit for the same item on your return. If you are claiming a credit for taxes paid to another state on your Oregon return, you must reduce your itemized deductions by the smaller of:

- The other state's tax amount for the year you claim the Oregon credit, or
- The other state's tax amount for the year you included it as an itemized deduction.

This reduces your itemized deduction for the other state's income tax.

Include this amount on Schedule OR-ASC, Section 1 or Schedule OR-ASC-NP, Section 2, using addition code 148. If you pay tax to more than one state, compute your addition state by state. Also compute it year by year.

Is the amount of tax you are deducting less than what you owe the other state? If so, you will have an addition on next year's Oregon return for the tax that was paid and deducted on your federal return.

**Example 1:** Inga claimed a \$100 credit for taxes paid to Maine on her Oregon return. She claimed a deduction

of \$200 on Schedule A for Maine taxes withheld from her wages. On Inga's Maine return, her net tax liability is \$150. This is the smaller of her Maine tax liability (\$150) or the amount she claimed as an itemized deduction (\$200) for Maine taxes. She will reduce her itemized deductions by \$150 by including that amount as an addition on Schedule OR-ASC.

**Example 2:** Peggy lives in Oregon. She owes \$300 to Iowa for 2016. Her credit for tax paid to Iowa is \$200, which she computed using Formula I. Peggy had \$125 withheld from her pay for Iowa tax in 2016. She pays the other \$175 in April 2017 when she files her 2016 Iowa return. On her 2016 federal Schedule A, Peggy deducts the \$125 in Iowa withholding and \$500 for tax she paid to California. Peggy reduces her itemized deductions by the smaller of \$300, her Iowa liability for the year she claimed the credit, or \$125, the amount she is claiming as an itemized deduction. She reports an addition of \$125 on Schedule OR-ASC using addition code 148. No changes are needed for the California tax on her Oregon return, because a credit for taxes paid must be claimed on her California nonresident return.

If Peggy itemizes again on her 2017 return, she may deduct \$175, the additional Iowa tax paid in April 2017, on her federal tax return. Peggy must add back \$175 on her 2016 Oregon return. This is the smaller of \$300, her Iowa tax liability for 2016 (the year she claimed the credit), or \$175, the amount she is claiming as an itemized deduction on her 2017 return.

### **Addition when credit taken by Oregon resident partners and S corporation shareholders for tax paid by partnership or S corporation**

Are you claiming a credit on your Oregon return for taxes paid to another state by a partnership or S corporation? If so, you must add to your Oregon income the taxes paid to the other state if:

- You file an individual nonresident return with the other state or you elect to be included on a composite return filed with the other state by the business on your behalf,
- The business does not deduct the tax payment on its own tax return, and
- You deduct the tax on your own Schedule A.

If the business deducts the tax payment on its return, add the tax payment to your Oregon income only if you are claiming a credit for the taxes paid on your own individual return.

**Example 3:** William itemizes his deductions. He owns 5% of Claflin, LLP, a limited partnership in Utah. The business files group returns for its owners. Each year, the company sends a letter to its owners showing the

amounts each owner can deduct for income taxes and the amounts each can take as a credit. The business pays the taxes with the group returns. This year's letter states that William can take a \$3,000 credit for taxes paid to Utah, and that he can deduct \$4,000 on his return. William claims a credit of \$3,000 on his Oregon return and deducts \$4,000 on his federal Schedule A. He must add \$4,000 back to his Oregon income.

**Example 4:** Susan owns 50 percent of Painter, Inc., an Oregon S corporation. Painter pays California income tax. It deducts the tax on its corporate return. It paid California \$30,000 of 2015 tax for her in 2015, and \$10,000 of 2015 tax in January 2016. Painter paid \$2,000 of tax for her with its 2015 tax return filed in 2016.

Susan calculates her credit for 2015 using \$42,000: \$30,000 in payments made in 2015, and the \$12,000 in 2015 tax paid in 2016. She claims the credit on her 2015 return, and adds \$30,000 to her Oregon income. Susan will add back the remaining \$12,000 on her 2016 return using addition code 148 on Schedule OR-ASC.

## **Individual Development Account ORS 316.848, 315.271**

**[Addition code 137, 138 or 159] [Modification code 648]**

For more information about Individual Development Accounts (IDAs), see page 113.

**Donation credit add-back.** If you are claiming a tax credit for donations made to the Oregon IDA Initiative Fund, **and** you are claiming a charitable deduction on your federal return for the same donation, you must add back the amount of the credit that was also claimed as a charitable deduction.

**Nonqualified withdrawal.** Did you make a nonqualified withdrawal from your IDA during the year? If so, you must report the amount as an addition on Schedule OR-ASC or OR-ASC-NP.

**Rollover to retirement account.** Did you rollover funds from your IDA account to a retirement account? Were you allowed to deduct the amount of IDA funds contributed to the retirement account as a deduction on your federal return? If so, the amount you deducted that was already subtracted as an IDA contribution on an Oregon return must be added back. Report the amount deducted on your federal return as an addition on Schedule OR-ASC or OR-ASC-NP.

**Full-year residents.** In Section 1 of Schedule OR-ASC, enter the amount you are adding back for the **donation credit** using addition code 138. Report a

**nonqualified withdrawal** using addition code 137. Use addition code 159 to report a rollover from your IDA to a retirement savings account.

**Part-year residents and nonresidents.** Report the **donation credit add-back as a negative modification** using code 648 in Section 4 of Schedule OR-ASC-NP. Report any **nonqualified withdrawal** as an **addition** using code 137, and any federal subtraction taken for a rollover from your IDA to a retirement savings account, using addition code 159 in Section 2 of Schedule OR-ASC-NP.

## Interest and dividends on government bonds of other states ORS 316.680 (2)(b)

### [Addition code 158]

**Full-year residents.** Oregon taxes interest and dividends on bonds and notes of another state or political subdivision of another state that you did not include on your federal return. This income is an addition using Schedule OR-ASC.

Did you report the interest or dividends of your minor child on **your** federal return? And, did your child receive interest or dividends from another state or political subdivision? If so, include this income as an addition using Schedule OR-ASC. See page 56.

**Part-year residents.** Oregon taxes all interest and dividends you earned on all bonds or notes when you were an Oregon resident. Oregon also taxes the interest and dividends on bonds or notes of another state (or political subdivision of another state) earned from an Oregon business, partnership, or S corporation during the part of the year you were a nonresident.

**Nonresidents.** Oregon will only tax this income if it comes from an Oregon business, partnership, or S corporation.

### Expenses

Investment expenses to purchase federally exempt bonds or notes are not deductible on the federal return. If you itemize for Oregon, you may reduce your Oregon addition by the amount of investment expense not deductible on your federal return. If you use the standard deduction, you will not reduce your addition for your investment expenses.

**Example 1:** Maya received \$1,000 of interest from her New York City bonds. She borrowed \$2,600 to purchase the bonds. During the year she paid \$150 of interest on the loan. She claimed itemized deductions but could not deduct the interest expense on her federal Schedule A because the interest from the bonds

was not included on her federal return. Maya's \$850 addition is figured as follows:

New York City bond interest	\$1,000
Less: Interest expense connected with the bonds	- 150
Oregon addition	<u>\$ 850</u>

**Example 2:** Jim received \$2,970 of interest from Idaho Municipal Bonds. He borrowed \$12,000 to purchase the bonds. His interest expense on the loan was \$650. Jim used the standard deduction on his federal and Oregon returns. He will have an Oregon addition of \$2,970. Jim will not reduce his addition for his loan interest expense because he claimed the standard deduction.

You will have an Oregon addition for interest or dividends on obligations of any authority, commission, instrumentality, or territorial possession of the United States. These are exempt from federal tax but not Oregon tax.

Oregon does not tax interest or dividends on obligations that states cannot tax under federal law. Examples of such obligations are bonds issued by:

- Territory of Guam.
- Commonwealth of Puerto Rico.
- Territory of Puerto Rico.
- Territory of Samoa.
- Territory of Virgin Islands.

## Lump-sum distributions ORS 316.737

### [Addition code 139]

Did you complete federal Form 4972 to figure the tax on your qualified lump-sum distribution using the 20 percent capital gain election and/or the 10-year tax option? If so, part or all of your lump-sum distribution was not included in your federal adjusted gross income (AGI). The excluded portion of your distribution must be included as an addition to your Oregon income.

**Election to use 20 percent capital gain on federal Form 4972.** Did you average the ordinary portion of your lump-sum distribution on federal Form 4972? Did you choose the 20 percent capital gain election on Form 4972? If you chose either of these options you will add to Oregon income the total amount of taxable income shown on your federal Form 1099-R.

The following examples show how to report your lump-sum distribution for Oregon purposes:

**Example 1:** Gary got a \$20,000 lump-sum distribution from his employer. Of this, \$12,000 was capital gain income, and \$8,000 was ordinary income. Using IRS Form 4972, he chose to use the 10-year averaging

method only on the \$8,000 of ordinary income. He chose the 20 percent capital gain election on the \$12,000 capital gain income. Gary will add all of his \$20,000 lump-sum distribution to his Oregon income using addition code 139 on Schedule OR-ASC.

**Election to treat the entire distribution as ordinary income and average it.** Did you average all of your lump-sum distribution (ordinary income and capital gain portions) on federal Form 4972? If so, you will have an addition for the entire lump-sum distribution to report on Schedule OR-ASC or OR-ASC-NP.

**Example 2:** John received a \$40,000 lump-sum distribution from his employer; \$30,000 was capital gain income and \$10,000 was ordinary income. He chose to average the entire distribution of \$40,000 as ordinary income on his federal Form 4972. John will add all of his \$40,000 lump-sum distribution to his Oregon income.

**Election not to average any of your lump-sum distribution.** Did you choose not to average any of your lump-sum distribution? If you included it in federal AGI, there is no addition on your Oregon return.

## Oregon 529 College Savings Network ORS 316.680(2)(j)

[Addition code 117]

Did you withdraw funds from an Oregon 529 College Savings Network plan for nonqualified purposes? If so, you must report an addition on Schedule OR-ASC or OR-ASC-NP for the amount you withdrew. Internal Revenue Code Section 529(e) defines qualified higher education expenses. If a portion of the withdrawal was used for qualified purposes, use any reasonable method to determine the amount of the addition. Keep a copy of this determination with your tax records. For more information about Oregon 529 plans see page 74.

## Oregon Production Investment Fund (auction) ORS 315.514

[Addition code 144] [Modification code 644]

If you claimed a deduction on Schedule A for the amount you paid for your Oregon Production Investment Fund tax credit, you will have an Oregon addition for the amount of your deduction.

**Example:** Beth bid on \$2,000 worth of Oregon Production Investment Fund credits during this year's auction. She won all the credits she bid on and paid \$1,900 for them. On her Oregon return Beth will claim an Oregon Production Investment Fund credit of \$2,000. If she claims the \$1,900 she paid for the credits as an itemized deduction on her Schedule A,

she must add back that amount to her income using addition code 144. She reports both the credit and the addition on Schedule OR-ASC.

For more information on the Oregon Production Investment Fund tax credit, see the **Credits** section.

**Part-year residents and nonresidents.** See page 92 for instructions on how to report your addition on Schedule OR-ASC-NP.

## Renewable Energy Development contributions (auction) ORS 315.326

[Addition code 145] [Modification code 645]

If you claimed a deduction on Schedule A for the amount you paid for your Oregon Renewable Energy Development tax credit, and you are claiming the credit on your return, you will have an Oregon addition for the amount of your deduction.

**Example:** Christina bid on \$5,000 worth of Oregon Renewable Energy Development credits during this year's auction. She won all the credits she bid on and paid \$4,750 for them. On her Oregon return Christina will claim an Oregon Renewable Energy Development credit of \$5,000. If she claims the \$4,750 she paid for the credits as an itemized deduction on her Schedule A, she must add back that amount to her income using addition code 145. She reports both the addition and the credit on Schedule OR-ASC.

For more information on the Renewable Energy Development tax credit, see the **Credits** section.

**Part-year residents and nonresidents**

See page 92 for instructions on how to report the addition on Schedule OR-ASC-NP.

## University Venture Development Fund contributions ORS 315.521

[Addition code 146] [Modification code 646]

If you claimed a deduction on Schedule A for the amount of your University Venture Development Fund contribution, you will have an Oregon addition for the amount of your deduction.

**Example:** Amelia made a contribution to a University Venture Development Fund in the amount of \$100,000. She may claim a total of 60% of her contribution, or \$60,000 limited to her tax liability for the year. This year, Amelia's tax liability is \$23,000. On her Oregon return she will claim a credit of \$23,000 for her contribution. The rest of her credit is carried forward to a later year. If Amelia claims the \$100,000

contribution as an itemized deduction on her Schedule A, she must add back that amount (\$100,000) to her income using addition code 146 on Schedule OR-ASC.

For more information on the University Venture Development Fund tax credit, see the **Credits** section.

**Part-year residents and nonresidents.** See page 92 for instructions on reporting any required add-back amount as a **negative** modification on Schedule OR-ASC-NP.

## Unused business credits ORS 316.680(2)(f)

### [Addition code 122]

Did you claim a deduction on your federal return for unused business credits (UBC)? Oregon does not allow this deduction.

**Full-year residents.** You must report your federal UBC deduction as an Oregon addition.

**Part-year residents.** You will have an Oregon addition for your federal UBC deduction related to any UBC earned while you were an Oregon resident. You also must include any federal UBC deduction related to Oregon credits earned while you were a nonresident.

**Nonresidents.** You will have an addition for your federal UBC deduction related to Oregon credits earned from Oregon sources.

## WFHDC medical expenses

### [Addition code 163] [Modification code 651]

Some expenses for the care of qualifying persons who are not able to care for themselves may qualify as expenses for purposes of claiming the Working Family Household and Dependent Care (WFHDC) credit and also as medical expenses. You can use these expenses for either the WFHDC credit or as a medical expense deduction, but they can't be used for both. If you choose to use them for both, you will have an addition on your Oregon return. Use the following worksheet to figure the Oregon addition:

## WFHDC medical expense worksheet

- |   |              |
|---|--------------|
| 1. Enter the amount from Schedule OR-WFHDC, line 15(c).   | 1. \$ _____  |
| 2. Enter the medical expenses included in line 1 that are also included in the amount on Schedule A, line 1.  | 2. \$ _____  |
| 3. Line 1 minus line 2.   | 3. \$ _____  |
| 4. Enter the amount from Schedule OR-WFHDC, line 24.  | 4. \$ _____  |
| <ul style="list-style-type: none"> <li>• If line 3 is more than line 4, STOP. You do not have an addition.</li> <li>• If line 3 is less than line 4, continue to line 5.</li> </ul>               |              |
| 5. Line 4 minus line 3.   | 5. \$ _____  |
| 6. Enter the total amount from Schedule A, line 1.  | 6. \$ _____  |
| 7. Enter the total amount from Schedule A, line 4.  | 7. \$ _____  |
| 8. Divide line 6 by line 7 and round to three decimal places.   | 8. _____     |
| 9. Line 8 times line 2.   | 9. \$ _____  |
| 10. Enter the smaller of line 5 or line 9.  | 10. \$ _____ |
| 11. Enter the Oregon standard deduction for your filing status (see page 92).   | 11. \$ _____ |
| 12. Enter your net Oregon itemized deductions (Form OR-40, line 18; Form OR-40-P or OR-40-N, line 39).  | 12. \$ _____ |
| 13. Line 12 minus line 10.  | 13. \$ _____ |
| <ul style="list-style-type: none"> <li>• If line 11 is less than line 13, STOP. Your addition is the amount on line 1</li> <li>• If line 11 is more than line 13, continue to line 14.</li> </ul> |              |
| 14. Line 12 minus line 9. This is your addition.  | 14. \$ _____ |

**Full-year residents.** Report any required add-back amount on Schedule OR-ASC using addition code 163.

**Part-year residents and nonresidents.** See page 92 for instructions on reporting any required add-back amount as a **negative** modification on Schedule OR-ASC-NP.

For more information about the WFHDC credit, see the **Credits** section.

# Subtractions

Generally, subtractions are items the federal government taxes but Oregon does not. Subtractions reduce your income taxed by Oregon.

Numeric codes are provided with the explanation for most subtractions. For part-year residents and nonresidents, some subtractions will be reported as modifications. This is required when an amount you are subtracting must be adjusted for Oregon tax purposes. When this is the case, a modification code is provided with the explanation for that subtraction. Enter the numeric code and the dollar amount of each subtraction or modification on Schedule OR-ASC or Schedule OR-ASC-NP. The total dollar amount of subtractions and modifications is then reported on your return.

If there is no numeric code provided for a subtraction (or modification), the amount is reported directly on your return.

## ABLE Account deposit ORS 316.699

[Subtraction code 360]

You can subtract contributions you made to an Oregon or contracting state's Achieving a Better Life Experience (ABLE) account of up to \$4,620 if you file a joint return (\$2,310 for all others). These state-sponsored accounts, established through the Oregon 529 College Savings Network, allow persons with disabilities to save money for disability-related expenses without affecting their eligibility for government or other benefits. ABLE accounts qualify for special tax status under Internal Revenue Code Section 529A. To qualify for the Oregon subtraction, contributions must be made before the designated beneficiary turns 21 years old.

Funds withdrawn to pay qualified expenses related to the beneficiary's disability will not be taxed. Qualified withdrawals include expenses for education, housing, transportation, assistive technology, personal support services, employment training and support, and fees for legal and financial services, among others. Once you open an account and select an investment option, the Oregon 529 College Savings Network board and the private investment company manage your investment.

You can subtract your contribution if you made it before the date you file your tax return or before the due date of your return, without extensions, **whichever is earlier**. For examples regarding contribution timing, see page 74. **Note: The combined total of your ABLE account and Oregon 529 Plan subtractions**

**cannot be more than the annual amount shown above.**

You may need to add back funds withdrawn for a nonqualified purpose on your Oregon return. More information about the addition will be available beginning with the 2017 edition of this publication.

**Rollovers.** If you have an ABLE account in a non-contracting state and you roll it over into an Oregon or contracting state's ABLE account, the rollover qualifies as a new contribution for purposes of the subtraction. However, you can't subtract any amount rolled over from an Individual Development Account.

**Carryforward.** If you make a contribution of more than the maximum allowable subtraction in one year, you may carry forward the amount not subtracted over the next four years.

For more information about the ABLE Act, visit the ABLE National Resource Center's website at [www.ablenrc.org](http://www.ablenrc.org).

## American Indian ORS 316.777

[Subtraction code 300]

Are you an American Indian? If so, you might not have to pay Oregon income tax on your income. You may be able to subtract all or part of your income if **all** the following are true:

- You are an enrolled member of a federally recognized American Indian tribe, and
- Your income is derived from sources within federally recognized Indian country in Oregon, and
- You lived in federally recognized Indian country in Oregon at the time the income is earned.

**"Indian country"** is defined as any land within a current federal Indian reservation boundary and other lands held in trust by the United States government for a tribe.

For enrolled members of federally recognized American Indian tribes who live in Indian country in Oregon, income exempt from Oregon income tax includes:

- Wages earned for work performed in Indian country in Oregon.
- Income from business or real estate located in Indian country in Oregon.
- Retirement income if the contributions to the plan came from or were connected with services performed in Indian country.
- Unemployment compensation if the benefits were received as a result of work performed in Indian country.

- Interest, dividends, and capital gains from the sale of stocks and other intangibles, regardless of where the accounts are located.
- Gambling winnings from Indian gaming centers (casinos).
- Indian tribal disbursements from casino earnings.

You must live on and have income derived from sources within Indian country in Oregon **and** be an enrolled member of a federally recognized tribe to subtract the income listed above. You do not have to live in and have income from the same Indian country. But the areas where you live and have income from must both be Indian country to qualify for the subtraction.

To claim the subtraction, you must report your total income on both the federal and Oregon tax returns.

You must file a completed copy of Schedule OR-EIS with your Oregon return. Go to our website to download the schedule or call us. You must include the following information on the schedule:

- The street address of the place you worked, and
- The street address of the place you lived, and
- The tribe you are enrolled with and your membership number.

You must use the street address of your residence on the schedule so we can verify that you lived in Indian country when you earned your income. However, you may use your post office box address on your tax return.

If you meet **all** of the requirements, you may claim “exempt” on your Form W-4 for Oregon purposes only.

Income earned in Oregon, outside of Indian country, will be taxed by Oregon. Also, any Oregon income earned by a member not living in Indian country will be taxed by Oregon. Each member of a household with income must meet these qualifications in order to claim the subtraction of their income.

If you are an enrolled member of a federally recognized tribe and a member of the U.S. Armed Forces, stationed in Oregon, you may be entitled to an additional subtraction. For more information, call us.

## Artist’s charitable contribution ORS 316.838

**[Subtraction code 301] [Modification code 600]**

Oregon allows a subtraction to artists who contribute their own works of art to a recognized charitable organization or governmental unit.

### What qualifies as a “work of art?”

The art object must qualify for the deduction allowed by IRC Sec. 170. It must be a painting, sculpture, photograph, graphic or craft art, industrial design, costume or fashion design, tape or sound recording, or film.

The charitable organization is not required to use the art for the same purpose or function that qualifies it for its federal tax exemption. You may deduct your charitable contribution even if the charitable organization sells the art.

You will need the appraisal report showing the fair market value of the art at the time of the contribution. You must send a copy of the appraisal report with your return.

### How to calculate the subtraction

The subtraction is equal to the difference between:

1. The amount that would have been allowed as an itemized deduction if you could deduct the fair market value of the art (subject to the federal contribution limit)\*, and
2. The actual allowable amount as an itemized deduction under federal tax law.

*\*Federal law limits charitable contributions. Contributions to some organizations are limited to 50 percent of your federal adjusted gross income (AGI). Contributions to others are limited to 30 percent of your AGI. Use these limits when you figure your deduction.*

**Example:** Ronda’s AGI is \$10,000. She donated one of her paintings to an organization for display in a building. The painting has a basis (cost) of \$300 and a FMV of \$6,000. Here is how she computes her subtraction:

1. Amount allowed as a charitable contribution if computed using FMV.	<u>\$6,000</u>
2. Amount allowed as a charitable contribution limited to 50% of AGI.	<u>\$5,000</u>
3. Lesser of line 1 or line 2.	<u>\$5,000</u>
4. Amount allowed as a charitable contribution on federal Schedule A (basis).	<u>(\$300)</u>
5. Ronda’s subtraction (line 3 minus 4).	<u>\$4,700</u>

**Part-year residents and nonresidents.** Follow the same rules as a full-year resident. You do not have to prorate this subtraction. Enter your subtraction in Section 4 of Schedule OR-ASC-NP using modification code 600.



## Capital Construction Fund ORS 316.048

### [Subtraction code 339]

If you subtracted your contributions to your qualifying capital construction fund on your federal return, you may also subtract that amount on your Oregon return. See IRS Publication 595: *Capital Construction Fund for Commercial Fishermen*, for more information.

The subtraction for Oregon is the same as the amount you identified as “CCF” and subtracted on Line 43 of your federal return.

**Part-year residents and nonresidents.** Enter the full subtraction in the federal column of Schedule OR-ASC-NP, Section 3, using subtraction code 339. The amount allowed in the Oregon column is the Oregon percentage of your fishing trade or business that qualifies you for a CCF account.

**Example:** Greg moved out of Oregon in May and continued his fishing business in California. His Oregon net fishing income is \$10,000 and his California net fishing income is \$30,000. He put \$15,000 into his CCF account during the past year. On Schedule OR-ASC-NP, Greg will enter \$40,000 for his fishing income in the federal column and \$10,000 in the Oregon column. Greg’s CCF subtraction in the federal column is the full \$15,000. Since 25 percent of his eligible income was Oregon source, he is allowed a CCF subtraction of \$3,750 (\$15,000 × 25%) in the Oregon column.

## Construction worker and logger commuting expenses ORS 316.812, 316.824, 316.832

### [Subtraction code 303]

If you are a qualified construction worker or logger, you may deduct certain commuting expenses from your Oregon taxable income. To claim these expenses, you must have worked at one or more construction projects or logging operation sites more than 50 miles from your home.

A construction project is construction, alteration, repair, improvement, moving, or demolition of a structure. A logging operation is the commercial harvesting of forest products. People in other occupations are not eligible for this subtraction. Management personnel are not eligible for this subtraction either. **You may not claim this subtraction if the expenses are being claimed on federal Schedule A.**

**Qualifying workers.** Loggers must be fallers or buckers who maintain their own equipment **and** are paid on a per-unit-cut basis. Construction workers must be members of a recognized trade, craft, or union.

**Qualifying expenses.** You may claim only the actual cost of gas, oil, repairs, and maintenance for your vehicle for getting to and from work sites that are over 50 miles from your home. You cannot use a standard mileage rate to figure expenses.

If you use your vehicle both for business and personal purposes, you must determine your portion of business use. Keep a mileage log book during the year to track your business use and record all business trip miles. You should also record your starting and ending odometer reading for your vehicle each year. You may claim only the business portion of your repairs and maintenance as commuting expenses. You cannot claim depreciation. To claim the actual business expenses for your qualified commute miles, you will need to keep your vehicle records during the year. Keep receipts for all your fuel (e.g., gas, diesel), oil change, repair, and maintenance costs in your permanent tax records.

**Example:** Ewan is a construction worker. He uses his truck for both personal and business purposes. He worked on three construction jobs during the year. Two of the jobs were located more than 50 miles away from his home. Ewan kept a log book in his truck and recorded each trip to and from the construction sites. He also kept a record of all his truck expenses—his receipts for diesel fuel, oil changes, repairs, and maintenance for the year. These receipts totaled \$4,215.

Ewan’s odometer readings were:

Year end: December 31	38,306
Year beginning: January 1	<u>26,327</u>
Total miles driven	11,979

Ewan’s mileage log book showed that his mileage to and from qualified construction job sites totaled 4,716 miles.

He will use this formula to determine the business use of his truck and the amount of truck expenses which will qualify for this subtraction:

$$\frac{\text{Qualified construction miles}}{\text{Total miles driven}} \times \text{actual expenses} = \text{Subtraction}$$

$$\frac{4,716}{11,979} \times \$4,215 = \$1,659$$

Ewan will claim a subtraction of \$1,659 on Schedule OR-ASC using subtraction code 303.

**Duration of project.** If you are a construction worker, claim only your expenses for the first year of continuous employment at any one construction site. If

your employment continues beyond one year, the job site is considered permanent. You may not subtract any additional commuting costs for going to and from that site after the first year at that worksite. If your employment at that job site is temporarily interrupted, do not count the interruption when you figure the one-year limit.

If you are a logger, there is no limit on how long you can work at the same job site and still claim expenses.

**How to claim the subtraction.** Claim your commuting expenses on Schedule OR-ASC or OR ASC-NP using subtraction code 303. **Remember:** You cannot subtract expenses related to the same mileage claimed as an employee business expense on your Schedule A.

**Part-year residents and nonresidents.** You can claim only expenses related to income that you included in the Oregon column of your Oregon return.

## Conversions and exchanged property ORS 314.290 (repealed), 316.716

### [Subtraction code 306]

Oregon law used to require an addition for gain on the sale or exchange of certain property deferred on the federal return. This statute was repealed in 2001. If you were required to make this addition before 2001, you have already been taxed by Oregon for the gain on the sale or exchange of your property. If this gain is now included in your federal income, you may claim a subtraction for the amount of the gain previously taxed by Oregon.

## DISC dividend payments ORS 316.749

### [Subtraction code 352]

Oregon allows a subtraction for the dividend payments you received from a domestic international sales corporation (DISC).

You can claim the subtraction if **all** of the following are true:

- The DISC dividend payments are included in your federal adjusted gross income, and
- The DISC was formed on or before January 1, 2014, and
- The DISC is subject to the 2.5% tax.

## Discharge of indebtedness from reacquisition of debt instrument ORS 316.739

### [Subtraction code 350]

Did you claim an addition (addition code 128) for discharge of indebtedness from reacquisition of a debt instrument on your 2009 or 2010 Oregon return? Are you claiming the deferred income on your federal return? If you answered yes to both of these questions, you may claim a subtraction for the amount of deferred income you have included on your federal return. Generally, on your federal return you were allowed to defer the income until 2014 and then must claim it over a 5-year period. Claim the subtraction on Schedule OR-ASC or OR-ASC-NP in the year(s) you claim the deferred income on your federal return.

## Federal income tax liability ORS 316.680, 316.685, 316.695

**Current year's federal tax liability.** Oregon allows a subtraction for your current year's federal income tax liability after credits. The subtraction for 2016 is limited to \$6,500 (\$3,250 if married filing separately).

The subtraction is based on the accrual method of accounting. This means you subtract the total amount of your federal tax liability after credits for the current tax year (not less than zero) as shown on your original return, regardless of when you pay it.

The subtraction is limited to income tax. This includes alternative minimum tax, tax on an IRA (Individual Retirement Arrangement), and recapture taxes. You cannot include self-employment tax or Social Security (FICA) tax. You also cannot include penalties, interest, or any shared responsibility payment required by the federal Affordable Care Act.

Federal income tax credits, excluding the earned income credit, reduce your federal tax subtraction. The credits for federal tax on special fuels, special oils, and a regulated investment company will not reduce your federal tax subtraction.

You can deduct your federal income tax liability after credits, up to \$6,500 (\$3,250 if married filing separately) based on your income and filing status. Do not fill in less than -0- or more than \$6,500. Use the federal tax worksheet to figure your federal income tax liability.

**RDPs:** Use amounts from your actual federal return(s), not your "as if" return.

**Additional federal income tax paid or determined.** If you paid additional federal tax because your federal return was amended or audited, you may subtract it in

the year the tax was paid or determined, whichever is later. Your additional prior year's federal tax plus your current year's federal tax **cannot** be more than your current year federal tax subtraction limit.

This subtraction applies only to additional federal income tax **paid** because your return was amended or audited. It does not include withholding tax, advance tax payments, interest, penalties, or paying the tax due on your original federal return. Use the **Federal Tax Worksheet, Part B**, to figure your federal tax from a prior year.

**Amended returns.** If your federal tax liability for a prior year is changed, follow these rules when filing an amended Oregon return for that year:

**1. Additional federal tax paid or determined:** If you are filing an amended Oregon return to report changes made to your federal return, do not increase the federal tax subtraction. Report the additional federal tax in the year the tax was paid or determined, whichever is later.

**Exception.** Any amended Oregon return filed before the due date (excluding extensions) for that tax year should show the corrected federal tax liability. This is true even if you have not yet paid the additional tax.

**2. Refund of federal tax:** Do not change the federal tax subtraction on your amended Oregon return. Report your federal refund as an addition in the year you receive the refund if you received a tax benefit. For information about tax benefit, see page 57.

**Exception.** If you file an amended return before the due date (excluding extensions) for the tax year involved, report the corrected federal tax liability. Do not report the refund in the year you receive it.

## Federal Tax Worksheet

### Part A: Federal Tax Subtraction

1. Enter your federal tax liability from Form 1040, line 56; Form 1040A, line 37; Form 1040EZ, line 10; Form 1040NR, line 53; or Form 1040NR-EZ, line 15. 1. \_\_\_\_\_
2. Enter your excess advance premium tax credit from Form 1040, line 46; Form 1040A, line 29; or Form 1040NR, line 44. 2. \_\_\_\_\_
3. **Subtract** line 2 from line 1. (If less than -0-, enter -0-). 3. \_\_\_\_\_

4. Enter your additional tax on retirement plans from Form 1040, line 59; or Form 1040NR, line 57; your first-time homebuyer credit recapture; \*any recapture taxes you included as "other taxes" on Form 1040, line 62, or Form 1040NR, line 60; and the amount on Form 1040NR, line 54. 4. \_\_\_\_\_
5. Add lines 3 and 4. 5. \_\_\_\_\_
6. Enter your American Opportunity credit from Form 1040, line 68; or Form 1040A, line 44. 6. \_\_\_\_\_
7. Enter your total premium tax credit from Form 8962, line 24. 7. \_\_\_\_\_
8. Add lines 6 and 7. 8. \_\_\_\_\_
9. Subtract line 8 from line 5. (If less than -0-, enter -0-). 9. \_\_\_\_\_
10. Enter your maximum allowable tax liability subtraction from the table. Don't fill in less than -0- or more than \$6,500 (\$3,250 if married filing separately). 10. \_\_\_\_\_
11. Enter the smaller of line 9 or line 10 here and on Form OR-40, line 10; or Form OR-40-N or OR-40-P, line 42. 11. \_\_\_\_\_

*\*Did you file federal form 5405? If you are required to repay your 2008, 2009, or 2010 first-time homebuyer credit because you disposed of your home or stopped using it as your main home, you may subtract your federal tax recapture. Add the amount reported on your federal form 1040, line 59b, or federal form 1040NR, line 58b, to the amount included on line 2 of the worksheet above. Do not add this amount if you are repaying your 2008 credit and still live in your qualifying home as your main residence.*

### Part B: Federal tax paid in a prior year

[Subtraction code 309]

[Modification code 602]

1. Enter maximum amount from table (Part A, line 10). 1. \_\_\_\_\_
2. Enter federal tax liability subtraction (Part A, line 11). 2. \_\_\_\_\_
3. Subtract line 2 from line 1. If the result is -0-, you cannot deduct your federal tax from a prior year. If greater than -0-, enter the amount on line 3. 3. \_\_\_\_\_
4. Enter the amount of federal tax you paid in 2016 for a prior year. 4. \_\_\_\_\_

5. Enter the smaller of line 3 or line 4 here and on Schedule OR-ASC, Section 2 (subtraction code 309) or Schedule OR-ASC-NP, Section 4 (modification code 602). 5. \_\_\_\_\_

**Part C: Foreign tax subtraction**

[Subtraction code 311]

[Modification code 603]

If your total federal tax subtraction (Part A, line 11 plus Part B, line 5) is \$6,500 (\$3,250 if married filing separately) or more, STOP--you can't subtract your foreign tax. ORS 316.690. If your total federal tax subtraction is less than \$6,500 (\$3,250 if married filing separately), continue to Step 1.

1. Enter \$6,500 (\$3,250 if married filing separately). 1. \_\_\_\_\_
2. Enter your total federal tax liability subtraction (Part A, line 11 plus Part B, line 5). 2. \_\_\_\_\_
3. Subtract line 2 from line 1. 3. \_\_\_\_\_
4. Enter the amount paid in foreign tax, but not more than \$3,000 (\$1,500 if married filing separately). 4. \_\_\_\_\_
5. Enter the smaller of line 3 or line 4 here and on Schedule OR-ASC, Section 2 (subtraction code 311) or Schedule OR-ASC-NP, Section 4 (modification code 603). 5. \_\_\_\_\_

If your filing status is:	and your federal adjusted gross income is:		then your maximum allowable tax liability subtraction is:
	at least—	but less than—	
Single	-0-	\$125,000	\$6,500
	\$125,000	\$130,000	\$5,200
	\$130,000	\$135,000	\$3,900
	\$135,000	\$140,000	\$2,600
	\$140,000	\$145,000	\$1,300
	\$145,000 or more		-0-
Married filing separately	-0-	\$125,000	\$3,250
	\$125,000	\$130,000	\$2,600
	\$130,000	\$135,000	\$1,950
	\$135,000	\$140,000	\$1,300
	\$140,000	\$145,000	\$650
	\$145,000 or more		-0-
Married filing jointly or Head of household or Qualifying widow(er)	-0-	\$250,000	\$6,500
	\$250,000	\$260,000	\$5,200
	\$260,000	\$270,000	\$3,900
	\$270,000	\$280,000	\$2,600
	\$280,000	\$290,000	\$1,300
	\$290,000 or more		-0-

**Federal pension income  
ORS 316.680(1)(e)**

**[Subtraction code 307]**

You may be able to subtract some or all of your taxable federal pension included in federal income. This includes benefits paid to the retiree or the beneficiary. It does not include disability payments if you have not attained the minimum retirement age. The subtraction amount is based on the number of months of federal service or points earned for retirement before and after October 1, 1991:

- If all of your months of federal service occurred or points were earned before October 1, 1991, subtract 100 percent of the taxable federal pension income you reported on your federal return.
- If you have no months of service or points earned before October 1, 1991, you cannot subtract any federal pension.
- If your service occurred or points were earned both before and after October 1, 1991, you will subtract a percentage of the taxable federal pension income you reported on your federal return.

To determine your percentage, divide your months of service or points earned before October 1, 1991, by your total months of service or points earned. Round your percentage to three places (example: 0.4576 = 45.8%). Once you determine the percentage, it will remain the same from year to year.

**Federal Thrift Savings Plan.** Once a taxpayer is a retiree, withdrawals from federal thrift savings plan (TSP) accounts are eligible for the subtraction based on dates of service. Withdrawals prior to retirement are not eligible because the taxpayer must be a retiree at the time of withdrawal to be eligible for the subtraction. If the taxpayer moves money from a TSP to another type of account, the account loses its character and is no longer a federal pension. In this case, future withdrawals would not be eligible for the subtraction.

**Nonresidents.** Claim a subtraction for federal pension income only if you reported it on your Oregon return. Oregon does not tax your retirement income unless you have kept Oregon as your domicile. For more information, see the **Income** section of this publication.

**Example 1:** Jared worked for the U.S. Department of Agriculture from May 1, 1977, until July 31, 2012. He worked a total of 423 months—173 months before October 1, 1991. In 2016, he received federal pension income of \$65,000. He can subtract 40.9 percent (173 ÷ 423) or \$26,585 (.409 × \$65,000) of his federal pension. Jared will continue to subtract 40.9 percent of

his federal pension from Oregon income in future years. **Use this worksheet to determine your federal pension income subtraction amount:**

1. Federal pension income included in federal AGI. 1. \$ \_\_\_\_\_
2. a. Months of service or points earned from \_\_\_\_\_ (fill in federal service start date) to October 1, 1991. a. \_\_\_\_\_ months\*/  
points
- b. Months of service or points earned from \_\_\_\_\_ (fill in federal service start date) to \_\_\_\_\_ (fill in federal service retirement date). b. \_\_\_\_\_ months\*\*/  
points

Divide the number of months or points on **line a** by the total number of months or points on **line b**. This is your federal pension subtraction percentage. Round the decimal to three places and enter it here.

3. Multiply **line 1** by the decimal on **line 2**. This is your federal pension subtraction. 2. \_\_\_\_\_
3. \$ \_\_\_\_\_

\* **Federal service start date:** If your federal service start date was the 1st through the 15th of a month, include the entire month when counting federal service.

If your federal service start date was the 16th through the end of a month, do not include the first partial month of service. Start counting the months of federal service with the first full month.

\*\* **Federal service retirement date:** If your federal service retirement date was the 1st through the 15th of a month, do not count this final partial month when counting the total months of federal service.

If your retirement date was the 16th through the end of the month, include the entire month when counting the total months of federal service.

Keep a copy of this worksheet with your permanent tax records. **You will continue to use the same percentage**, from line 2, to determine your federal pension subtraction in future years.

**Example 2:** Robin served in the U.S. Army Reserves from June 20, 1987 through May 18, 2012. As a retired member of the reserves, Robin's service is easier measured by the retirement points she earned. Her Chronological Statement of Retirement Points shows that she earned 1,917 retirement points before October 1, 1991, out of a total 3,510. Robin received \$25,000 in pension benefits in 2016. The following worksheet shows how she will determine her federal pension subtraction.

1. Federal pension income included in federal AGI. 1.           \$25,000
2. a. Points earned before October 1, 1991. a. 1,917 points
- b. Total points earned. b. 3,510 points
- Divide the number of points on **line a** by the total number of points on **line b**. Round the decimal to three places. This is Robin's federal pension subtraction percentage. 2.           0.546
3. Multiply **line 1** by the decimal on **line 2**. This is Robin's federal pension subtraction. 3.           \$13,650

**Federal tax credits ORS 316.716**

**[Subtraction code 340]**

If you qualify for certain federal tax credits, you must reduce your business expenses or itemized deductions on your federal return by the amount of the credit you figured for the year. Oregon allows a

subtraction or itemized deduction for the amount of expenses you could not claim on your federal return. Subtract these expenses in the year you first claimed the federal credit, even if the federal credit is carried over. If you had to itemize your deductions to claim these expenses for federal purposes, then you must itemize for Oregon as well.

**Part-year residents and nonresidents.** If your federal credit is related to a business not operated solely in Oregon, you must prorate your subtraction. Use the following formula to determine your Oregon subtraction or deduction:

$$\frac{\text{Oregon expenses}}{\text{Total expenses*}} \times \text{Expenses not allowed on your federal return}$$

If your federal credit is related to a business operated entirely in Oregon, you will not prorate your Oregon subtraction.

*\*Do not reduce by your federal credit.*

**Partnerships and S corporations.** If your federal credit is from a partnership or S corporation, you may subtract a percentage of the expenses not deductible on your federal partnership or S corporation return. This amount will usually be the same as the percentage of total partnership or S corporation income you report on your return. Nonresidents or part-year residents must use the percentage explained in the previous paragraph to further prorate the expenses.

## Foreign income tax ORS 316.690

**[Subtraction code 311]  
[Modification code 603]**

You can subtract taxes paid to a foreign country if on your **federal** return:

- You claimed a credit for taxes you paid to a foreign country, or
- You did not claim a credit for tax you paid to a foreign country **and** you did not claim the foreign taxes as an itemized deduction.

Your foreign tax **plus** your current federal tax (and any additional federal tax paid for a prior year) cannot be more than \$6,500 (\$3,250 if married filing separately) for 2016. The foreign tax portion of your federal tax subtraction cannot be more than \$3,000 (\$1,500 if married filing separately).

If you claimed foreign taxes as an itemized deduction on your federal return, you may claim them in full on your Oregon return as part of your itemized deductions. The amount shown on your federal Schedule A is not subject to the \$6,500 (\$3,250 if married filing separately) limit. If you claim the foreign taxes as an itemized deduction, you may not also claim them as a subtraction.

Your foreign tax subtraction is the smallest of:

- Your 2016 foreign tax, or
- The maximum 2016 federal tax subtraction of \$6,500 (\$3,250 if married filing separately) reduced by the sum of the 2016 federal tax you are claiming plus any prior year federal tax paid in 2016, or

- \$3,000 (\$1,500 if married filing separately).

Use the **Federal Tax Worksheet, Part C**, on page 68 to figure your foreign tax subtraction or deduction.

## Income on a composite return OAR 150-314-0515

**[Form OR-40-N/OR-40-P only: Subtraction code 341]**

If you are an electing owner of a pass-through entity (PTE), you may need to file a personal income tax return in addition to the Oregon composite return, Form OR-OC, that is filed on your behalf by the PTE. This is necessary when you have other Oregon-source income to report.

File Form OR-40-N if you have income not already reported on a Form OR-OC. Follow the instructions in our booklet for Form OR-40-N. Enter all income (including income reported on the Form OR-OC) in the federal column, line 17F, of your Form OR-40-N. Also, enter all Oregon-source income (including Oregon-source income reported on Form OR-OC) in the Oregon column, line 17S, of your Form OR-40-N. Because the income reported on Form OR-OC has already been taxed, you will subtract that amount in the federal and Oregon columns on Schedule OR-ASC-NP, in section 3. Identify the subtraction using code 341.

**Note:** Do not claim the tax paid on your behalf by the PTE as a payment on your Form OR-40-N. That payment was already used to pay the tax on the income reported on Form OR-OC.

For more information, see the Form OR-OC instructions or contact us.

## Individual Development Account ORS 316.848

**[Subtraction code 314]**

An Individual Development Account (IDA) is a matched savings account that builds the financial management skills of qualifying Oregonians while they save toward a defined goal. An IDA allows an individual in a lower-income household to accumulate assets tax-free. As the account holder, you make deposits to your own account. Your deposits are matched with private donations. Withdrawals made for a qualified purpose are tax free.

Qualified purposes include:

- Paying higher education expenses or medical expenses, or
- Purchasing a primary residence, or
- Saving for retirement, or
- Starting your own business.

Oregon allows a subtraction on your tax return for deposits you make to your IDA through the Neighborhood Partnership Fund. Your subtraction includes the interest earned on your IDA funds if the interest is included in your federal taxable income. Subtract the amount of the deposits made during the year, plus taxable interest earned, on Schedule OR-ASC or OR-ASC-NP, using subtraction code 314.

For more information about establishing an IDA, contact The Neighborhood Partnership Fund at 503-226-3001 or visit their website at [www.neighborhood-partnerships.org](http://www.neighborhood-partnerships.org).

## Interest and dividends on U.S. bonds and notes ORS 316.680(1)(a)

### [Subtraction code 315]

Did you include any interest or dividends from U.S. bonds and notes in your federal income? If so, you may subtract this income on your Oregon return. Common examples of U.S. government interest include savings bond and Treasury bill interest.

You may also subtract U.S. government interest (called state exempt-interest dividends) from regulated investment companies and pools of assets managed by a fiduciary. These include, but are not limited to, banks, savings associations, or credit unions. To qualify, the regulated investment company or pool of assets must invest in U.S. government securities. **These securities must be tax-exempt for Oregon.** The subtraction is limited to your share of the amount of interest actually earned from the qualifying U.S. government securities. See the list below.

You cannot subtract amounts when the U.S. government only guarantees the security. If you receive distributions from a retirement plan, you may not subtract pension income received from funds invested in U.S. government securities.

**Part-year residents and nonresidents.** You may claim the subtraction only for interest and dividends you included as income taxable by Oregon.

Any gain recognized for federal tax purposes on the sale of U.S. bonds and notes is also taxable by Oregon.

### If you claim related expenses

Special treatment is required if you claim expenses connected with U.S. bonds and notes as an itemized deduction. The expenses include interest on money borrowed to buy the bonds and notes. They also include expenses incurred in the production of income from the bonds and notes. Oregon does

not tax the income from these bonds and notes, so it doesn't allow a deduction for the expenses. You must reduce your subtraction by the amount of the expenses you deducted on your federal return.

**Example:** Charles earned \$620 of interest income from his Series EE bonds. He had borrowed \$6,000 to buy the bonds. During the year he paid \$200 interest on the loan. He included the \$200 interest expense as an itemized deduction on his Schedule A. His Oregon subtraction will be \$420.

Series EE bond interest received.	\$620
Interest expense connected with bonds and deducted on Schedule A.	-200
Oregon subtraction.	<u>\$420</u>

Below is a detailed list of bonds and notes that may or may not qualify for this subtraction. For a list of obligations that are exempt from both state and federal taxation, see page 60.

### QUALIFIES BOND/NOTE

Yes	Banks for Cooperatives District of Columbia.
Yes	Commodity Credit Corporation.
No*	Export-Import Bank.
No	Farmers Home Administration.
Yes	Federal Deposit Insurance Corporation.
Yes	Federal Farm Credit Bank.
Yes	Federal Financing Bank.
No	Federal Home Loan Mortgage Corporation (Freddie Mac).
Yes	Federal Home Loan Bank.
Yes	Federal Intermediate Credit Bank.
Yes	Federal Land Bank and Federal Land Bank Association.
No	Federal National Mortgage Association (Fannie Mae).
Yes	Federal Savings and Loan Insurance Corporation.
No	Federal tax refunds.
Yes	Financing Corporation (FICO).
Yes	General Insurance Fund.
No*	Government National Mortgage Association (Ginnie Mae).
Yes	Government Services Administration (GSA Public Building Trust Participation Certificate).
No	International Bank for Reconstruction and Development.
Yes	Production Credit Association (PCA).

Yes	Resolution Funding Corporation (REFCO).
No	Repurchase agreements (Repos).
Yes	Series EE, HH, and I Bonds.
No*	Small Business Administration.
Yes	Student Loan Marketing Association (Sallie Mae).
Yes	Tennessee Valley Authority.
Yes	Treasury bills and notes—interest.
No	Treasury bills and notes—gain on sale.
No	U.S. Merchant Marine bonds.
Yes	U.S. Postal Service bonds.
No*	Washington (D.C.) Metropolitan Transit Authority.
Yes	Zero coupon obligations of the U.S. (for example, “CATs,” “STRIPS,” “TIGRs,” etc.).

*\*If the creditor has defaulted and the U.S. government/Export-Import Bank is paying the interest, it is nontaxable.*

### Land donations to educational institutions carryforward ORS 316.852

#### [Subtraction code 316]

This provision expired December 31, 2007. However, if you had a qualifying donation or sale prior to that date, you may still have contribution amounts to carryforward.

The subtraction allowed in any tax year is limited to a specific percentage of your contribution base. Your contribution base is federal adjusted gross income computed without any net operating loss carryback.

If you **donated** land to a qualified entity, your Oregon subtraction cannot be more than 50 percent of your contribution base.

If you **sold** land to a qualified entity for less than its fair market value, the Oregon subtraction cannot be more than 25 percent of the contribution base.

**Example 1:** In tax year 2007, Marykate has a contribution base of \$100,000. She sells land with a fair market value of \$500,000 to a local school district for \$200,000 cash. Marykate’s contribution of \$300,000 is limited to 25 percent of her contribution base. In 2007 Marykate can claim an Oregon subtraction of \$25,000.

**Carryforward.** You can carry forward for a maximum of 15 years any contribution you do not subtract because it is more than the specified percentage of the

contribution base. Any contributions not subtracted by 2022 will be lost.

**Example 2:** Using the same facts as in Example 1, Marykate can carry forward her remaining \$275,000 contribution to the next tax year. Her subtraction will be limited by her contribution base for 2008 and each year thereafter.

### Local government bond interest ORS 286A.140

#### [Subtraction code 317]

You can subtract interest or dividends on obligations of counties, cities, districts, ports, or other public or municipal corporations or political subdivisions of Oregon to the extent included for federal income tax purposes.

Reduce the amount subtracted by any interest on debt incurred to carry the obligations or securities. Also reduce the amount by any expenses incurred in the production of interest or dividend income.

### Lottery winnings ORS 461.560

#### [Subtraction code 322]

Oregon will not tax your winnings from an Oregon Lottery ticket or play that results in winnings of \$600 or less. Individual Oregon Lottery winnings of more than \$600 **per ticket or play** are taxed by Oregon and are not eligible for the subtraction.

“Oregon Lottery” means all games offered by the Oregon State Lottery commission and purchased in Oregon, including games jointly administered by Oregon and other states (such as Powerball). Oregon Lottery does not include gambling winnings from other sources, such as tribal gaming centers.

Winnings over \$600 from a single ticket or play are fully taxable and may be reported by the Oregon State Lottery on Form W-2G. Lottery winnings that are more than \$5,000 will have eight percent withheld for Oregon taxes. If state income tax was not withheld from your gambling winnings of \$5,000 or more, you should consider making estimated tax payments or increasing your withholding. To increase your Oregon withholding, file a separate Form W-4 with your employer. Write “For Oregon only” on the form.

Do you have gambling losses claimed as an itemized deduction? If so, see the **Additions** section for information about your Oregon addition. If you are an American Indian, see page 63.

**Example:** Margaret purchased two Oregon Lottery tickets and won \$1,000 on one ticket and \$500



on the other. She also won \$300 from a lottery ticket she bought in Idaho, and \$150 on a slot machine at an Oregon casino. Margaret included all \$1,950 in winning on her federal return. Margaret can subtract \$500 of her Oregon Lottery ticket winnings on her Oregon return using subtraction code 322.

**Nonresidents:** Oregon Lottery winnings are taxable to nonresidents. Oregon Lottery winnings included in federal taxable income are eligible for the subtraction when winnings per ticket or play are \$600 or less.

**Exception for pre-1998 tickets:** You may subtract all Oregon Lottery winnings included in your federal income from tickets purchased prior to January 1, 1998. Did you assign your lottery winnings to a private company and receive a lump-sum settlement? If so, your settlement is not taxable by Oregon if your winning ticket was purchased before January 1, 1998. Winnings from tickets purchased on or after January 1, 1998 are fully taxable.

## Manufactured dwelling park capital gain exclusion

### Notes following ORS 316.792

#### [Subtraction code 338]

Amounts received from the sale of a manufactured dwelling park to certain organizations are exempt from Oregon income tax.

If you included this gain in income on your federal return, you may claim a subtraction for the gain amount on your Oregon return. Enter the amount on Schedule OR-ASC or OR-ASC-NP using subtraction code 338.

To qualify, the park must have been sold to a tenants' association nonprofit organization, community development corporation, or a housing authority.

## Manufactured dwelling park payments ORS 316.795

#### [Subtraction code 344]

Payments received from your former landlord because your manufactured dwelling park is being closed are exempt from state taxation. These payments must have been included in your federal income in order to be subtracted on your Oregon return.

## Marijuana business expenses ORS 316.680(1)(i)

#### [Subtraction code 359]

Did you operate a business in 2016 as a medical marijuana dispensary or as a producer, processor, wholesaler, or retailer of medical or recreational marijuana with a license issued by the Oregon Health Authority or the Oregon Liquor Control Commission (OLCC) under ORS Chapter 475B? If so, you may subtract certain business expenses on your Oregon return that you can't deduct on your federal return due to Section 280E of the Internal Revenue Code.

Section 280E keeps you from deducting business expenses on your federal return, other than the cost of goods sold, if your business involves the cultivation, manufacture, distribution or sale of certain-controlled substances. Oregon law, however, allows a subtraction for the same ordinary and necessary expenses you incur for your business that are allowed for other types of businesses operating in this state. If the expense would have been allowed for federal purposes, but your business falls under Section 812 of the Controlled Substances Act (21 U.S.C. §§ 801 et seq.), you are allowed a subtraction on your Oregon return.

See the instructions for the appropriate federal schedule for determining the net income from your business to be reported on your federal return. The schedule showing income after deductions allowed for federal will be submitted with your federal return. Complete a second Oregon-only schedule to determine the expense amount you can subtract on your Oregon return. Report this amount using code 359 on Schedule OR-ASC, Section 2 or Schedule OR-ASC-NP, Section 3. Keep the Oregon-only schedule with your tax records.

**Example 1:** Erin is licensed by the OLCC to sell marijuana in Oregon. She runs a store that sold medical and recreational marijuana products in 2016. Her gross sales for the year totaled \$750,000. After deducting \$350,000 in cost of goods sold, her gross profit was \$400,000, which she reported as business income on her federal Schedule C.

Along with paying the cost of the goods she sold, Erin had ordinary and necessary retail business expenses. She completed a second Schedule C for Oregon only and determined that her expenses, other than cost of goods sold, totaled \$150,000. She claims this amount as a subtraction using code 359 on Schedule OR-ASC.

**Example 2:** Matt grows marijuana in his garage and sells it to his coworkers and friends. He made \$50,000 from these sales in 2016. He spent \$15,000 on costs

of goods sold, and another \$10,000 in other ordinary and necessary business expenses. Matt doesn't have a license to produce or sell marijuana in Oregon, but he must file federal and Oregon tax returns to report his income. On his federal return, he must report \$50,000 in gross income and can deduct \$15,000 for the cost of the goods he sold. He can't deduct his other business expenses on his federal return. Matt also can't take an Oregon subtraction for those other business expenses because he doesn't have an OLCC license.

## Mortgage interest credit ORS 316.716

[Subtraction code 320]

[Modification code 607]

1. Did you claim a mortgage interest credit on your federal return?
2. Did you claim your mortgage interest as an itemized deduction on federal Schedule A?
3. Did you reduce your mortgage interest deduction by the federal mortgage interest credit?
4. Are you also claiming these itemized deductions for Oregon?

If you answered "yes" to all four questions, you may have a subtraction for mortgage interest on the Oregon return. You will claim a subtraction for the amount of mortgage interest credit allowed on your federal return.

Take the subtraction in the year of the payment even if the federal credit is carried forward.

**Example 1:** Shawn and Phillip pay \$5,000 in mortgage interest this year. They are entitled to a 50 percent credit limited to \$2,000 on their federal return. They will claim the \$2,000 credit and itemize \$3,000 of mortgage interest on Schedule A. For Oregon, they will claim a subtraction of \$2,000.

**Example 2:** Use the same facts as Example 1, except that Shawn and Phillip's federal tax liability is \$1,500. They will show the \$1,500 as a credit on their federal return, itemize \$3,000 of mortgage interest on Schedule A, and have a \$500 credit to carry over to the following year. Their Oregon subtraction for mortgage interest will be \$2,000. They will not carry forward any amount for Oregon.

## Oregon 529 College Savings Network ORS 316.699

[Subtraction code 324]

You can subtract contributions you made to an Oregon 529 College Savings Network account during the

tax year of up to \$4,620 if you file a joint return (\$2,310 for all others). These state-sponsored plans qualify for special tax status as qualified tuition programs under Internal Revenue Code Section 529.

Account holders can save money for college for any designated beneficiary. Once you open an account and select an investment option, the Oregon 529 College Savings Network board and the private investment company manage your investment.

You can subtract your contribution if you made it before the date you file your tax return or before the due date of your return, without extensions, **whichever is earlier**.

**Note:** The combined total of your ABLE account and Oregon 529 Plan subtractions cannot be more than the annual amount shown above.

**Rollovers.** If you have a 529 College Savings Network in another state and you roll it into an Oregon 529 College Savings Network, the rollover qualifies as a new contribution for purposes of the subtraction. However, you can't subtract any amount rolled over from an Individual Development Account.

**Example 1:** Bella would like to contribute to her niece's Oregon 529 College Savings Plan. She plans to request an extension to file her 2016 return. For Bella to qualify for the \$2,310 subtraction, she must make a contribution of at least that amount no later than the due date of her return, without extensions. Bella must make her contribution by April 18, 2017.

**Example 2:** Rodrigo made a contribution of \$1,800 to his son's Oregon 529 College Savings Plan on March 10, 2017. He filed his 2016 tax return on March 3, 2017. Because he made his contribution after he filed his 2016 return, he cannot claim the \$1,800 subtraction on that return. He can claim the subtraction on his 2017 return.

**Carryforward.** If you make a contribution of more than the maximum allowable subtraction in one year, you may carry forward the amount not subtracted over the next four years.

**Example 3:** Korey and Keri contributed \$15,000 in 2016 to an Oregon 529 College Savings plan for their son. They may subtract a maximum of \$4,620 on their 2016 return. They can carry forward the remaining \$10,380 balance of their contribution for up to four years.

Funds withdrawn to pay qualified expenses will not be taxed. Qualified withdrawals include expenses for tuition, fees, books, supplies, equipment, and room and board at an eligible educational institution anywhere in the United States and foreign countries. A list of the United States and foreign schools that

qualify is on the U.S. Department of Education website at [www.fafsa.ed.gov](http://www.fafsa.ed.gov).

You may need to add back funds withdrawn for a nonqualified purpose to the Oregon return as an addition to your taxable income. See the **Additions** section.

For more information about Oregon 529 plans, go to [www.oregoncollegesavings.com](http://www.oregoncollegesavings.com) or call 1-866-772-8464.

## Oregon income tax refund ORS 316.695

### [Subtraction code 325]

Oregon allows a subtraction for Oregon state income tax refunds included in federal income. Oregon does not allow a subtraction for any other state income tax refund.

## Oregon Investment Advantage ORS 316.778

### [Subtraction code 342]

Oregon has an income tax exemption program for business development in Oregon. The program is available to both new and expanding businesses.

### Who is eligible for the exemption?

The exemption is an 8-year waiver of all income and excise taxes relating to qualifying business operations. The Oregon Economic and Community Development Department (OECDD) administers this program.

To qualify, a company must create at least five new full-time, year-round jobs. The jobs also have minimum pay requirements. Facility operations must be the first of their kind in Oregon for the company and they must not compete with existing businesses in the area. Areas of Oregon that qualify for development can change from year to year. Local unemployment rates and per capita income data determine eligibility. For a list of qualifying counties, go to [www.oregon4biz.com](http://www.oregon4biz.com).

### How is a facility certified?

There are two application forms necessary for this program. A preliminary certification is completed before hiring or any construction work is done. An annual certification is then completed for each of the 8 years that the income tax exemption is claimed. To find out more about this program or download an application form, contact OECDD at [www.oregon4biz.com](http://www.oregon4biz.com).

## How is the subtraction computed?

The exempt income is determined by multiplying the taxpayer's federal taxable income by the ratio of their federal adjusted gross income (FAGI) derived from the business over their total FAGI.

The resulting amount is then multiplied by the ratio of the business' income derived from the business' sales at the certified facility over its sales from all business activities. This amount is subtracted from Oregon income using subtraction code 342.

**Nonresident and part-year resident** taxpayers determine exempt income by multiplying only Oregon-sourced federal taxable income in the first step of the computation above.

For additional information on determining income derived from qualifying activities, see OAR 150-316-0600.

## Previously taxed employee retirement plans ORS 316.159

### [Subtraction code 327]

Oregon allows residents to subtract payments from an individual retirement account (IRA), Keogh plan, Simplified Employee Pension (SEP) plan, and certain government plans if another state has already taxed contributions or a portion of the contributions to the plan.

The payments must be included in federal adjusted gross income. **All** of the following conditions must be met for the contributions to qualify:

- Contributions were made while a nonresident of Oregon.
- No previous state income tax deduction, exclusion, or exemption was allowed or allowable at the time contributions were made.
- No previous state income tax deduction, exclusion, credit, subtraction, or other tax benefit has been allowed for the contributions.
- Contributions have been taxed by another state.

The subtraction continues until all qualifying contributions are recovered.

A statement from the payer showing your total contributions and the start date of your benefits will help you figure your subtraction. Keep this statement with your tax records.

**Example 1:** Judith lived in California. From 1980 to 1996 she contributed to an IRA. In 1980 and 1981 she contributed \$1,500 each year. From 1982 through 1996 she contributed \$2,000 each year.

Both federal and California allowed a maximum deduction of \$1,500 for 1980 and 1981. For 1982 through 1986, federal allowed a maximum of \$2,000,

and California allowed a maximum of \$1,500. Both federal and California allowed a maximum of \$2,000 for 1987 through 1996.

Judith contributed \$2,500 ( $\$500 \times 5$  years) from 1982 through 1986 that she was not allowed to deduct on her California returns.

Judith retired and moved to Oregon in November 2016. She receives payments of \$1,000 a month from the California IRA. These payments are subject to Oregon tax because she is now an Oregon resident. However, Oregon will allow Judith to subtract the contributions that California has already taxed (\$2,500).

Judith received two payments of \$1,000 in 2016 for a total of \$2,000. She can subtract the entire \$2,000 on her 2016 Oregon return. In 2017, she will be able to subtract the balance of \$500 ( $\$2,500 - 2,000$ ) as long as she receives at least that much from her California IRA. From that point on, no subtraction on the Oregon return for recovery of contributions is allowed.

**Example 2:** Use the same facts as in Example 1, except Judith lived and worked in Washington before moving to Oregon. When she made contributions, she was allowed a federal deduction each year. However, she didn't get a state tax deduction, because Washington does not have an income tax. After retiring and moving to Oregon, Judith receives the same payments as above. She does not qualify for the Oregon subtraction because her contributions were not taxed by another state.

## Previously taxed IRA conversions ORS 316.680(1)(f)

### [Subtraction code 348]

Oregon allows a subtraction for converting a traditional individual retirement account (IRA) to a Roth IRA, if the IRA is taxed by another state. You must include the payments in federal taxable income to claim the subtraction.

**Example:** Susan lived in New York in March 2016, when she converted her \$100,000 traditional IRA to a Roth IRA.

In September, she moved to Oregon. New York state will tax her IRA when she becomes a nonresident. Susan can subtract the amount included in federal income when she files her 2016 Oregon tax return.

## Public Safety Memorial Fund Awards ORS 316.680(1)(g)

### [Subtraction code 329]

Amounts awarded to you by the Public Safety Memorial Fund Board may be subtracted from Oregon income. The award must be included in federal taxable income to claim the subtraction.

Public Safety Memorial Fund Awards are for public safety officers with certain job-related permanent total disabilities. These awards are also available to family members of a public safety officer who is killed in the line of duty or while interceding in a crime.

## Railroad Retirement Board benefits ORS 316.054

### [Subtraction code 330]

The Railroad Retirement Act of 1974 prohibits states from taxing certain railroad benefits. This act pertains to all benefits issued by the **Railroad Retirement Board (RRB)**. Oregon allows a subtraction for Tier 1 RRB benefits (the same as for Social Security benefits). Oregon Administrative Rule 150-316-0065 extends the subtraction to the other supplemental RRB benefits including Tier 2, windfall, vested dual, supplemental annuities, unemployment, and sickness.

**Tier 1 benefits.** Tier 1 benefits are reported like Social Security on your federal return. Subtract these benefits with Social Security on the Oregon return.

**Tier 2, windfall, vested dual, supplemental annuities, unemployment and sickness paid by the RRB.** These benefits are reported as wages or on the private pension line of your federal return. Subtract these benefits using subtraction code 330 on Schedule OR-ASC, Section 2 or Schedule OR-ASC-NP, Section 3.

**Other benefits.** A retired railroad employee may receive other retirement benefits from their employer. Benefits paid by private railroad employers are private pensions taxed the same on both the federal and Oregon returns. There is **no Oregon subtraction** for retirement benefits paid by private railroad employers.

Only benefits paid by the RRB qualify for the subtraction. RRB benefits are reported on a 1099 form, except for sickness benefits, which are reported on Form W-2. All 1099s, other than 1099-G for RRB unemployment benefits, are labeled **Form RRB-1099-R**. More information on RRB benefits is available on the board's website at [www.rrb.gov](http://www.rrb.gov).

## Scholarship awards used for housing expenses ORS 316.846

### [Subtraction code 333]

You can subtract scholarships used for housing expenses from Oregon income. You must include the scholarship in federal taxable income for the year to claim the subtraction.

You can claim the subtraction if the scholarship was awarded to you or your dependent. You can subtract only the amount used for housing expenses for the scholarship recipient. The recipient must attend an accredited community college, college, university, or other institution of higher education.

You may not take a subtraction for expenses that are deducted on your federal income tax return for the year. Your subtraction cannot be more than the amount of scholarship income included in federal taxable income. There is no carryforward allowed.

## Social Security benefits ORS 316.054

Oregon does not tax Social Security benefits. Any Social Security benefits included in your federal adjusted gross income are subtracted on your Oregon return.

## Special Oregon medical subtraction ORS 316.693

### [Subtraction code 351]

If you or your spouse are age 64 or older on December 31, 2016 and have qualifying medical and/or dental expenses, you may qualify for the special Oregon medical subtraction. See IRS Publication 502 for types of qualifying medical and dental expenses. You **cannot** subtract medical or dental expenses:

- For anyone under age 64;
- For dependents, regardless of their age; or
- That have already been deducted on the return.

You may not claim a subtraction if your federal adjusted gross income exceeds \$200,000 (\$100,000 for those who file as single or married filing separately). Use the worksheet and table below to determine the amount of your subtraction.

**Shared Expenses.** Did you have medical and/or dental expenses for more than one person? If so, you must determine which expenses belong to each qualifying taxpayer. Start by totaling all expenses for each qualifying taxpayer. If you have expenses that are for more than one person, such as premiums

for a shared insurance policy, split the expenses by the most reasonable method. A reasonable method for splitting the shared costs of an insurance policy includes splitting the total cost of the policy by the number of individuals covered. For example, divide the premiums for an insurance policy covering two adults by two. If the number of children covered on an insurance policy does not affect the price of the policy, it is reasonable to count all children on the policy as one individual. For example, divide the premiums for a policy covering two adults and four children by three.

**Example 1:** Chloe and Sam were ages 67 and 62 on December 31, 2016. They filed a joint return with one dependent (Sam's mother), federal adjusted gross income of \$55,000, and itemized deductions for Oregon. During 2016, they paid \$5,700 in medical expenses. Of that, they paid \$1,300 for Chloe's expenses and \$1,100 for Sam's expenses. They also paid \$1,300 for Sam's mother and \$2,000 in premiums for a joint insurance policy for Chloe and Sam. Only Chloe's expenses of \$2,300 (\$1,300 + \$1,000 for half of the insurance premiums) qualify for the special Oregon medical subtraction because Sam does not meet the age requirement and Sam's mother is a dependent.

**Example 2:** Peter is 65 years old, self-employed, and itemizes his deductions for Oregon. Peter claimed \$3,200 in medical expenses on federal Schedule A and \$2,500 on his federal Form 1040 for self-employed medical insurance premiums. Peter was able to deduct 100% of his self-employed medical insurance premiums on his federal return. Only the medical expenses Peter claimed on Schedule A will be used to calculate his special Oregon medical subtraction because they have not been fully deducted. To calculate his subtraction, Peter's total qualifying medical and dental expenses are \$3,200, the amount claimed on Schedule A. The worksheet will help him calculate the amount of his subtraction.

## Special Oregon medical subtraction worksheet instructions

**Line 1—Medical and dental expenses for each taxpayer:** Enter the expenses attributable to each taxpayer. See "Shared expenses" for information about splitting expenses, such as insurance premiums.

**Line 1, column (A):** If you were age 64 or older on December 31, 2016, enter **your** total qualifying medical and dental expenses. If your medical expenses were not included in your itemized deductions (Schedule A, line 1), or you didn't itemize your deductions, skip lines 2 - 4, enter the amount from line 1 on line 5, and go to line 6. If you don't have qualifying expenses or were not age 64 or older on December 31,

2016—**STOP**—do not complete column (A). You do not qualify for the subtraction.

**Line 1, column (B):** If your spouse was age 64 or older on December 31, 2016, and you're filing jointly, enter your **spouse's** total qualifying medical and dental expenses. If your spouse's medical expenses were not included in your itemized deductions (Schedule A, line 1), or you didn't itemize your deductions, skip lines 2–4, enter the amount from line 1 on line 5, and go to line 6. If your spouse does not have qualifying expenses or was not age 64 or older on December 31, 2016—**STOP**—do not complete column (B). Your spouse does not qualify for the subtraction.

**Line 2, columns (A) & (B)—Total medical and dental expenses:** Enter the total medical and dental expenses you claimed as an itemized deduction (Schedule A, line 1), even if they are for a spouse or dependent that doesn't qualify. If your spouse meets the age requirement and has qualifying expenses, enter the same amount on line 2, column (B).

**Line 3, columns (A) & (B):** Divide line 1 by line 2 for column (A) if you qualify, and/or column (B) if your spouse qualifies, and round to three decimal places. For example: 0.7308 is rounded to 0.731

**Line 4, columns (A) & (B):** Enter the lesser of the medical and dental expenses claimed on line 1 of your

Schedule A or the amount claimed on line 3 of your Schedule A. If your spouse qualifies, enter the same amount in column (B).

**Line 5, columns (A) & (B):** Multiply line 3 and line 4 for each column and round to whole dollars. For example: \$101.49 is rounded to \$101. If you did not itemize your deductions, enter the amount from line 1 of this worksheet.

**Line 6, columns (A) & (B):** Enter the maximum allowable medical subtraction for your filing status and federal adjusted gross income from the table on this page. Do not enter more than \$1,800. If your spouse qualifies, enter the same amount in column (B).

**Line 7, columns (A) & (B):** Enter the lesser of line 5 or line 6 for each column.

**Line 8:** Add the amounts from line 7 column (A) and column (B).

**Full-year residents.** This is your special Oregon medical subtraction. Enter this amount using subtraction code 351 on Schedule OR-ASC, Section 2.

**Part-year residents and nonresidents.** Enter the full amount from Line 8 using subtraction code 351 in both the federal and Oregon columns of Schedule OR-ASC-NP, Section 3.

**Special Oregon medical subtraction worksheet:**

	Column (A) You	Column (B) Spouse
1. Medical and dental expenses for each qualifying taxpayer.	1. \$ _____	\$ _____
2. Total medical and dental expenses (Schedule A, line 1).	2. \$ _____	\$ _____
3. Divide line 1 by line 2 and round to three decimal places.	3. _____	_____
4. Enter the lesser of the expenses claimed on line 1 of your Schedule A, or the amount claimed on line 3 of your Schedule A.	4. \$ _____	\$ _____

5. Multiply line 3 by line 4 and round to whole dollars.	5. \$ _____	\$ _____
6. Maximum allowable medical subtraction from the table (\$1,800 max).	6. \$ _____	\$ _____
7. Enter the lesser of line 5 or line 6.	7. \$ _____	\$ _____
8. Add line 7, columns (A) and (B), and enter the total. This is your special Oregon medical subtraction.	8. \$ _____	

If your filing status is:	and your federal adjusted gross income from line 7 of Form 40 or line 29F of Form 40N or 40P is:		then your maximum allowable medical subtraction per taxpayer meeting the age requirement is:
	at least—	but less than—	
Married filing jointly, or Head of household, or Qualifying widow(er)	-0-	\$50,000	\$1,800
	\$50,000	\$100,000	\$1,400
	\$100,000	\$200,001	\$1,000
	\$200,001 or more		-0-
Single or Married filing separately	-0-	\$25,000	\$1,800
	\$25,000	\$50,000	\$1,400
	\$50,000	\$100,001	\$1,000
	\$100,001 or more		-0-

**Example 3:** Leah and Tyler are ages 67 and 61 on December 31, 2016. They file a joint return with federal adjusted gross income of \$35,000 and itemize their deductions for Oregon. During 2016, they paid \$4,700 in medical and dental expenses claimed on Schedule A, line 1. Of that, \$1,600 are Leah's expenses, \$2,000 are Tyler's expenses, and \$1,100 are premiums for a medical insurance policy covering both of them. Only Leah's expenses qualify for the special Oregon medical subtraction since she met the age requirement as of December 31, 2016. Leah's expenses are \$1,600 plus \$550 for her share of the premiums for a total of \$2,150. Leah and Tyler will use the special Oregon medical subtraction worksheet to calculate their subtraction as follows:

	Column (A) Leah	Column (B) Tyler
1. Medical and dental expenses for each qualifying taxpayer.	1. <u>\$2,150</u>	\$ _____
2. Total medical and dental expenses (Schedule A, line 1).	2. <u>\$4,700</u>	\$ _____
3. Divide line 1 by line 2 and round to three decimal places.	3. <u>0.457</u>	_____
4. Enter the lesser of the expenses claimed on line 1 of your Schedule A, or the amount claimed on line 3 of your Schedule A.	4. <u>\$3,500</u>	\$ _____

5. Multiply line 3 by line 4 and round to whole dollars. 5. \$1,600 \$ \_\_\_\_\_
6. Maximum allowable medical subtraction from the table (\$1,800 max). 6. \$1,800 \$ \_\_\_\_\_
7. Enter the lesser of line 5 or line 6. 7. \$1,600 \$ \_\_\_\_\_
8. Add line 7, columns (A) and (B), and enter the total. This is your special Oregon medical subtraction. 8. \$1,600

Leah and Tyler will claim \$1,600 on Schedule OR-ASC using subtraction code 351.

**Example 4:** Kenneth and Sophia were both age 66 on December 31, 2016 and file a joint return with federal adjusted gross income of \$78,000. Kenneth and Sophia had \$12,300 in unreimbursed medical and dental expenses during 2016. They are self-employed and claimed \$3,400 for self-employed health insurance premiums on line 29 of their federal Form 1040. They also claimed \$8,900 on line 1, and \$5,850 (\$78,000 x 7.5%) on line 3 of their federal Schedule A. Of the amount claimed on Schedule A, \$1,200 was for Kenneth's expenses and \$7,700 was for Sophia's expenses. Kenneth and Sophia can claim \$2,190 as a special Oregon medical subtraction calculated as follows:

	Column (A) Kenneth	Column (B) Sophia
1. Medical and dental expenses for each qualifying taxpayer.	1. <u>\$1,200</u>	<u>\$7,700</u>
2. Total medical and dental expenses (Schedule A, line 1).	2. <u>\$8,900</u>	<u>\$8,900</u>
3. Divide line 1 by line 2 and round to three decimal places.	3. <u>0.135</u>	<u>0.865</u>
4. Enter the lesser of the expenses claimed on line 1 of your Schedule A, or the amount claimed on line 3 of your Schedule A.	4. <u>\$5,850</u>	<u>\$5,850</u>

- |   |            |         |
|---|------------|---------|
| 5. Multiply line 3 by line 4 and round to whole dollars.  | 5. \$790   | \$5,060 |
| 6. Maximum allowable medical subtraction from the table (\$1,800 max).                                    | 6. \$1,400 | \$1,400 |
| 7. Enter the lesser of line 5 or line 6.  | 7. \$790   | \$1,400 |
| 8. Add line 7, columns (A) and (B), and enter the total. This is your special Oregon medical subtraction. | 8. \$2,190 |         |

Because Kenneth and Sophia were able to deduct the entire amount of their self-employed health insurance premiums on their federal return, they do not include that amount in the calculation for their special Oregon medical subtraction. Their subtraction is limited to the lesser of the amount allowed from the table for each individual, or their own medical expenses that have not been previously deducted. Kenneth and Sophia's subtraction is \$2,190 (\$790 of Kenneth's expenses that have not been previously deducted, and \$1,400, the maximum amount allowed Sophia).

**Example 5:** Margaret is age 67 on December 31, 2016, single, and has a federal adjusted gross income of \$27,000. During 2016, Margaret paid \$1,200 in qualifying medical expenses for herself, and \$1,600 in medical expenses for her dependent 9-year-old granddaughter. Margaret does not itemize her deductions because her standard deduction is greater than her itemized deductions for Oregon. Margaret uses the worksheet to calculate her special Oregon medical subtraction as follows:

	Column (A) Margaret	Column (B) Spouse
1. Medical and dental expenses for each qualifying taxpayer.	1. \$1,200	\$
2. Total medical and dental expenses (Schedule A, line 1).	2. \$	\$
3. Divide line 1 by line 2 and round to three decimal places.	3. _____	_____

- |   |            |    |
|---|------------|----|
| 4. Enter the lesser of the expenses claimed on line 1 of your Schedule A, or the amount claimed on line 3 of your Schedule A. | 4. \$      | \$ |
| 5. Multiply line 3 by line 4 and round to whole dollars.  | 5. \$1,200 | \$ |
| 6. Maximum allowable medical subtraction from the table (\$1,800 max).  | 6. \$1,400 | \$ |
| 7. Enter the lesser of line 5 or line 6.  | 7. \$1,200 | \$ |
| 8. Add line 7, columns (A) and (B), and enter the total. This is your special Oregon medical subtraction.                     | 8. \$1,200 |    |

The medical expenses paid by Margaret for her 9-year-old granddaughter do not qualify for the subtraction because she is a dependent.

**Example 6:** Same as Example 5, except that Margaret is not an Oregon resident.

She enters \$1,200 in both the federal column and in the Oregon column of Schedule OR-ASC-NP, Section 3, using subtraction code 351.

## Taxable benefits for former RDPs OAR 150-316-0009

### [Subtraction code 347]

If you and your registered domestic partner (RDP) were legally married or dissolved your partnership during the year, you may be allowed an Oregon subtraction for the imputed value of certain fringe benefits provided by your employer for your RDP for the part of the year you were still registered domestic partners. These benefits typically include, but are not limited to, health insurance and tuition payments. You must have included the imputed value of the benefits in your federal income to claim the Oregon subtraction. The imputed value will be included in the total compensation (Box 1) shown on your Form W-2.

**Example 1:** Ruth and Jan entered into an RDP on February 1, 2012. They were then legally married on June 16, 2016. Ruth and Jan must file their 2016 tax return as married filing jointly for both federal and Oregon purposes. They will not file an "as-if" federal return. Instead, they will attach their actual federal return to



their Oregon return. Ruth's employer provides health insurance benefits for Jan, and the imputed value of those benefits were included in Box 1 of Ruth's 2016 W-2 for the portion of 2016 that Ruth and Jan were not married (January 1st through June 15th). Ruth may claim a subtraction (code 347) for the value of the imputed benefits included in federal income, as reported on her W-2.

## Tuition and fees ORS 316.716(3)

### [Subtraction code 308]

You may qualify to claim either of the following on your federal return:

- An adjustment of up to \$4,000 for qualified tuition and fees paid, or
- The American Opportunity credit or the Lifetime Learning credit.

If you qualify for and claim the federal income adjustment of up to \$4,000 for qualified tuition and fees, do not claim a subtraction on your Oregon return. Your federal deduction flows through to your Oregon return via your federal adjusted gross income.

Did you claim the federal American Opportunity credit or the Lifetime Learning credit? If so, you may be able to claim an Oregon subtraction for the amount you could have claimed as an adjustment to income on your federal return, had you elected to claim the deduction for qualified tuition and fees.

You cannot claim the subtraction if:

- You file married filing separately;
- You can be claimed as a dependent by another person; or
- Your **federal** modified adjusted gross income (MAGI) exceeds the limitations for the federal tuition and fees deduction as stated on federal Form 8917.

**Example 1:** Tom paid \$6,000 in tuition and fees for his son Adam's higher education this year. Tom elected to claim the American Opportunity credit of \$1,500 on his federal return. On his Oregon return, Tom will claim a subtraction of \$4,000 for qualified tuition and fees. Tom would have been allowed \$4,000 as a deduction on his federal return if he hadn't elected to claim the American Opportunity credit.

**Example 2:** This year Dawn paid \$2,200 college tuition for her daughter Camille and \$2,400 college tuition for her daughter Delaney. On her federal return, Dawn deducted the maximum \$4,000 tuition and fees. Because Dawn claimed the adjustment to

income on her federal return, she can't claim a subtraction on the Oregon return.

**Example 3:** Mr. and Mrs. Wren paid a total of \$6,000 in qualified tuition expenses this year. They paid \$2,000 of college tuition for each of their sons, Nelson, Jose, and Chester. On the Wrens' federal return, they claimed a \$2,000 adjustment to income for Nelson's tuition, a \$1,500 American Opportunity credit for Jose's tuition, and a \$1,500 American Opportunity credit for Chester's tuition. On their Oregon return, they will claim a subtraction for tuition and fees of \$2,000.

Here's how they figure their Oregon subtraction: The maximum subtraction allowable is \$4,000. This is the same maximum amount allowed on the federal return. Even though the Wrens paid \$6,000 in tuition and fees, they must reduce their allowable subtraction by any amount they already deducted on the federal return. They already deducted \$2,000 for Nelson's tuition. This flows through to the Oregon return in federal adjusted gross income. Remaining is \$2,000 (\$4,000 - \$2,000) to be subtracted on the Oregon return. Combining the Oregon subtraction with the federal deduction, the Wrens have reduced their Oregon income by \$4,000 of tuition and fees.

**Education recapture.** If you are required to recapture a federal education credit on a later federal return, you may need to amend your Oregon return to reduce the subtraction you claimed. See **Amended returns** for more information.

## U.S. government interest in IRA or Keogh distribution ORS 316.681

### [Subtraction code 331]

Interest and dividends on U.S. bonds and notes are exempt from state tax. See page 71. Answer the questions below to see if you have a subtraction on your Oregon return for exempt income related to your retirement distributions.

1. Did you have any distributions from a self-employed retirement plan or an individual retirement account (IRA)?
2. Was any part of your self-employed retirement plan or your IRA invested in U.S. bonds and notes?
3. Did you include your self-employed retirement plan or IRA distribution in your 2016 federal adjusted gross income (AGI)?

If you answered "yes" to **all** the questions above, you may take a subtraction on Schedule OR-ASC or OR-ASC-NP, using subtraction code 331, for the

retirement plan exempt earnings included in your distribution.

Use the worksheet below to calculate your subtraction.

**Worksheet**

1. Total account balance at year end. 1. \_\_\_\_\_
2. Current year distributions. 2. \_\_\_\_\_
3. Line 1 plus line 2. 3. \_\_\_\_\_
4. Total exempt earnings on account at year end. 4. \_\_\_\_\_
5. Total exempt part of distributions from all prior years. 5. \_\_\_\_\_
6. Line 4 minus line 5, but not less than -0-. 6. \_\_\_\_\_
7. Line 6 divided by line 3. Oregon exempt ratio. 7. \_\_\_\_\_
8. Line 2 multiplied by line 7. Oregon exempt portion of current year's distribution. 8. \_\_\_\_\_

**Example:** Donna retired last year and began taking distributions of \$10,000 each year from her IRA. The IRA is invested in U.S. government securities so Donna uses the following information to calculate her subtraction for years 1 and 2:

	<b>Year 1</b>	<b>Year 2</b>
Current year earnings	\$4,000	\$5,000
Current year distribution	\$10,000	\$10,000
Account balance at 12/31	\$100,000	\$95,000
Total exempt earnings on account at 12/31	\$ 40,000	\$45,000

**Worksheet**

	<b>Year 1</b>	<b>Year 2</b>
1. Total account balance at year end.	\$100,000	\$95,000
2. Current year distribution.	+ 10,000	+ 10,000
3. Line 1 plus line 2.	<u>\$110,000</u>	<u>\$105,000</u>
4. Total exempt earnings on account at year end.	\$ 40,000	45,000
5. Total exempt part of distributions from all prior years.	<u>- -0-</u>	<u>- 3,636</u>
6. Line 4 minus line 5, but not less than zero.	<u>\$40,000</u>	<u>\$41,364</u>
7. Line 6 divided by line 3. Oregon exempt ratio.	<u>.3636</u>	<u>.3939</u>
8. Line 2 multiplied by line 7. Oregon exempt portion of current year's distribution.	<u>\$3,636</u>	<u>\$ 3,939</u>

# Other items

## Net operating losses (NOLs) for Oregon ORS 316.028

[Addition code 116] [Subtraction code 321]

An Oregon net operating loss (NOL) is figured the same as in Internal Revenue Code (IRC) Section 172(c). You may have an Oregon NOL without having a federal NOL, or vice versa. Your Oregon NOL is computed under the federal method and definitions using Oregon sources **without** Oregon modifications, additions, and subtractions. The only Oregon modification necessary is to subtract prohibited amounts.

### Prohibited amounts

Amounts Oregon is prohibited from directly or indirectly taxing include interest earned from Treasury bonds, Treasury notes, and other obligations of the United States.

### Carryback and carryforward

For losses incurred in tax years beginning on or after January 1, 2003, the Oregon carryback and carryforward provisions match the IRS.

Oregon does not allow an NOL from a non-Oregon source that occurred while you were a nonresident.

### Federal depreciation disconnect

If you had an NOL in 2009 or 2010 and also claimed depreciation or expensing not allowed by Oregon, your future year subtractions are reduced by the amount already included in the NOL. See **Depreciation and Amortization** on page 86 for additional information.

### Computation of the net operating loss

**Full-year residents.** Generally, the computation of the Oregon NOL for a resident is the same as the federal NOL, except for the prohibited amount modification. (See **Prohibited amounts** above.)

The computation of the Oregon NOL begins with federal adjusted gross income (AGI). Reduce AGI by federal exemptions, federal deductions, and the prohibited amount modification to arrive at the modified Oregon taxable income (OTI). Then adjust the modified OTI as required by IRC Section 172(d).

Required adjustments are:

1. Oregon NOL deduction (NOLD) from prior years included in Oregon income after adjustments.
2. Net Oregon capital loss deduction.

3. Federal personal exemption amount.
4. Excess of nonbusiness deductions over nonbusiness income included in modified Oregon taxable income.

**Example 1:** Maria and Jaime filed joint federal and Oregon tax returns. On their federal return, they reported wages of \$26,000, a business loss of \$50,000, a gain on the sale of stock of \$400, and interest income of \$800 from a bank. They reported total itemized deductions of \$12,800, which were all nonbusiness, and claimed personal exemptions of \$8,000.

On their Oregon return, Maria and Jaime reported an addition of \$500 of municipal bond interest from California that was exempt from federal income tax. Their Oregon NOL is computed as follows:

#### Federal tax return

Wages	\$ 26,000
Interest income	800
Schedule C loss	(50,000)
Schedule D stock gain	400
Federal AGI	(\$ 22,800)
Personal exemptions	(8,000)
Schedule A deductions	(12,800)
Federal taxable income	(\$ 43,600)

#### Computation of Oregon NOL

Federal AGI	(\$22,800)
Personal exemptions	(8,000)
Schedule A deductions	(12,800)
Modified Oregon taxable income	(\$ 43,600)
Adjustments:	
Personal exemptions	8,000
Nonbusiness deductions	12,800
Nonbusiness income	(1,200)
Nonbusiness deduction in excess of nonbusiness income	11,600
Oregon NOL	(\$ 24,000)

**Note:** The \$500 in California municipal bond interest is not used in this calculation. Compute the Oregon NOL based on federal NOL methods and definitions. Use Oregon sources without Oregon adjustments (modifications, additions, and subtractions), except for prohibited amounts.

**Example 2:** Use the same facts as in Example 1, except the \$800 interest is from U.S. government securities (a prohibited amount). The Oregon NOL for Maria and Jaime is computed as follows:

**Federal tax return**

Wages	\$ 26,000
Interest from U.S. government securities	800
Schedule C loss	(50,000)
Schedule D stock gain	400
Federal AGI	(\$22,800)
Personal exemptions	(8,000)
Schedule A deductions	(12,800)
Federal taxable income	(\$43,600)

**Computation of Oregon NOL**

Federal AGI	(\$22,800)
U.S. government interest	(800)
Personal exemptions	(8,000)
Schedule A deductions	(12,800)
Modified Oregon taxable income	(\$44,400)
Adjustments:	
Personal exemptions	8,000
Nonbusiness deductions	12,800
Nonbusiness income	(1,200)
Excess nonbusiness deduction	11,600
Oregon NOL	(\$24,800)

**Note:** U.S. government interest, a prohibited amount, is not used to compute Oregon NOL.

**Part-year residents and nonresidents.** You're allowed an Oregon NOL if it is generated from Oregon sources. Computing Oregon NOL begins with "income after adjustments" from the Oregon column. Reduce this amount by federal exemptions and deductions (attributable to Oregon sources) to arrive at the modified OTI. Then adjust the modified OTI as required by IRC Section 172(d). The required adjustments are the same as those listed in the section about full-year residents in the left-hand column.

You are not allowed an NOL or carryover on an Oregon return if the loss was incurred while you were a nonresident and was not attributable to Oregon sources. If your Oregon NOL is less than your federal NOL, report the difference as an addition on Schedule OR-ASC or OR-ASC-NP using addition code 116.

**Example 3:** Ryan and Terry are married nonresidents and filed a joint return. On their federal return they itemized deductions of \$14,000 (all nonbusiness) and claimed personal exemptions of \$7,900. They also had a business loss of \$25,000 from Oregon sources and \$1,000 non-Oregon-source corporate bond interest. Their Oregon percentage is -0-. They computed their Oregon NOL as follows:

Oregon income after adjustments	(\$25,000)
Personal exemptions	(8,000)
Schedule A deductions	-0-
Modified Oregon taxable income	(\$33,000)
Adjustments:	
Personal exemptions	8,000
Nonbusiness deductions	-0-
Nonbusiness income	-0-
Excess nonbusiness deduction	-0-
Oregon NOL	(\$25,000)

**Application of an NOL**

**Oregon NOL carryforward or carryback.** Generally, if you carry an NOL back for federal purposes, you must also carry the Oregon NOL back for Oregon purposes. If you elect to carry the federal NOL forward, you must also carry the Oregon NOL forward.

**Exception:** If you weren't required to file an Oregon return before the Oregon loss year, carry back or carry forward the Oregon NOL to the year the loss may be first applied. The total number of years an NOL may be carried back or forward is the same for Oregon and federal.

**Example 1:** Joe has an NOL for federal and Oregon. Joe carried his federal NOL back. Because he carried back his loss for federal purposes, he must carry back his loss for Oregon purposes. If he was not required to file an Oregon tax return that year, he may carry back his Oregon NOL to the next succeeding tax year.

**Example 2:** Assume the same facts as in Example 1. However, Joe was not required to file an Oregon tax return before the year of the loss. Joe can carry his Oregon NOL forward, even if the loss was carried back for federal purposes.

Compute an NOLD carryback or carryforward amount in tax years beginning after December 31, 1984, the same way as for federal purposes. For full-year residents, the NOL amount is generally the same as for federal purposes, except adjustments made for **prohibited amounts** (see definition above).

**Example 3:** Bud and Jody incurred losses from partnerships and S corporations. They compute an NOL of \$12,000 and choose to carry the loss back. Their Oregon carryback year return shows negative taxable income, so the NOL is carried forward to the next year, where the loss is completely absorbed. Bud and Jody had a federal AGI of \$50,000 on that return. The fully absorbed NOL is applied as follows:

Federal AGI on the Oregon return		\$50,000
Less: NOLD		<u>(12,000)</u>
Federal AGI for Oregon as revised		\$38,000
Additions per Oregon return		3,000
Subtractions per Oregon return	(\$5,000)	
Standard or itemized deductions recomputed for revised federal AGI	<u>(15,000)</u>	
Total deductions		<u>(20,000)</u>
Modified Oregon taxable income		<u>\$21,000</u>

**Example 4:** Assume the same facts in Example 3, except that Bud and Jody choose to carry forward the NOL for federal and Oregon purposes. In the carryforward year, Bud and Jody have federal AGI of \$15,000, reported additions of \$8,000, and subtractions of \$3,000. Bud and Jody will apply the NOL and compute the amount available for carryforward to the next year as follows:

NOLD carryforward			(\$12,000)
Federal AGI on the Oregon return	\$15,000		
Add: Capital loss deductions or Capital gain deduction	-0-		
	<u>-0-</u>		
Federal AGI for Oregon as revised		\$15,000	
Less: Prohibited amounts		(-0-)	
Standard or itemized deductions recomputed for revised federal AGI		<u>(12,000)</u>	
Modified Oregon taxable income (NOLD)			<u>3,000</u>
Carryforward of NOL available for next year			<u>(\$ 9,000)</u>

Bud and Jody's Oregon taxable income is recomputed as follows:

Federal AGI on the Oregon return with loss carried		\$15,000
Less: NOLD		<u>(3,000)</u>
Federal AGI including NOLD		\$12,000
Add: Additions per Oregon return		8,000
Less: Subtractions per Oregon return		(3,000)
Standard or itemized deductions		<u>(12,000)</u>
Oregon taxable income as revised		<u>\$ 5,000</u>

**Part-year residents and nonresidents.** Use the federal method without modifications, except prohibited amounts are not considered. Also, the NOLD, carryback, and carryover are based only on amounts attributable to Oregon sources.

**Example 5:** While residents of California, Robin and Valerie incurred losses from an Oregon partnership creating an \$85,000 Oregon-only NOL. Before the loss year, neither Robin nor Valerie needed to file Oregon returns. The next year, Robin and Valerie move to Oregon and file a part-year Oregon return. They report federal income after adjustments of \$385,000, Oregon income after adjustments of \$235,000, and itemized deductions of \$20,000. Robin and Valerie calculate their Oregon taxable income as follows:

	Federal	Oregon
Income after adjustments	\$385,000	\$235,000
NOLD	<u>(85,000)</u>	<u>(85,000)</u>
Modified income after adjustments	\$300,000	\$150,000
Plus: "Additions" per Oregon return	7,000	7,000
Less: "Subtractions" per Oregon return	<u>(2,000)</u>	<u>(2,000)</u>
Modified income after subtractions	<u>\$305,000</u>	<u>\$155,000</u>
Oregon percentage: $155,000 \div 305,000 = 50.8\%$		
Less: Standard or itemized deductions recomputed for revised federal AGI	(20,000)	
Federal tax subtraction	<u>-0-*</u>	
Oregon taxable income as revised	<u>\$285,000</u>	

\*The federal tax subtraction is limited to \$0 when federal adjusted gross income is \$290,000 or more for joint filers.

**Example 6:** Leslie and Jill live in Vancouver, Washington. Leslie operates a business in Oregon. Leslie and Jill file a nonresident Oregon return reporting an Oregon-only NOL of \$6,000. Leslie and Jill elect to carry the NOL forward. In the carryforward year, Leslie and Jill report Oregon income after adjustments of \$1,600, federal income after adjustments of \$32,000, and federal itemized deductions of \$13,200. Their Oregon itemized deductions are \$660  $[(\$1,600 \div \$32,000) \times \$13,200]$ . Leslie and Jill calculate their NOLD and the carryforward to the next year as follows:

NOL			(\$6,000)
Oregon income after adjustments	\$1,600		
Add: Oregon capital loss deduction	-0-		
Oregon capital gain deduction	-0-		
Modified Oregon income as revised	<u>1,600</u>	\$1,600	
Less: Prohibited amounts		(-0-)	
Oregon percentage of standard or itemized deductions recomputed for revised federal AGI		<u>(660)</u>	
Modified Oregon taxable income (NOLD)			940
Carryforward of NOL available for next year			<u>(\$5,060)</u>

**Net operating loss as a subtraction.** Generally your NOL carryback and carryforward amounts will be reflected in your federal adjusted gross income (AGI). However, if you have an NOL carryback or an NOL carryforward for **Oregon only**, the loss will not be reflected in your AGI. If your NOL is not reflected in AGI, you'll report your carryback or carryforward on Schedule OR-ASC or OR-ASC-N P using subtraction code 321.

## Depreciation and amortization ORS 316.707 and 316.739

### [Addition code 152] [Subtraction code 354]

Your Oregon depreciation deduction is generally the same as for federal purposes. It will not be the same in the following cases:

- The asset was placed in service in tax years beginning on or after January 1, 1985, and you took the federal investment tax credit on your federal return.
- You transferred property into Oregon's taxing jurisdiction.
- Assets were placed in service between 1981 and 1985 (Accelerated Cost Recovery System [ACRS] assets), and you did not make the adjustment aligning Oregon basis with federal basis for them. If you made the adjustment on your 1996 tax return, there will not be a depreciation difference.
- The asset was placed into service during tax years 2009 or 2010 and you claimed "bonus depreciation" or additional expensing under IRC section 168(k) or 179. For tax years 2009 and 2010, Oregon generally allowed the same expensing of qualifying assets under IRC sections 168(k) and 179 as allowed under **2008** federal law. Because of this disconnect an addition is required, leaving a higher adjusted basis for Oregon to be depreciated over the life of the asset. Most taxpayers with an addition for this disconnect in 2009 or 2010 will have future year subtractions over the remaining life of the asset

**NOL and federal depreciation disconnect.** Your Oregon NOL is the same as your federal NOL. Therefore if you had an NOL in 2009 or 2010 and also claimed

depreciation or expenses not allowed by Oregon, your future year subtractions are reduced by the amount already included in the NOL.

**Example 1:** Paula expensed \$144,000 in assets under IRC section 179 in 2010. Because Oregon only allowed expenses of \$134,000, she had a \$10,000 addition on her 2010 Oregon return. Due to deductions and losses related to her business, Paula had a \$15,000 NOL for 2010. Normally, she would have an Oregon basis of \$10,000 and could claim Oregon subtractions over the life of those assets. Because Paula's federal NOL is the same for Oregon purposes, she has already received the benefit in the NOL deduction. When Paula carries the NOL forward or back she is not allowed any future year subtractions due to depreciation differences.

**Example 2:** Same as Example 1 except that Paula's NOL was only \$7,000. Paula still had an addition of \$10,000 on her 2010 Oregon return. Paula would have been allowed to claim \$10,000 in subtractions over the life of the assets bought in 2010 if she didn't have an NOL. Because Paula had an NOL, the amount claimed in subtractions over the life of the assets bought in 2010 is reduced to \$3,000 (\$10,000 expensing difference minus \$7,000 already allowed as an NOL deduction). She will use a reasonable method to assign the \$3,000 in Oregon adjusted basis to one or more of the assets purchased in 2010 to calculate her future years' differences in depreciation.

**Oregon Depreciation Schedule.** Use Schedule OR-DEPR to determine if your Oregon depreciation is the same as, or different from, your federal depreciation.

Oregon depreciation on all property - Federal depreciation on the same property = Oregon depreciation difference in depreciation

**Oregon subtraction.** If your Oregon depreciation is more than your federal depreciation on the same property, you'll have a subtraction (subtraction code 354) for the difference.

**Oregon addition.** If your Oregon depreciation is less than your federal depreciation on the same property, you'll have an addition (addition code 152) for the difference.

Go to our website to download Schedule OR-DEPR, or call us to order it.

## Partnership and S corporation modifications for Oregon and Business tax credits from pass-through entity ORS 314.712 to 314.752

[Addition code 119] [Subtraction code 323]

If you received a Schedule K-1 from a pass-through entity (Partnership, S corporation, or LLC filing as either), then you may have Oregon additions, subtractions, or credits that flow through to your Oregon return. Your modification or credit is based on the total for the business multiplied by your ownership percentage, which should have been calculated by the business.

Use the specific code for credits flowing through to your Oregon return.

If there is a specific code for the Oregon addition or subtraction, use that code. Otherwise, use the above codes to identify the Oregon addition or subtraction.

**Nonresidents:** If your business operates both in and out of Oregon, it has an apportionment percentage from Schedule OR-AP. This percentage should be provided to you with your Schedule K-1, since it shows you how much of the income from your business is Oregon source. The business should have already multiplied your share of Oregon additions and subtractions by the apportionment percentage. Oregon credits that flow through may be required to be multiplied by your Oregon percentage on your Form OR-40-N. See the instructions for the credit to see if this is required.

**Part-year residents:** Use the nonresident information for the part of the year you were a nonresident and the full amounts for the time you were a resident.

## Basis of business assets transferred into Oregon ORS 316.707

[Addition code 150] [Subtraction code 358]

Are you a nonresident? If so, there are several ways you can bring assets into Oregon's taxing jurisdiction. For example:

- You become an Oregon resident and transfer business assets into Oregon.
- You become an Oregon resident and leave the assets in the other state.
- You open a business in Oregon and transfer business assets into Oregon.

Did you transfer business assets into Oregon? If so, the basis for Oregon depreciation will be either the federal unadjusted basis or fair market value at the time of transfer, whichever is smaller.

The federal unadjusted basis is the original cost before adjustments. Adjustments include reductions for investment tax credits, depletion, amortization, depreciation, or amounts expensed under IRC Section 179. The fair market value and useful life are figured when you bring the asset into Oregon.

Reduce the federal unadjusted basis or the fair market value of the asset by any Oregon depreciation previously allowed.

**Example:** Bob was a California resident. He has owned a business in Yreka since 1988. Bob bought an office building in Yreka for \$800,000. He placed it in service March 1, 1988. For federal purposes, the building is 31½-year real property and is being depreciated using the applicable percentages. On January 1, 2014, Bob bought a truck for \$45,000. For federal purposes, the truck is five-year property and is being depreciated using the applicable percentages.

On January 1, 2016, Bob moved to Ashland, but he continues to operate his business in Yreka. At that time, the building had a fair market value of \$1,473,000, and the truck's fair market value was \$27,000. Because Bob is an Oregon resident, he must determine his Oregon basis to depreciate his assets for Oregon. The Oregon adjusted basis is computed as follows:

## Building

### Smaller of:

Cost of building (federal unadjusted basis)	\$ 800,000
Less: Depreciation previously allowed for Oregon tax purposes	— 0
Net basis	<u>\$ 800,000</u>
<b>or</b>	
Fair market value as of January 1, 2016	\$ 1,473,000
Less: Depreciation previously allowed for Oregon tax purposes	— 0
Oregon fair market value	<u>\$ 1,473,000</u>

Bob will depreciate the building for Oregon using the \$800,000 federal unadjusted basis and Modified Accelerated Cost Recovery System (MACRS) depreciation for its original federal applicable recovery period.

## Truck

### Smaller of:

Cost of truck (federal unadjusted basis)	\$ 45,000
Less: Depreciation previously allowed for Oregon tax purposes	— 0
Net basis	<u>\$ 45,000</u>
<b>or</b>	
Fair market value as of January 1, 2016	\$ 27,000
Less: Depreciation previously allowed for Oregon tax purposes	— 0
Oregon fair market value	<u>\$ 27,000</u>

Bob will depreciate the truck for Oregon using the \$27,000 Oregon fair market value and MACRS depreciation for its original applicable federal recovery period.

## Sale of assets ORS 316.716

### [Addition code 154] [Subtraction code 355]

**Gain or loss on property you began depreciating after 1980 and before 1985.** During the tax year, did you sell property you began depreciating after December 31, 1980, and before January 1, 1985? If you did and didn't make the one-time adjustment on your 1996 Oregon return, your gain or loss for Oregon may differ from your gain or loss for federal purposes. If you sold this property during the year, you must make an adjustment on your return to reconcile your Oregon basis to your federal basis.

To figure your gain or loss for Oregon, use the depreciation you claimed on your Oregon return in prior years. Subtract the total amount of gain or loss for Oregon property you began depreciating after 1980 and before 1985 from your gain or loss for federal purposes for the same property. The difference is an Oregon

addition or subtraction. Keep a worksheet with your tax records to show how you figured the difference.

## Addition or subtraction

If Oregon depreciation is less than your federal depreciation, you will have an Oregon subtraction. If Oregon depreciation is more than your federal depreciation, you will have an Oregon addition.

## Partnerships and S corporations

Partnerships report differences between federal and Oregon depreciation on the Oregon partnership return. S corporations report the differences on Schedule SM of the Oregon S corporation return. The differences must also be shown on the partner's or shareholder's Schedule K-1 or equivalent.

The differences will be added to or subtracted from income on the individual partner's or shareholder's Oregon income tax return.

## Gain on the sale of an Oregon residence ORS 316.048

### [Addition code 152] [Subtraction code 354]

Generally, Oregon will tax the gain from the sale of your residence only when the federal government taxes it. Oregon will not tax any gain excluded on your federal return. This is true even if you reinvest in a home outside Oregon.

The Oregon basis of your home is generally the same as your federal basis. If your gain is taxed by the federal government, Oregon will tax the same amount of gain.

**Exception:** If you were renting out a house and then converted it to your personal residence, the Oregon basis may not be the same as the federal basis due to depreciation differences.

**Note:** If you are also taxed by another state or country on some or all of the gain, see **Mutually-taxed gain on the sale of residential property**, in the **Credits** section.

## Fiduciary adjustment ORS 316.697

### [Addition code 133] [Subtraction code 310]

The same modifications that apply to an individual return also apply to an Oregon estate or trust return. Combined, this is called the fiduciary adjustment. If you're a beneficiary of an estate or trust, you must report your share of the fiduciary adjustment. This should be shown on the Schedule K-1 which you receive from the estate or trust. Report it on Schedule OR-ASC or OR-ASC-NP as an addition using code 133 or as a subtraction using code 310.



**Example:** Frank reported \$5,000 of trust income from R&C Farewell Trust on federal Schedule E. Of this, \$2,500 was from interest on U.S. obligations, which is not taxable by Oregon. He also received interest income of \$1,000 from the trust that was not included in his federal income. This interest was from California bonds and is taxable by Oregon. Frank should claim a \$1,500 subtraction, the net of both fiduciary adjustment items, using subtraction code 310.

**Part-year residents.** Oregon taxes the fiduciary adjustment if it relates to Oregon income or if you were an Oregon resident on the last day of the trust's taxable year.

**Nonresidents.** Oregon taxes the fiduciary adjustment if it relates to Oregon income.

## Passive activity losses (PALs) ORS 314.300

[Addition code 155] [Subtraction code 356]

Generally, a passive activity is any:

- Rental activity including equipment and real estate, regardless of your level of participation, or
- Business in which you do not materially participate in a regular, continuous, and substantial basis.

Oregon generally adopted the federal passive loss rules in the federal Tax Reform Act of 1986 and the Revenue Reconciliation Act of 1993. There are some differences in passive losses for Oregon.

### How to compute and report passive losses for Oregon

1. Modify the federal passive loss by the applicable additions and subtractions listed under "Oregon modifications to federal passive activity losses," below.
2. Apply the federal passive loss limitations to the Oregon passive loss you computed in step 1 above. This will determine how much is deductible for Oregon. To apply the income limitations, use federal AGI before modifying for additions or subtractions.
3. Figure the difference between the passive loss reported on your federal return and the deductible Oregon loss you figured above. You will claim an addition or subtraction on your Oregon return.
4. Keep a schedule with your tax records showing your computations for steps 1, 2, and 3 above.
5. Also keep a schedule (when applicable) showing the allocation of Oregon modifications between the Oregon passive loss activities and other business activities.

**Example: Depreciation modification.** Elijah has determined that his depreciation for Oregon is more than his federal depreciation by \$1,000. Ordinarily, he would report a \$1,000 subtraction on his Oregon return for the difference in depreciation.

Of the \$1,000 difference in depreciation, \$600 is allocable to passive activities and \$400 is allocable to other business activities. His Oregon passive activity loss is his federal passive activity loss increased by the \$600 difference in depreciation. He reports the remaining \$400 difference in depreciation allocable to other business activities as a subtraction on his Oregon return.

**Passive activity credits.** You can offset in full the tax credits related to a passive activity against your Oregon tax liability for the taxable year.

**Active participants in rental real estate activities.** The \$25,000 offset for rental real estate activities provided in IRC 469(i) applies to deductions allowed under federal and Oregon law. Do not reduce the offset by deduction equivalents defined in IRC 469(j)(5). The phaseout amounts (\$100,000/\$150,000) are based on **federal** adjusted gross income regardless of whether you are a full-year resident, part-year resident, or non-resident of Oregon.

**Part-year residents.** Compute your passive activity losses from activities carried on while an Oregon resident. Add those connected with Oregon sources while a nonresident. Modify the result by applicable additions and subtractions listed below.

**Nonresidents.** Compute your passive activity losses from activities connected with Oregon sources. Modify the loss by the applicable additions and subtractions listed below. The loss must be connected with Oregon sources even if you later become an Oregon resident.

### Oregon modifications to federal passive activity losses

Following are **some** of the modifications you must make for Oregon:

#### 1. Additions:

- Interest or dividends on obligations of another state.
- Depletion in excess of the adjusted basis of property.
- Gain on voluntary or involuntary conversions or exchanges of Oregon property reinvested outside Oregon when no election is made to defer it.

#### 2. Subtractions:

- Gain or loss on the sale of public utility stock where dividends were reinvested.
- Interest or dividends on obligations of the U.S. government.

- Wages you did not deduct in federal taxable income because you claimed the federal work opportunity credit.
- Interest or dividends on obligations of Oregon political subdivisions.

### 3. Additions or subtractions:

- Differences in depreciation.
- Differences in gain or loss from basis differences in the sale of an asset.

**Note:** Items used to modify the federal passive activity loss must occur in the ordinary course of a trade or business.

## Oregon percentage ORS 316.117

Part-year residents and nonresidents must compute an Oregon percentage. This determines allowable deductions and modifications and Oregon tax.

Divide your income after subtractions from the Oregon column by your income after subtractions from the federal column. Enter the figure on the Oregon percentage line. Do not fill in more than 100 percent or less than -0-.

**Example 1:** Lisa reported \$30,000 of income after subtractions in the federal column. She reported \$10,000 of income after subtractions in the Oregon column. Here's how she figured her Oregon percentage:

$$\$10,000 \div \$30,000 = 0.333 \text{ or } 33.3\%$$

Carry the decimal to three places to figure your Oregon percentage.

**Negative income.** If the federal column is negative and the Oregon column is positive, your Oregon percentage is 100%. If the federal column is positive and the Oregon column is negative, your Oregon percentage is 0%.

### Example 2:

Federal column	Oregon column	Oregon percentage
(\$20,000)	\$42,000	100%
\$50,000	(\$22,000)	0%

## Deductions and modifications ORS 316.695

You may claim either net itemized deductions or Oregon's standard deduction, whichever is larger, but not both.

## Itemized deductions

Generally, you may claim your total itemized deductions shown on federal Schedule A, line 29. But there is an exception. **If you itemize for Oregon only**, fill out a separate Schedule A. You may claim itemized deductions for Oregon even if you could not on your federal return. You still use federal adjusted gross income to figure the Schedule A limitations. Keep the Oregon schedule with your tax records.

**Note:** If you are **married filing separately**, you must itemize deductions if your spouse itemizes. Are you filing separate returns for Oregon only? If so, determine your share of itemized deductions by multiplying your total joint deductions by the percentage you figured for separate returns. See the formula on page 18. Remember to use your Oregon itemized deductions after subtracting state tax. You may separate your deductions if each of you can clearly show your own.

## Limit on itemized deductions

Did you reduce itemized deductions on your federal return because your federal adjusted gross income (AGI) exceeded the threshold? If so, complete the following worksheet to determine the correct amount of Oregon income tax to subtract from itemized deductions.

1. Itemized deductions subject to the limit (from your federal itemized deductions worksheet). 1. \_\_\_\_\_
2. Limit: Line 1 multiplied by 80% (0.80). 2. \_\_\_\_\_
3. Federal AGI minus federal income limit. 3. \_\_\_\_\_
4. Line 3 multiplied by 3% (0.03). 4. \_\_\_\_\_
5. Enter the smaller of line 2 or line 4. 5. \_\_\_\_\_
6. Allowable deductions: Line 1 minus line 5. 6. \_\_\_\_\_
7. Line 6 divided by line 1. Carry this decimal to three places. 7. \_\_\_\_\_
8. Tax to subtract: Line 7 multiplied by Oregon income tax you claimed on federal Schedule A, line 5. 8. \_\_\_\_\_

**Example 1:** Adam, a single taxpayer aged 43, filed a return with itemized deductions and \$300,000 of AGI. His itemized deductions are as follows, taken from his federal itemized deductions worksheet.

**Federal itemized deductions worksheet:**

		<b>Subject to limit</b>	<b>Not subject to limit</b>
Medical	\$35,000		
Less: 10% of federal AGI	<u>(30,000)</u>		
Total		\$5,000	\$5,000
Taxes			
Oregon income tax	\$46,000		
Other taxes	<u>2,000</u>		
Total		\$48,000	\$48,000
Interest			
Home mortgage		\$10,500	
Investment interest			\$1,500
Total		\$12,000	
Contributions		\$15,000	
Casualty loss, Non-business		\$2,500	\$2,500
Miscellaneous	\$15,000		
Less: 2% of federal AGI	<u>(\$6,000)</u>		
Total		\$9,000	\$9,000
Other misc. deductions			
Gambling losses		<u>\$3,000</u>	<u>\$3,000</u>
Total itemized deductions		<u>\$94,500</u>	<u>\$82,500</u>

Adam’s itemized deductions total \$94,500, of which \$82,500 is subject to the federal limit, and \$12,000 is not subject.

**Here is an example of how Adam calculates his Oregon itemized deductions:**

- |  |                    |
|--|--------------------|
| 1. Itemized deductions subject to the limit (from your federal itemized deductions worksheet).                           | 1. <u>\$82,500</u> |
| 2. Limitation limit: Line 1 multiplied by 80% (0.80).  | 2. <u>\$66,000</u> |
| 3. Federal AGI minus federal income limit (300,000-258,250).   | 3. <u>\$41,750</u> |
| 4. Line 3 multiplied by 3% (0.03).   | 4. <u>\$1,253</u>  |
| 5. Enter the smaller of line 2 or line 4.  | 5. <u>\$1,253</u>  |
| 6. Allowable deductions: Line 1 minus line 5.  | 6. <u>\$81,247</u> |
| 7. Line 6 divided by line 1. Carry this decimal to three places.   | 7. <u>0.985</u>    |
| 8. Tax to subtract: Line 7 multiplied by Oregon income tax you claimed on federal Schedule A, line 5, (\$46,000 x 0.985) | 8. <u>\$45,310</u> |

For Oregon, Adam will reduce his \$93,247 of federal itemized deductions (81,247 + 12,000) by \$45,310 of Oregon income tax not allowed as an itemized deduction. His net Oregon itemized deductions total \$47,937.

Did you claim an Oregon credit for contributions to the Child Care Fund, Oregon IDA Initiative Fund, Oregon Production Investment Fund, Renewable

Energy Development Fund, or University Venture Development Fund, or Alternative Fuel Vehicle Fund, and also claim your contribution as a federal deduction on this year’s Schedule A? Were your itemized deductions limited because your adjusted gross income (AGI) exceeded the federal threshold amount? If so, you can use the itemized deduction limit worksheet above to calculate your addition.

**Example 2:** Use the same facts as in Example 1 above, except Adam’s charitable contributions contained \$5,000 that was also claimed as a credit for tax credits purchased from the Alternative Fuel Vehicle Fund auction. Adam will use the percentage calculated on line 7 of the worksheet to determine his addition for Oregon, calculated as follows:

Total contributions not allowed for Oregon purposes	\$5,000
Percentage of contributions allowed on federal Schedule A (line 7)	<u>0.985</u>
Oregon addition (5,000 x 0.985)	\$4,925

Of the \$5,000 contribution Adam made, only \$4,925 was allowed on his federal Schedule A due to the AGI limitation. Adam’s Oregon addition will be for \$4,925, the amount allowed on Schedule A, not the full donation of \$5,000.

**Net Oregon itemized deductions**

Your net Oregon itemized deductions are your:

- Total federal itemized deductions, less

- Oregon state income tax or state and local sales tax claimed as an itemized deduction.

In most cases, you'll use net Oregon itemized deductions if that amount is larger than your Oregon standard deduction. The exception to this is for married filing separately, explained earlier.

### Part-year residents and nonresidents

#### Did you itemize deductions and claim one or more of these items on your Oregon return?

- Child Care Fund contribution.
- Claim of right income repayment.
- Oregon Production Investment Fund contribution.
- Renewable Energy Development Fund contribution.
- University Venture Development Fund contribution.
- Oregon IDA Initiative Fund donation.
- Gambling losses claimed as an itemized deduction.
- Medical expenses also used for the WFHDC credit.

If so, you may need to modify the amount deducted on your federal return. See the instructions for each credit in the **Additions** section to determine any modification amount needed. Modifications increase your itemized deductions, so you must report the required addition as a **negative** modification. Use the **modification** code, not the addition code, and **enter the amount with a minus sign** in Section 4 of Schedule OR-ASC-NP.

### Standard deduction

Use the standard deduction **only** if it is larger than your net itemized deductions. If you're married filing separately and your spouse itemizes, your standard deduction is -0-.

Generally, your standard deduction is based on your filing status:

<b>Single</b> .....	<b>\$2,155</b>
<b>Married filing jointly</b> .....	<b>\$4,315</b>
<b>Married filing separately</b>	
<b>If spouse claims standard deduction</b> .....	<b>\$2,155</b>
<b>If spouse claims itemized deductions</b> .....	<b>-0-</b>
<b>Head of household</b> .....	<b>\$3,475</b>
<b>Qualifying widow(er)</b> .....	<b>\$4,315</b>

**Standard deduction—Age 65 or older, blind.** Did you check one or more of the boxes on line 19a of your Oregon Form OR-40 or line 40a of your Oregon Form OR-40-N or OR-40-P because you or your spouse are age 65 or older or because you or your spouse are blind? Then you're entitled to an **additional deduction amount**.

If you checked one or more of the boxes on line 19a of your Oregon Form OR-40 or line 40a of your Oregon Form OR-40-N or OR-40-P, multiply the number of boxes checked by:

- **\$1,000 if married or qualifying widow(er).**
- **\$1,200 if single or head of household.**

Add this amount to the standard deduction amount for your filing status from above. Fill in the total on line 19 of Form OR-40, or line 40 of Form OR-40-P or Form OR-40-N.

**Example 1:** Matt and Sandy are married and file a joint return. They checked two of the boxes on line 19a because Matt is over 65 and Sandy, age 62, is blind. Their total standard deduction is \$6,315. They figure their standard deduction as follows:

\$4,315	Standard deduction for their filing status MFJ
\$2,000	2 x \$1,000
\$6,315	Total standard deduction

**Standard deduction—Single or married filing jointly dependents.** If you or you and your spouse **can** be claimed as a dependent on another person's return (even if the other person does not claim you), use the following worksheets to figure your standard deduction:

#### Standard deduction worksheet for single dependents

- |   |                       |
|---|-----------------------|
| 1. Enter your earned income (see definition below).                               | 1. _____              |
| 2. Additional \$350.  | 2. <u>  \$350  </u>   |
| 3. Add lines 1 and 2.   | 3. _____              |
| 4. Minimum standard deduction.  | 4. <u>  \$1,050  </u> |
| 5. Enter the larger of line 3 or 4.   | 5. _____              |
| 6. Basic standard deduction for single.   | 6. <u>  \$2,155  </u> |
| 7. Enter the smaller of line 5 or 6.  | 7. _____              |
| 8. If you are age 65 or older, enter \$1,200, if not enter -0-.                   | 8. _____              |
| 9. If you are blind, enter \$1,200; if you are not, enter -0-.                    | 9. _____              |
| 10. Add lines 7, 8, and 9. Enter the total here. This is your standard deduction. | 10. _____             |

**Earned income** includes salaries, wages, tips, professional fees, or other amounts received as pay for work you actually perform, and any part of a scholarship or fellowship grant that you must include in your gross income.

**Example 1:** Homer is single, age 17, not blind, and claimed as a dependent by his father. He had \$1,135 of earned income. Homer's standard deduction is \$1,485, figured as follows:

- |                              |                       |
|------------------------------|-----------------------|
| 1. Enter your earned income. | 1. <u>  \$1,135  </u> |
| 2. Additional \$350.         | 2. <u>  \$350  </u>   |
| 3. Add lines 1 and 2.        | 3. <u>  \$1,485  </u> |

- |   |                    |
|---|--------------------|
| 4. Minimum standard deduction, set amount.  | 4. <u>\$1,050</u>  |
| 5. Enter the larger of line 3 or 4.   | 5. <u>\$1,485</u>  |
| 6. Basic standard deduction for single.   | 6. <u>\$2,155</u>  |
| 7. Enter the smaller of line 5 or 6.  | 7. <u>\$1,485</u>  |
| 8. If you are age 65 or older, enter \$1,200; if not, enter -0-.                  | 8. <u>-0-</u>      |
| 9. If you are blind, enter \$1,200; if you are not, enter -0-.                    | 9. <u>-0-</u>      |
| 10. Add lines 7, 8, and 9. Enter the total here. This is your standard deduction. | 10. <u>\$1,485</u> |

**Standard deduction worksheet for married filing jointly dependents (FJD)**

- |   |                   |
|---|-------------------|
| 1. Enter your earned income (see above).  | 1. _____          |
| 2. Additional \$350.  | 2. <u>\$350</u>   |
| 3. Add lines 1 and 2.   | 3. _____          |
| 4. Minimum standard deduction.  | 4. <u>\$1,050</u> |
| 5. Enter the larger of line 3 or 4.   | 5. _____          |
| 6. Standard deduction for FJD.  | 6. <u>\$4,315</u> |
| 7. Enter the smaller of line 5 or 6.  | 7. _____          |
| 8. If you are age 65 or older, enter \$1,000; if not, enter -0-.                  | 8. _____          |
| 9. If you are blind, enter \$1,000; if you are not, enter -0-.                    | 9. _____          |
| 10. Add lines 7, 8, and 9. Enter the total here. This is your standard deduction. | 10. _____         |

**Example 2:** Jack and Kris are married and are both full-time college students. Jack is 20 and Kris is 21. Neither is blind. They live in Jack's parent's home and are both claimed as dependents by Jack's parents. Jack and Kris work part-time at the university. Together they had \$7,620 of wage income. Jack and Kris will file a joint tax return. They calculate their standard deduction as follows:

- |   |                   |
|---|-------------------|
| 1. Enter your earned income.                                    | 1. <u>\$7,620</u> |
| 2. Additional \$350.  | 2. <u>\$350</u>   |
| 3. Add lines 1 and 2.   | 3. <u>\$7,970</u> |
| 4. Minimum standard deduction.                                  | 4. <u>\$1,050</u> |
| 5. Enter the larger of line 3 or 4.                             | 5. <u>\$7,970</u> |
| 6. Basic standard deduction for FJD.                            | 6. <u>\$4,315</u> |
| 7. Enter the smaller of line 5 or 6.                            | 7. <u>\$4,315</u> |
| 8. If you are age 65 or older, enter \$1,000, if not enter -0-. | 8. <u>-0-</u>     |
| 9. If you are blind, enter 1,000, if you are not, enter -0-.    | 9. <u>-0-</u>     |

- |   |                    |
|---|--------------------|
| 10. Add lines 7, 8, and 9. Enter the total here. This is your standard deduction. | 10. <u>\$4,315</u> |
|---|--------------------|

**Standard deduction—Nonresident aliens.** The standard deduction for nonresident aliens is -0-.

**Standard deduction—Short-period return.** Individuals filing a short-period return may not claim a standard deduction.

**Interest on certain installment sales  
ORS 314.302**

Do you have installment sales for which you had to pay interest on the deferred tax liability for federal purposes? If so, you must also pay interest for Oregon. The amount due is computed the same way as for federal. The interest rate for 2016 is 4 percent.

**Part-year residents.** For the part of the year you were a nonresident, include only those installment obligations that were from dispositions of property in this state.

For the part of the year you were a resident, consider all installment obligations.

**Farm liquidation long-term capital  
gain tax rate ORS 316.045**

A reduced tax rate is available if you sold or exchanged capital assets used in farming activities. The sale or exchange must represent a termination of all your ownership interests in a farming business, or a termination of all your ownership interests in property that is used in a farming business.

Farming activities include:

- Raising, harvesting, and selling crops.
- Feeding, breeding, managing, or selling livestock, poultry, fur-bearing animals, or honeybees or the product thereof.
- Dairying and selling dairy products.
- Stabling or training horses, including providing riding lessons, training clinics, and schooling shows.
- Propagating, cultivating, maintaining, or harvesting aquatic species, birds, and other animal species.
- Growing and harvesting cultured Christmas trees or certain hardwood timber.
- On-site construction and maintenance of equipment and facilities used in farming activities.
- Preparing, storing, or disposing of products or by-products raised for human or animal use on land employed in farming activities.

Farming activities do not include growing and harvesting trees of a marketable species, other than growing and harvesting cultured Christmas trees or certain hardwood timber.

You may not claim the special tax rate on a sale or exchange to a relative, as defined by Internal Revenue Code Section 267. A farm dwelling or farm homesite is not considered to be property used in the trade or business of farming.

**Partnerships or S corporations.** The sale of ownership interests in a farming corporation, partnership, or other entity qualifies for the special tax rate. The taxpayer must have had at least a 10 percent ownership interest in the entity before the sale or exchange.

**How to compute the tax.** If you qualify, follow the steps in the worksheet below to figure the tax on your farm assets' net long-term capital gain (NLTCG).

**If you have a net loss from the sale or exchange of all assets during the year, STOP HERE. You do not qualify for the reduced rate on the sale of farm assets.**

The NLTCG eligible for the special tax rate is computed as follows:

- a. Enter your NLTCG from farm assets. a. \_\_\_\_\_
- b. Enter your capital gain included in Oregon income. b. \_\_\_\_\_
- c. Enter the smaller of line a or line b here and on line 2 below. c. \_\_\_\_\_

**Worksheet FCG, Farm Capital Gain**

- 1. Enter your Oregon taxable income. 1. \_\_\_\_\_
- 2. Enter your farm assets' NLTCG from line c above. 2. \_\_\_\_\_
- 3. Modified taxable income. Line 1 minus line 2, but not less than -0-. 3. \_\_\_\_\_
- 4. Enter the Oregon tax on amount from line 3 above. Use the appropriate tables or tax rate charts found in the instruction booklet. 4. \_\_\_\_\_
- 5. Enter the smaller of line 1 or 2 above. 5. \_\_\_\_\_
- 6. Multiply line 5 by 5% (.05). 6. \_\_\_\_\_
- 7. Add lines 4 and 6. This is your Oregon tax. If you file Form OR-40-P, go to line 8 below. 7. \_\_\_\_\_
- 8. Form OR-40-P filers, compute your Oregon income tax by multiplying line 7 above by your Oregon percentage. This is your Oregon tax. 8. \_\_\_\_\_

Check the box labeled "Worksheet FCG" on your Oregon tax return.

**Example:** In June 2016 Al retired and sold all of his dairy farm capital assets. Below is the completed worksheet for Al:

- a. NLTCG from farm assets. a. \$180,000
- b. His capital gain included in Oregon income. b. \$152,000
- c. Enter the smaller of line a or line b here and on line 2 below. c. \$152,000

**Worksheet FCG, Farm Capital Gain**

- 1. Oregon taxable income. 1. \$60,000
- 2. Farm assets' NLTCG from line c above. 2. \$152,000
- 3. Modified taxable income. Line 1 minus line 2, but not less than zero. 3. -0-
- 4. Oregon tax on amount from line 3. Use tax tables or charts. 4. -0-
- 5. Enter the smaller of line 1 or line 2. 5. \$60,000
- 6. Line 5 x 5% (.05). 6. \$3,000
- 7. Line 4 plus line 6. This is Al's Oregon tax. 7. \$3,000

Al enters the \$3,000 capital gain tax on his Form OR-40. He will check the "Worksheet FCG" box to show that his tax is based on farm capital gain.

**Farm income averaging  
ORS 314.297**

You can figure your Oregon income tax by averaging, over the previous three (base) years, all or part of your 2016 farm income. This may give you a lower tax if your 2016 farm income is higher than your taxable income for one or more of the three prior years.

**Elected farm income**

A farming business is the trade or business of cultivating land or raising or harvesting any agricultural or horticultural commodity. Your elected farm income is the amount of your taxable income from farming that you elect to include in the calculation. You do not have to include all of your taxable income from farming. It may be to your advantage to include less than the full amount. It depends on how the amount affects your tax bracket for the current and three prior tax years.

Go to our website to download the *Oregon Farm Income Averaging* form and instructions, or call us to order them.

# Credits

## Types of Credits

There are three types of Oregon tax credits: standard, carryforward, and refundable. In addition, some of these credits require certification from another state agency. Certain credits must be prorated on part-year and nonresident returns.

**Standard credits.** These credits are not refundable. They cannot exceed your tax liability for the current tax year. Unused credit in excess of your tax liability cannot be carried forward to a later tax year.

**Carryforward credits.** These credits are not refundable. They cannot exceed your tax liability for the current tax year, but you may carry forward the unused amount to a later tax year. Refer to the instructions for the credit you are claiming for specific details.

**Refundable credits.** Refundable credits may exceed your tax liability for the year. The amount of the credit that exceeds your tax liability will be refunded to you.

**Certified credits.** For certain credits, you must qualify, apply, and be certified before you can claim them on your return. Other agencies, not the Department of Revenue, are responsible for certifying these credits. Contact information can be found in the instructions for each certified credit in this section.

**Full-year residents.** All credits you qualify for are allowed on Form OR-40.

**Part-year residents and nonresidents.** You must prorate certain Oregon credits by multiplying your total credit by your Oregon percentage from Form OR-40-N or OR-40-P to figure the amount you can claim on your Oregon return. You must prorate the following credits:

- Agriculture workforce housing.
- Biomass production/collection.
- Child and dependent care carryforward.
- Claim of right.
- Crop donation.
- Earned income.

- Electronic commerce zone investment.
- Employer scholarship.
- Exemption.
- Fish screening devices.
- Oregon Cultural Trust.
- Oregon Veterans' Home.
- Reservation enterprise zone.
- Residential energy.
- Riparian land carryforward.
- Rural emergency medical technicians.
- Rural medical practitioners.
- University Venture Development Fund Contributions.
- Working Family Household and Dependent Care.

**S corporation shareholders.** Certain carryforward credits earned by S corporations pass through to shareholders, who then claim these credits on their personal income tax returns. Each of these credits may only be claimed on an Oregon personal income tax return by shareholders of an S corporation that qualifies for the credit or, if the credit is transferable, is a qualified transferee of the credit from another corporation that earned the credit. Except as noted, each credit is limited to the shareholder's income tax liability for the year, although the carryforward provisions may vary. For more information about credits available to S corporations, see [www.oregon.gov/dor](http://www.oregon.gov/dor).

**Claiming credits.** With the exception of the exemption credit, the earned income credit, and the political contribution credit for full-year filers, all credits are reported on Schedule OR-ASC or Schedule OR-ASC-NP. The schedule contains sections that are specific for each of the three types of credits. Enter the credit code and the amount you are claiming in the applicable section. The total dollar amount of the credits entered in each section is reported on your return.

See the explanation for the specific credit on the following pages to find its code number and more detailed instructions. A list of all credits and their code numbers is included in the **Appendix** for your reference. Include Schedule OR-ASC or Schedule OR-ASC-NP when you file your return.

# Standard credits

## Exemption credit ORS 316.085

This year's maximum credit is \$195 for each qualifying exemption. The exemption amount is indexed for inflation.

An exemption credit is not allowed if your federal adjusted gross income on line 7 of Form OR-40, or line 27(F) of Form OR-40-N, or Form OR-40-P exceeds:

- \$200,000 for married filing jointly, head of household, or qualifying widow(er) filers; or
- \$100,000 for married filing separately or single filers.

**Part-year residents and nonresidents.** Multiply your exemption credit by your Oregon percentage.

### You and your spouse

You are allowed one exemption credit for yourself and one for your spouse if you are filing a joint return. If someone else can claim you as a dependent, you cannot claim an exemption for yourself. If someone else can claim your spouse as a dependent, you cannot claim their exemption. This is true even if the other person does not claim you (or your spouse) as a dependent.

If your spouse qualifies as your dependent and you are filing using the status married filing separately, include your spouse on the dependents list, not on the spouse line.

### Severely disabled – ORS 316.752 , 316.758

Did you have a severe disability at the end of the tax year? If so, you can claim an additional exemption credit if your federal adjusted gross income does not exceed \$100,000. You may qualify for the severely disabled exemption even if someone else can claim you as a dependent. You're considered to have a severe disability if **any** of the following apply:

- You permanently lost the use of one or both feet or legs, or
- You permanently lost the use of both hands, or
- You're permanently blind, or
- You have a permanent condition or an impairment of indefinite duration that limits your ability to:
  - Earn a living, or
  - Maintain a household, or
  - Transport yourself.

Deafness or hearing impairment alone do not qualify as a severe disability for purposes of this program.

This is true regardless of any special equipment you may use in your home or workplace.

You do not qualify for this exemption if:

- You have a temporary disability from an injury or illness and are expected to recover, or
- Your condition keeps you from doing your former work but not from doing other kinds of work without special equipment, or
- Your federal AGI is more than \$100,000.

If you have a permanent severe disability, your physician must write a letter describing it. Keep the letter with your permanent health records.

If you qualify, check the "severely disabled" exemption box on your return. If your spouse qualifies, they may also claim this exemption.

### All dependents

You are allowed one exemption credit for:

- Each child you qualify to claim as a dependent, and
- Each of your other dependents you qualify to claim on your federal return.

On your Oregon return, you must include the following information for all dependents: first and last name, relationship to you, Social Security number, and date of birth.

**Example:** Susan gives up her exemption for her son on her federal income tax return so he can claim the federal Hope credit on his tax return. Because Susan did not claim her son as a dependent on her federal income tax return, she may not claim him as a dependent on her Oregon income tax return.

In most cases, you must claim the same dependents for Oregon as you claimed on your federal return.

### Child with a disability – ORS 316.099

You may be entitled to an additional exemption credit for your dependent child who has a qualifying disability. To qualify, **all** of the following must be true.

Your federal AGI must not be more than \$100,000 and your child:

- Qualified as your dependent for 2016, and
- Was eligible for early intervention or special education services, as defined by the Department of Education, and
- Was considered to have a disability as of December 31, 2016, under the federal Individuals with Disabilities Education Act, and
- Was age 21 or younger at the end of the tax year.



For purposes of special education eligibility:

- Eligible disabilities and their Oregon Department of Education code numbers include:
  - Autism Spectrum Disorder (82).
  - Communication disorder (50).
  - Deaf-blindness (43).
  - Emotional disturbance (60).
  - Hearing impairment (20).
  - Intellectual Disability (10).
  - Orthopedic impairment (70).
  - Other health impairment (80).
  - Specific learning disability (90).
  - Traumatic brain injury (74).
  - Visual impairment (40).

Get a current statement of eligibility that confirms one of the disabilities listed above from one of the following:

- The child's Individualized Education Program (IEP), or
- The child's Individualized Family Service Plan (IFSP).

Keep the eligibility statement with your permanent health records. If your dependent qualifies, mark the "Child with qualifying disability" box by your dependent's name on your return. Also be sure to include the child when you total the number of dependents on line 6c and line 6d.

**No carryforward.** Your credit cannot be more than your tax liability for Oregon. Any credit not used this year is lost.

## Income taxes paid to another state ORS 316.082, 316.131

### [Credit code 802]

If you pay tax to Oregon and another state on the **same income**, you have "mutually-taxed income."

In certain circumstances, you may be able to claim a credit on your Oregon return for income taxes paid to another state. Only take a credit for tax paid to another state if Oregon taxed the income and the other state also had a right to tax the same income. For instance, if you live in Oregon, other states cannot tax your pension income. Only the state you live in can tax your pension income. If you pay tax to another state on your pension income, you cannot take a credit for that tax.

You cannot take a credit for paying tax you don't owe. If you take a credit for taxes paid to another state on your Oregon return and an itemized deduction on Schedule A for the same tax, you must add some or all of the amount deducted back to your income. See

the **Additions** section for more details on the add-back requirement.

This credit is only for state income tax. You cannot claim the credit for any city tax, county tax, school tax, sales tax, alternative minimum tax (AMT), property tax, or other state taxes that are not based on income. For example, the Idaho Permanent Building Fund Tax and the Washington Business and Occupation Tax do not qualify because they are not based on income.

### When can this credit be claimed?

You can claim this credit only if you pay the other state's tax before or at the same time that you file your Oregon return. If you pay tax to another state for a prior tax year, you must amend your Oregon return for that year to claim the credit.

If Oregon and another state tax you on the same income, but in different tax years, Oregon will allow a credit for the year the tax is paid to Oregon. Go to our website if you need more information or to review administrative rule OAR 150-316-0090.

If you sell your home and pay tax to Oregon and another state or country on the gain from that sale, you can claim **either** the credit for taxes paid to another state **or** the credit for mutually taxed gain on the sale of residential property. **You cannot claim both credits.** See **Mutually-taxed gain on the sale of residential property**, below.

## Definitions

### Modified adjusted gross income

- **Full-year residents.** Your modified adjusted gross income is your federal adjusted gross income (AGI) modified by Oregon additions and subtractions.
- **Part-year residents and nonresidents.** Your modified adjusted gross income is the part of your federal AGI that is taxable to Oregon, modified by Oregon additions and subtractions.

#### Formula I

$$\frac{\text{Modified AGI taxed by both states}}{\text{Modified AGI}} \times \text{Your Oregon tax after all other credits}$$

#### Formula II

$$\frac{\text{Modified AGI taxed by both states}}{\text{Total income on the other state's return}} \times \text{Other state's tax after all other credits}$$

**Oregon additions.** These are generally items of income that are taxed by Oregon but not by the federal government. See the **Additions** section for more information.

**Oregon subtractions.** These are generally items of income that are taxed by the federal government but not by Oregon. For example, U.S. bond interest is an Oregon subtraction because it is income reported on your federal return that isn't taxed by Oregon. **Note:** Do not subtract the federal tax you paid, because it is not an income item. See the **Subtractions** section for more information.

### Who may claim this credit?

**Full-year residents.** You may claim the credit on your Oregon return only if you pay tax on the same income to both Oregon and a state other than Arizona, California, Indiana, or Virginia. If you are a full-year Oregon resident with income that is taxed by Arizona, California, Indiana, or Virginia, you must claim the credit on the nonresident return that you file with that state; do not claim the credit on your Oregon return. (See the **Note** and the **Exception for Oregon resident partners and S corporation shareholders**, below.)

**Example 1.** Roy is a full-year Oregon resident. He has wages from a job in Idaho and income from rental property he owns in California. His Idaho wages and California rental income are also taxed by Oregon. Roy may claim a credit for taxes paid to Idaho on his Oregon return. He must claim a credit for taxes paid to Oregon on his California nonresident return.

**Note for full-year residents.** If one of the listed states does not allow the credit on your nonresident return, you may amend your Oregon return to claim the credit for taxes paid to that state. You must provide proof of the following:

1. You paid tax to Arizona, California, Indiana, or Virginia on income that was also taxed by Oregon;
2. You paid that state's tax at or before the time you filed your Oregon return; and
3. You properly claimed the credit for taxes paid to Oregon on the nonresident return you filed with that state; and
4. That state did not allow your credit.

**Part-year residents.** Your credit is based on your mutually-taxed income during the part of the year that you were a **nonresident** and your mutually-taxed income during the part of the year that you were a resident.

- You may claim the credit on your Oregon return for the part of the year you were a **nonresident** of Oregon only if you pay taxes on the same income that is taxed by both Oregon and one or more of the following states: Arizona, California, Indiana, or Virginia. If the income was taxed by Oregon and a state other than those listed, you must claim a credit for taxes paid to Oregon on the return you

file with the other state. See **Note for nonresidents**, below.

- You may claim the credit on your Oregon return for the part of the year you were a **resident** of Oregon if you pay Oregon tax on income that was also taxed by a state other than Arizona, California, Indiana, or Virginia (or you meet the **Exception for Oregon resident partners and S corporation shareholders** described below). See **Note for full-year residents**, above.

**Example 2:** Charlotte operates a business in Oregon. She moved from Oregon to Virginia in May, but continues to have income from her Oregon business after she moves. She also has income during the year from rental properties she owns in Oregon, Virginia, and Georgia. She files a part-year Oregon return, a part-year Virginia return, and a nonresident Georgia return. She will claim a credit for taxes paid to another state on each kind of income as follows:

- Oregon business income. Charlotte will pay tax to Oregon for the part of the year she was a resident, and to both Oregon and Virginia for the part of the year she was a nonresident. She may claim a credit on her Oregon return for taxes paid to Virginia for the part of the year that she was a nonresident of Oregon.
- Georgia rental income. Charlotte will pay tax to both Oregon and Georgia on this income only during the part of the year that she was a resident of Oregon. Once she moves to Virginia and is no longer an Oregon resident, Oregon does not have the right to tax this income. She may claim a credit on her Oregon return for tax paid to Georgia only for the part of the year that she was an Oregon resident. (She will claim a credit on her Virginia return for tax paid to Georgia for the part of the year that she was a Virginia resident.)
- Virginia rental income. Charlotte will pay tax to both Oregon and Virginia for the part of the year that she was a resident of Oregon, and only to Virginia after she moves. She cannot claim a credit on her Oregon return for taxes paid to Virginia on this income when she was an Oregon resident. Instead, she must claim a credit for taxes paid to Oregon on her Virginia return for the part of the year that she was a nonresident of Virginia.

**Nonresidents.** You may claim a credit on your Oregon return if you pay taxes on the same income to both Oregon and one or more of the following states—Arizona, California, Indiana, or Virginia. If you pay Oregon tax on income that is also taxed by a state other than those listed, you must claim the credit for taxes you paid to Oregon on the return you file with the other state. (See the **Note for nonresidents**, below).

**Example 3:** Elisa, a calendar-year taxpayer, is a resident of Indiana who receives income from an upscale boutique she owns in Oregon. Elisa may claim a credit for taxes paid to Indiana on the income from the boutique on her Oregon nonresident return.

**Example 4:** On January 1, Elisa moves away from Indiana and becomes a resident of Hawaii. She still receives income from the boutique in Oregon. Because Hawaii is not one of the states listed above, Elisa must claim a credit for taxes paid to Oregon on the return she files with Hawaii.

**Note for nonresidents.** If a state (other than those listed above) does not allow your credit, you may amend your Oregon nonresident return to claim the credit for taxes paid to that state. You must provide proof of the following:

1. You paid tax to a state (other than Arizona, California, Indiana, or Virginia) on income that was also taxed by Oregon; and
2. You paid the other state's tax at or before the time you filed your Oregon return; and
3. You properly claimed the credit for taxes paid to Oregon on the other state's return; and
4. The other state did not allow your credit.

### How do I calculate the credit amount?

The procedure for calculating the credit depends on whether you are a full-year resident, a part-year resident, or a nonresident of Oregon.

#### Full-year residents

Remember, you may claim the credit on your Oregon return only if you pay tax to Oregon and a state other than Arizona, California, Indiana, or Virginia on the same income.

The credit for a full-year resident is the **smallest** of:

- Your Oregon tax after all other credits; or
- The tax you actually paid to the other state; or
- The amount calculated with Formula I.

**Note: Full-year residents do not use Formula II.**

**Example 5:** Manar has adjusted gross income of \$44,000. This includes \$10,000 of rental income taxed by both Oregon and Idaho and \$5,000 of U.S. bond interest. She received \$1,000 interest from municipal bonds from another state. She has a federal tax liability of \$3,000. Her Idaho income tax is \$300. Her net Oregon tax is \$2,000 (before her credit for income taxes paid to another state). Here's how she calculates her credit:

Federal adjusted gross income	\$ 44,000
Modifications	
Add municipal bond interest	+ 1,000

	\$ 45,000
Less U.S. bond interest	– (5,000)
Modified adjusted gross income	<u>\$ 40,000</u>

**Note:** The federal tax subtraction is not used in this computation.

Formula I:  $(\$10,000 \div \$40,000) \times \$2,000 = \$500$ .

Manar's credit is \$300, the smallest of:

- Her Oregon tax after all other credits (\$2,000); or
- The tax actually paid to Idaho (\$300); or
- The amount from Formula I (\$500).

#### Part-year residents

Your credit is based on your mutually-taxed income, and the tax on that income, during the part of the year that you were a **nonresident** and your mutually-taxed income, and the tax on that income, during the part of the year that you were a **resident**.

Your credit for the part of the year that you were a **nonresident** is the **smallest** of:

- Your Oregon tax on mutually-taxed income from the nonresident period after all other credits; or
- The tax you actually paid to Arizona, California, Indiana, or Virginia on that same income; or
- The amount figured using Formula I, or
- The amount figured using Formula II.

For the part of the year that you were a **resident**, your credit is the **smallest** of:

- Your Oregon tax on mutually-taxed income while you were a resident after all other credits, or
- The tax on that same income you actually paid to a state other than Arizona, California, Indiana, or Virginia, or
- The amount calculated with Formula I.

**Important! Do not use Formula II to calculate the credit for the part of the year that you were a resident.**

**Example 6:** Ezra moved from Idaho to Oregon on September 1. He sold Oregon property on June 10, and sold Idaho property on October 18. He worked in Idaho all year. His Idaho income tax after credits is \$2,000; of this amount, \$700 is on income he received when he was an Oregon resident. His Oregon income tax liability after other credits is \$400; of this amount, \$150 is on income received during the part of the year when he was not an Oregon resident. His income on his Oregon and Idaho returns is:

## Oregon income

Sale of Oregon property June 10	\$13,500
Wages September 1 to December 31	9,000
Interest September 1 to December 31	500
Sale of Idaho property October 18: Idaho capital gain reported	+ 6,000*
Total AGI taxable to Oregon	<u>\$29,000</u>

## Idaho income

Sale of Oregon property June 10	\$13,500
Wages January 1 to December 31	27,000
Interest January 1 to August 31	1,000
Sale of Idaho property October 18: Idaho capital gain reported.	6,000
Less Idaho capital gain exclusion*	(\$3,600)
Net capital gain taxed by Idaho	<u>2,400</u>
Total AGI taxable to Idaho	<u>\$43,900</u>

\*If the other state has any income exclusion that applies to the mutually-taxed income, you must adjust the mutually-taxed income by the exclusion amount.

In this example, Ezra's federal capital gain is \$19,500. Idaho allows Ezra to exclude 60 percent, or \$3,600, of his \$6,000 capital gain from the sale of the Idaho property. Ezra's mutually-taxed income is \$24,900,  $\{(\$6,000 - \$3,600) + 13,500 + 9,000\}$ .

**Nonresident period.** Ezra had \$13,500 in mutually-taxed income while he was a nonresident. However, because Idaho is not one of the four listed states, Ezra must claim his credit for the tax paid to Oregon while he was an Idaho resident on his Idaho part-year return.

**Residency period.** Ezra had \$11,400 in mutually-taxed income when he was an Oregon resident: the \$9,000 in wages earned from working in Idaho, and the \$2,400 portion of the capital gain taxed by Idaho. His total income while he was a resident was \$16,000: the \$9,000 in wages, \$1,000 in interest, and \$6,000 capital gain from the Idaho property.

Here's how Ezra figures his Oregon credit for income taxes paid to Idaho on income received while he was an Oregon resident:

Formula I:  $(\$11,400 \div \$16,000) \times \$250 = \$178$

His credit for the resident part of the year is \$178, the smallest of:

- His Oregon tax after all other credits (\$250),
- The tax actually paid to Idaho (\$700), or
- The amount from Formula I (\$178).

## Nonresidents

Remember, you may claim a credit on your Oregon return only if you pay taxes on the same income to both Oregon and one or more of the following states—Arizona, California, Indiana, or Virginia.

The credit for a nonresident is the **smallest** of:

- Your Oregon tax after all other credits; or
- The tax you actually paid to Arizona, California, Indiana, or Virginia; or
- The amount figured using Formula I, or
- The amount figured using Formula II.

**Example 7:** Mary is a full-year resident of California. She lived in Oregon for 10 years prior to retiring to California. While living in Oregon, she acquired and maintained rental property there. She now receives installment payments from the sale of the property and pays tax to California on the gain and interest. Her California income tax after credits is \$100. Because she is an Oregon nonresident, only the gain is taxed on her Oregon nonresident return. Her Oregon tax after credits is \$350. Her income is as follows:

## Oregon income

Capital gain on installment sale of real property	<u>\$10,000</u>
Total AGI taxable to Oregon	<u>\$10,000</u>

## California income

Capital gain on installment sale of real property	\$10,000
Interest on installment sale	5,000
Other interest	8,000
Business loss	<u>(20,000)</u>
Total AGI taxable to California	<u>\$3,000</u>

Her income taxed by both states is \$10,000.

- Formula I:  $(\$10,000 \div \$10,000) \times \$350$  (\$350).
- Formula II:  $(\$10,000 \div \$3,000) \times \$100$  (\$333).

Her Oregon credit is \$100, the smallest of:

- Her Oregon tax after all other credits (\$350); or
- The tax actually paid to California (\$100); or
- The amount from Formula I (\$350); or
- The amount from Formula II (\$333).

## Where do I report the credit?

A credit for taxes paid to another state is reported on Schedule OR-ASC, Section 3 or Schedule OR-ASC-NP, Section 5. Use credit code 802. Enter the dollar amount of the credit and the two-letter postal abbreviation for the other state. If you are claiming a credit for taxes paid to more than one state, list each state separately. Include Schedule OR-ASC or OR-ASC-NP

when you file your Oregon return, and keep the following with your tax records:

1. A complete copy of the other state's income tax return; and
2. Proof of payment of the tax, such as:
  - A copy of the check written to pay the tax at the time the other state's return is filed;
  - Copies of W-2 statements verifying withholding paid to the other state;
  - A copy of a cashier's check or other negotiable instrument;
  - A copy of a canceled check showing payment of tax or estimated tax payments; or
  - A receipt of tax payment.

### Add-back required

You cannot take a credit and a deduction for the same item on your return. If you are claiming a credit for taxes paid to another state on your Oregon return **and** including those same taxes as an itemized deduction on Schedule A, you must add a portion of the deducted taxes back to your Oregon income. For more information about the add-back requirement and instructions, see the **Additions** section. If you are not itemizing your deductions, you do not have an add-back.

**No carryforward.** Your credit cannot be more than your tax liability for Oregon.

## Exception for Oregon resident partners and S corporation shareholders

### [Credit code 802 or 815]

Owners of companies taxed in Oregon as partnerships or S corporations may be able to claim a credit for income taxes paid to another state on their resident Oregon return. The tax must be an income tax, not a minimum tax.

To claim the credit on the resident return, the partner or shareholder must have elected to be included in the entity's group/composite filing for the other state **and** the entity must have paid the partner's or shareholder's tax liability. The partner or shareholder is considered to have paid a pro rata share of the other state's income tax.

For an Oregon resident partner or S corporation shareholder, the allowable credit is the smallest of the following:

- Oregon tax on the individual's return; or
- The individual's pro rata share of the other state's tax; or

- The individual's pro rata share of the mutually-taxed income from an S corporation or partnership return:
  - divided by the individual's modified Oregon income, and
  - multiplied by the Oregon tax liability from the individual return.

**Example 8:** Oliver is a full-year Oregon resident with modified Oregon income of \$30,400 and Oregon tax (after all other credits) of \$1,538. Oliver is a 10 percent shareholder of My Corp., an electing S corporation in California. California has a corporate tax of 1.5 percent of income, with a minimum corporate tax of \$800. For this tax year, My Corp. distributed \$10,000 among its shareholders, so Oliver's share is \$1,000. The corporation must pay California \$800 of tax, and only \$150 is attributable to income ( $\$10,000 \times 1.5\%$ ). Oliver's share of this tax is \$15. The \$650 balance paid by My Corp is a minimum tax and doesn't qualify for this credit.

Oliver's Oregon credit for income taxes paid to another state is \$15, the smallest of:

- Oregon tax after all other credit: \$1,538,
- Pro rata share of California's tax: \$15,
- $(\$1,000 \div \$30,400) \times \$1,538 = \$51$ .

**Note:** An Oregon resident partner or S corporation shareholder may claim the credit for taxes paid to another state on mutually-taxed income if the other state does not allow the credit. Claim the credit on Schedule OR-ASC using credit code 815.

**Example 9:** Monte, an Oregon resident, receives partnership income from Virginia sources and joins in a multiple nonresident filing with that state. If Virginia does not allow a credit for taxes paid to Oregon on the multiple nonresident tax return, then Monte can claim a credit on his Oregon resident return.

## Mutually-taxed gain on the sale of residential property ORS 316.109

### [Credit code 806]

If you sell your personal residence, your Oregon taxable gain will be the same as your federal taxable gain. Generally, any gain you excluded on your federal return will also be excluded on your Oregon return.

**Exception:** If you were renting out a house and then converted it to your personal residence, the Oregon basis may be different from the federal basis due to depreciation differences.

You may qualify for this credit only if the gain on the sale of your residential property is taxed by both Oregon and another state or country. You may claim either this credit or the credit for income taxes paid to another state, but not both. You are not eligible to claim this credit if you qualify for a credit for taxes paid to another state on the other state's tax return.

### How much is the credit?

The credit is the **smaller** of:

- $\frac{\text{Mutually-taxed gain}}{\text{Total income on the return of the other state/country}} \times \text{Other state's/country's tax after all other credits}$

or

- Eight percent of the gain taxed by the other state/country.

**Mutually-taxed gain.** Your mutually-taxed gain is the total gain from the sale of your personal residence, reduced by any deductions or exclusions allowed by either the other state/country or Oregon.

**Addition for taxes deducted from income.** If you deducted the taxes you paid on the gain from your federal taxable income, you may not take the credit unless you add the taxes back on your Oregon return. Report the taxes on Schedule OR-ASC or OR-ASC-NP using addition code 135.

**No carryforward.** Your credit cannot be more than your tax liability for Oregon. Any credit not used this year is lost.

## Oregon Cultural Trust contributions ORS 315.675

[Credit code 807]

Did you make a donation to an Oregon nonprofit cultural organization during the tax year? If so, you can make a matching donation to the Trust for Cultural Development Account and get an Oregon tax credit.

### How much is the credit?

You may get a credit of up to 100 percent of the amount of the matching contribution, to a maximum credit of \$500 per taxpayer (\$1,000 on jointly filed returns). For spouses who file separate returns, each may claim a share that would have been allowed on a joint return in proportion to the contribution each spouse made.

Be sure to keep receipts from both organizations with your tax records.

**Part-year residents and nonresidents.** Multiply the allowable credit by your Oregon percentage.

**No carryforward.** The credit cannot be more than your Oregon tax liability. Any credit not used this year is lost.

For more information, contact the Oregon Cultural Trust at 503-986-0088 or visit their website at [www.culturaltrust.org](http://www.culturaltrust.org).

## Oregon Veterans' Home Physicians ORS 315.624

[Credit code 808]

Physicians who provide medical care to residents of an Oregon Veterans' Home (OVH) may be eligible for a credit of up to \$5,000 per year.

### Who can claim the credit?

Any resident or nonresident individual physician may qualify for the credit. The physician must be licensed to practice under ORS chapter 677. They must provide care to a minimum of at least eight residents at an OVH. S corporation shareholders and partnership members may only claim a credit based on the care they provided. The full amount of the credit shall be allowed to each taxpayer who qualifies in an individual capacity.

### How much is the credit?

The credit is equal to the lesser of:

- \$1,000 for every eight residents for whom the physician provides care at an OVH, or
- \$5,000.

**Part-year residents and nonresidents.** Your credit is the amount allowed to a full-year resident, multiplied by your Oregon percentage.

### Certification required

You must obtain a letter from the OVH where you provided care. The letter must state that you missed no more than 5 percent of your scheduled visits during the tax year. Keep the letter with your tax records; we may request it at a later date.

**No carryforward.** The credit may not exceed your tax liability for the year. There is no carryforward of unused credits. Any credit not used this year is lost.

## Political contributions ORS 316.102

[Credit code 809 – Schedule OR-ASC-NP only]

Oregon law allows a tax credit for political contributions. You may not claim this credit if your federal

adjusted gross income exceeds \$200,000 on a jointly filed return, or \$100,000 on all other returns.

To qualify, you must have contributed money in the tax year you claim the credit. You must reduce the amount of your contribution by the fair market value (FMV) of any items or services you receive in exchange for your contribution. Contributions of goods or services do not qualify. Keep receipts from the candidate or organization with your tax records. You can use copies of cancelled checks as your receipt.

### How much is the credit?

Your credit is equal to your contribution, limited to \$100 on a joint return or \$50 on a single or separate return. The \$3 check-off on the Oregon tax return does not qualify for this credit.

Partners or S corporation shareholders can claim a credit for their share of political contributions made by the partnership or S corporation. The contribution must meet all statutory requirements. The \$50 and \$100 limits apply individually to each partner's or shareholder's return.

### Which contributions qualify?

#### Candidates and their principal campaign committees.

You can claim a credit for a contribution to a candidate for federal, state, or local elective office, or to the candidate's principal campaign committee. To qualify, at least one of the following must occur in Oregon in the same calendar year in which you made your contribution:

- The candidate's name must be listed on a primary, general, or special election ballot,
- A prospective petition of nomination must be filed by or for the candidate,
- A declaration of candidacy must be filed by or for the candidate,
- A certificate of nomination must be filed by or for the candidate,
- A designation of a principal campaign committee must be filed with the Oregon Secretary of State's Office. **Note:** The designation must be made in each year that a contribution is made in order to qualify under this provision.

**Political action committees.** You can claim a credit for contributions to political action committees (PACs). The PAC must have certified the name of its political treasurer with the appropriate filing officer, usually the Secretary of State for statewide or regional elections, your county clerk for county elections, or your city recorder for city elections. PACs registered with the Federal Elections Commission may not be required to register in Oregon.

**Political parties.** Political parties can be national, state, or local committees of major political parties. Oregon also allows a tax credit for contributions made to minor political parties that qualify under state law. Contact the Oregon Secretary of State's Office in Salem at 503-986-1518 to see if a particular party qualifies.

**Newsletter fund—credit not allowed.** Oregon does not allow a credit for contributions made to a newsletter fund.

**Example 1:** Holly contributes \$275 for a fund-raising dinner for a presidential candidate. The FMV of the dinner was \$35. Holly's political contribution is \$240, because she must reduce her \$275 contribution by the \$35 FMV of the dinner she received. Being single, Holly's political contribution credit is limited to \$50.

**Example 2:** Burt donated a desk, chair, and a four-drawer file cabinet to his favorite PAC headquarters. The FMV of the furniture is \$410. Burt has a written receipt from the PAC. He cannot claim a political contribution credit because he didn't contribute money to the PAC. His contribution of office furniture does not qualify for the credit.

**No carryforward.** The credit cannot be more than your tax liability for Oregon. Any credit not used this year is lost.

## Reservation enterprise zone ORS 285C.309

### [Credit code 810]

Businesses in an Oregon reservation enterprise zone that pay tax to tribal governments can claim a credit against their Oregon income tax.

The credit is equal to either:

- The tribal property tax on a business facility that is paid or incurred during the tax year, or
- Any tribal tax paid or incurred during the tax year the business first begins to operate in the reservation enterprise zone.

The credit is allowed only if the tax is imposed uniformly in the territory.

Contact the Oregon Economic and Community Development Department for the location of reservation enterprise zones at: [www.oregon4biz.com](http://www.oregon4biz.com).

### Who can claim the credit?

The credit is available to individuals, partnerships, and corporations. Any business activity qualifies, except property leasing. The business must have begun in 2002 or later. To compute your credit, fill

out Form OR-REZT. Download the worksheet from our website or call us to order it. Keep the completed form with your tax records.

**Part-year residents and nonresidents.** Multiply the credit allowed a full-year resident by your Oregon percentage.

**No carryforward.** The credit cannot be more than your Oregon tax liability. Any credit not used this year is lost.

## Retirement income ORS 316.157

[Credit code 811]

### Who can claim the credit?

If you were age 62 or older on December 31, 2016, and receiving taxable retirement income, you may qualify for this credit. Retirement income includes payments in Oregon taxable income from:

- State or local government public pensions.
- Employee pensions.
- Individual retirement plans.
- Employee annuity plans.
- Deferred compensation plans including defined benefits, profit sharing, and 401(k)s.
- Federal pensions (includes military) not subtracted from Oregon taxable income.

### How do you qualify for the credit?

- Your household income is less than \$22,500 (\$45,000 if married filing jointly); **and**
- Your Social Security and/or Tier 1 Railroad Retirement Board benefits are less than \$7,500 (\$15,000 if married filing jointly), **and**
- Your household income plus your Social Security and Tier 1 Railroad Retirement Board benefits is less than \$22,500 (\$45,000 if married filing jointly).

You can claim this credit or the credit for the elderly or the disabled, but not both.

### What's included in household income?

Household income generally includes all income (both taxable and nontaxable) each spouse received during the year. Household income includes gross income reduced by adjustments as reported in your federal adjusted gross income (AGI).

You also need to include items not in your federal AGI. These items include but are not limited to:

- Veteran's and military benefits.
- Gifts and grants (total amount minus \$500).

- Disability pay.
- Nontaxable dividends (other than "return of capital").
- Inheritance.
- Insurance proceeds.
- Nontaxable interest.
- Lottery winnings.
- Railroad Retirement Board benefits (Tier 2 only).
- Scholarships.
- IRA conversions included in AGI.

See the household income checklist in the **Appendix** for more help. Do not include:

- Social Security and Tier 1 Railroad Retirement Board benefits.
- Your state tax refund.
- Pension income excluded from federal AGI that is a return of your contributions.
- Pensions that are rolled over into an IRA that are not included in AGI.

To determine household income, you must separate income (or loss) from businesses, farms, rentals or royalties, and dispositions of tangible or intangible property. Combine all income from similar sources for net income or loss. Any net loss from the source is limited to \$1,000. Net operating loss carrybacks or carryforwards are not allowed. Capital loss carryforwards are not allowed.

If the combined total of your depreciation, depletion, and amortization deductions is more than \$5,000, you must add the excess back into household income. You must also increase your household income by the Oregon income tax modification for depletion in excess of basis.

### How much is the credit?

Use the following worksheet to calculate your credit:

1. Enter the retirement income of the eligible individual(s) included on Form OR-40, line 7; or Form OR-40-N or OR-40-P Oregon column, lines 15 and 16. (Do not include social security/railroad retirement board benefits). 1. \_\_\_\_\_
2. Enter any federal pension income subtracted from Oregon income. See page 68. 2. \_\_\_\_\_
3. Net Oregon taxable pension. Line 1 minus line 2. 3. \_\_\_\_\_
4. Enter \$7,500 (\$15,000 if married filing jointly). 4. \_\_\_\_\_
5. Enter both spouses' total Social Security and Tier 1 Railroad Retirement Board benefits. 5. \_\_\_\_\_



- |   |           |
|---|-----------|
| 6. Line 4 minus line 5, but not less than -0-.  | 6. _____  |
| 7. Enter your household income. See the next section to determine household income.   | 7. _____  |
| 8. Household income base. Enter \$15,000 (\$30,000 if married filing a joint return). | 8. _____  |
| 9. Line 7 minus line 8, but not less than -0-.  | 9. _____  |
| 10. Line 6 minus line 9, but not less than -0-.                                       | 10. _____ |
| 11. Enter the smaller of line 3 or line 10.   | 11. _____ |
| 12. Multiply line 11 by 9% (.09). This is your credit.                                | 12. _____ |

**Example 1:** Jack owns a farm and has a \$4,000 loss. He is also in a partnership whose main activity is farming. Jack has income from the partnership of \$1,500. His net farm loss is \$2,500. He may claim only \$1,000 of this loss to compute his household income. Any net loss Jack has from other sources is also limited to \$1,000 each. If Jack is claiming more than a \$1,000 loss on any line, he must include a worksheet showing his computations.

**Example 2:** Callie has a business with gross income of \$32,000 for the year. She has an \$11,000 depreciation deduction. Other business expenses are \$24,500. She reports a business loss for federal purposes of \$3,500. She recomputed her business income for household income purposes. The allowable depreciation deduction is limited to \$5,000. She reports \$2,500 business income, computed as follows:

$$\$32,000 - (\$5,000 + \$24,500) = \$2,500.$$

**No carryforward.** The credit cannot be more than your tax liability for the year. Any credit not used this year is lost.

### Rural emergency medical service providers ORS 315.622

**[Credit code 812]**

A tax credit is available for emergency medical service providers in qualifying rural areas of Oregon. The credit is based solely on determination of eligibility by the Office of Rural Health.

**Who can claim the credit?**

Emergency medical service providers (EMS-Ps) who provide volunteer EMS-P services in a qualifying

rural area may be eligible to claim this tax credit. However, the volunteer services must comprise at least 20 percent of the total EMS-P services provided by the individual in the tax year. A qualifying rural area is an area in Oregon that is located at least 25 miles from any city with a population of 30,000 or more.

**How much is the credit?**

The credit is the lesser of \$250 or your tax liability for the year.

**Certification required**

You must apply to the Office of Rural Health each year for confirmation of eligibility. Forms are available on their website at [www.ohsu.edu/oregonrural-health](http://www.ohsu.edu/oregonrural-health). Contact Rural Health in Portland at 503-494-4450 if you have questions or need assistance. Keep a copy of the confirmation letter with your tax records for each year you claim the credit.

**Part-year residents and nonresidents.** If you meet the eligibility requirements, you may receive a credit. Multiply the credit by your Oregon percentage.

**No carryforward.** If your tax liability is less than \$250, any unused credit is lost.

### Rural health practitioners ORS 315.613

**[Credit code 813]**

A tax credit is available for health practitioners in certain rural areas of Oregon. The credit is based on eligibility requirements determined by the Office of Rural Health.

**Who can claim the credit?**

Physicians, dentists, podiatrists, optometrists, physician assistants, certified registered nurse anesthetists, and nurse practitioners can qualify for the credit.

You qualify for the credit if during the tax year you:

- Engage in a rural practice for at least 20 hours per week, averaged over the month.
- Remain willing to serve patients with Medicare coverage and medical assistance.

The percentage of your patients who have Medicare coverage or receive medical assistance must bear the same or greater proportion to the ratio of such persons in need of care in the county served by your practice. This ratio is determined by the Office of Rural Health and may not exceed 20 percent Medicare patients or 15 percent medical assistance patients.

S corporations and partnerships do not qualify for the credit. However, shareholders and partners can take the credit on their individual Oregon income tax returns if they meet the eligibility requirements.

### **Certification required**

You must apply to the Office of Rural Health **each** year for confirmation of eligibility. Visit their website at [www.ohsu.edu/oregonruralhealth](http://www.ohsu.edu/oregonruralhealth) for more information. Contact Rural Health in Portland at 503-494-4450 to request an application. Keep a copy of the confirmation letter with your tax records for each year you claim the credit.

### **How much is the credit?**

The credit is based on the distance from your practice or hospital where you have a membership and a major population center in a metropolitan statistical area. The credit is the lesser of the amount shown in

the table below certified by the Office of Rural Health, or your tax liability for the year. You can claim the credit as long as you have a qualifying practice.

**Part-year residents and nonresidents.** If you meet the eligibility requirements, you may receive a credit. Multiply the credit by your Oregon percentage.

**No carryforward.** There is no carryforward of unused tax credits. Any credit not used this year is lost.

<b>Distance between practice/hospital and major population center, in miles</b>	<b>Credit Amount</b>
At least 10, but less than 20	\$3,000
At least 20, but less than 50	\$4,000
50 or more	\$5,000

# Carryforward credits

These credits are not refundable. They cannot exceed your tax liability for the current tax year, but you may carry forward the unused amount to a later tax year. Refer to the instructions for the credit you are claiming for specific details.

## Agriculture workforce housing ORS 315.164

[Credit code 835]

### Who can claim the credit?

You may be eligible for a credit if you construct or rehabilitate agriculture workforce housing for seasonal or year-round agricultural workers and their immediate families in Oregon. The housing must be occupied at some time during the year by an agricultural worker to qualify for the credit. Housing cannot be used for any purpose except housing for agricultural workers. Your family members are not considered agricultural workers under this credit. The credit is available for projects that physically began on or after January 1, 1990. The project must be completed before you can claim the credit.

**S corporations and partnerships.** Individual shareholders must claim the tax credit based on their percentage of S corporation ownership interest. Individual partners must claim the tax credit based on their distributive share of partnership income. Your percentage should be listed on your Oregon K-1.

**Part-year residents and nonresidents.** The credit is available to nonresidents and part-year residents who build or restore agriculture workforce housing located in Oregon. You must multiply the allowable credit by the Oregon percentage on Form OR-40-N or OR-40-P.

### How much is the credit?

The total credit is 50 percent of the eligible costs actually paid or incurred to complete the agriculture workforce housing project. The credit may be taken in any of the ten consecutive tax years beginning with the tax year the agriculture workforce housing project is completed. However, the amount of credit allowed in any one tax year cannot exceed the lesser of:

- 20% of the total credit; or
- Your Oregon tax liability.

Construction and rehabilitation costs include those for financing, construction, excavation, installation, and permits. Construction costs also include acquisition of new or used prefabricated or manufactured

housing. However, rehabilitation costs do not include the costs of acquiring a building or an interest in a building. In either type of project, construction or rehabilitation, acquisition costs of land and existing improvements on that land used for the project are not eligible costs.

**Depreciation and basis.** Depreciation and amortization expenses associated with the agriculture workforce housing project are not decreased by the amount of the tax credit. Your adjusted basis in the housing project is not decreased by the tax credit.

### Certification required

Oregon Housing and Community Services (OHCS) must inspect the agriculture workforce housing project prior to occupancy. For an application, call OHCS in Salem at 503-986-2008 or visit their website at [www.ohcs.oregon.gov](http://www.ohcs.oregon.gov).

If your project qualifies, you'll get a tax credit approval letter. Keep the letter with your tax records.

**Carryforward.** The credit cannot be more than your tax liability for the year, but you may carry forward any unused credits over the next nine years. Any credit that is not used within nine years is lost.

**Example:** Ann completes an agricultural workforce housing project in tax year 1 with eligible costs of \$1,500,000. She receives a tax credit approval letter certifying a credit of \$750,000 ( $\$1,500,000 \times .50$ ). Ann may choose to claim her credit in any of the 10 consecutive tax years beginning with tax year 1.

Because Ann's tax liability is relatively small for tax years 1 and 2, she chooses to claim her credit in tax year 3. Ann may use the smaller of her tax liability or \$150,000 ( $0.20 \times 750,000$ ) of her credit in any given tax year. Table 1 shows Ann's tax liabilities for the next 12 years, the credit amounts she is using each year, and the credit remaining after each year:

**Table 1: Credits used per year**

Year	Tax liability	Credit used	Unused credit
1	\$500	\$0	\$750,000
2	\$1,000	\$0	\$750,000
3	\$90,000	\$150,000	\$600,000
4	\$127,000	\$150,000	\$450,000
5	\$170,000	\$150,000	\$300,000
6	\$50,000	\$0	\$300,000
7	\$95,000	\$150,000	\$150,000
8	\$40,000	\$0	\$150,000

9	\$32,000	\$0	\$150,000
10	\$60,000	\$150,000	\$0
11	\$45,000	\$0	\$0
12	\$250,000	\$0	\$0

Table 2 also shows Ann’s tax liability per year, along with the amounts she is claiming on her return. She claims any carryforward amount from an earlier year first, and if she still has a tax liability and unused credit remaining, she may use up to the maximum allowed credit for that year. Any excess amount above the lesser of her tax liability or the maximum credit for the year is carried forward to a later year.

**Table 2: Amounts claimed on Ann’s return**

Year	Tax liability	Amount from prior year	Amount awarded this year	Carried forward
1	\$500	N/A	\$0	\$0
2	\$1,000	N/A	\$0	\$0
3	\$90,000	N/A	\$90,000	\$60,000
4	\$127,000	\$60,000	\$67,000	\$83,000
5	\$170,000	\$83,000	\$87,000	\$63,000
6	\$50,000	\$50,000	\$0	\$13,000
7	\$95,000	\$13,000	\$82,000	\$68,000
8	\$40,000	\$40,000	\$0	\$28,000
9	\$32,000	\$28,000	\$0	\$0
10	\$60,000	\$0	\$60,000	\$90,000
11	\$0	\$0	\$0	\$90,000
12	\$250,000	\$90,000	\$0	\$0

In Table 2, the amounts in the “Amount from prior year” and “Amount awarded this year” columns add up to Ann’s tax liability for the year. The amounts in the “Amount awarded this year” and “Carried forward” columns add up to the maximum credit allowed for the year, or if no credit was used that year, the unused carryforward from an earlier year.

If Ann decided to transfer her credit in tax year 6, for example, Table 1 shows that she would have \$300,000 available to transfer. Table 2 shows that Ann would still have \$63,000 carried forward from the credit she used in tax year 5 to apply to her own tax liability in tax year 6 or later, until the carryforward expires in tax year 14 (the ninth year after tax year 5).

## Alternative fuel vehicle fueling stations—carryforward ORS 317.115

[Credit code 851]

**This credit is only available to shareholders of an S corporation that qualifies for the credit or is a qualified transferee.** This certified credit was available to contractors who constructed fueling stations for alternative vehicles. The fueling stations had to be placed in service on or after January 1, 1998 and before January 1, 2012. Certification by the Oregon Department of Energy was required. The amount of the credit was 25% of the cost of the fueling station, but not more than \$750.

**Part-year residents and nonresidents.** You may claim the full amount of the credit, limited by your tax liability as explained below.

**Carryforward.** Your credit cannot be more than your tax liability for the year. Any unused credit may be carried forward for up to five years.

## Alternative Fuel Vehicle Fund carryforward—Notes following ORS 315.336

[Credit code 865]

If you received a tax credit through an Alternative Fuel Vehicle tax credit auction conducted by the Department of Revenue and the Oregon Department of Energy in a prior tax year, and you have a carryforward, claim the credit on Schedule OR-ASC or OR-ASC-NP.

**Part-year residents and nonresidents.** You can claim the full amount of the credit you received in the auction, limited by your tax liability as explained below.

**Carryforward.** The credit cannot be more than your tax liability. If you don’t use the carryforward within three years after you first claimed the credit, it is lost. This credit cannot be transferred or sold.

## Alternative qualified research activities ORS 317.154

[Credit code 837]

**This credit is only available to shareholders of an S corporation that qualifies for the credit, and should be listed on the shareholder’s Oregon K-1.** This credit is allowed to corporations incurring qualified research expenses. The credit amount is equal to 5 percent of

qualified research expenses that exceed 10 percent of Oregon sales, but may not exceed \$10,000 times the number of percentage points by which the qualifying research expenses exceed 10 percent of Oregon sales.

**Part-year residents and nonresidents.** You may claim the full amount of the credit, limited by your tax liability as explained below.

**Carryforward.** Your credit cannot be more than your tax liability for the year. Any unused credit may be carried forward for up to five years. This credit is not transferable.

## Biomass production/collection

**ORS 315.141, 315.144**

### [Credit code 838]

If you produce or collect biomass to be used in Oregon as biofuel, you may be eligible for a tax credit on your Oregon income tax return. (**Note:** This credit is not allowed for canola that is grown, collected, or produced in the Willamette Valley. “Willamette Valley” includes Clackamas, Linn, Marion, Multnomah, Polk, Washington, and Yamhill Counties, and the portion of Benton and Lane Counties lying east of the summit of the Coast Range.)

### Who qualifies?

If you are an agricultural producer or collector of biomass that is used in Oregon as biofuel or to produce biofuel, you can claim a credit up to the amount of your tax liability.

### Certification required

This credit is certified by the Oregon Department of Energy. You can find out more information, read administrative rules, and download an application form from their website, [www.oregon.gov/energy](http://www.oregon.gov/energy).

**Carryforward.** Any credit that exceeds your tax liability may be carried forward for four years. If you don't use the carry forward within four years, it is lost. The credit is not refundable.

**Part-year residents and nonresidents.** You must prorate your credit by your Oregon percentage.

**Credit transfers.** You may transfer your credit to another taxpayer for consideration. You and the transferee must jointly file a notice of tax credit transfer with the department. Go to our website, [www.oregon.gov/dor](http://www.oregon.gov/dor), to download Form OR-TFR or contact us. Both parties must complete and sign the notice. Submit the form to us within 30 days after the transfer is complete.

## Business energy carryforward

**ORS 315.354, 315.357**

### [Credit code 839]

The tax year ending December 31, 2012 was the last year this credit was certified. In order to claim this credit for your qualifying project, you must have:

- Filed a preliminary certification application with the Oregon Department of Energy (ODOE) on or before April 15, 2011; and
- Received preliminary certification from the ODOE before July 1, 2011; and
- Received final certification from the ODOE before January 1, 2013, or demonstrated evidence of beginning construction before April 15, 2011.

Any Oregon business with investments in energy conservation, recycling, renewable energy resources, or less-polluting transportation fuels may qualify for this tax credit.

### How much is the credit?

The tax credit was 35 percent of the eligible project costs. You took the credit over five years: 10 percent in the first and second years and 5 percent each year thereafter.

Those with eligible project costs of \$20,000 or less could have taken the tax credit in one year. The credit is not refundable and cannot exceed your tax liability.

Certain facilities using or producing renewable energy resources were allowed a tax credit of 50 percent of eligible project costs. This credit is claimed at 10 percent each year for five years.

Do not adjust your Oregon basis for the amount of any credits claimed.

New applications are no longer being accepted. For more information, contact the Oregon Department of Energy at 1-800-221-8035 (toll-free from an Oregon prefix), in Salem at 503-378-4040, or go to [www.oregon.gov/energy](http://www.oregon.gov/energy).

### Certification required

Apply for a final tax credit certificate when your project is finished. Department of Energy staff will review your actual expenses and, when approved, will send you the final certificate. Keep a copy of the final certification with your Oregon tax records.

**Carryforward.** Your credit cannot be more than your tax liability. You may carry forward any unused credit over the next eight years. If you don't use the carryforward within eight years after the credit is first claimed, any unused amount is lost.

## Child and dependent care carryforward ORS 316.078

[Credit code 840]

The last year to qualify for this credit was 2015. If you have a carryforward from the 2015 tax year, you may claim it on Schedule OR-ASC or Schedule OR-ASC-NP using credit code 840 in the “Amount from prior year” column. Your credit cannot be more than your tax liability for Oregon. Any credit not used within five years after it was first allowed is lost.

## Child Care Fund contribution ORS 315.213

[Credit code 841]

Contributions to the Child Care Fund qualify for a credit on your Oregon income tax return. Your donation will help address child care affordability, provider compensation, and quality assurance issues in Oregon. For details on the program, go to the Oregon Office of Child Care, [www.oregon.gov/occ](http://www.oregon.gov/occ).

### Certification required

The Office of Child Care will compute your allowable tax credit and give you a certificate. The credit can't be more than 50 percent of the amount contributed. Keep this certificate with your permanent tax records.

**Add-back required.** If you claim your Child Care Fund contribution as an itemized deduction on your Schedule A, you must add back that amount to income. See the **Additions** section for more information.

**Part-year residents and nonresidents.** You can claim the credit allowed a full-year resident. See page 92 for instructions on reporting any add-back amount as a modification on Schedule OR-ASC-NP.

**Carryforward.** Your credit may not be more than 50 percent of the amount contributed during the tax year as certified by the Office of Child Care, or your tax liability for Oregon, whichever is less. You may carry forward any unused credit over the next four years. If you don't use the carryforward within four years, it is lost.

## Contribution of computers or scientific equipment for research carryforward ORS 317.151

[Credit code 842]

**This credit is only available to shareholders of an S corporation that qualifies for the credit.** This credit was allowed to corporations that made charitable contributions of computers or scientific research equipment to educational organizations prior to January 1, 2014. The credit amount was equal to 10 percent of the fair market value of the contribution. The allowable credit was limited to the corporation's tax liability for the year, other than the corporate minimum tax.

**Part-year residents and nonresidents.** You may claim the full amount of the credit, limited by your tax liability as explained below.

**Carryforward.** Your credit cannot be more than your tax liability for the year. Any unused credit may be carried forward for up to five years. This credit is not transferable.

## Crop donation ORS 315.156

[Credit code 843]

Oregon allows a tax credit for crops donated to a gleaning cooperative, food bank, or other charitable organization that distributes food without charge. The organization receiving the donation must have a principal or ongoing purpose of distribution of food to children, homeless, unemployed, elderly, or low-income individuals. The organization must be located in Oregon and exempt from federal income taxes under the Internal Revenue Code.

To qualify for this credit, you must:

- Be in the business of growing a crop to be sold for cash; and
- Donate the crop to a tax-exempt organization located in Oregon; and
- Complete Form OR-CROP, which must be signed by the organization receiving the donation.

The crop must be fit for human consumption. The food must meet all quality and labeling standards imposed by federal, state, or local laws, even though the food may not be readily marketable due to appearance, age, freshness, grade, size, surplus, or other condition. Eligible crops include, but are not limited to, bedding plants that produce food, orchard stock that produces food, and livestock that may be processed into food for human consumption.

## How much is the credit?

The credit is 15 percent of the value of the quantity of the crop donated, computed at the wholesale market price at the time of donation. The wholesale market price is determined by either:

- The amount paid to the grower by the last cash buyer of the particular crop, or
- In the event there is no previous cash buyer, a price based on the market price of the nearest regional wholesale buyer or a regional u-pick market price.

**Example:** 5,000 pounds of potatoes @ \$.10/lb.  
 $5,000 \times .10 = \$500$  (market value)  
 $15\% (.15) \times \$500 = \$75$  (credit allowed)

## Certification required

Keep the completed Form OR-CROP with your tax records to verify your donation. The organization where you donate the crop may have this form available, or you may download it from our website. Also, if there was a previous cash buyer, you must keep a copy of an invoice or other statement identifying the price received for crops of comparable grade or quality.

**Part-year or nonresident.** You must prorate this credit by multiplying the amount by your Oregon percentage.

**Carryforward.** Your credit may not be more than your tax liability for Oregon. You may carry forward any unused credit over the next three years. If you don't use the carryforward within three years, it is lost.

## Electronic commerce zone investment ORS 315.507

### [Credit code 845]

This credit is available to individuals and businesses that engage in electronic commerce in an Oregon enterprise zone or city designated for electronic commerce. Go to [www.oregon4biz.com](http://www.oregon4biz.com) for complete information.

## What costs qualify?

Qualifying costs are investments in capital assets related to electronic commerce sales, customer service, order fulfillment, or broadband infrastructure.

## Certification required

You may download the authorization application and property tax exemption claim forms from our website at [www.oregon.gov/dor](http://www.oregon.gov/dor).

## How much is the credit?

The credit is equal to 25 percent of the investments made during the tax year. The maximum credit allowed in any tax year is \$2 million.

**Part-year residents and nonresidents.** Multiply your credit by your Oregon percentage.

**Carryforward.** Your credit cannot be more than your tax liability for Oregon. You may carry forward any unused credit over the next five years. If you don't use the carryforward within five years, it is lost.

## Employer-provided dependent care assistance ORS 315.204

### [Credit code 846]

This credit expired at the end of the 2015 tax year. You may carry forward any unused credit for up to four years after the first year you claimed it. If you have a carryforward from the 2015 tax year, you may claim it on Schedule OR-ASC or Schedule OR-ASC-NP using credit code 846 in the "Amount from prior year" column. The credit may not be more than your tax liability for the year. Any credit not used within those four years is lost.

## Employer scholarship ORS 315.237

### [Credit code 847]

A tax credit is allowed to Oregon employers who have scholarship programs for their employees and their employees' dependents.

## How much is the credit?

The credit is the smaller of:

- 50 percent of the amount of qualified scholarship funds actually paid to or on behalf of qualified scholarship recipients during the tax year; **or**
- \$50,000.

## Certification required

To receive the credit, you must be certified by the Oregon Student Assistance Commission and apply to participate in the Tax Credit Program. Keep the certificate with your tax records.

For an application and more information, contact the commission in Eugene at 541-687-7400 or toll-free from an Oregon prefix at 1-800-452-8807, ext. 7400, or go to their website at [www.oregonstudentaid.gov](http://www.oregonstudentaid.gov).

**Part-year residents and nonresidents.** Multiply your credit by your Oregon percentage.

**Carryforward.** Your credit cannot be more than your Oregon tax liability. You can carry forward any unused credit over the next five years. If you don't use the carryforward within five years, it is lost.

## Energy conservation project ORS 315.331

[Credit code 849]

A tax credit is allowed for energy conservation projects certified by the Oregon Department of Energy. The project must be located in Oregon, and final certification must be received from the Department of Energy before the credit may be claimed.

### How much is the credit?

The credit is up to 35 percent of the certified cost of the project. You must take the credit over five years: 10 percent in the first and second years, and 5 percent in each of the three years thereafter until all the credit has been used.

**Exception:** Those with certified costs of \$20,000 or less may take the entire tax credit in the first year.

### Certification required

Apply for a final tax credit certificate when your project is finished. Department of Energy staff will review your actual expenses and, when approved, will send you the final certificate. Keep a copy of the final certification with your Oregon tax records.

**Note:** Beginning with applications submitted after September 1, 2015, projects with certified costs of \$1 million or more must be recertified every year for three years following the date of final certification.

For an application, fee information, and assistance with the application process, contact the Oregon Department of Energy at 1-800-221-8035 (toll-free from an Oregon prefix), in Salem at 503-378-4040, or go to [www.oregon.gov/energy](http://www.oregon.gov/energy).

**Carryforward.** Your credit cannot be more than your tax liability for the year. You can carry forward any unused credit over the next five years. If you don't use the carry forward within five years, it is lost.

### Credit transfers

The owner of a project may transfer the credit in exchange for a cash payment equal to the present day value of the tax credit, as established by the Department of Energy. The credit may only be transferred to another personal income taxpayer, a C corporation, or an S corporation. Transfer to a partnership is not allowed. The credit may only be transferred once.

## Fish screening devices ORS 315.138

[Credit code 850]

A tax credit is available to taxpayers who pay to install fish screening devices required by the Oregon Department of Fish and Wildlife (ODFW).

### Who can claim the credit?

The credit is available to individuals, partners, sole proprietorships, and S corporation shareholders. Shareholders and partners can claim the credit based on their pro rata share of the certified costs.

### How much is the credit?

**Full-year residents.** The credit is equal to the smaller of:

- 50 percent of the net costs of installing the device, or
- \$5,000.

You can still claim any depreciation or amortization otherwise allowed. Do not reduce your basis in the property by the credit amount.

**Part-year residents and nonresidents.** Multiply the credit allowed a full-year resident by your Oregon percentage.

### Certification required

ODFW will send you a preliminary certificate within 90 days of the receipt of plans, specifications, and other information it requests from you. After you complete the project, ODFW will send you a final certificate that includes the verified costs of the installation. Contact ODFW in Salem at 503-947-6000 or toll-free from an Oregon prefix at 1-800-720-6339, or go to [www.dfw.state.or.us](http://www.dfw.state.or.us).

Keep the final ODFW certificate with your tax records. Also keep a statement showing the computation of the allowed credit, if this is not on the certificate.

**Carryforward.** The credit for the year cannot be more than your tax liability for Oregon. You can carry forward any unused credit over the next five years. If you don't use the carryforward within five years, it is lost.

## Lender's credit: affordable housing ORS 317.097

[Credit code 854]

**This credit is only available to shareholders of an S corporation that qualifies for the credit, which should**



**be listed on the shareholder's Oregon K-1.** This transferable certified credit is available to lending institutions making qualifying loans to finance certified housing projects for low-income households. Annual certification by Oregon Housing and Community Services is required.

**Part-year residents and nonresidents.** You may claim the full amount of the credit, limited by your tax liability as explained below.

**Carryforward.** Your credit cannot be more than your tax liability for the year. Any unused credit may be carried forward for up to five years.

### **Lender's credit: energy conservation carryforward ORS 317.112**

[Credit code 848]

**This credit is only available to shareholders of an S corporation that qualifies for the credit.** This credit was allowed to commercial lending institutions that made loans to owners of oil- or wood-heated residential property, to finance energy conservation measures. The loans had to be made prior to January 1, 2012.

**Part-year residents and nonresidents.** You may claim the full amount of the credit, limited by your tax liability as explained below.

**Carryforward.** Your credit cannot be more than your tax liability for the year. Any unused credit may be carried forward for up to 15 years. This credit is not transferable.

### **Long-term enterprise zone facilities ORS 317.124**

[Credit code 853]

**This credit is only available to shareholders of an S corporation that qualifies for the credit, which should be listed on the shareholder's Oregon K-1.** This certified credit is for corporations that construct and operate facilities in a qualified rural enterprise zone, where the facility is eligible for long-term exemption from property tax. The credit is a percentage of the payroll costs attributable to employment at the facility.

**Part-year residents and nonresidents.** You may claim the full amount of the credit, limited by your tax liability as explained below.

**Carryforward.** Your credit cannot be more than your tax liability for the year. Any unused credit may be carried forward for up to five years. This credit is not transferable.

## **Oregon IDA Initiative Fund donation ORS 315.271**

[Credit code 852]

Individual Development Accounts, or IDAs, are matched savings accounts that build the financial management skills of qualifying Oregonians with lower incomes while they save toward a defined goal. Oregon allows a tax credit for donations made to the Oregon IDA Initiative Fund during the tax year. The total amount of credits allowed to all taxpayers in any tax year may not exceed \$7.5 million.

### **How much is the credit?**

The credit amount is the percentage determined by the fiduciary agency, but may be no more than 70 percent of the donation made. The maximum credit amount allowed for any taxpayer in any tax year, including amounts carried forward from an earlier tax year, is \$500,000.

### **Add-back required**

You may not claim both the tax credit and a charitable deduction from taxable income for the same contribution. If you claim the credit, you must add back the amount donated that was used to calculate the credit that was also deducted on your Oregon return. This amount is found by dividing the amount of your credit by the percentage determined by the fiduciary agency. See the **Additions** section for instructions on reporting the add-back amount.

**Part-year residents and nonresidents.** Your credit is the same as that allowed for a full-year resident. See page 92 for instructions on reporting any add-back amount as a negative modification on Schedule OR-ASC-NP.

**Carryforward.** The credit cannot be more than your Oregon tax liability. You may carry forward any unused credit for the next three years. If you do not use the unused credit within three years, it is lost.

For information on how to make a donation to the Oregon IDA Initiative Fund, contact The Neighborhood Partnership Fund at 503-226-3001 or visit their website at [www.neighborhoodpartnerships.org](http://www.neighborhoodpartnerships.org).

## Oregon Low-Income Community Jobs Initiative/New Markets ORS 315.533

### [Credit code 855]

The New Markets tax credit was available for a qualified equity investment made before July 1, 2016 in a qualified community development entity. For more information on qualifying investments and entities, visit [www.oregon4biz.com](http://www.oregon4biz.com), or contact the Oregon Business Development Department at 503-986-0163.

### How much is the credit?

The credit is equal to 39% of the purchase price of the qualified equity investment. It must be taken over seven years, beginning with the year of investment.

The allowable tax credit for each of the seven years is:

- -0- percent in the first and second years.
- 7 percent of the purchase price in the third year.
- 8 percent of the purchase price in each of the fourth through seventh years.

### Certification required

You must have obtained certification from the Oregon Business Development Department indicating the amount of your tax credit. Keep your certificate with your tax records.

**Part-year residents and nonresidents.** Multiply your credit by your Oregon percentage.

**Carryforward.** The credit cannot be more than your tax liability. You can carry forward any unused credit over the next five years. If you don't use the carryforward within five years, it is lost. This credit cannot be transferred or sold.

## Oregon Production Investment Fund (auction) ORS 315.514

### [Credit code 856]

You may be able to claim a tax credit if you participated in the Oregon Production Investment Fund tax credit auction conducted by the Department of Revenue, in cooperation with the Oregon Film and Video Office. Proceeds from the auction go to the Oregon Production Investment Fund. Total credits certified by the Oregon Film and Video Office are limited to \$12 million for the fiscal year beginning July 1, 2016. Visit the Oregon Film and Video Office website, [www.oregonfilm.org](http://www.oregonfilm.org), for information about the Oregon Production Investment fund, and our website for

information about upcoming auctions, and auction rules and procedures.

### Certification required

If you received a tax credit through the auction, your credit amount is shown on your certificate issued by the Oregon Film and Video Office. Claim the credit on Schedule OR-ASC or OR-ASC-NP using credit code 856.

### Add-back required

If you claim any amount you paid for this credit as a deduction on your federal return, you must add back that amount to your Oregon income. Report the addition on Schedule OR-ASC, Section 1, or Schedule OR-ASC-NP, Section 2, using addition code 144. For more information, see the **Additions** section.

**Part-year residents and nonresidents.** You can claim the full amount of the credit you received in the auction, limited by your tax liability as explained below. See page 92 for instructions on reporting any add-back amount as a modification on Schedule OR-ASC-NP.

**Carryforward.** The credit cannot be more than your tax liability. You can carry forward any unused credits over the next three years. If you don't use the carryforward within three years, it is lost. This credit cannot be transferred or sold.

**Auction information.** Visit [www.oregon.gov/dor](http://www.oregon.gov/dor) for information on upcoming auctions and auction rules and procedures.

## Pollution control facilities carryforward ORS 315.304

### [Credit code 857]

### Certification required

This credit was certified by the Oregon Department of Environmental Quality (DEQ). The last year to apply for certification of a pollution control facility was 2008. The total amount of the certified credit was divided over the remaining useful life of the facility, up to a maximum of ten years. The credit for each year was limited to the tax liability for that year.

**Carryforward.** You can carry forward unused pollution control credits from a given tax year for three years. You should carry forward the oldest credit first. Use the *Taxpayer's Annual Worksheet for Pollution Control Facility Tax Credit* to calculate and track the credits and carryforwards you are claiming each

year. The worksheet is available from the DEQ website, [www.oregon.gov/deq](http://www.oregon.gov/deq).

## Qualified research activities ORS 317.152

[Credit code 858]

**This credit is only available to shareholders of an S corporation that qualifies for the credit, which should be listed on the shareholder's Oregon K-1.** This credit is allowed to corporations that increase their qualified research expenses and basic research payments as described in section 41 of the Internal Revenue Code.

**Part-year residents and nonresidents.** You may claim the full amount of the credit, limited by your tax liability as explained below.

**Carryforward.** Your credit cannot be more than your tax liability for the year. Any unused credit may be carried forward for up to five years. This credit is not transferable.

## Renewable energy development contribution (auction) ORS 315.326

[Credit code 859]

You may be able to claim a tax credit if you participated in the Oregon Renewable Energy Development tax credit auction conducted by the Department of Revenue, in cooperation with the Oregon Department of Energy. Proceeds from the auction go to a sub-account from which the Oregon Department of Energy will issue grants for renewable energy development in Oregon. Total credits certified by the Oregon Department of Energy each fiscal year are limited to \$1.5 million.

**Certification required.** If you received a tax credit through the auction, your credit amount is shown on your certificate issued by the Oregon Department of Energy. Claim the credit on Schedule OR-ASC or OR-ASC-NP using credit code 859.

**Add-back required.** If you claim any amount you paid for this credit as a deduction on your federal return, you must add back that amount to your Oregon income. If you are filing Form OR-40, report the addition on Schedule OR-ASC, Section 1 using addition code 145. If you are filing Form OR-40-N or OR-40-P, see page 92 for further instructions. For more information, see the **Additions** section.

**Part-year residents and nonresidents.** You can claim the full amount of the credit you received in the

auction, limited by your tax liability as explained below. See page 92 for instructions on reporting any required add-back amount as a modification on Schedule OR-ASC-NP.

**Carryforward.** The credit cannot be more than your tax liability. You can carry forward any unused credits over the next three years. If you don't use the carryforward within three years, it is lost. This credit cannot be transferred or sold.

**Auction information.** Visit [www.oregon.gov/dor](http://www.oregon.gov/dor) for information on upcoming auctions and auction rules and procedures.

## Renewable energy resource equipment manufacturing facility ORS 315.341

[Credit code 860]

A tax credit is allowed for renewable energy resource equipment manufacturing facilities based on the cost certified by the Business Development Department or Department of Energy.

### What qualifies?

The facility project must be located in Oregon and the final certification must be received from the Oregon Business Development Department (certificates issued on or after January 1, 2012), or the Oregon Department of Energy, (certificates issued before January 1, 2012).

### How much is the credit?

The credit is 10 percent of the certified cost of the facility. It is taken in each of the five succeeding tax years beginning with the tax year in which the application for final certification is received by the Oregon Business Development Department. The total credit taken cannot exceed 50 percent of the certified cost of the facility.

### Certification required

For an application, fee information, and assistance with the application process, contact the Oregon Business Development Department in Salem at 503-986-0123, or go to [www.oregon4biz.com](http://www.oregon4biz.com). Apply for a final tax credit certificate when your project is finished. Business Development Department staff will review your actual expenses and, when approved, will send you the final certificate. Keep a copy of the final certification with your tax records.

**Carryforward.** Your credit cannot be more than your tax liability. You can carry forward any unused credit

over the next eight years. If you don't use the carry forward within eight years, it is lost.

## Credit transfers

The owner or lessee of the facility may transfer the credit in exchange for a cash payment equal to the present day value (as determined by the Oregon Business Development Department) of the tax credit. The credit may only be transferred once, and may not be transferred at all if any amount is claimed prior to the transfer.

## Residential energy ORS 316.116

### [Credit code 861]

You can qualify for a credit on your Oregon income taxes by purchasing certain energy-efficient items that are certified by the Oregon Department of Energy.

### What qualifies?

#### Category one alternative energy devices:

- Systems that use solar energy for space heating or cooling.
- Systems that use solar energy for water heating.
- Ground source heat pumps or geothermal systems.
- Any wind-powered device used to offset or supplement electricity.
- Equipment used in the production of alternative fuels.
- Generators powered by alternative fuels and used to produce electricity.
- An energy-efficient appliance.
- Premium efficiency wood or pellet stoves.

#### Category two alternative energy devices:

- Solar electric systems.
- Wind electric systems.
- Fuel cell systems.
- Alternative fuel devices.

Dishwashers, clothes washers, refrigerators, air conditioners, and boilers no longer qualify.

### Who can claim the credit?

Homeowners, renters, and contract buyers who purchase qualifying devices for Oregon residential property can apply for the credit. A person who pays the present value of the tax credit to the person who purchases the device may also apply for the credit.

### How much is the credit?

The tax credit is based on an estimate of how much energy the system will save in the first year. The value

of the credit per kilowatt-hour (kWh) saved depends on the type of equipment or system. The maximum credit allowed for each Category One device is \$1,500. The maximum credit allowed for each Category Two solar electric or fuel cell system is \$3 per watt of installed output, not to exceed 2,000 watts or \$6,000. For wind electric systems, the maximum credit is \$2 per watt up to 3,000 watts. The credit for an alternative fuel device is 50 percent of the cost, not to exceed \$750.

### Certification required

Complete an *Application and Verification Form for Residential Energy Tax Credit Certification* for the system or equipment you buy. Qualifying lists of systems or equipment are on the Oregon Department of Energy website at [www.oregon.gov/energy](http://www.oregon.gov/energy). Send the application to the Oregon Department of Energy with proof of payment. When approved, you will get certification showing your qualified tax credit.

For an application form and lists of qualifying equipment, go to [www.oregon.gov/energy](http://www.oregon.gov/energy) or call 503-378-4040 or toll-free from an Oregon prefix at 1-800-221-8035.

Claim the credit in the tax year you purchased the device if it was operational by April 1 of the next year.

**Example 1:** You purchased a qualifying solar energy water heating system in December 2016 and had it installed and operating by February 2017. Claim the credit on your 2016 tax return.

**Example 2:** You purchased a qualifying ground source heat pump in October 2016 and had it installed and operating by May 2017. Claim the credit on your 2017 tax return. Don't claim it on your 2016 return because the pump wasn't in operation by April 1, 2017.

Keep your certification, a copy of your application, proof of payment, and any supporting documentation with your tax records. Do not include these items with your tax return.

**Part-year residents and nonresidents.** Multiply the credit allowed a full-year resident by your Oregon percentage.

**Carryforward.** The credit cannot be more than your tax liability for Oregon. You may carry forward any unused credit for up to five years. If you do not use the credit within five years, it is lost.

## Riparian land carryforward ORS 315.113

### [Credit code 862]

2011 was the last year this credit could be claimed. However, you can carry forward any unused credit for five years. The credit cannot be more than your tax liability for Oregon. If you don't use the carryforward within five years, it is lost. For more information on this credit, see the 2011 edition of this publication.

## Transportation projects ORS 315.336

### [Credit code 863]

A tax credit is allowed for alternative fuel vehicle infrastructure transportation projects certified by the Department of Energy. All other transportation project credits have expired. If you have a credit carried forward from an earlier tax year, see the carryforward provisions, below.

### What qualifies?

The transportation project must be located in Oregon and the final certification must be received from the Oregon Department of Energy.

### How much is the credit?

The credit for alternative fuel vehicle infrastructure projects was limited to 35 percent of the certified costs. For credits issued after July 1, 2011, no more than 5 percent of the certified costs may be claimed in any tax year.

### How to apply for the credit

For an application, fee information, and assistance with the application process, contact the Oregon Department of Energy at 1-800-221-8035 (toll-free from an Oregon prefix), in Salem at 503-378-4040, or go to [www.oregon.gov/energy](http://www.oregon.gov/energy).

### Certification required

Apply for a final tax credit certificate when your project is finished. Department of Energy staff will review your actual expenses and, when approved, will send you the final certificate. Keep a copy of the final certification with your Oregon tax records.

**Carryforward.** Your credit cannot be more than your tax liability. You can carry forward any unused credit over the next five years. If you don't use the carryforward within five years, it is lost.

## Credit Transfers

The owner of the project may transfer the credit in exchange for cash payment equal to the present value of the tax credit, as determined by the Department of Energy. The credit may only be transferred to another personal income taxpayer, a C corporation, or an S corporation. Transfer to a partnership is not allowed. The credit may only be transferred once, and the transfer must take place before the credit is claimed on a return.

## University venture development fund contributions ORS 315.521

### [Credit code 864]

A tax credit is available for contributions to Oregon university venture development funds.

### Who can claim the credit?

Any taxpayer who makes a qualifying charitable contribution to an Oregon university venture development fund is eligible for the credit. S corporations and partnerships may claim a credit for their contributions.

**Add-back required.** If you claim your contribution as an itemized deduction on your federal return, you must add back that amount to your Oregon income. For more information on how to report the addition, see the **Additions** section.

### How much is the credit?

The credit is 60 percent of the amount contributed, as stated on the tax credit certificate. The amount of the credit allowed to be taken on your Oregon tax return may not be more than your tax liability for the year.

### Certification required

The university that established the fund will issue a tax credit certificate to you. Keep this certificate with your tax records.

**Part-year residents and nonresidents.** Multiply the allowable credit by your Oregon percentage. See page 92 for instructions for reporting any required add-back amount as a negative modification on Schedule OR-ASC-NP.

**Carryforward.** Your credit is limited to your tax liability for the year. Any unused credit may be carried forward for three years. If you don't use the carryforward within three years, it is lost.

# Refundable credits

Refundable credits may exceed your tax liability for the year. The amount of the credit that exceeds your tax liability will be refunded to you.

## Claim of right income repayment

[Credit code 890]

Did you repay over \$3,000 of income taxed by Oregon in a prior year and claim a federal claim of right deduction or credit under IRC § 1341? If so, you may claim an Oregon credit based on the Oregon tax you paid in that earlier year for the income that you repaid. Repayments of \$3,000 or less do not qualify for an Oregon credit.

If you claimed a credit on your federal return, follow the instructions on Worksheet OR-CRC to calculate your Oregon credit. Worksheet OR-CRC is available from our website.

If you claimed a federal deduction for the repayment, you have a choice for Oregon. The deduction can flow through to your Oregon return, or, if it results in less tax, you can claim the Oregon credit instead. If you let the federal deduction flow through, you don't need to do anything further on your Oregon return. If you claim the credit, you must add back any federal deduction as an Oregon addition. See the instructions for Worksheet OR-CRC if you're not sure which option is best. More information can be found in the **Additions** section. For part-year residents or non-residents, see page 92 for instructions on reporting any required add-back as a modification on Schedule OR-ASC-NP.

## Earned income credit ORS 315.266

You're allowed an Oregon earned income credit (EIC) only if you qualify for the earned income credit on your federal return. Your Oregon EIC is refundable. If the credit is more than your Oregon tax liability, the difference will be refunded to you.

**Full year residents.** Your Oregon EIC is 8 percent of your federal EIC.

**Part-year residents and nonresidents.** Your Oregon EIC is 8 percent of your federal EIC, multiplied by your Oregon percentage.

## Manufactured home park closure— temporary provisions following ORS 316.116

[Credit code 891]

Did you move out of a manufactured home park in 2016 because the park was closing? If so, you may be eligible for a credit. To qualify, you must meet **all** of the following requirements:

- Own your manufactured home; and
- Rent space in a manufactured home park that is closing; and
- Occupy your manufactured home as your principal residence; and
- Receive notice that the park is closing, and
- Move out of the manufactured home park (along with all members of your household) because of the park closure notice.

If you qualify, you can claim a \$5,000 refundable credit on your tax return for the year that your household moved out of the park. To claim this credit, fill out Schedule OR-MPC, and enter the credit amount on Schedule OR-ASC, section 5 or Schedule OR-ASC-NP, Section 7, using credit code 891. Include Schedule OR-MPC with your tax return.

**Note:** If you qualify for this credit, you may have received a payment from your landlord of \$5,000, \$7,000, or \$9,000 depending on the size of your manufactured home. These payments can be subtracted on your Oregon return if they are included in taxable income on your federal return. See the **Subtractions** section for more information.

## Working Family Household and Dependent Care (WFHDC) ORS 315.264

[Credit code 895]

This refundable credit is available to low- to moderate-income working families who paid for dependent care during the year for one or more qualifying individuals. For more information, see the WFHDC schedule.

### Who can claim the credit?

To qualify for this credit, **all** of the following must be true:

1. You had earned income for the year.

If you looked for work but didn't find a job, and you don't have earned income for the year, you can't claim the credit. Unemployment benefits don't count as earned income.

**Note:** If you are married and you (or your spouse) paid for dependent care because you (or your spouse) attended school full-time or were unable to provide self-care due to a disability, special rules attributing earned income to you (or your spouse) will apply. See the instructions for the WFHDC schedule for more information.

2. You paid dependent care expenses during the year so that you or your spouse could work, or look for work, or if married, you (or your spouse) paid for dependent care because you (or your spouse) were a full-time student or unable to provide self-care due to a disability.

Care expenses must be paid by the person who claims the credit. If these expenses were paid by someone else, such as a state agency or a family member, they don't qualify for this credit. Expenses you paid using pre-tax dollars, such as through a flexible spending arrangement with your employer, do qualify for the credit.

3. Your filing status is single, head of household, qualifying widow(er), or married filing jointly. If you are married filing separately, see the WFHDC schedule instructions to see if you meet any exceptions.

4. The care was provided for one or more qualifying individuals. See the WFHDC schedule instructions to learn more about who qualifies.

5. The person who provided the care wasn't your spouse, your qualifying dependent's parent, or a person you can claim as a dependent; if your child provided the care, he or she was age 19 or older at the end of the year and can't be claimed as your dependent.

6. Your federal adjusted gross income or your Oregon adjusted gross income, whichever is greater, is at or below the allowable limit for your household size. See the table for allowable limits.

Household size	AGI limit
2	\$48,060
3	\$60,480
4	\$72,900
5	\$85,320
6	\$97,740
7	\$110,190
8 or more	\$122,670

## How much is the credit?

The credit amount is based on your income, care expenses paid, household size, and the age of your youngest qualifying individual.

**Part-year residents and nonresidents.** Multiply your credit by your Oregon percentage.

**Add-back required.** If you are deducting medical expenses on Schedule A that you are also claiming as expenses on your WFHDC schedule, you must add back the expenses you deducted on Schedule A. See the **Additions** section for more information about this requirement.

## How do I claim the credit?

If all of the statements above are true for you, fill out one of the following WFHDC schedules:

- Schedule OR-WFHDC if you're a full-year resident, or
- Schedule OR-WFHDC-NP if you're a part-year resident or nonresident.

Download the schedule from our website, [www.oregon.gov/dor](http://www.oregon.gov/dor), or contact us to order a copy. You'll also need a copy of your Oregon tax return, including Schedule OR-ASC or Schedule OR-ASC-NP, and federal Form 2441, *Child and Dependent Care Expenses*.

You have to figure your adjusted gross income, both federal and Oregon, before you can figure your credit. Make sure all the information you provide is complete and correct when you fill out the WFHDC schedule. We may ask you to verify the information you provide. If you provide incorrect information or an incomplete WFHDC schedule, your credit might be delayed or denied.

Once you have figured your credit, enter the amount on Schedule OR-ASC, section 5 or Schedule OR-ASC-NP, section 7, using credit code 895. Be sure to include Schedule OR-ASC or OR-ASC-NP, as well as the WFHDC schedule, when you file your Oregon tax return.

**Penalty:** You may be charged a penalty if you knowingly claim or knowingly assist someone in claiming this credit falsely. The penalty is up to 25 percent of the amount claimed, and is in addition to the adjustment or denial of the credit.

# Interest on underpayment of estimated tax

## Who must pay

If you were required to make estimated payments but paid less than the required amounts due by each payment date, you have an underpayment of estimated tax. Oregon charges interest on underpayment of the estimated tax due. If you owe \$1,000 or more on your 2016 Oregon income tax return, you must complete Oregon Form OR-10.

## Figure your required annual payment

The required annual payment means the total amount of required installment payments for the tax year that is the lesser of:

- 90 percent of the net tax shown on your 2016 tax return; **or**
- 100 percent of the tax shown on your 2015 Oregon return (commonly called Safe Harbor).

## Figure your required installment payment

The required installment payment means the amount of the payment that is due for each payment period for the tax year using one of the following methods:

- Regular installment—an amount, in each period, equal to 25 percent of the required annual payment; **or**
- Annualized installment—the annualized amount that would be due only on the actual income earned in that period (this method may benefit taxpayers who don't receive their income evenly throughout the year or part-year residents).

The total for the required installment payments must equal the required annual payment amount.

### 2016 required installment due dates:

April 18, 2016

June 15, 2016

September 15, 2016

January 17, 2017

## Exceptions to paying interest on an underpayment of estimated tax

If you meet an exception, you may not have to pay interest on your underpayment.

Enter the exception number on your tax return if you meet one of the following exceptions; don't use Form OR-10.

**Exception 1—Farmers and commercial fishermen.** If at least two-thirds (66.7 percent) of your 2015 or 2016 gross income is from farming or fishing, you will not have to pay underpayment interest.

**Exception 2—Prior year.** You do not need to pay interest on the underpayment of estimated tax if you met **all** of the following qualifications:

- You had no Oregon tax liability\* for 2015; or you were not required to file an Oregon return; and
- Your taxable year was a full 12-month period; and
- You were a full-year Oregon resident for 2015.

*\*Your Oregon tax liability is your liability after tax credits, but before withholding and estimated tax payments.*

**Exception 3—You retired at age 62 or older or became disabled in 2015 or 2016, and your underpayment was for a reasonable cause.** Include a statement with your return explaining the cause to be considered for the exception.

**Exception 4—Underpayment was due to a casualty, disaster, or other unusual circumstances, and it would be unfair to impose underpayment interest.** Include a statement with your return explaining the unusual circumstance.\*

*\*Unusual circumstance is not the same as reasonable cause.*

**Exception 5—First year S corporation shareholders who are nonresidents or were part-year residents.** No interest is due on underpayment of S corporation income as a shareholder if:

- The income is for the first year S corporation status is elected; **and**
- You're a nonresident for 2016; **or**
- You were a part-year resident for 2015.

Keep a copy of your exception explanation with your tax records.



# Estimated tax

## Who must pay

Oregon law requires some taxpayers to pay estimated tax. Oregon's estimated tax system is similar to the federal system, but when you figure estimated tax for Oregon:

- Use Oregon income tax laws and tax rates.
- Do not include Social Security tax (FICA), self-employment tax, or household employment tax.

In most cases, you must make estimated tax payments if you expect to owe **\$1,000** or more when you file your 2017 Oregon income tax return. That's tax you owe after you subtract your credits and the tax withheld from your income, but before you subtract any 2016 refund you applied to your 2017 estimated tax.

### Pay estimated tax for tax year 2017 if:

You expect to owe **\$1,000** or more when you file your 2017 Oregon income tax return, **and** you estimate the total income tax withholding will be less than:

- 100 percent of the tax shown on your 2016 income tax return that covered all 12 months of the year; or
- 90 percent of the tax to be shown on your 2017 income tax return; or
- 90 percent of the tax on your 2017 annualized income.

Even if you expect to owe less than \$1,000, you may still make estimated tax payments.

For more information on how to figure your estimated payments and how to obtain payment vouchers, please visit our website or call us to get a copy of Publication OR-ESTIMATE.

**Note:** Estimated tax payments are not a substitute for withholding Oregon income tax from wage income.

## Farmers and commercial fishermen

Farmers and fishermen are not required to pay estimated tax if at least two-thirds of their 2016 gross income or two-thirds of their 2017 estimated gross income from all sources is from farming or fishing. This includes oyster farming. Enter Exception #1 on your tax return. Don't use Form OR-10.

## Nonresidents and part-year residents

Nonresidents figure Oregon estimated tax only on income that is:

- Subject to Oregon withholding; or
- From conducting a trade or business within Oregon; or
- Single ticket Oregon lottery winnings greater than \$600.

## S corporation, limited liability company (LLC), or partnership income

If you're a shareholder in an S corporation, a member of an LLC, or in a partnership with income from Oregon sources, you may need to make estimated tax payments.

**Part-year residents.** For the part of the year you were a nonresident, you are subject to Oregon tax on your share of the Oregon income reported by the S corporation, LLC, or partnership. Partners must also report guaranteed payments. For the part of the year you were a resident, you're subject to Oregon tax on your share of all the S corporation, LLC, or partnership income.

**Nonresidents.** You're subject to Oregon tax on your share of the Oregon income reported by the S corporation, LLC, or partnership. You're also subject to Oregon tax on any guaranteed payments from the partnership. The payments are apportioned using the partnership's percentage.

## Retirees

If you're retired or will soon retire, you may need to make estimated tax payments. Or, you may be able to have Oregon income tax withheld from your retirement income. Contact the payer of the income to see if this is possible.

Retirees who are Oregon residents but not living in Oregon may be subject to tax on their Oregon-source pensions. This law applies to retirees who still have Oregon as their domicile but file as nonresidents.

## Nonresident aliens

Estimated tax filing requirements are the same for both United States citizens and nonresident aliens. Nonresident aliens can be either Oregon residents or nonresidents. If you or your spouse is a nonresident alien, you must file separate estimated tax forms.

## Fiduciaries

Do not file Form OR-40-V. You do not need to pay estimated tax on behalf of an estate or trust.

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# Appendix

## Contents

**2016 Household Income Checklist**  
**2016 Numeric Codes for Oregon**  
**Adjustments, Additions, Subtractions,**  
**Modifications, and Credits**

# Household income checklist

Use this list to decide if an item must be included in total household income.

<b>Alimony and separate maintenance</b>	Yes	
<b>Annuities and pensions (reduced by cost recovery)</b>	Yes	
<b>Business income (reduced by expenses) (losses limited to \$1,000)</b>	Yes	
<b>Cafeteria plan benefits</b>		No
<b>Capital loss carryover</b>		No
<b>Capital losses (in year determined) (losses limited to \$1,000)</b>	Yes	
<b>Child support</b>	Yes	
<b>Child support included in public assistance</b>	Yes	
<b>Clergy's rental or housing allowance, in excess of expenses claimed to determine federal AGI</b>	Yes	
<b>Compensation for services performed</b>		
Back pay	Yes	
Bonuses	Yes	
Clergy's fees	Yes	
Commissions	Yes	
Director's fees	Yes	
Fees in general (trustee, executor, jury duty)	Yes	
Lodging for convenience of employer		No
Meals for convenience of employer		No
Salaries	Yes	
Severance pay	Yes	
Tips	Yes	
Wages	Yes	
<b>Deferred compensation</b>		
Contributions made		No
Payments received	Yes	
<b>Depletion in excess of basis</b>	Yes	
<b>Depreciation, depletion, and amortization in excess of \$5,000</b>	Yes	
<b>Disability income (entire amount)</b>	Yes	
<b>Dividends, taxable and nontaxable</b>	Yes	
Credit union savings account "dividends" (interest)	Yes	
Insurance policy "dividends" (return of premium)		No
Return of capital dividends		No
Stock dividends	Yes	
Tax-exempt dividends	Yes	
<b>Earned income credit, advanced</b>		No
<b>Estate and trust income (also see Inheritance) (losses limited to \$1,000)</b>	Yes	
<b>Farm income (reduced by expenses) (losses limited to \$1,000)</b>	Yes	
Agricultural program payments	Yes	
Patronage dividends	Yes	
Proceeds from sale of crops and livestock	Yes	
Rents	Yes	
Sale of services	Yes	
<b>Fellowships</b>	Yes	
<b>Foreign income excluded from federal AGI</b>		Yes
<b>Foster child care (reduced by expenses)</b>		No
<b>Funeral expenses received</b>		No
<b>Gains on sales (receipts less cost)</b>	Yes	
Excluded gain for Oregon on sale of residence		No
<b>Gambling winnings (without reduction for losses)</b>	Yes	
<b>Gifts and grants (totaling more than \$500 in value)</b>	Yes	
Cash	Yes	
Gifts from nonspouse in the same household	Yes	
Gifts from spouse in the same household		No
Gifts other than cash (report at fair market value)	Yes	
Payment of indebtedness by another person	Yes	
<b>Grants and payments by foreign governments not included in federal AGI</b>	Yes	
<b>Grants by federal government for rehabilitation of home</b>		No
<b>Gratuities</b>	Yes	
<b>Hobby income</b>	Yes	
<b>Honorariums</b>	Yes	
<b>Individual Retirement Arrangement (IRA)</b>		
<i>Conventional IRA</i>		
Payments received	Yes	
Payments contributed		No
Rollovers or conversions not included in AGI		No
Rollovers or conversion included in AGI	Yes	
<i>Roth IRA</i>		
Payments received		No

Payments contributed	Yes		<b>Pensions and annuities (taxable and nontaxable) (reduced by cost recovered in the current year)</b>	Yes
Rollovers or conversions not included in AGI		No	<b>Prizes and awards</b>	Yes
Rollovers or conversion included in AGI	Yes		<b>Public assistance benefits</b>	Yes
<b>Inheritance</b>	Yes		Aid to blind and disabled	Yes
From spouse who resided in the same household		No	Child care payments	Yes
<b>Insurance proceeds</b>			Child support included in public assistance	Yes
Accident and health	Yes		Direct payments to nursing home	No
Disability payments	Yes		Food stamps (or cash payments in lieu of food stamps)	No
Employee death benefits	Yes		Fuel assistance	No
Life insurance	Yes		In-home services approved by the Department of Human Services	No
Personal injury damages (less attorney fees)	Yes		Medical mileage reimbursements	Yes
Property damage if included in federal income	Yes		Medical payments to doctors	No
Reimbursement of medical expense		No	Oregon Supplemental Income Program (OSIP)	Yes
Sick pay (employer sickness and injury pay)	Yes		Payments for medical care, drugs, medical supplies, and services for which no direct payment is received	No
Strike benefits	Yes		Reimbursements of expenses paid or incurred by participants in work or training programs	No
Unemployment compensation	Yes		Special Shelter Allowance	No
Workers' compensation	Yes		Surplus food	No
<b>Interest, taxable and nontaxable</b>	Yes		Temporary assistance to needy families	Yes
Contracts	Yes		Women, Infants, and Children program (WIC)	No
Municipal bonds and other securities	Yes		<b>Railroad Retirement Board benefits</b>	Yes
Savings accounts	Yes		<b>Refunds</b>	
Tax-exempt interest	Yes		Earned income credit	No
U.S. Savings Bonds	Yes		Federal tax	No
<b>Losses on sales (to extent used in determining AGI) (losses limited to \$1,000)</b>	Yes		Property tax	No
<b>From sales of real or personal property (nonbusiness)</b>		No	Oregon income tax	No
<b>Lottery winnings</b>	Yes		Other states' income tax (if included in federal AGI)	Yes
<b>Lump-sum distribution (less cost recovery)</b>	Yes		Prior-year rental assistance payment	No
<b>Military and veteran's benefits (taxable and nontaxable)</b>			<b>Reimbursements (in excess of expenses)</b>	Yes
Combat pay	Yes		<b>Rental allowances paid to ministers not included in federal AGI</b>	Yes
Disability pensions	Yes		<b>Rental and royalty income (reduced by expenses) (losses limited to \$1,000)</b>	Yes
Educational benefits (GI Bill)	Yes		<b>Residence sales (see gains on sales)</b>	Yes
Family allowances	Yes		<b>Retirement benefits (see pensions and Social Security)</b>	
Pensions	Yes		<b>Scholarships (excess over \$500)</b>	Yes
<b>Net operating loss carryback and carryover</b>		No	<b>Sick pay</b>	Yes
<b>Partnership income (reduced by expenses) (losses limited to \$1,000)</b>	Yes			
<b>Parsonage (rental value) or housing allowance in excess of expenses used in determining federal AGI</b>	Yes			

<b>Social Security (taxable and nontaxable)</b>	Yes	
Children's benefits paid to parent	Yes	
Children's benefits paid to your child		No
Disability pension	Yes	
Medicare payments of medical expenses		No
Medicare premiums deducted from Social Security	Yes	
Old-age benefits	Yes	
Social Security Disability Insurance (SSDI)	Yes	
Supplemental Security Income (SSI)	Yes	
Survivor benefits	Yes	
<b>Stipends (excess over \$500)</b>	Yes	
<b>Strike benefits</b>	Yes	
<b>Support from parents who don't live in your household</b>	Yes	
<b>Trust income</b>	Yes	
<b>Unemployment compensation</b>	Yes	
<b>Wages</b>	Yes	

# Publication OR-CODES

## Numeric Codes for Oregon Adjustments, Additions, Subtractions, Modifications, and Credits Effective for tax year 2016

Numeric codes are required when you are claiming or reporting an adjustment, addition, subtraction, modification, or credit on Schedule OR-ASC or OR-ASC-NP. If you have multiple items that use the same code, add them together and enter the total as a single item. Include Schedule OR-ASC or OR-ASC-NP when you file your return.

<b>Adjustments—Schedule OR-ASC-NP, Section 1 only.</b>	<b>OR-40</b>	<b>OR-40-N</b>	<b>OR-40-P</b>	<b>Code</b>
Certain business expenses of reservists, performing artists, and fee-basis government officials—Form 1040, Line 24		X	X	002
Health savings account deduction – Form 1040, Line 25		X	X	003
Penalty on early withdrawal of savings—Form 1040, Line 30		X	X	004
Any other adjustments reported on Form 1040, Line 36, or Form 1040NR, Line 35		X	X	005
Domestic production activities deduction—Form 1040, Line 35, or Form 1040NR, Line 34		X	X	006

<b>Additions—Schedule OR-ASC, Section 1 or OR-ASC-NP, Section 2.</b>	<b>OR-40</b>	<b>OR-40-N</b>	<b>OR-40-P</b>	<b>Code</b>
Domestic production activities deduction	X	X	X	102
Claim of right income repayments	X			103
Disposition of inherited Oregon farmland or forestland	X	X	X	106
Federal election on interest and dividends of a minor child	X	X	X	107
Federal income tax refunds	X			109
Net operating loss—non-Oregon source	X	X	X	116
Oregon 529 College Savings Plan non-qualified withdrawal	X	X	X	117
Oregon deferral of reinvested capital gain	X	X	X	118
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University Venture Development Fund contributions	X			146
Income taxes paid to another state	X	X	X	148
Basis of business assets transferred to Oregon	X	X	X	150
Depletion in excess of property basis	X	X	X	151

<b>Additions—Schedule OR-ASC, Section 1 or OR-ASC-NP, Section 2. (Continued from page 1)</b>	<b>OR-40</b>	<b>OR-40-N</b>	<b>OR-40-P</b>	<b>Code</b>
Depreciation difference for Oregon	X	X	X	152
Federal depreciation disconnect	X	X	X	153
Gain or loss on sale of depreciable property with different basis for Oregon	X	X	X	154
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Suspended losses	X	X	X	156
Federal estate tax on income in respect of a decedent	X			157
Interest on state and local government bonds outside of Oregon	X	X	X	158
Federal subtraction for retirement savings rollover from Individual Development Account	X	X	X	159
Charitable donations not allowed for Oregon	X			160
WFHDC medical expenses	X			163

<b>Subtractions—Schedule OR-ASC, Section 2 or OR-ASC-NP, Section 3.</b>	<b>OR-40</b>	<b>OR-40-N</b>	<b>OR-40-P</b>	<b>Code</b>
American Indian	X	X	X	300
Artist's charitable contribution	X			301
Construction worker and logger commuting expenses	X	X	X	303
Federal gain previously taxed by Oregon	X	X	X	306
Federal pension income	X	X	X	307
Federal education credits (tuition and fees deduction)	X	X	X	308
Federal income tax from a prior year	X			309
Fiduciary adjustments from Oregon estates and trusts	X	X	X	310
Foreign tax	X			311
Individual Development Account contributions	X	X	X	314
Interest and dividends on U S bonds and notes	X	X	X	315
Land donation to educational institutions	X	X	X	316
Interest from state and local government bonds	X	X	X	317
Military active duty pay	X	X	X	319
Mortgage interest credit	X			320
Net operating loss	X	X	X	321
Oregon lottery winnings	X	X	X	322
Partnership and S corporation modifications for Oregon	X	X	X	323
Oregon 529 College Savings Plan deposit	X	X	X	324
Oregon income tax refund		X	X	325
Previously taxed employee retirement plans	X	X	X	327
Public Safety Memorial Fund award	X	X	X	329
Railroad Retirement Board benefits: tier 2, windfall/vested dual, supplemental, and railroad unemployment benefits	X	X	X	330
US government interest in IRA or Keogh distributions	X	X	X	331
Scholarship awards used for housing expenses	X	X	X	333
Legislative Assembly salary and expenses	X	X	X	335
Film production labor rebate—Greenlight Oregon Labor Rebate Fund	X	X	X	336
Mobile home park capital gain	X	X	X	338
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Federal business and health coverage credits	X	X	X	340
Income on a composite return		X	X	341

<b>Subtractions—Schedule OR-ASC, Section 2 or OR-ASC-NP, Section 3. (Continued from page 2)</b>	<b>OR-40</b>	<b>OR-40-N</b>	<b>OR-40-P</b>	<b>Code</b>
Oregon Investment Advantage	X	X	X	342
Mobile home tenant payment	X	X	X	344
Taxable benefits for former RDPs	X	X	X	347
Previously-taxed IRA conversions	X	X	X	348
Discharge of indebtedness	X	X	X	350
Special Oregon medical	X	X	X	351
DISC dividend payments	X	X	X	352
Depreciation difference for Oregon	X	X	X	354
Gain or loss on sale of depreciable property with different basis for Oregon	X	X	X	355
Passive activity losses	X	X	X	356
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Marijuana business expenses not allowed on the federal return	X	X	X	359
ABLE account deposit	X	X	X	360

<b>Modifications—Schedule OR-ASC-NP, Section 4 only.</b>	<b>OR-40</b>	<b>OR-40-N</b>	<b>OR-40-P</b>	<b>Code</b>
Artist's charitable contribution			X	600
Federal income tax refunds		X	X	601
Federal tax from a prior year		X	X	602
Foreign tax		X	X	603
Gambling losses claimed as an itemized deduction +		X	X	604
Federal estate tax on income in respect of a decedent		X	X	605
Mortgage interest credit deduction		X	X	607
Federal health coverage credit		X	X	609
Child Care Fund contributions +		X	X	642
Oregon Production Investment Fund contributions +		X	X	644
Renewable Energy Development Fund contributions +		X	X	645
University Development Venture Fund contributions +		X	X	646
Oregon IDA Initiative Fund donation credit add-back +		X	X	648
Claim of right income repayment +		X	X	649
Charitable donations not allowed for Oregon		X	X	650
WFHDC medical expenses +		X	X	651

+ Must be entered as a negative number.

<b>Standard credits—Schedule OR-ASC, Section 3 or OR-ASC-NP, Section 5.</b>	<b>OR-40</b>	<b>OR-40-N</b>	<b>OR-40-P</b>	<b>Code</b>
Income taxes paid to another state	X	X	X	802
Mutually-taxed gain on the sale of residential property	X	X	X	806
Oregon Cultural Trust contributions	X	PR	PR	807
Oregon Veterans' Home physicians	X	PR	PR	808
Political contributions		X	X	809
Reservation enterprise zone	X	PR	PR	810
Retirement income	X	X	X	811
Rural emergency medical technicians	X	PR	PR	812
Rural health practitioners	X	PR	PR	813
Pass-through income taxes paid to another state	X	X	X	815



<b>Carryforward credits—Schedule OR-ASC, Section 4 or OR-ASC-NP, Section 6.</b>	<b>OR-40</b>	<b>OR-40-N</b>	<b>OR-40-P</b>	<b>Code</b>
Agriculture workforce housing	X	PR	PR	835
Biomass production/collection	X	PR	PR	838
Business energy	X	X	X	839
Child and dependent care carryforward	X	PR	PR	840
Child Care Fund contributions	X	X	X	841
Crop donation	X	PR	PR	843
Electronic commerce zone investment	X	PR	PR	845
Employer-provided dependent care assistance (carryforward only)	X	X	PR	846
Employer scholarship	X	PR	PR	847
Energy conservation projects	X	X	X	849
Fish screening devices	X	PR	PR	850
Oregon IDA Initiative Fund donation	X	X	X	852
Oregon Low Income Community Jobs Initiative/New Markets	X	X	X	855
Oregon Production Investment Fund contributions	X	X	X	856
Pollution control facilities	X	X	X	857
Renewable Energy Development Fund contributions	X	X	X	859
Renewable energy resource equipment manufacturing facility carryforward	X	X	X	860
Residential energy	X	PR	PR	861
Riparian land carryforward	X	PR	PR	862
Transportation projects	X	X	X	863
University Venture Development Fund contributions	X	PR	PR	864
Alternative Fuel Vehicle Fund contributions carryforward	X	X	X	865
Reforestation of underproductive forestlands	X	X	X	867
<b>Carryforward credits available only to S corporation shareholders.</b>				
Agriculture workforce housing loans (S corporation)	X	X	X	836
Alternative fuel vehicle fueling stations, carryforward only (S corporation)	X	X	X	851
Alternative qualified research activities (S corporation)	X	X	X	837
Contribution of computers or scientific equipment for research, carryforward only (S corporation)	X	X	X	842
Lender's credit: affordable housing (S corporation)	X	X	X	854
Lender's credit: energy conservation, carryforward only (S corporation)	X	X	X	848
Long-term rural enterprise zone facilities (S corporation)	X	X	X	853
Qualified research activities (S corporation)	X	X	X	858
<b>Refundable credits—Schedule OR-ASC, Section 5 or OR-ASC-NP, Section 7.</b>	<b>OR-40</b>	<b>OR-40-N</b>	<b>OR-40-P</b>	<b>Code</b>
Claim of right	X	PR	PR	890
Mobile home park closure	X	X	X	891
Working Family Household and Dependent Care (WFHDC)	X	PR	PR	895

PR indicates a credit that must be prorated.

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## Symbols

2-D barcode filing for Oregon 12

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# Important mailing addresses

*If you are responding to a specific notice or letter, please use the address and contact information listed on that correspondence. Send all returns and forms to the address listed on it or its instructions.*

**Physical address:**

Oregon Department of Revenue  
955 Center Street NE  
Salem OR 97301-2555

**Forms and publications requests:**

Forms  
Oregon Department of Revenue  
PO Box 14999  
Salem OR 97309-0990

**Federal ITIN information:**

Oregon Department of Revenue  
PO Box 14999  
Salem OR 97309-0990

**Tax Information Authorization and Power of Attorney for Representation form:**

Oregon Department of Revenue  
955 Center Street NE  
Salem OR 97301-2555  
**Fax:** 503-945-8735

**Return after tax has been assessed:**

Oregon Department of Revenue  
PO Box 14600  
Salem Oregon 97309-5049

**Injured spouse refund requests****If your spouse's debt is owed to another state agency:**

Attention: Accounts Resolution Team  
Oregon Department of Revenue  
955 Center Street NE  
Salem OR 97301-2555

**If your spouse's debt is Oregon state tax:**

Oregon Department of Revenue  
955 Center Street NE  
Salem OR 97301-2555

**Written objections, conference requests, and requests for interest or penalty adjustments:**

Oregon Department of Revenue  
PO Box 14725  
Salem OR 97309-5018

**Appeals to the Oregon tax court:**

Oregon Tax Court  
Magistrate Division  
1163 State Street  
Salem OR 97301-2563

**Appeals of interest on underpayment of tax:**

UND Team  
Oregon Department of Revenue  
PO Box 14725  
Salem OR 97309-5018









# Miscellaneous Oregon Income Tax Information for Tax Years 2013–2016

(Refer to prior year tax booklets before filing delinquent or amended returns)

Tax year	2013	2014	2015	2016
<b>Return due date</b> (Calendar year filer)	4/15/14	4/15/15	4/18/16	4/18/17

**Exemption amounts** \$188 or \$0                      \$191–\$0                      \$194 or \$0                      \$195 or \$0

If federal AGI is more than the amount shown for your filing status, see the exemption credit worksheet.

Single	\$100,000	\$100,000	\$100,000	\$100,000
Married filing jointly or qualifying widow(er)	\$200,000	\$200,000	\$200,000	\$200,000
Married filing separately	\$100,000	\$100,000	\$100,000	\$100,000
Head of household	\$200,000	\$200,000	\$200,000	\$200,000

## Standard deduction

Single (can be claimed on another's return)	1,000*	\$1,000*	\$1,050*	\$1,050*
Single	\$2,080	\$2,115	\$2,145	\$2,155
Married filing jointly or qualifying widow(er)	\$4,160	\$4,230	\$4,295	\$4,315
Married filing separately	\$2,080†	\$2,115†	\$2,145†	\$2,155†
Head of household	\$3,345	\$3,405	\$3,455	\$3,475
<b>Federal tax subtraction maximum</b>	\$6,250-\$0‡	\$6,350-\$0‡	\$6,450-\$0‡	\$6,500-\$0‡

## Oregon 529 Plan and ABLE Account Contribution Maximum

Joint	\$4,455	\$4,530	\$4,600	\$4,620
All others	\$2,225	\$2,265	\$2,300	\$2,310

## Marginal tax rates

Single	5%	First \$3,250	First \$3,300	First \$3,350	First \$3,350
Married filing separately	7%	\$3,251-\$8,150	\$3,301-\$8,250	\$3,351-\$8,400	\$3,351 - \$8,450
	9%	\$8,151-\$125,000	\$8,251-\$125,000	\$8,401-\$125,000	\$8,451-\$125,000
	9.9%	Over \$125,000	Over \$125,000	Over \$125,000	Over \$125,000
Married filing jointly	5%	First \$6,500	First \$6,600	First \$6,700	First \$6,700
	7%	\$6,501-\$16,300	\$6,601-\$16,500	\$6,701-\$16,800	\$6,701 - \$16,900
Head of household	9%	\$16,301-\$250,000	\$16,501-\$250,000	\$16,801-\$250,000	\$16,901-\$250,000
	9.9%	Over \$250,000	Over \$250,000	Over \$250,000	Over \$250,000
Qualifying widow(er)	9.9%	Over \$250,000	Over \$250,000	Over \$250,000	Over \$250,000

\* Greater of amount shown or earned income plus \$350, but not more than the standard deduction for a single filer.

† If your spouse itemizes deductions, your standard deduction is \$0.

‡ If federal AGI is \$125,000 or greater, the federal tax subtraction is limited. Use the federal tax subtraction worksheet.