

Tax Cuts and Jobs Act of 2017 – An Update

LEGISLATIVE REVENUE OFFICE

JANUARY 2018

Presentation Outline

Summary of Provisions

Individual Provisions

- Tax rates
- Deductions
- Other
- Preliminary revenue impacts

Business Provisions

- Reductions, offsets, and preliminary impacts
- International

Oregon Impact Details

Potential Responses

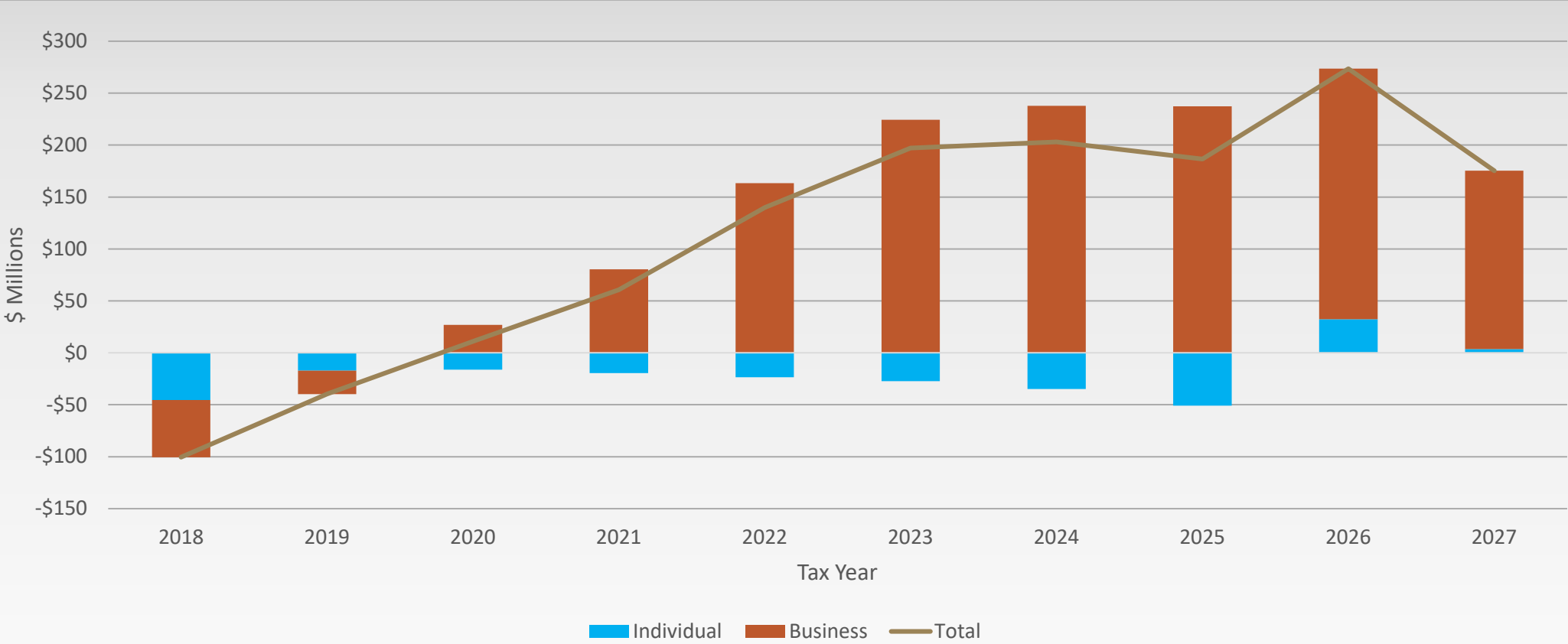
Summary of Provisions

A total of roughly 115 provisions in 3 categories:

- 30 Individual (includes pass-through deduction), generally tax years 2018 - 2025
- 65 business, generally tax years 2018+
- 20 international, generally tax years 2018+

Individuals			Businesses			International		
Policy	Federal Tax	Oregon Tax	Policy	Federal Tax	Oregon Tax	Policy	Federal Tax	Oregon Tax
Tax rates	-	+	Tax rates	-		Repatriation	+	
Personal exemption	+	-	Interest deduction	+	+			
Standard deduction	-	+	NOLs	+	+	Territorial System		
Itemized deductions	+	+	R&D amortization	+	+			
Modify the AMT	-	+	Bonus Depreciation	-	-			
Child/ Dependent credit	-	+	AMT repeal	-	-			
PTE deduction	-	-	Deduction limitations	+	+			
Inflation adjustment	+	-						

Preliminary Oregon Revenue Impact*, \$M



*Excludes international provisions

Individual Provisions

LAW CHANGES THAT AFFECT ONLY THE PERSONAL INCOME TAX

In Simplest Terms.....

Income tax is calculated as follows:

Gross income – deductions = taxable income

Taxable income x tax rates = gross tax

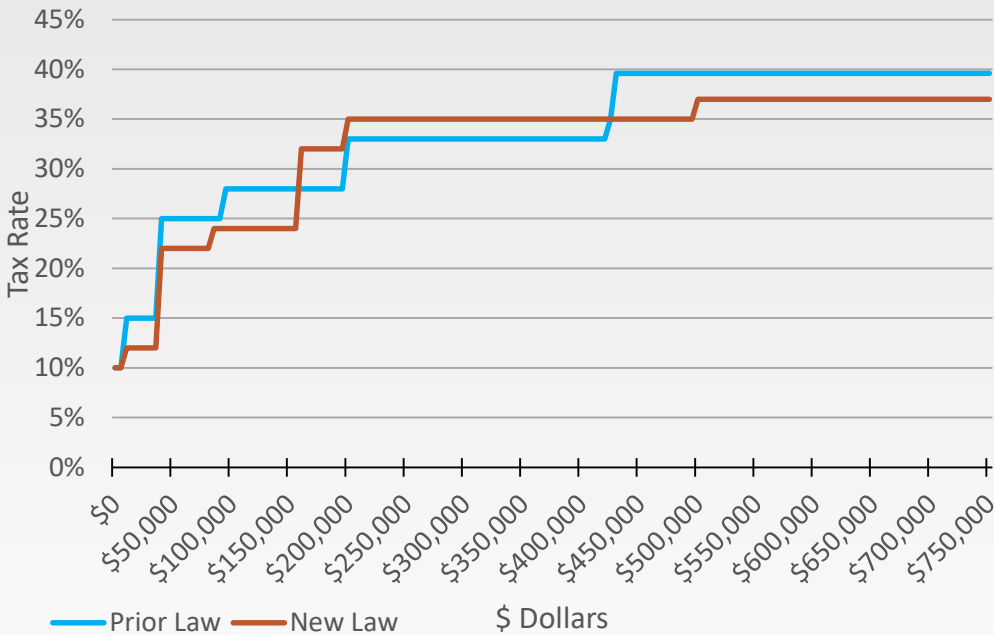
Gross tax – credits = tax

Congress changed deductions, tax rates, and credits

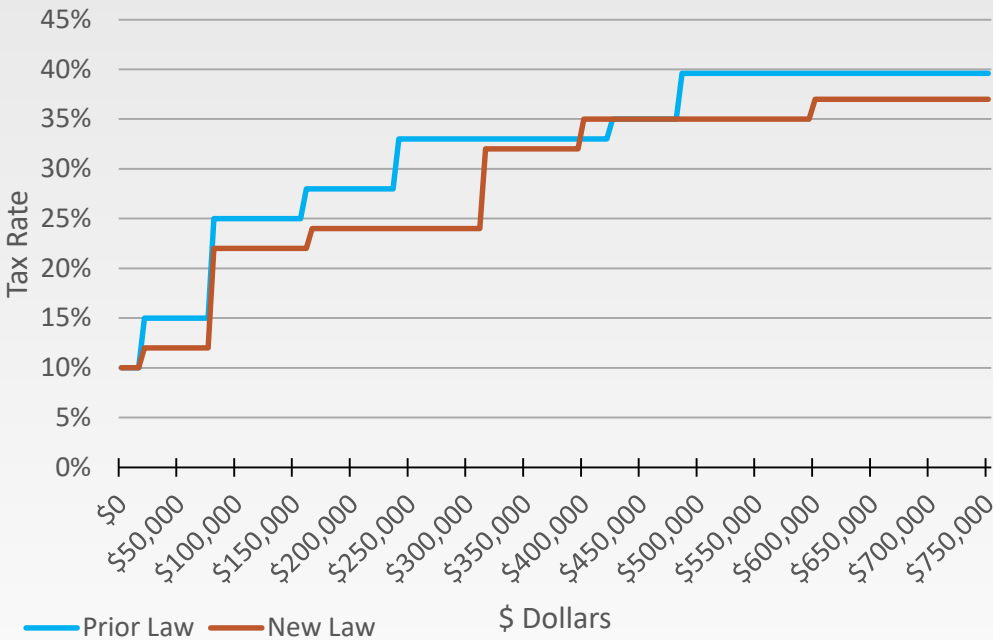
Deduction changes have the biggest impact on Oregon taxes

Federal Tax Rates

SINGLE



JOINT



Deductions

PRIOR LAW

Personal Exemption

- \$4,150 per person

Larger of:

- Standard Deduction
 - \$6,500 (single)
 - \$13,000 (joint)
- Itemized Deductions
 - SALT
 - Home mortgage interest
 - Charitable contributions
 - Pease limitation

NEW LAW

No Personal Exemption

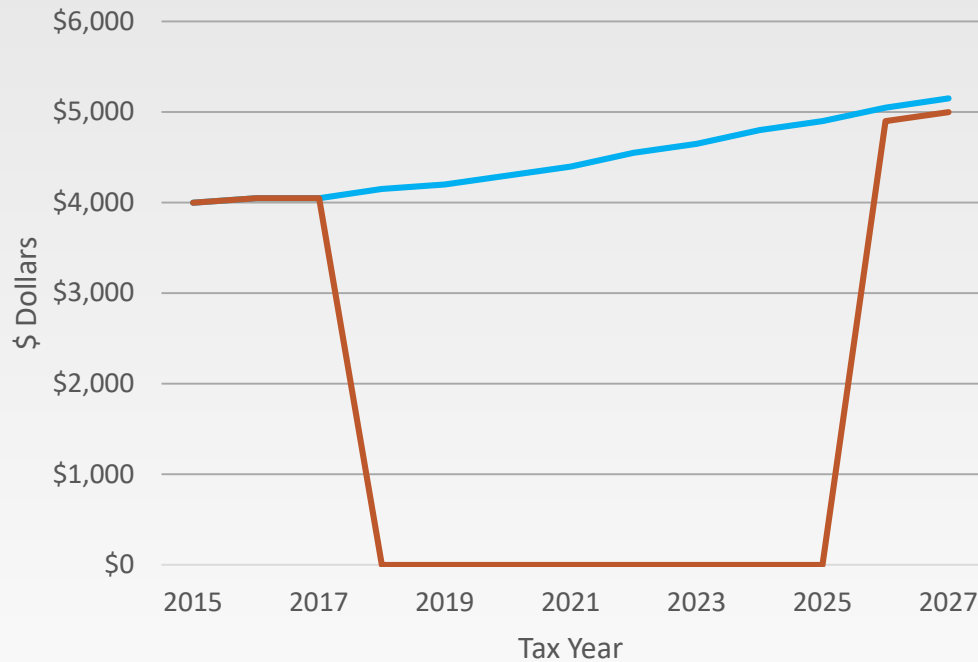
Pass-Through Entity Income

Larger of:

- Standard Deduction
 - \$12,000 (single)
 - \$24,000 (joint)
- Itemized Deductions
 - \$10,000 cap for income + property
 - Repeal of Pease limitation
 - Other

Deductions That Were Reduced

PERSONAL EXEMPTION



ITEMIZED DEDUCTIONS

Income + property taxes limited to \$10,000

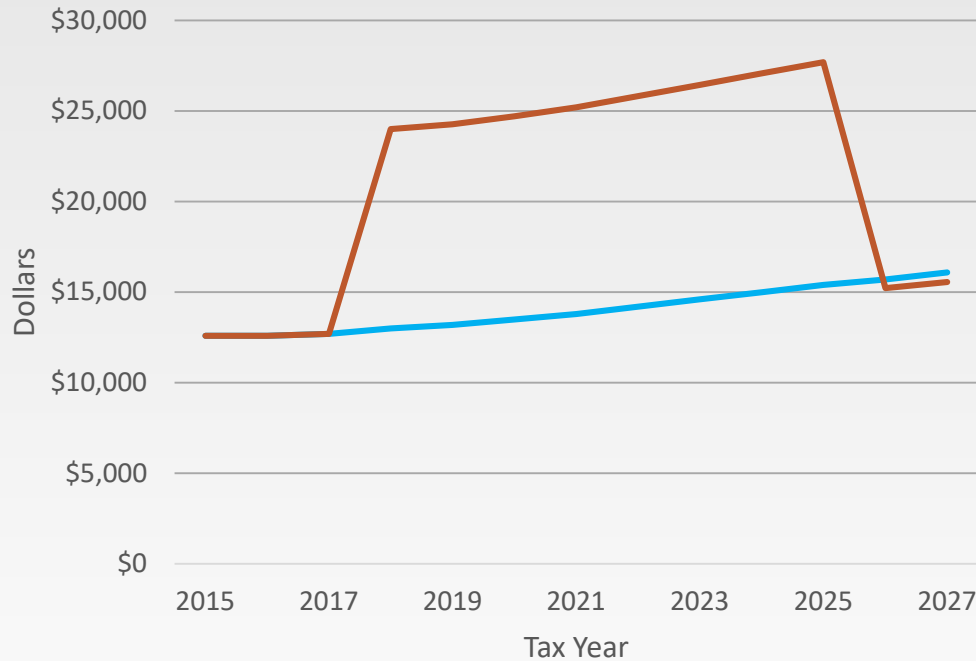
Home equity and some mortgage debt

Disallowed:

- Casualty losses
- Miscellaneous above 2% of AGI
- Unreimbursed business expenses
- Tax preparation fees
- Amounts paid to produce or collect taxable income

Deductions That Were Increased

STANDARD DEDUCTION – JOINT FILERS



PEASE LIMITATION REPEAL

Home mortgage interest

Charitable contributions

PASS-THROUGH DEDUCTION

20% of “qualified business income”

Unlimited if income is below \$315,000 (J) or \$157,500 (S); phase-out over \$100K/\$50K

Limitation applies to “specified service businesses”, such as health, law, consulting

Deduction limited by wages paid, capital outlay

Other Changes

Child and Dependent Tax Credit

- For qualifying children, increased from \$1,000 to \$2,000
- For other dependents, a new credit of \$500

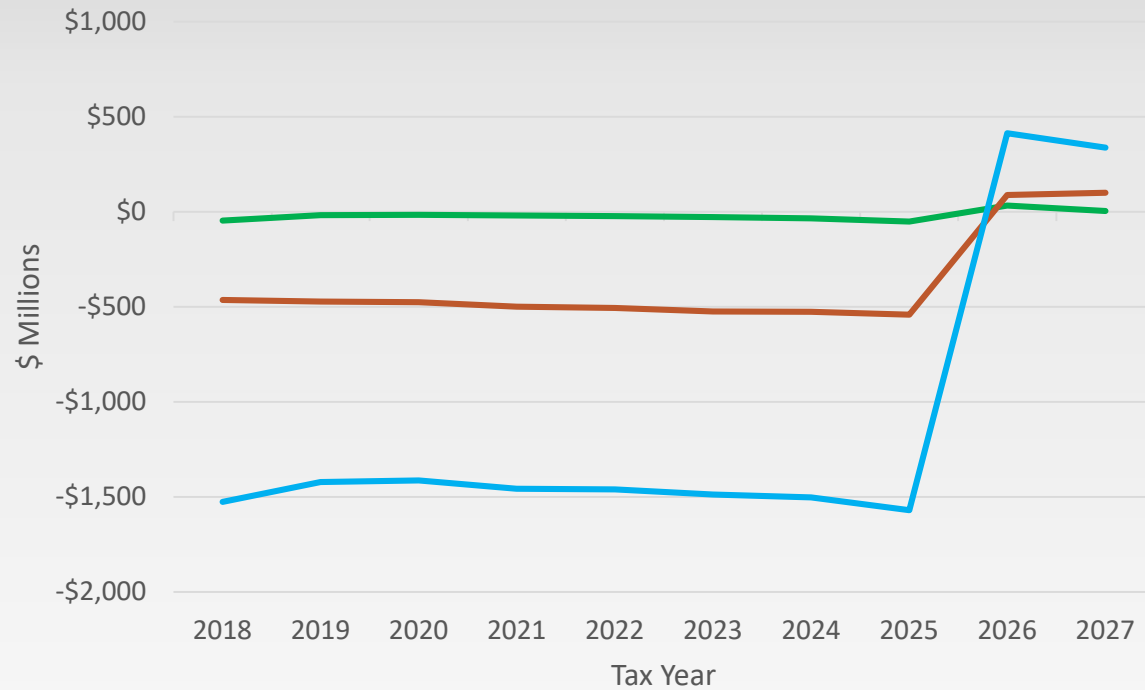
AMT

- Exemption increased
- Phase-out threshold increased

Inflation Factor (permanent)

- Chained CPI results in a slower pace of price changes due to consumer choices

Preliminary Impacts of Individual Provisions



	Average Changes, \$M	
	2018-25	2026-27
Oregon Taxes	-\$29	\$18
Federal Tax Subtraction	-\$501	\$94
Federal Taxes	-\$1,480	\$375

— Oregon Tax Change
 — Federal Tax Subtraction Change
 — Federal Tax Change

Business Provisions

LAW CHANGES THAT AFFECT BOTH THE PERSONAL AND CORPORATE
INCOME TAXES

Business Tax Reductions

21% C-corporation tax rate

Bonus Depreciation

- Increases from 50% to 100% through 2022, then phase-down to 20% in 2026, sunset in 2027

Repeal of AMT

Small Business Accounting

- Greater access to cash accounting

Section 179 Expensing

- Max increased from \$500,000 to \$1 million
- Phase-out threshold increased from \$2 million to \$2.5 million

Business Tax Offsets and Impact

INCREASES

Limits net interest deduction

Limits net operating losses

- Oregon impact is on non-C-corps

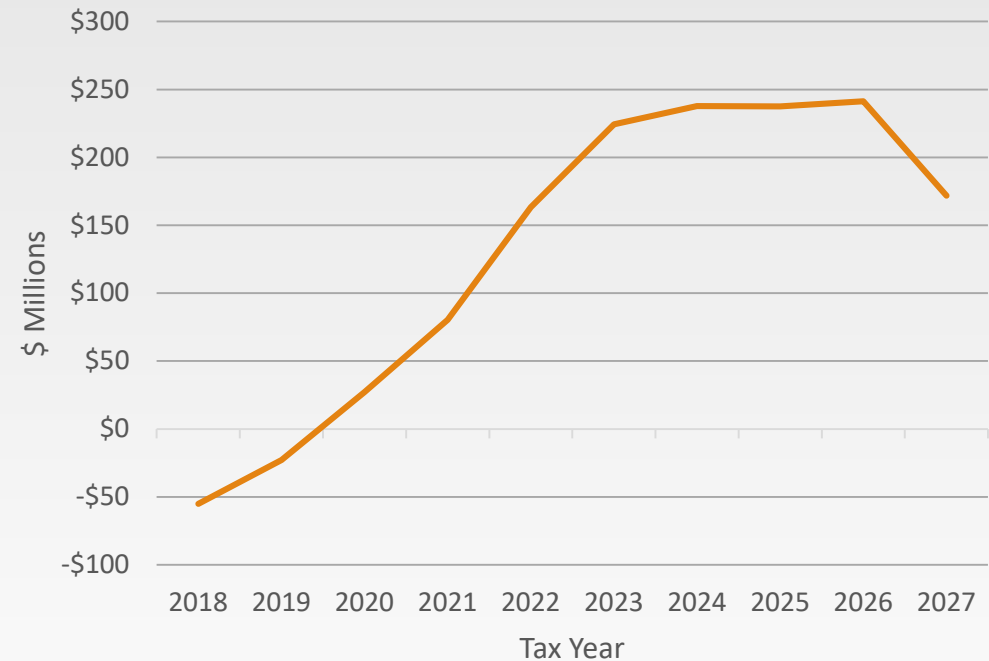
R&D amortization

- Starts in 2023

Domestic production

Deduction limitations

PRELIMINARY OREGON IMPACT



International Taxation

Move from Worldwide System to Territorial System

- Changes focus from business residency to location of production
- Interaction with Oregon's tax haven law

Key Features of Participation Exemption System

- Deduction for dividends received by a domestic corporation from certain foreign corporations
- Tax on global intangible low-taxed income (GILTI)
- Base erosion and anti-abuse tax (i.e. a kind of minimum tax)

Repatriation

- Transition policy for changing systems
- Applies to undistributed, non-taxed foreign earnings since 1986
- Assets are taxed at 15.5% if liquid and 8% if illiquid
- Estimated federal revenue impact is roughly neutral except for repatriation dollars

Oregon Impact Details

Oregon Full-Year Filers

Tax Increase or Decrease

- Federal taxes: 70% decrease, 10% increase, 20% no change
- Oregon taxes: 30% decrease, 40% increase, 30% no change

Itemizers

- Share who itemize their federal taxes: 40% to 15%
- Share who itemize their Oregon taxes: remains at roughly 47%

Preliminary Oregon Revenue Impacts, \$M

	Tax Year									
	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>	<u>2026</u>	<u>2027</u>
Individual										
Property Taxes	\$15	\$16	\$18	\$20	\$21	\$23	\$25	\$28	\$0	\$0
Miscellaneous	\$83	\$87	\$92	\$96	\$101	\$106	\$111	\$117	\$0	\$0
Pass-thru	-\$182	-\$192	-\$205	-\$218	-\$231	-\$244	-\$260	-\$277	\$0	\$0
All Other	\$39	\$72	\$79	\$82	\$86	\$88	\$88	\$81	\$32	\$4
Subtotal	-\$45	-\$17	-\$16	-\$20	-\$23	-\$27	-\$35	-\$51	\$32	\$4
Businesses										
Bonus Depreciation	-\$76	-\$77	-\$57	-\$36	-\$25	-\$11	\$6	\$19	\$27	\$23
Section 179 Expensing	-\$12	-\$15	-\$10	-\$6	-\$5	-\$4	-\$3	-\$2	-\$2	-\$2
Small Business Accounting	-\$22	-\$20	-\$11	-\$7	-\$5	-\$5	-\$5	-\$5	-\$5	-\$4
Net Interest	\$29	\$46	\$55	\$58	\$71	\$82	\$85	\$90	\$98	\$77
Net Operating Losses	\$6	\$9	\$11	\$15	\$23	\$30	\$31	\$27	\$19	\$9
R&D	\$0	\$0	\$0	\$13	\$60	\$84	\$73	\$53	\$33	\$16
All Other	\$20	\$33	\$40	\$43	\$45	\$47	\$49	\$56	\$71	\$52
Subtotal	-\$55	-\$23	\$27	\$80	\$163	\$224	\$238	\$237	\$241	\$172

Individual Tax Examples, Single Filer

		Old	New	Difference	Old	New	Difference
AGI		\$50,000	\$50,000		\$180,000	\$180,000	
<u>Federal</u>	Personal Exemption	\$4,150	\$0	-\$4,150	\$4,150	\$0	-\$4,150
	S/I Deduction	\$6,500	\$12,000	\$5,500	\$33,500	\$20,000	-\$13,500
	Taxable Income	\$39,350	\$38,000	-\$1,350	\$142,350	\$160,000	\$17,650
	Tax	\$5,491	\$4,370	-\$1,121	\$32,701	\$32,890	\$189
				-20.4%			0.6%
<u>Oregon</u>	Deductions	\$2,215	\$2,215	\$0	\$19,000	\$19,000	\$0
	Fed Tax Subt	\$3,325	\$3,325	\$0	\$0	\$0	\$0
	Taxable Income	\$44,460	\$44,460	\$0	\$161,000	\$161,000	\$0
	Tax	\$3,557	\$3,557	\$0	\$14,571	\$14,571	\$0

Individual Tax Examples, Joint Filer

		Family of Four			No Children, With/Without Pass-Through Income					
		Prior	New	Difference	Prior	New	Difference	Prior	New	Difference
AGI		\$75,000	\$75,000		\$400,000	\$400,000		\$400,000	\$400,000	
<u>Federal</u>	Personal Exemption	\$16,600	\$0	-\$16,600	\$2,988	\$0	-\$2,988	\$2,988	\$0	-\$2,988
	S/I Deduction	\$19,400	\$24,000	\$4,600	\$56,600	\$25,000	-\$31,600	\$56,600	\$105,000	\$48,400
	Taxable Income	\$39,000	\$51,000	\$12,000	\$340,412	\$375,000	\$34,588	\$340,412	\$295,000	-\$45,412
	Child Credit	\$2,000	\$4,000	\$2,000	\$0	\$0	\$0	\$0	\$0	\$0
	Tax	\$2,898	\$1,739	-\$1,159	\$87,061	\$83,379	-\$3,682	\$87,061	\$59,379	-\$27,682
				-40.0%			-4.2%			-31.8%
<u>Oregon</u>	Deductions	\$15,500	\$15,500	\$0	\$23,024	\$24,000	\$976	\$23,024	\$104,000	\$80,976
	Fed Tax Subt	\$2,898	\$1,739	-\$1,159	\$0	\$0	\$0	\$0	\$0	\$0
	Taxable Income	\$56,602	\$57,761	\$1,159	\$376,976	\$376,000	-\$976	\$376,976	\$296,000	-\$80,976
	Tax	\$3,804	\$3,908	\$104	\$34,585	\$34,488	-\$97	\$34,585	\$26,568	-\$8,017

Potential Responses

Public Sector

- Disconnect from certain provisions
 - Pass-through entity deduction (or a direct tax)
 - Bonus depreciation
 - Section 179 expensing
- Change funding sources
 - Convert state income tax dollars to charitable contributions
 - Increase payroll taxes and decrease income taxes

Private Sector

- Employee becomes independent contractor
- Recharacterize certain pass-through income to eligible sector
- Set up a C-corporation to receive income