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Preliminary General Fund Revenue Impacts of H.R. 1 Title VII

H.R. 1 has been signed into federal law; Title VII is the primary section related to taxes. Due to the 'rolling reconnect' policy, Oregon is continuously tied to the calculation of federal taxable income for personal and corporate income taxes.[1] To the extent Title VII changes the calculation of federal taxable income, those changes automatically affect Oregon tax liability. This document is a preliminary review of nearly 60 provisions (out of roughly 115) that directly affect Oregon taxes. Estimates provided here should be considered as order-of-magnitude estimates. They will be refined over the next month for inclusion in the August 27th Economic & Revenue forecast.

The table below provides a summary of the estimated impacts on Oregon's General Fund. While some provisions affect both the personal and corporate income taxes, the table broadly separates the impacts into Personal Provisions and Business Provisions. The remainder of this document contains high-level descriptions of the various policies.

Policy	Years	Preliminary Revenue Impact ($ Millions)		
		2025-27	2027-29	2029-31
Personal Provisions				
Overtime Deduction	2025 to 2028	-$223	-$159	$0
SALT Limitation	2025 to 2029	-$81	-$80	-$26
Tips Deduction	2025 to 2028	-$79	-$52	$0
Car Loan Interest Deduction	2025 to 2028	-$68	-$80	-$7
Business Provisions				
Bonus Depreciation and Expensing	Permanent	-$384	-$249	-$126
R&E Expenditures	Permanent	-$166	-$40	-$11
Business Interest Deduction	Permanent	-$31	-$18	-$17
Other Personal & Business Provisions				
Provisions that increase revenue (about 20)	Various	$128	$189	$192
Provisions that decrease revenue (about 30)	Various	-$69	-$132	-$147
Total		**-$972**	**-$620**	**-$142**

[1] The 2025 Legislature did not pass a bill pertaining to how the state is tied to federal tax law. Oregon remains tied to updates in federal definitions of taxable income. For other changes, the state is tied to definitions in the IRC as they existed on December 31, 2023.

While the process for refining these estimates involves a variety of technical considerations, there are two broad areas worth mentioning here. First, the drafting of federal legislation can result in a policy having a direct effect on Oregon or having no effect. The new federal deduction for seniors is a good example. An earlier version of H.R. 1 changed federal law in such a way as to cause Oregon to be automatically connected to the deduction. Ultimately, however, the enacted federal language does not result in an automatic connection.

Second, the extent to which these policy impacts were incorporated into the May revenue forecast is being calibrated. A key assumption in that forecast was that Congress would extend the provisions of the Tax Cut and Jobs Act (TCJA). In addition to enacting new policies, H.R. 1 extends ***and modifies*** many of th0se provisions. An analytical review is needed to ensure impact estimates are neither double counted nor excluded.

Personal Provisions

The policies highlighted in this section predominantly affect individuals through reductions in the Personal Income Tax.

Deduction for qualified overtime compensation (Section 70202)

H.R. 1 creates a new deduction for “qualified overtime compensation” that an individual receives, if reported on an IRS required form. The deduction is limited to $12,500 per individual ($25,000 for a joint return). It is phased out as modified adjusted gross income (MAGI) increases from $150,000 to $275,000 ($300,000 to $550,000 for joint returns). [2] “Qualified overtime compensation” means overtime compensation paid to an individual required under the FLSA that exceeds their regular wages, excluding qualified tips. The deduction applies to tax years 2025 through 2028.

State and local tax (SALT) deduction limitation (Section 70120)

Historically, taxpayers were allowed an itemized deduction for state and local taxes (SALT). The TCJA limited that deduction to $10,000 ($5,000 if married filing separately) for tax years 2018 through 2025. H.R. 1 increases this limit $40,000 ($20,000 if married filing separately) for 2025 but is reduced by 30% of the amount that the taxpayer’s modified adjusted gross income (MAGI) exceeds $500,000 ($250,0000 for married individuals filing separately). It is not reduced below $10,000 ($5,000 if filing separately). For tax years 2026 through 2029, these amounts are increased by 1% annually. For tax years 2030 and later, the limit reverts to $10,000 ($5,000 for married individuals filing separately).

Deduction for qualified tips (Section 70201)

H.R. 1 creates a new deduction for “qualified tips” that an individual receives during any applicable year if reported on an IRS required form. The deduction is limited to $25,000 per tax return, regardless of filing status. It is phased out as modified adjusted gross income (MAGI) increases

[2] MAGI is AGI plus income excluded from taxation under IRC 911 (earned outside the U.S.), 931 (earned in Guam, American Samoa, and the Northern Mariana Islands), or 933 (earned in Puerto Rico).

from $150,000 to $400,000 ($300,000 to $550,000 for joint returns). “Qualified tips” are any cash (or credit card) tip received by an individual in an occupation that traditionally and customarily received tips on or before December 31, 2024. The list of eligible occupations is to be published by the Secretary of the Treasury. Qualified tips do not include any amount received by an individual unless they are: paid voluntarily, not subject to negotiation, and are determined by the payor. The deduction applies to tax years 2025 through 2028.

Qualified tips do not include any amounts received in the course of work performed for a specified service trade or business.[3] Also, a deduction of tips for the self-employed is allowed only to the extent their gross income exceeds their business deductions.

Deduction for car loan interest (Section 70203)

H.R. 1 creates a new deduction for “qualified passenger vehicle loan interest,” which means any interest paid or accrued during the tax year on debt incurred by the taxpayer after December 31, 2024, for the purchase of, and that is secured by a first lien on, an ‘applicable passenger vehicle’ for personal use. The annual deduction is limited to $10,000 and phases out as modified adjusted gross income (MAGI) increases from $100,000 to $150,000 for single filers ($200,000 to $250,000 for joint filers). The deduction applies to tax years 2025 through 2028.

Qualified passenger vehicle loan interest does not include:

1. A loan to finance fleet sales,
2. A loan incurred for the purchase of a commercial vehicle that is not used for personal purposes,
3. Any lease financing,
4. A loan to finance the purchase of vehicle with a salvage title, or
5. A loan to finance the purchase of a vehicle intended to be used for scrap or parts.

Applicable passenger vehicle means any vehicle that:

1. Is originally used by the taxpayer,
2. Is manufactured primarily for use on public streets, roads, and highways,
3. Has at least two wheels,
4. Is a car, minivan, van, sport utility vehicle, pickup truck, or motorcycle,
5. Is treated as a motor vehicle for purposes of title II of the Clean Air Act,
6. Has a gross vehicle weight rating of less than 14,000 pounds, and
7. Had its final assembly in the U.S.

[3] Defined in IRC section 199A as part of Qualified Business Deduction.

Business Provisions

The policies highlighted in this section predominantly affect businesses through reductions in the Corporate Income Tax. That said, roughly 10% of the income reported on personal income tax returns is business income. Some portions of these impacts are to the Personal Income Tax.

Bonus depreciation and expensing (Sections 70301, 70306, 70307)

Depreciation is an accounting method by which businesses deduct from income, the cost of investment in real or personal property over the useful life of an asset. The standard system by which this is accomplished is the use of tables known as the Modified Accelerated Cost Recovery System (MACRS). Property is categorized as having a useful business life of 3 years, 5 years, 7 years, 15 years, 20 years, 27.5 years, or 39 years. Each category identifies what share of the asset cost may be deducted in each year. Expensing, on the other hand, is the full deduction of these costs in the year incurred or paid. Thus, the policy of "100% depreciation" is equivalent to the policy of expensing.

Beginning with the Job Creation and Worker Assistance Act of 2002, Congress has enacted various levels of "bonus depreciation" where the first-year deduction is greater than the percentage listed in the MACRS tables, generally applicable only to property with a recovery period of no more than 20 years. Most recently, this bonus depreciation was (generally) 100% for tax years 2018 through 2022 and then ratably decreased over five years -- to 80% in 2023, 60% in 2024, 40% in 2025, 20% in 2026, and then eliminated for 2027 and later. H.R.1 makes permanent the first-year depreciation deduction of 100 percent for property acquired after January 19, 2025. The legislation also allows for a transitional election for the first tax year ending after January 19, 2025, where taxpayers may elect to use a bonus depreciation percentage of 40% for qualified property.

Under prior law, nonresidential real property is generally depreciated over 39 years and therefore not subject to the 100% bonus depreciation. H.R. 1, however, extends the policy of 100% bonus depreciation to 'qualified production property', which is nonresidential real property used as an integral part of a 'qualified production activity'. A 'qualifying production activity' is the manufacturing, production, or refining of a qualified product that is tangible personal property. "Production" is limited to agricultural and chemical production. Construction must begin after January 19, 2025, and before January 1, 2029; the property must be placed in service after enactment and before January 1, 2031.

For small and medium investments in property, expensing is generally addressed under Internal Revenue Code (IRC) Section 179, which generally allows for the full deduction (i.e. expensing) for the costs of eligible property in the year paid or incurred. As with the above-described depreciation schedules, Section 179 expensing has varied since the early 2000s. Under this policy, there are two key metrics: (1) a maximum amount that can be expensed; and (2) a threshold at which the deduction begins to be phased out. Most recently, the maximum amount that could have been expensed (in 2025) was $1.25 million. This amount was reduced dollar-for-dollar to the extent the total cost of Section 179 property exceeded the threshold of $3.13 million, meaning that some amount of deduction is allowed until the total cost of applicable property equals $4.38 million.[4] H.R. 1 increases the limit to $2.5 million and increases the phaseout threshold to $4 million. The remaining basis for in Section 179 property may be eligible for bonus depreciation.

Research & Experimental expenses (Section 70302)

Historically, these expenditures were fully expensed in the year they were incurred. The TCJA changed the policy such that the expenses were deducted equally over five years (for domestic expenditures) or 15 years (for foreign expenditures). Qualified expenditures were costs tied to the development or improvement of a business' product. H.R. 1 provides taxpayers the option of expensing such costs to the extent they are not attributable to foreign research. Specifically, taxpayers would be able to: (1) fully deduct qualifying expenditures in the year incurred, or (2) capitalize and recover expenditures ratably over the useful life of the research (but in no case less than 60 months). The policy applies to amounts paid or incurred in taxable years beginning after December 31, 2024. Also, businesses whose average gross receipts is no more than $25 million for the five years preceding the given tax year are allowed to amend that year's tax return to reflect this expensing.[5] Taxpayers must reduce their domestic research or experimental expenditures (whether expensed or capitalized) by the amount of any research tax credit claimed.

Business interest deduction (Section 70303)

Under prior law, businesses were allowed to deduct interest expenses, up to a limit. The deduction for business interest expense was limited to 30% of the sum of adjusted taxable income (ATI), business interest income, and floor plan financing interest. ATI was calculated as earnings before interest and taxes. H.R. 1 permanently changes ATI to be computed before interest, taxes, and the deduction for depreciation, amortization, or depletion. This change effectively increases the deduction limit. The proposal also modifies the definition of "motor vehicle," for purposes of the floor plan financing interest and floor plan financing indebtedness definitions, to include any trailer or camper which is designed to provide temporary living quarters for recreational, camping, or seasonal use and is designed to be towed by, or affixed to, a motor vehicle.

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[4] Both the limit and threshold are indexed to inflation.

[5] $25 million applies to tax year 2018; it is indexed to inflation for subsequent years.

Miscellaneous Provisions of Interest

This section identifies a few policies that have received some level of interest. Estimates are included in the table on page 1 as part of the estimates under Other Personal & Business Provisions.

Itemized Deductions

In addition to those described above, several other changes have been made to federal itemized deductions, generally having on impact on Oregon tax liabilities. Examples include:

- The limit of $750,000 for home mortgage debt is made permanent and certain mortgage insurance premiums now qualify as eligible for the interest deduction.
- The limit on the amount of personal casualty losses that may be deducted is made permanent. The deduction is now extended to state-declared natural disasters.
- The elimination of the miscellaneous itemized deduction is made permanent except for the creation of a new deduction for educator expenses.
- Charitable itemized deductions are limited to the extent by which they exceed 0.5% of the taxpayer's AGI.[6]
- Permanently eliminates the limitation on overall itemized deductions (known as the Pease Limitation) but creates a new limitation applicable only to taxpayers in the top federal tax bracket (37% marginal tax rate). It requires itemized deductions to be reduced by 2/37 (about 5.4%) so that their value is limited to the benefit that would be received under the 35% federal tax bracket.

Charitable deduction for non-itemizers

When the TCJA was first enacted, it included a temporary deduction for charitable contributions that was available for taxpayers who did not itemize their deductions. That policy has been expanded and made permanent.

Opportunity Zones

The Qualified Opportunity Zone program is modified and made permanent, allowing the Secretary of the Treasury to designate new zones every ten years.

Limitation on Business Losses

The policy that limits the amount of business losses that may be claimed by noncorporate entities has been modified and made permanent.

[6] H.R. 1 creates a similar floor of 1% for corporation charitable donation deductions.