LEGISLATIVE REVENUE OFFICE

The Impact of Title VII (of H.R. 1) on General Fund Revenue

Report #3-25

August 27, 2025

Note: Signed into law as Public Law 119-21, H.R. 1 may be cited as the One Big Beautiful Bill Act. The tax policy provisions included in this analysis are limited to Section VII of the bill.

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Introduction

H.R. 1 was signed into federal law on July 4, 2025 (P.L. 119-21); Title VII is the primary section related to taxes. Oregon's "rolling reconnect" policy means the state is continuously tied to the definition 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 review of the policies in H.R. 1, Title VII that directly affect Oregon tax policy.

In addition to enacting new policies, H.R. 1 extends and modifies many of the provisions that had been enacted in 2017 with the Tax Cut and Jobs Act (TCJA). The table below provides a summary of the estimated impacts on Oregon's General Fund due to these tax changes. 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 policies with the largest impacts.

Policy	Years Effective	Revenue Impact ($ Millions)		
		2025-27	2027-29	2029-31
Personal Provisions				
Overtime Deduction	2025 to 2028	-$221	-$157	$0
SALT Limitation	2025 to 2029	-$84	-$83	-$27
Tips Deduction	2025 to 2028	-$78	-$53	$0
Car Loan Interest Deduction	2025 to 2028	-$68	-$80	-$7
Business Provisions				
Bonus Depreciation and Expensing	Permanent	-$351	-$194	-$96
R&E Expenditures	Permanent	-$166	-$40	-$11
Business Interest Deduction	Permanent	-$26	-$9	-$8
Other Personal & Business Provisions				
Provisions that increase revenue	Various	$95	$192	$220
Provisions that decrease revenue	Various	-$77	-$119	-$123
Subtotal (Direct Impacts)		**-$975**	**-$542**	**-$52**
Indirect Impacts (Federal Tax Subtraction)	2025+	$87	$74	$42
Total Impact		**-$888**	**-$468**	**-$11**

As in our July report, these estimates are based on the policy assumptions made by the Office of Economic Analysis (OEA) in their May revenue forecast -- that the TCJA policies were extended without modification. Estimates in this report have been updated in two important ways. First, certain assumptions and estimation methods have been refined. Second, the estimates have been adjusted to OEA's September (Q3) revenue forecast for inclusion in that forecast.

[1] For other definitional changes, the state is tied to the Internal Revenue Code (IRC) in effect on December 31, 2023.

The table above includes two rows for the impacts of a variety of policies that have either a positive or negative impact on the General Fund. The table below shows these "other" policies that have an estimated impact of at least either a five million dollar gain or loss in the 2025-27 biennium.

Policy	Years Effective	Revenue Impact ($M)		
		2025-27	2027-29	2029-31
Personal Provisions				
Employer Payments of Student Loans	Permanent	-$7	-$11	-$13
Charitable Deduction for Non-Itemizers	Permanent	-$8	-$19	-$21
Other Itemized Deductions	Permanent	$51	$106	$119
Opportunity Zones	Permanent	$5	$15	$8
Business Provisions				
Limitation on Business Losses	Permanent	$1	$14	$42
Deduction Floor for Charitable Deductions	Permanent	$5	$7	$7
International Taxation	Permanent	-$10	-$10	$5
Subtotal		**$36**	**$101**	**$146**

Note: The estimates for the Limitation on Business Losses has been corrected.

Personal Provisions

The policies included in this section predominantly affect individuals through reductions in the Personal Income Tax. Some policies are expected to increase tax collections by reducing existing deductions. Only the policies identified in the above tables are included here.

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 Fair Labor Standards Act (FLSA) that exceeds their regular wages (i.e., the "half" in "time-and-a-half"), 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).

[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).

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 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 and is expected by early October 2025. 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.

Employer Payments of Student Loans (Section 70412)

Under existing law, taxpayers are allowed to exclude from gross income employer-provided educational assistance. The exclusion applies to both graduate and undergraduate education and is capped at $5,250 per year. The TCJA extended the exclusion to the payment of student loans for tax years through 2025. This law makes the enhanced exclusion permanent and indexes the cap to inflation beginning with tax year 2027.

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

Charitable deduction for non-itemizers (Section 70424)

Historically, a deduction for charitable contributions has been allowed only as an itemized deduction. In tax years 2020 and 2021, a temporary deduction for charitable contributions was available to taxpayers who did not itemize. In 2020, the deduction was limited to $300 per tax return; in 2021 it was increased to $600 for joint filers (remaining at $300 for single filers).[4] H.R. 1 permanently reinstates the charitable contribution deduction for non-itemizers beginning with tax year 2026 and increases the deduction limits to $1,000 (single) and $2,000 (joint). The deduction is allowed only for cash contributions and is disallowed for donations to specified private foundations or funds.

Itemized Deductions (Sections 70108-70111, 70425)

Several changes have been made to federal itemized deductions, having a mix of positive and negative impacts on Oregon tax liabilities. These policies include:

- The limit of $750,000 for home mortgage debt is made permanent and certain mortgage insurance premiums again qualify as eligible for the interest deduction.[5]
- The restriction on the type of personal casualty losses that may be deducted is made permanent. The deduction is now expanded to include casualty losses from 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.
- 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 itemized deductions are limited to the amount of such charitable deductions that exceed 0.5% of the taxpayer's AGI.[6]

Opportunity Zones (Section 70421)

Created by the TCJA and scheduled to initially sunset at the end of 2026, this policy provides tax preferences to taxpayers who invest capital gains in Qualified Opportunity Zones (QOZs). These zones are census tracts that were nominated by state Governors in 2018 and designated by the U.S. Treasury Department. H.R. 1 modifies and makes permanent the QOZ program.

Prior Law

Nominated census tracts must have been either a qualified low-income community (LIC) or a tract that was contiguous with a nominated LIC while meeting additional requirements. To meet the definition of a "low-income community", a census tract must:

[4] The Coronavirus Aid, Relief, and Economic Security Act (CARES) Act created the $300 deduction which was extended/expanded in 2021 by the American Rescue Plan Act (ARPA).
[5] Mortgage insurance premiums were last deductible in tax year 2021.
[6] H.R. 1 creates a similar floor of 1% for corporation charitable donation deductions.

1. Have a median family income that is less than 80% of the greater of: statewide median family income or metropolitan area median family income, or, if outside a metropolitan area, less than 80% of the statewide median income.

   or

2. Have a poverty rate of at least 20%.

Investing in a QOZ provided three tax preferences:

1. **Temporary deferral of tax on invested capital gains**
   Taxpayers investing capital gain income in a QOZ can defer the tax that would otherwise be due on such income until as late as 12/31/2026.

2. **Permanent reduction in taxation of invested capital gains**
   In addition to the deferral, capital gains invested and held in a QOZ for five years receives a permanent 10% reduction in the amount of gain that must be recognized for tax purposes. Capital gains invested and held for seven years receive a 15% reduction.[7]

3. **Permanent exclusion of future capital gains**
   Capital gains from a QOZ investment held for at least ten years are permanently excluded from taxation if sold before 12/31/2047.

New Law

The program is made permanent by creating a QOZ designation period that repeats each ten years. Beginning with July 2026, each state governor may nominate census tracts to be designated as a QOZ for a 10-year period. Following these nominations, the Secretary of the Treasury will designate new zones (previously designated zones end after 10 years). The new program is narrowed by disallowing contiguous tracts that are not low-income communities that under the previous law could be designated as a QOZ. To meet the definition of a “low-income community”, census tracts must now:

1. Have a median family income that is less than 70% of the metropolitan area median family income or, if outside a metropolitan area, less than 70% of the statewide median income.

   or

2. Have a poverty rate of at least 20% and have a median family income of no more than 125% of the metropolitan area median family income or, if outside a metropolitan area, a median family income of no more than 125% of the statewide median family income.

The new law also expands the potential OZ tax benefit when investing in designated rural areas by defining a Qualified Rural Opportunity Fund (QROF) as an OZ fund that holds at least 90% of its assets in qualified opportunity zone property which substantially all of the use of which is in a QOZ comprised entirely of a rural area. “Rural area” means any area other than a city or town that has a population of greater the 50,000 and any urbanized area contiguous and adjacent to a city or town with a population greater than 50,000.

[7] For example, the 15% reduction would reduce a $100 capital gain realization to $85.

The three tax preferences have been restructured as the following:

1. **Temporary deferral of tax on invested capital gains**
   Taxpayers investing capital gain income in a QOZ can defer the tax that would otherwise be due on such income for up to five years.

2. **Permanent reduction in taxation of invested capital gains**
   In addition to the deferral, capital gains invested and held in a QOZ for five years receives a permanent 10% reduction in the amount of gain that must be recognized for tax purposes. Gains invested and held for five years in a QROF are reduced by 30%.

3. **Permanent exclusion of future capital gains**
   Capital gains from a QOZ investment held for at least ten years are permanently excluded from taxation.[8]

Indirect Impacts

Oregon law allows many taxpayers to subtract at least a portion of federal taxes when calculating their Oregon income tax liability. For tax year 2025, taxpayers are allowed a subtraction of up to $8,500 of their federal taxes if their AGI is less than $125,000 (single filers) or $250,000 (joint filers).[9] The subtraction is phased out as AGI increases from $125,000 to $145,000 (single filers) or from $250,000 to $290,000 (joint filers). Technically, any change in federal tax liability has the potential to affect Oregon tax liability in the opposite direction. An increase in federal taxes could increase the subtraction, thereby reducing Oregon taxes. Similarly, a decrease in federal taxes can result in an increase in Oregon taxes. Generally, the impact on Oregon taxes is at most 8.75% of the federal change. Given this relative magnitude, these indirect or feedback effects are often combined with the direct effects.[10] Often times these impacts are minimal. However, if change in federal tax liability is large enough, they are provided separately here.

Business Provisions

The policies highlighted in this section affect businesses through reductions in both Personal and Corporate Income Taxes. Roughly 10% of the aggregate income reported on personal income tax returns is business income. Of course, not all personal income tax returns include business income. For 2022 over 470,000 Oregon full-year resident personal income tax returns (about 25% of returns) reported a total of $17.4 billion in net business income (about 10% of total income), compared to $19.9 billion in taxable income reported on Oregon C-Corporation tax returns.

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 for tax purposes as having a useful business life of 3

[8] Amounts held for over 30 years receive a fair market value (FMV) equal to the FMV as of the 30th year (i.e. the exclusion benefits for up to 30 years, after which such gains from year 30 forward are taxable).
[9] This dollar limit is annually adjusted for inflation.
[10] The full impact is potentially more complicated as a change in Oregon taxes can affect the level of federal taxes owed for taxpayers who itemized their federal deductions. The issue is referred to as the cross-deductibility of taxes.

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 costs are incurred or paid. Thus, a policy allowing "100% depreciation" in the first year of depreciating an asset 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 an additional first-year deduction is allowed in addition to 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 decreased over five years -- to 80% in 2023, 60% in 2024, 40% in 2025, 20% in 2026, and eliminated for 2027 and later. H.R.1 makes permanent the first-year depreciation deduction of 100 percent for qualified 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 has been 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 may be available 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.[11] H.R. 1 increases the limit to $2.5 million and increases the phaseout threshold to $4 million. The remaining basis 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 $31 million for the five years preceding the given tax year are allowed to amend that year's tax return to reflect

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

this expensing.[12] 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 (Sections 70303, 70341, and 70342)

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, resulting in a revenue loss to the state. 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. The legislation also includes some technical changes to the calculations that are projected to have minor offsets to the impact of the primary policy change.

Limitation on Business Losses (Section 70601)

Owners of noncorporate entities (i.e., owners of partnerships, S-corporations, sole proprietorships, limited liability companies, trusts, and estates) are limited in how much of their business losses may be deducted against non-business income. The IRC defines "excess business loss" (EBL) as the amount of business deductions that exceed the sum of the entity's gross income/gain and either $610,000 (joint filers) or $305,000 (all other filers).[13] The amount of EBL is treated like an NOL and can be carried over the subsequent tax year. Losses are limited to offsetting 80 percent of taxable income. The policy had been scheduled to sunset at the end of 2028 but has been made permanent with an update from 2024 to 2027 in the base year used for inflation adjustment.

Deduction Floor for Charitable Deductions for Corporations (Section 70426)

Charitable deductions made by a corporation are only deductible up to the amount that equals 10 percent of the business' taxable income that year. Disallowed deductions may be carried forward for up to five years. This law creates a threshold test for contributions to be deductible. Charitable contributions must be greater than one percent of the business' taxable income to be deducted.

International Taxation Policies (Sections 70321-70323, 70351-70354)

Foreign corporations that are at least 50 percent owned by U.S. corporations are known as a "controlled foreign corporation", often referred to as CFCs.[14] Allocating income and expenses across these U.S. corporations and CFCs leads to the potential use of what the IRS refers to as abusive transactions or other strategies to minimize tax that generally involve realizing expenses in higher-tax countries and revenue in lower tax countries.[15]

To limit income shifting the TCJA introduced three new international tax policies in 2018 known as global intangible low-taxed income (GILTI), foreign-derived intangible income (FDII), and base

[12] The $31 million applies to tax year 2025; it is indexed to inflation annually.
[13] These figures are for 2024 and are adjusted annually for inflation.
[14] Often referred to as CFCs. Also, each U.S. shareholder must own are least 10 percent of the CFC.
[15] [Abusive Tax Shelters and Transactions]

erosion and anti-abuse tax (BEAT). Only the GILTI and FDII policies have a flow-through effect to Oregon corporation taxes.

GILTI and FDII aim to encourage U.S. income realization and discourage shifting profits to low-tax countries. FDII allows a deduction for qualifying export income, effectively lowering the tax rate on qualified income. GILTI includes certain foreign income in the U.S. tax base and applies a lower rate through a deduction. Although targeted at intangible income, both use a proxy formula that treats returns exceeding 10% of a corporation's investment in depreciable assets as intangible income (e.g., from patents or trademarks).

H.R. 1 changed the calculations underpinning the GILTI and FDII by eliminating the 10 percent return threshold which includes more income under each provision. In doing so, it changed references to GILTI to be "net CFC tested income" and FDII is renamed "foreign-derived deduction eligible income."

For tax years 2018 to 2025, GILTI and was subject to a federal tax rate of 10.5%, half of the statutory rate, because it allowed a 50% deduction. That deduction was scheduled to decrease to 37.5% beginning in 2026. Starting in 2026, H.R. 1 allows a 40% deduction for net CFC income going forward.

For tax years 2018 to 2025, FDII was subject to a 13.125% federal tax rate because it allowed a 37.5% deduction. That deduction was scheduled to decrease to 21.875% beginning in 2026. Starting in 2026, H.R. 1 allows a 33.34 percent deduction for foreign-derived deduction eligible income.

Other related provisions make smaller changes to international income provisions and allocation of costs. The various changes to international provisions have complex interactive effects on Oregon taxes resulting in an anticipated small loss for the next two biennia, and an expected small gain afterward.

State Connections to Federal Law

For states with a broad income tax, most rely on the federal Internal Revenue Code for at least some portion of their tax. Categorically, these state connections to federal law are discussed in two ways: the connection point and the type of connection. The connection point refers to the specific line on the federal tax return that serves as the starting point for the state's tax calculation. For the Personal Income Tax, this connection tends to be either Federal Adjusted Gross Income (FAGI) or Federal Taxable Income (FTI). For C-Corporations this connection tends to be either Line 28 (Taxable income before net loss deduction and special deductions) or Line 30 (Net income after those deductions) of the federal C-Corporation tax form 1120.

The type of connection is either a rolling (or continuous) connection or a static connection. A rolling reconnection means that the state is constantly tied to federal law so that any federal change to the point of connection automatically affects the state tax. In contrast, a static connection means that the connection is tied to a specific date and federal changes do not automatically affect state calculations. Such states must take specific legislative action for federal changes to have an impact on state tax policy.

According to the Federation of Tax Administrators, 32 states with an individual income tax are connected to FAGI and five are tied to FTI, including Oregon.[16] According to the Council of State Governments, 22 states with a corporate income tax are connected to Line 28 and 19 are connected to Line 30. The table below shows the numbers of states that fit into each of these categories.

	Personal Income Tax		Corporate Income Tax	
	FAGI	**FTI**	**Line 28**	**Line 30**
Rolling Reconnect	17	3	14	9
Static Connection	15	2	8	10

For context, and in simplest terms, the following formula shows how FAGI and FTI are related:

$$Federal\ Adjusted\ Gross\ Income - Deductions = Federal\ Taxable\ Income$$

The primary difference between the two connection points is whether that automatic connection includes deductions made after FAGI is determined. These deductions are primarily those claimed on the federal Schedule A form (referred to as itemized deductions); however, it also includes other specified deductions including the federal deduction for Qualified Business Income (QBI) and the newly enacted temporary deductions for qualified tips, overtime, and car loan interest.

Oregon has been tied to the federal definition of taxable income since 1969 but did not adopt the rolling reconnect policy until 1997.[17] Since then, the state has generally, but not always, maintained that policy. The Legislature suspended it for tax years 2003 to 2005, 2009, and 2010. Oregon has also chosen to disconnect from specific federal provisions. Since 2000, Oregon has:

2018: Disconnected permanently from a federal 20 percent deduction of Qualified Business Income (QBI).

2009: Disconnected from federal changes to bonus depreciation, the discharge of indebtedness, and Section 179 expensing for tax years 2009 and 2010. Suspended the "rolling reconnect" for tax years 2009 and 2010.

2003: Suspended the "rolling reconnect" for tax years 2003 through 2005.

Personal Income Tax

While determining the impact on state taxes depends on understanding the connecting point and type of connection, other aspects of state tax laws are also relevant. Oregon serves as a good example. Oregon law is written such that the state's connection point to the IRC is federal taxable income. Oregon law then requires taxpayers to add back specified federal deductions. Whether or not federal changes affect state taxes can be the result of how these deduction "add-backs" are constructed. For administrative ease, Oregon tax forms start with FAGI.

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[16] State Personal Income Taxes: Federal Starting Points
[17] The Personal Income Tax Act of 1969 and SB 1144 from 1997.

For example, the original House version of H.R. 1 included a deduction for seniors that could reduce a taxpayer's FTI, thereby automatically reducing Oregon tax collections. The final version of the bill, however, modified the deduction and moved it into IRC Section 151, the location for the federal personal exemption deduction. Because Oregon law contains a personal exemption credit, the state has a permanent disconnect from the corresponding federal deduction. By placing the new senior deduction into Section 151 of the IRC instead of a new IRC section, it does not have an automatic impact on Oregon taxes.

Corporation Income Tax

This connection is simply referenced by the line number on the federal C-Corporation Income Tax Return (Form 1120) -- either line 28 or line 30. Line 28 is Federal Faxable Income before Net Operating Losses (NOLs) and Special Deductions. Line 30 is Federal Taxable Income (after accounting for NOLs and special deductions). Similar to Oregon's Personal Income Tax, the state is legally connected to federal taxable income but has also permanently disconnected from federal NOL and special deductions policies. Instead, Oregon has chosen to implement its own versions of those policies. Consequently, the Oregon C-Corporation tax form begins with Line 28 from the federal tax form.