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OREGON FY RESIDENT INSTRUCTIONS TY 2023

INCOME

OREGON INCOME TAX REFUND

OR does not tax federally taxable OR income tax refunds. OR does tax federally taxable income tax refunds from other states. The federally taxable amount of all state income tax refunds automatically flows from the 1040 to the OR-40, line 7, as part of the federal AGI. A subtraction of the federally taxable OR income tax refund is needed, since it isn't taxed by OR. See SUBTRACTIONS [Code 325]

W-2 WAGES

Wages, salaries, & tips reported on the W-2 automatically flow from the 1040 to the OR-40, line 7, as part of the federal AGI.

SELF-EMPLOYMENT & BUSINESS INCOME (Loss is OOS)

Self-employment and other business income is taxable to OR & automatically flows from the 1040 to the OR-40, line 7, as part of the federal AGI.

INTEREST FROM U.S. SAVINGS BONDS & TREASURY OBLIGATIONS

Federally taxable interest from U.S. savings bonds & Treasury bills automatically flows from the 1040 to the OR-40, line 7, as part of the federal AGI. Since OR does not tax interest on U.S. savings bonds or T-bills, a manual subtraction from OR income is needed. See SUBTRACTIONS [Code 315]

OTHER INTEREST & DIVIDENDS

1) All other interest & dividends taxable on the federal return, such as bank interest, are also taxable to OR and automatically flow from the 1040 to the OR-40, line 7, as part of the federal AGI.

2) Bond interest from states & municipalities is federally tax-exempt and not included in federal AGI. However, federally tax-exempt bond interest from states & municipalities outside of OR is taxable to FY OR residents and must be included in OR income. See ADDITIONS [Code 158] for instructions.

PENSION INCOME

1) **PENSION INCOME:** Taxable to OR and automatically flows from the 1040 to the OR-40, line 7, as part of the federal AGI. **BUT IF INCOME IS FROM A FEDERAL PENSION, SEE INSTRUCTIONS BELOW.**

2) **SOCIAL SECURITY INCOME:** Not taxed by OR; however, federally taxable Social Security income automatically flows from the 1040 to the OR-40, line 7, as part of the federal AGI, and is automatically subtracted by TaxSlayer from Oregon income on OR-40, line 11.

3) **RR RETIREMENT BOARD INCOME:** Neither Tier 1 nor Tier 2 is taxed by OR, but federal taxable amounts of each automatically flow from the 1040 to the OR-40, line 7, as part of the federal AGI.

a) **TIER 1 (RRB-1099: Social Security equivalent):** automatically subtracted on the OR-40, line 11.

b) **TIER 2 (RRB-1099-R):** Automatic subtraction on OR-ASC, section B, code 330, combined with other OR-ASC subtractions on line B-7, which then flow to the OR-40, line 13.

4) **IRA DISTRIBUTIONS:** Taxable to OR and automatically flow from the 1040 to the OR-40, line 7, as part of the federal AGI.

5) **FEDERAL PENSION INCOME:** Taxable to OR and automatically flows from the 1040 to the OR-40, line 7, as part of the federal AGI.

NOTE: Depending on dates of service, some of the taxable federal pension may be a subtraction from OR income. See SUBTRACTIONS [Code 307].

CAPITAL GAINS & THE SALE OF OREGON PROPERTY: OR conforms to the federal exclusion from capital gain on the sale of the TP's main home allowed on the federal return. (Loss on the sale of a primary residence is not allowed either federally or by OR). Any federally taxable capital gains automatically flow from the 1040 to the OR-40, line 7, as part of the federal AGI. OR income tax withheld from the proceeds of the sale is considered OR estimated tax paid & must be entered as such on the return:

Federal return > Payments & Estimates > Estimated State Payments > Enter amount of state withholding in the date field corresponding to when the payment was withheld > Choose state: OR.

UNEMPLOYMENT INCOME : Taxable to OR regardless of state payer. Automatically flows from the 1040 to the OR-40, line 7, as part of the federal AGI.

GAMBLING WINNINGS: All gambling winnings automatically flow from the 1040 to the OR-40, line 7, as part of the federal AGI. All gambling winnings are taxed by OR **EXCEPT** for OR lottery wins of \$600 or less won on a single ticket or play. A manual subtraction of the total of these \leq \$600 lottery winnings must be made. See SUBTRACTIONS [Code 322].

Also see ADDITIONS [Code 134] if gambling losses are included in itemized deductions of the OR-40.

OR 529 COLLEGE SAVINGS PLAN DISTRIBUTIONS: Distributions are not federally taxable if used for qualified education expenses and are not reported on the 1040. **HOWEVER**, since OR doesn't conform to federal tax law which includes distributions used for K-12 educational expenses as qualified, the counselor must ask what distributions were used for. **Nonqualified distributions OOS**. See OR 529 College Savings Plan Cheat Sheet.

ABLE ACCOUNT DISTRIBUTIONS: Distributions are not taxable if used for qualified expenses and are not reported on the 1040 or the OR-40. **Nonqualified distributions are OOS**, so counselor must ask how distributions were used. See ABLE Accounts Cheat Sheet.

AMERICAN INDIAN INCOME (See OR Pub 17 for full list of requirements to be tax-exempt)
If the TP is an enrolled tribal member, lived in Indian country when the income was earned, and the income is sourced in Indian country, then the income is not taxable to OR. However, the income automatically flows from the 1040 to the OR-40, line 7, as part of the federal AGI, and must be manually subtracted from OR income. See SUBTRACTIONS [Code 300].

ADJUSTMENTS

Adjustments automatically flow from the 1040 to the OR-40, line 7, as part of the federal AGI.

ADDITIONS

Additions input data automatically flows to Sch. OR-ASC, section A, and then to OR-40, line 8, "Total additions from Sch. OR-ASC, line A5.

GAMBLING LOSSES CLAIMED AS AN ITEMIZED DEDUCTION [Code 134] (Cheat sheet available)

1. Gambling winnings automatically flow from the 1040 to the OR-40, line 7, as part of the federal AGI.
2. OR allows a subtraction [Code 322] of the total of OR lottery winnings of ≤ \$600 on a single ticket or play, so gambling winnings taxable to OR may be less than gambling winnings taxable to the feds.
3. Gambling losses claimed on Sch. A can't exceed gambling winnings claimed as income on the tax return. This is true for both the federal and the OR returns.
4. Because gambling losses automatically flow from federal Sch. A to OR Sch. A, the gambling losses claimed on OR Sch. A may be greater than gambling winnings claimed as OR taxable income.
5. To correct excess gambling losses claimed on OR Sch A, an addition to income is created:

OR return > Additions to Income > Other Additions > Gambling Losses Claimed as an Itemized Deduction. Enter the excess of OR losses claimed on OR Sch. A over OR gambling winnings claimed.

FEDERALLY TAX-FREE STATE & MUNICIPAL BOND INTEREST FROM STATES OTHER THAN OREGON

[Code 158]: State & municipal bond interest is not federally taxable and is not included in income on the 1040. However, OR does tax OR residents on state & municipal bond interest from states other than OR. To include this interest in OR income, an addition is created:

OR return > Additions to Income > Interest on Government Bonds of other States > Enter the interest on the 1099-INT, Box 8 that is from states other than OR.

FEDERAL INCOME TAX REFUND [Code 109]: A federal tax refund resulting from a federal audit or an amended federal return may result in an excess tax benefit for the federal tax liability subtraction taken in a prior year. If so, an addition of the amount of the excess tax benefit is needed. The excess tax benefit is the difference between the federal tax liability actually subtracted on the prior year's OR return and the federal tax liability that would have been allowed as a subtraction had the federal return been correct. OR Pub 17, pp. 62-63.

Original federal tax liability taken – Corrected federal tax liability = Excess benefit received.

OR return > Additions to Income > Other Additions > Federal Income Tax Refunds. Enter the excess benefit received from calculation.

SUBTRACTIONS

If not individually listed on the OR-40, subtractions and their codes flow to Sch. OR-ASC, Section B, and are totaled there. That total then flows to the OR-40, line 13, Total Subtractions from Sch. OR-ASC, line B7

OREGON INCOME TAX REFUND: Subtract only the OR income tax refund that automatically flows to the OR-40, line 7, as part of the federal AGI, from OR income, as follows:

OR return > Subtractions from Income > Enter only the OR income tax refund included on the 1040 in the box. It will automatically transfer to its own line on the OR-40, Subtractions. No code needed.

FEDERAL PENSION INCOME SUBTRACTION [Code 307] Cheat Sheet Available

Subtraction allowed **ONLY** if some or all federal service was before 10/1/1991 AND the distribution is not a disability pension (F. 1099-R, Box 7, Code 3).

Use the Bogart Oregon Federal Pension Subtraction Calculator (<https://ortaxvolunteers.org/tool-box>) to calculate the amount of the federal pension subtraction. Enter the information in the yellow section of the form. Click "calculate." Note the dollar amount of the calculated exclusion to be entered in TaxSlayer.

The percentage of taxable distribution to exclude is the ratio of months of federal service before 10/1/1991 to total months of federal service. The percentage stays the same for as long as distributions continue, including distributions to subsequent beneficiaries.

Because none of the federal pension is taxable to NRs, there is no federal pension entry in the OR income column on the 40N. Therefore, there is no pension to subtract from OR income. (Hokey pokey theory). However, since at least some of the pension is federally taxable, enter the calculated federal exclusion:

OR Return > Subtractions from Income Subject to Tax > Federal Pension Subtraction > Federal box entry only

FEDERAL INCOME TAX LIABILITY: Automatically handled by TaxSlayer after adjustments for other credits taken on the 1040. See worksheet in OR Pub. 17 for more information. No code needed.

FOREIGN TAX CREDIT [Code 311]: Handled as a subtraction on the OR FY return, the amount is usually the same as the federal credit claimed, but may be reduced due to federal tax liability subtraction limits based on the TP's filing status & AGI. Fortunately, TaxSlayer will calculate the correct subtraction when you enter the foreign tax paid in Box 6 of the 1099-INT:

OR return > Subtractions from Income > Other Subtractions > Foreign Tax> Enter Box 6 amount.

TIP: If itemizing for OR, claiming foreign tax paid on Sch. A instead avoids the above limitation.

SCHOLARSHIP AWARDS USED FOR HOUSING EXPENSES [Code 333]: OR allows a subtraction for federally taxable scholarships used for housing expenses that are included on the 1040 as wages and automatically flow from the 1040 to the OR-40, line 7, as part of the federal AGI.

OR return > Subtractions from Income > Other Subtractions > Scholarship awards used for housing expenses. Enter the federally taxable amount of those awards. Combines with other subtractions on OR-ASC, Section B, line B7, then flows to the OR-40, line 13, "Total subtractions from Sch. OR-ASC"

SPECIAL OREGON MEDICAL SUBTRACTION (SOMS) [Code 351] **See SOMS Cheat Sheet:** Allows a subtraction of some or all of an eligible TP/spouse's unreimbursed QMEs for which no tax benefit has already been taken on the OR return.

- "Eligible" means age ≥ 66 on 12/31/2023. Dependents are never eligible regardless of age.
- Eligible QMEs are the same as those allowed on the federal return.
- No tax benefit" means that either the TP
 - a) didn't itemize at all, or
 - b) did itemize by didn't include medical expenses as an itemized deduction on Sch. A, or
 - c) did itemize but 7.5% of federal AGI was not usable as a medical deduction on Sch. A.

Step 1: Total each eligible TP's unreimbursed QMEs, including those that have been deducted elsewhere on the return EXCEPT for SEHI expenses claimed as an adjustment on the 1040, Sch. 1, Part 2, line 17. TaxSlayer correctly sorts out and excludes QMEs deducted on the 1040, Sch. A, line 4.

Step 2: OR return > Subtractions from Income > SOMS > Enter the total QMEs from Step 1 into the appropriate box for each eligible TP. TaxSlayer correctly calculates SOMS and sends it to Sch. OR-ASC Section B, with code 351, and send the rest of the QMEs to Sch. A, line 1.

INTEREST & DIVIDENDS FROM U.S. SAVINGS BONDS & TREASURY OBLIGATIONS [Code 315]

Federally taxable, but not taxable to OR. Flow automatically from the 1040 to the OR-40, line 7, as part of the federal AGI. Create a subtraction from OR income for the 1099-INT, Box 3 amount:

Federal return > Interest & Dividends > Interest Income > Amount of interest on U.S. Savings Bonds & Treasury Obligations you want subtracted from your state return > Oregon. Enter the Box 3 amount.

OREGON LOTTERY WINNINGS OF \$600 OR LESS ON A SINGLE TICKET OR PLAY [Code 322]

OR lottery winnings are federally taxable, and automatically flow from the 1040 to the OR-40, line 7, as part of the federal AGI. However, OR does not tax OR lottery winnings \leq \$600 on a single ticket or play. To create the subtraction, enter the total of all OR lottery wins of \leq \$600:

OR return > Subtractions from Income > Other Subtractions > Subtraction #X > OR lottery winnings -> Sch OR-ASC, Section 2, Code 322.

AMERICAN INDIAN [Code 300]: See INCOME section above for general req's for the subtraction.

OR return > Subtractions from Income > Tribal Exempt Income Subtraction Sch. OR-EIS. Answer all questions in both the Tribal Information the Exempt Income sections for each TP claiming an OR exemption from income. To ensure the TP meets all the qualifications, see OR Pub 17, pp.69-70.

DEDUCTIONS

Always create a federal Sch, A. Itemized deductions automatically flow from the federal Sch. A to OR Sch A. TaxSlayer chooses the greater of the OR standard deduction or OR itemized deductions.

TIP: If the return includes SOMS & the standard deduction is used, recheck SOMS calculation to ensure all QMEs for eligible TPs are included. If itemized deductions are used, compare tax benefit of using medical expenses on Sch. A vs. SOMS calculation, if any entry on Sch A, line 4.

CREDITS

If not listed separately on the OR-40, standard credits and their codes automatically flow to Sch. OR-ASC, Section C and are totaled on line C1, which then flows to the OR-40, line 25, "Total standard credits from Sch. OR-ASC, line C16".

If not individually listed on the OR-40, refundable credits and their codes automatically flow to Sch, OR-ASC, Section F and are totaled on line F7, which then flows to the OR-40, line 38, "Total refundable credits from Sch OR-ASC, line F7".

EARNED INCOME TAX CREDIT: TaxSlayer automatically calculates & enters the allowable OR credit.

EARNED INCOME TAX CREDIT – ITIN: TaxSlayer automatically calculates & enters the allowable OR credit for TPs or dependents with ITINS who don't qualify for the federal EITC because they lack SSNs. TPs who don't qualify for the federal EITC for other reasons don't qualify for the OR EITC.

EXEMPTION CREDIT: TaxSlayer automatically calculates and enters the allowable OR credit. The regular credit is \$236 per TP & dependent on the return. An additional exemption can be claimed for a TP or spouse with a severe disability, as well as for a dependent child with a qualifying disability.

NOTE: If the federal AGI exceeds 100K (S or MFS)/\$200K (all other filing statuses), the exemption credit allowed on the return is \$-0-

POLITICAL CONTRIBUTION CREDIT [Code 809]: Can be to a political party, a candidate to be voted on in OR, a PAC certified in OR, or a political party. Only "cash" contributions count, and these must be reduced by any swag received in return. The credit is limited to a maximum of \$50 per TP (\$100 MFJ), and completely disallowed if federal AGI > \$150K MFJ (\$75K all other filing statuses).

OR return > Credits > Political Contribution Credit > Enter the allowable contribution amount.

RETIREMENT INCOME CREDIT [Code 811]: TP must be 62 or older and receive retirement income taxable to OR. Household income* must be < \$22,500 (\$45K MFJ). Social Security &/or Tier 1 RR Retirement benefits are less than \$7500 (\$15K MFJ). See OR pub 17, pp.109 – 1110 to calculate credit.
* Household income is defined as both taxable & nontaxable income minus federal adjustments.

OR return > Standard Credits > Other Standard Credits > Retirement Income > Enter credit amount.

WORKING FAMILY HOUSEHOLD & DEPENDENT CARE CREDIT [Code 895]: Automatically handled. TP must have qualified to file federal form 2441 to be able to claim the WFHDC credit on the OR return. The same caregiver rules apply to the WFHDC credit as to the federal CDC credit. TP cannot claim the same medical expenses as an itemized deduction AND as the basis for the WFHDC. An add-back is needed if this is the case.
See OR Pub 17 & WFHDC worksheet for additional important details.

OR return > Credits > Refundable Credits > Do you qualify for the Oregon WFHDC Credit? > Yes/No.

OREGON 529 COLLEGE SAVINGS NETWORK CONTRIBUTION CREDIT [Code 896]: Allows a credit of from 5% to 100% of annual contributions depending on AGI, with a maximum credit of \$170 (\$340 MFJ). TaxSlayer calculates and applies the allowable credit when contribution amount is entered

OR return > Credits > Refundable Credits > Enter contribution amount.

ABLE ACCOUNT CONTRIBUTION CREDIT [Code 897]: Allows a credit of from 5% to 100% of annual contributions depending on AGI, with a maximum credit of \$170 (\$340 MFJ). TaxSlayer calculates and applies the allowable credit when contribution amount is entered:

OR return > Credits > Refundable Credits > Enter contribution amount.

SURPLUS CREDIT (KICKER): Oregon Constitution mandates that a rebate be issued to individuals (and corporations) when tax revenue for a biennium exceeds at least 2% of projected revenue. TPs who filed a TY 2022 OR return and had an OR tax liability on the OR-40, line 22, are eligible for the refundable kicker credit of 44.28% of the line 22 amount (or the adjusted amount if the tax liability changed due to an audit or an amendment to the return).

The counselor can calculate the amount of the kicker by multiplying the tax liability on line 22 of the 2022 OR-40 by 44.28%. Alternately, the “What’s my Kicker” tool on the OR DOR website will provide the amount of the kicker with only a few pieces of TP information required to be entered.

Then follow the data entry path:

OR return > Credits > Refundable Credits > Surplus Credit (Kicker) > Enter the kicker amount at the bottom of the page (bypassing the worksheet).

OREGON KIDS’ CREDIT: Allows a credit of \$1000 per qualifying dependent child, up to 5 in total, who is under 6 years of age at the end of the tax year for families earning \$30K or less. The credit is reduced for AGIs over \$25K and phases out completely for AGIs of \$30k or more. TaxSlayer automatically calculates and applies the allowable credit based on entries in the dependent section of the return.

See OREGON KIDS’ CREDIT CHEAT SHEET.

