



LRO

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Selected Tax Policy Changes

This paper provides brief, summary descriptions of tax policy changes that would increase General Fund tax collections and likely require a majority vote. Actual vote requirements are a Legislative Counsel determination that depend on the specific language of a bill. This paper is divided into two sections. The first section policies in H.R. 1, Section VII. The second section describes certain tax expenditures that could be modified to increase revenue.

H.R. 1 Tax Policies

The policies in this section were either created or modified with H.R. 1 and generally have the larger revenue impacts. The table below shows tax year impacts due to the state's automatic connection to the new federal law.

Policy	Tax Year (\$M)			
	2026	2027	2028	2029
Overtime	-\$93	-\$96	-\$100	\$0
SALT Limitation	-\$35	-\$38	-\$42	-\$45
Tips	-\$32	-\$32	-\$34	\$0
Car Loan Interest	-\$35	-\$41	-\$45	\$0
Bonus Depreciation & Expensing				
Bonus Depreciation (tangible property)	-\$56	-\$26	-\$17	-\$12
Section 179 Expensing	-\$15	-\$13	-\$11	-\$9
Bonus Depreciation (Real Property)	-\$67	-\$68	-\$60	-\$42
Research & Experimentation Expensing	-\$38	-\$25	-\$15	-\$7
Business Interest	-\$7	-\$5	-\$4	-\$4

Overtime

A new deduction for “qualified overtime compensation” that an individual receives, limited to \$12,500 per individual or \$25,000 for a joint return. It is phased out for incomes between \$150,000 to \$275,000, or from \$300,000 to \$550,000 for joint returns. *Sunset tax year 2028*

State And Local Taxes (SALT)

An increased deduction for the state and local taxes paid from \$10,000 to \$40,000. It is phased out for income starting at \$500,000. *Sunset tax year 2029*

Tips

A new deduction of up to \$25,000 for tips received during the tax year (eligible occupations can be found in this [list](#) on Treasury's website). It phases out for higher-income earners between \$150,000 and \$400,000 for single filers, or \$300,000 to \$550,000 for joint filers. Qualified tips must be paid voluntarily, not subject to negotiation, and determined by the payor. *Sunset tax year 2028*

Auto Loan Interest

A new deduction of up to \$10,000 per year for interest on personal-use auto loans, for qualifying U.S.-assembled passenger vehicles. It phases out for higher-income earners between \$100,000 and \$150,000 for single filers, or \$200,000 to \$250,000 for joint filers. *Sunset tax year 2028*

Bonus Depreciation & Expensing

Businesses are allowed to deduct the cost of investments they make to produce income. Depreciation is when those deductions are taken over multiple years. Expensing is when they are fully deducted in the year incurred. Expensing is identical to 100% bonus depreciation. The changes made in H.R. 1 do not change total deductions allowed but it did change when they may be claimed, by front-loading them.

Example: A 5-year Property Purchased in 2026

Row 1-3 show how H.R. 1 creates a revenue loss in 2026 and a revenue gain in subsequent years. Conversely, rows 5-6 show how eliminating bonus depreciation would create a revenue gain in 2026 and a loss in subsequent years.

Depreciation of Equipment Costing \$100,000							
Policy	2026	2027	2028	2029	2030	2031	Total
Prior Law (60%)	\$68,000	\$12,800	\$7,680	\$4,608	\$4,608	\$2,304	\$100,000
H.R. 1	\$100,000	\$0	\$0	\$0	\$0	\$0	\$100,000
\$ Change	loss	gain	gain	gain	gain	gain	
0% Bonus	\$20,000	\$32,000	\$19,200	\$11,520	\$11,520	\$5,760	\$100,000
\$ Change	gain	loss	loss	loss	loss	loss	

Machinery & Equipment (M&E) Bonus depreciation

Some version of this is policy has been often in effect since 2002, ranging from a 30% bonus to a 100% bonus. In addressing the budget challenges during the 2007-09 biennium, the 2009 Oregon Legislature disconnected, for tax years 2009 and 2010, from the 50% bonus depreciation that was enacted as part of ARRA. H.R. 1 permanently allows for 100% first-year depreciation (bonus depreciation) for qualified property acquired after January 19, 2025. *Permanent*

Section 179

This policy allows business to expense (generally) tangible personal property up to a dollar limit. The deduction is phased out as the cost of the equipment exceeds certain limits. In effect, this limit and phase-out focus the benefits toward smaller businesses. Prior to the passage of H.R. 1 the expensing limit was \$1 million, and the phaseout began at \$2.5 million. Under H.R. 1, the expensing limit is increased to \$2.5 million and the phaseout threshold to \$4 million. In addressing the budget challenges during the 2007-09 biennium, the 2009 Oregon Legislature disconnected, for tax years 2009 and 2010, from the increased limits that were enacted as part of ARRA. *Permanent*

Production Property Bonus Depreciation

This policy is analogous to the M&E bonus depreciation, except it is applicable to real property. This type of property has been ineligible for bonus depreciation in prior years and represents an expansion to certain nonresidential real property used in qualified production activities like manufacturing or agriculture. *Sunset tax year 2028*

Research & Experimentation Expensing

From 1954 through 2021, businesses were allowed to expense qualifying expenditures. The TCJA of 2017 changed that to an amortization schedule of a 20% deduction for each of five years. H.R. 1 restores the policy -- for domestic research -- in effect prior to the TCJA, letting businesses fully deduct eligible U.S. research costs in the year they happen. Businesses have the option to instead choose to deduct the cost of eligible research over a period of at least 5 years. *Permanent*

In addition to the core expensing policy, there are two temporary provisions:

1. A “catch-up” provision that allows businesses to claim in tax years 2025 and 2026, any unused deductions from expenses incurred in prior years.
2. Businesses whose average gross receipts are no more than \$31 million for the five years preceding the given tax year can adjust past tax returns to take this full deduct.

Business Interest

H.R. 1 changes how businesses calculate their limit on deducting interest expenses by including depreciation and similar costs when figuring taxable income. This effectively increases the amount businesses can deduct. *Permanent*

Other Revenue Options

The policies in this section are generally tax expenditures that could be modified in ways to raise revenue with only a majority vote. As with the previous section, actual vote requirements are a Legislative Counsel determination that depend on the specific language of a bill. The table below provides rough, tax year estimates extrapolated from the Tax Expenditure Report.

Policy	Tax Year (\$M)			
	2026	2027	2028	2029
Home Mortgage Interest Deduction	-\$500	-\$510	-\$525	-\$535
Total Itemized Deductions	-\$1,577	-\$1,608	-\$1,743	-\$1,778
Federal Tax Subtraction	-\$644	-\$657	-\$697	-\$711
Pass-Through Entity Preferential Tax Rates	-\$125	-\$128	-\$131	-\$134
Opportunity Zones	-\$12	-\$13	-\$13	-\$14
Preferred Treatment of Qualified Small Business Stock	-\$39	-\$39	-\$39	-\$40
Corporate Dividend Income*				
International Income	-\$54	-\$56	-\$60	-\$61

* Not considered a tax expenditure; estimates are being developed.

Home Mortgage Interest Deduction

Homeowners are allowed a federal deduction for the interest paid on mortgages for primary and secondary homes. Oregon is tied to this deduction. It can be limited by: (1) capping the deduction at a specified amount; (2) creating a phase-out or a phase-down for filers above a specified income level; or (3) limiting the deduction to primary residences.

Limit Total Itemized Deductions

Oregon personal income taxpayers have the option claiming either the Oregon standard deduction or itemized deductions, which are generally equal to the federal itemized deductions. Options to reduce itemized deductions include: (1) placing a cap on total deductions; (2) creating an Oregon phase-out based on income levels.

Federal Tax Subtraction

Taxpayers with income below specified levels are allowed to subtract from their Oregon income the amount of federal income taxes they paid during the tax year. The subtraction is limited to (a projected) \$8,800 per tax return in 2026; it is phased out for single filers as income increases from \$125,000 to \$145,000 and for joint filers as income increases from \$250,000 to \$290,000. Options to reduce the subtraction include: (1) reducing the subtraction cap; (2) lowering the phase-out income thresholds; or (3) reducing the cap for single filers to half that of joint filers.

Preferential tax rates for Pass Through Entities (PTEs)

In the 2013 Special Session, the Legislature established lower tax rates for certain income earned by owners of pass-through entities. Depending on the income level, the preferential tax rate could be as low as 7%, compared to the standard 8.75% and 9.9% top marginal income tax rates. The policy could be eliminated or scaled back to raise revenue.

Opportunity Zones

Provides up to three tax preferences for taxpayers who invest capital gains income in state nominated Qualified Opportunity Zones (QOZ). These three preferences are: a tax deferral on realized gains; a ten percent reduction on capital gains tax if the QOZ investment is held at least five years; or a full exclusion from capital gains tax if held in the QOZ for at least ten years.

Qualified Small Business Stock

There is an exclusion from income equal to at least 50 percent of the gain from the sale or exchange of certain small business stock. Certain conditions determine the amount of exclusion and certain limits apply.

Dividends Received Deductions

C-corporations are allowed to deduct some portion of the dividend income they receive from their ownership of other C-corporations. The amount of the deduction generally ranges from 70% to 100% of the amount of dividend income received.

International Income

Foreign corporations that are at least 50% owned by a U.S. corporation are known as “controlled foreign corporations” (CFCs). Such ownership potentially allows companies to assign profits to lower taxing countries. Two provisions in federal law have been used since 2018 to discourage this shifting of profits. These provisions have been known as “global intangible low-taxed income” (GILTI) and “foreign-derived intangible income” (FDII). H.R. 1 modified these provisions and changed the terminology. Oregon could change how we are connected to these policies.