2004 OREGON 17½

Publication 17½

OREGON INDIVIDUAL INCOME TAX GUIDE

Visit us on the Web at www.oregon.gov/DOR

OREGON DEPARTMENT OF REVENUE

150-101-431 (Rev. 12-04)

Publication

17½

Oregon Individual Income Tax Guide

2004 Edition

Published by

OREGON
DEPARTMENT
OF REVENUE

955 CENTER STREET NE
SALEM OR 97301-2555

150-101-431 (Rev. 12-04)

Publication 17½, Oregon Individual Income Tax Guide, supplements information in the Oregon income tax instruction booklet and in the federal publication, ***Your Federal Income Tax, Publication 17.***

This publication is a guide. It is not a complete statement of laws and rules. If you are a professional tax practitioner, you should always refer to the Oregon Revised Statutes (ORS) and Oregon Administrative Rules (OAR). These are available online at www.oregon.gov/DOR (click on "Statutes/Rules").

Forms

To access our tax forms online, visit our Web site at www.oregon.gov/DOR. You may also order our tax forms by mail. Write to us at:

Forms
Oregon Department of Revenue
PO Box 14999
Salem OR 97309-0990

Note: There is a charge for forms ordered by mail by professional tax preparers. Forms and instructions are also available in *Package B*. See the order form, *2004 Forms Order for Practitioners* (150-800-095), in the appendix.

Practitioner telephone line

Professional tax preparers may call the department for assistance. **Please research your question before calling.** We can only provide information on Oregon income tax laws and policies. We will not prepare returns or make tax computations. We cannot provide or discuss specific taxpayer information. The practitioner telephone number in Salem is 503-945-8655. This number is a message line only. We will return your call.

Practitioner e-mail

Professional tax preparers also may send their questions to the department via e-mail. Our address is prac.revenue@state.or.us. We will not open attachments (*.txt files are accepted). Please do not send confidential or taxpayer-specific information. Remember to include your name and telephone number.

"Revenews" practitioner listserv

This is a quick and efficient way for the department to pass information on to professional tax preparers. To subscribe, go to: webhost.osl.state.or.us/mailman/listinfo/revenews. Once you have subscribed, you will automatically receive messages the department sends. You are on the list until you unsubscribe. This is not a question-and-answer list. E-mail will be returned unanswered.

Taxpayer questions

For assistance, call the Oregon Department of Revenue:

Salem 503-378-4988
Toll-free within Oregon 1-800-356-4222

TTY (hearing or speech impaired; machine only): 503-945-8617 (Salem) or 1-800-886-7204 (toll-free within Oregon).

Americans with Disabilities Act (ADA): This information is available in alternative formats. Call 503-378-4988 (Salem) or 1-800-356-4222 (toll-free within Oregon).

For general tax information: www.oregon.gov/DOR

Asistencia en español. Llame al 503-945-8618 en Salem o llame gratis al 1-800-356-4222 en Oregon.

Contents

Federal tax law 7
New information 7
Important reminders 7

GENERAL INFORMATION

Oregon statute of limitations on refunds 8
Interest 9
Penalties 10
Extensions of time to file 11
Amended returns 12
Electronic filing for Oregon 13
2-D barcode filing for Oregon 14
Credit card payments 15
Direct deposit of refund 16
Refund processing 17
Residency 17
Form to file 19
Filing status 20
Special instructions for married filers with different residency statuses 20
Filing requirements 22
Individual Taxpayer Identification Number 23
Military personnel filing information 24
Limited liability companies 26
Limited liability partnerships 27
Multiple nonresident returns 27
Appeal procedures 28
Record-keeping requirements 32
What to do if you are audited 33
Filing your return after tax has been assessed 35
Why Oregon needs a federal return 36

INCOME

Alimony received 36
Amtrak Act (Interstate Transportation Wages) 37
Business income or loss 38
Gain, loss, and distributions 39
Hydroelectric dam workers 39
Interest and dividend income 39
IRA distributions 39
Like-kind exchange or conversions of property 40
Rents, royalties, partnerships, estates, trusts, farms, etc., from federal Schedule E and F 40
Retirement income 40
Social Security and Railroad Retirement Board benefits 41
State and local income tax refunds 41
Unemployment compensation and other taxable income 41
Wages, salaries, and other pay for work 41
Waterway workers 42

ADJUSTMENTS TO INCOME

Alimony paid 42
Certain business expense of reservists 43
Clean-fuel vehicle 43
Education 43
Fee-basis government officials 44
Health Savings Account deduction 44
Interest penalty on early withdrawal of savings 44
IRA or self-employed SEP and SIMPLE contributions 44
Moving expense 45
Performing artists 45
Self-employed health insurance 45
Self-employment tax 46

ADDITIONS

Accumulation distribution from a trust 46
Depletion 46
Disposition of inherited Oregon farmland or forestland 46
Educator expense 47
Federal election on interest and dividends of a minor child 47
Federal estate tax 47
Federal income tax refunds 47
Gambling losses claimed as an itemized deduction 49
Income taxes paid to another state 49
Individual Development Account 49
Interest and dividends on government bonds of other states 49
Long-term care insurance premiums, federal deduction 50
Lump-sum distributions 51
Military Family Tax Relief Act 51
Oregon 529 College Savings Network 52
Oregon Cultural Trust contributions 52
Self-employed health insurance deduction 52
Unused business credits 52

SUBTRACTIONS

American Indian 52
Artist's charitable contribution 53
Construction worker and logger commuting expenses 54
Conversions and exchanged property 54
Domestic partner benefits 54
Federal income tax liability 54
Federal pension income 55
Federal tax credits 57
Foreign tax 57
Individual Development Account 58
Interest and dividends on U.S. bonds and notes 58
Land donations to educational institutions 59
Local government bond interest 59
Lottery winnings 59
Mortgage interest credit 60

Oregon 529 College Savings Network 60
Oregon deferral of reinvested capital gain.............. 61
Oregon income tax refund... 61
Previously taxed employee retirement plans 61
Previously taxed IRA conversions............................ 62
Public Safety Memorial Fund Awards...................... 62
Railroad Retirement Board benefits.......................... 62
Scholarships used for housing expenses................. 62
Social Security benefits 62
Tuition and fees deduction 63
U.S. government interest in IRA or Keogh distribution.. 63

OTHER ITEMS

Net operating losses (NOLs) for Oregon 64
Depreciation and amortization................................. 68
Basis of business assets transferred into Oregon 68
Sale of assets 69
Anti-churning rule denying ACRS and MACRS benefits for certain property................................. 69
Gain on the sale of an Oregon residence 70
Fiduciary adjustment.. 70
Passive activity losses... 70
Limit on itemized deductions 71
Individual Development Accounts........................... 72
Oregon percentage.. 73
Deductions and modifications.................................. 73
Oregon tax.. 75
Farm liquidation long-term capital gain tax rate 75
Farm income averaging... 76
Claim of right income repayments........................... 76

CREDITS

Adoption expenses 78
Advanced telecommunications facilities.................. 79
Bone marrow donation program 79
Business energy... 79
Child and dependent care 80
Child Care Fund contribution.................................... 81
Crop donation.. 81
Dependent care assistance 82
Diesel engine replacement... 83
Earned income... 83
Elderly or disabled 84
Electronic commerce zone investment 84
Employer scholarship 84
Exemption 84
Farmworker housing 85
First Break Program.. 86
Fish screening devices... 87
Income taxes paid to another state 87
Individual Development Account 90
Long-term care insurance premiums........................ 90
Loss of use of limbs 91
Low-income caregiver 91
Mobile home moving.. 92
Mutually taxed gain on the sale of residential property 92
On-farm processing machinery and equipment..... 92
Oregon Cultural Trust contributions 93
Political contributions... 93
Pollution control facilities 94
Pollution prevention 95
Reclaimed plastics... 95
Reforestation 95
Reservation enterprise zone 96
Residential energy 97
Retirement income 98
Riparian land 99
Rural medical practitioners 100
Working family child care 100

INTEREST ON UNDERPAYMENT OF ESTIMATED TAX

Who must pay.. 103
Exceptions to paying interest on an underpayment of estimated tax 103
Method 1: Estimated 2004 tax 103
Method 2: Safe Harbor 2003 tax.............................. 104
Method 3: Annualized 2004 tax.............................. 105

ESTIMATED TAX

Who must pay.. 107
Tax rate chart 2005 107
Gross income 108
Farmers and commercial fishers............................. 108
Nonresidents and part-year residents.................... 109
Retirees 109
Nonresident aliens 109
Fiduciaries 109
Due dates.. 109
Additional withholding 110
How to figure your payments..................................110
Applying income tax refund to estimated tax payment 112
What to do if your estimated income, deductions, or credits change 112
Did not pay estimated tax on April 15? 112

ELDERLY RENTAL ASSISTANCE

Important information 112
Qualifications 112

APPENDIX

Household Income Checklist 116
Working Family Child Care Credit Tables............ 119
Standard Numeric Codes for Oregon Other Additions, Subtractions, Deductions, Modifications, and Credits 121
Department of Revenue Publication Order........... 125
Forms Order for Practitioners 127
Index 129
Miscellaneous Oregon Income Tax Information 2000–2004... back cover

Federal tax law

Federal law connection. Oregon is tied to the December 31, 2002, federal definition of taxable income. Oregon will not automatically adopt federal changes after this date. Oregon remains permanently tied to federal law for depreciation of assets, pension plans, and tax-exempt or tax-deferred savings programs.

2003 Military Family Tax Relief Act. Oregon is not tied to most of the provisions allowed by the federal Military Family Tax Relief Act (MFTRA).

If you had any income exclusions or deduction related to MFTRA, you will have an Oregon addition. The amount of the Oregon addition is the amount you excluded from your federal return. For more information, see page 51.

2004 Working Families Tax Relief Act (Extenders Bill). Oregon is not tied to most of the provisions allowed by the federal Working Families Tax Relief Act (WFTRA), also known as the Extenders Bill. Congress approved this bill in September 2004.

- **Educator expense deduction.** WFTRA extends this deduction through 2005; however, Oregon is not tied to this deduction. For more information, see pages 43 and 47.
- **Clean-fuel vehicle deduction.** WFTRA eliminates the phase-out of this deduction. Oregon is tied to this provision. See page 43.

WFTRA changed many other provisions of federal law. If the change relates to depreciation of assets, pension plans, or tax-exempt or tax-deferred saving programs, Oregon is tied to the change. If the change does not relate to one of these items, Oregon is not tied to the change. For more information about WFTRA, visit the IRS Web site at www.irs.gov.

New information

Federal tax liability subtraction. The federal tax subtraction limit has increased to $4,000 ($2,000 married filing separately.) See page 54.

Department of Revenue Web site. Our Web site address has changed. For additional personal income tax information, please visit our Web site at www.oregon.gov/DOR.

Credit card payment. The department is now accepting credit card payments for 2004 current-year taxes and 2005 estimated taxes. See page 15.

Taxable income limit increased for Form 40S filers. Individuals with taxable income of up to $100,000 may file Oregon Form 40S. See page 19.

Payment voucher, Form 40-V. Complete Form 40-V when mailing a 2004 payment or a 2005 estimated tax payment, or when filing a 2004 Oregon extension. See pages 12, 14, 15, and 107. If paying by credit card, do not use Form 40-V.

Abbreviations replaced with codes. We have replaced the standard abbreviations used to identify other additions, subtractions, deductions, modification, and credits with numeric codes. Please refer to pages 121–123 for the list of numeric codes.

Standard deduction amounts. The standard deduction amounts have changed. See page 74.

Filing status for same-sex couples who were issued marriage licenses. Current tax law, as of the date this publication was printed, requires that you use the same filing status for Oregon as you used on your federal return. Visit our Web site at www.oregon.gov/DOR for more information. Or, contact the department at 503-378-4988 (Salem) or 1-800-356-4222 (toll free in Oregon).

Diesel engine replacement credit. This credit is for truck owners who replace diesel engines in trucks weighing more than 26,000 pounds. You may start replacing the engines in 2004. The first year to claim the credit is 2005. See page 83.

Riparian land credit. This credit is for farmers who voluntarily remove riparian land from farm crop production. The credit is based on 75 percent of the value of the foregone crop. See page 99.

Important reminders

Active duty pay income. You may continue to subtract active duty pay income from your Oregon income if you earned it outside Oregon from August 1, 1990, through the date the president sets as the end of combat activities in the Persian Gulf. The president had not declared an end to combat activities as of the date this publication was printed.

Authorization box. If you check this box on your return, you are authorizing Department of Revenue processing staff to contact your preparer for additional information needed to process your return. **This limited authorization ends when the department completes the processing of your return.** It does not allow your preparer to request information or take action on your behalf. For those situations, you will need to complete Form 150-800-005, *Tax Information Authorization and Power of Attorney for Representation*.

Blue or black ink. Please use blue or black ink for easier reading and faster processing. Equipment used to scan documents cannot read certain colors of ink, especially red. Thank you.

Direct deposit. Instead of receiving your refund check in the mail, you may have your refund deposited directly into your account at a bank, credit union, or other financial institution. See page 16.

Elderly Rental Assistance (ERA). Your ERA Form 90R must be received by July 1, 2005, to receive your rental assistance in November 2005.

Filling in the blanks. Some items on Forms 40, 40S, 40N, and 40P do not have their own lines (for example, other additions, other subtractions, and other credits). Please use the list of numeric codes in the tax booklets or on pages 121–123 to identify these items.

Minimum refund. The minimum refund check amount that will be issued is $1.

Minor child's return. If your child must file a tax return, you may sign the child's name as his or her legal agent. Sign the child's name and then write "By [your signature], parent (or other legal guardian) for minor child."

Oregon extension form. An Oregon extension form, Form 40-EXT, is available. See page 11.

Oregon tax credits. Most Oregon tax credits are limited to your tax liability. However, report the full amount of each credit on your return, even if you cannot use all of the credit this year. Some credits allow a carryforward of any unused credit amount. When you prepare your 2004 return, refer to the copy of your 2003 return to see if you have any unused credit to carry forward. See "Credits" on pages 78–102 to find out which credits you can carry forward to future years.

Payment voucher, Form 40-V. Oregon provides a payment voucher to use when you have tax to pay. Form 40-V is similar to the federal voucher and is easy to use. The form is included in the Oregon income tax booklets. You will use this voucher even if you file electronically. See page 14 for electronic filing payment information.

Rounding cents to the nearest whole dollar. Do not enter cents on your return. You must round all amounts to the nearest whole dollar. Drop amounts less than 50 cents. Increase amounts from 50 to 99 cents to the next dollar. For example, $9.22 becomes $9 and $311.50 becomes $312.

Working family child care credit. This credit for low-income working families with qualifying child care expenses is refundable. Any amount not used to pay your tax liability will be refunded to you. To claim this credit on your return, you must complete and attach one of the following:

- **Full-year residents:** Complete and attach Oregon Schedule WFC, *Oregon Working Family Child Care Credit for Form 40 and Form 40S Filers,* to your Form 40 or Form 40S.
- **Part-year residents and nonresidents:** Complete and attach Oregon Schedule WFC-N/P, *Oregon Working Family Child Care Credit for Form 40N and Form 40P Filers,* to your Form 40N or Form 40P.

A copy of the schedule is included in your tax booklet, or you can download it from our Web site at www.oregon.gov/DOR.

General information

Oregon statute of limitations on refunds

Oregon law limits the time you have to claim a **refund** of Oregon tax. The allowable time depends on the circumstances in your case.

Withholding and estimated tax refunds

You must file your original return within three years of the due date of that return to claim a refund of tax withheld and/or estimated tax payments. The due date is without extensions. If you file more than three years after the due date, the excess tax withheld or estimated tax payments cannot be refunded and cannot reduce tax you owe for another year.

Amended returns

You may amend (change) your return and file for a refund:

- Within three years of the due date of your return, or
- Within three years of the date you filed your return, or
- Within two years of the date you paid your tax or paid any part of your tax,

whichever is later.

If you file your amended return after the three-year period has expired, but within two years from the date you paid tax, your refund cannot be more than the amount of tax you paid during that two-year period.

Example: Bob filed his 2001 Oregon return and paid $300 tax due on time. In March 2004, he discovered he had forgotten to report some interest income. He amended his return. He paid $220 additional tax on April 1, 2004. On August 4, 2005, Bob discovers he failed to claim a large charitable contribution he made in 2001. Bob must amend his 2001 return by April 1, 2006. His refund will be limited to $220, the additional tax he paid within the last two years.

If the Oregon Department of Revenue adjusted items on your return and your right to appeal those adjustments has expired, you cannot use the above rules. **You cannot claim a refund for those items.**

Federal corrections or other state corrections to tax returns

Sometimes when the IRS or another state corrects your return, the same change to your Oregon return will result in a refund. You have two years from the date of the change or correction to amend your Oregon return and claim a refund. This is true even if the three-year statute of limitations has expired. See "Amended returns" on page 12.

Net operating loss carryback

You may claim a refund from a net operating loss carryback within three years after the due date (including extensions) of the return that showed the net operating loss.

Interest

Interest rates are the same for taxes owed and for refunds. The following table shows interest rates since 1993. For interest rates before 1993, contact the department.

	Interest rates Percentage rates		
Interest dates	**Annual**	**Monthly**	**Daily**
January 1, 1993	8%	.6667%	.0219%
January 1, 1995	10%	.8333%	.0274%
January 1, 1999	9%	.75%	.0247%
January 1, 2001	10%	.8333%	.0274%
February 1, 2002	8%	.6667%	.0219%
February 1, 2003	7%	.5833%	.0192%
January 1, 2004	6%	.5%	.0164%
January 1, 2005	5%	.4167%	.0137%

The current annual interest rate is 5 percent for the interest period beginning after January 1, 2005. The interest rate may change once a calendar year.

How to figure interest on tax you owe

You must figure interest on the amount of tax not paid by the due date of your payment.

An interest period is each full month starting with the day after the due date of the original return. For example, April 16 through May 15 is one full interest period.

Interest is figured daily for a fraction of a month. The daily rate is based on a 365-day year.

Interest owed on income tax starts the day after the due date of your original return to the date of your payment. Even if you get an extension to file, you still owe interest if you pay after the original due date of the return.

If you file an amended return and have tax to pay, you will be charged interest starting the day after the due date of the original return until the date of your payment.

If your taxable income is changed because of a federal or state audit and you owe more tax, you will be charged interest from the due date of the original return to the date of your payment.

Example: You filed an amended income tax return for tax year 2001 on March 23, 2005. Your original 2001 return was due on April 15, 2002. You paid additional tax of $500 with your amended return. Here is how you figure the interest you owe on the additional tax:

April 16, 2002
to February 17, 2003 . . . 10 months at .6667% = $33.30

February 18, 2003
to January 17, 2004 . . . . 11 months at .5833% = 32.08

January 18, 2004
to January 17, 2005 . . . . 12 months at .5% = 30.00

January 18, 2005
to March 17, 2005 . . . . . . 2 months at .4167% = 4.20

March 18, 2005
to March 23, 2005 . . . . 6 days at .0137% = .41

Total interest . . . . $ 99.99

Two-tiered interest on deficiencies and delinquencies

Additional interest of one-third of 1 percent per month (4 percent yearly) will be charged on deficiencies or delinquencies if:

- You have filed a return showing tax due (a self-assessed tax liability) and you do not pay the tax due within 60 days after you file your return, or
- The Department of Revenue has assessed an existing deficiency, and

- You do not pay the assessment within 60 days after the date on the Notice of Assessment.

If you appeal to the Department of Revenue (or, in a hardship situation, to the Oregon Tax Court) without paying the tax, the increased interest rate will start with interest periods beginning 61 days after:

- The date of the department's conference decision letter (CDL), or
- The date of the department's response to your written objection, or
- The date the Magistrate Division enters its decision, or
- The date the Tax Court or the Oregon Supreme Court enters its judgment.

Interest on Elderly Rental Assistance (ERA) payments you must repay

If you amend your Form 90R, *Oregon Elderly Rental Assistance,* and it reduces the amount of assistance you have already received, the department will calculate your reduced benefit and interest due and send you a bill. Interest on ERA checks is figured from the date the check was issued to the date you repay it.

Year Being Amended	Interest Starting Date
2001	November 14, 2002
2002	November 7, 2003
2003	November 4, 2004

How to figure interest on refunds for personal income tax

Interest is paid on refunds due to you if the department does not issue your refund by the 45th day after receiving your return. If you file your return before the due date, it is considered received on the due date. If the department issues your refund before the 45th day after receiving your return, you will not be paid interest. Interest on net operating loss carrybacks is computed starting on the 45th day after the filing date of the loss year or due date of the return, whichever is later.

Example: You filed an amended income tax return for tax year 2003 on May 23, 2005. Your original 2003 return was due on April 15, 2004. You are due a refund of $1,000 from the amended return. You filed your original 2003 return on March 17, 2004. Here is how we figure the interest due to you on your refund:

April 16, 2004 to May 29, 2004	0 interest	
May 30, 2004 to January 29, 2005	8 months at .5% =	$40.00
January 30, 2005 to April 29, 2005	3 months at .4167% =	12.50
April 30, 2005 to May 23, 2005	24 days at .0137% =	3.29
Total interest		$55.79

Two-tiered interest on refunds

The interest rate will increase if the department is unable to issue a refund within 60 days from the date of a Tax Court or Supreme Court judgment. The rate will increase by one-third of 1 percent per month (4 percent yearly) for interest periods that begin 61 days after the date the judgment is entered.

Penalties

5 percent failure-to-pay penalty

You must pay a penalty if you do not pay your tax by the original due date. This is true even if you have an extension of time to file. The failure-to-pay penalty is 5 percent of your unpaid tax.

20 percent failure-to-file penalty

You must pay a penalty if you do not file your return within three months after the due date (including extensions). The penalty is 20 percent of the unpaid tax. The failure-to-file penalty is in addition to the 5 percent failure-to-pay penalty.

Example 1: Rosa filed her 2004 return on July 21, 2005. Her return was due April 15, 2005. She did not have an extension. She paid the tax due of $2,000 with the return. Here is how she figures her penalty:

Tax due	$2,000
Penalty (failure-to-pay) .05 × $2,000	100
Penalty (failure-to-file) .20 × $2,000	400

Note: Rosa will also owe interest for late payment of tax.

Exception: You will not be charged a penalty if you meet **all** of the following requirements:

- You file federal Form 4868, *Extension of Time to File U.S. Individual Income Tax Return* (the automatic extension of time to file), or the Oregon Extension Form 40-EXT according to current Oregon income tax return instructions; and
- You pay at least 90 percent of your tax after credits by the original due date; and

- You file your return within the extension period; and
- You pay the balance of tax due when you file your return; and
- You pay the interest on the balance of tax due when you file your return or within 30 days of the date of the billing you receive from the department.

If you file with a valid extension but did not pay 90 percent of your tax by the original due date, you will be charged the 5 percent failure-to-pay penalty.

100 percent failure-to-file penalty

If you do not file returns for three consecutive years by the due date of the third year's return, including extensions, you must pay a 100 percent failure-to-file penalty on the tax due for each year.

100 percent fraud penalty

If you fail to file a return or you file a return with the intent to evade tax, you must pay a fraud penalty of up to 100 percent of the tax due. In addition, you could be charged with tax evasion, a class C felony. You could be fined up to $100,000, serve a jail sentence, or both.

Total penalties

Total penalties cannot be more than 100 percent of the tax due. **Exceptions:** Penalties for substantial understatement of income and frivolous returns may be in addition to other penalties.

Example 2: Dan and Elicia failed to file their 2002 return by April 15, 2003. In 2004, they received a request to file from the Oregon Department of Revenue. They filed a return on April 5, 2005, showing $5,000 tax due. No payment was made. An investigation completed on October 25, 2005, revealed the intent to evade tax and a corrected tax due of $7,000. Here is how we would figure the penalty and interest on the Notice of Assessment:

Tax due	$7,000.00
Penalty 100% (total penalty not more than 100%)	7,000.00
Interest calculation*	
(April 16, 2003, to January 15, 2004) .005833 × $7,000 × 9 months	367.47
(January 16, 2004, to January 15, 2005) .06 × $7,000 × 1 year	420.00
(January 16, 2005, to October 15, 2005) .004166 × $7,000 × 9 months	262.46
(October 16, 2005, to October 25, 2005) .000137 × $7,000 × 10 days	9.59
Total amount due	$15,059.52

* *For interest rates, see page 9.*

20 percent substantial understatement of income penalty

If you have substantially understated your income on your return, you must pay a 20 percent penalty. A substantial understatement of income is more than $25,000 for C corporations and $15,000 for all others. Any amount attributable to an abusive tax shelter cannot be used to reduce a substantial understatement.

This penalty is in addition to all other penalties provided by law.

$250 frivolous return penalty

If you file a frivolous return that is meant to deliberately delay or block the administration of tax laws, you must pay a $250 penalty. "Frivolous" includes, but is not limited to:

- An argument, without any good basis, that there has been a violation of your constitutional rights.
- Reliance on a "gold standard" or "war tax" deduction.
- An argument that wages or salary are not taxable income.
- An argument that the 16th Amendment to the U.S. Constitution was not properly adopted.
- An argument that "unenfranchised, sovereign, freemen, or natural persons" are not subject to tax laws.

False ERA form—class C felony

If you file a false Elderly Rental Assistance (ERA) Form 90R, you could be charged with a class C felony. You could be fined up to $100,000, serve a jail sentence, or both. In addition, you would have to pay back twice the amount of the assistance check you received plus interest.

Extensions of time to file

Generally, Oregon allows you the same extension you have for your federal return. However, in some cases, you will need to file the **Oregon extension form,** Form 40-EXT. The following will help you decide when you need to file Oregon Form 40-EXT:

- If you filed a federal extension, Form 4868, and you expect to get a refund for Oregon:
  — You do not need to file Form 40-EXT.
  — Check the extension box on your Oregon tax return when you file your return.

— Keep a copy of your federal extension in your records. You are not required to send us a copy of your federal extension.

- If you did not file a federal extension but need more time to file for **Oregon only** and you expect an Oregon refund:
  - — File Oregon Form 40-EXT. Enter -0- in the payment amount box on Form 40-V, *Oregon Income Tax Payment Voucher.* Mail the entire Form 40-EXT to: Extension Clerk, Oregon Department of Revenue, PO Box 14950, Salem OR 97309-0980.
  - — Check the extension box on your Oregon tax return when you file your return.
  - — Keep a copy of your extension in your records.
- If you need more time to file for Oregon and you need to make a tax payment to Oregon:
  - — Complete the tax payment worksheet on Form 40-EXT. Complete and detach the payment voucher, Form 40-V. Send the payment voucher and your check or money order by April 15, 2005, to: Extension Clerk, Oregon Department of Revenue, PO Box 14950, Salem OR 97309-0980. If paying by credit card, write "credit card payment" on your voucher and mail the voucher to the address above.
  - — Check the extension box on your Oregon tax return when you file your return.
  - — Keep a copy of your extension in your records.

An extension does not mean more time to pay!

You must pay any tax you expect to owe with your extension form by April 15, 2005. If you do not pay all the tax due with your extension, you will owe interest on the unpaid balance after April 15, 2005, until the date of your payment. The current interest rate is 5 percent per year. If the tax is not paid within 60 days of our bill, the interest rate increases to 9 percent per year.

Were you stationed in a designated combat zone?

Did you receive additional time to file your 2004 federal return and pay your 2004 federal tax? If so, Oregon allows the same additional time to file and pay. Write "combat zone" in blue or black ink at the top of your return when you file it.

Do you live in an area affected by a national disaster?

Did you receive additional time to file your federal tax return and pay your federal tax? If so, you may qualify for additional time to file your Oregon return and pay your Oregon tax. Please contact the department for information and instructions on filing. Visit our Web site at www.oregon.gov/DOR or call us at 503-378-4988 (in Salem) or toll-free in Oregon at 1-800-356-4222.

Amended returns
ORS 314.380

Reasons to file an amended return

Examples are:

- An IRS audit (or other state audit) resulted in a change to your original return and the change affects your Oregon return.
- You amended your IRS (or other state) return and the changes you made affect your Oregon return.
- You have a net operating loss (NOL) and you will carry back the NOL to a prior year.
- You need to correct the income or deductions you originally reported.

What form to file to amend a return

- **Full-year residents.** If you originally filed Form 40 or 40S, use Oregon Form 40X, *Oregon Amended Individual Income Tax Return.* Visit our Web site at www.oregon.gov/DOR to download the instructions and the form. Or, call us at 503-378-4988 (in Salem) or toll-free in Oregon 1-800-356-4222 to order a copy.
- **Part-year residents.** If you originally filed Form 40P, use a Form 40P for the year you are amending to make the necessary changes. Write "Amended" at the top of your corrected return in blue or black ink. Attach an explanation of your changes. Visit our Web site at www.oregon.gov/DOR to download the complete instructions for Form 40P. Or, call us at 503-378-4988 (in Salem) or toll-free in Oregon 1-800-356-4222 to order a copy of the instructions and the form.
- **Nonresidents.** If you originally filed Form 40N, use a Form 40N for the year you are amending to make the necessary changes. Write "Amended" at the top of your corrected return in blue or black ink. Attach an explanation of your changes. Visit our Web site at www.oregon.gov/DOR to download the complete instructions for Form 40N. Or, call us at 503-378-4988 (in Salem) or toll-free in Oregon 1-800-356-4222 to order a copy of the instructions and the form.

When to file an amended return

Refund. Generally, you must file a claim for a refund (an amended return showing a refund) within three years from the due date of your original return, or the date you filed your original return, whichever is later.

Example 1: Hazel, a full-year Oregon resident, filed her original 2002 return by April 15, 2003. In February 2005, she discovered she failed to claim her Schedule A charitable contributions on her original 2002 return. Hazel must file her amended 2002 return no later than April 15, 2006, to claim her refund of overpaid taxes.

There are exceptions for filing an amended return after the three-year statute of limitations period has expired. These exceptions are explained in the instructions for Oregon Form 40X.

Tax to pay. If you need to file an amended return because you owe more tax, you should do so as soon as you know that a change needs to be made to your original return. Pay the tax and interest due when you file the amended return. Interest will be charged from the day after the due date of the original return to the date you pay the tax.

Example 2: Irwin filed his 2003 Oregon return by April 15, 2004. In December 2004, Irwin discovered he failed to report $4,000 of income he earned as an independent contractor. He filed his amended return in January 2005. Irwin determined that he owes $340 of tax. Irwin will calculate interest on this amount starting on April 16, 2004, through the date the tax is paid.

For more details and complete instructions for filing an amended return, please visit our Web site at www.oregon.gov/DOR or contact the department.

Electronic filing for Oregon

Electronic filing is a fast, efficient, and accurate way to file an Oregon income tax return. Electronically filed returns bypass most manual steps required to process paper returns.

You will not mail anything to the department unless you owe tax. **You will have until April 15, 2005, to pay the tax and avoid any penalty and interest.**

Oregon electronic filing allows taxpayers to:

- File their refund, zero-balance, or balance-due returns.
- File Form 40, 40S, 40N, or 40P returns.

Oregon does not accept electronic filing of the following forms:

- Returns where the Oregon filing status is different from the federal.
- Form 40X, *Amended Individual Income Tax Return.*
- Form 90R, *Oregon Elderly Rental Assistance.*
- Prior-year returns.
- Noncalendar-year returns (or fiscal-year returns).

Filing an Oregon electronic return

The Oregon electronic return consists of electronic copies of the following forms:

1. Oregon Form 40, 40S, 40N, or 40P.
2. Federal Form 1040, 1040A, or 1040EZ, and Schedules A–F.
3. Federal Forms 2441, 4797, 8379, and 8839.
4. Forms W-2 and W-2G.
5. Forms 1099 and 1099G.
6. Oregon Form 10.
7. Oregon Schedule WFC or WFC-N/P, *Oregon Working Family Child Care Credit.*
8. Statements and preparer notes.

Important: You cannot file the Oregon return electronically unless you file the federal return electronically **at the same time.** Oregon does not participate in state-only filing.

Are you claiming the credit for income taxes paid to another state on your electronic return? If so, you are required to send us a copy of the other state's income tax return and proof of payment. This information cannot be transmitted electronically with your Oregon return. After you electronically file your Oregon return, mail the other state's return and proof of payment to the Oregon Department of Revenue at:

COR-TROL Attn: Suspense
PO Box 14999
Salem OR 97309

We will match your documents to your electronic return.

Electronic signatures: The federal PIN and the Oregon Form EF

You now have two options for signing an electronically filed Oregon return:

1. Oregon recognizes the federal personal identification number (PIN) as the signature for the Oregon return. You will not need to complete Oregon Form EF if you use the federal PIN.
2. If you use federal Form 8453 to sign the return, you also will need to complete Oregon Form EF. Please do not send Form EF to the department unless requested to do so. Keep Form EF with your tax records for three years after the date of filing.

Rejected returns

If the IRS rejects a federal return due to errors, they also will reject the attached Oregon return. Likewise, the federal return will be rejected if the IRS rejects the Oregon return.

Oregon uses a feature of the Federal/State Electronic Filing program called "consistency checking." The IRS checks several items on the Oregon return to make sure those items match the information on the federal return. If one or more of these items do not match or if the state return data is improperly formatted, the IRS will reject both the federal and state returns.

Balance-due returns

You may file a balance-due return at any time, but payment must be postmarked on or before April 15, 2005, to avoid penalty and interest. Form 40-V, *Oregon Income Tax Payment Voucher*, must accompany all payments. Do not make unnecessary marks (such as return form type) on Form 40-V. Send payments with a completed Form 40-V to:

Electronic Return Payment
Oregon Department of Revenue
PO Box 14725
Salem OR 97309-5018

Important reminder: Penalty and interest will be charged on unpaid tax starting on April 16, 2005.

Will my electronically filed return be reviewed?

Any return, no matter how it is filed, may be reviewed by the department. However, your electronic filing software helps check your return for errors before it is transmitted to the department. E-filing is generally more accurate so there is less chance your return will be reviewed or adjusted during processing.

Practitioner participation in electronic filing

Practitioners are automatically approved for Oregon electronic filing after the IRS acceptance of Form 8633, *Application to Participate in the Electronic Filing Program.*

The department receives weekly updates for all practitioners whose business is within the state of Oregon. If your address is not within Oregon, please notify us before your first transmission. Send a copy of your IRS Form 8633 and the IRS acceptance letter to:

Oregon Electronic Filing
Oregon Department of Revenue
Policy and Systems
955 Center St NE, Room 401
Salem OR 97301-2555

Or fax your information to us at 503-945-8649.

For more information, please visit our Web site at www.oregon.gov/DOR. Click on "Electronic Services."

Copy of return for client

If you are a paid tax preparer or a software vendor, the copy of the return you provide to the client must be an exact copy of the tax return you submit to the department.

2-D barcode filing for Oregon

Sample 2-D barcode

2-D barcode filing is an alternative way to file a paper Oregon return.

What is a 2-D barcode?

A two-dimensional (2-D) barcode is similar to the one you would find on the back of your Oregon driver's license. The 2-D barcode on your tax return is a "picture" of the information on your return. It is printed on the front page of your return.

Why should I use a 2-D barcode?

The information in the barcode is machine-readable and is not entered into our computer system manually. We can process your return more quickly and cost-effectively.

How do I use 2-D barcode on my personal income tax return?

You can file your Form 40S or Form 40 by using a tax preparer or an Oregon-approved tax software package that offers 2-D barcode.

2-D barcode for Form 40N (nonresident) and Form 40P (part-year resident) is not available at this time.

How do I use 2-D barcode on my corporate tax return?

You can file your Form 20-S by using a tax preparer or an Oregon-approved tax software package that offers 2-D barcode.

2-D barcode is not available for any other type of Oregon corporate return at this time.

How do I read my 2-D barcode?

The barcode is only machine-readable. It contains the information displayed on the lines of your tax return.

If you are filing Form 40, the barcode also contains certain lines of your federal return that are needed to process your Oregon return.

When is my 2-D barcode return due?

The due date for timely filed 2-D barcode returns is the same date as for other types of returns.

What do I need to send to the Oregon Department of Revenue?

- Attach a copy of your federal return to your 2-D barcode return just as you would to a regular Oregon return.
- Attach Form 40-V, *Oregon Income Tax Payment Voucher,* and your payment to the front of your return if you have tax to pay. **Exception:** Do not attach Form 40-V if you pay with a credit card.
- Attach any Oregon forms and schedules required to be attached to a traditional Oregon return as applicable.

Where do I mail my 2-D barcode return?

Personal income tax returns. The addresses for mailing your 2-D barcode personal income tax returns are different from the addresses for traditional returns.

- Mail 2-D barcode refund returns or no-tax-due returns to:

  REFUND
  PO Box 14710
  Salem OR 97309-0460

- Mail 2-D barcode tax-to-pay returns to:

  Oregon Department of Revenue
  PO Box 14720
  Salem OR 97309-0463

Corporate tax returns. The addresses for mailing your 2-D barcode corporate tax returns are the same as the addresses for traditional returns.

- Mail 2-D barcode refund returns or no-tax-due returns to:

  REFUND
  PO Box 14777
  Salem OR 97309-0960

- Mail 2-D barcode tax-to-pay returns to:

  Oregon Department of Revenue
  PO Box 14790
  Salem OR 97309-0470

Be sure your envelope has the correct postage for mailing.

Will my 2-D barcode return be audited?

Any return, no matter how it is filed, may be reviewed by the department. However, the 2-D barcode tax software helps check your return for errors before you send it to the department. 2-D barcode filing is generally more accurate, so there is less chance your return will be reviewed or adjusted in processing.

How do I fix a mistake on my 2-D barcode return?

If you have not mailed your return, you must re-print the **entire** return after you make any changes. All of your return information is in the 2-D barcode on the front page. It is very important to reprint both the front and back pages of your corrected return. This will help avoid unnecessary processing delays.

If you have already printed and **mailed** your return, you will need to file an amended return, Form 40X.

I need help with my software. Can the Oregon Department of Revenue help me?

No. For specific software questions, we will refer you to your software company. We are not technical experts on 2-D barcode software and cannot provide product assistance.

The department conducts 2-D barcode software testing each year. The testing ensures the tax software correctly prints the barcode so our equipment can read it.

For general tax questions our staff is available to assist you.

Copy of return for client

If you are a paid tax preparer or a software vendor, the copy of the return you provide to your client must be an exact copy of the tax return you submit to the department.

Credit card payments

You now can pay your current-year balance due or make 2005 estimated tax payments with your Discover, MasterCard, or Visa credit card. This option is available to both electronic and paper filers.

To pay your taxes by credit card, call toll free or access through the Internet one of the service providers supporting Oregon's program.

The service provider **will charge** you a convenience fee based on the amount of your tax payment. The service provider will tell you what the fee is during the transaction; you will have the option to either continue or cancel the transaction before entering your credit card information. The convenience fee, terms, and conditions may vary among providers.

If you accept the credit card transaction, you will receive a confirmation number. **Please keep this confirmation number as proof of payment.**

Choose one of the following service providers:

1. **Link2Gov Corporation**
   Call toll free 1-866-9OR-EGOV (1-866-967-3468) or visit their Web site at www.ortaxpayment.com.

2. **Official Payments Corporation**
   Call toll free 1-800-2PAYTAX (1-800-272-9829) or visit their Web site at www.officialpayments.com.

For additional information about making credit card payments and the current service provider list, visit our Web site at www.oregon.gov/DOR.

Direct deposit of refund

Your income tax refund can be deposited directly into your account at a bank or other financial institution, including credit unions.

If you are filing a joint return, both you and your spouse must sign the tax return. Without both signatures, the department cannot deposit the refund directly into your account.

Note: Some banks may not accept direct deposits into accounts that are payable through another bank. Also, some banks do not permit the deposit of a joint refund into an individual account.

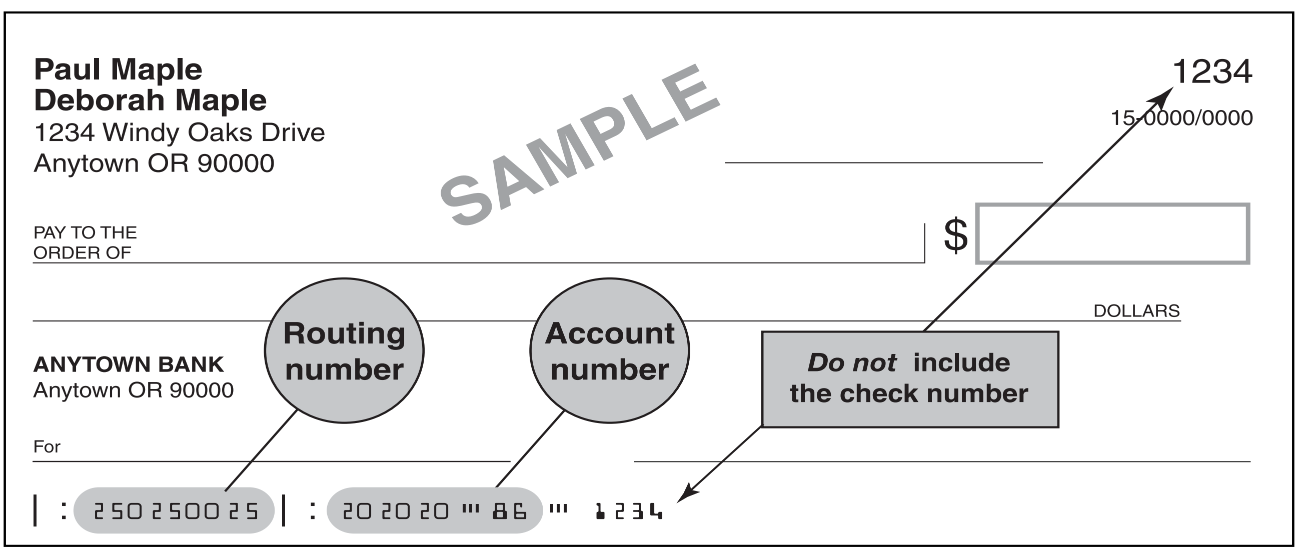
Contact your bank to make sure your deposit will be accepted. Get your correct routing number and account number:

- **Routing numbers** are nine digits and must begin with 01 through 12, 21 through 32, or 61 through 72.
- **Account numbers** can be up to 17 characters, both numbers and letters. Include hyphens, but do not include spaces or special symbols in your account number. If your account number is fewer than 17 characters, leave the unused boxes (on your return) blank.

It is your responsibility to make sure your bank information is correct. The department cannot correct deposits made to an incorrect bank account approved by you.

The Oregon Department of Revenue is not responsible when a bank rejects a direct deposit. If the direct deposit is rejected, the department will issue a check and send it to the mailing address shown on your return.

Direct deposit—necessary numbers



Refund processing

How long will it will it take to process my personal income tax refund check this year?

Processing time for your return will depend on how and when filed your return. Use the chart below to help you determine when you should expect your refund.

E-file return (before August 1)..............up to 2 weeks
E-file return (on or after August 1)........up to 5 weeks
Mail return (before April 1)....................up to 8 weeks
Mail return (on or after April 1)...........up to 12 weeks

Note: The processing of part-year resident and non-resident returns begins on March 1, 2005.

Refund delays

Several things might delay the processing of your tax return or your refund:

- Change in name. If you have a different name in our records from a previous filing, special handling will be required.
- Change in Social Security number.
- Application for an Individual Taxpayer Identification Number (ITIN).
- Unidentified other subtractions, other additions, and/or other credits. Please use the list of numeric codes in the appendix on pages 121–123.
- Debt to other agencies. If you and/or your spouse owe money to other agencies (for example: student loans, parking tickets, or back child support), your refund might be delayed or used to offset your debt.
- Incorrect bank account information. Verify your bank account information for direct deposit refunds. If your bank information is incorrect, the department must wait for the bank to return the funds before issuing a refund check.

Residency ORS 316.027

General rule. Oregon taxes residents on all sources of income. Oregon taxes nonresidents on income earned from Oregon sources.

Residents

An Oregon resident is someone who is domiciled in this state. "Domicile" is defined below. An Oregon resident may also be someone who:

- Is not domiciled in Oregon, but
- Maintains a residence in Oregon, and
- Spends a total of more than 200 days in Oregon during the taxable year.

A fraction of a day is considered a whole day when figuring the 200 days. We will not consider you a resident if you are in Oregon for a temporary purpose. The burden of proof is on you to show your stay here is only temporary.

Consider both your domicile and the place where you live to determine how you are taxed.

Domicile. Domicile is the place you consider to be your home and where you plan to return after an absence. Intent is the deciding factor when you determine your domicile. The law assumes you have a domicile somewhere. It also assumes you have only one domicile. Domicile is a tax-law concept. Domicile is not the same as home, abode, or residence.

Home. If you have one home, your domicile is generally where that home is located. If you have two homes, your domicile follows your center of activity.

To determine your center of activity and your domicile, consider:

- Physical characteristics of the place.
- Time you spend there.
- Things you do there.
- People and property there.
- Your attitude toward the place.
- Your intent to return to the place when you are away.

Family relations. Generally, spouses living together have the same domicile. The domicile of minor children is determined by the domicile of the person who has legal custody of the children.

When living apart, a husband and wife each may establish his or her own domicile if he or she meets the requirements for a change of domicile.

Change of domicile. Intent is the most important factor in determining a change of domicile. If intent relies on uncertain events, you have not changed your domicile. Once domicile is established, it is never lost until **all** of the following happen:

- You intend to abandon the old domicile, and
- You intend to acquire a specific new domicile, and
- You are physically present in the new domicile.

The important points are (1) physical presence at a new dwelling and (2) the intent to make the new dwelling a home.

Special-case Oregon residents (Oregon residents not living in Oregon). While domiciled in Oregon, you will be taxed as a nonresident if you meet **all** of the following requirements:

- You do not maintain a permanent residence in Oregon for yourself or for your family during any part of the year, and
- You do maintain a permanent residence outside Oregon during the entire year (a recreational vehicle [RV] is not considered a permanent residence outside of Oregon), and
- You spend less than 31 days of the year in Oregon.

Oregon residents living in a foreign country. A 1999 Oregon law change allows certain Oregon residents living in a foreign country to be taxed as **foreign nonresidents.**

To qualify as a nonresident, you must meet **one** of these two tests:

1. The "physical presence" test, **or**
2. The "bona fide residence" test.

In general, you are considered a nonresident if you claim a foreign earned income or housing exclusion under federal law. In addition, you may be an Oregon nonresident if you are in the civil service or military. This is true even though you cannot claim the exclusions.

Physical presence test. To meet the requirements of the physical presence test:

- Your tax home must be in a foreign country, and
- You must be present in a foreign country or countries for 330 full days out of any consecutive 12-month period.

The 12-month period may begin on any day of the calendar month. The period ends with the day before the corresponding calendar day 12 months later. For example, a period beginning July 1 would end June 30 of the next year.

A full day means a period of 24 consecutive hours beginning at midnight.

Any period of 12 consecutive months may be used. The 330 days must fall **within** that period.

Example 1: Juan arrives in England on April 24, 2002, at noon. He establishes a tax home in England and remains there until 2 p.m. on March 21, 2004. Juan is present in a foreign country for 330 full days during two different 12-month periods:

- One 12-month period starts on his first full day in England, April 25, 2002, and ends April 24, 2003.
- The other 12-month period starts on March 21, 2003, and ends on his last full-day day in England, March 20, 2004.

Juan meets the physical presence test using either of these 12-month periods.

Juan qualifies for nonresident treatment for the months he was out of the country during 2002, 2003, and 2004. He should file Oregon part-year returns for 2002 and 2004 and a nonresident return for 2003.

Example 2: Use the facts in Example 1, but change Juan's arrival date to June 23, 2003.

Juan will not qualify for the nonresident treatment because he was not out of the country for 330 days. He will file a full-year resident return each year.

Bona fide residence test. To meet the requirements of the bona fide residence test, you must:

- Establish, to the satisfaction of the Secretary of the U.S. Treasury, bona fide residence in a foreign country; and
- Maintain bona fide residence for an uninterrupted period that includes a full tax year.

Example 3: Sandra is a calendar-year taxpayer. She establishes bona fide residence in Russia on November 12, 2003. She is transferred back to the United States on December 11, 2004. She does not meet this test. The period of bona fide residence does not include a full tax year. (Although Sandra does not qualify for the bona fide residence test, she would qualify for the physical presence test.)

Example 4: Use Example 3, but Sandra continues to work in Russia until 2005. She qualifies under the bona fide residence test. Her residence was established for a full tax year. Sandra should file a nonresident return for 2004.

Sandra also qualifies for nonresident treatment for the months during 2003 and 2005 that she maintained bona fide foreign residence. She should file Oregon part-year returns for 2003 and 2005.

For more information about physical presence or bona fide residence, see IRS Publication 54. It is a tax guide for U.S. citizens living abroad.

Nonresidents

If you were domiciled outside of Oregon and you lived outside of Oregon for the entire year, you were a nonresident of Oregon. If you are a nonresident, Oregon taxes only income you earned in Oregon and income from Oregon sources.

Example 1: Misha was a permanent California resident in 2004. She temporarily worked in Medford, Oregon, as a computer consultant for two months in

2004. Misha is a nonresident of Oregon. She will pay Oregon tax on the income she earned in Oregon.

Example 2: Nash was a permanent Nevada resident in 2004. He has rental property in Oregon. Nash is a nonresident of Oregon. He will pay Oregon tax on the income from his Oregon rental property.

Part-year residents

If you lived in Oregon for part of the year and you lived in another state for part of the year, you are a part-year Oregon resident. Oregon taxes all of your income for the part of the year you were an Oregon resident. Oregon also taxes any income earned in Oregon or earned from Oregon sources for the part of the year you were a nonresident.

Example 1: Gustav was a resident of Minnesota from January through July 21, 2004. On July 22 he moved permanently to Oregon. Gustav is considered a part-year Oregon resident for tax year 2004.

Example 2: Bailey was a resident of Oregon from 1985 through March 2004. She permanently changed her residence from Oregon to Delaware on April 1, 2004. Bailey is considered a part-year Oregon resident for tax year 2004.

Form to file

Resident—Form 40S

Use Form 40S if **all** of the following are true:

- You are a full-year Oregon resident; and
- Your income is only from wages, interest, ordinary dividends, unemployment, fellowship grants, and taxable scholarships not used to pay for housing; and
- You do **not** have pension or annuity income or IRA distributions; and
- You claim the standard deduction on your return; and
- Your Oregon taxable income is $100,000 or less; and
- You do **not** owe penalty or interest; and
- You did **not** pay estimated tax during the year.

Form 40S is included in the *Full-Year Resident* booklet. Download it from our Web site at www.oregon.gov/DOR. Or, call us at 503-378-4988 or toll-free within Oregon at 1-800-356-4222 to order.

If you are a working student, you may be eligible to complete Form 40S using our working student Web site. Visit www.steps2cash.org for more information.

Resident—Form 40

Use Form 40 if **both** of the following are true:

- You are a full-year Oregon resident, and
- You cannot use Form 40S.

Use Form 40 if any **one** of the following is true:

- You received Social Security, pension, or annuity income; or
- You used taxable scholarship income for housing expenses and you qualify for the Oregon subtraction; or
- You paid or should have paid estimated tax during the year; or
- You have adjustments to income on Form 1040, line 35; or Form 1040A, line 20; or
- You have Oregon additions or subtractions other than the federal tax subtraction (the most common ones are listed on the return); or
- You itemize deductions on your Oregon return; or
- You are married filing separately and your spouse is itemizing; or
- You are a nonresident alien who lived in Oregon the entire year; or
- You are in the military and are claiming the subtraction for military active duty pay; or
- You owe penalty or interest; or
- You want to apply all or part of your refund to your 2005 estimated tax.

Form 40 is included in the *Full-Year Resident* booklet. Download it from our Web site at www.oregon.gov/DOR. Or, call us at 503-378-4988 or toll-free within Oregon at 1-800-356-4222 to order.

Nonresident—Form 40N

Use Form 40N if any **one** of the following is true:

- You are a nonresident, or
- You are a special-case Oregon resident (see page 17), or
- You and your spouse are filing jointly and one (or both) of you is a nonresident, or
- You meet the military personnel nonresident requirements explained on page 24, or
- You qualified as an Oregon resident living in a foreign country for the entire year. See page 18.

Part-year resident—Form 40P

Use Form 40P if any **one** of the following is true:

- You are a part-year resident, or
- You are filing jointly and one spouse is a full-year Oregon resident and one is a part-year resident, or
- You are filing jointly and both spouses are part-year Oregon residents, or

- You qualified as an Oregon resident living abroad for part of the year.

Forms 40P and 40N are included in the *Part-Year Resident and Nonresident* booklet. Download it from our Web site at www.oregon.gov/DOR. Or, call us at 503-378-4988 or toll-free within Oregon at 1-800-356-4222 to order.

Filing status

General rule

The filing status on your Oregon return must be the same as your filing status on your federal return.

Example 1: Minerva filed her federal return using the filing status of single. She must use the same, single, filing status on her Oregon return.

Example 2: Tia and Colin are married and choose the married filing separately filing status on their federal returns. Tia and Colin must use the same, married filing separately, filing status on each of their separate Oregon returns.

Example 3: Peter and Dwyn are married and both are full-year Oregon residents. They filed a joint federal return. Peter and Dwyn must use the same, married filing jointly, filing status on their Oregon return.

Exception: Married with different residency statuses

If you and your spouse file a joint federal return but each of you has a different residency status, you have a choice of two different filing statuses to use for Oregon:

- You and your spouse may file one Oregon return using the married filing jointly filing status, or
- You and your spouse may file two separate Oregon returns, each using the married filing separately filing status.

Note: Married nonresident aliens must file separate returns for Oregon, because you must file separate returns for federal.

See the next section for more information for married filers with different residency statuses.

Special instructions for married filers with different residency statuses

If you file a joint federal return, you may file separate Oregon returns if you and your spouse do not have the same residency status. If you choose to file separately for Oregon, you must use the married filing separately filing status. You may not file as head of household (ORS 316.122).

- **Full-year resident and part-year resident.** If you file separate Oregon returns, the full-year resident will file Form 40 and the part-year resident will file Form 40P. If you choose to file a joint return for Oregon, file Form 40P.

  The full-year resident will report all income from all sources for the year. The part-year resident will report all income while a resident and all Oregon-source income while a nonresident.

- **Full-year resident and nonresident.** If you file separate Oregon returns, the full-year resident will file Form 40 and the nonresident will file Form 40N. If you choose to file a joint return for Oregon, file Form 40N.

  The full-year resident will report all income from all sources for the year. The nonresident will report only Oregon-source income.

  For community property income states, see page 36.

- **Nonresident and part-year resident.** If you file separate Oregon returns, the nonresident will file Form 40N and the part-year resident will file Form 40P. If you choose to file a joint return for Oregon, file Form 40N.

  The nonresident will report only Oregon-source income. The part-year resident will report all income while a resident and Oregon-source income while a nonresident.

If you file separate returns for Oregon, you and your spouse each should report your own share of income and deductions. Also, report your share of any Oregon additions or subtractions. See federal tax explained below.

If you are a full-year resident, file Oregon Form 40 and report your share of federal adjusted gross income (AGI).

If you are a nonresident or part-year resident, file Oregon Form 40N or Form 40P, respectively. Report only your income. Use the following rules to file under this exception.

Your percentage. Use the following formula to compute your share of certain deductions:

$$\frac{\text{Your share of federal AGI}}{\text{Joint federal AGI}} = \text{Your percentage (not to exceed 100\%)}$$

Federal tax. Each spouse may deduct a portion of his or her joint federal tax liability.

Multiply the joint federal tax liability (after all credits except the earned income credit) by your percentage to determine your federal tax subtraction. Each spouse is limited to a maximum subtraction of $2,000.

Itemized deductions. Multiply the itemized deductions by your percentage to compute your share. Or, you may itemize separately if you can clearly determine each spouse's deductions. Remember to use "Net Oregon itemized deductions."

Standard deduction. The Oregon standard deduction is $1,720 for each spouse.

Each spouse is allowed an additional $1,000 if:

- He or she is age 65 or older.
- He or she is blind.

It is possible for each spouse to have up to $2,000 in additional standard deductions for age and blindness, plus the regular $1,720 standard deduction.

Exceptions:

- You cannot claim the standard deduction if your spouse claims itemized deductions. In this case, your standard deduction is zero, and you should itemize deductions.
- You cannot claim the standard deduction if you are a nonresident alien. You may only claim itemized deductions.

Exemptions. You cannot prorate exemptions. You may claim exemptions for yourself and any dependents allowed on your federal return. You cannot claim an exemption for the same dependent claimed on your spouse's return.

How to file your separate return for Oregon only. Write your Social Security number in the heading of the return. Do not write your spouse's name or Social Security number in the heading. Write your spouse's first name, last name (first four letters only), and Social Security number in the space after the "Married filing separately" box.

If you file separately for Oregon only, write "MFS for Oregon only" in the center at the top of the form. Please write this in **blue or black** ink.

Important: Attach a federal Form 1040 or Form 1040A showing how your federal return **would have been filed** if you had filed married filing separately. Also, attach a copy of the joint federal return that you actually filed.

If possible, mail both Oregon returns in the same envelope, but do not staple the two Oregon returns together.

Note: If you file separate federal returns, you must file separate Oregon returns. If you are a nonresident spouse without Oregon income, you are not required to file a separate Oregon return. Only a nonresident spouse with Oregon income is required to file an Oregon return.

Example: Jim worked and lived in Oregon all year. Mary moved from Idaho to Oregon in July and married Jim. They filed a joint federal return. They have chosen to file separate returns for Oregon.

Mary earned $30,000 in Oregon and $22,000 in Idaho. Jim earned $41,000 in Oregon. Their total federal adjusted gross income (AGI) was $93,000.

Jim and Mary claimed $12,200 itemized deductions, including $4,900 Oregon withholding tax, on their joint federal return. Mary's Oregon withholding tax was $2,200. Jim's Oregon withholding tax was $2,700. Their joint federal income tax liability was $14,400.

Jim, a full-year Oregon resident, files Form 40 and reports his income of $41,000. He claims the following federal tax liability and deductions:

His share:	$41,000 / $93,000			=	.44 (44%)
Federal tax:	.44	×	$14,400	=	$6,336
					(Subtraction limited to $2,000)
Total itemized deductions:	.44	×	$12,200	=	$5,368
Deduction for Oregon tax:	.44	×	$4,900	=	$2,156

Jim will have net Oregon itemized deductions of $3,212 ($5,368 – $2,156). He will claim his own Oregon withholding of $2,700 on his separate Oregon return.

Jim follows the line instructions for Oregon Form 40 to complete his return.

Mary, a part-year resident, files Form 40P and reports $52,000 federal AGI ($30,000 from Oregon sources). She claims the following federal tax liability and deductions:

Her share:	$52,000 / $93,000			=	.56 (56%)
Federal tax:	.56	×	$14,400	=	$8,064
					(Subtraction limited to $2,000)
Total itemized deductions:	.56	×	$12,200	=	$6,832
Deduction for Oregon tax:	.56	×	$4,900	=	$2,744

Mary will have net Oregon itemized deductions of $4,088 ($6,832 – $2,744). She will claim her own Oregon withholding of $2,200 on her separate Oregon return.

Mary follows the line instructions for Form 40P to complete her return.

Filing requirements

Amounts on the chart apply to all taxable income from all sources.

Full-year residents

You must file an Oregon return if:

Your filing status is:	Age:	And your gross income is more than:
Single, can be claimed on another's return	Any	See "Dependents" below
Single	Under 65	$4,620
	65 or over	5,820
Married, joint return	Both under 65	9,245
	One 65 or over	10,245
	Both 65 or over	11,245
Married, separate return	Under 65	4,620
	65 or over	5,620
Head of household	Under 65	5,790
	65 or over	6,990
Qualifying widow(er)	Under 65	6,465
	65 or over	7,465

In addition, file a return if:

- You are required to file a federal return.
- You had $1 or more of Oregon income tax withheld from your wages.

Dependents

1. Enter gross income from all taxable sources. 1. $_______
2. Add earned income $______ plus $250. Enter total. 2. _______
3. Set amount. 3. 800
4. Enter the larger of line 2 or 3. 4. _______
5. Enter the standard deduction for a single person: 5. _______
   - Basic standard deduction: $1,720
   - Single and over age 65 or blind: $2,920
   - Single and over age 65 and blind: $4,120
6. Enter the smaller of line 4 or 5. 6. _______

If line 1 is more than line 6, you must file an Oregon return. If line 6 is more than line 1, you are not required to file an Oregon return.

Example 1: Billy Jo is single, age 20, not blind, and a full-time college student. Her parents claim her as a dependent. Billy Jo has earned income of $700 from her job. She also has $29 of interest income from her savings account.

1. Enter gross income from all taxable sources. 1. $ 729
2. Add earned income $700 plus $250. Enter total. 2. 950
3. Set amount. 3. 800
4. Enter the larger of line 2 or 3. 4. 950
5. Enter the standard deduction for a single person: 5. 1,720
   - Basic standard deduction: $1,720
   - Single and over age 65 or blind: $2,920
   - Single and over age 65 and blind: $4,120
6. Enter the smaller of line 4 or 5. 6. 950

Because line 6 ($950) is more than line 1 ($729), Billy Jo is not required to file an Oregon return.

Note: If Billy Jo had any Oregon income tax withheld from her wage income, she should file an Oregon return to claim her refund.

Example 2: Norman is single, age 17, legally blind, and is claimed as a dependent by his parents. Norman has earned income of $3,015 from his part-time job. He does not have any other income.

1. Enter gross income from all taxable sources. 1. $3,015
2. Add earned income $3,015 plus $250. Enter total. 2. 3,265
3. Set amount. 3. 800
4. Enter the larger of line 2 or 3. 4. 3,265
5. Enter the standard deduction for a single person: 5. 2,920
   - Basic standard deduction: $1,720
   - Single and over age 65 or blind: $2,920
   - Single and over age 65 and blind: $4,120
6. Enter the smaller of line 4 or 5. 6. 2,920

Because line 1 ($3,015) is more than line 6 ($2,920), Norman is required to file an Oregon return.

Example 3: Katrina is single, age 19, a full-time student, and claimed as a dependent by her mother.

Katrina did not work but had $957 of unearned interest income from her certificate of deposit.

1. Enter gross income from all taxable sources.	1.	$957
2. Add earned income $0 plus $250. Enter total.	2.	250
3. Set amount.	3.	800
4. Enter the larger of line 2 or 3.	4.	800
5. Enter the standard deduction for a single person: • Basic standard deduction: $1,720 • Single and over age 65 or blind: $2,920 • Single and over age 65 and blind: $4,120	5.	1,720
6. Enter the smaller of line 4 or 5.	6.	800

Because line 1 ($957) is more than line 6 ($800), Katrina is required to file an Oregon return.

Part-year residents and nonresidents

Amounts apply to Oregon-source income and income received while an Oregon resident.

You must file an Oregon return if:

Your filing status is:	Age:	And your Oregon income is more than:
Single, can be claimed on another's return	Any	$800 *
Single	Under 65	1,720
	65 or over	2,920
Married, joint return	Both under 65	3,445
	One 65 or over	4,445
	Both 65 or over	5,445
Married, separate return		
If spouse claims standard deduction	Under 65	1,720
	65 or over	2,720
If spouse itemizes deductions	Any	-0-
Head of household	Under 65	2,770
	65 or over	3,970
Qualifying widow(er)	Under 65	3,445
	65 or over	4,445

* The larger of $800 or your earned income plus $250, up to your standard deduction amount.

If your Oregon income is less than your standard deduction, you are not required to file a return.

Individual Taxpayer Identification Number

The Internal Revenue Service (IRS) issues Individual Taxpayer Identification Numbers (ITINs) to taxpayers and their dependents who do not have Social Security numbers. If you have your own Social Security number, **do not** apply for an ITIN. If you already have an ITIN, enter your ITIN wherever your Social Security number is requested.

Requesting an ITIN from the IRS

In 2004, the IRS changed how it issues ITINs. The IRS instructs you to file your federal return and attach Form W-7, *Request for ITIN.* The IRS will issue you an ITIN, associate the ITIN with your return, and then complete the processing of your return. For the form, visit the IRS Web site at www.irs.gov. Or, call the IRS at 1-800-829-1040.

Filing your Oregon return before receiving your ITIN

You may file your Oregon return without a Social Security number (SSN) or ITIN. Please follow these instructions if you, your spouse, or your dependents do not have an ITIN when you file your Oregon return:

1. Complete and attach a copy of each ITIN application (federal Form W-7) to your **federal** tax return. File your 2004 federal tax return before April 15, 2005.
2. On your Oregon tax return, write "ITIN applied for" in the box wherever the Social Security Number (SSN) is required for you and/or your family members who have applied for an ITIN. You do not need the ITIN(s) to file your Oregon tax return. Do not attach your ITIN application to your Oregon tax return.
3. File your 2004 Oregon tax return before April 15, 2005.
4. The IRS will send you a letter with your ITIN information. We will need this information to make sure your future tax payments will be correctly applied to you. Please send us your:
   - Name (and the name of your spouse and dependents if they applied for an ITIN);
   - Current address;
   - Previous SSNs or ITINs used when filing an Oregon return (if any); and
   - A copy of each of the letters you receive from the IRS with your, your spouse's, or your dependents' ITINs assigned.

Send this information to:

Oregon Department of Revenue
PO Box 14999
Salem OR 97309

Military personnel filing information

Military personnel generally are considered to be domiciled in the state where they joined the service. Military assignment does not change domicile.

As a member of the armed forces, you may establish a new domicile during a tour of military duty if you meet the requirements for a change of domicile.

This information will help you decide how to file your Oregon individual income tax return.

Nonresidents stationed in Oregon

Oregon does not tax your military pay if you are a nonresident stationed in Oregon. You do not need to file an Oregon return unless you had other income from an Oregon source, you had Oregon tax withheld from your pay, or you qualify to claim the Oregon working family child care credit. (See page 100.) Oregon-source income includes wages from a job held on off-duty hours, wages earned by your spouse in Oregon, or earnings from an Oregon business or rental property.

Nonresidents' interest income from an Oregon bank account generally is not taxable by Oregon.

If you had Oregon withholding, you should file to claim a refund. You also may want to contact your pay clerk to have the withholding stopped if you have no other Oregon-source income.

How to file. Use Form 40N. Enter your military income on line 8 in the federal column only. Do not enter your eligible military pay in the Oregon column. Report any other income taxable by Oregon on the form.

On line 38a, subtract the military wage income you reported in the federal column on line 8. On line 39b, enter zero. It is important to enter your military pay in this manner as it affects the amount of deductions and credits you are entitled to claim. Write "Military Nonresident" at the top of your Form 40N in blue or black ink.

If you filed a joint federal return, you should file a joint Oregon return. File Form 40N. Do not report your military income in the Oregon column of Form 40N, but do include any other income taxable to Oregon.

National Guard and armed forces reserves. Nonresident members of the National Guard or reserves will be treated the same as any other nonresident military member working in Oregon. See the section "Nonresidents stationed in Oregon" above.

Oregon residents stationed outside Oregon

Military personnel who enter the armed forces from Oregon do not lose their Oregon residence or "domicile" merely by being stationed outside of Oregon. However, for income tax purposes, if you meet certain requirements, you may be considered a nonresident, and you will not have to pay Oregon tax on your military pay.

Three requirements. If you meet all of the following requirements, you may elect to be treated as a nonresident for Oregon tax purposes.

1. You did not have a permanent residence in Oregon for yourself, or for your family, during any part of the tax year, and
2. Your permanent residence was outside Oregon during the entire tax year, and
3. You spent less than 31 days in Oregon during the tax year.

You owe Oregon tax only if you had income from another Oregon source. This income may be from an Oregon property sale, a business, or rental property located in Oregon.

How to file. Use the same procedure described above under "How to file" for nonresidents stationed in Oregon to file your return.

If you do not meet all three requirements above, your military pay and all other income is subject to Oregon tax. You must file an Oregon individual income tax return. You need to file Form 40 (you may not file Form 40S if you have active duty pay). See below for the active duty pay subtractions you may be able to claim on your return.

If you meet the three nonresident requirements listed above but you have Oregon income tax withheld from your military pay, you still should file an Oregon tax return to get your refund.

Withholding exemption. You have the option to stop Oregon withholding from your military active duty pay if all of the following are true:

- For 2004 you had a right to a refund of all Oregon income tax withheld because you had no tax liability, and
- For 2005 you expect a refund of all Oregon income tax withheld because you expect to have no tax liability, and

- For 2005 you expect to be stationed outside of Oregon the entire year.

If all of the above are true and you do not want Oregon tax withheld from your military active duty pay, you must file a second Form W-4. This second Form W-4 is for Oregon tax purposes only and is in addition to your federal Form W-4.

When completing a Form W-4 for Oregon only, write "exempt" on line 7. At the top of this Form W-4, write "For Oregon Only, Stationed Outside Oregon" in blue or black ink. Give this Form W-4 to your pay clerk.

If you file a joint return and your spouse, who is also an Oregon resident, had income from a source outside of Oregon, you must include this income on your Oregon Form 40. You may be eligible for a credit for income taxes paid to another state. Visit our Web site at www.oregon.gov/DOR for more information. Or, call us at 503-378-4988 or 1-800-356-4222 toll-free in Oregon.

Active duty pay subtractions

You may qualify for two different subtractions for U.S. military active duty pay. To be eligible for the subtractions, the active duty pay must be included in federal adjusted gross income (AGI).

The Oregon military active duty pay subtractions are:

1. **Active duty outside of Oregon.*** As of August 1, 1990, you can subtract active duty pay earned anywhere outside of Oregon until the date the president sets as the end of combat zone activities. The date was not set when this material was last updated. You are not required to be stationed in a designated combat zone to be eligible for this subtraction.
2. **Active duty inside of Oregon.*** You may subtract up to $3,000 of active duty pay earned inside Oregon. Each spouse receiving active duty pay may claim the subtraction up to a limit of $3,000 each ($6,000 total on a joint return).

You may qualify for both military active duty pay subtractions listed above. However, your total subtraction cannot be more than the total active duty pay included in federal AGI. The following examples show the active duty pay subtractions described above.

* *If the president sets a date for the end of combat zone activities before the end of the year, please contact us at 503-378-4988 or toll-free in Oregon at 1-800-356-4222. You may be eligible for a subtraction of pay received in the year of initial entry or year of discharge for active duty pay earned outside of Oregon under ORS 316.680(1)(c)(B).*

Example 1: Selina is a nonresident of Oregon stationed in Oregon on active duty. She has no other Oregon-source income. Selina is not required to file an Oregon return. She does not have any Oregon income tax withheld from her military pay.

Example 2: Jared is a nonresident of Oregon stationed in Oregon on active duty. In his off-duty hours he works part-time for an Oregon employer. Because Jared has income from Oregon other than his military wages, he will file Oregon Form 40N for a nonresident. For instructions on how Jared will complete his Oregon Form 40N, see "Nonresidents stationed in Oregon" on page 24.

Example 3: Seth is an Oregon resident. He earned $10,000 of active duty pay in Spain and $6,000 of active duty pay inside Oregon during the year. He included the $16,000 in his federal AGI. Seth's total active duty pay subtraction is $13,000. Seth can subtract the $10,000 earned outside of Oregon and $3,000 of his active duty pay earned inside of Oregon. Seth will file Oregon Form 40 and claim his military pay subtraction on line 18.

Example 4: Brett is an Oregon resident and files jointly with his wife who lives and maintains a residence in Oregon. Brett served in a designated combat zone for five months this year and earned $8,000 in combat pay. He served in Germany for the rest of the year and earned $15,000 of active duty pay. The president did not declare an end to combat zone activities this year. Because Brett excluded his combat pay on his federal return, he cannot subtract it on his Oregon return. Therefore, Brett's Oregon subtraction is limited to the $15,000 active duty pay earned outside of Oregon and included in federal AGI. Brett and his wife will file Oregon Form 40 and claim the subtraction on line 18.

Example 5: Gertrude and Merlin are married filing a joint return. Both are Oregon residents. Gertrude was on active duty overseas this year. She had $21,000 active duty pay. Merlin serves in the Oregon National Guard and was on reserve duty for three months. Merlin was called to and served on active duty for nine months this year. His reserve and active duty was served in Oregon. Merlin earned $900 of reserve pay and $15,000 of active duty pay. Gertrude and Merlin will include $36,900 of military wages in their federal AGI. On their Oregon return, Gertrude will subtract all of her active duty pay, $21,000. She earned all of her military wages outside of Oregon. Merlin will be allowed a maximum subtraction of $3,000. All of his active duty pay was earned in Oregon. Combined, Gertrude and Merlin have a military subtraction of $24,000. They will file Oregon Form 40 and claim the subtraction on line 18.

National Guard and armed forces reserves. Annual training and reserve summer camp are considered active duty because the president requires this training. However, drills and weekend meetings are not active duty. Only the amount received as active duty pay qualifies for the subtraction. If you are in the guard or the reserves and your W-2 form does not show a separate amount for active duty, contact your unit pay clerk.

Copy of federal return

When filing Form 40 or Form 40N, attach a copy of your federal Form 1040, 1040A, or 1040EZ, whichever is applicable. This is required even if you owe no Oregon tax or are only requesting a refund of tax withheld.

Military Family Tax Relief Act

The U.S. Congress approved the Military Family Tax Relief Act (MFTRA) in November 2003. Oregon is tied to the December 31, 2002, Internal Revenue Code for definition of taxable income. Because the new provisions of MFTRA occurred after December 31, 2002, Oregon is not tied to most provisions of this new federal law.

If you had any income exclusion or deduction related to MFTRA, you will have an Oregon addition. The amount of the Oregon addition is the amount you excluded from your federal return for the following MFTRA items:

- Income exclusion of military death gratuity payments over $3,000.
- Income exclusion of gain from the sale of a principal residence. This applies if you sell your residence before the two out of five-year residence requirement is met.
- Income exclusion of amounts received under military housing assistance program for decrease in housing value due to military base realignment or closure.
- Deductions for certain business expenses of National Guard and Reserve members claimed as an adjustment to income.

  To claim these travel expenses on your Oregon return, you must itemize deductions. Complete Schedule A for Oregon only. Travel generally is one weekend each month and two weeks each summer. Travel must be more than 100 miles from your home. These travel expenses are subject to the 2 percent adjusted gross income limitation. Keep Oregon Schedule A with your tax records; do not attach it to your return. See example on page 51.

Filing and payment date

The due date for filing a calendar year return and payment of the tax is April 15. If the 15th falls on a Saturday, Sunday, or legal holiday, the due date is the next working day of the month. If you are outside the United States on April 15, the due date is June 15.

If you owe tax on your Oregon income tax return, you must pay the entire amount by the due date. Interest and penalty will be added to all unpaid balances.

Extension for filing your return

You can get an extension to file your return but not to pay your tax due. You must pay the entire tax due by the due date to avoid interest and penalty charges.

You are allowed the same extension period for Oregon as allowed for your federal return. Do you need an extension to file only your Oregon return? Or, do you have a federal extension but need to make a payment to Oregon with your extension? Use Oregon Form 40-EXT. Visit our Web site at www.oregon.gov/DOR to download the form. Or, call us to order at 503-378-4988 or toll-free within Oregon at 1-800-356-4222.

Were you stationed in a combat zone*? Did you receive additional time to file your federal return and pay your 2004 tax? If so, Oregon allows the same additional time to file and pay your tax. Write "Combat Zone" in blue or black ink at the top of the return.

Limited liability companies

Certain businesses operating in Oregon may organize as limited liability companies (LLCs). This form of business is available to you if you are required to be licensed as a professional in this state, unless your regulatory board prohibits you from doing so.

Characteristics of an LLC

The LLC business form has characteristics of both a corporation and a partnership. It is sometimes referred to as a "hybrid" form of business. With an LLC:

- Limited liability is available to the members, similar to that provided to corporate shareholders.
- Flexible allocation of income and loss among members is similar to partnership allocations.

* *MFTRA expands the definition of a combat zone to include contingency operations. Contact the department if you were stationed in a contingency area. Or, visit our Web site for more information.*

- Management of the LLC may take various forms. All members, some members, or nonmembers of the LLC may manage the business.
- LLCs are treated the same for state tax purposes as for federal tax purposes.
- The number of members and the type of members is not restricted (for example, sole proprietors, individuals, trusts, corporations, partnerships, etc., may all be members of an LLC).
- A second class of membership is allowed.
- Basis of the member's interest includes the member's share of the LLC's debt.

How to file

Oregon LLCs and foreign LLCs doing business in Oregon are taxed and classified the same as for federal income tax purposes. Oregon follows federal tax treatment.

- LLCs that choose to be taxed as corporations file the same forms as corporations (Form 20 excise tax or Form 20-I income tax).
- LLCs with two or more members that choose to be taxed as partnerships file using the same form as partnerships (Form 65).
- A single-member LLC that chooses to be taxed as a sole proprietor files federal Schedule C, Schedule E, or Schedule F with the member's individual income tax return.

For specific questions on workers' compensation coverage requirements for LLCs, contact the Workers' Compensation Division, Compliance Section, Department of Consumer and Business Services at 503-947-7810 or visit www.oregon.gov/DCBS.

Contact the Oregon Department of Employment for information on how LLCs are treated under Oregon's unemployment insurance laws. Call 503-947-1488, select "5" from the menu, and ask for a status examiner. The Department of Employment's Internet address is www.oregon.gov/EMPLOY.

For information on organizing an LLC, contact the Corporation Division of the Secretary of State's office at 503-986-2200, or visit www.filinginoregon.com.

Limited liability partnerships

Oregon professionals may organize and practice in limited liability partnerships (LLPs). Professionals include but are not limited to accountants, architects, attorneys, chiropractors, dentists, landscape architects, naturopaths, licensed nurse practitioners, psychologists, physicians, podiatrists, radiologic technologists, and licensed real estate appraisers.

The personal liability of professionals in LLPs remains the same as professionals practicing in professional corporations or limited liability companies.

For information on organizing an LLP, contact the Corporation Division of the Secretary of State's office at 503-986-2200 or visit their Web site at www.filinginoregon.com.

Multiple nonresident returns

Nonresident individual members of a partnership, S corporation, limited liability partnership (LLP), or limited liability company (LLC) having any gross income attributable to Oregon are required to file an individual income tax return.

Oregon allows certain nonresident members of the entities listed above that derive income from or do business in Oregon to elect to file a composite or multiple nonresident return. This multiple nonresident return eliminates the need for each individual to file a separate return.

Filing requirements

Individual members must decide each year whether to join in a multiple nonresident filing. There is no requirement that an election (decision) be made prior to filing the multiple nonresident return. The election is considered made when the return is filed.

For an individual to be included in the multiple nonresident return, **all** of the following conditions must be met:

- The members must be individuals. Estates, trusts, partnerships, LLCs, LLPs, or S corporations cannot be included in the multiple nonresident return. **Exception:** Electing Small Business Trusts (ESBT) will be allowed to participate in a multiple nonresident filing; and
- The individuals must be full-year nonresidents of Oregon; and
- The individuals must have no other Oregon-source income; and
- The multiple nonresident return must be filed using the tax year of the majority of electing members; and
- Individuals who have an ownership interest in more than one entity must participate in multiple nonresident filings for all entities in which they have an interest, or participate in none.

Filing a multiple nonresident return

Nonresident members must file an Oregon multiple nonresident return using Form 40N, *Oregon Individual Income Tax Return for Nonresidents*. The word "multiple" must be written or stamped in blue or black ink at the top of the Form 40N. Schedule MNR or an equivalent must be filed with Form 40N.

For additional instructions on filing multiple nonresident returns, you will need the Multiple Nonresident Instructions and Schedule MNR.

To get forms and instructions, visit our Web site at www.oregon.gov/DOR or write to us at: Personal Tax and Compliance Division, Oregon Department of Revenue, PO Box 14560, Salem OR 97309-5011.

Appeal procedures

If you disagree with an Oregon Department of Revenue action, you have the right to appeal. The following situations commonly start the appeal process:

- You disagree with a Notice of Deficiency or Notice of Assessment.
- You disagree with a notice adjusting the refund you claimed.
- You disagree with our notice based on a federal audit report or an audit of another state that you are appealing.
- You disagree only with the penalties or interest charges shown on our notice.
- You disagree with the interest on underpayment of estimated tax.

Include a completed *Tax Information Authorization and Power of Attorney for Representation*, Form 150-800-005, with your letter of appeal if you want someone else to represent you in your appeal.

Appealing a Notice of Deficiency to the Oregon Department of Revenue

If you disagree with a Notice of Deficiency, you have the right to appeal. **You must appeal in writing within 30 days of the date on our notice.**

You have two appeal options. If you decide to appeal, choose **one** of the appeal options listed below:

Option A: Written objection

In writing, request a written objection and tell us why you disagree with the Notice of Deficiency. Write "Written Objection" at the top of your letter. Include any new information you have. **Within 30 days** of the date of the notice, send your letter to:

Oregon Department of Revenue
955 Center St NE
Salem OR 97301-2555

When you write, include:

- Your full name,
- Your current mailing address,
- Your Social Security number (SSN) or Individual Taxpayer Identification Number (ITIN),
- The tax year(s) involved,
- The account number(s) involved,
- Why you are appealing, and
- A telephone number where you can be reached during the day.

Keep us informed of any changes in your address or telephone number.

We will review your letter, try to resolve the matter, and send you a written decision. If an auditor adjusted your return, that auditor will review the information you provide and send you a written decision. If you disagree with the decision, you may continue your appeal. You will receive new appeal instructions.

Option B: Conference

In writing, request a conference and tell us why you disagree with the Notice of Deficiency. Write "Conference Request" at the top of your letter. Include any new information you have. **Within 30 days** of the date of the notice, send your letter to:

Oregon Department of Revenue
955 Center St NE
Salem OR 97301-2555

When you write, include:

- Your full name,
- Your current mailing address,
- Your Social Security number (SSN) or Individual Taxpayer Identification Number (ITIN),
- The tax year(s) involved,
- The account number(s) involved,
- Why you are appealing, and
- A telephone number where you can be reached during the day.

Keep us informed of any changes in your address or telephone number.

A conference officer will discuss the matter with you or with someone you choose to represent you, usually by telephone. The conference officer will send you a written decision. You may choose to receive our decision by either regular mail or certified mail. If you disagree with the decision, you may continue your appeal. You will receive new appeal instructions.

Appealing a Notice of Assessment to the Oregon Tax Court

If you disagree with a Notice of Assessment, you have the right to appeal. However, you cannot appeal tax that you said you owed with your return. You must appeal to the Magistrate Division of the Oregon Tax Court **within 90 days** of the date of the Notice of Assessment. Complaint forms for appealing to the Magistrate Division are available from the Tax Court.

Mail a signed complaint form along with the filing fee and a copy of the Notice of Assessment to:

Oregon Tax Court
Magistrate Division
1163 State St
Salem OR 97301-2563
503-986-5650 or TTY 503-986-5651
Internet: www.oregon.gov/OJD

You may be able to resolve certain issues without appealing to the Magistrate Division. Write to the Department of Revenue if your disagreement concerns one of the following issues:

- The date or amount of payments made to your account.
- A request for waiver of the penalty or interest charges.
- The charges for interest on underpayment of estimated tax.

In writing, tell us why you disagree or why penalty or interest should be canceled. Include any new information you have. Most disagreements concerning these issues can be resolved with the department. Generally, the department does not waive interest charges.

Send your letter to:

Oregon Department of Revenue
955 Center Street NE
Salem OR 97301-2555

Further appeal rights

For personal income tax, withholding tax, corporate income or excise tax, fiduciary income, or timber tax:

If you pay your Notice of Deficiency in full, your deficiency is considered assessed either on the date of your payment or 30 days of the date of the notice, whichever is later.

If you do not file a timely appeal, you have **two years from the date your liability is paid in full to appeal** the assessment. Appeal to the Magistrate Division of the Oregon Tax Court.

There are some cases where the department may consider your case even if you did not file a timely appeal. Please call us to see if you meet the conditions for "doubtful liability" relief.

For any other tax program administered by the department:

You must appeal **within 90 days of the assessment date,** or the assessment is final and cannot be changed unless you meet the conditions for "doubtful liability" relief. Contact the Department of Revenue for information at 503-378-4988 or 1-800-356-4222 toll-free in Oregon.

Interest charges

Appealing a deficiency or an assessment will not stop interest from accruing on the taxes owed. Interest is figured from the due date of the return to the date of payment. Interest is charged even if you have filed a valid extension. If your appeal reduces the tax due, the interest charges will also be reduced.

Paying your liability during the appeal process

You may pay your balance due at any step of the appeal process. Payment does not mean you agree with the notice. Payment stops interest charges from accruing on your liability.

Note: Visa and MasterCard can be used to pay a Notice of Assessment. Call 503-378-4988 (in Salem) for information or toll-free in Oregon 1-800-356-4222.

Appealing a notice of refund adjustment

If you disagree with a notice of refund adjustment and you decide to appeal, choose **one** of the appeal options listed below.

Level 1: To appeal within the first 30 days to the Oregon Department of Revenue

Option A: Written objection

In writing, request a written objection and tell us why you disagree with the notice of refund adjustment. Write "Written Objection" at the top of your letter. Include any new information you have. **Your written objection must be postmarked within 30 days of the date on our notice.** Send your letter to:

Oregon Department of Revenue
955 Center St NE
Salem OR 97301-2555

When you write, include:

- Your full name,
- Your current mailing address,
- Your Social Security number (SSN) or Individual Taxpayer Identification Number (ITIN),
- The tax year(s) involved,
- The account number(s) involved,
- Why you are appealing, and
- A telephone number where you can be reached during the day.

Keep us informed of any changes in your address or telephone number.

We will review your letter, try to resolve the matter, and send you a written decision. If an auditor adjusted your return, that auditor will review your letter and send you a written decision. If you disagree with the decision, you may continue your appeal. You will receive new appeal instructions.

Option B: Conference

In writing, request a conference and tell us why you disagree with the notice of refund adjustment. Write "Conference Request" at the top of your letter. Include any new information you have. **Your written request for a conference must be postmarked within 30 days of the date on our notice.** Send your letter to:

Oregon Department of Revenue
955 Center St NE
Salem OR 97301-2555

When you write, include:

- Your full name,
- Your current mailing address,
- Your Social Security number (SSN) or Individual Taxpayer Identification Number (ITIN),
- The tax year(s) involved,
- The account number(s) involved,
- Why you are appealing, and
- A telephone number where you can be reached during the day.

Keep us informed of any changes in your address or telephone number.

A conference officer will discuss the matter with you or with someone you choose to represent you, usually by telephone. The conference officer will send you a written decision. You may choose to receive our decision by either regular mail or certified mail. If you disagree with the decision, you may continue your appeal. You will receive additional appeal instructions.

Level 2: To appeal after the 30th day to the Oregon Tax Court

If you do not send a written objection or request a conference within 30 days, you may still appeal to the Magistrate Division. You must file your appeal within 120 days of the date of our original notice of refund adjustment. If you do not, your appeal rights will expire and the adjustments cannot be changed.

If you are appealing the written decision from your written objection or conference, you must file your appeal to the Magistrate Division **within 90 days** of the date on the written decision. If you do not, your appeal rights will expire and the adjustments cannot be changed.

Contact the Magistrate Division to get the complaint form for filing an appeal. You may write or call:

Oregon Tax Court
Magistrate Division
1163 State St
Salem OR 97301-2563
503-986-5650 or TTY 503-986-5651
Internet: www.oregon.gov/OJD

If you do not appeal on time, your appeal rights expire and the adjustments are final.

Appealing a deficiency based on federal audit reports or audit reports of other states

Do you have an appeal in progress with the Internal Revenue Service (IRS) or another state? If so, you may have extra time to file an appeal with the Magistrate Division of the Oregon Tax Court. To see if the appeal rights apply to you, answer the following questions:

1. Did you receive an Oregon billing on the same item billed by the IRS or another state?
2. Did you file a timely appeal with the IRS or another state?

If you answered "no" to either question, use the appeal procedures included with your Oregon notice.

If you answered "yes" to both questions, you need to send proof of your IRS or other state appeal to the Department of Revenue. Generally, this will be a copy of the IRS or other state's notice plus a copy of your written appeal request.

The time allowed for filing your proof of federal or other state's appeal varies.

Did you receive a **Notice of Deficiency** from the Oregon Department of Revenue? If so, send proof to the department of your IRS or other state appeal within 30 days of the date on the Notice of Deficiency. Your account will be assessed and held until the appeal with the IRS or other state is resolved. **Note:** Interest will continue to accrue on any unpaid liability.

Did you receive a **Notice of Assessment** from the Oregon Department of Revenue prior to sending us proof of the appeal? If so, send us proof of your IRS or other state appeal as soon as possible.

After you file proof of your appeal, the department will delay any further action on your account until the appeal process is completed. **Note:** Interest charges will continue to accrue.

You must notify the department within 30 days of the final resolution of your appeal with the IRS or the other state. We will review the information and determine whether any adjustments need to be made to your Oregon tax return. You will receive written notification of our determination. If you disagree with our determination, you may appeal to the Magistrate Division of the Oregon Tax Court. Your complete appeal rights will be explained with the written determination. You must appeal within 90 days.

Paying your liability

You can pay your liability at any step of the appeal process. Payment does not mean you agree with the notice. Payment stops interest from accruing on your account.

Where to write

When you write to us about your appeal, include:

- Your full name,
- Your current mailing address,
- Your Social Security number (SSN) or Individual Taxpayer Identification Number (ITIN),
- The tax year(s) involved,
- The account number(s) involved,
- Why you are appealing, and
- A telephone number where you can be reached during the day.

Keep us informed of any changes in your address or telephone number.

Send your letter to:

Oregon Department of Revenue
955 Center St NE
Salem OR 97301-2555

Appealing penalty or interest

Discretionary waiver

Do you feel you have reasonable cause for reducing penalty or interest? If so, write to us and ask for a discretionary waiver. Generally, the department will not waive interest charges.

Step 1: Written waiver request. You may ask for a waiver of part or all of the penalty and interest charges. Waiver criteria are outlined in the Oregon Administrative Rules [OAR 150-305.145 and OAR 150-305.145(3)-(A)]. You must send a written request to the department and explain which of the waiver criteria you feel you meet. Write "Written Waiver Request" at the top of your letter.

Send your letter to:

Oregon Department of Revenue
955 Center St NE
Salem OR 97301-2555

The department will review your waiver request and let you know our decision in writing. If you disagree with the decision, you may continue your appeal. You will receive new appeal instructions.

Step 2: Conference. If you disagree with the department's decision on your waiver request, you may ask us for a conference. In writing, request a conference and tell us why you disagree with the department's decision. Write "Conference Request" at the top of your letter. Your written request for a conference must be postmarked within 30 days of the date of the decision letter.

Send your letter to:

Oregon Department of Revenue
955 Center St NE
Salem OR 97301-2555

A conference is held with a department conference officer who reviews the decision with you or someone you choose to represent you. The conference is usually held by telephone.

After the conference, you will be notified in writing of the conference officer's decision. The conference officer's decision is final and cannot be appealed further.

Appeal

Do you feel the department does not have authority to impose or incorrectly computed penalty or interest on your tax return? If so, appeal directly to the Magistrate Division of the Oregon Tax Court.

You need to contact the Magistrate Division to get a complaint form for filing an appeal. You may write or call:

Oregon Tax Court
Magistrate Division
1163 State St
Salem OR 97301-2563

503-986-5650 or TTY 503-986-5651
Internet: www.oregon.gov/OJD

Appealing interest on underpayment of estimated tax

Do you disagree with the interest on underpayment of estimated tax (UND) charged by the department? If so, send us a letter and tell us why you disagree. Send your letter to:

Oregon Department of Revenue UND Team
955 Center St NE
Salem OR 97301-2555

Record-keeping requirements

Why is record keeping important?

- Keeping records of your income and deductions will help you prepare an accurate tax return and pay the correct tax.
- You must be able to prove all items on your return with adequate records or sufficient evidence. Keep records that verify the income, deductions, credits, and other items reported on your tax return. Estimates or approximations do not qualify as proof.
- Accurate records will help you if the department selects your tax return for examination. Usually, an examination will occur one to three years after a return is filed. It can be longer if you have had a federal audit. If you have kept good records, you can clear up any questionable items and easily arrive at the correct tax. If you have not kept good records, you may have to spend time getting statements and receipts from various sources. You may also have to pay more tax if you cannot prove the figures you used.

How should I keep my records?

You must keep accurate records, but no particular system is required for keeping them. Your records should contain all the information you used to figure your income, deductions, credits, and other items you show on your income tax return.

What records should I keep?

The general rule of record keeping is: **If you report an item on your tax return, you must have adequate records to verify it.** Following is a partial list of records you should keep:

- Receipts and sales documents for deductible expenses on Schedule A, self-employment, farm, rentals, sale of assets, etc.
- Dated and signed receipts for any cash payments that might be deductible.
- Your income statements. These include Form W-2s for your wages and Form 1099s for interest, dividends, rents, and nonemployee compensation.
- All payroll records including copies of W-2s and 1099s issued.
- Pay statements if you have deductible expenses withheld from your paycheck.
- Receipts and certificates to verify Oregon tax credits claimed.
- Copies of your tax returns, including complete federal returns with all federal schedules.
- Worksheets, summary statements, calendars, log books, journals, etc.
- Canceled checks, carbon copies of checks, bank deposit slips, and receipts.
- Checking and savings account statements for both personal and business accounts.
- If you deduct alimony payments, your canceled checks and a copy of the written separation agreement or the divorce, separate maintenance, or support decree.
- For property you own, the purchase price, any purchase expenses, the cost of any improvements, and any other basis adjustments, such as depreciation and deductible casualty losses. If you received property as a gift, you must have records that show the donor's adjusted basis just before the property was given to you, its fair market value on the date of the gift, and any gift tax paid on it.
- The sale of a capital asset (and certain other assets). This type of sale is reported as a capital gain or loss. Your records must show when and how the asset was acquired, how the asset was used, and when and how it was disposed of. Records also must show your cost or other basis, the gross selling price, and the expenses of the sale.
- Year-end statements that show total interest paid on loans, credit cards, mortgages, or notes.
- Statements and canceled checks, mortgage statements, and other documents for your real estate and personal property taxes paid.

How should I document deductible expenses?

A receipt is the best evidence to prove the amount of an expense. A canceled check, together with a bill or invoice from the payee, ordinarily establishes the cost. However, a canceled check might not prove a business expense without other evidence to show that it was for a business purpose. All records should show:

- The date,
- The amount, and
- The purpose of the expense.

The expense must be an ordinary and necessary expense.

How should I document car or truck expenses?

You must have written records to verify vehicle expenses. To deduct car or truck expenses, you must be able to prove:

- The amount of each separate expense for a vehicle, such as the cost of purchase, capital improvements, lease payments, maintenance, and repairs.
- The mileage for each business or investment use of the vehicle and the total miles for the tax year.
- The date of the expense or use.
- The business or investment reason for the expense or use of the vehicle.

Keep the proof you need for these items in an account book, diary, log, statement of expense, trip sheet, etc. Include all documents needed to verify the item.

How long should I save my records?

Keep your records as long as they are important for any tax law. Keep records that support an item of income or a deduction on your return at least until the statute of limitations expires for that return. A statute of limitations is the period of time after which no legal action can be brought. Usually this is three years from the date the return was filed, or two years from the date the tax was paid, whichever is later. Returns filed before the due date are treated as filed on the due date.

Exceptions: There are times you should keep records longer, including the following:

- Keep records that support your basis in property for at least four years after you sell or dispose of the property (including all capital improvements).
- Were you audited by the federal government? Oregon has two years from the date the department receives the federal audit report to review your Oregon return for adjustments.
- If you have employees, we recommend you keep all of your employment tax records for at least five years after the date the tax becomes due or is paid, whichever is later. This includes copies of Wage and Tax Statements (W-2s) and all payroll records.
- If you did not report some income and it is more than 25 percent of the income shown on your return, you may be audited within five years after the return was filed. If a return is false or fraudulent or if no return is filed, there is no time limit.

What if I do not have all of my records?

If records have been destroyed or lost and your return is selected for review, the auditor will work with you on how to reconstruct the missing information.

What to do if you are audited

General information

The department examines returns for several reasons. Many examinations are based on adjustments already made by the Internal Revenue Service (IRS), with which we share information. Others are selected according to our compliance plan. This plan focuses on problem areas in applying tax laws.

An audit is a review of a return to make sure that it was prepared correctly. If your return is chosen for an audit, it does not mean you made an error or are dishonest.

By law, the Oregon Department of Revenue must keep your tax information private. People who prepare your return or represent you must also keep your information confidential. You have the right to know why we are asking for information, exactly how we will use any information you provide, and what might happen if you do not provide the information.

The department's goal is to treat taxpayers fairly. We try to be responsive to the issues and reasonable in our decisions and actions. We will explain any change to your return. Ask about anything you do not understand.

For more information, read our brochure entitled *Your Rights as an Oregon Taxpayer.* Download the brochure from our Web site at www.oregon.gov/DOR. Or, call us to order it at 503-378-4988 or 1-800-356-4222 toll-free within Oregon.

Types of audits

Processing adjustments. Processing adjustments are corrections we make to a return while we process it. The processing system usually makes these corrections automatically.

Federal audits. These audits are based on information from the Internal Revenue Service (IRS). This information includes the IRS's CP2000 program and federal Revenue Agent Reports. The CP2000 program matches W-2 and Form 1099 information reported by payers to what is shown on a return. A Revenue Agent Report is a federal audit report showing adjustments the IRS made to a return. If you received either of these reports from the IRS and did not amend your Oregon return, you may receive a notice showing adjustments to your Oregon return.

Correspondence audits. These audits are written requests asking you to confirm items on a return. The letter will explain what items are being reviewed and what is needed to verify the items. You will be asked to send copies of the documents to the auditor. The auditor will review the information and notify you of the results. Correspondence audits usually do not require a meeting with the auditor.

Field audits. These audits are more in-depth audits. They include the review of income and expenses from businesses, farms, partnerships, corporations, or rentals. Field audits usually require a meeting with the auditor. The time and place of the meeting will be arranged between you and the auditor.

What records will I need for the audit?

You will get a letter from the department asking for information. It will have specific questions and a request for copies of specific documents. Answer the questions completely and send copies of the documents by the deadline in the letter. It is important that you keep a complete copy of your state and federal tax records. You should also keep a copy of your response.

If you get a letter asking you to make an appointment, contact the auditor who sent the letter. We try to schedule audit appointments at your convenience. It may be held at your home or office, at your representative's office, or at one of our field offices.

The letter will explain the records needed for the audit. Organize the information for the appointment. The auditor may ask you to leave the records while the audit is being conducted. You may ask for a receipt for the records you leave.

Generally, your return is examined in the district where you live. But if the return can be examined more quickly and easily in another district (such as where the books and records are located), you may ask to have the audit transferred.

Who can represent me?

Throughout any audit you can represent yourself, have someone accompany you, or designate someone to represent you. You may represent yourself in all stages of your audit and appeal. However, if your case is hard to understand or involves many issues, you may want someone to help you. Also, if someone else prepared the return, you may want his or her help.

If you designate someone to represent you, he or she will be able to make decisions for you. People who can represent you are Oregon licensed:

- Lawyers.
- Public accountants.
- Tax consultants.
- Enrolled agents.

If you own a business and have an employee who regularly does your tax work, that employee can also represent you.

If you want someone to represent you, you must give that person written authorization. Use Oregon Form 150-800-005, *Tax Information Authorization and Power of Attorney for Representation*. The auditor handling the case can provide the authorization form, or you can download the form from our Web site at www.oregon.gov/DOR. You may also call the department's Tax Services Unit at 503-378-4988 or toll-free within Oregon at 1-800-356-4222.

What if I disagree with the audit?

When we propose any changes to your return, we will explain to you the reasons for the changes. It is important that you understand the reasons for any proposed change. Please ask about anything that is unclear to you.

If you disagree with the action of the department, you can appeal. Appeal rights will be included with the notice you receive.

What if the IRS or another state has audited me?

The Department of Revenue has an agreement with the IRS to exchange tax return information. If the IRS audits an Oregon taxpayer, the department may receive a copy of that information. If your federal return or the return you filed with another state is adjusted, you should amend your Oregon tax return if that adjustment also affects your Oregon return.

If you were previously audited by the IRS and the notice you receive from the department is different, send a copy of the final audit adjustments or cancellation from the IRS to the department.

If you filed an appeal with the IRS or the other state and you receive a notice from the department, send a copy of the appeal notification you received from the IRS or the other state. The department will suspend further action until your case is resolved.

You have two years to claim a refund of Oregon tax due to the audit adjustment. This is true even if the normal refund statute has expired.

Filing your return after tax has been assessed

When you do not file your tax return even though you are required to file, the Oregon Department of Revenue "assesses" your tax. This means we compute how much tax you owe based on information we have available. You will receive a Notice of Determination and Assessment.

Even if we have assessed your tax for one or more years, you may still file returns with the department for those years.

Why you should file

The tax we assess is figured using information available to us about your income, filing status, exemptions, and withholding or estimated tax payments. Because we may not have all your tax information, we may not be able to give you all the deductions or credits you may be entitled to. Filing a return may allow us to change the tax we assessed.

You may receive a refund

If your withholding and estimated tax payments add up to more than the tax due, we may be able to refund the excess to you. There are time limits. If you paid more tax than you should have, a refund will be allowed only if you file your return within three years of the due date of the original return.

For example, the return for 2001 was due April 15, 2002. Three years after that date is April 15, 2005. To receive a refund of excess tax payments for 2001, your return must be received on or before April 15, 2005.

Where to send your return if filing after tax has been assessed

Send your return to:

Oregon Department of Revenue
PO Box 14600
Salem OR 97309-5049

When you file your return, write "F.A.S.T. Unit" at the top of your return. Please use blue or black ink. This will help us process your return more quickly.

Reviewing your return

We will review your return. If we agree with the tax you show, we will change the tax we assessed. If the income, deductions, credits, or payments shown on your return do not match our information, we will notify you. The notice we send you will explain our adjustments and what to do if you disagree.

Your return needs to include information about filing status, exemptions, income, deductions, credits, tax, and payments. It must be signed and include a statement that to the best of your knowledge and belief, it is true, correct, and complete. The full statement is printed on the forms provided by the department and appears directly above the signature lines. If you change this statement on the form, your return may not be accepted. Your return also may not be accepted if:

- It contains a frivolous argument concerning the payment of taxes, or
- You file a return you know is not true or correct.

You will receive a Notice of Rejection if your return is not accepted. This notice can be appealed to the Magistrate Division of the Oregon Tax Court **within 90 days** of the date of the notice, but only if your return was sent to the department within 90 days of the date on the Notice of Determination and Assessment.

Appealing the Notice of Determination and Assessment to the Oregon Tax Court

You may also choose to file an appeal with the Magistrate Division of the Oregon Tax Court. Your appeal must be made **within 90 days** of the date of the Notice of Determination and Assessment or within two years after the tax, penalty, and interest shown on the notice is paid in full. If you file an appeal with the Magistrate Division, you will usually be required to file a tax return before the court will change the department's assessment.

You may write or call the Magistrate Division to get a complaint form for filing an appeal. Contact them at:

Oregon Tax Court
Magistrate Division
1163 State St
Salem OR 97301-2563
503-986-5650 or TTY 503-986-5651
Internet: www.oregon.gov/OJD

Within 90 days of the date on your notice, mail the following items to the above address:

- Your completed and signed complaint form, and
- Your filing fee, and
- A copy of your Notice of Determination and Assessment.

Appealing does not stop interest from being charged on the tax you owe. If you appeal and your tax assessment is reduced, the penalty and interest charges also will be reduced.

Paying your assessment during the appeal process

You can pay your balance due at any step of the appeal process. You can use Visa or MasterCard to pay an assessment. Payment does not mean you agree with the assessment. Payment stops more interest from being charged. If you pay, you can appeal any time within two years of the date you pay the tax, penalty, and interest shown on the Notice of Determination and Assessment.

If you believe part or all of the **penalty and interest charges should be cancelled,** please write to:

Oregon Department Revenue
955 Center Street NE
Salem OR 97301-2555

In writing, tell us why you believe penalty or interest should be canceled. Most penalty and interest charge disagreements can be resolved with the department.

Why Oregon needs a federal return

Most information to support the amounts on your Oregon return comes from your federal return. Even when Oregon law differs from federal law (such as additions, subtractions, and credits), we still need information from your federal return.

All Oregon tax returns, except the short form (Form 40S), require a copy of the front and back of federal Form 1040, 1040A, 1040EZ, 1040NR, or TeleFile Tax Record.

If you are not filing a federal return, **attach a "substitute" federal return** to your Form 40, Form 40N, or Form 40P. Fill out the return as if it were an actual federal return. Do **not** send copies of your federal schedules. Keep them with your tax records. We may ask you for copies later.

Income

Full-year residents (Form 40 or 40S). You are taxed on your income from all sources.

To file Form 40S, you can have income from only these sources:

- Wages, salaries, tips, commissions, fellowship grants, severance pay, and other pay for work.
- Interest and dividends.
- Unemployment compensation.
- Taxable scholarships not used for housing.

If you have other types of income, file Form 40.

Part-year residents (Form 40P). You are taxed on your income from all sources earned or received **while you are an Oregon resident.** For the period of time you were not an Oregon resident, Oregon taxes only certain income **from Oregon sources.** See "nonresidents" below.

Nonresidents (Form 40N). You are taxed on income from Oregon sources. This includes income shown on your federal return from Oregon wages or Oregon fees or for services performed in Oregon. Other income from Oregon sources includes:

- Businesses, S corporations, partnerships, and limited liability companies taxed as partnerships located or doing business in Oregon.
- Unemployment compensation received because of an Oregon job.
- Severance pay you received because of an Oregon job.
- Oregon farms.
- Oregon estates and trusts.
- Sales of Oregon property.
- Rents and royalties for use of Oregon property.

Note: Community property income. Oregon is not a community property state. If you are a resident of Oregon and your spouse is a resident of a state with community property laws, you may be taxed on part of your spouse's income. Community property laws in the state where your spouse lives determine if you are taxed on any of your spouse's income. Check with the state where your spouse lives for more information about community property.

Alimony received

Full-year residents. Oregon taxes all alimony you received during the year.

Part-year residents. Oregon taxes any alimony you received for the part of the year you were a resident of Oregon.

Nonresidents. Oregon does not tax any alimony you received while a nonresident of Oregon.

Amtrak Act (Interstate Transportation Wages) OAR 150-316.127-(E)

Nonresidents. Are you a nonresident of Oregon with regularly assigned duties in Oregon and at least one other state? If you meet the qualifications below, Oregon will not tax you on these wages. File Form 40N and show this income is exempt by entering a zero in the Oregon column for these wages. Write “Amtrak” at the top of your return in blue or black ink.

The Amtrak Reauthorization and Improvement Act of 1990, Public Law 101-322, prohibits states and local governments from taxing compensation of certain nonresident employees who have regularly assigned duties in more than one state.

If you are a federal, state, or local government employee, you may not exclude your income under the Amtrak Act. (U.S. Postal Service employees are considered employees of the federal government.)

Who qualifies?

To qualify, you must work for:

- An interstate railroad, or
- An interstate motor carrier, or
- An interstate motor private carrier.

In addition, you must:

- Be a nonresident of Oregon; and
- Have regularly assigned duties in more than one state. This means you perform duties in each state on a regular basis. Duties you perform on an “on-call” or “as-needed” basis or on a sporadic or intermittent basis during the year are not considered “regularly assigned duties;” and
- Be subject to the jurisdiction of the U.S. Secretary of Transportation.

For employees of interstate motor carriers or motor private carriers, in the course of employment, you must:

- Directly affect the safety of a commercial motor vehicle. This means you are required by your regularly assigned routine and duties to work directly with a commercial motor vehicle or its contents. The duties must be of a direct, hands-on nature that requires you to physically move, touch, or affect the vehicle or its contents. Supervisory, managerial, consulting, or other duties that indirectly affect the safety of a motor vehicle, do not meet the definition of “directly affects;” **and**
- Work as:
  - — An operator of a commercial motor vehicle;
  - — A mechanic;
  - — A freight handler; or
  - — Someone, other than an employer, who directly affects the safety of a motor vehicle.

A commercial motor vehicle is any self-propelled or towed vehicle used on highways in interstate commerce to transport passengers or property if such vehicle:

- Has a gross vehicle weight rating of more than 10,000 pounds;
- Is designed or used to transport passengers for compensation, except:
  - — Vehicles providing taxi cab service,
  - — Vehicles having a capacity of six or fewer passengers, or
  - — Vehicles not operated on a regular route or between specified places;
- Is designed to transport more than 15 passengers, including the driver, and is not used to transport passengers for compensation; or
- Is used and labeled for the transportation of hazardous materials.

Example 1: Adam, a nonresident, works for an Oregon interstate motor carrier as a driver of a commercial motor vehicle. He has a regular route from Idaho to Oregon, delivering products in Oregon. Because Adam is the driver of a commercial motor vehicle and has regularly assigned duties in more than one state, this income is exempt from Oregon tax. Adam must file Form 40N and show this income is exempt by entering a zero in the Oregon column for these wages.

Example 2: Brenda, a nonresident, works for an interstate motor carrier as a mechanic directly affecting the safety of commercial motor vehicles engaged in interstate commerce. She has regular duties in a Washington terminal and an Oregon terminal. She works one day a week in Washington and four days in Oregon.

Because Brenda directly affects the safety of a commercial motor vehicle in interstate commerce and performs regularly assigned duties in two states, she is exempt from Oregon tax. It does not matter that the majority of her work is performed in Oregon. Brenda must file a Form 40N and show this income is exempt by entering a zero in the Oregon column for these wages.

Example 3: Jorge, a nonresident, works as a mechanic for an interstate motor carrier, directly affecting the safety of commercial motor vehicles engaged in interstate commerce. He regularly works in Medford but is required to be available some weekends on-call to perform minor repair work. Several times a year he may travel to California to repair a flat tire, do minor engine work, etc.

Jorge does not have **regularly assigned duties** in more than one state. Duties that are performed on an on-call or as-needed basis are not considered to be regularly assigned. Jorge's wages earned in Oregon are taxable by Oregon. He must file Form 40N.

Example 4: Carl, a nonresident, works for an interstate motor carrier as a driver. Carl picks up a lumber delivery truck every morning in Washington and receives delivery assignments for the day. Depending on where the lumber needs to be delivered, he may not come to Oregon on a daily basis. Carl may pick up and deliver lumber only within Washington or only within Oregon. Carl does drive to Oregon at least once a month. Carl's wages earned in Oregon are exempt from Oregon tax. Carl must file Form 40N and show this income is exempt by entering a zero in the Oregon column for these wages.

Due to the nature of the business, the company may not be able to assign regular duties to Carl. The company itself does not know what each day's delivery route will be until customers place orders. Although Carl may not have a regular route in Washington and Oregon, he does drive to Oregon at least once a month. Carl is considered to have **regularly assigned duties in two states, as long as all routes are assigned randomly among all drivers on a regular basis.**

Example 5: Ed, a nonresident, works for an Oregon wholesaler as a shipping clerk. The company has one terminal in Oregon and one terminal in Washington. Ed regularly works in both terminals. That is, he has regularly assigned duties in two states.

Ed is not an employee considered exempt within the scope of the Amtrak Act. He is not a driver, mechanic, or freight handler. His duties do not directly affect the safety of the vehicle. Ed's wages earned in Oregon are taxable by Oregon. He must file Form 40N.

Example 6: Frieda, a nonresident, works for an Oregon retail store as a freight handler. Her regularly assigned duties are to load and unload freight. Occasionally, Frieda is asked to fill in as a driver and, over the course of a year, may drive several routes in and out of Oregon. Frieda does not have "regularly assigned duties in more than one state." Her Oregon-source wages are taxable by Oregon. Frieda must file Form 40N.

Example 7: Butch, a nonresident, works for an Oregon-based interstate trucking carrier as a supervisor. His regular duties within the state of Oregon include safety training. However, Butch frequently also drives to Washington to conduct safety training.

Supervisory duties do not qualify as exempt under the Amtrak Act. The employee must directly affect the safety of a commercial vehicle. Conducting safety training only indirectly affects the safety of a commercial motor vehicle. Butch's wages are taxable by Oregon. He must file Form 40N.

Example 8: Connie Sue, a nonresident, works for an interstate trucking carrier at her company's Oregon and Washington yards. She has a variety of duties, including helping load trucks. Connie Sue is allowed overtime under the Fair Labor Standards Act.

Because she is covered under the Fair Labor Standards Act rather than being subject to the jurisdiction of the Secretary of Transportation, Connie Sue does not qualify for the Amtrak relief. Her wages are taxable by Oregon. She must file Form 40N.

Example 9: Ken, a nonresident, works as a line repairman for a utility company. He uses a company truck with a gross vehicle weight of more than 10,000 pounds to make service calls in both Oregon and Washington.

Ken is not exempt from Oregon taxation because he does not drive a "commercial motor vehicle" (a motor vehicle used to transport passengers or property). Ken's Oregon wages are taxable by Oregon. He must file Form 40N.

Employer withholding

If you are exempt from Oregon taxation under the Amtrak Act, you do not have to have Oregon tax withheld from your wages. You may claim exemption from withholding on the W-4 you file with your employer. On the Form W-4 write "State of Oregon Only, Exempt Amtrak." Attach to Form W-4 an explanation of qualifying duties. You must still file an Oregon tax return even if you claim exemption from withholding under the Amtrak Act.

Business income or loss

Full-year residents. Oregon taxes all of your business income (or allows your business loss) received during the year.

Part-year residents. Oregon taxes your business income (or allows your business loss) while you are an Oregon resident. Add to that figure the amount of income (or loss) from an Oregon business while a nonresident. This includes apportioned business income and allocated nonbusiness income from sole proprietorships.

Nonresidents. Oregon taxes your income (or allows your loss) from an Oregon business.

Gain, loss, and distributions

Capital gain, loss, and distributions

Full-year residents. Oregon taxes your gain or distribution (or allows your loss) received during the year. Limit net losses to $3,000 ($1,500 if married filing separately). The capital loss carryforward allowed on your full-year Oregon return will be the same carryforward allowed on your federal return.

Part-year residents. Oregon taxes your gain or distribution (or allows your loss) while an Oregon resident. Add to this figure the amount from Oregon sources while a nonresident. Limit net losses to $3,000 ($1,500 if married filing separately).

Nonresidents. Oregon taxes your gain or distribution (or allows your loss) from Oregon sources. Limit net losses to $3,000 ($1,500 if married filing separately).

Other gain or loss

Full-year residents. Oregon taxes your gain (or allows your loss) received during the year.

Part-year residents. Oregon taxes your gain (or allows your loss) while an Oregon resident. Add to that figure the amount from Oregon sources while a nonresident.

Nonresidents. Oregon taxes your gain (or allows your loss) from Oregon sources.

Hydroelectric dam workers ORS 316.127(8)

Full-year residents. Oregon taxes all of your wages earned while working on the McNary, John Day, The Dalles, or Bonneville dam.

Part-year residents. Follow the same instructions in the paragraph below for nonresidents, but exempt only the wages earned during the part of the year you were a nonresident of Oregon. If you qualify, file Form 40P and exclude the wages you earned while working on any of the dams identified below.

Nonresidents. You are exempt from Oregon tax on wages earned while working on the McNary, John Day, The Dalles, or Bonneville dams. This exemption is effective for wages earned after December 31, 1996. If you qualify, Oregon will not tax you on these wages. File Form 40N and show this income is exempt by entering a zero in the Oregon column for these wages. If you have any other Oregon income from Oregon sources, show that income in the Oregon column. Write the name of the dam you work on in blue or black ink across the top of your return.

To stop withholding of Oregon income tax from your exempt wages, complete Form W-4 and write "exempt" on line 7. At the top of Form W-4 write "For Oregon Only—(fill in the name of the dam)." Give this Form W-4 to your payroll clerk.

Interest and dividend income

Interest

Generally, interest income is only taxed by your state of residence. It includes any interest received or credited to your account that you could withdraw and any interest you received on tax refunds.

Full-year residents. Oregon taxes all the taxable interest income you received and reported on your federal return.

Part-year residents. Oregon taxes the taxable interest income you received while you were an Oregon resident. Oregon also taxes Oregon business activity interest income received while a nonresident.

Nonresidents. Oregon taxes the amount of interest income you received on funds used for business activity in Oregon. Oregon does **not** tax interest received on installment sales.

Dividends

Generally, dividend income is only taxed by your state of residence. Include in Oregon income the stock dividends you received under a public utility dividend reinvestment plan.

Full-year residents. Oregon taxes the dividends you earned during the year.

Part-year residents. Oregon taxes all dividends you received while an Oregon resident that are included on your federal return. Oregon also taxes any S corporation or partnership dividends taxable to you during the part of the year you were a nonresident.

Nonresidents. Oregon taxes dividends passed through to you from an S corporation or partnership that has no business activity outside of Oregon. These are dividends your S corporation or partnership received on the stock of another corporation.

IRA distributions

Full-year residents. Oregon taxes any taxable IRA distribution you received during the year. Oregon taxes any amounts reported in federal income that you converted from a regular IRA into a Roth IRA.

Part-year residents. Oregon taxes any taxable IRA distribution received while you were an Oregon resident. Oregon taxes any amount reported in federal income that you converted from a regular IRA into a Roth IRA.

If you converted your IRA in 1999 or later, Oregon taxes that amount if you were an Oregon resident at the time of conversion.

Nonresidents. Oregon does not tax any amount unless you are a nonresident domiciled in Oregon. If you are domiciled in Oregon but otherwise taxed as a nonresident, your Oregon-source IRA will still be taxed by Oregon. See "Retirement income" on this page.

Like-kind exchange or conversions of property ORS 316.738, 317.327

You may elect to defer gain on like-kind property that is exchanged or converted. Generally, it does not matter if the properties being exchanged or converted are in Oregon or outside Oregon. Attach Oregon Form 24, *Oregon Like-Kind Exchanges/Involuntary Conversions*, to your Oregon return in the year of the exchange or conversion.

Full-year residents. You will report the gain to Oregon when it is reported on your federal return.

Part-year residents. You will report the gain to Oregon when it is reported on your federal return.

Nonresidents. If you are not an Oregon resident when the gain is reported on your federal return, you will need to file an Oregon Form 40N to report the gain.

Rents, royalties, partnerships, estates, trusts, farms, etc., from federal Schedule E and F

Full-year residents. Oregon taxes the amount of rent, royalty, Real Estate Mortgage Investment Conduits (REMIC), Real Estate Investment Trust (REIT), partnership, S corporation, estate, trust, and farm income you received while an Oregon resident.

Part-year residents. Oregon taxes the amount of rent, royalty, REMIC, REIT, partnership, S corporation, estate, trust, and farm income you received while you were an Oregon resident. Oregon also taxes the same income you received from Oregon sources while a nonresident.

Nonresidents. Oregon taxes the amount of rent, royalty, REMIC, REIT, partnership, S corporation, estate, trust, and farm income you received or earned from Oregon sources.

Retirement income

Full-year and part-year residents. Most retirement income is subject to Oregon tax when received by an Oregon resident. This is true even if you were a nonresident when you earned the income. However, you may subtract some or all of your federal pension income from Oregon income. See page 55.

For other exceptions, see "Previously taxed employee retirement plans" on page 61 and "Previously taxed IRA conversions" on page 62.

Read one of the following federal publications to determine how to report your pension. Pamphlets are available from the Internal Revenue Service. Call toll-free 1-800-TAX-FORM (1-800-829-3676). Or, visit the IRS Web site at www.irs.gov.

- Publication 17, *Your Federal Income Tax*.
- Publication 524, *Credit for the Elderly or the Disabled.*
- Publication 575, *Pension and Annuity Income.*
- Publication 590, *Individual Retirement Arrangements (IRAs).*
- Publication 721, *Tax Guide to U.S. Civil Service Retirement Benefits.*

Nonresidents. Oregon does not tax your retirement income if you are a nonresident who is not domiciled in Oregon. If you are an Oregon nonresident who is still domiciled in Oregon, any Oregon-source retirement income is taxable by Oregon. This applies to most forms of retirement income taxed by Oregon, including public pension plans, corporate retirement plans, Keogh plans, simplified employee pensions (SEPs), and IRAs. For the definition of "domicile," see page 17.

Example: Hiro has always resided and worked in Oregon. On January 5, 2004, he retired, sold his Oregon residence, and moved temporarily to Arizona to work. He intends to remain in Arizona for two years and then return to Oregon.

He did not acquire another residence outside Oregon. He receives an Oregon-sourced pension and interest income.

Hiro has not given up his Oregon driver's license, and his vehicles are registered with the state of Oregon. He has not changed his voter registration to another state.

Hiro has not shown an intent to give up Oregon as his home and acquire a permanent home elsewhere. Based on these facts, Hiro is domiciled in the state of Oregon.

Although Hiro is taxed as a nonresident, his Oregon-source retirement income is taxable by Oregon.

Retirement income means income from:

- Qualifying employer pension and profit-sharing plans exempt from tax under Internal Revenue Code (IRC) Section 401(a).
- Annuity plans [IRC Sec. 403(a) and IRC Sec. 403(b)].
- Cash or deferred compensation arrangements [IRC Sec. 401(k) plans and IRC Sec. 457 plans].
- Simplified employee pension plans [IRC Sec. 408(k)].
- Individual retirement arrangements [IRC Sec. 408(a) and IRC Sec. 408(b)].
- Plans for federal, state, or local government employees [IRC Sec. 414(d)].
- Pay for uniformed service members under chapter 71 of Title 10 of the United States Code.
- Trusts that were created before June 25, 1959 [IRC Sec. 501(c)(18)].

Payments received after termination of employment qualify if the payment is made under a plan, program, or arrangement maintained solely for the purpose of providing retirement benefits that exceed the amounts allowed under the qualified retirement plans described above.

Payments received from nonqualified deferred compensation plans [as described in IRC Sec. 3121(v)(2)(C)] qualify if the payments are:

- Part of a series of substantially equal periodic payments made for the life or life expectancy of the recipient, or
- For a period of at least 10 years.

Retirement income does not include income received from:

- Stock options,
- Restructured stock plans,
- Severance plans, or
- Unemployment compensation.

Social Security and Railroad Retirement Board benefits

Oregon does not tax any amount of your Social Security, Railroad Retirement Board, or railroad unemployment benefits.

State and local income tax refunds

Full-year residents. Oregon does not tax Oregon state and local income tax refunds you received during the year.

Part-year residents. Oregon does not tax Oregon state and local income tax refunds you received while an Oregon resident. For the part of the year you were a nonresident, see below.

Nonresidents. Oregon taxes other state and local income tax refunds for which you claimed a deduction on an Oregon return in a prior year. Oregon does not tax an Oregon income tax refund if you included it as income on your federal return.

See page 61 for information on the Oregon income tax refund subtraction.

Unemployment compensation and other taxable income

Full-year residents. Oregon taxes unemployment compensation and any other taxable income you received during the year.

Part-year residents. Oregon taxes unemployment compensation and any other taxable income you received while an Oregon resident. Oregon also taxes any unemployment compensation and other taxable income from Oregon sources or based on Oregon sources received while a nonresident. See below.

Nonresidents. Oregon taxes any unemployment compensation and any other taxable income included in federal adjusted gross income received from Oregon sources or based on Oregon sources.

Wages, salaries, and other pay for work

Full-year residents. Oregon taxes all of your earnings for services you performed inside and outside Oregon.

Part-year residents.* Oregon taxes all of your earnings while an Oregon resident. Oregon also taxes the amount you earned working in Oregon while you were a nonresident. If your Oregon wages are not stated separately on your W-2, compute your Oregon-source income using the formula on page 42.

Nonresidents.* Oregon taxes the income you earned while working in Oregon. Oregon does not tax any

**** Nonresident exceptions:*** *See "Amtrak Act (Interstate transportation wages)," page 37; "Hydroelectric dam workers," page 39; or "Waterway workers" on page 42 to see if you qualify to exclude certain income.*

amount you earned while you were working outside of Oregon.

If the amount you earned working in Oregon differs from the Oregon wages shown on your W-2 form, you **must attach** an explanation to your Oregon return. The explanation must be from your employer.

If your Oregon wages are not stated separately on your W-2, compute your Oregon-source income using the formula below.

Important information for use in the formula below: When you count the number of days you actually worked in Oregon and you count the number of days you actually worked everywhere, do not include holidays, vacation days, or sick days as days you actually worked. Holiday, vacation, and sick days are not days that you actually worked. Your employer paid you for these days based on the days you worked. However, you will include your sick **pay**, holiday **pay,** and vacation **pay** in total wages.

Use the formula below to determine how much of your total wages is taxable by Oregon.

$$\frac{\text{Days actually worked in Oregon}}{\text{Total days actually worked everywhere}} \times \text{Total wages} = \text{Oregon wages}$$

If Oregon is the only state in which you worked, do not use the above formula. All of your earnings are taxable by Oregon, and you must report them on your Oregon return.

Waterway workers ORS 316.127(10)

Full-year residents. Oregon taxes all of the income you earned while working on a watercraft in interstate waters.

Part-year residents. Oregon taxes all of the income you earned while working on a watercraft in interstate waters during the part of the year you were an Oregon resident. For the part of the year you were a nonresident, see below.

Nonresidents. Certain nonresident employees serving on watercraft who have regularly assigned duties on interstate navigable waters are no longer subject to Oregon income tax.

To qualify you must:

- Be engaged on a vessel to perform assigned duties in more than one state as a pilot licensed under 46 U.S.C. 7101 or licensed or authorized under the laws of the state, or
- Perform regularly assigned duties while engaged as a master, officer, or member of a crew on a vessel operating on the navigable waters of more than one state.

If you qualify, Oregon will not tax these wages. File Form 40N (or Form 40P if a part-year resident) and show this income is exempt by entering a zero in the Oregon column for these wages. Write "Waterway Worker" on the top of your return in blue or black ink.

To stop withholding of Oregon income tax from your exempt wages, complete a Form W-4 and write "exempt" on line 7. At the top of Form W-4 write "For Oregon Only – Waterway Worker." Give this Form W-4 to your payroll clerk.

Adjustments to income

Alimony paid

The alimony you paid must be taxable income to your former spouse.

Full-year residents. Oregon allows the same deduction claimed on your federal return. You will not claim an additional deduction on your Oregon return.

Part-year residents. Oregon allows a deduction for the alimony you paid while you were an Oregon resident. Oregon also allows a partial deduction for alimony paid while you were a nonresident if you had Oregon-source income. Use the formula below to determine your nonresident deduction amount. Add these amounts together for your total deduction.

Nonresidents. Oregon allows a partial deduction for alimony you paid while you were a nonresident if you had Oregon-source income. Use the formula below to determine your deduction.

$$\frac{\text{Oregon-source income while a nonresident}}{\text{Total income received while a nonresident}} \times \text{Alimony you paid while a nonresident} = \text{Nonresident deduction}$$

Certain business expense of reservists

Full-year residents, part-year residents, and nonresidents. Oregon does not allow an adjustment to income for certain business expenses of reservists deducted on the federal return. If you claimed this adjustment on your federal return, you must add this amount back on your Oregon return as an "other addition." Oregon does allow you to claim these business expenses on your Oregon return if you itemize deductions using Schedule A. See page 51.

Clean-fuel vehicle

Full-year residents. Oregon allows the deduction claimed on your federal return. You will not claim an additional deduction on your Oregon return.

Part-year residents. Oregon allows a deduction for the clean-fuel vehicle you placed in service while you were an Oregon resident. Oregon also allows a partial deduction for a clean-fuel vehicle you placed in service while you were a nonresident, if you had Oregon-source income. Use the formula below to determine your nonresident deduction. Add these amounts together for your total deduction. Your total deduction for Oregon cannot be more than the federal limit.

Example 1: In September 2004 Sonja placed in service a clean-fuel vehicle and refueling property. On her 2004 federal return she claimed an adjustment to income of $2,000. Sonja moved to Oregon on October 1, 2004. She had $10,000 Oregon-source income while a nonresident. Sonja had $45,000 total income from all sources while a nonresident. Here is how she determines her $440 nonresident deduction:

($10,000 ÷ $45,000) × $2,000 =$440

Note: Sonja does not have any deduction for the part of the year she is an Oregon resident because she did not place in service a clean-fuel vehicle or refueling property during that time.

Nonresidents. Oregon allows a partial deduction for the clean-fuel vehicle you placed in service while you were a nonresident if you had Oregon-source income. Use the formula below to determine your deduction. Your total Oregon deduction cannot be more than the federal limit.

$$\frac{\text{Oregon-source income while a nonresident}}{\text{Total income from all sources while a nonresident}} \times \text{Federal adjustment to income allowed while a nonresident} = \text{Nonresident deduction}$$

Example 2: Homer placed in service a clean-fuel vehicle and refueling property in February 2004. He claimed a federal adjustment to income of $2,000. Homer reported $20,000 of Oregon source income on his Oregon Form 40N. He had $50,000 total income while a nonresident. Here is how Homer determines his $800 nonresident deduction:

($20,000 ÷ $50,000) × $2,000 = $800

Education

Educator expense

Full-year residents, part-year residents, and nonresidents. Oregon does not allow the deduction claimed on your federal return for qualified educator expenses. If you claimed this deduction on your federal return, you will have an Oregon addition. See page 47.

Student loan interest

Full-year residents. Oregon allows the deduction claimed on your federal return. You will not claim an additional deduction on your Oregon return.

Part-year residents. Oregon allows a deduction for the student loan interest you paid while you were an Oregon resident. Oregon also allows a partial deduction for student interest you paid while you were a nonresident if you had Oregon-source income. Use the formula below to determine your nonresident deduction amount. Add these amounts together for your total deduction.

Nonresidents. Oregon allows a partial deduction for the student loan interest you paid while you were a nonresident if you had Oregon-source income. Use the formula below to determine your deduction.

$$\frac{\text{Oregon-source income while a nonresident}}{\text{Total income from all sources while a nonresident}} \times \text{Student loan interest paid while a nonresident} = \text{Nonresident deduction}$$

Tuition and fees

Full-year residents. Oregon allows the deduction claimed on your federal return. You will not claim an additional deduction on your Oregon return.

Part-year residents. Oregon allows a deduction for the qualified tuition and fees you paid while you were an Oregon resident. Oregon also allows a partial deduction for your tuition and fees expense paid with while you were a nonresident if you had Oregon-source income. Use the formula below to determine your nonresident deduction amount. Add these amounts together for your total deduction.

Your total deduction for Oregon cannot be more than the federal limit.

Nonresidents. Oregon allows a partial deduction for the tuition and fees you paid while you were a nonresident if you had Oregon-source income.

Use the formula below to determine your deduction amount. Your total Oregon deduction cannot be more than the federal limit.

$$\frac{\text{Oregon-source income while a nonresident}}{\text{Total income while a nonresident}} \times \text{Qualified tuition and fees paid while a nonresident} = \text{Nonresident deduction}$$

Fee-basis government officials

Full-year residents. Oregon allows the deduction claimed on your federal return. You will not claim an additional deduction on your Oregon return.

Part-year residents. Oregon allows a deduction for the employee business expenses you paid while you were an Oregon resident. Oregon also allows a partial deduction for these expenses that you paid for while you were a nonresident, if you had Oregon-source income. Use the formula below to determine your nonresident deduction. Add these amounts together for your total deduction. Your total deduction for Oregon cannot be more than the deduction allowed on your federal return.

Nonresidents. Oregon allows a partial deduction for your employee business expenses paid for while you were a nonresident, if you had Oregon-source income. Use the formula below to determine your deduction. Your deduction for Oregon cannot be more than the deduction allowed on your federal return.

$$\frac{\text{Oregon-source income while a nonresident}}{\text{Total income from all sources while a nonresident}} \times \text{Employee business expenses paid while a nonresident} = \text{Non-resident deduction}$$

Health Savings Account deduction

Full-year residents. Oregon allows the deduction claimed on your federal return. You will not claim an additional deduction on your Oregon return.

Part-year residents. Oregon allows a deduction for your Health Savings Account contribution you made while you were an Oregon resident. Oregon also allows a partial deduction for your contribution while you were a nonresident if you had Oregon-source income. Use the formula below to determine your nonresident deduction amount. Add these amounts together for your total deduction.

Nonresidents. Oregon allows a partial deduction for your Health Savings Account contribution while you were a nonresident if you had Oregon-source income. Use the formula below to determine your deduction.

$$\frac{\text{Oregon-source income while a nonresident}}{\text{Total income from all sources while a nonresident}} \times \text{Health Savings Account contribution made while a nonresident} = \text{Nonresident deduction}$$

Interest penalty on early withdrawal of savings

Full-year residents. Oregon allows the same deduction claimed on your federal return. You will not claim an additional deduction on your Oregon return.

Part-year residents. Oregon allows the same deduction as federal for your penalty related to interest taxed by Oregon.

Example: Liam claimed a deduction of $1,795 on his federal return. Only 30 percent of the interest income related to this penalty on early withdrawal is taxable by Oregon. Liam's Oregon deduction is also limited to 30 percent of the penalty, or $539.

Nonresidents. Because Oregon generally does not tax interest of a nonresident, there is no deduction for a nonresident.

IRA or self-employed SEP and SIMPLE contributions

Full-year residents. Oregon does not tax your and your spouse's allowable contributions to an individual retirement account (IRA) or other retirement plan. Oregon follows the federal definition of earned income and compensation used to calculate your IRA and other retirement plan deductions. No additional deduction is claimed on your Oregon return.

Part-year residents and nonresidents. You may be limited in the amount of IRA or other retirement plan contributions you can deduct for Oregon. Use the formulas below to figure your deduction.

IRA formula. For the part of the year you were a nonresident, use the formula below to determine your Oregon deduction.

$$\frac{\text{Oregon compensation while a nonresident}}{\text{Total compensation while a nonresident}} \times \text{IRA contributions made while a nonresident} = \text{Nonresident deduction}$$

Add to your nonresident deduction the amount you paid while an Oregon resident. The deduction in the Oregon column is subject to:

- The federal limitations, and
- Income taxed by Oregon.

Self-employed simplified employee pensions (SEP), savings incentive match plan for employees (SIMPLE), and other qualified plans. For the part of the year you were a nonresident, use the formula below to determine your Oregon deduction.

$$\frac{\text{Oregon earned income while a nonresident}}{\text{Total earned income while a nonresident}} \times \text{Contributions made while a nonresident} = \text{Nonresident deduction}$$

Add to your nonresident deduction the amount you paid while an Oregon resident. The deduction in the Oregon column is subject to:

- The federal limitations, and
- Income taxed by Oregon.

Moving expense

Full-year residents. Oregon allows you the same deduction claimed on your federal return. You will not claim an additional deduction on your Oregon return.

Part-year residents. Oregon allows you a deduction for your moving expenses only if they were connected to employment in Oregon.

Exception. Oregon allows you a deduction for moving expenses if they were paid after you became a full-year Oregon resident, even if they were not connected to employment in Oregon.

Example 1: Helen moved from Seattle, Washington, to Portland, Oregon, to take a job in Portland. Her moving expenses are deductible for Oregon.

Example 2: Becker moved from New Jersey to Oregon to take a job in California. He paid his moving expenses after he became a full-year resident of Oregon. Becker may deduct his moving expenses although his employment is not in Oregon.

Example 3: Ezra moved out of Oregon to take a job in another state. His moving expenses are not deductible for Oregon.

Nonresidents. Oregon allows this deduction only if your moving expenses were paid in connection to Oregon employment.

Example 4: Javier moved from Texas to Payette, Idaho, to take a job in Ontario, Oregon. His moving expenses are deductible for Oregon.

Performing artists

Full-year residents. Oregon allows the deduction claimed on your federal return. You will not claim an additional deduction on your Oregon return.

Part-year residents. Oregon allows the deduction claimed on your federal return for expenses paid while you were an Oregon resident. Oregon also allows a partial deduction for these business expenses while you were a nonresident if you had Oregon-source income. Use the formula below to determine your nonresident deduction amount. Add these amounts together for your total deduction.

Nonresidents. Oregon allows a partial deduction for your performing artist employee business expenses while you were a nonresident if you had Oregon-source income. Use the formula below to determine your deduction.

$$\frac{\text{Oregon-source income while a nonresident}}{\text{Total income from all sources while a nonresident}} \times \text{Performing artist employee business expenses paid while a nonresident} = \text{Nonresident deduction}$$

Self-employed health insurance

This deduction is limited to earned income from your trade or business for which the insurance plan was established.

Full-year residents. Oregon allows you the same deduction claimed on your federal return. You will not claim an additional deduction on your Oregon return.

Part-year residents and nonresidents. Oregon allows a deduction for 100 percent of your health insurance premiums related to your self-employment for the part of the year you were an Oregon resident. Add to that the health insurance premiums paid by an Oregon business from which you received self-employment income while a nonresident. Your total Oregon deduction cannot be more than your federal deduction.

Self-employment tax

Full-year residents. Oregon allows the deduction claimed on your federal return. You will not claim an additional deduction on your Oregon return.

Part-year residents and nonresidents. Oregon allows a deduction for self-employment tax related to earnings taxed by Oregon. The Oregon deduction cannot be more than the federal deduction. Use the following formula:

$$\frac{\text{Self-employment earnings taxed by Oregon}}{\text{Total self-employment earnings}} \times \text{Federal deduction for self-employment tax} = \text{Oregon deduction}$$

Additions

Generally, additions are items the federal government does not tax but Oregon does. Additions increase your income taxed by Oregon.

Accumulation distribution from a trust ORS 316.298

Did you receive a distribution of a trust's accumulated income from prior years? If so, it is fully taxable on your Oregon return. Oregon has no "throwback" provision for reporting this income the way the federal government does. However, Oregon will allow you a credit for the Oregon income tax paid by an Oregon trust. The tax must have been paid in past years on the same income that was distributed to you this year. For details, call the Department of Revenue Fiduciary Unit in Salem at 503-945-8437.

Depletion ORS 316.680

Depletion is the using up of natural resources by mining, quarrying, drilling, or felling. The depletion deduction allows an owner or operator to account for the reduction of a product's reserves.

If you claim percentage depletion on your federal return, you must add to your Oregon income any depletion that is more than your adjusted basis in the property. The addition includes any depletion in excess of basis taken by an S corporation or partnership of which you are a shareholder or partner. Usually you need to add to Oregon income any depletion that is a preference item subject to the federal alternative minimum tax.

Disposition of inherited Oregon farmland or forestland ORS 316.844

You may have an addition on your return if:

- You dispose of farmland you inherited from someone who died on or after October 5, 1973, and before January 1, 1987; or
- You dispose of forestland you inherited from someone who died on or after November 1, 1981, and before January 1, 1987.

You may have this addition because the valuation of the land for Oregon inheritance tax purposes may differ from the valuation for federal estate tax purposes. Generally, the federal valuation is the fair market value of the property at the date of the previous owner's death. The Oregon valuation is usually less than the federal valuation, because for Oregon inheritance tax purposes the property may have been valued as farm-use or forestland.

Farm-use value. If the previous owner died on or after October 5, 1973, but before September 12, 1975, use the farm-use value for the **year preceding death.** If death occurred on or after September 13, 1975, use the farm-use value for the **year of death.** You will not have this addition if the carryover basis was elected for a death after December 31, 1976, but before November 7, 1978.

Forest-use value. Use the forest-use value for the year of death.

How to figure the addition. This addition is equal to the difference between:

- The taxable gain or loss using the Oregon valuation as your basis, and
- The taxable gain or loss using the federal valuation as your basis.

This addition will increase the gain or reduce the loss you reported on your federal return.

Transfers of property. An addition is required when the beneficiary sells the inherited property. It is also required when:

- You recognize gain or loss on property that acquired the inherited property's basis due to a non-taxable exchange or involuntary conversion.
- You recognize gain or loss on property you received as a gift from a donor who inherited it.

Example: Anne inherited farmland from a relative who died on March 1, 1982. She sold the land on May 1, 2004, for $1,100,000. The fair market value at the date of the relative's death was $180,000. The farm-use value of the land on the 1982–83 property tax statement was $50,000. Anne must show a $130,000 addition on her 2004 Oregon return. Here is how she figures her addition:

Oregon valuation:		
Selling price	$ 1,100,000	
Less: Farm-use value	– 50,000	
Gain		$1,050,000
Federal valuation:		
Selling price	$ 1,100,000	
Less: Fair market value on March 1, 1982	– 180,000	
Gain		– 920,000
Difference in total gain (addition on her Oregon return)		$ 130,000

Educator expense ORS 316.012

Full-year residents, part-year residents, and non-residents. Did you claim an adjustment to income on your federal return for your educator expenses? If so, you must add to Oregon income the amount you deducted on your federal return. Oregon does not allow this deduction.

Federal election on interest and dividends of a minor child ORS 316.372

Did you report the interest or dividends of your minor child on **your** federal return? If so, you must add to Oregon income the amount that is subject to the special federal tax. You must also include in your Oregon income any interest or dividends that your child received on bonds or notes of another state or political subdivision of another state that you did not include on your federal return.

Full-year residents. Oregon taxes the smaller of line 7 or 8 from federal Form 8814. Oregon also taxes any interest or dividends your child received from state and local governments outside Oregon.

Part-year residents. Oregon taxes the interest and dividends your child received while you were an Oregon resident.

Nonresidents. Oregon generally does not tax interest received while you were a nonresident.

Federal estate tax ORS 316.680

Federal estate tax on **"income in respect of a decedent"** (IRD) is allowed as a deduction on your federal return. If any of this tax is on income not taxed by Oregon, you must show an addition on your Oregon return.

Use the following formula to figure the Oregon addition:

$$\frac{\text{IRD not taxable by Oregon}}{\text{IRD included in federal taxable income}} \times \text{Federal estate tax deducted on the federal return} = \text{Oregon addition}$$

Federal income tax refunds ORS 316.685

Did you get a federal tax refund because of a federal audit or amended return? If so, you may need to add part or all of that refund to your Oregon income. Read the explanation of the federal tax subtraction on page 55.

Tax benefit doctrine. You need to add back only refunds of federal tax for which you received a benefit in a **prior** year.

Example 1: Rosa subtracted her entire federal tax liability of $2,800 on her 2003 Oregon return. This year, she amended her 2003 federal return and received a federal refund of $500. Rosa received a $500 tax benefit because she subtracted $500 more on her 2003 Oregon return than her corrected federal tax liability.

When to report the refund. As a general rule, report the refund in the year you get it. The rules for computing the addition are explained on page 48. But first, note these exceptions:

Exception 1

If there is an error on your federal return, the Oregon Department of Revenue may correct your federal tax liability when your Oregon return is processed. This may decrease your federal tax subtraction. When the IRS later refunds the difference between your correct federal liability and the liability on your original return, do not report the refund as an addition. The tax subtraction on your original Oregon return was corrected. Thus, you received no tax benefit from the additional tax you subtracted.

Example 2: The Jacksons showed a $2,800 federal tax liability on their 2003 federal return. They subtracted that same amount on their Oregon return. When their 2003 Oregon return was processed, the Oregon Department of Revenue discovered a math error on their federal return. The department figured the Jacksons' correct federal tax as $2,000 and reduced their Oregon federal tax liability subtraction to that amount. In 2004, the IRS refunded the $800 overpayment. The Jacksons should not report the refund as an addition on their 2004 Oregon return.

Exception 2

If you file an amended return before the filing due date for that tax year, your amended return is treated as your original return for that year. In this case, the federal tax subtraction on your amended return should be based on your corrected federal tax liability. Do not report any additional refund on the amended federal return in the year received.

Example 3: Heather filed her 2003 federal and Oregon returns on February 16, 2004. Her federal tax liability was $2,500, which she subtracted in full on her Oregon return. On March 20, 2004, she amended her 2003 federal return to claim some additional deductions. She refigured her 2003 federal tax as $2,000. She also amended her 2003 Oregon return to claim the extra deductions and to reduce her federal tax subtraction by $500 (from $2,500 to $2,000). The $500 federal refund she receives in 2004 is not reported as income on her 2004 Oregon return. Because she filed the amended Oregon return **before** the April 15 due date, her amended return is considered her original filing for this year.

Figuring the addition. The amount of refund you must report as an addition is the amount of refund for which a tax benefit was received. The tax benefit is the amount of federal tax you deducted in a prior year and got back in a later year (if the amount you got back reduced your Oregon taxable income in the prior year).

Did you receive a refund of federal taxes from a different year? If so, use the following worksheet to figure your tax benefit.

1. Fill in your original federal tax liability from a prior year (2003 limit $3,500; $1,750 if married filing separately. 2002 and 2001 limits $3,250/$1,625; $3,000/$1,500).	1. ________
2. Fill in your corrected federal tax liability from a prior year (2003 limit $3,500; $1,750 if married filing separately. 2002 and 2001 limits $3,250/$1,625; $3,000/$1,500).	2. ________
3. Line 1 minus line 2. This is the tax benefit you received from your refund.	3. ________

Example 4: Jill's 2003 federal tax liability was $4,100. She was limited to $3,500, which she subtracted on her Oregon return. Jill amended her 2003 federal return and received a refund of $2,300 in 2004. The addition on Jill's 2004 return will be $1,700, figured as follows:

Tax benefit received: Federal tax subtracted on Jill's 2003 Oregon return (limit $3,500)	$ 3,500
Less: Corrected federal tax ($4,100 – $2,300) (limit $3,500)	– 1,800
Jill's Oregon addition	$ 1,700

Example 5: Ella was a part-year resident in 2003. Her original federal tax was $4,000. She amended her 2003 federal and Oregon returns. She received a $1,000 federal refund in 2004. Her 2003 corrected federal tax is $3,000. Ella's addition is $500. She figures her tax benefit as follows:

Original 2003 federal tax liability (limit $3,500)	$ 3,500
Less: Corrected federal tax liability (limit $3,500)	– 3,000
Tax benefit received and Ella's Oregon addition	$ 500

Nonresidents. A nonresident's tax benefit from federal tax refunds is the difference between the tax actually subtracted on the prior year's return and the tax that would have been subtracted had the federal return been correct. If the amounts on your federal return changed because you amended your federal return or because it was audited, your Oregon percentage also may change. Use the corrected percentage to figure the tax benefit.

Example 6: Donya was a nonresident with Oregon-source income in 2003. Her original federal tax was $3,000. Her Oregon percentage on Form 40N was 50 percent. In September 2004, she amended her federal and Oregon returns. She received a $1,000 federal refund in 2004. Her revised Oregon percentage for 2003 was 40 percent. She received a $700 tax benefit from the refund. She figures her tax benefit as follows:

Original federal tax liability (limit $3,500)	$ 3,000	
× original Oregon percentage	× .50	
		$ 1,500
Corrected federal tax liability (limit $3,500)	$ 2,000	
× revised Oregon percentage	× .40	
		– 800
Tax benefit received and Donya's Oregon addition		$ 700

Gambling losses claimed as an itemized deduction ORS 461.560

If you claimed gambling losses as an itemized deduction on your federal Schedule A, you may have an addition on your Oregon return.

Your gambling losses are limited to the amount of your gambling winnings taxed by Oregon.

Oregon does not tax Oregon Lottery winnings of $600 or less from a single ticket or play on or after January 1, 1998. See the subtraction for Oregon Lottery winnings on page 59.

Example: Angela reported total gambling income of $580 on her 2004 federal return ($500 from the Oregon Lottery plus $80 from the horse races). On her federal Schedule A, Angela deducted $300 of gambling losses.

Angela will subtract $500 from her Oregon income. This is the amount of her Oregon Lottery winnings. Her net gambling winnings, taxable by Oregon, are reduced to $80. Angela may not claim more in gambling losses than her gambling winnings taxable by Oregon. Because her gambling winnings taxable by Oregon are only $80, she may not claim more than $80 in gambling losses on her Oregon return. She is required to reduce her deduction for gambling losses from $300 to $80. The difference of $220 is an Oregon addition.

Gambling winnings reported in federal AGI	$ 580
Less subtraction for Oregon Lottery winnings	(500)
Net gambling winnings taxable by Oregon	$ 80
Gambling losses claimed on federal Schedule A	$ 300
Net gambling winnings included in Oregon income	80
Reduction in gambling losses—Oregon addition	$ 220

Income taxes paid to another state ORS 316.082

Did you claim a credit for income taxes paid to another state and claim those same taxes as an itemized deduction? If so, you may have an Oregon addition. See page 90.

Individual Development Account ORS 316.848, 315.271

For information on the required Oregon addition, see page 72.

Interest and dividends on government bonds of other states ORS 316.680

Full-year residents. Oregon taxes interest and dividends on bonds and notes of another state or political subdivision of another state that you did not include on your federal return. This income is an addition on your Oregon return.

Did you report the interest or dividends of your minor child on **your** federal return? And, did your child receive interest or dividends from another state or political subdivision? If so, include this income as an addition on your Oregon return. See page 47.

Part-year residents. Oregon taxes the interest and dividends on bonds or notes of another state (or political subdivision of another state) earned from an Oregon business, partnership, or S corporation during the part of the year you were a nonresident. Oregon also taxes all interest and dividends you earned on all bonds or notes when you were an Oregon resident.

Nonresidents. Oregon will only tax this income if it comes from an Oregon business, partnership, or S corporation.

Expenses. Interest on loans and expenses to purchase federally exempt bonds or notes are not deductible on the federal return. If you itemize for Oregon, you may reduce your Oregon addition by the amount of investment expense not deductible on your federal return. If you use the standard deduction, you will not reduce your addition for your loan interest or purchase expense.

Example 1: Maya received $1,000 of interest from her New York City bonds. She borrowed $2,600 to purchase the bonds. During the year she paid $150 of interest on the loan. She claimed itemized deductions but could not deduct the interest expense on her federal Schedule A because the interest from the bonds was not included on her federal return. Maya's $850 addition is figured as follows:

New York City bond interest	$1,000
Less: Interest expense connected with the bonds	– 150
Oregon addition	$ 850

Example 2: Jimo received $2,970 of interest from Idaho Municipal Bonds. He borrowed $12,000 to purchase the bonds. His 2004 interest expense on the loan was $650. Jimo used the standard deduction on his federal and Oregon returns. He will have an Oregon addition for $2,970. Jimo will not reduce his addition for his loan interest expense because he claimed the standard deduction.

You will have an Oregon addition for interest or dividends on obligations of any authority, commission, instrumentality, or territorial possession of the United States. These are exempt from federal tax but not Oregon tax.

Oregon does not tax interest or dividends on obligations that states cannot tax under federal law. Examples of such obligations are bonds issued by:

- Territory of Guam.
- Commonwealth of Puerto Rico.
- Territory of Puerto Rico.
- Territory of Samoa.
- Territory of Virgin Islands.

Long-term care insurance premiums, federal deduction ORS 316.680

Are you claiming an Oregon long-term care insurance premiums credit (page 90)? Are you claiming a federal deduction for the premiums as a medical expense or a business expense? If you answer "yes" to both of these questions, you may have an Oregon addition.

Medical expense deduction

Did you claim a deduction on federal Schedule A for premiums paid? If so, use the following formula to figure the Oregon addition:

$$\frac{\text{Total long-term care premiums included in federal itemized deductions}}{\text{Total medical itemized deductions (Federal Schedule A, line 1)}} \times \text{Federal medical deductions allowed (Federal Schedule A, line 4)} = \text{Oregon addition}$$

Example 1: Rebecca, age 42, paid premiums of $1,270 during the tax year. On her federal return she is limited to a $490 medical deduction for the premiums. She has other medical expenses of $3,100. Her total medical expenses are $3,590. Rebecca has federal adjusted gross income (AGI) of $38,000. She must reduce her medical expenses by the 7.5 percent AGI limitation ($2,850). Her allowed medical deduction is $740. She computes her Oregon addition as follows:

$$\frac{\$490}{3{,}590} \times \$740 = \$101$$

Rebecca must add back $101 on her Oregon return before she claims the Oregon long-term care insurance premiums credit.

Example 2: Frances, age 65 and single, paid premiums of $1,700 during the tax year. On her federal return she may claim all of these premiums for her medical deduction. She has other medical expenses of $2,200. Her total medical expenses are $3,900. Frances has AGI of $42,000. She must reduce the expenses by the 7.5 percent AGI limitation ($3,150). Her allowed medical deduction is $750. She computes her Oregon addition to Oregon income as follows:

$$\frac{\$1{,}700}{3{,}900} \times \$750 = \$327$$

Frances must add back $327 on her Oregon return before she claims the Oregon long-term care insurance premiums credit.

Because Frances is over age 62 and is itemizing her deductions, she is eligible for the special Oregon medical deduction. This deduction is in addition to the Oregon long-term care insurance premiums credit. For more information about the special Oregon medical deduction, see page 73.

Exception to the addition

If you use the standard deduction on your federal return and claim itemized deductions for Oregon only, you will not have an Oregon addition.

Example 3: Ewald, age 57 and single, used the standard deduction on his 2004 federal return. The federal standard deduction for a single person is $4,850. Ewald's total itemized deductions are $4,100. His long-term care insurance premiums are $1,200 of his $4,100 total itemized deductions. Because the federal standard deduction is more than his itemized deductions, it benefits Ewald to use the federal standard. Ewald filed an "Oregon-only" Schedule A with his Oregon return. He benefits more from his itemized deductions than he would from his Oregon standard deduction of $1,720. Because Ewald had no federal benefit from his long-term care premiums, he is not required to add back any amount on his Oregon return.

Business expense deduction

Did you claim a deduction for premiums paid for your employees on federal Schedule C, on your business tax return, or as an adjustment to income on Form 1040, line 31? If so, you must add back on your Oregon tax return the amount deducted before you can claim the Oregon long-term care insurance premiums credit.

Lump-sum distributions ORS 316.737

Did you complete federal Form 4972 to figure the tax on your qualified lump-sum distribution using the 20 percent capital gain election and/or the 10-year tax option? If so, part or all of your lump-sum distribution will not be included in your federal adjusted gross income (AGI). The taxable amount of your distribution (Form 1099-R, line 2b) that is not included in your federal AGI is taxable to Oregon.

Election to use 20 percent capital gain on federal Form 4972. Did you average the ordinary portion of your lump-sum distribution on federal Form 4972? Did you also choose the 20 percent capital gain election on Form 4972? If so, add to Oregon income the total amount of income shown on your federal Form 1099-R.

The following examples show how to report your lump-sum distribution for Oregon purposes:

Example 1: Gary got a $20,000 lump-sum distribution from his employer. Of this, $12,000 was capital gain income, and $8,000 was ordinary income. He chose to use the 10-year averaging method only on the ordinary income portion. He also chose the 20 percent capital gain election on Form 4972. His Oregon addition will be $20,000.

Election to treat the entire distribution as ordinary income and average it. Did you average **all** of your lump-sum distribution (ordinary income and capital gain portions) on federal Form 4972? If so, you will have an addition for the entire lump-sum distribution on your Oregon return.

Example 2: John received a $40,000 lump-sum payment from his employer. $30,000 was capital gain income and $10,000 was ordinary income. He chose to average the entire payment as ordinary income on his federal Form 4972. His Oregon addition will be:

Ordinary income portion	$ 10,000
Plus: Capital gain portion	+ 30,000
Oregon addition	$ 40,000

Election not to average any of your lump-sum distribution. Did you choose not to average any of your lump-sum distribution? If you included it in federal AGI, you do not need to do anything on your Oregon return.

Military Family Tax Relief Act ORS 316.012

Oregon is not tied to most of the provisions allowed by the federal Military Family Tax Relief Act (MFTRA) approved by Congress in November 2003.

If you had any income exclusion or deduction related to MFTRA, you will have an Oregon addition. The amount of the Oregon addition is the amount you excluded from your federal return for the following MFTRA items:

- Income exclusion of military death gratuity payments over $3,000.
- Income exclusion of gain from the sale of a principal residence. This applies if you sell your residence before the two-out-of-five-year residence requirement is met.
- Income exclusion of amounts received under military housing assistance program for decrease in housing value due to military base realignment or closure.
- Deductions for certain business expenses of National Guard and Reserve members claimed as an adjustment to income.

  To claim these travel expenses on your Oregon return, you must itemize deductions. Complete a Schedule A for Oregon only. Travel is generally one weekend each month and two weeks each summer. Travel must be more than 100 miles from your home. These travel expenses are subject to the 2 percent adjusted gross income limitation. Keep the Oregon Schedule A with your tax records; do not attach it to your return.

Example: Jack is a member of the National Guard. He is single. His adjusted gross income (AGI) is $27,000, and his Schedule A itemized deductions are $5,900 (this amount does not include the $1,970 of overnight travel expenses for National Guard). He claimed $1,230 of overnight travel expenses on his federal return. Jack completed federal Form 2106-EZ as required and claimed these expenses on Form 1040, line 24, as an adjustment to income.

Because Oregon does not allow this federal adjustment to income, Jack will have an "other addition" on his Oregon return. He will report $1,230 on his Form 40, line 10. Jack will complete a Schedule A for Oregon only. He will include his National Guard overnight travel expenses of $1,230 as a miscellaneous itemized deduction, subject to the 2 percent limitation. Jack will increase his itemized deductions by $1,230 minus 2 percent of his AGI, [$1,230 – ($27,000 × .02) = $690]. His new total itemized deductions are $6,590.

Oregon 529 College Savings Network ORS 316.680

Did you withdraw funds from an Oregon 529 College Savings Network plan for nonqualified purposes? If so, you will have an "other addition" on your Oregon return for the amount you withdrew. Internal Revenue Code Section 529(e) defines qualified higher education expenses. For more information about Oregon 529 plans and examples of qualified withdrawals, see page 60.

Oregon Cultural Trust contributions ORS 315.675

If you claimed a deduction on your Schedule A for your contribution to the Oregon Cultural Trust, you will have an Oregon addition for the amount you deducted. You will not add back the contribution you made to the other Oregon nonprofit cultural organization(s).

Example: In 2004 Emma contributed $500 to the Oregon nonprofit cultural organization of her choice. She made a $500 matching donation to the Oregon Cultural Trust. Emma claimed a charitable contribution deduction of $1,000 on her Schedule A. On her Oregon return, Emma will claim a $500 credit for her matching donation to the Oregon Cultural Trust. Because she claimed the Oregon credit and claimed the Schedule A itemized deduction for the same donation, Emma must add back the amount of her donation to the Oregon Cultural Trust. Emma will have a $500 other addition.

For more information about the Oregon Cultural Trust, see page 93.

Self-employed health insurance deduction ORS 316.680

Did you claim a deduction for long-term care insurance premiums on federal Form 1040, line 31, because you are self-employed? If so, before you can claim the long-term care insurance premiums credit, you will have an Oregon addition for the amount you deducted on Form 1040, line 31. See page 50.

Unused business credits ORS 316.680

Did you claim a deduction on your federal return for unused business credits (UBC)? Oregon does not allow this deduction.

Full-year residents. You must report your federal UBC deduction as an Oregon addition.

Part-year residents. You will have an Oregon addition for your federal UBC deduction related to any UBC earned while you were an Oregon resident. You also must include any federal UBC deduction related to Oregon credits earned while you were a nonresident.

Nonresidents. You will have an Oregon addition for your federal UBC deduction related to Oregon credits earned while you were a nonresident.

Subtractions

Generally, subtractions are items the federal government taxes but Oregon does not. Subtractions reduce your income taxed by Oregon.

American Indian ORS 316.777

Are you an American Indian? If so, you may not have to pay Oregon income tax on your income. You may be able to subtract all or part of your income if **all** of the following are true:

- You are an enrolled member of a federally recognized American Indian tribe, and
- Your income is earned in Indian country, and
- You live in federally recognized Indian country.

"Indian country" is defined as any land within a current federal Indian reservation boundary and other lands held in trust by the United States government for a tribe.

For enrolled members of federally recognized American Indian tribes who live in and work in Indian country in Oregon, income exempt from Oregon income tax includes:

- Wages earned for work performed in Indian country in Oregon.
- Income from business or real estate located in Indian country in Oregon.

- Retirement income if the contributions to the plan came from or were connected with services performed in Indian country.
- Unemployment compensation if the benefits were received as a result of work performed in federally recognized Indian country.
- Interest, dividends, and capital gains from the sale of stocks and other intangibles, regardless of where the accounts are located.
- Gambling winnings from Indian gaming centers (casinos).
- Indian tribal disbursements from casino earnings.

Remember: You must live in and work in Indian country in Oregon **and** be an enrolled member of a federally recognized tribe to subtract the income listed above. You do not have to live and work on the same reservation. But the areas where you live and work must both be considered "Indian country" to qualify for the subtraction.

To claim the subtraction, you must report your total income on both the federal and Oregon tax returns.

You must file a completed copy of Form 150-101-049, *Exempt Income Schedule for Enrolled Members of a Federally Recognized American Indian Tribe,* with your Oregon return. Visit our Web site at www.oregon.gov/DOR to download the schedule. Or, to order it, call us at 503-378-4988 or toll-free within Oregon at 1-800-356-4222. You must include the following on the schedule:

- The street address of the place you worked, and
- The street address of the place you lived, and
- The tribe you are enrolled with and your membership number.

You must use the street address of your residence on the schedule so we can verify that you live in Indian country. However, you may use your post office box address on your tax return.

If you meet all of the requirements, you may claim "exempt" on your Form W-4 for Oregon purposes only.

Only income earned by an enrolled tribal member while working and living in Indian country is exempt from Oregon taxation. Each member of a household with income must meet these qualifications in order to claim the subtraction of his or her income.

If you are an enrolled member of a federally recognized tribe and a member of the U.S. Armed Forces, stationed in Oregon, you may be entitled to an additional subtraction. For more information, call the department at 503-378-4988 or toll-free within Oregon 1-800-356-4222.

Artist's charitable contribution ORS 316.838

Oregon allows a subtraction to artists who contribute their own works of art to a recognized charitable organization or governmental unit.

What qualifies as a "work of art?"

The art object must be a painting, sculpture, photograph, graphic or craft art, industrial design, costume or fashion design, tape or sound recording, or film.

The charitable organization is not required to use the art for the same purpose or function that qualifies it for its federal tax exemption. You may deduct your charitable contribution even if the charitable organization sells the art.

How to calculate the subtraction

The subtraction is equal to the difference between:

1. The amount that would have been allowed as an itemized deduction if you could deduct the fair market value (FMV) of the art (subject to the federal contribution limitation), and
2. The amount actually allowable as an itemized deduction under federal tax law.

Further qualifications

You must itemize deductions on your Oregon return to claim this subtraction. Federal law limits charitable contributions. Contributions to some organizations are limited to 50 percent of your adjusted gross income (AGI). Contributions to others are limited to 30 percent of your AGI.

Use these limits when you figure the deduction, using FMV. You will need the appraisal report that is required by the IRS showing the FMV of the art at the time of the contribution. Keep a copy of the report with your tax records.

Example: Ronda's AGI is $10,000. She donated one of her paintings to an organization for display in a building. The painting has a basis (cost) of $300 and a FMV of $6,000. Here is how she computes her subtraction:

1. Amount allowed as a charitable contribution if computed using FMV	$ 6,000	
(limited to 50% of $10,000)	5,000	
		$ 5,000

2.	Amount allowed as a charitable contribution on federal Schedule A (basis)	(300)
3.	Ronda's subtraction (line 1 minus 2)	$4,700

Part-year residents and nonresidents. Follow the same rules as a full-year resident.

Construction worker and logger commuting expenses ORS 316.812, 316.832

If you are a qualified construction worker or logger, you may deduct certain commuting expenses on your Oregon return. To claim these expenses, you must have worked at one or more construction projects or logging operation sites more than 50 miles from your home.

A construction project is construction, alteration, repair, improvement, moving, or demolition of a structure. A logging operation is the commercial harvesting of forest products. People in other occupations are not eligible for this subtraction. Management personnel also are not eligible for this subtraction.

Qualifying workers. Loggers must be fallers or buckers who maintain their own equipment and are paid on a per-unit-cut basis. Construction workers must be members of a recognized trade, craft, or union.

Qualifying expenses. You may claim only the actual cost of gas, oil, repairs, and maintenance for your vehicle for getting to and from work sites that are over 50 miles from your home. You cannot use the standard mileage rate to figure expenses.

If you use your vehicle partly for business and partly for personal purposes, you must determine what percentage is for business use. You may claim only the business percentage of your repairs and maintenance as commuting expenses. You cannot claim depreciation.

Duration of project. If you are a construction worker, claim only your expenses for the first year of continuous employment at any one construction site. If the employment continues beyond one year, the job site is considered permanent. You may not subtract any additional commuting costs for going to and from that site. If your employment at that job site is temporarily interrupted, do not count the interruption when you figure the one-year limit.

If you are a logger, there is no limit on how long you may work at the same job site and still claim expenses.

How to claim the subtraction. Claim your commuting expenses as an "other subtraction" on your Oregon return. You cannot subtract expenses related to the same mileage claimed as an employee business expense on your Schedule A.

Part-year residents and nonresidents. You may claim only expenses related to income included on your Oregon return.

Conversions and exchanged property ORS 314.290 repealed

Does your federal income include gain from the sale or exchange of property already taxed by Oregon? If so, you may claim a subtraction on your Oregon return for the amount of income already taxed by Oregon.

Domestic partner benefits OAR 150-316.007-(B)

You may subtract the imputed value of certain fringe benefits provided by your employer for your qualifying same-sex domestic partner from income on the Oregon tax return. These benefits typically include, but are not limited to, health insurance and tuition payments.

You must have included the imputed value of the benefits in your federal income to claim the Oregon subtraction. The imputed value will be shown on your Form W-2.

Federal income tax liability ORS 316.680, 316.695

Current year's federal tax liability. Oregon allows a subtraction for your current year's federal income tax liability after credits. The subtraction for 2004 is limited to $4,000 ($2,000 if married filing separately).

The subtraction is based on the accrual method of accounting. This means you subtract the total amount of your federal tax liability after credits for the current tax year (not less than zero) as shown on your original return, regardless of when you pay it.

The subtraction is limited to income tax. This includes alternative minimum tax, tax on an IRA (Individual Retirement Arrangement), and recapture taxes. You cannot include self-employment tax, Social Security (FICA) tax, or advanced earned income credit payments.

Federal income tax credits, excluding the earned income credit, reduce your federal tax subtraction. The credits for federal tax on special fuels, special oils, and a regulated investment company will not reduce your federal tax subtraction.

You may deduct your total federal income tax liability after credits, up to $4,000. Do not fill in less than -0- or more than $4,000 ($2,000 if married filing separately).

1. Enter your federal tax liability from Form 1040EZ, line 10; Form 1040A, line 36; Form 1040, line 56; Form 1040NR, line 50; or TeleFile Tax Record, line K, box 2. 1. _______
2. Enter your tax on qualified retirement plans, Form 1040, line 59; or Form 1040NR, line 53, and any recapture taxes you included on Form 1040, line 62. 2. _______
3. Add lines 1 and 2. 3. _______
4. Enter $4,000 ($2,000 if married filing separately). 4. _______
5. Enter the smaller of line 3 or line 4 here. This is your federal tax subtraction. 5. _______

Form 40S filers: Is the IRS figuring your federal tax for you? Do not write an amount on Form 40S, line 9. You cannot complete your Oregon return without knowing your federal tax liability. Attach a copy of your federal Form 1040, 1040A, 1040EZ, 1040NR, or TeleFile Tax Record to your Oregon return. Write "Calculate federal tax" at the top of your return in blue or black ink. We will use the information on your federal return to determine your federal tax liability, and we will complete your Oregon return for you.

Additional federal income tax paid or determined. If you paid additional federal tax because your federal return was amended or audited, you may subtract it in the year the tax was paid or determined, whichever is later. Your additional prior year's federal tax plus your current year's federal tax **cannot** be more than the maximum current year subtraction.

This subtraction applies only to additional tax **paid** because your return was amended or audited. It does not include withholding tax, advance tax payments, interest, penalties, or paying the tax due on your original federal return.

Example: Miles' federal tax liability for 2004 is $3,100. He is filing as a single person. During the year, the IRS audited his 2003 federal return. His original federal tax was $4,500 (he subtracted $3,500 on his 2003 Oregon return). After the audit, he owed $1,000 additional federal tax. He paid that amount in 2004. On his 2004 Oregon return, Miles may claim the maximum federal tax subtraction of $4,000. Of this, $3,100 is his current federal tax liability. The remaining $900 is last year's federal tax figured as follows:

Smaller of:

1. Additional federal tax paid in 2004 $ 1,000

or

2. Maximum federal tax subtraction in 2004 $ 4,000

   Less: This year's federal tax liability – 3,100

   Maximum subtraction of 2003 federal tax paid in 2004 $ 900

Miles will claim a $900 subtraction.

Amended returns. If your federal tax liability for a prior year is changed, follow these rules when filing an amended Oregon return for that year:

1. **Additional federal tax paid or determined:** If you are filing an amended Oregon return to report changes made to your federal return, do not increase the federal tax subtraction. Report the additional federal tax in the year the tax was paid or determined, whichever is later.

   Exception. Any amended Oregon return filed before the due date for that tax year should show the corrected federal tax liability. This is true even if you have not yet paid the additional tax.

2. **Refunds of federal tax:** Do not change the federal tax subtraction on your amended Oregon return. Report federal refunds as an addition in the year you receive the refund if you received a tax benefit. For information about tax benefit, see page 47.

   Exception. If you file an amended return before the due date for the tax year involved, report the corrected federal tax liability. Do not report the refund in the year you receive it.

Federal pension income ORS 316.680

You may be able to subtract some or all of your taxable federal pension included in 2004 federal income. This includes benefits paid to the retiree or to the beneficiary. The subtraction amount is based on the number of months of federal service before and after October 1, 1991:

- If all of your months of federal service occurred before October 1, 1991, subtract 100 percent of the taxable amount of federal pension income you reported on your federal return.
- If you have no months of service before October 1, 1991, you cannot subtract any federal pension.
- If your service was both before and after October 1, 1991, you will subtract a percentage of the taxable federal pension income you reported on your federal return. To determine your percentage, divide your months of service before October 1, 1991, by your total months of service. Once you have determined the percentage, it will remain the same from year to year.

Example 1: Jared worked for the U.S. Department of Agriculture from April 25, 1973, until April 24, 2004. He worked a total of 372 months, of which 221 months were worked before October 1, 1991. In 2004, he received federal pension income of $23,000. He can subtract 59.4 percent (221 ÷ 372) or $13,662 (.594 × $23,000) of his federal pension. Jared will continue to subtract 59.4 percent of his federal pension from Oregon income in future years.

Use this worksheet to determine your federal pension income subtraction amount:

1. Federal pension income included in federal AGI. 1. ____________

2. a. Months of service from _______ (fill in federal service start date) to October 1, 1991. a. _____ months*

   b. Months of service from _______ (fill in federal service start date) to _______ (fill in federal service retirement date). b. _____ months**

   Divide the number of months on line a by the total number of months on line b. Round the decimal to three places. Enter here. This is your federal pension subtraction percentage. 2. ____________

3. Multiply line 1 by the decimal on line 2. This is your federal pension subtraction. 3. ____________

* **Federal service start date:** If your federal service start date was the 1st through the 15th of a month, include the entire month when counting the months of federal service.

If your federal service start date was the 16th through the end of a month, do not include the first partial month of service. Start counting the months of federal service with the first full month of service.

** **Federal service retirement date:** If your federal service retirement date was the 1st through the 15th of a month, do not count this final partial month when counting the total months of federal service.

If your retirement date was the 16th through the end of the month, include the entire month when counting the total months of federal service.

Keep a copy of this worksheet with your permanent tax records. You will continue to use this same percentage, from line 2 of this worksheet, to determine your federal pension subtraction in future years.

Example 2: Dinah served in the U.S. Army from November 2, 1981, through January 5, 2004. She received $17,000 in pension benefits in 2004. The following worksheet shows how Dinah will determine her federal pension subtraction for 2004.

1. Federal pension income included in federal AGI. 1. $17,000

2. a. Months of service from November 2, 1981, to October 1, 1991. a. 119 months
   b. Months of service from November 2, 1981, to January 5, 2004. b. 266 months

   Divide the number of months on line a by the total number of months on line b. Round the decimal to three places. This is your federal pension subtraction percentage. 2. .447

3. Multiply line 1 by the decimal on line 2. This is your federal pension subtraction. 3. $7,599

Nonresidents. Claim a subtraction for federal pension income only if you reported it on the Oregon return. Oregon does not tax your retirement income unless you have kept Oregon as your domicile. For more information, see page 40. If your pension income is not taxable for federal purposes, do not include it in Oregon income.

Federal tax credits ORS 316.716

If you qualify for certain federal tax credits, you must reduce your business expenses or itemized deductions on your federal return by the amount of the credit you figured for the year. Oregon allows a subtraction or itemized deduction for the amount of expenses you could not claim on your federal return. Subtract these expenses on your Oregon return in the year you first claimed the federal credit, even if the federal credit is carried over. If you were required to itemize deductions in order to claim these expenses for federal purposes, then you must itemize for Oregon as well.

Part-year residents and nonresidents. If your federal credit is related to a business not operated solely in Oregon, you must prorate your subtraction using the formula below. The result of this formula will be your Oregon subtraction or deduction:

$$\frac{\text{Oregon expenses}}{\text{Total expenses*}} \times \text{Expenses not allowed on your federal return}$$

If your federal credit is related to a business operated entirely in Oregon, you will not prorate your Oregon subtraction.

Partnerships and S corporations. If your federal credit is from a partnership or S corporation, you may subtract a percentage of the expenses not deductible on your federal partnership or S corporation return. This amount generally will be the same as the percentage of total partnership or S corporation income you report on your return. Nonresidents or part-year residents must use the percentage explained in the previous paragraph to further prorate the expenses.

* *Do not reduce by your federal credit.*

Foreign tax ORS 316.690

You can subtract taxes paid to a foreign country if on your **federal** return:

- You claimed a credit for the taxes you paid to a foreign country, or
- You did not claim a credit for tax you paid to a foreign country, and you did not claim the foreign taxes as an itemized deduction.

Your foreign tax **plus** your current federal tax (and any additional federal tax paid for a prior year) cannot be more than $4,000 ($2,000 if married filing separately) for 2004. The foreign tax portion of your federal tax subtraction cannot be more than $3,000 ($1,500 if married filing separately).

If you claimed foreign taxes as an itemized deduction on your federal return, you may claim these taxes in full on your Oregon return as part of your itemized deductions. The amount shown on your federal Schedule A is not subject to the $4,000 limit. If you claimed the foreign taxes as an itemized deduction, you may not also claim them as a subtraction.

Your foreign tax subtraction is the smaller of:

- Your 2004 foreign tax, or
- Your 2004 federal tax subtraction of $4,000 ($2,000 for married filing separately) reduced by the sum of the 2004 federal tax you are claiming plus any prior year federal tax paid in 2004.
- $3,000 ($1,500 if married filing separately).

Example: Jose is single. His federal tax liability this year is $1,200. He also paid additional federal tax of $1,100 for a prior year. On his federal return he took a credit for the $1,000 in foreign tax he paid this year. Here is how he figured his foreign tax subtraction:

Limit		$4,000
Less:		
Federal tax this year	$1,200	
Federal tax paid for a prior year	+ 1,100	
Total federal tax claimed on his Oregon return		−2,300
Amount available for foreign tax subtraction		$1,700
His foreign tax subtraction is the smaller of:		
His foreign tax	$1,000	
or		
Amount available for the foreign tax subtraction	$1,700	
or		
$3,000 ($1,500)	$3,000	
Jose's foreign tax subtraction is		$1,000

Individual Development Account ORS 316.848

For information on the Oregon subtraction, see page 72.

Interest and dividends on U.S. bonds and notes ORS 316.680

Did you include any interest or dividends from U.S. bonds and notes in your federal income? If so, you may subtract this income on your Oregon return. Common examples of U.S. government interest include savings bond and Treasury bill interest.

You may also subtract U.S. government interest (called state exempt-interest dividends) from regulated investment companies and pools of assets managed by a fiduciary. These include, but are not limited to, banks, savings associations, or credit unions. To qualify, the regulated investment company or pool of assets must invest in U.S. government securities. **These securities must be tax-exempt for Oregon.** The subtraction is limited to your share of the amount of interest actually earned from the qualifying U.S. government securities. See the list below.

You cannot subtract amounts when the U.S. government only guarantees the security. If you receive distributions from a retirement plan, you may not subtract pension income received from funds invested in U.S. government securities.

Part-year residents and nonresidents. You may claim the subtraction only for interest and dividends you included as income taxable by Oregon.

Any gain recognized for federal tax purposes on the sale of U.S. bonds and notes is also taxable by Oregon.

If you claim related expenses

Special treatment is required if you claim expenses connected with U.S. bonds and notes as an itemized deduction. The expenses include interest on money borrowed to buy the bonds and notes. They also include expenses incurred in the production of income from the bonds and notes. Because Oregon does not tax the income from these bonds and notes, Oregon does not allow a deduction for the expenses. You must reduce your subtraction by the amount of the expenses you deducted on your federal return.

Example: Charles earned $500 of interest income from his Series EE bonds. He had borrowed $6,000 to buy those bonds. During the year he paid $200 interest on the loan. He claimed his interest expense as an itemized deduction on his Schedule A. His Oregon subtraction will be $300.

Series EE bond interest received	$500
Interest expense connected with bonds deducted on Schedule A	–200
Oregon subtraction	$300

Below is a detailed list of bonds and notes that may or may not qualify for this subtraction. For a list of obligations that are exempt from both state and federal taxation, see page 50.

QUALIFIES	BOND/NOTE
Yes	Banks for Cooperatives District of Columbia
Yes	Commodity Credit Corporation
No*	Export-Import Bank
No	Farmers Home Administration
Yes	Federal Deposit Insurance Corporation
Yes	Federal Farm Credit Bank
Yes	Federal Financing Bank
No	Federal Home Loan Mortgage Corporation (Freddie Mac)
Yes	Federal Home Loan Bank
Yes	Federal Intermediate Credit Bank
Yes	Federal Land Bank and Federal Land Bank Association
No	Federal National Mortgage Association (Fannie Mae)

** If the creditor has defaulted and the U.S. government/Export-Import Bank is paying the interest, it is nontaxable.*

Yes	Federal Savings and Loan Insurance Corporation
No	Federal tax refunds
Yes	Financing Corporation (FICO)
Yes	General Insurance Fund
No*	Government National Mortgage Association (Ginnie Mae)
Yes	Government Services Administration (GSA Public Building Trust Participation Certificate)
No	International Bank for Reconstruction and Development
Yes	Production Credit Association (PCA)
Yes	Resolution Funding Corporation (REFCO)
No	Repurchase agreements (Repos)
Yes	Series EE, HH, and I Bonds
No*	Small Business Administration
Yes	Student Loan Marketing Association (Sallie Mae)
Yes	Tennessee Valley Authority
Yes	Treasury bills and notes—interest
No	Treasury bills and notes—gain on sale
No	U.S. Merchant Marine bonds
Yes	U.S. Postal Service bonds
No*	Washington (D.C.) Metropolitan Transit Authority
Yes	Zero coupon obligations of the U.S. (for example, "CATs," "STRIPS," "TIGRs," etc.)

Land donations to educational institutions *Note following* ORS 316.852

If you donate or sell land at less than its fair market value to a qualified educational institution, you may claim a subtraction on your Oregon income tax return. However, if you have claimed a deduction for the gift on the federal tax return, you cannot take the Oregon subtraction.

The subtraction allowed in any tax year is limited to a specific percentage of your contribution base. Your contribution base is your federal adjusted gross income computed without regard to any net operating loss carryback.

If you **donate** land to a qualified entity, your Oregon subtraction cannot be more than 50 percent of your contribution base.

** If the creditor has defaulted and the U.S. government/Export-Import Bank is paying the interest, it is nontaxable.*

If you **sell** land to a qualified entity for less than its fair market value, the Oregon subtraction cannot be more than 25 percent of the contribution base.

Example 1: In tax year 2004, Marykate has a contribution base of $100,000. Marykate sells land with a fair market value of $175,000 to a local school district for $120,000 cash. Marykate's contribution of $55,000 is limited to 25 percent of her contribution base. In 2004 Marykate may claim an Oregon subtraction of $25,000.

Carryforward. You may carry forward for a maximum of 15 years any contribution you do not subtract because it is more than the specified percentage of the contribution base.

Example 2: Using the same facts as in Example 1, Marykate can carry forward her remaining $30,000 contribution to the next tax year. Her subtraction will be limited by her contribution base for 2005.

Local government bond interest ORS 286.036

You can subtract interest or dividends on obligations of counties, cities, districts, ports, or other public or municipal corporations or political subdivisions of Oregon to the extent included for federal income tax purposes.

Reduce the amount subtracted by any interest on debt incurred to carry the obligations or securities. Also reduce the amount by any expenses incurred in the production of interest or dividend income.

Lottery winnings ORS 461.560

Individual winnings of more than $600 from tickets purchased on or after January 1, 1998, are taxed by Oregon. Oregon will not tax your winnings from any ticket or play that results in winnings of $600 or less.

Example: Jim purchases three Oregon Lottery tickets and wins $500 on each ticket. None of the winnings are taxable by Oregon because each ticket resulted in winnings of $600 or less.

Nonresidents are also taxed on winnings from the Oregon Lottery that are more than $600.

Payments over $600 from a single ticket will be reported by the Oregon Lottery Commission to the IRS on Form 1099 and are fully taxable. Amounts paid out that are more than $5,000 will have 8 percent withheld for Oregon taxes.

"Oregon Lottery" means all games offered by the Oregon State Lottery Commission, including games jointly administered by Oregon and other states. Oregon Lottery includes Powerball tickets you purchased in Oregon.

All lottery winnings regardless of amount are subject to federal income tax.

You may subtract Oregon Lottery winnings **included in your federal income** if your ticket was purchased prior to January 1, 1998, or if the amount of the ticket is $600 or less. Do not subtract any gambling winnings from tribal gaming centers. If you are an American Indian, see page 52.

Did you assign your lottery winnings to a private company and receive a lump-sum settlement? If so, your settlement is not taxable by Oregon if your winning ticket was purchased before January 1, 1998. You may subtract the income on your Oregon return. If your ticket was purchased after 1997, the money you receive is fully taxable.

If state income tax was not withheld from your gambling winnings of $5,000 or more, you should consider making estimated tax payments (see page 107) or increasing Oregon income tax withholding from your wages.

Do you have gambling losses claimed as an itemized deduction? If so, see page 49.

Mortgage interest credit ORS 316.716

1. Did you claim a mortgage interest credit on your federal return?
2. Did you claim your mortgage interest as an itemized deduction on federal Schedule A?
3. Did you reduce your mortgage interest deduction by the federal mortgage interest credit?
4. Are you also claiming these itemized deductions for Oregon?

If the answer to each of these questions is "yes," you will have a subtraction for mortgage interest on the Oregon return. You will claim a subtraction for the amount of mortgage interest credit allowed on your federal return.

Example 1: Joann and Gary pay $5,000 in mortgage interest this year. They are entitled to a 50 percent credit limited to $2,000 on their federal return. They will claim the $2,000 credit and itemize $3,000 of mortgage interest on Schedule A. For Oregon, they will claim a subtraction of $2,000.

Example 2: Use the same facts as Example 1, except that Joann and Gary's federal tax liability is $1,500. They will show the $1,500 as a credit on their federal return; itemize $3,000 of mortgage interest on Schedule A; and have a $500 credit to carry over to the following year. Their Oregon subtraction for mortgage interest will be $2,000. They will not carry forward any amount for Oregon.

Oregon 529 College Savings Network ORS 316.699

You may subtract contributions you make to an Oregon 529 College Savings Network account in 2004 but not more than $2,000 ($1,000 if married filing separately) per return. These state-sponsored plans qualify for special tax status as qualified tuition programs under Internal Revenue Code Section 529.

Account holders can save money for college for any designated beneficiary. Once you open an account and select an investment option, the Oregon 529 College Savings Network board and the private investment company manage your investment.

You may subtract your contribution if you make it before the date you file your tax return or before the due date of your return, without extensions, **whichever is earlier.**

Example 1: Bella would like to contribute to her daughter's Oregon 529 College Savings Plan. She plans to request an extension to file her 2004 return. For Bella to qualify for the $2,000 subtraction, she must make the contribution no later than the due date of her return, without extensions. Bella must make her contribution by April 15, 2005.

Example 2: Rodrigo made a contribution of $1,800 to his son's Oregon 529 College Savings Plan on March 11, 2005. He filed his 2004 tax return on March 3, 2005. Because he made his contribution after he filed his 2004 return, he cannot claim the $1,800 subtraction on his 2004 return. He can claim the subtraction on his 2005 return.

Carryforward. If you make a contribution of more than the maximum allowable subtraction in one year, you may carry forward the amount not subtracted over the next four years.

Example: Thelma and Theo contributed $6,000 in 2004 to an Oregon 529 College Savings plan for their son. They may subtract a maximum of $2,000 on their 2004 return. They may carry forward the remaining $4,000 balance of their contribution. They may subtract the remaining $4,000 in any of the next four years, but not more than $2,000 per year.

Funds withdrawn to pay qualified expenses will not be taxed. Qualified withdrawals include expenses for tuition, fees, books, supplies, equipment, and room and board at an institution of higher education anywhere in the United States.

You may need to add back funds withdrawn for a non-qualified purpose to the Oregon return as an "other addition." See page 52.

Corporations and partnerships may establish accounts for individual beneficiaries.

For more information about Oregon 529 plans, call 503-378-2882 or visit www.oregon529network.com.

Oregon deferral of reinvested capital gain ORS 316.877

Oregon allowed certain taxpayers to elect to postpone paying income tax on certain capital gains.

The deferral must have been elected for assets sold or disposed of on or after January 1, 1996. This program ended for new deferrals on December 31, 1999. Reinvestments must have been made within six months of the sale and **before December 31, 1999.** Eligible taxpayers included individuals, partnerships, limited liability companies, limited liability partnerships, and S corporations. C corporations were not eligible for this deferral.

When must the deferred gain be recognized?

Certain events may require you to recognize deferred gain. You must make an addition on your Oregon return in the event one of the following occurs:

- An asset in which you have reinvested ceases to be an asset held for use in Oregon in a qualified business activity, or
- An investment fund ceases to be a qualified investment fund, or
- The business ceases day-to-day operations or ceases to qualify, or
- You or your estate dispose of an asset or interest due to your disability or death. A related party who assumes your interest may choose to continue the deferral by making an election.

Oregon income tax refund ORS 316.680

Oregon allows a subtraction for the Oregon income tax refund you were required to include in federal income. Oregon does not allow a subtraction for any other state income tax refund.

Previously taxed employee retirement plans ORS 316.159

Oregon allows residents to subtract payments from an individual retirement account (IRA), Keogh plan, Simplified Employee Pension (SEP) plan, and certain government plans if another state has already taxed contributions or a portion of the contributions to the plan. The payments must be included in federal adjusted gross income. **All** of the following conditions must be met for the contributions to qualify:

- Payments consist of contributions made while a nonresident of Oregon.
- No previous state income tax deduction, exclusion, or exemption was allowed or allowable at the time the contributions were made.
- No previous state income tax deduction, exclusion, credit, subtraction, or other tax benefit has been allowed for the payments.
- Payments must have been taxed by another state.

The subtraction continues until all qualifying contributions are recovered.

Example 1: Mildred lived in California. From 1980 to 1996 she contributed to an IRA. In 1980 and 1981 she contributed $1,500 each year. From 1982 through 1996 she contributed $2,000 each year.

Both federal and California allowed a maximum deduction of $1,500 for 1980 and 1981. For 1982 through 1986, federal allowed a maximum of $2,000, and California allowed a maximum of $1,500. Both federal and California allowed a maximum of $2,000 for 1987 through 2001.

Mildred contributed $2,500 ($500 × 5 years, 1982–1986) for which no deduction was allowed on her California returns.

Mildred retired and moved to Oregon in June 2003. She receives payments of $350 a month from the California IRA. These payments are subject to tax by Oregon because she is now an Oregon resident. However, Oregon will allow Mildred to subtract the contributions that California has already taxed ($2,500).

Mildred received seven payments of $350 in 2004 for a total of $2,450. Mildred can subtract the entire $2,450 for 2004. In 2005, she will receive 12 payments of $350 for a total of $4,200. Mildred will be able to subtract the balance of $50 ($2,500 – 2,450). From that point on, no subtraction is allowed on the Oregon return for recovery of contributions.

Example 2: Use the same facts as in Example 1, except Mildred lived and worked in Washington before moving to Oregon. When she made contributions, Mildred was allowed a federal deduction each year; however, she did not receive a state tax deduction, because Washington does not impose an income tax. After retiring and moving to Oregon, Mildred receives the same payments as above. She does not qualify for the Oregon subtraction because she made her contributions during her residency in a state that does not impose an income tax.

Previously taxed IRA conversions ORS 316.680

Oregon allows a subtraction for the conversion of a traditional individual retirement account (IRA) to a Roth IRA if the IRA is taxed by another state. You must include the payments in federal income.

Example: Susan lived in New York in 2004. In March, she converted her $40,000 traditional IRA to a Roth IRA.

In September, she moved to Oregon. New York state will tax her IRA when she becomes a nonresident even though the account has not been distributed. Susan can subtract the amount included in federal income when she files her 2004 Oregon tax return.

Public Safety Memorial Fund Awards ORS 316.680

You may subtract from Oregon income amounts awarded to you by the Public Safety Memorial Fund Board. You must include the award in federal taxable income.

Public Safety Memorial Fund Awards are available to public safety officers who have certain job-related permanent total disabilities. These awards are also available to family members of a public safety officer who is killed in the line of duty or while interceding in a crime.

Railroad Retirement Board benefits ORS 316.054

The Railroad Retirement Act of 1974 prohibits states from taxing certain railroad benefits. This act pertains to all benefits issued by the **Railroad Retirement Board.** Oregon allows a subtraction for tier 1 Railroad Retirement Board benefits (the same as for Social Security benefits). Oregon Administrative Rule 150-316.054 extends the subtraction to the other supplemental Railroad Retirement Board benefits including tier 2, vested dual, and windfall. Visit our Web site at www.oregon.gov/DOR for the rule.

Tier 1 benefits. Report tier 1 benefits like Social Security on your federal return. Subtract these benefits with Social Security on the Oregon return.

Tier 2, windfall, vested dual, and other supplemental annuities paid by the Railroad Retirement Benefits Board. Report these benefits on the private pension line on your federal return.

Other benefits. A retired railroad employee may receive other retirement benefits that are **not** included in the subtraction. Benefits paid by private railroad employers are private pensions and are taxed the same on both the federal and Oregon returns.

Only benefits paid by the Railroad Retirement Board qualify for the subtraction. Railroad Retirement Board benefits are reported on a 1099. All are labeled **Form RRB-1099-R.** Tier 1 benefits are on a blue 1099. Other benefits are shown on a green 1099. More information on Railroad Retirement Board benefits is available on the board's Web site at www.rrb.gov/t05.html.

Scholarships used for housing expenses ORS 316.846

You may subtract scholarships or grants used for housing expenses from Oregon income. You must include the scholarship or grant in federal taxable income for the year.

You can claim the subtraction if the scholarship or grant was awarded to you or your dependent. You must use the money for housing expenses. The recipient must be attending an accredited community college, college, university, or other institution of higher education.

You may not take a subtraction if the money is deducted on your federal income tax return for the year. There is no carryforward allowed.

Social Security benefits ORS 316.054

Oregon does not tax Social Security benefits. Any Social Security benefits included in your federal adjusted gross income are subtracted on your Oregon return.

Tuition and fees deduction ORS 316.716(3)

You may qualify to claim either of the following on your federal return:

- An adjustment to income up to $4,000 for qualified tuition and fees paid, or
- The Hope credit or the lifetime learning credit.

If you qualify for and claim the federal adjustment to income of up to $4,000 for qualified tuition and fees, you will not claim a subtraction on your Oregon return. Your federal deduction flows through to your Oregon return via your federal adjusted gross income.

Did you claim the federal Hope credit or the lifetime learning credit? If so, you may claim an Oregon subtraction for the amount you could have claimed as an adjustment to income on your federal return had you elected to claim the deduction for qualified tuition and fees.

Note: The higher education expense subtraction began in tax year 2002.

Example 1: Tom paid $6,000 in tuition and fees for his son Adam's higher education this year. Tom elected to claim the Hope credit of $1,500 on his federal return. On his Oregon return Tom will claim a subtraction of $4,000 for qualified tuition and fees. $4,000 is the amount Tom would have been allowed as a deduction on his federal return if he had not elected to claim the Hope credit.

Example 2: This year Dawn paid $2,200 of college tuition for her daughter Camille and $2,400 of college tuition for her daughter Delaney. On her federal return, Dawn deducted the maximum $4,000 tuition and fees. Because Dawn claimed the adjustment to income on her federal return, she is not entitled to claim a subtraction on the Oregon return.

Example 3: Mr. and Mrs. Wren paid a total of $6,000 in qualified tuition expenses this year. They paid $2,000 of college tuition for each of their sons, Nelson, Jose, and Chester. On the Wrens' federal return, they claimed a $2,000 adjustment to income for Nelson's tuition, a $1,500 Hope credit for Jose's tuition, and a $1,500 Hope credit for Chester's tuition. On the Wrens' Oregon return, they will claim a subtraction for tuition and fees of $2,000.

Here is how they figure their Oregon subtraction: The maximum subtraction allowable is $4,000. This is the same maximum amount allowed on the federal return. The total tuition and fees the Wrens paid in 2004 was $6,000. They claimed $2,000 as an adjustment to income on their federal return. This amount flows through to their Oregon return via adjusted gross income. The Wrens may claim another $2,000 as a subtraction on their Oregon return. Combined with their federal adjustment to income, the Wrens will have deducted $4,000 of tuition and fees.

U.S. government interest in IRA or Keogh distribution ORS 316.681

Interest and dividends on U.S. bonds and notes are exempt from state tax. See page 58. Answer the questions below to determine if you have a subtraction on your Oregon return for exempt income related to your retirement distributions.

1. Did you have any distributions from a self-employed retirement plan or an individual retirement account (IRA)?
2. Was any part of your self-employed retirement plan or your IRA invested in U.S. bonds and notes?
3. Did you include your self-employed retirement plan or IRA distribution in your 2004 federal adjusted gross income (AGI)?

If you answered "yes" to **all** of the questions above, you will have an "other subtraction" on your Oregon return for the retirement plan exempt earnings included in your distribution.

Use the worksheet below to calculate your subtraction.

Worksheet

1. Total account balance at year end.	1. ________
2. Add current year distributions.	2. ________
3. Line 1 plus line 2.	3. ________
4. Total exempt earnings on account at year end.	4. ________
5. Total exempt part of distributions from all prior years.	5. ________
6. Line 4 minus line 5, but not less than zero.	6. ________
7. Line 6 divided by line 3. Oregon exempt ratio.	7. ________
8. Line 2 multiplied by line 7. Oregon exempt portion of current year's distribution.	8. ________

Example: Donna retired and began to take distributions of $10,000 each year from her IRA. The IRA was always invested solely in U.S. government securities. Donna uses the following information to calculate her subtraction for years 1 and 2:

	Year 1	Year 2
Current year earnings	$4,000	$5,000
Current year distribution	$10,000	$10,000
Account balance at 12/31	$100,000	$95,000
Total exempt earnings on account at 12/31	$ 40,000	$45,000

Worksheet	Year 1	Year 2
1. Total account balance at year end.	$100,000	$95,000
2. Add current year distribution.	+ 10,000	+ 10,000
3. Line 1 plus line 2.	$110,000	$105,000
4. Total exempt earnings on account at year end.	$ 40,000	45,000
5. Total exempt part of distributions from all prior years.	-0-	3,636
6. Line 4 minus line 5, but not less than zero.	$40,000	$41,364
7. Line 6 divided by line 3. Oregon exempt ratio.	.3636	.3939
8. Line 2 multiplied by line 7. Oregon exempt portion of current year's distribution.	$3,636	$ 3,939

Other items

Net operating losses (NOLs) for Oregon ORS 316.014

An Oregon NOL is defined the same as in Internal Revenue Code (IRC) Section 172(c). You may have an Oregon NOL without having a federal NOL, or vice versa. Your Oregon NOL is computed under the federal method and definitions using Oregon sources **without** Oregon modifications, additions, and subtractions. The only Oregon modification necessary is to subtract prohibited amounts.

Prohibited amounts

Prohibited amounts are amounts that Oregon is prohibited from directly or indirectly taxing. Examples include interest earned from Treasury bonds, Treasury notes, and other obligations of the United States.

Carryback and carryforward

For losses incurred in tax years beginning on or after January 1, 2003, the carryback period is two years with a 20-year carryforward provision.

For losses incurred in tax years beginning on or after January 1, 2001, and before January 1, 2003, the carryback period is five years with a 20-year carryforward provision.

For losses incurred between August 5, 1997, and December 31, 2000, the carryback period is two years with a 20-year carryforward provision.

Farmers are allowed a five-year carryback period regardless of the year the loss is incurred.

Certain losses are allowed a three-year carryback period. These are losses from a casualty or theft, or losses attributed to a presidentially declared disaster for a qualified small business.

Oregon does not allow an NOL if it is from a non-Oregon source while you were a nonresident.

Computation of the net operating loss

Full-year residents. Generally, the computation of the Oregon NOL for a resident is the same as the federal NOL except for the prohibited amount modification. (See definition of prohibited amount, above.)

The computation of the Oregon NOL begins with federal adjusted gross income (AGI). Reduce federal AGI by federal exemptions, federal deductions, and the prohibited amount modification to arrive at the modified Oregon taxable income (OTI). Then adjust the modified OTI as required by IRC Section 172(d).

Required adjustments are:

1. Oregon NOL deduction (NOLD) from prior years included in Oregon income after adjustments.
2. Net Oregon capital loss deduction.
3. Federal personal exemption amount.
4. Excess of nonbusiness deductions over nonbusiness income included in modified Oregon taxable income.

Example 1: Maria and Jorge filed joint federal and Oregon tax returns. On their federal return, they reported wages of $16,000; a business loss of $40,000; a gain on the sale of stock of $400; and interest income of $800 from a bank. They reported total itemized deductions of $10,800, which were all nonbusiness, and claimed personal exemptions of $6,100.

On their Oregon return, Maria and Jorge reported $500 municipal bond interest from California that was exempt from federal income tax. Their Oregon NOL is computed as follows:

Federal tax return

Wages		$ 16,000
Interest income		800
Schedule C loss		(40,000)
Schedule D stock gain		400
Federal AGI		($ 22,800)
Personal exemptions		(6,100)
Schedule A deductions		(10,800)
Federal taxable income		($ 39,700)

Computation of Oregon NOL

Oregon AGI		($ 22,800)
Personal exemptions		(6,100)
Schedule A deductions		(10,800)
Modified Oregon taxable income		($ 39,700)
Adjustments:		
Personal exemptions		6,100
Nonbusiness deductions	10,800	
Nonbusiness income	(1,200)	
Nonbusiness deduction in excess of nonbusiness income		9,600
Oregon NOL		($ 24,000)

Note: Compute the Oregon NOL based on federal NOL methods and definitions using Oregon sources **without** Oregon modifications except for prohibited amounts.

Example 2: Use the same facts as in Example 1, except the interest of $800 is from U.S. government securities (a prohibited amount). The Oregon NOL for Maria and Jorge is ($24,800), computed as follows:

Federal tax return

Wages		$ 16,000
Interest from U.S. government securities		800
Schedule C loss		(40,000)
Schedule D stock gain		400
Federal AGI		($ 22,800)
Personal exemptions		(6,100)
Schedule A deductions		(10,800)
Federal taxable income		($ 39,700)

Computation of Oregon NOL

Oregon AGI		($ 22,800)
U.S. government interest		(800)
Personal exemptions		(6,100)
Schedule A deductions		(10,800)
Modified Oregon taxable income		($ 40,500)
Adjustments:		
Personal exemptions		6,100
Nonbusiness deductions	10,800	
Nonbusiness income	(1,200)	
Excess nonbusiness deduction		9,600
Oregon NOL		($ 24,800)

Note: U.S. government interest, a prohibited amount, is not used in computing the Oregon NOL.

Part-year residents and nonresidents. You are allowed an Oregon NOL if the NOL is generated from Oregon sources. The computation of the Oregon NOL begins with "income after adjustments" from the Oregon column. Reduce this amount by federal exemptions and federal deductions (attributable to Oregon sources) to arrive at the modified OTI. Then adjust the modified OTI as required by IRC Section 172(d). The required adjustments are the same as those listed in the section about full-year residents, page 64.

You will not be allowed an NOL or carryover on an Oregon return if the loss was incurred while you were a nonresident and the loss was not attributable to Oregon.

Example 3: Herb and Sallie are married nonresidents and filed a joint return. On their federal return, they itemized deductions of $8,000 (all nonbusiness) and claimed personal exemptions of $6,000. They also had a business loss of $25,000 from Oregon sources and $1,000 non-Oregon-source corporate bond interest.

Their Oregon percentage is -0-. They computed their Oregon NOL as follows:

Oregon income after adjustments		($ 25,000)
Personal exemptions		(6,000)
Schedule A deductions		-0-
Modified Oregon taxable income		($ 31,000)
Adjustments:		
Personal exemptions		6,000
Nonbusiness deductions	-0-	
Nonbusiness income	-0-	
Excess nonbusiness deduction		-0-
Oregon NOL		($25,000)

Application of an NOL

Oregon NOL carryforward or carryback. Generally, if you carry an NOL back for federal purposes, you must also carry the Oregon NOL back for Oregon purposes. If you elect to carry the federal NOL forward, then you must also carry the Oregon NOL forward.

Exception: If you were not required to file an Oregon return for the second year (or fifth year, depending on the year you incurred the loss) prior to the Oregon loss year, carry forward the Oregon NOL to the year in which the loss may be first applied. The total number of years to which an NOL may be carried back or forward is the same for Oregon and federal.

Example 1: Joe has an NOL for federal and Oregon for tax year 2004. For federal purposes, Joe carried his federal NOL back two years to 2002. Because he carried back his loss for federal purposes, he must carry back his loss for Oregon purposes to his 2002 Oregon tax return. If he was not required to file an Oregon tax return for 2002, he may carry back his Oregon NOL to his 2003 Oregon tax return.

Example 2: Assume the same facts as in Example 1. However, Joe was not required to file an Oregon tax return prior to tax year 2004. Joe may carry his Oregon NOL over to his 2005 Oregon tax return even if the loss was carried back for federal purposes.

Compute an NOLD carryback or carryforward amount in tax years beginning after December 31, 1984, in the same manner as for federal purposes. For full-year residents, the NOL amount is generally the same as for federal purposes except adjustments that are made for **prohibited amounts** (see definition, page 64).

Example 3: John and Joyce incurred losses in 2004 from partnerships and S corporations. They compute an NOL of $12,000 and choose to carry the loss back. Their 2002 return shows negative taxable income, so the 2004 NOL is first applied to 2003 where the loss is completely absorbed. John and Joyce had a federal AGI in 2003 of $32,000. The fully absorbed 2004 NOL is applied as follows:

Federal AGI on the Oregon return to which the loss is carried		$32,000
Less: NOLD		(12,000)
Federal AGI for Oregon as revised		$20,000
Additions per Oregon return		3,000
Subtractions per Oregon return	($5,000)	
Standard or itemized deductions recomputed for revised federal AGI	(10,000)	
Total deductions		(15,000)
Modified Oregon taxable income		$8,000

Example 4: Assume the same facts in Example 3, except that John and Joyce choose to carry forward the NOL for federal and Oregon purposes. In 2005, John and Joyce have federal AGI of $15,000 and have reported additions of $8,000 and subtractions of $3,000. John and Joyce will apply the NOL to 2005 and compute the amount available for carryforward to 2006 as follows:

NOLD carryforward			($12,000)
Federal AGI on Oregon return to which the loss is carried	$15,000		
Add: Capital loss deductions or	-0-		
Capital gain deduction	-0-		
Federal AGI for Oregon as revised		$15,000	
Less: Prohibited amounts		(-0-)	
Standard or itemized deductions recomputed for revised federal AGI		(9,500)	
Modified Oregon taxable income (NOLD for 2005)			5,500
Carryforward NOL available for 2006			($ 6,500)

John and Joyce's 2005 Oregon taxable income is recomputed as follows:

Federal AGI on Oregon return to which the loss is carried	$15,000
Less: NOL	(5,500)
Federal AGI including NOLD	$9,500
Add: Additions per Oregon return	8,000
Less: Subtractions per Oregon return	(3,000)
Standard or itemized deductions	(9,500)
2005 Oregon taxable income as revised	$ 5,000

Part-year residents and nonresidents. Use the federal method without modifications, except that prohibited amounts are not taken into consideration. Also, the NOLD, carryback, and carryover are based only upon amounts attributable to Oregon sources.

Example 5: In 2003, while residents of California, Ron and Valerie incurred losses from an Oregon partnership creating an Oregon-only NOL in the amount of $85,000. Prior to 2003, neither Ron nor Valerie needed to file Oregon returns. In 2004, Ron and Valerie moved to Oregon and filed a part-year Oregon return. They reported federal income after adjustments of $385,000; Oregon income after adjustments of $235,000; and itemized deductions of $10,000. Ron and Valerie calculate their 2004 Oregon taxable income as follows:

	Federal	Oregon
Income after adjustments	$385,000	$235,000
NOLD	(85,000)	(85,000)
Modified income after adjustments	$300,000	$150,000
Plus: "Additions" per Oregon return	7,000	7,000
Less: "Subtractions" per Oregon return	(4,500)	(4,500)
Modified income after subtractions	$302,500	$152,500
Oregon percentage: 152,500 ÷ 302,500 = 50.4%		
Less: Standard or itemized deductions recomputed for revised federal AGI	(10,000)	
Federal tax subtraction	(3,500)	
2004 Oregon taxable income as revised	$289,000	

Example 6: Scott and Jill live in Vancouver, Washington. Scott operates a business in Oregon. In 2003, Scott and Jill filed a nonresident Oregon return reporting an Oregon-only NOL of $6,000. Scott and Jill elected to carry the NOL forward. In 2004, Scott and Jill reported Oregon income after adjustments of $1,600; federal income after adjustments of $32,000; and federal itemized deductions of $9,200. Their Oregon itemized deductions are $460 [($1,600 ÷ $32,000) × $9,200]. Scott and Jill calculate their NOLD for 2004 and the carryforward to 2005 as follows:

2003 NOL carryback or carryforward			($6,000)
Oregon income after adjustments on return in year to which loss is carried (2004 carryforward)	$1,600		
Add: Oregon capital loss deduction	-0-		
Oregon capital gain deduction	-0-		
Modified Oregon income as revised		$1,600	
Less: Prohibited amounts		(-0-)	
Oregon percentage of standard or itemized deductions recomputed for revised federal AGI		(460)	
Modified Oregon taxable income (NOLD for 2004)			1,140
Carryforward of NOLD available for 2005			($4,860)

Net operating loss as a subtraction. Generally your NOL carryback and carryforward amounts will be reflected in your federal adjusted gross income (AGI). However, if you have an NOL carryback or an NOL carryforward for **Oregon only**, the loss will not be reflected in your AGI. If your NOL is not reflected in AGI, you will report your carryback or carryforward on the "other subtraction" line of your Oregon return.

Depreciation and amortization ORS 316.707

Your Oregon depreciation deduction is generally the same as for federal purposes. It will not be the same in the following cases:

- The asset was placed in service in tax years beginning on or after January 1, 1985, and you took the federal investment tax credit on your federal return.
- You have property you transferred into Oregon's taxing jurisdiction.
- Assets were placed in service between 1981 and 1985 (Accelerated Cost Recovery System [ACRS] assets), and you did not make the adjustment aligning Oregon basis with federal basis for these assets. If you chose to make the adjustment on your 1996 tax return, you will not have a depreciation difference for these assets.

Section 179 property expensed for 2004. Oregon allows you to expense the same amount of the cost of qualifying assets under Section 179 as you are allowed to expense on your federal return.

Oregon Depreciation Schedule. Use the Oregon Depreciation Schedule to determine if your Oregon depreciation is the same as, or different from, your federal depreciation.

Oregon depreciation on all property	−	Federal depreciation on the same property	=	Oregon difference in depreciation

Oregon subtraction. If your Oregon depreciation is more than your federal depreciation on the same property, you will have a subtraction for the difference.

Oregon addition. If your Oregon depreciation is less than your federal depreciation on the same property, you will have an addition for the difference.

Download the *Oregon Depreciation Schedule* from our Web site at www.oregon.gov/DOR. Or to order it, call us at 503-378-4988 or toll-free within Oregon at 1-800-356-4222.

Basis of business assets transferred into Oregon ORS 316.707

Are you a nonresident? If so, you may bring assets into Oregon's taxing jurisdiction in many ways. For example:

- You become an Oregon resident and move business assets into Oregon.
- You become an Oregon resident and leave the assets in the other state.
- You open a business in Oregon and transfer business assets into Oregon.

Did you transfer business assets into Oregon? If so, the basis for Oregon depreciation will be the smaller of federal unadjusted basis or fair market value at the time of transfer.

The federal unadjusted basis is the original cost before any adjustments. Adjustments include: reductions for investment tax credits, depletion, amortization, depreciation, or amounts expensed under IRC Section 179. The asset's fair market value and useful life are figured when you bring the asset into Oregon.

Reduce the federal unadjusted basis or the fair market value of the asset by any Oregon depreciation previously allowed.

Example: Malik was a California resident. He has owned a business in Yreka since 1992. Malik bought an office building in Yreka for $200,000. He placed it in service March 1, 1992. For federal purposes, the building is 31½-year real property and is being depreciated using the applicable percentages. On January 1, 1998, Malik bought a truck for $30,000. For federal purposes, the truck is five-year property and is being depreciated using the applicable percentages.

On January 1, 2004, Malik moved to Ashland, Oregon, but he continues to operate his business in Yreka. Because Malik is an Oregon resident, he must determine his Oregon basis in order to depreciate his assets for Oregon. The Oregon adjusted basis is computed as follows:

Building

Smaller of:

Cost of building (federal unadjusted basis)	$ 200,000
Less: Depreciation previously allowed for Oregon tax purposes	− 0
Net basis	$ 200,000
or	
Fair market value as of January 1, 2004	$ 273,000
Less: Depreciation previously allowed for Oregon tax purposes	− 0
Oregon fair market value	$ 273,000

Malik will depreciate the building for Oregon using the $200,000 federal unadjusted basis and Modified Accelerated Cost Recovery System (MACRS) depreciation for its original federal applicable recovery period.

Truck

Smaller of:

Cost of truck (federal unadjusted basis)	$	30,000
Less: Depreciation previously allowed for Oregon tax purposes	–	0
Net basis	$	30,000

or

Fair market value as of January 1, 2004	$	7,000
Less: Depreciation previously allowed for Oregon tax purposes	–	0
Oregon fair market value	$	7,000

Malik will depreciate the truck for Oregon using the $7,000 Oregon fair market value and MACRS depreciation for its original federal applicable recovery period.

Sale of assets ORS 316.716

Gain or loss on property you began depreciating after 1980 and before 1985. During the tax year, did you sell property you began depreciating after December 31, 1980, and before January 1, 1985? If you did and you did not make the one-time adjustment on your 1996 Oregon return, your gain or loss for Oregon may differ from your gain or loss for federal purposes. If you sold this property during the year, you must make an adjustment on your return to reconcile your Oregon basis to your federal basis.

To figure your gain or loss for Oregon, use the depreciation you claimed on your Oregon return in prior years. Subtract the total amount of your gain or loss for Oregon property you began depreciating after 1980 and before 1985 from your gain or loss for federal purposes for the same property. The difference is an Oregon addition or subtraction. Keep a worksheet with your tax records to show how you figured the difference.

Addition or subtraction

If Oregon depreciation is less than your federal depreciation, you will have an Oregon subtraction. If Oregon depreciation is more than your federal depreciation, you will have an Oregon addition.

Partnerships and S corporations

Partnerships report differences between federal and Oregon depreciation on the Oregon partnership return. S corporations report the differences on Schedule SM of the Oregon S corporation return. The differences also must be shown on the partner's or shareholder's Schedule K-1 or equivalent. The differences will be added to or subtracted from income on the individual partner's or shareholder's Oregon income tax return.

Anti-churning rule denying ACRS and MACRS benefits for certain property ORS 316.707

In general, Accelerated Cost Recovery System (ACRS) is available for recovery property placed in service in tax years beginning on or between January 1, 1981, and December 31, 1986. Modified Accelerated Cost Recovery System (MACRS) is available in tax years beginning on or after January 1, 1987. "Recovery property" means tangible property of a character subject to the allowance for depreciation under ACRS and MACRS. This property must be used in a trade or business or be held for the production of income.

Did you own property you placed in service for personal use in a tax year beginning before 1985? Did you then convert it to business or income-producing use? If so, the property is not recovery property for Oregon purposes. You must use a pre-ACRS method of depreciation for Oregon.

Example 1: Audrey owned a home in 1982 and used it as her personal residence until 1985, when she converted it to a rental. For federal purposes she began depreciating the property using ACRS because the home was placed in service in 1982 (after ACRS became available). For Oregon she had to use a pre-1981 method of depreciation because the home was not considered ACRS recovery property for Oregon purposes. She still holds the property as a rental. In 1996 she took the "one-time" adjustment on her Oregon return and aligned Oregon basis with federal basis. She also began depreciating the property under ACRS. In 2004, she will have no difference in depreciation on her Oregon return because she is using ACRS for both federal and Oregon purposes.

Example 2: Use the same facts as in Example 1, except that Audrey did not take the one-time adjustment in 1996. Audrey will continue to depreciate the property using ACRS for federal purposes and a pre-1981 method for Oregon purposes.

Example 3: Use the same facts as in Example 1, except that Audrey did not convert the property to a rental until 2002. In 2002, she will begin depreciating the property for federal purposes using ACRS (she cannot use MACRS because of anti-churning rules). Audrey will use ACRS for Oregon purposes as well. There will be no difference in depreciation because Audrey will use the same method for both federal and Oregon purposes.

Example 4: From 1984 through last year, Kathy was in business as a sole proprietor. Kathy is a calendar year taxpayer. This year, Kathy incorporated her business. She is the sole shareholder. The depreciable property has an adjusted basis of $50,000. The property was transferred to the corporation in a nontaxable transfer under IRC Section 351.

Because the adjusted basis of the transferred property is carried over to the corporation, it may not use MACRS with respect to the $50,000 transferred basis. For Oregon purposes, Kathy must continue to depreciate the property using a pre-ACRS method unless she made the adjustment on her 1996 tax return to align Oregon basis with federal basis.

Gain on the sale of an Oregon residence OAR 314.410(5)

Generally, Oregon will tax the gain from the sale of your residence only when the federal government taxes it. Oregon will not tax any gain excluded on your federal return. This is true even if you reinvest in a home outside Oregon.

The Oregon basis of your home is generally the same as your federal basis. If you are taxed by the federal government, Oregon will tax you on the same amount of gain.

Exception: If you were renting out a house and then converted the house to your personal residence, the Oregon basis may not be the same as the federal basis due to depreciation differences.

Note: If you are also taxed by another state or country on some or all of the gain, see the section on mutually taxed gain on the sale of residential property, page 92.

Fiduciary adjustment ORS 316.697

The same modifications that apply to an individual return also apply to an Oregon estate or trust return. The net of these is called the fiduciary adjustment. If you are a beneficiary of an estate or trust, you must report your share of the fiduciary adjustment. This information should be shown on the Schedule K-1 you receive from the estate or trust. Report it under "other additions" or "other subtractions" on your Oregon tax return. Identify an addition using code "100" and the name of the estate or trust. Identify a subtraction using code "310" and the name of the estate or trust.

Example: Frank reported $5,000 of trust income from R&C Farewell Trust on federal Schedule E. Of this, $2,500 was from interest on U.S. obligations, which is not taxable by Oregon. He also received interest income of $1,000 from the trust that was not included in his federal income. This interest was from California bonds and is taxable by Oregon. Frank should claim a $1,500 "other subtraction" on his Oregon return (the net of both fiduciary adjustment items). He should identify the subtraction "310—R&C Farewell Trust—$1,500."

Part-year residents. Oregon taxes the fiduciary adjustment if it relates to Oregon income or if you were an Oregon resident on the last day of the trust's taxable year.

Nonresidents. Oregon taxes the fiduciary adjustment if it relates to Oregon income.

Passive activity losses ORS 314.300

Generally, a passive activity is any:

- Rental activity including equipment and real estate regardless of your level of participation; or
- Business in which you do not materially participate in a regular, continuous, and substantial basis.

Oregon generally adopted the federal passive loss rules in the federal Tax Reform Act of 1986 and the Revenue Reconciliation Act of 1993. There are some differences in passive losses for Oregon.

How to compute and report passive losses for Oregon

1. Modify the federal passive loss by the applicable additions and/or subtractions listed under "Oregon modifications to federal passive activity losses," page 71.
2. Apply the federal passive loss limitations to the Oregon passive loss you computed in step 1 above. This will determine how much is deductible for Oregon. To apply the income limitations, use federal AGI before modifying for additions or subtractions.
3. Figure the difference between the passive loss reported on your federal return and the deductible Oregon loss you figured above. You will claim an addition or subtraction on your Oregon return.
4. Keep a schedule with your tax records showing your computations for steps 1, 2, and 3 above.
5. Also keep a schedule (when applicable) showing the allocation of Oregon modifications between the Oregon passive loss activities and other business activities.

Example: Depreciation modification. Elijah has determined that his depreciation for Oregon exceeds federal depreciation by $1,000. Ordinarily, he would report a $1,000 subtraction on his Oregon return for the difference in depreciation.

$600 of the $1,000 difference in depreciation is allocable to passive activities and $400 is allocable to other business activities. He increases the federal passive activity loss by the $600 difference in depreciation allocable to passive activities. He reports the remaining $400 difference in depreciation allocable to other business activities as a subtraction on his Oregon return.

Passive activity credits. You may offset in full the tax credits related to a passive activity against your Oregon tax liability for the taxable year.

Active participants in rental real estate activities. The $25,000 offset for rental real estate activities provided in IRC 469(i) applies to deductions allowed under federal and Oregon law. You will not reduce the offset by deduction equivalents defined in IRC 469(j)(5). The phaseout amounts ($100,000/$150,000) are based on **federal** adjusted gross income regardless of whether you are a full-year resident, part-year resident, or nonresident of Oregon.

Part-year residents. Compute your passive activity losses resulting from activities carried on while an Oregon resident. Add those connected with Oregon sources while a nonresident. Modify the resulting loss by the applicable additions and/or subtractions listed below.

Nonresidents. Compute your passive activity losses resulting from activities connected with Oregon sources. Modify the loss by the applicable additions and/or subtractions listed below. The loss must be connected with Oregon sources even if you later become an Oregon resident.

Oregon modifications to federal passive activity losses

Following are **some** of the modifications you must make for Oregon:

1. **Additions:**

- Interest or dividends on obligations of another state.
- Depletion in excess of the adjusted basis of property.
- Gain on voluntary or involuntary conversions or exchanges of Oregon property reinvested outside Oregon when no election is made to defer the gain.

2. **Subtractions:**

- Gain or loss on the sale of public utility stock where dividends were reinvested.
- Interest or dividends on obligations of the U.S. government.
- Wages you did not deduct in arriving at federal taxable income because you claimed the federal work opportunity credit.
- Interest or dividends on obligations of Oregon political subdivisions.

3. **Additions or subtractions:**

- Differences in depreciation.
- Differences in gain or loss from basis differences in the sale of an asset.

Note: The items used to modify the federal passive activity loss must be derived in the ordinary course of a trade or business.

Limit on itemized deductions

Did you reduce itemized deductions on your federal return because your federal adjusted gross income (AGI) was more than $142,700 ($71,350 if married filing separately)? If so, you need to complete the following worksheet to determine how much Oregon income tax to subtract from itemized deductions.

1. Itemized deductions subject to the limit (from your federal itemized deductions worksheet). 1. ________
2. Limit: Line 1 multiplied by 80 percent (.80). 2. ________
3. Federal AGI minus federal income limit. 3. ________
4. Line 3 multiplied by 3% (.03). 4. ________
5. Enter the smaller of line 2 or line 4. 5. ________
6. Line 1 minus line 5. This is your allowed deduction for Oregon. 6. ________
7. Line 6 divided by line 1. Carry this decimal to three places. 7. ________
8. Line 7 multiplied by Oregon tax you claimed on federal Schedule A, line 5*. 8. ________

** If you are claiming income tax from Oregon and another state(s) on Schedule A, line 5, use only your Oregon income tax claimed on Schedule A.*

Example: John, a single taxpayer, filed a return with itemized deductions and $500,000 of AGI. His itemized deductions are as follows:

Federal itemized deductions worksheet

			Subject to Limit	Not Subject to Limit
Medical	$ 50,000			
Less: 7.5% of federal AGI	(37,500)			
Total		$ 12,500	—	$12,500
Taxes				
Oregon income tax	$ 36,000			
Other taxes	6,000			
Total		$ 42,000	$42,000	—
Interest				
Home mortgage	$ 10,500		$ 10,500	—
Investment interest	10,000		—	$10,000
Total		$ 20,500		
Contributions		$ 10,000	$10,000	—
Casualty loss		$ 5,000	—	$ 5,000
Miscellaneous	$ 25,000			
Less: 2% of federal AGI	(10,000)			
Total		$ 15,000	$15,000	—
Other misc. deductions				
Gambling losses	$ -0-	—	-0-	
Other	-0-	-0-	—	
Total		$ -0-		
Total itemized deductions		$105,000	$77,500	$27,500

Of the total $105,000 of John's itemized deductions, $77,500 is subject to the federal limit, and $27,500 is not subject to the limit. His reduced itemized deductions for federal purposes are $94,281 ($66,781 limited deductions plus $27,500 not limited).

Here is an example of how John calculates his Oregon itemized deductions:

1. Itemized deductions subject to the limit (from your federal itemized deductions worksheet). 1. $77,500
2. Limit: Line 1 multiplied by 80 percent. 2. 62,000
3. Federal AGI minus federal income limit ($500,000 – $142,700). 3. 357,300
4. Line 3 multiplied by 3% (.03). 4. 10,719
5. Enter the smaller of line 2 or line 4. 5. 10,719
6. Line 1 minus line 5. This is your allowed deduction for Oregon. 6. 66,781
7. Line 6 divided by line 1. Carry this decimal to three places. 7. .862
8. Oregon tax you claimed on federal Schedule A, line 5 multiplied by the decimal on line 7 ($36,000 × .862). 8. 31,032

For Oregon, John will reduce his $94,281 of federal itemized deductions by $31,032 of Oregon income tax not allowed as an itemized deduction. His net Oregon itemized deductions total $63,249 ($94,281 – $31,032).

Individual Development Accounts ORS 316.848, 315.271

Subtraction

An Individual Development Account (IDA) allows you, as an individual in a lower income household, to accumulate assets tax-free. As the account holder, you will make deposits to your own account. Your deposits will be matched with private donations.

Withdrawal of your funds for a qualified purpose is tax-free. Qualified purposes are:

- Paying higher education expenses, or
- Purchasing a primary residence, or

- Starting your own business.

Oregon allows a subtraction on your tax return for deposits you make to your IDA through the Neighborhood Partnership Fund. Your subtraction is the amount of deposits you made and interest you received that is included in your federal taxable income.

For more information about the IDA program, call Oregon Housing and Community Services at 503-986-2000, or visit their Web site at www.oregon.gov/OHCS.

Addition

Did you make a nonqualified withdrawal from your IDA during the year? If so you will need to report the amount of the withdrawal as an "other addition" on your Oregon income tax return.

Credit

Oregon allows a tax credit for charitable contributions you make to the Neighborhood Partnership Fund for the Oregon Individual Development Account program during the tax year.

Who may claim the credit? Individuals, partners, S corporation shareholders, and corporations can claim the credit. Part-year residents and nonresidents are not required to prorate the credit.

How much is the credit? The credit is the smaller of $75,000 or 75 percent of the donation made. It cannot be more than your Oregon tax liability. You may not claim both the tax credit and a charitable deduction for the same contribution. See "addition" below.

Addition. You must report any federal itemized deduction for your charitable contribution to this program as an addition on your Oregon return.

Example: In 2004 Ester made a contribution of $2,400 to the Neighborhood Partnership Fund for the Oregon IDA program. She claimed this amount on her federal Schedule A as a charitable contribution. Ester claimed 75 percent, or $1,800, of her contribution as a credit on her Oregon return. Ester will have an other addition on her Oregon return for $2,400.

How to claim the credit. Contact Oregon Housing and Community Services at 503-986-2000 or visit their Web site at www.oregon.gov/OHCS for information on how to make a donation. If you make a donation, keep the receipt or your cancelled check with your tax records.

Carryforward. The credit cannot be more than your tax liability for Oregon. You can carryforward any unused credit for the next three years. If you do not use the unused credit within three years, it is lost.

Oregon percentage ORS 316.117

Part-year residents and nonresidents must compute an Oregon percentage. This percentage is used to determine allowable deductions and modifications for part-year residents and nonresidents and to determine the Oregon tax.

Divide your income after subtractions from the Oregon column by your income after subtractions from the federal column. Enter the figure on the Oregon percentage line. Do not fill in more than 100 percent or less than -0-.

Example: Lisa reported $30,000 of income after subtractions in the federal column. She reported $10,000 of income after subtractions in the Oregon column. Here is how she figured her Oregon percentage:

$10,000 ÷ $30,000 = .333 (33.3%)

Carry your decimal to three places to figure your Oregon percentage.

Deductions and modifications ORS 316.695

You may claim either net itemized deductions or Oregon's standard deduction, whichever is larger, but not both.

Itemized deductions

Generally, you may claim your total itemized deductions shown on federal Schedule A, line 28. But there is an exception. **If you itemize for Oregon only,** fill out a separate Schedule A. You may claim itemized deductions for Oregon even if you could not on your federal return. You still use federal adjusted gross income to figure the Schedule A limitations. Keep the Oregon schedule with your tax records.

Note: If you file **married filing separately,** you must itemize deductions if your spouse itemizes. Are you filing separate returns for Oregon only? If so, determine your share of itemized deductions by multiplying your total joint deductions by the percentage you figured for separate returns. See page 20. You may separate each of your itemized deductions if each of you can clearly show your own itemized deductions. Remember to use your Oregon itemized deductions after the state tax is subtracted.

Special Oregon medical deduction

Were you **age 62 or older** on December 31, 2004? If so, your deduction is the smaller of line 1 or line 3 from your federal Schedule A. To claim this deduction, you must itemize your deductions for Oregon. You can do this by filling out a Schedule A for both federal and Oregon or filling out one for Oregon only. Keep your Schedule A with your tax records.

Married filing jointly. Either you or your spouse must be age 62 or older on December 31, 2004, to claim this deduction.

Example 1: Sara and Como are married filing a joint return. Sara is age 64 and Como is age 45 at year-end. They will itemize their deductions. Schedule A, line 1 is $9,000 and line 3 is $2,600. Their special Oregon medical deduction will be $2,600, the smaller of Schedule A, line 1 or line 3.

Married filing separately. On your separate return you must be age 62 or older on December 31, 2004, to claim this deduction.

Example 2: Use the same facts in Example 1 above, except that Sara and Como will file married filing separately. Only Sara will qualify for the special Oregon medical deduction because she is age 62 or older on December 31, 2004. Como cannot claim the deduction on his separate return because he is not age 62 at year-end.

State income tax claimed as an itemized deduction

Oregon does not allow an itemized deduction for the amount of Oregon income tax you paid. You must subtract the amount of Oregon income tax you claimed as a deduction on federal Schedule A, from your total itemized deductions.

Did you reduce itemized deductions on your federal return because your adjusted gross income exceeded certain limits? If so, you may need to complete a worksheet to figure how much Oregon income tax to subtract from itemized deductions. See page 71.

Net Oregon itemized deductions

Your net Oregon itemized deductions are your total itemized deductions less your Oregon tax claimed as an itemized deduction. In most cases, you will use net Oregon itemized deductions if that amount is larger than your standard deduction. The exception to this is for married filing separately, explained on page 73.

Standard deduction

Use the standard deduction **only** if it is larger than your net itemized deductions. If you are married filing separately and your spouse itemizes, your standard deduction is -0-.

Generally, your standard deduction is based on your filing status, as follows:

Single	**$1,720**
Married filing jointly	**3,445**
Married filing separately	
If spouse claims standard deduction	**1,720**
If spouse claims itemized deductions	**-0-**
Head of household	**2,770**
Qualifying widow(er)	**3,445**

Standard deduction—Single dependents. If you are single and **can** be claimed as a dependent on another person's return (even if the other person does not claim you), use the following worksheet to figure your standard deduction:

1. Enter your earned income.	1.	________
2. Additional amount.	2.	250
3. Add lines 1 and 2.	3.	________
4. Minimum amount.	4.	800
5. Enter the larger of line 3 or line 4.	5.	________
6. Basic standard deduction for single.	6.	1,720
7. Enter the smaller of line 5 or line 6.	7.	________
8. If you are under age 65, enter -0-. If you are age 65 or older, enter $1,200.	8.	________
9. If you are not blind, enter -0-. If you are blind, enter $1,200.	9.	________
10. Add lines 7, 8, and 9. This is your standard deduction.	10.	________

Example: Homer is single, age 17, not blind, and claimed as a dependent by his father. He had $1,135 of earned income in 2004. Homer's standard deduction is $1,385, figured as follows:

1. Enter your earned income.	1.	$1,135
2. Additional amount.	2.	250
3. Add lines 1 and 2.	3.	1,385
4. Minimum amount.	4.	800
5. Enter the larger of line 3 or line 4.	5.	1,385
6. Basic standard deduction for single.	6.	1,720
7. Enter the smaller of line 5 or line 6.	7.	1,385
8. If you are under age 65, enter -0-. If you are age 65 or older, enter $1,200.	8.	-0-
9. If you are not blind, enter -0-. If you are blind, enter $1,200.	9.	-0-
10. Add lines 7, 8, and 9. This is your standard deduction.	10.	$1,385

Standard deduction—Age 65 or older, or blind. If you or your spouse are age 65 or older, you are entitled to an **additional deduction amount.** Also, if you or your spouse is blind, you are entitled to an additional deduction amount. Use the chart below to determine your standard deduction:

1. Are you: .... ☐ 65 or older? ☐ Blind?

   If claiming spouse's exemption, is spouse: .... ☐ 65 or older? ☐ Blind?

2.

If your filing status is...	And the number of boxes checked above is...	Then your standard deduction is...
Single	1	$2,920
	2	4,120
Married filing jointly	1	4,445
	2	5,445
	3	6,445
	4	7,445
Married filing separately	1	2,720
	2	3,720
	3	4,720
	4	5,720
Head of household	1	3,970
	2	5,170
Qualifying widow(er)	1	4,445
	2	5,445

Standard deduction—Nonresident aliens. The standard deduction for nonresident aliens is -0-.

Standard deduction—Short-period return. Individuals filing a short-period return may not claim a standard deduction.

Oregon tax

Tax. To figure the tax on your Oregon taxable income, refer to your basic instruction booklet for the correct tax tables or tax charts.

Interest on certain installment sales. Do you have installment sales on which you were required to pay interest on the deferred tax liability for federal purposes? If so, you must also compute interest for Oregon. The amount due for Oregon is computed the same way as for federal. The interest rate for 2004 is 6 percent.

a. For the part of the year that you were a nonresident, use only those installment obligations that arose from dispositions of property in this state.

b. For the part of the year that you were a resident, consider all installment obligations.

Enter the total of parts a and b.

Farm liquidation long-term capital gain tax rate ORS 316.045

A reduced tax rate is available if you sold or exchanged capital assets used in farming activities. The sale or exchange must represent a substantially complete termination of a farming business.

Farming activities include:

- Raising, harvesting, and selling crops.
- Feeding, breeding, managing, or selling livestock, poultry, fur-bearing animals, or honeybees or the produce thereof.
- Dairying and selling dairy products.
- Stabling or training horses, including providing riding lessons, training clinics, and schooling shows.
- Propagating, cultivating, maintaining, or harvesting aquatic species, birds, and other animal species.
- Growing and harvesting cultured Christmas trees or certain hardwood timber.
- On-site constructing and maintaining of equipment and facilities used in farming activities.
- Preparing, storing, or disposing of products or by-products raised for human or animal use on land employed in farming activities.

Farming activities do not include growing and harvesting trees of a marketable species other than growing and harvesting cultured Christmas trees or certain hardwood timber.

You may not claim the special tax rate on a sale or exchange to a relative, as defined under Internal Revenue Code Section 267. A farm dwelling or farm homesite is not considered to be property used in the trade or business of farming.

Partnerships or S corporations. The sale of ownership interests in a farming corporation, partnership, or other entity qualifies for the special tax rate. The taxpayer must have had at least a 10 percent ownership interest in the entity before the sale or exchange.

How to compute the tax. If you qualify, follow the steps in the worksheet below to figure the tax on your farm assets' net long-term capital gain (NLTCG).

If you have a net loss from the sale or exchange of all assets during the year, STOP HERE. You do not qualify for the reduced rate on the sale of farm assets.

The NLTCG eligible for the special tax rate is computed as follows:

a. Enter your NLTCG from farm assets.	a.	_______
b. Enter your capital gain included in Oregon income.	b.	_______
c. Enter the smaller of line a or line b here and on line 2 below.	c.	_______

Worksheet FCG, *Farm Capital Gain*

1. Enter your Oregon taxable income.	1.	_______
2. Enter your farm assets' NLTCG from line c above.	2.	_______
3. Modified taxable income. Line 1 minus line 2, but not less than zero.	3.	_______
4. Enter the Oregon tax on amount from line 3 above. Use the appropriate tables or tax rate charts found in the instruction booklet.	4.	_______
5. Enter the smaller of line 1 or 2 above.	5.	_______
6. Multiply line 5 by 5% (.05).	6.	_______
7. Add lines 4 and 6. This is your Oregon tax. If you file Form 40P, go to line 8 below.	7.	_______
8. Form 40P filers, compute your Oregon income tax by multiplying line 7 above by your Oregon percentage. This is your Oregon tax.	8.	_______

Check the box labeled "Worksheet FCG" on your Oregon tax return.

Example: In June 2004 Ole retired and sold substantially all of his dairy farm capital assets. Below is the completed worksheet for Ole:

a. NLTCG from farm assets.	a.	$180,000
b. His capital gain included in Oregon income.	b.	$152,000
c. Enter the smaller of line a or line b here and on line 2 below.	c.	$152,000

Worksheet FCG, *Farm Capital Gain*

1. Oregon taxable income.	1.	$60,000
2. Farm assets' NLTCG from line c above.	2.	$152,000
3. Modified taxable income. Line 1 minus line 2, but not less than zero.	3.	-0-
4. Oregon tax on amount from line 3. Use tax tables or charts.	4.	-0-
5. Enter the smaller of line 1 or line 2.	5.	$60,000
6. Line 5 × 5% (.05).	6.	$3,000
7. Line 4 plus line 6. This is Ole's Oregon tax.	7.	$3,000

Ole must enter the $3,000 capital gain tax on his Form 40. He will check the "Worksheet FCG" box to show that his tax is based on farm capital gain.

Farm income averaging ORS 314.297

You may elect to figure your Oregon income tax by averaging, over the previous three years (base years), all or part of your 2004 farm income. Making this election may give you a lower tax if your 2004 farm income is high and your taxable income for one or more of the three prior years was low.

Elected farm income

A farming business is the trade or business of cultivating land or raising or harvesting any agricultural or horticultural commodity. Your elected farm income is the amount of your taxable income from farming that you elect to include on Form FIA-40, FIA-40P, or FIA-40N. You do not have to include all of your taxable income from farming. It may be to your advantage to include less than the full amount. It depends on how the amount you include affects your tax bracket for the current and three prior tax years.

For more information, visit our Web site at www.oregon.gov/DOR to download the following forms. Or, contact us to order at 503-378-4988 or toll-free in Oregon at 1-800-356-4222.

- Form FIA-40, *Oregon Farm Income Averaging*, if you are a full-year resident.
- Form FIA-40N/P, *Oregon Farm Income Averaging*, if you are a nonresident or part-year resident.

Claim of right income repayments ORS 315.068

Oregon allows a credit or a subtraction if you repaid money during the year that you reported as taxable income in an earlier year. You must deduct the repayment or claim a credit on your federal return this year. Use the worksheet below to determine if it is to your advantage to claim a credit or a subtraction for the repayment.

1. Refigure your Oregon tax for the year of repayment, after deducting the amount you repaid from income. 1. _______
2. Enter your Oregon tax for the year of repayment, as shown on your return. 2. _______
3. Enter your net tax liability* from the earlier year, as shown on that return. 3. _______
4. Refigure your net tax liability* for the earlier year, without including in income the amount you repaid. 4. _______
5. Line 3 minus line 4 (credit amount). 5. _______
6. Line 2 minus line 5. 6. _______

- **If line 1 is equal to line 6, claim either a subtraction or a credit.** Your tax benefit will be the same. See below for instructions to claim the subtraction or the credit.
- **If line 1 is less than line 6, claim the amount you repaid as a subtraction.** Show your repayment as an "Other subtraction" on your Oregon tax return only if you claim a credit on your federal return for your repayment. Identify the other subtraction line with code "302" and the dollar amount of your subtraction. For example, if your subtraction is $1,450 enter "302–$1,450."

  If you claim your repayment as a deduction on your federal return, this deduction will flow through to your Oregon return. No adjustment to your Oregon income is necessary.
- **If line 1 is more than line 6, claim the amount on line 5 as a credit.** Claim your repayment credit on the estimated tax payment line on your return. Write in code "706" and the dollar amount of your credit. For example, if your credit is $520, enter "706–$520." A claim of right credit is refundable. If your credit is more than your tax liability, it will be refunded to you. You may also choose to have your refund applied to your estimated tax for next year.

If you claim a credit for your repayment on your federal return, no adjustment to your Oregon income is necessary.

If you claim your repayment as a deduction on your federal return and as a credit for Oregon, you must include the amount of your federal deduction as an "Other addition" on your Oregon return. Identify the other addition line with code "103" and the dollar amount of your addition. For example, if your federal deduction is $1,215, enter "103–$1,215."

Example 1: In 2004 Gerri, a single individual, was required to repay $10,000 of pension income originally received in 2002. Here is Gerri's tax information.

	2002	2004
Oregon taxable income	$40,000	$23,000
Oregon net tax per original return, without considering the $10,000 repayment	3,430	1,893
Oregon net tax after $10,000 repayment is deducted	2,530	993

Using the claim of right worksheet, here is how Gerri will determine if she should claim the repayment as a subtraction or as a claim of right refundable credit on her 2004 return.

1. Refigure your Oregon tax for the year of repayment, after deducting the amount you repaid from income. 1. 993
2. Enter your Oregon tax for the year of repayment, as shown on your return. 2. 1,893
3. Enter your net tax liability* from the earlier year, as shown on that return. 3. 3,430
4. Refigure your net tax liability* for the earlier year, without including in income the amount you repaid. 4. 2,530
5. Line 3 minus line 4 (credit amount). 5. 900
6. Line 2 minus line 5. 6. 993

Because lines 1 and 6 are the same amount, Gerri will claim the repayment as either a subtraction or a credit. Either way, Gerri will reduce her 2004 tax by $900.

Example 2: In 2004 Monte, a single individual, was required to repay $7,000 of unemployment benefits

* ***Caution:*** *The net tax liability is the tax amount shown on your original return adjusted by any amended returns. Also reduce the tax liability by the state surplus refund (kicker), if applicable. Use the following kicker decimal amounts.*

Tax year:	*Decimal Amount:*
2000	*.06016*
1998	*.0457*
1996	*.1437*

originally received in 2002. Here is Monte's tax information.

	2002	2004
Oregon taxable income	$11,000	$27,000
Oregon net tax per original return, without considering the $7,000 repayment	820	2,260
Oregon net tax after $7,000 repayment is deducted	234	1,630

Using the claim of right worksheet, here is how Monte will determine if he will claim the repayment as a subtraction or as a claim of right refundable credit on his 2004 return.

1. Refigure your Oregon tax for the year of repayment, after deducting the amount you repaid from income. 1. 1,630
2. Enter your Oregon tax for the year of repayment, as shown on your return. 2. 2,260
3. Enter your net tax liability* from the earlier year, as shown on that return. 3. 820
4. Refigure your net tax liability* for the earlier year, without including in income the amount you repaid. 4. 234
5. Line 3 minus line 4 (credit amount). 5. 586
6. Line 2 minus line 5. 6. 1,674

Because line 6 is greater than line 1, Monte will claim a subtraction of his $7,000 repayment on his 2004 return.

Corporations may file for relief of tax on repaid income. Please refer to Oregon Form 20 instructions.

If you have questions or need more information, visit our Web site at www.oregon.gov/DOR. Or call 503-378-4988 (Salem) or (toll-free within Oregon) 1-800-356-4222.

Credits

For certain credits, you must qualify, apply, and be certified before you can claim them on your return. Other agencies are responsible for certifying these credits, not the Department of Revenue. Information about who to contact for certification is included with the explanation for each of these credits below.

Full-year residents. All credits you qualify for are allowed in full on your Form 40. If you are using Form 40S, you may claim only certain credits. See the *Full-Year Resident* booklet for the credits you may claim on Form 40S.

Part-year residents and nonresidents. You must prorate certain Oregon credits. This means you must multiply your total credit by your Oregon percentage from your Form 40N or 40P to figure the amount you can claim on your Oregon return. You must prorate the following credits.

- Adoption expenses.
- Advanced telecommunications facilities.
- Child and dependent care.
- Dependent care assistance.*
- Donated crops.
- Earned income.
- Elderly or the disabled.
- Employer scholarship.
- Exemption.
- Farmworker housing.
- First Break Program.
- Fish screening devices.
- Long-term care insurance premiums.
- On-farm processing facilities.
- Oregon Cultural Trust.
- Reservation enterprise zone.
- Residential energy.
- Riparian land.
- Rural medical practitioners.
- Working family child care.

** Prorated for part-year residents only.*

Adoption expenses ORS 315.274

Oregon taxpayers may claim a tax credit for qualified adoption expenses paid or incurred during the year. Qualified adoption expenses are defined in Section 23(d) of the Internal Revenue Code.

Who may claim the credit?

You must qualify for the federal tax credit to be eligible for the Oregon tax credit.

How much is the credit?

Oregon's tax credit is the smallest of:

- Qualified adoption expenses less the credit allowed* on the federal return; or
- $1,500; or
- The amount of the credit allowed* on your federal return.

Example 1: The Andersons have incurred qualified adoption expenses of $12,000. Their federal credit is $10,390 (the maximum allowed in 2004). On their Oregon return, they may also claim the maximum credit allowed of $1,500.

Example 2: Use the same facts as in Example 1, except the Andersons' federal tax liability is only $8,000. They will carry forward an adoption credit of $2,390 to their 2005 federal return. In 2005, the Andersons will show an adoption credit of $2,390 on their federal return. On their 2005 Oregon return, the Andersons will not have an adoption credit.

Example 3: The Kwans have incurred qualified adoption expenses of $5,000. Their federal credit is also $5,000. For Oregon, they have no tax credit available. They will already receive a full refund of their expenses from their federal tax refund. They have no excess expenses.

Example 4: Anita has incurred qualified adoption expenses of $3,000. Anita's federal credit (limited by modified adjusted gross income) is $1,800. Her allowable Oregon credit is $1,200 (total expenses reduced by the federal credit already claimed).

Part-year residents and nonresidents. You must multiply your allowable Oregon credit by your Oregon percentage on Form 40N or 40P.

Carryforward. The credit cannot be more than your tax liability for Oregon. You can carry forward any unused credit over the next four years. If you do not use the credit within four years, it is lost.

Advanced telecommunications facilities ORS 315.511

An income tax credit is available for the construction of advanced telecommunication facilities.

How much is the credit?

The credit is 20 percent of the cost of the facility. The total amount of facility costs that can be certified in a year is $10 million.

How to claim the credit

To receive a tax credit you must obtain certification from the Economic and Community Development Department (ECDD). Contact the ECDD at 503-986-0123 or visit their Web site at www.oregon.gov/ECDD. Keep the certificate with your tax records. Do not attach it to your personal income tax return. You may claim the credit in the tax year in which the facility is placed in service.

Part-year residents and nonresidents. The allowable credit must be multiplied by your Oregon percentage on Form 40N or 40P.

No carryforward. The credit cannot be more than your tax liability. Any credit not used this year is lost.

** Not including your carryforward from a prior year.*

Bone marrow donation program ORS 315.604

An Oregon tax credit was allowed for costs incurred in establishing a bone marrow transplant program before January 1, 2002.

Carryforward. The credit cannot be more than your tax liability for Oregon. You may carry forward any unused credit over the next five years from the date you first claimed the credit. If you do not use the credit within five years, it is lost.

Business energy ORS 315.354

Any Oregon business with investments in energy conservation, recycling, renewable energy resources, or less-polluting transportation fuels may qualify for this tax credit.

What projects qualify?

- Improving energy efficiency.
- Weatherizing rental housing.
- Recycling.
- Using renewable energy resources.
- Burning less-polluting transportation fuels.
- Reducing employee commuting.

Who may claim the credit?

Trade, business, or rental property owners who pay taxes for a business site in Oregon are eligible for the tax credit. The business, its partners, or its shareholders may use the credit. The applicant must own or be the contract buyer of the project. The business must use the equipment for the project or lease it for use at another site in Oregon.

How much is the credit?

The tax credit is 35 percent of eligible project costs. If the tax credit is for a small project of $20,000 or less, you can take the credit in one year. For projects over $20,000, you must take the credit over five years; 10 percent of the eligible costs must be claimed in the first and second years and 5 percent each year thereafter. You must report all of the eligible project costs when you apply for the credit.

How to apply for the credit

You must apply for the tax credit before starting your project. You may request a waiver, but it will be granted only for business hardships or circumstances beyond your control that caused you to delay your application. If you have started your project, call the Oregon Department of Energy before you submit an application.

Call the Oregon Department of Energy for an application, fee information, and assistance with the application process at 1-800-221-8035 (toll-free in Oregon) or 503-378-4040. Or, visit their Web site at www.oregon.gov/ENERGY.

How to claim the credit

Apply for a final tax credit certificate when your project is finished. Oregon Department of Energy staff will review your actual expenses. You will receive the final certificate about one week after you notify the Oregon Department of Energy that your project is completed. Keep a copy of the final certification with your Oregon tax records.

Carryforward. Your credit cannot be more than your tax liability. You may carry forward any unused credit over the next eight years. If you do not use the credit within eight years, it is lost.

Child and dependent care ORS 316.078

Who may claim the credit?

You are allowed an Oregon credit only if you qualify for the federal child and dependent care credit. You may still be able to claim the Oregon credit even if you cannot use all of your federal credit. In most cases, you cannot claim the credit if you are married filing separately.

How much is the credit?

Use the following worksheet:

1. Enter the amount from federal Form 2441, line 6; or Form 1040A, Schedule 2, line 6. 1. ________

2. Enter the decimal amount from the following table. 2. ________

If your federal *taxable income* from Form 1040, line 42; or Form 1040A, line 27 is:		Your decimal amount is:
Over—	But not over—	
——	$5,000	.30
$5,000	10,000	.15
10,000	15,000	.08
15,000	25,000	.06
25,000	35,000	.05
35,000	45,000	.04
45,000	——	.00

3. Multiply the amount on line 1 by the decimal amount on line 2. 3. ________

4. Multiply prior year child and dependent care expenses included in the computation of your federal credit by the decimal amount that applies to your prior year federal taxable income. Enter the result. 4. ________

5. Add the amounts on line 3 and 4. This is your credit. 5. ________

If you file Form 40N or 40P, you must complete line 6 below.

6. Multiply line 5 by your Oregon percentage. This is your credit. 6. ________

Carryforward. Your credit cannot be more than your tax liability for Oregon. You can carry forward any unused credit over the next five years. If you do not use the credit within five years, it is lost.

Example: Mr. and Mrs. Taylor are married filing a joint return. They have one three-year-old dependent daughter who is in day care while they work. The Taylors had federal taxable income of $44,100 and $3,900 of child care expenses in 2004. They do not have any prior-year child care expenses included in their 2004 federal expenses. Here is how the Taylors determine their child and dependent care credit.

1. Enter the amount from federal Form 2441, line 6; or Form 1040A, Schedule 2, line 6. 1. $ 3,000

2. Enter the decimal amount from the following table. 2. .04

If your federal *taxable income* from Form 1040, line 40; or Form 1040A, line 27 is:		Your decimal amount is:
Over—	But not over—	
——	$5,000	.30
$5,000	10,000	.15
10,000	15,000	.08
15,000	25,000	.06
25,000	35,000	.05
35,000	45,000	.04
45,000	——	.00

3. Multiply the amount on line 1 by the decimal amount on line 2.	3. $120
4. Multiply prior year child and dependent care expenses included in the computation of your federal credit by the decimal amount that applies to your prior year federal taxable income. Enter the result.	4. n/a
5. Add the amounts on line 3 and 4. This is your credit.	5. $120

Child Care Fund contribution ORS 315.213

Contributions to the Child Care Fund will qualify for a credit on your Oregon income tax return. Your credit is equal to 75 percent of the dollar amount donated. Your donation will help address child care affordability, provider compensation, and quality assurance issues in Oregon. More information about the program is available at: http://findit.emp.state.or.us/childcare/. For a description of the program and progress updates click on "Child Care Contribution Tax Credit."

How to claim the credit

The Child Care Division of the Employment Department will compute your allowable tax credit and give you a certificate. Keep this certificate with your tax records.

Enter your credit on the "other credits" line on your Oregon personal or corporate tax return. The amount of your charitable contribution to the Child Care Fund can also be claimed as a deduction on your federal tax return.

If you itemize your deductions for Oregon, you cannot claim both the charitable contribution and the Oregon tax credit. You must add back the amount of the charitable contribution you claimed on your federal Schedule A as an "other addition" on your Oregon personal or corporate tax return. You must report the other addition before claiming the Oregon tax credit.

Part-year residents and nonresidents. You may claim the credit allowed a full-year resident.

Carryforward. Your credit may not be more than your tax liability for Oregon. You can carry forward any unused credit over the next four years. If you do not use the credit within four years, it is lost.

Crop donation ORS 315.156

Oregon allows a tax credit for crops donated to a gleaning cooperative, food bank, or other charitable organization engaged in the distribution of food without charge. The organization receiving the donation must have a principal or ongoing purpose of distribution of food to children, or homeless, unemployed, elderly, or low-income individuals. The organization must be located in this state and be exempt from federal income taxes under the Internal Revenue Code.

To qualify for this credit, you must be in the business of growing the crop to be sold for cash. The crop must be fit for human consumption. The food must meet all quality and labeling standards imposed by federal, state, or local laws, even though the food may not be readily marketable due to appearance, age, freshness, grade, size, surplus, or other condition. Eligible crops include, but are not limited to, bedding plants that produce food, orchard stock intended for the production of food, and livestock that may be processed into food for human consumption.

How much is the credit?

The credit is 10 percent of the value of the quantity of the crop donated, computed at the wholesale market price at the time of donation. The wholesale market price is determined by either:

- The amount paid to the grower by the last previous cash buyer of the particular crop, or
- In the event there is no previous cash buyer, a market price based upon the market price of the nearest regional wholesale buyer or regional u-pick market price.

Example: 5,000 pounds of potatoes @ $.10 lb.
5,000 × .10 = $500 (market value)

10% (.10) × $500 = $50 (credit allowed)

How to claim the credit

Obtain and keep a completed copy of Form 150-101-240, *Crop Donation Tax Credit*, with your tax records to verify your donation. The organization to which you donate the crop has this form, or you can get it from our Web site at www.oregon.gov/DOR. Also, if there was a previous cash buyer, you must keep a copy of an invoice or other statement identifying the price received for crops of comparable grade or quality.

Individuals, partners, S corporation shareholders, or corporations can take the credit. S corporation shareholders or partners may claim the credit based on their pro rata share of the cost.

Part-year residents and nonresidents. You are allowed the credit subject to the same limitations as a credit allowed a resident. Prorate the credit by multiplying your total credit by your Oregon percentage to figure the amount you can claim on your Oregon return.

Carryforward. Your credit cannot be more than your tax liability for Oregon. You can carry forward any unused credit over the next three years. If you do not use the credit within three years, it is lost.

Dependent care assistance

Employers may claim a credit for providing dependent care assistance to their employees. Two different credits, the information and referral services credit and the assistance credit, are currently available. A third credit, the facilities credit, has expired.

Information and referral services—ORS 315.204(4)

This credit is for employers who provide dependent care information and referral services. The services must be used to help their employees find dependent care.

The credit is 50 percent of the amount paid by the employer to provide these services. The credit is available for expenses incurred before January 1, 2007.

Assistance—ORS 315.204(1)

This credit is for employers who pay for the care of their employees' dependents.

The person receiving the dependent care must be an employee's:

- Dependent who is under the age of 13, or
- Dependent who is physically or mentally incapable of self-care, or
- Spouse who is physically or mentally incapable of self-care.

The credit is the **smaller** of:

- 50 percent of the qualifying expenses paid by the employer, or
- $2,500 per employee who actually receives the assistance.

The employer must have a written dependent care assistance plan. Taxpayers must apply to the Child Care Division of the Employment Department and receive certification. Only amounts paid for dependent care provided in Oregon are eligible for the credit. The dependent care provider cannot be the spouse, a dependent, or a child (under age 19) of the employee.

The business deductions claimed on the employer's tax return must be reduced by the amount of the credit claimed. This credit is available for expenses incurred before January 1, 2007.

Employees. Did your employer make dependent care payments for you? If so, you cannot use the amount of your employer's payments to claim a child and dependent care credit on your income tax return.

Did the dependent care payments exceed either your or your spouse's earned income? If so, you must add the excess payment to your gross income.

Employers. For general information on how to select a dependent care option, contact the Employment Department's Child Care Division in Salem at 503-947-1418.

Facilities—ORS 315.208

This credit for employers who set up a dependent care facility to provide job-site dependent care for their employees **expired December 31, 2001.**

This credit was available for dependent care facilities placed into operation between January 1, 1988, and December 31, 2001. The credit, as certified by the Oregon Employment Department, will be claimed equally over a period of 10 tax years beginning with the tax year the facility is first placed into operation.

If you fail to meet the credit qualifications for a tax year, the current year's credit is lost and may not be carried forward to any other tax year. Contact the Oregon Employment Department at 1-800-556-6616 if you have questions about your credit.

Depreciation and basis. Compute your depreciation each year for the facility. Reduce your depreciation deduction by the total available credit to figure the depreciation you may claim. Continue to reduce your depreciation deductions until the total available credit has been used up. Do not reduce your basis in the facility by the amount of the credit.

How to claim any of the three dependent care assistance credits

To claim either the information and referral services credit or the assistance credit, you must complete the *Dependent Care Credits for Employers* form. Visit our Web site at www.oregon.gov/DOR or call us to order the form at 503-387-4988 or 1-800-356-4222 toll-free within Oregon. Complete the part of the form that applies to the credit you are claiming. Keep the completed form with your income tax records.

Partnerships or S corporations. Partners or shareholders may claim a portion of the partnership or S corporation credit based on their percentages of ownership interest.

Part-year residents. Information and referral services credit and assistance credit. You must multiply your allowable Oregon credit by your Oregon percentage on Form 40P.

Nonresidents. Information and referral services credit and assistance credit. You may claim the credit allowed a full-year resident.

Part-year residents and nonresidents. Facilities credit. You may claim the credit allowed a full-year resident.

Carryforward. None of your dependent care assistance credits may be more than your tax liability for Oregon. You may carry forward any unused credit for five years. If you do not use the credit within five years, it is lost.

Diesel engine replacement *Notes following* ORS 315.356

This credit is available to you starting in tax year **2005.** The credit is available only if you currently own a truck(s) that meets the criteria below. Also, you must replace the engine in the truck(s) you currently own with a diesel engine that meets the criteria below. You may purchase your replacement engine as early as 2004; however, the first year you may claim the credit is 2005.

Your truck must:

- Have a weight of more than 26,000 pounds; and
- Be registered in Oregon under the provision of ORS chapter 803 or 826.

Your replacement diesel engine must:

- Be purchased in Oregon on or after January 1, 2004; and
- Have a model year of 2003, 2004, 2005, 2006, or 2007; and
- Be certified by the Environmental Protection Agency to emit oxides of nitrogen at the rate of 2.5 grams per brake horsepower-hour or less.

How much is the credit?

The credit amount depends on the number of trucks you own before you purchase any diesel engines, as follows:

Number of trucks owned	Credit amount per engine
1–10	$ 925
11–50	705
51–100	525
More than 100	400

The total credit for a taxpayer in one year cannot be more than $80,000.

How to apply for the credit

You must apply to the Department of Environmental Quality (DEQ) for this credit. DEQ requires a nonrefundable application-processing fee of $15 for each qualifying engine claimed. For an application form, contact DEQ at 503-229-5696 or go to www.oregon.gov/DEQ.

Part-year residents and nonresidents. You must multiply your allowable Oregon credit by your Oregon percentage on Form 40N or 40P.

Carryforward. The credit cannot be more than your tax liability for Oregon. You may carry forward any unused credit over the next four years. If you do not use the credit within four years, it is lost.

Earned income ORS 315.266

You are allowed an Oregon earned income credit (EIC) only if you qualify for the earned income credit on your federal return. Your Oregon earned income credit is **not** refundable.

Full year residents. Your Oregon EIC is 5 percent of your federal EIC.

Part-year residents and nonresidents. Your Oregon EIC is the EIC allowed to a full-year resident (5 percent of your federal EIC), multiplied by your Oregon percentage.

No carryforward. Your credit cannot be more than your tax liability for Oregon. Any credit not used this year is lost.

Elderly or disabled ORS 316.087

Oregon allows a credit for the elderly or disabled if you qualified for the federal elderly or disabled credit. Refer to federal Schedule R.

You may claim this credit or the retirement income credit, but not both in the same year.

Full-year residents. Your Oregon credit is 40 percent of your federal credit.

Part-year residents and nonresidents. Your credit is 40 percent of your federal credit, multiplied by your Oregon percentage.

No carryforward. Your credit cannot be more than your tax liability for Oregon. Any credit not used this year is lost.

Electronic commerce zone investment ORS 315.507

This credit is available to individuals and businesses that engage in electronic commerce in an Oregon enterprise zone or city designated for electronic commerce. Currently there are four enterprise zones as follows:

1. Harney County/Burns/Hines (City of Burns, City of Hines, and Harney County).
2. Medford Urban (City of Medford).
3. N/NE Portland (City of Portland).
4. Roberts Creek (City of Roseburg and Douglas County).

In addition, the City of North Plains and its urbanized environs are also designated as a special electronic commerce city or community.

What costs qualify?

Costs must be related to electronic commerce sales, customer service, order fulfillment, or broadband infrastructure.

How do you claim the tax credit?

Contact the Oregon Economic and Community Development Department (OECDD) for more information. Visit their Web site at www.oregon.gov/ECDD or call 503-986-0123.

How much is the credit?

The credit is equal to 25 percent of the investments made during the tax year. The maximum credit that is allowed in any tax year is $2 million.

Carryforward. Your credit cannot be more than your tax liability for Oregon. You may carry forward any unused credit over the next five years. If you do not use the credit within five years, it is lost.

Employer scholarship ORS 315.237

A tax credit is allowed to Oregon employers who set up scholarship programs for their employees and their employees' dependents. To receive the credit, you must apply for program certification from the Oregon Student Assistance Commission for a qualifying scholarship program. Keep the certificate with your tax records. For an application and more information, contact the commission at 1-800-452-8807, ext. 7395, or visit their Web site at www.oregon.gov/OSAC.

How much is the credit?

The credit is equal to 50 percent of the amount of qualified scholarship funds actually paid to or on behalf of qualified employees and their dependents during the tax year. The maximum credit allowed in any tax year is $50,000.

Part-year residents and nonresidents. Multiply your credit by your Oregon percentage.

Carryforward. Your credit cannot be more than your tax liability for Oregon. You can carry forward any unused credit over the next five years. If you do not use the credit within five years, it is lost.

Exemption ORS 316.085

The credit for 2004 is $151 for each qualifying exemption. The exemption amount is indexed for inflation.

Part-year residents and nonresidents. Multiply your exemption credit by your Oregon percentage.

Yourself and spouse

You are allowed one exemption credit for yourself and one for your spouse if you are filing a joint return. If someone else **can** claim you as a dependent, you cannot claim an exemption for yourself. If someone else can claim your spouse as a dependent, you cannot claim the exemption for your spouse. This is true even if the other person does not claim you (or your spouse) as a dependent.

If you are married and want to claim the personal exemption for your spouse but do not want to file a joint return, your spouse must qualify as your dependent.

Severely disabled—ORS 316.752

Did you have a severe disability at the end of 2004? If so, you may claim an additional exemption credit. You may qualify for the severely disabled exemption even if someone else can claim you as a dependent. You are considered to have a severe disability if **any** of the following apply:

- You permanently lost the use of one or both feet, or
- You permanently lost the use of both hands; or
- You are permanently blind; or
- You have a permanent condition that, without special equipment or outside help, limits your ability to:
  - — Earn a living, or
  - — Maintain a household, or
  - — Transport yourself.

Special equipment does not include items such as glasses, ordinary crutches, hearing aids, or contact lenses.

You do not qualify for this exemption if:

- You have a temporary disability from an injury or illness and are expected to recover, or
- Your condition keeps you from doing your former work but does not prevent you from doing other kinds of work without special equipment.

If you have a permanent severe disability, your physician must write a letter describing your disability. Keep the letter with your permanent health records.

If you qualify, check the "Severely disabled" exemption box on your return. If your spouse qualifies, he or she may also claim this exemption. You and your spouse may also qualify for the credit for the loss of use of limbs. See page 91.

All dependents

You are allowed one exemption credit for:

- Each of your children whom you qualify to claim as a dependent, and
- Each of your other dependents who you qualify to claim on your federal return.

On your Oregon return identify all dependents by first names. In most cases, you must claim the same dependents for Oregon as you claimed on your federal return.

Child(ren) with a disability—ORS 316.099

You may be entitled to an additional personal exemption for your dependent child who has a qualifying disability. To qualify, **all** of the following must be true. Your child:

- Qualified as your dependent for 2004; and
- Was age 17 or younger on December 31, 2004; and
- Was eligible for "early intervention services" or received special education as defined by the Oregon Department of Education (learning disabilities or communication disorders alone do not qualify); **or**
- Was considered to have a disability as of December 31, 2004, under the federal Individuals with Disabilities Education Act and related Oregon laws. Eligible disabilities include:
  - — Autism.
  - — Deaf-blind.
  - — Hearing impairment.
  - — Mental retardation.
  - — Multiple disabilities.
  - — Orthopedic impairment.
  - — Other health impairment.
  - — Serious emotional disturbance.
  - — Traumatic brain injury.
  - — Visual impairment.

Get a current statement of eligibility that confirms one of the disabilities listed above and the cover sheet from **one** of the following:

- The child's Oregon Individualized Education Program (IEP), or
- The child's Oregon Individualized Family Service Plan (IFSP).

Keep the statement and cover sheet with your permanent health records. Write your child's name on line 6d of your Oregon return, "Child(ren) with a disability." Also be sure to include the child's name on line 6c for "All dependents."

No carryover. Your credit cannot be more than your tax liability for Oregon. Any credit not used this year is lost.

Farmworker housing ORS 315.164

Who may claim the credit?

You may be eligible for a credit if you build or restore farmworker housing for seasonal or year-round farmworkers and their immediate families in the state of Oregon. The housing must be occupied at some time during the year by a farmworker to qualify for the credit. The housing cannot be used for any other purpose except housing for farmworkers. Your family members are not considered farmworkers for purposes of this credit. The credit is available for projects that are physically begun on or after January 1, 1990. The project must be completed before you can claim the credit.

S corporations and partnerships. The individual shareholders must claim the tax credit based on his or her percentage of S corporation ownership interest.

In the case of a partnership, the individual partners must claim the tax credit based on his or her distributive share of partnership income.

Part-year residents and nonresidents. The credit is available to nonresidents and part-year residents who build or restore farmworker housing located in Oregon. You must multiply the allowable credit by the Oregon percentage on Form 40N or 40P.

How much is the credit?

The credit is 50 percent of the costs paid or incurred to complete the housing project during the tax year. You must take the credit equally over 5 to 10 consecutive years. Costs of rehabilitation include acquisition and capital expenditures. Eligible costs include: acquisition, finance, construction, excavation, and permit costs. Costs to purchase land are not included.

Depreciation and basis. Depreciation and amortization expenses associated with the farmworker housing project are not decreased by the amount of the tax credit. Your adjusted basis in the housing project is not decreased by the tax credit.

Example: This credit is claimed over 10 years.

Project costs, $500,000 × .50 (50%)		$250,000
Credit allowable each period $250,000 ÷ 10		25,000
1st year allowable credit	25,000	
2004 tax liability	10,000	
2004 credit allowed		10,000
1st year credit carried forward	15,000	
2nd year allowable credit	25,000	
2005 tax liability	5,000	
2005 credit allowed		5,000
1st year credit carried forward	10,000	
2nd year credit carried forward	25,000	
3rd year allowable credit	25,000	
2006 tax liability	70,000	
2006 credit allowed		60,000

How to claim the credit

The Housing and Community Services Division of the Department of Consumer and Business Services must inspect the farmworker housing project **prior to** occupancy. Call 503-986-2148 for an application.

If your project qualifies, you will receive a letter of tax credit approval. Keep the letter from Housing and Community Services with your tax records. You must also complete a certification form for the Department of Revenue. Visit our Web site at www.oregon.gov/DOR to download the form *Annual Certification for Farmworker Housing Credit.* Or, contact the department to order it at 503-378-4988 or toll-free within Oregon at 1-800-356-4222.

If you build the housing for resale to a farmworker housing project operator, no inspection or approval is necessary. You still may claim the credit.

Carryforward. The credit cannot be more than your tax liability. You may carry forward any unused credits over the next nine years. You first must use any credit carried forward before using the allowable current year credit. If you do not use the credit within nine years, it is lost.

First Break Program ORS 315.259

A tax credit is available for employers who hire at-risk youths ages 14–23. Participation is limited to 1,500 youths statewide. The last certificates of eligibility must be issued to qualifying youths by December 31, 2004.

How much is the credit?

The credit available to the employer is equal to 50 percent of wages paid, with a maximum credit of $1,000 per youth-employee per year, for up to two years.

How to claim the credit

The Oregon Employment Department administers the program. Certificates are issued to eligible youths by community organizations, alternative education programs, and school districts.

These organizations are responsible for monitoring and follow-up of each certificate they issue.

Part-year residents and nonresidents. Multiply the credit allowed a full-year resident by your Oregon percentage.

Carryforward. The credit cannot be more than your tax liability for Oregon. You can carry forward any unused credit over the next five years. If you do not use the credit within five years, it is lost.

Fish screening devices ORS 315.138

A tax credit is available to those who pay for fish screening devices required by the Oregon Department of Fish and Wildlife (ODFW). ODFW will determine where fish screening devices should be installed. When it is determined that a device is needed, ODFW will ask you to install the device.

You must agree to install the device within 180 days. After you install the device, ODFW will reimburse you up to $10,000 or two-thirds of the cost of the device, whichever is less. The remaining cost may be used to claim the credit. Monies provided by the state do not qualify for the credit.

If you cannot install the required device, you can ask ODFW to install it. If ODFW installs the device, ODFW will assess you an amount that is not more than $5,000 or one-third of the construction and installation cost of the device, whichever is less.

If you cannot install the device and you do not ask ODFW to install it, ODFW will install the device. ODFW will assess you the full cost of the construction and installation of the device. The assessment will not be more than the average cost for devices of that size.

Who may claim the credit?

The credit is available to individuals, partners, sole proprietorships, and S corporation shareholders. Shareholders and partners may claim the credit based on their pro rata share of the certified costs.

How much is the credit?

All nonreimbursed amounts paid by you can be used when computing the allowable credit.

The credit is equal to the smaller of (a) 50 percent of the net costs of installing the device, or (b) $5,000. You may still claim any depreciation or amortization otherwise allowed. Do not reduce your basis in the property by the amount of the credit.

Part-year residents and nonresidents. Multiply the credit allowed a full-year resident by your Oregon percentage.

How to claim the credit

ODFW will issue you a preliminary certificate within 90 days of the receipt of plans, specifications, and other information it requests from you. Upon completion of the project, ODFW will issue you a final certification that includes the verified costs of the installation. Contact ODFW at 503-947-6000.

Keep the final certificate issued by ODFW with your tax records. Also keep a statement showing the computation of the allowed credit if this information is not on the final certificate.

Carryforward. The credit for the year cannot be more than your tax liability for Oregon. You can carry forward any unused credit over the next five years. If you do not use the credit within five years, it is lost.

Income taxes paid to another state ORS 316.082

If you pay tax to Oregon and another state on the **same item(s) of income,** you have "mutually taxed income." You may be able to claim a credit on your Oregon return for income taxes paid to another state.

If you are a full-year Oregon resident who has income taxed by Oregon and one or more of these states—Arizona, California, Indiana, or Virginia—you **cannot** claim the credit on your Oregon return. (See "Exception for Oregon resident partners and S corporation shareholders" on page 89.) You must claim the credit on the nonresident return you file with the other state. See instructions on the other state's tax form to figure the credit.

This credit is only for state income tax. You cannot claim the credit for city tax, county tax, school tax, sales tax, alternative minimum tax (AMT), property tax, or other taxes not based on income. For example, the Idaho Permanent Building Fund Tax and the Washington Business and Occupation Tax do not qualify.

When can this credit be claimed?

You may claim this credit only after you have paid the tax to the other state. If you pay tax to another state for a prior tax year, you must amend your Oregon return for that year to claim the credit.

If Oregon and another state tax you on the same income, but in different tax years, Oregon will allow a credit for the year the tax is paid to Oregon. If you need more information, call the department at 503-378-4988 or toll-free within Oregon at 1-800-356-4222. Or, visit our Web site at www.oregon.gov/DOR for the administrative rule OAR 150-316.082(6).

If you have a gain from the sale of your home and you pay tax to Oregon and another state or country on that sale, you may claim **either** the credit for taxes paid to another state or the credit for mutually taxed gain on the sale of residential property. **You cannot claim both credits.** See "Mutually taxed gain on the sale of residential property" on page 92.

How much is the credit?

Your credit is the **smallest** of:

- Your Oregon tax after all other credits, or
- The tax you actually paid to the other state, or
- The amount figured using Formula I, below, or
- The amount figured using Formula II, below, (nonresidents and part-year residents for the part of the year you were a nonresident of Oregon).

Definitions

Modified adjusted gross income

Full-year residents. Your modified adjusted gross income is your federal adjusted gross income (AGI) modified by Oregon additions and subtractions.

Part-year residents and nonresidents. Your modified adjusted gross income is the part of your federal AGI that is taxable to Oregon, modified by Oregon additions and subtractions.

"Oregon additions" are generally items of income that Oregon taxes but the federal government does not. "Oregon subtractions" are generally items of income the federal government taxes but Oregon does not. For example, U.S. bond interest is an Oregon subtraction because it is income Oregon does not tax. Do not subtract your federal tax; it is not an income item.

Formula I

$$\frac{\text{Modified AGI taxed by both states}}{\text{Modified AGI}} \times \begin{array}{c}\text{Your Oregon tax}\\ \text{after all other credits}\end{array}$$

Formula II

$$\frac{\text{Modified AGI taxed by both states}}{\begin{array}{c}\text{Total income on}\\ \text{the other state's return}\end{array}} \times \begin{array}{c}\text{Other state's tax}\\ \text{after}\\ \text{all other credits}\end{array}$$

Who can claim this credit?

Full-year residents. You may claim a credit if you pay income tax to both Oregon and another state. The tax must be on the **same income** that is taxed by both states.

The credit for a full-year resident is the smallest of your Oregon tax after all other credits, the tax actually paid to the other state, or the amount figured with Formula I. **Note: Full-year residents do not use Formula II.**

Example 1: Nancy has adjusted gross income of $44,000. This includes $10,000 of rental income taxed by both Oregon and Idaho and $5,000 of U.S. bond interest. She received $1,000 interest from municipal bonds of another state. She has a federal tax liability of $3,000. Her Idaho income tax is $300. Her net Oregon tax is $2,000 (before her credit for income taxes paid to another state). Here is how she figures her credit:

Federal adjusted gross income	$ 44,000
Modifications	
Add municipal bond interest	+ 1,000
	$ 45,000
Less U.S. bond interest	– (5,000)
Modified adjusted gross income	$ 40,000

Note that the federal tax subtraction is not used in this computation.

Using Formula I ($10,000 ÷ $40,000) × $2,000 = $500. Nancy's credit is $300, the **smallest** of:

- The Oregon tax after all other credits ($2,000), or
- The actual tax paid to Idaho ($300), or
- The amount from Formula I ($500).

Part-year residents. For the part of the year you were a **nonresident** of Oregon, you may claim the credit if you pay income taxes on the same income taxed by both Oregon and one of the following—Arizona, California, Indiana, or Virginia.

Your credit is the smallest of:

- Your Oregon tax after all other credits,
- The tax you actually paid to the other state,
- The amount figured using Formula I, or
- The amount figured using Formula II.

For the part of the year you were a **resident** of Oregon, you may claim the credit if you pay Oregon tax on income also taxed by a state not listed above (or you meet the exception described in "Exception for Oregon resident partners and S corporation shareholders"). Follow the full-year resident instructions on this page.

Example 2: Ezra moved from Idaho to Oregon on September 1. He sold Idaho property on October 18. His Idaho income tax after credits is $200. His Oregon income tax liability after other credits is $400. His income on his Oregon and Idaho returns is:

Oregon income

Wages September 1 to December 31	$ 7,000
Interest September 1 to December 31	500
Sale of Idaho property October 18:	
Idaho capital gain reported	+ 6,000*
Total AGI taxable to Oregon	$13,500

Idaho income

Wages January 1 to August 31	$ 11,500
Interest January 1 to August 31	1,000

** If the other state has any income exclusion that applies to the mutually taxed income, you must adjust the mutually taxed income by the exclusion amount.*

Sale of Idaho property October 18:		
Idaho capital gain reported	6,000	
Less Idaho capital gain exclusion*	($3,600)	
Net capital gain taxed by Idaho		2,400
Total AGI taxable to Idaho		$14,900

In Example 2, Ezra's federal capital gain is $6,000. The mutually taxed income is only $2,400. Idaho allows Ezra to exclude 60 percent ($3,600) of his $6,000 capital gain. Here is how Ezra figures his Oregon credit for income taxes paid to another state.

Formula I: ($2,400 ÷ $13,500) × $400 = $71

His credit is $71, the **smallest** of:

- His Oregon tax ($400), or
- The tax actually paid to Idaho ($200), or
- The amount using Formula I ($71).

Example 3: Use the same facts as in Example 2, except change the date Ezra sold his Idaho property to August 19.

Because Ezra sold his Idaho property before becoming an Oregon resident, he does not have any mutually taxed income. Ezra will not claim a credit for income tax paid to another state.

Nonresidents. You may claim a credit if you pay income taxes on the same income taxed by both Oregon and one or more of the following—Arizona, California, Indiana, or Virginia.

Your credit is the smallest of your Oregon tax after all other credits, the tax you actually paid to the other state, the amount figured using Formula I, or the amount figured using Formula II.

Example 4: Mary is a full-year resident of California. She lived in Oregon for 10 years prior to retiring to California. While living in Oregon, she acquired and maintained rental property in Oregon. She now receives installment payments from the sale of the property and pays tax to California on the gain and interest. Her California income tax after credits is $100.

Because she is an Oregon nonresident, only the gain is taxed by Oregon on her nonresident return. Her Oregon tax after credits is $350. Her income is as follows:

Oregon income

Capital gain on installment sale of real property	$10,000
Total AGI taxable to Oregon	$10,000

** If the other state has any income exclusion that applies to the mutually taxed income, you must adjust the mutually taxed income by the exclusion amount.*

California income

Capital gain on installment sale of real property	$10,000
Interest on installment sale	5,000
Other interest	8,000
Business loss	(20,000)
Total AGI taxable to California	$3,000

Her income taxed by both states is $10,000. Her Oregon credit is $100, the **smallest** of:

- Her Oregon tax ($350), or
- The tax actually paid to California ($100), or
- Formula I: ($10,000 ÷ $10,000) × $350 ($350), or
- Formula II: ($10,000 ÷ $3,000) × $100 ($333).

Exception for Oregon resident partners and S corporation shareholders. Shareholders of certain S corporations and certain partners may be able to claim a credit for income taxes paid to another state on their **resident** Oregon return. The S corporation must pay the tax, and the tax must be a tax on income and not a minimum tax.

For the partner to claim the credit on the **resident** return, the partner must have participated in a Multiple Nonresident filing for the other state and the partnership must have paid the partner's tax liability. The partner is considered to have paid a pro rata share of the other state's income tax.

The allowable credit is the smallest of the following:

- Oregon tax on the individual's return, or
- The individual's pro rata share of the other state's tax, or
- The individual's pro rata share of the mutually taxed S corporation or partnership income:
  - — divided by the individual's modified Oregon income, **and**
  - — multiplied by the Oregon tax liability from the individual return.

Example 5: Oliver is a full-year Oregon resident with modified Oregon income of $30,400 and Oregon tax (after all other credits) of $1,538. Oliver is a 10 percent shareholder of My Corp., an electing S corporation in California. California has a corporate tax of 1.5 percent of income, with a minimum corporate tax of $800.

For this tax year, My Corp. distributed $10,000 among its shareholders (Oliver's share is $1,000). The corporation must pay California $800 of tax, of which only $150 is attributable to income ($10,000 × 1.5%). Oliver's share of this tax is $15. The balance of tax paid by My Corp. ($650) is a minimum tax and does not qualify for this credit. Oliver's Oregon credit for income taxes paid to another state is $15, the smallest of:

- Oregon tax after all other credit: $1,538, or

- Pro rata share of California's tax: $15, or
- ($1,000 ÷ $30,400) × $1,538 = $49

An Oregon resident is allowed a credit for taxes paid to another state on mutually taxed income if the other state does not allow the credit.

Example 6: Monte, an Oregon resident, receives partnership income from Virginia sources and joins in a multiple nonresident filing with that state. If Virginia does not allow a credit for taxes paid to Oregon on the multiple nonresident tax return, then Monte may claim a credit on his Oregon resident return.

Verification required

If you claim a credit for income taxes paid to another state, you must attach a copy of that state's tax return and proof of payment to your Oregon tax return.

If you claim a credit for income taxes paid to another state by an S corporation or partnership on your behalf, you must attach the following items to the back of your return:

1. A statement explaining the election, option, or requirement under the other state's laws by which the S corporation or partnership paid the tax on behalf of the shareholder or partner; and
2. A copy of Schedule K-1 (individual's share of income, credits, deductions, etc.) showing the tax paid to the other state on the proportionate share of the income taxable to the individual; and
3. A statement showing your computation of the credit.

Addition for taxes also claimed as an itemized deduction

Did you claim a credit for taxes paid to another state and claim those same taxes as an itemized deduction? If yes, you will have an Oregon addition for the smaller of:

- The amount of the other state's tax liability for the year in which you claim the Oregon credit, or
- The amount of the other state's tax for the year you included it as an itemized deduction.

Add this amount to the **Oregon state income tax claimed as an itemized deduction**. This has the effect of reducing your itemized deductions for the other state's income tax.

Example 6: Inga claimed a $100 credit for taxes paid to Maine on her Oregon return. On her Schedule A, she claimed a deduction of $200 for Maine taxes withheld from her wages. On Inga's Maine return, her net tax liability is $150. Inga will add $150 to the Oregon state income tax she claimed as an itemized deduction. $150 is the smaller of her Maine tax liability ($150) or the amount she claimed as an itemized deduction ($200) for Maine taxes.

Individual Development Account ORS 315.271

For information on this credit, see pages 72–73.

Long-term care insurance premiums ORS 315.610

Oregon allows a tax credit for long-term care insurance premiums.

Who may claim the credit?

To qualify, you must hold a policy that was issued on or after January 1, 2000. You, your parents, or your dependents must be the policy beneficiaries. You may also claim the credit if you are an employer paying for long-term care insurance for your employees.

How much is the credit?

The credit is the smaller of 15 percent of the premiums paid or $500. If you and your spouse file separate returns, you must prorate the credit. You and your spouse may prorate the credit any way you choose. The combined credits on each spouse's separate return cannot be more than the credit you would be allowed on a joint return.

For employers, the credit is the smaller of 15 percent of the premiums paid or $500 multiplied by the number of Oregon employees who are covered.

Example 1: Ian purchased a long-term care insurance policy for himself in 2000. In 2004 he paid $860 of premiums to renew his policy. Ian's credit is $129 ($860 × 15 percent).

Example 2: Jena purchased a long-term care insurance policy for herself in 1997. In 2004 she paid $500 of premiums to renew this policy. Because Jena purchased her policy before 2000, she cannot claim this credit.

You must report any federal benefit due to a federal deduction for the premiums as an Oregon addition. See page 50.

Part-year residents and nonresidents. Multiply the credit allowed a full-year resident by your Oregon percentage.

No carryover. Your credit cannot be more than your tax liability for Oregon. Any credit not used this year is lost.

Loss of use of limbs ORS 316.079

Who may claim the credit?

If you have permanent and complete loss of the use of two limbs, you are entitled to this credit.

How much is the credit?

If you qualify, the credit is $50 per year. A credit of $50 may also be claimed for your spouse if your spouse qualifies. You may not claim this credit for a dependent.

How to claim the credit

Obtain a disability certification form the first year you file for the credit. Get the form from your county public health officer. The health officer must sign the form. Keep the form with your permanent health records.

You also qualify for an additional exemption for severely disabled persons.

No carryforward. The credit cannot be more than your tax liability for Oregon. Any credit not used this year is lost.

Low-income caregiver (for home care of a low-income person age 60 or older) ORS 316.148

You may be eligible for this credit if you pay expenses for the care of a person age 60 or older. The care must keep this person from being placed in a nursing home. Both of you must meet certain qualifications to be eligible for the credit.

Who may claim the credit?

You may claim the credit only if your household income is less than $17,500. Household income is the total taxable and nontaxable income of a husband and wife living in the same household. See the discussion of household income on page 98.

The person receiving care must be someone who meets **all** of the following requirements:

- Is at least 60 years old; and
- Is not in a nursing home, rehabilitation facility, or other long-term skilled care facility; and
- Does not receive medical assistance from the state Seniors and People with Disabilities Division; and
- Qualified for Oregon Project Independence during the tax year. This program is designed to keep people from going to nursing homes unnecessarily. To qualify for the program the person must have severe problems with communication, mobility, managing a household, nutrition, personal relationships, managing money, health, or other problems caring for oneself. These problems must be severe enough that the person might normally be placed in a nursing home; and
- Does not receive services from Oregon Project Independence. Services include housekeeping, homemaking, and home health care; and
- Has household income of $7,500 or less. The support you provided for the person is considered a gift. The total gifts received by the person, less $500, must be included in the person's household income.

Part-year residents and nonresidents. You may claim the full credit, subject to the requirements above.

How much is the credit?

The credit is equal to the smaller of (1) $250 or (2) 8 percent of the qualifying expenses paid or incurred during the tax year.

What are qualifying expenses? You may claim food, clothing, medical, and transportation expenses you paid during the year. The amount you paid for lodging does not qualify. Transportation expenses for medical and personal needs, such as shopping, qualify.

You may claim only the costs paid after the person became 60 years old. Do not claim costs paid while the person received benefits from Oregon Project Independence or medical assistance from Seniors and People with Disabilities Division. Do not claim costs paid while the person was in a nursing home or mental institution. You must subtract any reimbursement from insurance or from the person receiving care when you figure the costs you paid.

How to claim the credit

To claim the credit, the Oregon Department of Human Services (DHS) must certify that the person qualifies. Download the *Low-Income Caregiver Credit* form from our Web site at www.oregon.gov/DOR. Or, call us to order the form at 503-378-4988 or toll-free within Oregon 1-800-356-4222.

Send your completed form to DHS for certification. Instructions and the address for DHS are on the form. Keep the completed form showing the certification and expenses paid with your Oregon income tax records.

No carryover. Your credit cannot be more than your tax liability for Oregon. Any credit not used this year is lost.

Mobile home moving ORS 316.153

A tax credit was available to certain taxpayers who were required to move their mobile homes. The credit program expired December 31, 2001.

Carryforward. The credit for the year cannot be more than your tax liability for Oregon. You can carry forward any unused credit for five years. If you do not use the credit within five years, it is lost.

Mutually taxed gain on the sale of residential property ORS 316.109

If you sell your residential property, your Oregon taxable gain will be the same as your federal taxable gain.

Exceptions: If you were renting out a house and then converted the house to your personal residence, the Oregon basis may be different from the federal basis due to depreciation differences.

Generally, any gain you excluded on your federal return also will be excluded on your Oregon return. You will qualify for a credit if the gain on the sale of your residential property is taxed by both Oregon and another state or country.

For the same gain you may claim either this credit or the credit for income taxes paid to another state, but not both.

How much is the credit?

The credit is the **smaller** of:

1. $$\frac{\text{Mutually taxed gain}}{\text{Total income on the return of the other state/country}} \times \text{Other state's/country's tax after all other credits}$$

or

2. 8 percent of the gain taxed by the other state/country.

Mutually taxed gain. Your mutually taxed gain is the total gain on the sale of your residential property reduced by any deductions or exclusions allowed by either the other state/country or by Oregon.

No carryover. Your credit cannot be more than your tax liability for Oregon. Any credit not used this year is lost.

On-farm processing machinery and equipment ORS 315.119

An income tax credit is available to individuals and corporations for property tax paid on machinery and equipment used for on-farm agricultural processing.

The machinery and equipment must be owned and controlled by the farm operator. It must be located on land that is specially assessed under Oregon law for farm use or adjacent to land that is specially assessed for farm use.

Processing means, in part, activities directly related and necessary to clean, sort, prepare, package, or ship a farm crop or livestock product after the point of harvest and before the point of sale, in a modified state or altered form.

Processing does not include activities primarily associated with promoting or retail selling of products for personal or household use that are normally sold through consumer retail distribution.

Who may claim the credit?

- Farm operators who have grown or raised at least one-half of the total volume of farm crop or livestock products processed with the machinery and equipment in three of the last five previous income tax years, or
- Farm operators who have grown or raised at least one-tenth of the total volume of farm crop or livestock products processed with the machinery and equipment for which the credit is claimed in three of the last five previous income tax years. The farm operator must also use the machinery and equipment to process at least one-half of the volume of the farm crop or livestock products grown or raised by the farm operator in three of the last five previous income tax years.

For the first three tax years for which you claim this credit, you are considered to have complied with the minimum processing requirements **if** you satisfied the processing requirements for the prior tax year.

S corporations and partnerships. Individual shareholders must claim the credit based on their percentage of S corporation ownership interest. In the case of a partnership, the tax credit must be claimed by the individual partners based on their distributive share of partnership income.

Part-year residents and nonresidents. The credit is available to nonresidents and part-year residents who operate on-farm processing facilities within the state of Oregon. You must multiply the credit allowed a full-year resident by your Oregon percentage.

How much is the credit?

The credit is computed as the smaller of:

- The effective property tax rate (the total imposed property taxes divided by the assessed value) multiplied by the adjusted basis of qualified processing machinery and equipment, or
- $30,000.

The adjusted basis is increased by the cost of any qualified machinery and equipment that you elected to expense under section 179 of the Internal Revenue Code.

Depreciation and basis. The credit is not allowed if the processing property is fully depreciated for income tax purposes. This credit is in addition to any depreciation or amortization deduction that you are entitled to claim. Do not adjust your basis by the amount of this credit.

How to claim the credit

The credit is claimed as an "other credit" on your Oregon income tax return. If you claim this credit you must keep records sufficient to determine production and processing volume for at least 10 years. This credit is set to expire December 31, 2007.

Carryforward. The credit for the year cannot be more than your tax liability for Oregon. You can carry forward any unused credit for the next five years. If you do not use the credit within five years, it is lost.

Oregon Cultural Trust contributions ORS 315.675

Did you make a donation to an Oregon nonprofit cultural organization during the tax year? If so, you can make a matching donation to the Trust for Cultural Development Account and receive an Oregon tax credit.

How much is the credit?

You may receive a credit of up to 100 percent of the amount of the matching charitable contribution. The maximum credit is $500 per taxpayer ($1,000 on jointly filed returns). For a husband and wife who file separate returns, each may claim a share of the tax credit that would have been allowed on a joint return in proportion to the contribution each spouse made.

Corporations may claim a credit of up to $2,500 per tax year.

Generally these donations also qualify as a charitable contribution for federal and state tax purposes. The donations are claimed as an itemized deduction on your federal Schedule A. If you claim your donation to the Oregon Cultural Trust as a tax credit on your Oregon return, you may not also claim the donation amount as a charitable contribution on your Oregon return. You will have an other addition on your Oregon return for the amount you claimed as a charitable contribution. For more information about the required other addition, see page 52.

Part-year residents and nonresidents. Multiply the allowable credit by your Oregon percentage.

No carryforward. For individuals and corporations, the credit cannot be more than the tax liability for Oregon. Any credit not used this year is lost.

For more information about the Oregon Cultural Trust, contact the Oregon Arts Commission or visit their Web site at www.oregonartscommission.org.

Political contributions ORS 316.102

Oregon law allows a tax credit for political contributions.

Who may claim the credit?

To qualify for the Oregon credit, you must have contributed money in the year for which you claim the credit. You must reduce the amount of your contribution by the fair market value (FMV) of any item(s) or service(s) you receive in exchange for your contribution. Contributions of goods or services also do not qualify. Keep receipts from the candidate or organization with your tax records. You may use copies of canceled checks as your receipt.

Example 1: Holly contributes $275 for a fund-raising dinner for a presidential candidate. The FMV of the dinner was $35. Holly's political contribution is $240. She must reduce her $275 contribution by the $35 FMV of the dinner she received. As a single individual Holly's political contribution is limited to $50.

Example 2: Burl donated a desk, chair, and a four-drawer file cabinet to his favorite political action committee (PAC) headquarters. The FMV of the furniture is $410. Burl has a written receipt from the PAC for the furniture he contributed. Burl cannot claim a political contribution credit because he did not contribute money to the PAC. His contribution of office furniture does not qualify for the credit.

Which contributions qualify?

Candidates and their principal campaign committees. You may claim a credit for a contribution to a candidate for federal, state, or local elective office, or to the candidate's principal campaign committee. One or more of the following must occur in Oregon during the same calendar year that your contribution is made in order to qualify for the credit:

- The candidate's name must be listed on a primary, general, or special election ballot;
- A prospective petition of nomination must be filed by or for the candidate;
- A declaration of candidacy must be filed by or for the candidate;
- A certificate of nomination must be filed by or for the candidate;
- A designation of a principal campaign committee must be filed with the Oregon Secretary of State's Office. **Note:** The designation must be made in each year a contribution is made to qualify under this provision.

Political action committees. You may claim a credit for contributions to political action committees (PACs). The organization must have certified the name of its political treasurer with the appropriate filing officer. Generally, this is the Secretary of State for statewide or regional elections, your county clerk for county elections, or your city recorder for city elections. PACs registered with the Federal Elections Commission may not be required to register in Oregon.

Political parties. Political parties can be national, state, or local committees of major political parties. Oregon also allows a tax credit for contributions made to minor political parties that qualify under state law. Contact the Oregon Secretary of State's Office to see if a particular party qualifies. Call 503-986-1518.

Newsletter fund—credit not allowed. Oregon does not allow credit for contributions made to a newsletter fund.

How much is the credit?

Your credit is equal to your contribution, but is limited to $100 on a joint return or $50 on a single or separate return.

Partners or S corporation shareholders may claim a credit for their distributive share of political contributions made by the partnership or S corporation. The contribution must meet the statutory requirements. The $50 and $100 limits apply individually to each partner's or shareholder's return.

No carryforward. The credit cannot be more than your tax liability for Oregon. Any credit not used this year is lost.

Pollution control facilities ORS 315.304

Any Oregon taxpayer who makes an investment in a pollution control facility on or before December 31, 2007, may qualify for a tax credit. The investment must have one of the following pollution control purposes:

- It must be installed in response to a requirement imposed by the federal Environmental Protection Agency, the Oregon Department of Environmental Quality (DEQ), or a regional air pollution authority; or
- It must have an exclusive function to control, prevent, or reduce pollution, or recover material.

Who may claim the credit?

The taxpayer seeking the credit must be the business owner, contract purchaser, or lessee conducting the business. If the investment is for material recovery, the taxpayer seeking the credit may be either the lessee or the lessor.

How much is the credit?

Tax credit values are a percentage of the facility cost. The maximum percentage will be reduced according to these conditions:

50 percent—applies to any facility:

- Certified under the 1999 Edition of ORS 468.155 to 468.190, or
- Whose construction commenced before January 1, 2001, and is completed before January 1, 2004.

35 percent—applies to applications filed on or after January 1, 2002, if the facility does not qualify for the 50 percent maximum credit but meets the following criteria:

- Certified facility cost does not exceed $200,000.
- Construction or installation of the facility is voluntary.
- The applicant is ISO 14001 certified or uses an environmental management system at the facility.
- A Green Permit applies to the facility.
- The facility is used for one of the following purposes:
  — Nonpoint source pollution control,

— Confined animal feeding operation,
— Material recovery or recycling, or
— Energy recovery in an agricultural or forest products operation.

If the facility or applicant does not qualify for the 35 percent maximum tax credit, the following percentages apply:

- 25 percent—If construction commenced January 1, 2001, through December 31, 2003.
- 15 percent—If construction commenced January 1, 2004, through December 31, 2005.
- 0 percent—If construction commenced after December 31, 2005.

Depreciation and basis. You may still claim depreciation or amortization on the project. Do not reduce your basis in the property by the credit amount.

How to claim the credit

You may file an optional preliminary application for the tax credit with the DEQ any time before the completion of the pollution control facility. You must file an application for final tax credit with the DEQ within the first year after purchase or completion. The last date for submitting an application is December 31, 2008. DEQ will make a final recommendation to the Environmental Quality Commission (EQC) based on the available information.

To contact the DEQ, write to: Oregon Department of Environmental Quality, Waste Management and Cleanup, 811 SW 6th, Portland OR 97204-1390. Or, call 503-229-6878 or 1-800-452-4011, ext. 6878. Or, visit DEQ's Web site at www.oregon.gov/DEQ. Keep a copy of the DEQ certificate with your tax records.

If you claim a property tax exemption, file the DEQ form with your county assessor. The property tax exemption for nonprofit corporations is valid for 20 years.

Carryforward. You can carry forward unused pollution control credits for three years. An additional three-year carryforward is allowed provided credits had not expired as of the 2001 tax year and the facility remains in operation during the additional carryforward period.

Pollution prevention ORS 315.311

Did you install a pollution prevention technology or process between January 1, 1996, and on or before December 31, 1999? If you did, you may carry forward any unused credit five years. Installations after December 31, 1999, are not eligible for the credit. The Department of Environmental Quality (DEQ) must have certified the technology.

Call DEQ at 503-229-6878 for more information.

Sale or exchange of capital investment. If you sell, exchange, or remove the technology, you must notify DEQ in writing. The new owner may apply to DEQ for certification. Any credit you did not previously claim would be available to the new owner. The previous owner would still be entitled to any carryforward amounts not yet taken on previously claimed credits.

Reclaimed plastics ORS 315.324

Oregon's tax credit for taxpayers who invested in a business that collects, transports, or processes reclaimed plastics, or manufactures products made from reclaimed plastic, has expired. This credit was for investments made **on or before December 31, 2001.** There is only a carryforward available.

Carryforward. Your credit carryforward used in any one tax year cannot be more than your tax liability. The total carryforward period for the credit is five years. If you do not use the credit within five years, it is lost.

Reforestation ORS 315.104

If you develop underproductive forestland into a commercial forest, you may be eligible for this credit. The credit is 50 percent of your eligible cost to develop the forest. Trees planted after December 31, 2001, are eligible for a 50 percent credit. (Trees planted prior to 2001 are eligible for a 30 percent credit.) Eligible development costs include site preparation, tree planting, and silviculture treatments considered necessary and reasonable by the state forester.

Who may claim the credit?

An individual, corporation, S corporation, or other nonpublic legal entity may claim the credit. You must:

1. Own, be purchasing under a recorded contract of sale, or lease at least five acres of land in Oregon capable of growing a commercial forest; and
2. Have at least $500 of net eligible costs in the project. Funds provided to you by any state or federal incentive programs are not considered to be money you spent on the project; and

3. Develop the land into a commercial forest. You may not claim the credit to grow Christmas trees or ornamental trees, shrubs, or plants. The credit is not allowed to reforest any forestland that has been commercially logged to the extent that reforestation is required under the Oregon Forest Practices Act.

Exception: Credit is allowed when qualified hardwood harvests are conducted for the purpose of converting underproductive forestland.

Partnerships or S corporations. Partners may claim a credit for costs incurred by the partnership. The credit is based on each partner's percentage of ownership interest. Shareholders in an S corporation may also claim this credit. The credit is computed using the shareholder's pro rata share of the corporation's certified reforestation project costs.

Change in ownership. If there is a change in ownership between the time the project is completed and the forest is established, only the original owner may claim the balance of the credit. If the forest is not established, the original owner must repay the credit previously received. The new owner does not qualify for any credit on a project started by the original owner.

What are qualifying expenses?

You may claim actual expenses incurred for labor, supervision, materials, and equipment operating costs. **Costs must be reasonable.** Do not claim the cost of equipment or tools used in the project that have a useful life of more than one year. You must depreciate these items. You may claim the allowable depreciation expense as a cost of the project limited to the actual years of the project. Your personal labor is **not** an eligible expense.

You must reduce your cost by the total amount of any reimbursement you receive from any state or federal incentive programs.

How to claim the credit

Before the project begins, a service forester can tell you if your project will qualify for the credit. After the trees are planted, the service forester must inspect the land. If your project qualifies, your costs seem reasonable, and the annual limit has not been exceeded, the Department of Forestry will issue a preliminary certificate. Claim one-half of the credit (25 percent of the costs) for the year the trees were planted. Keep a copy of the certificate with your Oregon tax records.

You will claim the balance of the credit (25 percent of the costs plus 50 percent of any additional maintenance costs) after the trees have survived two or more growing seasons. The service forester must inspect your land again. If the forest is established in accordance with state forester specifications and your costs appear reasonable, the final certificate will be issued. Keep a copy of the completed final certificate with your tax records.

Annual limit

By statute, the state forester must limit the total dollar amount of reforestation credits available each year.

When you file a written request with the service forester for a preliminary and/or final certificate, include all information required by the state forester and an estimate of the credit amount you expect to claim on your return.

The state forester will consider requests for certificates in the order in which they are filed. If you meet all the necessary requirements, you will receive a preliminary certificate, unless the annual limit of reforestation costs has already been reached through prior requests for other projects.

Recapture. If the new forest is not established (according to Forest Practices Act standards) for reasons within your control, you must repay the 25 percent credit you received when you filed the preliminary certificate. If the failure is due to causes beyond your control (fire, drought, etc.), you do not have to repay the first 25 percent credit that you receive. However, you may not claim the second 25 percent. After the trees are replanted, you may reapply for the tax credit (for areas where reforestation failed).

Depreciation and basis. You may still claim any depreciation or amortization otherwise allowed. Do not reduce your basis in the property by the amount of the credit.

Carryforward. The credit cannot be more than your tax liability for Oregon. You may carry forward any unused credit to the next three years. If you do not use the credit within three years, it is lost.

Questions about reforestation? For an informational brochure or more information, contact the Oregon Department of Forestry in Salem at 503-945-7368 or visit their Web site at www.oregon.gov/ODF.

Reservation enterprise zone ORS 285C.309

New businesses located in Oregon reservation enterprise zones that pay tax to tribal governments may claim a credit against their Oregon income tax.

The credit is equal to either:

- The amount of tribal property tax imposed on a new business facility that is paid or incurred during the tax year of the business, or
- The amount of tribal tax paid or incurred during the tax year of the business if the business has not previously conducted business operations in the reservation enterprise zone.

The credit is allowed only if the tax is imposed on a uniform basis within the territory.

Contact the Oregon Economic and Community Development Department for the location of reservation enterprise zones at www.oregon.gov/ECDD or call 503-986-0123.

Who may claim the credit?

The credit is available to individuals, partnerships, and corporations.

Part-year residents and nonresidents. Multiply the credit allowed a full-year resident by your Oregon percentage.

How do I claim the credit?

You will need the form *Reservation Enterprise Zone Tribal Tax Credit* and instructions. Visit our Web site at www.oregon.gov/DOR to download the form. Or, call us at 503-378-4988 or toll-free within Oregon at 1-800-356-4222. Keep the completed form with your tax records.

No carryforward. The credit may not be more than your tax liability for Oregon. Any credit not used this year is lost.

Residential energy ORS 316.116

You may qualify for a credit on your Oregon income taxes by purchasing certain energy-efficient items.

What qualifies?

- A system that uses solar energy.
- A groundwater heat pump or ground loop alternative energy device.
- A renewable energy system that heats or cools space, heats water, or makes electricity.
- An energy-efficient appliance including a wastewater heat recovery device.
- An alternative fuel vehicle (hybrid vehicles).
- A fuel cell system.
- An alternative fuel vehicle charging or fueling system.

Who may claim the credit?

Homeowners, renters, and contract buyers may apply for the credit. A person who pays the present value of the tax credit to the person who constructs or installs the device may also apply for the credit.

Part-year residents and nonresidents. Multiply the credit allowed a full-year resident by your Oregon percentage.

How much is the credit?

The tax credit is based on how much energy the system will save the first year. The value of the credit per kilowatt-hour (kWh) saved depends on the type of equipment or system. The maximum energy credit allowed is $1,500 and will be determined by the Oregon Department of Energy.

For alternative fuel vehicles, the credit is 25 percent of the cost of the vehicle, but not more than $750. For fueling/charging systems, the credit is 25 percent of the cost of the system, but not more than $750.

How to apply for the credit

Complete a *Tax Credit and Verification Form* for the system or equipment you buy. Forms and instructions are available from the dealer, contractor, installer, or Oregon Department of Energy. Send the application to the Oregon Department of Energy with proof of payment. You will receive a certification showing your qualified tax credit.

Call the Oregon Department of Energy for an application and assistance at 1-800-221-8035 (toll-free in Oregon) or 503-378-4040. Or, visit their Web site at www.oregon.gov/ENERGY.

How to claim the credit

Claim the credit on your state income tax form. You will claim this credit in the tax year in which you purchased the device if it was operational by April 1 of the following year.

Example 1: You purchased an energy efficient clothes washer in December 2004. You had the machine installed and operating by January 2005. Claim the credit on your 2004 tax return.

Example 2: You purchased a groundwater heat pump in October 2004. You had the pump installed and operating by May 2005. Claim the credit on your 2005 tax return. You will not claim the credit on your 2004 return because the pump was not in operation by April 1, 2005.

Keep your certification, a copy of your application, proof of payment, and any supporting documentation with your tax records. Do not attach these items to your tax return.

Carryforward. The credit cannot be more than your tax liability for Oregon. You may carry forward any unused credit for up to five years. If you do not use the credit within five years, it is lost.

How does this affect property value?

The Legislature provided a property tax exemption for alternative energy devices. Contact your county assessor regarding the effect of installation of an alternative energy device on the assessed value of your property.

Retirement income ORS 316.157

Who may claim the credit?

If you were **age 62 or older** on December 31, 2004, and receiving taxable retirement income, you may qualify for a credit. Retirement income includes payments **included in Oregon taxable income** from:

- State or local government public pensions.
- Employee pensions.
- Individual retirement plans.
- Employee annuity plans.
- Deferred compensation plans including defined benefits, profit sharing, and 401(k)s.
- Federal pensions (includes military) not subtracted from Oregon taxable income.

How do you qualify for the credit?

- Your household income is less than $22,500 ($45,000 if married filing jointly), **and**
- Your Social Security and/or tier 1 Railroad Retirement Board benefits are less than $7,500 ($15,000 if married filing jointly), **and**
- Your household income plus your Social Security and tier 1 Railroad Retirement Board benefits is less than $22,500 ($45,000 if married filing jointly).

You may claim this credit or the credit for the elderly or the disabled, but not both.

How much is the credit?

Use the following worksheet to calculate your credit:

1. Enter the retirement income of the eligible individual(s) (Form 40, line 8; or Form 40N or 40P Oregon column, lines 16 and 17). 1. _______
2. Enter any federal pension income subtracted from Oregon income. See page 55. 2. _______
3. Net Oregon taxable pension. Line 1 minus line 2. 3. _______
4. Enter $7,500 ($15,000 if married filing jointly). 4. _______
5. Enter both spouses' total Social Security and tier 1 Railroad Retirement Board benefits. 5. _______
6. Line 4 minus line 5, but not less than -0-. 6. _______
7. Enter your **household income.** See the next section to determine household income. 7. _______
8. Household income base. Enter $15,000 ($30,000 if married filing a joint return). 8. _______
9. Line 7 minus line 8, but not less than -0-. 9. _______
10. Line 6 minus line 9, but not less than -0-. 10. _______
11. Enter the smaller of line 3 or line 10. 11. _______
12. Multiply line 11 by 9% (.09). 12. _______

This is your credit.

No carryforward. The credit cannot be more than your tax liability for Oregon. Any credit not used this year is lost.

What is included in household income?

Household income generally includes all income (both taxable and nontaxable) of each spouse received during the year. Include gross income reduced by adjustments as reported in your federal adjusted gross income (AGI).

You also need to include items not in your federal AGI. These items include but are not limited to:

- Veteran's and military benefits.
- Gifts and grants (total amount minus $500).
- Disability pay.
- Nontaxable dividends (other than "return of capital" dividends).
- Inheritance.
- Insurance proceeds.
- Nontaxable interest.
- Lottery winnings.
- Railroad Retirement Board benefits (tier 2 only).
- Scholarships.

See the household income checklist on page 116 for more help.

Do not include:

- Social Security and tier 1 Railroad Retirement Board benefits.
- Your state tax refund.
- Pension income excluded from federal AGI that is a return of your contributions.
- Pensions that are rolled over into an IRA.

To determine household income, you must separate income (or loss) from businesses, farms, rentals or royalties, and dispositions of tangible or intangible property. Combine all income from similar sources to arrive at the net income or loss from that source. Any net loss from the source is limited to $1,000. Net operating loss carrybacks or carryforwards are not allowed. Capital loss carryforwards are not allowed.

Example 1: Jack owns a farm and has a $4,000 loss. He is also a partner in a partnership whose main activity is farming. Jack has income from the partnership of $1,500. His net farm loss is $2,500. He may claim only $1,000 of this loss to compute his household income. Any net loss Jack has from any of the other sources mentioned in the paragraph above is also limited to $1,000 each. If Jack is claiming more than a $1,000 loss on any line, he must attach a worksheet showing his computations.

If the combined total of your depreciation, depletion, and amortization deductions is more than $5,000, you must add back the excess into household income. You must also increase your household income by the Oregon income tax modification for depletion in excess of basis.

Example 2: Callie has a business with gross income of $31,200 for the year. She has a $9,000 depreciation deduction. Other business expenses are $24,650. She reports a business loss for federal purposes of $2,450. She recomputes her business income for household income purposes. The allowable depreciation deduction is $5,000. The business income she reports is $1,550, computed as follows: $31,200 – ($5,000 + $24,650) = $1,550.

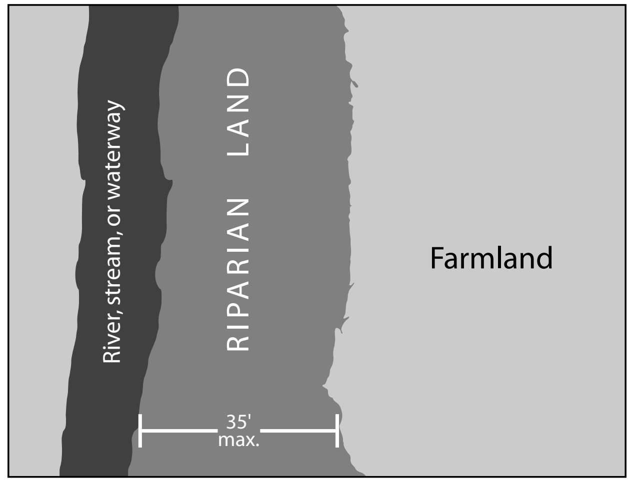
Riparian land ORS 315.113

Beginning in tax year 2004, you may qualify for this credit if you voluntarily remove riparian land from farm crop production. This includes farmers and landowners in "share-rent agreements."

What land qualifies for the credit?

Certain riparian land qualifies for the credit. It must be land in Oregon that:

- You voluntarily removed from crop production for conservation purposes; and
- Lies between a river, stream, or other natural water course and land in farm production; and
- Is not more than 35 feet wide. (See diagram below.)



To claim this credit, you must have had the riparian land in crop production or claimed this credit in the previous tax year. Livestock does not qualify as a crop.

You must be actively engaged in farming operations on the land next to the riparian land removed from production. The riparian land you removed from farm production may not be used for any other purpose.

You must have removed the land from farm production voluntarily. If you are required to remove the land from farm production as a result of a federal, state, or local law or government decision, you may not claim the credit. **Exception:** If the land was removed from farm production under an agricultural water quality management plan administered by the Oregon State Department of Agriculture, you may claim the credit.

How much is the credit?

The credit is 75 percent of the market value of the foregone crop on the acreage of riparian land taken out of farm production. The "foregone crop" is the crop grown on the riparian land the year before taking it out of production. To figure the credit, use the market value and yield for the crop for the current year **as reported by your County Extension Office.**

Use this formula to determine your credit:

A × **B** × **C** × **D** = Riparian land credit

A = Total acreage of riparian land removed from farm production.
B = Crop yield per acre according to County Extension Office.

C = Market value of the foregone crop according to County Extension Office.
D = 75 percent.

Example 1: Cassie farms in the Willamette Valley. She voluntarily removed 35 feet of riparian land from farm production in 2004. This amounted to three acres of her farmland. Cassie planted and harvested a crop on this riparian land in 2003. The 2003 crop yield was 800 pounds per acre and sold for $2 per pound. In 2004 the County Extension Office reported the yield for that crop was 750 pounds per acre and the market value was $1.90 per pound. Cassie's 2004 riparian land credit is $3,206, figured as follows:

A = 3 acres
B = 750 pounds per acre
C = $1.90 market value
D = 75 percent

$$3 \times 750 \times \$1.90 \times .75 = \$3,206$$

In 2005 the County Extension Office reports a crop yield of 765 pounds per acre and a market value of $1.92 per pound. Cassie's 2005 riparian land credit would be $3,305, figured as follows:

$$3 \times 765 \times \$1.92 \times .75 = \$3,305$$

Putting land back in production. If you claim this credit in one year and in another year place the riparian land back into farm production, you may not claim this credit for five tax years following the year you place the riparian land back in farm production.

Example 2: Farmer Caleb voluntarily removed 29 feet of riparian land from farm production in 2004 and claimed the riparian land credit. In 2005 he placed the same 29 feet of riparian land back into farm production. He will be eligible to claim the credit again in 2011 if he meets all other criteria.

Who may claim the credit?

As a farm owner engaged in farm production you may claim this credit. Also, if a farmer engaged in a farm operation and a landowner are in a share-rent agreement, you may each claim a credit. The credit will be prorated according to your agreement. Your combined total credit will not be more than the credit allowed to one taxpayer if the farm operation was not subject to the share-rent agreement.

Part-year residents and nonresidents. You must multiply the allowable Oregon credit by your Oregon percentage on Form 40N or 40P.

Carryforward. The credit cannot be more than your tax liability for Oregon. You may carry forward any unused credit over the next five years. If you do not use the credit within five years, it is lost.

Rural medical practitioners ORS 316.143

A tax credit is available for those who practice medicine in certain rural areas of Oregon. The credit is based solely on the health practitioner meeting eligibility requirements determined by the Office of Rural Health.

Who may claim the credit?

Physicians, dentists, podiatrists, optometrists, physician assistants, certified registered nurse anesthetists, and nurse practitioners may qualify for the credit. You must have a rural practice that amounts to 60 percent or more of your practice.

S corporations and partnerships do not qualify for the credit. However, shareholders and partners can receive the credit on their Oregon income tax return if they meet the eligibility requirements for the credit individually.

Part-year residents and nonresidents. If you meet the eligibility requirements, you may receive a credit. Multiply the credit by your Oregon percentage on Form 40N or 40P.

How much is the credit?

The credit is the smaller of $5,000 or your tax liability for the year. You may claim the credit as long as you have retained a qualifying practice (the previous 10-year limit has been repealed). There is no carryforward of unused tax credits.

How to claim the credit

Before you claim this credit you must apply to the Office of Rural Health **each year** for certification of eligibility. Call Rural Health at 503-494-4450. Keep a copy of the confirmation letter with your tax records for each year you claim the credit.

Working family child care ORS 315.262

This refundable credit is available to low-income working families with qualifying child care expenses. To qualify, all of the following must be true:

- You had at least $6,750 of earned income; and
- You had less than $2,650 of investment income (such as interest, dividends, and capital gains); and

- Your adjusted gross income was less than the limits for your household size shown on the back of Schedule WFC; and
- You paid qualifying child care expenses to allow you (and your spouse, if married) to work or attend school; and
- You paid qualifying child care expenses for your qualifying child. A qualifying child is your son, daughter, or legally adopted child (or if you are married, your stepson or stepdaughter) who was:
  — Under the age of 13, or
  — Under the age of 18 for whom you can claim the additional exemption credit for a child with a disability; and
- Your child care provider was not the child's parent, guardian, or brother or sister under age 19.

Note: If you are married filing separately, you must be legally separated or permanently living apart on December 31, 2004, to qualify.

If you qualify, you must complete one of the following:

- **Full-year resident:** Schedule WFC, *Oregon Working Family Child Care Credit for Form 40 and Form 40S filers;* or
- **Part-year resident or nonresident:** Schedule WFC-N/P, *Oregon Working Family Child Care Credit for Form 40N and Form 40P filers.*

You must complete all information on the schedule. An incomplete schedule may result in denial of the working family child care credit.

Visit our Web site at www.oregon.gov/DOR to download the schedule. Or call us to order the schedule at 503-378-4988 or toll-free within Oregon at 1-800-356-4222.

Household size calculation. Your household size is the number of people you claim as exemptions on your federal tax return who live in your home. You can include in your household size your child of whom you have primary custody, even if you allowed the child's other parent to claim the exemption on his or her tax return. You cannot include people you are entitled to claim on your tax return who did not live with you in your home during all of 2004. For the purposes of this credit, an individual cannot be counted in household size on more than one return.

Example 1: Rusty and Deb are not married and are the parents of two qualifying children. They have joint custody of both children. Deb is the primary custodian and caregiver. She releases the dependent exemption for one child to Rusty. Both Rusty and Deb may claim the credit based on the qualifying child care expenses each paid. However, each needs to calculate household size separately. Deb's household size is three (herself, one dependent child, and one dependent child whose exemption is released to Rusty). Rusty's household size is one (himself). Although he claims one child on his tax return, the child does not live with him and is not included in his household size.

Example 2: Jay and Rena have three qualifying children. They also support Rena's parents who do not live with them. They claim seven exemptions on their tax return. Jay and Rena's household size is five, because only five of them live in their home.

Qualifying child care expenses paid in 2004

Qualifying child care expenses are paid for the primary purpose for you (and your spouse, if married) to work or attend school. You can pay your expenses with pre-tax dollars from an employer benefit plan such as a cafeteria plan or flexible spending arrangement and still qualify to claim this credit. You must pay for the child care during 2004 for the payments to be qualifying child care expenses.

Qualifying child care expenses do not include amounts you paid for your child to attend a public or private school or for activities such as gymnastics or soccer. You cannot claim expenses that are paid by someone else such as a state assistance agency. You can claim only the expenses you actually paid.

Proof of qualifying child care expenses. In order to claim this credit, you must be able to prove that you paid the child care expenses. Acceptable proof includes, but is not limited to, copies of:

- Canceled checks,
- Duplicate checks along with bank statements, and
- Specific receipts from the child care provider.

The department could ask for proof at any time during the processing of your tax return or any time later. If you pay a relative to watch your children, you may be asked to provide additional information that shows you actually paid qualifying child care expenses. *Be sure to ask for a signed receipt from your child care provider when you pay the provider for the care.*

Example 3: Jeff works for a company that offers dependent care benefits through a plan administrator. He takes advantage of this employer benefit and contributes $4,000 pre-tax each year to a flexible spending account (FSA) plan. Jeff gives the plan administrator the necessary documents so he can be reimbursed for his child care expenses. His employer reports $4,000 of dependent care benefits in box 10 of his W-2. Jeff has $5,000 total in child care expenses for his two qualifying children. He paid $1,000 with after-tax dollars, and he was reimbursed $4,000 from his pre-tax FSA. Jeff may claim the working family child care credit based on $5,000 in qualifying child care expenses.

Example 4: Lee has a five-year-old son who attends a local academy. He pays $750 per month for his son's kindergarten and child care. Of the amount he pays each month, $500 is the contract price for child care and $250 is an additional amount he pays for his child's education. Lee can only claim $500 per month as qualifying child care.

Example 5: Cate qualifies for state assistance in paying her child care expenses. The child care provider charges $600 per month to care for her two children. Of the $600 monthly charge, the state pays $450 and Cate has a co-pay of $150. Cate cannot claim the entire monthly amount because she did not pay it. She can only claim the amount she actually paid, $150 per month.

Qualifying child information. You must provide the following information of each qualifying child: full name, Social Security number, date of birth, his or her relationship to you, and the portion of the qualifying expenses that apply to each child.

Example 6: Bill has two children, Joe and Lane. He paid two child care providers a total of $5,000 during the year for Joe and Lane's child care. Of the $5,000 he paid, $3,000 was for Joe's care and $2,000 was for Lane's care. Bill will enter those amounts on his Schedule WFC next to each of the child's information.

Computation of credit. You must have already determined your federal adjusted gross income (AGI) in order to compute this credit. You will need a copy of your federal tax return available to complete your Schedule WFC. The worksheet and tables needed to compute your WFC credit are on Schedule WFC.

A blank copy of Schedule WFC is provided in your 2004 Oregon instruction booklet. Schedule WFC must be attached and filed with your Oregon tax return.

Schedule WFC Relationship Codes

Child/Provider Relationship Codes

Grandparent	GP
Parent	P
Uncle	U
Aunt	A
Brother	SB
Sister	SB
None	N
Other	O

Taxpayer/Child Relationship Codes

Son	S
Daughter	D
Stepson	SS
Stepdaughter	SD
Legally adopted child	LA
None	N
Other	O

Interest on underpayment of estimated tax

Who must pay

You have an underpayment of tax if you paid less than the estimated tax due on each payment date. You may owe interest for underpayment of estimated tax if you owe $1,000 or more on your 2004 Oregon income tax return. The 2004 interest rate is 6 percent.

Exceptions to paying interest on an underpayment of estimated tax

Check the box on Form 10, *Underpayment of Oregon Estimated Tax,* if you meet one of the following exceptions.

Exception 1. Farmers and commercial fishers. If at least two-thirds (66.7 percent) of your 2003 or 2004 gross income is from farming or fishing, you will not have to pay underpayment interest.

Exception 2. Prior year. You do not need to pay interest on the underpayment of estimated tax if you met **all** of the following qualifications:

- You had no Oregon tax liability* for 2003, or you were not required to file an Oregon return; and
- Your taxable year was a full 12-month period; and
- You were a full-year Oregon resident for 2003.

Example: In 2003, Merilee and Brad claimed a residential energy credit that reduced their tax liability to zero. For 2004, they did not make estimated tax payments, and their 2004 Oregon return shows tax due of $1,200. They will not have to pay interest on underpayment of estimated tax because they meet Exception 2. They had no tax liability for 2003, their taxable year was a full 12-month period, and they were full-year Oregon residents in 2003.

Exception 3. In 2003 or 2004, you retired at age 62 or older or became disabled, and your underpayment was due to a reasonable cause. Attach a statement to your Form 10 explaining the cause to be considered for the exception.

Exception 4. Underpayment was due to a casualty, disaster, or other unusual circumstances, and it would be unfair to impose underpayment interest. Attach a statement to your Form 10 explaining the cause to be considered for the exception.

** Your Oregon tax liability is your liability after tax credits, but before withholding and estimated tax payments.*

Exception 5. S corporation shareholders who are nonresidents or were part-year residents. No interest is due on your underpayment attributable to S corporation income in which you are a shareholder if:

- The income is for the first year in which S corporation status is elected, and
  - — You are a nonresident for 2004, **or**
  - — You are a full-year resident for 2004, and you were a part-year resident for 2003.

Do I owe interest on underpayment of estimated tax?

If you owe $1,000 or more when you file your return, you may need to pay interest on underpayment of estimated tax. Also, if your withholding and estimated tax payments are less than the required installment for each period, you may owe interest on underpayment of estimated tax. Use one of the methods below to determine any underpayment. Use Form 10 to compute the amount of interest you owe on the underpayment.

Method 1: Estimated 2004 tax

Use the Estimated Method if your estimated tax payments plus state withholding are equal to or more than 90 percent of your 2004 Oregon net income tax.

Total your tax withheld and estimated tax payments for each payment period.

Multiply your Oregon net income tax for the current year by 90 percent (.90). Divide the result by the number of payments required for the year (usually four) to figure the amount due for each payment date.

Example: Frances' 2004 Oregon net income tax is $2,500. She had $1,350 withheld from her pension for taxes. She wants to use the Estimated Method to figure her underpayment, if any. She was required to make four estimated payments for 2004. Estimated tax payments she actually made are:

1st	$250
2nd	$200
3rd	$250
4th	$150
Tax paid with 2004 return	$150

She figures her required payments as follows:

$$\frac{\$2{,}500 \text{ (2003 net income tax)} \times .90 - \$1{,}350 \text{ (tax withheld from wages or pension)}}{4 \text{ (payments required)}} = \$225 \text{ (payment required each period)}$$

First payment period

Payment required this period	$225
Payment actually made	$250

Frances' estimated tax payment of $250 is more than the $225 required. She has a $25 overpayment to apply to her second payment. Because she does not have an underpayment, she does not owe interest for this payment period.

Second payment period

Payment required this period	$225
Payment actually made	$200
Overpayment from first payment period	$25

Frances' estimated tax payment of $225 ($200 + $25) is equal to the required amount. Again, she owes no interest.

Third payment period

Payment required this period	$225
Payment actually made	$250

Her estimated tax payment of $250 is more than the $225 required. She has a $25 overpayment to apply to the fourth payment period.

Fourth payment period

Payment required this period	$225
Payment actually made	$150
Overpayment from third quarter	$25

Frances' estimated tax payment of $175 ($150 + $25) is less than the $225 required. She needs to pay interest on the $50 underpayment of estimated tax for the fourth payment period. Use Form 10 to compute the interest amount.

Method 2: Safe Harbor 2003 tax

Use the Safe Harbor Method if the Oregon tax withheld from your wages plus your 2004 estimated tax payments (required installments) are equal to or more than your 2003 Oregon tax liability after all other tax credits.

Total your 2004 tax withheld and estimated tax payments for each payment period.

For each payment date, divide your 2003 Oregon tax liability by the number of payments required for the year (usually four).

You **cannot** use the Safe Harbor Method if you did not file a 2003 Oregon return. Your 2003 Oregon income tax return must not have been a short-year return for accounting purposes. It must have been filed on time, including extensions.

Example: Marissa is single with no dependents.

Her 2004 Oregon net income tax is:	$2,164
Marissa's 2003 Oregon net income tax was:	$1,700

$$\frac{\$1{,}700 \text{ (2003 tax liability)}}{4 \text{ (payments required)}} = \$425 \text{ (payment required each period)}$$

Estimated tax payments actually made:

1st	$450
2nd	$450
3rd	$350
4th	$450
Tax paid with 2004 return	$464

First payment period

Payment required this period	$425
Payment actually made	$450

Marissa's estimated tax payment of $450 is more than the $425 required. She has a $25 overpayment to apply to her second payment. Because she does not have an underpayment, she does not owe interest for this payment period.

Second payment period

Payment required this period	$425
Payment actually made	$450
Overpayment from first payment period	$25

She now has a $50 overpayment ($450 + $25 – $425 = $50) to apply to her third payment. Again, she owes no interest.

Third payment period

Payment required this period	$425
Payment actually made	$350
Overpayment from second payment period	$50

Her estimated tax payment of $400 ($350 + $50) is less than the $425 payment required. She owes interest on the $25 underpayment of estimated tax for the third period.

Fourth payment period

Payment required this period	$425
Payment actually made	$450
Payment applied to the third-period underpayment	$25

Marissa's estimated tax payment of $450, less the $25 applied to her third-period underpayment equals the $425 required. Because she does not have an underpayment, she does not owe interest for this payment period.

Use Form 10 to compute the interest amount for the third period.

Method 3: Annualized 2004 tax

Use the Annualized Method if your estimated tax payments plus Oregon tax withheld are equal to or more than 90 percent of the tax on your annualized taxable income. This method may benefit taxpayers who do not receive their income evenly throughout the year or taxpayers who are part-year residents.

Total your tax withheld and estimated tax payments for each payment period. Then figure your annualized Oregon tax.

For each payment period, subtract the prior payments required under the Annualized Method. This will give you the required payment for the current period. Compare that result to your actual payment for the period.

Computing your annualized tax. Compute your Oregon income from the beginning of the year to the end of the month preceding the estimated tax date. For example, you are annualizing your income through June 15. Include only your income from January through May. Do not include income earned between June 1 and June 15.

Next, figure your Oregon itemized deductions, additions, and subtractions for the same period. You do not need to figure your itemized deductions if you are taking the standard deduction.

Then, use the following formula to figure your annualized income, itemized deductions, additions, and subtractions:

First payment

Actual income January 1 to
March 31 × 4 = $___ annualized amount

Second payment

Actual income January 1 to
May 31 × 2.4 = $___ annualized amount

Third payment

Actual income January 1 to
August 31 × 1.5 = $___ annualized amount

Fourth payment

Actual income January 1 to
December 31 × 1.0 = $___ annualized amount

To figure your annualized Oregon taxable income, add your annualized Oregon additions to your annualized federal adjusted gross income. Each of these must be annualized amounts for this method. Then subtract:

1. Your annualized Oregon subtractions (except federal taxes). Use the formula above. Substitute your subtractions to date for your income.
2. Your annualized itemized deductions. Use the formula above. Substitute your itemized deductions to date for your income.
3. Your standard deduction based on your filing status if you are not itemizing. (Do not annualize the standard deduction.)
4. Federal tax figured on your annualized federal taxable income. Use the federal tax rate charts to determine the tax on your annualized federal taxable income. **Note:** The federal tax subtraction is limited to $4,000 ($2,000 if married filing separately).

Then use the Oregon tax rate charts or tax tables in the 2004 income tax booklet instructions to figure your annualized tax before credits. To find the 2004 tax instruction booklet, visit our Web site at www.oregon.gov/DOR or call us to order a copy at 503-378-4988 or toll-free within Oregon 1-800-356-4222.

Your annualized tax must be reduced by:

- The exemption credits you claimed on your 2004 Oregon return, and
- Any other Oregon credit in the period you earn it.

Example 1: Jerry and Sharon's daughter, Jeralyn, was born in June 2004. Sharon donated $100 to a qualifying political organization on June 5. When they figure their annualized tax, they are allowed the additional exemption credit for all periods. However, they are allowed to subtract the political contribution credit from their annualized tax only for the periods in which it was paid. This would be the third period, January 1 to August 31, and the fourth period, January 1 to December 31.

Use the following formulas to decide how much tax you should have paid.

First payment period	.225 × annualized tax
Second payment period	.45 × annualized tax
Third payment period	.675 × annualized tax
Fourth payment period	.90 × annualized tax

For each payment period, subtract the prior payments required under the annualized method. This will give you the required payment for the current period.

Compare the amount you should have paid to your actual payments. Include tax withheld from your wages but **only** the amount for the period of the estimated tax payment.

Example 2: Del and Rena are married, filing a joint return, full-year Oregon residents, and have no dependents. Neither is 65 or older or blind. They filed Form 40ES and paid $450 on each of the four payment dates. They had no withholding tax. They had the following 2004 income:

Period	Federal adjusted gross income
January 1 to March 31	$8,000
January 1 to May 31	16,000
January 1 to August 31	20,000
January 1 to December 31	38,000

First payment

2004 annualized income		
$8,000 × 4 =		$ 32,000
Less: Standard deduction	– 3,445	
Federal tax subtraction	– 1,700	
Total deductions		– 5,145
Annualized taxable income		$ 26,855
Oregon tax		$ 2,233
Less: Exemption credit (2 × $151)		– 302
2004 annualized Oregon tax		$ 1,931
• 90% of the first period's tax $1,931 × .225 (1st required installment—pay this amount)		$ 434
Actual estimated tax payment for first quarter		$ 450

Their total tax payment of $450 is more than 90 percent of their annualized tax for the first quarter ($434). They have a $16 overpayment to apply to the second payment period. Because they do not have an underpayment, they do not owe interest for the first payment period.

Second payment

2004 annualized income		
$16,000 × 2.4 =		$ 38,400
Less: Standard deduction	– 3,445	
Federal tax subtraction	– 2,660	
Total deductions		– 6,105
Annualized taxable income		$ 32,295
Oregon tax		$ 2,539
Less: Exemption credit (2 × $151)		– 302
2004 annualized Oregon tax		$ 2,237
• 90% of the second period's tax $2,237 × .45		$ 1,007
Less: Prior required payment		– 434
Required second-period payment		$ 573
Actual estimated tax payment for second period	$ 450	
Overpayment for first period	16	
Total payments for second period		$ 466

Their tax payment of $466 is less than the $573 required payment for the second period. Del and Rena have to pay interest on the $107 second-period underpayment.

Third payment

2004 annualized income		
$20,000 × 1.5 =		$ 30,000
Less: Standard deduction	– 3,445	
Federal tax subtraction	– 1,410	
Total deductions		– 4,855
Annualized taxable income		$ 25,145
Oregon tax		$ 1,900
Less: Exemption credit (2 × $151)		– 302
2004 annualized Oregon tax		$ 1,598
• 90% of the third period's tax $1,598 × .675		$ 1,079
Less: Prior required payments		– 1,007
Required third-period payment		$ 72
Estimated tax payment for third period	$450	
Less: Payment applied to second-period underpayment	– 107	
Total remaining payment for third period		$ 343

The remaining payment ($343) is more than the required payment of $72. Del and Rena will not pay interest on their third payment. They have a $271 overpayment to apply to the fourth period.

Fourth payment

2004 annualized income		
$38,000 × 1.0 =		$ 38,000
Less: Standard deduction	– 3,445	
Federal tax subtraction	– 2,600	
Total deductions		– 6,045
Annualized taxable income		$ 31,955
Oregon tax		$ 2,512
Less: Exemption credit (2 × $151)		– 302
2004 annualized Oregon tax		$ 2,210
• 90% of the fourth period's tax $2,210 × .90		$ 1,989
Less: Prior required payments		– 1,079
Required fourth-period payment		$ 910
Estimated tax payment for fourth period	$ 450	
Overpayment from third period	271	
Total payments for fourth period		$ 721

Their tax payment of $721 is less than the $910 required payment for the fourth period. They have to pay interest on the $189 fourth-period underpayment.

Estimated tax

Who must pay

Oregon law requires some taxpayers to pay estimated tax. Oregon's estimated tax system is similar to the federal estimated tax system. But when you figure estimated tax for Oregon:

- Use Oregon income tax laws and tax rates.
- Do not include Social Security tax (FICA), self-employment tax, or household employment tax.

In most cases, you must make estimated tax payments if you will owe **$1,000** or more when you file your 2005 Oregon income tax return. The tax you owe is your Oregon tax—after you subtract your credits and the tax withheld from your income—but before you subtract any 2004 refund you applied to your 2005 estimated tax.

Pay estimated tax for tax year 2005 if:

You expect to owe **$1,000** or more when you file your 2005 Oregon income tax return, **and** you estimate that the total amount of income tax withholding will be less than:

- 100 percent of the tax shown on your 2004 income tax return that covered all 12 months of the year, or
- 90 percent of the tax to be shown on your 2005 income tax return, or
- 90 percent of the tax on your 2005 annualized income.

Even if you expect to owe less than $1,000, you may still make estimated tax payments.

Note: Estimated tax payments are not a substitute for withholding of Oregon income tax from wage income.

You may file a joint estimated tax Form 40-V with your spouse unless **any of the following is true:**

- You or your spouse are nonresident aliens.
- You are legally separated.
- You and your spouse have different tax years. For example, you use a calendar year, and your spouse uses a fiscal year.

If you file a joint estimated tax Form 40-V, the payments are considered to be joint, regardless of which spouse actually made the estimated tax payment.

You may file separate Oregon income tax returns even if you file a joint Form 40-V. If you file separate income tax returns after filing a joint Form 40-V, you and your spouse should decide who will claim the joint estimated tax payments. You may divide the estimated tax between you or agree that one of you will claim the entire amount. If you and your spouse cannot agree, generally your estimated tax will be divided based on your separate tax liabilities.

Note: If you expect to file separate tax returns, use separate estimated tax accounts to aid processing of your return.

Tax rate charts for estimating 2005 Oregon tax

Tax rate chart S:

For persons filing single or married filing separately

If taxable income is:	***The tax is:***
Not over $2,650	5% of taxable income
Over $2,650 but not over $6,650	$133 plus 7% of the excess over $2,650
Over $6,650	$413 plus 9% of the excess over $6,650

Tax rate chart J:

For persons filing jointly, head of household, or qualifying widow(er) with dependent child

If taxable income is:	***The tax is:***
Not over $5,300	5% of taxable income
Over $5,300 but not over $13,300	$265 plus 7% of the excess over $5,300
Over $13,300	$825 plus 9% of the excess over $13,300

Caution: The tax rates change because of inflation. Use this rate chart for figuring your 2005 estimated tax. Don't use a 2004 rate chart.

Gross income

Generally, gross income includes all income you receive during the year. There are some exceptions, such as Social Security, Railroad Retirement Board benefits, and welfare payments.

Gross income includes wages, interest, and dividends. It also includes gross profit from rentals, royalties, businesses, farming, fishing, capital gains, and the sale of property. Do not subtract expenses, except cost of goods sold, when figuring gross profit.

Farmers and commercial fishers

Farmers and fishers are not required to pay estimated tax if at least two-thirds of their 2004 gross income or two-thirds of their 2005 estimated gross income from all sources is from farming or fishing. This includes oyster farming.

You still need to file Form 10, *Underpayment of Oregon Estimated Tax,* with your Oregon income tax return to show you do not owe estimated tax. Visit our Web site at www.oregon.gov/DOR to download the form. Or, to order the form, call us at 503-378-4988 or toll-free within Oregon at 1-800-356-4222.

Your Oregon return is due April 15, 2005, even if you were required to file your federal return earlier.

Employees of farmers or fishers do not qualify for this exception.

Farmers. Use the amounts on the following federal forms to determine your gross income from farming:

- Federal Schedule F, line 11.
- Federal Schedule E, line 42.
- Federal Form 4797, line 20 (include only gains from sale of livestock held for draft, breeding, sporting, or dairy purposes).

Oregon allows farm income averaging for income tax purposes. Order Form FIA-40 (full-year resident) or Form FIA-40N/P (part-year resident and nonresident) for more information. You may download these forms from our Web site at www.oregon.gov/DOR.

Fishers. Use the amounts from the following federal schedules to determine your gross income from fishing:

- Schedule C, line 5.
- Schedule C-EZ, line 1.
- Schedule E, line 42.

Example 1: Waldo is a farmer. He wants to know if he must pay estimated tax. His 2004 return shows the following:

Wages	$12,000
Interest	700
Net farm income	3,000
Total adjusted gross income	$ 15,700

His farm schedule shows:

Gross income from crop sales	$35,000
Total expenses	–32,000
Net farm profit	$ 3,000

His gross income is:

Wages	$12,000
Interest	700
Farm gross income	35,000
Total gross income	$ 47,700
⅔ of $47,700	$31,800
Farm gross income	$35,000

Waldo does not have to pay estimated tax. His farm gross income of $35,000 is more than two-thirds (66.7 percent) of his total gross income ($47,700 × .667 = $31,800). But he does need to file Form 10 with his tax return.

Example 2: Vern is a farmer. Julie is a wage earner and an artist. They will file jointly and want to know if they must pay estimated tax for 2005. Their return shows the following:

Schedule C business loss	$ (1,500)
Wages	25,000
Net farm income	18,500
Adjusted gross income	$42,000

Their farm schedule shows:

Gross crop sales	$ 10,000
Gross livestock sales	17,000
Farm gross income	$ 27,000
Total expenses	– 8,500
Net farm profit	$ 18,500

Their business Schedule C shows:

Gross receipts	$20,000
Cost of goods sold (COGS)	–12,000
Gross income after COGS	8,000
Total expenses	9,500
Net Schedule C business loss	$ (1,500)

Their gross income is:

Business gross income after COGS	$ 8,000
Wage income	25,000
Farm gross income	27,000
Total gross income	$ 60,000
⅔ of $60,000 (gross income)	$ 40,000
Farm gross income	$ 27,000

Vern and Julie estimated their 2005 gross income and gross farm income will be about the same as their 2004 income amounts. Because less than two-thirds of their gross income is from farming, they should make quarterly estimated tax payments for 2005.

Nonresidents and part-year residents

Nonresidents figure Oregon estimated tax only on income that is:

- Subject to Oregon withholding, or
- From conducting a trade or business within Oregon.

Use one of the worksheets in the estimated tax booklet to figure the tax. Follow the same instructions as full-year residents for filing Form 40-V and paying estimated tax.

The amount of your payment is based on the tax you compute using one of the methods shown on pages 110–112. Use your 2004 Form 40N or Form 40P as a guideline to estimate your 2005 Oregon income tax. Follow the same instructions, generally, for filing Form 40-V and paying estimated tax as full-year residents do.

Farmer or fisher

Figure your gross income as all the gross income you expect to earn both in and out of Oregon to determine if you need to pay Oregon estimated tax.

Example: Felicia, a resident of Washington, owns a farm in Oregon. All of her other income is from nonfarm sources within Washington. Her total farm income from Oregon sources is $50,000. Her total gross income from within and outside of Oregon is $90,000. Since Felicia's gross income from farming is not equal to or greater than two-thirds of her total gross income, she does not qualify for the exception for farmers and fishers. She must make estimated tax payments.

S corporation, limited liability company (LLC), or partnership income

If you are a shareholder in an S corporation, are a member of an LLC, or are a partner in a partnership with income from Oregon sources, you may need to make estimated tax payments.

Part-year residents. Generally, for the part of the year you were a nonresident, you are subject to Oregon tax on your share of the Oregon income reported by the S corporation, LLC, or partnership. Partners must also report guaranteed payments. For the part of the year your were a resident, you are subject to Oregon tax on your share of all the S corporation, LLC, or partnership income.

Nonresidents. You are subject to Oregon tax on your share of the Oregon income reported by the S corporation, LLC, or partnership. You are also subject to Oregon tax on any guaranteed payments from the partnership. The payments are apportioned using the partnership's apportionment percentage.

Retirees

If you are retired or soon will retire, you may need to make estimated tax payments. Or, you may have Oregon income tax withheld from your retirement income. Contact the payer of such income to see if this is possible.

Retirees who are Oregon residents but not living in Oregon may be subject to tax on their Oregon-source pensions. This law applies to retirees who still have Oregon as their domicile but file as nonresidents.

Nonresident aliens

Estimated tax filing requirements are the same for both United States citizens and nonresident aliens. Nonresident aliens can be either **Oregon** residents or nonresidents. If you or your spouse is a nonresident alien, you must file separate estimated tax forms.

Fiduciaries

Do not file Form 40-V. You do not need to pay estimated tax on behalf of an estate or trust.

Due dates

2005 estimated tax for calendar-year taxpayers

First payment—due April 15, 2005.
Second payment—due June 15, 2005.
Third payment—due September 15, 2005.
Fourth payment—due January 17, 2006.

If you find you still owe more income tax, pay the balance by April 17, 2006. You must pay the tax even if you get an extension to file your tax return.

Special cases

You do not need to make the fourth payment if:

- You file your Oregon tax return before February 1, 2006, and
- You pay all tax due with your return.

You still must pay estimated tax on the earlier payment dates.

Fiscal-year taxpayers

Pay one-fourth of your Oregon estimated tax on the 15th day of the fourth, sixth, and ninth months of your tax year. The last payment is due 15 days after the end of your tax year. If the due date falls on a Saturday, Sunday, or legal holiday, use the next regular workday.

Example: Your tax year begins July 1 and ends June 30. The estimated tax Form 40-V and payments are due:

- October 16.
- December 15.
- March 15.
- July 15.

Additional withholding

If you do not have enough Oregon tax withheld from your wages, you should ask your employer to increase your withholding. You can change your Oregon withholding without changing your federal withholding. File a new federal Form W-4, *Employee's Withholding Allowance Certificate,* with your employer. Write "For state use only" on the W-4.

Do you and your spouse both work? Or, do you or your spouse have two jobs? If so, information is available to help you figure the amount of tax that should be withheld from your wages. Send for *Oregon Income Tax Withholding: Some Special Cases,* (150-206-643) by writing to: Forms, Oregon Department of Revenue, PO Box 14999, Salem OR 97309-0990. Or, visit our Web site at www.oregon.gov/DOR.

How to figure your payments

You will need:

- Your 2004 Oregon income tax return and instructions.
- 2005 exemption credit: $154.
- 2005 federal tax subtraction limit: $4,500 ($2,250 married filing separately).
- 2005 tax rate charts, page 107.

You may need:

- Your federal income tax return and schedules.
- The appropriate worksheet from the estimated income tax instructions for Form 40-V.

Method 1: Estimate—2005

90 percent of your 2005 net income tax. To figure your payments under this method, use the appropriate worksheet in the estimated income tax instructions for Form 40-V.

Use your 2004 income tax returns and instructions as **guides** to estimate your 2005 federal adjusted gross income (AGI).

Example: Basil used his 2004 tax return to estimate his 2005 income and Oregon tax. He estimates his net tax liability for Oregon will be $3,600. Basil should pay 90 percent of that amount ($3,600 × .90 = $3,240) in four equal payments. Each payment period he should pay $810 ($3,240 ÷ 4).

Method 2: Safe Harbor—2004

100 percent of the tax shown on your 2004 income tax return. Your 2004 return must show a net income tax and be filed on time, including extensions. Pay 25 percent of this amount on each estimated tax payment due date. You cannot use this method if for tax year 2004 you:

- Did not file an Oregon return, or
- Filed a short-year return.

Example: Arianne's 2004 tax was $1,000 after credits. She should pay $250 ($1,000 ÷ 4) on each of the estimated tax due dates.

Method 3: Annualized—2005

90 percent of your 2005 annualized net income tax. If you do not receive your taxable income evenly throughout the year, you may annualize your income to figure your estimated tax payments. Use the annualized income worksheet on the Form 10, *Interest on Underpayment of Estimated Tax*, as a guide in figuring your estimated tax payments under this method. Download Form 10 and instructions from our Web site at www.oregon.gov/DOR. Or, call us to order the form at 503-378-4988 or toll-free in Oregon at 1-800-356-4222.

Computing your annualized tax. Compute your Oregon income from the beginning of the year to the end of the month preceding the estimated tax payment due date. For example, if you are annualizing your income through June 15, include only your income from January through May. Do not include income earned between June 1 and June 15.

Next, figure your Oregon itemized deductions, additions, and subtractions for the same period. You do not need to figure your itemized deductions if you are taking the standard deduction.

Then, use the following formula to figure your annualized income, itemized deductions, additions, and subtractions.

First payment

Actual income January 1 to
March 31 × 4 = $___ annualized amount

Second payment

Actual income January 1 to
May 31 × 2.4 = $___ annualized amount

Third payment

Actual income January 1 to
August 31 × 1.5 = $___ annualized amount

Fourth payment

Actual income January 1 to
December 31 × 1.0 = $___ annualized amount

To figure your annualized Oregon taxable income, add your annualized Oregon additions to your annualized federal adjusted gross income. Each of these must be annualized amounts for this method. Then subtract:

- Your annualized Oregon subtractions. Do not include your federal tax subtraction. Use the formula above. Substitute your subtractions to date for your income.
- Your annualized itemized deductions. Use the formula above. Substitute your itemized deductions to date for your income.
- Your standard deduction based on your filing status if you are not itemizing. Do not annualize the standard deduction.
- Federal tax figured on your annualized federal taxable income. Use the federal tax rate charts to determine the tax on your annualized federal taxable income. The 2005 federal tax subtraction is limited to $4,500 ($2,250 if married filing separately).

Then use the Oregon tax rate charts on page 107 to figure your annualized tax before credits. Oregon's tax rates change each year because of inflation. Be sure to use the charts on page 107 for figuring your 2005 estimated tax. Do not use a 2004 rate chart.

You must reduce your annualized tax by:

- The exemption credits you expect to claim on your Oregon return, $154 each in 2005; and
- Any other Oregon credit in the period you earn it to arrive at net annualized tax.

Example 1: Bill and Mary are married with no dependents. Neither is 65 or older or blind. They had no withholding tax. They had the following income:

Period	Federal adjusted gross income
January 1 to March 31	$ 8,000
January 1 to May 31	16,000
January 1 to August 31	20,000
January 1 to December 31	38,000

First payment

Annualized income		
$8,000 × 4 =		$ 32,000
Less: Standard deduction	– 3,445	
Federal tax subtraction	– 1,700	
Total deductions		– 5,145
Annualized taxable income		$ 26,855
Oregon tax		$ 2,045
Less: 2005 exemption credit (2 × $154)		– 308
Annualized Oregon tax		$ 1,737
• 90% of the first period's tax $1,737 × .225 (1st required installment—pay this amount)		$ 391

Second payment

Annualized income		
$16,000 × 2.4 =		$ 38,400
Less: Standard deduction	– 3,445	
Federal tax subtraction	– 2,660	
Total deductions		– 6,105
Annualized taxable income		$ 32,295
Oregon tax		$ 2,535
Less: 2005 exemption credit (2 × $154)		– 308
Annualized Oregon tax		$ 2,227
• 90% of the second period's tax $2,227 × .45 (2nd required installment—[$1,002 – 391] pay $611)		$ 1,002

Third payment

Annualized income		
$20,000 × 1.5 =		$ 30,000
Less: Standard deduction	– 3,445	
Federal tax subtraction	– 1,410	
Total deductions		– 4,855
Annualized taxable income		$ 25,145
Oregon tax		$ 1,891
Less: 2005 exemption credit (2 × $154)		– 308
Annualized Oregon tax		$ 1,583
• 90% of the third period's tax $1,583 × .675 (3rd required installment—[$1,069 – 391 – 611] pay $67)		$ 1,069

Fourth payment

Annualized income		
$38,000 × 1.0 =		$ 38,000
Less: Standard deduction	– 3,445	
Federal tax subtraction	– 2,600	
Total deductions		– 6,045
Annualized taxable income		$ 31,955
Oregon tax		$ 2,508
Less: 2005 exemption credit (2 × $154)		– 308

Annualized Oregon tax	$ 2,200
• 90% of the fourth period's tax $2,200 × .9 (4th required installment—[$1,980 – 391 – 611 – 67] pay $911)	$ 1,980

Short-year taxpayers

You do not need to file Form 40-V, the estimated tax payment voucher, if the short taxable year is less than **four** months. If the short year is longer than four months, you may need to file Form 40-V.

Applying income tax refund to estimated tax payment

If your refund is $1 or more and you have a timely filed return, you may apply it to next year's estimated tax payments. You must file Form 40, Form 40N, or Form 40P. Your refund will be applied to your first payment due unless you tell us otherwise. You may not apply your refund if you file Form 40S.

If in prior years your tax due was paid by withholding and your economic situation has changed, you may need to begin paying estimated tax.

If you apply your refund to your estimated taxes and the Oregon Department of Revenue reduces your refund, you may need to make a payment for the difference. Do so immediately. **We apply payments first to underpayments from earlier periods.**

Example: The June 15 payment is first applied to any underpayment for the first payment period. The balance of the June payment is then applied to the second payment period.

What to do if your estimated income, deductions, or credits change

Amended estimated tax. Did your expected income or deductions change after you made your first estimated tax payment? If so, refigure your estimated tax, using the new income or deductions. Then use the amended estimated tax worksheet in the estimated tax booklet to figure how much to pay.

Did not pay estimated tax on April 15?

Even if you do not need to pay estimated tax on April 15…

- If your expected income, deductions, or credits change, you may need to pay estimated tax at a later date. Fill out the appropriate estimated tax worksheet in the estimated tax booklet.
- If your income changes after April 1 and before June 2, file by June 15. Make three equal payments.
- If your income changes after June 1 and before September 2, file by September 15. Make two equal payments.
- If your income changes after September 1, file by January 18. Pay your estimated tax in full.

Oregon's Elderly Rental Assistance program (ERA)

Elderly Rental Assistance is for low-income people who rent their home and are age 58 or older on December 31, 2004. **Your household income must be less than $10,000 to qualify for this program.** The property you rent must be subject to property tax. If the property you rent is exempt from property tax, you are not eligible for ERA.

You must file Form 90R to receive an ERA check. The payment is based on your income, assets, and the amount of rent, fuel, and utilities you paid.

Visit our Web site at www.oregon.gov/DOR to download the complete ERA instructions and Form 90R. Or, call us to order at 503-378-4988 or toll-free within Oregon 1-800-356-4222.

Important information

The ERA filing deadline. The deadline for filing your 2004 ERA claim (Form 90R) is July 1, 2005.

If you file Form 90R after July 1, 2005, your claim will be processed the following year. Your ERA check also will be issued the following year in mid-November 2006.

Qualifications

You must meet **all** of the following requirements:

- You or your spouse was age 58 or older on December 31, 2004; and

- Your total household income was less than $10,000; and
- You paid more than 20 percent of your household income for rent, fuel, and utilities; and
- If you and your spouse are under 65, the value of your household assets is not more than $25,000. If you or your spouse are age 65 or older, there is no limit on the value of your household assets; and
- You paid rent in Oregon in 2004; and
- The property you rented was subject to property tax; and
- You lived in Oregon on December 31, 2004; and
- You did not own your residence and land on December 31, 2004. You did not have to be renting on that date to qualify for a rent refund. But you cannot claim an ERA refund if you owned your home and land on December 31, 2004.

Caution: Filing a fraudulent claim is against the law. If you file a fraudulent Form 90R, you could be charged with a class C felony. You could be fined up to $100,000, serve a jail sentence, or both. In addition, you would have to pay back twice the amount of your Elderly Rental Assistance check plus interest.

Appendix

Contents

2004 Household Income Checklist

2004 Working Family Child Care Credit Tables

2004 Standard Numeric Codes for Oregon Other Additions, Subtractions, Deductions, Modifications, and Credits

2004 Department of Revenue Publication Order

2004 Forms Order for Practitioners

Household Income Checklist

	Household Income Yes	Household Income No
Alimony and separate maintenance	×	
Annuities and pensions (reduced by cost recovery)	×	
*Business income (reduced by expenses)	×	
Cafeteria plan benefits		×
*Capital loss carryover		×
*Capital losses (in year determined)	×	
Child support	×	
Child support included in welfare	×	
Clergy's rental or housing allowance, in excess of expenses claimed to determine federal AGI	×	
Compensation for services performed		
Back pay	×	
Bonuses	×	
Clergy's fees	×	
Commissions	×	
Director's fees	×	
Fees in general (trustee, executor, jury duty)	×	
Lodging for convenience of employer		×
Meals for convenience of employer		×
Salaries	×	
Severance pay	×	
Tips	×	
Wages	×	
Deferred compensation		
Contributions made		×
Payments received	×	
Depletion in excess of basis	×	
Depreciation, depletion, and amortization in excess of $5,000	×	
Disability income (entire amount)	×	
Dividends, taxable and nontaxable	×	
Credit union savings account "dividends" (interest)	×	
Insurance policy "dividends" (return of premium)		×
Return of capital dividends		×
Stock dividends	×	
Tax-exempt dividends	×	
Earned income credit, advanced		×
*Estate and trust income (also see Inheritance)	×	
*Farm income (reduced by expenses)	×	
Agricultural program payments	×	
Patronage dividends	×	
Proceeds from sale of crops and livestock	×	
Rents	×	
Sale of services	×	
Fellowships	×	
Foreign income excluded from federal AGI	×	
Foster child care (reduced by expenses)		×
Funeral expenses received		×
Gains on sales (receipts less cost)	×	
Excluded gain for Oregon on sale of residence		×
Gambling winnings (without reduction for losses)	×	
Gifts and grants (totaling more than $500 in value)	×	
Cash	×	
Gifts from nonspouse in the same household	×	
Gifts from spouse in the same household	×	
Gifts other than cash (report at fair market value)	×	
Payment of indebtedness by another person	×	
Grants and payments by foreign governments not included in federal adjusted gross income	×	
Grants by federal government for rehabilitation of home		×

** Losses limited to $1,000.*

Household Income	Yes	No
Gratuities	×	
Hobby income	×	
Honorariums	×	
Individual Retirement Arrangement (IRA)		
Conventional IRA		
Payments received	×	
Payments contributed		×
Rollovers or conversions		×
Roth IRA		
Payments received		×
Payments contributed	×	
Rollovers or conversions		×
Inheritance	×	
From spouse who resided in the same household		×
Insurance proceeds		
Accident and health	×	
Disability payments	×	
Employee death benefits	×	
Life insurance	×	
Personal injury damages (less attorney fees)	×	
Property damage if included in federal income	×	
Reimbursement of medical expense		×
Sick pay (employer sickness and injury pay)	×	
Strike benefits	×	
Unemployment compensation	×	
Workers' compensation	×	
Interest, taxable and nontaxable	×	
Contracts	×	
Municipal bonds and other securities	×	
Savings accounts	×	
Tax-exempt interest	×	
U.S. Savings Bonds	×	
*Losses on sales (to extent used in determining adjusted gross income)	×	
From sales of real or personal property (nonbusiness)		×
Lottery winnings	×	
Lump-sum distribution (less cost recovery)	×	
Military and veteran's benefits (taxable and nontaxable)		
Combat pay	×	
Disability pensions	×	
Educational benefits (GI Bill)	×	
Family allowances	×	
Pensions	×	
Net operating loss carryback and carryover		×
*Partnership income (reduced by expenses)	×	
Parsonage (rental value) or housing allowance received by clergy in excess of expenses used in determining federal AGI	×	
Pensions and annuities (taxable and nontaxable) (reduced by cost recovered in the current year)	×	
Prizes and awards	×	
Railroad Retirement Board benefits (see Social Security and Railroad Retirement Board benefits)	×	
Refunds		
Earned income credit		×
Federal tax		×
Property tax		×
Oregon income tax		×
Other states' income tax (if included in federal AGI)	×	
Reimbursements (in excess of expenses incurred)	×	
For moving expense	×	
For travel	×	
Rental allowances paid to ministers and not included in federal adjusted gross income	×	
*Rental and royalty income (reduced by expenses)	×	
Residence sales (see gains on sales)	×	
Retirement benefits (see pensions, Social Security and Railroad Retirement Board benefits)		
Sales (see gains on sales and losses on sales)		

** Losses limited to $1,000.*

	Household Income Yes	Household Income No
Scholarships (excess over $500)	×	
Sick pay	×	
Social Security and Railroad Retirement Board Benefits (taxable and nontaxable)	×	
Children's benefits paid to parent	×	
Children's benefits paid to your child		×
Disability pension	×	
Medicare payments of medical expenses		×
Medicare premiums deducted from Social Security	×	
Old-age benefits	×	
Supplemental Security income	×	
Survivor benefits	×	
Stipends (excess over $500)	×	
Strike benefits	×	
Support from parents who don't live in your household	×	
Trust income	×	
Unemployment compensation	×	

	Household Income Yes	Household Income No
Wages	×	
Welfare benefits	×	
Aid to blind and disabled	×	
Aid to dependent children	×	
Child care payments	×	
Child support included in welfare	×	
Direct payments to nursing home	×	
Food stamps (or cash payments in lieu of food stamps)		×
Fuel assistance		×
In-home services approved by the Department of Human Services		×
Medical payments to doctors		×
Old-age assistance	×	
Payments for medical care, drugs, medical supplies, and services for which no direct payment is received		×
Reimbursements of expenses paid or incurred by participants in work or training programs		×
Special shelter allowance		×
Surplus food		×
Women, Infants, and Children program (WIC)		×

Working Family Child Care Credit—2004 Tables

Table 1, household size = 1

If the amount on Schedule WFC, line 16 is: at least:	but less than:	Enter this decimal amount on Schedule WFC, line 18:
——	$18,600	.40
$18,600	19,550	.36
19,550	20,500	.32
20,500	21,400	.24
21,400	22,350	.16
22,350	23,300	.08
23,300	——	.00

Table 2, household size = 2

If the amount on Schedule WFC, line 16 is: at least:	but less than:	Enter this decimal amount on Schedule WFC, line 18:
——	$25,000	.40
$25,000	26,250	.36
26,250	27,500	.32
27,500	28,750	.24
28,750	30,000	.16
30,000	31,250	.08
31,250	——	.00

Table 3, household size = 3

If the amount on Schedule WFC, line 16 is: at least:	but less than:	Enter this decimal amount on Schedule WFC, line 18:
——	$31,350	.40
$31,350	32,900	.36
32,900	34,450	.32
34,450	36,050	.24
36,050	37,600	.16
37,600	39,200	.08
39,200	——	.00

Table 4, household size = 4

If the amount on Schedule WFC, line 16 is: at least:	but less than:	Enter this decimal amount on Schedule WFC, line 18:
——	$37,700	.40
$37,700	39,600	.36
39,600	41,450	.32
41,450	43,350	.24
43,350	45,250	.16
45,250	47,150	.08
47,150	——	.00

Table 5, household size = 5

If the amount on Schedule WFC, line 16 is: at least:	but less than:	Enter this decimal amount on Schedule WFC, line 18:
——	$44,050	.40
$44,050	46,250	.36
46,250	48,450	.32
48,450	50,650	.24
50,650	52,850	.16
52,850	55,100	.08
55,100	——	.00

Table 6, household size = 6

If the amount on Schedule WFC, line 16 is: at least:	but less than:	Enter this decimal amount on Schedule WFC, line 18:
——	$50,400	.40
$50,400	52,950	.36
52,950	55,450	.32
55,450	58,000	.24
58,000	60,500	.16
60,500	63,050	.08
63,050	——	.00

Table 7, household size = 7

If the amount on Schedule WFC, line 16 is: at least:	but less than:	Enter this decimal amount on Schedule WFC, line 18:
——	$56,800	.40
$56,800	59,600	.36
59,600	62,450	.32
62,450	65,300	.24
65,300	68,150	.16
68,150	71,000	.08
71,000	——	.00

Table 8, household size = 8*

If the amount on Schedule WFC, line 16 is: at least:	but less than:	Enter this decimal amount on Schedule WFC, line 18:
——	$63,150	.40
$63,150	66,300	.36
66,300	69,450	.32
69,450	72,600	.24
72,600	75,750	.16
75,750	78,950	.08
78,950	——	.00

Working Family Child Care Credit—2004 Tables

Table 9, household size = 9

If the amount on Schedule WFC, line 16 is: at least:	but less than:	Enter this decimal amount on Schedule WFC, line 18:
——	$69,500	.40
$69,500	73,000	.36
73,000	76,450	.32
76,450	79,950	.24
79,950	83,400	.16
83,400	86,900	.08
86,900	——	.00

Table 10, household size = 10

If the amount on Schedule WFC, line 16 is: at least:	but less than:	Enter this decimal amount on Schedule WFC, line 18:
——	$75,850	.40
$75,850	79,650	.36
79,650	83,450	.32
83,450	87,250	.24
87,250	91,050	.16
91,050	94,850	.08
94,850	——	.00

Table 11, household size = 11

If the amount on Schedule WFC, line 16 is: at least:	but less than:	Enter this decimal amount on Schedule WFC, line 18:
——	$82,200	.40
$82,200	86,350	.36
86,350	90,450	.32
90,450	94,550	.24
94,550	98,650	.16
98,650	102,800	.08
102,800	——	.00

Table 12, household size = 12

If the amount on Schedule WFC, line 16 is: at least:	but less than:	Enter this decimal amount on Schedule WFC, line 18:
——	$88,600	.40
$88,600	93,000	.36
93,000	97,450	.32
97,450	101,850	.24
101,850	106,300	.16
106,300	110,750	.08
110,750	——	.00

Table 13, household size = 13

If the amount on Schedule WFC, line 16 is: at least:	but less than:	Enter this decimal amount on Schedule WFC, line 18:
——	$94,950	.40
$94,950	99,700	.36
99,700	104,450	.32
104,450	109,200	.24
109,200	113,950	.16
113,950	118,700	.08
118,700	——	.00

Table 14, household size = 14

If the amount on Schedule WFC, line 16 is: at least:	but less than:	Enter this decimal amount on Schedule WFC, line 18:
——	$101,300	.40
$101,300	106,350	.36
106,350	111,450	.32
111,450	116,500	.24
116,500	121,550	.16
121,550	126,650	.08
126,650	——	.00

Table 15, household size = 15

If the amount on Schedule WFC, line 16 is: at least:	but less than:	Enter this decimal amount on Schedule WFC, line 18:
——	$107,650	.40
$107,650	113,050	.36
113,050	118,450	.32
118,450	123,800	.24
123,800	129,200	.16
129,200	134,600	.08
134,600	——	.00

Table 16, household size = 16*

If the amount on Schedule WFC, line 16 is: at least:	but less than:	Enter this decimal amount on Schedule WFC, line 18:
——	$114,000	.40
$114,000	119,700	.36
119,700	125,400	.32
125,400	131,100	.24
131,100	136,800	.16
136,800	142,550	.08
142,550	——	.00

**If your household size is larger than 16, please contact the department for the tables you need. See page 4 for taxpayer assistance information.*

Standard Numeric Codes for Oregon Other Additions, Subtractions, Deductions, Modifications, and Credits

Numeric codes are required to be used when a taxpayer is claiming or reporting one of the following items and the line is not preprinted on the Oregon form. The former abbreviation (if applicable) is shown for your reference only. Do not prepare returns using the former abbreviation.

Federal adjustments to income	Code
Deduction for clean-fuel vehicles	001
Certain business expenses of reservists, performing artists, and fee-basis government officials	002
Health savings account deduction	003
Penalty on early withdrawal of savings	004
Any other adjustment to income reported on federal Form 1040, line 35	005

Additions	[Former Abbreviation]	Code
Accumulation distribution from a trust	[Fid]	100
American Jobs Creation Act provisions		126
Anti-churning rule denying ACRS and MACRS	[Dif dep]	101
Basis of business assets transferred into Oregon	[Dif dep]	101
Child Care Fund contributions		123
Claim of right income repayments	[COR]	103
Depletion in excess of property basis	[Depl]	104
Depreciation difference for Oregon	[Dif dep]	101
Disposition of inherited Oregon farmland or forestland	[Inher F/F]	106
Educator expenses from federal return		125
Federal election on interest and dividends of a minor child	[Minor]	107
Federal estate tax on income in respect of a decedent	[IRD]	108
Federal income tax refunds	[Fed ref]	109
Fiduciary adjustments from Oregon estates and simple or complex trusts	[Fid]	100
Gain or loss on the sale of depreciable property with different basis for federal and Oregon purposes	[Basis dif]	111
Gambling losses claimed as an itemized deduction	[Gambling]	112
Individual Development Account	[IDA]	113
Long-term care insurance premiums	[LTCIP]	114
Lump-sum distributions from a qualified retirement plan	[Lump sum]	115
Military Family Tax Relief Act provisions	[MFTRA]	102
Net operating loss	[NOL]	116
Non-qualified withdrawal from an Oregon 529 College Savings Network account	[QTSP]	117
Oregon Cultural Trust	[OCT]	124
Oregon deferral of reinvested capital gain	[Fed defer]	118
Oregon Partnership Modification	[OPM]	119
Oregon S-Corp Modifications		119
Passive activity losses	[PAL]	120
Passive foreign investment company income (a.k.a. Specially taxed income)		115
Sale of depreciable property with different basis for federal and Oregon purposes, gain or loss	[Basis dif]	111
Specially taxed income under federal law		115
Unused business credit	[UBC]	122

Subtractions	[Former Abbreviation]	Code
American Jobs Creation Act provisions		334
American Indian	[Amer Ind]	300
Artist's charitable contribution	[Art]	301
Claim of right income repayments	[COR]	302
Construction worker and logger commuting expenses	[LCCC]	303
Depreciation difference for Oregon	[Dif dep]	304
Domestic partner benefits	[Partner]	305
Federal gain previously taxed by Oregon.	[Fed gain]	306
Federal pension income	[Fed pen]	307
Federal tax credits	[Fed exp]	308
Federal income tax	[Prior fed]	309
Fiduciary adjustments from Oregon estates and simple or complex trusts	[Fid]	310
Foreign tax	[Foreign]	311
Gain or loss on the sale of depreciable property with different basis for federal and Oregon purposes	[Basis dif]	312
Higher education expense (a.k.a. Tuition and fees deduction)	[High ed]	313
Individual Development Account	[IDA]	314
Interest and dividends on U.S. bonds and notes	[US int]	315
Land donation to educational institutions	[Land]	316
Local government bond interest	[LGBI]	317
Logger and construction worker commuting costs	[LCCC]	303
Military active duty	[Military]	319
Mortgage interest credit	[Dif hm]	320
Net operating loss	[NOL]	321
Oregon lottery winnings	[OR lott]	322
Oregon Partnership Modification	[OPM]	323
Oregon 529 College Savings Network	[QTSP]	324
Oregon income tax refund	[OR ref]	325
Oregon S-Corp Modification		323
Passive activity losses	[PAL]	326
Previously taxed employee retirement plans	[Prev tax]	327
Previously taxed IRA conversions	[Prev tax]	327
Public Safety Memorial Fund award	[Memorial]	329
Railroad Retirement Board benefits: Tier 2, windfall/vested dual, supplemental, and railroad unemployment benefits	[RR]	330
Retirement plan exempt earnings	[RPEE]	331
Sale of depreciable property with different basis for federal and Oregon purposes, gain or loss	[Basis dif]	312
Scholarship awards used for housing expenses	[Sch hsng]	333
Tuition and fees deduction	[High ed]	313
U.S. government interest in IRA or Keogh distributions	[US int]	315

Deductions and Modifications	[Former Abbreviation]	Code
Artists who make a charitable contribution of art	[Art]	600
Federal income tax refunds	[Fed ref]	601
Federal tax from a prior year	[Prior fed]	602
Foreign tax	[Foreign]	603
Gambling losses claimed as an itemized deduction	[Gambling]	604
Income in respect of a decedent	[IRD]	605
Mortgage Interest Credit deduction		607
Special Oregon medical deduction	[OR med]	606

Credits	[Former Abbreviation]	Code
Adoption expenses	[Adopt]	700
Advanced telecommunications facilities	[ATF]	701
Bone marrow donation program	[Marrow]	702
Business energy	[Bus en]	703
Child and dependent care carryforward	[C/O-CDC]	704
Child Care Fund contribution	[CCD]	705
Claim of right	[COR]	706
Crop donation	[Crop]	708
Diesel engine replacement		734
Dependent care assistance by employers	[DCA]	707
Donated crops	[Crop]	708
Elderly or disabled	[OR CED]	709
Electronic commerce zone investment	[ECZI]	710
Employer scholarship	[Emp Sch]	711
Farmworker housing	[Farm hsng]	712
First Break Program	[1 break]	713
Fish screening devices	[Fish scrn]	714
Individual Development Account	[IDA]	715
Long-term care insurance premiums	[LTCIP]	716
Loss of use of limbs	[Limbs]	717
Low-income caregiver credit for home care of a low-income person age 60 or older	[HCE]	718
Mobile home moving carryforward	[Mobile hm]	719
Mutually taxed gain on the sale of residential property	[Hse gain]	720
On-farm processing machinery and equipment	[On-farm]	721
Oregon Cultural Trust contributions	[OCT]	722
Political contributions	[PCC]	723
Pollution control facilities	[Poll fac]	724
Pollution prevention carryforward	[Poll prev]	725
Reclaimed plastic carryforward	[Rec plas]	726
Reforestation of underproductive forestlands	[Reforest]	727
Reservation enterprise zone	[Tribal EZ]	728
Residential energy	[Res en]	729
Retirement income	[RIC]	730
Riparian land, removal from farm production		735
Rural medical practitioners	[Rural med]	731
Sewer treatment works hookup carryforward	[Sewer]	732
Taxes (income) paid to another state	[CITPAS]	733

PUBLICATION ORDER

OREGON DEPARTMENT OF REVENUE

FOR OFFICE USE ONLY	
Payment	Date Received
Filled By	Date

Name of Individual	SSN (required) — —
Name of Business or Organization	BIN or FEIN (required)

Street Address				
City	State	ZIP Code	Telephone Number ( )	☐ Check here if this is a new or revised name, address, or telephone number.

- Print or type name, **street** address, and telephone number.
- Include SSN (Social Security number), BIN (business identification number), or FEIN (federal employer identification number).
- Show quantity of each publication. When there is a charge, multiply the quantity by the unit price to figure total cost.
- Add all the total costs together and fill in the amount in the "Pay this amount" box on the bottom of this form.
- Payment **must** accompany your order when there are charges.

† Publications with this symbol are available free of charge at www.oregon.gov/DOR.

LAWS AND RULES (also available free of charge at www.oregon.gov)

Publication	Quantity	Unit Price	Total Cost
Personal Income, Corporation Income and Excise, Inheritance, Tobacco, and Statewide Transient Lodging Tax Laws and Administrative Rules book (2003) (150-101-410) A biennial publication. *Price includes the 2004 supplement, which will be mailed in Spring 2005.*		$22	
Property Assessment and Taxation Laws and Administrative Rules book (2003) (150-303-412) A biennial publication. *Price includes the 2004 supplement, which will be mailed in Spring 2005.*		$22	

MANUALS

Publication	Quantity	Unit Price	Total Cost
† Appraisal Methods for Real Property (2003) An appraiser's aid listing methods and procedures for mass appraisal of real property. (150-303-415)		$12.50	
† Local Budgeting Manual For use in budget preparation by Oregon local governments. (150-504-420)		$7	
Methods for Valuating Personal Property (1998) An aid to assessors and their staffs in discovery, valuation, audit, and assessment of personal property. (150-303-450)		$5	
Oregon Cadastral Map System, Vol. 1 (1989) The concepts, standards, and history of cadastral mapping. (150-315-416-1)		$8	
Cadastral Map Standards, Concepts, and Cartographics Procedures, second edition (150-315-416)		$45	
Oregon Cadastral Map System, Vol. 4 (1988) Highways and the law of dedication. Legal problems in mapping dedicated lands and highways. (150-315-416-4)		$10	
Oregon Cadastral Map System, Glossary (1989) Definitions of words and terms used in all volumes of the Oregon cadastral map system series. No charge when ordered with any volume of the series. (150-315-416-6)		$3	
† Appraisal self-study course Programmed texts that cover three basic approaches to value appraising. Sold only in sets. (150-303-458)		$15 per set	

Cost factor books
Appraiser's aids, listing procedures for using replacement cost approach to value. Illustrations of various types of buildings.

Publication	Quantity	Unit Price	Total Cost
Farm Buildings (1998) (150-303-417)		$15	
Manufactured Structures (2004) (150-303-419-1)		$3	
Residential Buildings (1993) (150-303-419)		$15	

STATISTICS

Publication	Quantity	Unit Price	Total Cost
† Oregon Personal Income Tax Statistics (Tax Year 2002) *Prior years available on request.* (150-101-406)		$10	
† Oregon Property Tax Statistics (Fiscal Year 2003–04) *Prior years available on request.* (150-303-405)		$10	
† Oregon Property Tax Statistics Supplement (Fiscal Year 2003–04) *Prior years available on request.* (150-303-448)		$10	
† Oregon Corporate Income and Excise Tax: Characteristics of Corporate Taxpayers (2003) Contains data from returns corresponding to tax year 2001 and receipts through fiscal year 2003. (150-102-405)		$3	

OTHER INFORMATION

Publication	Quantity	Unit Price	Total Cost
† Publication 17½, Oregon Individual Income Tax Guide (2004) Supplements Oregon income tax instruction booklet and federal Publication 17. (150-101-431)		$5	
† Package B (2004) Compilation of selected individual income tax forms and instructions. (150-101-451)		$6	
† Package C (2004) Compilation of selected corporation tax forms and instructions. (150-102-451)		$3	

Mail order and payment to: Publications
Oregon Department of Revenue
PO Box 14999
Salem OR 97309-0990

Make check or money order payable to: Oregon Department of Revenue

1. Total from page 1	$
2. Total from page 2	$
3. Total of lines 1 and 2. **Pay this amount**	$

150-800-288 (Rev. 11-04)

More publications on back →

PUBLICATIONS AVAILABLE AT NO COST

*Limit 1 free—25¢ each after 1; **Limit 10 free—25¢ each after 10

† Your Manufactured Structure
Answers frequently asked questions about assessment and taxation of manufactured structures. (150-338-416)

Quantity **

† Local Budgeting in Oregon (2002)
Introduction to the local budgeting process. Includes summary of how to assemble a budget, publish notices, hold hearings, formally adopt budgets, and levy taxes. (150-504-400)

Quantity **

† Oregon Timber Tax Profile
Defines the different timber tax programs. Includes harvest, rate, and receipt statistics. (150-441-497)

Quantity *

† A Summary of Oregon Taxes
Brief explanations of parts of Oregon's tax system. (150-800-401)

Quantity **

† What You Need to Know About Corporation Excise and Income Tax
(150-102-401)

Quantity *

† EMPLOYER INFORMATION—Oregon Withholding Tax Tables
Used by employers to determine employees' withholding tax for Oregon. (150-206-430)

Quantity *

INFORMATION CIRCULARS (Limit 1 free copy each)

*The information circulars below (except those with **) are available on the department's Web site at www.oregon.gov/DOR.*

Pub. No.	Circular Name	(✓)	Pub. No.	Circular Name	(✓)
101-601	Amtrak Act (Interstate Transportation Wages)		206-627	Withholding Taxes: Household Employees	
101-607	Audits: What to Do if You Are Audited		206-628	Withholding Tax for Agricultural Employees	
101-608	Record Keeping Requirements		206-643	Oregon Income Tax Withholding: Some Special Cases	
101-611	Itemized Deductions Limit		206-677	Withholding Tax Percentage Formula	
101-613	Limited Liability Companies, Limited Liab. Partnerships		206-692	Withholding/Transit Tax Information: Out-of-State Employers Temporarily Working in Oregon	
101-615	Interest and Dividends on U.S. Bonds and Notes		211-602	W-4 Information for Employers	
101-622	Long-Term Care Insurance Premiums Tax Credit		303-619	Proration of Tax for Fire or an Act of God	
101-629	Divorce and Taxes		303-644	Assessment of Farmland in an Exclusive Farm-Use Zone	
101-630	Electronic Filing for Oregon		303-645	Assessment of Farmland Not in a Excl. Farm-Use Zone	
101-631	2-D Barcode Filing for Oregon		303-658	Manufactured Structure Assessment and Taxation	
101-642	Artist's Charitable Contribution Subtraction		303-661	Personal Property Assessment and Taxation	
101-646	Credit for Income Taxes Paid to Another State		303-668	How to Appeal Your Property Value	
101-648	Estimated Income Tax		303-670	Real Property Assessment and Taxation	
101-653	Low-Income Caregiver Tax Credit		303-688	Supervisory Power—Error Correction Procedure	
101-656	Married Persons Filing Separate Returns		310-664	Property Tax Exemptions for Special Organizations	
101-657	Military Personnel Filing Information		310-665	Property Tax Payment Procedure	
101-660	Income Tax Filing Extension		310-671	Real Property Foreclosure	
101-662	Political Contributions Tax Credit		310-676	Veteran's Property Tax Exemption	
101-672	Reforestation Tax Credit		338-639	Continuing Education Req. for Registered Appraisers	
101-673	Retirement Income		441-649	Forest Tax Programs**	
101-686	Crop Donation Tax Credit		490-675	Property Tax Deferral for Disabled and Senior Citizens	
101-687	American Indian Income Tax Subtraction		491-647	Deferral of Special Assessments	
101-688	Low-Income Taxpayer Information		504-612	How to Appeal the Classif. of a Charge by a Local Gov't.	
101-693	Appeal Rights for Deficiencies Based on Federal Audit Reports or Audit Reports of Other States		504-620	Local Budget Law	
101-695	Personal Income Tax Collection		504-623	Urban Renewal	
101-697	Dependent Care Assistance Tax Credits		604-400	State of Oregon Lodging Tax Program	
102-617	Information for Tax Exempt Organizations		800-402	Survivor's Information	
102-663	Political Organizations		800-504-1	Appealing a Notice of Proposed Refund Adjustment	
102-694	Tax Credits for Corporations		800-504-2	Appealing a Notice of Deficiency or Assessment	
102-695	Corporate Excise/Income Tax for Foreign Corporations		800-621	Filing Your Return After Tax Has Been Assessed	
105-626	Oregon Cigarette Tax Program		800-691	Interest on Tax You Owe: Computation	

For price information or ordering questions, call 503-945-8636.

OREGON DEPARTMENT OF REVENUE

2004 FORMS ORDER FOR PRACTITIONERS

FOR OFFICE USE ONLY	
Payment Amount	Date Received
Filled by	Date

Please print or type your name and complete mailing address in the space below. Be sure to include your Social Security, business identification, or federal identification number and your telephone number.

Social Security No. or BIN or FEIN	Telephone Number
	( )

Mail this order with your payment to:

Forms
Oregon Department of Revenue
PO Box 14999
Salem OR 97309-0990

We will fill orders beginning in December. We must have your street address—UPS won't deliver to a post office box. In addition, someone must be present to receive the order. Most forms and instructions are available on our Web site at: **www.oregon.gov/DOR**.

Publication 17½ Oregon Individual Income Tax Guide .... **Price $5.00**

Publication 17½ supplements information in the Oregon individual income tax instruction booklets and federal Publication 17. *Publication 17½* does not contain forms.

Package B .... **Price $6.00**

Package B includes one full-year resident and one part-year/nonresident individual income tax instruction booklet plus one of each form listed on the other side, except labels, *Publication 17½*, corporation forms and instructions found in *Package C*, and those forms indicated by an asterisk (*). You may photocopy forms from *Package B*. Prior years of *Package B* also are available.

Package C .... **Price $3.00**

Package C includes corporation income and excise tax forms, including Form 20, *Corporation Excise Tax;* Form 20-I, *Corporation Income Tax;* Form 20-INS, *Insurance Excise Tax;* Form 20-S, *S Corporation Tax; Estimated Corporation Excise or Income Tax;* Form 20-V, *Corporation Tax Payment Voucher,* and Form 37, *Underpayment of Corporation Estimated Tax*. You may photocopy forms from *Package C*.

If you only order *Publication 17½*, and/or *Package B,* and/or *Package C* there is no handling fee.

You may order individual copies of the items listed on the other side of this form. Indicate the quantity and the cost for each item you order.

Prices include printing and delivery costs. You must also pay a handling fee that is based on the dollar amount of your order.

Instructions for Ordering

1. Fill out this form completely to prevent delays in your order.
2. Print or type your name, street address, and a daytime telephone number in the space above. Include your Social Security or business identification number.
3. Indicate quantity for each form. Multiply quantity by unit price to determine the total cost. Subtotal each cost column.
4. Fill in the "Order Total" box by adding the subtotal columns together. If you're ordering *Publication 17½*, *Package B,* and/or *Package C,* enter the total price in the order total box.
5. To order prior year forms: Make a copy of this blank order form. Indicate which year's forms you are ordering. Forms for 1999 through 2003 are priced the same as forms for 2004. There is no charge when ordering 1998 and prior year forms.
6. Don't use this form to order 2005 tax year forms. If you order forms this year, you will automatically receive a *2005 Forms Order for Practitioners* by mid-November 2005.
7. **Enclose your check or money order made payable to: Oregon Department of Revenue.** If you prefer to pay by credit card, fill out the enclosed VISA/MasterCard Authorization. We cannot process your order without a payment or credit card authorization. Be sure you include your Social Security or business identification number so we can properly post your payment.
8. Mail your completed order form and payment to the address shown above.

Please go to the other side to complete your order ➛

For questions or problems with your order, call 503-945-8637.

For questions about withholding tax or to order withholding forms, call 503-945-8091.

For tax information and filing requirements, call 503-378-4988, or 1-800-356-4222, toll-free within Oregon, or the practitioner hotline at 503-945-8655.

2004 FORMS ORDER FOR PRACTITIONERS

- Indicate quantity for each form.
- Multiply quantity by unit price to determine total cost.
- Print or type you name, and complete mailing address on the other side. Be sure to include your SSN, BIN, or FEIN and your telephone number.
- All these forms and instructions are available on our Web site at: www.oregon.gov/DOR

Quantity	Price	Total	Item	
	.12		40A	Individual income tax returns and instructions—**booklet**
	.12		40P/NA	Part-year and nonresident returns and instructions—**booklet**
	.02		40	Individual income tax return—**form only**
	.02		40S	Individual income tax return, short form—**form only**
	.02		40P	Part-year resident income tax return—**form only**
	.02		40N	Nonresident income tax return—**form only**
	.02		40-EXT	Oregon automatic extension and payment coupon
	.10		90ERA	Elderly Rental Assistance claim and instructions—**booklet**
	.02		90R	Elderly Rental Assistance claim—**form only**
	.02		**Oregon Depreciation Schedule & Inst**	
	.06		**Schedule MNR**	Oregon multiple nonresident schedule and instructions
	.04		40X Inst	Amended income tax return—**instructions only** (Rev. 12-04)
	.02		40X	Amended income tax return—**form only** (Rev. 12-04)
	.10		**2005 Estimated income tax instructions**	
	.02/sheet		40-V	2005 Estimated income tax—payment vouchers (4 vouchers/sheet)
	.06		Form 10 & Inst	Underpayment of Oregon estimated tax—**form & instr**
	.02		Form 10	Underpayment of Oregon estimated tax—**form only**
	.02		Form 24	Oregon Like-Kind Exchanges/ Involuntary Conversions
	.04		FIA-40	Farm Income Averaging for full-year residents–**form and instructions**
	.10		FIA-40N/P	Farm Income Averaging for part-year and nonresidents–**forms & instr**
	.02		Schedule WFC	Working family child care credit for Form 40 and 40S filers
	.02		Schedule WFC-N/P	Working family child care credit for Form 40N and 40P filers
	.10		**Application for Settlement Offer** (Rev. 4-04)	
	.04		Form 65	Partnership return of income—**form and instructions**
	.02		Schedule AP	Apportionment of Income for Partnerships—**form and instr**
	.10		20	Corporation excise tax return and instructions—**booklet**
	.10		20-I	Corporation income tax return and instructions—**booklet**
	.10		20S	S corporation tax return and instructions—**booklet**
	.10		20-INS	Insurance excise tax return and instructions—**booklet**
	.06		Estimated Corporation Excise or Income Tax—**form and instructions** (formerly 20ES)	
	.02		20-V & Inst	Oregon corporation payment voucher—**form and instructions**
	.02		37	Underpayment of corporation estimated tax—**form and instr**
	.10		*41	Fiduciary income tax return and instructions—**booklet**
Subtotal				

Quantity	Price	Total	Item	
To order, call 503-945-8437.			*Schedule P (Form 41)	For part-year Oregon resident trusts only
	.10		*Form IT-1	Inheritance tax return, payment voucher, and instructions
	.02		Form 243	Statement of claimant to refund due a deceased person (Rev. 11-02)
	.02		**Election for Final Tax Determination for Income Taxes Relating to Decedent's Estate** (Rev. 12-04)	
	.02		**Employees Substitute Wage and Tax Statement** (Rev. 5-04)	
	.02		**Tax Information Authorization and Power of Attorney for Representation** (Rev. 12-04)	
	.10		*TM	Tri-Met Self-employment tax return and instructions—**booklet**
	.10		*LTD	Lane Transit District Self-employment tax return & instructions—**booklet**
	.02/sheet		*Form OTC	Oregon combined payroll tax payment coupons 4/sheet (order limit: 5 sheets)
	.10/sheet		**DOR Address Labels (PO Box 14700)**	Refund and no-tax-due returns, 22/sheet
	.10/sheet		**DOR Address Labels (PO Box 14555)**	Tax-to-pay returns, 22/sheet
	.10/sheet		**DOR Address Labels (PO Box 14710)**	**2-D BARCODE RETURNS ONLY**—Refund and no-tax-due, 22/sheet
	.10/sheet		**DOR Address Labels (PO Box 14720)**	**2-D BARCODE RETURNS ONLY**—Tax-to-pay, 22/sheet
	.10/sheet		**DOR Address Labels (PO Box 14950)**	Estimated tax returns, 22/sheet
	.10/sheet		**DOR Address Labels (PO Box 14800)**	Withholding tax returns, 22/sheet
Subtotal				

Quantity	Price	Total	Item	
	5.00		Pub 17½	Oregon Individual Income Tax Guide
	6.00		Package B	Personal Income Tax Forms for Tax Year 2004
	3.00		Package C	Corporation Tax Forms for Tax Year 2004

Enter on lines below.

Handling Fees			
Up to $0.99 .... **$1.00**	**Order Total** Add all subtotals		
$1.00 to $24.99........ **$3.00**	Handling fee		
$25.00 to $49.99.......**$5.00**	**Subtotal**		
Over $50.00..............**$7.00**	Publication 17½		
Handling fees are for forms, booklets, and instructions. If you **only** order Publication 17½ and/or Package B, and/or Package C, there is no handling fee.	Package B		
	Package C		
	TOTAL AMOUNT DUE		

Mail your order and payment to:

Forms
Oregon Department of Revenue
PO Box 14999
Salem OR 97309-0990

Index

2-D barcode filing 14
529 College Savings Network, nonqualified withdrawal—addition 52
529 College Savings Network—subtraction 60

A

Accumulation distribution from a trust—addition 46
Active duty pay—military 7, 25
Additions 46
- Accumulation distribution from a trust 46
- ACRS and MACRS benefits 69
- Anti-churning rule 69
- Basis of business assets transferred into Oregon 68
- Certain business expense of reservists 51
- Depletion 46
- Depreciation and amortization 68
- Disposition of inherited Oregon farmland or forestland 46
- Educator expense 47
- Federal election on interest and dividends of a minor child 47
- Federal estate tax 47
- Federal income tax refunds 47
- Fiduciary adjustment 70
- Gambling losses claimed as an itemized deduction 49
- Income taxes paid to another state 49, 90
- Individual Development Accounts 49, 72
- Interest and dividends on government bonds of other states 49
- Long-term care insurance premiums, federal deduction 50
- Lump-sum distributions 51
- Military Family Tax Relief Act 51
- Oregon 529 College Savings Network 52
- Oregon Cultural Trust contributions 52
- Passive activity losses 70
- Sale of assets 69
- Self-employed health insurance deduction 52
- Unused business credits 52

Addresses
- 2-D barcode returns 15
- E-file return payment 14
- Return after tax has been assessed 35

Adjustments to income 42
- Alimony paid 42
- Certain business expense of reservists 43
- Clean-fuel vehicle 43
- Education 43
- Educator expense 43
- Fee-basis government officials 44
- Health Savings Account deduction 44
- Interest penalty on early withdrawal of savings 44
- IRA or self-employed SEP and SIMPLE contributions 44
- Moving expense 45
- Performing artists 45
- Self-employed health insurance 45
- Self-employment tax 46
- Student loan interest 43
- Tuition and fees 43

Adoption expenses—credit 78
Advanced telecommunications facilities—credit 79
Alimony paid 42
Alimony received 36
Alternative fuel vehicle—credit 97
Amended returns 8, 12, 55
American Indian—subtraction 52
Amtrak Act 37
Anti-churning rule 69
Appeal procedures 28
- Deficiency based on federal audit reports or audit reports of other states 30
- Interest on underpayment of estimated tax 32
- Notice of Assessment 29
- Notice of Deficiency 28
- Notice of Determination and Assessment 35
- Notice of refund adjustment 29
- Penalty or interest 31

Appendix 115
Artist's charitable contribution—subtraction 53
Audit
- Types of audits 33
- What to do if audited 33

Authorization box 7

B

Basis of business assets transferred into Oregon 68
Bona fide residence test 18
Bond interest 49, 58, 59
Bone marrow donation program—credit 79
Business energy—credit 79
Business expense of reservists 43, 51
Business income or loss 38

C

Capital gain 51, 61, 75
Certain business expense of reservists 26, 43, 51
Child and dependent care—credit 80
Child Care Fund contribution—credit 81
Claim of right income repayments 76
Clean-fuel vehicle 43
Community property income 36
Commuting expenses, construction worker/logger 54
Construction worker/logger commuting expenses—subtraction 54
Conversions and exchanged property—subtraction 54
Credits 78
- Adoption expenses 78
- Advanced telecommunications facilities 79
- Alternative fuel vehicle 97
- Bone marrow donation program 79
- Business energy 79
- Child and dependent care 80
- Child Care Fund contribution 81
- Crop donation 81
- Dependent care assistance 82
  - Assistance 82
  - Facilities 82
  - Information and referral services 82
- Diesel engine replacement 83
- Earned income 83

Elderly or disabled 84
Electronic commerce zone investment 84
Employer scholarship 84
Exemption 84
Farmworker housing 85
First Break Program 86
Fish screening devices 87
Hybrid vehicle 97
Income taxes paid to another state 87
Individual Development Accounts 72
Long-term care insurance premiums 90
Loss of use of limbs 91
Low-income caregiver credit (for home care of a low-income person age 60 or older) 91
Mobile home moving 92
Mutually taxed gain on the sale of residential property 92
On-farm processing machinery and equipment 92
Oregon Cultural Trust contributions 93
Political contributions 93
Pollution control facilities 94
Pollution prevention 95
Reclaimed plastics 95
Reforestation 95
Reservation enterprise zone 96
Residential energy 97
Retirement income 98
Riparian land, removal from farm production 99
Rural medical practitioners 100
Working family child care 100
Credit card payments 15
Crop donation—credit 81

D

Dam workers; hydroelectric 39, 41
Decedent, income in respect of 47
Deductions and modifications 73
Itemized deductions 73
Special Oregon medical deduction 73
Standard deduction 74
Age 65 or older, or blind 74
Nonresident aliens 75
Single dependents 74
State income tax claimed as an itemized deduction 74
Deferral of reinvested capital gain, Oregon—subtraction 61
Deficiency notice—appeal procedures 28
Dependent 22, 74, 84, 85
Dependent care assistance—credits 82
Assistance 82
Facilities 82
Information and referral service 82
Depletion—addition 46
Depreciation and amortization 68
Diesel engine replacement—credit 83
Direct deposit 8, 16
Disposition of inherited Oregon farmland or forestland—addition 46
Dividend income 39, 58
Domestic partner benefits—subtraction 54
Domicile 17

E

Earned income—credit 83
Education 43
Educator expense 43, 47
Student loan interest deduction 43
Educator expense 43, 47
Elderly or disabled—credit 84
Elderly Rental Assistance (ERA) 8, 10, 11, 112
Electronic commerce zone investment—credit 84
Electronic filing 13
Employee retirement plans, previously taxed—subtraction 61
Employer scholarship—credit 84
Energy credit, residential 97
Engine replacement, diesel—credit 83
ERA (Elderly Rental Assistance) 8, 10, 11, 112
Estate income 40
Estimated tax 107
Additional withholding 110
Applying income tax refund to estimated tax payment 112
Due dates 109
Farmers and commercial fishers 108
Fiduciaries 109
Gross income 108
How to figure your payments 110
Nonresidents and part-year residents 109
Nonresident aliens 109
Retirees 109
What to do if your estimated income, deductions, or credits change 112
Who must pay 107
Exemption—credit 84
All dependents 85
Child(ren) with a disability 85
Severely disabled 85
Yourself and spouse 84
Exempt income
Amtrak Act 37, 41
Hydroelectric dam workers 39, 41
Railroad Retirement Board benefits 41
Social Security 41
Waterway workers 42
Extenders Bill 7
Extensions of time to file 11

F

Farmers and commercial fishers—estimated tax 108
Farmworker housing—credit 85
Farm income 40
Farm income averaging 76
Farm liquidation long-term capital gain tax rate 75
Federal election on interest and dividends of a minor child—addition 47
Federal estate tax—addition 47
Federal income tax—subtraction 54
Additional tax paid 55
Amended returns—how to report 55
Current year 54
Federal income tax refunds—addition 47
Federal law connection 7

Federal pension income—subtraction 55
Federal return 36
Federal tax credits—subtraction 57
Federal tax law 7
Fee-basis government officials 44
Fiduciaries—estimated tax 109
Fiduciary adjustment 70
Filing requirements
Dependents 22
Full-year residents 22
Nonresidents 23
Part-year residents 23
Filing status 20
Filing your return after tax has been assessed 35
First Break Program—credit 86
Fish screening devices—credit 87
Foreign nonresidents 18
Bona fide residence test 18
Physical presence test 18
Foreign tax—subtraction 57
Forms Order for Practitioners 127
Form to file 19

G

Gain, loss, and distributions 39
Gain on the sale of an Oregon residence 70
Gambling losses claimed as an itemized deduction—addition 49
Gross income—estimated tax 108

H

Health savings account deduction 44
Household income checklist 116
Household income defined 98
Housing expenses, scholarships used for—subtraction 62
Hybrid vehicle—residential energy credit 97
Hydroelectric dam workers 39, 41

I

Income 36
Alimony received 36
Amtrak Act 37
Business income or loss 38
Gain, loss, and distributions 39
Hydroelectric dam workers 39
Interest and dividend income 39
Interstate transportation wages 37
IRA distributions 39
Like-kind exchange or conversions of property 40
Railroad Retirement Board benefits 41
Rents, royalties, partnerships, estates, trusts, farms, etc. 40
Retirement income 40
Salaries 41
Social Security 41
State and local income tax refunds 41
Unemployment compensation 41
Wages 41
Waterway workers 42
Income averaging, Farm 76
Income taxes paid to another state—credit 87
Income tax refund, Oregon—subtraction 61
Individual Development Accounts 72
Addition 73
Credit 73
Subtraction 72
Individual Taxpayer Identification Number 23
Inherited farmland/forestland—addition 46
Farm-use value 46
Forest-use value 46
Interest 9
Computation 9
Deficiencies and delinquencies 9
Elderly Rental Assistance (ERA) payments 10
Refunds for personal income tax 10
Tax 9
Two-tiered 9
Interest/dividends on government bonds of other states—addition 49
Interest/dividends on U.S. bonds/notes—subtraction
Obligations qualifying 58
Interest income 36, 39, 49, 58
Interest on certain installment sales 75
Interest on underpayment of estimated tax 103
Interest penalty on early withdrawal of savings 44
Involuntary conversions 40
IRA conversions, previously taxed—subtraction 62
IRA distributions 39
IRA or self-employed SEP and SIMPLE contributions 44
Itemized deductions 73
Itemized deductions, limit 71
ITIN 23

L

Land donations to educational institutions—subtraction 59
Like-kind exchange or conversions of property 40
Limited liability companies 26
Limited liability partnerships 27
Limit on itemized deductions 71
Listserv, practitioner 4
Local government bond interest—subtraction 59
Long-term care insurance premiums, federal deduction—addition 50
Business expense deduction 51
Medical expense deduction 50
Long-term care insurance premiums—credit 90
Loss of use of limbs—credit 91
Lottery winnings—subtraction 59
Low-income caregiver—credit 91
Lump-sum distributions—addition
Capital gains income 51
Ordinary income 51

M

Married filers with different residency statuses, special instructions 20
Medical deduction, special Oregon 73
Medical practitioners, rural—credit 100
Military Family Tax Relief Act 7, 26, 51

Military personnel 24
Minor child, federal election on interest and dividends 47
Minor child's return 8
Mobile home moving—credit 92
Mortgage interest credit—subtraction 60
Moving expense 45
Multiple nonresident returns 27
Mutually taxed gain on the sale of residential property—credit 92

N

National Guard and armed forces reserves 26
See also Military 24
Net operating losses 64
Net Oregon itemized deduction 74
Nonresidents
Form 40N 19
Married filers with different residency statuses 20
Multiple nonresident filing 27
Residency 18

O

On-farm processing machinery and equipment—credit 92
Oregon 529 College Savings Network 52, 60
Oregon Cultural Trust contributions 52, 93
Oregon deferral of reinvested capital gain—subtraction 61
Oregon income tax refund—subtraction 61
Oregon percentage 73
Oregon tax 75
Farm income averaging 76
Farm liquidation long-term capital gain tax rate 75
Interest on certain installment sales 75

P

Part-year residents
Form 40P 19
Married filers with different residency statuses 20
Residency 19
Partnership income 40
Passive activity losses 70
Computation of Oregon losses 70
Modifications to federal losses for Oregon 71
Payment voucher 7, 8, 12, 14, 15, 107
Penalty
Failure-to-file 10, 11
Failure-to-pay 10
False ERA form 11
Fraud 11
Frivolous return 11
Substantial understatement of income 11
Three consecutive years (100% failure-to-file) 11
Performing artists 45
Physical presence test 18
Political contributions—credit 93
Pollution control facilities—credit 94
Pollution prevention—credit 95
Practitioners
Revenews listserv 4
E-mail 4
Telephone line 4
Previously taxed employee retirement plans—subtraction 61
Previously taxed IRA conversions—subtraction 62
Prohibited amounts 64
Publication Order Form 125
Public Safety Memorial Fund Awards—subtraction 62

R

Railroad Retirement Board benefits—subtraction 62
Reclaimed plastics—credit 95
Record-keeping requirements 32
Reforestation—credit 95
Refunds
Delays 17
Minimum 8
When to expect my refund 17
Rents, royalties, partnerships, estates, trusts, farms, etc. 40
Rent income 40
Reservation enterprise zone—credit 96
Residency 17
Domicile 17
Residential energy—credit 97
Residential property, mutually taxed gain on the sale of 92
Retirement income 40
Retirement income—credit 98
Revenews practitioner listserv 4
Riparian land—credit 99
Rounding to nearest dollar 8
Royalty income 40
Rural medical practitioners—credit 100

S

Salary income 41
Sale of assets 69
Scholarships used for housing expenses—subtraction 62
Self-employed health insurance deduction 45, 52
Self-employment tax 46
Social Security and Railroad Retirement Board 41
Social Security benefits—subtraction 62
Special Oregon medical deduction 73
Standard deduction 21, 74
Nonresident aliens 75
Short-period return 75
Standard numeric codes for other Oregon additions, subtractions, deductions, modifications, and credits 7, 121
State and local income tax refunds 41
State income tax claimed as an itemized deduction 74
Statute of limitations
Amended returns 8, 12
Federal corrections or other state corrections 9
Net operating loss carryback 9
Refunds 8
Withholding and estimated tax refunds 9
Student loan interest 43

Subtractions
American Indian 52
Anti-churning rule 69
Artist's charitable contribution 53
Construction worker and logger commuting expenses 54
Conversions and exchanged property 54
Depreciation and amortization 68
Domestic partner benefits 54
Federal income tax 54
Federal pension income 55
Federal tax credits 57
Fiduciary adjustment 70
Foreign tax 57
Individual Development Accounts 72
Interest and dividends on U.S. bonds and notes 58
Land donations to educational institutions 59
Local government bond interest 59
Lottery winnings 59
Mortgage interest credit subtraction 60
Oregon 529 College Savings Network 60
Oregon deferral of reinvested capital gain 61
Oregon income tax refund 61
Passive activity losses 70
Previously taxed employee retirement plans 61
Previously taxed IRA conversions 62
Public Safety Memorial Fund awards 62
Railroad Retirement Board benefits 62
Scholarships used for housing expenses 62
Social Security benefits 62
Tuition and fees deduction 63
U.S. government interest in IRA or Keogh distribution 63

T

Tax, Oregon
Farm income averaging 76
Farm liquidation long-term capital gain tax rate 75
General 75
Interest on certain installment sales 75
Taxes, income, paid to another state — credit 87
Tax benefit doctrine 47
Trust income 40
Tuition and fees 43, 63

U

U.S. bonds and notes, interest on 58
U.S. government interest in IRA or Keogh distribution—subtraction 63
Underpayment of estimated tax, interest on
Exceptions 103
Who must pay 103
Unemployment compensation 41
Unused business credits—addition 52

V

Voucher 7, 8, 12, 14, 15

W

Wage income 41
Waterway workers 42
Working Families Tax Relief Act 7
Working family child care—credit 100
Tables 119

Miscellaneous Oregon Income Tax Information 2000–2004

(Refer to prior year tax booklets before filing delinquent or amended returns)

Tax Years	2000	2001	2002	2003	2004
Marginal tax rates for single or married filing separately					
	Taxable income:				
5%	First $2,450	First $2,500	First $2,500	First $2,550	First $2,600
7%	$2,451 – $6,100	$2,501 – $6,300	$2,501 – $6,250	$2,551 – $6,350	$2,601 – $6,500
9%	Over $6,100	Over $6,300	Over $6,250	Over $6,350	Over $6,500
Marginal tax rates for married filing jointly, head of household, or qualifying widow(er)					
	Taxable income:				
5%	First $4,900	First $5,000	First $5,000	First $5,100	First $5,200
7%	$4,901 – $12,200	$5,001 – $12,600	$5,001 – $12,500	$5,101 – $12,700	$5,201 – $13,000
9%	Over $12,200	Over $12,600	Over $12,500	Over $12,700	Over $13,000

Tax Years	2000	2001	2002	2003	2004
Exemption amounts	$139	$142	$145	147	151
Standard deduction					
Single—can be claimed on another's return	$700*	$750*	$750*	$750*	$800*
Single	$1,800	$1,800	$1,640	$1,670	$1,720
Married filing jointly	$3,000	$3,000	$3,280	$3,345	$3,445
Head of household	$2,640	$2,640	$2,640	$2,695	$2,770
Married filing separate	$1,500	$1,500	$1,640	$1,670	$1,720
Addt'l deduction for age 65 or older, or blind					
Joint	$1,000	$1,000	$1,000	$1,000	$1,000
Single	$1,200	$1,200	$1,200	$1,200	$1,200
Personal income tax surplus refund	6.016%	n/a	n/a	n/a	n/a
Maximum federal tax subtraction	$3,000	$3,000	$3,250	$3,500	$4,000
If married filing separately	$1,500	$1,500	$1,625	$1,750	$2,000
Oregon depreciation rules for property placed in service during tax year (federal law tie)					
Section 179	yes	yes	yes	yes	yes
ITC basis adjustment	yes	yes	yes	yes	yes
ACRS/MACRS	yes	yes	yes	yes	yes
Retirement credit	Age: 62	Age: 62	Age: 62	Age: 62	Age: 62
Special Oregon medical subtraction	Age: 62	Age: 62	Age: 62	Age: 62	Age: 62

* The greater of the amount shown or earned income plus $250, but not more than the standard deduction for a single filer.