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Publication 17½

Individual Income Tax Guide

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Oregon Individual Income Tax Guide

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OREGON
DEPARTMENT
OF REVENUE

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Publication 17½, Oregon Individual Income Tax Guide, supplements information in the Oregon income tax instruction booklet and the Internal Revenue Service publication, ***Your Federal Income Tax For Individuals, Publication 17.***

This publication is a guide for tax professionals. It is not a complete statement of Oregon laws and rules. There may have been law or rule changes after this publication was printed. If you are a professional tax practitioner, you should 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") or order your own copy using the *2006 Forms and Publication Order For Practitioners* form in the appendix.

Forms

For tax forms online, visit our website at www.oregon.gov/DOR. You may also order forms by writing to:

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

Note: There is a charge for mail-ordered forms requested by professional tax preparers. Forms and instructions are also available in *Package B*. See *2006 Forms and Publication Order For Practitioners* in the appendix.

Practitioner telephone line

Professional tax preparers can call the department for assistance. **Please research your question before calling.** We can assist you with Oregon income tax laws and policy questions only. We will not prepare returns or make computations. We cannot provide or discuss specific taxpayer information. The practitioner telephone number in Salem is 503-945-8655. This is a message line only. Please leave a message with your question, name, business name, and telephone area code and number. We will return your call within two business days.

Practitioner e-mail

Professional tax preparers can e-mail their questions to the department at 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, business name, and telephone area code and number.

"Revenews" practitioner listserv

The "Revenews" listserv is a quick and efficient way for the department to pass information to professional tax preparers. To subscribe, go to: www.webhost.osl.state.or.us/mailman/listinfo/revenews. Once you have subscribed, you will automatically receive department messages. You are on the list until you unsubscribe. This is not a question-and-answer list. Do not send an e-mail reply to a "Revenews" article, we will return it. Please see the information above on the practitioner telephone line and practitioner e-mail if you have technical questions, or see below for specific taxpayer questions.

Taxpayer assistance

General tax information ....www.oregon.gov/DOR
Salem 503-378-4988
Toll-free from Oregon prefix 1-800-356-4222

Asistencia en español:
Salem 503-945-8618
Gratis de prefijo de Oregon 1-800-356-4222

TTY (hearing or speech impaired; machine only):
Salem 503-945-8617
Toll-free from Oregon prefix 1-800-886-7204

Americans with Disabilities Act (ADA): Call one of the help numbers for information in alternative formats.

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Federal tax law

Federal law connection. Oregon is tied to the **December 31, 2004*** federal definition of taxable income. Oregon has a rolling tie to federal changes made to the definition of taxable income after December 31, 2004.

* *There are two exceptions to the December 31, 2004 tie. The exceptions are:*

- Internal Revenue Code (IRC) section 139A for Federal Subsidies for Prescription Drug Plans, and
- IRC section 199 for Income Attributable to Domestic Production Activities. Also known as Qualified Production Activity Income (QPAI).

Income under these sections is specifically exempt from tax on the federal return. If you have either of these types of income, you will have an addition on your Oregon tax return.

Federal law changes. A number of federal tax provisions expired at the end of 2005. However, at the time this publication was printed Congress was considering extending several of the deductions retroactively. If the **tuition and fees deduction, educator expenses deduction, and sales tax deduction are extended** for tax year 2006, refer to your 2005 Oregon tax publications for instructions on how to handle them on your 2006 Oregon return. Or you can contact the department for help.

New information

Federal tax liability subtraction. The federal tax subtraction limit has increased to $5,000 ($2,500 married filing separately.) See page 54.

Mobile home park sale to tenants' association. Your capital gain may be excluded from Oregon taxation. See page 60.

Oregon National Guard active duty pay subtraction. If you're a member of the Oregon National Guard stationed in Oregon and serving under Title 32 and were called to active duty under Title 10, you may be eligible for an active duty pay subtraction. This subtraction is retroactive to tax year 2003. See page 24.

Residential energy tax credit has been expanded to include solar electric systems. See page 98.

Rural emergency medical technicians may qualify for a $250 tax credit. See page 101.

Standard deduction amounts. The standard deduction amounts have changed. See page 73.

Tax credit for an involuntary move of a mobile home. If you were forced to move because your mobile home park closed, you may be eligible for a tax credit. See page 89.

University venture development fund contributions. This is a new tax credit for charitable gifts to Oregon universities. See page 102.

Water transit vessel tax credit. If you build water transit vessels in Oregon, you may qualify for this credit. See page 102.

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 when this publication was printed.

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.

Credit card payment. The department accepts credit card payments for 2006 taxes, 2007 estimated taxes, and prior-year debt. See page 15.

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 15.

Elderly Rental Assistance (ERA). Your ERA Form 90R must be received by July 1, 2007, to receive your rental assistance in November 2007.

Filling in the codes. Forms 40S, 40, 40P, and 40N have lines titled "Other additions," "Other subtractions," and/or "Other credits." These are used for additions, subtractions, and credits that don't have specific lines on the tax forms. Each item entered on an "other" line must be identified with a code. The identifying code for each item is listed in this publication along with the name of the item. You will also find the codes in other tax instruction booklets. See our list of the numeric codes in the appendix on pages 121–123.

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

Minor child's return and signature. 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."

Deceased person's return and signature. You must file a final return for a person who died during the calendar year if a return would normally be required. If a return must be filed, please check the "deceased" box.

If you are filing a final return and claiming a refund for the deceased person and you are not a court-appointed or certified personal representative, file Form 243, *Claim to Refund Due a Deceased Person,* with the return. Go to our website to download the form or contact us to order it.

You may also want to read our publication *Survivor's Information.* To download the publication, go to our website or contact us to order it.

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 amount. When you prepare your 2006 return, refer to the copy of your 2005 return to see if you have any unused credit to carry forward. See "Credits" on page 77–103 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 or can be downloaded from our website. You will use this voucher even if you file electronically. For electronic filing payment information, see page 13.

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 to -0-, and increase amounts from 50 to 99 cents to the next dollar. For example, $123.49 becomes $123 and $123.50 becomes $124.

Working family child care credit. To claim this credit, 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 the tax booklet, or you can download it from our website.

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 your circumstances.

Withholding and estimated tax refunds

You must file your original return within three years of the due date to claim a refund of tax withheld or estimated tax payments. The due date does not include extensions. If you file more than three years after the due date, the excess tax withheld or estimated tax payments cannot be refunded or 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
- Three years of the date you filed your return, or
- 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 three years, 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 2003 Oregon return and paid $300 tax due on time. In March 2006, he discovered he had forgotten to report some interest income. He amended his return. He paid $220 additional tax on April 1, 2006. On August 4, 2007, Bob discovers he failed to claim a large charitable contribution he made in 2003. Bob must amend his 2003 return by April 1, 2008. 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 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 changes will affect your Oregon return, resulting in a refund. You have two years from the date of the 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 refunds. Interest is charged on tax only and is paid on tax only. Interest is not charged on penalty. We do not charge compound interest. The following table shows interest rates since 1993. For interest rates before 1993, contact the department. The dates listed below are when the interest rates were adjusted each year.

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%
January 1, 2006	7%	.5833%	.0192%
January 1, 2007	9%	.75%	.0247%

The current annual interest rate is 9 percent for the interest period beginning after January 1, 2007. 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 return.

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, 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 return's original due date. An extension to file is not an extension to pay.

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 2002 on March 23, 2006. Your original 2002 return was due on April 15, 2003. 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, 2003–January 15, 2004	
.005833 × $500 × 9 months	= $26.25
January 16, 2004–January 15, 2005	
.06 × $500 × 1 year	= 30.00
January 16, 2005–January 15, 2006	
.05 × $500 × 1 year	= 25.00
January 16, 2006–March 15, 2006	
.005833 × $500 × 2 months	= 5.83
March 16, 2006–March 23, 2006	
.000192 × $500 × 8 days	= 0.77
Total interest	$ 87.85

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 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 written objection decision, or
- The date of the department's conference decision letter (CDL), 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 the correct amount of assistance is less than 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
2003	November 4, 2004
2004	November 4, 2005
2005	November 3, 2006

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 or due date of the return of the loss year, whichever is later.

Example: You filed an amended income tax return for tax year 2004 on May 23, 2006. Your original 2004 return was due on April 15, 2005. You filed your original 2004 return on March 17, 2005. You are due a refund of $1,000 from the amended return. Here is how we figure the interest due to you on your refund:

April 16, 2005–May 29, 2005	0 interest
May 30, 2005–January 29, 2006	
.004167 × $1,000 × 8 months	= $33.34
January 30, 2006–April 29, 2006	
.005833 × $1,000 × 3 months	= 17.50
April 30, 2006–May 23, 2006	
.000192 × $1,000 × 24 days	= 4.61
Total interest	$55.45

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 2005 return on July 21, 2006. Her return was due April 17, 2006. She did not have an extension. She paid the tax due of $2,000 with the return. Here is how she figures her penalty:

Penalty (failure-to-pay)	
.05 × $2,000 tax	$ 100
Penalty (failure-to-file)	
.20 × $2,000 tax	400
Total penalties	$ 500

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

Summary: You will not be charged the 20 percent failure-to-file 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 bill 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 Alicia failed to file their 2003 return by April 15, 2004. In 2005, they received a request to file from the Oregon Department of Revenue. They filed a return on April 5, 2006, showing $5,000 tax due. No payment was made. An investigation completed on October 25, 2006, revealed the intent to evade tax and a corrected tax due of $7,000. Here is how we would figure the penalty:

Tax due	$7,000.00
Penalties	
Failure-to-pay 5%	
Failure-to-file 20%	
Fraud 100%	
(total penalty not more than 100%)	7,000.00

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. Substantially understated income includes income attributable to an abusive tax shelter, even if fully disclosed.

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:
  - — Do not 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-EXT, *Automatic Extension for Individuals.* Mail the 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. Send the payment voucher and your check or money order by April 16, 2007, to: *Extension Clerk, Oregon Department of Revenue, PO Box 14950, Salem OR 97309-0950.* If paying by credit card, write "credit card payment" on your voucher and mail the voucher to the address above. For information on credit card payment, see page 15.
  - — 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 16, 2007. If you do not pay all the tax due with your extension, you will owe interest on the unpaid balance after April 16, 2007, until the date it is paid. To avoid penalty and interest charges, include enough payment with your extension to cover your tax liability. If you discover you have overpaid, you will receive a refund. The current interest rate is 9 percent per year. If the tax is not paid within 60 days of our bill, the interest rate increases to 13 percent per year.

Were you stationed in a designated combat zone?

Did you receive additional time to file your 2006 federal return and pay your 2006 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 call the department for information and instructions on filing or visit our website.

Amended returns ORS 314.380

Reasons to file an amended return

- An IRS audit (or other state audit) resulted in a change to your original return that affects your Oregon return.
- You amended your federal (or other state) return and the changes you made affect your Oregon return.
- You have a net operating loss (NOL) and 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

The Amended Schedule is used to amend returns for all tax years. Use the same form (form 40S, 40, 40P, or 40N) and instructions you used to file your original return to complete your amended return. There are some exceptions.

Exceptions:

- Did you originally file Form 40S but are changing to Form 40? If so, use Form 40 and instructions to complete your amended return.
- Are you changing your residency status (for example, from full year resident to part-year resident)? If so, use the appropriate form for your corrected residency status.

Complete the Amended Schedule and attach it to your amended return. To download the Amended Schedule and instructions visit our website, or call us to order a copy.

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 2003 return by April 15, 2004. In February 2006, she discovered she failed to claim her Schedule A charitable contributions on her original 2003 return. Hazel must file her amended 2003 return no later than April 16, 2007, to claim her refund of overpaid taxes.

There are exceptions for filing an amended return after the three-year statute of limitations has expired. These exceptions are explained in the instructions for *Oregon Amended Schedule.*

Tax to pay. If you need to file an amended return because you owe more tax, do it as soon as possible. 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 2004 Oregon return by April 15, 2005. In December 2005, Irwin discovered he failed to report $4,000 of income he earned as an independent contractor. He filed his amended return in January 2006. Irwin determined that he owes $340 of tax. Irwin will calculate interest on this amount starting on April 16, 2005, through the date the tax is paid.

For more details and complete instructions for filing an amended return, please visit our website or call us.

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.

Once processing begins, e-filers usually receive their refunds in 7–12 days. If you claim the Working Family Credit, please allow extra time for processing.

Oregon electronic filing allows taxpayers to file:

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

Oregon does not accept electronic filing of the following forms:

- Form 90R, *Oregon Elderly Rental Assistance.*
- Prior-year returns.
- Noncalendar-year returns (or fiscal-year returns).
- Special case attachments.

Credit for income taxes paid to another state

Are you claiming the credit for income taxes paid to another state on your electronic return? If so, you're 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 97309-0990

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 need to complete Oregon Form EF. Please do not send Form EF to the department unless you're asked. Keep Form EF with your tax records for three years after:
   — the due date of your return, or
   — the date you filed your return

   whichever is later.

Rejected returns

If the IRS rejects a federal return due to errors, they will also 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 they match the information on the federal return. If one or more of these items don't match or the state return is improperly formatted, the IRS will reject both the federal and state returns.

Returns rejected by the IRS will need to be corrected and resubmitted or mailed to the department.

Oregon returns rejected by DOR after IRS acceptance will need to be corrected and resubmitted as a paper return with a 2-D barcode.

Balance-due returns

You may file a balance-due return at any time before the due date, but payment must be postmarked on or before April 16, 2007 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:

Return Payments
Oregon Department of Revenue
PO Box 14555
Salem OR 97309-0940

Important reminder: Penalty and interest will be charged on unpaid tax starting on April 17, 2007. An extension to file does not mean an extension to pay.

Will my e-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 usually more accurate, so there's less chance your return will be reviewed or adjusted during processing.

Practitioner participation in e-filing

Practitioners are automatically approved for Oregon electronic filing after the IRS acceptance of Form 8633, *Application to Participate in the Electronic Filing Program.* There is no separate registration required for Oregon.

Copy of return for client

If you are a paid tax preparer or software vendor, the copy 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 have 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. This is printed on the front page of your return.

Why should I use a 2-D barcode?

A machine reads the information in the barcode so it doesn't have to be manually entered into our computer system. This helps us process your return more quickly and cost-effectively.

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

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

2-D barcode for Form 40N and Form 40P is not available at this time.

How does 2-D work on my corporate tax return?

You can file your Form 20-S, 20, or 20-I 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. The barcode also contains additional information from the following forms and schedules: Form W2, Form 37, Form 10, the Oregon amended schedule, and Schedule AP.

If you are filing Form 40, the barcode also contains information from your federal return needed to process your Oregon return.

When is my 2-D barcode return due?

The due date for 2-D barcode returns is the same 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.

Where do I send 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

Will my 2-D barcode return be reviewed?

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 usually 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 first page. It is very important to reprint both the first and second 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. See **Amended Returns,** page 12.

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

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

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

Our staff is only available to assist you with general tax questions.

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 can pay your current-year balance due, make 2007 estimated tax payments, and pay prior year taxes 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, contact the service provider supporting Oregon's program toll-free by phone or on the web. Their contact information is below.

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.

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

Service provider:

Official Payments Corporation

Call toll free 1-866-720-1327 or visit their website at www.officialpayments.com. They will charge a fee of 2.49 percent of the amount you charge. They accept Visa, MasterCard, and Discover.

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. Make sure you have your correct routing number and account number:

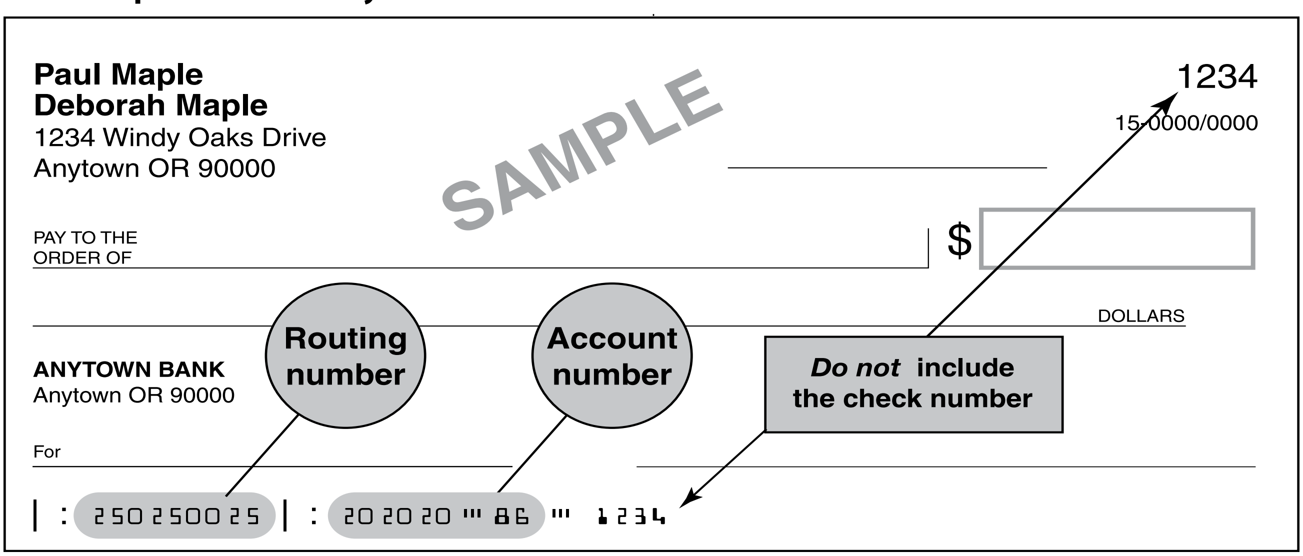
- **Routing numbers** are nine digits and must begin with 01 through 12, 21 through 32, or 61 through 72.
- **Account numbers** can be up to 17 characters, both numbers and letters. Include hyphens, but do not include spaces or special symbols. If your account number is fewer than 17 characters, leave 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 debit. Oregon does not allow electronic funds withdrawal (direct debit) from your checking or savings account to pay your Oregon tax. The Internal Revenue service allows it, but the method isn't available to pay your Oregon tax. If you have any questions, please call us.

Direct deposit—necessary numbers



Refund processing

When will I get my income tax refund this year?

Processing time for your return will depend on how and when you filed your return. The chart below will help determine when you should get your refund.

After the department begins processing full-year resident returns, allow:

E-file return	7–12 business days
Mail return (before April 1)	6–8 weeks
Mail return (on or after April 1)	8–11 weeks
2-D barcode return	8–11 weeks

Also, your refund may be delayed if your return needs additional review.

Refund delays

Several things might delay 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).
- Claiming a working family child care credit. These refundable tax credit claims are reviewed manually and generally take an additional eight weeks to process.
- Unidentified other subtractions, other additions, and/or other credits. The numeric codes are shown in this publication along with the text for each other addition, other subtraction, and other credit. We also provide a list of the numeric codes in the appendix on page 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 them.

When living apart, a husband and wife each may establish their own domicile if they meet 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 your family during any part of the year, and
- You maintain a permanent residence outside Oregon during the entire year, 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're 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.

"Tax home" is generally your regular place of business, the location where you work, regardless of where you live. For more information on tax home, please refer to Internal Revenue Service *Publication 17—Your Federal Income Tax for Individuals.*

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 12-month period.

Example 1: Juan arrives in England on April 24, 2005, at noon. He establishes his tax home in England and remains there until 2 p.m. on March 21, 2007. 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, 2005, and ends April 24, 2006.
- The other 12-month period starts on March 21, 2006, and ends on his last full-day day in England, March 20, 2007.

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 2005, 2006, and 2007. He should file Oregon part-year returns for 2005 and 2007 and a nonresident return for 2006.

Example 2: Use the facts in Example 1, but change Juan's arrival date to June 23, 2006.

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 for 2006 and 2007.

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 a 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, 2006. She is transferred back to the United States on December 11, 2007. 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 2008. She would now qualify under the bona fide residence test. Her residence was established for a full tax year. Sandra should file a nonresident return for 2007.

Sandra also qualifies for nonresident treatment for the months in 2006 and 2008 that she maintained bona fide foreign residence. She should file Oregon part-year returns for 2006 and 2008.

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

Nonresidents

If you were domiciled outside Oregon and lived outside 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 from Oregon sources. In some cases a taxpayer domiciled in Oregon can be treated as a nonresident. See **Special-case Oregon residents** on page 17.

Example 1: Misha was a permanent California resident in 2006. She temporarily worked in Medford as a computer consultant for two months in 2006. Misha is a nonresident of Oregon. She will pay Oregon tax on the income she earned in Oregon. California will also tax Misha's income because she is a resident of that state. Because both Oregon and California will tax her income Misha will have a credit for taxes paid to another state. For information about this credit see page 86.

Example 2: Nash was a permanent Nevada resident in 2006. 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're 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 through July 21, 2006. On July 22 he moved permanently to Oregon. Gustav is considered a part-year Oregon resident for tax year 2006.

Example 2: Bailey was a resident of Oregon from 1986 through March 2006. She permanently changed her residence from Oregon to Delaware on April 1, 2006. Bailey is considered a part-year Oregon resident for tax year 2006.

What form to file

Oregon has four types of tax forms. The form you use will depend on your residency status and tax situation. The four forms are identified below.

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 claim the standard deduction on your return, and
- Your Oregon taxable income is $100,000 or less, and
- You do **not** have pension or annuity income or IRA distributions, 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 website or call us to order.

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 36; 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 2007 estimated tax.

Form 40 is included in the *Full-Year Resident* booklet. Download it from our website or call us 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. See page 23, or
- You qualified as an Oregon resident living in a foreign country for the entire year. See page 17.

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 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 website or call us 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. They must use the same, married filing separately, filing status on each of their separate Oregon returns.

Example 3: Peter and Della are married and both are full-year Oregon residents. They filed a joint federal return. Peter and Della 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.

Example: Bea and Cal are married but live in different states. Bea is a permanent resident of Oregon and Cal is a permanent resident of Idaho. Each year they file married filing jointly on their federal return.

In tax year 2005 they decided to file separate returns in their respective resident states. Bea and Cal would both use the filing status of married filing separately on their state income tax returns.

In tax year 2006 Bea and Cal decided to file married filing jointly on their state returns, even though they continue to live in different states. They will file as married filing jointly on each of the Oregon and Idaho state returns.

Note: Married nonresident aliens have to file separate returns for Oregon, since they 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.

- **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.

Filing information

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 on the next page.

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:

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

If your share is less than -0-, your percentage is -0-.

Federal tax. Each spouse may subtract 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 $2,500.

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." For itemized deductions, see page 73.

Standard deduction. The Oregon standard deduction is $1,840 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 $1,840 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 them 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 and are filing 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:	$\frac{\$41,000}{\$93,000}$			=	.44 (44%)
Federal tax:	.44	×	$14,400	=	$6,336
			(Subtraction limited to $2,500)		
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: $\frac{\$52,000}{\$93,000}$ = .56 (56%)

Federal tax:	.56	×	$14,400	=	$8,064
			(Subtraction limited to $2,500)		
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

Full-year residents

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

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	4,890
	65 or over	6,090
Married, joint return	Both under 65	9,800
	One 65 or over	10,800
	Both 65 or over	11,800
Married, separate return	Under 65	4,890
	65 or over	5,890
Head of household	Under 65	6,145
	65 or over	7,345
Qualifying widow(er)	Under 65	6,865
	65 or over	7,865

In addition, file a return if:

- You're 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 $300. Enter total. 2. ______
3. Set amount. 3. 850
4. Enter the larger of line 2 or 3. 4. ______
5. Enter the standard deduction for a single person: 5. ______
   - Basic standard deduction: $______
   - Single and over age 65: $______
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, 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: $700 plus $29. 1. $ 729
2. Add earned income: $700 plus $300. Enter total. 2. 1,000
3. Set amount. 3. 850
4. Enter the larger of line 2 or 3. 4. 1,000
5. Enter the standard deduction for a single person: 5. 1,840
   - Basic standard deduction: $1,840
   - Single and over age 65: $3,040
6. Enter the smaller of line 4 or 5. 6. 1,000

Because line 6 ($1,000) 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 income, she should file an Oregon return to claim her refund.

Example 2: Norman is single, age 17, and 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 $300. Enter total. 2. 3,315
3. Set amount. 3. 850
4. Enter the larger of line 2 or 3. 4. 3,265
5. Enter the standard deduction for a single person: 5. 1,840
   - Basic standard deduction: $1,840
   - Single and over age 65: $3,040
6. Enter the smaller of line 4 or 5. 6. 1,840

Because line 1 ($3,015) is more than line 6 ($1,840), 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 $300. Enter total.	2.	300
3.	Set amount.	3.	850
4.	Enter the larger of line 2 or 3.	4.	850
5.	Enter the standard deduction for a single person: • Basic standard deduction: $1,840 • Single and over age 65: $3,040	5.	1,840
6.	Enter the smaller of line 4 or 5.	6.	850

Because line 1 ($957) is more than line 6 ($850), 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	$850 *
Single	Under 65	$1,840
	65 or over	$3,040
Married, joint return	Both under 65	$3,685
	One 65 or over	$4,685
	Both 65 or over	$5,685
Married, separate return		
If spouse claims standard deduction	Under 65	$1,840
	65 or over	$2,840
If spouse itemizes deductions	Any	-0-
Head of household	Under 65	$2,965
	65 or over	$4,165
Qualifying widow(er)	Under 65	$3,685
	65 or over	$4,685

** The larger of $850 or your earned income plus $300, up*

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

If you have Oregon state income tax withholding and aren't required to file a return, you still must file a return to claim a refund of withholding.

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, use your Social Security number. If you already have an ITIN, enter your ITIN wherever your Social Security number is requested.

Requesting an ITIN from the IRS

You must file your federal return and attach Form W-7, *Request for ITIN.* The IRS will issue an ITIN, associate the ITIN with your return, and process your return. For Form W-7, go to the IRS website at www.irs.gov or call 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 2006 federal tax return before April 16, 2007.
2. On your Oregon tax return, write "ITIN applied for" 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 2006 Oregon tax return before April 16, 2007.
4. The IRS will send you a letter with your ITIN information. We need this information so 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 the ITINs for you, your spouse, or your dependents.

Send this information to:

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

Military personnel filing information

Military personnel are usually considered to be domiciled in the state where they joined the service. Military assignment alone 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 certain requirements.

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're a nonresident stationed in Oregon. You do not need to file an Oregon return unless you had other income from an Oregon source, Oregon tax withheld from your pay, or you qualify to claim the Oregon working family child care credit. (See page 103.) Examples of Oregon-source income include 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 may also want to contact your pay clerk to stop withholding Oregon taxes 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 37F, subtract the military wage income you reported in the federal column on line 8. On line 37S, enter zero. It is important to enter your military pay this way because it affects the amount of deductions and credits you're 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. Don't report your military income in the Oregon column, 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 "Nonresidents stationed in Oregon" above.

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 Oregon income 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" in the left column.

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 Oregon. However, for income tax purposes, if you meet certain requirements you may be considered a nonresident and will not have to pay Oregon tax on your military pay.

Requirements. If you meet all three of the following requirements, you are treated as a nonresident for Oregon tax purposes:

1. You did not have a permanent residence in Oregon for yourself or 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 previously under "How to file" for nonresidents stationed in Oregon.

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). Following are the active duty pay subtractions you may be able to claim on your return.

If you meet the three nonresident requirements listed above but 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:

- You had a right to a refund of all 2006 Oregon income tax withheld because you had no tax liability, and
- You expect a refund of all 2007 Oregon income tax withheld because you think you won't have any tax liability, and
- You expect to be stationed outside of Oregon all of 2007.

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, 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. However, you may be eligible for a credit for income taxes paid to another state. For more information, go to our website or call us.

Active duty pay subtractions

You may qualify for more than one subtraction 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 printed. 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).

** If the president sets a date for the end of combat zone activities before the end of the year, please contact us in Salem at 503-378-4988 or toll-free from an Oregon prefix 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).*

For Oregon National Guard active duty pay subtraction see Title 32 service members information below.

National Guard and armed forces reserves. Annual training and reserve summer camp are considered active duty because the President of the United States 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.

Total subtraction. You may qualify for more than one military active duty pay subtraction. However, your total subtraction can't be more than the total active duty pay included in federal AGI. The following examples show the active duty pay subtractions described above.

Example 3: Seth, an Oregon resident, enlisted in the Navy. 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 Oregon and $3,000 of his active duty pay earned inside 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.

Title 32 service members active duty pay subtraction

Answer the following questions to help you determine if you can claim this subtraction:

- Were you a member of the armed services under Title 32 (i.e. Oregon National Guard) in any year since 2003?
- Were you called to active duty from Title 32 to Title 10 at any time since 2003?

• Was your active duty service in Oregon?

If you answered "yes" to all of the questions above, you can subtract all active duty pay you earned while you served under Title 10 in Oregon. This subtraction is available for tax years starting on or after January 2003. You can amend your prior year tax returns to claim this subtraction. When you file your amended return, include a copy of your orders. We need documentation that shows your status change from Title 32 to Title 10.

You must amend your 2003 tax return by April 16, 2007 to receive a refund. To amend for other years, see instructions for Oregon Amended Schedule.

Example 5: Gertrude and Merlin are married, filing a joint return. Both are Oregon residents. Gertrude was on active duty overseas (not in a combat zone) this year. She had $21,000 active duty pay. Merlin served in the Oregon National Guard and was on reserve duty for three months under Title 32. He was called to and served on active duty under Title 10 from April through the end of the year. His reserve duty and active duty were served in Oregon. Merlin earned $700 of reserve pay for his weekend drills from January to March, and $15,000 of active duty pay from April to December.

Gertrude and Merlin will include $36,700 of military wages in their federal AGI. On their Oregon return, Gertrude will subtract all $21,000 of her active duty pay. She earned all her military wages outside of Oregon. Merlin will not subtract his reserve pay of $700. He will subtract all $15,000 of his active duty pay. All his active duty pay was earned in Oregon as a Guard member called to active duty under Title 10. Combined, Gertrude and Merlin have a military subtraction of $36,000. They will file Oregon Form 40 and claim the subtraction on line 18.

Example: Owen and Jared enlisted in the Oregon National Guard in January 2003. They served under Title 32 in tax year 2003 and completed their weekend reserve drills. In January 2004 they were both called to active duty under Title 10. Owen received orders to Fort Lewis, Washington and Jared received orders to the Umatilla Army Depot in Oregon. Each soldier received $22,000 in active duty pay in tax year 2004.

In tax year 2004 Owen subtracted 100 percent of his active duty pay because all of it was earned outside Oregon. Owen had a $22,000 Oregon subtraction.

In tax year 2004 Jared subtracted the limit of $3,000 of his active duty pay because he was stationed in Oregon. Jared can now amend his 2004 Oregon return to claim the remaining $19,000 of active duty military pay received in 2004 and not previously subtracted. ($22,000 minus $3,000.)

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.

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. You must pay the entire tax 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. Go to our website to download the form or call us to order the form.

Were you stationed in a combat zone or contingency area? Did you receive additional time to file your federal return and pay your 2006 tax? If so, Oregon allows the same additional time to file and pay your Oregon tax. Write "Combat Zone" in blue or black ink at the top of the return.

Interest and collections

The 2003 federal Servicemembers' Civil Relief Act (SCRA) and Oregon law allow relief from collection activities for qualifying servicemembers. You may qualify for relief under one of the following situations:

- If you owe taxes while on active duty (Title 10), you may qualify under SCRA for a reduced interest rate while on active duty and up to six months after. The interest rate limit is 6 percent. File a claim for a reduced rate of interest by writing to the department within six months after your active duty service has ended. Include a copy of orders showing your active duty status and dates.
- If your active duty service (Title 10) has materially affected your ability to pay your Oregon tax debt, you may qualify under SCRA for relief of interest and collection activity while on active duty and up

to six months after. File a claim for relief by writing to the department within six months after your active duty service has ended. Relief may not be available for the period prior to receiving your request. Include a copy of orders showing your active duty status and dates.

- You may qualify for relief of interest and collection activity under Oregon law if you meet the following requirements:
  - — You have a tax liability that came due while on active duty under Title 10, and
  - — You have been on active duty for more than 90 consecutive days, and
  - — Your active duty service (Title 10) occurred on or after September 11, 2001, and
  - — You notify us within six months after your active duty service has ended.
- Guard members called into active state service by the governor under Title 32 may qualify for relief of interest and collection activities on any tax owed prior to active state service. Send a written request for relief to the department within six months after the active state service has ended. Include a copy of your orders.

To get relief, you have to notify us that you are on active duty or send a written request. Relief may not be available for the period prior to receiving your notification. Contact the department for more information.

Servicemembers who died while active duty (Title 10)

The Department of Revenue will cancel the Oregon personal income tax liability of eligible servicemembers who died on active duty on or after September 11, 2001. If the servicemember:

- was on active duty under Title 10 at time of death, and
- was on active duty for 90 consecutive days or more at time of death, and
- had an Oregon personal income tax liability, or other eligible tax liability,

Then they are eligible for a refund of Oregon tax.

Here are instructions on filing a claim for an eligible servicemember:

- File an Oregon return for the tax year, if not already filed. Write "KIA—active duty" on the top of the return and also on the line for "total tax." Attach Form W-2.
- File an Oregon Amended Schedule if a return has already been filed. Write "KIA—active duty" on the top of the schedule and on the line for "total tax." File a separate amended return for each year in question.
- Attach a sheet showing the tax liability before any amount is forgiven, and the amount to be forgiven.
- Attach Oregon Form 243, Claim to Refund Due a Deceased Person to the amended return or schedule if there is no court-appointed or certified personal representative.
- Attach a copy of the certification from the Department of Defense (Form DoD 1300, Report of Casualty).
- Attach documentation showing the servicemember was on active duty (Title 10) for 90 consecutive days or more at the time of death.
- Attach a copy of the servicemember's original Oregon return behind the Oregon Amended Schedule. If you don't have a copy of the original return, contact us. The department may be able to provide you with a copy.
- If the servicemember's federal return was amended, include a copy of the 1040X

Joint filers. If the eligible servicemember filed a joint return, determine his or her separate tax liability using the following method:

1. Figure the servicemember's share of adjusted gross income.
2. Divide by the total joint adjusted gross income. This is the servicemember's share of the joint adjusted gross income.

Multiply the joint tax liability by the percentage determined in step 2. This is the servicemember's share of the joint tax debt, the amount eligible for cancellation.

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.
- 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 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.
- The member's interest basis 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 who 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 their individual income tax return.

For specific questions on workers' compensation coverage requirements for LLCs, contact the Oregon Workers' Compensation Division in Salem at 503-947-7810, toll-free from an Oregon prefix at 1-800-452-0288, or www.oregon.gov/DCBS.

Contact the Oregon Department of Employment in Salem 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 website is www.oregon.gov/EMPLOY.

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

Composite tax returns

Filing a composite tax return

Electing nonresident owners must file Form OC, *Oregon Composite Return.*

For additional instructions on filing composite returns, you will need the Oregon Composite Return Instructions and Form OC.

To get forms and instructions, go to our website or write to: 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 Deficiency 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 by 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 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 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
PO Box 14725
Salem OR 97309-5018

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,
- A detailed explanation of why you are appealing, and
- A telephone number where you can be reached during the day.

Keep us informed of any changes to 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 including any information you provide and send you a written decision. If you disagree with the decision, you may continue your appeal and 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
PO Box 14725
Salem OR 97309-5018

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,
- A detailed explanation of why you are appealing, and
- A telephone number where you can be reached during the day.

Keep us informed of any changes to 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 or certified mail. If you disagree with the decision, you may continue your appeal and will receive new appeal instructions.

Appealing a Notice of Deficiency Assessment to the Oregon Tax Court

If you disagree with a Notice of Deficiency 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 Deficiency Assessment. Complaint forms for appealing to the Magistrate Division are available from the Tax Court. Call or write, 503-986-5650 or TTY 503-986-5651, www.ojd.state.or.us/courts/tax.

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

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

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 adjusted. 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
PO Box 14725
Salem OR 97309-5018

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 from 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 Department of Revenue tax program:

For any other tax program administered by the Department of Revenue, 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. For more information, call the Department of Revenue.

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 appeal

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. If you win your appeal, you will receive a refund of the overpayment.

If you don't pay before the department assesses your account, a 5 percent failure-to-pay penalty will be added to your balance due.

Note: Visa and MasterCard can be used to pay a deficiency or an assessment through a third-party service provider. For information call the Department of Revenue or visit our website.

Appealing a refund adjustment notice

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
PO Box 14725
Salem OR 97309-5018

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,
- A detailed explanation of why you are appealing, and
- A telephone number where you can be reached during the day.

Keep us informed of any changes to 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 including any information you provide and send you a written decision. If you disagree with the decision, you may continue your appeal and 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
PO Box 14725
Salem OR 97309-5018

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,
- A detailed explanation of why you are appealing, and

- A telephone number where you can be reached during the day.

Keep us informed of any changes to 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 or certified mail. If you disagree with the decision, you may continue your appeal and will receive new 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 of the Oregon Tax Court. 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 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
www.ojd.state.or.us/courts/tax

Within 120 days of the date on your notice, mail the following items to the address above :

- Your completed and signed complaint form, and
- Your filing fee, and
- A copy of your notice of refund adjustment.

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 without penalty and held until the appeal with the IRS or other state is resolved. **Note:** Interest will continue to accrue on any unpaid tax.

Did you receive a **Notice of Deficiency Assessment** from the Oregon Department of Revenue prior to sending us proof of the appeal? If so, send us proof of your federal 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 will continue to accrue on any unpaid tax.

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 of our written determination.

Where to write

When you write to us, include:

- Your full name,
- Your current mailing address,
- Your Social Security number (SSN) or individual taxpayer identification number (ITIN),
- The tax year(s) involved,
- A detailed explanation of why you are appealing,
- Proof of your IRS or other state appeal, and

- A telephone number where you can be reached during the day.

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

Send your letter to:

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

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.

Appealing penalty or interest

Waiver or reduction of penalty

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

Written waiver request. You may ask for a waiver or reduction of part or all of the penalty and interest charges. Waiver criteria are outlined in the Oregon Administrative Rules under OAR 150-305.145. 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.

When you write to us, include:

- Your full name,
- Your current mailing address,
- Your Social Security number (SSN) or individual taxpayer identification number (ITIN),
- The tax year(s) involved,
- Which criteria you meet, and
- A telephone number where you can be reached during the day.

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

Send your letter to:

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

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 and will receive new appeal instructions.

Conference request. 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.

When you write to us, include:

- Your full name,
- Your current mailing address,
- Your Social Security number (SSN) or individual taxpayer identification number (ITIN),
- The tax year(s) involved,
- Which criteria you meet, and
- A telephone number where you can be reached during the day.

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

Send your letter to:

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

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 on your waiver or reduction of penalty request. The decision is final and cannot be appealed further.

Appealing interest on underpayment of estimated tax

Do you disagree with the interest charged by the department on underpayment of estimated tax (UND)? If so, write to us following these instructions.

Written objection. Send a letter telling us why you disagree to:

Oregon Department of Revenue UND Team
PO Box 14725
Salem OR 97309-5018

The department will review your request and send the decision in writing. If you disagree with the decision, you can continue your appeal. You'll receive new appeal instructions with the decision letter.

Magistrate appeal. If you disagree with the department's decision, you can appeal to the Magistrate Division of the Oregon Tax Court. You must appeal to the Magistrate Division within 90 days of the date on the department's decision letter. You can write or call the Magistrate Division to get a complaint form for filing an appeal at:

Oregon Tax Court
Magistrate Division
1163 State St
Salem OR 97301-2563
503-986-5650 or TTY 503-986-5651
www.ojd.state.or.us/courts/tax

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've kept good records, you can clear up any questionable items and easily arrive at the correct tax. If you haven't, you may have to spend time getting statements and receipts from various sources. You may also have to pay more tax if you can't 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 shown 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.** Here's 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, including 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.
- Cancelled checks, substitute checks or 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, keep your canceled checks and a copy of the written separation agreement or the divorce, separate maintenance, or support decree.
- For property you own, keep 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 it was used, and when and how it was disposed of. Records must also show your cost or other basis, the gross selling price, and the expenses of the sale.
- Year-end statements showing 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.
- Proof of payment to your child care provider if you are claiming the Oregon working family child care credit.

How do 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 do 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. For example, a current trip log.
- 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 if they were 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).
- If you were 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 and your return is selected for review, the auditor will advise you about reconstructing your records.

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. Other returns are selected because there are sections of tax law which require additional focus because of difficulties in tax law application.

Auditing is reviewing a return to make sure 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 strive to be responsive to the issues and reasonable in our decisions and actions. We will explain any change to your return. We encourage you to ask about anything you do not understand.

For more information, read our publications *Your Rights as an Oregon Taxpayer.* Download the publication from our website or call us to order it.

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, you need to determine if the changes made by the IRS affect your Oregon return. If they do, you should amend your Oregon return as soon as possible. Interest charges accrue until all tax is paid. If you do not amend your Oregon return, you may receive a notice from the department showing adjustments.

Correspondence audits. These are written requests asking you to confirm items on a return. The letter will explain what items are being reviewed and what we need to verify them. You will be asked to send copies of the documents to the auditor who 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. 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'll get a letter from the department asking questions and requesting copies of specific documents. Answer the questions completely and send copies of the documents by the deadline in the letter. It's 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 their 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.

You must give written authorization to a person you want to represent you. Use our *Tax Information Authorization and Power of Attorney for Representation* form. The auditor handling the case can provide the authorization form. Or, you can download it from our website, or call us to order a copy.

What if I disagree with the audit?

When we propose any changes to your return, we will explain the reasons for them. It's important that you understand why we propose any changes. 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. See pages 27–32.

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 get a notice from the department, send a copy of the IRS or other state appeal notification. 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 a return after tax is assessed

When you do not file a tax return but were 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 then 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

We compute your tax assessment using the information available to us about your income, filing status, exemptions, and withholding or estimated tax payments. Because we don't have all your tax information, we may not be able to give you all the deductions or credits you may be entitled to. Once you file a tax return, we may be able to change the tax we assessed.

You may receive a refund

If your withholding and/or 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 2002 was due April 15, 2003. Three years after that date is April 15, 2006. To receive a refund of excess tax payments for 2002, your return must be postmarked on or before April 15, 2006.

Where to mail your return after tax is 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

After reviewing your return, if we agree with the tax you show, we will change the tax 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 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, 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 that is 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 can write or call the Magistrate Division to get a complaint form for filing an appeal at:

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

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

- 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 will also be reduced.

Paying your assessment during the appeal process

You can pay your balance due at any step of the appeal process. Payment does not mean you agree with the assessment. Payment stops more interest from being charged. If you pay, you can still appeal any time within two years of the date you pay the tax, penalty, and interest shown on the Notice of Determination and Assessment. You can make your payment by check or use a credit card. To pay by credit card, see page 15.

You can ask for a discretionary waiver of part or all of the penalty and interest charges. Waiver criteria are in Oregon Administrative Rules [150-305.145, 150-

305.145(4)-(a), and 150-305.145(4)-(c)]. Most penalty and interest charge disagreements can be resolved with the department. For complete information on your appeal rights when requesting a discretionary waiver see "Appealing penalty or interest" on page 31.

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

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

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, or 1040NR. If you're 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 for copies later. If you file an electronic return, we will receive your federal return with your Oregon return.

Income

Full-year residents (Form 40 or 40S). You are taxed on 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 income from all sources earned or received **while 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're 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.

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're an Oregon resident. Then 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. Then add to this figure the amount from Oregon sources while a nonresident. Limit net losses to $3,000 ($1,500 if married filing separately). If you're an Oregon resident at the end of the year, your capital loss carryforward for Oregon is the same as the amount allowed on your federal return.

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 dams.

Part-year residents. Follow the same instructions in "Nonresidents" text, 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 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—(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 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 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 the stock dividends you received under a public utility dividend reinvestment plan in Oregon income.

Full-year residents. Oregon taxes the dividends you received 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 Oregon. These are dividends your S corporation or partnership received on the stock of another corporation.

Interstate Transportation Wages (Amtrak Act) 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 direct and hands-on, requiring 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 is a nonresident who works for an Oregon interstate motor carrier as a commercial motor vehicle driver. 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 is a nonresident who 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 is a nonresident who 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 on-call some weekends 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 and report his wages in the Oregon column.

Example 4: Carl is a nonresident who 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 is a nonresident who 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 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 and include his income in the Oregon column.

Example 6: Frieda is a nonresident who 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" and she does not work for an interstate motor carrier. Her Oregon-source wages are taxable by Oregon. Frieda must file Form 40N and include her income in the Oregon column.

Example 7: Butch is a nonresident who 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 and include his income in the Oregon column.

Example 8: Connie Sue is a nonresident who 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 and include her income in the Oregon column.

Example 9: Ken is a nonresident who 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 and include his income in the Oregon column.

Employer withholding

If you are exempt from Oregon taxation under the Amtrak Act, Oregon tax does not have to be withheld from your wages. You may claim exemption from withholding on the W-4 you file with your employer. On the 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.

IRA distributions

Full-year residents. Oregon taxes any taxable IRA distribution you received during the year and 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 you received while you were an Oregon resident. Oregon also taxes income amounts from

IRA conversions if you were an Oregon resident at the time of the 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" below.

Property like-kind exchange or conversions 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 located in 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. Download the form from our website or call us to order it.

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

Part-year residents. If you were an Oregon resident at the time you exchanged your property and deferred the gain, you will report the Oregon portion of the gain when you report the gain on your federal return. If you were a nonresident at the time you exchanged your Oregon property and deferred the gain, see the "Nonresident" section below.

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 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" also on page 61.

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 go to the IRS website 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 16.

Example: Hiro has always resided and worked in Oregon. On January 5, 2005, 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 interest income is not taxed by Oregon), 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:

- Social Security,
- 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 you deducted on an Oregon return in a prior year. For information on the Oregon income tax refund subtraction, see page 61.

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.

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 below.

Nonresidents.* Oregon taxes the income you earned while working in Oregon. Oregon does not tax any amount you earned while you were working outside 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 from your employer to your Oregon return.

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

Important information for using this formula: When you count the number of days you actually worked in Oregon and the number of days you actually worked everywhere, do not include holidays, vacation days, or sick days. These aren't days that you actually worked. Your employer paid you for these days based on the days you worked. However, include your sick **pay**, holiday **pay,** and vacation **pay** in total wages.

Use the formula below to determine total wages taxable by Oregon.

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

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

*** Nonresident exceptions:** *To see if you qualify to exclude certain income, go to "Interstate transportation wages (Amtrak Act)," page 37; "Hydroelectric dam workers," also page 37; or "Waterway workers" below.*

Waterway workers ORS 316.127

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

Part-year residents. Oregon taxes all 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 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 you claimed on your federal return. The federal deduction flows through to your Oregon return via your federal adjusted gross income. You will not claim an additional deduction on your Oregon return.

Part-year residents. Oregon allows a deduction for alimony you paid while an Oregon resident. Oregon also allows a partial deduction for alimony paid while 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 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 expenses of reservists

Full-year residents. Oregon allows the deduction you claimed on your federal return. The federal deduction flows through to your Oregon return via your federal adjusted gross income. You will not claim an additional deduction on your Oregon return.

Part-year residents. Oregon allows a deduction for the expenses you incurred while you were an Oregon resident.

Nonresidents. Your reservist income is not taxed by Oregon. Therefore you must not take an expense deduction.

Education

Student loan interest

Full-year residents. Oregon allows the deduction you claimed on your federal return. The federal deduction flows through to your Oregon return via your federal adjusted gross income. 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 under **Nonresidents** 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.

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

Fee-basis government officials

Full-year residents. Oregon allows the deduction you claimed on your federal return. The federal deduction flows through to your Oregon return via your federal adjusted gross income. 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 under **Nonresidents** 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.

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

Health Savings Account deduction

Full-year residents. Oregon allows the deduction you claimed on your federal return. The federal deduction flows through to your Oregon return via your federal adjusted gross income. 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 under **Nonresidents** 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 you claimed on your federal return. The federal deduction flows through to your Oregon return via your federal adjusted gross income. 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 follows the federal definition of earned income and compensation used to calculate your IRA and other retirement plan deductions. Oregon allows the same deduction you claimed on your federal return. The federal deduction flows through to your Oregon return via your federal adjusted gross income. You will not claim an additional deduction 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 the amount you paid while an Oregon resident to your nonresident deduction. 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. Use the formula below to determine your Oregon deduction for the part of the year you were a nonresident.

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

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

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

Moving Expenses OAR 150-316.127(3)(a)

Full-year residents. Oregon allows you the same deduction you claimed on your federal return. The federal deduction flows through to your Oregon return via your federal adjusted gross income. You will not claim an additional deduction on your Oregon return.

Part-year residents. Oregon allows 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 becoming an Oregon resident, even if they weren't 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: Ezra moved out of Oregon to take a job in another state. His moving expenses are not deductible for Oregon.

Example 3: Becker moved from New Jersey to Oregon to take a job in California. He paid his moving expenses after he became a resident of Oregon. Becker may deduct his moving expenses although his employment is not in 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 you claimed on your federal return. The federal deduction flows through to your Oregon return via your federal adjusted gross income. 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 under **Nonresidents** 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 you claimed on your federal return. The federal deduction flows through to your Oregon return via your federal adjusted gross income. 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 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 you claimed on your federal return. The federal deduction flows through to your Oregon return via your federal adjusted gross income. 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

[Addition code 100]

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 or e-mail the Fiduciary Unit at estate.help.dor@state.or.us.

Depletion ORS 316.680

[Addition code 101]

Depletion is using up 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

[Addition code 106]

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 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 nontaxable 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, 2006, 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 2006 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

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

[Addition code 107]

Did you report the interest or dividends of your minor child on **your** federal return? If so, you must add the amount subject to the special federal tax to Oregon income. You must also include any interest or dividends 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 13 or 14 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 or dividends received while you were a nonresident.

Federal estate tax ORS 316.680

[Addition code 100]

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

[Addition code 109]

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 54.

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 2005 Oregon return. This year, she amended her 2005 federal return. Rosa reduced her federal tax to $2,300 and received a federal refund of $500. She received a $500 tax benefit because she subtracted $500 more on her 2005 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 figuring the addition are explained on page 47. 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. So you didn't receive a tax benefit from the total federal tax subtracted on your original return.

Example 2: The Jacksons showed a $3,100 federal tax liability on their 2006 federal return. They claimed a federal tax subtraction for that same amount on their Oregon return. When their 2006 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 $2,400 and reduced their Oregon federal tax subtraction to that amount. In 2007, the Jacksons received the IRS refund of $700. They will not report the $700 refund as an addition on their 2007 Oregon return because they did not receive a tax benefit for it.

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 is your corrected federal tax liability.

Example 3: Heather filed her 2006 federal and Oregon returns on February 16, 2007. Her federal tax liability was $4,800, which she subtracted in full on her Oregon return. On March 20, 2007, she amended her 2006 federal return to claim additional deductions. She refigured her 2006 federal tax as $3,000. She also amended her 2006 Oregon return to claim the same additional deductions and reduce her federal tax subtraction by $1,800 (from $4,800 to $3,000). The $1,800 federal refund she received in 2007 will not be reported as income on her 2007 Oregon return. Because Heather filed the amended Oregon return **before** the April 16 due date, her amended return is treated as her original return this year.

Figuring the addition. The refund you must report as an addition is the amount of refund that received a tax benefit. The tax benefit is the amount of federal tax you deducted in a prior year and received as a refund 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 (2005 limit $4,500; $2,250 if married filing separately (MFS). 2004 limit $4,000; $2,000 if MFS. 2003 and 2002 limits $3,500/$1,750; $3,250/$1,625).	1. ________
2.	Fill in your corrected federal tax liability from a prior year (2005 limit $4,500; $2,250 if MFS. 2004 limit $4,000; $2,000 if MFS. 2003 and 2002 limits $3,500/$1,750; $3,250/$1,625).	2. ________
3.	Line 1 minus line 2. This is the tax benefit you received from your refund.	3. ________

Example 4: Jill's 2005 federal tax liability was $4,650. She was limited to $4,500, which she subtracted on her Oregon return. Jill amended her 2005 federal return and received a refund of $1,900 in 2006. The addition on Jill's 2006 return will be $1,750, figured as follows:

1. Tax benefit received: Federal tax subtracted on Jill's 2005 Oregon return (limit $4,500)	$4,500
2. Less: Corrected federal tax ($4,650 – $1,900) (limit $4,500)	–2,750
3. Tax benefit received and Jill's Oregon addition	$ 1,750

Example 5: Ella was a part-year resident in 2004. Her original federal tax was $4,200. She amended her 2004 federal and Oregon returns. She received a $1,000 federal refund in 2006. Her 2004 corrected federal tax is $3,200. Ella's addition is $800. She figures her tax benefit as follows:

1. Original 2004 federal tax liability (limit $4,000)	$4,000
2. Less: Corrected federal tax liability (limit $4,000)	–3,200
3. Tax benefit received and Ella's Oregon addition	$ 800

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 may also change. Use the corrected percentage to figure the tax benefit.

Example 6: Donya was a nonresident with Oregon-source income in 2005. Her original federal tax was $3,600. Her Oregon percentage on Form 40N was 50 percent. In September 2006, she amended her federal and Oregon returns. She received a $1,000 federal refund in 2006. Her revised Oregon percentage for 2005 was 40 percent. She received a $760 tax benefit from the refund. She figures her tax benefit as follows:

1. Original federal tax liability (limit $4,500)	$ 3,600	
× original Oregon percentage	× .50	
		$ 1,800
2. Corrected federal tax liability (limit $4,500)	$ 2,600	
× revised Oregon percentage	× .40	
		− 1,040
3. Tax benefit received and Donya's Oregon addition		$ 760

Film production development contributions ORS 315.514

[Addition code 104]

If you claimed a deduction on Schedule A for your contribution to the Oregon Film and Video Office and you claimed the Oregon Production Investment Fund credit, you will have an Oregon addition for the amount of your deduction.

Example: Edward contributed $2,000 to the Oregon Film and Video Office. He claimed a charitable contribution deduction of $2,000 on his Schedule A. On his Oregon return, Edward will claim a $2,222 credit for his donation to the Oregon Film and Video Office. Because he claimed the Oregon credit and claimed the Schedule A itemized deduction for the $2,000 donation, Edward must add back the amount of his donation to the Oregon Film and Video Office. Edward will have a $2,000 Oregon other addition.

For more information about the Oregon Production Investment Fund credit, see page 94.

Gambling losses claimed as an itemized deduction ORS 461.560

[Addition code 105]

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. See the subtraction for Oregon Lottery winnings on page 59.

Example: Angela reported total gambling income of $580 on her 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

[Addition code 104]

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 88.

Individual Development Account ORS 316.848, 315.271

[Addition code 113]

For information on the required Oregon addition, see page 71.

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 46.

Part-year residents. Oregon taxes all interest and dividends you earned on all bonds or notes when you were an Oregon resident. Oregon also 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.

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

Expenses

Investment 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 investment expenses.

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: Jim received $2,970 of interest from Idaho Municipal Bonds. He borrowed $12,000 to purchase the bonds. His interest expense on the loan was $650. Jim used the standard deduction on his federal and Oregon returns. He will have an Oregon addition for $2,970. Jim 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

[Addition code 104]

You may have an Oregon addition for long-term care insurance premiums if you answer yes to both of these questions:

- Are you claiming an Oregon long-term care insurance premiums credit (page 91)?
- Are you claiming a federal deduction for the premiums as a medical expense or a business expense?

If you answered yes to both questions, use the following formula to figure the Oregon addition:

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

If you answered no to either or both questions, you do not have an Oregon addition.

Example 1: Ciara, age 43, paid premiums of $1,350 during the tax year. On her federal return she is limited to a $530 medical deduction for the premiums. She has other medical expenses of $3,120. Her total medical expenses on Schedule A are $3,650. Ciara 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 $800 ($3,650 – 2,850). She computes her Oregon addition as follows:

$$\frac{\$530}{3{,}650} \times \$800 = \$116$$

Ciara must add back $116 on her Oregon return before she claims the Oregon long-term care insurance premiums credit.

Example 2: Frances, age 66 and single, paid premiums of $2,800 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 $3,200. Her total medical expenses are $6,000. Frances has AGI of $39,000. She must reduce the expenses by the 7.5 percent AGI limitation ($2,925). Her allowed medical deduction is $3,075 ($6,000 – 2,925). She computes her Oregon addition to Oregon income as follows:

$$\frac{\$2{,}800}{6{,}000} \times \$3{,}075 = \$1{,}435$$

Frances must add back $1,435 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 is in addition to the Oregon long-term care insurance premiums credit. For more information about the special Oregon medical deduction, see page 72.

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 for your long-term care insurance premiums.

Example 3: Danica, age 57 and single, used the standard deduction of $5,000 on her 2006 federal return. Danica's total itemized deductions are $4,100. Her long-term care insurance premiums are $1,000 of her $4,100 total itemized deductions. Because the federal standard deduction of $5,000 is more than her itemized deductions of $4,100, it benefits Danica to use the federal standard deduction. Danica filed an "Oregon-only" Schedule A with her Oregon return. She benefits more from her net Oregon itemized deductions of $3,800 ($4,100 – $300 Oregon state income tax) than she would from her Oregon standard deduction of $1,840. Because Danica had no federal benefit from her long-term care premiums, she will not have an Oregon addition for her premiums.

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 will have an Oregon addition for the amount of premiums you deducted before you can claim the Oregon long-term care insurance premiums credit.

Lump-sum distributions ORS 316.737

[Addition code 115]

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 was not included in your federal adjusted gross income (AGI). The excluded portion of your distribution must be included as an addition to your Oregon income.

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 choose the 20 percent capital gain election on Form 4972? If you chose either of these options you will add to Oregon income the total amount of taxable 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. Using IRS Form 4972, he chose to use the 10-year averaging method only on the $8,000 of ordinary income. He chose the 20 percent capital gain election on the $12,000 capital gain income. Gary will add all of his $20,000 lump-sum distribution to his Oregon income as an other addition on his Oregon tax return.

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 distribution from his employer; $30,000 was capital gain income and $10,000 was ordinary income. He chose to average the entire distribution of $40,000 as ordinary income on his federal Form 4972. John will add all of his $40,000 lump-sum distribution to his Oregon income as an other addition on his Oregon tax return.

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, there is no addition on your Oregon return.

Oregon 529 College Savings Network ORS 316.680

[Addition code 117]

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

[Addition code 104]

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: 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.

Oregon deferral of reinvested capital gain   ORS 316.877

[Addition code 118]

Oregon allows certain taxpayers to postpone paying income tax on certain capital gains.

The deferral was 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 gain be recognized?

Certain events may require you to recognize deferred gain. You must make an addition on your Oregon return if one of the following occurs:

- An asset you reinvested in ceases to be 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.

Self-employed health insurance deduction   ORS 316.680

[Addition code 104]

Did you claim a deduction for long-term care insurance premiums on federal Form 1040, line 29, as part of your self-employed health insurance deduction? 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 49.

Unused business credits ORS 316.680

[Addition code 122]

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

[Subtraction code 300]

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** the following are true:

- You are an enrolled member of a federally recognized American Indian tribe, and
- Your income is derived from sources within federally recognized Indian country in Oregon, and
- You lived in federally recognized Indian country in Oregon at the time the income is earned.

"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 on Indian country in Oregon, income exempt from Oregon income tax includes:

- Wages earned for work performed on Indian country in Oregon.
- Income from business or real estate located on Indian country in Oregon.
- Retirement income if the contributions to the plan came from or were connected with services performed on Indian country.
- Unemployment compensation if the benefits were received as a result of work performed on 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 on and have income derived from sources within 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 on and have income from the same Indian country. But the areas where you live and have income from must both be "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 the *Exempt Income Schedule for Enrolled Members of a Federally Recognized American Indian Tribe,* with your Oregon return. Go to our website to download the schedule or call us. You must include the following information 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.

Remember, generally only income derived from sources within Indian country in Oregon, by an enrolled tribal member while living in Indian country in Oregon, is eligible for the American Indian subtraction. Income earned in Oregon, outside of Indian country, will be taxed by Oregon. Also, any Oregon income earned by a member not living on Indian country will be taxed by Oregon. Each member of a household with income must meet these qualifications in order to claim the subtraction of their 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.

Artist's charitable contribution ORS 316.838

[Subtraction code 301]

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 qualify for the deduction allowed by IRC Sec. 170. It 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 limit), and
2. The actual allowable amount 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 your deduction.)

You will need the appraisal report (required by the IRS) showing the FMV of the art at the time of the contribution. (Keep a copy of the appraisal report with your permanent 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 AGI	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

[Subtraction code 303]

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 are not eligible for this subtraction either.

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 both for business and personal purposes, you must determine your portion of business use. Keep a mileage log book during the year to track your business use and record all business trip miles. You should also record your starting and ending odometer reading for your vehicle each year. You may claim only the business portion of your repairs and maintenance as commuting expenses. You cannot claim depreciation. To claim the actual business expenses for your qualified commute miles, you will need to keep your vehicle records during the year. Keep receipts for all your fuel (e.g. gas, diesel), oil change, repair, and maintenance in your permanent tax records.

Example: Ewan is a construction worker. He uses his truck for both personal and business purposes. He worked on three construction jobs during the year. Two of the jobs were located more than 50 miles away from his home. Ewan kept a log book in his truck and recorded each trip to and from the construction sites more than 50 miles from home. He also kept a record of his truck expenses—his receipts for diesel fuel, oil changes, repairs, and maintenance for the year. These receipts totaled $4,215.

Ewan's odometer readings were:

Year end: December 31	38,306
Year beginning: January 1	26,327
Total miles driven	11,979

Ewan's mileage log book showed that his mileage to and from qualified construction job sites totaled 4,716 miles.

He will use this formula to determine the business use of his truck and the amount of truck expenses which will qualify for this subtraction:

$$\frac{\text{Qualified construction miles}}{\text{Total miles driven}} \times \text{actual expenses} = \text{Subtraction}$$

$$\frac{4{,}716}{11{,}979} \times \$4{,}215 = \$1{,}659$$

Ewan will claim a subtraction of $1,659 on his Oregon return.

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 your 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 after the first year at that worksite. 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 can 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 can claim only expenses related to income included on your Oregon return.

Conversions and exchanged property ORS 314.290 repealed

[Subtraction code 306]

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)

[Subtraction code 305]

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 included in the total compensation shown on your Form W-2.

Federal income tax liability ORS 316.680, 316.695

[Subtraction code 309]

Current year's federal tax liability. Oregon allows a subtraction for your current year's federal income tax liability after credits. The subtraction for 2006 is limited to $5,000 ($2,500 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 can deduct your total federal income tax liability after credits, up to $5,000 ($2,500 if married filing separately). Do not fill in less than -0- or more than $5,000 ($2,500 if married filing separately).

1.	Enter your federal tax liability from Form 1040, line 57; Form 1040A, line 35; Form 1040EZ, line 11; or Form 1040NR, line 52.	1. ________
2.	Enter your tax on qualified retirement plans, Form 1040, line 60; or Form 1040NR, line 55, and any recapture taxes you included on Form 1040, line 63; or Form 1040NR, line 58; and the amount on Form 1040NR, line 53.	2. ________
3.	Add lines 1 and 2.	3. ________
4.	Enter $5,000 ($2,500 if married filing separately).	4. ________
5.	Enter the smaller of line 3 or line 4 here. This is your federal tax liability subtraction.	5. ________

Form 40S filers: Is the IRS figuring your federal tax for you? If so, 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, or 1040NR 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 federal income 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 2006 is $3,400. He is filing as a single person. During the year, the IRS audited his 2004 federal return. His original 2004 federal tax was $5,200 (he subtracted $4,000 on his 2004

Oregon return). After the audit, he owed $1,700 additional 2004 federal tax. He paid that amount in 2006. On his 2006 Oregon return, Miles may claim the maximum federal tax subtraction of $5,000. Of this, $3,400 is his current federal tax liability. The remaining $1,600 is last year's federal tax figured as follows:

Smaller of:

1. Additional federal tax paid in 2006		$ 1,700
or		
2. Maximum federal tax subtraction in 2006	$ 5,000	
Less: This year's federal tax liability	– 3,400	
Maximum subtraction of 2004 federal tax paid in 2006		$ 1,600

Miles will claim a $1,600 subtraction for additional federal tax paid.

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. **Refund of federal tax:** Do not change the federal tax subtraction on your amended Oregon return. Report your federal refund as an addition in the year you receive the refund if you received a tax benefit. For information about tax benefit, see page 46.

   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

[Subtraction code 307]

You may be able to subtract some or all of your taxable federal pension included in 2006 federal income. This includes benefits paid to the retiree or the beneficiary. It does not include disability payments if you have not attained the minimum retirement age. 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 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 determine the percentage, it will remain the same from year to year.

  Example 1: Jared worked for the U.S. Department of Agriculture from May 24, 1975, until July 8, 2006. He worked a total of 373 months—196 months before October 1, 1991. In 2006, he received federal pension income of $32,000. He can subtract 52.5 percent (196 ÷ 373) or $16,800 (.525 × $32,000) of his federal pension. Jared will continue to subtract 52.5 percent of his federal pension from Oregon income in future years.

Worksheet on next page

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 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.

** **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 the same percentage,** from line 2, to determine your federal pension subtraction in future years.

Example 2: Dinah served in the U.S. Air Force from November 23, 1984, through February 7, 2005. She received $22,000 in pension benefits in 2006. The following worksheet shows how Dinah will determine her federal pension subtraction for 2006.

1. Federal pension income included in federal AGI. 1. $22,000

2. a. Months of service from November 23, 1984, to October 1, 1991. a. 82 months

   b. Months of service from November 23, 1984, to February 7, 2005. b. 242 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. .339

3. Multiply line 1 by the decimal on line 2. This is your federal pension subtraction. 3. $7,458

Nonresidents. Claim a subtraction for federal pension income only if you reported it on your Oregon return. Oregon does not tax your retirement income unless you have kept Oregon as your domicile. For more information, see page 40.

Federal tax credits ORS 316.716

[Subtraction code 308]

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 had to itemize deductions 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. It will determine your Oregon subtraction or deduction:

$$\frac{\text{Oregon expenses}}{\text{Total expenses*}} \times \begin{array}{l}\text{Expenses not allowed}\\ \text{on your federal return}\end{array}$$

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 will usually 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 income tax ORS 316.690

[Subtraction code 311]

You can subtract taxes paid to a foreign country if on your **federal** return:

- You claimed a credit for 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 $5,000 ($2,500 if married filing separately) for 2006. 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 them 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 $5,000 limit. If you claim 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 2006 foreign tax, or
- Your 2006 federal tax subtraction of $5,000 ($2,500 for married filing separately) reduced by the sum of the 2006 federal tax you are claiming plus any prior year federal tax paid in 2006.
- $3,000 ($1,500 if married filing separately).

Example: Jose is single. His federal tax liability this year is $2,700. He also paid additional federal tax of $1,100 for a prior year. On his federal return he took a credit for the $2,000 in foreign tax he paid this year. Here is how he figured his foreign tax subtraction:

Limit		$ 5,000
Less:		
Federal tax this year	$ 2,700	
Federal tax paid for a prior year	+ 1,100	
Total federal tax claimed on his Oregon return		−3,800
Amount available for foreign tax subtraction		$ 1,200
His foreign tax subtraction is the smaller of:		
His foreign tax	$ 2,000	
or		
Amount available for the foreign tax subtraction	$ 1,200	
or		
$3,000 ($1,500)	$ 3,000	
Jose's foreign tax subtraction is		$ 1,200

Individual Development Account ORS 316.848

[Subtraction code 314]

For information on the Oregon subtraction, see page 71.

Interest and dividends on U.S. bonds and notes ORS 316.680

[Subtraction code 315]

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, it doesn't 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 $620 of interest income from his Series EE bonds. He had borrowed $6,000 to buy the bonds. During the year he paid $200 interest on the loan. He included the $200 interest expense as an itemized deduction on his Schedule A. His Oregon subtraction will be $420.

Series EE bond interest received	$620
Interest expense connected with bonds and deducted on Schedule A	–200
Oregon subtraction	$420

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 49.

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)
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.)

** If the creditor has defaulted and the U.S. government/Export-Import Bank is paying the interest, it is nontaxable.*

Land donations to educational institutions Note following ORS 316.852

[Subtraction code 316]

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, you cannot take the Oregon subtraction if you have claimed a deduction for the gift on your federal tax return.

The subtraction allowed in any tax year is limited to a specific percentage of your contribution base. Your contribution base is federal adjusted gross income computed without 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 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 2006, Marykate has a contribution base of $100,000. She sells land with a fair market value of $500,000 to a local school district for $200,000 cash. Marykate's contribution of $300,000 is limited to 25 percent of her contribution base. In 2006 Marykate can claim an Oregon subtraction of $25,000.

Carryforward. You can 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 $275,000 contribution to the next tax year. Her subtraction will be limited by her contribution base for 2007.

Local government bond interest ORS 286.036

[Subtraction code 317]

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. See example on page 61.

Lottery winnings ORS 461.560

[Subtraction code 322]

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. However, all of the winnings are subject to federal taxation.

Nonresidents are also taxed on winnings from the Oregon Lottery of more than $600.

Payments over $600 from a single ticket are fully taxable and will be reported by the Oregon Lottery Commission to the IRS on Form 1099. 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.

You may subtract Oregon Lottery winnings **included in your federal income** if your ticket was purchased prior to January 1, 1998, or 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 51.

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 on or after January 1, 1998, 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 109) or increasing Oregon income tax withholding from your wages.

Do you have gambling losses claimed as an itemized deduction? If so, see page 48.

Mobile home park capital gain exclusion Note following ORS 316.791

[Subtraction code 338]

Amounts received as a result of the sale of a mobile home park to a tenants association are exempt from Oregon income tax.

If you included this gain on income on your federal return, you may claim a subtraction for the gain amount on your Oregon return. Enter the amount as an "other subtraction."

To qualify, the park must have been sold to a tenants' association nonprofit organization, community development corporation, or a housing authority.

This tax exemption applies to tax years beginning on or after January 1, 2006, and before January 1, 2008.

Mortgage interest credit ORS 316.716

[Subtraction code 320]

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.

Take the subtraction in the year of the payment even if the federal credit is carried forward.

Example 1: Stephanie and Phillip 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 Stephanie and Phillip'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

[Subtraction code 324]

You can subtract contributions you made to an Oregon 529 College Savings Network account in during the tax year 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 can 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 2006 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 16, 2007.

Example 2: Rodrigo made a contribution of $1,800 to his son's Oregon 529 College Savings Plan on March 10, 2007. He filed his 2006 tax return on March 3, 2007. Because he made his contribution after he filed his 2006 return, he cannot claim the $1,800 subtraction on his 2006 return. He can claim the subtraction on his 2007 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 2006 to an Oregon 529 College Savings plan for their son. They may subtract a maximum of $2,000 on their 2006 return. They can carry forward the remaining $4,000 balance of their contribution. They can 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 eligible educational institution anywhere in the United States and foreign countries. A list of the United States and foreign schools that qualify is on the U.S. Department of Education website at www.fafsa.ed.gov.

You may need to add back funds withdrawn for a nonqualified purpose to the Oregon return as an "other addition." See page 50.

Corporations and partnerships may establish accounts for individual beneficiaries.

For more information about Oregon 529 plans, go to www.oregon529network.com or call 503-378-2882 in Salem.

Oregon income tax refund ORS 316.680

[Subtraction code 325]

Oregon allows a subtraction for Oregon state income tax refunds included in federal income. Oregon does not allow a subtraction for any other state income tax refund.

Previously taxed employee retirement plans ORS 316.159

[Subtraction code 327]

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:

- Contributions were made while a nonresident of Oregon.
- No previous state income tax deduction, exclusion, or exemption was allowed or allowable at the time contributions were made.
- No previous state income tax deduction, exclusion, credit, subtraction, or other tax benefit has been allowed for the contributions.
- Contributions 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 1996.

Mildred contributed $2,500 ($500 × 5 years, 1982–1986) with no deduction allowed on her California returns.

Mildred retired and moved to Oregon in June 2006. She receives payments of $350 a month from the California IRA. These payments are subject to Oregon tax 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 2006 for a total of $2,450. She can subtract the entire $2,450 for 2006. In 2007, 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 on the Oregon return for recovery of contributions is allowed.

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, she was allowed a federal deduction each year. However, she didn't get a state tax deduction, because Washington does not have 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 have an income tax.

Previously taxed IRA conversions ORS 316.680

[Subtraction code 327]

Oregon allows a subtraction for converting 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 2006. In March, she converted her $100,000 traditional IRA to a Roth IRA.

In September, she moved to Oregon. New York state will tax her IRA when she becomes a nonresident. Susan can subtract the amount included in federal income when she files her 2006 Oregon tax return.

Public Safety Memorial Fund Awards   ORS 316.680

[Subtraction code 329]

You may subtract from Oregon income amounts awarded to you by the Public Safety Memorial Fund Board. The award must be included in federal taxable income to claim the subtraction.

Public Safety Memorial Fund Awards are for public safety officers with 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

[Subtraction code 330]

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.

Tier 1 benefits. Tier 1 benefits are reported 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. These benefits are reported on the private pension line of your federal return. Subtract these benefits on the "other subtraction" line on your Oregon return.

Other benefits. A retired railroad employee may receive other retirement benefits from their employer. Benefits paid by private railroad employers are private pensions taxed the same on both the federal and Oregon returns. There is **no Oregon subtraction** for retirement benefits paid by private railroad employers.

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 website at www.rrb.gov.

Scholarships used for housing expenses   ORS 316.846

[Subtraction code 333]

You can 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 to claim the subtraction.

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 attend 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.

U.S. government interest in IRA or Keogh distribution ORS 316.681

[Subtraction code 315]

Interest and dividends on U.S. bonds and notes are exempt from state tax. See page 57. Answer the questions below to see 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 2006 federal adjusted gross income (AGI)?

If you answered "yes" to **all** the questions above, you'll 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 -0-.	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 last year and began taking distributions of $10,000 each year from her IRA. The IRA is invested 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

[Addition code 116] [Subtraction code 321]

An Oregon net operating loss (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

Amounts Oregon prohibits from directly or indirectly taxing 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 from a casualty or theft, or losses attributed to a presidentially declared disaster for a qualified small business.

Oregon does not allow an NOL 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 "Prohibited amounts" 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 $6,400.

On their Oregon return, Maria and Jorge reported $500 of municipal bond interest from California that was exempt from federal income tax. Their Oregon NOL ($24,000) 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		(6,400)
Schedule A deductions		(10,800)
Federal taxable income		($ 40,000)

Computation of Oregon NOL

Federal AGI		($ 22,800)
Personal exemptions		(6,400)
Schedule A deductions		(10,800)
Modified Oregon taxable income		($ 40,000)
Adjustments:		
Personal exemptions		6,400
Nonbusiness deductions	10,800	
Nonbusiness income	(1,200)	
Nonbusiness deduction in excess of nonbusiness income		9,600
Oregon NOL		($ 24,000)

Remember: Compute the Oregon NOL based on federal NOL methods and definitions. Use Oregon sources **without** Oregon modifications, except for prohibited amounts.

Example 2: Use the same facts as in Example 1, except the $800 interest 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		(6,400)
Schedule A deductions		(10,800)
Federal taxable income		($ 40,000)

Computation of Oregon NOL

Federal AGI		($ 22,800)
U.S. government interest		(800)
Personal exemptions		(6,400)
Schedule A deductions		(10,800)
Modified Oregon taxable income		($ 40,800)
Adjustments:		
Personal exemptions		6,400
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 to compute Oregon NOL

Part-year residents and nonresidents. You're allowed an Oregon NOL if it is generated from Oregon sources. Computing Oregon NOL begins with "income after adjustments" from the Oregon column. Reduce this amount by federal exemptions and 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 in the left-hand column.

You are not allowed an NOL or carryover on an Oregon return if the loss was incurred while you were a nonresident and was not attributable to Oregon.

Example 3: Ryan 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 $6,400. 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		(6,400)
Schedule A deductions		-0-
Modified Oregon taxable income		($ 31,400)
Adjustments:		
Personal exemptions		6,400
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, you must also carry the Oregon NOL forward.

Exception: If you weren't 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 back or carry forward the Oregon NOL to the year the loss may be first applied. The total number of years 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 2006. For federal purposes, Joe carried his federal NOL back two years to 2004. Because he carried back his loss for federal purposes, he must carry back his loss for Oregon purposes to his 2004 Oregon tax return. If he was not required to file an Oregon tax return for 2004, he may carry back his Oregon NOL to his 2005 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 2006. Joe can carry his Oregon NOL over to his 2007 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, the same way as for federal purposes. For full-year residents, the NOL amount is generally the same as for federal purposes, except adjustments made for **prohibited amounts** (see definition, page 63).

Example 3: Bud and Joyce incurred losses in 2006 from partnerships and S corporations. They compute an NOL of $12,000 and choose to carry the loss back. Their 2004 return shows negative taxable income, so the 2006 NOL is first applied to 2005, where the loss is completely absorbed. Bud and Joyce had a federal AGI in 2005 of $32,000. The fully absorbed 2006 NOL is applied as follows:

Federal AGI on the Oregon return with loss 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 Bud and Joyce choose to carry forward the NOL for federal and Oregon purposes. In 2007, Bud and Joyce have federal AGI of $15,000 reported additions of $8,000, and subtractions of $3,000. Bud and Joyce will apply the NOL to 2007 and compute the amount available for carryforward to 2008 as follows:

NOLD carryforward			($12,000)
Federal AGI on the Oregon return with loss carried	$15,000		
Add: Capital loss deductions or	-0-		
Capital gain deduction	-0-		
Federal AGI for Oregon as revised		$15,000	
Less: Prohibited amounts		(-0-)	
Standard or itemized deductions recomputed for revised federal AGI		(9,500)	
Modified Oregon taxable income (NOLD for 2007)			5,500
Carryforward NOL available for 2008			($ 6,500)

Bud and Joyce's 2007 Oregon taxable income is recomputed as follows:

Federal AGI on the Oregon return with loss 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)
2006 Oregon taxable income as revised	$ 5,000

Part-year residents and nonresidents. Use the federal method without modifications, except prohibited amounts are not considered. Also, the NOLD, carryback, and carryover are based only on amounts attributable to Oregon sources.

Example 5: In 2005, while residents of California, Ron and Valerie incurred losses from an Oregon partnership creating an $85,000 Oregon-only NOL. Prior to 2005, neither Ron nor Valerie needed to file Oregon returns. In 2006, 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 2006 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	(5,000)	(5,000)
Modified income after subtractions	$302,000	$152,000
Oregon percentage: 152,500 ÷ 302,000 = 50.4%		
Less: Standard or itemized deductions recomputed for revised federal AGI	(10,000)	
Federal tax subtraction	(5,000)	
2006 Oregon taxable income as revised	$287,000	

Example 6: Scott and Jill live in Vancouver, Washington. Scott operates a business in Oregon. In 2005, 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 2006, 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 2006 and the carryforward to 2007 as follows:

2005 NOL carryback or carryforward			($6,000)
Oregon income after adjustments on return in year loss is carried (2006 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 2006)			1,140
Carryforward of NOLD available for 2007			($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'll report your carryback or carryforward on the "other subtraction" line of your Oregon return.

Depreciation and amortization ORS 316.707

[Addition code 101] [Subtraction code 304]

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 transferred property 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 them. If you made the adjustment on your 1996 tax return, there will not be a depreciation difference.

Section 179 property expensed for 2006. Oregon allows the same expensing of qualifying assets under Section 179 as allowed 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'll have a subtraction for the difference.

Oregon addition. If your Oregon depreciation is less than your federal depreciation on the same property, you'll have an addition for the difference.

To download the *Oregon Depreciation Schedule,* go to our website or call us to order it.

Basis of business assets transferred into Oregon ORS 316.707

[Addition code 101] [Subtraction code 304]

Are you a nonresident? If so, there are several ways you can bring assets into Oregon's taxing jurisdiction. 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 either the federal unadjusted basis or fair market value at the time of transfer, whichever is smaller.

The federal unadjusted basis is the original cost before adjustments. Adjustments include reductions for investment tax credits, depletion, amortization, depreciation, or amounts expensed under IRC Section 179. The 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: Bob was a California resident. He has owned a business in Yreka since 1992. Bob 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, Bob 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, 2006, Bob moved to Ashland, but he continues to operate his business in Yreka. Because Bob is an Oregon resident, he must determine his Oregon basis 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, 2006	$ 473,000
Less: Depreciation previously allowed for Oregon tax purposes	– 0
Oregon fair market value	$ 473,000

Bob 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, 2006	$ 7,000

Less: Depreciation previously allowed for Oregon tax purposes	–	0
Oregon fair market value	$	7,000

Bob will depreciate the truck for Oregon using the $7,000 Oregon fair market value and MACRS depreciation for its original applicable federal recovery period.

Sale of assets ORS 316.716

[Addition code 101] [Subtraction code 304]

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 didn't 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 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 must also 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

[Addition code 101]

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" is 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 to produce 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, it 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 1984 and used it as her personal residence until 1995, 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 1984 (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 2006, there will be no difference in depreciation on her Oregon return because she's 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. She 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 she'll 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, she incorporated her business and she is the sole shareholder. Her 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)

[Addition code 101] [Subtraction code 304]

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're 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 it 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

[Addition code 100] [Subtraction code 310]

The same modifications that apply to an individual return also apply to an Oregon estate or trust return. Combined, this is called the fiduciary adjustment. If you're a beneficiary of an estate or trust, you must report your share of the fiduciary adjustment. This should be shown on the Schedule K-1 which you receive from the estate or trust. Report it under "other additions" or "other subtractions" on your Oregon tax return. Identify an addition with code "100," a subtraction with code "310."

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—$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 (PALs) ORS 314.300

[Addition code 120] [Subtraction code 326]

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," in the next column.
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 is more than his federal depreciation by $1,000. Ordinarily, he would report a $1,000 subtraction on his Oregon return for the difference in depreciation.

Of the $1,000 difference in depreciation, $600 is allocable to passive activities and $400 is allocable to other business activities. His Oregon passive activity loss is his federal passive activity loss increased by the $600 difference in depreciation. He reports the remaining $400 difference in depreciation allocable to other business activities as a subtraction on his Oregon return.

Passive activity credits. You can 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 from activities carried on while an Oregon resident. Add those connected with Oregon sources while a nonresident. Modify the result by applicable additions and/or subtractions listed below.

Nonresidents. Compute your passive activity losses 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 it.

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 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: Items used to modify the federal passive activity loss must come 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 $150,500 ($75,250 if married filing separately)? If so, complete the following worksheet to determine how much sales tax or 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.	Divide line 5 by 3.	6.	______
7.	Line 5 minus line 6.	7.	______
8.	Line 1 minus line 7. This is your allowed deduction for Oregon.	8.	______
9.	Line 8 divided by line 1. Carry this decimal to three places.	9.	______
10.	Line 9 multiplied by sales tax or Oregon income tax you claimed on federal Schedule A, line 5.*	10.	______

** If you're 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, nonbusiness		$ 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. His reduced itemized deductions for federal purposes are $98,010 ($70,510 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%.	2. 62,000
3.	Federal AGI minus federal income limit ($500,000 – $150,500).	3. 349,500
4.	Line 3 multiplied by 3% (.03).	4. 10,485
5.	Enter the smaller of line 2 or line 4.	5. 10,485
6.	Divide line 5 by 3.	6. 3,495
7.	Line 5 minus line 6.	7. 6,990
8.	Line 1 minus line 7. This is your allowed deduction for Oregon.	8. 70,510
9.	Line 8 divided by line 1. Carry this decimal to three places.	9. .910
10.	Amount of reduction: Oregon tax you claimed on federal Schedule A, multiplied by decimal on line 9 ($36,000 × .910).	10. 32,760

For Oregon, John will reduce his $98,010 of federal itemized deductions by $32,760 of Oregon income tax not allowed as an itemized deduction. His net Oregon itemized deductions total $65,250 ($98,010 – $32,760).

Individual Development Accounts

[Addition code 113] [Donation Credit code 715]
[Subtraction code 314] [Withdrawal Credit 738]

Subtraction ORS 316.848

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 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 to your IDA through the Neighborhood Partnership Fund. Your subtraction is the amount of deposits made and interest received that are included in your federal taxable income.

For more information, call Oregon Housing and Community Services in Salem at 503-986-2000, or go to their website at www.oregon.gov/OHCS.

Addition

Did you make a nonqualified withdrawal from your IDA during the year? If so, you must report the amount as an "other addition" on your Oregon income tax return.

Withdrawal Credit ORS 315.272

Beginning in 2006 a tax credit is available to IDA account holders for withdrawals from an IDA. The withdrawal must be used for settlement, financing or other closing costs incurred in purchasing a primary residence. This credit is in addition to the subtraction for contributions to the IDA.

The credit is the lesser of the amount withdrawn from the IDA, the qualifying closing costs to purchase a primary residence, the taxpayer's tax liability for the year, or $2,000.

There is no carryforward and the credit is not prorated for part year residents or nonresidents.

Donation Credit ORS 315.271

Oregon allows a tax credit for charitable contributions to the Neighborhood Partnership Fund for the Oregon IDA program during the tax year. Individuals, partners, S corporation shareholders, and corporations can claim the credit. Part-year residents and nonresidents are not required to prorate 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. If you claim the credit you will have an addition on your Oregon return for the amount claimed on your Schedule A. If you were required to reduce your itemized deductions because of your adjusted gross income you will need to recalculate your Oregon addition. For information see page 70.

For information on how to make a donation, contact Oregon Housing and Community Services in Salem at 503-986-2000, or go to their website at www.oregon.gov/OHCS.

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 determines allowable deductions and modifications and 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's how she figured her Oregon percentage:

$10,000 ÷ $30,000 = .333 or 33.3%

Carry the 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 are **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. Remember to use your Oregon itemized deductions after subtracting state tax. You may separate your deductions if each of you can clearly show your own.

Special Oregon medical deduction

[Deduction/modification code 606]

Were you **age 62 or older** on December 31, 2006? If so, your deduction is the smaller of line 1 or line 3 from 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, 2006, to claim this deduction.

Example 1: Sara and Connor are married filing a joint return. Sara is age 64 and Connor 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. You must be age 62 or older on December 31, 2006, to claim this deduction on your separate return.

Example 2: Use the same facts in Example 1 above, except that Sara and Connor 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, 2006. Connor cannot claim the deduction on his separate return because he is not age 62 at year-end.

Net Oregon itemized deductions

Your net Oregon itemized deductions are your:

- Total federal itemized deductions, plus
- Your special Oregon medical deduction (see page 72), minus
- Oregon state income tax claimed as an itemized deduction.

In most cases, you'll use net Oregon itemized deductions if that amount is larger than your Oregon standard deduction. The exception to this is for married filing separately, explained on page 72.

Standard deduction

Use the standard deduction **only** if it is larger than your net itemized deductions. If you're 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	**$1,840**
Married filing jointly	**3,685**
Married filing separately	
If spouse claims standard deduction	**1,840**
If spouse claims itemized deductions	**-0-**
Head of household	**2,965**
Qualifying widow(er)	**3,685**

Standard deduction—Single or married filing jointly dependents. If you or you and your spouse **can** be claimed as a dependent on another person's return (even if the other person does not claim you), use the following worksheets to figure your standard deduction:

Standard deduction worksheet for single dependents

1.	Enter your earned income (see definition below).	1.	
2.	Additional, set amount.	2.	$300
3.	Add lines 1 and 2.	3.	
4.	Minimum standard deduction, set amount.	4.	$850
5.	Enter the larger of line 3 or 4.	5.	
6.	Basic standard deduction for single.	6.	1,840
7.	Enter the smaller of line 5 or 6.	7.	
8.	If you are age 65 or older, enter $1,200, if not enter -0-.	8.	
9.	If you are blind, enter 1,200, if you are not, enter -0-.	9.	
10.	Add lines 7, 8, and 9. Enter the total here. This is your standard deduction.	10.	

Earned income is salaries, wages, tips, professional fees, or other amounts received as pay for work you actually perform, and any part of a scholarship or fellowship grant that you must include in your gross income.

Example 1: Homer is single, age 17, not blind, and claimed as a dependent by his father. He had $1,135 of earned income in 2006. Homer's standard deduction is $1,385, figured as follows:

1.	Enter your earned income.	1.	$1,135
2.	Additional, set amount.	2.	300
3.	Add lines 1 and 2.	3.	1,435
4.	Minimum standard deduction, set amount.	4.	850
5.	Enter the larger of line 3 or 4.	5.	1,435
6.	Basic standard deduction for single.	6.	1,840
7.	Enter the smaller of line 5 or 6.	7.	1,435
8.	If you are age 65 or older, enter $1,200, if not enter -0-.	8.	-0-
9.	If you are blind, enter 1,200, if you are not, enter -0-.	9.	-0-
10.	Add lines 7, 8, and 9. Enter the total here. This is your standard deduction.	10.	1,435

Standard deduction worksheet for married filing jointly dependents (MFJD)

1.	Enter your earned income.	1.	
2.	Additional, set amount.	2.	300
3.	Add lines 1 and 2.	3.	
4.	Minimum standard deduction, set amount.	4.	850
5.	Enter the larger of line 3 or 4.	5.	
6.	Standard deduction for MFJD.	6.	3,685

7. Enter the smaller of line 5 or 6. 7. ________
8. If you are age 65 or older, enter $1,000, if not enter -0-. 8. ________
9. If you are blind, enter 1,000, if you are not, enter -0-. 9. ________
10. Add lines 7, 8, and 9. Enter the total here. This is your standard deduction. 10. ________

Earned income is salaries, wages, tips, professional fees, or other amounts received as pay for work you actually perform, and any part of a scholarship or fellowship grant that you must include in your gross income.

Example 2: Jack and Jill are married and are both full-time college students. Jack is 20 and Jill is 21. Neither is blind. They live in Jack's parent's home and are both claimed as dependents by Jack's parents. Jack and Jill work part-time at the university. Together they had $7,620 of wage income. Jack and Jill will file a joint tax return. They have no tax liability, but will file to get a refund of the income tax withheld from their wages.

1. Enter your earned income. 1. $7,620
2. Additional, set amount. 2. 300
3. Add lines 1 and 2. 3. 7,920
4. Minimum standard deduction, set amount. 4. 850
5. Enter the larger of line 3 or 4. 5. 7,920
6. Basic standard deduction for MFJD. 6. 3,685
7. Enter the smaller of line 5 or 6. 7. 3,685
8. If you are age 65 or older, enter $1,000, if not enter -0-. 8. 0
9. If you are blind, enter 1,000, if you are not, enter -0-. 9. 0
10. Add lines 7, 8, and 9. Enter the total here. This is your standard deduction. 10. 3,685

Standard deduction—Age 65 or older, or blind. If you or your spouse are age 65 or older, you're entitled to an **additional deduction amount.** Also, if you or your spouse are blind, you're 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	$3,040
	2	4,240
Married filing jointly	1	4,685
	2	5,685
	3	6,685
	4	7,685
Married filing separately	1	2,840
	2	3,840
	3	4,840
	4	5,840
Head of household	1	4,165
	2	5,365
Qualifying widow(er)	1	4,685
	2	5,685

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. These are also available on our website at www.oregon.gov/DOR.

Interest on certain installment sales. Do you have installment sales that you had to pay interest on the deferred tax liability for federal purposes? If so, you must also pay interest for Oregon. The amount due is computed the same way as for federal. The interest rate for 2006 is 7 percent.

Part-year residents. For the part of the year you were a nonresident, include only those installment obligations that were from dispositions of property in this state.

For the part of the year you were a resident, consider all installment obligations.

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 termination of all your ownership interests in a farming business, or a termination of all your ownership interests in property that is used in 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 product 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 construction and maintenance 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 by 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 -0-.	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 2005 Al retired and sold all of his dairy farm capital assets. Below is the completed worksheet for Al:

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 Al's Oregon tax.	7. $3,000

Al 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 can figure your Oregon income tax by averaging, over the previous three (base) years, all or part of your 2006 farm income. This may give you a lower tax if your 2006 farm income is higher than your taxable income for one or more of the three prior years.

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 affects your tax bracket for the current and three prior tax years.

To download the following forms and instructions, go to our website or call us to order the forms.

- 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

[Addition code 103] [Subtraction code 302] [Credit code 706]

Oregon allows a credit or 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's 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 Oregon tax* from the earlier tax year, plus any deficiency assessment or adjustments from any amended returns, or both.	3. ______
4.	Refigure your Oregon tax* 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. ______

* Your "Oregon tax" is the tax before all credits, withholding, estimated payments, or other prepayments.

- **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.

  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. A claim of right credit is refundable. If your credit is more than your tax liability, it will be refunded. You can also have your refund applied to your estimated tax for next year. Also, use numeric code 706 in the "other credits" line but **do not** enter the credit amount.

If you claim a credit for your repayment on your federal return, you don't need to adjust your Oregon income.

If you claim your repayment as a deduction on your federal return and a credit for Oregon, you must include the 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.

Example 1: In 2006 Gerri, who is single, was required to repay $10,000 of pension income originally received in 2003. Here is Gerri's tax information.

	2003	**2006**
Oregon taxable income	$40,000	$23,000
Oregon net tax per original return (without considering the $10,000 repayment)	3,430	1,889
Oregon net tax after $10,000 repayment is deducted	2,530	989

Using the claim of right worksheet, here's how Gerri will decide if she should claim the repayment as a subtraction or a refundable credit on her 2006 return:

1.	Refigure your Oregon tax for the year of repayment, after deducting the amount you repaid from income.	1. 989
2.	Enter your Oregon tax for the year of repayment, as shown on your return.	2. 1,889
3.	Enter your Oregon tax* from the earlier tax year, plus any deficiency assessment or adjustments from any amended returns, or both.	3. 3,430
4.	Refigure your Oregon tax* 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. 989

Because lines 1 and 6 are the same amount, Gerri has the option to claim the repayment as either a subtraction or a credit, but not both.

Example 2: In 2006 Monte, who is single, was required to repay $7,000 of unemployment benefits originally received in 2004. Here's Monte's tax information:

	2004	**2006**
Oregon taxable income	$11,000	$27,000
Oregon net tax per original return (without considering the $7,000 repayment)	820	2,249
Oregon net tax after $7,000 repayment is deducted	234	1,619

Using the claim of right worksheet, here's how Monte will decide if he'll claim the repayment as a subtraction or a refundable credit on his 2006 return.

1.	Refigure your Oregon tax for the year of repayment, after deducting the amount you repaid from income.	1. 1,619
2.	Enter your Oregon tax for the year of repayment, as shown on your return.	2. 2,249
3.	Enter your Oregon tax* from the earlier tax year, plus any deficiency assessment or adjustments from any amended returns, or both.	3. 820
4.	Refigure your Oregon tax* 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. 1,663

Because line 6 is greater than line 1, Monte will claim a subtraction of his $7,000 repayment on his 2006 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, go to our website or call us.

Credits

For certain credits, you must qualify, apply, and be certified before you can claim them on your return. Other agencies, not the Department of Revenue, are responsible for certifying these credits. Contact information is included with the explanation for each of these credits below.

Full-year residents. All credits you qualify for are allowed in full on Form 40. If you're using Form 40S, you can claim only certain credits. See the *Full-Year Resident* booklet for the credits you can claim on Form 40S.

Part-year residents and nonresidents. You must prorate certain Oregon credits by multiplying your total credit by your Oregon percentage from 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.
- Crop donation.
- Dependent care assistance.*
- Diesel engine replacement.
- 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.
- Oregon Production Investment Fund.
- 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

[Credit code 700]

Oregon's tax credit for qualified adoption expenses expired in 2005.

Carryforward. The credit cannot be more than your tax liability for Oregon. You can carry forward any unused credit for a maximum of four years. Any credit not used within the carryforward period is lost.

Advanced telecommunications facilities ORS 315.511

[Credit code 701]

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 maximum 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 be certified by the Oregon Economic and Community Development Department (OECDD). Contact OECDD in Salem at 503-986-0123 or go to www.oregon.gov/ECDD. Keep the certificate with your tax records. Do not attach it to your personal income tax return. You can claim the credit in the tax year 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.

Bone marrow donation program ORS 315.604

[Credit code 702]

An Oregon tax credit was allowed for costs incurred by an employer 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. Any credit unused within five years is lost.

Business energy ORS 315.354

[Credit code 703]

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 can claim the credit?

Trade, business, or rental property owners who pay taxes for a business site in Oregon are eligible for the 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 credit is for a small project of $20,000 or less, you can take it 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 is only for business hardships or circumstances beyond your control that caused you to delay your application. If you've started your project, call the Oregon Department of Energy before you submit an application.

For an application, fee information, and assistance with the application process, contact the Oregon Department of Energy at 1-800-221-8035 (toll-free from an Oregon prefix), in Salem at 503-378-4040, or go to www.oregon.gov/ENERGY.

How to claim the credit

Apply for a final tax credit certificate when your project is finished. Department of Energy staff will review your actual expenses and you'll get the final certificate about one week after you notify them. Keep a copy of the final certification with your Oregon tax records.

Carryforward. Your credit cannot be more than your tax liability. You can carry forward any unused credit over the next eight years. Any credit unused within eight years is lost.

Child and dependent care ORS 316.078

[Credit code 704]

Who can claim the credit?

You're 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 can't use all your federal credit. In most cases, you can't claim the credit if you're 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: Over—	But not over—	Your decimal amount is:
——	$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. Any credit unused within five years 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 2006. They do not have any prior-year child care expenses included in their 2006 federal expenses. Here's 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 42; or Form 1040A, line 27 is: Over—	But not over—	Your decimal amount is:
——	$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

[Credit code 705]

Contributions to the Child Care Fund 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. For details on the program, go to the Oregon Employment Department, Child Care Division, website at www.oregon.gov/EMPLOY/CCD or call them in Salem at 503-947-1400.

How to claim the credit

The Child Care Division will compute your allowable tax credit and give you a certificate. Keep this certificate with your permanent tax records.

Enter your credit on the "other credits" line on your tax return along with the credit's numeric code. 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 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 can 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, but any credit unused within four years is lost.

Crop donation ORS 315.156

[Credit code 708]

Oregon allows a tax credit for crops donated to a gleaning cooperative, food bank, or other charitable organization that distributes food without charge. The organization receiving the donation must have a principal or ongoing purpose of distribution of food to children, homeless, unemployed, elderly, or low-income individuals. The organization must be located in Oregon and exempt from federal income taxes under the Internal Revenue Code.

To qualify for this credit, you must be in the business of growing a 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 that produces 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 cash buyer of the particular crop, or
- In the event there is no previous cash buyer, a market price is based on 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

Get and keep a completed copy of the *Crop Donation Tax Credit* form with your tax records to verify your donation. The organization you donate the crop to has this form, or download it from our website. 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 can 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 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, but any credit unused within three years is lost.

Diesel engine replacement *Notes following* ORS 315.356

[Credit code 734]

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. You may have purchased your replacement engine as early as 2004.

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
- Be model year 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:

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 in Portland at 503-229-5696, toll-free from an Oregon prefix at 1-800-452-4011, 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.Any credit unused within four years is lost.

Earned income ORS 315.266

You're 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 now refundable. If the credit is more than your tax liability, the difference will be refunded to you.

Full year residents. Your Oregon EIC is 5 percent of your federal EIC.

Part-year residents and nonresidents. Your Oregon EIC is 5 percent of your federal EIC, multiplied by your Oregon percentage.

Elderly or disabled ORS 316.087

[Credit code 709]

Oregon allows a credit for the elderly or disabled if you qualify for the federal elderly or disabled credit.—refer to federal Schedule R.

You can 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

[Credit code 710]

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. Go to their website at www.oregon.gov/ECDD or call 503-986-0123 in Salem.

How much is the credit?

The credit is equal to 25 percent of the investments made during the tax year. The maximum credit 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. Any credit unused within five years is lost.

Employer provided dependent care assistance

[Credit code 707]

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, 2017.

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, under the age of 13, or
- Dependent, physically or mentally incapable of self-care, or
- Spouse, 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 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 employee's spouse, a dependent, or a child (under age 19).

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, 2017.

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 the income of either you or your spouse? 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 Child Care Division in Salem at 503-947-1400 or toll-free from an Oregon prefix at 1-800-556-6618.

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 do not 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. If you have questions about your credit, contact the Oregon Employment Department toll-free from an Oregon prefix at 1-800-556-6616.

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 can 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. To download the form, go to our website or call us to order. Complete the part of the form that applies to the credit you're claiming. Keep the completed form with your income tax records.

Partnerships or S corporations. Partners or shareholders can 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.

Employer scholarship ORS 315.237

[Credit code 711]

A tax credit is allowed to Oregon employers who have 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. Keep the certificate with your tax records. For an application and more information, contact the commission in Eugene at 541-687-7394 or toll-free from an Oregon prefix at 1-800-452-8807, ext. 7394, or go to their website 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. Any credit unused within five years is lost.

Exemption ORS 316.085

The credit for 2006 is $159 for each qualifying exemption. The exemption amount is indexed for inflation.

Part-year residents and nonresidents. Multiply your exemption credit by your Oregon percentage.

You and your 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 2006? If so, you can claim an additional exemption credit. You may qualify for the severely disabled exemption even if someone else can claim you as a dependent. You're 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're 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.

Deafness or hearing impairment alone do not qualify as a severe disability for purposes of this program. This is true regardless of any special equipment you may use in your home or workplace.

Special equipment does not include items like 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 not from doing other kinds of work without special equipment.

If you have a permanent severe disability, your physician must write a letter describing it. 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 child you qualify to claim as a dependent, and
- Each of your other dependents you qualify to claim on your federal return.

This is true even if you give up an exemption for a qualified dependent for federal tax purposes so the dependent can claim the federal Hope scholarship credit on his/her return.

Example: Susan gives up her exemption for her son on her federal income tax return so he can claim the federal Hope credit on his tax return. Because Susan did not claim her son as a dependent on her federal income tax return, she may not claim him as a dependent on her Oregon income tax return.

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 2006, and
- Was eligible for "early intervention services" or received special education as defined by the Department of Education (learning disabilities or communication disorders alone do not qualify), **or**
- Was considered to have a disability as of December 31, 2006, under the federal Individuals with Disabilities Education Act. 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 and the cover sheet that confirms one of the disabilities listed above from **one** of the following:

- The child's Individualized Education Program (IEP), or
- The child's 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, "disabled children only." 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

[Credit code 712]

Who can 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 Oregon. The housing must be occupied at some time during the year by a farmworker to qualify for the credit. Housing cannot be used for any purpose except housing for farmworkers. Your family members are not considered farmworkers under this credit. The credit is available for projects that physically began 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 their percentage of S corporation ownership interest.

In partnership, the individual partners must claim the tax credit based on their 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	
2006 tax liability	10,000	
2006 credit allowed		10,000
1st year credit carried forward	15,000	
2nd year allowable credit	25,000	
2007 tax liability	5,000	

2007 credit allowed		5,000
1st year credit carried forward	10,000	
2nd year credit carried forward	25,000	
3rd year allowable credit	25,000	
2008 tax liability	70,000	
2008 credit allowed		60,000

How to claim the credit

The Housing and Community Services Division of the Department of Consumer and Business Services (DCBS) must inspect the farmworker housing project **prior to** occupancy. For an application, call DCBS in Salem at 503-986-2148 or in Portland at 503-963-2281.

If your project qualifies, you'll get a tax credit approval letter. Keep the letter with your tax records. You must also complete a certification form for the Department of Revenue. To download the *Annual Certification for Farmworker Housing Credit* form, go to our website or call us to order it.

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 can 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. Any credit unused within nine years is lost.

First Break Program ORS 315.259

[Credit code 713]

A tax credit was available for employers who hired at-risk youths ages 14–23. The last certificates of eligibility were issued to qualifying youths December 31, 2004.

Carryforward. The credit cannot be more than your tax liability for Oregon. You can carry forward any unused credit over the next five years. Any credit unused within five years is lost.

Fish screening devices ORS 315.138

[Credit code 714]

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. If it is decided a device is needed, ODFW will ask you to install one.

You must agree to install the device within 180 days. After it's installed, 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. Money provided by the state does not qualify for the credit.

If you can't install the device, you can ask ODFW to install it. If ODFW installs it, they will assess a charge not more than $5,000, or one-third the construction and installation cost, whichever is less.

If you can't install the device and do not ask ODFW to install it, they will install it and charge you the full cost of the construction and installation. The cost will not be more than the average cost for similar devices.

Who can claim the credit?

The credit is available to individuals, partners, sole proprietorships, and S corporation shareholders. Shareholders and partners can claim the credit based on their pro rata share of the certified costs.

How much is the credit?

All amounts paid by you but not reimbursed 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 can still claim any depreciation or amortization otherwise allowed. Do not reduce your basis in the property by the credit amount.

Part-year residents and nonresidents. Multiply the credit allowed a full-year resident by your Oregon percentage.

How to claim the credit

ODFW will send you a preliminary certificate within 90 days of the receipt of plans, specifications, and other information it requests from you. After you complete the project, ODFW will send you a final certificate that includes the verified costs of the installation. Contact ODFW in Salem at 503-947-6000 or toll-free from an Oregon prefix at 1-800-720-6339, or go to www.oregon.gov/ODFW.

Keep the final ODFW certificate with your tax records. Also keep a statement showing the computation of the allowed credit, if this is not on the 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. Any credit unused within five years is lost.

Income taxes paid to another state ORS 316.082

[Credit code 733]

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 88.) You must claim the credit on the nonresident return you file with the other state. See the 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 any city tax, county tax, school tax, sales tax, alternative minimum tax (AMT), property tax, or other states' 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 can claim this credit only after you've 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 us. For the administrative rule OAR 150-316.082(6), go to our website.

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 can 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, (for nonresidents and part-year residents for the part of the year you were a nonresident of Oregon only).

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

$$\frac{\text{Modified AGI taxed by both states}}{\text{Modified AGI}} \times \text{Your Oregon tax after all other credits}$$

Formula II

$$\frac{\text{Modified AGI taxed by both states}}{\text{Total income on the other state's return}} \times \text{Other state's tax after all other credits}$$

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 from 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's 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. You can claim the credit for the part of the year you were a **nonresident** of Oregon 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.

You can claim the credit for the part of the year you were a **resident** of Oregon 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
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

** 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.*

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's 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 doesn't have any mutually taxed income. Ezra will not claim a credit for income tax paid to another state.

Nonresidents. You can 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 there. 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 on her Oregon 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

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 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 income tax, not a minimum tax.

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, and only $150 is attributable to income ($10,000 × 1.5%). Oliver's share of this tax is $15. The balance paid by My Corp. ($650) is a minimum tax and doesn't 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 can claim a credit on his Oregon resident return.

Verification required

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.

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 that required the S corporation or partnership to pay 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 that the S corporation did not take a subtraction for the taxes paid.
4. 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 other state's tax liability amount for the year you claim the Oregon credit, or
- The other state's tax amount 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 reduces 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. She claimed a deduction of $200 for Maine taxes withheld from her wages on Schedule A. On Inga's Maine return, her net tax liability is $150. She will add $150 to the Oregon state income tax she claimed as an itemized deduction. This 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

[Credit code 715]

For information on this credit, see page 71.

Involuntary move of a mobile home ORS 316.153

[Credit code 741]

A new tax credit is available for some people who have to involuntarily move their mobile home or manufactured home in 2006 or 2007.

"Involuntary move" means the mobile home owner had to move because the Oregon park facility it's in is closing.

Owners who qualify will get either a tax credit or a refundable tax credit, depending on household income and size.

Who's eligible for the credit?

You're eligible for the credit if you involuntarily move(d) your mobile home in 2006 or 2007 because the Oregon park facility where it's located was closing.

ALSO, you must:

- have household income of $60,000 or less, and
- own the mobile home located in the park that's closing. The mobile home must:
  - — have a fair market value of less than $110,000, and
  - — be your primary personal residence.

If you're married and file separately, only one of you can claim the credit.

What's household income?

Household income is taxable and nontaxable income each spouse receives during the tax year. This includes nontaxable income such as social security, disability income, and gifts in excess of $500. (See the Household Income Checklist at www.oregon.gov/DOR/PTD/docs/checklist.pdf for a complete listing.)

Include your spouse's income in your household income unless you were living permanently apart at the end of the year.

How much is the credit?

The credit is $10,000 **or** the cost to move your mobile home from the facility that's closing, whichever is less. Payments or reimbursements you get from the closing park may reduce your qualifying expenses.

When do I claim the credit?

If you involuntarily move(d) your mobile home between Jan. 1 and Dec. 31, 2006, you can claim the credit on your 2006 tax return, which is due April 16, 2007.

If you involuntarily move your mobile home between Jan. 1 and Dec. 31, 2007, you can claim the credit on your 2007 tax return, which is due April 15, 2008.

How do I claim the credit?

Your household size and income determine how you claim the credit. You'll either qualify for a credit against tax owed or a refundable credit.

Your household size includes you, your spouse (unless you lived apart the entire year), and anyone else who lived in your home with you during the year.

Chart—Mobile Home Moving Credit

Household size	Household income
1	$19,140
2	25,660
3	32,180
4	38,700
5	45,220
6	51,740
7	58,260
8+	60,000

Use the chart to determine if your household size and income qualify for a refundable or non-refundable tax credit.

To qualify for the refundable credit

You qualify for the refundable tax credit if your household income is equal to or less than the amount on the chart for your household size. If the credit is more than your tax, you'll get the difference.

Example 1: Molly lived by herself in a mobile home. The park she lived in closed in April 2006. That year, Molly received $10,000 from Social Security and in-home services from the state valued at $3,000. Molly's household income is $13,000. Her mobile home has a fair market value of $70,000.

In March 2006, Molly paid $7,000 to have her mobile home moved to property owned by a relative.

Molly's household income of $13,000 is less than the amount shown on the chart on page 1 for a household size of one ($19,140). She qualifies for a refundable credit of $7,000 and will claim it on her 2006 Oregon income tax return.

Example 2: Jack lived in a manufactured home he owned. The mobile home park he lived in closed in August 2006. Jack had wages of $31,000 in 2006 and no other income.

He lives with his girlfriend Sherry and their daughter, Emily. Sherry had wages of $3,000 in 2006 and no other income. Jack paid $8,400 to move his mobile home to another park in July 2006.

Jack's household size is three (Jack, Sherry, and Emily) and his household income is $31,000. Since Jack and Sherry aren't married, Sherry's wages aren't included.

Jack's household income of $31,000 is below the amount shown on the chart for a household size of three ($32,180). He qualifies for a refundable credit of $8,400 and will claim it on his 2006 Oregon tax return.

To qualify for the non-refundable credit

You qualify for a non-refundable tax credit if your household income is $60,000 or less, but more than the amount on the chart for your household size. This tax credit equals one-third of your moving expenses and can be claimed as a non-refundable tax credit each year for three years.

If the tax credit claimed is more than the tax liability for that year, you can carry the unused amount forward. It is not refundable. You can carry each year's unused credit amount forward for five years from the year it's claimed. (See "How does the carry forward work?")

Example 3: Alan and Angela are married and have no dependents. They have a household income of $38,400 (Alan's wages of $30,000 and Angela's non-taxable disability of $8,400) and lived in a mobile home park that closed in September 2006.

Alan and Angela's mobile home has a fair market value of $75,000. They spent $9,000 to move it to another park in 2006.

Their household income of $38,400 is greater than the amount shown on the chart for a household size of two ($25,660). They qualify for the tax credit and will claim their moving expenses of $9,000 as tax credits over three years.

They'll claim the total $9,000 over three years – a $3,000 tax credit on their 2006 Oregon tax return, a $3,000 tax credit on their 2007 Oregon tax return, and a $3,000 tax credit on their 2008 Oregon tax return. The unused portion of each year's credit can be carried forward for five years from the year claimed. (See "How does the carry forward work?" below.)

Example 4: Charlie owned a mobile home that he lived in with his mother, Margaret. He later moved out, but his mother stayed and continued to pay space rent.

The park closed in October 2006. Margaret paid $8,000 to have the mobile home moved to a new park.

Charlie can't claim the credit because he didn't live in the home as his primary residence and didn't pay to have it moved. Margaret can't claim the credit because she didn't own the mobile home.

How does the carryforward work?

If you claim the non-refundable tax credit, you can carry each year's unused portion forward five years. If you don't use it within five years from the year it was claimed, it is lost and can't be used.

The tax credit (one-third of moving costs) claimed in 2006 can be carried forward for up to five years (2007, 2008, 2009, 2010, 2011).

The tax credit claimed in 2007 can also be carried forward for up to five years (2008, 2009, 2010, 2011, 2012).

The tax credit claimed in 2008 can also be carried forward for up to five years (2009, 2010, 2011, 2012, 2013).

Use the carryforward from prior years before using the current year's credit.

Example 5: Walt and Claire paid $9,000 to move their manufactured home in 2006. They qualify for the non-refundable tax credit and will claim the moving expenses over three years. They will claim one-third of the moving expenses, $3,000, as a credit each year.

Their 2006 Oregon tax return has a tax liability of $1,500. They will claim a 2006 tax credit of $3,000 and carry forward the unused credit of $1,500 to their 2007 return:

2006 tax credit	$3,000
2006 Oregon tax liability	– 1,500
Carryforward to 2007	$1,500

For 2007, they'll have a carryforward from 2006 and a 2007 tax credit of $3,000. Their 2007 tax liability is $1,500.

They'll use the carryforward from 2006 first. There isn't enough tax liability to use any of the 2007 credit, so they'll carry it forward:

2006 carryforward	$1,500
2007 tax credit	+ 3,000
2007 total credit	$4,500
2007 tax liability	– 1,500
Carryforward to 2008	$3,000

For 2008, they'll have a carryforward from 2007 of $3,000, and a 2008 tax credit of $3,000 (the final credit from the involuntary move). Their 2008 tax liability is $1,500. They'll use part of the carryforward from 2007 and none of the 2008 tax credit. They'll carry forward unused credit from both 2007 and 2008:

2007 carryforward	$3,000
2008 tax credit	+3,000
2008 total credit	$6,000
2008 tax liability	- 1,500
Carryforward to 2009	$4,500
($1,500 from 2007 and $3,000 from 2008)	

If they don't use the carryforward from 2007 by 2012, it's lost and can't be used. If they don't use the carryforward from 2008 by 2013, it's lost and can't be used.

Long-term care insurance premiums ORS 315.610

[Credit code 716]

Oregon allows a tax credit for long-term care insurance premiums.

Who can claim the credit?

To qualify, you must hold a policy that was issued on or after January 1, 2000, and you, your parents, or your dependents must be the beneficiaries. You may also claim the credit if you're 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, but can prorate it any way you choose. The combined credits on each spouse's separate return can't 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 covered.

Example 1: Ian purchased a long-term care insurance policy for himself in 2000. In 2006 he paid $920 of premiums to renew his policy. Ian's credit is $138 ($920 × 15 percent).

Example 2: Jena purchased a long-term care insurance policy for herself in 1997. In 2006 she paid $640 of premiums to renew the policy. Because Jena purchased her policy before 2000, she cannot claim this credit.

Example 3: Chevy purchased a long-term care insurance policy in 2006 for his elderly parents, Peter and Pansy. He paid $2,600 in premiums. His parents are the beneficiaries. Chevy also paid $500 in premiums to renew the long-term care insurance policy he purchased in 2001. He is the beneficiary. Chevy paid a combined total of $3,100 in premiums on the two policies. His credit is $465 ($3,100 x 15 percent).

You must report any benefit from a federal deduction for the premiums as an Oregon addition. See page 49.

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

[Credit code 717]

Who can claim the credit?

You're entitled to this credit if you have permanent and complete loss of the use of two limbs.

How much is the credit?

The credit is $50 per year for taxpayers who qualify. A $50 credit can also be claimed for your spouse if your spouse qualifies. You cannot claim this credit for a dependent.

How to claim the credit

Get a disability certification form the first year you file for the credit. The form is available from your county public health officer, who 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

[Credit code 718]

You may be eligible for this credit if you pay expenses for the care of a person 60 or older that keeps them from being placed in a nursing home. Both of you must meet certain qualifications to be eligible for the credit.

Who can claim the credit?

You can only claim the credit 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 99.

The person receiving care must meet **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
- Doesn't receive medical assistance from the state Seniors and People with Disabilities Division, and
- Qualified for Oregon Project Independence during the tax year. The program helps keep people from going to nursing homes unnecessarily. To qualify, they must have severe problems with communication, mobility, managing a household, nutrition, personal relationships, managing money, health, or other problems caring for oneself. The 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 including housekeeping, homemaking, and home health care, and
- Has household income of $7,500 or less. The support you gave the person is considered a gift. The total gifts received by the person, minus $500, must be included in their household income.

Part-year residents and nonresidents. You can claim the full credit, subject to the requirements above.

How much is the credit?

The credit is equal to the smaller of $250 or 8 percent of the qualifying expenses paid or incurred during the tax year.

What are qualifying expenses? You can claim food, clothing, medical, and transportation expenses you paid during the year. The amount you paid for lodging doesn't qualify. Transportation expenses for medical and personal needs, such as shopping, also qualify.

You can 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. Don't claim costs paid while the person was in a nursing home or mental institution. When you figure the costs you paid, you must subtract any reimbursement from insurance or from the person receiving care.

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 website or call us to order it.

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.

Mutually taxed gain on the sale of residential property ORS 316.109

[Credit code 720]

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 it 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 will also be excluded on your Oregon return. You 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 can 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 from sale of your residential property, reduced by any deductions or exclusions allowed by either the other state/country or 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

[Credit code 721]

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 promotion or retail selling of products for personal or household use that are normally sold through consumer retail distribution.

Who can claim the credit?

- Farm operators who have grown or raised at least one-half 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 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 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 you claim this credit, you're 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 a partnership, the tax credit must be claimed by the individual partners based on their 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 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 that prove 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. Any credit unused within five years is lost.

Oregon Cultural Trust contributions ORS 315.675

[Credit code 722]

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 get an Oregon tax credit.

How much is the credit?

You may get 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 that would have been allowed on a joint return in proportion to the contribution each spouse made.

Corporations can 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 cannot claim 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 addition, see page 50.

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 go to their website at www.culturaltrust.org.

Oregon Production Investment Fund ORS 315.514 and OAR 951-003-0001

[Credit code 737]

Individuals and corporations making a contribution to the Oregon Production Investment Fund may qualify for a tax credit. Total credits certified each year by the office are limited to $1 million.

Who can claim the credit?

An individual or a corporation can claim a credit for certified film production development contributions during the year. Send your contribution to the Oregon Film and Video Office.

How much is the credit?

Your contribution will be equal to 90 percent of the tax credit. Divide your contribution by 90 percent (.90) to calculate your credit. **Exception:** Because credits are limited to $1 million per year, you can get certification for a partial credit depending on the available credits in the fund at the time you apply. For more information contact the Film and Video Office in Portland at 503-229-5832 or at shoot@oregonfilm.org.

Example: Maya made a contribution of $2,000 to the Oregon Production Investment Fund. She received certification from the office for a credit of $2,222. Maya's credit is determined as follows: $2,000 ÷ .90 = $ 2,222 credit.

This may qualify as a charitable contribution on Schedule A for federal and state tax purposes. If you claim your donation to the Oregon Production Investment Fund as a tax credit on your Oregon return, you cannot claim the donation as a charitable contribution on your Oregon return. You'll have an "other addition" on your Oregon return for the amount you claimed as a charitable contribution. For more information on the addition, see page 48.

How to claim the credit

Send your contribution and application form to the Oregon Film and Video Office at One World Trade Center, Suite 1205, 121 SW Salmon Street, Portland, OR 97204.

Part-year residents and nonresidents. You can claim the full credit allowed to full-year residents.

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 three years. Any credit unused within three years is lost.

For more information on this credit or to get a **Tax Credit Application Form** contact the Oregon Film and Video Office in Portland at 503-229-5832 or by e-mail at shoot@oregonfilm.org.

Political contributions ORS 316.102

[Credit code 723]

Oregon law allows a tax credit for political contributions.

Who can claim the credit?

To qualify, you must have contributed money in the year 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 do not qualify. Keep receipts from the candidate or organization with your tax records. You can 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. Being single, Holly's political contribution credit is limited to $50.

Example 2: Burt 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. Burt has a written receipt from the PAC. He cannot claim a political contribution credit because he didn't 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 can claim a credit for a contribution to a candidate for federal, state, or local elective office, or to the candidate's principal campaign committee. To qualify, at least one of the following must occur in Oregon the same calendar year you made your contribution:

- 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 can 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, usually 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 in Salem at 503-986-1518 to see if a particular party qualifies.

Newsletter fund—credit not allowed. Oregon does not allow a credit for contributions made to a newsletter fund.

How much is the credit?

Your credit is equal to your contribution, but limited to $100 on a joint return or $50 on a single or separate return.

Partners or S corporation shareholders can claim a credit for their 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

[Credit code 724]

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 can claim the credit?

A taxpayer who is 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 was completed before January 1, 2004.

35 percent—for 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.
- Facility has a Green Permit.

- 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 started January 1, 2001, through December 31, 2003.
- 15 percent—If construction started January 1, 2004, through December 31, 2005.
- 0 percent—If construction started 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 can file an optional preliminary application for the tax credit with the DEQ any time before you complete 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 to submit 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, call in Portland 503-229-6878 or toll-free from an Oregon prefix 1-800-452-4011, ext. 6878. Or, go to DEQ's website 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

[Credit code 725]

Did you install a pollution prevention technology or process after December 31, 1995, and on or before December 31, 1999? If you did the maximum credit allowed in any one tax year is the lesser of your tax liability or one-tenth of your certified costs. You can carry forward any unused credit five years. Installations after December 31, 1999, are not eligible. The Department of Environmental Quality (DEQ) must have certified the technology.

For more information, call DEQ in Portland at 503-229-6878.

Sale or exchange of capital investment. If you sell, exchange, or remove the technology, you must notify DEQ in writing. For most sales, the new owner must apply to DEQ for certification. Any credit you did not previously claim would be available to them. The previous owner would still be entitled to any carryforward amounts not yet taken on previously claimed credits.

Reclaimed plastics ORS 315.324

[Credit code 726]

This credit has expired. It was 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. The credit was for investments made **on or before December 31, 2001.** There is only a carryforward available.

Carryforward. The credit cannot be more than your tax liability. You can carry forward and use any unused credit in the next five years. If the excess isn't used within five years, it is lost.

Reforestation ORS 315.104

[Credit code 727]

If you develop underproductive forestland into a commercial forest, you may receive a tax credit for your eligible costs 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 can claim the credit?

An individual, corporation, S corporation, or other nonpublic legal entity can 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 by any state or federal incentive programs are not considered money spent on the project, and
3. Develop the land into a commercial forest. You may not claim the credit to grow Christmas trees, 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 to convert underproductive forestland.

Partnerships or S corporations. Partners can claim a credit for costs incurred by the partnership, based on each partner's percentage of ownership interest. Shareholders in an S corporation can 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. Only the original owner may claim the balance of the credit if there is a change in ownership between the time the project is completed and the forest is established. If the forest is sold, the unused credit cannot be transferred to the new owner(s). 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 can 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. These items must be depreciated. You can 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 amount reimbursed from any state or federal incentive programs.

How to claim the credit

A service forester can tell you if your project will qualify for the credit before the project begins. After the trees are planted, the service forester must inspect the land. If the project qualifies, 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 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 request a preliminary and/or final certificate, include all information required by the state forester and an estimate of the amount you expect to claim on your return.

The state forester considers requests in the order they are filed. If you meet all the necessary requirements, you'll get a preliminary certificate, unless the annual limit has already been reached by 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 it. However, you cannot claim the second 25 percent. After the trees are replanted, you can reapply for the tax credit in areas where reforestation failed.

Depreciation and basis. You can 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 can carry forward any unused credit to the next three years. Any credit unused within three years is lost.

Questions about reforestation? For a brochure or more information, go to the Oregon Department of Forestry website at www.oregon.gov/ODF or call 503-945-7368 in Salem.

Reservation enterprise zone ORS 285C.309

[Credit code 728]

New businesses in Oregon reservation enterprise zones that pay tax to tribal governments can claim a credit against their Oregon income tax.

The credit is equal to either:

- The tribal property tax imposed on a new business facility that is paid or incurred during the tax year, or
- The tribal tax paid or incurred during the tax year if the business operations in the reservation enterprise zone are new.

The credit is allowed only if the tax is imposed uniformly in the territory.

Contact the Oregon Economic and Community Development Department for the location of reservation enterprise zones at www.oregon.gov/ECDD or call Salem at 503-986-0123.

Who can 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?

Fill out the form *Reservation Enterprise Zone Tribal Tax Credit* and instructions. Download the form from our website or call us. 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

[Credit code 729]

You can 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 hybrid vehicle.
- A fuel cell system.
- An alternative fuel vehicle charging or fueling system.

Who can claim the credit?

Homeowners, renters, and contract buyers can 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. **Note:** Only vehicles first registered in Oregon are eligible for this credit.

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.

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 an *Application and Verification Form for Residential Energy Tax Credit Certification* 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 get certification showing your qualified tax credit.

For an application form, go to the Oregon Department of Energy website at www.oregon.gov/ENERGY, or call 503-378-4040 in Salem or toll-free from an Oregon prefix at 1-800- 221-8035.

How to claim the credit

Claim the credit on your state income tax form in the tax year you purchased the device if it was operational by April 1 of the next year.

Example 1: You purchased an energy efficient clothes washer in December 2006 and had it installed and operating by January 2007. Claim the credit on your 2006 tax return.

Example 2: You purchased a groundwater heat pump in October 2006 and had it installed and operating by May 2007. Claim the credit on your 2007 tax return. Don't claim it on your 2006 return because the pump wasn't in operation by April 1, 2007.

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. Ask your county assessor what installation of an alternative energy device will do to the assessed value of your property.

Retirement income ORS 316.157

[Credit code 730]

Who can claim the credit?

If you were **age 62 or older** on December 31, 2006, and receiving taxable retirement income, you can qualify for this credit. Retirement income includes payments **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 can 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). This is your credit. 12. ________

No carryforward. The credit cannot be more than your tax liability for Oregon. Any credit not used this year is lost.

What's included in household income?

Household income generally includes all income (both taxable and nontaxable) 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").
- 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 for net income or loss. 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 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 other sources 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 the excess back 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 $32,000 for the year. She has a $11,000 depreciation deduction. Other business expenses are $24,500. She reports a business loss for federal purposes of $3,500. She recomputes her business income for household income purposes. The allowable depreciation deduction is limited to $5,000. She reports is $2,500 business income, computed as follows: $32,000 – ($5,000 + $24,500) = $2,500.

Riparian land ORS 315.113

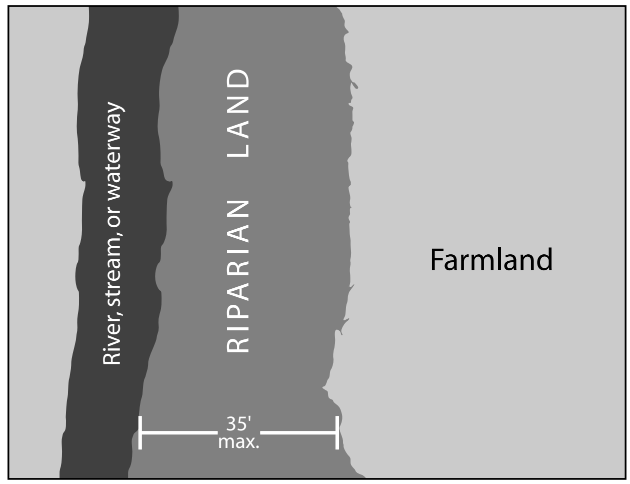
[Credit code 735]

You can 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?

To qualify, riparian land must be Oregon land 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, the land must have been in crop production or you must have claimed the credit in the previous tax year. Livestock does not qualify as a crop.

You must be actively engaged in farming the land next to the riparian land removed from production. The riparian land removed from farm production may not be used for any other purpose.

You must have removed the land from farm production voluntarily. If you're required 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.

How much is the credit?

The credit is 75 percent of the market value of the foregone crop, 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 2006 which totaled three acres of farmland. Cassie planted and harvested a crop on this riparian land in 2005. The 2005 crop yield was 810 pounds per acre and sold for $2.05 per pound. In 2006 the County Extension Office reported the yield for that crop was 785 pounds per acre and the market value was $1.95 per pound. Cassie's 2005 riparian land credit is $3,444, figured as follows:

A = 3 acres

B = 785 pounds per acre

C = $1.95 market value

D = 75 percent

$$3 \times 785 \times \$1.95 \times .75 = \$3,444$$

In 2007 the County Extension Office reports a crop yield of 770 pounds per acre and a market value of $1.91 per pound. Cassie's 2007 riparian land credit would be $3,309, figured as follows:

$$3 \times 770 \times \$1.91 \times .75 = \$3,309$$

Putting land back in production. If you claim this credit in one year and place the riparian land back into farm production another, you cannot claim this credit for five tax years following the year you place the riparian land back into farm production.

Example 2: Caleb voluntarily removed 29 feet of riparian land from farm production in 2005 and claimed the credit. In 2006 he placed the same 29 feet of riparian land back into farm production. He will be eligible to claim the credit again in 2012 if he meets all other criteria.

Who can claim the credit?

Farm owners engaged in farm production can claim this credit. Also, if a farmer engaged in a farm operation and a landowner are in a share-rent agreement, you can 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. Any credit unused within five years is lost.

Rural emergency medical technicians ORS 315.622

[Credit code 742]

Beginning in 2006 a tax credit is available for emergency medical technicians in certain rural areas of Oregon. The credit is based solely on determination of eligibility by the Office of Rural Health. This credit is set to end December 31, 2010.

Who can claim the credit?

Emergency medical technicians (EMTs) who provide volunteer EMT services in a rural area that comprise at least 20 percent of the total EMT services provided by the individual in the tax year. A rural area is an area in Oregon that is located at least 25 miles from any city with a population of 30,000 or more.

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 lesser of $250 or your tax liability for the year. There is no carryforward of unused tax credits.

How to claim the credit

You must apply to the Office of Rural Health **each year** for certification of eligibility. Contact Rural Health in Portland at 503-494-4450. Keep a copy of the confirmation letter with your tax records for each year you claim the credit.

Rural medical practitioners ORS 316.143

[Credit code 731]

A tax credit is available for medical practioners in certain rural areas of Oregon. The credit is based on eligibility requirements of the Office of Rural Health.

Who can claim the credit?

Physicians, dentists, podiatrists, optometrists, physician assistants, certified registered nurse anesthetists, and nurse practitioners can qualify for the credit. You must have a rural practice that amounts to 60 percent or more of your business.

S corporations and partnerships do not qualify for the credit. However, shareholders and partners can get 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 can claim the credit as long as you have a qualifying practice (the 10-year limit has been repealed). There is no carryforward of unused tax credits.

How to claim the credit

You must apply to the Office of Rural Health **each year** for certification of eligibility. Contact Rural Health in Portland at 503-494-4450. Keep a copy of the confirmation letter with your tax records for each year you claim the credit.

University venture development fund contributions ORS 315.521

[Credit code 739]

New for 2006, a tax credit is available for contributions to Oregon university venture development funds.

Who can claim the credit?

Any taxpayer who makes a qualifying charitable donation to an Oregon university venture development fund is eligible for the credit. If you also claimed the contribution as an itemized deduction, you must add the amount back into your income before you can claim an Oregon tax credit.

S corporations and partnerships may claim a credit for their donations.

Part-year residents and nonresidents. Your allowable credit must be prorated by your Oregon percentage.

How much is the credit?

The taxpayer's credit is 60 percent of the amount stated on the tax credit certificate.

The amount allowed for 2006 is the lesser of:

- 20 percent of the amount actually contributed to the fund,
- $50,000, or
- The tax liability of the taxpayer.

How to claim the credit

The university that established the fund will issue a tax credit certificate to you. Keep this certificate with your tax records.

Water transit vessel manufacturer ORS 315.517

[Credit code 740]

New for 2006, Oregon employers who hire workers to build water transit vessels can receive a tax credit for a portion of the wages paid during the year. This credit will expire for tax years beginning after December 31, 2012.

Who can claim the credit?

Any manufacturer of water transit vessels in Oregon may be eligible for the credit. The credit is for wages paid to an employee during the tax year. The employee must have been first employed during the year the credit is claimed. The wages must also represent an increase in the number of full-time equivalent employees compared to the previous tax year.

Don't include in wages any federal funds received for on-the-job training. For tax purposes, do not reduce your payroll costs or other expenses by the amount of any credit you receive.

S corporations and partnerships are eligible to claim this credit.

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 for the tax year is the lesser of:

- $5,000;
- 15 percent of the qualifying wages paid during the tax year; or
- The tax liability of the taxpayer for the tax year.

There is no carryforward of unused tax credits.

How to claim the credit

No certification is required to be submitted with your return to claim this credit. A worksheet detailing how you computed your credit and the qualifying wages must be kept with your tax records for each year that you claim the credit.

Working family child care (WFC) 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 $7,100 of earned income from Oregon sources, and
- You had $2,800 or less 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 Form WFC or WFC-N/P, and
- You paid qualifying child care expenses so you (and your spouse, if married filing jointly) could work or attend school, and
- You paid qualifying child care expenses for your qualifying child. A qualifying child is your child, step child, grandchild, step grandchild, brother, sister, stepbrother, stepsister, nephew, niece, step nephew, step niece, eligible foster child, or adopted child who:
  - — can be claimed as a dependent on your federal return, or
  - — could have been claimed on your return except, as the custodial parent, you released the exemption to the child's other parent under a decree of divorce or separate maintenance or written declaration such as federal Form 8332, and
  - — was under the age of 13, or
  - — was a child you can claim the additional child with a disability exemption credit, and
  - — did not provide more than one-half of their own support during the year, and
- Your child care provider was not the child's parent or guardian, or your relative or step relative under age 19.

Note: If you are married filing separately, you must be legally separated or permanently living apart on December 31, 2006 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.*

Complete all information on the schedule. If not, you may be denied the working family child care credit.

To download the schedule, go to our website, or call us to order a copy.

Household size calculation. Household size is the number of people you claim as exemptions on your federal tax return who are related to you by blood, marriage, or adoption and live in your home. Your household size can include 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're entitled to claim on your tax return who did not live with you in your home during all of 2006. For 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 children. They maintain separate households and have joint custody of both children. The children live more than half the year with Deb. Even though they're Deb's qualifying children, she releases the dependent exemption for one child to Rusty. Both Rusty and Deb can claim the credit based on the qualifying child care expenses each paid. However, they must calculate household size separately. Deb's household size is three (herself, one dependent child whose exemption she claims, 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 did not live with him more than one-half of the year 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 2006

Qualifying child care expenses are paid primarily so you (and your spouse, if married) can 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 2006 for the payments to be qualifying child care expenses.

Qualifying child care expenses don't include costs for your child to attend a public or private school or activities such as gymnastics or soccer. You can't 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. You must be able to prove you paid the child care expenses to claim this credit. Acceptable proof includes, but is not limited to, copies of:

- Cancelled checks,
- Money order stubs,
- Duplicate checks along with bank statements, and
- Specific receipts from the child care provider.

The department could ask for proof at any time while processing your tax return or any time later. If you pay a relative to watch your children, you may be asked to prove you actually paid qualifying child care expenses. *Be sure to ask for a signed receipt from your child care provider when you pay for 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 qualifying child who attends a local academy. He pays $750 per month for his son's kindergarten and child care. Of that he pays $500 for child care and $250 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 that, 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.

Example 6: Bill has two qualifying 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, $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 child's information.

Example 7: Leona is a resident of Washington. She works in Washington and Oregon. Her federal adjusted gross income on Form 40N, line 30a is $27,100. Leona earned $8,300 from her Oregon employment and the balance from her Washington employment. She paid $4,440 to her child care provider to care for her qualifying child Jesse, age 8. Leona can claim this credit because she has at least $6,900 of earned income from Oregon sources.

Example 8: Max is a resident of Washington. He works in Washington, Idaho, and Oregon. His federal adjusted gross income on Form 40N, line 30a is $19,900. Jack earned $5,200 from his Oregon employment and the balance from his Washington and Idaho employment. He paid $3,880 to three child care providers to care for his two qualifying children. Jack cannot claim this credit because he has less than $6,900 of earned income from Oregon sources.

Computation of credit. You must have already determined your federal adjusted gross income (AGI) to claim this credit. You'll need a copy of your federal tax return to complete your Schedule WFC, which has the worksheet and tables needed to compute your WFC credit.

A blank copy of Schedule WFC is provided in your 2006 Oregon instruction booklet. To download a copy of Schedule WFC go to our website or call us to order it. Schedule WFC must be attached and filed with your Oregon tax return.

Schedule WFC Relationship Codes

Grandparent	GP
Grandchild	GC
Son	S
Daughter	D
Parent	P
Sister-in-law	SL
Uncle	U
Cousin	CS
Stepson	SS
Nephew	NW
Aunt	A
Brother-in-law	BL
Stepdaughter	SD
Niece	NC
Brother	SB
Eligible foster child	EF
Sister	SB
Other	O
None	N

Interest on underpayment of estimated tax

Who must pay

You have an underpayment if you paid less than the estimated tax due on each payment date. You may owe interest for underpayment if you owe $1,000 or more on your 2006 Oregon income tax return. The 2006 interest rate is 9 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 fishermen. If at least two-thirds (66.7 percent) of your 2005 or 2006 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 2005, 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 2005.

* *Your Oregon tax liability is your liability after tax credits, but before withholding and estimated tax payments.*

Example: In 2005, Merilee and Brad claimed a residential energy credit that reduced their tax liability to zero. For 2006, they did not make estimated tax payments, and their 2006 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 2005, their taxable year was a full 12-month period, and they were full-year Oregon residents in 2005.

Exception 3—You retired at age 62 or older or became disabled in 2005 or 2006, and your underpayment was for a reasonable cause. Attach a statement to 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 Form 10 explaining the reason for the exception.

Exception 5—S corporation shareholders who are nonresidents or were part-year residents. No interest is due on underpayment of S corporation income as a shareholder if:

- The income is for the first year S corporation status is elected, and
  - — You're a nonresident for 2006, **or**
  - — You were a part-year resident for 2005.

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. You may also owe if your withholding and estimated tax payments are less than the required installment for each period. Use one of the methods below to determine any underpayment. Use Form 10 to compute the amount of interest you owe.

Method 1: Estimated 2006 tax

Use the estimated method if your estimated tax payments plus state withholding are equal to or more than 90 percent of your 2006 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 for each payment date.

Example: Frances' 2006 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 2006. Payments she actually made are:

1st	$250
2nd	$200
3rd	$250
4th	$150
Tax paid with 2006 return	$150

She figures her required payments as follows:

$$\frac{\text{\$2,500 (2006 net income tax)} \times .90 - \text{\$1,350 (tax withheld from wages or pension)}}{\text{4 (payments required)}} = \text{\$225 (payment required each period)}$$

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 2005 tax

Use the safe harbor method if the Oregon tax withheld from your wages plus your 2006 estimated tax payments (required installments) are equal to or more than your 2005 Oregon tax liability after all other tax credits.

Total your 2006 tax withheld and estimated tax payments for each payment period.

For each payment date, divide your 2005 Oregon tax liability by the number of payments required for the year (usually four).

You **cannot** use the safe harbor method if you didn't file a 2005 Oregon return. Your 2005 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 2006 Oregon net income tax is:	$2,164
Marissa's 2005 Oregon net income tax was:	$1,700

$$\frac{\text{\$1,700 (2005 tax liability)}}{\text{4 (payments required)}} = \underset{\text{(payment required each period)}}{\text{\$425}}$$

Estimated tax payments actually made:

1st	$450
2nd	$450
3rd	$350
4th	$450
Tax paid with 2006 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 doesn't have an underpayment, she doesn't 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 doesn't have an underpayment, she doesn't owe interest for this payment period.

Use Form 10 to compute the interest amount for the third period.

Method 3: Annualized 2006 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 don't get their income evenly throughout the year or 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.

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, if you're 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 don't need to figure your itemized deductions if you're 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. 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 $5,000 ($2,500 if married filing separately).

Then use the Oregon tax rate charts or tax tables in the 2006 income tax booklet to figure your annualized tax before credits. For the 2006 tax instruction booklet, go to our website or call us to order a copy.

Your annualized tax must be reduced by:

- The exemption credits you claimed on your 2006 Oregon return, and
- Any other Oregon credit in the period you earn it.

Example 1: Jerry and Sharon's daughter, Lynn, was born in August 2006. 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 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 gives 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 2006 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

2006 annualized income		
$8,000 × 4 =		$ 32,000
Less: Standard deduction	– 3,685	
Federal tax subtraction	– 1,570	
Total deductions		– 5,255
Annualized taxable income		$ 26,745
Oregon tax		$ 2,023
Less: Exemption credit (2 × $159)		– 318
2006 annualized Oregon tax		$ 1,705
90% of the first period's tax $1,705 × .225 (1st required installment—pay this amount)		$ 384
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 ($384). They have a $66 overpayment to apply to the second payment period. Because they don't have an underpayment, they don't owe interest for the first payment period.

Second payment

2006 annualized income		
$16,000 × 2.4 =		$ 38,400
Less: Standard deduction	– 3,685	
Federal tax subtraction	– 2,530	
Total deductions		– 6,215
Annualized taxable income		$ 32,185
Oregon tax		$ 2,513
Less: Exemption credit (2 × $159)		– 318
2006 annualized Oregon tax		$ 2,195
90% of the second period's tax $2,195 × .45		$ 988
Less: Prior required payment		– 384
Required second-period payment		$ 604
Actual estimated tax payment for second period	$ 450	
Overpayment for first period	66	
Total payments for second period		$ 516

Their tax payment of $516 is less than the $604 required payment for the second period. Del and Rena have to pay interest on the $88 second-period underpayment ($604 – $516).

Third payment

2006 annualized income		
$20,000 × 1.5 =		$ 30,000
Less: Standard deduction	– 3,685	
Federal tax subtraction	– 1,320	
Total deductions		– 5,005
Annualized taxable income		$ 24,995
Oregon tax		$ 1,866
Less: Exemption credit (2 × $159)		– 318
2006 annualized Oregon tax		$ 1,548
90% of the third period's tax $1,548 × .675		$ 1,069
Less: Prior required payments		– 988
Required third-period payment		$ 81
Estimated tax payment for third period	$450	
Less: Payment applied to second-period underpayment	– 88	
Total remaining payment for third period		$ 362

The remaining payment ($362) is more than the required payment of $81. Del and Rena will not pay interest on their third payment. They have a $281 overpayment to apply to the fourth period [($362) – $81].

Fourth payment

2006 annualized income		
$38,000 × 1.0 =		$ 38,000
Less: Standard deduction	– 3,685	
Federal tax subtraction	– 2,470	
Total deductions		– 6,155
Annualized taxable income		$ 31,845
Oregon tax		$ 2,482
Less: Exemption credit (2 × $159)		– 318
2006 annualized Oregon tax		$ 2,164
90% of the fourth period's tax $2,164 × .90		$ 1,948
Less: Prior required payments		– 1,069
Required fourth-period payment		$ 879
Estimated tax payment for fourth period	$ 450	
Overpayment from third period	281	
Total payments for fourth period		$ 731

Their tax payment of $731 is less than the $879 required payment for the fourth period. They have to pay interest on the $148 fourth-period underpayment ($731 – $879).

Estimated tax

Who must pay

Oregon law requires some taxpayers to pay estimated tax. Oregon's estimated tax system is similar to the federal 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 owe **$1,000** or more when you file your 2007 Oregon income tax return. That's tax you owe after you subtract your credits and the tax withheld from your income, but before you subtract any 2006 refund you applied to your 2007 estimated tax.

Pay estimated tax for tax year 2007 if:

You expect to owe **$1,000** or more when you file your 2007 Oregon income tax return, **and** you estimate the total income tax withholding will be less than:

- 100 percent of the tax shown on your 2006 income tax return that covered all 12 months of the year, or
- 90 percent of the tax to be shown on your 2007 income tax return, or
- 90 percent of the tax on your 2007 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 Oregon income tax from wage income.

You can file a joint estimated tax Form 40-ESV 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-ESV, the payments are considered to be joint, regardless of which spouse actually made the estimated tax payment.

You can file separate Oregon income tax returns even if you file a joint Form 40-ESV. If you file separate income tax returns after filing a joint Form 40-ESV, decide who'll claim the joint estimated tax payments. You can divide the estimated tax between you or agree that one of you will claim the entire amount. If you 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 help process your return.

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 fishermen

Farmers and fishermen are not required to pay estimated tax if at least two-thirds of their 2006 gross income or two-thirds of their 2007 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. To download the form, go to our website, or to order the form, call us.

Your Oregon return is due April 15, 2008, even if you were required to file your federal return earlier.

Employees of farmers or fishermen 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 can download these forms from our website.

Fishermen. Use the amounts from the following federal schedules to determine your gross income from fishing:

- Schedule C, line 7.

- 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 2006 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 2007. 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 2007 gross income and gross farm income will be about the same as their 2006 income amounts. Because less than two-thirds of their gross income is from farming, they should make quarterly estimated tax payments for 2007.

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-ESV and paying estimated tax.

The amount of your payment is based on the tax you compute using one of the methods shown on pages 112–113. Use your 2006 Form 40N or Form 40P as a guideline to estimate your 2007 Oregon income tax. Follow the same instructions for filing Form 40-ESV and paying estimated tax that full-year residents do.

Farmer or fisherman

Figure your gross income as all the 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. Because 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 fishermen. She must make estimated tax payments.

S corporation, limited liability company (LLC), or partnership income

If you're a shareholder in an S corporation, a member of an LLC, or in a partnership with income from Oregon sources, you may need to make estimated tax payments.

Part-year residents. 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 you were a resident, you're subject to Oregon tax on your share of all the S corporation, LLC, or partnership income.

Nonresidents. You're subject to Oregon tax on your share of the Oregon income reported by the S corporation, LLC, or partnership. You're also subject to Oregon tax on any guaranteed payments from the partnership. The payments are apportioned using the partnership's percentage.

Retirees

If you're retired or will soon retire, you may need to make estimated tax payments. Or, you may be able to have Oregon income tax withheld from your retirement income. Contact the payer of the 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 are a nonresident alien, you must file separate estimated tax forms.

Fiduciaries

Do not file Form 40-ESV. You do not need to pay estimated tax on behalf of an estate or trust.

Due dates

2007 estimated tax for calendar-year taxpayers

First payment—due April 16, 2007.
Second payment—due June 15, 2007.
Third payment—due September 15, 2007.
Fourth payment—due January 15, 2008.

If you still owe more income tax, pay the balance by April 15, 2008. 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, 2008, and
- You pay all tax due with your return.

You must still 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, 2006 and ends June 30, 2007. The estimated tax Form 40-ESV and payments are due:

- October 15, 2006.
- December 15, 2006.
- March 15, 2007.
- July 15, 2007.

Additional withholding

If you don't have enough Oregon tax withheld from your wages, 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, we have information to help you figure tax that should be withheld from your wages. Send for *Oregon Income Tax Withholding: Some Special Cases* by writing to: Forms, Oregon Department of Revenue, PO Box 14999, Salem OR 97309-0990. Or, download the form from our website.

How to figure your payments

You will need:

- Your 2006 Oregon income tax return and instructions.
- 2007 exemption credit: $165.
- 2007 federal tax subtraction limit: $5,500 ($2,750 married filing separately).
- 2007 tax rate charts, page 114.

You may need:

- Your federal income tax return and schedules.
- The appropriate worksheet from the estimated income tax instructions for Form 40-ESV.

Method 1: Estimate—2007

90 percent of your 2007 net income tax. To figure your payments under this method, use the appropriate worksheet in the estimated income tax instructions for Form 40-ESV.

Use your 2006 income tax returns and instructions as **guides** to estimate your 2007 federal adjusted gross income (AGI).

Example: Basil used his 2006 tax return to estimate his 2007 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. He should pay $810 ($3,240 ÷ 4) each payment period.

Method 2: Safe harbor—2006

100 percent of the tax shown on your 2006 income tax return. Your 2006 return must have 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 in tax year 2006 you:

- Did not file an Oregon return, or
- Filed a short-year return.

Example: Arianne's 2006 tax was $1,000 after credits. She should pay $250 ($1,000 ÷ 4) on each of the four estimated tax due dates.

Method 3: Annualized—2007

90 percent of your 2007 annualized net income tax. If you don't get 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. Download Form 10 and instructions from our website. Or, call us to order it.

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're 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 don't need to figure your itemized deductions if you're 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. Then subtract:

- Your annualized Oregon subtractions. Don't 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're not itemizing. Don't 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 2007 federal tax subtraction is limited to $5,500 ($2,750 if married filing separately).

Then use the Oregon tax rate charts on page 114 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 114 for figuring your 2007 estimated tax. Do not use a 2006 rate chart.

You must reduce your annualized tax by:

- The exemption credits you expect to claim on your Oregon return, $165 each in 2007, 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	– 3,685	

Federal tax subtraction	– 1,700	
Total deductions		– 5,385
Annualized taxable income		$ 26,615
Oregon tax		$ 1,995
Less: 2007 exemption credit (2 × $165)		– 330
Annualized Oregon tax		$ 1,665
90% of the first period's tax		
$1,665 × .225 (1st required installment—pay this amount)		$ 375

Second payment

Annualized income		
$16,000 × 2.4 =		$ 38,400
Less: Standard deduction	– 3,685	
Federal tax subtraction	– 2,660	
Total deductions		– 6,345
Annualized taxable income		$ 32,055
Oregon tax		$ 2,485
Less: 2007 exemption credit (2 × $165)		– 330
Annualized Oregon tax		$ 2,155
90% of the second period's tax		
$2,155 × .45 (2nd required installment—[$970 – 375] pay $595)		$ 970

Third payment

Annualized income		
$20,000 × 1.5 =		$ 30,000
Less: Standard deduction	– 3,685	
Federal tax subtraction	– 1,410	
Total deductions		– 5,095
Annualized taxable income		$ 24,905
Oregon tax		$ 1,841
Less: 2007 exemption credit (2 × $165)		– 330
Annualized Oregon tax		$ 1,511
90% of the third period's tax		
$1,511 × .675 (3rd required installment—[$1,020 – 375 – 595] pay $50)		$ 1,020

Fourth payment

Annualized income		
$38,000 × 1.0 =		$ 38,000
Less: Standard deduction	– 3,685	
Federal tax subtraction	– 2,600	
Total deductions		– 6,285
Annualized taxable income		$ 31,715
Oregon tax		$ 2,454
Less: 2007 exemption credit (2 × $165)		– 330
Annualized Oregon tax		$ 2,124
90% of the fourth period's tax		
$2,124 × .9 (4th required installment—[$1,912 – 375 – 595 – 50] pay $892)		$ 1,912

Short-year taxpayers

You do not need to file Form 40-ESV, 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-ESV.

Applying income tax refund to estimated tax payment

If your refund is $1 or more and you filed your return on time, you can 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 can't apply your refund if you file Form 40S.

You may need to begin paying estimated tax if you paid withholding in prior years and your economic situation has changed.

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 it 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 don't 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 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 16. Pay your estimated tax in full.

Tax rate charts for estimating 2007 Oregon tax

Tax rate chart S:

For persons filing single or married filing separately

If taxable income is:	***The tax is:***
Not over $2,850	5% of taxable income
Over $2,850 but not over $7,150	$143 plus 7% of the excess over $2,850
Over $7,150	$444 plus 9% of the excess over $7,150

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 $5,700	5% of taxable income
Over $5,700 but not over $14,300	$285 plus 7% of the excess over $5,700
Over $14,300	$887 plus 9% of the excess over $14,300

Caution: The tax rates change because of inflation. Use this rate chart for figuring your 2007 estimated tax. Do not use a 2006 rate chart.

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, 2006. **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 not, you're not eligible for ERA.

You must file Form 90R to get an ERA check. The payment is based on your income, assets, and the amount of rent, fuel, and utilities you paid.

To download the complete ERA instructions and Form 90R, go to our website or call us.

Important information

The ERA filing deadline. The deadline for filing your 2006 ERA claim (Form 90R) is July 1, 2007.

If you file Form 90R after July 1, 2007, your claim will be processed the following year. Your ERA check also will be issued the following year—in mid-November 2008.

Qualifications

You must meet **all** of the following requirements:

- You or your spouse was age 58 or older on December 31, 2006, 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 2006, and
- The property you rented was subject to property tax, and
- You lived in Oregon on December 31, 2006, and
- You didn't own your residence and land on December 31, 2006. 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, 2006.

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, fined up to $100,000 and serve a jail sentence, or both. In addition, you have to pay back twice the amount of the ERA check, plus interest.

Appendix

Contents

Household income checklist

	Household Income	
	Yes	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		×
Gratuities	×	
Hobby income	×	
Honorariums	×	

	Household Income Yes	Household Income No
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)		
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		×

	Household Income	
	Yes	No
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	×	
Wages	×	
Welfare benefits	×	
Aid to blind and disabled	×	
Aid to dependent children	×	

	Household Income	
	Yes	No
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—2006 Tables

Table 1, household size = 1		
If the amount on Schedule WFC, line 15 is: at least:	but not more than:	Enter this decimal amount on Schedule WFC, line 17:
——	$19,600	.40
19,601	20,600	.36
20,601	21,550	.32
21,551	22,550	.24
22,551	23,500	.16
23,501	24,500	.08
24,501	——	.00

Table 2, household size = 2		
If the amount on Schedule WFC, line 15 is: at least:	but not more than:	Enter this decimal amount on Schedule WFC, line 17:
——	$26,400	.40
26,401	27,700	.36
27,701	29,050	.32
29,051	30,350	.24
30,351	31,700	.16
31,701	33,000	.08
33,001	——	.00

Table 3, household size = 3		
If the amount on Schedule WFC, line 15 is: at least:	but not more than:	Enter this decimal amount on Schedule WFC, line 17:
——	$33,200	.40
33,201	34,850	.36
34,851	36,500	.32
36,501	38,200	.24
38,201	39,850	.16
39,851	41,500	.08
41,501	——	.00

Table 4, household size = 4		
If the amount on Schedule WFC, line 15 is: at least:	but not more than:	Enter this decimal amount on Schedule WFC, line 17:
——	$40,000	.40
40,001	42,000	.36
42,001	44,000	.32
44,001	46,000	.24
46,001	48,000	.16
48,001	50,000	.08
50,001	——	.00

Table 5, household size = 5		
If the amount on Schedule WFC, line 15 is: at least:	but not more than:	Enter this decimal amount on Schedule WFC, line 17:
——	$46,800	.40
46,801	49,150	.36
49,151	51,500	.32
51,501	53,800	.24
53,801	56,150	.16
56,151	58,500	.08
58,501	——	.00

Table 6, household size = 6		
If the amount on Schedule WFC, line 15 is: at least:	but not more than:	Enter this decimal amount on Schedule WFC, line 17:
——	$53,600	.40
53,601	56,300	.36
56,301	58,950	.32
58,951	61,650	.24
61,651	64,300	.16
64,301	67,000	.08
67,001	——	.00

Table 7, household size = 7		
If the amount on Schedule WFC, line 15 is: at least:	but not more than:	Enter this decimal amount on Schedule WFC, line 17:
——	$60,400	.40
60,401	63,400	.36
63,401	66,450	.32
66,451	69,450	.24
69,451	72,500	.16
72,501	75,500	.08
75,501	——	.00

Table 8, household size = 8*		
If the amount on Schedule WFC, line 15 is: at least:	but not more than:	Enter this decimal amount on Schedule WFC, line 17:
——	$67,200	.40
67,201	70,550	.36
70,551	73,900	.32
73,901	77,300	.24
77,301	80,650	.16
80,651	84,000	.08
84,001	——	.00

Working Family Child Care Credit—2006 Tables

Table 9, household size = 9		
If the amount on Schedule WFC, line 15 is: at least:	but not more than:	Enter this decimal amount on Schedule WFC, line 17:
——	$74,000	.40
$74,001	$77,700	.36
$77,701	$81,400	.32
$81,401	$85,100	.24
$85,101	$88,800	.16
$88,801	$92,500	.08
$92,501	——	.00

Table 10, household size = 10		
If the amount on Schedule WFC, line 15 is: at least:	but not more than:	Enter this decimal amount on Schedule WFC, line 17:
——	$80,800	.40
$80,801	$84,840	.36
$84,841	$88,880	.32
$88,881	$92,920	.24
$92,921	$96,960	.16
$96,961	$101,000	.08
$101,001	——	.00

Table 11, household size = 11		
If the amount on Schedule WFC, line 15 is: at least:	but not more than:	Enter this decimal amount on Schedule WFC, line 17:
——	$87,600	.40
$87,601	$91,980	.36
$91,981	$96,360	.32
$96,361	$100,740	.24
$100,741	$105,120	.16
$105,121	$109,500	.08
$109,501	——	.00

Table 12, household size = 12		
If the amount on Schedule WFC, line 15 is: at least:	but not more than:	Enter this decimal amount on Schedule WFC, line 17:
——	$94,400	.40
$94,401	$99,120	.36
$99,121	$103,840	.32
$103,841	$108,560	.24
$108,561	$113,280	.16
$113,281	$118,000	.08
$118,001	——	.00

Table 13, household size = 13		
If the amount on Schedule WFC, line 15 is: at least:	but not more than:	Enter this decimal amount on Schedule WFC, line 17:
——	$101,200	.40
$101,201	$106,260	.36
$106,261	$111,320	.32
$111,321	$116,380	.24
$116,381	$121,440	.16
$121,441	$126,500	.08
$126,501	——	.00

Table 14, household size = 14		
If the amount on Schedule WFC, line 15 is: at least:	but not more than:	Enter this decimal amount on Schedule WFC, line 17:
——	$108,000	.40
$108,001	$113,400	.36
$113,401	$118,800	.32
$118,801	$124,200	.24
$124,201	$129,600	.16
$129,601	$135,000	.08
$135,001	——	.00

Table 15, household size = 15		
If the amount on Schedule WFC, line 15 is: at least:	but not more than:	Enter this decimal amount on Schedule WFC, line 17:
——	$114,800	.40
$114,801	$120,540	.36
$120,541	$126,280	.32
$126,281	$132,020	.24
$132,021	$137,760	.16
$137,761	$143,500	.08
$143,501	——	.00

Table 16, household size = 16*		
If the amount on Schedule WFC, line 15 is: at least:	but not more than:	Enter this decimal amount on Schedule WFC, line 17:
——	$121,600	.40
$121,601	$127,680	.36
$127,681	$133,760	.32
$133,761	$139,840	.24
$139,841	$145,920	.16
$145,921	$152,000	.08
$152,001	——	.00

* *If your household size is more than 16, contact the department for the tables you need.*

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. Do not prepare returns using former abbreviations.

Federal adjustments to income—Forms 40N and 40P only	Code
Archer MSA deduction	007
Certain business expenses of reservists, performing artists, and fee-basis government officials	002
Clean-fuel vehicles deduction (2005 and earlier)	001
Domestic production activities deduction	006
Health savings account deduction	003
Jury duty pay to employer	008
Other adjustment to income reported on federal Form 1040, line 36	005
Penalty on early withdrawal of savings	004

Additions—Forms 40, 40N, and 40P only — **Code**

529 Oregon College Savings Plan non-qualified withdrawal 117

Basis adjustments 101
- Anti-churning rule denying ACRS and MACRS
- Basis of business assets transferred to Oregon
- Depletion in excess of property basis
- Depreciation difference for Oregon
- Gain or loss on the sale of depreciable property with different basis for Oregon
- Passive activity losses
- Suspended losses

Claim of right income repayments 103

Disposition of inherited Oregon farmland or forestland 106

Domestic production activities deduction 102

Federal election on interest and dividends of a minor child (Form 40 only) 107

Federal income tax refunds (Form 40 only) 109

Note: Form 40N and 40P filers, see deductions and modifications.

Fiduciary adjustments 100
- Accumulation distribution from a trust
- Federal estate tax on income in respect of a decedent
- Fiduciary adjustments from Oregon estates and trusts

Individual Development Account (IDA) 113
- Non-qualified withdrawal
- Add back for IDA donation credit

Itemized or business deduction add back for Oregon credits 104
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  - — Child Care Fund
  - — Oregon Cultural Trust
  - — Oregon Production Investment Fund
  - — University venture fund
- Income taxes paid to another state
- Long-term care insurance premiums
- Self-employment long-term care insurance deduction

Net operating loss non-Oregon source 116

Oregon deferral of reinvested capital gain 118

Partnership and S corporation modifications for Oregon 119

Schedule A deduction add back for Oregon subtractions 105
- Gambling losses claimed as an itemized deduction
- Oregon only Schedule A items
- Refund of Oregon only Schedule A items from a prior year

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- Lump-sum distributions from a qualified retirement plan
- Passive foreign investment company income

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Oregon lottery winnings	322
Partnership and S corporation modifications for Oregon	323
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Artist's charitable contribution	600

Federal income tax refunds 601
Federal tax from a prior year 602
Foreign tax 603
Gambling losses claimed as an itemized deduction 604
Income in respect of a decedent 605
Mortgage interest credit deduction 607
Special Oregon medical deduction 606

Credits—All Forms	**Code**
** Prorated for Forms 40N and 40P*	
Adoption expenses carryforward*	700
Advanced telecommunications facilities*	701
Bone marrow donation program	702
Business energy	703
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Employer-provided dependent care assistance	707
Employer scholarship*	711
Farmworker housing*	712
First Break Program second year and carryforward*	713
Fish screening devices*	714
Income taxes paid to another state (Form 40S only)	733
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OREGON DEPARTMENT OF REVENUE

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	.25		***What You Need to Know About Corporation Excise and Income Tax*** (150-102-401).
	.25		***Your Rights as an Oregon Income Taxpayer*** (150-800-406).
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The Employer's Guide for Doing Business in Oregon.
To order, call the Oregon Business Information Center at 503-986-2200 (option 3, then option 1).

Quantity	Price	Total	Item
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	Free		***Oregon Corporation Income and Excise Tax: Characteristics of Corporate Taxpayers (2006)*** (150-102-405). Contains data from returns corresponding to tax year 2004 and receipts through fiscal year 2006.
	5.00		***Publication 17 ½, Oregon Individual Income Tax Guide 2006*** (150-101-431). Supplements information in the Oregon individual income tax instruction booklets and federal *Publication 17. Publication 17½* does not contain forms.
	6.00		***Package B, Personal Income Tax Forms for Tax Year 2006*** (150-101-451). Includes full-year and part-year/nonresident booklets, plus one of each form listed on page 2, **except** labels, corporation forms and instructions found in *Package C,* and Form OTC. Forms from Package B may be photocopied. Prior years of *Package B* also are available.
	3.00		***Package C, Corporation Tax Forms for Tax Year 2006*** (150-102-451). Includes corporation income and excise tax forms and instructions for Form 20, Form 20-I, Form 20-INS, Form 20-S, *Estimated Corporation Excise or Income Tax;* Form 20-V, and Form 37. Forms from *Package C* may be photocopied. The prior year of *Package C* also is available.
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- See page 1 for ordering instructions.
- **Most of these forms are available free of charge on our website at: www.oregon.gov/DOR.**

Quantity	Price	Total	Item	
	.12		40FY	Income tax for full-year residents—**Forms 40 and 40S and instructions**
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	.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. 3-06)	
	.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—**form and instructions**
	.10		20-I	Corporation income tax—**form and instructions**
	.10		20-S	S corporation tax—**form and instructions**
	.10		20-INS	Insurance excise tax—**form and instructions**
	.06		Estimated Corporation Excise or Income Tax—**instructions** (also includes Form 20-V)	
	.02		20-V	Oregon corporation payment voucher—**form and instructions**
	.02		37	Underpayment of corporation estimated tax—**form and instr**
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Miscellaneous Oregon Income Tax Information 2002–2006

(Refer to prior year tax booklets before filing delinquent or amended returns)

Tax Years	2002	2003	2004	2005	2006
Marginal tax rates for single or married filing separately					
	Taxable income:				
5%	First $2,500	First $2,550	First $2,600	First $2,650	First $2,750
7%	$2,501 – $6,250	$2,551 – $6,350	$2,601 – $6,500	$2,651 – $6,650	$2,750 – $6,850
9%	Over $6,250	Over $6,350	Over $6,500	Over $6,650	Over $6,850
Marginal tax rates for married filing jointly, head of household, or qualifying widow(er)					
	Taxable income:				
5%	First $5,000	First $5,100	First $5,200	First $5,300	First $5,500
7%	$5,001 – $12,500	$5,101 – $12,700	$5,201 – $13,000	$5,301 – $13,300	$5,500 – $13,700
9%	Over $12,500	Over $12,700	Over $13,000	Over $13,300	Over $13,700

Tax Years	2002	2003	2004	2005	2006
Exemption amounts	$145	147	151	154	159
Standard deduction					
Single—can be claimed on another's return	$750*	$750*	$800*	$800*	$850*
Single	$1,640	$1,670	$1,720	$1,770	$1,840
Married filing jointly	$3,280	$3,345	$3,445	$3,545	$3,685
Head of household	$2,640	$2,695	$2,770	$2,855	$2,965
Married filing separate	$1,640	$1,670	$1,720	$1,770	$1,840
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	n/a	n/a	n/a	n/a	n/a
Maximum federal tax subtraction	$3,250	$3,500	$4,000	$4,500	$5,000
If married filing separately	$1,625	$1,750	$2,000	$2,250	$2,500
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 $300, but not more than the standard deduction for a single filer.