

OAR 150-316-0535

Example 1 (for section (2) of the rule): Cash basis taxpayers' computation of federal income taxes on their 2009 federal tax return was \$550. Their federal withholding for 2009 was \$600. The amount of taxes deductible on their 2009 Oregon return is \$550. In 2010 their federal tax liability as computed on their federal return was \$780. Their withholding for the year 2010 was \$650. Their federal tax deduction for 2010 is \$780.

Example 2 (for section (2) of the rule): Assume the same situation as in Example (1) except that, in 2009, federal tax deficiencies amounting to \$170 for 2006 and \$180 for 2008 were paid. The total tax deduction for 2009 is:

2006 tax	\$170
2008 tax	\$180
2009 tax	<u>\$550</u>
Total 2009 deduction	<u>\$900</u>

Example 3 (for section (3) of the rule): John and Mary compute their joint 2014 federal income tax to be \$1,200. They had \$1,700 withheld from wages and received a federal refund of \$500. The Internal Revenue Service audited the return, resulting in a refund of \$150 in 2016. They are required to add \$150 to their 2016 Oregon taxable income.

Example 4 (for section (4) of the rule): Dan and Karen have a 2017 federal tax liability of \$4,000. They are limited to a \$3,000 federal tax subtraction on their 2017 Oregon return. In 2019, their 2017 return is audited by IRS and they receive a \$1,200 refund. Tax benefit received is calculated as follows:

2017 federal tax subtracted on the 1987 Oregon return	\$3,000
Correct 2017 Oregon return	<u>\$2,800</u>
Tax benefit received	<u>\$200</u>

Dan and Karen must show \$200 as an addition on their 2019 Oregon return.

Example 5 (for section (4) of the rule): Randy's 2019 federal tax liability is \$2,100. During 2019, his 2017 federal return is audited by the IRS. After the audit, he owes \$1,500 additional federal tax. He pays that amount in 2019. On his 2019 Oregon return, Randy may subtract a total of \$3,000 federal tax. Of this, \$2,100 is his 2019 federal tax liability. He may subtract \$900 of the \$1,500 of federal tax paid for 2017 on his 2019 Oregon return.

Lesser of:

1. Additional tax paid	<u>\$1,500</u>
2. Maximum 2019 federal tax subtraction	\$3,000
Less: 2019 federal tax liability	\$2,100
3. Maximum subtraction of prior year's federal tax	<u>\$900</u>

Example 6 (for section (4) of the rule): Ralph and Louise have a 2019 federal tax liability of \$4,500. Also in 2019, they amend their 2016 federal return and pay additional federal tax of \$2,700. Their federal tax deducted on their original 2016 return was \$5,200. Their federal tax subtraction for the 2019 federal tax is limited to \$3,000 but because the additional federal tax paid is for a tax year beginning before December 31, 2016, the additional tax paid is not subject to the \$3,000 limit. Their subtraction for the additional 2016 federal tax paid is the lesser of:

- | | |
|--|----------------|
| 1. Additional tax paid during 2019 | <u>\$2,700</u> |
| or | |
| 2. Maximum 2016 federal tax subtraction | \$7,000 |
| less: 2016 federal tax liability actually deducted | \$5,200 |
| 3. Maximum subtraction on prior year's federal tax deducted on the 2019 return | <u>\$1,800</u> |

Ralph and Louise would subtract \$1,800 of prior year's federal tax.