

**OAR 150-316-0557**

Itemized deductions left after <u>Being phased-out</u> Total itemized deductions subject to the phase-out under IRC Section 68	x	Oregon income tax included on Schedule A
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*Example:* For tax year 1991, taxpayers file a joint return itemizing deductions and showing \$500,000 of adjusted gross income. Their Schedule A shows the following deductions:

	<b>Subject to Phase-out</b>	<b>Not Subject to Phase-out</b>
Medical	\$ 50,000	
Less: 7.5% of federal AGI	<u>37,500</u>	
	\$ 12,500	\$12,500
Taxes		
Oregon income tax	\$ 36,000	
Other taxes	<u>6,000</u>	
	\$ 42,000	
	\$42,000	
Interest		
Home mortgage	\$ 10,500	
Investment interest	<u>10,000</u>	
	\$ 20,500	\$10,000
	\$10,500	
Contributions	\$ 10,000	\$10,000
Casualty loss	\$ 5,000	\$ 5,000
Moving expense	-0-	-0-
Miscellaneous	\$ 25,000	
Less: 2% of federal AGI	<u>10,000</u>	
	\$ 15,000	
	\$15,000	
Total Itemized Deductions	\$105,000	<u>\$27,500</u>
	\$77,500	

Under IRC Section 68, the medical expenses of \$12,500, casualty loss of \$5,000 and investment interest of \$10,000 are not subject to the phase-out. Of the total \$105,000 of itemized deductions, \$27,500 is excluded from the phase-out and \$77,500 is subject to the phase-out.

Itemized Deductions subject to the phase-out under IRC 68	\$77,500
Reduced by 3% of Adjusted Gross Income That exceeds \$100,000 per IRC Section 68 (\$500,00 - \$100,00) x 3%)	<u>-\$12,000</u>
Phase-out itemized deductions	\$65,500
Itemized deductions not subject to phase-out	<u>+27,500</u>
Total deductible itemized deductions for federal	\$93,000

Itemized deductions left <u>after being phased-out</u> Itemized deductions subject to the phase-out	x	Oregon tax claimed as an itemized deduction
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$$\frac{\$65,500}{\$77,500} = 84\% \times \$36,000 = \$30,426$$

For Oregon, the taxpayers need to reduce the \$93,000 of itemized deductions by \$30,426 of Oregon income tax. Taxpayers have net Oregon itemized deductions of \$62,574 ( $\$93,000 - 30,426$ ).