

Credit for income taxes paid to another state



December 2008

www.oregon.gov/DOR

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.

Only take a credit for tax paid to another state if Oregon taxed the income **and** the other state also had a right to tax the income. For instance, if you live in Oregon, other states cannot tax your pension income. Only the state you live in can tax your pension income. If you pay tax to another state on your pension income, you cannot take a credit for that tax. You can’t take a credit for paying tax you don’t owe.

If you take an Oregon credit and a federal deduction for the same tax, add back the amount deducted to your income. Add it back in the year you deduct it.

Are you a full-year Oregon resident? Do you have income taxed by Oregon and one or more of these states: Arizona, California, Indiana, or Virginia? If so, do not claim the credit on your Oregon return. (See Exception for Oregon resident partners and S corporation shareholders on page 3.) 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 your 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 if you have paid the other state’s tax before or at the same time as you file your Oregon return. 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.**

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 \div \$40,000 \times \$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	<u>\$13,500</u>

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	<u>2,400</u>
Total AGI taxable to Idaho	<u>\$14,900</u>

* 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 \div \$13,500 \times \$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	<u>\$10,000</u>
Total AGI taxable to Oregon	<u>\$10,000</u>

California income

Capital gain on installment sale of real property	\$10,000
Interest on installment sale	5,000
Other interest	8,000
Business loss	<u>(20,000)</u>
Total AGI taxable to California	<u>\$3,000</u>

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: $(\$10,000 \div \$10,000) \times \$350$ (\$350), or
- Formula II: $(\$10,000 \div \$3,000) \times \$100$ (\$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 ($\$10,000 \times 1.5\%$). 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 \div \$30,400) \times \$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 so, 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 (as limited if your total Schedule A deductions were limited because you are a high income taxpayer).

Add this amount to Oregon income as an "Other addition." This reduces your itemized deductions for the other state's income tax. Use numeric code 104.

If you pay tax to more than one state, compute your addition state by state. Also compute it year by year.

Is the amount of tax you are deducting less than what you owe the other state? If so, make an addition on next year's Oregon return for the tax that was paid and deducted on your federal return.

Example 7: 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.

Example 8: Peggy lives in Oregon. She owes \$300 to Iowa for 2008. Her credit for tax paid to Iowa is \$200. Peggy computes her credit using Formula I. Peggy has \$100 withheld from her pay for Iowa tax in 2008. She pays the other \$200 when she files her 2008 Iowa return. Peggy deducts \$500 for tax she pays to California.

Peggy adds back \$100 as an "Other addition" on her Oregon return. She makes no changes for the California tax. She may not take a credit for California tax.

If Peggy itemizes again in 2009, she may deduct \$200 (her 2008 credit) on her federal tax return. Peggy adds back \$200 on her Oregon tax return.

Taxpayer assistance

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

Asistencia en español:

Salem 503-378-4988
Gratis de prefijo de Oregon 1-800-356-4222

TTY (hearing or speech impaired; machine only):

Salem 503-945-8617
Toll-free from an Oregon prefix 1-800-886-7204

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