OREGON TAX LAW UPDATE

Oregon Senate Bill 1507: The Federal Tax Disconnect

What Individuals & Business Owners Need to Know

Revenue Impact

+$311.6M net for 2025–27 biennium

Revenue Protected

~$888M loss avoided from auto-conformity

Effective Date

~June 8, 2026 — first tax year: 2026

Status

Passed both chambers; awaiting Governor Kotek's signature

SB 1507 partially disconnects Oregon's tax code from three specific provisions of the federal bill H.R. 1, enacted by Congress in July 2025. Oregon retains conformity to many other H.R. 1 provisions, including no tax on tips and no tax on overtime pay.

BACKGROUND

Oregon's Rolling Conformity System

Since the 1960s, Oregon has maintained a **"rolling reconnect"** to federal taxable income — automatically adopting IRC changes as they occur. This system simplifies filing for most taxpayers.

When Congress passed H.R. 1 in July 2025, it introduced sweeping federal tax breaks that — under Oregon's rolling conformity — would have automatically flowed through to state returns, costing Oregon **nearly $900 million** over the 20

25–27 biennium.

SB 1507 is a **targeted decoupling** — it does NOT repeal Oregon's entire conformity framework.

What Oregon KEEPS from H.R. 1

→ **No Tax on Tips**

Oregon retains federal conformity for tip income exemption

→ **No Tax on Overtime Pay**

Oregon retains federal conformity for overtime pay exemption

→ **Most Other H.R. 1 Provisions**

SB 1507 disconnects ONLY from three specific provisions

CORE PROVISIONS

The Three Disconnects

IRC §1202 — QSBS Exclusion

H.R. 1 expanded the Qualified Small Business Stock exclusion for eligible C-corp shareholders. SB 1507 **eliminates all Oregon conformity to Section 1202** — not just the H.R. 1 enhancements. For QSBS sales on or after **January 1, 2026**, gain is fully taxable in Oregon at up to **9.9%**.

IRC §1202 QSBS Requirements

- Issuing corp must have ≤$50M aggregate gross assets at issuance
- ≥80% of assets used in active trade or business
- Stock must be held more than 5 years
- Excludes health, law, consulting, accounting, finance, farming, mining, hospitality

IRC §168(k) — Bonus Depreciation

H.R. 1 restored and expanded 100% bonus depreciation on qualified property beginning in 2026. SB 1507 **disallows bonus depreciation for Oregon** for tax years 2026 and beyond. Businesses must add back federal bonus depreciation and recover deductions over standard MACRS.

New Vehicle Loan Interest Deduction

H.R. 1 created a new above-the-line deduction for interest paid on loans for U.S.-assembled new personal vehicles. SB 1507 **decouples Oregon from this deduction entirely**. Oregon residents cannot claim it for Oregon income tax purposes.

- Oregon was one of only a few states that would have automatically conformed
- Decoupling aligns Oregon with the majority of states

LEGISLATIVE RECORD

Legislative History & Vote

Milestone	Date	Vote / Notes
Introduced in Oregon Senate	February 2, 2026	—
Senate Finance & Revenue Committee hearing	February 4, 2026	495 public comments
Oregon Senate passed	February 16, 2026	17–13
Oregon House passed	February 25, 2026	34–21
Governor Kotek signature	Anticipated	No veto signaled
Effective date	~June 8, 2026	91 days after session adjournment

Key authors: Sen. Anthony Broadman (D-Bend) and Rep. Nancy Nathanson (D-Eugene)

Source: [*https://legiscan.com/OR/bill/SB1507/2026*](https://legiscan.com/OR/bill/SB1507/2026)

HOW KBF CAN HELP

Navigating SB 1507 with KBF Advisory

Oregon's new tax landscape is complex — and the stakes are high. KBF's State and Local Tax (SALT) team has the deep expertise to help businesses and individuals understand, plan for, and comply with SB 1507's disconnects before they become costly surprises.

Bonus Depreciation Addback

Model the Oregon vs. federal depreciation differences so that you are aware of the cash tax impact to you.

QSBS Exit Planning

Identify affected stock positions and restructure exit timing or entity structure to minimize Oregon tax exposure.

Auto Loan Interest Analysis

Assess the impact of the new federal deduction disallowance on your Oregon returns.

Nexus & Multistate Compliance

Ensure your business is fully compliant across all states where you operate, not just Oregon.

CONTACT KBF

Let's Talk — Before SB 1507 Impacts Your Returns

SB 1507 takes effect for tax year 2026, with returns due in early 2027. The time to plan is now. KBF Advisory's SALT specialists are ready to help you model the impact, update your compliance approach, and identify opportunities — so you're not caught off guard.

KBF SALT Services

- Multistate Expansion Analysis
- Credit and Incentives Evaluations
- Income/Franchise Tax Nexus Analysis & Planning
- Income Tax Compliance
- Reverse Audits to Identify Tax Overpayments
- Representation in Examinations
- Buy-side & Sell-side Due Diligence

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