

INFORMATIONAL MEETING

TAPES 4-5, A-B

HOUSE REVENUE COMMITTEE

JANUARY 14, 2005 1:00 PM STATE CAPITOL BUILDING

Members Present:

- Rep. Tom Butler, Chair
- Rep. Vicki Berger, Acting chair
- Rep. Brian Boquist
- Rep. Sal Esquivel
- Rep. Larry Galizio
- Rep. Betty Komp
- Rep. Andy Olson
- Rep. Chuck Riley

Members Excused:

- Rep. Mark Hass

Staff Present:

- Paul Warner, Legislative Revenue Officer
- Lizbeth Martin-Mahar, Economist
- Kristi Bowman, Committee Assistant

TAPE 4, SIDE A

004 Acting Chair Berger Calls meeting to order at 1:30 P.M.

ORIENTATION MEETING

012 Paul Warner Introduces Lizbeth Martin-Mahar, staff economist in Legislative Revenue Office.

025 Lizbeth Martin-Mahar Overview of income tax presentation.(Exhibit 1). Much of the information included in the slides is based on the Oregon Personal Income Tax Statistics for Tax Year 2002 (Exhibit 2).

40 Martin-Mahar Slide 2: OR income and property taxes collection

73 Martin-Mahar Slide 3: General Fund Revenues

103 Martin-Mahar Slide 4: Number of Tax Returns. Clarification questions interspersed during discussion.

165 Martin-Mahar Continuation of slide 4 discussion.

204 Martin-Mahar Slide 5: Tax Withheld.

290	Rep. Butler	Clarification question on taxable year time frames. Martin-Mahar responds that figures refer to actual collections for a specific tax year.
268	Warner	In response to Rep. Butler's question, Warner states that employer withholding taxes received by July 10, 2002 were included in 2002 figures.
312	Martin-Mahar	Slide 6: Breakdown by Industry and Month of Tax Withholdings Index 1998-2004.
374	Martin-Mahar	Slide 7: Industry Sectors
405	Martin-Mahar	Slide 8: Change in Industries' Tax Withholdings
450	Rep. Berger	Points out that what this slide doesn't show is how important each one of these sectors are important to OR as a percentage. These are numbers that would be better understandable if one knows how important manufacturing is to our state.
460	Martin-Mahar	Responds that this slide gives the committee an understanding about an industry that has struggled quite significantly in recent years. The same type of information will be reviewed on the corporate side in a later slide.

465 Rep. Galizio Asks question about what constitutes manufacturing versus wholesale trade. Is there a federal criteria about these categories?

470 Martin-Mahar Response: This is a North American Industry Sector, including the United States, Canada, and Mexico. These categories have been approved by the federal government. It also is in the employment data that is used by the state.

TAPE 5 SIDE A

41 Rep. Boquist Two questions about the Information line and the Arts and Entertainment line. The information line reflects a decline, though not as steep. In the Arts and Entertainment line, it looks like we're not seeing as much tourism or not as much consumer confidence in luxury spending items.

48 Martin-Mahar Arts and entertainment is just that. This category does not include hotel or motel spending—there is a separate category for that. It is things like going to the movies or the art museum. It reflects the extra money that people have to spend on pleasure recreational items. It is one of the first things to be cut during a recession.

51 Martin-Mahar Slide 9: Industries with Highest Percentage Growth of different industries as discussed before. Finance and insurance are still growing. Public administration has seen some growth because there were such cutbacks in local and state in 2001, and now some of that has come back.

63 Martin-Mahar Previous slides were the big picture overview of the trends. The following slides pertain to the details. (Slide 10: Title page of OR Income Taxes: Details on the Personal Income Tax).

- 65 Martin-Mahar Slide 11: OR Personal Income Tax. This slide pertains to how OR's income tax is connected to the federal tax system.
- 121 Martin-Mahar "Oregon additions" is defined as income that the federal government does not tax but OR does, e.g., non-OR bonds, federal income tax up to \$4000 or social security income. This is something to keep in mind for the committee to consider if the committee wants to add in to the OR tax code. It is a process already in place. The Department of Revenue can add in a new line.
- 178 Butler Comments on making the tax system much more simplified because it would be a lot easier on the state system and the audit process.
- 190 Martin-Mahar Slide 12: Trends in Largest OR Subtractions. Graphs on the significant subtraction categories. One of the categories that has grown significantly is the "special medical" category—deductions for medical care and a result of Measure 30. "Other" is defined as military active pay duty, scholarship awards for housing. "Federal pension" is for federal service prior to 10/1/91 and becomes pro-rated if you have service prior to that date. It should eventually start to decline. "Bond interest" is for US government bonds. Less liability at the federal level means that you can't claim as large a federal tax deduction.
- 264 Butler Clarification of social security income for 2003. Is the \$1B on the chart the total receipts as taxable income on the federal return?
- 278 Martin-Mahar Responds yes.
- 281 Butler Follow-up question. If OR didn't have a constitutional provision which precluded us from taxing the social security receipts at the

average 8% out of a 9% bracket, and there is a billion plus, that could generate the equivalent of \$80 million; for a biennium it would be a \$160 million item potentially.

- 291 Martin-Mahar Responds yes. The chart reflects all of the income not taxed by OR.
- 286 Butler Introduction of family members.
- 300 Martin-Mahar Slide 13: Top Five OR Subtractions. Same information as previous slide in table form showing amounts for tax year 2002.
- 325 Rep. Boquist Question about the increasing age of the workforce and the growing social security income. Boquist asks for a percentage estimate—5%, 10% or?
- 330 Warner Responds that the growth is in the 3 – 4 % range, tied into the changes in the Consumer Price Index, which the forecast is tied in to. We’ve had relatively low inflation. Where the increase will occur will be in the next few years.
- 355 Martin-Mahar Slide 14: Number of Itemized and Standard Tax Returns. Chart shows graph of increase of itemized returns because of the increase of home ownership and growth of personal income tax.
- 383 Martin-Mahar

Slide 15: Trends in Largest Fed Itemized Deductions and the largest federal itemized that OR is connected to. It shows the impact of the increase of home ownership due to the mortgage interest deduction.

443 Chair Berger Due to time restraints, Berger asked that discussion be kept to a minimum. Questions will be entertained. Discussion of Slide 15 continued.

465 Martin-Mahar Slide 16: Top Five Federal Itemized Deductions. Same information as slide 15 in table form with amounts for tax year 2002.

TAPE 4 SIDE B

43 Martin-Mahar Slide 17 and 18: 2004 Personal Income Tax Rates

63 Martin-Mahar Slide 19: Trends in Largest OR Credits: categories are retirement, child care, political, earned income, working family, and taxes paid.

80 Chair Berger Asks what the personal income tax credit is indexed to?

83 Martin-Mahar The index used is CPI, Consumer Price Index.

110 Martin-Mahar Slide 20: Top Five OR Credits. Categories: personal exemption, tax paid to other states, working family, earned income, and child care.

115	Martin-Mahar	Slide 21: Pie Chart of Income Tax Credits
123	Martin-Mahar	Slide 22: Key Features of OR's Earned Income and Working Family Child Care Credits
171	Martin-Mahar	Slide 23: Historical Utilization of EIC and WFCC
185	Martin-Mahar	Slide 24: Bar Graph of previous slide information
207	Martin-Mahar	Slide 25: Income Tax Rate and Credit Rate by Income
232	Martin-Mahar	Slide 26: Distribution of Tax Returns
268	Martin-Mahar	Slide 27: Pie Chart of Adjusted Growth Income (AGI) Components (1990)
288	Martin-Mahar	Slide 28: Pie Chart of AGI Components (2002)
306	Martin-Mahar	Slide 29: Change in Major Components of AGI

329	Martin-Mahar	Slide 30: Distribution of AGI Components bar graph (1990)
340	Martin-Mahar	Slide 31: Distribution of AGI Components bar graph (2002)
370	Martin-Mahar	Slide 32: Average AGI (2002 and 1990)
390	Berger	Clarification that the dollars are “real” dollars, not adjusted for any changes in value.
400	Martin-Mahar	Answers yes.
403	Boquist	Stated that tax returns with losses has been excluded. Asks if there is an average of that amount.
407	Martin-Mahar	Responds that the amount is not very large—may 1 to 2%. The exact amount is in the OR Personal Income Tax Statistics book (exhibit 3).
410	Martin-Mahar	Slide 33: Average AGI by County 2002 (state map)
439	Martin-Mahar	Slide 34: Average Tax by County 2002 (state map)

456 Martin-Mahar Slide 35: Average Tax by County 1990 (state map)

466 Martin-Mahar Slide 36: Check-off Donations on tax statement.

489 Martin-Mahar Slide 37: Part Year and Nonresident Taxpayers

TAPE 5 SIDE B

51 Martin-Mahar Slide 38: continuation of slide 37

55 Martin-Mahar Slide 39: Part-Year Resident

59 Martin-Mahar Slide 41: Title page for Surplus Kicker and Tips in Designing Personal Income Tax Changes.

60 Martin-Mahar Slide 42: 2% Kicker

Martin-Mahar Slide 43: History of Surplus Kicker Refunds versus corporate tax rebate.

80	Martin-Mahar	Slide 44: Tips in Designing Personal Income Tax Policy Changes. Martin-Mahar invites members to contact her for further information and analysis when bills come up for discussion.
135	Martin-Mahar	Concludes presentation.
136	Chair Berger	Announcements from the Chair.
151	Warner	Announcement of committee meeting at lottery commission headquarters on January 21, 2005 in lieu of meeting in the hearing room. This will be a public meeting.
162	Chair Berger	Meeting adjourned at 3:05 p.m.

Tape Log Submitted by:

Reviewed by:

Kristi Bowman, Committee Assistant

Kim Taylor James, Committee
Coordinator

Exhibit Summary:

- 1. Slide Presentation: OR Income Taxes, LRO Staff, 22 pp., 01/14/05
- 2. Legislative Revenue Office Research Report, LRO Staff, 9 pp., 12/04
- 3. OR Personal Income Tax Statistics (2002), Dept. of Revenue, 203 pp., Rev. 04/04