

PUBLIC HEARING HB 2542

PUBLIC HEARING HB 2505

TAPES 50-51, A-B, 52 A

HOUSE REVENUE COMMITTEE

FEBRUARY 22, 2005 1:00 PM STATE CAPITOL BUILDING

Members Present:

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

Witnesses Present:

- Rep. Kim Thatcher
- David Schreffler
- Debra Buchanan, Dept. of Revenue

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

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002 Chair Butler Calls meeting to order at 1:04 p.m.

OPENS PUBLIC HEARING FOR HOUSE BILL 2505

005 Rep. Thatcher Testifies in support of HB 2505 because it connects the tsunami relief contributions to the federal tax law. "It is a small token of our appreciation to the hundreds of generous Oregon taxpayers who have reached out to others in their time of greatest need."

020 David Schreffler Testifies in support of HB 2505 because it proposes tax simplification to align federal and state deductions pertaining to the tsunami relief contributions. Also supports permanent reconnection to federal tax laws.

050 Rep. Berger Asks about the date HB 2505 will be enacted.

052 Schreffler

Responds that he believes most taxpayers and preparers will take the deduction on their Oregon return for tax year 2004 before the law actually takes effect.

070 Chair Butler Comments about late reconnect issues.

CLOSES PUBLIC HEARING FOR HOUSE BILL 2505

OPENS PUBLIC HEARING FOR HOUSE BILL 2542

126 Lizbeth Martin-Mahar Provides overview of Section by Section handout (Exhibit 2) pertaining to House Bill 2542 and the reconnect components of the bill.

175 Chair Butler Asks if the definition of dependent child changes the child care credit. Expresses concerns that all definitions be consistent pertaining to tax credits.

182 Martin-Mahar Responds that the definition pertains to the Working Family Child Care Credit and the personal tax exemption for a disabled child.

215 Rep. Berger Asks if Section 16 covers the tsunami relief provision.

220	Martin-Mahar	Responds that tsunami relief will be incorporated in Section 19 and Section 16.
238	Chair Butler	General comments about a taxpayer making a charitable contribution in either tax year 2004 or 2005.
250	Rep. Hass	Asks how this can be a “wash” in revenues between this year and next year.
254	Martin-Mahar	Responds that this is a timing issue. All that is affected is that an additional month was allowed by the IRS to make a donation to tsunami relief for tax year 2004.
269	Rep. Boquist	Asks if HB 2542 passes, does the language contained in HB 2505 automatically pass.
271	Martin-Mahar	Responds yes.
333	Rep. Berger	Asks about Real Estate Investment Trusts (REITs) in Sections 17 and 18. Is this an issue that the multistate tax commission is reviewing?
335	Martin-Mahar	Responds yes. Debra Buchanan from the Dept. of Revenue will also speak to that issue.

- 365 Chair Butler Comments about a recent poll taken in OR about tsunami relief contributions.
- 390 Martin-Mahar Discusses revenue estimates of the major components of HB 2542 (Exhibit 3). The information on the handout refers to the CPA booklet discussed in public hearing for HB 2542 on 2/21/05 (Exhibit 2).
- 430 Rep. Hass Clarifies that the depreciation doesn't cost the state new revenues. It is depreciation is up front, but is made up in the next biennium.
- 440 Martin-Mahar Responds yes. Adds that the depreciation is automatically connected to the federal law.

TAPE 51, SIDE A

- 025 Rep. Hass Comments about a scenario to consider an amendment to the Jobs Creation Act that would change some components to defer depreciation to a future biennium.
- 030 Martin-Mahar Responds that amendments could be considered.
- 040 Chair Butler

Discusses a conversation with Rep. Dingfelder regarding depreciations becoming tax expenditure. Dingfelder wants to review the purposes of the depreciations, and the Chair states that this would be a viable issue to investigate during the interim.

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| 085 | Rep. Boquist | Clarification question about the depreciation amount (\$51.2 M) stated in the table for 2003-05 biennium. |
| 110 | Martin-Mahar | Responds that this is a rolling amount from previous bienniums. |
| 112 | Rep. Boquist | Follow-up question regarding the \$51.2 M amount. Is that amount a loss against the revenue forecast? |
| 118 | Martin-Mahar | Responds yes, the General Fund revenue forecast that will be released on 2/25/05 will reflect the impacts from the Jobs Creation Acts of 2003 and 2004. |
| 124 | Rep. Hass | Asks if the \$51.2 M is for tax year 2004 only. |
| 125 | Martin-Mahar | Responds that it is for tax year 2003 and 2004. |
| 153 | Paul Warner | Adds that any new federal tax information is passed on to the forecasters and Dept. of Revenue. Also provides historic background of points brought up by Rep. Boquist and Rep. Hass. |

178	Rep. Komp	Restates previous comment by Rep. Hass regarding the feasibility of making amendments rather than taking financial “hits.”
190	Chair Butler	States that while passing an amendment is possible to recapture revenue, the impact of amended returns would be significant.
200	Rep. Boquist	Asks if the \$51 M would go back into the General Fund if the law was amended.
202	Warner	Responds that the liability for previous tax years would be changed. Also, all forecasts are on a cash basis and revenues are forecast when they come in the door.
230	Martin-Mahar	Continues review of revenue estimates.
240	Chair Butler	General comments about components of forecasting.
255	Warner	Discusses general principles of dynamic analysis pertaining to forecasting.
270	Martin-Mahar	Continues review of revenue estimates (page 2).

313 Chair Butler Asks if there is any residual effect of the Oregon Tax Incidence Model (OTIM) and private health savings accounts in moving people off public assistance programs.

320 Warner Responds probably not. Increases in private savings accounts provide savings at the federal level, but not necessarily at the state level.

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110 Martin-Mahar Discusses revenue impact statement (Exhibit 4).

190 Chair Butler General comments about military family tax deductions.

245 Rep. Boquist General comments about calculating death benefits for military. Follow-up comments about military travel expenses.

279 Rep. Esquivel Asks about tax-free status for in-country service by active military personnel.

285 Rep. Boquist Responds that everything up to \$5100 is tax-free under the federal tax code. There have been some changes regarding hazardous duty pay.

320	Martin-Mahar	Discusses totals for revenue impacts.
340	Chair Butler	Asks about Medicare Drug Improvement Act revenue impact numbers.
383	Warner	Responds that the Legislative Revenue Office staff will review the information and respond to the committee.
411	Rep. Boquist	General comments about the revenue impacts of certain components.
455	Rep. Hass	Suggests the inclusion of a one-line explanation pertaining to certain obscure provisions in tax law and how they impact the OR economy.

TAPE 51, SIDE B

041	Warner	Responds that the staff will provide that information. However, the federal tax document is nearly 600 pages long, and determining the reasons why some laws were passed is nearly impossible. However, the staff will analyze those items the staff does know about and respond to the committee.
085	Martin-Mahar	Provides anecdotal information about corporate earnings.

118	Debra Buchanan	Refers to handout pertaining to connecting to federal tax law (Exhibit 5). Discusses sample 1040 handout (Exhibit 6) pertaining to military deductions as stated in Form 40 line instructions.
165	Chair Butler	Clarifies what “above the line” means. Questions and answers exchanged with Debra Buchanan.
211	Martin-Mahar	Discusses Dividends Deduction Calculations graph (Exhibit 7).
370	Chair Butler	Asks about other disconnects with federal dividends tax law.
380	Martin-Mahar	Responds that the pink boxes on the graph are clear policy choices that the state has made. Discusses corporate and other entity liabilities.
397	Chair Butler	Asks about the fiscal impact of HB 2542 dividend reconnects.
399	Martin-Mahar	Responds that the dividend data is not specific to the types of dividends declared. An estimate of the dividend impact is stated in the table of the revenue impact exhibit.
430	Chair Butler	

Asks about dividend reconnects stated on page 19, Sections 17 and 18 of the bill.

432 Martin-Mahar Responds that the bill refers only to REITs, not to all dividends. For example, foreign sales corporations are 100% excluded per current law. Not all dividends deductions conform to federal tax law.

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050 Buchanan Adds additional explanation of why there is a difference between federal dividend deductions and state dividend deductions. Discusses the multi-state tax commission and its stance on federal dividend deductions.

065 Chair Butler Comments that more discussion is needed pertaining to REITs and other dividend deductions.

CLOSES PUBLIC HEARING FOR HOUSE BILL 2542

090 Chair Butler Adjourns meeting at 3:00 p.m.

Tape Log Submitted by:

Reviewed by:

Kristi Bowman, Committee Assistant

Kim Taylor James, Committee
Coordinator

Exhibit Summary:

1. 1. HB 2505, Written Testimony, Schreffler, 1 pg., 02/22/05
2. 2. HB 2542, Handout: Section by Section Description, Martin-Mahar, 2 pp., 02/22/05
3. 3. HB 2542, Handout: Preliminary Revenue Estimates, Martin-Mahar, 2 pp., 02/22/05
4. 4. HB 2542, Revenue Impact Statement, Martin-Mahar, 1 pg., 02/22/05
5. 5. HB 2542, Handout: Oregon's Selective Connection to Federal Tax Law, Buchanan,

13 pp., 02/22/05

1. 6. HB 2542, Handout: Tax Form 1040, Buchanan, 5 pp., 02/22/05
2. 7. HB 2542, Handout: Current Law Dividends Deduction Calculations, Martin-Mahar,

2 pp., 02/22/05