



**TAPE 32, SIDE A**

- 002 Chair Butler Calls meeting to order at 1:31 p.m.
- 005 Paul Warner Gives brief overview of estate tax that will be discussed in today's meeting.
- 025 Lizbeth Martin-Mahar Slide presentation: Oregon Estate Tax Orientation (Exhibit 1)
- 035 Martin-Mahar Slide: Transfer Tax Definitions
- 050 Chair Butler Clarifying question regarding a decedent who owns property in several states that have differences in their estate tax laws—do they only pay on property in OR?
- 058 Martin-Mahar Responds yes. If the decedent's primary residence was OR, then they would also pay tax on intangibles such as stocks and bonds. This distinction will become more important when discussing neighboring states' discontinuance of estate tax.

- 065 Martin-Mahar Continues tax definitions slide discussion.
- 089 Martin-Mahar Slide: OR Estate Tax Collections 1970 - 2004
- 157 Martin-Mahar Slide: HB 3072 (2003 Oregon Estate Tax Changes)
- 228 Chair Butler Asks for Martin-Mahar's opinion on HB 3072 and its implications on the recent lawsuit in Washington.
- 230 Martin-Mahar Responds that there were discrepancies in the previous law. Refers to the handout of the Washington legal opinion issued 02/03/05 (Exhibit 2). In 1981 there was an initiative passed in Washington that said the state would phase out their inheritance tax and put in a federal pick-up tax instead. WA wouldn't be imposing anything larger than the federal rate. This resulted in a discrepancy for taxpayers—if they didn't pay a WA tax, then they would not have to pay the federal tax. Secondly, there hadn't been any new legislation in WA since 2001 to clarify that discrepancy, and OR had similar language at that time. In 2003 OR passed HB 3072 to prevent those discrepancies. OR has a connection with the Taxpayer Relief Act of 1997.
- 266 Rep. Galizio Asks about the term “death tax” used during presentation.
- 271 Martin-Mahar Responds that this term has become part of the lexicon. That wording is not in the state statute.

- 302 Chair Butler Asks clarifying question. When people file a federal return, is the \$1 M maximum for OR a deduction against the death tax on the federal return?
- 313 Martin-Mahar Responds that at the federal level the taxpayer is going to receive a credit, but it is going to be phased out.
- 336 Martin-Mahar Slide: Federal Estate Tax Rate Schedule – 2004
- 374 Martin-Mahar Slide: Federal Law Schedule for State Death Tax Credit

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- 010 Martin-Mahar Slide: Change in Tax for \$1 M Taxable Estate
- 051 Martin-Mahar Slide: Change in Tax for \$5 M Taxable Estate
- 074 Martin-Mahar Slide: Examples: OR Estate Tax and Effective Tax Rate on Estates – Tax Year 2004
- 092 Rep. Hass Comments that taxpayers with an estate value exceeding \$850,000 would make charitable contributions to bring their tax liability down.

- 094 Martin-Mahar Responds that this trend is more common today, and that most people with large estates have estate planners helping them make those decisions.
- 105 Martin-Mahar Slide: Examples: OR Estate Tax and Effective Tax Rate for Gross Estate Values above \$850 K and less than \$1 M – Tax Year 2004
- 126 Martin-Mahar Slide: Number of OR Estate Tax Returns by Tax and Year
- 143 Martin-Mahar Slide: Components of US Gross Estate Value – Tax Year 2002
- 156 Martin-Mahar Slide: Number of Returns for Tax Year 2002 and 2003
- 171 Martin-Mahar Slide: Total OR Estate Tax Paid for Tax Year 2002 and 2003. The group with taxable estate value over \$3.5 M pays 63% of all returns.
- 216 Martin-Mahar Slide: Estate Tax Biennium Revenue Forecast: 2001-03 to 2009-11
- 220 Rep. Berger Asks about how the forecast is derived.

- 222 Martin-Mahar Responds that long-term trends are reviewed to derive this information.
- 245 Martin-Mahar Slide: Other States' Estate Taxes. Most of the 28 states that have connected to the 2001 EGTRRA changes are in the west.
- 296 Chair Butler Announces committee business for the rest of the week. Hearings will start at 1:00 p.m. beginning 2/14/05.
- 358 Jeffrey Cheyne Mr. Cheyne provides expert testimony on estate taxes. Uses handout: OR Estate/Inheritance Tax Changes HB 2293 (Exhibit 3).

**TAPE 32 SIDE B**

- 009 Cheyne Slide: Common Taxpayer Understanding (2 slides)
- 019 Cheyne Slide: Unexpected Tax Bill
- 035 Cheyne Slide: Dual Focus – OR and Federal
- 047 Cheyne Slide: 2005 Estates

- 051 Cheyne Slide: Married Couple Issue (Existing Credit Shelter Trusts) (2 slides)
- 068 Cheyne Slide: Partial State QTIP (2 slides)
- 106 Cheyne Slide: Oregon Special Marital Property
- 112 Cheyne Slide: Discretionary Exemption Trusts
- 128 Cheyne Slide: 2005 Proposed Legislation – HB 2293 (2 slides)
- 141 Chair Butler States that while HB 2293 has been assigned to the House Revenue committee, the “relating to” clause of HB 2293 needs to be revised before being considered.
- 170 Chair Butler Comments that if OR connected back to the federal system, it would make the filing of inheritance taxes much simpler.
- 184 Douglas Henne Mr. Henne provides expert testimony on estate taxes. Discusses these issues: 1) Administrative difficulties; 2) the incremental tax rates pertaining to estate taxes. This is a difficult concept to explain to inheritors of smaller estates.

- 258 Chair Butler Makes additional comments on incremental tax rates currently in place.
- 285 Chair Butler Asks Mr. Cheyne about QTIP language that is already set up in a will. (QTIP = Qualified Terminal Insurance Property, pertaining to certain types of estate trusts). Is the \$650,000 available for an OR qualified QTIP?
- 290 Cheyne Responds that it generally is, subject to some possible court modifications, or if the language is in the will to qualify a trust for QTIP or marital deduction. Further discussion on this issue continues between Chair Butler and Mr. Cheyne.
- 321 Henne Continues discussion. Additional issues: 3) Cost and time devoted to preparing OR return concerning estate taxes; 4) Ability to gift before death and its impact on OR estate tax.
- 375 Chair Butler Asks Mr. Henne whether he thinks that HB 2293 would remove any of the complexities with the current law.
- 380 Henne Responds yes.
- 393 Chair Butler Asks Mr. Henne if he agrees with the allocation of assets as shown in Martin-Mahar's components slide (slide 12).



410 Henne In his experience with small to medium size estates, a fair amount of their assets are in stocks, bonds, and other intangibles, so the impact of OR estate taxes are minimal.

419 Rep. Riley Asks Mr. Cheyne his opinion of HB 2293 in reducing the complexities of the current law.

425 Cheyne Responds that HB 2293 is focused on a very specific problem; namely, existing credit shelter trust that wouldn't qualify for a state QTIP election. While HB 2293 solves that problem, the bill doesn't address the larger picture of solving complexities.

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015 Rep. Hass Asks Mr. Henne about the number of occurrences he has seen of having to "sell the family farm" to pay inheritance tax.

025 Henne Responds that for those with significant assets the OR tax is not so onerous that it would force them to sell the family farm. There are certain states, however, that he would not recommend because of their higher rate. Generally those people with significant assets have already done estate planning to save their heirs from significant inheritance tax.

048 Rep. Boquist Asks Mr. Henne about how many farmers his firm represents.

050 Henne

Responds that he has approximately a dozen farmers as clients. Most of his clients in Klamath Falls have large agricultural holdings and are most affected by the current law.

060    Cheyne                    Comments that the federal and state laws need to be reconnected in order to resolve the many inconsistencies and complications in place now.

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

Tape Log Submitted by:

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Exhibit Summary:

1. Slide presentation: Oregon Estate Tax Orientation, Martin-Mahar, 8 pp., 02/07/05
2. Handout: Washington Opinion Information Sheet, Martin-Mahar, 7 pp., 02/03/05
3. Handout: Oregon Estate/Inheritance Tax Changes, Cheyne, 10 pp., 02/07/05