

PUBLIC HEARING HB 2191
WORK SESSION, HB 2542, HB 2629

TAPES 86-87 A-B

HOUSE REVENUE COMMITTEE

MARCH 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:

- Veronica Rinard, Portland
- Gus van Sant, Film Director, Portland
- Joe Schweinhart, Associated Oregon Industries (AOI)
- Rep. Wayne Krieger, District 1
- Debra Buchanan, Dept. of Revenue (DOR)

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

TAPE 86, SIDE A

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

OPENS PUBLIC HEARING FOR HOUSE BILL 2191

008 Lizbeth Martin-Mahar Gives overview of HB 2191 (Exhibit 1). This bill creates a new rebate for people who invest \$1 M or more in actual expenses on film productions in Oregon. Discusses withholding rate and reporting requirements. Discusses the HB 2191-A3 amendment (Exhibit 2) that requires the person claiming the labor rebate to file a report to the OR Film and Video Office. Amendment HB 2191-A3 reduces the fiscal impact on the Dept. of Revenue. Discusses amendment HB 2191-A4 (Exhibit 3) which specifies the special withholding rate at 6.2% of the compensation paid for employees engaged in qualifying film production. Discusses the Green Light Rebate Fund. The revenue impact is speculative based on how many new film productions will come to OR.

126 Veronica Rinard Reads from written testimony (Exhibit 5) in support of HB 2191. Discusses the Green Light Investment Fund program.

189 Gus van Sant

Testifies in support of HB 2191. Discusses the impact of higher production costs in OR, for example, high hotel rates in Portland.

- 221 Rep. Riley Asks Rinard for more specifics of the Louisiana incentive programs.
- 223 Rinard Responds that Louisiana offers a 10-15% labor tax credit, and a 15-20% investment tax credit. Since those are state credits, the film company sells them back to a Louisiana business for 60 to 70 cents on the dollar.
- 235 Rep. Berger Asks about financial decisions made regarding production costs. How many jobs would be available for Oregon residents?
- 263 Rinard Responds that it depends on the level of production. Large studio feature film companies bring about 150-200 production staff and hire another 150-200 local people. Independent film and television movie companies hire 150-200 local people and bring about 10-15 production staff. Many people in film-related businesses have either left Oregon or are working in non film-related lower paying jobs in the state.
- 282 Rep. Riley Asks about the length of time spent on large and small film productions.
- 291 Rinard Responds that on a large film the jobs can last 6 to 8 months in addition to any pre-production work. For small films, there is a 2-3 month preproduction time in the state for the production crew, and local employment can last 5-6 weeks during shooting.

307 Chair Butler General comments to committee members about this bill.

310 Rep. Riley Comments on the same presentation of HB 2191 recently made to the Trade and Economic Committee, of which Rep. Riley is a member.

CLOSES PUBLIC HEARING FOR HOUSE BILL 2191

OPENS WORK SESSION FOR HOUSE BILL 2629

344 Rep. Boquist Gives overview of options developed by the committee work group on the estate tax thresholds: (Refer to Exhibits 1, 2, and 3 for 03/07/05)

- 1. Compression, which is revenue neutral
- 2. Adding to the top income bracket
- 3. Taking the bill as is, which is the \$1.5 M threshold in 2007 and the \$2 M threshold in 2009
- 4. Connect to the federal threshold of \$2 M in 2007, and \$3.5 M threshold in 2009. Neither one is revenue-neutral
- 5. Doing nothing

Comments that his caucus prefers options 3 and 4.

362 Rep. Riley Comments that his caucus prefers a revenue-neutral bill that raises the lower limits and adds tax brackets at the top.

378 Martin-Mahar Discusses revenue impacts of various tax brackets. Will provide additional information to committee members regarding percentages of estate tax relating to the state and federal threshold limits.

TAPE 87, SIDE A

012 Rep. Wayne Krieger Provides invited testimony in support of HB 2629 and discusses how the bill affects small woodland owners like him. Comments that half of the timber on his property would have to be clear-cut in order to pay the death tax.

CLOSES PUBLIC HEARING FOR HOUSE BILL 2629

OPENS WORK SESSION FOR HOUSE BILL 2542

070 Chair Butler Discusses written testimony received from Jonah Edelman, Stand for Children in opposition to HB 2542 (Exhibit 6). Discusses written testimony received from the Oregon Metals Industry Council supporting full reconnect to the federal tax code (Exhibit 7). Discusses written testimony received from the Smart Growth Coalition supporting full reconnect (Exhibit 8). Refers to handout from Paul Warner, Legislative Revenue, regarding the employment history of payroll jobs affected by the Qualified Production Activities Deduction (Exhibit 9).

102 Joe Schweinhart Provides invited testimony in support of HB 2542 as “a rolling or permanent reconnect.” Reads from written testimony (Exhibit 10) regarding various components of the bill affecting the members of AOI.

- 139 Chair Butler Asks about the number of new jobs, new plants or capital equipment the AOI businesses project as a result of this bill.
- 141 Schweinhart Responds that there are no specific figures available, but the manufacturing business members believe HB 2542 will definitely help in the growth of industry. Adds that as economic growth takes place, employment and capital investment should increase.
- 152 Chair Butler Reads from written testimony submitted by Jim Craven, Oregon Council AEA, supporting HB 2542 in order to “help encourage additional jobs and capital investment in the state” (Exhibit 11).
- 190 Chair Butler Discusses e-mail from Karey Schoenfeld representing the Oregon Society of CPAs (Exhibit 12). They support a full reconnect to the federal tax code because of additional costs associated with amended tax returns and possible compliance issues.
- 210 Chair Butler Additional discussion of the handout from Warner (Exhibit 9).
- 227 Chair Butler Refers to the HB2542-1 amendment that provides for the re-establishment of the rolling reconnect and the 2542-2 amendment establishing the reconnect date at 01/01/06 (see hearing date 03/09/05)

250	Martin-Mahar	Refers to handout: Amendments to HB 2542 (Exhibit 13). Discusses amendment HB 2542-3, sales tax deduction add-back (Exhibit 14).
290	Rep. Hass	Comments that the sales tax deduction is a new federal tax deduction. Adds that using this deduction against Oregon income is a \$1 M “hit” to the state treasury. Comments that he is unsure why Oregon would be willing to allow this deduction at this time.
306	Debra Buchanan	Comments that this is a policy decision for the committee. Without clear direction from the legislature, the DOR would be unable to answer whether a non-resident taxpayer could do something different for their Oregon return than for their federal return. Discusses “border war issues” with Washington regarding Oregon’s tax policies.
370	Chair Butler	Further discussion with Buchanan and Martin-Mahar regarding the HB 2542-3 amendment.
402	Rep. Riley	Comments about the impact of the HB 2542-3 amendment on taxpayers that do not itemize.
413	Buchanan	Responds that the HB 2542-3 amendment would affect people whose sales tax deduction is larger than their income tax deduction. Presumably the non-resident taxpayers would be low-income or have enough credits to offset their income tax.
435	Chair Butler	Expresses concerns about impacts on Washington residents who work in Oregon.

TAPE 86, SIDE B

- 028 Martin-Mahar Discusses the HB 2542-4 amendment (Exhibit 15), US Qualifying Production Activities add-back, and the revenue impact. Comments that adopting this amendment would result in making HB 2542 a revenue- raising bill and require a 3/5 vote.
- 045 Martin-Mahar Discusses the HB 2542-5 amendment (Exhibit 16), federal Medicare subsidies for prescription drug plans add-back. Taxpayers would have to recalculate federal tax and add back income. Discusses the revenue impact in the 2005-07 biennium and the 2007-09 biennium.
- 063 Rep. Berger Asks for clarification of the term “revenue positive” in the next two bienniums.
- 065 Martin-Mahar Discusses the specific dollar figures on page 2 of Exhibit 13 that help explain the term “revenue positive.” Adds that according to

Legislative Counsel, if the revenue committee is not putting in these amendments to raise revenue, a 3/5 vote is not required
- 081 Martin-Mahar Discusses the HB 2542-6 amendment (Exhibit 17), Health Savings Accounts add-back and the revenue impact.
- 098 Martin-Mahar Discusses the HB 2542-7 amendment (Exhibit 18). It is a technical correction to the language of the bill allowing different effective dates of specific federal tax legislation. No revenue impact.

- 110 Martin-Mahar Discusses the HB 2542-8 amendment (Exhibit 19) which is the same as the HB 2542-1 amendment except for the dividends received deduction in Oregon. It provides an 85% dividend deduction received from foreign corporations for all future years.
- 143 Rep. Hass Clarifies that this dividend deduction will only be a continuation at the 85% rate. The HB 2542-1 amendment would end the deduction of 85%.
- 156 Rep. Boquist Clarifies that the deduction would be brought down to 85% from the 96% deduction currently in effect.
- 169 Martin-Mahar Discusses the HB 2542-9 amendment (Exhibit 20) regarding dividends. It is the same as the HB 2542-2 amendment except for the dividends received deduction in Oregon.
- 180 Rep. Riley Clarifies the dividend deductions in the HB 2542-1 and HB 2542-2 amendments.
- 186 Rep. Galizio Asks about dividend deductions and repatriations.
- 194 Martin-Mahar Discusses the 85% dividend deduction in more detail.

214	Rep. Boquist	Asks about dividends received for the one year reconnect period.
220	Martin-Mahar	Responds that the IRS put the dividends from foreign controlled corporations into a different chapter of the Tax Code. The HB 2542-8 and HB 2542-9 amendments would eliminate the “double-dipping” by some corporations with foreign earnings. Further discussion on dividend deductions with Rep. Boquist.
250	Chair Butler	General comments to committee about the reconnect bill. States that he strongly supports a full reconnect to the federal tax code in order to reduce the cost of amended returns. Reviews all amendments discussed.
303	Rep. Riley	Requests more information about the 85% “dividend received” deduction.
319	Martin-Mahar	Responds that the HB 2542-1 and HB 2542-2 amendments are needed to reduce the dividend deduction at 85%.
323	Rep. Boquist	Asks about the HB 2542-1 amendment pertaining to military benefits currently pending in federal legislation.
340	Martin-Mahar	Explains that the HB 2542-1 amendment establishes a rolling reconnect connecting to all federal tax legislation passed in 2005, and that would include the pending death benefit for active military currently under consideration by Congress.

355	Rep. Boquist	Comments that the concept of the dividend deduction proposed in the HB 2542-8 and HB 2542-9 amendments is to encourage corporations to bring back their foreign earnings to Oregon.
370	Martin-Mahar	Adds that there has been a concern about the timing of a company bringing back their foreign earnings, and amendments HB 2542-8 and HB 2542-9 would address that issue.
376	Rep. Berger	MOTION: MOVES THE ADOPTION OF THE HB 2542-1 AMENDMENT.
390	Rep. Riley	Clarifies that if the committee adopts amendment HB 2542-1, then HB 2542-2 will not be adopted, and vice-versa.
400	Chair Butler	Concurs that either amendment will be adopted, but not both.
413	Rep. Berger	Comments that she sees the HB 2542-1 amendment as the most expedient way to fully reconnect as of 01/01/05 and make it as simple as possible for most taxpayers. Adds that the HB 2542-2 amendment postpones the reconnect date and forces amended tax returns.
438	Chair Butler	Asks for roll call vote.

459 Chair Butler MOTION PASSES 8-1-0. ANSWERING AYE: BOQUIST, ESQUIVEL, GALIZIO, OLSON, RILEY, BERGER, HASS, BUTLER. ANSWERING NAY: KOMP.

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021 Rep. Berger MOTION: MOVES THE ADOPTION OF THE HB 2542-3 AMENDMENT.

028 Chair Butler ORDER: THERE BEING NO OBJECTION, THE CHAIR SO ORDERS. MOTION PASSES 9-0-0. ANSWERING AYE: BERGER, BOQUIST, ESQUIVEL, GALIZIO, HASS, KOMP, OLSON, RILEY, BUTLER.

030 Rep. Berger MOTION: MOVES THE ADOPTION OF THE HB 2542-7 AMENDMENT.

034 Chair Butler ORDER: THERE BEING NO OBJECTION, THE CHAIR SO ORDERS. MOTION PASSES 9-0-0. ANSWERING AYE: BERGER, BOQUIST, ESQUIVEL, GALIZIO, HASS, KOMP, OLSON, RILEY, BUTLER.

036 Rep. Hass MOTION: MOVES THE ADOPTION OF THE 2542-4 AMENDMENT.

040 Rep. Hass Expresses concern about amendment HB 2542-4. Discusses decoupling from the provisions concerning corporate deductions that won't work well for OR.

- 084 Rep. Berger Agrees with Rep. Hass about policy decisions made at the federal level that the state “did not have a hand in.” Disagrees that this is the place to “make a line in the sand.” Comments that the rolling reconnect helps every Oregonian who files a tax return, including businesses. Advocates for the rolling reconnect.
- 110 Chair Butler Asks for discussion on the motion. Discusses previous testimony from various businesses and individuals regarding the reconnect issue.
- 137 Chair Butler Asks for roll-call vote.
- 140 Chair Butler MOTION FAILS 4-5-0. VOTING AYE: GALIZIO, KOMP, RILEY, HASS. VOTING NAY: BOQUIST, ESQUIVEL, OLSON, BERGER, BUTLER.
- 143 Rep. Hass MOTION: MOVES THE ADOPTION OF THE HB 2542-5 AMENDMENT.
- 145 Chair Butler Asks for discussion on the motion.
- 146 Rep. Hass Expresses concerns about subsidies to insurance industry. Comments that no testimony from the insurance industry was given in support of this amendment.

161	Chair Butler	Comments that it is his understanding that this subsidy would be for businesses to continue to offer drug coverage to their employees. Comments that there seems to be a disagreement regarding who is the beneficiary of this amendment.
179	Chair Butler	Asks for roll-call vote.
186	Chair Butler	MOTION FAILS 4-5-0. VOTING AYE: GALIZIO, KOMP, RILEY, HASS. VOTING NAY: BOQUIST, ESQUIVEL, OLSON, BERGER, BUTLER.
193	Rep. Hass	MOTION: MOVES THE ADOPTION OF THE HB 2542-6 AMENDMENT.
195	Chair Butler	Asks for discussion on the motion.
200	Rep. Hass	Expresses concern that “this is another health care expenditure that could be better spent.”
209	Chair Butler	General comments about the HB 2542-6 amendment. Asks for additional discussion.

212	Chair Butler	Asks for roll-call vote.
218	Chair Butler	MOTION FAILS 4-5-0. VOTING AYE: GALIZIO, KOMP, RILEY, HASS. VOTING NAY: BOQUIST, ESQUIVEL, OLSON, BERGER, BUTLER.
223	Rep. Berger	MOTION: MOVES HB 2542-1, HB 2542-3, AND HB 2542-7 AS AMENDED TO THE HOUSE WITH A DO-PASS RECOMMENDATION.
229	Chair Butler	Asks for discussion on the motion.
230	Rep. Berger	Commends the committee's analysis of the reconnect issues involved with HB 2542. Advocates the rolling reconnect.
258	Rep. Hass	Expresses concern that the committee pass provisions that are "reasonable" and advocates decoupling from two provisions [pertaining to business dividend credits] that would better serve all Oregonians.
274	Rep. Galizio	General comments about the difficult policy choices involved with this legislation.
292	Rep. Riley	Expresses concern that the committee could have done better on the reconnect issues.

302 Chair Butler General comments about reconnect issues affected by HB 2542.

363 Chair Butler Asks for roll-call vote.

367 Chair Butler MOTION PASSES 6-3-0. VOTING AYE: BOQUIST, ESQUIVEL, OLSON, RILEY, BERGER, BUTLER. VOTING NAY: GALIZIO, KOMP, HASS.

369 Rep. Hass SERVES NOTICE OF POTENTIAL MINORITY REPORT FOR HB 2542.

CLOSES WORK SESSION FOR HOUSE BILL 2542

375 Chair Butler Adjourns meeting at 2:50 p.m.

Tape Log Submitted by:

Reviewed by:

Kristi Bowman, Committee Assistant

Kim Taylor James, Committee
Coordinator

Exhibit Summary:

1. HB 2191, Staff Measure Summary, Martin-Mahar, 1 pg., 03/22/05
2. HB 2191, Amendment 2191-A3, Legislative Counsel, 2 pp., 03/18/05
3. HB 2191, Amendment 2191-A4, Legislative Counsel, 1 pg., 03/22/05
4. HB 2191, Handout: Lights, Camera...Oregon!, Oregon Labor Market Information System, 3 pp., 03/15/05
5. HB 2191, Testimony and Handouts, Rinard, 8 pp., 03/22/05
6. HB 2542, Testimony, Edelman, 2 pp., 03/22/05
7. HB 2542, Testimony, Nelson, 1 pg., 03/22/05
8. HB 2542, Testimony, Smart Growth Coalition, 1 pg., 03/22/05
9. HB 2542, Handout: Oregon Industries Impacted by the Qualified US Production Activities Deduction, Warner, 1 pg., 03/22/05
10. HB 2542, Testimony, Schweinhart, 2 pp., 03/22/05
11. HB 2542, Testimony, Craven, 1 pg., 03/22/05
12. HB 2542, Testimony, Schoenfeld, 1 pg., 03/21/05
13. HB 2542, Handout: Summary of Amendments, Martin-Mahar, 3 pp., 03/22/05
14. HB 2542, Amendment 2542-3, Legislative Counsel, 2 pp., 03/21/05
15. HB 2542, Amendment 2542-4, Legislative Counsel, 2 pp., 03/21/05
16. HB 2542, Amendment 2542-5, Legislative Counsel, 1 pg., 03/21/05
17. HB 2542, Amendment 2542-6, Legislative Counsel, 1 pg., 03/21/05
18. HB 2542, Amendment 2542-7, Legislative Counsel, 1 pg., 03/21/05
19. HB 2542, Amendment 2542-8, Legislative Counsel, 2 pp., 03/21/05
20. HB 2542, Amendment 2542-9, Legislative Counsel, 3 pp., 03/21/05