

PUBLIC HEARING:
HB 3355, HB 3232, HB 3233
WORK SESSION: HB 2629

TAPES 92-93 A-B

HOUSE REVENUE COMMITTEE

MARCH 29, 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:

- Lynn Lundquist, Oregon Business Association
- J. L. Wilson, NFIB, Grants Pass
- Don Schellenberg, Oregon Farm Bureau Federation
- Rep. Dave Hunt, District 40

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

TAPE 92, SIDE A

007 Chair Butler Calls Committee to order at 1:03 p.m. Opens public hearing on HB 3355.

PUBLIC HEARING, HB 3355

011 Lizbeth Martin-Mahar Gives overview of HB 3355. See Staff Measure Summary (**EXHIBIT 1**). Creates a personal income or corporate excise tax credit for new investments in machinery and equipment. This bill contains blanks, and the committee will look at a number of options.

035 Martin-Mahar Discusses table, Preliminary Revenue Loss Estimates (**EXHIBIT 2**).

074 Chair Butler Asks is there a mechanism in place for the Dept. of Revenue to ration out \$30 million maximum? How does the rationing of a credit work?

077 Martin-Mahar Responds, the bill does not specify. Added language might be helpful.

096 Chair Butler Asks for a definition of new equipment.

111 Martin-Mahar The next step is to bring this bill back, along with other proposals, for static impacts.

118	Chair Butler	Expresses support for HB 3355.
135	Lynn Lundquist	Thanks the committee for sponsoring HB 3355. Oregon Business Association has tried to take a holistic approach through good fiscal policies and essential services that meet the needs of Oregon. Gives reasons for looking at an investment tax credit at this time. Even though Oregon's economy is growing, it still needs help.
152	Lundquist	Addresses reasons for this approach instead of a capital gains or income tax cut. OBA doesn't oppose those, but prefers this bill because "it's the most surgical of the types of credits to spur the economy on." It has a sunset. It is narrowed down from the federal version to minimize the total impact. The percent of impact is up for debate, so is blank.
186	Lundquist	Portrays this bill as good for small business. Concludes this is short term and makes a lot of sense for small businesses. This bill also has support from both parties.
210	Rep. Galizio	Supports HB 3355 as a Democrat because of its surgical quality. Asks about Chair Butler's use of the term "rationing". Asks for suggestions on how this can be done.
223	Lundquist	Has not researched other states to see how they do this. Rationing might be a carry-over.
232	Chair Butler	Discusses Section 2 paragraph 3, line 16 in regard to rationing.

245	Rep. Riley	Likes this bill because of the way it targets.
257	Rep. Komp	Asks Lundquist to respond to Martin-Mahar's schedule (exhibit 2). Follow-up questions.
278	Lundquist	OBA tried to design this so businesses across Oregon have an opportunity to participate.
297	Chair Butler	Asks Lundquist if he has a feel for the industry sectors that could be targeted.
312	Lundquist	Discusses options in targeting various industry sectors.
336	J.L. Wilson	Testifies in support of HB 3355 because when you invest in machinery in your business it often translates into expansion and job gain. Explains how his small family radio station in Josephine County took advantage of federal bonus depreciation and attached to the statewide version, and benefited from this tax credit.
373	Chair Butler	Asks how this bill would benefit a radio station. Follow-up questions, comments.
387	Wilson	Advises front-loading the provisions of this bill, as suggested by Lundquist.
429	Vice Chair Hass	Supports the idea of HB 3355. Asks Wilson about his investment, which he made without an incentive.

433 Wilson Responds, it was made in light of the bonus depreciation that was granted federally. There was clear incentive, although not this one.

TAPE 93, SIDE A

008 Don Schellenberg Uses an illustration of his own farming history to show the incentive that an appropriate investment provides. There has to be enough incentive to convince businesses to use it. Oregon Farm Bureau supports the concept of investment tax credits. It stimulates the economy.

040 Chair Butler Comments on bill, page 1, Section 2 (1) lines 7-9.

062 Rep. Boquist Asks Lundquist what he thinks of a 10% figure.

066 Lundquist Responds, he believes in front-loading because he wants the stimulus there. If the dollar amount per taxpayer is controlled, there are more stimuli to make that new investment.

074 Schellenberg Notes, the carry-forward is very important in agriculture.

089 Rep. Dave Hunt Testifies in favor of HB 3355. Likes it because it is front loaded, it has a special benefit for smaller businesses, and it focuses on reinvesting in Oregon. Encourages the committee to find a way to make this bill revenue neutral, to pay for it from existing resources.

103 Rep. Galizio Asks Rep. Hunt for suggestions on how to pay for this bill.

- 107 Rep. Hunt Responds, there is a bill that would couple this tax credit – the capital gains tax cut – and would pay for both by a corporate minimum increase. That is only one way to achieve this, but it avoids the debate about taking money from schools.
- 118 Lundquist Responds to Rep. Hunt's idea. OBA has sponsored a bill for minimum corporate tax. The idea is nobody pays any more, just \$10. Upper level payment is stepped up.
- 156 Chair Butler Would like to explore this idea further, particularly with regard to targeting the industry sectors. The Dept. of Revenue doesn't issue any credits under a rationing basis. It's not an unknown concept, but he's anxious for this credit to be figured out. Discusses a 1% figure and how much investment it would take for it to pay off.
- 195 Chair Butler Would like to have an ongoing discussion with the business community as to what industries to target. Asks Wilson to be involved in this to represent small businesses. Is looking for a balance and target for sectors that would use this. Asks Lundquist to work with Wilson and Martin-Mahar to find a method to get the maximum amount of good out of this, and at what levels.
- 225 Rep. Boquist Asks for Wilson's reaction to the idea of a 10% figure.
- 235 Wilson Working with a \$30 million cap, he would work that percentage up as high as possible to get as much good as it as quickly as possible. Job creation now is of the most concern. The definition of small is 50 employees or less.
- 259 Rep. Riley Agrees, this bill should target the smaller companies.

- 269 Vice Chair Berger The 50 figure is a little low. Would like to figure out how to target the manufacturing sector. Does not want to make it harder than it needs to be. Is open to suggestions.
- 299 Rep. Komp Agrees, small businesses are Oregon's backbone, and she would like this to be one of the strongest considerations.
- 302 Lundquist OBA considered three things in looking at this bill: small business; making the percentage large enough to create an incentive; and the amount credited to be small enough to spread across \$30 million fixed impact.

PUBLIC HEARINGS, HB 3232, HB 3233

- 350 Martin-Mahar Gives overview of HB 3232. Increases the maximum annual cap on the research and development credit to \$1 million. Changes are effective beginning tax year 2008. See Staff Measure Summary (**EXHIBIT 3**). Directs members' attention to State Survey of Research and Development Tax Credits – 2004 (**EXHIBIT 4**); and The Effectiveness of Research and Experimentation Tax Credits, September 1995 (**EXHIBIT 5**).
- 388 Martin-Mahar Comments on the last page of the research paper: Distribution of Qualified Research Expenses for the R&E Tax Credit, 1992.
- 433 Chair Butler Comments, this is eye-opening. Would have figured some significant portion would have gone back into machinery and equipment. The indication is that less than 1% goes toward payments on these. This demonstrates that more than 74% goes back into wages and compensation. Thanks Martin-Mahar for her research.

TAPE 92, SIDE B

- 025 Martin-Mahar Begins overview of HB 3233. Notes, revenue impact statements for both of these bills will be forthcoming at a later date. See Staff Measure Summary (**EXHIBIT 6**). Allows corporations, which are eligible to claim a research and development tax credit but have insufficient tax liability, to sell the tax credit. Notes, use of these credits is bound to grow.
- 065 Rep. Riley Asks Martin-Mahar if she anticipates any compliance issues.
- 068 Martin-Mahar That is a Dept. of Revenue question, but there will be additional auditing to meet the various thresholds.
- 078 Chair Butler There are difficulties, and that would be a fatal defect.
- 081 Vice Chair Hass Asks, who looks out for the way money changes hands?
- 085 Martin-Mahar Purchaser and seller have to agree and report it to the Dept. of Revenue. Dept. of Revenue has the tracking authority.

WORK SESSION, HB 2629

- 106 Chair Butler Appreciates the work of Reps. Riley and Boquist on this bill.
- 123 Martin-Mahar Begins discussion of HB 2629-1 amendments (**EXHIBIT 7**). See Revenue Impact of Proposed Legislation (**EXHIBIT 8**). Increases the gross estate value filing threshold for Oregon estate tax purposes to \$2 million in tax year 2007 and beyond. This amendment is revenue neutral.

- 147 Chair Butler Clarifies, under this method a \$10 million estate would pay \$1.419 million. A \$2 million estate would pay nothing. The rates have gone from 5% up to 22.4%.
- 163 Martin-Mahar Both sets of amendments are silent on the issue of attaching to the federal definition of taxable estate value. Also, compares differences in filing thresholds in HB2629 -1 amendments versus HB 2629 -2.
- 206 Martin-Mahar Begins discussion of HB 2629-2 amendment (**EXHIBIT 9**). It completely conforms Oregon's estate tax filing threshold to federal. It also establishes a new Oregon estate tax rate schedule. Discusses page 3 tax rate schedule. Discusses page 4, a 16% tax rate for taxable value in excess of \$3.5 million.
- 238 Martin-Mahar HB 2629-2 amendments have a revenue loss. See Revenue Impact statement (**EXHIBIT 10**). Reducing state taxes will give certain taxpayers more disposable income so they can invest more. Discusses chart, bottom of revenue impact statement.
- 269 Chair Butler Asks for an explanation of the feedback effects.
- 271 Martin-Mahar Explains.
- 293 Chair Butler Asks if the bill attempts to try to capture estates that would leave Oregon due to lesser tax rates elsewhere.
- 303 Martin-Mahar No, that would be pretty difficult to capture.

- 305 Rep. Riley **MOTION: MOVES ADOPTION OF HB 2629-1.**
- 308 Rep. Riley Hopes the committee will approve this revenue neutral version. It's a good thing to raise the threshold to get smaller estates out of this tax problem. This bill has the advantage of not chipping away at school funding.
- 323 Chair Butler Summarizes, this amendment would be to use the \$2 million exemption beginning in 2007. It does not contemplate the \$3.5 million federal exclusion in later years.
- 330 Rep. Boquist Understands Rep. Riley's point, but will vote against HB 2629-1 amendment. Would prefer total elimination of Oregon's estate tax and is interested in phasing it out.
- 368 Chair Butler **MOTION FAILS. ROLL CALL VOTE: 3-6-0**
MEMBERS VOTING AYE: GALIZIO, RILEY, HASS
MEMBERS VOTING NO: BOQUIST, ESQUIVEL, KOMP, OLSON, BERGER, BUTLER
- 394 Rep. Boquist **MOTION: MOVES ADOPTION OF HB 2629-2.**
- 396 Rep. Boquist Sponsored the original bill. Thanks Rep. Riley for his hard work. Most of his constituents would like to see the estate tax eliminated. The goal of this bill is to help small property-based businesses so they can be handed down from family to family. Thirty one states are looking at similar proposals. It is revenue neutral in 2005-07, but has a fiscal impact. There is a state flight.

- 438 Vice Chair Hass This is a tax cut for the top 1% of Oregon families. Of all the problems facing this state, he's baffled that this is the one the committee is focusing on.
- 461 Rep. Galizio Echoes Hass' concerns. Oregon is having trouble covering essential services for schools, human services and public safety. There is no evidence that this has any kind of investment stimulus. Rep. Riley's bill would have remained revenue neutral. This amendment is not in Oregon's best interest.

Tape 93, SIDE B

- 025 Chair Butler Comments on automobile dealerships leaving Oregon. Oregon will never see the return of those folks to Oregon. Many move out of Oregon to escape income and death taxes. This amendment is the responsible thing to do, to be proactive. These calculations have been based upon estates not growing rapidly in Oregon. Warns, wealth will leave the state of Oregon. For this reason, he favors the HB 2629-2 amendment.
- 069 Rep. Hass Counters, he appreciates the Chair's fears but the evidence is not there concerning flight out of Oregon. Many wealthy retired people are moving into Oregon.
- 082 Chair Butler Counters, many people are coming to Oregon and buying second and third residences but are not living here. They are investing in Oregon property but won't be taxed here. Oregon has to send a correct message.
- 110 Chair Butler **ROLL CALL VOTE: 6-3-0**
MEMBERS VOTING AYE: BOQUIST, ESQUIVEL, KOMP, OLSON, BERGER, BUTLER
MEMBERS VOTING NO: GALIZIO, RILEY, HASS

125 Chair Butler **MOTION: MOVES HB 2629 AS AMENDED TO THE HOUSE FLOOR WITH A DO PASS RECOMMENDATION.**

ROLL CALL VOTE: 6-3-0

MEMBERS VOTING AYE: BOQUIST, ESQUIVEL, KOMP, OLSON, BERGER, BUTLER

MEMBERS VOTING NO: GALIZIO, RILEY, HASS

140 Vice Chair Hass Serves notice of a possible minority report.

WORK SESSION, REQUEST PERMISSION TO HAVE BILLS DRAFTED

150 Chair Butler House rules require that bill draft requests after the House deadline must come through the committees to the speaker's office.

MOTION: I MOVE THAT THE COMMITTEE REQUEST FOR BILL DRAFTS NEEDED TO COMPLETE OUR WORK PLAN. IF THE SPEAKER APPROVES THIS REQUEST, THE LC'S WILL COME BACK TO THE COMMITTEE FOR INTRODUCTION.

BILL DRAFT REQUEST:

- • **2 ON PROPERTY TAX TREATMENT OF ENERGY PRODUCING PROPERTY**
- • **INTRODUCTION OF RESERVE FUND AND SPENDING LIMIT**
- • **MODIFICATION OF POLLUTION CONTROL CREDIT**

159 Chair Butler **ORDER: THERE BEING NO OBJECTION THE CHAIR SO ORDERS.**

VOTE: 9-0-0

MEMBERS VOTING AYE: BOQUIST, ESQUIVEL, GALIZIO, KOMP, OLSON, RILEY, BERGER, HASS, BUTLER

164 Chair Butler

Closes work session on language for bill proposal. Notes, Rep.
Boquist will carry HB 2629-A. Adjourns meeting at 2:38 p.m.

Tape Log Submitted by:

Barbara Guardino, Committee Assistant

Exhibit Summary:

1. HB 3355, Staff Measure Summary, 3/29/05, Martin-Mahar, 1 pp.
2. HB 3355, Preliminary Revenue Loss, 3/29/05, Martin-Mahar, 1 pp.
3. HB 3232, Staff Measure Summary, 3/28/05, Martin-Mahar, 1 pp.
4. HB 3232, State Survey of Research and Development Tax Credits – 2004, 3/29/05, Martin-Mahar, 1 pp.
5. HB 3232, The Effectiveness of Research and Experimentation Tax Credits, September 1995, Martin-Mahar, 5 pp.
6. HB 3233, Staff Measure Summary, 3/28/05, Martin-Mahar, 1 pp.
7. HB 2629, proposed -1 amendment, 3/28/05, Martin-Mahar, 9 pp.
8. HB 2629, Revenue Impact of Proposed Legislation for HB 2629-1 amendments, 3/28/05, Martin-Mahar, 1 pp.
9. HB 2629, proposed -2 amendments, 3/28/05, Martin-Mahar, 9 pp.
10. HB 2629, Revenue Impact of Proposed Legislation for HB 2629-2 amendments, 3/29/05, Martin-Mahar, 1 pp.