

**PUBLIC HEARING**

**HB 2629.2542**

**WORK SESSION**

**TAPES 71-72, A-B**

**HOUSE REVENUE COMMITTEE**

**MARCH 9, 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:

- Vera Carriger, Estate Program Manager, Dept. of Revenue
- Debra Buchanan, Dept. of Revenue
- Michael Davoli, Director, United for a Fair Economy
- Jody Wiser, Tax Fairness Oregon
- Paul Richey, Tax Fairness Oregon

David Bean, Portland

John Marks, Portland

Laurie Wimmer Whelan, Oregon Education Assn. (OEA), Oregon

Revenue Coalition

Chuck Sheketoff, Oregon Center for Public Policy

Tim Nesbitt, Oregon AFL-CIO

Staff Present:

Paul Warner, Legislative Revenue Officer

Lizbeth Martin-Mahar

Kristi Bowman, Committee Assistant

**TAPE 71, SIDE A**

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

OPENS PUBLIC HEARING FOR HOUSE BILL 2629

009 Lizbeth Martin-Mahar Gives overview of HB 2629 (Exhibit 1). It Increases the gross estate value threshold to \$1.5 M in 2007 and to \$2 M for 2008 and beyond. Refers to Revenue Impact Report (Exhibit 2) that reflects the most recent numbers from the Dept. of Revenue (DOR). Refers to the Research Report #1-05, 2003 Estate Tax Return Summary (Exhibit 3).

034 Vera Carriger Gives informational testimony regarding compliance issues with federal tax laws regarding estate taxes. States that the DOR relies on

the IRS to “help interpret tax law and give instructions to taxpayers on how to file.”

- |     |                |   |
|-----|----------------|---|
| 060 | Chair Butler   | Asks about staffing levels in the DOR’s estate planning department.   |
| 063 | Carriger       | Responds that there are three staff members devoted to the estate tax program in addition to two other state income programs.   |
| 080 | Chair Butler   | Further questions and answers exchanged with Carriger regarding staffing after various legislative programs were implemented pertaining to estate taxes.  |
| 110 | Debra Buchanan | Adds additional information on staffing levels before the 1997 phase-in of the pick-up tax. Comments that prior to 1997 Oregon’s estate tax was very different from the federal tax provisions. |
| 129 | Chair Butler   | General comments to the committee about reconnect issues to the federal tax threshold.  |
| 153 | Martin-Mahar   | Comments on revenue impacts during the next biennium (Exhibit 2). Refers to Research Report #1-05 (Exhibit 4).  |
| 180 | Chair Butler   | Asks for additional percentages from LRO staff. Martin-Mahar will provide those updated numbers to committee. Expresses concern about “estate flight.”  |

234 Michael Davoli Testifies against HB 2629. Reads from written testimony (Exhibit 5). Comments that there is a very small percentage of families affected by the current estate tax, and increasing the threshold would mean less money available for school funding.

324 Jody Wiser Testifies against HB 2629 because it benefits so few people but would impact funding for schools and social programs. Refers to the Talking Points handout from the Coalition to Preserve the Estate Tax (Exhibit 6) and the CRS Report for Congress (Exhibit 7). Discusses Table 4 on the last page of CRS Report. Comments that raising the threshold to \$2 M would exempt 75% of the people who were paying inheritance tax when the estate tax law was changed in 1997.

412 Paul Richey Testifies against HB 2629. Paraphrases written testimony (Exhibit 8). Comments that the change in estate tax would impact non-profit agency funding and school funding.

**TAPE 72, SIDE A**

025 David Bean Testifies against HB 2629. Comments that the estate tax law needs to be stabilized.

045 John Marks Testifies against HB 2629. Gives anecdotal information pertaining to the impacts of changes to the estate tax

085 Chair Butler General comments to committee members regarding further research on the estate tax issue and discussion with their respective caucuses.

CLOSES PUBLIC HEARING FOR HB 2629

- 094 Rep Berger MOTION: I MOVE WE RECONSIDER THE VOTE BY WHICH HB 2452 WAS PASSED TO THE HOUSE FLOOR WITH A DO PASS RECOMMENDATION.
- 104 Chair Butler REP. BERGER MOVES THAT WE RECONSIDER THE VOTE BY WHICH HB 2452 WAS SENT TO THE HOUSE FLOOR WITH A DO PASS RECOMMENDATION.
- 108 Chair Butler ASKS FOR ANY OBJECTIONS.
- 110 Chair Butler ORDER: HEARING NO OBJECTIONS, THE MOTION CARRIES AND THE VOTE HAS BEEN RECONSIDERED.

OPENS WORK SESSION FOR HOUSE BILL 2452

- 112 Martin-Mahar Gives overview of HB 2452. Comments that the bill never got filed or was taken to the floor. The bill pertains to pass-through entities and non-resident taxpayers. Refers to the 2452-1 amendment and states that “it is not sufficient in order to move the bill to the floor” because the language is not complete. Discusses additional language to be added to the amendment.
- 126 Chair Butler General comments to committee on HB 2452.

143 Martin-Mahar Reads proposed language.

149 Chair Butler Comments that concerns were raised about out-of-state partnerships that have substantial holdings in Oregon.

CLOSES WORK SESSION FOR HB 2452

OPENS PUBLIC HEARING FOR HB 2542

190 Laurie Wimmer  
Whelan Refers to handout: Members of 2005 Oregon Revenue Coalition (Exhibit 12). Submits written informational testimony pertaining to certain components of the reconnect bill (Exhibit 13). Discusses components of the bill the OEA and Coalition support and those the organizations oppose. The two issues the OEA and Coalition oppose are the qualified production activities income (QPAI) and health savings accounts (HSAs). Discusses requests for amendments.

258 Chuck Shekutoff Testifies that Oregon should disconnect from the Extraterritorial Income (ETI) tax deduction and QPAI in order to provide more revenue for other investments. Refers to a study that the QPAI provision of the American Jobs Creation Act of 2004 has compliance problems.

342 Tim Nesbitt Testifies on negative effects of reconnect issues such as health savings plans (HSAs). Reads from written testimony (Exhibit 14).

- 364 Chair Butler Asks Nesbitt if he would discourage his members from participating in HSAs.
- 371 Nesbitt Refers to the memo to members included in Exhibit 14, pages 5-8. Nesbitt states the reasons why the Oregon AFL-CIO discourages their members from using HSAs. Discusses recommendations for policy considerations.
- 443 Chair Butler Asks about retirees using HSA benefits for prescriptions.
- 450 Nesbitt Responds that under ideal health circumstances for a retiree, the HSA benefit may be helpful.. Adds additional comments regarding why his organization does not support HSAs.

**TAPE 71, SIDE B**

- 040 Chair Butler Additional discussion with Nesbitt regarding HSAs.
- 086 Rep. Riley Asks if preventative medicine benefits are not included, would people not get routine medical care like checkups.
- 092 Nesbitt Responds yes. If a company is just starting to set up a HSA, the AFL-CIO encourages the company to use the existing tax code for medical care and will be better in the long run for participants.

- 095 Rep. Hass Clarifies that Nesbitt is discussing individual HSAs, not the corporate subsidies for Medicare.
- 108 Martin-Mahar Clarifies that one is a corporate tax change that requires a reconnect to the federal tax. Oregon has automatically reconnected to private HSA accounts through the Medicare Prescription Drug, Improvement and Modernization Act of 2003. Refers to the Revenue Estimates of the Major Components of Federal Legislation (Exhibit 15).
- 133 Chair Butler Asks Wimmer Whelan about HSAs potentially running out for a participant.
- 135 Wimmer Whelan Responds that a scenario of a cancer victim was used in her handout (Exhibit 13, p. 3) to illustrate that a participant would exhaust their HSA account and not have any traditional health-insurance coverage.
- 145 Chair Butler Asks LRO staff for more information on the mechanics of HSAs. Further questions and answers exchanged with Martin-Mahar on HSAs and corporate subsidies for Medicare. References made to the Component Table (Exhibit 15).
- 160 Nesbitt Adds comments about employer premiums or contributions to an employee's HSA fund and is tax-sheltered.
- 185 Rep. Riley Asks where is the expense of employer contributions to an employee's HSA shown on the handout.

190	Martin-Mahar	Will provide that information to Rep. Riley.
195	Rep. Hass	Asks Nesbitt about his organization's position on the qualified production activities income (QPAI).
197	Nesbitt	Responds that they agree with previous testimony of Wimmer Whelan.
210	Rep. Hass	Asks Sheketoff about decoupling from QPAI and Extraterritorial Income (ETI).
211	Sheketoff	Discusses legislative history regarding reconnect issues. Suggests extending the sunset for the reconnect bill. Discusses making ETI a separate bill because of the World Trade Organization ruling making ETI illegal.
273	Chair Butler	Further discussion with Sheketoff on reconnect issues.
300	Sheketoff	Discusses Intel's business development in Oregon in relation to the QPAI issue.

- 345 Martin-Mahar Discusses updated information on the Revenue Estimates of the Major Components handout (Exhibit 15).
- 435 Rep. Hass Discusses non-resident tax issues regarding deductions of sales tax on the Oregon tax return.

**TAPE 72, SIDE B**

- 020 Martin-Mahar Discusses HB 2542-1 amendment (Exhibit 16) and HB 2542-2 amendment (Exhibit 17). Refers to handout: Common Components in Both the -1 and -2 Amendments (Exhibit 18). Gives overview of the proposed amendment changes to current law. Refers to handout: Connection to Future Federal Military Compensation Changes (Exhibit 19).
- 101 Martin-Mahar Refers to the Preliminary Revenue Impact Statements for HB 2542-1 and HB 2542-2 (Exhibits 20 and 21).

CLOSES PUBLIC HEARING FOR HOUSE BILL 2542.

- 119 Acting Chair Berger Adjourns meeting at 2:36 p.m.

Tape Log Submitted by:

Reviewed by:

Kristi Bowman, Committee Assistant

Kim Taylor James, Committee  
Coordinator

-

Exhibit Summary:

1. 1. HB 2629, Staff Measure Summary, Martin-Mahar, 1 pg., 03/07/05
2. 2. HB 2629, Revenue Impact Statement, Martin-Mahar, 1 pg., 03/09/05
3. 3. HB 2629, Handout: 2003 Estate Tax Return Summary, Martin-Mahar, 1 pg., 03/09/05
4. 4. HB 2629, Handout, Research Report #1-05, Martin-Mahar, 1 pg., 03/07/05
5. 5. HB 2629, Testimony, Davoli, 2 pp., 03/09/05
6. 6. HB 2629, Handout: Talking Points, Wiser, 1 pg., 03/09/05
7. 7. HB 2629, Handout: CRS Report for Congress, Wiser, 6 pp., 01/03/05
8. 8. HB 2629, Testimony, Richey, 1 pg., 03/09/05
9. 9. HB 2452-1, Amendment HB 2452-1, Legislative Counsel, 1 pg., 03/08/05
10. 10. HB 2452, Staff Measure Summary, Martin-Mahar, 1 pg., 03/09/05
11. 11. HB 2452-1, Staff Measure Summary, Martin-Mahar, 1 pg., 03/09/05
12. 12. HB 2542, Handout: Oregon Revenue Coalition Member List, Wimmer-Whelan, 1 pg., 03/09/05
13. 13. HB 2542, Handout: HB 2542 Reconnect Legislation, Wimmer Whelan, 2 pp., 03/09/05
14. 14. HB 2542, Testimony and Handout, Nesbitt, 10 pp., 03/09/05
15. 15. HB 2542, Revenue Estimates of the Major Components of Federal Legislation, Martin-Mahar, 2 pp., 03/09/05
16. 16. HB 2542-1, Amendment HB 2542-1, Legislative Counsel, 2 pp., 03/09/05
17. 17. HB 2542-2, Amendment HB 2542-2, Legislative Counsel, 3 pp., 03/09/05
18. 18. HB 2542, Handout: Amendments to HB 2542, Martin-Mahar, 1 pg., 03/09/05
19. 19. HB 2542, Handout: HB 2542-1 or -2: Connection to future federal military compensation changes, Martin-Mahar, 1 pg., 03/09/05
20. 20. HB 2542-1, Preliminary Revenue Impact Statement, Martin-Mahar, 2 pp., 03/09/05
21. 21. HB 2542-2, Preliminary Revenue Impact Statement, Martin-Mahar, 2 pp., 03/09/05
22. 22. HB 2542, Handout: Revised Talking Points on the Federal Tax Code Reconnect Issue, Craven, 03/02/05