

PUBLIC HEARING
HB 2574, 2046, 2332
INFORMATIONAL REPORT
LOW INCOME RELIEF WORK GROUP

TAPES 123-124 A-B, 125 A

HOUSE REVENUE COMMITTEE

APRIL 20, 2005 1:00 PM STATE CAPITOL BUILDING

Members Present: 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: Patti Whitney-Wise, Oregon Hunger Relief Task Force
Chuck Sheketoff, Oregon Center for Public Policy (OCPP)
Ellen Lowe, Oregon Food Bank & Oregon Law Center

Bob Castagna, Oregon Catholic Conferences

Laurie Wimmer Whelan, Oregon Education Assn. OEA) & Oregon Revenue Coalition

Arthur Towers, Service Employees International Union (SEIU)

Tim Nesbitt, Oregon AFL-CIO

Linc Cannon, Oregon Forest Industries Council

Joe Schweinhart, Associated Oregon Industries

Debra Buchanan, Dept. of Revenue (DOR)

Staff Present:

Paul Warner, Legislative Revenue Officer

Lizbeth Martin-Mahar, Economist

Kristi Bowman, Committee Assistant

TAPE 123, SIDE A

002 Chair Butler Calls meeting to order at 1:12 p.m.

INFORMATIONAL MEETING--LOW INCOME RELIEF WORKGROUP REPORT

008 Chair Butler Gives overview of workgroup's purpose. The members of the workgroup are: Rep. Hass, Rep. Galizio, and Rep. Olson.

016 Rep. Hass Comments that the workgroup pooled bills heard on rent relief and housing tax credit. The workgroup drafted amendments making the Earned Income Tax Credit (EITC) refundable and goes a long way

toward making the income tax system more progressive, especially for the working poor.

- 036 Chair Butler Asks about issues discussed pertaining to other tax credits.
- 040 Rep. Hass The group realized that it is difficult for the Dept. of Revenue (DOR) to administer rules and mail rebate checks to students at a university dorm or to a roommate of a renter. A tax credit is a cleaner way to help mostly the same people; it conforms to federal tax law and meets compliance issues.
- 050 Rep. Olson Comments that the working poor receiving a low-income tax break will be good for the economy.
- 060 Chair Butler Discussion with Rep. Olson about the benefits of students receiving the EITC credit instead of a rent rebate.
- 073 Rep. Galizio Comments that the college student scenario was the best reason to support the tax credit idea.

CLOSES INFORMATIONAL MEETING

OPENS PUBLIC HEARING FOR HOUSE BILL 2046

100	Lizbeth Martin-Mahar	Discusses amendment HB 2046-1 and measure summary (Exhibits 1 and 2). The amendment phases in an increase in the percentage of the federal EITC for Oregon's EITC. Refers to the revenue impact statement and handout on the Oregon Tax Incidence Model (OTIM) (Exhibits 3 and 4). Discusses positive feedback effects. As the economy grows, there is an assumption that fewer people will qualify for the EITC.
147	Chair Butler	Asks for more explanation about the feedback effects.
149	Martin-Mahar	Discusses information on OTIM handout (Exhibit 3). Comments that any time there is any kind of an economic shock such as a tax credit, there will be a positive feedback effect. Discusses the impacts of all three bills concerned with tax credits: HB 2574 and HB 2332-4 (capital gains cut); HB 3355-1 (investment tax credit); HB 2046-1 (Earned Income Tax Credit (EITC) refundable tax credit). Although a specific income group is being targeted, there are impacts throughout the economy.
322	Chair Butler	Asks about demographics regarding age and family sizes and their relative earning capacity.
324	Martin-Mahar	Responds that she can provide a distribution model for a certain income sector. Adds that tax credits increase in-migration to the state and stimulate the economy.
363	Rep. Berger	Asks why 1997 is used for the OTIM model in the handout (Exhibit 4).

- 370 Martin-Mahar Responds that 1997 is used as a reference year for OTIM data.
- 414 Patty Whitney Wise Testifies in support of HB 2046 and submits written testimony (Exhibit 5) and a handout (Exhibit 6).
- 435 Chuck Sheketoff Testifies in support of HB 2046 “because it is a good bill and should pass.” Discusses the OCCP Executive Summary booklet (Exhibit 7).

TAPE 124, SIDE A

- 047 Ellen Lowe Testifies in support of HB 2046. A refundable EITC credit is the most efficient way to target relief to the most needy who are part of the working poor in Oregon.
- 090 Bob Castagna Testifies in support of HB 2046. This bill is the latest “chapter” in a 17 year discussion on this issue. If HB 2046 is enacted it will show the legislature’s support of the working poor in alleviating their tax burden.

CLOSES PUBLIC HEARING FOR HOUSE BILL 2046

OPENS PUBLIC HEARING FOR HOUSE BILL 2574

- 115 Martin-Mahar Gives summary of amendments HB 2574-1, HB 2574-2, HB 2574-3 pertaining to capital gains (Exhibit 8). All amendments delete the original bill (Exhibits 9 – 11). Adds that the corporate capital gains reduction begins in 2010; the personal capital gains reduction begins in 2006.
- 191 Rep. Galizio Discusses the “big-picture thinking” of the amendments for HB 2574. Comments on a meeting with seniors in his district about their feelings on capital gains. Amendment HB 2574-1 is a capital gains tax cut for middle income taxpayers. Amendment HB 2574-2 is the same as the HB 2574-1 amendment, but it cuts the exemption in half. Amendment HB 2574-3 is a capital gains tax cut for investments in Oregon companies and Oregon properties. Advocates that the effective date of the HB 2542-3 amendment should be the same as the other two amendments, which is on or after 01/01/06.

OPENS PUBLIC HEARING FOR HOUSE BILL 2332

- 324 Laurie Wimmer
Whelan Testifies in opposition to HB 2574 and HB 2332 and reads from written testimony (Exhibit 12). Refers to fact sheet included with testimony. Comments that she would support the HB 2574-3 amendment modeled on the Colorado plan.

TAPE 123, SIDE B

- 034 Chair Butler Asks about a scenario of Oregon residents who live near Washington or California. What would prevent them from moving to those states for one year to avoid payment of Oregon capital gains taxes?
- 041 Wimmer Whelan Responds that based on research she has read, residents moving to another state for a temporary period is largely a myth. Continues reading from written testimony.

088	Arthur Towers	Testifies in opposition to HB 2574 and HB 2332. The idea of providing tax relief to upper income people at the expense of lower income people is something his organization cannot support. Comments on the “balloon-payment nature” of both of these bills.
114	Sheketoff	Testifies in opposition of HB 2574 and HB 2332. Reads from memo to Tim Nesbit and handout from Len Burman (Exhibit 13). Comments on in-migration to Oregon in spite of the current capital gains tax structure in Oregon.
183	Rep. Riley	Asks the witnesses if any of the amendments were substituted would they then support the bill.
193	Wimmer Whelan	Responds that the OEA and Coalition would support the amendments.
194	Towers	Responds that although he has not had an opportunity to review the amendments, the SEIU would be in favor of the amendments and will respond to Rep. Riley at a later date.
197	Sheketoff	Responds that he has not had an opportunity to look at the detailed language, but based on the description of the amendments, he could not support them. He does not believe the capital gains reduction would have a significant impact.
205	Martin-Mahar	

Clarifies that the percentages stated in the handout (Exhibit 8) are a percent of the total income change for the household, not for specific income groups.

- 222 Tim Nesbitt Testifies in opposition to HB 2574 and HB 2332 and submits handout (Exhibit 14) showing all taxes paid by various income groups. The AFL-CIO supports the revenue impact findings of the Legislative Revenue Office (LRO) but disagrees with the Conerly report done for Associated Oregon Industries (AOI). Discusses the impacts of the tax credits associated with both of these bills. His organization does not think the capital gains reduction is fair or is good policy.
- 293 Rep. Riley Asks Nesbitt about his support of the amendments [HB 2332-1, HB 2332-2, HB 2332-3].
- 294 Nesbitt Responds that he would support amendments HB 2332-1 and HB 2332-2 because they would take effect during this biennium. He would support HB 2332-3 if it had a subsequent referral to the Ways and Means Committee and it could be balanced to the proposed \$12.393 billion budget.
- 303 Chair Butler Comments that a referral to Ways and Means would be appropriate if there was a fiscal impact for the current biennium.
- 314 Rep Hass Comments that there is a proposed amendment for HB 2332 that hasn't yet been discussed in this public hearing that would start in this biennium.

324 Lincoln Cannon Testifies in support of HB 2574 and HB 2332. Discusses issues brought up by previous witnesses: 1) people relocating to other states to avoid high capital gains taxes; 2) equity—capital gains taxes income and inflation, for instance, as in the timber harvest industry; 3) taxation on capital gains for corporations is an inequity because corporations are taxed twice; 4) tax implications of the ownership of forestlands.

TAPE 124, SIDE B

038 Chair Butler Discussion with Cannon about his concerns with non-profits who invest in forestland for retirement accounts.

050 Joe Schweinhart Testifies in support of HB 2332 and HB 2574. Comments that capital gains is proven through studies and surveys that it does work. Adds that states with low capital gains taxes are successful. Cutting the capital gains rate will prepare the state for economic well-being and prosperity. Capital gains punishes the elderly who want to cash in their investments.

091 Rep. Galizio Discussion with Schweinhart about the difference in numbers stated in Conerly's study and the OTIM model for jobs created.

129 Rep. Hass Comments that CA has a higher capital gains rate and has a more successful venture capital investment than Oregon does. Comments that Conerly agrees that there is a problem with knowing whether Oregonians will invest their tax credit in Oregon companies.

137 Schweinhart Responds that the investment issue is similar to education—children go to school, but there is no guarantee that they will stay in Oregon.

150	Chair Butler	General comments about capital gains and discussion with Rep. Hass.
187	Schweinhart	Adds comments about amendment HB 2332-3. We don't want to limit the possibilities for out-of-state investment in Oregon companies.
200	Chair Butler	Comments about fiscal impacts on the HB 2332 amendments.
220	Rep. Galizio	Comments on Schweinhart's analogy of education and investments in Oregon companies.
240	Rep. Riley	Discussion with Schweinhart regarding data comparing the tax distribution of capital gains among different states.
264	Rep. Komp	Asks what Schweinhart's definition is of a successful state.
265	Schweinhart	Responds that a successful state is defined in relation to its economy. For example, Texas has a zero capital gains tax and does well with getting investment and jobs brought into the state.

- 270 Chair Butler Asks LRO staff about a state income drop of approximately 80% for capital gains during 2002.
- 281 Paul Warner Responds that capital gains data come in at a lag compared to other economic data, and the actual drop in 2002 was closer to 54%. Adds that impacts of capital gains are seen on extended returns filed the following Sept. of the next tax year. Discussion with Chair Butler on the impacts of capital gains. Adds that the state economist states that capital gains is the most difficult to predict and is one of the most volatile components of the Adjusted Gross Income (AGI).
- 316 Chair Butler General comments about income tax reporting of capital gains.
- 336 Martin-Mahar Discusses amendments for HB 2332 (Amendments HB 2332-1, HB 2332-2, and HB 2332-3 are the same as the HB 2574 amendments).
- Refers to the summary sheet for HB 2332 amendments (Exhibit 16) and discusses the HB 2332-4 and HB 2332-5 amendments. (Exhibits 17-21 are the amendments for HB 2332).

TAPE 125, SIDE A

- 047 Martin-Mahar Discusses the revenue impact statements for each amendment (Exhibits 22-26).
- 134 Debra Buchanan Testifies about the fiscal impacts on the Dept. of Revenue of HB 2046, HB 2574, and HB 2332. Comments that in 1990 the DOR projected a savings of \$600,000 from the elimination of the homeowner and renter relief program. The DOR did a preliminary calculation of the costs to start a new low-renter program and estimates it would cost a little over \$1 M. The fiscal impact for the

EITC (HB 2046) was estimated to be slightly over \$200,000. Regarding capital gains tax changes proposed in HB 2574, the fiscal impact would be \$400,000 because it requires a separate tax calculation during the phase-in period. Discusses the fiscal impacts of each amendment to HB 2332.

- 183 Rep. Galizio Asks for a more specific cost estimate of the HB 2332-2 amendment.
- 190 Buchanan Responds that reducing the capital gains by 50% makes it less expensive than proposing incremental reductions. What increases the cost of the amendment is the farmer's different application of capital gains on long-term investments versus net capital gains. It would require a worksheet and a number of calculations to compare the two applications. It would be less costly for the DOR to implement if farmers were directed to do one or the other of the calculations, but not both.
- 221 Buchanan Discusses the fiscal impacts of amendments HB 2332-4 and HB 2332-5 on the DOR. Adds that specific impact costs for amendments HB 2332-1, HB 2332-2, and HB 2332-3 were not discussed with DOR staff.
- 255 Chair Butler Discussion with Martin-Mahar regarding information on the revenue impact statements.
- 300 Chair Butler General committee business discussed.

CLOSES PUBLIC HEARING FOR HOUSE BILL 2574 and HOUSE BILL 2332.

Tape Log Submitted by:

Reviewed by:

Kristi Bowman, Committee Assistant

Kim Taylor James, Committee
Coordinator

Exhibit Summary:

- 1. HB 2046, Amendment HB 2046-1, Legislative Counsel, 1 pg., 04/18/05
- 2. HB 2046, Staff Measure Summary, Martin-Mahar, 1 pg., 04/20/05
- 3. HB 2046, Revenue Impact Statement, Martin-Mahar, 1 pg., 04/20/05
- 4. HB 2046, OTIM Handout, Martin-Mahar, 1 pg., 04/20/05
- 5. HB 2046, Testimony, Whitney-Wise, 1 pg., 04/20/05
- 6. HB 2046, Handout, Whitney-Wise, 1 pg., 04/20/05
- 7. HB 2046, Executive Summary, Sheketoff, 14 pp., 02/25/05
- 8. HB 2574, Amendment Summary, Martin-Mahar, 1 pg., 04/20/05
- 9. HB 2574, Amendment HB 2574-1, Legislative Counsel, 6 pp., 04/19/05
- 10. HB 2574, Amendment HB 2574-2, Legislative Counsel, 6 pp., 04/19/05
- 11. HB 2574, Amendment HB 2574-3, Legislative Counsel, 9 pp., 04/19/05
- 12. HB 2574 and HB 2332, Testimony & Handout, Wimmer Whelan, 3 pp., 04/20/05
- 13. HB 2574 and HB 2332, Memo and Handout, Sheketoff, 9 pp., 04/20/05
- 14. HB 2574 and HB 2332, Handout: State & Local Taxes in 2002, Nesbitt, 2 pp., 01/03/05
- 15. HB 2574 and HB 2332, Handout: Executive Summary, Nesbitt, 1 pg., 02/25/05
- 16. HB 2332, Amendment Summary, Martin-Mahar, 3 pp., 04/20/05
- 17. HB 2332, Amendment HB 2332-1, Legislative Counsel, 6 pp., 04/19/05
- 18. HB 2332, Amendment HB 2332-2, Legislative Counsel, 6 pp., 04/19/05
- 19. HB 2332, Amendment HB 2332-3, Legislative Counsel, 9 pp., 04/19/05
- 20. HB 2332, Amendment HB 2332-4, Legislative Counsel, 7 pp., 04/20/05
- 21. HB 2332, Amendment HB 2332-5, Legislative Counsel, 8 pp., 04/20/05

- 22. HB 2332, Revenue Impact Statement, HB 2332-1, Martin-Mahar, 1 pg., 04/20/05
- 23. HB 2332, Revenue Impact Statement, HB 2332-2, Martin-Mahar, 1 pg., 04/20/05
- 24. HB 2332, Revenue Impact Statement, HB 2332-3, Martin-Mahar, 1 pg., 04/20/05
- 25. HB 2332, Revenue Impact Statement, HB 2332-4, Martin-Mahar, 1 pg., 04/20/05
- 26. HB 2332, Revenue Impact Statement, HB 2332-5, Martin-Mahar, 1 pg., 04/20/05