

WORK SESSION

HB 2574, 2332, 2046

PUBLIC HEARING 3440,3455

BILL INTRODUCTION

INFORMATIONAL MEETING

TAPES 127 A-B,128 A

HOUSE REVENUE COMMITTEE

APRIL 26, 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: Rep. Mike Schaufler, District 48
Bob Shiprack, Oregon Building Trades Council
John Ledger, Associated Oregon Industries (AOI)

Mark Nelson, Oregon Metals

Mike Graine, Director, Dept. of Energy

Matt Blevins, Oregon Environmental Council

Staff Present: Paul Warner, Legislative Revenue Officer

Lizbeth Martin-Mahar, Economist

Kristi Bowman, Committee Assistant

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002 Chair Butler Calls meeting to order at 1:11 p.m.

OPENS WORK SESSION FOR HOUSE BILL 2574

CLOSES WORK SESSION FOR HOUSE BILL 2574

OPENS WORK SESSION FOR HOUSE BILL 2332

020 Lizbeth Martin-Mahar HB 2332 reduces the rate of tax on capital gains of personal and corporate income. Comments on the five amendments:

- • HB 2332-1
- • HB 2332-2
- • HB 2332-3
- • HB 2332-4
- • HB 2332-5

and submits revenue impact statements with portfolio and dynamic feedback effects for each amendment (Exhibits 1-5). Discusses definitions and impacts of portfolio and dynamic feedback effects. Refers to the handout of the Oregon Tax Incidence Model (OTIM) (Exhibit 6).

- 056 Chair Butler MOTION: MOVES THE ADOPTION OF THE HB 2332-4 AMENDMENT. Asks if there are any objections.
- 060 Rep. Hass Asks Martin-Mahar to summarize the amendment HB 2332-4.
- 062 Martin-Mahar The HB 2332-4 amendment creates a phase-in of the personal capital gains subtraction. The amendment is a tax subtraction, not a tax rate reduction. The tax subtraction begins in tax year 2007. Discusses the corporate subtraction rate.
- 091 Rep. Hass Asks if this amendment adds a corporate excise tax subtraction.
- 093 Martin-Mahar Responds that the original bill includes a reduction for corporate and personal capital gains.
- 101 Rep. Hass Asks Chair Butler why the subtraction method is preferable to a straight rate cut.
- 103 Chair Butler Discusses the complex process of calculating rate cuts on federal tax returns. To develop the additional state forms and capture numbers

off various federal forms, the Dept. of Revenue determined there would be a significant fiscal impact to implement the federal method.

- 141 Rep. Galizio What impact would the HB 2332-4 amendment have on the HB 2332-1, HB 2332-2, and HB 2332-3 amendments?
- 149 Martin-Mahar Responds that the amendments could be taken together. Discusses the different implementation dates of each of the amendments.
- 160 Rep. Galizio Asks about the distinction between the HB 2332-4 amendment and the HB 2332-5 amendment.
- 162 Martin-Mahar Responds that the HB 2332-5 amendment and HB 2332-4 amendment are the same, only the implementation year is different. Full implementation of the 50% tax reduction would be realized in 2009 for the HB 2332-5 amendment and would be realized in 2011 for the HB 2332-4 amendment.
- 169 Chair Butler Asks Rep. Hass about the reasoning behind speeding up the implementation of the rate reduction [to 2009] in amendment HB 2332-5.
- 170 Rep. Hass Responds that if [the reduction] is a good idea, it should be paid for now instead of binding future legislators. If the state cannot afford it now, then the state should wait until the next session and pay for it now.

- 184 Chair Butler Expresses concern that a full capital gains cut could not be implemented in the current biennium. He perceives that delaying the implementation of the full 50% reduction would “entice capital to stay in the state of Oregon and bring capital investments back into the state of Oregon.”
- 201 Rep. Hass Discussion with Chair Butler about different methods of capital gains reductions and projections of anticipated revenues.
- 235 Rep. Hass Asks Martin-Mahar about the top tiers of income levels who would benefit from a capital gains reduction.
- 241 Martin-Mahar Responds that the information provided is from the latest data available (2003), and it represents the distributional breakdown of the top income groups who would be receiving most of the capital gains tax.
- 249 Chair Butler Asks for roll-call vote.
- 257 Chair Butler MOTION PASSES 5-4-0. VOTING AYE: BOQUIST, ESQUIVEL, OLSON, BERGER, BUTLER. VOTING NO: GALIZIO, KOMP, RILEY, HASS.
- 259 Chair Butler Asks for further discussion.

- 260 Rep. Berger MOTION: MOVES HB 2332 AS AMENDED BY THE -4 AMENDMENT TO THE HOUSE FLOOR WITH A DO-PASS RECOMMENDATION. Adds that she “would retain my right to vote against when it gets there “[to the House floor].
- 272 Rep. Berger Comments that this is a discussion that needs to take place in a much broader context than just the House Revenue Committee who originally supported a capital gains change that included a revenue-neutral component.
- 286 Rep. Galizio MOTION: MOVES THE ADOPTION OF THE HB 2332-1 AMENDMENT.
- 288 Chair Butler DOES NOT ACCEPT MOTION because there is a motion on the floor currently. Rep. Galizio’s motion would be out of order.
- 289 Chair Butler Asks for further discussion.
- 290 Chair Butler Calls for roll-call vote.
- 293 Rep. Hass Asks to discuss the motion to move the bill to the House floor. Comments about the staff reductions that various school districts are experiencing while the legislature is contemplating tax cuts for people making over \$100,000. Expresses concern about future legislators

who will have to balance the budget based on “what we did before they got here.”

- 320 Chair Butler Comments that he is sorry that some of the schools, especially in the Portland area, have “failed to react to the signs of the economy and the downsizing of the number of students.” Adds that schools in rural Oregon have been experiencing closing schools and cutting back classrooms for a long time.
- 327 Chair Butler Asks for further discussion.
- 328 Rep. Galizio Asks where the \$300 M tax cut fits into the budget that has been agreed upon for this biennium.
- 343 Chair Butler Responds that the amendment HB 2332-4 does not begin until 2007 and is a small percentage of tax subtraction. If the 2007 legislature decides that they cannot “assimilate” an increase of more than ½ of 1%, then they can “say it is too much” and change it. Adds that if the revenue projections fail to materialize, then that legislature has the ability to cut back the percentage. There is no revenue or fiscal impact for this biennium.
- 361 Rep. Galizio Asks if he will have an opportunity to introduce the HB 2332-1, HB 2332-2, and HB 2332-3 amendments, “or is that being squelched.”
- 369 Rep. Butler Calls the committee AT EASE at 1:35 p.m.

- 371 Rep. Butler Calls meeting back to order at 1:37 p.m. Restates motion to move HB 2332 as amended by the -4 amendment to the floor with a do-pass recommendation.
- 376 Rep. Riley Asks Chair Butler about his comment that if the legislature passes this bill now, then the next legislature can remove or reduce it as they feel is necessary. Comments that it would take a super-majority vote to do that.
- 384 Chair Butler Responds that he doesn't believe that is correct because "it wouldn't have taken effect at that particular point."
- 386 Martin-Mahar Clarifies that whenever taxes are raised, which would happen if this bill becomes law. In order to repeal it would take a 3/5 vote.
- 390 Chair Butler Responds that he stands corrected regarding the 3/5 vote necessary to repeal the tax.
- 391 Rep. Riley Comments that it goes against the grain to pass on this "debt" to the next session and have them deal with it in that manner.
- 402 Chair Butler Asks for roll-call vote.

418 Chair Butler MOTION PASSES 5-4-0. VOTING AYE: BOQUIST, ESQUIVEL, OLSON, BERGER, BUTLER. VOTING NO: GALIZIO, KOMP, RILEY, HASS.

420 Chair Butler States for the record that Rep. Hass serves notice of a possible minority report.

CLOSES WORK SESSION FOR HOUSE BILL 2332

OPENS WORK SESSION FOR HOUSE BILL 2046

423 Martin-Mahar Refers to HB 2046-1 amendment (see Exhibit 1 from 04/20/05). It phases in an increase in the percentage of the federal earned income tax credit for Oregon's earned income tax credit (EITC). It changes the EITC to a refundable tax credit. Refers to revenue impact statement (see Exhibit 3 from 04/20/05).

443 Rep. Hass MOTION: MOVES THE ADOPTION OF THE HB 2046-1 AMENDMENT.

453 Rep. Hass Discusses the amendment that makes the EITC refundable beginning in 2007.

471 Rep. Komp Comments that 20% of her constituents are eligible for the EITC refund, and she fully supports this bill.

497 Chair Butler ORDER: THERE BEING NO OBJECTION, THE CHAIR SO ORDERS. MOTION PASSES 8-0-1. VOTING AYE: BOQUIST, GALIZIO, KOMP, OLSON, RILEY, BERGER, HASS, BUTLER. EXCUSED: REP. ESQUIVEL.

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038 Rep. Hass MOTION: MOVES HB 2046 AS AMENDED TO THE HOUSE FLOOR WITH A DO-PASS RECOMMENDATION.

042 Rep. Hass Comments that there are two reasons for cutting taxes: equity and economic stimulus. This bill is an effort toward equity for low-income taxpayers. He supports the bill but expresses concern that it doesn't start until tax year 2007. If it is such a good idea, it should start immediately.

072 Chair Butler ORDER: THERE BEING NO OBJECTION, THE CHAIR SO ORDERS. MOTION PASSES 8-0-1. VOTING AYE: BOQUIST, GALIZIO, KOMP, OLSON, RILEY, BERGER, HASS, BUTLER. EXCUSED: REP. ESQUIVEL.

CLOSES WORK SESSION FOR HOUSE BILL 2046

OPENS PUBLIC HEARING FOR HOUSE BILL 3440

- 092 Martin-Mahar Gives overview of HB 3440 (Exhibit 7). The bill exempts unemployment compensation benefits from federal taxable income for low-income taxpayers. It gives a bigger tax bracket for a tax deduction to single persons and heads-of-households. Refers to revenue impact statement (Exhibit 8) and the handout: Unemployment Compensation Income (Exhibit 9).
- 146 Rep. Mike Schaufler Testifies in support of HB 3440 because it helps the working poor of Oregon. Rep. Schaufler is the sponsor of the bill. Submits handout packet (Exhibit 10).
- 153 Rep. Riley Asks why Rep. Schaufler didn't give the full double-credit for couples filing jointly. For example, for a single person, the deduction in the bill is \$20,000; for a married couple it normally would be \$40,000.
- 158 Rep. Schaufler Responds that the \$30,000 stated in the bill was chosen randomly, and it would limit the amount of revenue the state would lose. He would have preferred to eliminate all taxation on unemployment benefits, but that would have meant a \$95 M revenue reduction.
- 160 Martin-Mahar Clarifies that the table that Rep. Schaufler submitted with his handout (Exhibit 10) differs from her table (Exhibit 9) because different income amounts were used.
- 163 Bob Shiprack Testifies in support of HB 3440 because it is not fair for Oregon to tax unemployment benefits. Relates a personal anecdote about a family member who is unemployed and owes personal income tax.

- 216 Chair Butler Comments that there are 12 states with personal income tax that do not tax unemployment benefits, including California. There are five other states without personal income tax that do not tax unemployment benefits. Asks if there is a fiscal impact on the Dept. of Revenue to implement this program.
- 226 Shiprack Responds that the Dept. of Revenue said that it would be the “standard” \$50,000 to develop more tax forms.
- 232 Rep. Galizio Asks Rep. Schaufler what the legislature has done for the middle class who will “shoulder” the [financial] burden of legislation passed for low and high-income taxpayers.
- 249 Rep. Schaufler Responds that there will probably be nothing done immediately and expresses concern about relief for the middle class. The state should take advantage of the natural resources available, generate more power, and give people a chance to invest in Oregon. Comments that nothing happens if companies and individuals do not invest in Oregon. Investment includes a strong education system, health care for everyone, and safe streets.
- 290 Rep. Komp Asks Chair Butler to clarify who pays unemployment taxes.
- 292 Chair Butler

Responds that the employer pays unemployment taxes and the funds are matched under the federal system of State Unemployment Insurance Fund (SUI).

303 Rep. Hass

Responds to Rep. Schaufler's comments about the business climate in Oregon. The National Tax Foundation says that OR has the tenth best business climate of all 50 states. Regarding HB 3440, taxing unemployment insurance could be a federal reconnect issue.

CLOSES PUBLIC HEARING FOR HOUSE BILL 3440

OPENS PUBLIC HEARING FOR HOUSE BILL 3455

348 Martin-Mahar

Gives overview of HB 3455 (Exhibit 11). This bill modifies the definition of a pollution control facility and increases the percentage of facility costs that are eligible for income tax credit. This bill is identical to HB 2652 which was previously heard in the 2003 regular session. It passed in the House but was not heard in the Senate. The revenue impact (Exhibit 12) is based on data from HB 2652.

TAPE 127, SIDE B

016 John Ledger

Discusses the background of the pollution control tax credit. Suggests that the Revenue Committee consider a better bill from the Environment Committee that pertains to biofuels because it has had more work on it. HB 3455 has some administrative problems according to the Dept. of Environmental Quality (DEQ).

- 040 Mark Nelson Concurs with Ledger's testimony and recommends the biofuels bill from the Environment Committee.
- 052 Mike Grainey Testifies in support of the energy provisions of HB 3455. Business renewal tax credit. Submits correspondence between the Governor and the Dept. of Energy regarding rule changes (Exhibits 13 and 14). Comments that a statutory change that would clarify the eligibility of the manufacturing facilities for renewable resource components would be helpful. Provisions on solar energy are also in SB 33 that the Governor has endorsed. Additional correspondence from the Governor and DEQ are submitted (Exhibit 15 and 16). Supports a tax credit for small hydro facilities.
- 082 Matt Blevins Testifies in opposition to HB 3455 because of concerns about the tax credit in this bill. Submits handout from the Oregon Revenue Coalition (Exhibit 17).

CLOSES PUBLIC HEARING FOR HOUSE BILL 3455

OPENS WORK SESSION FOR BILL INTRODUCTION

- 106 Paul Warner Discusses Legislative Concept (LC) 3575 and LC 3576. LC 3575 (Exhibit 18) is a constitutional amendment patterned after language in HB 3460 incorporating the House Speaker's proposal on school finance. There are significant language differences in how the proposal would relate to the Stabilization Fund. LC 3576 (Exhibit 19) is a House Memorial to the U.S. Congress asking that Congress permanently eliminate the federal estate tax.

126 Chair Butler MOTION: MOVES THAT LC 3575 AND LC 3576 BE INTRODUCED AS HOUSE REVENUE COMMITTEE BILLS.

132 Rep. Hass Asks where the LCs originated.

133 Chair Butler Responds that they originated in the Speaker's office. Warner concurs.

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

CLOSES WORK SESSION FOR BILL INTRODUCTION

OPENS INFORMATIONAL MEETING

143 Warner Comments that HB 3460 will be heard in the House Revenue Committee.

144 Chair Butler General comments about upcoming workgroup meetings for informational purposes regarding HB 3460.

Tape Log Submitted by:

Reviewed by:

Kristi Bowman, Committee Assistant

Kim Taylor James, Committee
Coordinator

Exhibit Summary:

- 1. HB 2332, Revenue Impact Statement HB 2332-1, Martin-Mahar, 1 pg., 04/26/05
- 2. HB 2332, Revenue Impact Statement HB 2332-2, Martin-Mahar, 1 pg., 04/26/05
- 3. HB 2332, Revenue Impact Statement HB 2332-3, Martin-Mahar, 1 pg., 04/26/05
- 4. HB 2332, Revenue Impact Statement HB 2332-4, Martin-Mahar, 1 pg., 04/26/05
- 5. HB 2332, Revenue Impact Statement HB 2332-5, Martin-Mahar, 1 pg., 04/26/05
- 6. HB 2332, Handout: OTIM Table, Martin-Mahar, 1 pg., 04/26/05
- 7. HB 3440, Staff Measure Summary, Martin-Mahar, 1 pg., 04/25/05
- 8. HB 3440, Revenue Impact Statement, Martin-Mahar, 1 pg., 04/25/05
- 9. HB 3440, Table: Unemployment Compensation, Martin-Mahar, 1 pg., 04/25/05
- 10. HB 3440, Handout: HB 3440 packet, Rep. Schaufler, 6 pp., 04/01/05
- 11. HB 3455, Staff Measure Summary, Martin-Mahar, 1 pg., 04/26/05
- 12. HB 3455, Revenue Impact Statement, Martin-Mahar, 1 pg., 04/26/05
- 13. HB 3455, Handout: Letter from Governor, Graine, 1 pg., 09/22/03
- 14. HB 3455, Handout: Letter from Governor, Graine, 2 pp., 01/26/04
- 15. HB 3455, Handout: Letter from Governor, Graine, 2 pp., 04/12/05
- 16. HB 3455, Testimony from Dept. of Environmental Quality, Graine, 2 pp., 04/26/05
- 17. HB 3455, Handout: HB 3455, Blevins, 1 pg., 04/26/05
- 18. LC 3575, Legislative Counsel, 4 pp., 04/22/05
- 19. LC 3576, Legislative Counsel, 2 pp., 04/19/05