

SENATE COMMITTEE ON REVENUE

January 18, 2005
9:00 AM

Hearing Room A
Tapes 3 - 4

MEMBERS PRESENT: Sen. Ryan Deckert, Chair
Sen. Gary George
Sen. Rick Metsger
Sen. Floyd Prozanski

MEMBERS EXCUSED: Sen. Bruce Starr, Vice-Chair

VISITING MEMBER: Sen. Charles Starr

STAFF PRESENT: Paul Warner, Legislative Revenue Staff
Lizbeth Martin-Mahar, Legislative Revenue Staff
James Goulding, Committee Assistant

ISSUES HEARD: Informational Meeting
Orientation: Personal Income Tax

These minutes are in compliance with Senate and House Rules. Only text enclosed in quotation marks reports a speaker's exact words. For complete contents, please refer to the tapes.

TAPE/#	Speaker	Comments
<u>TAPE 3, SIDE A</u>		
003	Chair Deckert	Calls the meeting to order at 9:06 AM. Makes opening remarks to the committee. Notes Senator Charles Starr will be taking the place of Senator Bruce Starr on the committee.
Informational Meeting		
Orientation: Personal Income Tax		
020	Lizbeth Martin-Mahar	Makes opening remarks on tax documents available for committee members. Begins making PowerPoint presentation on Oregon Income Taxes (EXHIBIT A). Presents committee with a research report on Impact of 1997 Legislation (EXHIBIT B), and Oregon Personal Income Tax Statistics (EXHIBIT C).
046	Martin-Mahar	Begins slide presentation with Oregon Income and Property Tax collections, slide 2.
060	Chair Deckert	Wonders if as corporate taxes rise, personal income tax revenues will increase.
070	Martin-Mahar	Replies there is a correlation and that taxpayers would expect to see that happen. Continues with presentation, elaborates on personal incomes taxes and withholding of payments. Discusses General Fund Revenues, slide 3.
108	Martin-Mahar	Explains Number of Tax Returns: Tax Withheld, Estimated Payments & Refunds – 2002, slide 4. Explains Tax Withheld, Estimated Payments & Refunds – 2002, slide 5.
150	Sen. Prozanski	Asks about graph indications on the Withholding Payments slide 6.
170	Martin-Mahar	Clarifies what the graph indications are referring to. Continues presentation with a breakdown of industry and month of tax withholdings index for 1999-2004, slide 7.
200	Martin-Mahar	Discusses industry sectors with a decline in withholdings

		between July 2001 and October 2002, compared to data from October 2004, slides 8 and 9.
234	Martin-Mahar	Begins second segment of slide show, Oregon Income Taxes, Details on the Personal Income Tax system. Discusses Oregon's tie to federal tax system, page 6.
245	Chair Deckert	Wonders about the implications of disconnecting from the federal tax system, and federal laws that would require Oregon to reconnect.
250	Martin-Mahar	Explains Oregon's disconnect, and how some federal changes will not be implemented in Oregon. Legislature will start a rolling reconnect.
348	Martin-Mahar	Discusses Oregon subtractions, federal income taxes but Oregon does not. This includes Social Security. Explains standard deductions vs. itemized deductions.
360	Martin-Mahar	Discusses trends in Oregon's largest subtractions, page 6. Changes made by U.S. Congress affect Oregon taxes.
380	Chair Deckert	Asks if Oregon is the only state with a special tax deduction for the elderly.
390	Martin-Mahar	Replies that he is correct. Discusses top five Oregon tax subtractions.
450	Martin-Mahar	Discusses number of itemized and standard tax returns.
<u>TAPE 4, SLIDE A</u>		
005	Martin-Mahar	Continues discussion of itemized and standard tax returns, page 7.
020	Martin-Mahar	Discusses trends in largest federal itemized deductions, page 8.
040	Martin-Mahar	Continues discussion on top five federal itemized deductions. Top deductions are home mortgage interest and property taxes.
045	Martin-Mahar	Begins discussion on Oregon's personal income tax. Oregon's tax rates are significantly lower than federal tax brackets. Brackets are indexed to inflation.
075	Martin-Mahar	Begins discussion on trends in Oregon's largest credits for tax years 1999-2003. Personal exemption is by far the largest credit.
090	Chair Deckert	Wonders what the aggregate cost of a credit.
100	Martin-Mahar	Replies, aggregate is about \$15 million, but that number is declining in 2003.
105	Sen. Prozanski	Wonders how many states provide for credit where some income is earned from other states.
110	Martin-Mahar	Does not know. Federal level also provides credit for those who pay taxes in other countries.
115	Paul Warner	Points out that his research shows all states have some method of preventing double taxation across state lines.
120	Sen. Charles Starr	Questions how Oregon can capture the income for taxes for work done in other states.
125	Martin-Mahar	Replies that taxpayers have to report it themselves. It is difficult to do.
130	Warner	Ensuring compliance for this is one of the toughest tasks for Oregon Dept. of Revenue.
140	Martin-Mahar	Continues with presentation on trends in largest Oregon credits.
150	Chair Deckert	Ponders how many other states have a similar law.
155	Warner	Replies he would be surprised if many states have that law.
160	Martin-Mahar	Moves forward with her presentation on income tax credit trends. Outlines key features of Oregon's earned income and child care credits. Continues discussion on Top Five Oregon Credits – Tax Year 2002. The top five credits total 93% of total credits. Next

196	Martin-Mahar	slide gives same breakdown in pie graph. Discusses key features of Oregon's earned income and working family child care credits. Brought into effect in 1997. EIC legislation was to help low-income taxpayers.
212	Martin-Mahar	Explains Table B: Historical Utilization of EIC and WFCC & Federal EIC, slide 23. Some families claim both credits.
266	Martin-Mahar	Graph below table shows credits are tailored to help low income taxpayers. As income grows, credits decrease.
300	Martin-Mahar	Explains Distribution of Tax Returns, comparing 2003 returns to 1990. Provides details of the components of adjusted gross income for 1990.
317	Martin-Mahar	Discusses components of adjusted growth income pie chart. Wages comprise 66.3 percent of total. Compares 1990 AGI with 2002 AGI.
364	Martin-Mahar	Discusses change in major components of AGI tax year 2000 and 2002, slide 28.
390	Martin-Mahar	Summarizes distribution of AGI components with discussion of adjusted gross income in 1990 and 2002, slides 29 and 30. Points out slides that details AGI by county. Illustrates disparity among urban and rural counties.

TAPE 3, SIDE B

018	Martin-Mahar	Continues slide presentation with discussion of check-off donations on Oregon income tax forms.
020	Chair Deckert	Asks about rotation of tax check-off donations from year to year.
025	Martin-Mahar	Replies that some rotate, others are permanent
030	Sen. Prozanski	Asks about how to specify a donation.
040	Martin-Mahar	Responds.
050	Sen. Prozanski	Wonders about taxation of Vancouver, Washington residents that work in Oregon.
055	Martin-Mahar	Responds, tax compliance can be difficult to enforce.
067	Sen. George	Wonders about percentage of total amount of state taxes are paid by those earning \$60,000 and above (refer to page 15).
070	Martin-Mahar	Replies, roughly 61%.
075	Chair Deckert	Asks about Oregon's disconnect from federal tax cuts, and what might happen if the Bush administration's tax cuts were to be made permanent.
090	Martin-Mahar	Responds, Oregon would have less federal tax subtraction, and state taxes would raise.
095	Warner	Provides more detail.
102	Chair Deckert	Thanks the staff for the presentation. Adjourns the meeting at 10:09 AM.

Tape Log Submitted by,

Barbara Guardino, Committee Assistant

Reviewed by Kim Taylor James

EXHIBIT SUMMARY

- A. PowerPoint Presentation on Oregon Income Taxes, Martin-Mahar, 21 pp.**
- B. Research Report: Impact of 1997 Legislation, Martin-Mahar, 9 pp.**
- C. Oregon Personal Income Tax Statistics, Tax Year 2002, Martin-Mahar, 196 pp.**