

**SENATE REVENUE COMMITTEE
FEBRUARY 2, 2005 9:00 AM STATE CAPITOL BUILDING**

Members Present: Senator Ryan Deckert, Chair
Senator Charles Starr, Vice Chair
Senator Gary George
Senator Floyd Prozanski

Members Excused: Senator Rick Metsger

Witnesses Present: Debra Buchanan, Oregon Department of Revenue
Rep. Greg Macpherson, District 38
Jody Wiser, Tax Fairness Oregon
Del Diebig, Retired revenue agent
Mike Roach, National Federation of Independent Businesses
Richard York, Portland
Gordon Hillesland, Retired IRS agent

Staff Present: Paul Warner, Legislative Revenue Officer
Barbara Guardino, Committee Assistant

TAPE 21, SIDE A

006 Chair Deckert Calls meeting to order at 9:03 a.m. This is day two of discussion on tax compliance process. Will look at proposals.

PUBLIC HEARING, TAX COMPLIANCE

029 Paul Warner Directs members' attention to Abusive Tax Shelters & Transactions (**EXHIBIT 1**), California Tax Amnesty: Who's eligible, how to apply (**EXHIBIT 2**) and State Tax Amnesty Programs (**EXHIBIT 3**).

047 Warner Gives definition on abusive tax shelters and why they became so common. Accounting firms have pushed these schemes. California has suffered a significant amount of loss.

088 Chair Deckert Asks for an example of a scheme in California.

092 Debra Buchanan Gives an example.

105 Warner Continues discussion on exhibit 1, abusive tax schemes. Money won't be collected for several years due to appeal process.

129 Warner Discusses Compliance Strategies, page 2, highlights # 5.

150 Chair Deckert Asks if enough has been done in other states to allow Oregon to follow suit.

157 Warner Oregon is in much better shape than if it was just starting on its own.

175 Warner Discusses exhibit 2, California tax amnesty, which began Feb. 1.

225	Warner	Discusses last sentence under question 5, page 2, "California has a tax information exchange agreement with the IRS."
245	Chair Deckert	Does Oregon share information with the IRS?
250	Buchanan	Yes, this works both ways.
256	Warner	Reviews question 8: Who is eligible? Discusses elements of application.
299	Warner	Discusses exhibit 3, list of states with amnesty programs. Notes Florida's unique intangibles tax.
330	Buchanan	Refers to slide show handout, California's Effort to Combat Abusive Tax Avoidance Transactions (EXHIBIT 4).
349	Buchanan	Page 1: Gives estimates of revenue losses. Page 2: Graph showing individual and corporate tax revenues. Pages 4-5: Reporting Requirements, Investor Penalties, Promoter Penalties.
370	Chair Deckert	Question concerning enforcement in California.
380	Buchanan	Believes California set up a unit to track down violators. Will confirm.
385	Buchanan	Page 5: bottom: Other Curtailments Page 6: Voluntary Compliance Initiative (VCI)
399	Buchanan	Page 7: VCI by Total Revenue, VCI by Taxpayers
424	Buchanan	Page 8: VCI Options by Revenue
445	Chair Deckert	Asks for clarification concerning taxpayers who pay and then appeal.

TAPE 22, SIDE A

021	Buchanan	Responds, it's a gray area as to what is an abusive tax shelter. Answers follow-up questions.
040	Buchanan	Page 9: VCI Returns by Tax Year
055	Buchanan	Page 10, bottom: Concurrent Activities. California's legislation was going on at the same time the federal government was discussing the same issue. Answers questions. Page 11: SPSI Report
090	Buchanan	Gives examples of abusive tax shelters under federal rules.
101	Buchanan	Page 13: Discusses what Oregon Department of Revenue is doing to combat tax schemes.
120	Buchanan	Page 14: Personal taxes. Penalties under current Oregon law are on page 17.
145	Chair Deckert	Questions on issue of 8-year statute of limitations.

157	Buchanan	Page 15: Information on amnesty
177	Buchan	Oregon has an informal mini-amnesty program already. It has voluntary disclosure agreements. Must consider whether money would be collected anyway.
207	Chair Deckert	Notes, President Bush allocated money toward federal tax collection. Has Oregon benefited by this?
214	Buchanan	Will get that information.
225	Rep. Greg Macpherson	Sponsor of tax amnesty bills. See Improve Compliance with Oregon Income Tax, Outline of HB 2486 and HB 2487 (EXHIBIT 5). House introduced two bills this week, HB 2486 and 2487.
278	Rep. Macpherson	Outlines five proposed changes: <ul style="list-style-type: none"> • abusive tax shelters – HB 2486
313	Rep. Macpherson	Major international accounting firms are busy thinking of ways to avoid taxes.
327	Rep. Macpherson	Discusses HB 2486, lead bill.
397	Rep. Macpherson	Bill would include an amnesty program. Does not predict Oregon's plan will be as successful as California, which was dealing with dot-com bubble. But this is the time to closely consider this program because Oregon's statute of limitations is about to run out.
462	Rep. Macpherson	<ul style="list-style-type: none"> • withholding on retirement payments – HB 2487 • withholding on sales of Oregon real estate by nonresidents – HB 2487

TAPE 21, SIDE B

066	Sen. George	Asks question concerning retirement issue. Knows someone who was advising him to exploit a loophole by moving out of Oregon.
077	Rep. Macpherson	Responds, Congress has limited states' ability to tax retirement amounts received here when that person has moved to another state.
089	Sen. George	Follow-up questions.
102	Rep. Macpherson	<ul style="list-style-type: none"> • state collection of local income taxes – HB 2487
140	Chair Deckert	If Oregon moved forward on the fourth proposal, it would be codifying a very decentralized tax structure here. It would lock in a tax structure that may not be good for economic development.
152	Rep. Macpherson	Responds, fourth proposal does not create any new taxing authority.
179	Rep. Macpherson	<ul style="list-style-type: none"> • holders of professional and occupational licenses – HB 2487
196	Rep. Macpherson	Gives concluding statements, asks committee to consider his ideas.
233	Jody Wiser	See written testimony (EXHIBIT 6) verbatim. Tax Fairness Oregon

examines what's happening with tax enforcement here.

- 245 Wisner
Contends there are four reasons Oregon needs to increase its efforts to collect taxes: revenue, the integrity of the voluntary tax system, an enforcement gap and an opportunity gap.
- 313 Wisner
Four, we have an opportunity gap (page 2).
- 334 Wisner
Examples – I will use myself and my sons as examples
- 400 Wisner
Tax Fairness Oregon's ideas to address these issues (page 4): Abusive tax shelter initiative. Suggests legislature increase statute of limitations to 10 years for auditing.

TAPE 22, SIDE B

- 030 Wisner
Continues testimony on tax fairness. Believes there should be a broad publicity campaign.
- 052 Del Diebig
Testifies in favor of tax shelter reform. See written testimony, Quantifying the Oregon Tax Gap, Income Tax – Individual and Corporate (**EXHIBIT 7**).
What is a tax gap?
- 091 Diebig
Directs members' attention to Exhibit A within his testimony, Tax Gap Analysis. Compares tax gap to Exhibit B, Most Serious Problem, Nonfiling and Underreporting by Self-Employed Taxpayers
- 117 Chair Deckert
Asks Diebig to estimate how much of the uncollected tax is people who would comply but don't have the money.
- 122 Diebig
Responds, Legislative Revenue Office has that information.
- 127 Diebig
Continues testimony, see page 2, What is the Individual Income Tax Gap?
- 161 Diebig
What is the Corporate Income Tax Gap? Directs members' attention to Exhibit C within written testimony.
- 181 Diebig
Historical Data on the Tax Gap, page 3
Directs members' attention to Exhibit D in written testimony.
- 197 Diebig
What Isn't Included in the Tax Gap?
- 238 Diebig
Concluding statements, page 4. IRS no longer audits corporations.
- 302 Mike Roach
Testifies on issue of tax fairness through better tax compliance. See written testimony, verbatim (**EXHIBIT 8**).
- 379 Richard York
Testifies in favor of tax collection. See Public Humiliation Helps States Collect Delinquent Taxes, verbatim (**EXHIBIT 9**).
- 447 Roach
Suggests making part of amnesty program to allow businesses and individuals to remain anonymous unless they don't come forward.

TAPE 23, SIDE A

043	Gordon Hillesland	See written testimony, paraphrased (EXHIBIT 10). Discusses purposeful inefficiency in the current tax collecting system in the Internal Revenue Office. Discusses illegal tax protester movement.
113	Hillesland	Directs members' attention to newspaper article in exhibit 10, Tax troubles shadow redevelopment official.
110	Chair Deckert	Adjourns meeting at 11:00 a.m.

Tape Log Submitted by,

Barbara Guardino, Committee Assistant

Exhibit Summary:

1. Franchise Tax Board – Abusive Tax Shelters & Transactions, Warner, 4 pp.
2. California Tax Amnesty: Who's eligible, how to apply, etc., Warner, 5 pp.
3. State Tax Amnesty Programs, November 22, 1982 – Present, Warner, 3 pp.
4. California's Efforts to Combat Abusive Tax Avoidance Transactions, Buchanan, 24 pp.
5. Improve Compliance With Oregon Income Tax, Outline of HB 2486 and HB 2487, Macpherson, 1 pp.
6. Testimony to Senate Revenue Committee, Jody Wiser, Tax Fairness Oregon, Wiser, 4 pp.
7. Quantifying the Oregon Tax Gap, Income Tax – Individual and Corporate, Diebig, 8 pp.
8. Testimony of Mike Roach, Roach, 2 pp.
9. Public Humiliation Helps States Collect Delinquent Taxes, York, 2 pp.
10. Senate Revenue Committee Testimony, Hillesland, 10 pp.
11. Testimony of Gil Moss, 2 February 2005, Moss, 5 pp.