

**INFORMATIONAL MEETING:
TAX EXPENDITURE REPORT
PUBLIC HEARING: SB 18, SB 19, SB 665
TAPES 71A-B 72 A**

**SENATE REVENUE COMMITTEE
MARCH 21, 2005 8:30 AM STATE CAPITOL BUILDING**

Members Present: Senator Ryan Deckert, Chair
Senator Rick Metsger
Senator Floyd Prozanski
Senator Charles Starr, Vice Chair

Members Excused: Senator Gary George

Witnesses Present: Sen. Peter Courtney, Senate President, District 11
Col. Mike Caldwell, Oregon Military Department
Chris Garrett, staff counsel
Matt MacDonald, Oregon Veterans
Debra Buchanan, Oregon Dept. of Revenue
Craig Fischer, Oregon Dept. of Revenue
Chris Ailanach, Oregon Dept. of Revenue
Jim Craven, American Electronics Association

Staff Present: Paul Warner, Legislative Revenue Officer
Lizbeth Martin-Maher, Economist
Barbara Guardino, Committee Assistant

TAPE 71, SIDE A

005 Chair Deckert Calls meeting to order at 8:35 a.m. Committee will begin looking at tax credit/exemption bills this week.

PUBLIC HEARING, SB 18, SB 19

020 Lizbeth Martin-Maher Gives overview of SB 18. (**EXHIBIT 1**). Connects Oregon law to federal law exclusion of qualified military benefits under Section 134 Internal Revenue.

051 Martin-Maher SB 18 does not have a large revenue impact (**EXHIBIT 2**).

058 Martin-Maher Explains SB 19 (**EXHIBIT 3**). Exempts military compensation for active duty Oregon National Guard, military reservists or organized militia from personal income tax. Revenue impact is larger than SB 18 (**EXHIBIT 4**).

094 Sen. Peter Courtney Testifies in support of SB 18 and SB 19. SB 18 relates to death benefit for military families.

130 Sen. Courtney Begins written testimony verbatim (**EXHIBIT 5**). SB 19 is broader than SB 18. It would exempt from Oregon income tax the active-duty pay earned by National Guard members and reservists who are called to active service but remain stationed in Oregon. It is a matter of equity. Proposal was contained in SB 231 in 2003 session, but did not receive House vote.

187	Chair Deckert	Prefers to move a bill outside the federal connect bill.
199	Col. Mike Caldwell	Concurs with Chair Deckert. Comments, he doubts the accuracy of the revenue impact figures. Explains the difference between Title 32 and Title 10 status. This bill is a windfall to the state.
225	Sen. Metsger	Asks Col. Caldwell for clarification on change of status. Does this bill only affect the difference in pay after being mobilized under Title 10?
261	Caldwell	Responds, SB 19 is written to capture those reservists who are mobilized by the President and moved out of Title 32 status.
293	Chair Deckert	Requests Caldwell work with LRO staff on an accurate revenue impact statement.
303	Martin-Mahar	Responds, SB 19 captures those on active duty who changed status from Title 32 to Title 10, but were assigned to Oregon, not overseas. Concerning revenue impact, more than four full years are covered in the first fiscal year, so that's why the impact is so large.
325	Caldwell	Concurs with Martin-Mahar's assessment. These bills affect only about 120 people who earn less than \$30,000 per year.
355	Chair Deckert	Thanks Col. Caldwell for sponsoring these bills.
383	Chris Garrett	Clarifies small error in Sen. Courtney's testimony: "good afternoon" is supposed to read "good morning."
385	Matt MacDonald	Requests members pass these bills out.
407	Chair Deckert	Asks whether these bills should be passed individually or together.
417	MacDonald	"We don't care how it goes as long as it passes."

PUBLIC HEARING, SB 665

450	Martin-Mahar	Explains SB 665. See Staff Measure Summary (EXHIBIT 6). Expands the definition of qualifying child to include a stepchild of a taxpayer to qualify for the working family child care tax credit. Revenue impact is minimal. Also see (EXHIBIT 7).
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TAPE 72, SIDE A

030	Debra Buchanan	Testifies on behalf of Dept. of Revenue. Points out, DOR has a rule now that includes step-children in the definition of child for purposes of this credit. Does not need a statute change. Expresses concern that if reconnect bill picks up federal definition along with adoption of SB 665, it might be more restrictive than the reconnect bill.
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INFORMATIONAL MEETING, TAX EXPENDITURE REPORT

060	Sen. Prozanski	Explains reasons for requesting a review of the Tax Expenditure Report (EXHIBIT 8). There are over 350 expenditures in Oregon's tax system, and there has been no review whether to carry them forward. Also, asks whether old tax expenditures should be taken out as new ones are put into place. Lawmakers need an assessment of what's in place.
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080	Paul Warner	This requirement came out of the revenue committees in 1995. Introduces report's authors, Craig Fischer and Chris Ailanach.
086	Craig Fischer	Begins slide show overview to provide context of the history of the tax expenditure report, as well as how the report can be a useful resource in understanding the tax system. Slide show is entitled State of Oregon 2005-07 Tax Expenditure Report, March 17, 2003. No exhibit provided to the public.
107	Fischer	Slide – General Overview <ul style="list-style-type: none"> • Budget Accountability Act (1995) • Governor submits to legislature each session • Linkage with direct expenditures
125	Fischer	Slide – What is a Tax Expenditure? “any law of the Federal Government or this state that exempts, in whole or in part, certain persons, income, goods, services or property from the impact of established taxes, including but not limited to tax deductions, tax exclusions, tax subtractions, tax exemptions, tax deferrals, preferential tax rates and tax credits.”** *Oregon Laws 1995, Chapter 746
140	Fischer	Slide – Oregon’s Tax Expenditures by Tax Program (chart). Three columns: Number of Tax Expenditures Estimated Revenues, Estimated Tax Expenditures There are 352 tax expenditure programs, divided into three components: income, property and other.
165	Sen. Prozanski	Asks for clarification on chart columns. Follow-up questions on revenues/expenditures chart
186	Fischer	Slide – Oregon’s Tax Expenditures by Tax Program (slide gives greater detail). Broken down into federal exclusions.
225	Fischer	Continues explaining Tax Program: Income (personal and corporate): Federal exclusions; federal adjustments/deductions; Oregon subtractions; Oregon credits and other. Property: Full exemption; partial exemption; special assessment Other
265	Fisher	Slide – Oregon Income Tax Expenditures by Type of Taxpayer Splits out 195 total income tax expenditures into individuals and corporations. Individual side is over \$10 billion; corporations, about \$450 million.
275	Fisher	Slide – Oregon’s Tax Expenditures by Budget Program Budget Program/Function; Education, human services, economic and community development, natural resources, transportation, and other.
301	Fischer	Slide – Pie chart, Tax Expenditures by Budget Program, 2005-07
316	Chris Ailanach	Slide – What Information is Required in the Tax Expenditure Report? <ul style="list-style-type: none"> • Statutory authority

- Purpose
- Revenue loss estimates
- Program or function
- Evaluation
- Sunset recommendations

- 361 Ailanach Slide – How to Use the Tax Expenditure Report
- Two indexes (by tax program, page 9; and by budget program/function (page 19)
 - Tax descriptions
 - Detail for each expenditure (includes sunset dates)
- 446 Ailanach Slide – Evaluation Process
- DOR identifies new or modified expenditures
 - DOR provides information to agencies with program responsibility or subject matter expertise
 - Agencies perform evaluations

TAPE 71, SIDE B

- 035 Chair Deckert Asks if there is an independent body that has looked at which ones are effective.
- 040 Warner Responds, no, there is no outside body, but there's a lot of interest in having one.
- 053 Sen. Prozanski Follows up on Warner's comments. This is an interim project. Expresses concern that there is not an independent oversight.
- 068 Chair Deckert Concurs, it would be good to have an independent party to review this book, to put sunsets on the programs that need them.
- 080 Ailanach Adds, it would be helpful to prioritize them; there are 350 of them.
- 096 Ailanach Concludes current slide –
- Evaluations are reviewed by DAS and Governor's office
- 104 Ailanach Slide – Revenue Estimate Issues
- Static estimates
 - Interactions between expenditures
 - Budget Impact
 - Loss and shift (property tax estimates)
 - Estimates reviewed by state agencies
- 121 Ailanach Slide – Tax expenditures Scheduled for Sunset in 2005-07
This is the sunset table from the tax expenditure book. Less than half have sunsets.
- 127 Sen. Prozanski Suggests staggering sunset dates.
- 139 Chair Deckert Asks Mr. Warner to figure what this would look like.
- 133 Ailanach Concurs with Chair's comments on an independent evaluation.

145	Chair Deckert	Comments, House Revenue Committee looked at this in 1999.
155	Warner	The 1999 evaluation did result in a number of sunsets. An overall fiscal policy is more of an interim effort.
168	Fischer	Setting up criteria in which to evaluate expenditures would be useful.
178	Sen. Prozanski	Comments on call-backs. Are Fischer and Ailanach familiar with those types of proceedings?
189	Ailanach	Not familiar.
199	Sen. Prozanski	Comments on states in bidding wars for Fortune 500 companies. Oregon should be setting a state policy on corporations getting those benefits.
215	Chair Deckert	Committee will have plenty of opportunity to craft language to deal with this.
224	Fischer	Follows up on question of call-backs.
235	Chair Deckert	Suggests adding a bar graph toward the front of the book to correct misinformation on tax credits and tax expenditures.
242	Fischer	Will look to do this.
260	Jim Craven	Testifies in regard to individual and corporate tax expenditures. See written testimony: Who benefits from tax expenditures: Individual Oregon taxpayers, that's who (EXHIBIT 9). Almost 97% of total benefits go to individuals.
284	Craven	Discusses box, top of page 2: \$1.24 billion goes to Oregon tax credits. \$1 billion is personal exemption credit for all families. Revenue credit impact from corporate credits is \$64 million.
326	Craven	Three points: 1) The bulk of tax credits are connected to the federal code; 2) the bulk of tax breaks go to individuals, not corporations; and 3) there have been reasonable arguments during sunset reviews.
411	Chair Deckert	Closes informational meeting. Adjourns meeting at 9:55 a.m.

Tape Log Submitted by,

Barbara Guardino, Committee Assistant

Exhibit Summary:

1. SB 18, Staff Measure Summary, Martin-Mahar, 1 pp.
2. SB 18, Revenue Impact of Proposed Legislation, Martin-Mahar, 1 pp.
3. SB 19, Staff Measure Summary, Martin-Mahar, 1 pp.
4. SB 19, Revenue Impact of Proposed Legislation, Martin-Mahar, 1 pp.

5. SB 18, SB 19, Testimony by Senator Peter Courtney Supporting SB 18 and SB 19, March 21, 2005, Courtney, 2 pp.
6. SB 665, Staff Measure Summary, Martin-Mahar, 1 pp.
7. SB 665, statutes relating to SB 665, Martin-Mahar, 1 pp.
8. Informational, Tax Expenditure Report, Fischer/ Ailanach, 383 pp.
9. Informational, Oregon Council AEA, Who benefits from tax expenditures? Craven, 2 pp.