

HOUSE REVENUE COMMITTEE
FEBRUARY 20, 2003 8:30 AM STATE CAPITOL BUILDING

Members Present: Representative Lane Shetterly, Chair
Representative Wayne Scott, Vice Chair
Representative Joanne Verger, Vice Chair
Representative Phil Barnhart
Representative Vicki Berger
Representative Pat Farr
Representative Mark Hass
Representative Elaine Hopson
Representative Max Williams

Witness Present: Debra Buchanan, Oregon Revenue Department
Jim Craven, American Electronics Association
Jonathan Williams, Intel
Harvey Matthews, Association of Oregon Industries

Staff Present: Paul Warner, Legislative Revenue Office
Lizbeth Martin-Mahar
Kathy Tooley, Committee Assistant

TAPE 51, SIDE A

004 Chair Shetterly Calls meeting to order at 8:31 a.m.

OPENED PUBLIC HEARING HB 2182

015	Lizbeth Martin Mahar	Provided a "Brief History of Foreign Sales Corporation (FSC)" (Exhibit 1).
108	Martin-Mahar	Provided background and description of HB 2182. (Exhibit 2).
118	Martin-Mahar	Described revenue Impact (Exhibit 3), no fiscal impact.
125	Martin-Mahar	Provided background on "Respond to Foreign Sales Corporation/ Extraterritorial Income Decisions", (Exhibit 4).
128		Questions and discussion regarding FSC definition.
137	Rep. Barnhart	HB 2182, Section 1 (c) means extraterritorial income is income.
141	Martin-Mahar	Answered affirmatively.
150	Chair Shetterly	Today will be an orientation on FCS and DISCS and extraterritorial income.
142	Buchanan	Provided history and context for the bill. This bill is seen as a reconnect issue, (Exhibit 4)
184		Provided legislative history regarding FSC history and extraterritorial exclusion.
226	Rep. Hass	Would this take a 36 vote?
228	Chair Shetterly	Answered affirmatively, because it would raise revenue.

231	Rep. Williams	Which is a difficulty with being connected, anytime you want to disconnect it requires a 36-18 vote, connecting you can do with 31.
227	Rep. Barnhart	The WTO has said that this is illegal?
241	Buchanan	Answered affirmatively. There is talk about change in international tax rules.
255	Rep. Berger	This bill connects or disconnects?
258	Buchanan	This disconnects from extraterritorial income exclusion at the federal level and automatically flows through to Oregon. It restores the taxability of the same kind of income available before 2000. Questions and discussion regarding vote to disconnect.
294	Rep. Hass	In our Tax Expenditures book this is listed as having limited benefit according to the Economic Development Department and the cost is significant, \$24 million.
300	Chair Shetterly	The revenue impact statement says \$18 is that based on more current numbers?
304	Martin-Mahar	Answered affirmatively.
349	Jim Craven	This is a big issue and a lot at stake for many Oregon companies. This needs to be looked at in the overall context of what we want to do with tax an economic policy this session. Urged committee to recall what drives the Oregon economy. AEA struggles with tariffs by the European Union, (EU) and will have greater tariffs if Congress and the President do not address.
424	Rep. Hass	Issue is how far to go with a tax credit, can you quantify jobs/benefits for your industry?

TAPE 52, SIDE A

010	Craven	No, can't give a direct result to this exclusion, the high tech industry is responsible for about half the state's exports, can't say if that's also half the dollar amount.
022	Rep. Verger	What is WTO impact on American workers and business? What is the agenda?
033	Craven	Not an expert on it the WTO, the EU is pressing its case on this specific issue calling it an unfair trade subsidy, and international body has ruled in favor of the EU on this issue twice.
050	Chair Shetterly	Congress is dealing with as we speak?
053	Craven	Answered affirmatively.
060	Chair Shetterly	Is one option, repeal by Congress to avoid imposition of tariffs?
063	Craven	Believe that is correct. EU is making the case that the U.S. is unfairly subsidizing American companies.
074	Rep. Farr	This originated with corporations operating in the U.S. were being taxed twice: by U.S. and by the country exporting to. It's not a tax; it's an elimination of double taxation?

080	Craven	<p>Answered affirmatively. Evolved to being called unfair trade subsidy.</p> <p>Questions and answers regarding dispute resolution.</p>
100	Jonathan Williams	<p>Intel would face 100% duties on products if U.S. doesn't address issues with the current ETI. The current disconnect from ETI is only carried out by 5 states. Oregon would be number 6 if it decided to disconnect. When states vote to disconnect, Intel believes it sends a negative signal to American Corporations that are trying to grow jobs within. Signal it sends, as overall economic program of how Oregon is going to go forward, encourage export, or join a few states that do not encourage export?</p>
150	Rep. Barnhart	<p>Questions and discussion regarding states that don't tax?</p>
180	Harvey Matthews	<p>Spoke in opposition to HB 2183, (Exhibit 5). This is an Oregon business issue, not a high tech issue. This bill would have the net affect of discouraging foreign exports. AOI believes it should be tabled indefinitely.</p>
220	Rep. Hass	<p>Can you quantify in jobs, feedback to the economy? What does the state get for money taken out of treasury to pay for this?</p>
223	Matthews	<p>Can't give an absolute answer, 20 percent of jobs are tied to international trade, don't know what percent would benefit from the incentive.</p>
235		<p>Discussion regarding issues affecting locating new technology in Oregon.</p>
264	Rep. Hass	<p>We're at a crisis point, Portland chopping a month of school year is seen as bigger negative; emptying mental health facilities, releasing inmates from jails. Need data to ensure benefit is returned.</p>
287	Craven	<p>Don't intend to be insensitive, and must put bill in context of fundamental decision about tax policy and economic policy.</p>
340	Rep. Farr	<p>Difficult to quantify, but \$18 million would be taking from Oregon-based corporations, assume that would have been reinvested in Oregon economy.</p>
359	Rep. Barnhart	<p>Cited example of Amazon establishing business in Washington, not because of tax program, but because Washington had pool of employees for internet-based company. Need more data to understand how important the tax factor is vs. other attributes corporations look for in doing business in Oregon.</p>
436		<p>Examines scenarios Congress could approve and effect on Oregon income tax.</p>
035	Buchanan	<p>Department of Revenue looks at internal revenue code in effect as of 12/31/2002. If Congress repeals exclusion, income would be restored for federal purposes, but Oregon would go back to federal law effective 12/31/2002, which would be a subtraction on Oregon returns.</p>
042	Chair Shetterly	<p>Companies are keeping track of EIT for purposes of federal taxes, so if repealed, are corporations going to have to keep track for EIT calculation for Oregon income tax purposes to take advantage of the exclusion?</p>
052	Buchanan	<p>Answered affirmatively.</p>
053	Rep. Berger	<p>If Oregon disconnects on other bill and nothing here. What does that mean to Intel, different and the same. And if Federal repeals.</p>

065	Buchanan	Describes scenario if Oregon disconnects from Federal law under HB 2186.
85		Discussion scenario regarding increasing revenue by connecting to Federal changes.
091	Buchanan	Could create a specific exception in HB 2186 for items you want to have continuing conformity, as done in the past with net operating losses and pension plans items.
122	Chair Shetterly	Closed Public Hearing on HB 2182. Meeting adjourned at 9:36 a.m.

Tape Log Submitted by,

Kathy Tooley, Committee Assistant Reviewed by Kim Taylor James

Exhibit Summary:

1. Martin-Mahar, "Brief History of Foreign Sales Corporation", 1 page
2. Martin-Mahar, "Revenue Impact HB 2182", 1 page
3. Martin-Mahar, "Staff Measure Summary HB 2182", 1 page
4. "Respond to Foreign Sales Corporation/ Extraterritorial Income Decisions", 4 pages
5. Buchanan, "HB 2182 Summary", 1 page
6. Mathews, "Testimony Re: HB 2182", 2 pages