

SENATE REVENUE COMMITTEE
April 17, 2003 1:00 PM STATE CAPITOL BUILDING

Members Present: Senator Ryan Deckert, Chair
Senator Ted Ferrioli, Vice Chair
Senator Tony Corcoran
Senator Lenn Hannon
Senator Charlie Ringo
Senator Bruce Starr

Witnesses Present: Dexter Johnson, Legislative Counsel
Debra Buchanan, Department of Revenue
Patrick Green, ORAFL-CIO
David Williams, Oregon School Employees Association
Kappy Eaton, League of Women Voters of Oregon
Jim Craven, American Electronics Association
J.L. Wilson, National Federation of Independent Businesses
Joe Schweinhart, Association Oregon Industries
Rob Douglas, Oregon Society of Certified Public Accountants

Staff Present: Paul Warner, Legislative Revenue Office
Richard Yates, Legislative Revenue Office
Lizbeth Martin-Mahar, Legislative Revenue Office
Tara Lantz, Committee Assistant

TAPE 97, SIDE A

003 Chair Deckert Calls meeting to order at 1:20pm.

OPENS WORK SESSION ON SB 720

013 Sen. Ferrioli MOTION: MOVES SB 720-1 AMENDMENTS DATED 4/3/03 BE ADOPTED.

015 Sen. Deckert ORDER: HEARING NO OBJECTION, MOTION PASSES: 5-0-1. SENATOR EXCUSED: RINGO.

025 Sen. Ferrioli MOTION: MOVES SB 720 TO THE SENATE FLOOR WITH A DO PASS AS AMENDED RECOMMENDATION AND A SUBSEQUENT REFFERAL TO THE WAYS AND MEANS COMMITTEE.

030 Sen. Deckert ORDER: ROLL CALL VOTE: MOTION PASSES: 6-0-0.
SENATORS ANSWERING AYE: CORCORAN, HANNON, RINGO, STARR,
FERRIOLI, DECKERT.

CLOSES WORK SESSION ON SB 720

OPENS PUBLIC HEARING ON HB 2186A

044 Lizbeth Martin-Mahar Discusses the history of the connection to the federal tax code. Exhibit 2.
Compares Oregon's policy to other states. Exhibit 3.

160 Martin-Mahar Discusses the main components of the 2003 proposed Bush economic plan
and gives estimated revenue impacts from the plan in its original House form.

205	Sen. Hannon	Asks if there are other limitations that are going to apply to Oregon in a secondary role because of these deductions that were taken at the federal level.
209	Martin-Mahar	Responds that some of them would feed through to the state level.
215	Sen. Hannon	Asks if disconnecting from the federal tax code would hurt Oregon taxpayers in an unintended way.
225	Martin-Mahar	Responds that they tried to maintain the connection for certain elements of taxable income such as depreciation. Discussion follows.
260	Martin-Mahar	Continues to discuss Bush's proposed plan and estimated revenue impacts.
375	Sen. Deckert	Asks if they could cut the estimated revenue impact in half since the U.S. Senate has proposed cutting the credits in half.
380	Martin-Mahar	Responds that they can't just halve the estimates because they don't know what elements have been changed by the Senate and don't have any numbers.

TAPE 98, SIDE A

002	Martin-Mahar	Discusses the intent of HB 2186 to prevent revenue loss to Oregon due to changes in federal law while maintaining the connection for important elements. Explains HB 2186, which establishes a date certain as the connection date to the Internal Revenue Code for Oregon tax law matters, while continuing the rolling reconnect for certain elements of taxable income.
030	Martin-Mahar	Explains problem with the bill of disconnecting from the rolling reconnect pertaining to depreciation and expensing depreciable assets for federal law changes.
097	Sen. Ringo	Asks about the importance of the effectiveness of the date and if there are time restraints.
103	Martin-Mahar	Responds that this is a no revenue impact now but as soon as the federal law changes it will be a revenue raising bill.
114	Sen. Ringo	Asks if it is known when the federal law will pass.
115	Sen. Deckert	Responds that Congress is on recess right now but that it could happen very quickly after they get back.
120	Paul Warner	Responds that they are on two week recess and that the House and Senate still have to reach an agreement, but that it could change within a week after they get back.
135	Sen. Hannon	Asks if this requires a 3/5 vote.
137	Warner	Responds that until the federal plan is signed into law they don't need the 3/5 majority vote Discussion follows.
150	Sen. Hannon	Asks if there could be a constitutional challenge at a later date that there was not a 3/5 vote.

- 165 Dexter Johnson Responds that there has not been a court case on the 3/5 majority, but he believes no because they look at the actual state of the law at the time the legislature acts.
- 198 Sen. Hannon Asks if future legislation could apply retroactively causing taxpayers to be penalized for using the wrong deduction scale.
- 244 Johnson Responds that it depends on the choices that the 2005 legislation makes.
- 255 Debra Buchanan Responds that they have had that situation in the past during the 1980's disconnect and that if federal legislation is passed while the state is disconnected and then the state picks up the changes retroactively, the taxpayers could be charged more taxes without penalties or receive a refund without penalty.
- Discussion follows.
- 304 Warner States that in the 1980's they disconnected from the depreciation system and that complicated things because a taxpayer has to keep track of the depreciation for the entire life of the asset.
- 310 Johnson States that there is a section of the bill that states that interest is not paid on retroactive changes in the future.
- 316 Sen. Ringo Asks about the determination for a 3/5 vote.
- 324 Johnson Responds that there is a chance that the vote could be challenged because there has never been a court ruling on it.
- 335 Sen. Ringo Points out that the House passed the bill with a 3/5 majority and suggests that the Senate ensure 3/5 majority as well.
- Discussion follows.
- 351 Sen. Starr Asks why there is not an emergency clause on the bill.
- 355 Johnson Responds that there is a statute that prohibits emergency clauses on bills that effect taxation.
- 365 Buchanan Refers members to summary of the bill. Exhibit 6. Discusses a few of the major elements of the bill.
- 392 Sen. Deckert Asks if they have ensured that there are no unintended consequences.
- 400 Buchanan Responds that there will be something that is not included, but that they have tried to think of everything.

TAPE 97, SIDE B

- 030 Patrick Green Testifies in support of HB 2186 because it allows the legislature to take control of Oregon's tax system in a time when the federal government is deficit spending.
- 045 David Williams Testifies in support of HB 2186 because it will create some certainty that the federal tax code won't be detrimental to the state.
- 076 Kappy Eaton Testifies in support of HB 2186 because it closes one of the loopholes to restructure the Oregon tax system. Refer to written testimony. Exhibit 7.

099	Jim Craven	Testifies that this bill does create more work and costs for tax filers. States that he appreciated the accommodations made in the House.
157	Sen. Deckert	Asks if he would prefer to amend HB 2186 or pass it and amend another bill to fix it.
165	Craven	Responds that they should change HB 2186 to accurately reflect what the chair of the house revenue committee said the intent of the bill was on the house floor. Discussion follows.
202	J.L. Wilson	Testifies that he is opposed to the bill if it is not fixed.
227	Joe Schweinhart	Testifies that they opposed the bill in the house but understand the situation the state is in. States that if they disconnect from the federal tax code, they should work on economic development in the state to help businesses. Discussion follows.
306	Rob Douglas	States that there are still some problems with the bill and makes a commitment that the CPA's will continue to be a resource.

CLOSES PUBLIC HEARING ON HB 2186

330	Sen. Deckert	Adjourns meeting at 2:34pm.
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Tape Log Submitted by,

Tara Lantz, Committee Assistant

Exhibit Summary:

1. HB 2186A, Lizbeth Martin-Mahar, Staff Measure Summary, 1p.
2. HB 2186A, Lizbeth Martin-Mahar, Oregon Income Tax Reconnect History, 1p.
3. HB 2186A, Lizbeth Martin-Mahar, State Relationships to the Federal Tax Code, 1p.
4. HB 2186A, Lizbeth Martin-Mahar, Revenue Impact from Connecting to the 2003 Proposed Plan, 2pp.
5. HB 2186A, Lizbeth Martin-Mahar, An Analysis of Changes Resulting from the, 45pp.
6. HB 2186A, Debra Buchanan, Written testimony, 6pp.
7. HB 2186A, Kappy Eaton, Written Testimony, 1p.