

**HOUSE SCHOOL FUNDING AND TAX
FAIRNESS/REVENUE COMMITTEE**

MARCH 30, 2001 — 1:30 P.M. - HEARING ROOM A - STATE CAPITOL BUILDING

Members Present: Representative Lane Shetterly, Chair

Representative Deborah Kafoury, Vice Chair

Representative Alan Bates

Representative Chris Beck

Representative Alan Brown

Representative Mark Hass

Representative Max Williams

Representative Bill Witt

Members Excused: Representative Janet Carlson, Vice Chair

Staff: Paul Warner, Legislative Revenue Officer

Ed Waters, Economist, Legislative Revenue Office

Joan Green, Committee Assistant

Jennifer Wells, Committee Clerk

Witnesses: Bruce Webber, Oregon State University

Tony Rufolo, Oregon State University

Debra Buchanan, Oregon Department of Revenue

Bob Alexander, Department of Revenue

TAPE 108, SIDE A

005 Chair Shetterly Call to order the House Revenue Committee at 1:45 PM.

Noted a memo has been sent to members offices stating that starting the week of April 9th committee will start at 1:00. PM.

011 Warner Discussed a listing of measures with revenue impact that have passed either through the House or the Senate Revenue Committees. (Exhibit 1)

OPENED PUBLIC
HEARING ON HB
3942

037 Shetterly This measure is the Revenue Stabilization Tax Reform Act. The Committee will continue to hear this measure.

055 Warner Reviewed summary packet. (Exhibit 2, Page 2)

081 Warner Discussed the Static Revenue Impact Estimate. (Exhibit 3)

095 Warner Continued the discussion of the summary packet. (Exhibit 2, Page 2)

112 Shetterly Can you refresh us the capital gains component of that at least in the past couple of biennia?

117 Warner Estimated that given the rapid growth of capital gains over the last five years that about 10% of personal income tax collections are contributed to capital gain.

138 Warner Discussion of experience of other states. (Exhibit 2, Page 7)

- 188 Warner Continued with discussion of alternatives. (Exhibit 2, Page 5)
- 257 Warner Continued with discussion of characteristics of the Revenue System with the Business Activity Tax (BAT). (Exhibit 2, Page 8)
- 300 Warner Major tax reform always involves risks. Identifiable risks include transition costs, tax base erosion, and impact on exporters. Appropriate policy can minimize these risks. Policy tools include use of a filing threshold, zero bracket amount for the BAT and adjustment in the apportionment formula. The Department of Revenue can also reduce risks by effectively educating taxpayers on the new tax.
- 332 Warner Discussed Appendix B; Tax forms for other states. (Exhibit 2, Page 11)
- 350 Warner Discussed Appendix C; Business activity tax base estimates. (Exhibit 2, Page 16)
- 358 Warner Reference to report on Value added tax by Dale D. Ebel. (Exhibit 5)

Submitted by, Reviewed by,

Jennifer Wells Kim Taylor James

Committee Clerk Revenue Office Manager

TAPE 109, SIDE A

- 018 Tony Rufolo Spoke to the differences between various taxes and provided historic and international background information.

Questions and discussion regarding:

1. Business Activity Tax (BAT) and how it would be effected by e-commerce and catalog sales.
2. Whether a BAT can be passed on to consumers and products.
3. Whether a BAT will create a competitive disadvantage to Oregon businesses selling products over interstate lines.
4. Whether out-of-state companies that import to Oregon would be captured by BAT.

216 Bruce Weber Reviewed the Oregon Tax Incidence Model (OTIM) results to HB 3942 and reviewed criteria to judge a tax system. (Exhibit 6)

295 Ed Waters Reviewed the OTIM Results: Feedback Effects. (Exhibit 7)

400 Rep. Witt Questions and discussion regarding implementation and operation and the effects on:

1. Local revenues.
2. General Fund revenues.
3. Phase-in dynamics.
4. Business transition during the interim prior to full implementation.

TAPE 110, SIDE A

Questions and discussion on operational implementation continued.

099 Waters Spoke to pieces that are missing in his analysis of the effects of the measure.

116 Rep. Witt Questions and discussion regarding if compensation should be made to businesses that export to allow for competitiveness in an interstate/international market.

151 Rep. Bates Questions and discussion regarding if the elimination of the corporate income tax would moderate the competitiveness for exports.

175 Rep. Bates Questions and discussion regarding what effect the adoption of a single sales factor would have in conjunction with a BAT.

218 Waters Continued with review of the OTIM Results: Distribution Effects, (Page 2, Exhibit 7).

291 Chair Shetterly Questions and discussion regarding if the analysis assumes Measure 88 or not.

348 Bob Alexander Discussed the administrative issues for the Department of Revenue.

TAPE 109, SIDE B

015 Debra Buchanan Reviewed a mock-up form, as they envision the BAT return, and reference it with existing state and federal corporation tax returns. (Exhibit 8)

042 Chair Shetterly Meeting adjourned at 3:09 p.m.

Submitted by, Reviewed by,

Joan Green Kim Taylor James

Committee Assistant Revenue Office Manager

Exhibit Summary:

1. Information: Revenue Impact Bills, Warner, 1 page
2. HB 3942, Staff Summary Packet, Revenue Stabilization and Tax Reform Act, Warner, 18 pages
3. HB 3942, Static Revenue Impact Estimate, Warner, 1 page
4. HB 3942, 1999 State Tax Collection by Source, Warner, 4 pages
5. HB 3942, Value-added tax, National; Value-added tax, Warner, 3 pages
6. HB 3942, Testimony, Weber, 2 pages
7. HB 3942, OTIM Results — Revenue Impact, Waters, 2 pages
8. HB 3942, Tax Forms, Buchanan, 19 pages