

PUBLIC HEARING AND WORK SESSION: SB 660

PUBLIC HEARING: SB 67

TAPES 101-102, A/B

SENATE REVENUE COMMITTEE

April 10, 2001 — 8:10 A.M. - HEARING ROOM A - STATE CAPITOL BUILDING

Members Present: Senator Ted Ferrioli, Chair

Senator Lee Beyer, Vice Chair (absent 8:18 a.m. to 8:55 a.m.)

Senator Susan Castillo

Senator Tony Corcoran

Senator Gary George (absent 8:18 a.m. to 9:22 a.m.)

Senator John Minnis

Senator Charles Starr

Staff: Paul Warner, Legislative Revenue Officer

Ed Waters, Economist, Legislative Revenue Office

Richard Yates, Economist, Legislative Revenue Office

Carol Phillips, Committee Assistant

Witnesses: Senator Jason Atkinson, Senate District 25

Pat Lundeen, Department of Administrative Services,
Electronic Commerce Manager

Jim Craven, American Electronics Association

David Williams, Oregon School Employees
Association

Rich Peppers, Oregon Public Employees Union,
SEIU, Local 503

TAPE 101, SIDE A

- 005 Chair Ferrioli Meeting called to order at 8:18 a.m.
- 014 Richard Yates Stated that SB 660 prevents taxation of Internet access and affects sales taxes that would apply to any goods sold or shipped as a result of Internet communication. There was concern expressed during discussions that this might even extend so far as to income tax. Discussed (-1) and (-2) amendments.

OPENED PUBLIC HEARING ON SB 660

- 057 Sen. Jason Atkinson As sponsor of SB 660 testified in support of the bill and the (-2) amendments. Believes the (-1) amendments define "Internet" better than the (-2), but the (-2) relate better to the bill as intended.
- 073 Chair Ferrioli Explained that the (-1) amendments represent a broader definition including electronic commerce and tax collections. The (-2) amendments focus only on access to the Internet. It was thought to be reasonable also to send the message to municipalities and other jurisdictions that they may not tax Internet access or electronic commerce with fees without legislative approval and debate before this body.
- Discussion, and questions and answers interspersed.
- 122 Chair Ferrioli Stated that the Chair favors (-2) amendments.
- 128 Pat Lundeen Testified regarding questions about Internet commerce. The Department is not sure of the definition of "electronic commerce" and how it is being used in SB 660. Said the state is moving into its plan to conduct electronic government and that there are two very clear sides to the issue: selling information to businesses and services or selling services over

the Internet. Raised questions regarding electronic procurement of services.

- 141 Chair Ferrioli Stated it was the intent of the Chair and the bill's sponsor to only prevent charges, taxes, or fees on the medium of the Internet when used in electronic commerce and not to limit the use or ability of jurisdictions to levy a sales tax on items sold over the Internet or any other user charges like shipping, etc.
- 153 Lundeen Stated the Department still has questions regarding future relationships between suppliers and state agencies.
- 166 Sen. Minnis Pointed out that Sub-Section (2) of the (-2) amendments should answer the witness's question.
- 189 Jim Craven Testified with concerns about SB 660. Gave example of how California is handling a similar bill. Believes the (-2) amendments are probably as close as can be worded to address the intention of the bill. Pointed out the second aspect addressed in the (-2) amendments regarding assisting another state in imposition of a tax. Stated that several states are taking action similar to what is proposed in SB 660 in order to send a clear signal that the Internet is not a cash cow for government services.
- 266 Chair Ferrioli Stated the Chair's intention is to move the (-2) amendments and the bill this morning.
- Comments, and questions and answers followed.

CLOSED PUBLIC HEARING ON SB 660

OPENED WORK SESSION ON SB 660

- 325 Sen. Minnis Asked for a five-minute break to discuss the bill.

327 Chair Ferrioli Recessed meeting from 8:43 until 8:50 a.m.
Stated that in order to resolve one issue about definition, Jim Craven has suggested omitting the words "electronic commerce, the Internet" on lines 4, 10, and 14 of the (-2) amendments.

359 Sen. Minnis MOTION:

MOVES STRIKING THE WORDS
"ELECTRONIC COMMERCE, THE
INTERNET" FROM LINES 4-5, LINE 10,
AND LINE 14 OF THE (-2) AMENDMENTS.

363 Chair Ferrioli ORDER:

HEARING NO OBJECTION, THE CHAIR SO
ORDERED.

365 Sen. Minnis MOTION:

MOVES ADOPTION OF (-2) AMENDMENTS
AS AMENDED.

368 Various Questions and answers regarding the bill.

420 Sen. Minnis MOTION:

MOVES SB 660 AS AMENDED TO THE
SENATE FLOOR WITH A DO PASS
RECOMMENDATION.

426 Chair Ferrioli ORDER:

ROLL CALL VOTE: THE MOTION PASSES:
4 — 2 — 1

SENATORS VOTING AYE: DERFLER,
MINNIS, STARR, FERRIOLI

SENATORS VOTING NO: CASTILLO,

CORCORAN

SENATOR ABSENT: L. BEYER

Sen. Atkinson will carry the bill on the Senate Floor.

TAPE 102, SIDE A

CLOSED WORK SESSION ON SB 660

450 Ed Waters Gave overview of SB 67. Discussed Exhibit 7: Capital Gains Tax Rate Reduction Scenarios, which compares the base bill with the (-3), (-4), and (-5) amendments. Page 1 of Exhibit 7 compares static, dynamic feedback, net, and portfolio turnover effect for the 2001-03, 2003-05, and 2005-07 biennia.

Questions and answers interspersed.

057 Waters Extensive discussion of Exhibit 7 page 2: OTIM Results: Feed-back Effects. OTIM refers to the Oregon Tax Incidence Model.

Comments, and questions and answers interspersed.

291 Waters Extensive discussion of Exhibit 7, page 3: OTIM Results: Distribution Effects.

General comments, and questions and answers interspersed.

OPENED PUBLIC HEARING ON SB 67

338 David Williams Testified against SB 67. Oregon School Employees Association is a union representing more than 19,000 classified professionals in Oregon's K-12, ESD, community college, parks and recreation, and head start districts. OSEA has serious concerns about lack of revenue dollars for the state and the eventual cuts to public services that passage of SB 67 would necessitate. Feels that the projected \$500

million the tax cut could cost the state would be better used to pay \$30,000 a year to more than 16,500 individuals.

375 Rich Peppers Testified against SB 67. Has the same concerns expressed by Mr. Williams. Not necessarily opposed to a capital gains cut in and of itself. It is just not a good time to do it. There are other bills in consideration this session that have more of a "revenue neutral" impact.

Various comments, and questions and answers interspersed.

TAPE 101, SIDE B

021 Peppers Said it appears from Exhibit 7 page 3 that over 60% of the gain would go to the higher income ranges and not much would be distributed at the lower income levels.

034 Chair Ferrioli Pointed out that a feature of a tax cut on capital gains is that the people with the most disposable income are the ones who tend to invest capital and earn the gain. Perhaps lowering the capital gains rate might incent people in all income levels to invest.

044 Peppers Agreed with the Chair that it would be a worthwhile discussion to have. Reiterated his concern was not the capital gains cut in and of itself; it was the impact the loss of those dollars would have on programs and services to people in Oregon. None of amendments address the issue of huge losses to the general fund and the disproportionate impact in later years.

CLOSED PUBLIC HEARING ON SB 67

071 Chair Ferrioli Adjourned meeting at 9:26 a.m.

Submitted by, Reviewed by,

Carol Phillips Kim Taylor James

Committee Assistant Revenue Office Manager

Exhibit Summary:

1. SB 660, Yates, Fiscal Impact Statement, 1 pp.
2. SB 660, Yates, Revenue Impact Statement, 1 pp.
3. SB 660, Unknown, (-1) amendments, (DJ/ps) 3/22/01, 2 pp.
4. SB 660, Atkinson, (-2) amendments, (DJ/hm/ps) 3/27/01, 1 pp.
5. SB 67, Waters, Fiscal Impact Statement, 1 pp.
6. SB 67, Waters, Revenue Impact Statement, 1 pp.
7. SB 67, Waters, Capital Gains Tax Rate Reduction Scenarios, 3 pp.