ORGANIZATIONAL MEETINGóCOMMITTEE ORGANIZATION, COMMITTEE RULES, LRO PERSONNEL RULES**. ORIENTATION MEETINGó**INCOME TAXATION

TAPES 001,002 A/B; 003 A

HOUSE REVENUE COMMITTEE

JANUARY 14, 1999 ñ 8:00 A.M. - HEARING ROOM A - STATE CAPITOL BUILDING

Members Present: Rep. Ken Strobeck , Chair

Rep. Anitra Rasmussen, Vice Chair

Rep. Deborah Kafoury

Rep. Jeff Merkley

Rep. Diane Rosenbaum

Rep. Lane Shetterly

Rep. Jim Welsh

Rep. Max Williams

Rep. Bill Witt

Staff: Dick Yates, Economist, Acting Legislative Revenue Officer

Ed Waters, Economist, Legislative Revenue Office

Barbara Guardino, Committee Assistant

TAPE 001, SIDE AóORGANIZATIONAL MEETING

007	Chair Strobeck	Called meeting to order at 8:00 a.m. (NOT RECORDED). Conducted administrative business. Members introduced themselves.

095	Dick Yates	Acting legislative revenue officer until Feb. 1 when Paul Warren from Department of Administrative Services will become legislative revenue officer. Referred to informational sheet of LRO staff **(EXHIBIT A).** Introduced LRO staff.
123	Kim James	Introduced LRO staff.
135	Yates	Introduced Dexter Johnson, legislative counsel.
140	Chair Strobeck	Directed membersí attention to Committee Memberís Bill Files **(EXHIBIT B);** Noted new 36 hour rule.
198	Chair Strobeck	Directed membersí attention to House Committee On Revenue rules **(EXHIBIT C).**
215	Rep. Rasmussen	**MOTION TO ADOPT THE HOUSE COMMITTEE ON REVENUE RULES AS PRINTED AND DISTRIBUTED.**
218	Chair Strobeck	**ASKED FOR ANY OBJECTION FROM MEMBERS CONCERNING ADOPTION OF THE HOUSE COMMITTEE ON REVENUE RULES AS PRINTED AND DISTRIBUTED. HEARING NO OBJECTION, CHAIR SO ORDERED.**
220	Chair Strobeck	Directed membersí attention to State of Oregon Legislative Branch Rules (personnel rules) **(EXHIBIT D)**.
240	Rep Rasmussen	**"I MOVE THAT THE HOUSE REVENUE COMMITTEE, ACTING UNDER THE AUTHORITY OF ORS 173.800, ADOPT BY REFERENCE THE LEGISLATIVE BRANCH PERSONNEL RULES FOR APPLICATION TO EMPLOYEES OF THE LEGISLATIVE REVENUE OFFICE."**
245	Chair Strobeck	**ASKED FOR ANY OBJECTION FROM MEMBERS TO ADOPTION BY REFERENCE THE LEGISLATIVE BRANCH PERSONNEL RULES FOR APPLICATION TO EMPLOYEES OF THE LEGISLATIVE REVENUE OFFICE. HEARING NO OBJECTION, CHAIR SO ORDERED.**

<u>ORIENTATION MEETING</u>

295	Ed Waters	Began slide presentation, "Oregon Income Taxes" **(EXHIBIT E)**. Topics will include: • Personal Income Tax • Corporate Income Tax • Surplus Kicker

- Fiscal Stabilization (Reserve) Funds

305	Waters	Oregon Income and Property Taxes (slide 2): Reviewed reasons why personal income taxes are larger relative to property taxes since 1990. Noted, corporate income taxes are smaller in relation to personal income and property taxes. General Fund Revenues 1997-99 (slide 3): Personal income tax provided 86% of total general fund revenues; corporate income tax provided 7%.
339	Waters	Oregon Personal Income Tax (slide 5): Federal Adjusted Gross Income (AGI), etc.
370	Waters	Oregon taxable income, tax rates, tax before credits, tax credits (slide 6); 1998 Personal Income Tax Rates (slide 7). Three tax rates, 5%, 7%, and 9%. Approximately 70% of revenue is derived from 9% bracket.

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TAPE 002, SIDE A

010	Waters	Average Tax Rate by Income (slide 8): Adjusted gross income in thousands.
039	Waters	Components of AGI (adjusted gross income); $54 billion in 1996, of which 63% comes from wages and salaries. (slide 9)
060	Waters	Income Tax Credits for 1996 (slide 10) including surplus refunds. Total income tax credits were $832 million, with surplus refunds comprising 52%; personal exemption, 40%. Other credits relatively small.
082	Chair Strobeck	Asked about kicker, which only affects every other year, in relation to surplus refund.
105	Waters	Working Family Tax Credits (slide 11): Two components are Earned Income Credit and Child Care Credit for low income families. Non-refundable. These are new and there is only one year of data on them, for 1997 tax year. Earned Income Credit was claimed by 120,000 filers totaling $8.2 million. Total Child Care Credit was claimed by 15,000 filers totaling $5.3 million.
161	Waters	Part Year and Nonresident Taxpayers (slide 13): Oregon has the ability (nexus) to tax income earned by residents, and income from Oregon sources earned by nonresidents. Tax applies to full year residents, part-year residents, nonresidents, landlords, people who commute to Oregon from another state. Gave example of Part-Year Resident (slide 14) making $20,000. Computed Oregon percentage of adjusted gross income.

197	Waters	Gave example of Part-Year Resident (slide 14) deductions and credits. Gave example of Nonresident deductions and credits (slide 15).
231	Waters	Check-off Donations (slide 16) on bottom of tax form. Donations for 1996 totaled $566,000 to five charities; 27% went to child abuse prevention.
257	Rep. Merkley	Asked how organizations became eligible for check-off donations list.
260	Waters	Commission was set up to decide which charities would be represented on tax form. Reason there are fiveóto not significantly alter the size of the income tax return. Historically, this total donation amount has held steady. The organizations represented have a strong commitment to keeping this figure. In the past there have been more organizations and the pie was spread too thin.
298	All	Questions and discussion on check-off donations list.
350	Chair Strobeck	This charity began with non-game wildlife only, others wanted to get onto list, this issue has gotten a lot of attention. Asked Waters to provide a summary sheet on this.
371	Waters	Corporate Excise Tax: Business Income Statement (slide 18): Gross receipts, value added, net business income (profit). Corporate Excise Tax (slide 19).
409	Waters	Corporate Tax Returns (slide 20): Most recent data from 1995. There were 70,700 corporation tax returns filed; of this, only about half generated income.

TAPE 001, SIDE B

018	Waters	Corporate Income 1995 (slide 21): 80% of taxable corporate income was generated by multi-state corporations. Corporate Tax (slide 22): 1995 multi-state once again paid the majority of corporate tax (83%). A corporate kicker credit was returned to corporations. This credit reduced corporate tax by about half. Total $175 million.
063	All	Questions and discussion interspersed.

148	Waters	Corporate Tax Credits (slide 23) for 1994-95 was about $29 million. Of this, 55% was pollution control credit; 22% was business energy credit. Tax Expenditure Report has detailed information on these credits.
173	Waters	Corporate Excise Tax, Multi-State Apportionment (slide 24): Uniform Division of Income for Tax Purposes Act (or UDITPA) was drafted and approved in 1957. It addresses allocation and apportionment of multi-state businesses in states with net income taxes. It defines a three-factor apportionment formula. 1989 Oregon Legislature changed averaging factors to double-weight sales, this is still Oregon law. Oregon adopted UDITPA in 1966 to promote uniformity. At least 23 states have adopted portions of UDITPA.
197	Waters	Apportioning Business Income (slide 25): Example of Multistate Corporation "A" doing business in Oregon and Washington, $5 million net income. Showed corporationís payroll, property, and sales in Oregon and Washington. Calculated factors: payroll, property and sales in Oregon and Washington.
244	Waters	Sales Throwback Rule (slide 26): Some corporations sell products in a state but do not have enough presence to be legally taxable there. This is nexus. Under UDITPA, sales are thrown back to the state from which goods were shipped. Example of multi-state corporation "A" doing business in Oregon, Washington *and Idaho*. Total net income is $7 million because it has expanded. But because corporation "A" doesnít have property in Idaho, it has insufficient presence to be taxable there. Under UDITPA, sales can be thrown back to Oregon and factored into Oregon sales tax.
307	All	Questions and discussion interspersed concerning sales throwback rule.

TAPE 002, SIDE B

020	Rep. Rosenbaum	Asked about businesses that generate income in Oregon and in states that arenít part of the system? Do they just fall back under original system?
025	Waters	Every state has its own laws, this was the reason for UDITPA, to create common ground when operating in different states. There are conventions outside UDITPAó23 states are under UDITPA; other states have adopted portions of it.
037	Waters	Began discussion on Double-Weighted Sales (slide 27) of corporation "A" in Oregon and Washington. Three-factor formula (payroll, property, sales) is the same but sales is weighted twice. This reduces overall apportionment factor relative to what it was because corporation "A" sells heavily outside Oregon. It is export-oriented. A business that had 80% sales in Oregon would have a higher apportionment and would pay more taxes under

		double-weighted sales. Double-weighted sales is current Oregon law. Each state has its own rules.
70	All	Questions and discussion concerning double weighting interspersed.
114	Waters	Revenue Forecast & Surplus Kicker (slide 28) Revenue Estimating Process (slide 29): In Oregon, revenue estimates are produced quarterly. Starting point is U.S. economic model developed by Data Resources Inc. ((DRI). Output from U.S. model becomes input for Oregon Economic Model. The results of that calculation undergoes formal review by two advisory committees, before it comes out as an economic forecast.
148	Waters	Explained 2% Kicker (slide 30): If, at the end of a biennium, corporate income tax revenues exceed the close of session (COS) estimates for those revenues by 2% or more, the entire excess is credited to corporate taxpayers. If Other General Fund Revenue exceed corporate estimate by 2% or more, the entire excess is refunded to personal income taxpayers.
175	Waters	Gave brief History of Surplus Kicker Refunds (slide 31): Kicker law was passed in 1979. Since 1983-85, all but two biennia gave surpluses and kickers. The legislature suspended personal kicker in 1991 and corporate kicker in 1993. The 1995-97 corporate and personal kickers were the largest.
194	All	Questions and discussion interspersed.
238	Waters	Corporate kicker determined only by the corporate income tax revenues. The other pot is personal income taxes and all other general fund revenues.
253	Rep. Shetterly	Asked if federal tobacco settlement will be included in kicker. Waters does not believe this has been determined yet.
254	Waters	Fiscal Stabilization Funds (or rainy day fund) (slide 32): Oregon is one of only five states that do not have stabilization funds. Issues to consider if the committee was to design such a fund are legal authorization, methods for deposits, methods for withdrawals, fund size.
302	Waters	Gave overview of a reserve fund (HB 2007) that was proposed in 1997 (slide 34).
357	Rep. Williams	Asked if LRO has done study to determine impact on an economic recession on general

		fund dollars.
361	Waters	Believes Office of Economic Analysis in Administrative Services did this in 1997. It showed that even if the state didnít go into a recession, but revenue growth tapered off, state revenues in next biennium would have difficulty meeting current service levels.
391	Rep. Merkley	Asked why 1995 was last year a complete corporate model was available.
398	Waters	Corporations define their tax year differently than personal income taxpayers. Their fiscal year could start in October and their tax year return wouldnít be due until a year later. Corporations also continually amend their returns after initial filings, so it takes a number of years to collect for a given tax year.
450	Rep. Witt	Asked about disparity in slide 2 that showed general fund revenues; and corporate tax accounting for 7%; Components of AGI business at 4%.
485	Waters	Business income reported under AGI is not corporate income, it is income claimed by sole proprietorships. It is a different measure entirely. AGI graph does not include corporate income tax.

TAPE 003, SIDE A

040	Rep. Merkley	Asked for history of $3,000 limit for capping federal income tax deduction.
045	Waters	Believes itís been $3,000 since 1986 or ë87. Was higher, but was reduced in response to federal tax reforms in 1986. Will provide more complete history.
065	Rep. Strobeck	Asked what is compliance rate in Oregon. Waters does not have that information. Will request it from Oregon Department of Revenue. Asked about tax amnesty.
085	Rep. Strobeck	Adjourned meeting at 9:55 a.m.

Submitted by, Reviewed by,

Barbara J. Guardino Kim T. James

Committee Assistant Revenue Office Manager

<u>Exhibit Summary:</u>

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A. Organization, Yates, Legislative Revenue Office Staff Specialties, 1 p.
B. Organization, Yates, Committee memberís Bill Files, 1 p.
C. Organization, Strobeck, House Committee on Revenue, Seventieth Legislative Assembly, 2 pp.
D. Organization, Strobeck, Table of Contents (State of Oregon Legislative Branch Rules), 66 pp.
E. Orientation, Waters, Oregon Income Taxes, 18 pp.