

HOUSE REVENUE COMMITTEE

FEBRUARY 15, 1999 ñ 8:30 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. Bill Witt

Members Absent: Rep. Lane Shetterly

Rep. Max Williams

Rep. Jim Welsh

Staff: Paul Warner, Legislative Revenue Officer

Ed Waters, Economist, Legislative Revenue Office

Barbara Guardino, Committee Assistant

Witnesses: Rod Douglas, Oregon Society of CPAs Karey Schoenfeld, Oregon Society of CPAs

Kim Spaulding, Oregon Society of CPAs

Susan Browning, Oregon Department of Revenue

005 Chair Strobeck Called meeting to order at 8:45 a.m. Opened public hearing on HB 2137.

PUBLIC HEARING ñ HB 2137

016 Ed Waters Reviewed HB 2137, automatic tax reconnect. See Staff Measure Summary **(EXHIBIT 1)**. Bill establishes Dec. 31, 1998 as connection date for changes in Internal Revenue Code for certain Oregon tax law matters.

Gave brief background of Oregon taxable income.

063 Rod Douglas Spoke in support of the measure. Introduced colleagues, Karey Schoenfeld and Kim Spaulding, members of State & Local Tax Committee.

087 Karey Shoenfeld Directed membersi attention to Analysis of Changes Resulting From The: **(EXHIBIT 3)**. Three sections:

A) Taxpayer Relief Act of 1997

B) IRS Restructuring and Reform Act of 1998

C) Tax and Trade Relief Extension Act of 1998

112 Schoenfeld Reviewed highlights of booklet. Began with "Recommendations A ñ General Reconnect".
Page 1,section 202, Deduction for Interest on Education Loans

122 Chair Strobeck The assumption is that this is automatically part of Oregonís tax code unless legislators choose to do otherwise.

131 Schoenfeld
Page 2, section 213: Tax-exempt Education IRAs Allowed
Page 2, section 221: Exclusion for Employer-provided Education Assistance
Page 4, section 224: Contributions of Computer Technology and Equipment
Page 5, section 301: Restoration of IRA Deductions for Certain Taxpayers
Page 6, section 312: Exclusion of Gain on Sale of Principal Residence
Page 6, section 501: Estate and Gift Tax Unified Credit Increased

197 Kim Spauldi8ng
Page 10, section 932: Home Office Deduction Expanded
Page 10, section 934: Health Insurance Costs for Self-Employed Persons
Page 15, section 973: Charitable Mileage Rate

Page 16, section 975: Deductions in Computing Adjusted Gross Income for Certain Officials

236	Schoenfeld	Page 23, sections 1061-1062: Treatment of Partnership Inventory Page 24, section 1075: Basis Recovery on Retirement Distributions Page 26, section 1088: Installment Sales for Certain Sales of Personal Property Pages 27-31: Internal Revenue Code is tightening up certain provisions with regard to foreign entities and foreign taxpayers, and with regard to U.S. citizens who are operating a trust or foreign entity abroad.
283	Schoenfeld	Page 36: Simplification Provisions Relating to Estate & Gift Taxes Page 38-39, sections 1501-15409: Pensions & Employee Benefits Page 44, section 204: Treatment of Prize Received in an Annuity
329	Schoenfeld	"Recommendations B ñ No ORS Change Necessary:" Federal level only. These have no impact in Oregon. Page 47, section 203 , 303: Penalty-Free Withdrawals from IRAs Page 48, section 311: Rate of Tax on Capital Gains Page 49, section 313: Rollover of Gain from Sale of Small Business Stock
378	Schoenfeld	Page 50, section 401: Alternative Minimum Tax (AMT) Repealed for Small Business Corporations Page 52, section 503: Interest Rate Reduction on Deferred Estate Taxes
412	Spaulding	Page 55, section 801: Welfare to Work Tax Credit Page 56, section 933: Averaging of Farm Income Page 57, section sections 1021: Information Reporting Required for Payment to Attorneys Page 62, section 1083: General Credit Carry-Backs and Carry-Forwards
447	Schoenfeld	Page 63, section 1102-1161: Foreign-Related Provisions ñ Exchange Rate Used in Translating foreign Taxes Page 65, sections 1201-1212: Simplification Provisions Relating to Individuals & Businesses ñ Increased Standard Deduction Page 67, sections 1221-1241: Consistency Rules and Audits Procedures for Electing Large Partnerships

TAPE 049, SIDE A

040	Schoenfeld	Page 69, section 1301: Gift Tax Filing for Gifts to Charity Page 70, sections 1303-1314: Qualified Domestic Trusts Page 70, section 1310: Adjustments for Gifts Within Three Years of Decedent's Death
062	Spaulding	Pages 71-72, sections 1401-1463: Simplification Provisions Relating to Excise Taxes Page 73, section 1502: Modification of Prohibition on Assignment or Alienation Page 74, section 1506: S Corporation Stock in an ESOP Page 75, section 6005: IRS Restructuring and Reform Act of 1998 ñ Minimum Distributions from IRAs Page 76, sections 202-503: Nonrefundable Personal Credits Fully Allowed in 1998 Page 77, sections 505-507: Casualty and Theft Losses of Non-Business Transactions
092	Schoenfeld	"Recommendations C ñ ORS change Necessary:" Provisions will not be automatically picked up, but do have an impact to Oregon. Page 78, section 302: Establishment of Nondeductible Roth IRAs Page 79, section 502: Estate Tax Exclusion Allowed for Qualified Family-Owned Business Interests. Page 79, section 507: Repeal of Throwback Rules Applicable to Domestic Trusts
167	Schoenfeld	Page 80, section 601: Research Tax Credit Page 81, section 966: Time Share Interests Page 81, section 1082: Modification of Operating Loss Rules
211	Schoenfeld	Page 82, section 1085: Earned Income Credit
232	Spaulding	Page 2, section 1091: Underemployment of Estimated Taxes Page 83, section 1202: Increase in De Minimis Threshold for Individuals' Estimated Taxes Pages 83-86: Simplified flow-Through for Electing Large Partnerships

Page 86, Section 1242: Interest Suspended Where IRS Delays Notice and Demand

261	Schoenfeld	Page 87, section 1243: Administrative Adjustment Requests Relating to Bad Debts or Worthless Securities Page 87, section 1284: Statute of Limitations for Pass-Through Items
290	Schoenfeld	Page 88, section 1461: Due Date of First Quarter Estimated Taxes of Private Foundation
327	Schoenfeld	Page 88, section 1529: Treatment of Certain Disability Benefits Received by Former Police Officers or Firefighters
360	Schoenfeld	Page 89, section 3201: Relief from Joint and Several Liability on Joint Return Page 90, section 3202: Suspension of Statute of Limitations on Filing Refund Claims During Periods of Disability Page 90, section 603: Net Operating Loss Carry-Back for Farming Losses
422	Chair Strobeck	Will poll committee on each segment of section C.
426	Schoenfeld	Referred to Amendments Required to HB 2137 for Complete Reconnect (EXHIBIT 4)

TAPE 048, SIDE B

023	Susan Browning	Referred to Oregon Department of Revenue 1999 Legislative Session Bill Summary HB 2137 (EXHIBIT 5). Briefly reviewed sections 1-37. Most changes are date changes.
085	Browning	Department of Revenue has been working with CPAís on this to outline provisions of federal taxation. Referred to amendments listed in exhibit 4. Page 2, "Statute of Limitations for Pass-Through Items".
133	Chair Strobeck	Asked sense of committee on Recommendations C items.
155	Schoenfeld	Briefly recapped reconnect provisions for Roth IRAís. Problems occur when a person moves to another state.

Briefly reviewed other provisions. Discussion and questions interspersed.

350 Schoenfeld Page 81, section 1082: Modification of Operating Loss Rules. Asked sense of committee if should be marked for further discussion. Sense of committee is, it is significant enough to revisit.

420 Vice Chair Rasmussen Page 82, section 1085: Earned Income Credit (EIC) Provisions.

439 Chair Strobeck Asked Waters to prepare amendment for this provision.

445 Schoenfeld Page 82, section 1091: Underpayment of Estimated Taxes Discussion and questions interspersed.

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TAPE 049, SIDE B

042 Read
passage
from
Code
Section
32
concerning
federal
requirements
about
tying to
anything
other
than
taxable
income.

Discussion
and
questions
interspersed.

065 Schoenfeld Continued review of proposed changes: Page 83, section 1202.

081 Schoenfeld Sections 1221 ñ 1234: These deal

with large partnership audit. Without special rules, IRS can't collect on taxes because can't get to all of partners.

106 Schoenfeld

Sections 1237-1238: Innocent Spouse Relief

Section 1242: Interest Suspended Where IRS Delays Notice. Strobeck asked committee's opinion on this.

140 Schoenfeld

Section 1243: Administrative Adjustment Requests Relating to Bad Debts or Worthless Securities: Chair Strobeck asked sense of committee. Questions and discussion.

176 Schoenfeld

Page 87, section 1284: Statute of Limitations for Pass-Through Items

188 Browning

Dept. of Revenue is still talking about this section. It is tied to other statute of limitation issues. Department is talking to CPAs about this.

222 Schoenfeld

Page 88, section 1461: Due Date of First Quarter Estimated Taxes of Private Foundation. Would like to tie to federal May 15 date.

233	Browning	Concurred with Schoenfeld's testimony. Department would like to do more research before committee considers it.
263	Chair Strobeck	Committee will revisit this issue.
265	Schoenfeld	Page 88, section 1529: Treatment of Certain Disability Benefits Received by Former Police Officers or Firefighters. Would require an amendment to HB 2137.
275	Chair Strobeck	Not convinced that this provision merits reconsideration. Committee will revisit this issue.
312	Schoenfeld	Page 90, section 3202: Suspension of Statute of Limitations (medically disabled). Chair Strobeck wants to revisit this with an amendment. Questions and discussion.
355	Schoenfeld	Page 90, section 603: Net Operating Loss Carry-Back for Farming Losses (five years). Not included in HB 2137. Committee will revisit this issue.

INTRODUCTION OF LC 1775

- 397 Chair Strobeck **MOTION TO INTRODUCE LC 1775 AS A COMMITTEE BILL.**
- 403 Vice Chair Rasmussen Noted, support for introducing this draft does not in any way indicate support for the measure.
- 405 Chair Strobeck **HEARING NO OBJECTIONS, THE CHAIR SO ORDERED.**
- 406 Chair Strobeck Adjourned meeting at 10:30 a.m.

Submitted by, Reviewed by,

Barbara J. Guardino Kim T. James

Committee Assistant Revenue Office Manager

Exhibit Summary:

1. HB 2137, Waters, Staff Measure Summary for HB 2137, 2 pp.
2. HB 2137, Waters, Legislative Fiscal Office, 1 p.
3. HB 2137, Schoenfeld, An Analysis of Changes Resulting From The:, 107 pp.
4. HB 2137, Schoenfeld, Amendments Required To HB 2137 For Complete Reconnect, 3 pp.
5. HB 2137, Browning, Oregon Department of Revenue 1999 Legislative Session Bill Summary for HB 2137, 7 pp.
6. LC 1775, Staff, Draft, 5 pp.