

PUBLIC HEARING: HB 3443

WORK SESSION:

INFORMATIONAL REVIEW OF TAX CREDITS

TAPES 102, 103 A/B

HOUSE REVENUE COMMITTEE

MARCH 24, 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. Jim Welsh

Rep. Max Williams

Members Excused: Rep. Bill Witt

Rep. Lane Shetterly

Staff: Paul Warner, Legislative Revenue Officer

Edward Waters, Economist, Legislative Revenue Office

Barbara Guardino, Committee Assistant

Witnesses: Tim Nesbitt, Service Employees International Union

Bruce Weber, Oregon State University

Chuck Sheketoff, Oregon Center for Public Policy

Lynn McNamara, League of Oregon Cities

Olivia Clark, Governor's Office

Gary Carlson, Associated Oregon Industries

Jim Craven, American Electronics Association

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005 Chair Strobeck Called meeting to order at 8:45 a.m. Opened public hearing on HB 3443.
Creates task force for tax incidence study.

PUBLIC HEARING n HB 3443

014 Vice Chair Rasmussen Brought this bill forward due to strong recommendation out of Governor's Task Review Committee. It is time to have tax incident model to help determine impact of various taxes.

023 Paul Warner Revenue Impact of Proposed Legislation (**EXHIBIT 1**). Tax incidence would measure the ultimate burden of taxation. Traces back the effects of taxes to individuals. Allows assessment of equity and economic effects.

038 Warner Directed members' attention to 1997 Minnesota Tax Incidence Study (**EXHIBIT 2**). This is the executive summary portion of the report. Page 117 (Appendix D) is the legislative mandate for this study.

Page 3: Shows individual business, total, by income group. Shows businesses have more regressive effect.

This study has been used in some areas to redesign Minnesota's taxes.

Report is a tool, but is also a model. It takes resources. Estimated fiscal impact would be \$300,000 per biennium. A model like this must be maintained, so there would be an ongoing cost.

092 Chair Strobeck Governor Kitzhaber was supposed to testify, but was not able to be here.

112 Tim Nesbitt Spoke in support of the measure. See 1997 Minnesota Tax Incidence Study (**EXHIBIT 4**). With all the tax changes in this decade, state still hasn't answered the most basic question: who ultimately pays? This study will answer that question. Will also answer question whether Oregon is a high tax or low tax state. Bill would raise level of debate.

Excerpts are different from Warner's packet. See page 32, Figure 5-1, Estimating Tax Incidence.

Once model is in place, it can be used to figure impact of bills, ballot measures.

162	Bruce Weber	See written testimony, A Tax Incidence Study for Oregon? (EXHIBIT 5) . One common question is: Who pays Oregon's taxes? This study would answer that. A tax incidence study can answer questions such as whether Oregon's tax system is progressive, etc.
206	Chair Strobeck	Asked Weber how to define "fair tax". Follow-up questions.
211	Weber	Fairness is a value judgement. Many people think fair means everyone pays the same rate; others believe higher income people should pay more taxes. Introducing fairness into the system makes the system more complex.
249	Olivia Clark	Spoke in support of the measure. See written testimony, statement from Gov. Kitzhaber (EXHIBIT 6) , verbatim.
263	Chuck Sheketoff	Spoke in support of the measure. See written testimony (EXHIBIT 7) . Tax incidence study is important to policy-makers, not just legislators. Nine other states have incidence studies. Texas study has a provision that if a tax expenditure or new tax is being proposed, chair of committee can ask for a tax incidence study. Suggested doing this, but having it be chair or vice-chair so decision won't become partisan. Recommended that any measure referred by legislature or put onto ballot as voter initiative should have a tax incidence analysis.
321	Sheketoff	Tax incidence report does not draw a conclusion about fairness, it gives information on whether taxes are regressive, proportional, or progressive.
344	Chair Strobeck	Not possible to do a tax incidence study without fairness as a primary guideline.
349	Sheketoff	Toughest issue in tax incidence report is agreeing on assumptions.
387	Lynn McNamara	Spoke in support of the measure. Oregon's tax structure has undergone a lot of changes this decade, and understanding how changes will play out in future is important. Reasonable people can look at consequences of a bill very differently. Believes a tax model would help people understand better and have more objective tools to evaluate policies. Appropriate is not substantial, is worthwhile investment.
427	Gary Carlson	Associated Oregon Industries has no objection to a tax incidence study. However, at the state level, such a study should include all taxes paid including federal. This changes the tax picture considerably. Urged committee to look at the full tax picture.

481 Jim Craven Bill could be improved by including some definitions. For example people may not understand "full tax incidence study". Suggested clarifying amendments. In addition, concurred with Prof. Weber that trying to do static analysis is difficult, and lawmakers should be cautious about considering Oregon by itself. Must look at Oregon in context of other states.

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035 Vice Chair Rasmussen Referred to Exhibit 2, Minnesota Study page 11: Appendix D: Legislative Mandate. Asked Craven to comment on language of this mandate.

047 Craven Would be appropriate for advocates of this bill to do the defining. Envisions American Electronics Association will take a position of neutrality.

069 Chair Strobeck Closed public hearing on HB 3443. Opened work session on review of tax credits. Sixteen bills were introduced that would eliminate tax credits. Following will be a review of credits from those bills that committee might want to flag for future discussion.

119 Ed Waters Directed members' attention to Individual and Corporation Tax Credits (**EXHIBIT 7**). Four sections:

Section 1 lists credits by page, of tax expenditure report on which they start.

Section 2 lists only those credits that sunset within next two biennia.

Section 3 orders top expenditures or credits by corporate income tax.

Section 4 does similar sort for personal income tax credits.

158 Waters Directed members' attention to summary sheet ñ web site printout (**EXHIBIT 8**). Refers to three of the tax credits/expenditures administered by Office of Energy.

175 Waters Explained income tax federal subtractions. Regarding income tax expenditures there are three main categories: Federal exclusions, deductions from federal taxable income that are passed through to Oregon; Oregon subtractions that specifically reduce taxable income; Oregon credits that are direct dollar-for-dollar offsets

192 Waters See State of Oregon 1999-2001 Tax Expenditure Report (**EXHIBIT 9**). Summary sheet, exhibit 7, follows this report.

Reviewed Child Development Program Contributions, Page 114 of Tax Expenditure Report.

211 Chair Strobeck Asked, is committee interested in flagging this for possible elimination?

Questions and discussion. Chair flagged for future discussion.

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| 295 | Waters | Discussed Contributions of Computer Equipment tax credit, page 115 of report. Questions and discussion. Chair flagged for future discussion. |
| 366 | Waters | Discussed Earned Income Credit, page 116 of report. Vice Chair Rasmussen suggested revisiting it since it doesn't have sunset date. |
| 392 | Waters | Discussed Bone Marrow Transplant Expense, page 117 of report. Chair flagged for future discussion. |
| 414 | Waters | Rural Medical Practice, page 118 of report. Credit was expanded in 1997 to include rural optometrists. Questions and discussion. Chair flagged for future discussion. |

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| 047 | Waters | Cost in Lieu of Nursing Home Expenses, page 119 of report. Questions and discussion. Chair flagged for future discussion. |
| 064 | Waters | Discussed Disabled Child credit, page 120. Vice Chair Rasmussen expressed concern that there is no sunset date. Chair flagged for future discussion.

Elderly or Permanently Disabled, page 121. Vice Chair Rasmussen expressed concern that there is no sunset date. Chair flagged for future discussion. |
| 099 | Waters | Loss of Limbs, page 122 -- \$ 50 credit. Chair flagged for future discussion.

Severe Disability, page 122. Needs sunset.

Oregon Capital Corporation Investment, page 122 (credit is not used). Chair flagged for future discussion. |
| 132 | Waters | Qualified Research Activities, two alternative credits, pages 124-125. Chair flagged for future discussion.

Investment in Rural Enterprise Zone, page 126. Questions and discussion. Chair flagged for future discussion. |
| 170 | Waters | Child and Dependent Care credit, page 127. First of two credits in Oregon statutes. Credits up to 30% of costs paid for dependent care. Questions and discussion. Needs sunset date. Chair flagged for future discussion. |

199	Waters	<p>Working Family Child Care credit, page 128. Needs sunset date.</p> <p>Dependent Care Assistance credit, page 129, corporate tax credit.</p> <p>Dependent Care Facilities, page 129, corporate tax credit.</p> <p>Chair flagged for future discussion.</p>
227	Waters	<p>First Break Program, page 130. Questions and discussion. Chair flagged for future discussion.</p>
257	Waters	<p>Farmworker Housing Construction, page 131. Questions and discussion.</p> <p>Committee will not discuss further.</p> <p>Farmworker Housing Lenderis Credit, page 133. Questions and discussion. Chair flagged for future discussion.</p>
358	Waters	<p>Involuntary Mobile Home Moving, page 134. Moving due to park closure. Chair flagged for future discussion.</p>
397	Waters	<p>Low Income Housing Lenderis Credit, page 135.</p>
406	Chair Strobeck	<p>This issue is being dealt with in another bill.</p>
408	Waters	<p>Crop Gleaning, page 136. Needs sunset date. Chair flagged for future discussion.</p>
420	Waters	<p>Alternatives to Field Burning, page 136. Chair flagged for future discussion.</p> <p>Pollution Prevention, page 137. Dry cleaners' credit. Has sunset date, committee may need to decide whether to carry bill forward.</p>
473	Waters	<p>Pollution Control, page 138, one of larger corporate and personal tax credits on the books. Questions and discussion.</p>

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035	Rep. Witt	<p>Has drafted a bill to deal with this pollution control credit. Cautioned committee to consider corporations that are building with belief that they will get this credit.</p>
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Chair flagged for future discussion.

- 050 Waters Reclaimed Plastics, page 140. Chair flagged for future discussion.
- Sewer Connection, page 141 (page 8 in summary list). Has expired, but continues to have revenue impact due to carry-forward. Questions and discussion.
- Waters will check to see how long the expired credits are to be kept in statute.
- Fish Gleaning (Seafood) Credit, page 141. Chair flagged for deletion.
- 075 Waters Fish Habitat Improvement Credit, page 142. Has carry-forward. Vice Chair Rasmussen noted, there is some interest in using this credit. Chair flagged for future discussion.
- 102 Waters Fish Screening Devices, page 143. Sunset issue.
- 109 Chair Strobeck Adjourned meeting at 10:15 a.m.

Submitted by, Reviewed by,

Barbara J. Guardino Kim T. James

Committee Assistant Revenue Office Manager

Exhibit Summary:

1. HB 3443, Warner, Revenue Impact of Proposed Legislation, 1 p.
2. HB 3443, Warner, 1997 Minnesota Tax Incidence Study: Who pays Minnesota's household and business taxes?, 11 pp.
3. HB 3443, Nesbitt, 1997 Minnesota Tax Incidence Study, 4 pp.
4. HB 3443, Weber, A Tax Incidence Study for Oregon? 1 p.
5. HB 3443, Clark, John A Kitzhaber, M.D., Governor, letter to Chair Strobeck and Committee Members, 1 p.
6. HB 3443, Sheketoff, Oregon Center for Public Policy, Testimony of Charles Sheketoff, 3 pp.
7. Informational, Waters, Individual and Corporation Tax Credits, 18 pp.
8. Informational, Waters, Web pages from Department of Revenue web site, 6 pp.
9. Informational, Waters, State of Oregon 1999-2001 Tax Expenditure Report, 320 pp.