

HOUSE REVENUE COMMITTEE

MAY 20, 1999 ñ 8:15 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: Paul Warner, Legislative Revenue Officer

Lizbeth Martin-Mahar, Economist, Legislative Revenue Office

Ed Waters, Economist, Legislative Revenue Office

Barbara Guardino, Committee Assistant

Witnesses: Paul Phillips, Nike, Inc., Beaverton

Paula Plambeck, Nike, Inc., Beaverton

David Kessler, Kessler & Company, Portland

Kathy Berning, Sequent Computer Systems, Portland

Susan Browning, Oregon Dept. of Revenue

Chuck Sheketoff, Oregon Center for Public Policy

Ellen Lowe, Ecumenical Ministries and Hunger Task Force

Jeannie Berg-Rempel, Service Employees International Union

Jim Manary, Oregon Dept. of Revenue

TAPE 195, SIDE A

007 Chair Strobeck Called meeting to order at 8:25 a.m. Opened public hearing on SB 874-A.

PUBLIC HEARING n SB 874-A

010 Paul Phillips Spoke in support of the measure. Nike has arrived at what it believes is a fair solution in determining residency by tying to a federal reconnect. Seventeen Oregon companies have employees that work overseas. They want to be treated as though they moved out-of-state. Bill is retroactive to January 1, 1995.

033 Paula Plambeck Spoke in support of the measure. See written testimony (**EXHIBIT 1**) verbatim. Current law pertaining to taxation of persons living outside Oregon was enacted in 1969. Tax burden on Oregonians living abroad is unfair. This bill achieves fairness.

075 David Kessler Spoke in support of the measure. See written testimony (**EXHIBIT 2**) paraphrased.

Background of current Oregon income tax law as it pertains to U.S. employees working abroad.

Reasons for Change: Would treat these individuals as Oregon nonresidents.

169 Kathy Berning Spoke in support of the measure. See written testimony (**EXHIBIT 3**) verbatim. Economic development impact to Oregon of employees to other countries is significant. Passage of SB 874 would make companies more competitive.

204 Rep. Rosenbaum Why is the bill retroactive to 1995?

209 Kessler Dept. of Revenue is investigating employees' status back to 1995.

230 Phillips Dept. of Revenue suggested retroactive clause back to 1995.

240 Rep. Merkley Asked for list of countries that have income taxes that apply to Americans working abroad.

250 Kessler Very few countries do not impose income tax. Most impose significant income taxes, far in excess to Oregon taxes.

- 261 Rep. Merkley Would Nike consider it reasonable to make those income taxes a deduction against what they owe in Oregon? This would eliminate double-taxing.
- 271 Kessler Does not understand this logic.
Questions and discussion.
- 302 Chair Strobeck Expressed concern that if a resident working abroad spends more than 30 days in Oregon, Dept. of Revenue taxes them for a full year.
- 320 Rep. Shetterly Understood Dept. of Revenue wasn't enforcing this.
- 328 Phillips Issue came to a head in 1997 as result of an audit that identified an inconsistency within the law and practice. That resulted in companies working with Dept. of Revenue to draft this legislation.
- 349 Susan Browning Responded to questions:

Retroactivity ñ Initial bill stated that this applied to tax years beginning 1996. Dept. of Revenue had notices of deficiency in 1995, and believed it would be fair to give them relief as well.

Questions and discussion.
- 408 Browning Concern of Department in helping draft bill was simplicity of original proposal.

Application ñ Dept. of Revenue is charged with administering laws as written. Law says a resident is a person who maintains a permanent abode in Oregon and lives in Oregon more than 30 days in a year. Makes no distinction between people living in other states or abroad. DOR does not target companies or individuals, but treats cases individually.

TAPE 196, SIDE A

- 037 Rep. Merkley If primary wage earner goes overseas and family remains in Oregon, would that person still be exempt?
- 045 Browning Definition ties in with federal Internal Revenue Code. That person would be taxed as a nonresident from time of departure until time of return. Circumstance of the individual has to meet the federal test.

Discussion and questions concerning the process in five other states. Will provide information on how other states handle this situation.

096 Chair Strobeck Closed public hearing on SB 874-A. Opened work session on SB 874-A.

WORK SESSION n SB 874-A

098 Rep. Witt **MOTION: MOVED SB 874-A TO THE HOUSE FLOOR WITH A DO PASS RECOMMENDATION.**

101 Vice Chair Rasmussen Noted \$3 million revenue cut. Asked how to reconcile this loss of revenue from the general fund.

109 Chair Strobeck There is a reconciliation process that balances revenues with expenditures.

116 Ed Waters Explained revenue impact of bill. See **EXHIBIT 4**. State will refund \$800,000 per year. This is money that was collected incorrectly.

142 Rep. Merkley Proposed conceptual amendment to change implementation date from January 1, 1995 to January 1, 2000.

154 Rep. Witt Not willing to amend motion.

158 Rep. Merkley Asked for more justification for making refund retroactive.

165 Rep. Shetterly Since state determined that these taxes were collected improperly, they should be returned.

173 Rep. Witt Concurred. This is a matter of fairness to people who have been overtaxed.

182 Rep. Rosenbaum Disagreed. Many people come in here and say they are being treated unfairly, and committee does not grant them credits. Does not see why this group should be treated differently. Will not support bill.

192 Browning Gave examples of other groups of taxpayers that have been treated unfairly and were issued refunds. If credit begins in 2000, Dept. of Revenue will continue with assessment process. Questions and discussion. If this bill passes as is, those who have paid will receive refunds; those who have not paid would still be billed because they did not comply with existing law.

- 278 Chair Strobeck That would be unfair. It would be taxing some people and not others for the same activity.
- 280 Browning It would be fair. Department's obligation is to enforce the existing law. If people complied, Department wouldn't be pursuing them.
- 293 Rep. Merkley No question that there is consensus that taxpayers should be treated equally. Question whether to go back in time. This is the first example of retroactivity. Not comfortable with this. Wants to know if this is unusual.
- 324 Browning Gave example of federal reconnect.
- 344 Rep. Witt Question is one of fairness to make them pay a full year of Oregon taxes.

364 **VOTE**

ROLL CALL VOTE: MOTION PASSES 7-2-0

REPRESENTATIVES VOTING AYE: KAFOURY, MERKLEY, SHETTERLY, WELSH, WILLIAMS, WITT, CHAIR STROBECK

REPRESENTATIVES VOTING NAY: ROSENBAUM, VICE CHAIR RASMUSSEN

REP. WITT WILL CARRY THE BILL.

- 381 Chair Strobeck Closed work session on SB 874-A. Opened public hearing on SB 2.

PUBLIC HEARING ñ SB 2

- 386 Ed Waters Reviewed Revenue Impact statement (**EXHIBIT 7**). Makes changes to Working Family Childcare Credit for filers between 150% and 200% of poverty level. Increases maximum level for complete phase-out of the credit.
- 420 Chuck Sheketoff Spoke in support of the measure. See written testimony (**EXHIBIT 8**) paraphrased. Will suggest amendments to make this credit refundable.

TAPE 195, SIDE B

- 033 Sheketoff Directed members' attention to overhead chart (see chart on page 5 of testimony): Effects of SB on a one parent two-child family without ERDC participation. Phase-down of credit by income increase. Credit is not doing what it is designed to do. It gives more credit to those who earn more. Refundable credit would rectify this.
- 071 Sheketoff Average starting wage of someone leaving Welfare is \$7.25 per hour. They receive a 4%

credit, only 1/10 of what they should receive. Oregon law requires that the state spend a certain level for "maintenance of effort." Governor's revised budget threatens Oregon's ability to meet maintenance of effort.

- 108 Rep. Rosenbaum Has heard criticism that refundable credits will move state back into a welfare system. Asked Sheketoff to respond.
- 113 Sheketoff Most credits have carry-forward provisions. People can use the credit over 3-5 years. Carry-forward provisions would not work in this situation because they only work when the expense that the tax credit is for, goes down, or income goes up.

Second, this credit is welfare for working families. Making it refundable does not change this.
- 148 Ellen Lowe Spoke in support of the measure. Hunger Relief Task Force and Ecumenical Ministries look at issue of refundability as welfare avoidance and transitional help. Many families who come for emergency assistance are working, but don't have the income to exist without emergency support. Concurred with Sheketoff that Oregon's maintenance of effort is at risk. Refundability would help Oregon avoid significant federal penalties. See handout, Working but Hungry: When Work is Not Enough (**EXHIBIT 9**).
- 224 Rep. Witt Clarified, Lowe would prefer to delete language in SB 2 and replace it with "using comparable dollars to make the credit refundable?" Follow-up questions.
- 248 Lowe Would need to look at amendments and fiscal impact. Suggested looking at language in SB 1190 which refunds Earned Income Credit and Working Family Credit. SB 2-2 amendments accomplish this. (**EXHIBIT 11**).
- 295 Jeannie Berg-Rempel Spoke in support of the measure and in support of SB 2's amendments. Service Employees International Union (SEIU) participated in Governor's Task Force. Task force recommended this credit be made refundable. SEIU concurs. Rempel worked on minimum wage initiative.
- 345 Rep. Shetterly When will fiscal and impact statements on 2 amendments be available? Follow-up questions.
- 353 Ed Waters -2 amendments don't change effective date of SB 2, so would only apply to tax year 2000. Estimated annual impact at \$12 million.
- 397 Rep. Witt Concerning SB 2's 1 amendments, would the May Revenue Forecast from HB 3450-2 be identical?
- 406 Waters Correct. See Revenue Impact of Proposed Legislation for HB 3450-2 (**EXHIBIT 12**).

408 Chair Strobeck Closed public hearing on SB 2. Opened public hearing on SB 244-A.

PUBLIC HEARING n SB 244-A

414 Jim Manary Reviewed SB 244A Exemptions (**EXHIBIT 15**), property tax exemptions.
Section 1-2: Filing for Watercraft under Construction Exemption
Section 3: "Good and Sufficient Cause" Relief Approval

TAPE 196, SIDE B

010 Manary Sections 4-6: Veterans' Disability Exemptions

030 Manary Section 7: Cemetery Exemption: Personal Property

042 Manary Sections 9-10: Charitable Exemptions: New Property of Change of Use

070 Chair Strobeck Closed public hearing on SB 244-A. Opened work session on SB 244-A.

WORK SESSION n SB 244-A

071 Rep. Witt **MOTION: MOVED SB 244-A TO THE HOUSE FLOOR WITH A DO PASS RECOMMENDATION.**

023 Chair Strobeck **ASKED FOR ANY OBJECTIONS TO MOVING SB 244-A TO THE HOUSE FLOOR WITH A DO PASS RECOMMENDATION. HEARING NO OBJECTIONS, THE CHAIR SO ORDERED. REP. ROSENBAUM WILL CARRY THE BILL.**
MEMBERS PRESENT: REPS. KAFOURY, MERKLEY, ROSENBAUM, SHETTERLY, WELSH, WILLIAMS, WITT, VICE CHAIR RASMUSSEN, CHAIR STROBECK

077 Chair Strobeck Closed work session on SB 244-A. Adjourned meeting at 9:50 a.m.

Barbara J. Guardino Kim T. James

Committee Assistant Revenue Office Manager

Exhibit Summary:

1. SB 874, Plambeck, written testimony of Paula A. Plambeck, Nike, Inc., 2 pp.
2. SB 874, Kessler, written testimony of David A Kessler, Kessler & Company, 2 pp.
3. SB 874, Berning, written testimony of Kathy Berning, Sequent, 2 pp.
4. SB 874, Waters, Revenue Impact of Proposed Legislation for SB 874-A, 1 p.
5. SB 874, Waters, Staff Measure Summary, 1 p.
6. SB 874, Waters, Legislative Fiscal Office, Fiscal Impact Assessment, 1 p.
7. SB 2, Waters, Revenue Impact of Proposed Legislation, 1 p
8. SB 2, Sheketoff, Oregon Center for Public Policy, Testimony of Charles Sheketoff, 6 pp.
9. SB 2, Lowe, Working but Hungry: When Work is Not Enough, 4 pp.
10. SB 2, Witt, Proposed Amendments to Senate Bill 2 (SB 2-1), 2 pp.
11. SB 2, Rosenbaum, Proposed Amendments to Senate Bill 2 (SB 2-2), 1 p.
12. SB 2, Waters, Revenue Impact of Proposed Legislation for HB 3450-2, 1 p.
13. SB 2, Waters, Staff Measure Summary, 1 p.
14. SB 2, Waters, Legislative Fiscal Office, Fiscal Impact Assessment, 1 p.
15. SB 244, Manary, SB 244A Exemptions, 2 pp.
16. SB 244, Martin-Mahar, Revenue Impact of Proposed Legislation for SB 244-A, 2 pp.
17. SB 244, Martin-Mahar, Staff Measure Summary, 1 p.
18. SB 244, Martin-Mahar, Legislative Fiscal Office, Fiscal Impact Assessment, 1 p.