

**WORK SESSION: HB 2048**

**PUBLIC HEARING & WORK SESSION:**

**SB 1144A, HB3734**

**TAPES 211, 212 A/B, 213 A**

**HOUSE REVENUE COMMITTEE**

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**JUNE 11, 1997 8:30 AM HEARING ROOM A STATE CAPITOL BUILDING**

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**MEMBERS PRESENT:** Rep. Tom Brian, Chair

Rep. Lee Beyer, Vice-Chair (Excused for p.m.)

Rep. Tony Corcoran

Rep. Randall Edwards

Rep. Anitra Rasmussen

Rep. Lane Shetterly (Arrived 9:07 a.m.)

Rep. Mark Simmons

Rep. Ken Strobeck

**MEMBERS EXCUSED:** Rep. Leslie Lewis

**WITNESSES PRESENT:** Paul Warner, Office of Economic Analysis

Karey Schoenfeld, Oregon Society of CPAs

Tim Nesbitt, Oregon Public Employees Union

Susan Browning, Department of Revenue

Rob Douglas, Oregon Society of CPAs

David Brown, Oregon Forestries Council

Robert Muir, Department of Justice

Gil Riddell, Association of Oregon Counties

Lincoln Cannon, OFIC

**STAFF PRESENT:** Ed Waters, Economist

Dick Yates, Economist

Brian Reeder, Economist

Barbara Guardino, Committee Assistant

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**TAPE 211 SIDE A**

009 Chair      Called meeting to order at 9:05 a.m. Noted HB 3734 -4 amendments need to be corrected  
    Brian      before committee can do work on them.

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**PUBLIC HEARING AND WORK SESSION-- HB 3734A**

021 Dick Yates      Directed members' attention to HB 3734 -3 (EXHIBIT A); HB 3734 -4 (EXHIBIT B);  
    and "Corporation Tax After Credits for Timber Related Industries 1983 -  
    1994" (EXHIBIT C)

036 Rep.      Concerning Exhibit C, asked for explanation of drastic change in 1989, 1990 and 1991.  
    Corcoran

044 Paul      Explained, these were recession years. Corporation tax is more volatile than privilege  
    Warner      tax.

063 Yates      Directed members' attention to "HB 3734-1, Revenue Impact by County" (EXHIBIT  
    D): Dept. of Revenue estimated forest land tax and privilege tax 1999 under current

law.

Refer to "Department of Justice" (EXHIBIT E) Dept. of Revenue has asked attorney general whether land valuations could be increased from 20 % to 100 % under M50. AG response: "no."

084 Yates

Referred to HB 3734 - 3: Explained, -3 are an attempt to get around AG opinion.. Same as -1 (distributed June 9), with few exceptions. Reviewed changes.

118 Yates

Reviewed HB 3734 -4, pointed out date errors, other changes.

### **WORK SESSION -- HB 2048**

175 Chair Brian Opened work session on HB 2048 in order to move -16 amendments into HB 2048. (EXHIBIT T)

192 Rep. Rasmussen **MOTION TO MOVE HB 2048 -16 AMENDMENTS INTO HB 2048.**

194 Chair Brian **ASKED MEMBERS FOR ANY OBJECTIONS TO MOVING HB 2048-A16 AMENDMENTS INTO HB 2048. HEARING NO OBJECTIONS, CHAIR SO ORDERED.**

197 Rep. Rasmussen **MOTION TO PASS HB 2048 AS AMENDED WITHOUT RECOMMENDATION TO BE PRINTED ENGROSSED AND RE-REFERRED TO HOUSE REVENUE COMMITTEE.**

**7 - 0 - 2**

**IN A ROLL CALL VOTE, MEMBERS VOTING AYE: REPS. CORCORAN, EDWARDS, RASMUSSEN, SHETTERLY, SIMMONS, STROBECK; CHAIR, BRIAN.**

215 VOTE

**MEMBERS EXCUSED: REP. LEWIS, VICE CHAIR BEYER.**

**MOTION CARRIED.**

### **PUBLIC HEARING -- SB 1144-A**

236 Karey Schoenfeld Refer to "Oregon Reconnect Legislation - SB 1144" (EXHIBIT F) Issue of reconnecting state tax law to federal tax law. Addressed whether it makes sense to reconnect to federal Internal Revenue code on an automatic basis rather than reconnecting every two years. Since 1981, legislatures have reconnected every session.

Noted filing problems when state disconnects from federal.

On behalf of Oregon Society of CPAs, recommended passage of SB 1144-A.

- 347 All Questions and discussion.
- 405 Schoenfeld In regard to concern that a federal change that will impact Oregon, the Department of Revenue could call an emergency session. This has never occurred.

**TAPE 212 SIDE A**

- 039 All Continued discussion concerning SB 1144A.
- 049 Schoenfeld Noted "Individual Income Tax Starting Points" (EXHIBIT H) that concerns reconnect in other states.
- 079 Rep. Corcoran Asked Schoenfeld to give an example of a situation in which taxable income definition changes on federal level that would have adverse impact on state.
- 086 Schoenfeld Meals and entertainment, federal limited deductions that resulted in increase in Oregon. Biggest area Oregon could see decrease would be change in depreciation schedule, as in 1981.
- 111 Paul Warner The way current law operates without automatic reconnect, changes in federal law can affect Oregonians by changing the amount of federal incomes taxes people pay. Oregon has cap on federal deductions that limits a lot of these changes.
- Noted, with automatic reconnect, kicker could be triggered during a biennium.
- Testified in opposition to SB 1144A. Refer to "Oregon Public Employees Union/Local 503: Senate Bill 1144 (Permanent Reconnect to Federal Income Tax Code)" (EXHIBIT I)
- 153 Tim Nesbitt ( What SB 1144 Does
- ( SB 1144 Is Bad Policy
- 216 Rep. Corcoran Concerning 3/5 vote requirement (for property tax increases), would this apply if a federal tax change diminished the amount of revenue available to Oregon and legislature had to correct it?
- 211 Nesbitt Yes, and Senate Revenue has an opinion confirming this.
- 240 All Questions and discussion concerning interim disconnect, whether it would require a 3/5 vote.
- 272 Susan Browning This is one reason Department of Revenue is neutral on this bill. If state permanently reconnects and a federal change had a major impact, Department of Revenue would alert Governor's Office and Legislative Revenue Office that this was happening. Could lead to a special session, probably 3/5 vote, to disconnect because of need to increase revenue.
- 303 Browning 3/5 vote is not the main point. If change on federal level, Department of Revenue does not have authority to disconnect, legislators do.
- 342 Rob Douglas Oregon Society CPAs members would like some certainty with issue of reconnect. This change is needed. Majority of times, reconnect will have a positive impact on state fund. Definition of taxable income will be broadened. Urged committee to pass SB 1144A.
- Rep. Favored reconnecting, but expressed concern with potential problem with triggering

401 Edwards kicker. Asked, is there any way to assess how likely this is, or can it be amended to prevent a problem.  
425 Warner Reconnect might potentially affect revenue flow. If reconnect broadens tax base, revenue stream would be increased. If that increases revenue beyond kicker, it could trigger kicker. Similar to state level where initiatives can trigger the kicker.

### **TAPE 211 SIDE B**

040 All Questions and discussion concerning reconnect/kicker.  
Close public hearing on SB 1144, opened work session.  
080 Chair Brian  
105 Chair Brian Recessed meeting at 10:05 a.m.

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### **AFTERNOON CONTINUED SESSION**

108 Chair Brian Reconvened meeting at 6:07 p.m.

### **WORK SESSION, CONTINUED -- HB 3734**

112 Dick Continued morning discussion on HB 3734. Noted, attorney general said -5 amendments would not work, suggested alternative approach which resulted in -6 and -7. Those have been refined. Directed members to discard HB 3734 -5, -6, and -7 amendments.  
Yates (EXHIBITS M, N, O)  
Reviewed HB 3734 -8 amendments (EXHIBIT P): Language similar to previous. Two new Sections, 2 and 4, eliminate privilege tax in Western and Eastern Oregon, conditional upon election made in Section 6.  
135 Yates  
Amendments unify date changes  
163 All Questions and discussion concerning date changes.  
209 David Referred to HB 3734 -4 amendments. Recalled earlier hand-engrossed amendment.  
Brown Located on page 2, lines 22-23.  
245 All Discussion on language changes to Section 6, to be addressed in subsequent amendments.  
Flagged issue.

- 320 Rep. Lewis Concerned, if someone has land specially assessed as farmland and they wish to put it into timber, are they excluded? This is what Lewis has done from her property through Western Oregon Small Tract Optional Tax (WOSTOT).
- 342 Brown Yes. Small tracts will continue to be able to elect either current law (20 % special assessment privilege tax) or WOSTOT, which is 100 % assessed value option. This one-time election will close, but other assessments will continue.  
Continued review of HB 3734 -8:
- 388 Yates Section 7: Page 4, putting property at 100 % for ad valorem purposes.  
  
Ignore Section 9 because -9 amendments rewrite them.  
Began review of HB 3734 -9 amendments (EXHIBIT Q):
- 423 Yates Page 1, lines 1 - 9 change references to deal with new sections. If land is disqualified because of election, landowner is not subject to penalties.  
  
Page 2, line 4, adds new Subsection F which has to do with when landowner is not subject to penalties.
- 455 Yates Page 4: Makes legislation safe from Constitutional challenge.

**TAPE 212 SIDE B**

- 039 Robert Muir Will provide legal advice concerning draft amendments. Drafted HB 3734 -8 Section 9; and -9 Section 10, regarding severability clause: In terms of legal effect, should have the effect that it states, the entire act will be valid or none of it will. Intent is that nobody can challenge part of act and leave the rest.  
  
Offered note of caution concerning proposed amendments to Section 6: words "subject to the election," in order to establish intention, comments should come from committee, not from witnesses.  
Agreed.
- 085 Rep. Shetterly Also, questioned lines 25-27, definition of "owner" in relation to changing ownership of land to make election on a per parcel basis.  
  
Number of ways that issue can be resolved. Somewhere, there is another definition of owner relating to "controlling interest." Suggested keeping existing words but adding language stating owner has responsibility for tax filing. That would be one individual.
- 124 Muir Questions and discussion.
- 134 All
- 170 Rep. Rasmussen Asked, is it possible to have one group owning timber and another group owning the land? Where does this reconfiguration come into this tax code?
- 192 Muir Answered if ownership is in two hands, one person cannot be an owner, and will still fall under 20 % special assessment.
- 205 Brown Oregon Forest Industries Council (OFIC) is strongly against concept of direct or indirect ownership. Suggested language to clean this up.

226 Chair Brian HB 3734 -8 page 2, lines 18-19 suggested wording: "All forestland owned means all of the forestland in the state owned directly or indirectly by an owner ..."

266 Gil Riddell Refer to written testimony verbatim (EXHIBIT R) "Testimony of Gil Riddell on House Bill 3734 ..." Association of Oregon Cities AOC) will not oppose if under certain conditions are met.

312 Lincoln Cannon Testified, OFIC agrees with AOC that long-term tax rate should be set prior to subtracting offsets.

338 Rep. Strobeck **MOTION FOR SUSPENSION OF RULES IN ORDER TO HAND-ENGROSS HB 3734 -8 AMENDMENTS OF HB 3734.**

343 Chair Brian **ASKED MEMBERS FOR ANY OBJECTIONS TO SUSPENDING RULES IN ORDER TO HAND-ENGROSS HB 3734 -8 AMENDMENTS OF HB 3734. HEARING NO OBJECTIONS, CHAIR SO ORDERED.**

**MOTION TO AMEND HB 3734 -8 AMENDMENTS AS FOLLOWS:**

345 Rep. Strobeck **PAGE 2, LINE 18 DELETE WORDS "AND OWNERS" AND REPLACE WITH WORD "THE"; LINE 19 FOLLOWING "STATE," INSERT "OWNED DIRECTLY OR INDIRECTLY BY AN OWNER." SECTION WILL READ: "ALL FOREST LAND MEANS ALL FOREST LAND IN THIS STATE OWNED DIRECTLY OR INDIRECTLY BY AN OWNER."**

359 Chair Brian **ASKED MEMBERS FOR ANY OBJECTIONS TO ABOVE HAND-ENGROSSED AMENDMENT. HEARING NO OBJECTIONS, CHAIR SO ORDERED.**

361 Chair Brian Committee is now out of suspension of rules.

377 Yates Returned discussion to HB 3734 -9 amendments. Relieve forest landowners from penalties because of declassification of forestland when they elect to move to 100 % ad valorem tax.

384 Rep. Shetterly **MOTION TO MOVE HB 3734 -9 AMENDMENTS INTO HB 3734 -8 AMENDMENTS OF HB 3734.**

391 Chair Brian **ASKED MEMBERS FOR ANY OBJECTIONS TO MOVING HB 3734 -9 AMENDMENTS INTO HB 3734 -8 AMENDMENTS. HEARING NO OBJECTIONS, CHAIR SO ORDERED.**

392 Rep. Strobeck **MOTION TO MOVE HB 3734 -8 AMENDMENTS AS AMENDED INTO HB 3734.**

395 Chair Brian **ASKED MEMBERS FOR ANY OBJECTIONS TO MOVING HB 3734 -8 AMENDMENTS AS AMENDED INTO HB 3734. HEARING NO OBJECTIONS, CHAIR SO ORDERED.**

401 Rep. Strobeck **MOVED HB 3734 TO FLOOR AS AMENDED WITH DO PASS RECOMMENDATION.**

406 Rep. Rasmussen Will not support bill as currently written.

418 Rep. Shetterly Comfortable with bill, makes changes as occur in M47 and 50. Keeps faith with commitment lawmakers made on M50 for statutory relief.

This has been a tough one for him. Wants to be fair, but the way this bill is

442 Rep. Corcoran constructed, it is 2 or 3 times more than fair. Supports concept of bill, but will construct minority report that reflects concept but changes rate of tax benefit to 17 % reduction rather than 50 % reduction.

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**TAPE 213 SIDE A**

032 Rep. Simmons Agreed, this is a fairness issue. Will support bill.  
Will support bill. This brings forestland onto same system as everyone else so they will have same protections under M50 3 % cap. Also feels good that this completes work started in 1993 by recognizing timber is now a planted crop, rather than extracted.

038 Rep. Lewis Concerning fairness issue, 3.2 % on westside and 1.8 % on east side were set too high, so timber industry has been over-taxed.

061 Rep. Strobeck His biggest concern is, if this is already a property tax based system under privilege tax, why are we losing so much? Answer is, rate was set too high. This looks like a big decrease but goes back to closer to what should have been originally. M50 said all taxes would be cut and capped. Forestland was overlooked.

079 Rep. Simmons Thanked Reps. Roger Beyer and Josi for their work on this bill.

**6 - 2 - 1**

**IN A ROLL CALL VOTE, MEMBERS VOTING AYE: REPS. EDWARDS, LEWIS, SHETTERLY, SIMMONS, STROBECK; CHAIR BRIAN.**

**MEMBERS VOTING NO: REPS. CORCORAN, RASMUSSEN.**

084 VOTE **MEMBERS EXCUSED: VICE CHAIR BEYER.**

**MOTION CARRIED. REPS. SHETTERLY AND JOSI WILL LEAD DISCUSSION. REPS. CORCORAN AND RASMUSSEN SERVED NOTICE OF POSSIBLE MINORITY REPORTS.**

098 Chair Brian Closed work session on HB 3734. Opened work session on SB 1144-A.

**WORK SESSION -- SB 1144**

122 Rep. Strobeck **MOTION TO MOVE SB 1144-A TO FLOOR WITH DO PASS RECOMMENDATION.**

124 Chair Brian Asked if any further discussion.



- 133 Rep. Rasmussen Expressed discomfort with handing over state revenues to federal government.
- 154 Rep. Strobeck Strobeck had same concerns, but changed his mind because the bill only addresses taxable income.
- 164 Rep. Shetterly Predicted future legislatures will handle "disconnect" bills.
- 176 Rep. Lewis Expressed support for bill.

**6 - 1 - 2**

**IN A ROLL CALL VOTE, MEMBERS VOTING AYE: REPS. CORCORAN, LEWIS, SHETTERLY, SIMMONS, STROBECK; CHAIR BRIAN.**

**MEMBERS VOTING NO: REP. RASMUSSEN.**

180 VOTE

**MEMBERS EXCUSED: REP. EDWARDS, VICE CHAIR BEYER.**

**MOTION CARRIED. REP. STROBECK WILL LEAD DISCUSSION ON THE FLOOR.**

194 Chair Brian Adjourned meeting at 7:10 p.m.

Submitted by, Reviewed by,

Barbara Guardino Kim James

Committee Assistant Revenue Office Manager

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**EXHIBIT SUMMARY:**

A. HB 3734, Yates, Proposed Amendments: HB 3734 -3, 3 pp.

B. HB 3734, Yates, Proposed Amendments: HB 3734 -4, 3 pp.

E. HB 3734, Yates, Corporation Tax After Credits for Timber Related Industries 1983 - 1994, 1 p.

D. HB 3734, Yates, HB 3734 -1 Revenue Impact by County, 1 p.

- E. HB 3734, Yates, Department of Justice letter to Norm Miller, 3 pp.
- F. SB 1144, Schoenfeld, Oregon Reconnect Legislation, SB 1144, 3 pp.
- G. SB 1144, Schoenfeld, Effects of Adopting SB 1144 Permanent Connection to Internal Revenue Code for Definition of Taxable Income, 1 p.
- H. SB 1144, Schoenfeld, Individual Income Tax Starting Points, 2 pp.
- I. SB 1144, Nesbitt, Oregon Public Employees Union/local 50e, Senate Bill 1144 (Permanent Reconnect to Federal Income Tax Code), 2 pp.
- J. SB 1144, Waters, Revenue Impact of Proposed Legislation, 1 p.
- K. SB 1144, Waters, Staff Measure Summary, 1 p.
- L. SB 1144, Waters, Fiscal Analysis of Proposed Legislation, 1 p.
- M. HB 3734, Yates, Proposed Amendments: HB 3734 -5, 3 pp.
- AA. HB 3734, Yates, Proposed Amendments: HB 3734 - 6, 6 pp.
- O. HB 3734, Yates, Proposed Amendments: HB 3734 -7, 4 pp.
- P. HB 3734, Yates, Proposed Amendments: HB 3734 -8, 6 pp.
- Q. HB 3734, Yates, Proposed Amendments: HB 3734 -9, 5 pp.
- R. HB 3734, Riddell, Testimony of Gil Riddell on House Bill 3734 before the House Revenue Committee on June 11, 1997, 1 p.
- S. SB 1144, Waters, Reconnect: Constitutional Issues, 1 p.
- T. HB 2048, LRO, Proposed Amendments: HB 2048 -16, 399 pp.