

PUBLIC HEARING AND WORK SESSION:

SB 347-A

TAPES 86 A/B, 87 A

HOUSE REVENUE COMMITTEE

MARCH 21, 1997 8:30 AM HEARING ROOM B STATE CAPITOL BUILDING

MEMBERS PRESENT: Rep. Tom Brian, Chair (Arrived 9:25 a.m.)

Rep. Lee Beyer, Vice-Chair

Rep. Tony Corcoran

Rep. Randall Edwards

Rep. Leslie Lewis (Arrived 9:15 a.m.)

Rep. Anitra Rasmussen (Arrived 9:10 a.m.)

Rep. Lane Shetterly

Rep. Mark Simmons

Rep. Ken Strobeck

WITNESSES PRESENT: Karey Schoenfeld, Oregon Society of CPAs

Susan Browning, Department of Revenue

Jim Bucholz, Department of Revenue

Tim Nesbitt, Oregon Public Employees Union

STAFF PRESENT: Edward Waters, Legislative Revenue Officer

Barbara Guardino, Committee Assistant

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TAPE 086 SIDE A

007 Vice Chair Beyer Called meeting to order at 9:00 a.m. Opened public hearing on SB 347.

PUBLIC HEARING AND WORK SESSION - SB 347-A

Commenced review of "An Analysis of Changes Resulting From The: ..." (March 19 Exhibit A)

016 Karey Schoenfeld Page 71, middle: **Pension Simplification Provisions**

Repeal of five-year averaging for lump-sum distributions

IRS forms to be prepared

Page 72:

Application of ERISA to insurance company general accounts

026

General Revenue Offset Provisions

Luxury auto tax extended, rates decreased

Page 73: Tax-exempt financing for new "local furnishers" of electricity or gas

Airport and airway trust fund taxes reinstated

032

Miscellaneous Tax Provisions

Excise tax on diesel fuels

Page 74:

046 Schoenfeld Ozone-depleting chemicals tax

Removal of barriers to inter-ethnic adoption

052 **RECOMMENDATIONS H:**

Page 75:

Increased percentage of health insurance costs deductible by self-employed individual
Page 76: **Expense Provisions**

Treatment of certain charitable risk pools

066

General Revenue Offset Provisions

Personal exemption deduction and child care credit not allowed unless dependent's ID number is provided

Page 77:

081

Financial asset securitization investment trusts

Page 78: **Technical Corrections**

Numerous technical corrections are made under this subtitle

087

Common paymaster rules applied to agency accounts at state universities

State tuition programs

Concluded testimony, urged committee to consider permanent reconnects.

138 Schoenfeld

Questions and discussion.

Directed members' attention to: Senate Bill 347-A Reconnect Policy (EXHIBIT A); and Senate Bill 347-A Summary (EXHIBIT B). This is the ninth legislative session to review provisions of federal tax changes in relation to state. In 1981, legislature started looking at this every biennium, has reconnected every session.

224 Susan Browning

Federal change in way depreciation was handled, Economic Recovery

253 Jim Bucholz

Tax Act of 1981, drastically increased amount of deduction taxpayers took for capital items into their businesses. Still seeing ripple effect of this.

269 Browning

State of Oregon strongly reports reconnect with federal changes.

Directed members' attention to Exhibit A:

Oregon's Tie to the Internal Revenue Code. Most changes can be adopted by changing the date to December 31, 1995. Four reasons why recommend change:

282 Browning

Simplification

Ease of compliance

Reduced errors on tax returns

Reduced administrative cost

Summarized bill by section: Senate Bill 247-A Summary (Exhibit B)

- 324 Bucholz Section 1: Reconnect in general
- 375 Bucholz Section 2: Reconnect re: child care credit
- 394 Bucholz Section 3: Adopts effective dates for requirement to supply social security number of dependents on federal return.
- Section 4: Reconnect re: Credit for the elderly or permanently and totally disabled
- Section 5: Conformity with federal law prohibiting state taxation of nonresidents
- Questions and discussion concerning taxation of nonresidents, federal public employee taxation.

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- 043 Bucholz Section 7: Housekeeping -- Tie date to IRC
- Section 8: Retirement income credit and conformity with federal law prohibiting state taxation of nonresidents
- Section 11: Waiver of interest on underpayment of individual estimated tax due to reconnect
- 065 Section 12: Election to include child's income on parents' federal tax return
- Section 13: Housekeeping
- Section 15: Effect of federal law changes on medical savings accounts
- 099 Section 16: Effect of federal law changes on SIMPLE retirement plans
- Section 17: Reconnect re: Deferral of reinvested gain
- Section 18: Reconnect in general (corporate tax)
- Section 19: Reconnect in general
- 118 Bucholz Section 20: New federal legislation re: charitable risk pools and qualified state tuition programs
- Section 21: Effective date for which tax years the exemptions for qualified state tuition programs and charitable risk pools are applicable
- Section 22: Research tax credit
- 135 Section 24: Charitable contribution deduction
- 155 Chair Brian Asked Bucholz to focus his review on issues with significant financial impact; or significant administrative or process change. Referred to Revenue Impact Statement (March 19, Exhibit C) page 2.
- 201 Bucholz Addressed revenue impact: Referred to SB 347-A, Sections 1 and 18. No specific mention in bill to revenue impact.
- Returned to Exhibit B, Section 30: Tri-Met and LTD payroll and self-employment

235 Bucholz Section 45: Waiver of interest on underpayment of corporate estimated tax due to reconnect

253 Section 51: Repeal statute providing deduction for self-employed health insurance and statute relating to determinations of S corporations

271 Bucholz Section 52: Specifies general effective date of bill of January 1, 1997.
Directed members to -A2 Amendments (Refer to March 19, Exhibit B).

303 Tim Nesbitt Testified in opposition, in part, of reconnect. Reconnect should have a cost benefit analysis. Convenience to tax collectors should be measured against cost. There is a net cost of \$800,000 to state in coming biennium. Needs to be considered in regard to M47 cuts, and continued need to address school funding. As federal government imposes responsibilities onto the states, the states will have to bear those costs.

Two items in bill, if not connected, would have positive revenue effect:

Medical savings accounts

Contributions of stock to private foundations

Medical savings accounts: HB 2488 scheduled for public hearing establishes medical savings accounts in State of Oregon. Revenue impact is \$1 million.

347 Nesbitt Contributions of stock to private foundations: This is a change in federal law, specific to private foundations, not charitable foundations. It is a one-time provision, expires June 1, 1997. Federal tax break for donations to private foundations is sufficient incentive for donors. Oregon does not to create additional incentives.

Questions and discussion

TAPE 086 SIDE B

040 Ed Waters Began review of issues flagged during previous days' discussions: (MSAs, pilot program, increase on business expense, private foundation donations, cooperative banks).

053 Schoenfeld * Medical Savings Accounts: Current law reads that the first 750,000 individuals to set up MSA in any year are allowed. Set up through banks, which report number to IRS. Proposal will be heard in Congress to get rid of this limit. They can be used by employers only if high deductible medical plan. Employees can put in only 65 % of deductible amount. Banks don't want to deal with these accounts because amounts are so small.

080 Rep. Shetterly Suspects \$1 million impact is arbitrary.

084 Schoenfeld Thinks number is lower, came as estimate at federal level.

097 Chair Brian Asked for any objection to Medical Savings Accounts reconnect.

- 100 Rep. Rasmussen There is another bill, would prefer to allow it to be addressed there.
- 113 Rep. Simmons Wondered, if committee were to connect on MSAs, if that would preclude them from legislation elsewhere?
- 117 Rep. Corcoran Same concerns, at a time when Oregon schools are in budget crisis. This is a very narrow impact.
- 130 Rep. Shetterly Favors reconnect on this issue. This number probably inflated, revenue impact will be minimal. Benefits will outweigh cost.
- 141 Chair Brian Directed Schoenfeld to continue her discussion of flagged issues:
 * Can agricultural organizations make expenditures on behalf of education. They can, as long as expenditures are in furtherance of their agricultural purpose.
 * Are credit unions covered under new banking provisions? Yes.
- 144 Schoenfeld
 * Are private foundations considered charitable organization? Yes, they can only be used for charitable purposes.
- Questions and discussion
 * Dollar limit for child care credit: Qualifying expenses of up to \$2,400 for one child or \$4,800 for two children. No impact on Oregon.
- 201 Schoenfeld
 * Tip income/credit: Credit for full FICA tax paid over minimum wage base. Dollar-for-dollar credit. Allows restaurant employers to pay minimum wage.
- 233 Rep. Lewis Credit is on tax, not on wage.
- 243 Waters * Concerning ESOP deduction: Oregon is active relative to other states, with about 200. Minimal impact.

WORK SESSION - SB 347-A

- 259 Chair Brian Opened work session - 347.
- 261 Shetterly **MOVED TO INSERT SB 347-A -2 AMENDMENTS INTO SB 347-A, CONCERNING MEDICAL SAVINGS ACCOUNTS.**
- 272 Chair Brian **ASKED COMMITTEE FOR ANY OBJECTIONS TO MOVING -2 AMENDMENTS INTO SB 347-A. THERE BEING NO OBJECTIONS, CHAIR SO ORDERED.**
- 278 Rep. Edwards **MOVED TO MOVE SB 347-A TO THE FLOOR WITH AMENDMENTS WITH A DO PASS RECOMMENDATION.**

VOTE 7 - 0 - 2

- 282 Vote **MEMBERS PRESENT VOTING AYE: REPS. CORCORAN, EDWARDS, RASMUSSEN, SHETTERLY, SIMMONS, VICE CHAIR BEYER, CHAIR BRIAN.**

MEMBERS EXCUSED: REPS. LEWIS, STROBECK.

MOTION CARRIED. REP. EDWARDS WILL LEAD DISCUSSION ON THE FLOOR.

296 Chair
Brian

Adjourned meeting at 10:10 a.m.

Submitted by, Reviewed by,

Barbara Guardino Kim James

Committee Assistant Revenue Office Manager

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EXHIBIT SUMMARY:

A. SB 347, Browning, Senate Bill 347-A Reconnect Policy, 1 p.

B. SB 347, Browning, SB 347-A Summary, 12 pp.