

PUBLIC HEARING ON SB 347

TAPES 039 - 040 A/B

SENATE REVENUE COMMITTEE

FEBRUARY 11, 1997 - 9:00 A.M. - HEARING ROOM B - STATE CAPITOL BUILDING

Members Present: Sen. Ken Baker, Chair

Sen. Neil Bryant, Vice Chair (arrived 9:10 a.m.)(left 10:43 a.m.)

Sen. Joan Dukes (arrived 9:37 a.m.)

Sen. Tom Hartung

Members Excused: Sen. Randy Leonard

Witnesses: Karey Schoenfeld, Oregon Society of Certified Public Accountants

Carol Wachter, Oregon Society of Certified Public Accountants

Tim Nesbitt, Oregon Public Employees Union

Susan Browning, Division Administrator, Department of Revenue

Jim Bucholz, Department of Revenue

Staff: Ed Waters, Economist

Carol Phillips, Committee Assistant

-

TAPE 039, SIDE A

004 Chair Baker Called the meeting to order at 9:07 a.m.

OPENED PUBLIC HEARING ON SB 347

(Exhibit A from 2/10/97 - Continuation of Recommendations A)

011 Karey
Schoenfeld

- State Tuition Programs
- Exclusion of Adoption Assistance from Income when Provided by Employer Adoption Assistance Program

Foreign Trust Tax Compliance:

040 Schoenfeld

- Outbound Foreign Grantor Trust Rules Amended
- Inbound Foreign Grantor Trust Rules Amended
- Estates and Trusts Subject to Objective Testing to Determine Residency

Recommendations B

Health Insurance Portability & Accountability Act of 1996

- Penalty Free Withdrawals from IRAs for Medical Expenses

063 Carol Wachter

Personal Responsibility & Work Opportunity Reconciliation Act

- Earned Income Credit Denied to Unauthorized Employees
- Rules Relating to Denial of Earned Income Credit on Basis of Disqualified Income
- Modifications of Adjusted Gross Income (AGI) Definitions for Earned Income Credit

Small Business Job Provision Act

Extension of Certain Expiring Provisions:

- Work Opportunity Tax Credit
- Orphan Drug Tax Credit
- Extension of Binding Contract Date for Biomass and Coal Facilities

General Revenue Offset Provisions:

- Possessions Tax Credit
- Repeal of the Diesel Fuel Rebate

Miscellaneous Tax Provisions:

- Credit for Adoption Expenses

Recommendations C

Health Insurance Portability & Accountability Act of 1996

- Taxes & Penalties May be Imposed on MSA
- Qualified Long-term Insurance Contracts Must Meet Certain Consumer Protection Requirements

Small Business Job Protection Act

Expense Provisions:

- Underpayment Penalties

Pension Simplification Provisions:

- Required Plan Distribution Beginning Date
- SIMPLE Retirement Plans for Employees of Small Employers
- Prohibited Transaction Tax Increased
- Uniform Penalty Provision for Pension Reporting Requirements
- Waiver of Excise Tax on Liquidity Shortfalls

Foreign Trust Tax Compliance:

- Information Reporting Requirements and Penalties
- Penalty on Failure to File Returns
- U.S. Persons Subject to Reporting Requirement for Foreign Gifts
- Foreign Non-grantor Trust Rules Amended
- U.S. Trust That Becomes a Foreign Trust Subject to 35% Excise Tax

Recommendations D

Small Business Job Protection Act

Extension of Certain Expiring Provisions:

- FUTA Exemption for Alien Agricultural Workers
- Research Credit

314 Schoenfeld

Pension Simplification Provisions:

- Retirement Benefits of Ministers Not Subject to Self-employment Tax

General Revenue Offset Provisions:

- Repeal of Exclusion for Energy Subsidy Provided by Public Utility for Non-dwelling Units

TAPE 040, SIDE A

Recommendations E

Health Insurance Portability & Accountability Act of 1996

Exception from Capitalization of Policy Acquisition Expenses:

- Insurance Contracts Defined
- Special Tax Breaks for Blue Cross and Blue Shield Extended to Other Organizations

Small Business Job Protection Act

General Revenue Offset Provisions:

- "Variable Contract" for Life Insurance Taxation
- Mark to Market on Modified Guaranteed Contracts for Life Insurance Companies

015 Schoenfeld

Miscellaneous Tax Provisions:

- State Tuition Programs
- Electronic Deposit of Taxes by Small Employers Postponed

Recommendations F

Small Business Job Protection Act

Expense Provisions:

- Treatment of Employee Tips

109 Wachter

Miscellaneous Tax Provisions:

- Private Activity Bonds Issued to Acquire Alaska Hydroelectric Project or for New Local Furnishers of Electricity or Gas

Recommendations G

Personal Responsibility & Work Opportunity Reconciliation Act:

- Collections and Disbursement of Support Payments
- Internal Revenue Service Collection of Amounts in Arrears

Health Insurance Portability & Accountability Act of 1996

- Information Reporting Required for Long-term Care Benefits
- Organ and Tissue Donation Information will be Included with Income Tax Refunds
- Application and Enforcement of Group Health Plan Requirements

- COBRA Clarifications
- Information on Individuals Losing U.S. Citizenship
- Report on Tax Compliance by U.S. Citizens and Residents Living Abroad
- Repeal of Financial Institution Transition Rule on Interest Allocation

Small Business Job Protection Act

Expense Provisions:

- Clarification of Employment Tax Status of Certain Fisherman
- Modification of Tax-exempt Bond Rules for First-time Farmers
- Newspaper Distributors Treated as Direct Sellers
- Special Rules Relating to Determination Whether Individuals are Employees for Purposes of Employment Taxes

189 Wachter

Extension of Certain Expiring Provisions:

- Moratorium for Excise Tax on Diesel Fuel Sold

Pension Simplification Provisions:

- Repeal of Five-year Averaging for Lump-sum Distributions
- IRS Forms to be Prepared
- Application of ERISA to Insurance Company General Accounts

TAPE 039, SIDE B

General Revenue Offset Provisions:

- Luxury Auto Tax Extended, Rates Decreased
- Tax-exempt Financing for New "Local Furnishers" of Electricity or Gas
- Airport and Airway Trust Fund Taxes Reinstated

Miscellaneous Tax Provisions:

- 018 Wachter
- Excise Tax on Diesel Fuel
 - Ozone-depleting Chemicals Tax
 - Removal of Barriers to Inter-ethnic Adoption

Recommendations H

Health Insurance Portability & Accountability Act of 1996

- Increased Percentage of Health Insurance Costs Deductible by Self-employed Individual

Small Business Job Protection Act

Expense Provisions:

- Treatment of Certain Charitable Risk Pools

General Revenue Offset Provisions:

054 Schoenfeld

- Personal Exemption Deduction and Child Care Credit Not Allowed Unless Dependent's ID Number is Provided
- Financial Asset Securitization Investment Trusts

Technical Corrections:

- Numerous Technical Corrections are Made Under this Subtitle

Miscellaneous Tax Provisions:

- Common Paymaster Rules Applied to Agency Accounts at State Universities
- State Tuition Programs

Questions and discussion interspersed.

170 Schoenfeld There are many provisions which would create additional tax for the taxpayers. There are also many provisions which would lower taxpayers' taxes. The OSCPA takes the approach that it is best to reconnect to the federal provisions whether or not that means an increase to the taxpayer and urges adoption of SB 347 to allow for administrative ease in tax filing.

208 Tim Nesbitt OPEU called attention to the Revenue Impact Statement for SB 347 and the negative \$.8 million in the coming biennium to highlight their concern. In this time of increased fiscal pressure on the state in the wake of Measure 47, OPEU urges the legislature not adopt anything which would result in negative revenue. OPEU urges the legislature at least come up with a reconnect which is revenue neutral if not revenue positive. One of the proposals is to make tax deductible the MSAs (Medical Savings Accounts). OPEU believes this kind of tax expenditure is a policy question which should be examined separately. If that \$1 million dollar item were taken out of the proposal, the proposal would at least be in positive revenue impact territory in 1997-99.

242 Susan Browning Echoed sentiments presented by OSCPA. If taxpayers find it easier to complete their tax returns, more people will comply. If Oregon can keep as close as possible to the Internal Revenue Code, it will reduce the number of errors on tax returns. It would also keep the Department of Revenue's processing costs down. By changing the date from 4-15-95 to 12-31-96 probably 97% - 98% of the federal changes discussed previously will be taken care of. There will be no need to discuss each item again. Questions and discussion interspersed.

289 Browning There are three general areas to be addressed: (1) changing the date from 4-15-95 to 12-31-96 (2) some ties missed during 1995 legislation, and (3) some where a new tie date is proposed.

359 Bucholz Discussed "sunset dates" and effective date of reconnect.

-

TAPE 040, SIDE B

Exhibit B - Senate Bill 347 Summary

Section 1 - Reconnect in general ORS 316.012

Section 2 - Reconnect re: Child care credit ORS 316.078

Section 3 - Adopts effective dates for requirement to supply SSN for dependents on federal return

Section 4 - Reconnect re: Credit for the elderly or permanently and totally disabled ORS 316.087

Section 5 - Conformity with federal law prohibiting state taxation of nonresidents ORS 316.127

Section 7 - Housekeeping - Tie date to IRC

Section 8 - Retirement income credit and conformity with federal law prohibiting state taxation of nonresidents ORS 316.157

Section 11 - Waiver of interest on underpayment of individual estimated tax due to Reconnect ORS 316.589

Section 12 - Election to include child's income on parents' federal tax return ORS 316.687

Section 13 - Housekeeping ORS 316.687

001 Bucholz Section 15 - Effect of federal law changes on medical savings accounts

Section 16 - Effect of federal law changes on SIMPLE retirement plans ORS 316.863

Section 17 - Reconnect re: Deferral of reinvested gain ORS 316.873

Section 18 - Reconnect in general ORS 317.010

Section 19 - Reconnect in general ORS 317.018

Section 20 - New federal legislation

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 ORS 317.152

Section 24 - Charitable contribution deduction ORS 317.307 (Exhibit C)

262 Chair
Baker

Adjourned meeting at 10:45 a.m.

Carol Phillips

Committee Assistant

Kim James

Office Manager

-

Exhibit Summary:

A. SB 347, Waters, Revenue Impact Statement, 2 pages

B. SB 347, Browning, Reconnect Policy, 13 pages

C. SB 347, Browning, Interplay of Charitable Contribution Deduction and Net Operating Losses for Corporations, 1 page