

PUBLIC HEARING ON

SB 326 AND SB 388 TAPES 102 - 103 A/B

SENATE REVENUE COMMITTEE

APRIL 4, 1997 - 9:00 A.M. - HEARING ROOM B - STATE CAPITOL BUILDING

Members Present: Sen. Ken Baker, Chair

Sen. Neil Bryant, Vice Chair

Sen. Joan Dukes (arrived at 9:16 a.m.)

Sen. Verne Duncan

Sen. Tom Hartung

Sen. Randy Leonard

Witnesses: Jennifer Webber, Oregon Commission for Women

Charles Sheketoff, Attorney with Oregon Law Center

Marcia Latta, Women's Rights Coalition

Jerry Bieberle, Oregon Hunger Relief Task Force

Bob Castagna, Executive Director, Oregon Catholic Conference

Kevin Aguirre, Jobs Manager, Adult & Family Services

Susan Browning, Department of Revenue

Staff: Steve Meyer, Economist

Carol Phillips, Committee Assistant

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TAPE 102, SIDE A

005 Chair Baker Opened meeting at 9:06 a.m.

OPENED PUBLIC HEARING ON SB 326 AND SB 388

024 Jennifer Webber Exhibit A - Written testimony. Read written testimony. Questions and discussion.

051 Charles Sheketoff Exhibit B - Written testimony. Earned income tax credit is appropriate response to what the voters said last November when the Minimum Wage Increase was enacted. The voters said they want to make work pay. Seven states have an earned income tax credit. A tax credit should be refundable so that the credit goes to the people most in need. Oregon law taxes the federal credit.

103 Sheketoff Tables 1A and 1B of Exhibit B show that Oregon is in the majority of states that tax 2-parent families of 4 with incomes at the poverty line and in the minority of states that tax single-parent families of 4 with incomes at the poverty line. Tables 2A and 2B shows that Oregon's tax on families with poverty level income is the sixth highest for single-parent families of 3 and fifth highest for 2-parent families of 4. Table 3A shows that the single-parent 3-person family at minimum wage, which is less than poverty level, had the 11th highest income tax in the nation. Table 3B shows that 2-parent families of 4 at minimum wage were not taxed. Questions and discussion.

154 Marcia Latta Exhibit C - Read written testimony. Questions and discussion.

180 Jerry Bieberle Exhibit D - Written testimony. People can work now but still be in poverty. Thirty years ago people at the low end of the scale could be trained for a job, and they could pull themselves out of poverty but that is not the case any more. The work force, particularly at the lower end, has changed. Two people in a family can be employed and still be in poverty. The Earned Income Tax Credit is an excellent way to reward work. Questions and discussion.

220 Bob Castagna The Oregon Catholic Conference is the public policy office of the Archdiocese of Portland and the Diocese of Baker. Here today in support of SB 326 and SB 388. In preparing for this meeting went back to a report prepared by Legislative Revenue Office in 1988. For eight years this issue has been discussed with the Oregon legislature, and nothing has been done. Problem in past sessions has been revenue impact. While the Conference would like to see a refundable credit, if the revenue impact would get in the way of creating a state earned income tax credit, would prefer that the concept be introduced into law and at least started regardless if it is refundable or not. A refundable credit would be preferable however. The EITC would help people transition from

welfare to work.

286 Kevin Aguirre Exhibit E - Written testimony. Read written testimony. Questions and discussion.

349 Ed Waters Exhibit F - Diagrams. Discussed Earned Income Tax Credits. Federal Earned Income Tax Credit: Refundable: Credit can exceed liability. Phases in and out with income level. Different schedule depending on family size. Seven states have Earned Income Tax Credits. Four have refundable credits, and three are non-refundable.

381 Waters Discussed page 2 of Exhibit F. Example of 2 parent, 2 child family and how income compares with and without Earned Income Tax Credit. Assuming federal poverty level income of \$15,000. Would begin paying federal income tax when they reached \$24,000 income level. Questions and discussion interspersed

450 Chair Baker Asked if the \$3,000 credit to the family in the example was payable to them in installments over a twelve-month period.

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TAPE 103, SIDE A

028 Charles Sheketoff Answered that the family could get 50% or 60% of their Earned Income Credit on a monthly basis if they file a request form. Department of Human Resources encourage people at that level to file the form.

043 Waters Discussed page 3 of Exhibit F. 100% Refundable Oregon Earned Income Credit - 2 parent, 2 child family. At about the \$12,000 level Oregon families of 4 start to pay state tax. Federal poverty level for this family is \$15,600. With 100% Oregon Earned Income Credit, their tax threshold would move up to about \$23,500. Questions and discussion.

064 Waters Discussed page 4 of Exhibit F. 100% Non-refundable Oregon Earned Income Credit - 2 parent, 2 child family. Families below the \$12,000 level would get no benefit from the Earned Income Credit. Families in the range above \$12,000 could get an offset of their Oregon tax liability which would totally offset their Oregon tax liability up to \$23,500. At that level they would begin to pay Oregon tax.

079 Waters Discussed page 5 of Exhibit F. 133% Refundable Oregon Earned Income Credit - 2 parent, 2 child family. Because the 133% is a larger amount, the tax threshold for the same example family would be above \$24,000. Questions and discussion.

142 Waters Of the ways available to help reduce tax liability to lower income groups or target a specific portion of the low-income group, the Earned Income Credit is the best way known at this time. Questions and discussion.

- 209 Sheketoff If a 1-adult, 2-child family is working at minimum wage, they would not get benefit of the refundability because they are enough below poverty that Oregon would not be taxing them. By using a refundable credit, it gets money to the people at minimum wage and slightly higher, whether it is a 1-parent or 2-parent family. Most tax credits have a carry forward. With an Earned Income Credit the reason for no carry forward is that the people need the money now. Those people generally do not have accountants to keep their books. Disagrees with Waters' figures on the total cost. The 1995 number of \$252 million was the most recent figure from the Internal Revenue Service. To get up to \$900 million by next biennium that would mean about \$450 million in 1997 and does not believe it will jump that much. Wants an accurate number because of ramifications of either undervaluing or overvaluing, either of which would affect the kicker. Questions and discussion interspersed.
- 258 Chair Baker Asked if Sheketoff knew of any states which gave a percentage instead of a dollar amount.
- 263 Sheketoff Iowa pays a non-refundable 6.5%. Maryland pays a non-refundable 50%. Minnesota pays a refundable 15%. New York pays a refundable 20%. Rhode Island non-refundable 27 _ %. Vermont refundable 25%. Wisconsin has different percentages based on the number of children in the household: One child 4%, 2 children 14%, 3 or more children 43% refundable.
- 290 Waters Did a calculation of what percentage credit it would take to exempt Oregon 2-parent 2-child families from Oregon tax to federal poverty level, and that was about 12%.
- 305 Sheketoff Federal poverty level goes up every year about 2% to 3% depending on the size of the family. Poverty level was developed in the 1960s based on a food plan by USDA when food was the largest expense in a family's budget. The poverty level is still used for many programs. For the Food Stamp program the level is 125% of poverty.
- 332 Susan Browning Exhibit H - Department of Revenue written testimony. Two main concerns at this point. Currently the IRS allows an earned income credit to some low-income individuals with no children. Oregon law should be the same to avoid confusion. Also, at this point Oregon has no refundable credit programs. Many questions are raised regarding how to run a program of this type.
- 385 Chair Baker Adjourned meeting at 9:58 a.m.

Carol Phillips

Committee Assistant

Kim James

Office Manager

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Exhibit Summary:

A. SB 326, Webber, Written testimony dated 4/3/97, 1 page

B. SB 326, Sheketoff, Written testimony dated 4/2/97, 9 pages

C. SB 326, Latta, Written testimony dated 4/4/97, 1 page

D. SB 326, Fleming, Written testimony dated 4/2/97, 2 pages

E. SB 388, Aguirre, Written testimony dated 4/2/97, 2 pages

F. SB 326, Waters, Earned Income Tax Credits charts, 5 pages

G. SB 326, Waters, Revenue Impact Statement, 1 page

H. SB 326, Browning, Department of Revenue written testimony dated 4/2/97, 2 pages

I. SB 326, Gordly, Written testimony dated 4/2/97, 3 pages