

PUBLIC HEARING ON SB 1144 TAPES 106 - 107 A/B

**SENATE REVENUE COMMITTEE**

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**APRIL 10, 1997 - 9:00 A.M. - HEARING ROOM B - STATE CAPITOL BUILDING**

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Members Present: Sen. Neil Bryant, Vice Chair

Sen. Joan Dukes

Sen. Verne Duncan

Sen. Tom Hartung (left at 9:40 a.m.)

Sen. Randy Leonard (arrived at 9:26 a.m.)(left at 9:41 a.m.)

Members Excused: Sen. Ken Baker, Chair

Witnesses: Karey Schoenfeld, Oregon Society of CPAs

Tim Nesbitt, Oregon Public Employees Union

Susan Browning, Department of Revenue

Jim Bucholz, Department of Revenue

Dexter Johnson, Legislative Counsel

Staff: Ed Waters, Economist

Carol Phillips, Committee Assistant

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**TAPE 106, SIDE A**

005 Vice Chair Bryant Opened meeting at 9:11 a.m.

OPENED PUBLIC HEARING ON SB 1144

011 Ed Waters Exhibit A - Revenue Impact Statement. Discussed SB 1144, which has been referred to as a rolling or permanent reconnect. The difference between this and SB 347 which was passed out of this Committee a few weeks ago, is that this bill would permanently tie Oregon to changes in Internal Revenue Code resulting in changes from federal law as they occur or become effective.

019 Vice Chair Bryant Stated that the Committee felt this would be an easier process. Oregon legislature still has the right to not connect; but the legislature has the affirmative obligation to proceed.

023 Karey Schoenfeld Exhibit B - Effects of Adopting SB 1144. Supports SB 1144 and feels that a permanent reconnect will help taxpayers to understand the tax code better. It will also cut down on the number of returns taxpayers must file when they do not have to go back and amend a return because Oregon is not connected to federal law.

029 Schoenfeld Prior to 1981 there was a permanent reconnect, but was disconnected in 1981 because Oregon did not want to adopt a certain depreciation provision. Since 1981 in every biennium have debated whether or not to reconnect to federal tax and every biennium have completely reconnected to federal law. Last session there was one item which had not been reconnected since 1981, and that was a special provision added to reconnect to allow taxpayers to catch up so they could stop having to keep two sets of records because of difference in depreciation rules.

040 Schoenfeld Feels a permanent reconnect will address all the issues and make it easier for taxpayers to file returns. One of the problems CPAs see is, since Oregon tax law is two years behind federal law, the assumption is that Oregon will reconnect but it is never known until each session. CPAs are faced with what amounts to filing fraudulent returns if they are based on the assumption that Oregon will reconnect. The larger national firms simply prohibit their CPAs from assuming Oregon will reconnect because they feel that creates fraudulent returns and they are not willing to take that risk. For very minor changes those firms must go back and file amended returns for their clients.

054 Schoenfeld The main benefit to a permanent reconnect is that Oregon taxpayers and CPAs could file a correct return the first time and not need to amend returns. Would not have to keep two sets of depreciation records. Would have a much higher rate of compliance with Oregon tax law because it would follow federal. Most taxpayers do not know that Oregon is not following federal. Unless they carefully read their tax brochures they would not know.

ORS 316.007 implies that it was always the intent of Oregon to stay as close as possible to Internal Revenue Code. Understands, however, that there may be a time

- 063 Schoenfeld when Oregon decides it is not in its best interest to remain reconnected to federal tax law. The Department of Revenue is always watching for indicators of when it may be prudent to disconnect. Does not see anything on the horizon that would be detrimental to reconnect.
- 078 Schoenfeld Under the Oregon constitution, the only thing SB 1144 reconnects to is the definition of taxable income. Oregon cannot connect to credit provisions or any administrative provisions.
- 086 Sen. Hartung Does not feel that everything good necessarily comes out of Washington, D.C. Hopes that some day the federal government will let Oregon keep its own money and use it here instead of sending it to Washington, D.C.
- 099 Sen. Duncan Stated SB 1144 seems too logical. Asked if this concept has come before the legislature before, and if so why was it rejected?
- 103 Schoenfeld Believed in the past there was a fear of what would happen at the federal level and unsure if there would be a big tax bill which would negatively affect Oregon.
- 111 Vice Chair Bryant Generally issues which do affect Oregon on the federal level, like depreciation schedules, allow for an adjustment time.
- 117 Schoenfeld For instance, if a tax bill is passed after the legislature has already met, the legislature would not meet again for two years to discuss that change. There would be two years of tax returns that Oregon taxpayers would have to decide what to do with. Two years worth of returns to try to amend would be an large and tedious exercise. Overall feels it is best to permanently connect. Questions and discussion.
- 138 Sen. Dukes There are still some things that would not be included under a reconnect. As an example, Oregon did not connect to the Education Fund into which taxpayers can pay for children's or grandchildren's future education costs. Further questions and discussion.
- 170 Schoenfeld Anticipates that it will be necessary to come before the legislature every session because of tax credits and policies. All miscellaneous issues would be addressed at that time as well.
- 176 Vice Chair Bryant Referred to SB 1144 Section 51 beginning line 37 regarding FASIT (financial asset securitization investment trusts). Asked Schoenfeld why a section regarding FASIT is added to a bill regarding rolling reconnect?
- 183 Schoenfeld Answered that the FASIT section was added because it is anticipated that some of the provisions are a mirror of what was in SB 347. The idea of a FASIT needs to be included in Oregon law to acknowledge that there is such a thing and that federal law

can be followed through with.

- 192 Vice Chair Bryant Referred to Section 70 page 41 beginning line 39. Believes this section was consistent with previously passed bill, but asked why it was necessary to include it in SB 1144.
- 195 Schoenfeld Stated that Section 70 simply looked at the fact that if because of the disconnect, and because of a change in the credit or because FASIT was not adopted until two years later, there would not be any penalties imposed against a taxpayer because they did not file based on the new tax law.
- 211 Tim Nesbitt OPEU opposes permanently reconnecting to federal law. The federal government is shifting more and more responsibilities onto the states. The federal government may well be able to afford to reform or change policies in a way that gives up money, when states might have the opposite needs. Although there has been a lot of talk, there is as yet no balanced budget requirement at the federal level, so it is possible to see less fiscal discipline at the federal level until that occurs. It does not make good policy to permanently reconnect and, in effect, give the federal government a blank check to dictate Oregon's income tax policy for the future. Urges continuation of current practice of reviewing each federal law change in each legislative session. Questions and discussion.
- 249 Vice Chair Bryant On a depreciation schedule, if this bill were passed and then later wanted a different depreciation schedule, would that take a 3/5 vote?
- 257 Waters Stated the test is revenue raising. Can see circumstances where it might fall under that, but suggested Legislative Counsel be consulted for definitive answer.
- 293 Susan Browning Exhibit C - SB 1144 Reconnect Policy. Department of Revenue is neutral on this issue. There are some positive reasons to reconnect permanently. Thirty-seven states base their taxable income on connecting to federal tax code. Of those, 20 do have a permanent rolling reconnect; 17 look at it on a periodic basis. There is a risk, however, because of changes at the federal level which may have a substantial impact on Oregon's revenue. Questions and discussion interspersed.
- 340 Browning Regardless of whether SB 1144 passes, the Department of Revenue would ask that they continue to be invited to speak about reconnect issues every biennium. It is important to get an idea of changes over the past period of time to know of the changes the federal government has made.
- 360 Browning FASIT was included in SB 1144 to make a complete reconnect to federal law. FASITs are not based on taxable income. Questions and discussion.
- 395 Sen. Dukes Stated that credits are not automatically reconnected under this bill. Asked if exemptions were automatically reconnected.

400 Jim Bucholz Answered Sen. Dukes question by saying he did not believe so. The only thing the permanent reconnect deals with is the definition of taxable income. Everything else administrative must be specifically mentioned. Will look into the question and get back to Sen. Dukes with a complete answer.

**TAPE 107, SIDE A**

018 Browning The Department of Revenue believes that there is a risk, however small, in a complete reconnect. There are plusses, but there is potential for very serious downside possibilities. Questions and discussion interspersed.

071 Bucholz Been a real push at federal level over last ten or twelve congressional sessions to pass revenue neutral bills where they do not raise or lower taxes. Overall, although some of the ways bills are balanced at the federal level affect things other than taxable income, i.e. the airport tax which was raised last session which Oregon does not receive any revenue from, there are plusses and minuses. Over the past 15 years any changes that have been made at the federal level have been fairly revenue neutral for Oregon.

103 Vice Chair Bryant Asked Dexter Johnson if it would take a 3/5 vote to change something regarding deductions under reconnect, i.e. if Oregon wanted to be different from federal government in that area.

108 Dexter Johnson Believes it has a "purpose test". If the purpose of a bill is to raise revenue, then 3/5 vote is required.

138 Vice Chair Bryant Asked Karey Schoenfeld if she believes this has been pretty much revenue neutral?

139 Schoenfeld Feels that it has been revenue neutral. Believes upcoming bill will raise revenue for Oregon because if there is a capital gains reduction at the federal level, it will only stimulate sales. Feels it would not affect exemptions because that is a specific thing not tied to taxable income. Questions and discussion.

188 Vice Chair Bryant Adjourned meeting at 9:56 a.m.

Carol Phillips

Committee Assistant

Kim James

Office Manager

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Exhibit Summary:

A. SB 1144, Waters, Revenue Impact Statement, 1 page

B. SB 1144, Schoenfeld, Effects of Adopting SB 1144, 1 page

C. SB 1144, Browning, SB 1144 Reconnect Policy, 1 page