

WORK SESSION ON SB 326

AND SB 388 TAPES 108 - 109 A/B, 110 A

**SENATE REVENUE COMMITTEE**

---

**APRIL 11, 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 9:30 a.m.)

Sen. Verne Duncan

Sen. Tom Hartung

Sen. Randy Leonard

Witnesses: Charles Sheketoff, Oregon Law Center

Bob Castagna, Oregon Catholic Conference

Staff: Ed Waters, Economist

Carol Phillips, Committee Assistant

-

**TAPE 108, SIDE A**

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

OPENED WORK SESSION ON SB 326 AND SB 388

010 Ed Waters Committee spent most of time last meeting on SB 326. The major difference between SB 326 and SB 388 is that SB 388 has a blank left for the percent of the Earned Income Credit that would be allowed. SB 388 also opens eligibility for the Oregon Earned Income Credit to anyone who would be eligible under the federal credit. SB 326 limited eligibility to only those applicants with two or more qualifying children. Like SB 326, SB 388 is a refundable Earned Income Credit. The effective date is 1-1-98.

026 Waters Exhibit A - SB 388 (-1) Amendments. This is a change which would allow taxpayers to ignore any Earned Income Credit when calculating their federal tax subtraction for their deduction from Oregon taxable income. Under current law federal taxes up to \$3,000 are deductible from Oregon taxable income.

037 Waters Exhibit B - Revenue Impact for (-1). This Impact Statement refers to the 1999-01 biennium because the (-2) Amendments changes the effective date of SB 388 from 1-1-98 to 1-1-99. Revenue impact would be a loss of about \$3.9 million in 1999-01.

046 Chair Baker Asked who would benefit most from this bill.

046 Waters This will benefit taxpayers who have a federal tax liability, above federal poverty level. After their earned income credit allowance, they may or may not be left with federal tax to pay. This credit phases out at \$28,500 for 2-parent 2-child family. Questions and discussion interspersed.

064 Waters Exhibit C - SB 388 (-2) Amendments. This is a change to the bill which fills in the blank on line 7, so the credit amount would be set at 25% of the federal Earned Income Tax Credit. The type of credit would be changed from refundable to non-refundable, so the amount of credit taken cannot exceed Oregon tax liability. Effective date is moved from 1-1-98 to 1-1-99. The first tax year people would be filing under this bill would be April 2000, for the 1999 tax year.

086 Waters Exhibit D - Earned Income Credit worksheet, Exhibit E - Earned Income Credit Instructions, and Exhibit F - 25% Oregon EITC diagram. The Internal Revenue Service will calculate the amount of Earned Income Credit for taxpayers if asked to do so. In the 1995 tax year more than 200,000 applications for the federal Earned Income Tax Credit from Oregon were received. Questions and discussion interspersed.

117 Chair Baker Asked if the percentage refundable was changed from 100% to 25%, wouldn't that be closer to \$35 or \$40 million rather than \$147 million.

125 Waters Answered that for one thing we are dealing with the next biennium. For the non-refundable portion of the credit, it is not as straight forward a calculation. When working from 25% refundable credit, it would be pretty much a straight forward calculation. But for the non-refundable it is different because it is able to be applied only against tax liability.

- 138 Waters Exhibit F - Diagram 25% Oregon EITC. Under current law tax threshold is approximately \$12,000 for a 2-parent 2-child family. Under the 25% non-refundable Earned Income Credit, the tax threshold is approximately \$18,000 for that family. Maximum Earned Income which would be eligible for a credit for this family would be \$28,000. The maximum credit is mid-range between about \$8,000 and \$12,000. Credit is dependent on the number of children. Questions and discussion.
- 195 Chair Baker SB 1143 is a bill relating to income tax credits for child care expenses for the working poor. Chair Baker would like to hold a hearing on SB 1143 and then possibly combine it with SB 388 because both deal with low income working families with children which would help those coming off welfare.
- 212 Charles Sheketoff Would prefer that the (-1) Amendments start in the 1999-01 biennium and would like the Earned Income Tax Credit to begin in 1999. Still supports refundable credit at a lower percentage because it targets people who are below the income tax threshold. A non-refundable credit targets only those whose income is below poverty but still taxed. Concerned that the numbers are a bit high.
- 249 Bob Castagna Stated that Exhibit G illustrates in striking fashion the target group for the refundable credit and that those people are truly the working poor. Would ask the Committee and Department of Revenue to look at the four states which have refundable credits and ascertain how they overcame the logistical difficulties which the Department of Revenue said would be created with a refundable credit. Those states have had to deal with the refundable issue, and much could be learned from them. The non-refundable credit achieves a very good policy objective, but the refundable credit targets specifically the working poor who have children.
- 280 Sheketoff Has started checking into what other states are doing. Wisconsin is the state most similar to Oregon in that they would have to appropriate money and then use an emergency fund. Some of the other states do not have the same budget process.
- 289 Chair Baker This bill will probably be brought back 4/15/97 or 4/16/97 for further discussion.
- 309 Sen. Hartung Stated that this is one of the more significant things the legislature can do. Do not have a lot of opportunities to reform tax structure, but the potential is there to create a whole new class of people they have no welfare benefits and cannot raise a family on minimum wage. Where do they turn then? Must do everything possible to allow the working poor to survive.
- 320 Sen. Duncan Asked if this was coordinated with House Revenue Committee.
- 326 Chair Stated House Revenue Chair does not have complete detail but generally knows what is being discussed. Does not know how SB 388 would do in House Revenue Committee.

Baker Two years ago over 40,000 people were on public assistance, now that figure is down to about 20,000...people who are paying taxes but still need help.

338 Sen. Leonard Supports the efforts Chair Baker is putting forth on SB 326 and SB 388, but is looking for a more comprehensive reform that includes the burden on middle income taxpayers we well. An inordinate share of tax load falls on them.

368 Chair Baker Does not disagree, but political problem is that if legislature delays this issue until next session, that group will use all the revenues available to them and this would be put off for another two years, etc.

379 Vice Chair Bryant Regarding SB 1144 from 4/10/97 meeting, Legislative Counsel said it would take two weeks to have Amendments ready regarding rolling reconnect. Questions and discussion interspersed.

**TAPE 109, SIDE A**

023 Chair Baker Bill to be discussed 4/14/97 will be the gas testing issue.

026 Chair Baker Adjourned meeting at 9:35 a.m.

Carol Phillips

Committee Assistant

Kim James

Office Manager

-

**Exhibit Summary:**

A. SB 388, Waters, (-1) Amendments, (DJ/ps) 3/28/97, 2 pages

- B. SB 388-1, Waters, Revenue Impact Statement, 1 page
- C. SB 388, Waters (-2) Amendments, (DJ/ps) 4/10/97, 1 page
- D. SB 388-2, Waters, Revenue Impact Statement, 1 page
- E. SB 388, Waters, Earned Income Credit Instruction Sheet, 5 pages
- F. SB 388, Waters, Earned Income Credit tax schedule, 2 pages
- G. SB 388, Waters, 25% Oregon Earned Income Tax Credit diagram, 1 page