

WORK SESSION ON SCR 10,

SB 60, SB 298, AND SB 1144

TAPES 129 - 130 A/B, 131 A

SENATE REVENUE COMMITTEE

APRIL 29, 1997 - 9:00 A.M. - HEARING ROOM B - STATE CAPITOL BUILDING

Members Present: Sen. Ken Baker, Chair

Sen. Neil Bryant, Vice Chair (arrived at 9:13 a.m.)

Sen. Joan Dukes (arrived at 9:10 a.m.)

Sen. Verne Duncan

Sen. Tom Hartung

Sen. Randy Leonard

Staff: Brian Reeder, Economist

Ed Waters, Economist

Carol Phillips, Committee Assistant

-

TAPE 129, SIDE A

005 Chair Baker Opened meeting at 9:09 a.m.

OPENED WORK SESSION ON SB 1144

Exhibit A - (-1) Amendments. Permanent reconnect bill is one which would tie Oregon to

- 014 Ed Waters the definition of federal taxable income as it is modified from time to time or year to year. Under the current system every biennium Oregon must adopt a bill which connects to the Internal Revenue Code as of a certain date. There was a concern that SB 1144 would create a conflict with SB 347, so the (-1) was created to avoid that problem before it occurred. Language was added regarding the pro-rating of non-residents' medical savings accounts.
- 031 Chair Baker Added that SB 1144 helps taxpayers so they do not have to amend their returns retroactively when the federal government changes requirements.
- 037 Sen. Leonard Has a concern about permanent reconnect because as he understands it if the permanent reconnect is adopted, and then at some point in the future Oregon does not agree with actions the federal government takes because of an adverse consequence it might have on Oregon, it would cause a three-fifths vote to change as opposed to being reviewed biennially and not need a three-fifths vote.
- 063 Chair Baker Stated Sen. Leonard made a good point with his concerns. In the future it could be either negative or positive regarding revenue impact.
- 067 Sen. Dukes Congress is trying to balance its budget. If congress relies more on road taxes and social security to make it look as though they have a balanced budget, or raises taxes that relate only to them, there is a good chance this will reduce revenue to Oregon.
- 085 Chair Baker This presents a dilemma because taxpayers and accountants file returns which must be amended and refiled.
- 090 Sen. Bryant MOVES (-1) AMENDMENTS TO SB 1144 BE ADOPTED.
- 098 Ed Waters Discussed language in SB 1144 regarding non-resident medical savings accounts.
- 104 Chair Baker ASKED FOR ANY OBJECTIONS TO ADOPTION OF THE (-1) AMENDMENTS.
- 105 Sen. Leonard SEN. LEONARD OBJECTED TO THEIR ADOPTION.

ROLL CALL VOTE: MOTION CARRIES: 5 - 1 - 0

SENATORS VOTING AYE: DUKES, DUNCAN, HARTUNG, BRYANT, BAKER.

SENATOR VOTING NAY: LEONARD

MOVES SB 1144 AS AMENDED TO THE SENATE FLOOR WITH DO PASS RECOMMENDATION.

- 111 Chair Baker ROLL CALL VOTE: MOTION CARRIES: 5 - 1 - 0
- SENATORS VOTING AYE: DUKES, DUNCAN, HARTUNG, BRYANT, BAKER.
- SENATOR VOTING NAY: LEONARD
- Sen. Bryant will carry the bill on the Senate Floor.

OPENED WORK SESSION ON SB 60

- 120 Waters Exhibit B - (-6) Amendments. Exhibit C - Time Line. The last time SB 60 was discussed it was discovered that the Time Line for implementing provisions of the bill was pushed out considerably into the future. The Senate Revenue Committee recommended the Time Line be refigured so that the program is implemented sooner. Wanted new programs eligible to be placed on the tax form as soon as possible. The (-6) Amendments starts the implementation of the bill effective with the 1998 tax year, tax returns for which would be filed in April 1999. It also moves up the date for repealing statutory authority for the three programs (Nongame Wildlife, Alzheimers Research, and Children's Trust Fund) from July 2002 to June 30, 2000.
- 162 Waters It was brought to Waters' attention that the (-6) Amendments state that two of the programs which have statutory authority would continue to be eligible after their statutes are repealed in 2000, but there was no specific reference to Children's Trust Fund. Legislative Counsel said that in order to make everything clear they want to introduce another section explicitly for that reference.
- 175 Chair Baker Stated this will go back to Legislative Counsel for that one change and then come back to Senate Revenue for passage.

CLOSED WORK SESSION ON SB 60

OPENED WORK SESSION ON SB 298

- 196 Brian Reeder SB 298 grants a property tax exemption for the 1995-96 tax year for a Montessori School in Portland. This school acquired a property from a school district but did not get their application for exemption in on time. Tax amount approximately \$38,000.
- 217 Sen. Bryant Asked if under existing law there was a provision for people in this type of situation where they can make application showing good sufficient cause that would allow them to escape a deadline they missed?

222 Reeder Stated there is such a law, but the application period itself has a deadline. There have been a number of cases which have come through the House where people have missed deadlines for one reason or another, and typically the reason is that the new owner did not know that they had to file for an exemption, not that they just missed a filing date.

MOVES SB 298 TO THE SENATE FLOOR WITH DO PASS RECOMMENDATION.

249 Chair Baker ROLL CALL VOTE: MOTION CARRIES: 6 - 0 - 0
SENATORS VOTING AYE: DUKES, DUNCAN, HARTUNG, LEONARD, BRYANT, BAKER.

Sen. Leonard will carry the bill on the Senate Floor.

CLOSED WORK SESSION ON SB 298

OPENED WORK SESSION ON SCR 10

271 Chair Baker This is a memorial to congress, so it is not something which the Oregon legislature can enact on its own.

277 Sen. Hartung Objects to urging congress to do certain things like this, even though he has a family-owned business and farm. He will vote against this bill.

284 Sen. Dukes Believes this bill makes a lot of sense. Oregon has land use laws which encourage larger parcels for farming and timber, but estate taxes work directly against those land use laws. The laws encourage and sometimes require that people break up family farms and family forests. Taxes have already been paid on these lands.

300 Sen. Hartung Interjected that there are ways to manage estates to avoid federal estate taxes. It is a complicated process, but it can be done.

308 Chair Baker The problem may be that the single exclusion is \$600,00, which doubles to \$1.2 million if married. As an example, a small woodlot owner would easily be over that amount because of the value of timber sold.

315 Sen. Dukes Stated that the end result of paying that tax bill is that timber gets harvested before its time, and that too is a waste to Oregon.

Related how when he was going to law school in Spokane, wheat farmers in the Palouse

318 Chair Baker area had to maintain at least 1000 acres to keep a productive farm together. Often when a parent would die their children had to sell off 100 or 200 acres to pay taxes, dropping them to 800 acres, which was not sufficient to maintain. Farms ended up being parcelized between families, and many people were driven off the land. It is not a productive way to keep people in agriculture or farming.

330 Sen. Leonard Stated that Sen. Baker's story related to a different issue from family-owned business, which is the subject of this bill.

338 Chair Baker Tax code does not make distinction between a business versus a farm versus a timber lot as long as the value is over \$600,000.

348 Sen. Bryant Federal has set up a program where estate taxes can be paid over long period of time at a low interest rate if the asset is a family farm. At one time there was talk of doing away with estate taxes for everyone. The idea of a "death tax" just because a family is trying to keep assets within that family, no matter how large or small an estate may be, does not seem to be good public policy. That was defeated primarily because congress could not come up with an alternative source to replace the income it generates. Estate planning is a major business for certain accountants, insurance, financial, advisor and attorney groups.

406 Sen. Bryant Oregon has a Federal Pick-Up Tax, which is to replace funds lost from those derived from Inheritance Tax, which was stopped in 1981. This tax is imposed on multi-million dollar estates. That money would all go to the federal government if Oregon's Pick-Up Tax was not in place. All states which have done away with Inheritance Taxes have a similar tax. Most states did away with Inheritance Taxes because they found that seniors are getting smarter. Seniors would not retire in particular states because they did not want to pay that tax. As was discussed in previous meetings, seniors who retire in Oregon tend to be well off and are an asset to the economy.

TAPE 130, SIDE A

025 Sen. Hartung Asked for clarification of how it would work if assets were put into a charitable foundation. There are ways for large estates to escape paying taxes, but SCR 10 is aimed at small family-owned business and farms.

034 Sen. Bryant Stated that the Department of Revenue could bring in an accountant or tax attorney who could explain federal tax law to the Committee before SCR 10 comes back for a vote.

CLOSED WORK SESSION ON SCR 10

045 Chair Baker Adjourned meeting at 9:40 a.m.

Carol Phillips

Committee Assistant

Kim James

Office Manager

-

Exhibit Summary:

A. SB1144, Waters, (-1) Amendments, (BS/ps) 4/17/97, 3 pages

B. SB 60, Waters, (-6) Amendments, (DJ/ps) 4/22/97, 16 pages

C. SB 60, Waters, Time Line, 1 page

D. SB 60, Waters, SB 60-6 Revenue Impact Statement, 1 page