

These minutes paraphrase and/or summarize statements made during this meeting. Text enclosed in quotation marks reports the speakers exact words. For complete context of proceedings, please refer to the tape recording.

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Public Hearing HB 2556, 2203, 2555

House Committee on  
State and School Finance  
April 4, 1995 Page

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HOUSE STATE AND SCHOOL FINANCE COMMITTEE

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APRIL 4, 1995 8:30 AM HEARING ROOM A STATE CAPITOL BUILDING

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Members Present: Rep. John Schoon, Chair  
Rep. Ron Adams  
Rep. Lee Beyer  
Rep. Tony Federici, Vice Chair  
Rep. Tim Josi  
Rep. Jane Lokan  
Rep. Anitra Rasmussen  
Rep. Ken Strobeck  
Rep. Jim Welsh

Witnesses Present: Gary Carlson, Associated Oregon Industries  
Frank Brawner, Oregon Bankers Association  
Dale MacAuffie, Tax Manager, ESCO Corporation  
Terry Taylor, Mentor Graphics  
Jim Manary, Department of Revenue

Staff: James Scherzinger, Legislative Revenue Officer  
Rhonda Wehler, Committee Assistant  
Steve Bender, Legislative Revenue Office

TAPE 145 SIDE A  
004 Chair Schoon -calls the meeting to order at 8:30 am and conducts  
administrative business  
-OPENS PUBLIC HEARING ON HB 2555  
HB 2555  
012 Steve Bender -explains bill exempts some interest income from income tax  
(income on earnings from bank accounts, certificates of deposit, not from  
dividends like money market)  
-refers to Exhibit A, Revenue Impact Statement  
-notes exemption limits must be determined by committee  
-impact only for one year this biennium, then two years for next  
-refers to Exhibit B, Total Interest Exclusion  
-refers to Exhibit C, \$500/\$1000 Interest Exclusion  
-committee has two issues: to fill in blanks page 2 line 12 of bill, re:  
limitations  
Bender -changes in wording, to deduct only taxes included in federal taxable  
income  
110 Gary Carlson -refers to Exhibit D, Written Testimony, supporting HB 2555  
Carlson -explains intent to provide incentive for average Oregonians to save  
and invest \$ in Oregon  
163 Frank Brawner -speaks in support of HB 2255  
-notes multiplier effect, jobs are created when \$ are saved  
-savings in US at historic low levels, 3.8%, compared to no tax on savings  
in Japan  
197 -proposes better definition on page 2, defining savings and loans,  
banks, credit unions whose deposits are insured  
215 Vice Chair Federici -asks about results to municipal bond market which  
are double tax exempt  
-notes if ordinary savings were tax free there would be no need for bonds  
229 Carlson -relays he sees no competition between double tax and single tax  
exempt  
235 Brawner -affirms no competition, but rather incentive to accumulate funds  
to invest somewhere else  
249 Rep. Adams -asks if bill restricts interest to Oregon institutions

256 Carlson -informs attempting to limit to Oregon financial institutions  
could cause legal problems with interstate commerce laws

277 Brawner -disagrees saying other states have plans that are limited to  
their own states

288 All -questions and discussion

349 Vice Chair Federici -asks affect on stock market

360 Carlson -replies competition comes between money market accounts and  
interest bearing accounts, not in stocks

376 Brawner -adds encouraging savings on this level could encourage savers to  
invest in stock market eventually

396 Vice Chair Federici -CLOSES PUBLIC HEARING ON HB 2555  
-OPENS PUBLIC HEARING ON HB 2556

TAPE 146 SIDE A  
HB 2556

003 Bender -explains state applies % formula from company profits to tax  
-defines nexus: legal concept of state having sufficient business activity  
in state so state can tax it  
-law says if company is only selling in state and doesn't have employees,  
factories, or land, they can't be taxed  
-as soon as company opens up sales office or distribution center, they are  
taxed  
-refers to Exhibit E, Apportionment of the Business Income of Multistate  
Businesses  
-3 factor formula: business property, payroll and sales in Oregon  
Bender -explains to determine tax take average of three proportions, double  
weighting sales proportions in calculating apportionment factor  
-the effective impact of doubling sales factor reduces taxes of companies  
with sales outside of state  
-bills dealing with component dealing with Oregon sales, i.e., HB 2203,  
affects that number and total sales  
-refers to Exhibit F, What Sales of Tangible Personal Property are Included  
in Oregon Sales?, which deals with throwback rule-Oregon taxes sale under  
certain conditions  
-under current law throw-back sales include:  
-sales to US government (determine where product shipped from, rather than  
where shipped to, because product sold to federal government isn't used  
where product is shipped to, but rather throughout country)  
-when company was selling to jurisdiction that doesn't have nexus to tax  
them  
-explains history, 1993 law changed:  
-all states don't follow same rules, Virginia said if product sold to  
federal government but shipped to VA, they will tax, so some companies  
could be taxed twice  
-if another state would apportion government sale to themselves, Oregon  
wouldn't throw it back to themselves  
-selling to a jurisdiction without nexus under US law, but under foreign  
law  
-HB 2556 eliminates from Oregon sales any throw back sales, not include  
federal government sales shipped outside of Oregon, not throwback sales  
being made to states without nexus to tax sale  
-refers to Exhibit G, Administrative Rules

393 Gary Carlson -refers to Exhibit H, Written Testimony, supporting HB 2556

TAPE 145 SIDE B

005 Carlson -clarifies Oregon double weighted sales factor in 1989 to assist  
established Oregon businesses, and modified with intent to eliminate  
throw-back rule, but that didn't happen  
-other states began to alter apportionment formula to advantage in-state  
companies  
-23 other states do not throw sales back to Oregon  
-since Oregon relies heavily on foreign trade, throw backs must be  
eliminated

072 Dale MacAuffie -testifies supporting HB 2556  
-explains throw back inhibits increase of revenue  
MacAuffie -notes throw back affects small-medium sized firms who need to use  
capital more effectively than to pay more income tax  
-stresses Oregon should discriminate in favor of own companies

159 Terry Taylor -speaks in favor of HB 2556 from position of economic  
fairness and tax administration  
-beneficiary would be small, growing business attempting to branch out in  
other activities, but who still have significant business in Oregon  
-notes no uniformity amongst apportionment rules in states

279 All -questions and discussion

357 Taylor -says throw back is additional disincentive in attracting  
businesses to Oregon

369 MacAuffie -adds throwback has cost state jobs and expansion of businesses

TAPE 146 SIDE B

003 -stresses importance of addressing tax policy now

033 Rep. Adams -expresses concern over providing incentive to attract  
companies to Oregon without rewarding established companies

069 Vice Chair Federici -stresses eliminating throwback rule would assist  
established companies, issue is if throwback rule is fair and equitable tax

075 Rep. Adams -asks what percent of sales are impacted by throwback rule

078 MacAuffie -replies 50-60% of sales are outside of Oregon, therefore  
affected by throwback rule

132 Jim Manary -refers to Exhibit I, Sales Factor  
-explains under Uniformity Act, businesses selling in multiple states must  
be taxed on 100% of total income  
-cites Wrigley's gum case, merely using display case was considered beyond  
solicitation, therefore taxed  
-destination of sale is rule of Uniformity Act (throwback rule)  
-cites no tax uniformity among states, despite Uniformity Act of 1957

264 Vice Chair Federici -CLOSES HEARING ON HB 2256

265 -adjourns meeting at 10:22 am

Rhonda Wehler, Committee Assistant

Kimberly Taylor James, Office Manager

Exhibit Summary

- A. HB 2555, Bender, Revenue Impact, 4/2/95
- B. HB 2555, Bender, Total Interest Exclusion, 4/4/95
- C. HB 2555, Bender, \$500-1,000 Interest Exclusion, 4/4/95
- D. HB 2555, Carlson, Written Testimony, 4/4/95
- E. HB 2556, Bender, Apportionment of Business Income of Multistate Businesses, 4/4/95
- F. HB 2556, Bender, What Sales of tangible personal property are included in

Oregon Sales?

4/4/95

- G. HB 2556, Bender, Administrative Rules, 1/95
- H. HB 2556, Carlson, Written Testimony, 4/4/95
- I. HB 2556, Manary, Sales Factor, 4/95
- J. HB 2203, Bender, Revenue Impact, 4/4/95
- K. HB 2621, Schellenberg, Written Testimony, 4/4/95
- L. HB 2203, Manary, States' Treatment of Intangible Sales & One-Time Asset Sales