

Work Session: HB 2445  
HB 2923  
HB 2443  
Public Hearing: HB 2436  
Tapes 33-34 A/B  
35 A

HOUSE COMMITTEE ON  
REVENUE AND SCHOOL  
FINANCE  
SMALL BUSINESS SUBCOMMITTEE

APRIL 15, 1993 9:00 AM HEARING ROOM A STATE CAPITOL  
BUILDING

Members Present: Representative Greg Walden, Chair Representative Ron Adams  
Representative Delna Jones

Member Excused: Representative Margaret Carter

Witnesses Present: Jerry Fisher, Manager of Oregon Public Affairs for  
Hewlett-Packard, Chair, Oregon Council American Electronics Association  
Government Affairs and Taxation

Committees

Jim Craven, American Electronics Association Bill Snyder, Director, Oregon  
Environmental

Technology Association

Joe Gilliam, National Federal of Independent Business

Betsy Bailey, Association of Oregon Industries Frank Brawner, Oregon

Bankers' Association

Staff: James Scherzinger, Legislative Revenue Officer

Steve Bender, Legislative Revenue Office

Steve Meyer, Legislative Revenue Office

Dick Yates, Legislative Revenue Office

Paula McBride, Committee Assistant

TAPE 33 SIDE A

006 CHAIR WALDEN called the meeting to order at 9:08.

007 CHAIR WALDEN opened the Public Hearing on HB 2436, which would increase  
the maximum amount of qualified research credit allowed for corporate tax  
purposes.

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

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015 DICK YATES provided information on the Internal Revenue Service (IRS)  
code on which the current Oregon statute is based. Exhibit 1

029 DICK YATES further discussed the IRS code, which the Federal government  
had phased out. He believed the Federal Government might reinstate the  
credit and perhaps retroactively, but then Oregon would have to again  
reconnect with that law. Another choice would be to tie to the Federal law  
at a certain period of time, and state that Oregon would given the credit

whether or not the Federal Government did. Exhibit 1  
054 JERRY FISHER testified in support of HB 2436 and talked about why Oregon should increase the limit on "Research~ and Development" (R & D) tax credits for qualified research expenses and basic research payments. His testimony was verbatim. Exhibit 2

Questions and discussion

140 JERRY FISHER talked about the derivation of the figure (\$500,000) for the tax credit in HB 2436. Exhibit

Questions and discussion

160 JERRY FISHER talked about the role of his company in the economy of Oregon, and how important research and development was to continued economic growth.

Questions and discussion

195 DICK YATES explained the "Alternative Research & Development Tax Credit," written in the 1989 Legislative bill in response to the fact that the Federal credit had a sunset. By tying Oregon law to the Federal law, Oregon could possibly have lost the research tax credit. The "Alternative Research & Development Tax Credit" was strictly based on sales, whereas the credit in HB 2436 requires an increase in research activities. He believed the "Alternative" credit was not widely used in Oregon.

Discussion

210 JERRY FISHER talked about the R & D tax credit, giving a brief history of it and what is proposed in current congressional legislation.

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Questions and discussion with JERRY FISHER about how HB 2436 would connect with Federal law.

272 DICK YATES related that the R & D credit was intended to cost the state about \$1 million/biennium, but it has fallen well below that level due to a decline in the electronics industry.

284 JIM CRAVEN referred members attention to lines 31 and 32, of HB 2436, specifically to changes that have already been made by HB 2058 (the reconnect bill). The date now reads "December 31, 1992." He stressed that although extension of the cap in HB 2436 was important, the main issue was that damage had not been done to the existing credit in Oregon by the changes in HB 2058.

300 DICK YATES explained three options before the Legislature, as follows: (1) not make any further changes, resulting in there being no R & D credit after July 1, 1992, (2) if the Federal Government extends the credit, connection could be made to that Federal law, or (3) take action which would make the Oregon credit independent of the Federal sunset (HB 2436).

Questions and discussion

354 DICK YATES related that the credit for one year, 1990, was \$554 thousand, or about one million for the biennium.

376 BILL SNYDER spoke about his organization's role in the economy of Oregon, and he gave a brief history of his industry. He believed the continued support of R & D was vital to the continued clean up of the

environment in the state, and to the growth of the industry itself.

TAPE 34 SIDE

A

004 BILL SNYDER listed some of his industry's activities that would qualify for this R & D credit, but which had been omitted from HB 2436 (e.g., pollution prevention, waste reduction, energy conservation, and resource recovery). He protested this, and explained why these activities should be supported in Oregon, as they are being supported by international markets. Questions and discussion

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028 BILL SNYDER talked about use by his industry of pollution tax credits, which he thought were always exhausted too early in the year. He wanted to develop new technologies and new innovative solutions that can be applied to both national and international problems.

Questions and discussion

055 CHAIR WALDEN asked for clarification of the term "environmental technology" on line 25 of HB 2436, which in existing law defines it as "environmental assessment, cleanup, and alternative energy sources.

070 JIM MANARY will check with the Department of Revenue on this issue.

Questions and discussion

100 BILL SNYDER stressed that the environmental industry is one of the fastest growing in the country, and reiterated the importance to Oregon's economy of the industry. Additionally, he believed that R & D was essential to the industry, 30% of which is manufacturing that is being marketed internationally.

Questions and discussion

149 CHAIR WALDEN closed the Public Hearing on HB 2436.

152 CHAIR WALDEN opened the Work Session on HB 2433, which would allow assessors to cancel personal property taxes if the value of personal property was less than \$10,000 (amended to \$3000 by the Subcommittee). He pointed out what had not yet been resolved by the Subcommittee.

163 STEVE MEYER described the amendments HB 2443-3, which contained the new figure \$3000 and the word "shall" in relation to assessors collecting the personal property taxes above that number. Other changes related to the new requirements for filing, which he explained. The regular reporting form will be required for 199394, but then business owners can file the short form, if the initial form showed a value of less than \$3000 for personal property. Exhibit 3

Questions and discussion

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193 STEVE MEYER described another change contained in the amendments HB  
244 3-3, Section 2, related to leased property. Exhibit 3  
Questions and discussion  
207 JOE GILLIAM further explained the provision in the amendments HB 2443-3  
that applied to leased equipment in relation to taxable personal property.  
Questions and discussion  
243 JOE GILLIAM believed there wasn't more work to be done on HB 2443.  
Questions and discussion  
261 STEVE MEYER believed HB 2443 would save taxpayers about \$500,000/year  
state-wide. However, he reminded members that about half of Oregon counties  
were not presently exempting accounts under \$2000 (which is the current  
law), and HB 2443 would force them to do so. There could be over \$300,000  
in lost taxes state-wide each year, and roughly \$200,000 would be shifted  
to other taxpayers.  
Questions and discussion interspersed  
312 JOE GILLIAM reported that Washington county presently collected about  
\$127,000 on accounts that were \$5000 or less, amounting to less than 1% of  
their total collection.  
Questions and discussion  
361 Discussion of the issue of whether or not new businesses would have to  
file a long form on personal property taxes for the first year of business  
and to later qualify for the \$3000 limit.  
Discussion  
406 CHAIR WALDEN asked for consensus on the conceptual amendment to HB 2443  
that would require all new businesses to file a full form during their  
first year; thereafter, if they have less than \$3000 in personal property,  
they would be able to file the short form.  
414 ORDER There being no objection, CHAIR WALDEN so ordered.

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415 MOTION REP. JONES moved the amendments  
HB 2443-3, as amended by the  
conceptual amendment, to HB  
2443.

TAPE 33 SIDE B

002 DISCUSSION ON THE VOTE

014 ORDER There being no objection, CHAIR  
WALDEN so ordered.

Questions and discussion

018 MOTION REP. JONES moved HB 2443 as  
amended to the full Committee  
with a do-pass recommendation.

NO DISCUSSION

025 ORDER There being no objection, CHAIR

WALDEN so ordered.

027 CHAIR WALDEN closed the Work Session on HB 2443 and conducted administrative business.

034 CHAIR WALDEN opened the Work Session on HB 2923, which allows the roll over of capital gains into reinvestment into other business doing business in Oregon.

065 DICK YATES mentioned the amendments HB 2923-1 and another handout entitled "Income Tax -- Methods of Accounting," which defined "material participation." Exhibits 4 and 5

073 BETSY BAILEY supported the amendments HB 2923-1.

Discussion

080 DICK YATES related that HB 2923 may in fact be unconstitutional under the U.S. Commerce laws, specifically provisions restricting credits to businesses done in Oregon, but such restricts have been put into law in many states.

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097 MOTION REP. JONES moved to adopt the amendments HB 2923-1 to HB 2923, which would make the following changes: Page 2, lines 31-32, replacing sub f with language that reads "the business conducts 80% of its business activities within this state and has 80% of its employee compensation within this state, as determined in ORS 314.660.

NO DISCUSSION

098 ORDER There being no objection, CHAIR WALDEN so ordered.

105 CHAIR WALDEN ruminated about what else should be done with HB 2923.

117 DICK YATES thought that all the issues had been resolved, and he talked about revenue estimates, which he believed were difficult to do. His handout had some revenue estimates, which he explained. Exhibit 6 Questions and discussion interspersed

345 BETSY BAILEY related that she did not have statistics as to how many people would take advantage of the tax credit in HB 2923.

Questions and discussion, specifically of the issue of tracing who uses the tax credit in HB 2923.

TAPE 34 SIDE

B

006 DICK YATES pointed out what language had to be put into HB 2923 to sunset it, specifically on page 5, line 8, before the period, add "and ending prior to January 1, 2004.

011 ORDER There being no objection to the conceptual amendment on the sunset, CHAIR WALDEN so ordered.

021 CHAIR WALDEN closed the Work Session on HB 2923.

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022 CHAIR WALDEN opened the Work Session on HB 2445, which would allow an income tax deduction for deposits into capital reserve accounts by small businesses.

028 STEVE BENDER reviewed HB 2445 for the members. Businesses in Oregon could establish capital-reserve accounts into which they would place money to be used to purchase capital equipment. HB 2445 was rewritten completely, as shown in amendments HB 2445-1 and HB 2445-2. He explained the HB 2445-1 amendments, prepared originally by Legislative Counsel. Exhibits 7 and 8

043 STEVE BENDER discussed the HB 2445-2 amendments, suggested by the Oregon Banker's Association. Although similar to the amendments HB 2445-1, they delineate how the actual capital reserve accounts would be established and the role financial institutions would have with the accounts. Exhibit 8

054 FRANK BRAUNER explained the necessity of the amendments HB 2445-2, which would change the title of the capital reserve account from a trust account to just an account. He said he had two additional concerns with these amendments: (1) deletion of language on page 3, lines 24 and 25, concerning a "written instrument." Exhibit 8

Questions and

discussion

084 FRANK BRAUNER cited his second requested change, related to page 4, lines 22-24, of HB 2445-2. While changes had already been made to this section in the first amendments (HB 2445-1), he believed further changes were required by law, which he delineated.

Questions and

discussion

134 JIM MANARY discussed the information obtained from the IRS on the 1099 Form on capital reserve accounts.

149 FRANK BRAUNER expressed his support for HB 2445-2, but he urged that his suggested changes be made to it.

185 JOE GILLIAM related that he had reviewed and did support the amendments HB 2445-2. He gave members a copy of the Oregon Income Tax Form and Instructions, and pointed out information on the "Oregon Individual Income Tax Return" form (line 18) related to the section on "other subtractions identify." Exhibit 9

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Questions and discussion

interspersed

229 CHAIR WALDEN reiterated the changes in the amendments HB 2445 that the Bankers' Association had requested.

Discussion

243 MOTION REP. JONES moved to amend the

amendments HB 244~-2 as follows:

Page 3, delete lines 24 and 25; on Page 4, line 23, delete

the words "clearly labeled

capital reserve" and on line 24

delete the word "account" and "and

the department.

254 ORDER There being no objection, CHAIR

WALDEN so ordered.

259 STEVE BENDER discussed the sunset to HB 2445-2, and said the credit would begin during the current year (1993).

Discussio

n

268 JIM MANARY described the Department of Revenue's process in auditing accounts with credits such as contained in HB 2445.

Questions and

discussion

321 STEVE BENDER said he has been working on estimating the revenue impact for HB 2445 as amended. He explained the mechanisms of HB 2455, and he~ believed there were approximately 130,000 business people who potentially would be eligible for the deduction (10,000 or 5%, whatever was less) of their gross receipts if the money was deposited into a capital reserve account. He thought that about 130,000 persons in Oregon who file Personal Income Tax Returns showing business income, and all of these people would be eligible, as would roughly 36,000 corporations. However, a business would have to have gross receipts of at least \$200,000 before an individual would be eligible for the full \$10,000 deduction, and he thought only about 313 2% of the eligible taxpayers would be able to meet that criteria. He mentioned data he'd evaluated from Washington. While potentially there could be a very large impact, he believed this would not happen for a number of reasons, which he explained.

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002 STEVE BENDER continued his explanation of the potential revenue impact

to Oregon of HB 2455, which could range between \$30 and \$50 million depending on who and how many apply for the deduction.

Questions and discussion

043 MOTION REP. JONES moved the amendments  
HB 2455-2 to HB 2455.

NO DISCUSSION

045 ORDER There being no objection, CHAIR  
WALDEN so ordered.

Discussion

050 CHAIR WALDEN closed the Work Session on HB 2445

052 CHAIR WALDEN adjourned the meeting at 11:03.

Paula K.McBride, Committee Assistant

Kimberly Taylor, Office Manager

#### EXHIBIT SUMMARY

1. Income Tax -- Credit -- Research Activities, Dick Yates, Legislative Revenue Office.

2. Testimony by Jerry Fisher, Oregon Public Affairs Manager, Hewlett-Packard Company.

3. HB 2443-3, Steve Meyer, Legislative Revenue Office.

4. HB 2923-1, Dick Yates, Legislative Revenue Office.

5. Income Tax - Methods of Accounting, Dick Yates, Legislative Revenue Office.

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EXHIBIT SUMMARY (continued)

6. HB 2923 (Gain Deferred), Dick Yates, Legislative Revenue Office.

7. HB 2445-1, Steve Bender, Legislative Revenue Office.

8. HB 2445-2, Steve Bender, Legislative Revenue Office.

9. Individual Income Tax Return and Instructions, Oregon 1992, Joe Gilliam, National Federation of Independent Businesses.



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