

Tapes 22-23 (A/B),  
24 (A)  
Public Hearing: HB  
216 4

HOUSE COMMITTEE ON REVENUE AND SCHOOL FINANCE  
SUBCOMMITTEE ON INCOME TAXATION

April 16, 1991 8:00 am Hearing Room 137 State Capitol  
Building

Members Present: Representative John Schoon, Chair  
Representative Mike Burton  
Representative Bev Clarno  
Representative Delna Jones  
Representative Mike Nelson

Witnesses: Rob Douglas, Oregon Society of Certified Public  
Accountants (OSCPA)  
Jim Brown, Department of Revenue (DOR)  
Leonard Powers, OSCP

Staff: Dick Yates, Legislative Revenue Office  
Marlene Stickley, Committee Assistant

TAPE 22. SIDE A

013 CHAIR SCHOON called the meeting to order at 8:25 and conducted  
administrative business.

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019 ROB DOUGLAS discussed OSCP position regarding tax conformity and  
pointed out that past conformity has affected state revenue.

038 JIM BROWN explained HB 2164 reconnects Oregon to federal tax law and  
noted proposed amendments to HB 2164. Exhibit 1

069 JIM BROWN explained a provision in HB 2164 regarding retroactively  
reconnecting.

075 Questions and discussion interspersed.

119 JIM BROWN discussed the phase out of itemized deductions.

132 LEONARD POWERS discussed federal changes, informational returns, luxury  
taxes, extensions, and the phase-out of itemized deductions.

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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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175 DICK YATES explained three exhibits in relation to HB 2164:

Exhibit 3 - Contents of HB 2164 and HB 2164-1

Exhibit 4 - OSCP statistics from Omnibus Budget Reconciliation Act (OBRA)  
198 9

Exhibit 5 - OSCP statistics from OBRA 1990

217 Questions and discussion regarding Exhibits 4 and 5.

310 DICK YATES commented on the connection between Oregon and federal laws.

327 JIM BROWN discussed history and statute provisions regarding Oregon's  
tie to federal law.

350 DICK YATES clarified regulation ties between Oregon and federal, noting  
Oregon does not automatically adopt federal law.

365 LEONARD POWERS referred to An Analysis of Changes Resulting From:  
Revenue Reconciliation Act of 1989. Medicare Catastrophic Coverage Repeal

Act of 1989, Revenue Reconciliation Act of 1990. Exhibit 2  
392 LEONARD POWERS overviewed the preface and explained the standard  
recommendations. Exhibit 2  
TAPE 23. SIDE A  
001 LEONARD POWERS continued with his explanation of the standard  
recommendations. Exhibit 2  
022 LEONARD POWERS discussed partnership distribution of contributed  
property. Exhibit 2, page 1  
040 Questions and discussion regarding partnership distribution. Exhibit 2,  
page 1  
058 JIM BROWN explained if the federal provision regarding partnership  
distribution is not adopted a modification would need to be drafted.  
070 Discussion among committee members.  
083 LEONARD POWERS presented deduction for health insurance expenses of  
self-employed and certain S corporation stockholders. Exhibit 2, page 1  
092 DICK YATES discussed history relating to the reconnect.  
127 Questions and discussion regarding retroactively reconnecting.  
134 DICK YATES explained amended returns in relation to retroactivity.

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150 Questions and discussion regarding medical expense deduction. Exhibit  
2, page 1  
159 JIM BROWN explained the sunset provision relating to medical expense  
and the income tax return.  
190 LEONARD POWERS discussed depreciation treatment of cellular telephones,  
noting this provision causes depreciation deduction to be less attractive.  
Exhibit 2, page 2  
,209 Questions and discussion regarding complexity of tax returns.  
282 JIM BROWN discussed the calculation of depreciation.  
310 LEONARD POWERS explained the repeal of the percentage of  
completion-capitalized cost method. Exhibit 2, page 3  
389 Questions and discussion followed regarding substantial changes and the  
necessity of reconnecting.

TAPE 22. SIDE

B

001 Questions and discussion continued regarding substantial changes and  
the necessity of reconnecting.  
026 REP. BURTON questioned the percent of completion method in relation to  
long-term contracts.  
039 DICK YATES explained the modified method of long-term  
contracts.  
050 DICK YATES referred to the OBRA statistics for 1989 and noted the  
brackets symbolize a negative figure. Discussed differences in relation to  
tying to federal code. Exhibit 4  
069 LEONARD POWERS explained changes in the treatment of the deduction for  
amounts paid or incurred in connection with transfers of franchises,  
trademarks and trade names; treatment of certain high yield original issue  
discount obligations. Exhibit 2, pages 4 and 5  
135 LEONARD POWERS overviewed Net Operating Loss (NOL) carryback limited by  
debt-financed transactions. Exhibit 2, pages 6 and 7  
156 Questions and discussion regarding corporate provisions.  
182 DICK YATES clarified that Oregon has never allowed a loss carryback.  
199 LEONARD POWERS discussed interest paid to tax-exempt related persons.  
Exhibit 2, pages 7 and 8

223 Questions and discussion regarding indebtedness.

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268 LEONARD POWERS continued with his discussion of interest paid to tax-exempt related persons. Exhibit 2, page 9  
308 LEONARD POWERS covered built-in gain and loss limitations. Exhibit 2, pages 9 and 10  
330 Questions and discussion regarding alternative minimum tax. Exhibit 2, page 10  
349 LEONARD POWERS explained the computation of alternative minimum ,tax and noted it is not a "choice" of the taxpayer.  
380 Questions and discussion continued regarding alternative minimum tax. Exhibit 2, page 10  
TAPE 23. SIDE

B

001 Questions and discussion continued regarding alternative minimum tax. Exhibit 2, page 10  
011 JIM BROWN felt there would be circumstances when this would be complex and described consolidated returns for corporations that require different calculations.  
023 LEONARD POWERS discussed basic reduction for dividends received on self-liquidating stock. Exhibit 2, pages 10-12  
072 LEONARD POWERS explained the elimination of receipt of "securities" by stockholders on transfer of assets to a corporation to avoid taxation. Exhibit 2, page 12  
110 Questions and discussion regarding "securities". Exhibit 2, page 12  
129 LEONARD POWERS explained the new federal code which increases the amount to be distributed by a regulated investment company to avoid the 4 percent penalty. Exhibit 2, page 13  
189 LEONARD POWERS discussed the provision regarding Regulated Investment Company (RIC) investments. Exhibit 2, pages 13 and 14  
206 CHAIR SCHOON recessed the meeting at 10:06 and reconvened at 10:32.  
211 LEONARD POWERS presented the section regarding estimated tax and information returns, specifically S corporation estimated tax payments. Exhibit 2, pages 15 and 16  
234 LEONARD POWERS explained reporting certain acquisitions and recapitalization transactions and foreign-owned corporation reporting requirements do not apply to Oregon. Exhibit 2, pages 16-18

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261 LEONARD POWERS discussed consolidated returns and preferred stock dividends of consolidated subsidiaries, noting this provision would prevent tax-free income. Exhibit 2, page 19  
297 Questions and discussion regarding subsidiaries. Exhibit 2, page 19  
356 LEONARD POWERS covered recapture of excess loss account and explained subsidiary loss in relation to stock. Exhibit 2, pages 19 and 20  
395 LEONARD POWERS discussed the definition of intragroup stock. Exhibit 2, pages 20 and 21  
TAPE 24. SIDE

A

001 LEONARD POWERS continued discussing the definition of intragroup stock. Exhibit 2, pages 20 and 21

014 LEONARD POWERS explained targeted jobs tax credit and credit for increasing research activities. Exhibit 2, page 22

020 Questions and discussion interspersed regarding tax credits. Exhibit 2, page 22

045 LEONARD POWERS discussed statute references and questioned the footnotes in tax codes.

057 DICK YATES explained the footnotes are added to codify the rules in statutes which are permanent.

070 Questions and discussion interspersed regarding statute referencing.

104 LEONARD POWERS overviewed exchange tax provisions and limitation on the use of like-kind exchanges to defer taxable income when the recipient of the property is related to the transferor of the property and the recipient disposes of the property. Exhibit 2, pages 23 and 24

149 LEONARD POWERS noted his concern for double taxation.

175 DICK YATES interjected that Section 16a, lines 3-10 of the proposed amendments to HB 2164 address the taxation of gain. Exhibit 1, page 10

220 LEONARD POWERS suggested focusing on statute language before conforming to federal law.

242 CHAIR SCHOON adjourned the meeting at 11:02.

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Marlene Stickley , Committee Assistant

Kimberly Taylor, Office Manager

EXHIBIT SUMMARY

1. Proposed Amendments to HB 2164, DOR, 3/21/91 - HB 2164

2. An Analysis of Changes, Oregon Society of Certified Public Accountants (OSCPA), 4/16/91 - HB 2164

3. Contents of HB 2164, LRO, 4/16/91 - HB 2164

4. OSCPAs 1989 OBRA statistics, LRO, 4/16/91 - HB 2164

5. OSCPAs 1990 OBRA statistics, LRO, 4/16/91 - HB 2164

6. Revenue Impact, LRO, 1/15/91 - HB 2164

7. Correspondence, David Hipply, 4/8/91 - HB 2352

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