Tapes28-29(A/B),
30(A)
Work Session: HB
216 4

HOUSE COMMITTEE ON REVENUE AND SCHOOL FINANCE
SUBCOMMITTEE ON INCOME TAXATION

April 18, 1991 8:00 am Hearing Room 357 State Capitol Building

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

Members Excused: Representative Delna Jones
Witnesses: Leonard Powers, Oregon Society of Certified Public Accountants (OSCPA)
Jim Brown, Department of Revenue (DOR)
Linda Mathewson, DOR
Staff: Dick Yates, Legislative Revenue Office
Marlene Stickley, Committee Assistant
TAPE 28. SIDE A
,4 004 CHAIR SCHOON called the meeting to order at 8:13.
WORK SESSION HB 2164 - INVITED TESTIMONY
020 LEONARD POWERS continued with his presentation of An Analysis of Changes Resulting From The: Revenue Reconciliation Act of 1989. Medicare Catastrophic Coverage Repeal Act of 1989. Revenue Reconciliation Act of 199 0; discussed the federal act of 1990 and changes affecting individuals. Exhibit 1, page 57
035 Questions and discussion regarding the 31 percent tax rate. Exhibit 1, page 57
046 DICR YATES clarified the 1990 changes would be in effect for the 1991 tax year.
051 LEONARD POWERS read the federal change regarding itemized deductions. Exhibit 1, page 57
069 DICK YATES expressed his concern regarding itemized deductions in the proposed amendments to HB 2164 (Section 7c). Exhibit 2, page 3

095 CHAIR SCHOON clarified this would allow a portion to be deducted for Oregon that is not accounted for on the federal return, therefore reducing the itemized deduction figure further than it should have been. Exhibit 2, page 3
098 DICK YATES discussed statistics regarding itemized deductions. Exhibit 3
101 CHAIR SCHOON questioned the language regarding 80 percent of "otherwise allowable deductions". Exhibit 1, page 57
07 DICK YATES explained his assumption that an individual is able to itemize 24 percent of Annual Gross Income (AGI) and 6 percent of that is state tax. Questions and discussion interspersed. Exhibit 3
147 DICK YATES clarified the loss can never be more than 20 percent of the amount of itemized deductions that are subject to the limit. Exhibit 3
154 JIM BROWN questioned the maximum reduction amount.

150 Discussion regarding limited deduction percentages. Exhibit 1, page 57
189 DICK YATES read current statute for clarification: "the reduction shall be the lesser of 3 percent of the excess of AGI over the applicable amount, or 80 percent of the amount of itemized deductions otherwise allowable for such taxable years".
197 DICK YATES continued discussing the limit on itemized deduction figures, noting limited deductions reduced on an average of 11 percent. The decision is whether to take the reduction directly off the amount of state tax or apply it proportionately and suggested an "add back" theory. Exhibit 3
218 Questions and discussion regarding the "add back" theory being incorporated into the income tax return and how it would be calculated.
235 JIM BROWN explained how federal itemized deduction information is carried forward to the Oregon return.
250 Questions and discussion regarding individuals v. CPAs completing income tax returns.
276 CHAIR SCHOON questioned language of the proposed amendments regarding itemized deductions. Exhibit 2
278 DICK YATES explained the amendment language (lines 9 and 10), noting the definition of Oregon income is a problem and what Oregon tax is being included for itemized deductions needs to be made clear. Exhibit 2, page 4

290 Discussion followed regarding language of the proposed amendments to HB 216 4. Exhibit 2
300 CHAIR SCHOON questioned the anticipation of people being forced to standard deductions.
308 JIM BROWN felt the direction is towards standard deduction, based on history of changes made to the federal Internal Revenue Code (IRC).
318 Questions and discussion followed regarding federal changes.
337 LEONARD POWERS continued with his presentation on changes affecting individuals, noting Oregon does not have an Earned Income Credit (EIC). Exhibit 1, page 58
358 Questions and discussion interspersed regarding EIC.
394 LEONARD POWERS pointed out that Oregon no longer bases the amount of child care credit on the federal credit amount. Exhibit 1, page 58
398 DICK YATES explained Oregon child care credit is tied to federal definitions and the amount of the expense eligible for the credit, clarifying Oregon is only tied to the definition, not the credit.
407 LEONARD POWERS mentioned the establishment of a health insurance credit. Exhibit 1, pages 58 and 59
423 Questions and discussion regarding the health insurance credit. Exhibit 1, pages 58 and 59
433 DICK YATES explained the taxpayer would have the choice to take the itemized deductions (expense) or credit at the federal level.
440 Questions and discussion continued regarding the health insurance credit. Exhibit 1, pages 58 and 59
TAPE 29. SIDE A
001 Questions and discussion continued. Exhibit 1, pages 58 and 59
015 DICK YATES clarified if the taxpayer elects the expense, Oregon is tied to that definition and that amount flows through as an itemized deduction on the Oregon return, therefore reducing their tax. If the credit is elected, the taxpayer cannot include (in their itemized deductions) the amount of the expense for which the credit is based; that deduction would not flow through and the deduction would be lost on both the Oregon and

federal return.
019 LEONARD POWERS felt the deduction should be allowed so taxpayers won't feel penalized for an election made on their federal return.

031 CHAIR SCHOON questioned whether Oregon should have an addition or subtraction, or permit a percentage of the credit.
038 JIM BROWN replied the easiest is allowing a subtraction on the Oregon form for any amounts that would otherwise be deductable on the federal return having not taking the credit.
042 Questions and discussion regarding health insurance expenses and the relation to revenue impact.
079 LEONARD POWERS explained the requirement for taxpayer identification numbers. Exhibit 1, page 59
082 JIM BROWN discussed history regarding requirements for social security numbers, noting Oregon requires the federal form be attached to the state return.
101 Questions and discussion interspersed regarding social security information.
130 LEONARD POWERS noted the provision requiring the Secretary of the Treasury to establish a Taxpayer Awareness Program does not impact Oregon taxable income. Exhibit 1, page 59
132 LEONARD POWERS overviewed the provisions relationg to excise taxes and hazardous substance superfund taxes. Exhibit 1, pages 60 and 61
146 DICK YATES explained the impact on alcoholic beverage tax revenues in relation to the revenue forecast. Exhibit 1, page 60
164 Questions and discussion regarding excise taxes.
225 LEONARD POWERS clarified the focus of the OSCPA analysis is the determination of income for individuals and corporations. Exhibit 1
230 JIM BROWN described luxury tax as a 10 percent excise tax on automobiles, boats, aircraft, jewelry, furs, etc. with values over a specified amount.
240 LEONARD POWERS explained the "G" recommendation means not applicable because the federal provision addresses an area not related to the determination of taxable income, but could be applicable to the revenue of the state of Oregon. Exhibit 1, pages 60 and 61
257 LEONARD POWERS commented that Oregon has its own rules in the area of insurance provisions. Exhibit 1, pages 62-64
278 LEONARD POWERS began his explanation of the compliance provisions. Exhibit 1, page 65
298 JIM BROWN mentioned that Oregon law specifies who is entitled to receive restrictive tax information and applicable penalties.

308 LEONARD POWERS continued explaining the compliance provisions with questions and discussion interspersed. Exhibit 1, pages 66 and 67
346 Questions and discussion regarding user fees. Exhibit 1, page 67

370 LEONARD POWERS explained the corporate provision requiring identification of proceeds, noting the purpose is to stop hostile takeovers. Exhibit 1, page 68
416 LEONARD POWERS discussed the corporate provision regarding pre,ferred stock issued with a redemption premium. Exhibit 1, page 69
TAPE 28. SIDE
B
001 LEONARD POWERS continued discussing the corporate provision regarding preferred stock issued with a redemption premium. Exhibit 1, page 69
010 LEONARD POWERS read the old and new law relating to allocation of asset purchase price, noting it encourages written agreement. Exhibit 1, page 70
028 LEONARD POWERS cited the information reporting requirements. Exhibit 1, pages 70 and 71
052 LEONARD POWERS reported that Oregon does not permit Net Operating Loss (NOL) carrybacks for corporations. Exhibit 1, page 71
058 LEONARD POWERS explained the new provision regarding treatment of debt-for-debt exchanges. Exhibit 1, page 72
064 Questions and discussion regarding debt-for-debt exchanges. Exhibit 1, page 72
080 LEONARD POWERS discussed the reorganization exception being repealed and Original Issue Discount (OID). Exhibit 1, page 72
088 LEONARD POWERS read the stock-for-debt exchanges provision. Exhibit 1, pages 72 and 73
099 LEONARD POWERS described "puttable" as someone's right to put something (like stock) to another for a set price. Exhibit 1, page 72
114 LEONARD POWERS explained, under bankruptcy proceedings, companies were encouraged to receive a gain by gathering their creditors and determining debts. In order for the company to get back on their feet, they would accept a lesser amount (cancellation of indebtedness income). Exhibit 1, page 72
128 Questions and discussion followed regarding cancellation of indebtedness income. Exhibit 1, page 72

146 LEONARD POWERS clarified that cancellation of indebtedness income only applied to Chapter 11 bankruptcies.
152 LEONARD POWERS explained the federal employment tax provisions address an area not related to the determination of taxable income. Exhibit 1, pages 74 and 75
190 REP. BURTON questioned the extension of Social Security to state workers. Exhibit 1, page 74
200 LEONARD POWERS clarified that provision would equate to a "B" recommendation by OSCPA. Exhibit 1, page 74
205 Questions and discussion regarding employment tax provisions. Exhibit 1, pages 74 and 75
234 LEONARD POWERS discussed the Federal Unemployment Tax Act (FUTA) and the acceleration of payroll depository rules, noting OSCPA recommends Oregon conform, as closely as possible, to the new federal provision. Exhibit 1, pages 75 and 76
240 JIM BROWN commented that current Oregon law states when Withholding deposits are to be made but does not have a federal tie date, so Oregon automatically follows federal.
262 LEONARD POWERS discussed miscellaneous provisions (Exhibit 1, pages 77 and 78):
-increase of interest rate charged to large corporations on underpayments
-denial of deduction for unnecessary cosmetic surgery

-classification of the benficiary rather than the grantor as the owner of a "grantor's" trust
-contributions of appreciated tangible personal property will not be subject to alternative minimum tax for 1991
350 LEONARD POWERS explained apportionment of research expenditures. Exhibit 1, pages 80 and 81
360 Questions and discussion regarding research expenditures. Exhibit 1, pages 80 and 81
420 DICK YATES explained differences between a floating date connection and adopting existing federal law.
TAPE 29. SIDE B
001 DICK YATES continued with his explanation regarding connection dates.
004 LEONARD POWERS overviewed employer-provided educational assistance and group legal services; tax credits for targeted jobs, energy investment, and low income housing. Exhibit 1, pages 82-84
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These minutes paraphrase and/or su~marize 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.

027 DICK YATES explained a change regarding the rollforward date in HB 216 4, Section 7, page 7.
038 LEONARD POWERS discussed qualified mortgage bonds. Exhibit 1, pages 84 and 85
049 Questions and discussion regarding the qualified mortgage bonds recommendation. Exhibit 1, page 84
058 LEONARD POWERS changed the recommendations relating to qualified ponds from "A" to "B". Exhibit 1, pages 84 and 85
060 LEONARD POWERS summarized the deduction extension for health insurance costs of self-employed individuals and the orphan drug credit. Exhibit 1, pages 85 and 86
090 LEONARD POWERS mentioned that the provisions regarding energy incentives do not impact the calculation of Oregon taxable income because they are basically credits. Exhibit 1, pages 87-89
107 CHAIR SCHOON recessed the meeting at 9:45 and reconvened at 10:10.
109 LEONARD POWERS overviewed the extension and modification for producing fuel from nonconventional source and modification of the alcohol fuels credit to include a credit for "small ethanol producers". Exhibit 1, pages 87 and 88
115 Questions and discussion regarding the alcohol fuels credit. Exhibit 1, pages 87 and 88
129 LINDA MATHEWSON explained that Oregon does not have a tax credit for production of alcohol fuel, but exempts the income from production of alcohol fuels.
132 LEONARD POWERS commented Oregon has rules regarding credit to encourage an increase in the amount of crude oil produced from each well. Exhibit 1, pages 88 and 89
150 JIM BROWN explained Oregon will follow the federal change regarding the percentage depletion allowance, but has a separate provision that limits depletion.
159 LEONARD POWERS acknowledged Oregon law is not tied to federal law with regard to alternative minimum tax. Exhibit 1, page 89
164 LEONARD POWERS felt no need to cover the estate and gift tax provision because Oregon has a rate of zero. Exhibit 1, page 95
173 LEONARD POWERS explained the disabled access credit in relation to small business incentives, noting Oregon permits a deduction. Exhibit 1, page 96

These minutes paraphrase and/or summarize statements made during this

194 LEONARD POWERS discussed old and new rules regarding expenditures to remove architectural and transportation barriers to the handicapped and elderly. Exhibit 1, page 96
200 JIM BROWN clarified expenditures to remove handicap and elderly barriers are allowed as a deduction on the state return.
208 LEONARD POWERS recapped other provisions regarding regulation comments and pie chart information. Exhibit 1, page 97
,215 Discussion regarding pie chart information. Exhibit 1, page 97
230 LEONARD POWERS referred to the tax technical corrections and the members reviewed with questions and discussion interspersed. Exhibit 1, pages 98-102
300 JIM BROWN felt the tax free like-kind exchanges should be coded "A" . Discussion followed. Exhibit 1, page 100
314 LEONARD POWERS began explaining retirement plan provisions, noting Oregon does not have an excise tax. Questions and discussion followed. Exhibit 1, page 103
344 LEONARD POWERS explained the transfer of excess pension assets to retiree health accounts and increase in Pension Benefit Guarantee Corporation (PBGC). Exhibit 1, page 103
363 LEONARD POWERS compared old and new rules relating to the collection of child support. Exhibit 1, page 104
376 JIM BROWN revealed how DOR intercepts child support claims filed through Support Enforcement Division.
380 Questions and discussion regarding differences between DOR and federal rules relating to the interception of tax refunds for the purpose of support enforcement.

TAPE 30. SIDE
A
001 Questions and discussion continued regarding differences between DOR and federal rules relating to the interception of tax refunds for the purpose of support enforcement.
005 LEONARD POWERS explained the special rule regarding taxable groupterm life insurance. Exhibit 1, page 104
010 Questions and discussion regarding insurance income being subject to social security tax. Exhibit 1, page 104
023 LEONARD POWERS completed his presentation with the recovery of OASDI (social security) payments. Exhibit 1, page 105

040 CHAIR SCHOON conducted administrative business and adjourned the meeting at 10:35.

Marlene Stickley, Committee Assistant
Kimberly Taylor, Office Manager
EXHIBIT SUMMARY

1. An Analysis of Changes, OSCPA, 4/16/91 (See Exhibit 2 from 4/16/91 Income Meeting) - HB 2164
2. Proposed Amendments to HB 2164, DOR, 3/21/91 (See Exhibit 1 from 4/16/91 Income Meeting) - HB 2164
3. Limit on Itemized Deductions, LRO, 4/18/91 - HB 2164