

June 28, 1991 6:00 pm Hearing Room D State Capitol Building .

Members Present: Senator John Brenneman Senator Shirley Gold  
Representative Mike Burton Representative Delna Jones Senator Joan Dukes  
Chair John Schoon Witnesses: Jim Brown, Department of Revenue Richard  
Feeney, Tri-Met Henry Breithaupt, Tri-Met Paul Warner, Executive Dept.  
David Lohman, Economic Development Dept. Staff: Dick Yates,  
Legislative Revenue Office Betty Shuholm, Committee Assistant TAPE 3.  
SIDE A 004 CHAIR JOHN SCHOON called the meeting to order at 6:30 p.m.  
008 CHAIR SCHOON reviewed Sec. 16A of HB 2164 relating to the  
nonrecognition of gain on asset conversion. 018 MOTION CHAIR SCHOON  
moved to accept Senate changes in Sec. 16A 019 ORDER There being no  
objection, so ordered. 021 CHAIR SCHOON referred to estimated tax, Sec.  
7H, which permitted the waiver of interest and penalty for the  
underpayment of estimated taxes in the year of retirement or disability  
if the person was 62 and there was reasonable cause. 027 MOTION CHAIR  
SCHOON moved to accept Senate amendments to Sec. 7H. 028 ORDER There  
being no objection, so ordered. 029 CHAIR SCHOON discussed the policy  
statement, Sec. 1a of HB 2164.

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meeting. Text enclosed in quotation marks reports the speakers exact  
words. For complete context of proceedings, please refer to the tape  
recording. House Committee on Revenue ~ School Finance Subcommittee on  
Income Taxation June 28, 1991 Page 2 032 SEN. GOLD referred to pg 2,  
line 4, and suggested a deletion of the comma and words 'inclusive of  
federal taxes', plus the deletion of lines 5-8. SEN. GOLD explained why  
those words were not essential to the bill. 064 CHAIR SCHOON stated the  
policy statement applied to a tax system in general and not a specific  
type and SCHOON was of the opinion it applied to the entire tax system  
of the State of Oregon. 075 REP. JONES clarified by referring to line  
20 that spoke to individuals and families. 079 SEN. GOLD questioned the  
use of the term 'individuals.' 083 REP. BURTON objected to the use of  
the terms individuals and families, and suggested amending line 20 by  
striking 'commitment for individuals and families' and insert the word  
'system'. 092 MOTION REP. BURTON moved that on page 1, line 20, the  
words 'commitment for individuals and families' be deleted and the  
single word 'system' be substituted. 096 ORDER There being no  
objection, so ordered. 098 REP. BURTON referred to line 18, 'in keeping  
with the historic origins of taxation in Oregon', and suggested striking  
this phrase. 106 MOTION REP. BURTON moved to delete the comma and words  
to semicolon on line 18 and 19. 110 ORDER There being no objection, so  
ordered . 114 DICK YATES explained the ORS 316 policy sheet, stating  
the ten points coincided with "Principles of a High Quality State  
Revenue System". Exhibit 1 147 CHAIR SCHOON asked the pleasure of the  
Committee regarding the ORS 316 policy sheet. 152 SEN. BRENNEMAN  
suggested the changes as have been adopted were sufficient and preferred  
no more changes. 159 REP. JONES referred to HB 2164, page 1, line 27  
and words 'classes of taxpayers' and asked if a substitute could be  
made. 167 Discussion followed 173 DICK YATES stated 'equity among  
taxpayers' was a general classification. A lower classification would  
have to be more specific. 191 REP. JONES suggested removing lines 'e'  
and 'f'.

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. House Committee on Revenue ~ School Finance Subcommittee on Income Taxation June 28, 1991 Page 3 211 REP. BURTON suggested deleting lines 27 and 28 and replacing with section (d) on the ORS 316 policy sheet. 222 MOTION REP. BURTON moved that the language on lines 27 and 28, pg 1. be deleted and substitute (d) on the IRS 316 policy sheet. 228 ORDER There being no objection, so ordered. 230 MOTION CHAIR SCHOON moved to accept the Senate amendment to Sec. 1a as amended previously. 234 ORDER There being no objection, so ordered. 245 MOTION REP. JONES moved to adopt the Senate language that applied to exemption of wages of ministers from the payroll taxes. 250 ORDER There being no objection, so ordered. 252 DICK YATES presented the tax base for the Tri-Met payroll tax. Exhibit 2 270 CHAIR SCHOON there was uncertainty about what base the payroll tax was to be computed on, whether before or after deferred wages were deleted. 280 DICK YATES reviewed deferred compensation, stating it came out of gross wages before the base for the withholding tax or the basis for the payroll tax was found, which was also existing law. 307 DICK YATES stated for the self-employment tax for Tri-Met, the base was the same as the federal base for Social Security. HB 2164, with respect to mass transit districts, would change the definition of their tax base to be the amount of wages before any deduction for deferred compensation. This would increase the tax base for private employers and local governments subject to the mass transit tax. 351 RICHARD FEENEY testified the mass transit districts were authorized to have a self employment tax and explained the practice of mass transits throughout the State. Exhibit 3 TAPE 4 SIDE A 005 Discussion followed 012 JIM BROWN referred to Pg. 30, line 2 of the bill, stating wages did not include remuneration paid if it were not subject to withholding. There was a policy decision required to allow the transit districts to tax them. House Committee on Revenue ~ School Finance Subcommittee on Income Taxation June 28, 1991 Page 4

036 DICK YATES explained the amendments in Sec. 4, Page 30, beginning on line 24. 049 HENRY BREITHAUKPT stated the language meant elective deferred amounts. A nonqualified deferred compensation plan, a 401K elective deferral, an elective feature under government plans, and simplified employee plans are examples. In total they summarize the traditional methods to provide elective deferrals to employees. These are in the wage base for calculations. 064 CHAIR SCHOON stated it would be a policy change to tax employers on the before deferred compensation. 069 HENRY BREITHAUKPT recalled self-employed persons were already paying on the gross amount. 076 RICHARD FEENEY stated 1% of all the payroll in the tri-county area would be involved, which would be about \$1 billion. It would be good policy to be consistent with gross wages in considering the future. 095 REP. JONES stated that employers currently pay other kinds of taxes and requested information on the base. 124 CHAIR SCHOON pointed out that there was a policy decision for the Conference Committee to make as to whether to grant an increase in the change in the method of taxation based on current law, and whether to accord this to Tri-Met as a revenue protection device or a revenue generator. 130 REP. BURTON recalled that people were allowed to defer compensation and then were taxed at the time of use. The mass transit system allowed the employee to pay for services at the time they were working. The policy issue should be decided on the gross amount since it was a method to pay for the government service. 151 REP. JONES

expressed concern that the Conference Committee adopt language that made the mass transit tax commiserate with the way other payroll taxes were paid. 169 MOTION REP. JONES moved to accept the language inserted in the bill as Senate amendments.

171 REP. BURTON stated if other payroll taxes were based on a gross amount, including deferred compensation, then this would be an acceptable and consistent policy.

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182 HENRY BREITHAAPT testified there was another major consistency question in the payroll tax, which was consistency between the payroll tax for Tri-Met and the Social Security system. Tri-Met tied with the self-employment definition wage base. The self-employed individual can take a number off the form, and this amendment would provide the same information for the employer. 207 REP. BURTON expressed the need for consistency in form and policy. 222 JIM BROWN testified regarding the withholding tax after the deferred compensation was deleted, the payroll tax under discussion, and employment payroll tax. The base for employment had some limitations in that there were deductions for excess wages. 229 VOTE The motion passed with a roll call vote, 4-1. Members voting aye: SENATORS Brenneman, Gold, REPRESENTATIVES Burton, Jones. Member voting nay: REP. Schoon. Member excused: Senator Dukes. 238 REP. JONES stated for the record the need for the information. 253 PAUL WARNER from Exec. Dept. expressed a concern for indexing the personal income tax brackets. Selection of the Portland-Vancouver regional CPI was the concern. WARNER quoted from the Bureau of Labor statistics, page 2, line 38, stating that each local index was a smaller sample size and subject to more errors. A national index would give broader measure, less error, and the national was updated monthly instead of every six months. 297 REP. BURTON observed the Portland CPI was not related to the rest of the state and inquired whether the national would be better for rural areas. 310 PAUL WARNER replied there was concern for the rural as well as the urban areas. The national urban orientation would reduce the measurement error. Over time the statistics would be close. 332 MOTION CHAIR SCHOON moved to substitute the National City Index for the Portland Price Index in Sec. 1A. 343 REP. BURTON questioned revision of the CPI when there were references to the CPI as a base. 360 PAUL WARNER suggested that these references would become irrelevant if the State went to the National CPI. 372 CHAIR SCHOON reviewed the intent of the motion to eliminate unnecessary language in references to the Portland CPI.

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. House Committee on Revenue ~ School Finance Subcommittee on Income Taxation June 28, 1991 Page 6 376 ORDER There being no objection, so ordered.

380 DAVE LOHMAN testified that the enterprise zones had been adversely affected by HB 2550. Companies have made investments and were in the process of constructing facilities on the assumption they would be able to qualify, but will not be able to. TAPE 3. SIDE B 002 JIM SCHERZINGER testified there was a problem with HB 2550, in that it was required that property be in use prior to March 1 of the tax year in order to get the exemption for the coming year. If the property was put in use after March 1 but prior to July 1 they would not be eligible for the enterprise exemption but would become liable for the property tax. They would not be allowed the exemption after that step. 021 JIM SCHERZINGER stated this would not be a problem this year because of the effective dates of HB 2550, but it might in 1992. A A A company could avoid putting a property into use and occupancy before March 1 or after July 1. The committee could provide a safety net for an exemption if the company fell into that time period. Exhibit 4 043 Discussion followed 084 CHAIR SCHOON clarified that this was a permanent problem. A safety net would carry it to the next biennium and the problem could be solved next session. 092 REP. JONES expressed reluctance because of the lack of time. 099 MOTION REP. JONES moved to adopt the amendment to the Conference Committee report regarding the safety net. 116 ORDER There being no objection, so ordered. 119 REP. JONES reported receiving a note that according to the Employment Division, the employment taxes were based on wages prior to the deduction of any deferred compensation. 123 MOTION REP. JONES moved to adopt Conference Committee amendments and move the bill to the floors of the Senate and House with a do pass recommendation. 135 VOTE The motion passed with a roll call vote, 5-0. Those members voting aye: SENATORS Brenneman, Gold; REPRESENTATIVES Burton, Jones, Schoon. Member excused: Senator Dukes.

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137 CHAIR SCHOON adjourned the meeting at 7:35 p.m.

Betty Shuholm, Committee Assistant

Kimberly Taylor, Office Manager Exhibit Summary: 1. ORS 316 Policy -LRO - HB 2164 2. HB 2164 Payroll Tax Issues - HB 2164 3. Memo from Richard Feeney - HB 2164 4. Suggested amendment to HB 2164 5. Staff Measure Summary - HB 2164B 6. Revenue Analysis - HB 2164B 7. Fiscal Analysis - HB 2164B 8. Staff Measure Summary - HB 2164A 9. Revenue Analysis - HB 21264A 10. Fiscal Analysis - HB 2164 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.