2007 Regular Legislative Session
FISCAL ANALYSIS OF PROPOSED LEGISLATION
Prepared by the Oregon Legislative Fiscal Office

MEASURE NUMBER: HB 2592 **STATUS:** A-Engrossed
SUBJECT: State and local income tax withholding
GOVERNMENT UNIT AFFECTED: Department of Revenue, Public Employees Retirement System, Cities and Counties
PREPARED BY: Adrienne Sexton
REVIEWED BY: Dallas Weyand
DATE: June 12, 2007

	2007-2009	**2009-2011**
EXPENDITURES:		
See Comments.		

EFFECTIVE DATE: 91 days after adjournment sine die

GOVERNOR'S BUDGET: This bill is not anticipated by the Governor's recommended budget.

LOCAL GOVERNMENT MANDATE: This bill does not affect local governments' service levels or shared revenues sufficient to trigger Section 15, Article XI of the Oregon Constitution.

COMMENTS: The measure has three components. First, it would require withholding on specific real estate transactions involving a non-resident individual or C corporation not doing business in Oregon.

Second, it would allow state agencies that regulate occupations and professions to require evidence that a person is in compliance with Oregon tax law at the time a license or registration is issued or renewed. Non-compliance could also be a factor in an agency's decision to suspend, revoke, or refuse to issue or renew a license or registration. The Legislative Fiscal Office notes that current statute (ORS 305.385) allows the Department of Revenue (DOR) to ask these agencies for lists of specified licenses issued or renewed by the agency during the preceding year. If DOR were to determine tax non-compliance by a licensee, DOR can request that the agency refuse to reissue, renew or extend any license until DOR issues a certificate indicating the taxpayer is in good standing. Of the several occupational regulatory agencies responding to a request for fiscal impact information, only the Board of Tax Practitioners has explicit provisions allowing the agency to revoke or refuse to issue a license for willful failure to pay any tax or estimated tax, or file a required tax return. There is no direct fiscal impact from the additional language of HB 2592-A.

The third element addresses the circumstance of a local government imposing a tax on or measured by income. At present, there are no local government income taxes in Oregon. If, however, one were to be adopted, the jurisdiction could request that DOR provide the collection, enforcement, administration and tax distribution services. The cost of this work by DOR would be recoverable from the requesting jurisdiction. The measure also would allow the jurisdiction to impose the income tax on benefits under the Public Employees Retirement System (PERS) to the extent the benefits are attributable to employment after the bill's effective date. Since this part of the bill is permissive and related to a condition that is not present, there is no absolute fiscal impact in the next two biennia to either DOR or PERS. At such time as one or more local governments utilize these provisions, costs that PERS would incur because of a local income tax on PERS benefits would include a significant need for programming changes in the Retirement Information Management System (RIMS), regardless of how many taxing entities there are, estimated at approximately $177,000 for programming, testing, and quality control. PERS assumes programming changes would also be needed in the new Oregon Retirement Information On-line Network (ORION) system but cannot estimate that cost at this time. Staff costs would be dependent on the number and size of jurisdictions. PERS' estimates of Personal Services requirements presented various position classifications including Accountant 2 for reconciling tax withholding and 1099-R reporting, Office Specialist 2 and Retirement Counselor 2 positions in Benefits Payment Division, and Retirement Counselor 1 in Customer Services Division.

Since jurisdictions could only tax PERS benefits that accrue to employment after the bill's effective date, and only if the jurisdictions impose an income tax, the only immediate impact to PERS would be to have PERS employers provide a clear cut-off on earnings paid before and after the bill's effective date. Depending on the timing of this speculative future event, PERS could include a policy package in its agency request budget, or seek resources from the Emergency Board or Legislative Assembly in session, to accommodate anticipated workload.

The DOR reports a minimal fiscal impact from HB 2592 A-Engrossed.