

**REVENUE IMPACT OF
PROPOSED LEGISLATION**
Seventy-Sixth Oregon Legislative
Assembly, 2011 Regular Session
Legislative Revenue Office

MEASURE: HB 2541
EXHIBIT: F
HOUSE REVENUE COMMITTEE
DATE: 5/2/2011 PAGES: 1
SUBMITTED BY: MAZEN MALIK

Bill Number
Revenue Area: **Estate Tax**
Economist: **Mazen Malik**
Date: **05/01/2011**
DRAFT

Measure Description:

Replaces inheritance tax imposed on basis of former federal credit for state death tax with estate tax imposed as percentage of Oregon estate. Establishes schedule of rates. Provides deduction of \$1.5 million for all estates. Updates connection date to federal Internal Revenue Code for Oregon estate tax purposes. Clarifies provisions relating to elections made for state inheritance tax purposes. Replaces tax credit for natural resource property with deduction and modifies related provisions. Removes references to 'death tax.

Revenue Impact (in \$Millions):

The expansion of the Natural resource credit will reduce general fund revenue by about \$0.7 million a biennium. Other impacts are indeterminate.

Impact Explanation:

The measure includes major rewrites of the Estate Tax system. The definitions of terms and connections to the federal tax code introduce much desired flexibility and sturdiness to the structure. Furthermore the reformed system provides a structure that is able to withstand policy changes. However, some of the introduced changes such as the working capital allowance, the treatment of intangibles, and implementation date might have effects that are not knowable at this time. The change in the tax schedule while revenue neutral, might result in more volatile revenue. This possible effect is the result of moving the threshold of the tax incidence and the uncertain behavior that it might induce on the behalf of the tax payers.

The expansion of the natural resource property tax credit is a result of the change in the credit from a table base to a formula that changes the dynamics and calculation of that credit. The OLC chose to keep the formula in this format as a preferred choice to a more developed one. The expansion of the credit is estimated to be about 22% of the current credit. The current credit is about \$3 million a biennium.

Creates, Extends, or Expands Tax Expenditure: Yes No

The policy purpose of the Natural Resource credit is allow for the natural resource business to pass to the next generation without being pressured to sell the property for the purpose of paying state taxes. The policy was initiated by the 2007 legislature and fine tuned in succeeding sessions. Under current law the credit reaches \$1.5 million a year on average, the proposed expansion will result in the credit reaching \$1.83 million a year.