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78th Legislative Assembly HOUSE REVENUE COMMITTEE

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Potential 2015 House Revenue Committee Issues

- **Tax Credit Policy**
 - Oregon has been a leader among the states in developing a systematic process to review state tax credits. 18 credits, covering a variety of policy areas, are set to sunset in 2016 in the absence of Legislative action. The cost of extending these credits in their present form is \$64 million for the 2015-17 biennium and \$135 million for the 2017-19 biennium. In addition to these individual credits, recent court decisions have raised the issue of the Legislature's policy intent concerning tax credit applicability to the corporate minimum tax.
- **Expansion of Tax Expenditure Review Process**
 - Tax credits are only part of income tax expenditures and do not include property tax expenditures. Expanding the number of tax expenditures subject to a sunset review would lead to more scrutiny of how effective these policies are as well as enhancing the Legislature's ability to improve overall tax policy. Including some income tax deductions and subtractions as well as appropriate property tax exemptions in the process would be a step in this direction.
- **Policies to Offset the Impact of Falling Subsidies as Wages Rise**
 - A myriad of subsidies and tax credits (including refundable credits) have been designed to assist low wage workers over the past several decades. These policies, including day care assistance, food stamps, the earned income tax credit and the working family credit, have achieved a degree of success in Oregon and the U.S. as a whole. However, for lower middle income workers who experience modest wage gains, the loss of these subsidies and tax credits often have the effect of reducing the overall take home pay of these workers. This has the effect of reducing labor market incentives and increasing the overall budgetary costs of these programs. Using tax policy to smooth this transition away from subsidies has the potential to improve labor markets and provide long-term budgetary savings.
- **Encourage Corporations to Provide Adequate Wages**
 - As a corollary to the personal income tax policies designed to offset the impact of declining subsidies as wages rise is use of corporate tax policy to penalize those profitable corporations that have wages low enough to force workers to extensively rely on state and federal low income subsidies.
- **Review Current Tax Haven Statutory List to Reflect New Information on National Tax Policies**
 - The Legislature approved HB 2460 in the 2013 session. This statute designates certain countries as "tax havens" and requires profits in those countries to be reported on Oregon tax returns. The new legislation also requires the Department of Revenue to prepare recommendations for possible changes in the list of countries that are classified as tax havens.

- Carbon Tax Feasibility
 - The 2013 Legislature appropriated \$200,000 for a study on the feasibility of a clean air tax/fee. That report is now complete. It addresses a number of fundamental issues around the potential economic impacts and the revenue potential of a tax on carbon emissions. The next step is more detailed analysis on potential implementation issues and strategies for mitigating the negative effects of a carbon tax on specific industries, regions and income groups. The committee will coordinate with the House Energy and Environment Committee on this issue.
- Potential Taxation of Vapor Products
 - The national vapor market (including electronic cigarettes and other vapor products) has reached an estimated \$2.5 billion and is growing rapidly. Under current Oregon law, these products are not taxed because they do not meet the definition of tobacco products. The growth of this industry raises a number of issues in a variety of policy areas. The revenue committees will focus on the implications for tobacco revenue and the revenue potential of bringing these products into the tax base under different scenarios.
- Central Assessment and Taxation of the Communication Industry
 - The recent Oregon Supreme Court Comcast decision provided some direction on the property tax treatment for taxpayers that fall under the definition of a communications company. However, this decision is based on a statute that has become outdated due to changes in technology that has blurred industry lines. Updating the definition of communications properties to reflect these changes has the potential to provide greater certainty for companies planning future investments in Oregon as well as local governments. While considering changes to the definition, the committee will be cognizant of potential implications for other taxes such as the local communications privilege tax.
- State Reserve Fund Policy/ Kicker Reform
 - Reserve policy and the 2% kicker are intimately related. The kicker, which acts as a revenue limit, tends to be triggered during periods of above trend economic growth. These are also the least budgetary disruptive periods to set aside revenue for reserves. The timing of the kicker credit mechanism has further complicated fiscal stability in the two most recent recessions by reducing revenue at the same time a weakening economy is creating state budget deficits. Exploring possible statutory/constitutional changes to bring these policies more in line has the potential to improve the stability of the state's budget process in both the short term and the long-term.
- Business Taxation
 - The committee will examine different methods states use to tax business income and activity. In addition to reviewing the corporate income tax and corporate minimum tax, the committee will explore other methods such as the commercial activity tax recently enacted in Ohio.
- Reconnection to Federal Taxable Income
 - Congress passed its annual "extenders" bill in December. The result is the extension of a number of deductions that affect Oregon revenue through the state's rolling reconnect and a number of tax credits that indirectly affects the state's revenue through the federal tax subtraction. It is the responsibility of the Legislature to review the automatic changes in the state's tax base and determine if they are in the best interest of the state. In addition to those provisions that the state automatically connects to, there are a number of technical changes that require legislation to update the connection.
- Timber Taxation
 - Oregon has a long history of taxing timber harvest and land with major changes occurring over the past 30 years. The committee will review the revenue policy consequences of those changes and consider the implications of possible changes in the current economic and regulatory environment.