SB 137 -2 STAFF MEASURE SUMMARY

Senate Committee On Finance and Revenue

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Meeting Dates: 2/3, 2/22, 5/25

WHAT THE MEASURE DOES:

Updates connection date to federal Internal Revenue Code and other provisions of federal tax law from December 31, 2018 to December 31, 2020. Increases Oregon statutory age requirements related to the Public Employees Retirement System from 70-1/2 to 72, in alignment with federal law. Updates, in line with federal law applicability, Public Employees Retirement System connection date from December 31, 2018 to January 1, 2020. Modifies definition of qualified higher education expenses to include expenses associated with registered apprenticeship programs and amounts paid as principal or interest on a qualified education loan. Takes effect on 91st day following adjournment sine die.

ISSUES DISCUSSED:

Public Hearing February 3rd:

- Revenue implication of measure and whether measure requires a three-fifths majority vote to be enacted
- Retroactivity of measure, discussion of potential legal implications
- Examples of disconnect provisions contained in amendment
- Timing of revenue impact from Oregon disconnect, potential revenue timing of provisions
- Options relating to timing of revenue impact, potential implications of kicker credit, balancing of current and future revenue needs
- Purpose of CARES Act provisions
- Potential for reinvestment of business income back into the business
- Potential impact of disconnect on business cash flow and liquidity
- Other states that have disconnected from CARES Act provisions
- Background on Paycheck Projection Program.

Public Hearing February 22nd:

- Timing of revenue impact
- Potential impact on kicker credit
- Balancing timing of revenue with current and future budget needs
- Hypothetical example of how the business loss limitation works
- Amendment disconnect as drafted is retroactive
- Business interest deduction limitation, applies to business entities with gross receipts greater than $25 million
- Hypothetical examples of business entities potentially affected by business interest deduction limitation.

EFFECT OF AMENDMENT:

-2 Requires addition to federal taxable income an amount equal to Paycheck Protection Program loan amount received by the taxpayer that is forgiven. Specifies amount of addition to be equal to amount by which the forgiven loan amount exceeds $100,000. Applies to personal and corporate income taxpayers for tax years beginning on or after January 1, 2020 and before January 1, 2026.

BACKGROUND:

Oregon has had a continuing connection ("rolling reconnect") to the federal definition of taxable income since tax year 2011. Other ties to federal tax law must be updated on a regular basis, with December 31st being the usual connection date. Over the past forty years, the state has rotated between a policy of automatic connection to federal tax base changes and connection to the federal code at a particular point in time.

In December of 2019, the president signed into law H.R. 1865 which included provisions modifying and/or extending numerous tax provisions. Many of the enacted tax provisions automatically became incorporated into Oregon tax law through Oregon's connection to the definition of federal taxable income. Themes of the federal tax law changes include: retirement savings, disaster relief, and the extension of previously expired or expiring provisions. In some instances, for Oregon tax law to incorporate the recent federal tax law changes, specific modification to Oregon statute is required.

In March of 2020, the president signed into law S. 3548, known as the CARES Act. The primary intent of the Act is to inject liquidity into the economy and to provide economic relief during the implementation of public health policies such as the “stay-at-home” orders in effect in many states. In broad terms, the bill provides various funds to states and other local governments, expands unemployment insurance, and appropriates funds to be used for small business loans. The Act contains provisions that will affect Oregon’s General Fund revenue through changes to personal and corporate income tax laws. Due to Oregon’s “rolling reconnect” to federal tax law, many of these provisions automatically affect Oregon revenue streams.

In December of 2020, the president signed into law H.R. 133, known as the Consolidated Appropriations Act, 2021. The act included provisions modifying and/or extending numerous tax provisions. Many of the enacted tax provisions automatically became incorporated into Oregon tax law through Oregon's connection to the definition of federal taxable income. Themes of the federal tax law changes include: revisions to the Paycheck Protection Program (PPP), temporary changes to earned income tax credit, modification of medical expense deduction, and the extension and/or modification of other tax provisions.