

74TH OREGON LEGISLATIVE ASSEMBLY 2007 Regular Session  
STAFF MEASURE SUMMARY  
HOUSE REVENUE COMMITTEE

CORRECTED  
MEASURE: HB 2031-A  
CARRIER: Rep. Richardson

**REVENUE:** Revenue Statement Issued

**FISCAL:** Fiscal Statement Issued

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**Action:** Do pass as amended, be printed engrossed, and rescind subsequent referral to Ways and Means.

**Vote:** 8-1-0

**Yeas:** Berger, Bruun, Gelser, Olson, Read, Rosenbaum, Witt, Barnhart

**Nays:** Butler

**Exc.:**

**Prepared By:** Chris Allanach and Mazen Malik, Economists

**Meeting Dates:** 1/29, 3/5

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**WHAT THE BILL DOES:** Increases the exemption from the Estate and Inheritance tax from \$1 million to \$2 million. The change applies to decedents who die on or after January 1, 2007. Changes the minimum excise tax paid by C-corporations and their affiliates from a flat \$10 to a graduated amount that ranges from \$25 to \$50,000. The amount of the tax depends on the level of Oregon sales by the corporation as indicated in the table below. The change is effective for tax years beginning on or after January 1, 2007. Provides a one-time credit to C-corporations of 67% of their 2007 liability.

| Oregon Sales                 | Minimum Tax |
|------------------------------|-------------|
| < \$50,000                   | \$25        |
| \$50,000 to \$100,000        | \$75        |
| \$100,000 to \$250,000       | \$250       |
| \$250,000 to \$500,000       | \$500       |
| \$500,000 to \$1,000,000     | \$1,000     |
| \$1,000,000 to \$5,000,000   | \$2,500     |
| \$5,000,000 to \$10,000,000  | \$10,000    |
| \$10,000,000 to \$25,000,000 | \$25,000    |
| > \$25,000,000               | \$50,000    |

**ISSUES DISCUSSED:**

- Interaction of the minimum tax and the 67% credit
- Taxation of businesses not turning a profit
- Shift in tax policy from a 'profits tax' to a 'sales tax'
- The effective tax rates of the different minimum tax categories (the "cliff effect")
- Possible options for smoothing the "cliff effect"
- The policy agreement represented by HB 2031 and HB 2707A

**EFFECT OF COMMITTEE AMENDMENTS:** Replaces bill

**BACKGROUND:**

**Overview of Estate and Inheritance Tax Revenues**

The estate tax is a tax on the right to transfer property at death and generally is measured by the value of the estate passing at the time of the decedent's death. In 1977, Oregon's inheritance tax was simplified and the tax was based on the value of the property received from a decedent's estate and the tax rate was a flat 12% of the taxable value. In addition, Oregon adopted the federal pick-up estate tax instead of its own estate tax. The federal pick-up tax became a floor on Oregon's own inheritance tax. Beginning in 1978, Oregon started phasing out its inheritance tax over 10 years. As the phase-out of Oregon's

inheritance tax continued, the tax revenues dropped significantly to a low of \$8.87 million in fiscal year 1988-89, as the state was only collecting the federal pick-up tax. Since Oregon phased-out its inheritance tax and adopted the federal pick-up tax exclusively, Oregon's estate tax revenue has been tied to federal law as in place on a specific date. As Oregon rapidly became a destination of the elderly population, as well as the growth in property values after 1988-89, the estate tax revenues in Oregon started growing again.

Oregon's estate tax is based on the federal estate law and the pick-up tax, albeit not the most recent federal code. Oregon was not automatically connecting to federal estate tax law changes. Additional legislation was needed in Oregon to adopt federal estate tax law changes. Oregon's estate tax law was connected to the federal law, which established the federal gross estate value filing threshold at \$600,000 until the 2003 Legislative session. Then, HB 3072 was adopted to codify in law the connection to the Taxpayer Relief Act of 1997 for prior tax years 1998-2001. For deaths occurring in 2002, the gross estate value filing threshold was \$1 million, the same as the federal filing threshold under EGTRRA. If Oregon was connected to the 2001 federal estate tax law changes contained in the Economic Growth and Tax Relief Reconciliation Act. If Oregon connected to all the provisions in the 2001 estate tax law changes, Oregon's estate tax would be eliminated by tax year 2005.

Oregon collected \$130.5 million in estate tax in the 2003-05 biennium, which comprised 1.2% of the total state general fund, and ranked as third largest single tax source behind corporate excise taxes. A small number of taxpayers pay the estate tax each year. Consequently, revenues from Oregon's estate tax are very volatile and one large estate tax return paying a sizeable amount of tax in a given year can result in a significant increase in estate tax revenue. In examining the percentage change each year from fiscal year 1970-71 to 2004-05, the annual percentage change had a range between a high of 103% increase in 1992-93 and a low of 60% decrease for 1987-88 from the prior year.

#### **History of the minimum corporate tax**

The Corporate Excise tax was established in 1929 and included a minimum tax of \$25. In 1931, the minimum tax was reduced to \$10 and has not subsequently changed.