

76TH OREGON LEGISLATIVE ASSEMBLY  
STAFF MEASURE SUMMARY  
SENATE FINANCE AND REVENUE COMMITTEE

MEASURE: HB 2541 A  
CARRIER:

REVENUE: Revenue Impact Issued  
FISCAL: Minimal Fiscal Impact, no statement issued

MEASURE: HB 2541 A  
EXHIBIT: A  
Senate Finance and Revenue 76<sup>th</sup> Session

DATE: 06-08-2011 PAGES: 1  
SUBMITTED BY: Mazen Malik

Action:

Vote:

Yeas:

Nays:

Exc.:

Prepared By: Mazen Malik, Economist  
Meeting Dates: 5/23, 6/8

**WHAT THE BILL DOES:** Replaces inheritance tax imposed on basis of former federal credit for state death tax with estate tax imposed as percentage of Oregon taxable estate. Establishes a schedule of tax rates. Provides deduction of \$1.5 million for all estates. Updates connection to federal Internal Revenue Code. Clarifies provisions relating to elections made for state inheritance tax purposes. Replaces tax credit table for natural resource property with a formula and modifies related provisions. Applies to estates of decedents who die on or after January 1, 2011.

**ISSUES DISCUSSED:**

- Other similar bills in the previous sessions and how the issue started.
- Natural resource properties and tax policy to encourage family ownership.
- Revenue neutrality based on different assumptions. NRC and revenue impacts.
- Policy decisions and choices as it relates to tax system and structure.

**EFFECT OF COMMITTEE AMENDMENTS:** The "-A18" amendment makes the implementation date 2012 rather than retroactive to 2011. The "-A22" amendment changes the operating allowance to \$1 million and 15%. The "-A23" amendment makes notification of tax consequence prior to transfer. The "-A25" amendment introduces tax rates from \$1 million at 10% to a marginal rate of 16% at values higher than \$9.5 million. The new rate table will insure revenue neutrality relative to the current. federal law based, rates.

**BACKGROUND:** Oregon's inheritance tax statutes, found in ORS Chapter 118, are tied to the 2000 federal Internal Revenue Code. Oregon law was perceived as a supplement to the federal Internal Revenue Code during the time of the pass-through estate tax credit. Oregon's state estate tax chapter is perceived as being disjointed, and never originally intended to serve as a stand-alone code. The continuing use of such a structure while federal law is in continual change has created administrative and tax policy gridlock. The Oregon legislature tried in the past to address two main areas. Those include marital property and natural resource property. In those two areas, Oregon has stepped away from the federal approach and created its own provisions, but problems with those provisions have continued to arise. Notably, the "working capital" provision of the natural resource credit, which has been under continued review and amendment but it is thought to be nonfunctional as current law stands. The 2000 tax rates are based on the state estate tax credit in federal code that has been changed by successive federal acts. Lastly, in recent years, Oregon's estate tax chapter has been the focus of amendment every session. These proposed changes were attempting to reflect and align to policy objectives. However, that was not easy to accomplish and reflect in the legal language and the Oregon Statutes. Therefore, a comprehensive review of the state inheritance tax law to inject some flexibility and sturdiness capable of reflecting policy directions and changes was needed. At the end of the 2009 legislative session, the House and Senate Revenue Committees requested that the Oregon Law Commission (OLC) conduct a law reform project regarding Oregon's inheritance taxation laws and make recommendations for reform to the 2011 Legislative Assembly. After periodic interim reports the OLC has proposed the current bill. The whole inheritance tax chapter was amended as well as the Natural Resource Credit (NRC).

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