PRELIMINARY

77TH OREGON LEGISLATIVE ASSEMBLY **MEASURE: HB 3433**
2013 REGULAR SESSION **CARRIER:**
STAFF MEASURE SUMMARY
HOUSE REVENUE COMMITTEE

REVENUE:
FISCAL:

Action:
Vote:
Yeas:
Nays:
Exc.:

Prepared By: Chris Allanach, Economist
Meeting Dates: 3/21

WHAT THE BILL DOES: Creates an addition to Oregon taxable income for capital gains from the exchange of like-kind properties, if they are excluded from federal taxable income. Requires a corresponding subtraction in subsequent years if the income is included in federal taxable income. Applies to tax years beginning on or after January 1, 2014.

ISSUES DISCUSSED:

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EFFECT OF COMMITTEE AMENDMENTS:

BACKGROUND: Under current law, this source of capital gain income is excluded from federal taxation. Because of our connection to federal taxable income, this federal exclusion flows through to Oregon and the income is also exempt from Oregon tax. When business or investment property is exchanged for property of a "like-kind," no gain or loss is realized, so no tax on any appreciation is paid at that time. The tax is deferred until the property is ultimately sold. These transactions tend to be concentrated in the real estate sector, though they may include personal property. For example, farmland in one state could be exchanged for commercial real estate elsewhere.

According to the Tax Expenditure Report, the 2013-15 revenue loss is roughly $25 million. However, the report's estimates for federal exclusions are generally a share of available federal estimates and contain a number of caveats. In fact, the report itself (on page 3) states that the "…impact is NOT the amount of revenue that could be gained by repealing the tax expenditure." Consequently, an official revenue impact estimate for this policy could be substantially different.

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