Potential 2015 Revenue Committee Issues

- Tax Reform
  - Oregon's unbalanced and volatile state-local revenue system continues to drive state fiscal policy. A review of the current system along with a fresh look at potential reform options is in order.

- 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 However, this decision is based on a statute that has become outdated due to changes in technology that has blurred industry lines.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.

- 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.

- 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.

- 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 2105-17 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.

- Corporate Tax Policy Issues
    - Appropriate state taxation of multinational corporations continues to be a very complex policy issue. A key element is how to determine Oregon's proper share of net income for a corporation operating in other states and other countries. The state has adopted a single sales apportionment policy for corporations producing tangible personal property; however service companies are apportioned according to their "cost of performance". The former is a market destination approach to apportionment while the latter represents a production or origin approach. Is there ample policy reason for this differential approach to these two broad sectors? Another apportionment related issue is the "throwback rule". This rule primarily applies to sales that are made in states where the corporation does not have taxable nexus. Under Oregon's rule, these sales count as Oregon sales. The policy question is: does this rule penalize certain types of corporations? Finally, 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.

- 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.

- 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.

- Targeted Capital Gains Tax Relief
    - In recent sessions, the Legislature has looked at a number of proposals to provide favorable tax treatment for capital gains income that is derived from long-term investments in Oregon. The committees will re-examine proposals to retain mobile long-term capital.

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