

**SB 1529 B STAFF MEASURE SUMMARY**

Carrier: Rep. Barnhart

**House Committee On Revenue**


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**Action Date:** 02/28/18  
**Action:** Do pass with amendments. (Printed B-Eng.)  
**Vote:** 5-4-0-0  
**Yeas:** 5 - Barnhart, Hernandez, Marsh, Nosse, Smith Warner  
**Nays:** 4 - Buehler, Findley, Reschke, Smith G  
**Fiscal:** Fiscal impact issued  
**Revenue:** Revenue impact issued  
**Prepared By:** Kyle Easton, Economist

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**WHAT THE MEASURE DOES:**

Updates connection to the Internal Revenue Code and to other provisions in federal tax law from December 31, 2016 to December 31, 2017. Requires the addback of the federal dividend received deduction related to repatriation. Creates a tax credit based on taxes paid from tax haven legislation and applied against Oregon tax from repatriated income. Requires the Department of Revenue to estimate actual collections and transfer amount equal to estimate as follows: 18 percent to the Employer Incentive Fund and 82 percent to the School Districts Unfunded Liability Fund. Repeals the tax haven law for tax years 2017 and later.

Establishes Employer Incentive Fund with State Treasury, separate and distinct from the General Fund. Directs moneys in the fund to be continuously appropriated to the Public Employees Retirement Board for the purpose of incentivizing participating public employers to make lump sum prepayments of employer contributions.

Establishes School Districts Unfunded Liability Fund in State Treasury separate and distinct from the General Fund. Moneys in the fund are continuously appropriated to the Public Employees Retirement Board for the purpose of applying the moneys against the liabilities of participating public employers that are school districts.

By December 1, 2020, requires Department of Revenue to prepare report regarding the relative efficacy of Oregon's tax haven law in comparison with federal internal revenue code provisions requiring shareholders of controlled foreign corporations to include global intangible low-taxed income (GILTI) in gross income.

**ISSUES DISCUSSED:**

2/22/2018

- Oregon's rolling connection to taxable income contrasted with point in time connections that are generally annually updated by the Legislative Assembly
- Oregon's tax haven legislation, potentially eliminating the repeal of Oregon's tax haven law that is contained in engrossed version
- Potential effectiveness of federal provisions in reducing corporate tax sheltering/structuring
- Submitted testimony from Dan Bucks, former Montana Department of Revenue Director, impacts of tax haven laws

2/28/2018

- Proposed amendments
- Tax revenue resulting from repatriation viewed as one-time funding source
- Other potential uses of revenue resulting from repatriation including funding for child welfare division of Department of Humans services as proposed in -A16 amendment
- Need for additional funding of Oregon child welfare division, potential future conversation for Ways and Means.

**EFFECT OF AMENDMENT:**

This Summary has not been adopted or officially endorsed by action of the committee.

## **SB 1529 B STAFF MEASURE SUMMARY**

Makes technical change to connection to federal law for addback of the federal dividend received deduction related to repatriation. Requires the Department of Revenue to estimate actual collections and transfer amount equal to estimate as follows: 18 percent to the Employer Incentive Fund and 82 percent to the School Districts Unfunded Liability Fund.

Establishes Employer Incentive Fund and School Districts Unfunded Liability Fund.

By December 1, 2020, requires Department of Revenue to prepare report.

### **BACKGROUND:**

Oregon has had a continuing connection ("rolling reconnect") to the 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.

Oregon allows an income tax subtraction for contributions made to Oregon 529 College Savings Network accounts for higher education. Proceeds of the accounts are intended to be used to pay higher education related expenses for a designated beneficiary. Changes to federal law regarding 529 programs made in the Tax Cuts and Jobs Act passed in December of 2017 expanded the definition of qualified higher education expenses to include public, private and religious elementary or secondary schools (up to \$10,000 per taxable year).

**FISCAL IMPACT OF PROPOSED LEGISLATION**

79th Oregon Legislative Assembly – 2018 Regular Session  
Legislative Fiscal Office

Measure: SB 1529 - B

*Only Impacts on Original or Engrossed  
Versions are Considered Official*

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Prepared by: Meg Bushman-Reinhold  
Reviewed by: John Borden  
Date: 2/28/2018

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**Measure Description:**

Updates connection date to federal Internal Revenue Code and other provisions of federal tax law. Requires addback of federal dividends related to repatriation and creates a tax credit for amounts received under the tax haven law. Repeals the tax haven law for tax years 2017 and later.

**Government Unit(s) Affected:**

Department of Revenue (DOR), Public Employees Retirement System (PERS)

**Summary of Expenditure Impact:**

Costs related to the measure are anticipated to be minimal - See explanatory analysis.

**Analysis:**

This bill updates the connection date to the Internal Revenue Code and other provisions of federal tax law. The bill also disconnects from the federal tax provisions that provide a deduction for certain repatriated corporate income, and creates a corporate tax credit that will reduce the potential for double taxation associated with the repatriation provisions. The result of this disconnection is an estimated \$140 million increase in corporate tax revenue.

The measure establishes the Employer Incentive Fund, which retains interest earnings. The fund is continuously appropriated to the Public Employees Retirement System (PERS). Under this bill, the fund is capitalized with 18%, or an estimated \$25 million, in one-time funding. The measure also establishes the School District Unfunded Liability Fund, which retains interest earnings. The fund is continuously appropriated to PERS. Eighty-two percent of the estimated revenue generated from the provisions in this bill will be transferred to this fund. The proceeds of the measure will become available for the payment of the liabilities of employers and school districts. These funds will have an indeterminate impact on the Unfunded Accrued Liability and future employer contribution rates, depending upon how the PERS Board decides to use and allocate this revenue to various accounts within the Public Employees Retirement Fund.

This bill will have a minimal fiscal impact on the Department of Revenue and no fiscal impact on the administrative costs for the Public Employees Retirement System.

**REVENUE IMPACT OF  
PROPOSED LEGISLATION**  
79th Oregon Legislative Assembly  
2018 Regular Session  
Legislative Revenue Office

Bill Number: SB 1529 - B  
Revenue Area: Income Taxes  
Economist: Chris Allanach/Kyle Easton  
Date: 2/28/2018

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**Measure Description:**

Updates connection date to federal Internal Revenue Code and other provisions of federal tax law. Requires addback of federal dividends related to repatriation and creates a tax credit for amounts received under the tax haven law. Requires the Department of Revenue to estimate actual collections and transfer amount equal to estimate as follows: 18 percent to the Employer Incentive Fund and 82 percent to the School Districts Unfunded Liability Fund.

**Revenue Impact (in \$Millions):**

|   | Biennium   |              |            |
|---|------------|--------------|------------|
|   | 2017-19    | 2019-21      | 2021-23    |
| Repatriation                                    | \$160      | \$10         | \$0        |
| OR Tax Haven Tax Credit                         | -\$20      | -\$5         | \$0        |
| <b>Employer Incentive Fund</b>                  | <b>\$0</b> | <b>\$26</b>  | <b>\$0</b> |
| <b>School Districts Unfunded Liability Fund</b> | <b>\$0</b> | <b>\$119</b> | <b>\$0</b> |
| Corporate: General Fund                         | \$100      | \$0          | \$0        |
| Other Reconnect Provisions                      | Minimal    | Minimal      | Minimal    |

**Impact Explanation:**

The revenue impact for the repatriation policy is the net impact from the addback. Without the statutory changes in this bill, corporate income tax collections are projected to be down \$100 million in 2017-19 due to the federal repatriation policy. With the statutory change, revenues are projected to be up by \$160 million instead. That means a change of \$260 million in the net position based on the current revenue forecast and the impacts from the federal law change. Measure directs funds received from repatriation, based upon estimate made by Department of Revenue, to be deposited as follows: 18 percent to the Employer Incentive Fund and 82 percent to the School Districts Unfunded Liability Fund. While measure provides Department of Revenue until July 1, 2021 to estimate actual collections due to repatriation, it is expected that estimate will occur during 2019-21 biennium allowing for transfer of funds to occur during the 2019-21 biennium. The estimated \$100 million increase to the general fund reflects the changes mitigating the expected \$100 million loss that would otherwise occur. The tax haven tax credit is based on collections from tax years 2014 through 2016.

Measure includes numerous provisions where Oregon law connects to federal law at a specific point in time (December 31, 2017). Most of these updated connections to federal law connect to definitional provisions that have little to no impact on Oregon.

**Creates, Extends, or Expands Tax Expenditure:** Yes  No

The policy purpose of the tax haven tax credit is to recognize the interaction between tax payments required by Oregon's tax haven law and repatriation related tax payments.

**SB 1529 B STAFF MEASURE SUMMARY****Carrier:** Rep. Buehler**House Committee On Revenue****Minority Report****Action Date:** 02/28/18**Action:** Do pass with different amendments to the A-Eng bill. (Printed B-Eng.) Minority**Fiscal:** Fiscal impact issued**Revenue:** Revenue impact issued**Report Signers:** Rep. Knute Buehler, Rep. Greg Smith**Prepared By:** Kyle Easton, Economist**WHAT THE MEASURE DOES:**

Updates connection to the Internal Revenue Code and to other provisions in federal tax law from December 31, 2016 to December 31, 2017. Requires the addback of the federal dividend received deduction related to repatriation. Creates a tax credit based on taxes paid from tax haven legislation and applied against Oregon tax from repatriated income. Requires the Department of Revenue to estimate actual collections and transfer amount equal to estimate as follows: (a) the first \$50 million to be transferred to Department of Human Services for the purpose of stabilizing the child welfare division through the funding of a rapid response team, (b) \$2 million transferred to Oregon Department of Administrative Services to provide funding for CASA Volunteer Programs, (c) balance of remaining funds transferred to Oregon Rainy Day Fund.

By December 1, 2020, requires Department of Revenue to prepare report regarding the relative efficacy of Oregon's tax haven law in comparison with federal internal revenue code provisions requiring shareholders of controlled foreign corporations to include global intangible low-taxed income (GILTI) in gross income.

**ISSUES DISCUSSED:**

2/22/2018

- Oregon's rolling connection to taxable income contrasted with point in time connections that are generally annually updated by the Legislative Assembly
- Oregon's tax haven legislation, potentially eliminating the repeal of Oregon's tax haven law that is contained in engrossed version
- Potential effectiveness of federal provisions in reducing corporate tax sheltering/structuring
- Submitted testimony from Dan Bucks, former Montana Department of Revenue Director, impacts of tax haven laws

2/28/2018

- Proposed amendments
- Tax revenue resulting from repatriation viewed as one-time funding source
- Other potential uses of revenue resulting from repatriation including funding for child welfare division of Department of Humans services as proposed in -A16 amendment
- Need for additional funding of Oregon child welfare division, potential future conversation for Ways and Means.

**EFFECT OF AMENDMENT:**

Makes technical change to connection to federal law for addback of the federal dividend received deduction related to repatriation. Requires the Department of Revenue to estimate actual collections and transfer amount equal to estimate as: (a) first \$50 million to be transferred to Department of Human Services for the purpose of stabilizing the child welfare division through the funding of a rapid response team, (b) \$2 million transferred to Oregon Department of Administrative Services to provide funding for CASA Volunteer Programs, (c) balance of remaining funds transferred to Oregon Rainy Day Fund. By December 1, 2020, requires Department of Revenue to prepare report regarding the relative efficacy of Oregon's tax haven law in comparison with federal internal revenue code provisions

**SB 1529 B STAFF MEASURE SUMMARY**

requiring shareholders of controlled foreign corporations to include global intangible low-taxed income (GILTI) in gross income.

**BACKGROUND:**

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Oregon allows an income tax subtraction for contributions made to Oregon 529 College Savings Network accounts for higher education. Proceeds of the accounts are intended to be used to pay higher education related expenses for a designated beneficiary. Changes to federal law regarding 529 programs made in the Tax Cuts and Jobs Act passed in December of 2017 expanded the definition of qualified higher education expenses to include public, private and religious elementary or secondary schools (up to \$10,000 per taxable year).

**FISCAL IMPACT OF PROPOSED LEGISLATION**

79th Oregon Legislative Assembly – 2018 Regular Session  
Legislative Fiscal Office

**Measure: SB 1529 - MRB**

*Only Impacts on Original or Engrossed Versions are Considered Official*

Prepared by: Meg Bushman-Reinhold  
Reviewed by: John Borden, Paul Siebert, Laurie Byerly  
Date: 3/1/2018

**Measure Description:**

Updates connection date to federal Internal Revenue Code and other provisions of federal tax law.

**Government Unit(s) Affected:**

Department of Administrative Services (DAS), Department of Revenue (DOR), Department of Human Services (DHS)

**Summary of Expenditure Impact:**

Costs related to the measure may require budgetary action - See analysis.

Department of Human Services

|                         | 2017-19 Biennium | 2019-21 Biennium    |
|-------------------------|------------------|---------------------|
| General Fund - Staffing | \$0              | \$47,571,213        |
| Federal Funds           | 0                | 12,367,388          |
| <b>Total Funds</b>      | <b>\$0</b>       | <b>\$59,938,601</b> |
| Positions               | 0                | 321                 |
| FTE                     | 0.00             | 321.00              |

**Analysis:**

The measure updates the connection to the federal Internal Revenue Code. It also disconnects from federal provisions relating to the corporate tax on funds repatriated. This disconnection is anticipated to generate \$140 million for the General Fund. The MRB amendment distributes the increase in revenues as follows:

- \$50 million to Department of Human Services (DHS) for the purpose of stabilizing the child welfare division through the funding of a rapid response team;
- \$2 million to the Department of Administrative Services (DAS) for local Court Appointed Special Advocates (CASA) programs; and
- The remainder to the Rainy Day Fund.

Department of Human Services

The Department does not currently have a formal rapid response team as described in the bill, but would look at options to develop one pending availability of the funding in 2019-21. However, under a plan that fits into the funding level and is drawn from identified program gaps, the Child Welfare Division of DHS would hire 186 field staff to address workload issues; 112 positions, including 5 limited duration, to implement and maintain the centralized screening hotline; and 28 positions to support the new Community Development Coordinators. The Community Development Coordinator positions will focus on community engagement and active participation for Diligent Recruitment, Retention and Support of current and prospective foster families.

The package would require ongoing funding to sustain this effort to stabilize and improve the foster care system.



Department of Administrative Services

The Department of Administrative Services will need \$2 million of Other Funds limitation to distribute the CASA funds.

Department of Revenue

There is minimal fiscal impact to the Department of Revenue.

**REVENUE IMPACT OF  
PROPOSED LEGISLATION**  
79th Oregon Legislative Assembly  
2018 Regular Session  
Legislative Revenue Office

Bill Number: SB 1529 - MRB  
Revenue Area: Income Taxes  
Economist: Chris Allanach/Kyle Easton  
Date: 3/1/2018

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**Measure Description:**

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**Revenue Impact (in \$Millions):**

|                                     | Biennium   |             |            |
|-------------------------------------|------------|-------------|------------|
|                                     | 2017-19    | 2019-21     | 2021-23    |
| Repatriation                        | \$160      | \$10        | \$0        |
| OR Tax Haven Tax Credit             | -\$20      | -\$5        | \$0        |
| <b>DHS: Child Welfare</b>           | <b>\$0</b> | <b>\$50</b> | <b>\$0</b> |
| <b>DAS: CASA Volunteer Programs</b> | <b>\$0</b> | <b>\$2</b>  | <b>\$0</b> |
| <b>OR Rainy Day Fund</b>            | <b>\$0</b> | <b>\$93</b> | <b>\$0</b> |
| Corporate: General Fund             | \$100      | \$0         | \$0        |
| Other Reconnect Provisions          | Minimal    | Minimal     | Minimal    |

**Impact Explanation:**

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