Oregon Society of Certified Public Accountants
10206 SW Laurel Street Beaverton, Oregon 97005-3209 • PO Box 4555 Beaverton, Oregon 97076-4555
503-641-7200 / 1-800-255-1470 • Fax 503-626-2942
oscpa@orcpa.org • www.orcpa.org

Oregon Legislative Assembly – 2019 Regular Session
Hearing SB 214
Senate Committee on Finance and Revenue

Testimony related to personal income taxation and changes to connection point from federal taxable income to federal adjusted gross income eliminating the allowance of itemized deductions or standard deduction.

Opposition

DATE: March 21, 2019

Good morning Chair Senator Mark Hass, Vice-Chair Senator Cliff Bentz and Members of the Senate Committee on Finance and Revenue.

For the record, my name is John Hawkins. I am a member of the Taxation Committee of the Oregon Society of Certified Public Accountants (OSCPA). I am a Certified Public Accountant and partner with a local firm in Salem, Oregon. I appreciate the opportunity to participate in today's hearing.

POSITION:
On behalf of the approximately 4,400 members of the OSCPA, I respectfully testify in opposition to SB 214 which relates to personal income taxation, changing the connection point from federal taxable income to federal adjusted gross income (AGI) and thereby eliminating the allowance of itemized deductions for Oregon purposes. It replaces itemized deductions with a new Oregon standard deduction equal to 33% of the federal standard deduction.

BACKGROUND:
CPAs are highly trained and must meet rigorous criteria to obtain and maintain our licenses. As their Trusted Advisors, we work directly with our clients in a variety of areas, of which planning and advice are of significant importance, as well as return preparation. In that process, we see the impact of deductions. We hear their worries.

CONCERNS:
The concern related to Senate Bill 214 is the move away from reconnecting to Federal Income Tax code. Rather, the Senate Bill advances the concept that disconnecting from federal tax statute and provisions can simplify and solve specific issues. I respectively share that is not always the reality.

Why would the lack of conformity between state and federal tax code be a concern? Because it adds complexity for both taxpayers and ultimately, tax advisors.

Taxpayers:

- **Record keeping**: Taxpayers are impacted by additional complexity in their own record keeping which increases the potential for negative issues and possible non-compliance in some cases.
- **Planning:** Taxpayers are impacted in planning for their tax liabilities. Rolling reconnect provides certainty because they will know that the decision made for federal purposes won't differently impact their Oregon tax obligation and compliance.

Tax Advisors:

- Tax advisors, regardless of whether CPAs or not, must ensure that they are researching the differences between state and federal statutes and provisions in areas that are not always routine. This has potential for impact on taxpayers both in the cost of preparation as well as timely completion. Contrary to some thinking, building in differences at a state level as compared to federal adds complexity and is not viewed by many tax advisors as a positive. Rather, many tax advisors would prefer to instead focus on providing other helpful advisory services to clients.
- Importantly, it should also be noted that not all taxpayers utilize the services of tax advisors. Complexity increases the potential for non-compliance by those taxpayers as they may not be aware of nor understand the differences between Oregon and federal statute and provisions, especially where Oregon would not be conformity.

Potential impact on Oregon Department of Revenue:

- It should also be considered that there could be the potential for a cascade effect and thus negative impact on the Oregon Department of Revenue (DOR) as well. The more complex the process of understanding the differences between state and federal statutes and provisions, the higher the risk of unintended noncompliance by taxpayers. Complexity can carry material burdens for many participants in the income tax system.
- This risk has the potential for the DOR to advance a higher volume of notices to taxpayers that require needed corrections or fulfillment due to non-compliance. Were there to be an increase in the exceptions in filings, there is a potential cost factor to the DOR, and thus ultimately to the State of Oregon to ensure compliance. This also has potential to place the DOR in a position of having to determine if an audit of the taxpayer's return is warranted. To maintain compliance, this adds unintended activity and costs to the overall state filing process, and potentially collection activity as well.
- Regardless of costs, the DOR must be consistent and should not choose to ignore compliance that would potentially be impacted as they advance lack of compliance notifications, notices of audit, etc., to taxpayers.
- A worrisome possibility is that some taxpayers, already facing the recent federal tax changes, may begin to lose confidence in the Oregon tax system. To that point, periodically some tax advisors will share that they have a client that is considering or intending to move to another nearby state where state tax complexity does not exist. This does not serve Oregon well. Oregon should not be seen as a state that makes compliance difficult for taxpayers.

Unintended negative consequences of the proposed change:

- It should be considered that the lost Oregon tax benefit for charitable contributions could be a significant disincentive on giving. There is a risk that contributors would decide to no longer give at the same levels. Charitable organizations provide many benefits and services to Oregonians. The potential for loss could economically challenge some programs and services offered by charitable organizations. In turn, that could also have an effect on programs and services offered by the state.
- Also, I have concerns about the impact of the loss of medical deductions on the elderly and disabled. I see clients that must drain their IRAs to pay for significant medical costs or assisted living. With no Oregon deduction for medical costs, they could very well find themselves in the economically challenging situation of having a large tax liability for Oregon and the inability to pay without taking out more taxable income. It also depletes resources for continued care. Situations such as this could impact the services that affected individuals may need from the State of Oregon, or charitable organizations.

Recommendation:

On behalf of Oregon Society of CPAs, I respectfully encourage you to oppose SB 214 and remain connected to federal tax code and provisions with the connection point remaining to be federal taxable income. Thank you for the opportunity to testify

###