STATE OF OREGON

INTEROFFICE MEMO

TO: Governor Vic Atiyeh

DATE: June 11, 1984

FROM: Richard A. Munn, Director
Department of Revenue
RAM

SUBJECT: Federal Tax Base

We contacted a variety of large corporation tax managers to evaluate your federal tax base proposal. We indicated to each that you were looking at three options. First option would be a start-up period where unitary would not be applied. Second option would be waters edge under the current corporate excise tax system. Third option would be the adoption of a federal tax base. I have listed below the responses.

1. ESCO - Their preference was the federal base.

2. Tektronix - Their preference was the federal base.

3. Intel - Their preference was the federal base.

4. Hewlett-Packard - Their preference was waters edge with foreign dividends exempt. They like federal base next.

5. Nike - They do not have any problems with the current system. They found some fault in each of the three approaches. They felt waters edge was alright if foreign dividends were exempt.

6. N.W. Natural Gas - They prefer waters edge. Their real desire is separate accounting for each entity.

7. Wacker - They like federal base option.

8. Willamette Industries - They prefer waters edge.

9. PGE - They prefer federal base as their option.

These represent a good sampling of the companies contacted.

Two of these companies felt the ownership factor - 80% - under federal base was too high (#6 & 8). They felt 50% was appropriate.

RAM/ml

Firm ESCO Date 6/4/84

PERSON CONTACTED MIMI GILBERT

OPTION # 1 - START UP

No - benefits only new firms, not help existing firms

OPTION # 2 - WATERS EDGE

More acceptable than current method, particularly if foreign dividends eliminated from taxation.

OPTION # 3 - CONSOLIDATED - FEDERAL BASE

Not sure - will call me back

Dave MacHaffie called me back 6/5/84 indicates preference for this option - simplicity and does allow some tax planning.

Firm HEWLETT-PACKARD Date 6/5/84

PERSON CONTACTED LES EZRATI

OPTION # 1 - START UP

No - favors only new business

OPTION # 2 - WATERS EDGE

#1 choice if foreign dividends/income problem can be eliminated or compromised. Foreign dividend tax deduction would be acceptable compromise.

OPTION # 3 - CONSOLIDATED - FEDERAL BASE

Better than current system, but still subject to abuse, manipulation with entities and dividends.

Concern with foreign dividend treatment

Firm INTEL CORPORATION Date 6/5/84

PERSON CONTACTED BOB PERLMAN

OPTION #1 - START UP

"Boo" only benefits newcomers

OPTION #2 - WATERS EDGE

#1 Choice

Big concern with foreign dividend question

Compromises might be to allow a deduction instead of credit

Careful of allocating versus apportionment as corporations will play games with intermediate corporations located in low tax states to receive the dividends

OPTION #3 - CONSOLIDATED - FEDERAL BASE

Problems in separating out nonunitary corporations

Would probably be okay, but has same foreign dividend problem as waters edge

Extremely difficult to change federal election so established firms at a disadvantage.

Firm NIKE - Date 6/4/84

PERSON CONTACTED DENNIS PETERSON

OPTION # 1 - START UP

Do not like in terms of abuse or inequities such as new business versus expansion.

OPTION # 2 - WATERS EDGE

FS.

Good solution if dividend ~~[illegible]~~. income are eliminated

Would be problems if foreign subsidiary conducted business in Oregon as to how you treat income.

OPTION #3 - CONSOLIDATED FEDERAL BASE

Fairness question: firm could organize as separate ~~separate~~ profitable entities and manipulate profit locations (no federal motive for filing consolidated if all entities are profitable).

Note: Nike indicates no major problems with current (W.W.) system

Firm N.W. NATURAL GAS   Date 6/5/84

PERSON CONTACTED Clark Jackson

OPTION #1 - START UP

No - Has not been popular in past - is not fair to existing businesses

OPTION #2 - WATERS EDGE

#1 choice of options - would actually prefer separate entity reporting but can live with domestic unitary

No statement on dividends, but will be pressure to exclude and create revenue impact problems.

OPTION # 3 - CONSOLIDATED - FEDERAL BASE

Concerns with 79% - 81% ownership differences as too inclusive in unitary considerations. The option is better than what we have now.

Reference to Arthur Andersen study - Option #2

Firm WACKER SILTRONIC Date 6/5/84

PERSON CONTACTED Tom Boyle

OPTION # 1 - START UP

Potential for Disadvantage to existing firms.

OPTION # 2 - WATERS EDGE

Feel strongly about limiting to domestic firms.

Would probably be the best received by everyone.

OPTION # 3 - CONSOLIDATED - FEDERAL BASE

No initial problems with option - like the certainty of the concept. (limitation of what entities could be considered.)

Firm WILLAMETTE INDUSTRIES Date 6/5/84

PERSON CONTACTED DON MCNEILL

OPTION # 1 - START UP

No - does not solve worldwide unitary problem. Only delays application of unitary method.

OPTION # 2 - WATERS EDGE

#1 choice - Willamette Industries does not have problems with unitary method applied on domestic basis. Would be supporter of federal rules defining maximum income each state could tax which would add up to 100% of domestic income, not 99% or 101%.

OPTION # 3 - CONSOLIDATED - FEDERAL BASE

Does not like idea of foreign elections being binding for state tax considerations.

Also concerned with fairness - 79% ownership would be provided exclusion from unitary group and probably should be included.