

**LANE TRANSIT DISTRICT
BOARD OF DIRECTORS
FINANCE COMMITTEE MEETING**

**June 10, 1996
12:00 p.m.**

**LTD CONFERENCE ROOM
3500 E. 17th Avenue, Eugene
(off Glenwood Blvd.)**

Public testimony will not be heard at this meeting.

A G E N D A

- I. CALL TO ORDER
- II. ROLL CALL
Hocken _____ Kleger _____ Saydack (Chair) _____
- III. DISCUSSION OF SELF-EMPLOYMENT TAX
- IV. ADJOURNMENT

AGENDA ITEM SUMMARY

DATE OF MEETING: June 10, 1996

ITEM TITLE: Self-Employment Tax Issues

PREPARED BY: Diane W. Hellekson, Finance Manager

ACTION REQUESTED: Discussion and Report to the Board of Directors

BACKGROUND: The Self-Employment Tax went into effect for 1995 self-employment income earned within the Lane Transit District. Since its implementation, a number of questions and concerns have been raised by taxpayers, LTD staff members, and LTD Board members. To address some of these concerns, it has been proposed that changes to the tax ordinance be considered. Unfortunately, the time line for changes in the tax provisions is driven by the Department of Revenue form printing deadline, which is late August. Any change to the current ordinance would require a first reading at the June 19, 1996, Board meeting in order to meet this deadline.

The Finance Committee, therefore, has been asked to review the information available to date on the Self-Employment Tax and the possible consequences of changing the ordinance. Based on their discussion, if a change in the ordinance is recommended, the proposed change would be forwarded to the Board of Directors at the June 19, 1996, meeting. If no change is recommended at this time, the Committee report to the Board can so note.

ATTACHMENT: Self-Employment Tax Issues Summary

PROPOSED MOTION: None

SELF-EMPLOYMENT TAX ISSUES SUMMARY

Self-Employment Tax Current Status:

Gross Revenue Collected through 6/3/96	\$726,208
Administrative Expenses through 3/31/96	24,341
Reserve Deposit	<u>10,000</u>
Net Revenue Received to Date	\$691,867
Estimated June Receipts @ 3%*	\$22,000
Estimated Remaining CY DOR Expenses**	<u>\$140,000</u>
Estimated CY Net Revenue	\$573,867
FY 95-96 Revenue Budget	\$749,380

*Based on Tri-Met Experience

**Based on Estimates Provided by the Department of Revenue

Concern Raised by Taxpayers and LTD Board Members:

The tax may represent a hardship for low-income people who are self-employed.

Possible Responses to Concerns:

1. Create a "minimum tax" to provide relief to low-income taxpayers. The revision implementing the exemption for self-employed incomes below a specified amount could be effective starting with the 1996 reporting year, or retroactive to 1995 (in which case refunds would be processed).

Advantages:

- The change would provide relief to low-income taxpayers.
- Opposition to the tax might decrease.
- The change might be perceived by the community as evidence that LTD is responsive to residents' concerns.

Disadvantages:

- A change in the provisions of the Self-Employment Tax ordinance would require that the tax form be modified. The ordinance change would require a public hearing and two readings. The tax form change must be reported to the Department of Revenue no later than late August to meet the form printing deadline. Therefore, in order to effect an ordinance change for 1996, the first reading would have to be at the June 19 LTD Board of Directors' meeting.
 - The Department of Revenue has just started processing Self-Employment Tax returns. There is no information available at this time on how many taxpayers fall into various income categories. LTD will request a report from DOR of taxpayer detail. The earliest such information might become available would be July; the information possibly could be delayed until fall. The information will pertain to self-employment income only; it will not be possible to determine if a self-employed taxpayer has other sources of household income.
 - Best estimates at this time suggest that as many as 60 percent of total self-employed taxpayers earn \$10,000 per year or less from self-employment income. The effect of exempting self-employment earnings below \$10,000 could be as much as \$200,000 to \$250,000 per year.
2. Provide a service value to low-income taxpayers. For example, taxpayers earning less than a specified household income might qualify for a group pass.

Advantage:

- The value of the service could exceed the amount of tax paid, which might mitigate resentment to the new tax.

Disadvantage:

- Proof of household income might require the use of a contracted third party to assure confidentiality. (A refund program for low-income taxpayers could also require the use of a third party, if the refund were to be based on household income, and not just on self-employment income.)
3. Create an ordinance that provides self-employment tax rebates for taxpayers meeting certain income criteria.

Advantages:

- The program would provide relief to low-income taxpayers.
- The new ordinance could be implemented at any time, since the rebate program would not affect the current tax form, nor the current Self-Employment Tax collection procedures.
- The program could be developed after information on taxpayer demographics becomes available.

4. Do nothing at this time.

Advantages:

- The 1996 tax would be assessed as it was for 1995. Self-employment tax revenue would remain constant.
- More significantly, funds that are controlled by District discretion would remain available. The Eugene Station Project has not yet identified full funding. If federal grant applications are unsuccessful or funded at lower than requested levels, this project will require funds in 1998-99.
- The matter could be revisited in the fall of 1996 when information on taxpayer demographics and the financial impact of changes to the ordinance would be available. Based on subsequent analysis, an informed decision to retain the present ordinance or modify it could be made with adequate lead time to effect changes. Refunds could be considered.

Disadvantage:

- Lack of action on this sensitive issue could influence community response to LTD programs and the community's perception of LTD's role in the service district. Sensitive programs/future activities include:
 - Contract negotiations
 - Campaign for an elected Board of Directors
 - General Manager Salary Limitation Initiative
 - Bus Rapid Transit

Other Concerns Raised by Taxpayers:

1. The tax was created without a vote by those who would be affected by it.
2. The tax was implemented without adequately informing self-employed persons living in the district that it would affect them.
3. There is no perceived value to many of the self-employed taxpayers.

Possible Responses to Concerns:

Using the walkabout or other public relations effort, explain the totality of the District's financing picture, including the Board's intent in implementing the tax and what the revenue provides.

Advantage:

- A community education program could be effective. It could also be structured to include more than the Self-Employment Tax.

Disadvantage:

- Reminding taxpayers about the tax could have the opposite effect intended. Since the tax is paid only once a year, negative reaction dies down after the due date. Tri-Met's experience suggests that resistance decreases after the first year and all but disappears several years into collection.
2. Do nothing at this time.

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PROPOSED MOTION: None

SELF-EMPLOYMENT TAX

ISSUES SUMMARY

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