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

**June 25, 1997
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 ISSUES

IV. DISCUSSION OF BUS STOP BENCH PATENT

V. ADJOURNMENT

AGENDA ITEM SUMMARY

DATE OF MEETING: June 25, 1997

ITEM TITLE: SELF-EMPLOYMENT TAX ISSUES

PREPARED BY: Diane Hellekson, Finance Manager

ACTION REQUESTED: None

BACKGROUND: The Finance Committee has met twice during the last year to consider the effect of the self-employment tax program on low-income taxpayers. The first demographic information on taxpayers did not become available until November 1996 for the 1995 tax year.

At the November 19, 1996, committee meeting, it was decided to delay further consideration of any low-income tax relief options until after April 15, 1997, to avoid confusion about whether the tax should be paid for the 1996 tax year. No additional information about taxpayer demographics has become available since the November meeting.

At the June 25, 1997, Committee meeting, the self-employment tax program to date will be reviewed. A revised issue summary is attached for the Committee's advance review. Additional materials may be distributed at the meeting.

ATTACHMENTS: Self-Employment Tax Issue Summary (Revised)
1995 Self-Employment Tax Receipts by Income Level
1995 Self-Employment Taxpayers by Income Level
1995 Self-Employment Tax Analysis

PROPOSED MOTION: None

SELF-EMPLOYMENT TAX

ISSUE SUMMARY

Prepared by Diane Hellekson, Finance Manager
Revised 6/20/97

1995 & 1996 Self-Employment Tax Status:

Gross Revenue (2 years) Collected through 5/31/97	\$1,646,774
Administrative Expenses (2 years) through 4/30/97	69,731
Reserve Deposit	<u>10,000</u>
Net Revenue Received to Date	\$1,567,043
FY 95-96 & FY 96-97 Revenue Budget	\$1,548,780
Difference	\$18,263 1%

Concern Raised Previously by Taxpayers and LTD Board Members:

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

Concerns Expressed During 1996 Tax Payment Period:

One complaint about the tax was received from a taxpayer. Nine complaints about the Department of Revenue not answering its assistance line also were logged, and six requests for information or forms. One taxpayer mailed his return and payment to LTD, but there was no note indicating a protest, so a taxpayer error was assumed. (The form and payment were forwarded to the Department of Revenue, and a note was sent to the taxpayer so stating.)

Previously Discussed Responses to Concern:

1. Create a self-employment tax minimum income level to provide relief to low-income taxpayers. The revision would require a change in Ordinance 38 effective for the 1997 reporting year.

Advantages:

- The change would provide relief to low-income taxpayers by exempting total self-employment income below a specified level (e. g., \$5,000) from the tax.
- Opposition to the tax might decrease.

- The change might be perceived by the community as evidence that LTD is responsive to residents' concerns.
- The change could be easily implemented before the Department of Revenue deadline for amending the taxpayer form.

Disadvantages:

- The program would reduce local revenue at a time when federal funds are declining and the District is planning to proceed with several major capital projects (Eugene Station, BRT, Park & Ride facilities, fleet expansion/replacement).
 - LTD's program would no longer mirror the Tri-Met program. (Tri-Met opposes tax relief.) There may be a political cost to the implementation of a program that affects taxpayers who pay the tax to both agencies.
 - There will be opposition from taxpayers who just miss the income limit for tax relief. For example, if the limit is \$5,000 per year, the self-employed taxpayer who makes \$5,001 would pay the tax on the entire amount. There may be pressure to exempt the first \$5,000 (or some other amount higher than the current \$400) for every taxpayer, which would have a significant impact on District revenue. (A \$5,000 blanket exemption would cost a minimum of \$225,000, based on 1995 returns processed to date.)
 - There may be opposition from small businesses, and possible pressure to implement a relief program for payroll taxpayers.
2. Create an ordinance that provides self-employment tax rebates for 1995 and 1996 taxpayers who meet certain income criteria. (This option should be considered in addition to option 1.)

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 (SET) collection procedures.
- The program would address the concerns of taxpayers who have already paid the tax, and who will not be subject to it if Ordinance 38 is changed beginning with 1997 self-employment income.

Disadvantages:

- If the income level is set at \$5,000, the maximum rebate would be \$30 per taxpayer. Given the possibly substantial cost of administration, the program may be perceived as a poor use of public resources.
- The rebates will be a reduction from current income for payments made in a prior year. Not including the cost of program administration, the amount could be in

excess of \$60,000 for a \$5,000 and below program, and in excess of \$160,000 for a program at the \$10,000 and below self-employment income level. Expenditure reductions or other budget changes may be required.

- There will be the same opposition to this program from taxpayers just missing the minimum income level as noted above.
- The Department of Revenue has expressed strong reservations about the proposal for several reasons:
 - ◊ The program will not relieve taxpayers of the responsibility to pay the tax, even if the entire amount is eventually refunded. DOR will be in the position of having to pursue tax payment (with possible penalties and interest) from taxpayers who may already know that the tax is refundable.
 - ◊ The program will be complicated to administer. Unless proof of payment is required in the form of a canceled check that can be clearly identified as a SET payment, LTD may refund a payment that was not made to DOR, and, therefore, was never received by LTD. Coordination between LTD and DOR will be required on a much higher level than has been required (or possible) in the past. DOR administrative charges will increase.
 - ◊ The SET payments will have already been deducted from federal income tax returns. Rebates will invalidate the deductions.
- 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 tax due date. Tri-Met's experience suggests that resistance decreases after the first year, and all but disappears several years into collection.

3. Do nothing at this time.

Advantages:

- The tax would continue to be assessed as it was for 1995. Self-employment tax revenue would remain constant. Additional administrative expenses would not be incurred.
- More significantly, funds that are controlled by District discretion would remain available.
- Taxpayer concerns could be monitored for a longer period of time. Concerns may decline over time, as has been the Tri-Met experience.
- The SET program and payroll tax program would continue to be structured the same.
- LTD's SET program would continue to mirror the Tri-Met program.

Disadvantage:

- Lack of action on this 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

Staff Comment:

The decision to do nothing until further consideration has not had an impact on any of the programs noted above. In fact, the decision does not appear (from the LTD staff perspective) to have had any negative consequences whatsoever.

4. Raise the income exemption from the current \$400 to a higher amount.
(This option is an addition to the list considered in November.)

Advantages:

- The change might provide relief to some low-income taxpayers.
- The change would be relatively easy to implement, since it would involve only a minor change in the tax form and the instructions (and a revision of Ordinance 38, which could occur anytime before the end of the calendar year).
- The effect on revenue would be relatively modest. For every \$100 added to the exemption, approximately \$480 in tax revenue would be lost. For example, a change from the \$400 exemption to \$1,000 would result in lost revenue of about \$28,800. (Approximately 600 current taxpayers would owe no future tax.)

Disadvantages:

- There is no information available on household income. (The State did not respond to two requests to determine if LTD could add a household income information line to the SET form.) It has been speculated that the taxpayers at the low end of the demographics probably are not relying on self-employment as a sole form of support. This option might provide relief to taxpayers who don't need it, and no relief to taxpayers who do.
- Any consideration of a tax program change could reopen a negative discussion that has virtually disappeared in the last year.
- A relief program for SET payers that does not also provide something for payroll taxpayers could result in an escalation of anti-payroll tax sentiment.
- The State deadline for making changes to the SET form is in July. The decision to change the program would be made without an opportunity for public input, which would occur as part of the Ordinance revision process. (The full Board is not scheduled to meet in regular session in July, although some opportunity to vote on a program change could be arranged.) In other words, the program would be changed, and then the public would be asked for input on a fait accompli.

STAFF RECOMMENDATION:

Staff recommend that the self-employment tax program be continued in its present form for the 1997 tax year, and that the Finance Committee meet in the fall of 1997 to consider possible changes to the tax program for 1998. Should changes be proposed, there would be ample opportunity to complete the Ordinance revision process before the State is notified of changes to the tax form and instructions. Information about 1996 taxpayer demographics will, also, be available at that time.

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AGENDA ITEM SUMMARY

DATE OF MEETING: June 25, 1997

ITEM TITLE: BUS STOP BENCH

PREPARED BY: Diane Hellekson, Finance Manager

ACTION REQUESTED: None

BACKGROUND: At the February 7, 1997, Finance Committee meeting, the Committee discussed the possibility of applying for a patent on the bus stop bench designed by Charlie Simmons, Facility Services Manager. Additional information about the potential value of a patent was requested by the Committee in order to make a better informed decision.

A summary of the information that has been obtained since the February meeting is attached. Based on this information, it is the staff recommendation that LTD not apply for a patent on the bus stop bench. Additional materials may be presented at the June 25, 1997, meeting.

ATTACHMENTS: Bus Stop Bench Patent Investigation Summary

PROPOSED MOTION: None

BUS STOP BENCH PATENT INVESTIGATION

Prepared by Diane Hellekson, Finance Manager
June 25, 1997

At the request of the Finance Committee at its February 7, 1997, meeting, an attempt to obtain information about the potential value of a bus stop bench patent has been made. This attempt included conversations with two patent attorneys and three product development specialists. Because it was never LTD's intent to produce and market the product, the attempt focused on the value of a patent and not the potential net value of the product. The following summarizes the information and opinions expressed:

- While the bus stop design is patentable, it is not clear what protection a patent would offer. The bench design is fairly simple. Minor changes in the dimensions, appearance, or features might produce a product that functions almost identically but would not be a patent infringement.
- It is very difficult to determine in advance what a patent for this kind of product might be worth, because the product does not address an obvious need nor improve an existing product or process. It would be more common to try to assess the potential value of producing and marketing the product itself for this kind of product. The marketing plan might even determine (or contribute to) the ultimate demand for the product. As was suggested by a Finance Committee member, a trademark name might have more value than a patent.
- All rights to a U. S. patent will be lost on August 14, 1997 (one year from the date of first public disclosure), if a patent application is not filed on or before that date. It takes approximately one month to prepare the application, moving the deadline to July 14, 1997. It is unlikely that additional information will be available by this date.

STAFF SUMMARY:

- The creativity of the designer is to be commended. The bench design is of value to LTD, and is economical to produce.
- LTD retains the right to produce the bench for District use whether LTD obtains a patent for the product or not.
- A patent would cost approximately \$10,000. If LTD were to produce and market the bench, it may be possible to recover this cost, but it has never been LTD's intent to do so. It has not been possible to determine if the patent alone has a value equal to or greater than \$10,000.

STAFF RECOMMENDATION:

- Recognize and/or reward the creativity of the designer to encourage original thinking and problem-solving.
- Continue to produce the bench for District use, but do not pursue a patent for this product. Notify the designer that he may pursue a patent in his name alone, should he wish to do so.