

SPECIAL HEARING ON TAX PROPOSALS

INFORMATIONAL HEARING: INVITED TESTIMONY

CONSUMPTION: HB 3279, HB 3391, HB 3270, HB 3318

PROPERTY: HB 2560, HB 2606, HB 3271, HB 3315, HB 3446, HB 3447, HB 2586

INCOME: HB 2285, HB 2286, HB 3208, HB 3309, HB 3474, HB 2876,

HB 3015, HB 3016, HB 3248, HB 3133, HB 3273, HB 3314

BILL INTRODUCTIONS: LC 4320, LC 4315

TAPES 104, 105 A/B, 106 A

HOUSE REVENUE COMMITTEE

APRIL 8, 1997 8:30 AM HEARING ROOM A STATE CAPITOL BUILDING

MEMBERS PRESENT: Rep. Tom Brian, Chair

Rep. Lee Beyer, Vice-Chair

Rep. Tony Corcoran

Rep. Randall Edwards

Rep. Leslie Lewis (Excused)

Rep. Anitra Rasmussen

Rep. Lane Shetterly

Rep. Mark Simmons

Rep. Ken Strobeck

WITNESSES PRESENT: Rep. Lee Beyer

Rep. Frank Shields

Rep. Randall Edwards

Rep. Peter Courtney

Rep. Floyd Prozanski

Rep. Bryan Johnson

Rep. Anitra Rasmussen

Rep. Kurt Schrader

Chuck Sheketoff, Oregon Law Center

Rep. Jo Ann Bowman

Don Schellenberg, Oregon Farm Bureau

STAFF PRESENT: Ed Waters, Economist

Brian Reeder, Economist

Barbara Guardino, Committee Assistant

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TAPE 104 SIDE A

INVITED TESTIMONY

- 009 Chair
Brian Called meeting to order at 8:45 a.m.
- 015 Rep.
Corcoran Reiterated Monday comments that during the 1990's, Oregon's tax burden has fallen from 12th to 44th. Business share has fallen to 39 %;. Primary criticism is legislators fail to deal with tax reform, resulting in passage of inadequate initiatives.
- 035 Rep.
Corcoran Committee members will give overview of tax reform bills. They will address these topics:

1) Consumption tax, Rep. Beyer;

3) Homestead proposals, Rep. Edwards;

3) Re-bracketing of personal and corporate income tax, Rep. Corcoran and Rep. Devlin;

4) Other categories, Rep. Rasmussen

Refer to written testimony, verbatim (EXHIBIT A):

- 043 Rep.
Beyer Directed members' attention to HB 3279, gross receipts tax focused on broadcast industry;

HB 3391 privilege tax on beer and wine. Similar proposal introduced by Liz VanLeeuwen and Rep. Peter Courtney.

Refer to written testimony, verbatim, (EXHIBIT B) HB 3391 raises beer and wine tax by 5 cents per drink. Bill dedicates 80 % of this revenue to Dept. of Human Resources alcohol and drug treatment and prevention programs.

Remaining 20 % goes to State Police for alcohol and drug enforcement. Current tax is 8/10 of 1 penny. Beer tax not been raised since 1977; wine tax since 1983.

- 062 Rep.
Frank
Shields Oregon's tax on beer is \$5.18 per barrel below the national average. Primary goal of HB 3391 is not to deter drinking, but to fund programs that fight the effects of problem drinking. Those who cause the problem should pay for the solutions. Referred to page 2 of testimony, statistics on cost to state for alcohol/drug abuse. "Impact on State Government" says that 80 % Oregon's prison population and 85 % of parents of foster children have history of alcohol and drug abuse.

His intention is not to deter drinking, but rather to shift the cost of alcohol/drug addiction to those who cause the problem.

- 130 Rep.
Corcoran Asked where funding currently comes from to fund treatment and police.

- 135 Rep.
Shields This money comes from general fund. Believes voters would back this tax, as they back tobacco tax. Polling by DUII groups says public would prefer a 50/50 split. He wants to see more go into rehabilitation; public wants more go into traffic enforcement.

- 160 Shields HB 3391 bill differs from VanLeeuwen bill in that it will raise tax on a can of beer by 5 cents; VanLeeuwen would raise to 4.2 cents per can. Both bills could be modified to work.
- 180 Rep. Beyer In relation to rapidly rising costs of corrections budgets, a delegation of judges in Lane County asked legislators to increase the availability of drug and alcohol treatment. Judges keep seeing same people, 80 % are drug and alcohol abusers. Legislature did nothing in 1995. If legislators are serious about cutting cost of prisons, they must to invest in prevention.
- 199 Rep. Beyer Continuing testimony, task is to focus on consumption side. None of the proposals to be heard today necessarily have to increase or shift tax load. Basically only four ways to raise money: User fees, income tax, property tax, consumption tax. Oregon has barely used consumption tax, which is one reason other taxes are so high. These bills are places to start.
- 222 Rep. Beyer In past, legislature has focused on sales tax. It has failed nine times, and would fail again. Other forms of consumption tax include Value Added Taxes - popular in Europe, but not popular in USA.
- 247 Rep. Beyer Consumption tax - Gross Receipts Tax (or business and occupations tax): Two bills on gross receipts tax currently in legislature: HB 3270, Oregon Education Tax Act; and HB 3318, Oregon Gross Receipts Tax Act. Both are based on Washington State Business and Occupation Tax, which is primary education funding source. HB 3318 directed at General Fund and does not contain property tax relief; HB 3270 dedicated to education funding and replaces \$5/1,000 property tax.
- 286 Rep. Beyer Refer to Beyer testimony (Exhibit A), page 5, Legislative Revenue Office memo detailing cost of graduated gross receipts tax. Refer to page 9, State of Washington Business and Occupation Tax. Based on business and industry.
- 321 Rep. Beyer Advantages of gross receipts tax:

1) Generates enough money to replace property tax and re-balances tax burden between residents and businesses

2) Does not tax small businesses with incomes under \$300,000, which is 75 % of all businesses in Oregon

3) Eliminates double taxation of business

4) Keeps tax system competitive with surrounding states, while sharing tax responsibility

5) Creates system of taxation based on consumption

11) Shifts part of tax burden to out-of-state purchasers. Oregon is a large exporting state.

7) Takes advantage of federal tax policy by allowing all taxes collected to be deducted from federal tax returns. Biggest winner for M5 and M47 is federal government.

8) Simplification of tax administration

TAPE 105 SIDE A

- 026 Rep. Beyer Summed, Gross Receipts Tax is not a radical idea, Washington state has used it for 70 years as primary source to fund education. Ironic that, of two states with similar economies, Oregon is struggling with how to fund its education. Washington state is increasing its funding, reducing its class size, putting more money into higher education.
- 041 All Questions and discussion concerning Beyer's testimony of replacing property tax revenue with consumption tax for school funding.
- 070 Rep. Edwards Asked how stable a gross receipts tax is.
- 080 Rep. Beyer Stability is a weakness of consumption taxes. Property tax is more stable.
- 110 Rep. Edwards Brief overview of property taxes - since passage of M5, tax burden has grown for homeowners, concern that this is an inequity, and the difference will be locked in once M50 is passed. Property tax can be regressive. M50 and M47 have not addressed issue of affordability. A thriving residential market has driven up homeowner values, canceling effects of M5. M47 was a broad cut and cap, didn't look at who needed the relief, just across the board.
- 165 Rep. Courtney Refer to written testimony (EXHIBIT C) concerning seniors. Supporting HB 2560, which would establish a property tax exemption for the principal residence of a senior citizen age 65 and older. HARRP program provided tax relief for low income homeowners. HARRP was repealed in 1991 when economy was weak. Repealing HARPP increased property taxes by \$179 million. Oregon one of few states that does not offer property tax break for persons on fixed incomes.
- 215 Rep. Courtney If lawmakers remove capital gains tax, they can afford to give seniors a tax exemption. Issue is non-partisan.
- 289 Rep. Edwards Asserted if legislature had kept HARRP, state could have avoided M5. Seniors are afraid they will lose their homes.
- 306 Brian Reeder Questions and discussion interspersed concerning low income tax breaks. Noted, Rep. Corcoran's bill, HB 2606, reinstates HARPP Program as written in 1991. Sliding scale of income. Directed members' attention to (EXHIBIT D) "House Bills Related to Property Taxes, Preliminary Estimates of Revenue Impacts." Reinstates HARPP program.
- 321 Rep. Edwards Summarized HB 3271: Exempts first \$25,000 of value for residents with home incomes of \$25,000 or less;
- HB 3315 and HB 3446 similar: Establish property tax exemption for principal residents for senior citizens up to \$50,000 of assessed value.

These programs will be funded through state's General Fund.

359 Rep.
Prozanski

Testified in support of homestead exemptions. These bills are a great starting point. If members are serious about broadening the tax base to give relief so a third cut and cap measure won't occur, they should look at across-the-board relief, as well as relief to those who are being impacted the most. Encouraged members to study homestead exemptions in state of Texas. Colorado, Idaho and Florida also have homestead exemptions.

Encouraged legislators to return tax burden to 50/50 split between businesses and homeowners. Need to consider multiple plans for true tax relief.

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026 Rep.
Bryan
Johnson

Sponsoring two bills, HB 3446, HB 3447: Establish property tax exemption for seniors over certain age, with income under \$32,000. Exempts first \$50,000 of house value. These bills will depend upon voters of HJR 60 to eliminate property tax limitation (M47). Believes Oregon's failure to allow senior citizens to stay in their homes was the primary cause of passage of M47. This is an attempt to remove that. Moot if M50 passes.

055 Rep.
Shetterly

With reference to seniors, important that members know there is currently a tax deferral for seniors age 65. This seems to be overlooked a lot.

068 Vice
Chair
Beyer

The deferral program is a good program, about 1/3 of eligible seniors use it. But, seniors tell him they have nothing left to pass on to their heirs.

090 Rep.
Corcoran

Noted, Sen. Yih has a bill (SB 311) that deals with removal of homes through imminent domain. Deferral is a lien, and some seniors are put into dire straits because they used deferral program.

166 Rep. Kurt
Schrader

Refer to written testimony (EXHIBIT E). Concerning "Intangibles Tax." He and economist Ed Waters spent a lot of time trying to rewrite M47, finally decided to get rid of residential property tax. 78 % of property in Oregon isn't even taxed. Is writing a bill that would eliminate residential property tax while putting more tax equity into the system between residences and businesses, without adding to business tax burden. Smaller businesses have not benefited from tax shift. This bill establishes that. 52 % of property is intangible.

197 Rep.
Schrader

Defined intangibles tax: Assets tax on stocks, bonds, accounts receivable, loans, notes, mutual funds. Third leg to the stool -- income tax, business property tax.

Benefits: Shifts tax burden without penalizing business community. Encourages business expansion. Based on ability to pay. Businesses will only pay higher taxes if stock markets rise.

231 Rep.
Corcoran

Asked if this constitutes a shift from personal property tax.

Rep.

This tax is revenue neutral, average Oregonian would have a huge tax break, shift goes

236 Schrader onto wealthy.

BILL INTRODUCTIONS:

266 Chair Directed members to consider introductions of LC 4320 (EXHIBIT F) and LC 4315
Brian (EXHIBIT G).

LC 4320

276 Chair **ASKED FOR ANY OBJECTIONS FROM MEMBERS TO ENTERING LC 4320
Brian (IMPLEMENTATION BILL FOR M50) AS A COMMITTEE BILL. THERE
BEING NO OBJECTIONS, CHAIR SO ORDERED.**

LC 4315

296 Chair **ASKED FOR ANY OBJECTIONS TO ENTERING LC 4315 AS A COMMITTEE
Brian BILL. THERE BEING NO OBJECTIONS, CHAIR SO ORDERED.**

INVITED TESTIMONY:

Gave brief overview of current "Tax Expenditure Report" (EXHIBIT H)

308 Chuck In interim after 1993 legislative session, Legislative Revenue Office prepared a report
Sheketoff that described tax expenditures. During 1995 session, legislation was incorporated into
"Budget Accountability Act of 1995". Report shows how \$4 billion is spent through
income tax system, and how billions are spent and shifted through property tax system.
Report shows 13 % increase in state spending to income tax code.

Rep. Jo Refer to written testimony (EXHIBIT I) verbatim. Concerning the "other budget," Tax
377 Ann Expenditure Report. Exemptions growing at alarming rate.

Bowman 1) Capital gains from Oregon reinvestments: See report, page 95. Total eligible tax
deferral for 1997-97 is \$11 million. It is expected to grow to \$46 million for 1997-99.

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036 Rep. 2) Capital gains on gifts: To allow transfer of property as a gift without imposing tax
Bowman burden on donor.

050 Rep. Questioned the validity of pollution control credit; this awards taxpayers for doing
Bowman things they are required to do anyway.

Noted two examples of tax credits that can be eliminated or modified:

099 Sheketoff (Refer to report, page 41: Income of controlled foreign corporations. Designed to
encourage operation of foreign subsidiaries by U.S. firms. \$5.4 million could be used
toward senior services to keep nursing homes open; child care subsidy programs.

- 128 Sheketoff (Home mortgage interest deduction: Interim Revenue Committee reported cost to taxpayers at \$300 million. Official report says \$480 million. Can be used on both primary and secondary residences, with interest on loans up to \$1million for purchase of a residence.
- Wants to eliminate second home provision, and lower \$1 million cap to \$300,000.
- 174 Sheketoff Second homes are one of reasons housing costs are so high.
- Questions and discussion interspersed.
- Resumed written testimony (page 3): "We need money!"
- 186 Rep. Bowman Identified tax exemptions that should be deleted. She has submitted a bill to eliminate lottery advertising. Favors eliminating tax exemption for prizes awarded by State Lottery. Tax exemption for 1997-99 biennium is estimated at \$44.3 million. Most players believe they will pay state taxes on their winnings. Paying taxes will not adversely affect people's willingness to play the lottery.
- 238 Rep. Bowman Gift packets: Cigarette taxes do not apply to cigarettes distributed in sample packets of 5 or fewer cigarettes. Incentive for cigarette industry to promote its products. Public awareness per cigarette smoking has changed dramatically. Recommended repealing this tax exemption.
- 262 Rep. Bowman Example of a good tax expenditure: Refer to Tax Expenditure Report, Farm Workers Housing Construction.
- 283 Rep. Corcoran Asked Sheketoff concerning right-to-know information on corporations and their tax liability to state, how many corporations pay and don't pay Oregon income tax?
- About 15,000 businesses inside and outside Oregon will pay less than \$10 in Oregon taxes in 1994.
- 294 Sheketoff
- 335 Don Schellenberg Refer to written testimony (EXHIBIT J) Tax reform. Two items of major importance:
- (Correct tax policy
- (Retain local control
- Correct and fair tax policy is achieved when there is a direct link between tax paid and service received. Over the years, state has begun paying for local social services with property tax, causing system to go out of control (health services, libraries, recreational opportunities). Correct tax policy would dictate a tax based on a person's ability to pay. M5 correctly moved most of school funding from property tax to income tax. No longer a relationship between property value and one's responsibility to schools. Relationship is according to income.
- 353 Schellenberg
- 412 Schellenberg Solution:

- 1) Statutorily define what are property related services, and prohibit collection of property taxes except for property related services. This will cut property taxes roughly in half.
- 2) Fund local social services that benefit general society with local, personal and corporate income tax. Collect local income tax using property tax method.

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- 048 Schellenberg Downside to this solution: When property taxes are reduced, other taxes are not deductible on federal income, so state would send more money to federal government.
- 056 Schellenberg Summed up: Solution to property tax problem is to apply correct tax principal. This proposal provides desired services at local level, retains local control, all within confines of M5 and M47.
- 064 Rep. Corcoran Asked, in regard to issue of deductibility to federal government, how does Farm Bureau feel about gross receipts?
- 068 Schellenberg From business point of view, if this means net income, no problem. Farm Bureau does not want tax on gross receipts from "everything that comes in." Farmers' gross receipts are very high; net receipts are very low.
- 083 Vice Chair Adjourned meeting at 10:34 a.m.
Beyer

Submitted by, Reviewed by,

Barbara Guardino Kim James

Committee Assistant Revenue Office Manager

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EXHIBIT SUMMARY:

- A. HB 3279, Beyer, Presentation to House Revenue and School Finance Committee, 14 pp.
- B. HB 3391, Shields, Rep. Frank Shields Testimony on House Bill 3391, 2 pp.
- C. HB 2560, Courtney, Testimony in support of HB 2560, 1 p.
- D. HB 2560, Reeder, House Bills Related to Property Taxes, 1 p.
- E. Informational, Schrader, Testimony of Kurt Schrader on The Intangible Tax, 2 pp.
- F. LC 4320, Brian, LC 4320, 193 pp.
- G. LC 4315, Brian, LC 4315, 5 pp.
- H. HB 3314, Sheketoff, Tax Expenditure Report, 297 pp.
- I. HB 3314, Bowman, Testimony of Jo Ann Bowman, 4 pp.
- J. Informational, Schellenberg, Solving the Property Tax Problem - Oregon Farm Bureau, 3 pp.
- K. HB 2285; 2286; 3474; 3408; 3309; 3016 etc., Reeder, Revenue Impact of Proposed Legislation:, 1 p.
- L. HB 3279, LRO, Revenue Impact of Proposed Legislation, 1 p.
- M. HB 3391, LRO, Revenue Impact of Proposed Legislation, 1 p.