

**HB 2332, 2574**

**HOUSE REVENUE COMMITTEE**

Witnesses Present:

Rep. Scott Bruun, District 37

Joe Schweinhart, Associated Oregon Industries (AOI)

William B. Conerly, Conerly Consulting

Eric Blackledge, Owner, Blackledge Furniture, Corvallis

Terry Lamers, Polk County

Tim Nesbitt, President, Oregon AFL-CIO

Ralph Groener, American Federation of State, County, and Municipal Employees (AFSCME)

Bill Perry, Oregon Restaurant Association

Bill Linden, Oregon Metal Industries Council

Dana Hepper, Stand for Children

Staff Present: Paul Warner, Legislative Revenue Officer

Lizbeth Martin-Mahar, Economist

Kristi Bowman, Committee Assistant

**TAPE 75, SIDE A**

002 Chair Butler Calls meeting to order at 1:05 p.m.

**OPENS PUBLIC HEARING FOR HOUSE BILLS 2332 AND 2574**

005 Lizbeth Martin-Mahar Gives overview of HB 2332 and HB 2574 using the Staff Measure Summaries for both bills (Exhibits 1 and 2). There is a .05% difference between the bills in tax year 2010 and beyond. Discusses the revenue impact of both bills (Exhibits 3 and 4). Both bills will be part of the Oregon Tax Incidence Model (OTIM). Refers to the handout: Sources of Adjusted Gross Income Capital Gain Income (Exhibit 5). Discusses who will benefit from capital gains tax cut.

093 Rep. Scott Bruun Testifies in support of HB 2574, and is the sponsor of the bill. Reads from written testimony (Exhibit 6).

180	Rep. Galizio	Asks Rep. Bruun to define “middle class” regarding household income levels.
185	Rep. Bruun	He estimates that middle class income is probably significantly less than \$100,000, probably less than \$65,000 for annual household income.
195	Joe Schweinhart	General comments regarding the health of Oregon’s economy. Testifies in support of HB 2574 because “a capital gains tax rate reduction equals economic stimulus and jobs.” Refers to AOI Legislation Position Packet (Exhibit 7). Reads from written testimony (Exhibit 10). (Copies of testimony and slide presentation not included in members’ reference information but are included in this tape log).
380	Schweinhart	Begins slide presentation (incorporated in Exhibit 10).  Slide: Estimated Total Capital Gains Taxes
431	Schweinhart	Slide: Income Tax Returns

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053	Schweinhart	Slide: Static versus Dynamic Estimate of Capital Gains Tax Cut
074	Schweinhart	Slide: Capital Gains Tax and Venture Capital

098	Schweinhart	Slide: Where the Money Is
104	Rep. Hass	Questions and answers exchanged with Schweinhart regarding California's capital gains tax.
127	Schweinhart	Resumes discussion of slide: Where the Money Is
161	Schweinhart	Summarizes AOI position in support of HB 2574. "Capital gains tax rate reduction would increase capital investment, increase new business formation, [increase] jobs, and increase the rate of business growth."
181	William Conerly	Testifies in support of HB 2574 because it is a way to stimulate the Oregon economy. Discusses effect of capital gains tax rate on the economy. It is revenue neutral in the early years, and it is big revenue positive in the "out" years. Conerly cites a recent research study suggesting that in a small economy in which capital moves around there is a sustained increase in the economic growth rate by changing the investment environment. Refers to his study included in the AOI Legislation Position Packet (Exhibit 7). Discusses how a low capital gains tax rate helps companies "get ready" for venture capital.
280	Rep. Hass	Asks Conerly about his study results compared with the Oregon Tax Incidence Model (OTIM).

- 294 Martin-Mahar Explains that different economic models are used in Mr. Conerly's study and in OTIM.
- 338 Rep. Hass Additional questions and discussion with Conerly. Asks Conerly if he knows whether the companies who will benefit from the capital gains tax will invest in the Oregon economy.
- 434 Conerly Responds that he doesn't have that answer, but cites statistical data that states with low capital gains rates grow faster.

**TAPE 75, SIDE B**

- 015 Rep. Komp Asks for information from Schweinhart on which states have capital gains and their rates.
- 028 Schweinhart Responds that he will provide the information requested.
- 033 Rep. Galizio Asks Schweinhart how the capital gains tax cut is justified in light of other state program cuts.
- 045 Schweinhart Responds that the tax cut will provide job growth for the long-term and should be considered against the short term issues

- 071 Eric Blackledge Reads from written testimony (Exhibit 8) in support of HB 2574. Adds additional comments on the impact of a capital gains tax cut and state tax policies.
- 167 Rep. Hass General comments about Oregon's business climate and further discussion with Blackledge on this topic.
- 200 Chair Butler Discusses Appendix C information about other state capital gains tax rates in Blackledge's written testimony (Exhibit 8).
- 244 Terry Lamers Testifies in support of HB 2574. Discusses impact of capital gains on timberland. States that the current tax system on long-term investments is unfair and cutting capital gains rates would "repair this inequity in the tax law." Discusses other state's capital gains taxes that are more advantageous to business owners.
- 366 Bill Perry Testifies in support of HB 2574 because of the impact of capital gains on large businesses that benefit other retail businesses such as restaurants.
- 396 Bill Linden Testifies in support of HB 2574 because his organization (Oregon Metals Industries) sees economic benefits on growing Oregon's economy and strengthening the economic base. The current capital gains tax rate is a disincentive to investment in Oregon.

**TAPE 76, SIDE B**

- 011 Tim Nesbitt Testifies against HB 2574. Comments that if it isn't possible to "square up" revenues lost from this bill, then the committee should wait until the state can afford it. In response to Blackledge's comments on the Oregon business climate, if a business is not making a profit, the business only pays a \$10 minimum tax. The flip side is that when a business makes a profit, they pay the same tax rate as personal tax rates. Personal taxes are on gross income; business taxes are on their net income. Comments on whether job creation is substantiated by a lower capital gains tax rate. Asks rhetorically whether job creation would have occurred anyway. Recommends not giving away scarce revenue without gaining something concrete in return. Supports a strategic tax initiative.
- 098 Rep. Olson Asks Nesbitt about tax cuts in the early 1960's in which there were increased revenues.
- 102 Nesbitt Responds that the current federal tax system has much more of an impact on economic activity regarding investments than in previous years. There was a higher marginal tax rate in effect in the early 1960's that affected revenues.
- 128 Rep. Galizio Asks about Oregon having a competitive capital gains tax rate to attract new businesses.
- 138 Nesbitt Refers to a study of capital gains income done by the Oregon Center for Public Policy looking at the years 1993-2001 and the relative few number of people who moved to Clark County in Washington to avoid Oregon capital gains taxes. Comments that it is fairer to tax a business after it is profitable rather than in the beginning stages of a business' development.
- 170 Chair Butler

Discussion with Nesbitt about previous litigation regarding capital gains.

235 Rep. Hass Asks if Nesbitt's organization could support a gains tax cut if it was part of a larger tax reform package.

240 Nesbitt Responds that the AFL-CIO would be very interested in a "package that would make sense."

248 Chair Butler General comments with Rep. Hass and Nesbitt about capital gains in previous legislative sessions.

283 Ralph Groener Comments that he was a committee member on the Revenue Committee in the 1973-1975 biennium. Testifies against HB 2574 because job creation has not been proven with specific numbers. Comments that if cutting capital gains is so effective and will stimulate the economy, how many jobs have actually been created? Suggests reducing other tax breaks on a commensurate level along with the cut in the capital gains tax.

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044 Dana Hepper Testifies against HB 2332. Paraphrases written testimony (Exhibit 9). This bill does not address why businesses are moving from Oregon, for example, because of high health care costs and crime. Comments that cutting the capital gains tax for businesses to 5% is less than what citizens pay in income taxes (up to 9%). States that the state will not benefit from cutting the capital gains tax. Discusses the proposed capital gains tax reduction amounts that would support various education programs that are facing budget cuts.



CLOSES PUBLIC HEARING FOR HOUSE BILLS 2332 AND 2574.

141 Chair Butler Adjourns meeting at 3:05 p.m.

Tape Log Submitted by:

Reviewed by:

Kristi Bowman, Committee Assistant

Kim Taylor James, Committee  
Coordinator

Exhibit Summary:

1. 1. HB 2332, Staff Measure Summary, Martin-Mahar, 1 pg., 03/14/05
2. 2. HB 2574, Staff Measure Summary, Martin-Mahar, 1 pg., 03/14/05
3. 3. HB 2332, Preliminary Revenue Impact Report, Martin-Mahar, 1 pg., 03/14/05
4. 4. HB 2574, Preliminary Revenue Impact Report, Martin-Mahar, 1 pg., 03/14/05
5. 5. HB 2574, Handout: Sources of Adjusted Gross Income/Capital Gain Income, 1 pg.,  
Martin-Mahar, 03/14/05
6. 6. HB 2574, Testimony, Rep. Bruun, 2 pp., 03/14/05
7. 7. HB 2574, AOI Legislation Position Packet, Schweinhart, 03/14/05
8. 8. HB 2332 and HB 2574, Testimony, Blackledge, 3 pp., 03/14/05
9. 9. HB 2332, Testimony, Hepper, 1 pg., 03/14/05
10. 10. HB 2574, Testimony and Slide Presentation, Schweinhart, 12 pp., 03/14/05