

SENATE REVENUE COMMITTEE
JUNE 16, 2003 1:00 PM STATE CAPITOL BUILDING

Members Present: Senator Ryan Deckert, Chair
Senator Ted Ferrioli, Vice Chair
Senator Tony Corcoran
Senator Lenn Hannon
Senator Charlie Ringo
Senator Bruce Starr
Representative Elaine Hopson

Witnesses Present: Lynn Partin, Housing and Community Services Department
Matt Blevins, Oregon Environmental Association
Senator Kurt Schrader, District 20
Ralph Groener, AFSCME
Laurie Wimmer Whelan, Oregon Education Association
Mike Roach, Portland Clothing
Tim Nesbitt, Oregon AFL-CIO
Kappy Eaton, League of Women Voters
David Williams, Oregon School Employees Association
Ellen Lowe, Oregon Food Bank
Marcia Kelley, Women's Rights Coalition
Joe Schweinhart, Associated Oregon Industries
Michael Slater, SEIU Local 503
Debra Buchanan, Department of Revenue

Staff Present: Paul Warner, Legislative Revenue Office
Dick Yates, Legislative Revenue Office
Lizbeth Martin-Mahar, Legislative Revenue Office
Tara Lantz, Committee Assistant

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004 Chair Deckert Calls meeting to order at 1:30 pm.

OPENS WORK SESSION ON HB 2166 B

015 Lizbeth Martin-Mahar Explains HB 2166 B which adds acquisition costs to the list of eligible costs for the farm worker housing corporate excise and personal income tax credit and the -B5 amendments (Exhibit 1) which decreases the total certified cost amount allowed for the farm worker housing credit to \$7.25 million each year in order to make it revenue neutral in the current biennium. Refer to staff measure summary (Exhibit 2). Discusses revenue impact (Exhibit 3).

034 Sen. Deckert Asks if Partin worked with Sen. Ferrioli on the amendments.

036 Lynn Partin Responds that she did work with Sen. Ferrioli and that everyone is happy with the amendment. Explains what the amendment does.

048 Sen. Ferrioli Offers support for the -B5 amendments.

056 Sen. Ringo MOTION: MOVES HB 2166-B5 AMENDMENTS DATED 5/28/03 BE ADOPTED.

- 061 Sen. Deckert ORDER: ROLL CALL VOTE: MOTION PASSES: 6-0-0.
SENATORS ANSWERING AYE: CORCORAN, HANNON, RINGO, STARR,
FERRIOLI, DECKERT.
- 065 Sen. Corcoran MOTION: MOVES HB 2166 TO THE SENATE FLOOR WITH A DO PASS
AS AMENDED RECOMMENDATION.
- 072 Sen. Deckert ORDER: ROLL CALL VOTE: MOTION PASSES: 6-0-0.
SENATORS ANSWERING AYE: CORCORAN, HANNON, RINGO, STARR,
FERRIOLI, DECKERT.
Sen. Ferrioli will carry the bill on the Senate Floor.

OPENS WORK SESSION ON HB 2043 A

- 080 Martin-Mahar Explains HB 2043 which allows credit against corporate excise or income tax
for corporations that provide motor vehicle insurance issued under mile-
based or time-based rating plan. Discusses revenue impact.
- 090 Sen. Starr MOTION: MOVES HB 2043 TO THE SENATE FLOOR WITH A DO PASS
RECOMMENDATION.
- 093 Sen. Hannon States that he is going to be voting no on this bill because in a time where the
legislature is trying to raise money, they should not be giving it away.
- 100 Sen. Ferrioli States that he believes that pay-as-you go insurance does not equally benefit
rural citizens and that in lowering one population's premiums, costs will be
shifted to another. Wants someone to explain where the costs are going to be
shifted.
- 120 Matt Blevins Responds that for every 10 percent reduction in mileage, there is a
corresponding reduction of 14-18 percent in accident rate, so savings are
from a decrease in accidents.
- 130 Sen. Ferrioli Asks how he could cut down on mileage when he lives a great distance from
anything.
- 140 Blevins Responds that the goal is not to benefit everyone in the state, but it is not a
penalty either.
- 145 Sen. Ferrioli Asks who the costs will be shifted to.
- 148 Blevins Responds that in an insurance pool the savings are from fewer accidents.

Discussion follows.
- 160 Sen. Ferrioli States that if you push the cost down for one person, you are going to raise it
for another and that his fear is that it will create a cost-shifting to rural areas.
- 167 Sen. Ringo States that people that live in urban areas pay higher insurance premiums
because there are higher risks and that he doesn't believe costs will be
shifted to rural insurance holders.
- 182 Sen. Corcoran States that he will give the bill a courtesy vote but that he doesn't agree that it
is fair to rural areas.
- 205 Sen. Deckert ORDER: ROLL CALL VOTE: MOTION PASSES: 4-2-0.
SENATORS ANSWERING AYE: CORCORAN, RINGO, STARR, DECKERT.
SENATORS ANSWERING NO: HANNON, FERRIOLI.
Sen. Ringo will carry the bill on the Senate Floor.

OPENS PUBLIC HEARING ON HB 2747 B

- 210 Paul Warner Discusses the major points and revenue impact from the –B8 amendment (Exhibit 4). Refer to Tax Reform Package summary (Exhibit 8).
- 272 Sen. Schrader States that Oregon needs less reliance on the income tax and his plan is to lower the income tax and create a business activity tax that is dedicated to school funding. Discusses why the state is in this situation and what his plan does to fix those problems. Refer to written testimony (Exhibit 9).

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- 005 Sen. Schrader Explains the –B8 amendments which would lower the income tax burden for everybody, cut capital gains in half, and eliminate the corporate income tax.
- 050 Sen. Corcoran Expresses concern with the proposed income tax reduction because it gives the wealthiest tax payers the biggest tax break.
- 078 Sen. Schrader Responds that the percentage reduction in personal income tax is 10 percent at the highest level and 20 percent at the lowest level and that people in the higher brackets will end up paying more because they are the ones that will be paying the business activity tax.
- 098 Sen. Ringo States that this plan has an advantage over the sales tax because it is deductible from the federal tax return and asks if there are any other advantages.
- 106 Sen. Schrader Responds that it does have advantages because it is geared toward economic development because it eliminates corporate income tax and reduces capital gains taxes.
- 118 Sen. Ferrioli States that there are thousands of small businesses that are marginal and would end up paying more because under the BAT tax, the companies' profitability does not matter.
- 135 Sen. Schrader Responds affirmatively.
- 137 Sen. Ferrioli Asks if start-ups would pay this tax.
- 141 Sen. Schrader Responds that he doesn't think so because the majority of small businesses won't have to pay this tax because they don't make over \$100,000.
- 150 Sen. Ferrioli Asks how the amount of the tax correlates with the ability to pay.
- 155 Sen. Schrader Responds that it won't go into affect until January 05 and that the economy will hopefully be doing better and businesses will be able to increase profits and not have to pay more taxes which is a plus for businesses starting up and trying to get moving.
- 197 Sen. Ferrioli States that even the smallest businesses are probably going to end up paying the business activity tax. Asks if the message this sends to businesses is to stop growing and not invest because it will increase their business activity tax.
- 241 Sen. Schrader Disagrees with Sen. Ferrioli and states that it encourages businesses to be successful because they are not taxed on their profit.

Discussion follows.

262	Sen. Starr	Asks if Schrader is concerned about who gets hit with this tax as it relates to industry sector
270	Sen. Schrader	Responds that he is concerned about agriculture which is why that sector is exempted.
308	Ralph Groener	Testifies in support of looking at tax reform and states that this is a reasonable plan and is definitive and deductible. Suggests looking at tax expenditures.
393	Laurie Wimmer Whelan	Testifies in support of HB 2747-B8 amendments because Oregon needs tax reform and a dedicated source for education funding. Suggests amendments to make it not as regressive and to ensure that a referendum couldn't affect the entire bill and suggests offering a companion bill in order to solve the immediate budget crisis. Refer to written testimony (Exhibit 11).

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046	Mike Roach	Testifies in support of the bill and adds that as a retail shop owner he supports that it includes the whole economy and not just retail businesses like a sales tax does.
074	Sen. Ringo	Asks for particulars from the business community on why this would not work.
082	Sen. Deckert	Asks if anyone has ever done an opinion poll on a business activity tax and decrease in income tax.
085	Wimmer Whelan	Responds that there has been some polling done on those kinds of questions but she does not have the information with her.
090	Sen. Corcoran	States that he has seen some results from a gross receipts poll and that it can come in with fairly high support to begin with, but when it begins to be tagged as a sales tax it goes down.
104	Tim Nesbitt	Expresses appreciation for the discussion on tax reform but questions whether Oregon needs a third tax. States that there are more options in creating a third tax, which is the advantage to the business activity tax. Suggests giving credits for taxes paid on social security for both employers and employees because it would create a greater incentive to create jobs. States that he would love to be part of workgroup on the bill.
160	Sen. Deckert	Asks if Oregon is too dependent on the income tax.
163	Nesbitt	Responds that without a rainy day fund it is. Discussion follows.
172	David Williams	Testifies in support of the –B8 amendments because Oregon needs tax reform. Refer to written testimony (Exhibit 12).
215	Kappy Eaton	Discusses the need for new revenue and a dedicated funding source for education, which the business activity tax creates. Offers support for tax reform.
271	Sen. Corcoran	Asks what Nesbitt thinks the public opinion on sales tax versus increasing income taxes is.
298	Nesbitt	Responds that a sales tax by itself is probably doomed and if it is a part of the package it is still an uphill battle. States that the income tax is the least hated

and the sales tax is the most hated.

344 Ellen Lowe Expresses gratitude for beginning discussion on tax reform and testifies in support of the –B8 amendments with a refundable earned income tax credit.

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002 Marcia Kelley Testifies in support of HB 2747 –B8 amendments because Oregon needs tax reform. Suggests looking at tax credits and a refundable earned income tax credit. Discusses increases in tax expenditures over the last few years.

034 Joe Schweinhart Testifies against HB 2747 –B8 because it would have damaging effects on the Oregon economy and would essentially be passed on to consumers as a sales tax. States that an operating tax regardless of profits will hurt businesses during the hard economic times and negatively impact international business. Declares that Oregon is already business unfriendly and needs to make it more attractive in order to create jobs.

078 Sen. Corcoran States that he doesn't understand because Oregon has the lowest corporate tax burden in the Western United States and asks what Schweinhart idea on tax reform is.

095 Schweinhart Questions whether Oregon has the lowest corporate tax burden because of property and income taxes.
Discussion follows.

109 Sen. Ferrioli States that he is interested to see what is catalyzed by the dialogue. Expresses concern that this model would not include the opportunity of tax avoidance through business investment.

150 Schweinhart Agrees with Sen. Ferrioli and states that getting companies to grow through tax avoidance will employ more people and pay more taxes.

156 Sen. Ferrioli Explains how the opportunity for tax avoidance through investments encourages small businesses to grow.

172 Sen. Ringo States that he would rather have a tax structure not effect the business decisions. Asks if AOI accepts the study that Oregon has the lowest corporate tax burden in the Western states.

186 Schweinhart States that he has not seen the study but they would probably not agree.
Discussion follows.

203 Michael Slater Testifies in favor of tax reform and the –B8 amendments because it is a split between a straight sales tax and a straight business tax. Suggests reducing tax expenditures.

253 Debra Buchanan Testifies that the Department of Revenue would be able to administer the business activity tax. Discusses technical problems with the amendment as written.

284 Sen. Ferrioli Asks if Sen. Schrader knows about the anomalies and administrative costs.

286 Buchanan Responds affirmatively.
Discussion follows.

Tape Log Submitted by,

Tara Lantz, Committee Assistant

Exhibit Summary:

1. HB 2166, Lizbeth Martin-Mahar, Proposed HB 2166-B5 Amendments, 5pp.
2. HB 2166, Lizbeth Martin-Mahar, Staff Measure Summary, 1p.
3. HB 2166, Lizbeth Martin-Mahar, Revenue Impact Statement, 1p.
4. HB 2747, Sen. Schrader, Proposed HB 2747-B8 Amendments, 26pp.
5. HB 2747, Richard Yates, Staff Measure Summary, 1p.
6. HB 2747, Richard Yates, Revenue Impact Statement, 1p.
7. HB 2747, Paul Warner, Oregon Tax Incidence Model, 6pp.
8. HB 2747, Paul Warner, Tax Reform Package, 10pp.
9. HB 2747, Sen. Schrader, Written Testimony, 3pp.
10. HB 2747, Bob Ekstrom, Written Testimony, 1p.
11. HB 2747, Laurie Wimmer Whelan, Written Testimony, 1p.
12. HB 2747, David Williams, Written Testimony, 1p.