

**HOUSE SCHOOL FUNDING AND TAX
FAIRNESS/REVENUE COMMITTEE**

APRIL 2, 2001 — 1:30 P.M. - HEARING ROOM A - STATE CAPITOL BUILDING

Members Present: Representative Lane Shetterly, Chair

Representative Janet Carlson, Vice Chair

Representative Deborah Kafoury, Vice Chair (1:54 arrived)

Representative Alan Bates

Representative Chris Beck

Representative Alan Brown

Representative Mark Hass

Representative Max Williams (1:59 arrived)

Representative Bill Witt

Staff: Paul Warner, Legislative Revenue Officer

Joan Green, Committee Assistant

Witnesses: John Schoon, Former Chair of House
Revenue

Tom Brian, Former Chair of House Revenue

Bob Castagna, Oregon Catholic Conference

Gary Carlson, Associated Oregon Industries

TAPE 111, SIDE A

004 Chair Shetterly Meeting called to order at 1:47 p.m.

OPENED PUBLIC HEARING ON HB 3942

017 Paul Warner Provided some basic estimates that underlie how the Business Added Tax (BAT) would respond to a change in income. Provided numbers as to how the current base has looked over the last ten years. Simulated what the BAT base would look like using the Static Revenue Impact Estimate, (Reference 03/30/2001, Exhibit 3).

074 John Schoon Provided background and experience, as a former Chair of the House Revenue Committee:

- This type of tax would reduce the volatility that is currently being experienced and this would mesh well with the current tax system.
- The potential for revenues to drop throughout the State is greater now than pre-Measure 5 days with the decreased reliance on the property tax system.

104 Tom Brian Provided historical perspective to Oregon's tax system, as a former Chair of the House Revenue Committee:

- Stabilization of the State's revenue sources is necessary — a look at any tax reform is good.
- Every tax has inherent strengths and weaknesses so a strong tax system has a two or three major sources for State government revenues.
- Spoke to the shift in Oregon's tax structure with the passage of Measure 5 and 50.
- Referenced 1997 general fund dollars, which should be proportional to today — cited 1997 figures for general fund dollars and what percentage of that was from personal income tax.
- Referenced the March, 2001 forecast.

- Spoke to 1980 recession and demands on State's revenue, which was more flexible in the 1980's than currently.
- BAT is a responsible approach and provides some stabilization within the income sphere.

201 Rep. Witt	How might HB 3942 affect businesses that export out-of-state; would it create a competitive disadvantage for Oregon business?
212 Schoon	"That is always raised with this type of tax and the specific numbers would need to be looked at to determine if any additional burden is put on any particular industry."
216 Brian	"It is a key question; that issue alone should not deter this, but it will need work. But you also must consider what happens to businesses if you continue on the 'one-legged stool' and essential public safety, education and other services are eroded."
229 Rep. Bates	"The BAT tax is deductible against federal income taxes, would that modify the concerns of an added burden to businesses that sell goods out-of-state?"
239 Schoon	"The only way to know is to look at the numbers." Reviewed 1980 testimony on the corporate income tax system. Noted that education in Oregon is also an important component to businesses in Oregon."
257 Brian	"The federal deductibility is an offset, but how big an offset depends on a number of factors. Spoke to other aspects of the tax system that could offset the effects of the BAT."
280 Rep. Beck	Noted that it might bring perspective to review the tax burden prior to Measure 5 in conjunction with this measure. Requested the former Chairs speak to giving this measure a full hearing and a potential of passage.
345 Schoon	Provided advice on a process to move forward with the BAT or any other tax reform package.
395 Brian	Provided recommendations for progress on this measure, should the Committee commit to this

plan.

TAPE 112, SIDE A

- 027 Rep. Beck Would you be supportive of this tax reform and speak for it in your County?
- 031 Brian Yes, spoke to his support on two levels:
1. Tax reform is necessary to Oregon.
 2. This is a viable package that can be improved upon.
- 042 Rep. Witt Isn't this is statutory?
- 044 Chair Shetterly Yes. Reviewed current economic news and questioned if the timing is right for this type of a measure and reform and would it be more difficult to restructure a tax policy if the State is in a recession.
- 073 Brian When revenue drops the thinking and questions are different by policy makers than they are if tax reform is addressed during a period when the economy is "relatively level".
- 107 Schoon Noted there is no rainy day fund so a downturn requires raising taxes or cutting programs. Spoke to the lag between factors in the economy and the feeling of those effects. Based on the current economy would recommend going for a full tax reform package rather than approach it in incremental stages.
- 161 Warner Returned to the questions regarding the impact of the BAT on the export base and noted that there is not a full breakdown of industry for the entire BAT base, but there is a breakdown for the C-Corporations which comprise about 75% of the base, (Reference 03/30/2001, Page 18, Exhibit 2)
- Spoke to the two policy choices for the Committees consideration.
- 210 Chair Shetterly "What percent of the BAT base is represented by the C-Corporations?"
- 215 Warner Approximately 75% of the base are C-Corporations with the other 25% being S-Corporations, partnerships and Limited Licensed Corporations (LLC).

- 224 Rep. Beck This does not include businesses that would be exempt from the BAT?
- 227 Warner Concurred.
- 240 Vice Chair "Is there any way to see the comparison between Carlson what the sectors are currently paying and what they would pay with the BAT for a winners/losers comparison under both systems?"
- 245 Warner Compared the corporate income base and the BAT base, which would be essentially a 2_% rate on business activities vs. a 6.6% rate for the corporate base, (Reference 03/30/2001, Page 18, Exhibit 2). In most cases corporations would pay more because it is broader base under the BAT.
- 255 Bob Castagna Spoke to the measure; no position taken. (Exhibits 1-2)

TAPE 111, SIDE B

- 012 Chair Shetterly "Does the Oregon Tax Incidence Model (OTIM) distribution results include the 15% refundable working family child care tax credit?"
- 019 Warner "The refundable working family credit is not built into the estimate, but the earned income credit is built into the static statement, (Reference 03/30/2001, Exhibit 3)
- 029 Rep. Bates "Has the coalition talked of other sources of revenue?"
- 032 Castagna Spoke to sources of revenue discussed by the coalition and is requesting that this legislature increase State revenues to fund the Campaign for Fairness, (Exhibit 2).
- 056 Chair Shetterly Advised that HB 3942 is drafted to be as revenue neutral as possible; its intent is not to raise revenue.
- 075 Gary Carlson Presented testimony in opposition to measure. (Exhibit 3)
- 190 Carlson Continued with testimony, (Page 2, Exhibit 3).
- 282 Rep. Witt "Isn't the corporate income tax hidden to consumers in the same way the BAT would be, and if that is true then the policy is not being changed?"
- 302 Carlson "Generally yes, although consumers do not experience the full brunt of a corporate income

- tax."
- 314 Rep. Witt "As much a possible a business owner passes costs on; wouldn't the competitive constraints be true of either a corporate tax or BAT?"
- 317 Chair Shetterly Recapped Rufolo's testimony that the BAT is more of a production orientation tax with elements of consumption in it, (Reference Rufolo testimony 03/30/2001).
- 328 Carlson Concurred, but qualified concurrence.
- 330 Rep. Witt "This taxes activities vs. income, is there validity to the argument that even if a business does not make a profit they benefit from government services?"
- 344 Carlson Yes.
- 354 Warner Noted the two ways to shift the tax burden on business and the results of both.
- 381 Chair Shetterly Meeting adjourned at 3:06 p.m.

Submitted by, Reviewed by,

Joan Green Kim Taylor James

Committee Assistant Revenue Office Manager

Exhibit Summary:

1. HB 3942, Spread Sheet for Ballot Measure 88, Castagna, 1 page
2. HB 3942, Campaign for Fairness Outline, Castagna, 9 pages
3. HB 3942, Testimony, Carlson, 3 pages