

PUBLIC HEARING: HB 2452, HB 2412

PUBLIC HEARING & WORK SESSION: HB 2124

WORK SESSION: HB 2047

TAPES 045, 046 A/B, 047 A

HOUSE REVENUE COMMITTEE

FEBRUARY 12, 1999 ñ 8:30 A.M. - HEARING ROOM A - STATE CAPITOL BUILDING

Members Present: Rep. Ken Strobeck, Chair

Rep. Anitra Rasmussen, Vice Chair

Rep. Deborah Kafoury

Rep. Jeff Merkley

Rep. Diane Rosenbaum

Rep. Jim Welsh

Rep. Max Williams

Rep. Bill Witt

Absent: Rep. Lane Shetterly

Staff: Paul Warner, Legislative Revenue Officer

Lizbeth Martin-Mahar, Economist, Legislative Revenue Office

Richard Yates, Economist, Legislative Revenue Office

Barbara Guardino, Committee Assistant

Witnesses: Joe Gilliam, National Federation of Independent Business

Tim Nesbitt, Oregon State Council of Service Employees International Union (SEIU)

Jeanine Berg-Rempel, SEIU

Gil Riddell, Association of Oregon Counties

Bob Ellis, Multnomah County Assessor

Jim Manary, Oregon Dept. of Revenue

Ray Wilkeson, Oregon Forest Industries Council

Linc Cannon

TAPE 045, SIDE A

009 Chair Strobeck Called meeting to order at 9:35 a.m. Opened work session on HB 2047 for the purpose of reconsideration.

WORK SESSION ñ HB 2047

017 Paul Warner Explained, -1 and ñ2 amendments were not contradictory in concept, but overlapped in text that required counsel to combine into ñ3 amendments (**EXHIBIT 1**). Cleaned up punctuation.

019 Chair Strobeck Committee adopted amendments and should have adopted them in concept.

023 Chair Strobeck **MOTION FOR UNANIMOUS CONSENT TO SUSPEND THE RULES IN ORDER TO RECONSIDER HB 2047 WITH ñ3 AMENDMENTS. HEARING NO OBJECTIONS, THE CHAIR SO ORDERED.**

026 Chair Strobeck **MOTION FOR UNANIMOUS CONSENT TO RECONSIDER THE VOTE ON HB 2047 WITH ñ3 AMENDMENTS. HEARING NO OBJECTIONS, THE CHAIR SO ORDERED.**

030 Chair Strobeck **MOVED -3 AMENDMENTS TO HB 2047 BE ADOPTED. HEARING NO OBJECTIONS, CHAIR SO ORDERED.**

035 Vice Chair Rasmussen **VOTE: 9-0-0**
MOTION: MOVED HB 2047, AS AMENDED, TO THE HOUSE FLOOR WITH A DO PASS AS AMENDED RECOMMENDATION.
HEARING NO OBJECTIONS, CHAIR SO ORDERED.
REPRESENTATIVES VOTING AYE: KAFOURY, MERKLEY, ROSENBAUM, SHETTERLY, WELSH, WILLIAMS, WITT, VICE CHAIR RASMUSSEN, CHAIR STROBECK.

REP. MERKLEY WILL CARRY THE BILL.

INTRODUCTION OF LC DRAFTS

053 Chair Strobeck **ASKED IF ANY OBJECTION TO INTRODUCING THE FOLLOWING LC DRAFTS AS COMMITTEE BILLS: 157, 1772, 1773, 2768, 2770, 2771, 3503, 3504, 3505, 3506, 3507, 3508, 3509, 3510, 3511, 3512, 3513, 3514, 3515, 3516, 3517, 3518.**

(see exhibits 17-

060 Vice Chair Rasmussen Noted, voting to introduce these bills does not indicate support.

062 **HEARING NO OBJECTION, THE CHAIR SO ORDERED.**

065 Chair Strobeck Opened public hearing on HB 2412.

PUBLIC HEARING n HB 2412

078 Lizbeth Martin-Mahar Reviewed HB 2412. See Revenue Impact of Proposed Legislation (**EXHIBIT 3**): Changes the assessed value threshold that must be exceeded in order for personal property to be subject to ad valorem taxation from \$10,000 to an open amount. Applies beginning July 1, 2000.

108 Joe Gilliam Spoke in support of the measure. Represents small business owners. See testimony (**EXHIBIT 4**).

Main point in supporting bill is to justify the cost of processing this tax versus the amount collected.

Referred to page 5 of testimony, Effect of Personal Property Tax Exemption or Cancellation

148 Gilliam Reviewed page 1, Assumptions (Administrative Cost to Small Business: \$173).

Reviewed page 2, Revenue Impact (Gross, net). At a certain point, tax collection doesn't make sense.

188 Gilliam Page 3, Total Cost V. Total Tax; Breakeven Points

210 Gilliam Recommendations: Increase threshold to \$25,000; Create an alternative minimum tax

233 Rep. Rosenbaum Asked, was a change made in this last legislative session? Was NFIB (National Federation of Independent Business) supportive?

243	Gilliam	Yes there was a change. NFIB supported it.
249	Rep. Witt	Questions concerning minimum tax option. Would there still be some significant costs to many taxpayers who would need to determine the dollar value of their personal property subject to tax?
353	Gilliam	Yes, as long as tax is in place, it will incur some costs.
264	Rep. Witt	Asked how the value of leased equipment is determined.
270	Gilliam	Lessor and lessee have to determine who will pay the tax.
292	Rep. Merkley	Clarified, assumption is that it costs the county as much to process a return as it does small business to prepare it. How did Gilliam come by this number?
307	Gilliam	This is true. Referred to page 2, Administrative Cost to Counties: \$173
389	Tim Nesbitt	<p>Spoke in opposition to the measure. See written testimony verbatim (EXHIBIT 5). Opposed similar measure in 1997.</p> <p>Point 1: 1997 legislation more than tripled personal property tax exemption</p> <p>Point 2: Tax expenditures are out of control.</p>
446	Nesbitt	<p>Point 3: Impact on local funding would be significant</p> <p>Point 4: Governor's Tax Review Policy Advisory Committee recently recommended constitutional amendment</p> <p>Point 5: Will exacerbate the shift of taxes from businesses to individual taxpayers.</p>

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027	Nesbitt	<p>Summarized, SEIU will continue to ask legislators to reject all tax increases, including HB 2412.</p> <p>Questions and discussion concerning testimony.</p>
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094	Gil Riddell	Association of Oregon Counties is at a disadvantage because has not been able to confer with NFIB about this proposal. AOC has some difficulty with some of the assumptions. 1997 legislature changed this bill to balance revenue versus cost, at \$10,000.
107	Bob Ellis	<p>When legislature changed the figure to \$10,000, Multnomah County's loss was \$36 million. Today, between \$50-60 million is being exempted.</p> <p>Under Measure 50, granting exemption means loss of revenue to taxing districts. Raising exemption to \$15,000 would exempt another 2,800 accounts in Multnomah County, loss of revenue of \$170,000 in school taxes, \$340,000 in non-school taxes.</p> <p>Statutes require all businesses to file forms even though they are exempt from paying taxes. The county assessors still have the work. There is no penalty for not filing.</p>
183	Ellis	Net result, just as much work but no revenue generated. Not much savings for small businesses. At \$173 per account, it would cost Multnomah County \$4-5 million, \$25 per account. This is half of the total budget.
199	Rep. Witt	Asked revenue impact in Multnomah County if exemption went from \$10,000 to \$25,000, and number of businesses affected.
205	Ellis	Mentioned loss if increased by \$5,000. If \$25,000, loss would triple. 6,000 more accounts would be exempted.
229	Rep. Witt	Would he recommend that the county not be required to send tax returns to businesses that were exempt the previous year?
239	Ellis	Would recommend it be optional. Currently 30,000 accounts total in Multnomah County, excluding 8,000 accounts that lease equipment. Multnomah County has more staff devoted to personal property than any other county in the state. Larger accounts, more accounts.
295	Riddell	Commented on NFIB testimony, page 2, bulleted items.
307	Rep. Rosenbaum	Concerning Ellis's comment that there is no penalty for failure to file, NFIB's testimony indicates there is a penalty.
314	Ellis	Clarified, If an account is valued at under \$10,000 there is no tax and therefore no penalty. If a business doesn't file, county must estimate.
358	Rep. Shetterly	What is county's position on this bill?

360 Ellis Canit speak for the county. Assessorís Association has not taken a position either. His personal feeling is, the \$10,000 threshold is higher than it needs to be for a break-even point.

392 Chair Strobeck Closed public hearing on HB 2412. Opened public hearing on HB 2124.

PUBLIC HEARING ñ HB 2124

399435 Martin-Mahar Discussed handout: Personal Property Tax Penalty **(EXHIBIT 8)**.

TAPE 045, SIDE B

038 Martin-Mahar Directed membersí attention to spreadsheet: DOR Survey of Delinquent Personal Property Accounts ñ 1998-99 **(EXHIBIT 9)**.

Returned to discussion of exhibit 7: "Trends Since the Penalty Change in 1997".

072 Bob Ellis Concurred with Martin-Maharís testimony. Over last 5-6 years, assessors have worked to make office more cost effective. In Multnomah County, 10-15% of personal property accounts represented 60-70% of the expense.

090 Rep. Witt Asked Ellisí opinion about 100% penalty which he is proposing to lower to 50%.

094 Ellis Nobody really has a reason for wanting 100%. Assessors were looking for way to address chronic non-filers.

113 Rep. Witt What percentage of non-filers are truly trying to avoid the tax, what percent are inadvertent?

117 Ellis No, but some businesses told him the penalty was cheaper than preparing a return.

Two bases for this bill: Those who donít file; assessors do rate calculations in October and they need people to file early enough to calculate fair value on time to enter it into rate-making process.

Questions and discussion.

198 Chair Strobeck Closed public hearing on HB 2124. Opened work session on HB 2124.

WORK SESSION # 2124

203	Rep. Witt	MOVED -1 AMENDMENTS TO HB 2124 BE ADOPTED.
220	Vice Chair Rasmussen	Went on record as opposing #1 amendments.
230	Rep. Shetterly	Asked reason for change to 50%.
238	Gil Riddell	Penalty is for people with intent not to file.
243	Jim Manary	There are two 100% penalties, the one that Mr. Riddell refers to. Another one for taxpayers that did not file three consecutive years in a row.
280	Rep. Kafoury	Concurred with Vice Chair Rasmussen in opposing #1 amendments.
284	Rep. Witt	High percentage of late filers are not trying to cheat the system, they have made mistakes. These are mostly small businesses. This penalty is excessive.
328	Vice Chair Rasmussen	Noted, section 6 of bill gives authority to waive penalty for insufficient cause.
348	Rep. Shetterly	Asked, what constitutes insufficient cause?
353	Manary	When he presented bill, there was no discussion on good and sufficient cause. Dept. of Revenue tries to give county board of tax appeals discretion around reasons for not filing, and the ability to modify the penalty.
365	Rep. Shetterly	Line 23 of bill. Does that narrow discretion of board of property tax appeals?
380	Manary	Not sure that is the intent.
396	Rep. Shetterly	Would prefer to stay with 100% penalty if appeals board were given more discretion to modify or waive the penalty.

387	Manary	The proposed language is the existing language in statute that applies to real property and compliant returns. This is personal. Doesn't know that language would prevent courts from reviewing something.
434	Bob Ellis	Board of property tax appeals is private citizens. In last 10 years, they have been 100 % agreeable to waving penalty to people who are new in business. If people just forgot they won't waive penalty. Increased penalty has definitely helped.
470	Chair Strobeck	Any further discussion on motion?

TAPE 046, SIDE B

030	Rep. Merkley	Expressed support for ñ1 amendments.
042	Rep. Shetterly	Would like to broaden discretion, will vote no on ñ1 amendments and change line 23.
056	Rep. Witt	These are two separate issues: Degree of discretion that appeal boards should be given; appropriate penalty.
070	Chair Strobeck	<p>ASKED REP. WITT TO WITHDRAW MOTION TO ADOPT ñ1 AMENDMENTS INTO HB 2124.</p> <p>Asked staff to work with Rep. Shetterly to draft amendment for line 23.</p>
073	Rep. Witt	WITHDREW MOTION.
075	Chair Strobeck	Closed work session on HB 2124. Opened public hearing on HB 2452.

PUBLIC HEARING ñ HB 2452

083	Richard Yates	Reviewed HB 2452. (EXHIBIT 10) . Deals with severance taxes and when they are imposed. Sections one and four are parallel. Limits harvest to harvest from privately owned forestland. Specifies that western Oregon and eastern Oregon timber harvest privilege taxes apply only to timber harvested from forestland.
112	Yates	Directed members' attention to ORS handouts (EXHIBITS 11, 12) . Statutes for eastern & western Oregon are similar. Discussed subsection 5.
179	Yates	ORS Western Oregon Forestland and Privilege Tax (EXHIBIT 13) .

195	Yates	Reviewed table from Dept. of Revenue (EXHIBIT 14): Designated and Non-designates Forestland by County 1997-98.
241	Yates	Continued discussion of bill, proposed changes in page 1, line 14; page 2, line 36. Parallel changes to clean up language. Other changes.
315	Ray Wilkeson	Spoke in support of the measure. See written testimony (EXHIBIT 15). Reason for this bill is a disagreement that occurred as a result of Measure 47 when Oregon Forest Industries Council raised a question concerning the effect of the cut and cap provisions on timber taxes. Attorney general said privilege tax is not a mechanism to collect deferred taxes, it is a privilege tax and is not part of property tax system. OFIC disagrees with this interpretation.
372	Wilkeson	<p>Landowners are litigating some of these issues before tax court. It is possible the court could agree with attorney general.</p> <p>Bill clarifies the intent of the law ñ clarifies that the privilege tax is a deferred land tax and eliminates the double taxation.</p>
423	Wilkeson	<p>HB does not eliminate privilege tax or change timber tax law. Nor does it address constitutional protection issue. If this bill passes, vast majority of forestland would continue to be under 20/80 system. Addresses two threshold questions:</p> <ul style="list-style-type: none"> • Is the privilege tax system part of the property tax system? Yes. • Should the privilege tax be assessed on land thatís already taxed at 100% of its value? No. <p>Urged committeeís support. Questions and discussion.</p>

TAPE 047, SIDE A

037	Linc Cannon	Made himself available to answer questions on technical details.
047	Jim Manary	Added background information on attorney generalís decision, changes made in 1993.
099	Rep. Merkley	When this was severance tax, did it apply solely to forestland? Follow-up questions.
106	Manary	<p>No, it applied to all land, as it does now. When changeover was made in 1977, property tax applied to land and trees.</p> <p>Questions and discussion.</p>

Submitted by, Reviewed by,

Barbara J. Guardino Kim T. James

Committee Assistant Revenue Office Manager

Exhibit Summary:

1. HB 2047, Warner, Proposed Amendments to HB 2047 (HB 2047-3), 1 p.
2. HB 2047, Martin-Mahar, Revenue Impact of Proposed Legislation for HB 2047-3, 2 pp.
3. HB 2412, Martin-Mahar, Revenue Impact of Proposed Legislation for HB 2412, 2 pp.
4. HB 2412, Gilliam, testimony of Joe Gilliam, NFIB (National Federation of Independent Business, 6 pp.
5. HB 2412, Nesbitt, Testimony of Tim Nesbitt and Jeannie Berg-Rempel Re: House Bill 2412, 9 pp.
6. HB 2124, Martin-Mahar, Revenue Impact of Proposed Legislation for HB 2124-1, 2 pp.
7. HB 2124, Martin-Mahar, Proposed Amendments to HB 2124 (HB 2124-1), 1 p.
8. HB 2124, Martin-Mahar, Personal Property Tax Penalty, 1 p.
9. HB 2124, Martin-Mahar, DOR survey of Delinquent Personal Property Accounts ñ 1998-99, 1 p.
10. HB 2452, Yates, Staff Measure Summary, 1 p.
11. HB 2452, Yates, ORS 321.259, 1 p.
12. HB 2452, Yates, ORS 321.410, 1 p.
13. HB 2452, Yates, Western Oregon Forestland and Privilege Tax (ORS 321.257), 7 pp.
14. HB 2452, Yates, Designated and Non-designated Forestland by County, 1 p.
15. HB 2452, Oregon Forest Industries Council, Testimony of Ray Wilkeson, 5 pp.
16. HB 2344, Strobeck, letter to Chair Strobeck from Alex C. Krach, 2 pp.
17. LC 157, Staff, 1 p.
18. LC 1772, Staff, 111 pp.
19. LC 1773, Staff, 11 pp.
20. LC 2768, Staff, 2 pp.
21. LC 2770, Staff, 4 pp.
22. LC 2771, Staff, 4 pp.
23. LC 3503, Staff, 2 pp.
24. LC 3504, Staff, 1 p.
25. LC 3505, Staff, 1 p.
26. LC 3506, Staff, 2 pp.
27. LC 3507, Staff, 2 pp.
28. LC 3508, Staff, 5 pp.
29. LC 3509, Staff, 3 pp.
30. LC 3510, Staff, 9 pp.
31. LC 3511, Staff, 2 pp.
32. LC 3512, Staff, 1 p.
33. LC 3513, Staff, 3 pp.
34. LC 3514, Staff, 2 pp.
35. LC 3513, Staff, 1 p.

36. LC 3516, Staff, 1 p.
37. LC 3517, Staff, 1 p.
38. LC 3518, Staff, 4 pp.