

INFORMATIONAL: REVENUE ALTERNATIVES, OTHER PROPOSALS

PUBLIC HEARING: HB 2942

TAPES 096 A/B, 97A

HOUSE REVENUE COMMITTEE

MARCH 19, 1999 @ 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. Lane Shetterly

Rep. Max Williams

Members Excused: Rep. Bill Witt

Rep. Jim Welsh

Staff: Paul Warner, Legislative Revenue Officer

- Barbara Guardino, Committee Assistant

Witnesses: Dale Crabtree, Fair Tax Committee, Lane County

Dr. Colin Sorhus, Benton County

John William Roach III, Beaverton

Tim Nesbitt, Service Employees International Union (SEIU)

TAPE 096, SIDE A

005 Chair Strobeck Called meeting to order at 8:45 a.m. Opened public hearing on HB 2942; opened informational meeting on alternative taxes.

PUBLIC HEARING ON HB 2942

INFORMATIONAL MEETING ON ALTERNATIVE TAXES

036 Dale Crabtree See written testimony (**EXHIBIT 1**) verbatim. Spoke in favor of HJR 56.

Why Change Our Tax System?

It Is Expensive To Administer

It Hinders Job Creation

118 Crabtree It Is Unfair

No Rainy Day Reserve

Summarized, has mentioned some of the problems with Oregon's current tax system; Dr. Sorhus will outline some solutions.

159 Dr. Colin Sorhus Gross Receipts Tax is based on sound tax theory and reasoned tax philosophy. That philosophy is the "use tax" - those who use the services of government should pay for the benefits received from that use. It is only fair for those who carry on commerce to pay a small charge to compensate for the cost of making that commerce possible.

175 Sorhus Central core of gross receipts tax is based on theory of "good tax."

1. Tax system of Oregon must collect from its citizens, adequate money to pay for the expenses of state and local governments
2. Collection must be inexpensive to collect, enforce, and fight tax evasion

228 Sorhus Minimize economic damage, thus creating an environment that will maximize job creation

Tax system must be fair and equitable for all systems

279 Sorhus Referred to handout, Taxation should not be a matter of winners and losers - The Gross Receipts Tax: A Fair Tax System (**EXHIBIT 2**).

In addition, Web site address is: www.grtax.org

285	Sorhus	Summarized, Oregon needs a full debate on what to do to reform its tax system. Counties, cities, and schools, banks, farmers, real estate owners, etc., have given input into this proposal. Their criticisms and suggestions have been addressed in HJR 56. Proposal is a vehicle for public debate on reforming Oregon's tax system. It is a complete reform package. Meaningful tax reform would require revision of Oregon's constitution. Asked legislature to take the leaders in tax reform debate. Requested committee make HJR 56 part of this debate.
322	Rep. Merkley	If goods are being sold to public, begin with a wholesaler, are sold to a distributor, sold to retailer then sold to public, and at each level the cost of the tax is being passed through, wouldn't the consumer end up paying the equivalent to a 7% sales tax?
327	Sorhus	Gave example of who would pay the taxes and how much they would pay.
377	Rep. Merkley	Gross Receipts Tax obscures the fact that tax is passed onto consumers.
387	Sorhus	The buck always stops in the consumer's pocket.
391	Rep. Merkley	Gave example of person building web pages in his bedroom who doesn't use infrastructure or public services. This would not equate to equal distribution.
399	Crabtree	Lot of taxes are levied and paid, e.g. weight-mile tax on truckers, because it is assumed that truckers benefit from use of roads. It isn't only the truckers who benefit, it is the whole economy. Same principle would apply to this web page designer.
441	Sorhus	We all use the infrastructure provided by the government. Example of purchasing a loaf of bread: Wheat traveled from farmer's field to granary to miller to bakery to store to consumer. Rep. Berkeley's claim would imply that the individual building web pages doesn't buy, eat, or consume anything in Oregon.

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TAPE 097, SIDE A

039	Chair Strobeck	Commented on analogy of weight mile tax. Theory behind taxes on heavy vehicles is not the benefit they provide to consumers, it is the impact they have on the highway. Shouldn't those who damage the infrastructure most (trucks) be the ones to pay for it?
050	Crabtree	That impact is for the benefit of all society. All should be willing to share because all use the roads.

062	Crabtree	Parking meters may not be used in same fashion as now. Parking meters would be considered user fees, as permitted under gross receipts tax.
075	Chair Strobeck, Rep. Merkley	Follow-up questions concerning possible user fees.
120	Chair Strobeck	Questions concerning how gross receipts tax would do in times of economic downturn, if Oregon went from three-legged approach to taxes to a single tax.
125	Sorhus	Three-legged stool (property tax, income tax, sales tax) approach: Gross receipts tax is the most stable taxing system available. It is "a three million-legged stool." Three-legged approach erodes the economy.
148	Crabtree	Gross receipts tax includes a stabilization fund for times of economic downturn.
163	Rep. Rosenbaum	Expressed concern that this tax has low level of support among public.
172	Sorhus	Would like to put it to the people to find out. Sorhus and Crabtree are not doing this for money, they simply want a solution. Does not know any place where this tax is being used; During WWII, system was used in Singapore because it was such a simple source of revenue.
208	Paul Warner	Directed members' attention to Consumption Tax Alternatives (EXHIBIT 3) summary information. Noted, consumption taxes favor savings. Only exempt thing would be savings. It also tends to favor capital income. This makes rate people pay fall, which is a definition of a regressive tax. <ul style="list-style-type: none"> • Retail Sales Tax (See page 6, Sales Tax Revenue)
297	Warner	<ul style="list-style-type: none"> • Gross receipts tax
335	Warner	<ul style="list-style-type: none"> • Value Added Tax
404	Warner	<ul style="list-style-type: none"> • Excise Taxes
436	Warner	Tax Changes: Page 7, summary of taxes in other states.

TAPE 096, SIDE B

022	Rep. Williams	Due to the internet commerce issue, Oregon is well positioned because it doesn't have a sales tax, and there are diminishing returns in sales tax.
034	Warner	Economists have looked at impact of technology on changing tax bases. Sales tax is most vulnerable. It has been eroding because it doesn't tax services. States have had to raise sales tax rates to maintain revenue growth. Also states can't tax items purchased by mail. States with sales tax will have to make adjustments.
085	John William Roach III	Due to health problems, he can no longer work. Can no longer afford to pay his property taxes, and is being squeezed out of his home even though he owns it. Urged committee to simplify property tax structure. What is happening to him is happening to a lot of other people.
129	Chair Strobeck	Concurred, this situation has been a problem due to Oregon's strong over-reliance on property taxes.
147	Tim Nesbitt	<p>Spoke in opposition to issue of sales tax in HB 2942. (EXHIBIT 5)</p> <ul style="list-style-type: none">• Regressivity: Sales tax imposes a disproportionate burden on low-income and middle-income taxpayers.• Federal Tax Deductibility• Regional Disparities
207	Nesbitt	<ul style="list-style-type: none">• Stability: Sales tax is no longer more stable than income tax.• Business Tax Shares• Political Reality
233	Chair Strobeck	Asked Nesbitt to define fairness. Has heard two different definitions of fairness today.
235	Nesbitt	Same income tax rate would not be fair, it would be regressive.
276	Chair Strobeck	A number of members have asked him why House Revenue Committee isn't doing anything about fundamentally changing the tax system. He doesn't see anyone here today, so wonders if silence means a lack of support on various reform ideas.
288	Rep. Shetterly	Seems to be a consensus that state tax system needs fundamental changes. No consensus what those reforms should be.

- 308 Chair Strobeck Informed committee that on Wednesday, March 24, committee will hold a work session on elimination of tax credits.
- 315 Chair Strobeck Adjourned meeting at 9:57 a.m.

- Submitted by, Reviewed by,

Barbara J. Guardino Kim T. James

Committee Assistant Revenue Office
Manager

Exhibit Summary:

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1. HB 2942, Crabtree, testimony of Dale T. Crabtree, 8 pp.
2. HB 2942, Sorhus, The Gross Receipts Tax: A Fair Tax System, 11 pp.
3. HB 2942, Warner, Consumption Tax Alternatives, 7 pp.
4. HB 2942, Revenue Impact of Proposed Legislation, 1 p.
5. HB 2942, Nesbitt, Outline: Testimony of Tim Nesbitt Re: House Bill 2942 and the Issue of Retail Sales Taxes, 4 pp.