

## SENATE REVENUE COMMITTEE

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February 1, 1999 ã 9:00 A.M. - HEARING ROOM A - STATE CAPITOL BUILDING

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Senators Present: Senator Randy Miller, Chair

Senator Thomas Wilde, Vice Chair

Senator Lee Beyer

Senator Charles Starr

Senators Excused: Senator Tom Hartung

Representatives 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

Rep. Bill Witt

Representatives Absent: Rep. Jim Welsh

Staff: Paul Warner, Legislative Revenue Officer

Richard Yates, Economist, Legislative Revenue Office

Joan Green, Committee Assistant

Barbara Guardino, Committee Assistant

Guest Speakers: John Mitchell, Governor's Technical Advisory Committee

Ron Timpe, Governor's Policy Advisory Committee

**TAPE 020, SIDE A**

005	Chair Miller	Passed gavel to Rep. Strobeck.
005	Rep. Strobeck	Meeting called to order at 9:05 a.m. Welcomed Paul Warner. Introduced John Mitchell and Ron Timpe.
021	John Mitchell	Presented background on the Committees; the first stage was a committee to look at what had changed in the Oregon tax system and the second stage was for another committee to address the policy issues.  Outlined the charge and composition of the Committee. Reviewed report. (Exhibit 1)
122	Mitchell	Continued with presentation.
144	Mitchell	The conclusions of the Committee were: <ul style="list-style-type: none"><li>• Periodic examination of the system is needed</li><li>• Recommended an incidence study to identify where the taxes levied on businesses go, who pays them, etc.</li></ul> Our Committee's work provided the starting point for Mr. Timpe's committee.
169	Ron Timpe	Discussed the four charges given to the Committee and the composition of the Committee's membership. (Exhibit 2)

- 210 Timpe Discussed revenue stability, (Page 3, Exhibit 2). Provided a one-page summary listing the short and long term recommendations. (Exhibit 3)
- 268 Timpe Continued with presentation and recommended policy options to environment, (Page 8, Exhibit 2).
- 321 Timpe Continued with presentation and economic disincentives, (Page 9, Exhibit 2).
- 379 Timpe Continued with presentation and Education and Workforce Development Incentives, (Page 11, Exhibit 2).
- 430 Rep. Witt What are the implications of favoring consumption over investment and earnings, in terms of economic growth?
- 442 Mitchell Favoring of consumption over investment and earning discourages investment and increased earnings, however there many things besides the State tax system that go into economic performance. Discussed northwest states and tax systems; discussed distortions that exist.

**TAPE 021, SIDE A**

- 042 Rep. Witt What are the advantages to balanced revenue from three sources (i.e. three-legged stool): property, income and consumption/sales taxes in comparison to the current system, which is heavily dependent on income taxes?
- 048 Mitchell Presumably it would lower rates with a broader variety of taxation. Oregon could move towards what other states have. There could be significant changes in investments that are based on the current system, particularly major retail activity on the Oregon side of the state borders.
- 064 Rep. Strobeck If there is an advantage to having a three-legged stool why was that not a recommendation in Mr. Timpe's report?
- 067 Timpe It is listed as a long-term recommendation under moving towards a more balanced revenue system, (Page 26, Exhibit 2). Because Oregon's current economy is based more on a two-legged stool there could be dislocations.

Discussion was towards a revenue neutral type of shift component that was consumption oriented. From a stability standpoint it is a natural thing to do.

- 079 Rep. Shetterly Could some of the alternative forms of consumption tax be listed?
- 083 Timpe The question was what do you change in relationship to a consumption tax.
- 092 Sen. Beyer How would other alternatives such as a European style value-added tax or a gross receipts tax similar to Washington?
- 097 Mitchell Those are alternatives. A value added tax is hidden. A gross receipt tax is independent of earnings, which can create a problem for start-ups and initial stages.
- 111 Rep. Williams Was any kind of estimate developed as to the kind of revenue loss Oregon would have with a moderate recession?
- 124 Timpe Discussed two models provided by the State Economist's office.
- 154 Mitchell Referenced range of growth rates for major taxes, (Page 29, Exhibit 1).
- 165 Paul Warner Referenced scenarios, (Page 20, Exhibit 2). Background material is also available that can be provided to the Revenue Committees.
- 215 Rep. Williams What comments would you have about a recession and the legislature's need to raise taxes if there is not a stabilization fund?
- 219 Mitchell That is what occurred in the early 1980s.
- 223 Chair Miller What is the right approach with respect to utilizing the tax code to drive a certain behavior among the citizens?
- 230 Mitchell The first Committee viewed the economic and social objectives and the environmental concerns. The Committee focused on the stability and equity issues. The tax system has not been used to deliberately encourage or discourage behavior. It would be more

consistent with Oregon's goals if training funds were provided for the retraining of people in the labor force.

The tradeoff is complexity; there are equity questions to be considered and it is a value judgement.

- 246 Timpe Discussed salmon and watershed issues and possible ways to use the tax code to bring equity so that everyone could support the issue.
- 271 Chair Miller That tax would be revenue neutral?
- 281 Timpe It is a shifting of taxes for the benefit of the environment.
- 290 Chair Miller The pollution credit of \$18 million/biennium would give people a credit for complying with current regulations. Did both Committees look at the tax expenditure report and should other credits be phased out?
- 301 Mitchell Detail was not discussed. The recommendation was that the legislature review the system periodically.
- 308 Chair Miller Hypothetically, if a bill were passed suspending the set-asides for timber owners; should the state compensate for regulatory takings?
- 343 Timpe Did not deal with that issue. Initially the pollution tax credits rewarded people for something that was not required. Circumstances have changed in the last thirty years and they should be examined.
- 365 Chair Miller Would like clarification of what is met by "funding in hard times only the core services". What beyond core services are currently being funded?
- 378 Timpe Each legislative session brings a number of decisions on what to fund and what not to fund. Our goal in the recommendations was not to tie future legislators' hands.

005	Chair Miller	Presented a two-part question on the stabilization fund, which should be statutory: 1) should a super majority of both houses be required to access the stabilization fund, and 2) which currently existing budget would the money transfer from?
029	Timpe	<p>The motivation was good financial planning and the value of the fund. Where the monies come from were not determined, there are several possibilities.</p> <p>The super-majority of both chambers would be fine; there needs to be something in place.</p>
081	Rep. Rosenbaum	Did the recommendations require a total consensus? Is more information needed to make sweeping recommendations for the future?
094	Mitchell	The first Committee did not make policy recommendations; our charge was to look only at what existed.
102	Timpe	The political realities played a part, however the conceptual form of the recommendations had strong endorsement by the entire committee.
126	Rep. Merkley	How can the advantages of decreasing the disparity be sustained while improving the problems of local control and instability in education?
132	Mitchell	That was identified as a change, but a solution was not offered. Again the charge for our Committee was not to make recommendations, but to identify the problem.
136	Timpe	The four charges given were not specific to educational funding; therefore there was not a sub-Committee dealing with just that.
155	Warner	Referenced the points, as outlined on in cover letter, (Page 1, Exhibit 2), and chapter 3 identified issues that were not covered in great detail, (Page 13, Exhibit 2).
164	Rep. Witt	Was there discussion about benefits in reducing the capital gains tax rate?
169	Timpe	No.

- 171 Mitchell It was briefly discussed, but not a major focus.
- 175 Vice Chair Wilde As a part of our tax system that would have a definite impact in both investment and business decisions; why wouldn't there be a discussion of the capital gains tax?
- 182 Mitchell Following conversations with Bill Scott, it was determined that the system, with the current breaks, was not a major deterrent to activity in Oregon.
- Questions can be raised about small business and entrepreneurs not having a capital gains break and a relatively high marginal personal income tax rate being a disincentive again reinforces the notion that our system encourages consumption and does not encourage earnings and investment.
- 195 Timpe There are independent task forces addressing the taxation of intangibles, another dealing with taxation relating to forest products industry. It is a work-in-progress.
- 207 Rep. Welsh What dollar figure would be recommended in the stabilization fund and what, if any effect would there be to the economy without those dollars in circulation?
- 213 Timpe Of the 45 states with a fund, 37 of those have an average balance of 3.7% of the general revenue. Economic models were reviewed to determine what would be reasonable and the general target was in the range of 5% on the up side and fluctuates to zero as it is used.
- 248 Rep. Merkley Declining property tax, rising property values of residential property and a shift in income tax all contribute to a rising tax burden for households, as compared to businesses. This challenge was not addressed much in the policy recommendations, but what are your thoughts on how it should be addressed?
- 257 Mitchell The tax incident study request would partially address that issue and should be done on a periodic basis.
- 275 Rep. Strobeck The concept of the tax shift was a primary reason for the Committees being created, however one of the conclusions was Oregon's overall tax system is less regressive, which goes to the issue of those who are more able to pay. Isn't that at odds with the tax shift from one class of property to another class, for example?
- 283 Mitchell No, when you have reduction in the importance of property tax revenues, rapid

increases in personal income and increased reliance on a progressively personal income tax is a move to make the system more progressive.

- 296 Chair Miller Referenced capital gains, (Page 44, Item 4.7 Exhibit 1) addressed Rep. Wittis concern.
- In the past, has the adoption of a sales tax been exchanged for a reduction in personal income tax?
- 327 Mitchell In the 1980ís one of the proposals reduced property taxes, reduction in income taxes and a rainy day fund.
- 335 Chair Miller Would it be worthwhile to pursue a consumption tax that would provide a substantial reduction in the income tax this session?
- 347 Mitchell Responded as a citizen, not a representative of the Committee, I donít sense discontent throughout the State with the current system.
- General discussion regarding consumption tax and how that tax is being reviewed by states that has that.
- 395 Rep. Strobeck How would the business community or organizations represented by the Committees help legislators present to Oregonians the idea that our tax system needs to be approached from a more complete, holistic point of view?
- 419 Timpe Speaking as someone who is active in the Oregon Business Council and the Portland Chamber, a desire for a more rational tax system in the State is needed and we would be willing to work on a strategy to achieve that. There are taxes that are supported, for example an increase in the gas tax, and there are taxes that would probably not be supported, even though they might be the right things to do, such as the sales tax. We would be willing to engage in a conversation.
- 454 Rep. Merkley Referenced (Page 36, Table 3.3, Exhibit 1) the chart; are the comments from the study or the Committee?
- 465 Mitchell From the study.



467 Rep. Merkley Discussed that study and expressed conclusions that could be drawn on the study.

494 Rep. Strobeck Meeting adjourned at 10:26 a.m.

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Submitted by, Reviewed by,

Joan Green Kim T. James

Committee Assistant Revenue Office Manager

Exhibit Summary:

1. Informational, Mitchell, Review of Tax Oregon's Tax System, Technical Governor's Technical Advisory Committee Report, 132 pages
2. Informational, Timpe, Review of Tax Oregon's Tax System, Policy Recommendations, 75 pages
3. Informational, Timpe, Review of Oregon's Tax System, Policy Recommendations Summary Sheet, 1 page