

SENATE REVENUE COMMITTEE

MAY 6, 1999 - 3:00 P.M. - HEARING ROOM A - STATE CAPITOL BUILDING

Members Present: Senator Randy Miller, Chair

Senator Thomas Wilde, Vice Chair

Senator Lee Beyer

Senator Tom Hartung

Senator Charles Starr

Staff: Paul Warner, Legislative Revenue Officer

Joan Green, Committee Assistant

Witnesses: Richard Golb, Oregon Metals Industry Council

Dale MacAffie, Esco Corporation

Paul Phillips, NIKE, Inc.

Gary Odegaard, NIKE, Inc.

Susan Browning, Department of Revenue

Craig Hanneman, Willamette Industries, Inc.

TAPE 107, SIDE A

003 Vice Chair Wilde Meeting called to order at 3:07 p.m.

PUBLIC HEARING ON SB 1275

004 Paul Warner Reviewed memo of analysis, written to address questions concerning the revenue impact that were raised in the public hearing on April 22. (Exhibit 1)

067 Warner Continued with review of memo and regional growth, (Page 2, Exhibit 1).

097 Warner Discussed winners and losers, in Oregon businesses, if this measure were adopted. (Exhibit 2)

140 Warner Continued with discussion of Oregon's winners and losers in the \$1-50 million range, (Page 2, Exhibit 2).

175 Warner Reviewed the (-1) amendment, which do two things: (Exhibit 3)

1. Distinguish between manufacturing and non-manufacturing, as defined under β 3 of the amendment, (Page 1, Exhibit 3).
2. Phases-in a shift to the single-sales factor formula for manufacturers. (Page 1, Exhibit 3).

Reviewed revenue impact analysis, (Page 1, Exhibit 2).

221 Sen. Beyer Requested clarification as to when the measure would be effective?

226 Warner The service sector would be effective in 2001, referenced the (-1) amendment, β 4, (2), (Page 1, Exhibit 3).

Spoke to the Department of Revenue's concern in using twelfths as the percentage.

244 Sen. Beyer The phase-in is only for manufacturing firms?

244 Warner Yes.

258 Paul Phillips Spoke in support of the measure.

300 Phillips Continued with testimony in support of the measure.

350 Phillips Continued with testimony in support of the measure.

400 Phillips Continued with testimony in support of the measure.

TAPE 108, SIDE A

025 Phillips Continued with testimony in support of the measure.

075 Phillips Continued with testimony in support of the measure.

125 Phillips Continued with testimony in support of the measure.

140 Gary Odegaard Spoke in support of the measure.

171 Sen. Beyer Were you with NIKE in 1992 when the double weighted factor formula was adopted, and if so did it influence the expansion plans?

174 Odegaard Yes. It was not a significant factor in the decision to expand, as we were an Oregon company at that time; however, NIKE's tax liability was impacted. If NIKE were considering major expansion today it would influence the decision process.

192 Vice Chair Wilde What are the people of Oregon going to get for this reduction in revenue to State government?

205 Phillips Referenced April 22 testimony and analysis of measure that were presented in that hearing. Spoke to the 14 companies that will realize the primary benefit and the domino effect of those businesses throughout Oregon.

242 Vice Chair Wilde Which of the 14 corporations, with sales greater than a billion dollars, are outside of the Portland metropolitan area, Eugene/Springfield or Salem.

257	Phillips	Uncertain.
261	Vice Chair Wilde	"Many in the Portland metropolitan area do not want to provide incentives because of the additional stresses placed on urban growth boundaries, infrastructure, etc. If this type of tax cut is going to be done and will only go to the three metropolitan areas mentioned above, I will not support this measure."
308	Sen. Beyer	Noted that the biggest volume of companies is in the \$1-50 million-dollar range, and many of those are still in the Willamette Valley.
323	Vice Chair Wilde	Stated the statistics; the top 14 companies in the billion dollar range will receive a reduction of approximately 82% of their tax burden; the \$50 million dollar range companies has about 1/3 of their tax burden reduced.
375	Phillips	Discussed Oregon's current tax system as opposed to the proposal in the measure and the overall impact of moving forward with the proposal vs. the impact of remaining static.

TAPE 107, SIDE B

015	Phillips	Spoke to the (-1) amendments and recommended that if the Committee moved forward with the measure that the Department of Revenue be given some time to set-up criteria. (Exhibit 3)
035	Craig Hanneman	Spoke in support of the measure.
102	Richard Golb	Presented testimony in support of measure. (Exhibit 4) Spoke in opposition to the (-1) amendment, (Page 2, Exhibit 4).
150	Sen. Beyer	Referenced the enhancement to metals companies competitiveness and questioned if that is merely a reduction of business costs, which allows competition through lower prices.
153	Golb	Partially, Mr. MacAffie could better address that.

156	Dale MacAffie	Spoke in support of the measure and in opposition to the (-1) amendment (Exhibit 3)
228	Sen. Beyer	Requested Mr. MacAffie address the earlier question presented to Mr. Golb. (Reference tape count 150)
229	MacAffie	"Other states give tax advantages to corporations to attract mills and manufacturing facilities. As a commodity industry, any kind of benefit makes the companies more competitive internationally in an extremely competitive industry."
241	Sen. Beyer	It lowers the cost of doing business, therefore industry argues that by lowering the cost of doing business the net result is in an increase in business, with the industry proportionately paying more taxes to the State?
245	MacAffie	Concurred.
251	Susan Browning	Spoke to the Department of Revenue's administrative concerns with the (-1) amendments. (Exhibit 3)
307	Sen. Beyer	For tax purposes can headquarters location be separated from the general activity of the corporation?
317	Browning	That is the questions the Department of Revenue has. Spoke to examples of how other states and New York City have addressed this issue, but nothing clear or consistent could be ascertained or used as a model.
343	Sen. Beyer	If this measure were used as an economic incentive to attract corporate headquarters and research and development centers clarification would be needed to separate manufacturing from economic development, correct?
354	Browning	Read examples of definitions of manufacturing from various states and New York City; none of these definitions address the economic development issues.

The Department would request "manufacturing" be defined in statute, but if it went by rule the Department would request more direction to be sure the rule addresses the legislative intent.

393 Sen. Beyer Spoke to the public's perception of fairness, many companies have substantial facilities in Oregon, but no Oregon sales. Could there be a large corporation that would pay no taxes at all or is there a way to have a minimum tax?

404 Browning Spoke to the \$10 minimum corporation tax that currently exists.

WORK SESSION ON SB 1275

412 Vice Chair Wilde Spoke to the phase-in; it would be the Vice Chair's feeling that if there is a phase-in it should apply to all business.

431 Chair Miller More discussion is needed on predominance and a definition on manufacturing. Requested drafts of definitions and an amendment that would have phase-ins for all business and the revenue impacts.

464 Sen. Beyer Requested staff research the feasibility of a minimum tax for businesses located in Oregon.

475 Vice Chair Wilde Meeting adjourned at 4:30 p.m.

-

Submitted by, Reviewed by,

Joan Green Kim T. James

Committee Assistant Revenue Office Manager

Exhibit Summary:

1. SB 1275, Warner, Memo of analysis, 3 pages
2. SB 1275, Warner, Revenue impact for (-1) amendment, 3 pages
3. SB 1275, Warner, (-1) amendment, (DJ/ps) 05/06/99-2, 3 pages
4. SB 1275, Golb, Written testimony, 2 pages