

WORK SESSION ON

SCR 10 AND SB 1012 TAPES 139 - 140 A/B

**SENATE REVENUE COMMITTEE**

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**MAY 6, 1997 - 9:00 A.M. - HEARING ROOM B - STATE CAPITOL BUILDING**

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Members Present: Sen. Ken Baker, Chair

Sen. Neil Bryant, Vice Chair

Sen. Joan Dukes

Sen. Verne Duncan (left meeting 9:35 a.m.)

Sen. Tom Hartung

Sen. Randy Leonard (left meeting 9:30 a.m.)

Witnesses: Susan Browning, Department of Revenue

Ed Bowman, Department of Revenue, Corporations & Estates Section

Rod Johnson, Former State Senator, Medford

Gil Riddell, Association of Oregon Counties

Norm Myers, Department of Revenue

Denise McPhail, Portland General Electric

Staff: Ed Waters, Economist

Brian Reeder, Economist

Carol Phillips, Committee Assistant

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**TAPE 139, SIDE A**

005 Chair Baker Opened meeting at 9:15 a.m.

OPENED WORK SESSION ON SCR 10

010 Ed Waters Exhibit A - Wall Street Journal article regarding inheritance taxes. Exhibit B - Federal Estate Tax Credit page.

025 Susan Browning Exhibit C - Summary of Oregon Inheritance Tax. Beginning in tax year 1987 Oregon abolished the State Inheritance Tax and adopted the pick-up tax. Pick-up tax is the amount of credit for state death tax that is allowed on the federal return. Ties in with SB 164 which Senate Revenue Committee discussed February 5, 1997. Federal tax liability is reduced only if the credit is claimed. If a state does not have a pick-up tax, the entire amount goes to the federal government. Federal taxes attributable to a farm or closely-held business can be deferred over 14 years. There is relief to estates for farms or other real property used in a closely-held business if it is a substantial part of the estate. Farm or closely-held business real property may be valued on the basis of its current use rather than on the basis of "highest and best" use. For example, if a farm is surrounded by high tech plants but the land is still being farmed by the family, it could be valued as a farm (the current use) rather than as a potential high tech site.

076 Sen. Bryant Stated that the family could have an interesting debate at that point because if they thought in the future they might want to sell that land for its highest and best use, they might want to take the step-up in basis on death and pay the higher estate tax.

089 Browning Added that the maximum amount by which the value of qualifying real property can be reduced under this provision is \$750,000 for estates of people who have died after 1982. The amount of money collected under this program averages \$35 million per year, with about 1,000 returns filed. Based on fiscal year through March this year the state has received \$27 million. The amount ranges from \$26 to \$45 million per year. This is a small program but does generate quite a bit of money for the state. Questions and discussion.

108 Sen. Bryant Indicated that this is one of the few taxes in the state that no one should complain about because it costs the Oregon taxpayer nothing.

111 Sen. Hartung Asked how far back Department of Revenue went for \$35 million average.

114 Browning Answered the Department went back to 1993 for their average.

- 119 Sen. Hartung Asked for a definition of state death taxes.
- 122 Bowman Said under Oregon law a person is required to file an Oregon inheritance tax return if they file a federal estate tax return. The exemption currently is \$600,000 for an individual, \$1.2 million for husband and wife. First \$600,000 of gross value is tax free.
- 150 Sen. Duncan Asked what would happen in this instance: You have a couple, the man dies, their estate is worth \$1 million.
- 156 Chair Baker Interjected that there would be no tax in that event because of the unlimited marital deduction at the first death. The next death gets taxed. The wife's estate would pay 34% of \$400,000.
- 161 Browning Stated that when the first spouse dies, the balance of the estate goes over to the remaining spouse.
- 164 Chair Baker Added that when both husband and wife are alive it is possible to do some transfers and trusts to minimize taxes, but this must be done before the first death.
- 173 Sen. Hartung Asked if the other 49 states have inheritance tax laws similar to Oregon's.
- 174 Bowman Stated yes. Most have a pick-up tax, but there are still a few with Inheritance Tax.

MOVES SCR 10 TO THE SENATE FLOOR WITH DO PASS  
RECOMMENDATION.

- 182 Chair Baker ROLL CALL VOTE: MOTION PASSES: 4 - 0 - 2
- SENATORS VOTING AYE: DUKES, HARTUNG, BRYANT, BAKER.
- SENATORS ABSENT: DUNCAN, LEONARD.
- Sen. Ferrioli will carry the bill on the Senate Floor.

CLOSED WORK SESSION ON SCR 10

OPENED WORK SESSION ON SB 1012

Referred to Exhibit D from April 25 testimony. SB 1012 is designed to correct existing statutes to allow industrial plants to elect to not have the income approach used by the

205 Rod Johnson Department of Revenue in valuing their industrial plants. Biomass plants were not included because at the time no one contemplated that type of plant would exist. The subjects of the bill are small plants that sell electricity to utilities. When the centrally assessed statutes were established in the 1950s they described utilities that included any company that sells electricity. These plants do that as part of a federal program to get the United States off Arab oil. A technicality makes these kinds of plant ineligible to make an income approach election.

233 Johnson This bill would allow plants that sell most of their electricity, instead of a small part of it, to use the income approach or elect against having the income approach used in the valuation of those properties. Only three biomass burning plants are still operating in the state. This bill would limit the application of the bill to plants under 20 MW and which burn biomass fuel (bark and sawdust). Johnson's family's plants are 7.5 MW. Bill would add these two co-generation plants to the other industrial plants in Oregon which have the right not to use income approach. Current statute been in effect for 17 years and works well.

308 Sen. Hartung Asked if this bill affects the hog fuel burning plant at the University of Oregon.

311 Johnson Answered that he does not know the MW size of the plant is but added the plant has been fueled by gas for a number of years.

325 Sen. Dukes Asked which if the three plants Johnson mentioned earlier is not covered by this bill.

327 Johnson Replied that the one not covered is a 25 MW plant in Medford.

332 Brian Reeder Stated that the original bill the Department of Revenue identified ten plants to qualify. The Amendments eliminated six hydroelectric and one large gas burning plant in Hermiston. This left three biomass burners in Jackson, Grant, and Douglas Counties.

348 Johnson Added that he was not opposed to including a 25 MW gas plant in the bill.

356 Reeder Estimated that the revenue impact for the ten plants would be \$150,000. If narrowing down to two it would be only a few thousand dollars, but it depends on the assessed value in the two different appraisal approaches. Maybe \$10,000 revenue loss at most.

377 Johnson Explained that he based his statement on revenue neutrality on statements he received from assessors and has not done any of his own analysis yet. Does not appear to be a heavy revenue impacting bill. The main purpose of the bill is not to save money but to not reveal income information to the public.

425 Sen. Asked if Johnson's family was planning on building any more of these plants.

Dukes

427 Johnson Replied no because it has not been feasible to build these under federal law since 1983.

**TAPE 140, SIDE A**

018 Sen.  
Dukes Asked how many houses 7.5 MW would light.

021 Johnson Answered somewhere between 3,000 and 3,500 houses; i.e. a small town. Not including industrial and business loads, but just residential load. Questions and discussion.

056 Norm  
Myers Stated that the Department of Revenue has examined the bill and does not see much impact on value or taxes.

061 Denise  
McPhail Stated Portland General Electric likes the bill, even though it does not involve them. Does not believe people should pay taxes on intangible personal property.

071 McPhail Stated that this refers to the section of law that applies to utilities and centrally assessed companies. Questions and discussion interspersed.

108 Sen.  
Hartung Added that he likes this bill. He became involved when he was doing consulting work on the utilization of one million tons per year of Willamette Valley grass straw pelletized to be used as hog fuel. At that time hog fuel was about four times higher than it is now. Would not be feasible now because that material is being used for other purposes. But in the future it would be great to have this opportunity available if it makes sense to pelletize it and burn it in co-generation plants.

129 Reeder Discussed (-1) Amendments. The plant has to be fueled by wood waste or other biomass so it eliminates all the hydro plants. The plant must have a generating capacity of 20 MW maximum.

137 Chair  
Baker MOVES (-1) AMENDMENTS BE ADOPTED. HEARING NO OBJECTION, THE CHAIR SO ORDERED.

MOVES SB 1012 AS AMENDED TO THE FLOOR WITH DO PASS RECOMMENDATION.

152 Sen.  
Hartung ROLL CALL VOTE: MOTION CARRIES: 4 - 0 - 2

SENATORS VOTING AYE: DUKES, HARTUNG, BRYANT, BAKER.

SENATORS ABSENT: DUNCAN, LEONARD.

Sen. Hartung will carry the bill on the Senate Floor.

161 Chair  
Baker Adjourned meeting at 9:55 a.m.

Carol Phillips

Committee Assistant

Kim James

Office Manager

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Exhibit Summary:

A. SCR 10, Waters, Wall Street Journal article dated 4/28/97, 2 pages

B. SCR 10, Waters, Federal Estate Tax Credit information, 1 page

B. SCR 10, Browning, Summary of Oregon Inheritance Tax, 2 pages