

Work Session HB 2438, HB 2057, HB 2240
HB 2177, HB 2245
Tapes 88-91 A/B

HOUSE COMMITTEE ON
REVENUE AND SCHOOL FINANCE
SUBCOMMITTEE ON INCOME
TAXATION

-

APRIL 16, 1993 8:00 AM HEARING ROOM 174 STATE CAPITOL
BUILDING

Members Present: Representative John Schoon, Chair Representative Ron Adams
Representative Tony Federici
Representative Delna Jones, Ex Officio Representative Gail Shibley
Representative Greg Walden

Witnesses Present: Ray Wilkeson, Oregon Forest Industries Council
(OFIC)

George Brown, Dean of Forestry, Oregon State
University (OSU)

Tom Roose, Department of Revenue (DOR)

Rick Main, Department of Revenue

Steve Jacky, Department of Forestry (DOF)

Barbara Seymour, Legislative Council

Linc Cannon, Oregon Forest Industries Council

Ed Kelly, Weyerhaeuser Paper Company

-/ Joe Misek, Department of Forestry

Staff: Richard Yates, Legislative Revenue Office

Mary Gottlieb, Committee Assistant

TAPE 088 SIDE A

001 CHAIR SCHOON called the meeting to order at 8:15.

010 CHAIR SCHOON opened the work session on HB 2177.

013 DICK YATES provided background information in HB 2177, which increases the rate of forest products harvest tax for research services primarily at Oregon State University.

043 RAY WILKESON testified in support of HB 2177 and asked that the amount be increased to \$.40 per thousand based on the forestry research needs at Oregon State University (OSU). The \$.50 per thousand for fire protection remains unchanged in the bill. The State Forester can also impose a surcharge annually.

Questions and discussion.

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094 DICK YATES explained the reason for the two-tier interest by stating that the rate of \$.05 is permanent in the law and every biennium an additional rate is added temporarily. In HB 2177, the interest would all be temporary.

102 GEORGE BROWN explained that he supports HB 2177 because the needs of the research department change and having a permanent rate makes it difficult to budget in new projects. It is very difficult to make the match between the work that needs to be done and estimated harvest taxes. He is pleased

to come back each biennium to renegotiate the rate because needs change.
Questions and discussion.

180 DICK YATES stated that HB 2057 is connected to HB 2177 with a sunset date.

205 TOM ROOSE stated the DOR's purpose for the rates and proposed timing was largely to facilitate moving from a fiscal year to a calendar basis. The rates would go into effect for 30 months not 24 months to deal with the calendar year.

Discussion and questions.

260 RAY WILKESON responded to a question by REP. SHIBLEY by stating that the reason for the research tax and not a contribution is because timber owners would have to pay the tax but not everyone would contribute.

320 MOTION REP. SHIBLEY moved that line 5 be amended to delete 37.5 and insert 40.0.

326 ORDER CHAIR SCHOON, hearing no objections, so ordered.

330 MOTION CHAIR SCHOON moved that HB 2177 go to the full committee with a do-pass recommendation.

NO DISCUSSION

344 VOTE The motion passed 5-0. Ayes: REP. FEDERICI, REP. SHIBLEY, REP. WALDEN, CHAIR SCHOON, REP. ADAMS. Excused: REP. JONES.

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340 CHAIR SCHOON opened the work session on HB 2245, which increases forest products harvest taxes for purposes of financing Oregon Forest Practices Act and industrial fire prevention program.

355 DICK YATES offered background information regarding HB 2245. He stated that the chart prepared by OFIC (Exhibit 1, February 24, 1993) showed a comparison of the rate that is in effect at this time and the proposed rate.

TAPE 089 SIDE

A

001 STEVE JACKY testified that the rate increased from \$.39 to \$.56 for fire prevention and from \$.14 to \$.21 for industrial fire prevention. These rates would support the Governor's budget. DOF is asking for the increase to maintain a reduced level program that resulted in a loss of harvest.

046 RAY WILKESON responded to a question by CHAIR SCHOON by stating that a temporary adjustment was made last session to the historic 60/40 split in the funding of the Forest Practices Program. OFIC agreed to temporarily depart from that split in several areas. The reason being that HB 1125 passed in the last days of the last session, and the General Fund money had already been allocated. The forest industry agreed to pay freight for the biennium and also agreed with the change in the Industrial Fire Protection Program. This program is now being paid by the harvest tax. OFIC is asking that these adjustments be discontinued and that the fire protection be transferred to forest protection districts.

Discussion and questions.

124 STEVE JACKY testified that the forest patrol assessment is a fixed acreage assessment and is not within the cap of Measure 5. It is added to the county assessments after the ad valorem taxes have been computed.

140 DICK YATES told the committee why fire protection is not effected by Measure 5. This protection is a fee and not a tax. Timber owners can avoid this fee by showing the DOF that they (timber owners) can provide there own fire protection. Their fire protection plans must be approved by DOF.

Questions and discussion.

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237 RAY WILKESON responded to question by REP. ADAMS by stating if the harvest tax does not cover the entire budget, the Ways & Means Committee would have to decide on funding.

Discussion continued with regard to funding of HB 2245.

366 STEVE JACKY suggested that the committee reduce the amount by \$.02 and fund the study on accumulative effect of all types of timber operations on resources; such as, a water shed or timber shed. DOF has contracted with DR. BROWN, who is doing the studies.

Questions and discussion.

TAPE 088 SIDE B

001 Discussion continues on HB 2245.

007 MOTION CHAIR SCHOON moved that in Section 2, line 7, the figure "\$.71" be inserted and that on line 11 "\$.02" be inserted.

DISCUSSION

028 ORDER CHAIR SCHOON, hearing no objections, so ordered.

033 BARBARA SEYMOUR told the committee that HB 2057 does not contemplate a permanent change in the law as does HB 2177. She requested the committee decide whether to go on with the higher rates to December 31, 1995, and add a sunset date.

Discussion and questions.

088 MOTION CHAIR SCHOON moved to send HB 2245 as amended to the full committee with a do pass recommendation.

NO DISCUSSION

094 VOTE Motion passed 5-0. Ayes: REP. SHIBLEY, REP. WALDEN, CHAIR SCHOON, REP. ADAMS, REP. FEDERICI. Excused: REP. JONES.

104 CHAIR SCHOON opened a work session on HB 2057.

107 CHAIR SCHOON recessed at 9:20 and reconvened at 9:42.

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110 MOTION CHAIR SCHOON moved to reconsider the

- earlier vote on HB 2245.
- 116 ORDER CHAIR SCHOON, hearing no objections, so ordered.
- 119 MOTION CHAIR SCHOON moved that the committee send HB 2245 as amended to the full committee with a do-pass recommendation with a subsequent referral to the Appropriations Committee.
- 124 VOTE Motion passed 5-0. Ayes: REP. WALDEN, REP. ADAMS, CHAIR SCHOON, REP. FEDERICI, *REP. SHIBLEY (113, page 14). Excused: REP. JONES.
- 126 MOTION CHAIR SCHOON moved to reconsider the vote on HB 2177.
- 132 ORDER CHAIR SCHOON, hearing no objections, so ordered.
- 134 MOTION CHAIR SCHOON moved that a line be added to HB 2177 in between 1993 and the period and insert the words "and prior to July 1, 1993," which will make it apply for the two year fiscal period.
- 144 ORDER CHAIR SCHOON, hearing no objections, so ordered.
- 149 MOTION CHAIR SCHOON moved that the committee send HB 2177 as amended to the full committee with a do-pass recommendation.
- NO DISCUSSION
- 151 VOTE Motion passed 5-0. Ayes: REP. WALDEN, CHAIR SCHOON, REP. ADAMS, REP. FEDERICI, *REP. SHIBLEY (113, page 14). Excused: REP. JONES.

156 CHAIR SCHOON opened the work session on HB 2057
159 DICK YATES offered background information on HB 2057 which changes the reporting period for all timber taxes from every six

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months to once each calendar year. He introduced Amendment 2, Exhibit 1.

206 REP. SHIBLEY reported that there was an attempt to reconcile the differences in the definition of "Who is taxpayer?" DOR stated that Washington's process was not effective. The language in Amendment 2 could be changed to assist in identifying the taxpayer.

242 RICK MAIN (with TOM ROOSE) summarized that if the permit number were used by the timber owner, this would help in tracking the taxpayer, reconciling log purchases and sales back to tax returns, finding non filers, and overall increasing the amount of tax that should be paid.

276 LINC CANNON determined that using the permit number would help in cases of unreported sales. In cases with contracts, DOR cannot determine the legal taxpayer even with a permit number.

Discussion and questions.

322 RICK MAIN defined woods-direct logs as logs that come directly from the woods, and they do not include transactions from timber companies. There is no method to trace these logs.

340 LINC CANNON stated that Amendment 2 imposes a cost on industry to comply with the DOR regulations. Some timber companies would be forced to rework their entire accounting systems to incorporate this information. He feels there is a shift of work load from government to industry.

369 ED KELLY commented that Amendment 2 will help DOR with the audit function in determining who has tax liability, but he does not think this is a solution to the problem.

TAPE 089 SIDE B

001 Discussion with regard to the Notification Operation /Application for Permit.

040 TOM ROOSE commented that 90 percent of the timber accounts are small timber taxpayers and are currently paying 10 percent of the total tax. A significant number of timber owners are not in compliance. If a timber harvester sells logs to a mill, that harvester should be obliged to use a permit number.

Discussion and questions.

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103 ED KELLY understands DOR's method of tracking the taxpayer in those cases where the timber owner is not identified. In those cases, DOR often finds that the tax has not been paid. The forest industry supports DOR's method in identifying the taxpayer.

120 TOM ROOSE added that there is a connection between the permit number and ownership issues. The individual who signs the permit should be informed before signing that they are responsible for the tax liability.

Discussion and questions with regard to the amendments and changes to the bill.

172 MOTION CHAIR SCHOON moved that on page 1, line 2, to delete the reference to ORS 321.016.

181 ORDER CHAIR SCHOON, hearing no objections, so ordered.

DISCUSSION

189 MOTION CHAIR SCHOON moved to delete the new language shown on lines 2-8. This would have the effect of leaving "of timber" in line 10, Section 1.

DISCUSSION

193 CHAIR SCHOON, hearing no objections, so ordered.

213 DICK YATES explained that there are different statutes dealing with timber east of the Cascades and timber west of the Cascades.

Discussion and questions.

237 RICK MAIN commented that DOR wants to go to once a year filing to conform with other tax programs and to aid taxpayers.

300 DICK YATES added that Section 3 of the bill would be deleted by the amendment.

Discussion and questions.

353 MOTION CHAIR SCHOON moved to delete lines 42-45 on page 2 and lines 1-14 on page 3.

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358 ORDER CHAIR SCHOON, hearing no objections, so
ordered.

364 MOTION CHAIR SCHOON moved to delete in line 3,
page 1, the reference to ORS 321.375.

369 ORDER CHAIR SCHOON, hearing no objections, so
ordered.

390 RICK MAIN stated that there is similar language throughout this bill
because it covers three programs: forest products, WOST, and EAST. The
language on page 4 adjusts the threshold for filing estimated tax for
forest harvest tax from \$300 to \$1,500. This has the effect of decreasing
the number of returns, but does not impact the flow of revenue.

TAPE 090 SIDE A

001 Discussion continues with amendments and changes in the bill.

018 MOTION CHAIR SCHOON moved to change the language
shown in Amendment 2, lines 9-11, which
would cause it to read "... inadequate
sales data, means sales volume of less
than 20 percent of the harvest volume
reported for that timber age class in the
market area for the calendar year ending
two years prior to the end of the year
for which the taxes will be paid..."

DISCUSSION

062 ORDER CHAIR SCHOON, hearing no objections, so
ordered.

068 MOTION CHAIR SCHOON moved to delete the bold
face language beginning on line 24 and
restore the bracketed material down
through line 31.

075 ORDER CHAIR SCHOON, hearing no objections, so
ordered.

Discussion and questions.

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112 RICK MAIN explained that the change to Section 7, restores to existing
law and adjusts the date from twice a year to once and restores original
language of 37 months.

Discussion and questions regarding Exhibit 1.

218 ED KELLY added that the date would decide changes to the current market
areas only and not prices.

Discussion and questions.

287 LINC CANNON stated that the function is having the value tables at the

beginning of the tax year. Designating the areas is not a valuation; it simply designates the stumpage tables to be used. This means that areas are designated before publishing the stumpage values. Industry would have a difficult time not knowing the stumpage values before harvest.

318 RICK MAIN agreed that DOR would go back to the original valuation schedule.

343 ED KELLY said that most taxpayers like to know the liability before the end of the year. The estimated tax payments and costs should be known early in the year.

Discussion and questions.

TAPE 091 SIDE A

001 MOTION CHAIR SCHOON moved to adopt lines 14-20 of HB 2057-2 which deal with Section 8.

007 ORDER CHAIR SCHOON, hearing no objection, so ordered.

Discussion.

031 TOM ROOSE agreed that \$10 is rarely the gross receipts. The problem is the filing system. Once a permit has been issued, than a return must be filed.

Discussion and questions.

054 MOTION REP. WALDEN moved to restore \$10 and delete \$20 on line 40 of page 8.

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061 ORDER CHAIR SCHOON, hearing no objections, so ordered.

074 MOTION REP. WALDEN moved to adopt HB 2057-2, lines 22, 23, and 24.

DISCUSSION

083 ORDER CHAIR SCHOON, hearing no objections, so ordered.

091 MOTION REP. WALDEN moved to adopt lines 1 and 2, of HB 2057-2, page 2.

093 ORDER CHAIR SCHOON, hearing no objections, so ordered.

101 MOTION REP. WALDEN moved to adopt HB 2057-2, lines 3 and 4.

104 ORDER CHAIR SCHOON, hearing no objections, so ordered.

110 MOTION CHAIR SCHOON moved to adopt lines 5, 6, and 7, page 2 of HB 2057-2, which would have the effect of deleting lines 12-22.

116 ORDER CHAIR SCHOON, hearing no objections, so ordered.

Discussion on changes to Exhibit 1.

154 MOTION CHAIR SCHOON moved to adopt lines 8-19, on page 2, HB 2057-2.

157 ORDER CHAIR SCHOON, hearing no objections, so ordered.

165 MOTION CHAIR SCHOON moved to adopt lines 20-25 of HB 2057-2, page 2, which refers to the

- permit number.
- 167 ORDER CHAIR SCHOON, hearing no objections, so ordered.
- 169 MOTION CHAIR SCHOON moved to adopt lines 44 and 45, (line 26 of HB 2057-2, page 2).

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- 171 ORDER CHAIR SCHOON, hearing no objections, so ordered.
- 187 MOTION CHAIR SCHOON moved to adopt lines 27-30 of HB 2057-2.
- 189 ORDER CHAIR SCHOON, hearing no objections, so ordered.
- 195 MOTION CHAIR SCHOON moved to adopt line 31 of HB 2057-2, pages 2 and 3.
- 202 ORDER CHAIR SCHOON, hearing no objection, so ordered.
- 216 MOTION CHAIR SCHOON moved to adopt lines 2-4 of HB 2057-2, page 3.
- 224 ORDER CHAIR SCHOON, hearing no objection, so ordered.
- 234 MOTION REP. WALDEN moved to adopt line 5, page 3, of HB 2057-2.
- 238 ORDER CHAIR SCHOON, hearing no objections, so ordered.

Discussion with regard to Section 19.

- 266 MOTION CHAIR SCHOON moved that on line 33, page 14, that the bold 5,000 be changed to 10,000.

DISCUSSION

- 276 ORDER CHAIR SCHOON, hearing no objections, so ordered.

284 DICK YATES pointed out that on page 15, line 38, that the March 1 date be changed January 1. JOE MISEK nodded his consent.

290 MOTION CHAIR SCHOON moved that on page 15, line 38, that March be changed to January.

292 ORDER CHAIR SCHOON, hearing no objections, so ordered.

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- 315 MOTION CHAIR SCHOON moved to adopt lines 6 and 7, page 3, of HB 2057-2.
- 319 ORDER CHAIR SCHOON, hearing no objections, so ordered.
- 336 MOTION REP. ADAMS moved that on line 4, Section

321.375 be deleted.

341 ORDER CHAIR SCHOON, hearing no objections, so ordered.

349 CHAIR SCHOON stated that in a prior motion that included deletion of 321 .075, that section does not exist so that part of the motion has no effect. There was intent to insert it before deleting.

369 DICK YATES added that reference to ORS 321-016 in Section 24 is okay because on page 17, line 3, the bill refers to sections deleted.

379 BARBARA SEYMOUR commented that Section 24 should be more specific to tie into the other two timber bills.

TAPE 090 SIDE B

001 MOTION CHAIR SCHOON conceptually moved that the amendment proposed by BARBARA SEYMOUR be adopted.

DISCUSSION

005 ORDER CHAIR SCHOON, hearing no objections, so ordered.

008 MOTION REP. SHIBLEY moved to send HB 2057, as amended, to the full committee with a do pass recommendation.

012 VOTE Motion passed 5-0. Ayes: CHAIR SCHOON, REP. ADAMS, REP. FEDERICI, REP. SHIBLEY, REP. WALDEN. Excused: REP. JONES.

025 CHAIR SCHOON recessed at 11:25 and reconvened at 11:50.

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026 CHAIR SCHOON opened the work session on HB 2438, which sets land values for forest land, and turned to Section 6 of HB 2438-7, Exhibit 5. He stated that the property tax on timber being paid in the next few years is the deferred portion of the property taxes. When the trees are harvested, this tax is recovered.

082 MOTION CHAIR SCHOON moved to adopt lines 19-24 of page 1 and lines 1-7 page 2 of

HB 2438

7.

101 ORDER CHAIR SCHOON, hearing no objections, so ordered.

Discussion with regard to amendments.

189 RICK MAIN stated that in HB 2057 is the timeline for setting stumpage values, which is used for determining land values, and there is no conflict between HB 2057 and setting land values in HB 2438.

Discussion of land values as apposed to stumpage values.

216 CHAIR SCHOON indicated that DOR review the land values every six years. He suggested continuing to phase down the severance tax and to continue forest land taxation but at a reduced rate because of Measure 5.

Discussion and questions.

325 MOTION CHAIR SCHOON moved to adopt a conceptual amendment to hold the revenue neutral by maintaining a phase down and the land valuations system and land values for the

next biennium. Then have the new land values and the new rates go into effect on January 1, 1996. DOR will review the valuations and methodology, then report back to the 1995 Legislature. DOR will report back every subsequent third biennium.

DISCUSSION

357 ORDER CHAIR SCHOON, hearing no objections, so ordered.

Discussion with regard to severance tax administration.

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TAPE 091 SIDE B

001 Continued discussion of severance tax.

049 MOTION REP. WALDEN moved to send HB 2438 as amended to the full committee with do pass recommendation.

DISCUSSION

082 VOTE Motion passed 4-1. Ayes: REP. WALDEN, REP. FEDERICI, CHAIR SCHOON, **REP. ADAMS (365, page 3, April 21, 1993). Nos: REP. SHIBLEY. Excused: REP. JONES, REP. ADAMS.

100 CHAIR SCHOON conducted administrative business.

107 MOTION CHAIR SCHOON requested unanimous consent to allow REP. SHIBLEY to cast her vote on HB 2177 and HB 2245.

110 ORDER CHAIR SCHOON, hearing no objections, so ordered.

113 VOTE REP. SHIBLEY voted on HB 2177 (*151, page 5) and on HB 2245 (*124, page 5).

119 CHAIR SCHOON opened the work session on HB 2240, which removes sunset date for continuous funding of WOSTOT forest land special assessment from the WOST tax account.

130 DICK YATES offered background information on HB 2240.

140 MOTION REP. FEDERICI moved that in lines 12 and 13 insert before the period the words: "for the period beginning July 1, 1993, ending June 30, 1995."

158 ORDER CHAIR SCHOON, hearing no objection, so ordered.

164 JOE MISEK (with JULIE BRANDIS) testified in agreement with HB 2240, which provides the funding for WOSTOT, but it has a six month gap. The previous motion takes care of that gap.

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174 MOTION REP. FEDERICI moved that HB 2240 as amended be referred to the full committee with a do-pass recommendation.

DISCUSSION

183 VOTE Motion passed 5-0. Ayes: REP. FEDERICI, REP. SHIBLEY, CHAIR SCHOON, REP. WALDEN, **REP. ADAMS (365, page 3, April 21, 1993). Excused: REP. JONES.

193 CHAIR SCHOON adjourned the meeting at 12:30.

Mary Gottlieb, Committee Assistant
Kimberly Taylor , Office Manager

EXHIBIT SUMMARY

1. Proposed Amendment to HB 2057-2, Dick Yates, Legislative Revenue Office.
2. Proposed Amendment to HB 2438-4, Dick Yates, Legislative Revenue Office.
3. Proposed Amendment to HB 2438-5, Dick Yates, Legislative Revenue Office.
4. Proposed Amendment to HB 2438-6, Dick Yates, Legislative Revenue Office.
5. Proposed Amendment to HB 2438-7, Dick Yates, Legislative Revenue Office.
6. Timber Tax Administration, Dick Yates, Legislative Revenue Office.
7. Average Farm and forest Land Values by County, Dick Yates, Legislative Office.

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