

Work Session: Tax Reform Bills HJR 4, HJR 5, HJR 10,
HJR 18, HJR 25, HJR 28, HJR 44, HJR 60, HJR 61
-HJR 66, HJR 71
Tape. 114-117 A/B
HOUSE COMMITTEE ON
REVENUE AND SCHOOL
FINANCE

JUNE 1, 1993 8:00 AM HEARING ROOM A STATE CAPITOL BUILDING

Members Present: Representative Delna Jones, Chair
Representative John Schoon, Vice Chair Representative Ron Adams
Representative Tom Brian
Representative Margaret Carter
Representative Tony Federici
Representative Fred Girod
Representative Gail Shibley
Representative Greg Walden
Representative Jim Whitty
Members Excused: Representative Mike Burton
Witnesses Present: Representative Ken Baker, District
Staff: James Scherzinger, Legislative Revenue Officer Steve Bender,
Legislative Revenue Office
Paula McBride, Committee Assistant
TAPE 114 SIDE A

008 CHAIR JONES called the meeting to order at 8:10 and conducted administrative business.

184 STEVE BENDER pointed out materials in the members the books that he will use for his presentation. Exhibits 1, 2, and 3

207 STEVE BENDER defined "sales tax." He began with a description of HB 239 4, section 39, which defined "sales tax" as a tax "for the privilege of selling tangible personal property at retail." It would not be subject to the Measure 5 limits or in competition with any other tax currently implemented in Oregon. The sales tax would not be a tax on buying things but on retailers, defined as someone who sells "tangible personal property at retail." The tax rate would be established as some "percent of the gross receipts of the retailer from the sale at retail in this state of tangible personal property." He talked with members about the possibility of making some tangible personal property exempt from a sales tax if they

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were so inclined.

Questions and discussion concerning the transfer of real property in a sales tax.

334 STEVE BENDER explained the phrase "from the sale at retail," which distinguished the "sales tax" from the "gross receipts tax." If the purchaser used the item "from the sale at retail," then it would be subject to the sales tax. Alternatively, some sales taxes include materials (ingredients) used in the manufacturing of other items, and these materials would have to be declared specifically exempt if that was what the members intended.

Questions and discussion

414 STEVE BENDER declared that every thing would be sold for use in retail sales unless the buyer merely kept the item.

Questions and discussion

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012 STEVE BENDER further explained the concept of "ingredients" of products as related to being subject to a sales tax.

Questions and discussion

029 STEVE BENDER believed all states had an "ingredient exemption," which was intended to prevent double taxation.

033 STEVE BENDER explained the term "in this state" related to the definition of "sales tax" contained in HB 2394. Constitutionally, retail sales cannot be taxed if they occur outside Oregon. He explored the question of when a sale was or was not "in this state," which was related to whether or "the product was physically located in this state" at the time of transfer of its ownership or title. He referred to the "use tax," and explained the differences between the "use tax" and the "sales tax."

Questions and discussion

080 STEVE BENDER defined how the "use tax" would apply, which was in situations when the sales tax wouldn't be implemented. The addition of a use tax to a sales tax prevents Oregon retailers from being at a disadvantage with the retailers of other states. He discussed the prevalent exemption in most sales taxes for sales shipped outside a particular state, because the base of the sales tax would be consumption within a state. If a sales tax was paid on an item in another state, the Oregon user would be required to pay a "use tax." He explained how this would work.

Questions and discussion of situations when the "use tax"

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would be collected instead of the "sales tax..

121 STEVE BENDER talked about the problems with "tracking" transactions that would require application of a "use tax"; that is, when it should be collected and how to collect it. He mentioned ways states have of figuring out if businesses or individuals owe the "use tax."

167 STEVE BENDER briefly pointed out other characteristics of the "use tax." He discussed how a person could qualify for the tax, and when businesses could qualify. He talked about how collection of the tax would be best accomplished by having a mechanism set up within the state (HB 2394 has such a mechanism), and he explained how this mechanism might work.

252 STEVE BENDER referred to his table entitled "Sale Tax Proposals" which compared various components of six different sales tax plans, including the revenue that would be raised by each plan. He also referenced his third handout, "Tax Reform Proposals" to inform members which legislators or organizations had introduced each of the six sales tax plans. Exhibits 1 and 3

Questions and

discussion

297 STEVE BENDER talked about the sales tax rates suggested in the proposals, each of which had tax bases that varied. He referred to his handout on this subject, "Sales Tax Bases" to explain what might be included and what might be exempted from a sales tax. Exhibit 2 -

Questions and

discussion

316 STEVE BENDER related that the sales tax would apply to property that has been "leased" (meaning to use tangible personal property which a fee was paid). He gave various examples of leased items or material.

Questions and

discussion

372 STEVE BENDER noted that there was nothing in the definition of any of the sales tax proposals that would require a retailer to "add-on" the sales tax to the price of goods.

Discussion

n

401 STEVE BENDER continued his discussion of examples of goods that might be exempted from a sales tax base. Exhibits 1 and 2

TAPE 114 SIDE B

002 STEVE BENDER further explained different goods that might be exempted from a sales tax base, citing differences between an

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Oregon 1985 sales tax proposal and the current sales tax proposals.

Exhibits 1 and 2

033 STEVE BENDER explained the term "lease" as would apply with a sales tax.

036 STEVE BENDER continued citing items that might be exempted from a sales tax. Additionally, certain kinds of sales might be exempt.

Constitutionally, sales to the Federal Government cannot be subject to a sales tax. He described other types of sales that would not be subject to a tax. Exhibits 1 and 2

055 STEVE BENDER discussed when exemptions might not be applicable.

Exhibits 1 and 2

Questions and discussion

096 STEVE BENDER continued his discussion of exemptions. He talked about "sales by the Federal government" and "sales by State and local governments." He discussed when these exemptions would not be applicable.

Exhibits 1 and 2

132 STEVE BENDER explained the sales tax base for the "Van Vliet" sales tax proposal. Exhibits 1 and 2

146 STEVE BENDER explained the tax bases for the sales tax proposals by "Johnson" and "AOI." Exhibits 1 and 2

170 STEVE BENDER said each proposal put some exemptions into constitutional amendments, but not the total number of them.

177 STEVE BENDER related that all the sales tax proposals dedicate the revenue from the sales tax to a specific purpose. Exhibit 1

Questions and discussion

193 STEVE BENDER discussed the various provisions for a "income tax dedication in the sales tax proposals. Exhibit 1

209 STEVE BENDER mentioned how each sales tax proposal addressed changes in the "Personal Income Tax." Exhibit 1

235 STEVE BENDER explained how the sales tax proposals address issues with the "corporate income tax." Exhibit 1

242 STEVE BENDER discussed a "split-roll" as was utilized by the various sales tax proposals. Exhibit 1

251 STEVE BENDER explained how "local property tax" might be effected by each of the sales tax proposals. Exhibit 1

259 STEVE BENDER talked about "assessed value limits" in each of

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the sales tax proposals. Exhibit 1

275 STEVE BENDER related that all the plans had a "low income credit, n
which he would describe later. Exhibit 1

277 STEVE BENDER talked about "renter relief" in the sales tax proposals.
Exhibit 1

279 STEVE BENDER explained "retailer compensation" as this was addressed by
each of the sales tax proposals. Exhibit 1

305 STEVE BENDER said most of the sales tax proposals do not have an
exemption for "personal property tax." Exhibit 1

313 STEVE BENDER talked about the categories "lottery" and "expenditure/tax
limits" as applied to the various sales tax proposals. Exhibit 1

338 STEVE BENDER mentioned that there were sunset provisions in some of the
sales tax proposals. Exhibit 1

Questions and discussion

366 STEVE BENDER explained the category "raises revenue in 199395," which
some of the proposals specifically did not include.

385 STEVE BENDER related that the next three categories of his handout
would be explained on additional pages.

404 STEVE BENDER discussed predicted "revenue impact" of each of the six
tax proposals he had discussed. He related that these numbers had been
revised since his presentation to the Senate Committee on Revenue and
School Finance. Exhibit 1, page 3

Questions and discussion

TAPE 115 SIDE B

020 Questions and discussion continued with STEVE BENDER how about the
revenue impact of various tax proposals. Exhibit 1

033 STEVE BENDER discussed the category on page 3 of his handout entitled
"current service shortfall." Exhibit 1

040 STEVE BENDER related that the revenue impact of the six tax proposals
varied tremendously, and he revealed which raised the most and which the
least revenue. Additionally, he explored the net revenue figure for the
proposals,. Exhibit 1, page 3

060 STEVE BENDER explained the categories under "State Government Impact"
for the tax proposals. Exhibit 1, page 3

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Questions and discussion

091 STEVE BENDER related that currently the Department of Revenue (DOR) had
requested a six-month period to get a sales tax started up in Oregon, and
he explained some of the reasons for this, including retailer education. He
mentioned a scenario where a sales tax passed in November 1993 and the DOR
would begin collecting the tax in April of 1994.

Questions and discussion

141 STEVE BENDER explained differences in the category "Retailer Discount"
in his handout. Exhibit 1, page 3

153 STEVE BENDER justified the figure for the column "sales tax (Gross
Payments)" for the AOI tax proposal. Exhibit 1, page 3

Questions and discussion

175 STEVE BENDER reviewed ways for "recovering" income taxes if lost due

implementation of a sales tax. Exhibit 1

190 STEVE BENDER explained the sales tax base numbers on page 4 of his handout concerning "Sales Tax Revenues." Exhibit 1

225 STEVE BENDER discussed the sales tax base that exists for Washington State, specifically as related to construction "as a service to real property." Exhibit 1, page 4

Questions and discussion

315 STEVE BENDER explained the category "Goods and Services Base," and referred to another exhibit that contained "examples of additional services" to help explain the category. He talked about how various states tax "goods and services." Exhibits 1 and 2

Questions and discussion

TAPE 116 SIDE a

004 STEVE BENDER explained various "Base Adjustments," but he related that it was difficult to determine these because it depended on which would be included or combined within a sales tax proposal. He mentioned various types of "personal services" included in his second handout (page 3).

Exhibits 1 and 2

030 STEVE BENDER talked about "business services" that might be applied to a base adjustment, using his second handout. Exhibits 1 and 2

Questions and discussion

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055 CHAIR JONES recessed the meeting at 10:05 and reconvened at 10:28.

058 STEVE BENDER talked about the numbers on page 4 of hi. handout that delineated "Business/Household Tax Burden" of proposed snd actual sales taxes. By broadening a sales tax to include services, businesses tend to pay more of the tax, and he explained the reasons for this. About 3-4% of collections would come from outof-state tourists for any sales tax (which is why the portion paid by households added to the portion paid by businesses does not add up to 100%). Exhibit 1, page 5

Questions and discussion

098 STEVE BENDER talked about what might happen if an increase in a sales tax was dedicated to personal income tax relief. Exhibit 1, page 5

113 STEVE BENDER explained the numbers on page 6 of his handout related to the "Total State and Local Taxes in Oregon" as related to the specific burdens on households and businesses. This information included taxes from 197 8 to 1992, and the six tax proposal used previously as examples. Exhibit 1

Questions and discussion

190 STEVE BENDER related that about 9% of the Personal Income Tax was attributed to the "Corporate Income Tax," and he explained why this happened.

Questions and discussion

258 STEVE BENDER began his explanation of the "gross receipts tax." He referred to HB 2432. He said the "gross receipts tax" was similar to a sales tax, except language was that it would be for the privilege of doing business in the state, and imposed at a graduated rate of the gross

receipts of the business. This would apply to all receipts, not just retailer. Language contained no complimentary "use tax."

Questions and discussion

345 STEVE BENDER talked about other states that have a "gross receipts" tax. He discussed in detail the Washington State "gross receipts" tax, which has differential rates for various services and goods, and he referred to a handout related to HB 2432 to explain how Washington implemented this tax.

Questions and discussion

TAPE 117 SIDE A

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002 Questions and discussion continued with STEVE BENDER concerning the Washington State "gross receipts" tax, referring to the numbers of his handout. Questions were also about this tax in a general sense. Exhibit 4

075 STEVE BENDER commented about two procedures Washington State does with respect to the "gross receipts tax." They exempt public utilities from this tax, and he mentioned what the level of rates are with the Washington tax. He explained current legislative changes with the "gross receipts" tax in Washington.

Questions and discussion

117 STEVE BENDER explained specific tax proposals that were based on a "gross receipts" tax, including differences with the Washington tax. He began with HB 2432, which would impose a "graduated gross receipts" tax with the same tax base as Washington used. Exhibit 4

Questions and discussion

182 He cautioned members about the revenue impact figures contained in his handout on HB 2432, but he explored the potential impact of a "gross receipts" tax in Oregon. He explained how the tax would be calculated, which would include deducting a "business income tax credit" as part of the tax structure. Exhibit 4

233 STEVE BENDER related that the 'gross receipts" tax would not take into account the profit or lack of profit on its gross receipts.

Discussion

246 STEVE BENDER talked about the complications of an "interstate tax credit" as it would apply to a "gross receipts" tax, especially on goods previously taxes under "gross receipt" tax laws in other states.

Questions and discussion

380 STEVE BENDER referred members to the revenue impact of HB 2432, and asked members to compare these numbers with various sales tax plans.

393 STEVE BENDER asked members to consider the revenue impact of HJR 18. Exhibit 5

TAPE 116 BIDE B

020 STEVE BENDER reviewed the mechanisMand revenue impact of HJR 60. Exhibit 6

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Questions and discussion

095 ACTING CHAIR BRIAN conducted administrative business.

107 REP. KEN BAXER presented his tax reform plan to the Committee, which he believed would provide enough revenue to fund all Oregon education while eliminating a number of current taxes and fees. His plan was entitled the "Citizen Reform Act of 1993," and he described some provisions which he believed were necessary for a successful tax reform plan submitted to the voters. Exhibit 7

150 REP. KEN BAKER explored the parameters of his "Reform Act," which included the prohibition of taxing the homes of people in Oregon. Exhibit 7, page 6

182 RBPRESNTATIVE KEN BAKER described the numbers of his plan with members. Exhibit 7

Questions and discussion

223 REP. KEN BAKER explained why implementing a sales tax without making other changes in the tax structure in Oregon would not be a reasonable solution. He explored other numbers of his plan with the members. Exhibit 7

282 REP. KEN BAKER concluded by stating that he believed taxing systems had two purposes: to provide revenue for government, but also to "promote economic development."

Discussion

311 REP. KEN BAKER related how his proposed tax reform plan would apply to home ownership and the sale of property.

Questions and discussion

341 REP. KEN BAKER discussed how some of the numbers in his tax plan were derived and how revenues would be distributed.

Questions and discussion

TAPE 117 SIDE B

016 JIM SCHERZINGER began his explanation of the "2% Equal Tax" contained in HJR 44, referring to a staff memorandum (Exhibit 8), and a HJR 44 proponent handout on the "Equal Tax Initiative." Exhibits 8 and 9

Questions and discussion interspersed

135 JIM SCHERZINGER noted questions with transactions taking place out of state, and another with which transactions would be taxed to

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enable to state to earn what it presently does through the variety of other taxes and fees. Language concerning "trade" or "transactions" will be limited in statute by the members. HJR 44 contained a definition of the word "person," which JIM SCHERZINGER read. Exhibit 8

Questions and discussion

185 JIM SCHERZINGER related that proponents of HJR 44 had provided information concerning how much the "equal tax" would raise. He talked about how these figures were derived, beginning with the fact that they were based on the difference between bank debits and deposits. Exhibit 9, page 3

Questions and discussion

258 JIM SCHERZINGER explained that a difficulty with the "equal tax" was determining the nature of "transactions" that occurred in the state.

Questions and discussion

340 CHAIR JONES conducted administrative business.

370 CHAIR JONES adjourned the meeting at 12:08.

Paula K. McBride, Committee

Assistant
Kimberly Taylor, Office Manager

EXHIBIT 8UMMARY

1. Bender, Matrix, Sales Tax Proposals, Steve Bender, LRO 4/22/93, Tax Reform
2. Bender, Outline, Sales Tax Bases, LRO 4/25/93, Tax Reform
3. Bender, Outline, Tax Reform Proposals, LRO 5/20/93, Tax Reform
4. Bender, Outline, HB 2432, LRO 5/31/93
5. Bender, Outline, Mannix-Burton Working Group, HJR 18
6. Bender, Table, Revenue Impact - 1992 Rollback, 2% Residential Value Limitation, LRO 3/5/93, HJR 60
7. Baker, Table, Baker Plan/Citizens Tax Reform Act of 1993, May-June '93, Tax Reform
8. Scherzinger, Staff Memo, 2% Equal Tax, 2/24/93, HJR 44
9. Direct Taxation League, Reference Sheets, Equal Tax, 5/27/93, HJR 44