

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
Tapes 130-131 A/B 132-133 A

HOUSE COMMITTEE ON
REVENUE AND SCHOOL
FINANCE

JUNE 7, 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 Mike Burton
Representative Margaret Carter
Representative Tony Federici
Representative Fred Girod
Representative Gail Shibley
Representative Greg Walden
Representative Jim Whitty

Staff: James Scherzinger, Legislative Revenue Officer
Steve Bender, Legislative Revenue Office
Dick Yates, Legislative Revenue Office
Paula McBride, Committee Assistant

TAPE 130 SIDE A

008 CHAIR JONES called the meeting to order at 8:14.
008 CHAIR JONES opened the Work Session on the Tax Reform Bills.
009 CHAIR JONES conducted administrative business.
033 CHAIR JONES posed questions related to a tax reform package that would have to be resolved before a decision was made; specifically, she addressed the issues of bonds and assessment if the property tax were eliminated. She asked members for other questions.
050 REP. BURTON posed a question about the local option in a tax reform package.

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057 REP. BRIAN raised the issues of preemption, equity in the distribution of revenues from a new tax, and making sure there were no unintended results.

Discussion

086 REP. WHITTY raised the issue of how urban renewal would be treated. He quoted an "expert" who believed the most stable tax was the property tax, and he thought both the income and sales tax were mostly influenced by business cycles.

Discussion of the advice of the "expert" who testified before the Interim Committee

127 REP. ADAMS also wanted members to seriously consider what created a fair tax system.

Discussion

176 REP. SCHOON expressed concern about the replacement of a property tax with a sales tax, which would not be deductible on the Federal Income Tax. If alternative taxes were considered, he wanted to know what, if any, the effect would be on the Federal tax.

Discussion

201 CHAIR JONES wanted members to consider what effect a tax reform plan would have on the Oregon economy.

210 STEVE BENDER believed that no other state had totally eliminated the property tax, although Louisiana had come close.

Discussion

223 REP. BURTON believed on the local level severance taxes would be effected if the property tax were eliminated, and he thought appraisals would still be needed.

Discussion

244 REP. WALDEN raised the issue of misperception in the media concerning what the Committee had been discussing in relation to tax reform.

Discussion

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331 CHAIR JONES conducted administrative business.

372 CHAIR JONES discussed what she would like the committee to accomplish by the end of the week, specifically agreeing on a constitutional amendment for tax reform.

Discussion

413 CHAIR JONES asked which members would agree to enact a tax reform plan without sending it to the public (i.e., without a constitutional amendment). REPS. WHITTY and SHIBLEY indicated that would be willing to do this.

Discussion

TAPE 131 SIDE A

002 Discussion continued among members regarding whether or not to send a constitutional amendment to the people.

063 CHAIR JONES stated there was consensus for a constitutional amendment; that is, to allow the public to have the final decision concerning a tax reform package. She asked members to discuss the timing of the tax issue. She proposed November of 1993. There was consensus with this date.

Discussion

092 STEVE BENDER referred members to a handout in their books, entitled "Sales Tax Goals." This table showed the "mechanism" and the "tradeoffs" for each goal. Exhibit 1

126 STEVE BENDER mentioned the first goal on his handout related to "minimizing regressivity." Exhibit 1

Discussion

181 STEVE BENDER continued his explanation of the issue of regressivity with a sales tax. He thought a low income credit, which would be a mechanism to limit regressivity, would have to be applied for by individual taxpayers. Exhibit 1

Discussion

225 STEVE BENDER discussed how the income credit would work in a

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hypothetical sales tax proposal, and he went through the tradeoffs of requiring this application. He also mentioned the issue of exempting "necessities" in a sales tax. Exhibit 1

254 CHAIR JONES believed that the members would agree to not tax food for home consumption, so discussion of the tradeoffs was unnecessary.

Discussion

283 STEVE BENDER thought that adding food to a sales tax would add about 12-13% to the revenues collected.

Discussion continued about the exemption of "necessities" in a sales tax, specifically as related to low income households.

355 STEVE BENDER finished his explanation of tradeoffs in the goal of minimizing regressivity. Exhibit 1

365 STEVE BENDER talked about the goal of "minimizing taxation on households (versus business)." He began with the mechanism of the "no direct use rule." Exhibit 1

Discussion

TAPE 130 SIDE B

002 STEVE BENDER talked about tradeoffs for the "no direct use rule," one of which would be an increase in cost for Oregon products. This would result in an increasing pyramid to Oregon consumers. Exhibit 1

Discussion

029 STEVE BENDER explained another mechanism to minimize taxation on households, and the potential tradeoffs. Exhibit 1

Discussion

045 STEVE BENDER further explained the "direct use rule" related to minimizing taxation on households, related to machinery and/or equipment in businesses. Exhibit 1

Discussion

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067 STEVE BENDER discussed the third goal on his table, related to the ability to "promote-ability of Oregon firms to compete." He discussed the mechanisms and tradeoffs for this. He mentioned issues specific to border areas of the state, and to those that were located away from the borders. Exhibit 1

104 STEVE BENDER talked about the next goal, which was to "maximize the elasticity" of the sales tax, where the revenues tracked the growth in the economy. He explained the mechanism and the tradeoff. Exhibit 1

Questions and
discussion

137 STEVE BENDER explained the goal related to "maximizing stability of collections over the business cycle." The best mechanism would be to include food for home consumption in the sales tax, but this would increase

regressivity. He talked about a second mechanism and resulting tradeoff.

Exhibit 1

Questions and
discussion

186 STEVE BENDER related that he thought it was illegal to establish different tax bases in different areas of the state.

Discussion

213 STEVE BENDER confirmed that the members could choose which services they wanted a sales tax to apply to, if they didn't want all of them to be taxed.

220 STEVE BENDER talked about the goal that would "minimize pyramiding." He went through both the mechanisms to ensure this goal, and the tradeoffs if it were accomplished. Exhibit 1

Questions and
discussion

244 STEVE BENDER referred to a previous handout that was based on the Washington sales tax, as related to the goal of minimizing pyramiding. The information related to how much either households or businesses would pay under two different circumstances (see Exhibit 14, 6/5/93).

266 STEVE BENDER explained the goal related "minimizing distorting the effects on consumers." There were two mechanisms attached to this goal, which he reviewed. Exhibit 1

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Questions and
discussion

303 STEVE BENDER spoke about the tradeoffs for the goal that would minimize any distortions of the effects on consumers. Exhibit 1

312 STEVE BENDER went through the next goal, related to the maximizing of a sales tax outside the state, the mechanisms to accomplish this, and the tradeoffs that might occur. Exhibit 1

Discussion

373 STEVE BENDER explored the last goal, related to reducing administrative costs of the sales tax. The first mechanism to accomplish this would be to minimize exemptions, and he explained various categories that the members might want to exempt. He mentioned the tradeoff for this mechanism. Exhibit 1

Questions and
discussion

TAPE 131 SIDE B

005 STEVE BENDER reviewed two other mechanisms to reduce the administrative costs of a sales tax. The first related to excluding services from the tax, and the second was to prohibit local sales taxes. He mentioned the trade-offs for these. Exhibit 1

018 STEVE BENDER reviewed the last mechanism for reducing administrative costs for the proposed sales tax. Exhibit 1

032 STEVE BENDER referred members to another handout entitled "Income Tax Relief Guidelines." This was information that covered basically the same issues for the sales tax discussed above, in a slightly different format. Exhibit 2

050 STEVE BENDER talked about a tax reform that would increase the standard deduction in the Personal Income Tax, specifically the consequences of

implementing this change. Exhibit 2

Discussion

089 STEVE BENDER discussed the third item ramification for increasing the standard deduction in a tax reform package. Exhibit 2

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109 STEVE BENDER explained the second goal on his handout for income tax relief, entitled "Increase Personal Credit." He explained how this might be accomplished and the possible ramifications. Exhibit 2

Discussion

161 STEVE BENDER described the next category on his handout, "Earned Income Credit." He mentioned a current legislative proposal that would accomplish this goal by tying it to the Federal Earned Income Credit, and the cost that was estimated to implement the proposal. Exhibit 2

Questions and discussion

205 STEVE BENDER discussed the third and fourth alternatives under the goal of an "Earned Income Credit." Exhibit 2

227 STEVE BENDER discussed the fourth income tax relief choice and its consequences, which was entitled "Bracket Expansion." Exhibit 2

264 STEVE BENDER explained the final way to give income tax relief to taxpayers, related to "Rate Reductions." He mentioned ways to structure these reductions and the consequences of doing so. Exhibit 2

Questions and discussion

318 STEVE BENDER talked about the issue of "elasticity" with the various options on his "Income Tax Relief Guidelines" handout. Exhibit 2

Questions and discussion

352 STEVE BENDER believed that if the standard deduction was increased to \$3900 for individuals and \$6500 for a joint return might cost about \$452 million in the 1995-97 biennium. This would effect many of the people who currently have to pay Oregon Income Tax but not the Federal Income Tax (because they don't make enough money).

Questions and discussion

410 CHAIR JONES recessed the meeting at 10:04 and VICE CHAIR SCHOON reconvened at 10:47.

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413 STEVE BENDER provided members with information about the "Federal Income Credit" particularly related to the number of Oregon taxpayers that would be effected if such a credit were part of the tax package. He mentioned figures for both "refundable" and "non-refundable" tax credits.

Questions and discussion

TAPE 132 SIDE A

015 STEVE BENDER referred members to handouts in their books that they had already reviewed.

Questions and discussion

056 STEVE BENDER addressed the issue of whether or not all taxes could be made either more or less regressive (or progressive) given certain provisions of them.

Questions and discussion

070 STEVE BENDER related that Oregon's Personal Property Tax would raise about \$62 million for the 1995-97 biennium, but he didn't know the administrative costs.

Discussion of property tax relief as part of the tax reform package.

106 STEVE BENDER reviewed another chart with the members related to various tax proposals and the goals for each of them. He explained the goal terms.

Exhibit 3

Questions and discussion various taxes in Exhibit 3

148 STEVE BENDER discussed the "value added" tax based on the information in Exhibit 3.

Questions and discussion

173 STEVE BENDER explained the meaning of the first category in his handout entitled "Ability to pay/Benefits" based on two principles of taxation. He used some of the taxes on this handout to serve as examples. Exhibit 3

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Questions and discussion

258 REP. SHIBLEY asked members if they wanted to impose taxes on public lands as part of the tax reform package; that is, to extend the timber harvest and severance taxes to both Federal and state forests.

Discussion

290 STEVE BENDER believed that REP. SHIBLEY'S proposal to tax timber harvests on public lands would raise about \$27 million/ biennium based on projection of harvests.

Questions and discussion

discussion

324 DICK YATES related that both Washington and California had harvest taxes on public lands. He thought the forecast given by STEVE BENDER would have to be revised considering the amount of Federal and Bureau of Land Management (BLM) lands currently tied up in court action.

340 REP. GIROD believed another tax shouldn't be added to the timber industry and, if anything, all taxes should be removed from private lands.

Questions and discussion of categories in

Exhibit 3

376 STEVE BENDER informed members that there were estimates for administering a sales tax, which he gave, but he said the costs of administering other taxes would have to be evaluated as they were implemented. He said changes to the Income Tax would be fairly inexpensive because the system was already in place, and that changing Property Tax rates would be simple for the same reason. He informed members that the broader the tax base (of a tax), the less expensive it would be to administer per dollar raised. Exhibit 3

TAPE 133 SIDE A

002 STEVE BENDER continued to inform members about possible costs to administer or change various taxes. Exhibit 3

008 VICE CHAIR SCHOON referred members to a previous exhibit, entitled "Tax

Reform Matrix." He reviewed some of the options with the members, specifically those the members might want to put into

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a constitutional amendment (see Exhibit 5, 6/2/93).

036 STEVE BENDER related that he would update the table "Tax Reform Matrix" as members made decisions.

045 REP. WALDEN pointed out that an enactment date still had to be decided upon for the constitutional amendment (the election date was previously decided by consensus).

053 VICE CHAIR SCHOON adjourned the meeting at 11:18.

Paula K. McBride, Committee Assistant
Kimberly Taylor, Office Manager

EXHIBIT SUMMARY

1. Sales Tax Goals, Steve Bender, Legislative Revenue Office.
2. Income Tax Relief Guidelines, Steve Bender, Legislative Revenue Office.
3. Options and Goals of (various) tax proposals; Steve Bender, Legislative Revenue Office.

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