

Work Session: HJR 10
Tapes 164-165 A/B

HOUSE COMMITTEE ON
REVENUE AND SCHOOL
FINANCE

JUNE 23, 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
Witnesses Present: Jim Manary,
Department of Revenue (DOR)

Staff: Jim Scherzinger, Legislative Revenue Officer
Steve Bender, Legislative Revenue Office
Paula McBride/Mary Gottlieb,
Committee Assistant

TAPE 164 SIDE A

003 CHAIR JONES called the meeting to order at 10:22.

017 STEVE BENDER discussed a handout "Revenue Impact" for HB 2500, which showed the sales tax base expansion, sales tax exemptions, income tax adjustments, and the rationale behind the figures. He used an example of building or remodeling a house to illustrate the point that the sales tax would not go into effect until after the complete work was finished.

Exhibit 1

Discussion and comments.

090 CHAIR JONES asked for a consensus for including services in the proposed sales tax. Consensus was not reached. Exhibit 1

Discussion ensued concerning the sales tax rate and imposing the sales tax on services. Exhibit 1

170 STEVE BENDER stated that if there was not an exemption for

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non-profits in HB 2500, about \$41 million would be added in revenues, including services. Exhibit 1

Discussion

198 STEVE BENDER corrected the figure given on including nonprofits in a sales tax: That would add approximately \$37 million. Exhibit 1

Questions and
discussion

203 STEVE BENDER related that about \$110 million in revenues would be

raised if government was not exempted in HB 2500. Exhibit 1
Questions and
discussion

215 CHAIR JONES related her intentions for the constitutional amendment HJR 10, and she asked members to submit ideas for the language in it.

233 CHAIR JONES asked members if they wanted to impose the proposed sales tax on motor fuels. The members discussed this issue and agreed that they did not want to do this. She directed staff to exempt motor fuels from the sales tax.

Questions and
discussion

265 CHAIR JONES clarified that a previous decision by the members was to exempt trade-in items from the proposed sales tax.

Discussion

291 CHAIR JONES asked members if they wanted to include newspapers and magazines in the proposed sales tax. The members discussed this issue and agreed to include newspapers and magazines in the sales tax.

319 CHAIR JONES asked members to discuss whether or not they wanted to exempt non-profits and government purchases from the proposed sales tax.

-The members expressed their opinions about exempting government purchases.

373 CHAIR JONES again asked if any member wanted to impose the sales tax on local and state government purchases. REP. FEDERICI said he did, for he wanted to have as broad a base as possible for the sales tax. The members agreed not to tax governments.

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387 CHAIR JONES again asked members if they wanted to exempt nonprofits from the sales tax. Members discussed this issue, based on the language in HB 2500, page 77.

TAPE 165 SIDE A

001 STEVE BENDER referenced HB 2500 regarding non-profit organizations. He related that certain items would be exempt for certain organizations, and Section 213 of the bill listed these exemptions. He read material from Section 213 to the members defining exemptions for non-profit organizations.

Questions and
discussion

051 JIM MANARY further clarified which organizations would fit into the "non-profit" category.

Questions and
discussion

095 CHAIR JONES asked if any members felt he or she needed to exempt nonprofit organizations from the sales tax. REP. ADAMS and REP. GIROD believed they should all be exempt.

101 Members discussed the differences between nonprofit, charitable, and educational organizations, and which category or categories they might want to exempt from the sales tax.

254 CHAIR JONES referred to Exhibit 1 and delineated what the members had agreed upon, and she asked staff to prepare a list of everything that was exempted in HB 2500.

Discussion

326 CHAIR JONES recessed the meeting at 11:12 and reconvened at 3:46.

334 STEVE BENDER provided members with information about nonprofit organizations and how they would be treated under the sales tax proposed in HB 2500. The pertinent question was "whether the purchases by these organizations of tangible personal property would be exempt from the sales tax." Exhibits 2-4

Questions and discussion

360 CHAIR JONES related that the Committee would first look at "who" to exempt, and then they would look at "what" to exempt.

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361 STEVE BENDER asked members to look at page 77 of HB 2500, Section 213, which contained the controlling language related to "charitable organizations." The relevant Internal Revenue Service Code was 501(c)(3), which he explained. Exhibit 3

381 STEVE BENDER discussed how organizations would not qualify for an exemption according to the IRS code 501(c)(3). He pointed out that the category of "charitable institutions" was only a part of the largest category for "non-profits." He referenced Exhibit 2.

TAPE 164 SIDE B

002 STEVE BENDER related that some organizations qualify for tax exempt status even though they did not listed under IRS code 501(c)(3) (see Table J in Exhibit 2. However, none of these types of organizations would be eligible for an exemption in HB 2500 as it was written. He read some examples of the organizations that would not qualify.

025 STEVE BENDER referenced the back page of his exhibit that contained a table, on which was listed the 1988 national expenditures of tax exempt organizations (both those that would be exempt from the proposed sales tax in HB 2500 and those that wouldn't) under the IRS code 501(c)(3). He wanted members to have some idea of what a sales tax exemption would mean for these organizations. Exhibit 2

Questions and discussion

077 STEVE BENDER related that 13 states exempt purchases by organizations that qualify under IRS code 501(c)(3). The Western states have virtually no exemptions for these organizations. Idaho and Washington did treat specially nonprofit education and do grant a few other minor, occasional exemptions.

Questions and discussion

136 CHAIR JONES summarized that the amount of revenue from taxing "charitable" organizations would be \$37 million, spread over all these organizations in the state.

141 CHAIR JONES asked members what other information they needed to "move them closer to a decision.

Discussion

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158 STEVE BENDER related that states do dedicate the revenues from their sales tax, but he thought only Virginia dedicated the revenue to education.
166 CHAIR JONES asked members for their opinion on whether or not to impose the sales tax on "charitable" organizations in Oregon.

Discussion

183 CHAIR JONES noted that a majority of the members supported exempting "charitable" organizations listed in the IRS code 501(c)(3).

Discussion

224 STEVE BENDER referred members to Section 91 of HB 2500 (page 28), which listed manufacturing items that would be subject to the sales and use taxes. He related that the term "manufacturing" in this section was broader than what one normally thought of as manufacturing. The intent of the definition in HB 2500 was "the production of tangible personal property."
Questions and discussion

257 STEVE BENDER said it would cost \$216 million to exempt machinery, which included services to property.

Discussion

255 CHAIR JONES clarified the amount would be \$212 million to exempt machinery for the purpose of production in manufacturing. She asked members to consider if they wanted to exempt machinery, which was not in HB 2500. She explained her intent for reviewing exemptions in HB 2500 that already exist if they were a "big ticket" item.

Discussion

294 STEVE BENDER read from Section 91 of HB 2500 concerning the term "physically incorporating;" that is, the sales and use tax would not apply to any item that became a part of tangible personal property. However, the general rule was that sales and use taxes would apply from the sale or use of an article for purpose of use in manufacturing (as opposed to being incorporated into). There could be exceptions to this rule.
Questions and discussion about manufacturing exemptions

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002 Questions and discussion continued about items that might or might not be exempt from the sales tax in the category of manufacturing.

030 STEVE BENDER pointed out material on page 76 of HB 2550, Sections 211 and 212, related to items used in manufacturing that were exempt even though they do not qualify as "ingredients." He discussed the two groups of items that were exempt in this bill.

086 CHAIR JONES believed the issue was business competition with those of other states and not putting undue burdens on Oregon manufacturing.

092 STEVE BENDER referred to Section 91, and another exhibit, HB 2394-1, which define certain purchases that could be exempt to manufacturers and other processors, those these purchases were not exempt in HB 2500 (and they were not ingredients). He described the several sections of the amendments HB 2394-1, as follows; (1) extraction, (2) agriculture, (3) Manufacturing (the largest in terms of revenue impact), (4) commercial deep

sea fishing, and (5) logging. Exhibit 5
Questions and
discussion

158 STEVE BENDER read the exemption for "manufacturing" in HB 2394-1, specifically as related to items that were "depreciable" or "available to be depreciated," and were exempted from the sales tax under this particular bill. Exhibit 5

Discussion

213 STEVE BENDER referred to a handout that listed manufacturing exemptions in other states. Exhibit 6

218 STEVE BENDER gave members information about agricultural machinery & equipment, which was broader in general than the manufacturing exemption.

239 CHAIR JONES asked to hear from the people who might be effected by the sales tax.

Discussion

280 CHAIR JONES recessed the meeting at 4:37 and reconvened at

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5:12, and she conducted administrative business.

305 CHAIR JONES talked about the process of implementing a tax. She asked staff for additional information and members for additional ideas concerning the constitutional amendment.

Discussion

417 CHAIR JONES conducted administrative business.

Questions and discussion

439 CHAIR JONES adjourned the meeting at 5:20.

Paula K.McBride, Committee Assistant

Kimberly Taylor, Office Manager

EXHIBIT SUMMARY

1. HB 2500 - Revenue Impact (1995-97 Biennium), Steve Bender, Legislative Revenue Office.
2. Charities and Other Tax-Exempt Organizations, 1988 (source unknown), Steve Bender, Legislative Revenue Office.
3. 1986 Income Tax Code, Section 501, Steve Bender, Legislative Revenue Office.
4. Handwritten page with definitions of "non-profit" organizations, from the Department of Revenue, presented by Steve Bender, Legislative Revenue Office.
5. HB 2394-1 (to be incorporated into HB 2500, Steve Bender, Legislative Revenue Office.
6. Manufacturing Industry: Sales Tax Analysis of Machinery & Equipment Exemptions, KPMB Peat Marwick, 1/91, presented by Steve Bender, Legislative Revenue Office.

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