5-23-1969

Report of Sales Tax Package (June 3, 1969 Election)

City Club of Portland (Portland, Or.)

REPORT

OF

SALES TAX PACKAGE

(June 3, 1969 election)

Purpose:

Enacts 3 percent sales tax exempting food and prescription medicine. Prohibits increase in rate. Constitutionally dedicates proceeds to reducing property taxes. Changes constitutional school property tax limitations, establishes new property tax bases without people's vote. Restricts number of school tax elections, provides uniform dates. Increases corporation taxes. Rebates some income taxes to low income families. Prohibits increased property taxes on homesteads of $20,000 or less after owner's age 65.

To the Board of Governors,
The City Club of Portland.

I. INTRODUCTION

A. Assignment

Your Committee was appointed to study and report on the proposed Constitutional amendment to appear on the state ballot for the special election on June 3, 1969, and on related legislation, already enacted, but to become effective only if the Constitutional amendment is passed.

The measure includes a sales tax, effective July 1, 1969 which by itself produces no new revenue for local government. The Legislature has chosen a sales tax as a means of achieving property tax relief. Revenue from the sales tax is offset against property taxes otherwise payable.

B. The Constitutional Amendment

The proposed amendment is embodied in HJR 8 which provides for amendment of Article XI of the State Constitution by adding additional language.

The proposed amendment first establishes new tax bases(1) for school districts for the 1970-71 fiscal year consisting of 1969-70 property taxes for operation, state aid, and county school fund tax receipts, plus 5 percent. The following year a district may levy a sum equal to 105 percent of the new tax base, and thereafter a sum equal to 105 percent of the previous year's base.

In other words, instead of a "tax base" established solely in relation to that portion of the school budget to be raised by real property taxes (which in most cases has resulted in annual special levies to exceed the tax base), the tax base will be established in relation to the portion of school budget for the previous year which was funded by state and local taxes.

The measure also provides that after June 30, 1970 there shall be offset against any tax levied by a school district an amount equal to all of the "school support" (that is, state and county funds) of the school district for that year.

The measure permits the establishment of future tax bases by referendum or by the legislature. Levies in excess of the tax base may be referred to the voters in the district. All such elections must be held on dates specified by statute, and no more than two such elections may be held in any year.

The measure also limits the sales tax to 3 percent and provides that an amount not less than the net revenues (as defined in the measure, and excepting certain

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(1) A tax base is the amount which a taxing district may raise annually by levying property taxes without a vote of the taxpayers. At the present time, each taxing district, including school districts, under Article XI, Section 11 of the State Constitution has a tax base which is one of the following:

(a) The highest levy of the district in any one of the last three years in which a levy was actually made, exclusive of levies specifically voted outside the base, and levies to service bonded debt; or

(b) An amount specifically voted by the people as a new tax base.

taxes dedicated to the highway fund under Article IX, Section 3 of the Constitution) of the sales tax shall be applied exclusively for property tax reduction by way of an offset against *ad valorem* taxes.

C. Related Measures

Should the Constitutional amendments be adopted, the related legislation will become effective. This legislation is embodied in HB 1055, HB 1086, HB 1126 and HB 1127.

(1) **HB 1055**—This measure increases the rate of tax on the net income of banks and financial corporations in Oregon by one point from 8 to 9 percent. It increases the net tax on other corporations from 6 to 7 percent.

The monies from the increase, estimated at approximately $6,000,000 annually, will go into the General Fund.

(2) **HB 1086**—This measure establishes the dates upon which school district elections may be held for the purpose of levying sums in excess of the tax base established by HJR 8.

(3) **HB 1126**

(a) This measure freezes property taxes payable by certain eligible persons at the amount payable in the first year of eligibility. To qualify for the freeze, the householder must be 65 years of age or older and his residence must have a true cash value not in excess of $20,000. The homestead tax base will be increased when improvements made by the householder exceed $2,500. If the improvements when added to the homestead tax base exceed $20,000, the householder may no longer use the homestead tax base. However, increases in value attributable to factors over which the householder has no control will not result in an increased homestead tax base.

The property is required to be assessed at true cash value without regard to the freeze in value. Taxes in excess of those collectible from the qualifying householder will be collected from the State of Oregon. A general fund appropriation of $800,000 has been made for the biennium beginning July 1, 1969 to fund this measure.

(b) The measure also provides for an income tax credit (referred to as a "circuit breaker"), computed in relation to the taxpayer's property tax, or 25 percent of the taxpayer's rent, if the income (defined to include many items not ordinarily considered to be income for tax purposes) of the household (including all contributing members) is less than $3,500 for the year of the credit. The credit allowable is in direct proportion to total household income. For instance, the credit allowed for incomes ranging from $0 to $499 is 75 percent of the property tax or the rent percentage, or $225 — whichever is the lesser. The credit allowed for incomes ranging from $3,000 to $3,499 is 10 percent of the property tax or the rent percentage, or $30, whichever is the lesser.[2]

To the extent the credit exceeds the tax otherwise due to the State of Oregon, the State will pay this amount to the taxpayer in the same manner as a tax refund. The credit applies to income tax years beginning on or after January 1, 1969. No credit is allowed to a taxpayer who is a "recipient of public funds for the payment of taxes or rent' during the period for which the credit is claimed or who occupies "tax-subsidized housing for students or others." The credit is allowed to only one member of a household in any given year.

(4) **HB 1127**—This measure imposes a tax of 3 percent on the gross receipts of retailers from tangible personal property sold, and on admissions and transient lodging. All other persons who store, use or otherwise consume such tangible personal property in the State of Oregon are required to pay a 3 percent use

[2] *Household Income Range*	*Percent of Tax or Rent Allowance*
$ 0— 499	75 percent
500— 999	70 percent
1,000—1,499	50 percent
1,500—1,999	40 percent
2,000—2,499	30 percent
2,500—2,999	20 percent
3,000—3,499	10 percent

tax. The bill provides for reimbursement to the retailer for collection costs of 1½ percent of the sales and use tax collected by the retailer in the first year and 1 percent of the tax collected in each year thereafter.

This measure also provides numerous exemptions from the sales and use tax. Some of these exemptions are evidently intended to decrease the regressiveness of the tax (e.g. exmptions for food and drugs) while others appear to have been adopted in response to the claims of particular interests or for other reasons (for example, some exemptions are: services and labor; water, gasoline and fuel; animal life, feed, seed, plants and fertilizer; property used or consumed in industrial processing, and cigarettes.)

All receipts are payable to the General Fund Account referred to as the "Sales and Use Tax Receipts Account." From this account a reserve fund is established to pay allowable refunds and the balance is credited to the "Local Property Tax Relief Fund" on July 1 of each year.

The measure provides for the establishment of necessary administrative procedures and regulations by the Tax Commission which is charged with enforcement of the act.

II. CHARACTER AND LIMITATIONS OF STUDY

The relatively brief period of time available for the preparation of this report prevented the Committee from making as intensive a study as it would have liked. While the recommendation expresses the joint conclusion of the Committee members, each of the several members of the Committee might emphasize different arguments in support of the conclusion.

The Committee solicited written opinions and information and received replies from the following:

Oregon State Tax Commission, Research and Planning Section and Law Section
Dr. James N. Tattersall, Professor of Economics at the University of Oregon
AFL-CIO
League of Women Voters of Portland
Mr. William Bade, District Fiscal Officer, Portland School District No. 1
The Honorable Robert W. Straub, State Treasurer
Mrs. Ronald Lansing, Certified Public Acountant
Portland Chamber of Commerce
Associated Oregon Industries, Inc.
Meier & Frank Co.
Sears Roebuck & Co.
Montgomery Ward & Co.
Georgia-Pacific Corporation
Portland General Electric Company
Pacific Northwest Bell Telephone Company

The Committee reviewed prior City Club reports on tax measures dating back to October 29, 1920,(3) and gave particular attention to the reports published in connection with six previous sales tax ballots and the 1½ percent property tax limitation measure initiated in 1968.

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(3)The Committee referred to the following previously published City Club reports pertaining to taxation matters:

"Single Tax Constitutional Amendment," Vol. I, No. 5, Oct. 22, 1920
"Graduated Income Tax," Vol. II, No. 44, July 28, 1922
"Flat Rate Income Tax and Single Tax," Vol. III, No. 4, Oct. 20, 1922
"Constitution to Prohibit Inheritance and Income Taxes for a Period of 15 Years," Vol. VII, No. 3, Oct. 15, 1926
"Oregon Grange State Inheritance Tax Bill," Vol. VII, No. 3, Oct. 15, 1926
"Income Tax Off-set Bill," Vol. VII, No. 3, Oct. 15, 1926
"Proposed Income Tax," Vol. VII, No. 39, June 24, 1927
"State Income Tax Bill," Vol. IX, No. 23, Oct. 12, 1928
"Property Tax Relief Commission," Vol. IX, No. 40, Feb. 8, 1929
"Income Tax Measure," Vol. XI, No. 21, Oct. 10, 1930
"Amendment to the Personal Income Tax Law," Vol. XIII, No. 24, Oct. 14, 1932
"State Sales Tax," Vol. XIV, No. 10, July 7, 1933

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Members of the Committee also reviewed the following written materials:

Oregon Attorney General's Opinion No. 6590, dated February 19, 1969.

A Brief Comparison of Taxes in Oregon, Washington and California by Michael Kane, Economist, Economic Development Division, Oregon Department of Commerce (August, 1968).

Some Notes on Alternative Proposals for Property Tax Relief and Tax Reform in Oregon, Oregon Business Review (Univ. of Oregon Bureau of Business and Economic Research), (January, 1969).

Statement to members of House Committee on Taxation by Tom Scanlon, representing the Oregon AFL-CIO (January 28, 1969).

"Sales Tax Special," League of Women Voters of Portland (March, 1969).

"Property Tax Relief Package," statement by Representative Sam Johnson, Vice Chairman, House Taxation Committee (March 14, 1969).

Sales Tax Article by Senator Anthony Yturri, President *Pro Tempore* and Minority Leader of Oregon Senate.

"The Property Tax Relief Program," Oregon Retail Council (a division of Associated Oregon Industries), (March 17, 1969).

"New Horizons in State Taxation: Sales Tax Coordination with Income Tax," by John B. Legler, Assistant Professor of Economics, Washington University, St. Louis, Mo. (September, 1967).

"Tax Relief for the Poor," John Shannon, Assistant Director, Advisory Committee on Intergovernmental Relations (October 26, 1967).

Reports for the State Advisory Committee of the Oregon State Government of Planning and Development, by Dr. John F. Sly, Director, Princeton Surveys (July, 1958; September, 1958; November, 1958).

III. ARGUMENTS ADVANCED IN SUPPORT OF THE PACKAGE

The proponents of the package make the following claims:

1. From the standpoint both of voter approval or acceptance, and of competition with other states, Oregon has exhausted its tax resources from the property and income tax.

2. Because of the high property taxes in effect, a taxpayers revolt has occurred. Unless property tax relief is obtained, taxpayers in the future may, by initiative, impose property tax limitations which could cripple public education and local government.

3. A sales tax can produce the substantial revenue necessary to fund increasing state and local needs or demands for revenue.

4. The addition of a sales tax will broaden the tax base and add balance and diversity to Oregon's tax structure. Several small taxes are superior to one large tax, because no one tax affects people of similar financial circumstances equally. A broadly based tax imposes responsibility for state services on all.

"Sales Tax for Education Aid," Vol. XIV, No. 51, April 20, 1934

"Sales Tax for Old Age Pension," Vol. XVI, No. 39, Jan. 24, 1936

"Federal Income Tax Compared With Tax In Community Property States," Vol. XVI, No. 48, March 27, 1936

"Amendment Limiting and Reducing Permissible Taxes on Tangible Property," Vol. XVII, No. 25, Oct. 16, 1936

"Citizen's Retirement Annuity Bill," Vol. XIX, No. 24, Oct. 14, 1938

"Personal Income and Intangible Taxes," Vol. XIX, No. 40, Feb. 3, 1939

"Excess Income Tax Revenue to School Districts Measure," Vol. XXIII, No. 22, Oct. 9, 1942

"Administration of State Taxes in Oregon" (summaries of various types of taxation), Vol. XXIII, No. 40, Feb. 12, 1943

"Retail Sales Tax in Oregon," Vol. XXV, No. 25, Oct. 20, 1944

"3% Sales Tax," Vol. XXVIII, No. 21, Sept. 26, 1947

"Personal Income Tax Exemptions," Vol. XXIX, No. 22, Oct. 1, 1948

"Personal Income Tax Bill," Vol. XLI, No. 22, Oct. 28, 1960

"Personal & Corporate Income Tax," Vol. XLIV, No. 19, Oct. 11, 1963

"Constitutional Amendment Changing Property Tax Limitation," Vol. IL, No. 21, Oct. 25, 1968

5. A sales tax is relatively easy to pay (since collected in small amounts), is easy to collect, and is reliable because it is unaffected by changes in economic conditions.

6. The regressive aspects of the sales tax are reduced by the property tax relief credit for persons with income under $3,500 (usually referred to as the "circuit breaker"), by the property tax freeze for persons 65 years of age or older, and by the food and drug exemptions.

7. The property tax relief granted to non-homeowners (i.e. "business") is offset by an increased corporate income and excise tax rate and by sales tax imposed on business purchases.

8. The rate of tax cannot be escalated without voter approval because the 3 percent rate is constitutionally imposed.

9. The sales tax will produce income from tourists and transients.

10. The allowance of a new tax base for schools, with a 5 percent growth factor and a limit on the number of school revenue elections, is a desirable reform, which adds flexibility and stability to public school finance and which allows local voters to express their approval or disapproval of new programs at the polls without fear of totally destroying their local school system.

IV. ARGUMENTS ADVANCED AGAINST THE PACKAGE

The opponents of the measure make the following claims:

1. A sales tax is regressive—that is, lower income families will pay a higher percentage of their income for this tax than higher income families. The "circuit breaker" property tax relief credit for persons with income under $3,500, the property tax freeze for persons 65 years of age or older, and the food and drug exemptions reduce to some extent but do not eliminate the regressive aspects of the sales tax, especially with respect to taxpayers in the $3,500 to $7,500 income range.

2. The sales tax will produce no additional revenues, but will merely shift a tax burden to consumers from unincorporated business such as apartment owners, farmers and commercial enterprises and possibly from corporations even though the package includes an increase in corporate income or excise taxes.

The average homeowner or renter will pay more in sales taxes than he will get in property tax relief.

3. Because of the many exemptions and necessary audit procedures, the tax is expensive and inefficient to collect, both for the State of Oregon and for business.

4. Tourists can be taxed by other measures. The sales tax collected from tourists may not even cover the cost of collection, particularly with the food exemption.

5. Communities bordering sales tax states will lose an existing economic advantage.

6. The Legislature can eliminate exemptions (such as food and drugs) at any time, because they are not locked into the Constitution.

7. The burden on the general fund will be increased, because sales tax revenues are constitutionally dedicated to property tax relief but state agencies (including colleges and universities) will have to pay sales tax on state purchases and the general fund will have to bear the cost of the "circuit breaker" property tax relief credit and the property tax freeze for persons 65 years of age or older.

8. The sales tax proceeds are not dedicated to school support but to general property tax relief, and the package provides no real reform of school finance.

9. The sales tax represents the last major source of tax revenues. Tying it exclusively to property tax relief will eventually force schools and local government to turn once more to property taxes for revenues needed in the future.

10. The use tax on automobile ownership is required to be dedicated to the highway fund, under the Oregon Constitution, rather than to property tax relief, and the sales tax on purchases of automobiles may also be dedicated to the highway fund.

11. Other more suitable alternatives for raising revenue and providing property tax relief are available.

V. BACKGROUND

1. The Need for Additional Revenue

The Committee assumed, without examining it in detail, that the logic of economic development implies the need for steadily increasing additional tax revenues. Consider, for example, the following reports presented to the City Club on May 24, 1968, and November 1, 1968:

Dock Development Bonds (Municipal Measure No. 1)

School District No. 1 Tax Base Proposal
(School Measure No. 4)

Common School Fund Constitutional Amendment
(State Ballot Measure No. 1)

Area Education District, Metropolitan Community College

Bond Issue to Acquire Ocean Beaches
(State Measure No. 6)

Government Center (Multnomah County Measure No. 8)

Tax Base Proposal for Metropolitan Area Education District
(Area District Measure No. 10) and

Constitutional Amendment Broadening County Debt Limitation
(State Measure No. 4).

Gone are the days when most of Oregon's population lived on widely scattered farms that were relatively self-sufficient and did not rely on local zoning, fire and police protection, a community water system, sewer treatment plants, public recreational facilities, city engineers, and building inspectors, pollution control, welfare agencies, and all the other trappings of an organized community. Furthermore, as we begin to supply large parts of the nation and reciprocally draw more and more on "foreign" supplies to keep our local businesses going, the accelerating need for other government activities will appear. Highways, airports, port facilities, the setting of production standards, the regulation of commerce, educational and research facilities, and many other services that only the government can provide come into ever greater demand.

Thus, the rapidly increasing interdependence and urbanization of the people in this state suggests that we will require government services more and more urgently, and that the public sector will in fact, continue to grow faster than the private sector of our economy.

2. The Theory of Equity in Taxation

Some government services are paid for directly by their users. Toll bridges, sewer pipe, water supplies, airports supported by landing fees, highways financed by a gasoline tax levied on highway users, etc., are essentially commercial enterprises; they are paid for by their users according to quite commercial principles, even though it is the government that provides them. And the list could be expanded. The "benefit principle of taxation," whereby those benefitting from a particular service bear the cost of it, is generally accepted as a good one.

But it cannot be applied everywhere. In some cases—e.g. the police and the fire department, the judiciary, and sanitation control—it is difficult to identify the beneficiary, particularly because the indirect benefits are sometimes greater than the direct ones. The police function is not only to catch burglars in one or another taxpayer's house; it is also to patrol the neighborhood so that (ideally) no calls to the police need ever be made. Similarly, public education helps not only the student going to school, but the entire now more enlightened community; the Board of Health and the Department of Vocational Rehabilitation, to cite two other examples, help the entire population in many inestimable ways. The benefit principle thus cannot be applied universally. It particularly cannot be implemented in connection with welfare programs. The Committee does not agree with the argument that "low income groups ought to bear more of a tax burden because they are the ones who benefit most from government activity."

The second generally accepted principle of taxation, applied where the benefit principle is not appropriate, is the one based on ability to pay. It implies that people in higher income brackets should pay more tax—not only absolutely, but also relatively—than their less affluent neighbors. The theory is that they are likely to have met their basic needs and are in a better position to pay taxes.

For example, a family with a $4,000 income is probably struggling to maintain an adequate diet, sufficient clothing, and reasonable shelter. Even if granted a 10 percent raise, it probably could ill afford to pay a 5 percent tax on that added income. A similarly-sized family with an income of $40,000, by contrast, is likely to have satisfied the basic needs of food, clothing, and shelter, and could probably afford to pay more than 5 percent in taxes on any increase in income that it might receive. This is the argument for progressive taxes, which tax higher incomes at a higher rate than lower incomes. No analogous argument for proportional taxes (i.e. taxing different income levels at the same rate) or for regressive taxes (which impose a relatively heavier burden on lower-income families) is ever heard. Nevertheless, many jurisdictions have found it necessary to resort to taxes which are not necessarily in accord with the benefit principle and the ability to pay principle and to impose taxes which are regressive. We have some regressive taxes in Oregon: employee-financed contributions to the Workmens Compensation Fund, imposed at a flat rate and collected only on payrolls, are an example. Sales taxes on cigarettes and gasoline are also regressive, assuming that income levels have no bearing on how much people smoke or drive. The Social Security tax, though often cited as a proportional tax, is regressive if one considers that it is levied only on earned incomes and is not imposed on incomes above $7,800. Even the State income tax, originally intended to be progressive, is now regressive at the upper income levels, where the tax rate remains constant and the scope of allowable deductions such as the federal income tax deduction increases disproportionately.

3. Taxation and Economic Stability

Most experts agree that, to minimize the need to change laws or to redirect policy with every ebb and flow of economic activity, a tax system is best that responds automatically to changes in economic conditions and exerts a stabilizing influence. When money incomes are rising rapidly, a progressive tax will absorb an increasing proportion of those incomes, slow down consumer spending, and put a damper on inflationary pressures. During a downturn of business activity, when money incomes are falling, the taxpayer's tax obligation will decline even faster, thus tending to reduce his need to curtail his consumption drastically. The cushion thus created will protect his purchasing power and help producers and suppliers to maintain sales on a more even level. The resulting stability, achieved entirely and automatically through the effects of a progressive tax structure, is very important and beneficial to the economy as a whole. On the other hand, in the same circumstances, the stability of government revenues is adversely affected by such a tax.

4. Tanglible or Intangible Property as a Tax Base

The progressive income tax is not the only one that satisfies the ability to pay principle. A tax on wealth also qualifies. Some would prefer it because it puts a lesser penalty on productive effort and thus does less to discourage constructive activity. However, a tax on wealth would run into severe problems if applied only in the State of Oregon: some part of the wealth could be shifted to other states and nations to escape the tax. Also the wealth that is retained in this State would be very difficult to assess accurately. Until the Federal government demands of each family an annual balance sheet and estimate of personal net worth, a comprehensive Oregon tax on personal property does not appear feasible.

Another alternative, a tax on land, exclusive of improvement, suffers from different drawbacks. Though land holdings are the only form of property that can neither be reproduced nor taken out of the State, so that they "belong to Oregon" in the most fundamental sense, the idea of taxing them exclusively—first suggested by Henry George about 100 years ago and continually endorsed since by surviving "single taxers" — runs into a new set of problems. For one thing, land holdings at present seem to bear little relationship to the owner's total wealth or income, so that a stiffer tax on land would—at least at the start—be particularly oppressive for some farmers and for others who happen to hold their assets largely in this form. Secondly, there is a real question whether a Henry George type of tax can generate sufficient revenue to satisfy the govrenment's needs.

The property tax as we know it in Oregon is actually a compromise between a tax on land and a tax on personal net worth. Because land value alone is too low to permit levying a tax on it at any appreciable rate, the value of improvements on the land is also taxed; this in turn encourages land owners to delay making improvements and can result in a distortion in the allocation of resources that is detrimental to our economy. Furthermore, the absence of any significant correlation between the ownership of real property and family incomes must be recognized. Both proponents and opponents of the current sales tax package agree that the property tax is a very poor tax; the only argument is over what is the best way to improve on it.

5. The Property Tax Revolt

Taxes have never been popular.

The income tax was first approved by Oregon voters in 1923, but was repealed in 1924. The voters rejected income tax proposals at elections in 1926, 1927 and 1928. However, the voters at a 1930 election approved an income tax bill enacted by the 1929 Legislature (called the Property Tax Relief Action of 1929). Income tax rates have been revised from time to time since 1930 as more or less revenue was required, but proposed rate revisions were defeated by the voters at elections in 1960 and 1963.

Sales tax measures were referred to the voters of Oregon by the Legislature in 1933, 1936, 1944 and 1947 and by referendum petition in 1934, but none of these measures received as much as 30 percent of voter support.

The current sales tax package is largely a response to the 1½ percent constitutional property tax limitation initiative that received 35.4 percent of the votes at the election on November 5, 1968, despite the opposition of almost all public agencies and private organizations, including the City Club, that studied its effects. A property tax limitation would be particularly harmful to education because the state's contribution to local education has been decreasing and now constitutes less than 25 percent of the total cost. The balance is borne by local property taxes and other revenues.

Although the 1½ percent limitation initiative has been the focus of taxpayer revolt, the Committee questions whether the opposition is exclusively or even predominantly to property tax alone or whether is has focused on the property tax simply because it is the most accessible to the voters.

The problem is to find a tax system that will not only produce progressively rising revenues needed to finance progressively rising government expenditures, but will also be equitable, efficient, stable and responsive to the public's needs. It is admittedly a difficult problem, particularly when competition with other taxing jurisdictions is involved.

6. The Sales Tax Package

As of June 1, 1969, Oregon is one of only two states that have not added a general sales tax to the state tax system, and the sales tax package now offered to the voters does provide an alternative which they have not recently had an opportunity to consider.

VI. DISCUSSION

The Committee has considered all of the arguments in favor or against the measure of which it is aware. Many arguments are not susceptible to objective analysis. Many of the statistics available are at best educated estimates. The Committee concludes that the adoption of the proposed sales tax package is not in the best interests of the people of this state for the following reasons:

(a) This sales tax package will produce no significant total additional revenue because all net sales tax receipts (except those which are dedicated to the highway fund) are committed to property tax relief as a direct offset. Thus the sales tax will not provide direct financial assistance to schools. Although the increase in corporate income taxes constitutes additional revenue to the general fund estimated to be $12,000,000 for the biennium beginning July 1, 1969, this additional revenue will be reduced by expenditures from the general fund to reimburse counties for the property tax limitation for homeowners 65 years of age or older (the Legislature has appropriated $800,000 for this property tax relief for the biennium beginning July 1, 1969) and by the "circuit breaker" income tax credit granted to low-income property taxpayers. The total cost of exemptions and refunds to the General Fund for the same biennium is estimated by the State Tax Commission to be $16,450,000. In addition, the State will also have to pay a sales tax on its purchases during the biennium.

(b) It is not clear that the property tax relief will be equitably distributed to those who bear the cost of the sales tax or the related increase in corporate income taxes. According to the State Tax Commission, owner-occupied residential property contributed an estimated 34.16 percent of property taxes collected in the 1968-69 tax year, and the balance was borne by habitation rentals, certain personal property, farms, industrial-forestry-commercial business, and miscellaneous—sometimes collectively designated "business." Thus, only about one-third of the property tax relief will inure to the benefit of the owner-occupied residential property owner. The Committee doubts that the consumer who rents rather than owns will receive any corresponding direct benefit.

Opponents of the sales tax allege that the homeowner will pay two-thirds of the sales tax costs and receive only one-third of the property tax relief. On the other hand, proponents of the sales tax measure argue that the increase in corporate taxes, plus the sales tax paid by corporations, will make the total corporate tax burden about equal to what it is now.

The State Tax Commission has produced figures which indicate that the "average" homeowner would pay out more in sales tax annually than he would receive in property tax reduction. For example, a family of four with average annual income of $10,000 to $11,000 living in a house worth $20,000 would pay $146 in sales tax and receive a property tax reduction of $120; a family of four with annual income of $20,000 living in a $30,000 house would pay out $217 in sales tax and receive a property tax reduction of $180.

Also, the property tax relief is distributed to counties based on their proportion of the total assessed value in the state. Thus, uniform dollar reductions are provided for each $1,000 of true cash value throughout the state. Since property tax rates vary throughout the state, the percentage reduction in property taxes are estimated to range from 20 percent to 55 percent, depending on the area and the level of taxes.

(c) The property tax freeze for certain persons reaching 65 years of age will provide some but not necessarily enough property tax relief in a badly needed area. On the other hand, the "circuit breaker" property tax relief credit for persons with income under $3,500 (including in the definition of income, such items as alimony, support money, cash, public assistance and relief, social security, and workmen's compensation) may, in the opinion of the Committee, not offer as much relief as some expect. Both methods of relief are a charge on the General Fund and need not necessarily be tied to a sales tax.

(d) When the personal income tax is part of a state's tax structure, a retail sales tax with a tax credit/rebate is preferable to a flat exemption for food and drugs. A tax credit could be provided which can either be deducted from the state income tax or paid directly to the taxpayer if no income tax liability exists. The tax credit/rebate scheme is more equitable than a food and drug exemption because the state does not make judgments concerning the desirability or necessity of certain consumption items or discriminate in favor of or against items of consumer purchase. In addition, the credit/rebate device confines the tax relief strictly to residents of the taxing state and also eliminates compliance costs for the retailer caused by the exemption of food items.

(e) The Committee believes it unlikely that a general sales tax with the present exemption (food, for example) will generate significant revenue from nonresident tourists. Nor is a general sales tax a necessary prerequisite to obtaining revenue from tourists. Selective new taxes such as motel and hotel taxes and the cigarette, liquor and gasoline taxes already in effect can extract revenue from tourists.

(f) Adding a sales tax to Oregon's tax structure will be costly both to the state and to the businessman required to collect the tax. The Legislature has appropriated as administrative cost for the biennium beginning July 1, 1969 the sum of $3,000,000. It has appropriated for the year (half-biennium) beginning July 1, 1971, the sum of $2,000,000. The sales tax collection costs will be a new administrative expense without any corresponding reduction in the administrative expense of collecting present income and property taxes. The administrative appropriations set forth above include estimated costs of hiring and training new personnel and of new equipment, as well as expenses of the assessment and enforcement of tax liability and collection of taxes. The appropriation does not, of course, include costs which are shifted to taxpayers through tax compliance duties such as the expense of preparing returns, or the vendors' discount discussed in the next paragraph.

Provision is made in the package for reimbursement to retailers for collection costs of 1½ percent of the gross amount collected in the first year and one percent in each year thereafter. Actual administrative costs for particular stores, however, may range from 2 percent to 15 percent, with low-cost per unit operations having the highest administrative costs, according to a study by the Bureau of Business Research at Ohio State University which was cited by one of the sales tax opponents. None of the local retail stores contacted by the Committee had made any study of their prospective costs of collection.

(g) There is a legal question whether the proceeds of sales tax on automobiles must be diverted to the highway fund rather than used for property tax relief. Section 3 of Article IX of the Oregon Constitution provides in part that the proceeds from any tax levied on the *ownership,* operation or use of motor vehicles shall go into the highway fund. The State Tax Commission has advised that the Legislative Counsel's office interprets Section 3 of Article IX of the Constitution to require that use taxes on the sale of motor vehicles but not retail sales taxes shall go into the highway fund. The Oregon Attorney General agrees (Opinion No. 6950, 2/19/69). Accordingly, the State Tax Commission and the legislative tax committees have proceeded on the premise that sales taxes collected by the retailers engaged in the sale of automobiles will be placed in the general fund for property tax relief and that monies collected by the Department of Motor Vehicles as use taxes will be paid into the highway fund. However, the Committee recognizes that there may be elements of the sales tax package, such as the provisions for reimbursement for collection costs and for passing the tax on to the consumer, that would support an argument that the retail sales tax on motor vehicles is a tax on ownership and that the proceeds are therefore required to be placed in the highway fund.

Whether or not the sales tax will go into the highway fund, the use tax will. The State Tax Commission has estimated that 1.3 million dollars in use tax will inure to the benefit of the highway fund annually. This result is inconsistent with the property tax relief objectives of the sales tax package.

(h) The Committee recognizes the arguments that Oregon's income tax is presently one of the highest in the nation, and that property taxes have increased tremendously since 1950. Nevertheless, when the amount of state and local taxes as a percentage of personal income in Oregon is compared with the other 10 of the 11 Western states, Oregon's ranking has dropped from number one (the highest) in 1957 to number 10 in 1967. Oregon ranked 23rd nationally for fiscal year 1966 in the rate of state and local tax collections for $1,000 of personal income, while California ranked 8th and Washington 17th. The Committee believes that the sales tax incorporated in the present package is not the only alternative available to the Legislature and that because of the objections expressed above the Legislature should consider some of the many other alternatives which have been suggested.

VII. CONCLUSION

The Committee concludes that the sales tax package provides some immediate property tax relief and some needed property tax reform, possibly enough to ward off a property tax limitation initiative which could cripple the schools. The Committee also believes that the package incorporates some desirable reform in connection with school tax bases and school elections.

On the negative side, the package provides no substantial additional revenue and as noted in paragraph (b) of the discussion, it is not clear that the relief from the property tax burden is distributed equitably. Also, the essential regressiveness of a sales tax could be reduced to a greater extent than has been accomplished in the proposed sales tax package.

The relatively small percentage of property tax relief achieved for those needing or demanding it most and the reforms in school finance do not justify the additional burden of the sales tax as proposed in this package, even if defeat of the measure involves the risk of further taxpayers' revolt. This particular solution to the taxpayer revolt is not acceptable to your Committee.

VIII. RECOMMENDATION

The Committee unanimously recommends that the City Club of Portland go on record as opposing the sales tax package and urges a "No" vote on House Joint Resolution No. 8 on June 3, 1969.

Respectfully submitted,
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Approved by the Research Board on May 15, 1969 and submitted to the Board of Governors.

Received by the Board of Governors May 19, 1969 and ordered printed and distributed to the membership for discussion and action on May 23, 1969.