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Issues Relative to Property Tax Reduction in Exchange for a Sales Tax
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OBSERVATIONS of the CURRENT PROCESS

- A) The goal of a sales tax is useless if its implementation is rejected by the voters. A legislative sales tax bill is subject to a referral to the voters due to constitutional issues or by initiative petition.
- B) Previous sales tax measures failed because of NO direct link to reduction of other taxes. As exemplified by callers to radio talk shows, the legislature is not trusted to reduce other taxes.
- C) The tax selected to eliminate or reduce in exchange for a sales tax is critical for voter acceptance. The elimination of the property tax in exchange for a sales tax will not gain public or local government support for the following reasons:

1.) Replacing a Property Tax with a Sales Tax Appears as Bait and Switch.

- Voters will not replace a property tax capped at 3% per year increase with a sales tax that will increase with the cost of products.
 - o Property tax is capped and callers to talk shows observe if eliminated the legislature will bring it back without the cap.
 - o Property tax is deductible on federal and state income tax return, a sales tax is not "fully" deductible because it can not be accounted for.

2.) Government has a Reputation for Favoring Some People at the Expense of Others.

- Property taxes are paid by ALL including renters indirectly. The "underground cash economy" pays no income tax; it includes construction, service, landscaping, illegal aliens, etc. Property tax elimination instead of the income tax reduction increases the unfair burden to honest taxpayers. Honest taxpayers continue to pay income tax while the government gives relief to the "underground cash economy" from a tax they currently pay ... property tax.

3.) Property Tax Reduction Already Promised as Compensation

- Land use restrictions on forest and farm land were partly justified with a lower assessed value and thus property tax to compensate for lost value.
- The state implemented an optional 10% reduction in property taxes in exchange for the woodlot owners agreeing to a higher timber cutting tax.
- Property taxes are reduced to foster redevelopment and other types of development (example: Pearl District).

4.) Historically Sales Tax in Exchange for Property Tax Reduction or Elimination is Not Acceptable.

- In 1990 advisory votes on reduction or elimination of property tax in exchange for a sales tax
Measure 5D was reduction: 588,187 total voters 65.57% NO.
Measure 5E was elimination: 597,077 total voters 62.72% NO.

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- HB 2530 in the 2007 legislative session proposed a sales tax for a reduction in the income tax rate. A Portland focus group indicated 70% approval of HB2530 (I will provide more detail of this focus group to the committee in a couple of weeks.)

5.) Local Governments Will Not be Supportive of Eliminating Property Tax

- Aforementioned redevelopment enticements.
- Even if part of the sales tax is assigned to local governments the control of property tax by the local governments is something not easily given-up.
- Property tax support staffs will not be reduced because assessed value records must be maintained and tax collected for special bond levies.

THE CORRECT FOCUS TO INSURE SUCCESS of the CURRENT PROCESS

- A) Income tax elimination or reduction in exchange for a sales tax can gain public support as exemplified by the above mentioned HB2530 focus group provided its application and implementation is correct.
- B) Oregon income tax relief is the better choice over property tax relief because it is one of the highest, is unfair, oppresses job growth, and fosters avoidance as follows.

1) Attributes of an Acceptable Income Tax In Exchange for an Sales Tax

- A reoccurring theme by callers to talk shows is a sales tax is acceptable if the income tax is greatly reduced or eliminated AND city, country, or other non-state taxing districts can not implement either income or sales taxes.
- Income tax plus sales tax must be capped with exceptions on what is taxed... see attached.

2) High Oregon Income Tax Reinforces Government Unfairness to the Taxpayer

- Current state income tax requires medicine, food, heating, transportation, and all other taxes (except property tax) to be paid with post tax money.
- Tourists and the underground economy do not pay income tax so honest people bear a greater burden with a high income tax.

3) High Oregon Income Tax Oppresses Job Growth and Fosters Avoidance

- Small and medium size companies locate in Washington so the CEO can protect his income.
- Oregon income tax reduces retirement savings and investment because all money is post tax.
- Over 30% of Clark County Washington workforce commute to Oregon, many do this to protect non-Oregon income from higher Oregon income tax rate.
- Sale of a capital gain asset triggers "temporary" relocation to Washington.
- At retirement there is a pull to Clark County to remove the income tax burden but be near the "grand kids".

Sales Tax Outline
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Concern: The success of rebalancing tax revenue sources requires acceptance by the public. The common elements of previous non-acceptance of a sales tax is the lack of absolute "guaranteed" reduction of the other taxes and a mistrust that legislature will increase both sales tax AND income tax once both are in place. Recent government activity also raise concerns that a state sales tax will provide every city and county the opportunity to add their own sales tax, as was done for three years with income tax.

Proposal: I respectfully suggest that given the aforementioned issues the following items must be in any new sales tax proposal to insure public acceptance.

Item 1 ...Income, Capital Gains, Dividend, and Sales Tax Maximum Rates into a Combined Cap : Two proposed combined cap definitions are:

Definition A: ... Assume 6% sales tax + 5% maximum income tax. The income tax is indexed for different levels of income.
Sales tax rate plus maximum income tax rate is less than or equal to 11%. The dividend and capital gains tax rate is less than or equal to 0.60 of the maximum income tax rate. Reflects a 3% dividend and capital gains rate with a 5% income tax rate.

Definition B: Enhancement of Definition A ... Has all the attributes of Definition A plus: The difference between sales tax rate and maximum income tax rate must be less than or equal to 2%.
This puts reasonable limits to changes in the tax rates to prevent silly extremes for political reasons.

Item 2 ... Local Taxes

The sales tax proposal must include restrictions that prevent cities, counties, districts, etc. from adding any sales, income, dividend, or capital gains taxes of their own.

Item 3 ... Heating and Animal Feed Exemptions

In addition to the normal human food and medical exceptions, a sales tax must not be applied fuel oil, natural gas, liquefied petroleum gas, propane, electrical, wood pellets, corn pellets, or geothermal resources for purpose of residential heating. Also animal feed must be exempted from sales tax.

Continued....

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continued

Item 4 ... Sales Tax on Cars

Discussions of a sales tax per HB 2530 of the previous legislative session on talk radio was positive with a reduction of income tax, but there was consternation that a sales tax on cars makes an income tax reduction a "wash" and thus the sales tax is less attractive. This is a perception problem in that the actual tax on a car is minor. I propose exempting sales tax on car sales or at least the first \$50,000 of each car price. Per the note below sales tax per car averages \$1141, thus the average lost car sales tax per person per year is \$168 in that a car is purchased every 6.83 years ($\$1141/6.8 = \168).

Note: According to www.edmunds.com in 2006 39% of the cars sold were new with avg. price of \$27,000.00 (\$1620 in sales tax assuming 6%) and 61% were used with avg. price \$13,900.00 (\$834 in sales tax assuming 6%). With 514,800 cars sold per year among 3.5 million Oregonians there is 200,772 new cars and 314,028 used cars sold per year. The average car sales tax per person per year is \$168 in that a car is purchased every 6.8 years.

Other comments

Discussions on talk radio of a sales tax per HB 2530 of the 2007 legislative session raised concerns of the burden on retailers to collect the sales tax and increased government bureaucracy. A case must be made that reporting sale tax is integral with retailers' current corporate income tax reporting. A case must be made that existing government bureaucracy can be modified to make income and sales tax a comprehensive package to be processed with current staff.

Government consultants for a sales tax per HB 2530 implied that tax is neutral to current tax payers because increases in tax revenue are due to a sales tax fostering new businesses and thus increases in overall tax revenue. This may be true, but the public does not believe this type of "hype" from consultants. A stronger selling point is any increase in tax revenue is from the sales tax capturing tourists and the "underground cash economy" who currently pay no income tax. The underground cash economy consists of construction, service, landscaping, illegal aliens, etc.