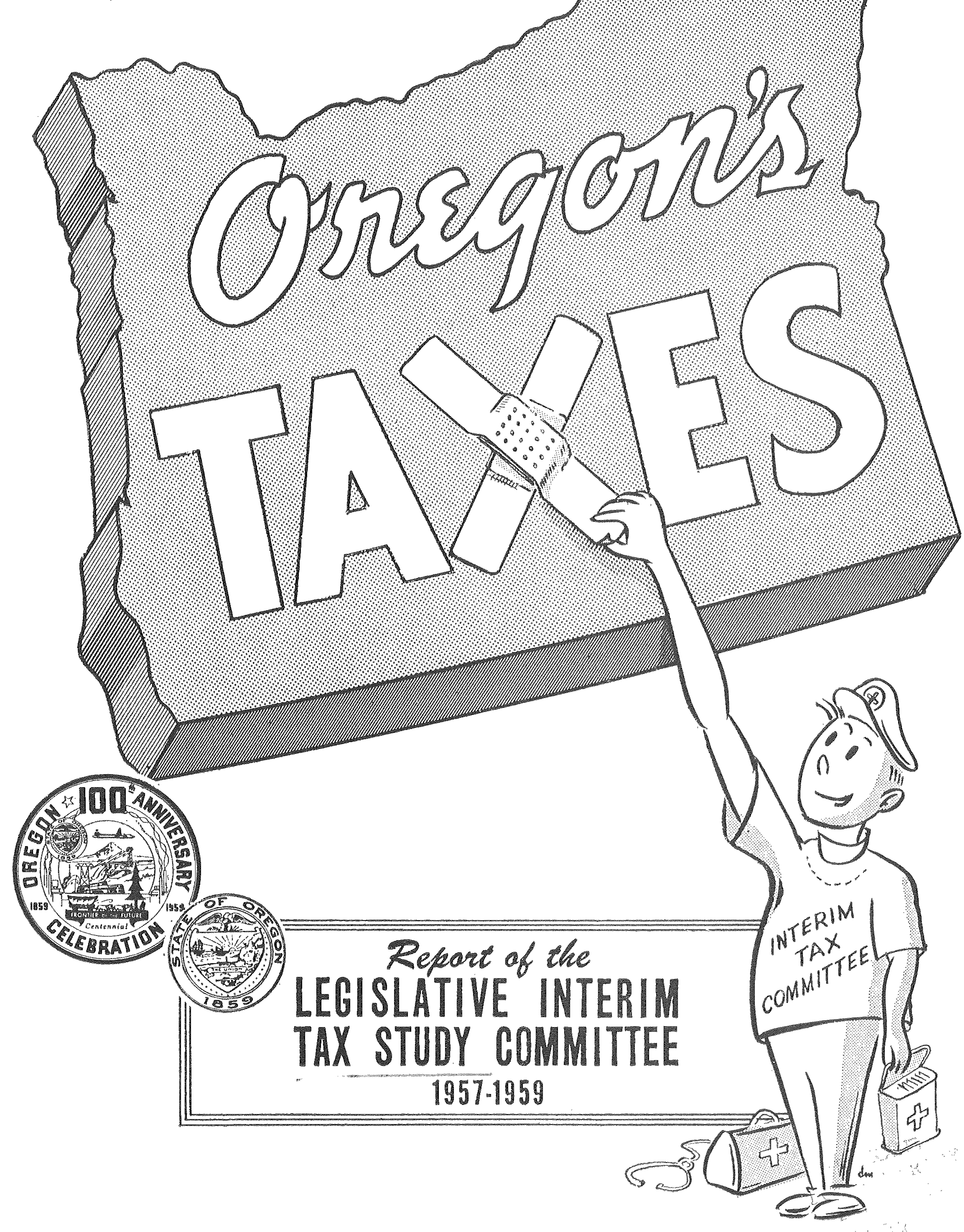
Oregon- Tax Study Committee



Report of the LEGISLATIVE INTERIM TAX STUDY COMMITTEE

1957-1959

Report

of the

Legislative Interim Tax Study Committee

Authorized by
House Joint Resolution No. 42, Oregon Laws 1957

Submitted to the Governor of Oregon
and the
Fiftieth Legislative Assembly

JANUARY, 1959

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Clerk

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VICE CHAIRMAN AND
CHAIRMAN, TIMBER AND
NATURAL RESOURCES TAXES
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REP. JOHN KERBOW
REP. R. E. SCHEDEEN

January 1, 1959

To His Excellency, The Governor
of Oregon, and the Fiftieth
Legislative Assembly:

The Legislative Interim Tax Study Committee, appointed and acting in pursuance of the provisions of House Joint Resolution No. 42, Forty-ninth Legislative Assembly of Oregon, respectfully submits this summary report of its conclusions and recommendations for your consideration.

I feel compelled to note that the Committee members worked long and hard at their assigned task and deserve commendation for their sacrifice and efforts. Further, I feel you should know, as should the citizens and taxpayers of Oregon, that the composition of the Committee's membership was representative of a wide spectrum of economic, geographic and political interests. The Committee's members come from many walks of life and from all parts of the State. The Committee was comprised of five members from the Oregon State Senate and six members from the Oregon House of Representatives who were among the best qualified and most experienced legislators in the field of taxation. The division of members between the two major political parties was unusually even with six Democrats and five Republicans represented.

The Committee's recommendations reflect the collective views of a relatively bipartisan and genuinely representative committee of the Oregon Legislative Assembly.

Walter J. Pearson

WALTER J. PEARSON, Chairman
Legislative Interim Tax Study Committee

HOUSE JOINT RESOLUTION NO. 42
OREGON LAWS 1957

Be It Resolved by the House of Representatives of the State of Oregon, the Senate jointly concurring:

That there hereby is created an Interim Tax Study Committee consisting of 11 members. Five members shall be appointed by the President of the Senate from members of the Senate and six members shall be appointed by the Speaker of the House of Representatives from the members of the House of Representatives; be it further

Resolved, That the committee hereby is directed to study, report its recommendations and draft such bills and resolutions for submission to the Fiftieth Legislative Assembly as it deems necessary to carry out its recommendations with respect to the following:

(1) Study and compare the Oregon personal income tax, corporation excise and income taxes and other taxes contributing to miscellaneous receipts in the General Fund of the state with similar laws of other states, for the purpose of determining the most feasible method of meeting the anticipated budget requirements for the biennium following the Fiftieth Legislative Assembly, by modifications or adjustments of the existing tax structure and without resort to new tax levies.

(2) Study the impact of the existing Oregon tax structure, and any proposed adjustments or modifications therein, upon individuals and corporations residing in or carrying on business within the state, and compare the economic burden of the Oregon tax structure at various income levels with the economic burden of the tax structures of other states, and particularly neighboring states.

(3) Determine what features of the existing Oregon tax structure at the state or local level are attractive to business and industry and tend to promote the economy of the state.

(4) Study the impact of state and local taxes upon the trucking and railroad industries within the state to determine if either of those industries is injured competitively or is bearing an undue tax burden in comparison with the other, and compare the tax contribution required of the trucking and railroad industries in Oregon with the taxes paid by those industries in other states.

(5) Study the tax problems incident to the holding and cutting of timber to determine what if any amendments to existing property tax laws and reforestation laws would best insure an equitable contribution to existing revenue requirements of various governmental units, and at the same time insure a continuing sound economy within the timber industry.

(6) Investigate the causes of and possible solutions for the apparent continued controversy between the valuation division of the State Tax Commission and the county officials and assessors of those counties which have not entered into the state-wide property reappraisal program, and particularly with respect to Multnomah County; be it further

Resolved, That the committee may employ such personnel and perform all other acts as in its judgment may be necessary for the accomplishment of the foregoing purposes; and be it further

Resolved, That the members of the committee shall not receive any compensation for their services, but shall be allowed all actual travel and other expenses necessarily incurred in carrying out the purposes of this resolution; and the expenses of the committee, upon approval of the chairman, shall be paid out of moneys appropriated for the expenses of the Forty-ninth Legislative Assembly, provided that such expenses shall not exceed the sum of $25,000, in the aggregate.

PREFACE

This report presents a summary of the final recommendations and conclusions of the 1957-59 Legislative Interim Tax Study Committee.

The Committee has published three other reports in addition to this final report. In June, 1958, the Committee published a report entitled "Development of State Income Taxes in the United States and Oregon" which it understands to be the first comprehensive history of the income tax in Oregon. In October, 1958, the Committee submitted its "Advance Report" to the Governor and the office of the Legislative Counsel in accordance with Senate Joint Resolution No. 39. In addition, the Committee, with the assistance of the State Tax Commission, revised and republished "The Tax Structures of Washington, Oregon and California," which was originally published by the 1955-57 Legislative Interim Tax Study Committee.

This report contains the Committee's twenty recommendations for which bills have been drafted. These bills are on file for public inspection in the office of the Legislative Counsel and will be introduced to the Fiftieth Legislative Assembly at the request of the Committee. The report also contains six recommendations of the Committee for which bills have not been drafted and some of which will require additional study by the legislature. Finally, the report contains a number of conclusions which the Committee has drawn by virtue of its studies relating to the directives assigned under House Joint Resolution No. 42.

The Committee's mandate, contained in House Joint Resolution No. 42, was very broad in scope. In order to comply with the directives contained in the mandate, five subcommittees were appointed. The whole Committee devoted its attention to the study of matters relating to the personal income tax and the corporation excise and income taxes as well as the study of subcommittee recommendations and consideration of those facets of the Committee's assignment pertaining to the state's general tax structure. The subcommittees and their respective members were as follows:

Subcommittee on Ad Valorem and Transportation Taxes
- Senator Monroe Sweetland, Chairman
- Representative Fayette I. Bristol, Vice Chairman
- Senator Philip B. Lowry
- Representative John L. Kerbow
- Representative R. E. Schedeen

Subcommittee on Timber and Natural Resources Taxes
- Representative Clarence Barton, Chairman
- Senator Lee V. Ohmart, Vice Chairman
- Senator Monroe Sweetland
- Representative Edwin E. Cone
- Representative John L. Kerbow

Subcommittee on Inheritance and Gift Taxes
- Senator Rudie Wilhelm, Jr., Chairman
- Representative Clinton P. Haight, Jr., Vice Chairman
- Senator Lee V. Ohmart
- Representative Clarence Barton
- Representative Fayette I. Bristol

Education Tax Subcommittee
- Senator Philip B. Lowry, Chairman
- Representative R. E. Schedeen, Vice Chairman
- Senator Walter J. Pearson
- Senator Rudie Wilhelm, Jr.
- Representative Clarence Barton
- Representative John L. Kerbow

Subcommittee on Tax Exemptions
- Representative Edwin E. Cone, Chairman
- Senator Lee V. Ohmart, Vice Chairman
- Senator Monroe Sweetland
- Representative Fayette I. Bristol
- Representative Clinton P. Haight, Jr.

The Special Session of the Forty-ninth Legislative Assembly, called for the purpose of reducing taxes, interrupted the work of the Committee. Accordingly, the Committee experienced substantial delay in pursuing its objectives as directed by the legislature. Because of limited time and small staff, the Committee could not attend to all the matters brought to its attention. A system of priority was established in the deliberations of the Committee and the subcommittees so that only the most pressing problems received the Committee's attention. This does not imply that subjects which could not be adequately considered by the Committee are unimportant nor that they are in any way prejudiced by lack of Committee consideration.

The Committee takes this opportunity to express its appreciation for the valuable assistance it received from the agencies, organizations and citizens who gave testimony or submitted prepared statements. In particular, the Committee is indebted to the State Tax Commission, the Commission's Research and Legal Sections, the Oregon State Association of County Assessors, the Inheritance and Gift Tax Division of the State Treasury Department, the Research and Apportionment Section of the State Board of Education, the State Corporation Department, the State Department of Motor Vehicles, and the State Board of Forestry. The Committee also expresses its gratitude to Mr. F. LeRoy Spangler of Medford, who prepared the Committee's study on the property tax limitation, and to Dr. Wesley C. Ballaine, Director of the Bureau of Business Research of the University of Oregon, who supervised preparation of the Committee's annotated bibliography on the effect of state and local taxes on industrial development.

The Committee feels that special commendation is due the office of the Legislative Counsel and most particularly to Mr. John H. DeMoully, Chief Deputy, whose work on behalf of the Committee, as its legal advisor, was as invaluable as it was prodigious.

SUMMARY OF RECOMMENDATIONS AND CONCLUSIONS

RECOMMENDATIONS (for which bills have been drawn)

1. Amend the personal income tax law to provide for special treatment of capital gains by a combination and modification of the California and federal capital gains provisions.①
2. Amend the personal income tax law to provide for deduction of travel expenses for workers obliged to travel from home to distant job sites even though not sent by their employers.
3. Amend the corporation excise tax law to exempt student housing accommodation companies from the tax.
4. Amend the business corporation act to provide a new schedule of flat filing and annual license fees for both domestic and foreign corporations and to provide that the State Tax Commission furnish the State Corporation Department with names and addresses of corporations filing excise and income tax returns.②
5. Amend the motor vehicle registration laws to provide a new system for the taxation of house trailers and to exempt house trailers from ad valorem taxation.
6. Enact a new law to provide for the deferral of the collection of ad valorem property taxes on the homesteads of aged taxpayers.③
7. Amend the motor vehicles registration law to subject special mobile equipment which is neither designed nor used primarily on the highways to ad valorem personal property taxation.④
8. Amend the laws relating to the assessment of property for taxation to change the penalties for failure to file personal property tax returns and to impose penalties for the omission or under-reporting of property on personal property tax returns.⑤
9. Amend the county and municipal government financial laws to extend the tax supervising and conservation commission system to all counties with a population of 50,000 or more and to expand the jurisdiction of commissions.
10. Amend the forest fee and yield tax law to liberalize some of its provisions in order to encourage wider use of the law and discourage premature harvesting of forest crops.
11. Enact a new law to provide that the valuation and assessment of merchantable timber which has been reappraised take into account the actual rate of depletion of each individual tract of timber.
12. Amend the law relating to the filing of timber severance reports to provide a more workable statute and to reduce hardships which the existing law imposes on timber operators.
13. Amend the inheritance tax law to provide lower rates, higher exemptions and to broaden the base by removing the exemptions on real property held by the entirety and on life insurance proceeds in excess of $75,000.⑥
14. Enact a new gift tax law to make the gift tax conform more closely with the inheritance tax law.
15. Enact a new law which makes gifts in trust for a minor eligible for the annual exclusion in the gift tax law.⑦
16. Enact a new law to provide a credit against, or refund of, inheritance taxes when gifts upon which gift taxes have been paid become subject to an inheritance tax.
17. Amend the inheritance tax law to permit probate courts to hear and determine inheritance tax questions arising in nonprobated estates.
18. Enact a new law which requires the reporting of gifts in which the donor reserves a life interest for himself.
19. Amend the gift tax law to reduce the penalties for failure to file gift tax returns on time.
20. Amend the gift tax law to extend the statute of limitations to six years from the time the facts are discovered instead of the present six year limitation.⑧

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① Representatives Barton and Haight dissent from this recommendation.
② Senator Lowry and Representatives Barton and Cone dissent from this recommendation.
③ Senators Lowry, Ohmart and Pearson dissent from this recommendation.
④ Senator Wilhelm was excused from voting on this recommendation.
⑤ Senator Lowry and Representatives Bristol and Schedeen dissent from this recommendation.
⑥ Senator Lowry dissents from this recommendation.
⑦ Representative Barton dissents from this recommendation.
⑧ Senators Lowry and Pearson and Representatives Cone and Schedeen dissent from this recommendation.

RECOMMENDATIONS (for which bills have not been drawn)

1. Enact a new law to establish a state tax review agency—either a state tax court or a state board of tax appeals—as part of the tax appeals procedure.
2. The Committee urges the legislature to study the possibilities of eliminating either the personal property tax on inventories or the entire personal property tax and the substitution therefor of a more suitable tax on business.
3. The Committee urges the legislature to give serious consideration to repeal or realistic revision of the processor's exemption and recommends that the special report and recommendations of the Tax Commission on this matter be given legislative study.
4. Recodify the property tax laws to provide that timber be treated separately from other types of real and personal property in ad valorem taxation.
5. Retain the present law relating to the distribution formula of federal forest reserve funds as between public roads and public schools.[9]
6. Retain the present method of financing capital improvements in the general fund building program from pay-as-you-go sources.[10]
7. The Committee urges the legislature to give further study to the property tax exemption presently accorded to benevolent organizations in order to assure faithful compliance with existing law and to obtain uniformity of application between counties.[11]
8. Retain the present method of assessing real and personal property uniformly and homogeneously without resort to assignment of varying assessment ratios to different classes of property.[12]

CONCLUSIONS

1. The Committee hopes that the existing tax structure of Oregon, as modified by its recommendations, will be able to generate sufficient revenues to meet the state's budget requirements.
2. In the event that present revenue resources prove inadequate, the Committee urges the legislature to consider elimination of personal exemptions and dependency credits in the personal income tax and the substitution therefor of fixed dollar credits, the elimination of the federal income tax deduction in computing the personal income tax, and the filing of estimated personal income tax returns.
3. The existing Oregon tax structure imposes an economic burden on individuals and corporations residing in or carrying on business within the state which, when combined federal, state and local taxes are considered, and on the average, is not appreciably different than the economic burden of the tax structures of neighboring states at all income levels.
4. A survey of the literature in the field reveals a lack of unanimous agreement on the effect of state and local taxes on industrial development. Although most authorities feel that state and local taxes are not important influences in industrial location decisions, the Committee feels that taxes should nonetheless be reasonable, equitable, efficiently and fairly administered, and judiciously levied and expended.
5. There are numerous favorable features in the existing Oregon tax structure which are attractive to business and industry and which tend to promote the economy of the state.
6. There is a close direct and indirect relationship between economic activity and taxes. The influence of economic activity on the level of tax receipts can be considerable and the legislature is urged to consider this influence in the formulation of taxation policies.

[9] Senators Pearson and Wilhelm dissent from this recommendation.
[10] Senators Pearson and Sweetland and Representatives Barton, Haight and Kerbow dissent from this recommendation.
[11] Representative Barton dissents from this recommendation.
[12] Senator Pearson dissents from this recommendation.

ANALYSIS OF TAX STRUCTURES OF PACIFIC COAST STATES

HJR 42 (2) DIRECTIVE:

"Study the impact of the existing Oregon tax structure, and any proposed adjustments or modifications therein, upon individuals and corporations residing in or carrying on business within the state, and compare the economic burden of the Oregon tax structure at various income levels with the economic burden of the tax structures of other states, and particularly neighboring states."

In compliance with this directive, the Legislative Interim Tax Committee, with the assistance of the State Tax Commission, has undertaken to revise a comprehensive study published by the 1955-57 Legislative Interim Tax Study Committee and entitled "The Tax Structure of Washington, Oregon and California". The supply of the earlier report has long since been exhausted but demand for it continues unabated. The new study is, in many respects, similar to the earlier study except for the deletion of most of the parts relating to comparative tax costs. These have been eliminated because the limited current data now available will soon be superseded by the comprehensive information which will be a part of the 1957 Census of Governments.

In summary, the Committee's study comparing the tax structures of Washington, Oregon and California reveals the following intelligence:

1. Combined federal, state and local taxes on a typical family of four are lower in Oregon than in California for families with incomes up to and including $12,000 and also lower for families with annual incomes of $50,000 and above.
2. Between $12,000 and $50,000 annual income, combined federal, state and local taxes on a typical family of four in Oregon are only slightly higher than in California.
3. If it is assumed that half of an income in the higher income brackets ($20,000 a year income or more) is derived from eligible gains from the sale of capital assets which have been held for more than 2 years, combined federal, state and local taxes would also be lower in California than in Oregon in the $50,000 a year bracket.
4. Combined federal, state and local taxes on a typical family of four are lower in Oregon than in Washington for families with annual incomes below $5,000.
5. For families with annual incomes of $5,000 or more, combined federal, state and local taxes in Washington are lower than in Oregon. The greatest differential between combined federal, state and local taxes on a typical family of four in Washington and in Oregon occurs at around the $15,000 annual income level.
6. Except in the lowest brackets, where Oregon appears to have distinctly lower taxes than in either California or Washington, the tax burdens upon a typical family of four resulting from combined federal, state and local taxes are surprisingly close in every income bracket.
7. This closeness stems from the federal Internal Revenue Code which permits the deduction of most state and local taxes in computing taxable income. Thus higher state and local taxes are partially offset by lower federal taxes. This characteristic is particularly advantageous to those in high income tax brackets.
8. The State of Washington is almost entirely dependent on sales and gross receipts taxes while Oregon is heavily dependent, but to a lesser degree, on net income taxes. California relies less than Washington and Oregon on sales and net income taxes, respectively.
9. Washington does not impose any taxes on net income while Oregon does not levy a general sales tax. California imposes both general sales and net income taxes.
10. California's personal income tax law with respect to gains and losses from the sale or exchange of capital assets takes a middle course between Oregon's position of not differentiating them from other kinds of income and the Internal Revenue Code's short six-month holding period. Hence, California capital gains taxpayers pay less taxes than Oregon taxpayers making comparable gains. Washington does not tax capital gains.
11. Corporation net income taxes in California, depending on corporation classification, range from about the same rates as in Oregon to somewhat lower rates for mercantile and service corporations.
12. The Washington Business and Occupation tax (gross receipts) calls for larger tax payments from low return (profit) firms than Oregon and California corporation income tax laws and lower payments from high-profit corporations.

13. Oregon and California taxes on real property are comparable on similar parcels while Washington property taxes are approximately half as much.

14. California is the only state taxing intangibles and its law is limited to solvent credits. California is the only state to tax household furniture and personal effects.

15. Despite a higher sales tax rate (including city and county levies), most California families pay smaller sales tax bills than comparable families living in the State of Washington because of the greater number of exempt items in California.

16. Oregon's succession tax usually results in a lower tax than the California and Washington laws on comparable estates.

17. Oregon passenger car owners pay less taxes on ownership and operation of their vehicles than do residents of California and Washington. Residents of the latter states pay an annual excise tax in lieu of personal property taxes in addition to license fees and gasoline taxes.

18. Washington is the only one of the three states presently levying a cigarette tax.

CONCLUSION: Compared with Washington and California, the existing Oregon tax structure does not have a significantly different impact upon individuals and corporations residing in or carrying on business within the state. When combined federal, state and local taxes are considered, the economic burden of the Oregon tax structure is not appreciably different than the economic burden of the tax structures of our neighboring states at all income levels.

EFFECT OF STATE AND LOCAL TAXES ON INDUSTRIAL DEVELOPMENT

DIRECTIVE:

Study the impact of the existing Oregon tax structure upon corporations carrying on business within the state, and compare the economic burden of the Oregon tax structure with other states.

In compliance with this directive (paraphrased from the resolution establishing the Committee), the Committee arranged with the Bureau of Business Research, School of Business Administration of the University of Oregon to compile a bibliography on the effect of state and local taxes on industrial development. The Committee wishes to acknowledge with gratitude the assistance and cooperation of Dr. Wesley C. Ballaine, Director of the Bureau, under whose direction the bibliography was prepared.

The bibliography covers books and articles which are devoted to a substantial degree to the topic of state and local taxes as a factor in plant location decisions. The bibliography is annotated to provide the reader with a summary impression of the major conclusion or conclusions of each book or article to which reference is made. The complete annotated bibliography appears in Appendix A of this report.

The annotations indicate that most of the books, pamphlets and articles in the bibliography conclude that state and local taxes are not particularly important in influencing industrial location. On the other hand, some of the references conclude that under certain circumstances high or burdensome taxes can be important factors in location or relocation decisions.

The Committee has heard testimony that particular businesses or individuals have either left Oregon or decided not to come to Oregon because of taxes. The Committee feels that some of these allegations might be true, for several reasons.

First of all, no tax system, no matter how well designed, can provide perfect equity to every taxpayer without becoming overwhelmingly complex. In the absence of extreme complexity (which itself can impose distasteful and uneven burdens upon taxpayers), Oregon's tax system, as is the case with other tax systems, probably develops some inequities among some taxpayers.

In the second place, inequities in the tax systems of other states might favor some types of industry over other types. This is no fault of the Oregon system, of course, but it might make another state more attractive to any industry so favored.

Thirdly, taxes can be inaccurately analyzed. A strong conviction that a tax system is disadvantageous, even if that conviction is illogical and without foundation in fact, might provide the psychological impetus behind some plant location decisions. A state's tax system might be quite meritorious but if it has a reputation of being oppressive, even though the reputation is unfounded, an adverse effect upon industrial location might obtain.

Finally, the Committee's studies indicate that for certain taxpayers (both corporation and individual) with certain kinds of income in certain income brackets or with certain operating characteristics, taxes can be higher in Oregon than in other states. If the collateral characteristics of a tax system (benefits from public services, revenue adequacy, compliance costs, etc.) are disregarded or minimized and if other economic factors are otherwise comparable at different sites, Oregon's tax system might discourage some businesses or individuals.

On the other hand, there seems to be little or no evidence that state and local taxes have had any influence on aggregate economic growth. The Committee's files contain reports which indicate that businesses have moved and are moving to Oregon because of state and local taxes in other states in comparison with Oregon's tax system. It is possible that location decisions which have been based on state and local taxes as a primary consideration have favored as much as they have disfavored Oregon. It may be that there is an offsetting and compensating net effect of such location decisions with favorable ones cancelling out unfavorable ones.

The argument that state and local taxes are a relatively unimportant influence upon industrial development can be based on the following analysis:

1. State and local taxes represent a very small portion of total business costs. One study suggests that state and local taxes may be

only about 2 percent of total costs.[1] Another study indicates that state and local taxes represent an average of less than 1 percent of gross receipts.[2]

2. The **total** state and local tax burden is not as important as the **difference** in tax burdens between one site and another since some state and local taxes must be paid no matter where an industry elects to locate. This apparent differential in tax burdens between different sites is probably less than 1 percent of gross receipts for most businesses.

3. The apparent differential is further reduced because almost all state and local taxes are deductible in computing federal income tax liabilities. In the case of a profitable corporation, the actual differential is less than half the apparent differential because of the 52% federal corporation income tax rate. Thus the theoretical influence of state and local taxes on industrial development approaches insignificance.

4. It can be assumed that there is a correlation between quantity and quality of public services received and the level of taxes paid. If the difference in benefits from public services are considered in addition to actual tax differentials, the effect of state and local taxes on industrial development might very well fade to immateriality.

(1) Martin, James W. and Herzel, William G., *The Influence of Taxation Upon Industrial Development*, State Government, V. XXX, No. 7, July, 1957, p. 146.

(2) *Report of the Governor's Minnesota Tax Study Committee, 1956*, p. 25.

A comprehensive and elaborate statistical study entitled "State and Local Tax Differentials and the Location of Manufacturing" was prepared by the Bureau of Business and Economic Research, College of Commerce of the University of Iowa in 1956 under the supervision of Dr. C. C. Bloom. This study, which covered all 48 states, concluded that statistical findings fail to support the contention that higher state and local taxes (in the aggregate, or for specific taxes levied upon manufacturers) reduce the rate of manufacturing growth. The study reports that its findings are supported by:

1. Recognition that taxes are offset, in whole or in part, by expanded governmental service levels.

2. A showing that taxes paid by manufacturers are a relatively small component of cost.

3. A suggestion that other locational factors, such as markets, labor, transportation, raw materials, availability of sites, power and fuel, cheap rent, nearness to related industries, living conditions, financial assistance, etc., are so much more significant as to submerge taxes as a locational determinant.

The Committee does not feel that this evidence, as formidable as it may be, is any excuse for complacency in attacking problems of taxation. Nor does it feel that these conclusions, in themselves, are arguments for higher state and local taxes generally or for higher taxes on business. The Committee feels that taxes, no matter what degree of influence they may have on industrial development, should be reasonable, should be efficiently and fairly administered, should be equitable, and should be judiciously levied and expended.

FAVORABLE FEATURES OF THE EXISTING OREGON TAX STRUCTURE

HJR 42 (3) DIRECTIVE:

"Determine what features of the existing Oregon tax structure at the state or local level are attractive to business and industry and tend to promote the economy of the state."

"The power to tax is the power to keep democratic institutions alive and strong."—Dr. C. Ward Macy, Head of the Department of Economics, University of Oregon.

The Committee's staff prepared a detailed study of the favorable features of the existing Oregon tax structure as they relate to business and industry.[1]

Criticism of any tax system is invariably much more intense and vocal than praise, no matter how substantial the system's merits. Although criticism in the field of taxation is desirable in a dynamic and democratic society, an assessment of the virtues of a tax system is no less desirable. The Committee finds that Oregon's tax system is, in many respects, meritorious.

The directive of the 49th Legislative Assembly to the Legislative Interim Tax Committee to determine the favorable features of Oregon's tax structure is unique and desirable, both from the standpoint of encouraging industry to locate and expand in Oregon and from the standpoint of obtaining a balanced perspective of the state's tax system.

The favorable features of the existing Oregon tax structure can be classified as follows:

1. Features which are attractive and advantageous as locational inducements to business and industry in comparison with other states.
2. Benefits from public services in comparison with other states.
3. Technical advantages.
4. Fairness between classes of taxpayers and in comparison with other states.
5. Adequacy and competency of administration.
6. Compliance costs.
7. Revenue adequacy.

[1] Senators Lowry and Ohmart and Representatives Bristol and Cone agree with the contention that there are favorable features in Oregon's existing tax structure. They express dissatisfaction, however, with the Committee's directive requiring that only the favorable features of the tax structure be determined while the directive fails to specify that unfavorable features be treated comparably.

INVITING AND ADVANTAGEOUS FEATURES

Oregon's tax structure is attractive to many types of commercial and industrial enterprises and most particularly to new enterprises just starting up. The Committee agrees that state and local taxes can sometimes be one of the economic factors which influences the location of new industry. If and when taxes are influential, Oregon's tax structure can be characterized as providing many favorable features.

Because of the absence of a general sales tax and a gross receipts tax in the tax system of Oregon, a new business confronted with a breaking-in period before operations become profitable will probably fare better in Oregon than in many states, all other factors equal.

The amount of capitalization needed to start a commercial or industrial venture would be less in Oregon than in most other states if the variable economic factors of prices, markets, labor, transportation, raw materials, power, etc., are otherwise equal. Taxes based on net income, as levied in Oregon, impose no economic burden unless and until enterprises begin to show a profit.

The economic impact upon business and industry of sales taxes and gross receipts taxes differs from the economic impact of income taxes. The trend of American enterprises towards mass consumer market orientation which favors high volume-low profit margin operations, conspires to make Oregon's tax system more attractive than the tax systems of those states which levy gross receipts taxes upon businesses. A general sales tax, on the other hand, can be a serious impediment to the inauguration of a new business and to the expansion and modernization of existing enterprises because the incidence of the sales tax is often greatest at the start of commercial activities when construction materials and sundry equipment must be purchased. Sales taxes can thus compound the problem of capitalization adequacy which new or expanding enterprises require.

Oregon's tax structure has displayed a great measure of stability over the years. There have been no new major taxes imposed in Oregon since inauguration of the corporation and personal income taxes in 1929. There is widespread authoritative opinion that stability in state and local taxation is as significant to business and industry as is the state and local tax burden itself. Oregon's tax structure is essentially the same today as it was twenty-nine years ago—a record of stability which makes most states envious.

BENEFITS FROM PUBLIC SERVICES

The economic consequences of a tax system cannot be studied in isolation. In order to be meaningful, the effect of taxation must be related to the effects of public expenditures derived from tax receipts. Oregon has a reputation for providing a high level of public services.

The most important recipient of state and local tax revenues in Oregon is the state's public education system. Fifty-one percent of Oregon's general fund revenue is appropriated for education. In addition, the state's public elementary and secondary schools receive sixty-one percent of all property tax collections. Oregon's public school system has been ranked by some authorities as the best in the nation and statistical evidence tends to support this assertion.

There are many direct and indirect advantages to business and industry derived from the high educational attainment, the high literacy rate and the high standards of public health found in Oregon. In addition, business and industrial advantages from Oregon's excellent public recreational facilities, its highways and the numerous benefits derived from the state's public institutions of higher education and from those state agencies dealing with agriculture, labor, corporations, economic planning, forestry, fish and game, mining and other commercially-related activities should be noted.

It is usually conceded that cheap taxation is not always ideal and that industries realize that low taxes might increase business costs by failure of a community or governmental unit to provide proper and adequate services.

TECHNICAL ADVANTAGES

In both the property and income tax laws of Oregon, there are many technical features which are of major benefit to industries doing business in the state and to individuals residing in the state.

The state-wide reappraisal program, now more than 55 percent complete, and the continuous appraisal of industrial, timber and utility properties by the State Tax Commission serves to attain and strengthen uniformity in property tax assessments between different classes of property and between different counties.

Oregon is one of only a half dozen states which does not levy a state property tax and has not collected such a tax since 1941. The recent elimination of property taxes by the legislature as a source of state revenue is noteworthy. Property taxes in Oregon are left exclusively for the support of local taxing districts.

The exemption from property taxes in Oregon of household furnishings, personal effects, intangibles and automobiles is unique. A 3% discount for full payment of property taxes before the due date is available in Oregon while discounts are not provided in either Washington or California. Oregon is comparatively more liberal than her neighboring states in allowing installment payments of property taxes.

The corporation income tax in Oregon contains many technical advantages. The 33⅓ percent personal property tax offset by the amount of taxes paid on inventories by manufacturing and processing corporations is beneficial. The 1957 reduction in the corporation tax rate from 8 percent to 6 percent is significant. The allowance of a deduction for all personal property taxes paid other than those paid on manufacturers' inventories, which can be used instead as a direct offset credit, is most important. And the option provided manufacturers and processors to elect to use property taxes paid on inventories either as a direct offset or as a deduction in computing corporation income tax liabilities should not be overlooked.

The provision which allows corporation and individual income taxpayers to deduct prior years' losses in computing subsequent years' taxes and the provision which allows alternative accelerated methods for computing depreciation, neither of which are allowed under the California income tax laws, is noted and this tendency for Oregon's income tax laws to conform, as it does in many other respects, with the federal Internal Revenue Code simplifies and reduces demands upon taxpayers.

Oregon's personal income tax law allows deduction of federal income taxes in computing state individual income taxes. This feature of the state's income tax law is attractive to many taxpayers and particularly to those taxpayers who pay substantial federal income taxes. Another very significant technical feature in Oregon's personal income tax law is the provision which allows husbands and wives to split their income and file a single joint return as is allowed under the federal tax code.

FAIRNESS

The emphasis which is placed upon the income tax in Oregon as the major source of state tax collections has given the state a reputation for having one of the best examples of a tax structure based upon the "ability-to-pay" approach to taxation.

The 1953-55 Legislative Interim Tax Committee noted in its report the essential fairness of the income tax as follows:

> *"A net income tax is fairer than any other form of taxation. The high federal income taxes, here and in England, have pretty well proven that such a tax is the least harmful to the general economy. No one loses his home or his farm by application of the income tax. It is not confiscatory. It does raise the cost of living, but in a way that is steady and understandable."*

Washington's tax system is outstandingly regressive. California's tax system stands in a middle ground with both personal and corporation income taxes and a general sales tax. Oregon's tax system is dedicated more than most to the principles of the ability-to-pay theory—the most widely accepted principle of taxation.

Fairness and the lack of discrimination in the Oregon tax system is a favorable feature in the promotion of the state's economy. Most businessmen and individuals do not resent paying taxes if they can be shown that their taxes support essential public services and if they can be shown that they are not paying any more than their fair share. That Oregon taxpayers obtain substantial value for their tax dollars has already been discussed. The fairness and efficiency of administration of both the property tax and the income tax, the two primary tax bases in Oregon's state and local tax structure, have received national recognition.

Fairness of taxation might be consequential to a business seeking a site for its operations. The application of taxes which are not related to profits, such as taxes imposed upon purchases, receipts and property, can become confiscatory. The owner or owners of a business are not prosperous if the business is making but a small profit or if it is losing money, no matter how great its purchases, no matter how great its sales, no matter how great its assets. No business is lost by virtue of a tax on profits and this important principle of fairness is a feature of Oregon's tax structure which should be attractive to business and industry.

ADEQUACY AND COMPETENCY OF ADMINISTRATION

The administration of Oregon's taxes provides substantial benefits to business and industrial taxpayers in at least three respects:

1. Oregon tax administration is characterized as fair, efficient and modern.
2. Appeal procedures are available on a non-discriminatory basis for all classes of taxpayers, are uniform in application, and are, in most instances, although perhaps not all, adequate.
3. Tax administrators provide a valuable program of assistance to taxpayers.

The general supervision and control over the tax laws of Oregon, including the administration of the assessment of local property taxes, is centralized in the hands of the State Tax Commission which is the one and only administrative agency impowered to make rules and regulations with respect to the income tax and the property tax. In those states where centralized tax administration exists, such as in Oregon, the most workable, effective and successful administrative techniques have resulted.

Oregon's state-wide reappraisal program, which is scheduled for completion in 1964, has received national acclaim from tax authorities and is being copied by other states.

Many tax experts are convinced that the administration of taxes is as consequential an influence affecting industrial development as either the type of taxes which must be paid or the rate at which they are imposed. Violence can be done the competitive environment within which business and industry must operate if some taxpayers obtain an unfair advantage over others through inefficient or discriminatory administration.

The administration of Oregon's tax system ranks high in terms of technical efficiency, adequacy, reports, statistics and research in comparison with the administration of taxes in other states.

The State Tax Commission has a well organized program of assistance to taxpayers in interpreting tax laws, computing tax returns and in computing an estimate of each tax which an existing business wishing to expand or a new business interested in locating in Oregon might be expected to pay. The Committee feels that the technical and legal assistance provided taxpayers by the State Tax Commission serves to assure business and industry of the type of cooperation and helpfulness which reflects an attitude of official interest and concern for the welfare of business and industry.

COMPLIANCE COSTS

In terms of the cost to taxpayers of complying with state tax laws, Oregon's tax system is probably more favorable than the tax systems of most states and is particularly favorable in comparison with our neighboring states of Washington and California.

Both the personal and corporation income taxpayer, and the personal property taxpayer as well, are required to file tax returns only once each year in Oregon. The federal government also levies personal and corporation income taxes, which substantially eases compliance costs since all or most of the information required of the taxpayer in Oregon must be reported for federal income tax purposes as well.

It is apparent that no matter how attractive to business and industry a state's tax structure might be when examined abstractly, the advantage can be easily dissipated if the cost to business and industry of complying with tax laws is too burdensome. The Committee concludes that compliance costs in Oregon serve to augment the state's favorable tax position.

REVENUE ADEQUACY

The Committee studied detailed reports on the financial condition of Washington and California contrasted with the fiscal status of Oregon. Washington and California, as well as many other states, are currently confronted with financial crises of formidable proportions. Both states are running up substantial state deficits. Both states are almost certain to enact either new or higher taxes or both. Reports from the Council of State Governments suggest that many other states throughout the country are in comparable financial distress.

Oregon should not take comfort from the financial misfortune of its sister states, but the relative fiscal conditions of other states should be considered in assessing the merits of the Oregon tax structure. Oregon is unique in having a general fund surplus at present and in having had a surplus in each of the past 23 years.

The 1957 special session of the Oregon legislature was called for the express purpose of reducing taxes. The following actions were taken by that legislative session:

1. Reduced the personal income tax rate by an average of 18.7 percent.
2. Reduced local property taxes through an increase in the state's share of school support by providing that the additional state contributions be a direct offset against local property taxes.
3. Eliminated property taxes as a source of state revenue.
4. Added loss carry-forward provisions to the income tax laws.
5. Allowed alternative accelerated methods for computing depreciation for income tax purposes.
6. Provided additional income tax credits for certain classes of taxpayers.

Most other states have been in the unenviable position of raising taxes at a time when Oregon lowered taxes.

A businessman contemplating establishment of a new plant might very likely examine the probabilities for increases in existing taxes and for imposition of new taxes in any state wherein he might locate. In many states, as in Washington and California, these probabilities verge on a dead certainty.

The study does not suggest that tax increases in Oregon are out of the question for years to come. It does suggest, however, that the record to date of a sound and well-balanced fiscal administration in Oregon constitutes a reassuring circumstance for business and industry.

CONCLUSION:

The Committee's study of the attractive features of the existing Oregon tax structure was undertaken in the spirit of advocacy which was suggested by the legislature's directive to the Committee. This part of the report does not present both sides of the story. A number of complaints have been heard by the Committee concerning unfavorable features of the existing Oregon tax structure and the Committee makes numerous recommendations to the Governor and to the 50th Legislative Assembly for changes in the state's tax laws.

The Committee feels, however, that Oregon's tax system is replete with features which are attractive to business and industry and which tend to promote the economy of the state. In terms of

locational inducements to industry, in terms of benefits from public services, in terms of technical advantages, fairness, administration, compliance costs and revenue adequacy, Oregon's existing tax structure exhibits considerable attractiveness.

Oregon's existing tax structure satisfactorily meets the important canons of taxation. The Oregon tax system has been productive. It has exhibited elasticity by absorbing economic reverses without serious dislocation in revenue and it has lent itself to easy adjustment to changing economic conditions. It has been economical to administer from the standpoint of government and economical to comply with from the standpoint of taxpayers. It has been convenient to taxpayers. It has a reputation for justice and equity.

The Committee's study does not suggest that Oregon's tax system cannot be improved and, in fact, the Committee recommends changes which, in its opinion, will provide improvement. The study does conclude, however, that there are many favorable features in the existing Oregon tax structure.

STATEMENT OF REPRESENTATIVE BRISTOL CONCERNING DIRECTIVE NO. 3 OF HOUSE JOINT RESOLUTION NO. 42

The Interim Tax Committee of the 49th Legislative Assembly has done some excellent work on timber taxation, and numerous other problems that have been presented to the Interim Tax Committee.

Under House Resolution No. 42, the Committee has been held under wraps. Under Directive No. 3, we were instructed to find all of the features that were attractive in Oregon's tax structure, without finding the unattractive features. Practically all of the testimony that we received dealt with the unattractive features, as related to new business and industry coming into the State of Oregon. Practically no testimony was directed to the so-called attractive features of Oregon's tax structure. In spite of this, our report contains a long thesis on the attractive features of Oregon's tax structure.

Testimony presented indicated that Oregon's tax structure was most unattractive to the so-called "Brain Industries". These are the type of industries that Oregon needs badly. Their employees are highly paid. Living conditions are a major factor in the location of their plants. Their products are of such a type that freight and transportation costs are a very small factor, but under Oregon's tax structure it would be very difficult to recruit the type of high priced labor necessary to operate the plants. For this reason practically none have come to Oregon.

I recommend that the next legislature carefully consider this problem, so that Oregon, along with the other western states, may become the producers of component parts for missiles, space travel equipment, rocket component parts and materials of this type.

If Oregon is going to get its fair share of new industry it cannot close its eyes, as we were ordered to do under Directive No. 3 of House Joint Resolution No. 42.

CAPITAL GAINS

The Committee recommends enactment of personal income tax legislation to differentiate between gains and losses derived from the sale or exchange of capital assets on the one hand, and from ordinary income on the other.① The Committee studied various proposals to accord special treatment to capital gains including provisions of the federal Internal Revenue Code, the Oregon State Bar capital gains bill, the California law, and various capital gains bills considered by past sessions of the legislature. The Committee also studied the methods by which capital gains and losses are treated in the other states which levy personal income taxes.

The Committee's recommendation is motivated by both theoretical and practical considerations. In theory, it is deemed unfair to tax capital gains in the year of receipt at the same graduated rates applicable to ordinary income since the gain may have accrued over an extended period of time rather than in the year in which the gain is taken. In theory, it is also argued that inflation makes many capital gains something less than real gains and that taxes should not be based on an inflationary reduction in the purchasing power of the dollar which artificially increases the dollar value of an asset.

In terms of practical considerations, the Committee heard testimony to the effect that the lack of a capital gains provision in the Oregon personal income tax law may discourage investment and reinvestment of capital in Oregon. The Committee also heard unevaluated assertions that the Oregon system may be responsible, in part at least, for inducing some taxpayers to leave the state prior to the sale or exchange of capital assets involving substantial gains. Since California has a capital gain provision and Washington has no income tax at all, it is suggested that Oregon's tax system is not competitive with some of our neighboring states with respect to the treatment of capital gains.

The Committee's proposal is a combination and modification of the California and federal capital gains provisions. In brief the Committee's bill provides that the longer a capital asset is held, the smaller a portion of the gain from sale or exchange thereof is recognized in computing personal income tax liabilities, to wit:

Time Held	*Percent of Gain Reported*
1 year or less	100%
Over 1 year but not more than 2 years	80
Over 2 years but not more than 5 years	60
Over 5 years	50

The Committee feels that this graduated capital gains schedule more clearly distinguishes between the bona fide capital transaction and the purely speculative windfall than does the federal Internal Revenue Code wherein only half the gain is recognized if the asset has been held for more than six months.

Capital losses under the Committee's bill are first offset against capital gains. The excess of losses, if any, can be carried forward to be offset against future capital gains and, not to exceed $1,000, against ordinary income in each of the next five years.②

It is difficult to estimate the amount of revenue which the Committee's capital gains bill will lose if enacted into law for no form of income in the aggregate fluctuates as much from year to year as capital gains. Based on estimates of the State Tax Commission, the Committee feels its proposals will probably cost an average of about $3 million in revenues per year based on the present personal income tax structure and rates, although higher revenue losses could occur in some years.

The Committee's capital gains proposal does not apply to corporations.

STATEMENT OF REPRESENTATIVES BARTON AND HAIGHT ON CAPITAL GAINS

We dissent from the action of the Committee in approving a bill providing for special tax treatment of capital gains for the following reasons:

1. The reason that we are granted special treatment of capital gains, at the federal level, is because of the extremely progressive income tax rates in the federal tax structure. The sale of a capital asset, and the subsequent profit therefrom can, because of the progressive rate structure, throw the taxpayer into a higher tax bracket, which would entirely dissipate the profit from the sale. For that reason the taxpayer in theory is per-

① Representatives Barton and Haight dissent from this recommendation. Their statement is included in this part of the report.

② Representative Bristol favors the Committee's recommendation but has a statement which is included in this part of the report.

mitted to spread the gain over a period of years through the special treatment afforded by the capital gains provisions.

This is not true under the present rate structure in Oregon, as we do not have the same high rate of progressivity as does the federal structure.

For the year 1955, there were 532,231 income tax returns filed in Oregon, of which 442,693 were taxable. Of these, 22,250 indicated some degree of income from capital gains. This amounts to just under 4.2% of the total returns filed. The majority of those returns indicating income from capital gains were in the top bracket of our rate structure, EVEN IF THEY HAD NO INCOME FROM CAPITAL GAINS. Thus any special treatment to be given to capital gains will be an out and out tax subsidy to this group of taxpayers.

2. Oregon cannot afford at this time to lose the income that this capital gains legislation will cost. The Tax Commission in 1957, estimated that a similar bill would cost the state $10 million a biennium. $6 million of this would be an out and out tax give-away to those taxpayers with incomes in excess of $50,000.00. There were 784 of these extremely fortunate individuals in 1955. It is submitted that this loss in revenue will have to be picked up elsewhere if we are to have a balanced budget in Oregon. It is unjust and unfair to expect the vast majority of Oregon's taxpayers to pick up a $10 million tab for the very few. It is even more so to expect some 442,000 taxpayers to pungle up an additional $6 million so that 784 people can be unjustly enriched in that amount.

3. Not to be overlooked is the fact that as the state income tax is decreased on these people by $10 million, their federal tax will increase accordingly. What the majority of the Committee is doing is taking away money that Oregon can't afford to lose and sending it back to Washington, D. C.

STATEMENT OF REPRESENTATIVE BRISTOL CONCERNING CAPITAL GAINS TAX

Testimony before the Committee revealed that when an Oregon taxpayer was disposing of a large holding in the State of Oregon, in many cases he entirely escaped a tax on the capital gain of that asset. Testimony revealed that it was only the smaller taxpayers who were stuck with paying income taxes on a capital gain in the State of Oregon. The older couple retiring from a small business normally pays a capital gain on the proceeds of the sale of that small business to be used in retirement, but where people had made a substantial accumulation of wealth, such as the holding of large blocks of timber over a period of time, it was very profitable for them to move out of the state and establish residence elsewhere so as to escape the Oregon taxes. Testimony revealed that this was done many times.

For this reason I do not believe that our "Capital Gains Bill" goes far enough. It will still leave the smaller people paying the tax and the bigger people easily escaping it.

DEDUCTION OF TRAVEL EXPENSES

The Committee recommends enactment of personal income tax legislation which, under certain circumstances, will allow a taxpayer, in computing income tax liabilities, to deduct personal expenses incurred for travel, food and lodging.

Under the present law, deductions from gross income are allowed for travel, meals and lodging for workers who are sent by their employers to distant job sites away from home (to the extent that the workers are not reimbursed for such expenses). Workers who are not sent away from home by their employers but who are nevertheless engaged in occupations for which there is no permanent job location and which requires them to travel from their places of residence to distant job sites beyond practicable commuting distances, are not permitted to deduct travel expenses.

Some workers, for example, are sent to distant job locations by their unions which, in effect, act as agents of employers. But because these workers are technically not employed until they get to the job location and because they are technically not sent away from home by their employers, they are not allowed to deduct travel expenses.

Under the Committee's bill, deduction of travel expenses to the extent that there is no reimbursement, will be allowed to any taxpayer who maintains a regular place of abode for his family and who must ordinarily travel to distant job sites where there are no acceptable provisions for the housing of his family. The Committee's proposal limits the deduction to expenses resulting from one round trip between the taxpayer's home and his distant job site for each uninterrupted period of employment at each job location for each year. Thus expenses for occasional travel during a period of employment will not be allowed as a deduction. The Committee's bill also disallows as a deduction expenses of travel between temporary residences and job sites, which more nearly resemble commuting expenses.

The Committee feels that adoption of its bill will provide all workers who must travel to distant job locations away from their homes with treatment comparable to that which is now provided workers who are sent by their employers to distant job locations.

EXEMPTION OF STUDENT HOUSING ACCOMMODATION COMPANIES FROM THE CORPORATION EXCISE TAX

The Committee considered the problem of the corporation excise tax now imposed on certain organizations which own and operate student housing accommodations at institutions of higher education throughout the state. Prior to 1953, corporations organized and operated for the exclusive purpose of holding title to property and furnishing living accommodations to college students were exempt from the tax as corporations formed for educational purposes and not organized for profit. And in any event, the so-called "skyscraper clause" exempted corporations whose principal income or assets consisted of real property.

With amendment of the Corporation Excise Tax Law in 1953 the exemption as non-profit organizations was eliminated. Nonetheless exemption from the tax was still claimed under the "skyscraper clause". With repeal of the "skyscraper clause" in 1955 the only basis under which exemption could be claimed or allowed was removed.

The State Tax Commission holds that student housing corporations are no longer exempt from the corporation excise tax. Representatives of affected corporations do not contest this ruling but aver that these organizations were inadvertently denied exempt status by the legislature.

Most of the affected corporations own the housing properties of college fraternities, sororities and student housing cooperatives. Most are Oregon corporations formed by alumni of various college fraternities, sororities or housing groups. Their sole purpose is to hold title to property and furnish living quarters to students who, in turn, pay rent to the corporations. These corporations were formed because of the inherent lack of continuity in the student membership of the housing group—a circumstance which makes mortgage financing, without such holding company corporations, difficult due to lack of assurance of a stable, continuous and responsible mortgagor.

Inequity stems from the fact that if a student organization owned housing property it would have an exempt status whereas a non-profit corporation owning the property on behalf of the student organization is not exempt. The Tax Commission indicates that there are approximately sixty fraternity and sorority holding company corporations involved. The average annual excise tax liability on each corporation probably does not exceed $30 while the largest tax liability is somewhere around $100 per year. The Tax Commission has abated collection proceedings until the legislature has an opportunity to act. To the knowledge of the Committee, no taxes have ever been paid.

The Committee considered the historical rationale for the granting of tax exemptions, namely that exempt organizations perform functions of a significant public benefit which functions, were it not for the exempt organizations, would have to be performed by the state instead. Over 2,000 students are housed in the affected living organizations. The alumni associations which hold property through their special corporations do so solely for the benefit of college students and not for their own benefit. Housing is provided undergraduate students at state-supported and private institutions of higher education without cost to the state. As a matter of equity and a matter of policy the Committee feels that corporation excise tax exemption for student housing accommodation companies is desirable.

The Committee recommends enactment of a bill exempting from the corporation excise tax corporations which are organized and operated for the exclusive purpose of holding title to student housing property and furnishing living quarters to college fraternities, sororities, housing cooperatives or living organizations for the benefit of students attending institutions of higher education, with no part of the net earnings inuring to the benefit of any private shareholder or individual. The Committee further recommends that this exempt status be made to apply retroactively to all tax years ending after December 31, 1954, before which time such corporations were otherwise exempt from the corporation excise tax.

CORPORATION INITIAL FILING FEES AND ANNUAL LICENSE FEES

The Committee studied the corporation filing and annual license fee structure under the Oregon Business Corporation Act. Each business corporation organized or doing business in the state must pay an initial filing fee at the time of incorporation or, in the case of a foreign corporation, at the time it seeks authority to transact business in the state, and each must also pay an annual license fee.

The annual license fee for Oregon corporations is graduated from $10 to $200, based on the par value of capital shares authorized. The initial filing fee for Oregon corporations is identical with the annual license fee.

The annual license fee for foreign corporations is a flat fee of $200 and the initial filing fee for foreign corporations is a flat fee of $50.

The Committee also studied the corporation fee structures in effect in the other states and heard testimony from representatives of the Oregon Corporation Department relative to this matter.

There are approximately 9,300 domestic business corporations licensed in Oregon. Domestic corporations pay an average of $28 each in annual license fees which produces about $260,000 in revenue a year. New domestic incorporations run about 1,170 a year and pay an average of $23 each in initial filing fees which produces approximately $27,000 in revenue annually.

There are about 1,800 foreign corporations qualified to do business in Oregon and the $200 annual license fee imposed on these foreign corporations generates approximately $360,000 annual revenues. About 240 new foreign corporations qualify to do business in Oregon each year and the $50 initial filing fee for these foreign corporations raises approximately $12,000 a year in revenue.

Altogether, receipts from the annual license fees and initial filing fees of domestic and foreign corporations produces revenue in the vicinity of $659,000 a year.

Criticism of the existing law centers on the following points:

1. *The Corporation Department, which administers the Oregon Business Corporation Act, is essentially a regulatory agency and only secondarily a revenue producing agency. Collection of fees in excess of the cost of administration should not be considered a primary function of the Department.*
2. *The use of authorized capital shares as the basis for computing initial filing fees and annual license fees for domestic corporations is inadequate and archaic. The par value of authorized capital shares bears little or no relation to the instrinsic value of a corporation's capital stock. Some of Oregon's largest corporations qualify for the minimum fee because the par value of their authorized shares is low and unrepresentative of corporate size.*
3. *Graduated Corporation fee schedules are difficult to justify. The system in Oregon antedates the Corporation Excise and Income Tax laws which now accommodate the ability-to-pay principle. It costs just as much to regulate a small corporation as a large corporation. Maintenance of graduated fee schedules needlessly complicates the Corporation Department's work. Flat fees should be substituted for graduated fees.*
4. *The flat $200 annual license fee for all foreign corporations is one of the highest flat fees in the nation and may discourage some corporations, with only nominal activity in Oregon, from qualifying to do business in the state.*
5. *The filing of annual reports for all corporations must now be made between July 1 and August 15. Domestic corporations' annual license fees must now be paid by July 1 and foreign corporations' annual license fees must now be paid between July 1 and August 15. This results in seasonally uneven work loads for the Corporation Department.*

The Committee finds merit in much of this criticism. In order to overcome some of these objections, the Committee recommends the following changes in the Oregon Business Corporation Act:[1]

1. **Substitute a flat $25 domestic corporation annual license fee for the present graduated fee which ranges from $10 to $200 and which is based on the par value of authorized capital shares.**
2. **Substitute a flat $50 domestic corporation initial filing fee for the present graduated fee of $10 to $200 based on the par value of authorized capital shares.**
3. **Reduce the foreign corporation annual license fee from a flat fee of $200 at present to a flat fee of $100.**
4. **Retain the initial filing fee for foreign corporations at a flat fee of $50.**

[1] Senator Lowry and Representatives Barton and Cone dissent from this recommendation. Senator Lowry's statement is included in his minority report.

5. **Provide for the filing of reports and fees on a staggered basis in order to smooth out some of the seasonal peaks and valleys in the administrative work load of the Corporation Department.**

6. **Modify the secrecy statute of the income tax law to provide that the State Tax Commission furnish a list to the Corporation Department of the names and addresses of Corporations filing corporation excise and income tax returns, the particulars of which shall not be divulged by the Corporation Department.**

Based on the same figures cited earlier, the Committee estimates that its package recommendation will generate approximately $484,000 in revenues annually versus present annual revenues of about $659,000. The Committee's proposal will thus result in an estimated revenue loss of approximately $175,000 a year.

The Committee's recommendation is designed to reduce the financial burden upon out-of-state corporations doing business in Oregon, to make more rational the application of filing fees and annual license fees on Oregon corporations, to reduce some of the erratic seasonal character of the Corporation Department's work load, and to improve enforcement of the Oregon Business Corporation Act.

RELATIONSHIPS BETWEEN THE STATE TAX COMMISSION AND COUNTY ASSESSORS

HJR 42 (6) DIRECTIVE:

"Investigate the causes of and possible solutions for the apparent continued controversy between the valuation division of the State Tax Commission and the county officials and assessors of those counties which have not entered into the state-wide property reappraisal program, and particularly with respect to Multnomah County."

In compliance with this directive the Subcommittee on Ad Valorem and Transportation Taxes sent a questionnaire to each of Oregon's thirty-six county assessors. The subcommittee studied progress reports of the reappraisal program and the statutory relationships between the State Tax Commission and the county assessors. In addition, several meetings were held with county assessors as a group and individually. Moreover, the subcommittee chairman attended the annual convention of the Oregon State Association of County Assessors. The Association's legislative proposals were carefully considered by the Committee with most of the proposals ultimately adopted as part of the Committee's recommendations.

From the answers to its questionnaire and its study of the relationships between the State Tax Commission and the county assessors, the Committee concludes that there are a variety of aggravating circumstances which have led to friction between the two offices. First of all, there are thirty-six different county assessors in Oregon. They represent counties which range in population from 2,300 (Sherman County) to 542,030 (Multnomah County) and which range in size from 424 square miles (Multnomah County) to 10,132 square miles (Harney County). These 36 counties range in taxable wealth (true cash value of taxable property) from $15.8 million (Wheeler County) to $2,153.0 million (Multnomah County). The offices of the county assessors range in size from those with but one employee to one with over a hundred employes.

In the second place, county assessors are elective officials and are, accordingly, accountable and answerable to the electors of their respective counties, while the Tax Commission is an appointive body which is charged by law with general supervision and control over county assessors. This makes the Tax Commission somewhat more insulated from direct public reaction to assessment policies and serves to increase the sensititvity of assessors in their relationships with the Commission.

Another cause of friction is that there has been a tendency for the responsibilities of the State Tax Commission to expand while the responsibilities of the assessors have tended to contract. This results from the Tax Commission exercising authority which it previously had but never fully utilized, from legislative bestowal upon the Commission of additional responsibilities, from the tendency of some local officials to evade their duties or from inadequate finances to hire personnel to do the job, from more energetic pursuit of duties by state administrative agencies, and from the possible tendency for the citizenry to bypass local governmental authority in favor of central governmental authority.

Despite these circumstances, the Committee feels that relationships between the county assessors and the State Tax Commission have improved markedly over the past few years. In answer to the Committee's questionnaire to the assessors, almost all respondents seemed agreed that the Tax Commission has shown a greater willingness in recent years to cooperate with the assessors' offices and to reduce friction between the two agencies.

The Committee feels that some of its recommendations, enumerated elsewhere in this report, will further improve County Assessor-Tax Commission relations. The Committee also notes, coincidentally, that the relationships between the county assessors and the legislature have also improved, with a high degree of mutual cooperation evidenced in its own deliberations.

Finally, the Committee feels that both the county assessors and the State Tax Commission must energetically undertake a program of mutual cooperation and mutual respect in order to assure further improvement in relationships. The Tax Commission cannot evade or relinquish the authority vested in it by the legislature. The Commission must make the rules, regulations and policy decisions which are its to make. But rules, regulations and policy decisions need not be made in an atmosphere of belligerence and isolation. Wherever possible there should be fairly close contact between the Tax Commission and the county assessors in the making of decisions which affect the office of assessor. Assessors must also realize that their office is established by the legislature and that supervision and control over county assessors in the performance of their duties relating to taxation is vested by the legislature in the State Tax Commission.

PROGRESS OF REAPPRAISAL PROGRAM

The reappraisal program in Oregon was inaugurated on July 1, 1951. The program is carried out under the supervision and direction of the State Tax Commission (Valuation Division) in cooperation with the various counties. The program's costs are shared between the counties and the Tax Commission on a fifty-fifty basis.

The reappraisal program is designed to correct inequalities in the assessment of local property. Under the program the Tax Commission is authorized by statute to enter into contractual agreements with the various counties to supervise appraisal of property in the counties. The standard contract is signed by the County Court and the Oregon State Tax Commission, and approved by the County Assessor. The appraisals, once made, are then used by the county assessors and boards of equalization in assessing property and reviewing assessment rolls.

As originally planned, the reappraisal program was to be completed by 1961—ten years after inauguration. Shortage of qualified personnel, personnel turnover, the assignment of additional responsibilities to the Tax Commission and lack of sufficient appropriations have combined to extend the anticipated completion date of the program to 1964.

At present, reappraisal has been completed and reappraised property put on the assessment rolls in thirteen counties: Clatsop, Columbia, Coos, Gilliam, Grant, Harney, Jackson, Klamath, Lake, Morrow, Sherman, Tillamook and Wasco. Reappraisal in four other counties—Crook, Curry, Douglas and Lane—is nearing completion and will soon be placed on the rolls. Thus the program is at or near completion in seventeen of Oregon's 36 counties.

The following table shows the status of the reappraisal program in the eleven other counties in which it has been initiated:

STATUS OF REAPPRAISAL PROGRAM AS OF JULY, 1958

	Percent of Reappraisal Completed					
County	*Timber*	*Farm*	*Urban*	*Industrial*	*Maps*	*Total Project*
1. Benton	99	36	87	68	100	79
2. Clackamas	0	0	10	0	10	7
3. Deschutes	0	0	0	0	68	12
4. Hood River	0	20	100	98	100	55
5. Lincoln	0	0	4	0	67	17
6. Marion	27	51	90	58	67	73
7. Malheur	0	21	11	0	0	9
8. Polk	13	8	50	14	90	38
9. Union	0	0	0	0	3	1
10. Wallowa	0	0	0	0	4	1
11. Washington	0	0	0	5	31	11

Source: Valuation Division, Oregon State Tax Commission

On a statewide basis, the reappraisal program is now approximately 55 percent complete.

Multnomah County was not originally included in the program but, through its Board of Equalization, is carrying on discussions with the Tax Commission which may lead to a reappraisal program in that county. The County Court of Clackamas County felt that present financial circumstances are such as to prevent the county from undertaking complete reappraisal at this time. Clackamas County, however, has entered into a limited contract agreement with the Tax Commission for the preparation of a set of maps and a reappraisal of urban property.

Except for Multnomah and Clackamas Counties, there are only seven counties which have thus far failed to enter into reappraisal agreements with the Tax Commission and two of these counties (Baker and Umatilla) are in the negotiation stage at present.

When the reappraisal program was first contemplated by the 1951 legislature, three different techniques for its operation were considered. First, the legislature could have passed a law requiring counties to make the appraisals with their own staffs or by hiring outside appraisal firms. Second, the Tax Commission could have been authorized to make all the appraisals and the counties required to use them. And third, the appraisals could be made on a cooperative basis by both the Tax Commission and the counties. The third alternative was adopted.

Unless a county is willing to enter into a reappraisal agreement and share costs, the program cannot proceed. The Committee feels that voluntary and mutual cooperation between state and county is the desirable method to accomplish reappraisal. It is the express hope of the Committee that the legislature will not have to resort to the element of compulsion in order to achieve reappraisal. The Committee urges the assessors and county courts of those counties which have not entered into a reappraisal contract or which have not undertaken a reappraisal program of their own, to join in the program so that uniform property assessment can be achieved on a state-wide basis.

The Committee notes that while the reappraisal program has not proceeded at as fast a pace as might be desired, continuous progress has been made. Within the past year alone, the portion of the state which has been completely reappraised under the program has increased from 42 percent to 55 percent.

Finally, the Committee notes that to the extent that reappraisal has been completed it has been gratifyingly successful. The program has won wide acceptance by, and support of, the taxpayers of the state. It is accomplishing its purpose of achieving a large measure of equalization. Officials in those counties which have participated in the program are generally agreed that it has been a valuable adjunct to the assessment process and that it has corrected glaring inequalities in the assessment of local property. The Oregon State Association of County Assessors, although critical of some parts of the program (the Association feels that a larger share of the responsibility for the program should be transferred to the county assessing officers), acknowledges the need for a state agency to obtain uniform results between counties, to supervise the assessment process and to require standards of appraisal. The Association also feels that the reappraisal program which was adopted by the legislature was the appropriate vehicle to use to establish assessment equality throughout the state.

The Committee concludes that the reappraisal program is desirable and urges continued legislative support for both the program itself and the maintenance of the work already accomplished by the reappraisal program.

HOUSE TRAILER TAXATION

The problem of house trailer taxation was brought to the attention of the Subcommittee on Ad Valorem and Transportation Taxes as a result of the Governor's veto of a bill passed by the 1957 regular session of the legislature (H.B. 811). The vetoed bill would have transferred the responsibility for assessment and collection of ad valorem taxes on house trailers from county officials to the Department of Motor Vehicles. The Governor's veto messsage listed several objections and concluded that the matter should receive further study, possibly by an interim committee.

Under existing law, a house trailer which uses the highways must pay an annual license fee under the Motor Vehicle Registration Law. This fee is in lieu of all other taxes unless the house trailer is used primarily for residential or business purposes, in which case it is subject to ad valorem taxation. A house trailer used primarily for residential or business purposes and which also uses the highways is subject to both the highway users tax and the property tax.

Testimony heard by the subcommittee and studies prepared by the staff reveal the following information:

1. *Estimates of the number of house trailers in Oregon range between 30,000 and 70,000 units.*
2. *Approximately 85 percent of all house trailers are used primarily for residential or business purposes with the remaining 15 percent classed primarily as recreational in character.*
3. *Only 13,210 house trailers are licensed to use the highways by the Department of Motor Vehicles.*
4. *More important, only 6,113 house trailers were listed on the 1957 assessment rolls according to the State Tax Commission.*
5. *The delinquency rate of house trailers which are on the tax rolls and the cost of assessment and collection of house trailer taxes are both several times greater than is the case with other classes of taxable property.*

It is apparent that a large number of house trailers which are used primarily for residential purposes (and are thus subject to ad valorem taxation) are not on the tax rolls and escape property tax assessment. One member of the subcommittee, together with his county assessor, made an actual spot check of house trailers used for residential purposes along a stretch of highway from Klamath Falls to the California border. A total of 418 house trailers was counted of which only 104 were on the county tax rolls.

The Committee notes a sincere interest on the part of many house trailer owners to pay their fair share of taxes to support local governmental services which they and their families enjoy.

The subcommittee considered two different proposals. First it considered a proposal, known as Draft Bill A, which would provide that **all** house trailers must be registered and licensed by the Department of Motor Vehicles whether or not they use the highways. Before the Department would issue a license, under Draft Bill A, the trailer owner must present a certificate from the appropriate county assessor showing that no deliquent property taxes are due or owed.

The second proposal, known as Draft Bill B, was drawn along the lines of the vetoed H.B. 811 of the 1957 regular session. It would also require that **all** house trailers must be registered with the Department of Motor Vehicles. It further provided that in addition to the annual registration fee, to cover the costs of administration, each trailer owner would pay an additional annual license fee to the Department based on the market value of his trailer. Proceeds from the annual license fee would be returned to the treasurer of the county in which the trailer is located and redistributed to the taxing districts in which the trailer has its situs, to offset local property taxes. The license fee would be in lieu of all property taxes.

The subcommittee heard testimony from all interested parties including county assessors, trailer owners, the trailer industry, and the Department of Motor Vehicles. In addition, the subcommittee studied the details of the systems for the taxation of house trailers in Washington and California and endeavored to meet the objections of the Governor, the Department of Motor Vehicles, and travel trailer owners whose house trailers are used primarily for recreational purposes.

The subcommittee approved the priniciples embodied in its Draft Bill B. The main Committee recommends enactment of this bill which would require that all house trailers, whether used on the highways or not, be registered and licensed by the State Department of Motor Vehicles. The annual registration fee to cover the costs of administration will be $6 with proceeds over and above administration costs to accrue to the Highway Fund. The annual license fee will be 2 percent of the market value of each house trailer. Depreciation is provided by a schedule which sets the market value of a trailer at 85% of the **wholesale** book value (when new) for the first year, 70% for the second year, 55% for the third year, 40% for the fourth year, 30% for the fifth year, and 20% for the sixth and each succeeding year. The minimum annual license fee is set at $10. Proceeds from the annual license fee shall be redistributed to local taxing districts. The license fee shall be in lieu of all property taxes.

The desire to correct serious inequality in house trailer taxation and the desire for community acceptance and public respect has placed the Oregon Mobile Home Owners Association and the trailer industry—manufacturers, distributors and dealers—in unified support of the Committee's recommendation.

A complete schedule showing the combined annual registration fee and license tax, which will be imposed upon house trailers of various values and ages under the Committee's bill, appears in Appendix B of this report.

HOMESTEAD TAX DEFERRAL

Between 1950 and 1955, according to the U. S. Bureau of the Census, Oregon's population increased by 11 percent. In the same period, Oregon's population 65 years of age and over increased by 17 percent. Older people in Oregon have tended over the years to comprise an ever greater portion of the state's total population—due in part to a pattern of immigration of retired persons and due also to increases in longevity. Moreover, the Bureau of the Census reports that in the population of persons 65 years old and over, the number of widowed females is almost 3 times greater than the number of widowed males.

A population with an increasing portion of aged persons, a substantial portion of whom are widows with limited incomes, presents a social problem in the field of residential property taxation. The 1955-57 Legislative Interim Tax Study Committee, in discussing this problem, referred to numerous instances "where aged taxpayers had clear title to their homes but found it difficult to meet their property tax obligations because of limited incomes." The report of that Committee commented further that "at the same time, they (aged taxpayers) demand comparatively little in the way of services from local government." That Committee endorsed a limited homestead exemption for aged taxpayers with limited incomes.

Homestead tax exemption bills for aged taxpayers were introduced in both the regular and special sessions of the 1957 Legislative Assembly but failed to be enacted. One of the primary reasons that the homestead tax exemption principle met with legislative resistance was the documented assertion that an outright exemption could do considerable violence to the ad valorem tax structure. In one small city with a population of about 600, for example, it was estimated that approximately 50 percent of the property taxpayers would be able to qualify under a homestead exemption which limited income to a maximum of $2,400 annually and which limited true cash value of residences to $7,500. In this particular city the boundaries of the elementary school district are contiguous with the city limits. Over half of the total millage rate on properties in the city supports the elementary school district and the city government. An outright homestead tax exemption, it was asserted, would shift the entire property tax burden onto only half of the city's residents and would create economic pressures which would dictate that property subsequently put up for sale in the city would only be purchased if the property and the purchaser could qualify for the exemption—a circumstance which would eventually lead to complete collapse of the city's property tax base.

An ingenious technique for reducing the havoc which a homestead exemption might create and, at the same time, minimizing hardships on aged taxpayers, was proposed by several county assessors and endorsed by a substantial majority of assessors responding to a questionnaire on the subject from the Legislative Committee of the Oregon Association of County Assessors. The proposal suggests that taxpayers upon reaching a specified age, instead of receiving an outright exemption, could elect to have the collection of ad valorem taxes on their homesteads deferred.

The Subcommittee on Ad Valorem and Transportation Taxes drafted a bill along these lines. Some members of the Committee suggested that a means test be included among the conditions necessary to qualify. The subcommittee studied the suitability of a means test (either restricting the amount of annual income of the taxpayer or restricting the value of the homestead) and concluded that such a test would unduly complicate the administration of the law and that a sufficiently high interest rate accruing on deferred taxes would discourage most persons with adequate means from taking undue advantage of the law.

The Committee recommends enactment of legislation which will provide for the deferral of the collection of ad valorem property taxes on the homesteads of persons 65 years of age or older at the option of the homeowner.①

In order to elect to have the collection of property taxes on a taxpayer's homestead deferred, the property must be owned by the taxpayer and actually used as his or her homestead, it must not be income-producing property, and there must not be any deliquent taxes on the property. If these qualifications are met and remain in effect, the homeowner may file an annual claim for deferral in which case collection of the homestead property

① Senators Lowry, Ohmart and Pearson dissent from this recommendation. Senator Lowry's statement is included in his minority report.

taxes will continue to be deferred until he or she dies or until the property is sold to someone else.

If the homeowner dies, the widowed spouse, if any, and if he or she is 60 years of age or over, may elect to continue the homestead in its tax-deferred status provided again that the other qualifications for deferral are met (must be actual homestead, must be owned by the widowed spouse, and must not be income-producing).

Whenever the deferred homestead property taxes become payable (as must eventually happen), the proceeds, together with accrued interest at the rate of 8 percent a year (simple interest), will be allocated among the various taxing districts in which the homestead has its situs in the same proportions that each district currently receives taxes from taxable property within its jurisdiction. The amount allocated is used to reduce the taxes currently levied by each district by a direct offset against the tax levy.

The Committee's bill has no means test. It applies without regard to annual income and without regard to the value of the homestead.[2] The Committee feels that the 8 percent interest feature will discourage indiscriminate use of the deferral provision by those able to pay their taxes.

The Committee's bill is designed to alleviate the property tax hardship on older taxpayers, to reduce the apprehension of foreclosure and eviction because of inability to pay property taxes, and to eliminate the havoc which a blanket homestead tax exemption would create in many taxing districts.

STATEMENT OF REPRESENTATIVE BARTON CONCERNING THE HOMESTEAD TAX DEFERRAL BILL

I concur and agree with the general provisions of this bill and what it seeks to accomplish; however, I feel that it should apply only to those taxpayers whose gross incomes are less than $4,000 per year.

[2] Representative Barton dissents from this particular feature of the bill. Representative Barton's statement is included in this part of the report.

SPECIAL MOBILE EQUIPMENT TAXATION

The Motor Vehicle Registration Act (ORS Chapter 481) defines a "fixed load vehicle" as a vehicle which is neither designed nor used to carry, convey or move any freight, property, article or thing over the highways except its own weight and the weight of a permanent load in the form of any equipment or appliance constructed as a part of or permanently attached to the vehicle (ORS 481.210). The statute specifies that fixed load vehicles shall pay an annual license fee of $25 apiece. Another section of the Act specifies that registration and license fees imposed under the Act are in lieu of all other taxes and licenses (except municipal license fees) (ORS 481.270).

Together these two statutes have been the source of confusion and vexation in the ad valorem tax field having caused, in the words of one county assessor, "a swamp of assessment difficulties." It might be construed from the statutes that upon payment of an annual $25 license fee, fixed load vehicles are exempted from ad valorem property taxation.

A variety of essentially non-vehicular equipment qualifies as fixed load vehicles simply by being mounted on wheels. Indeed, many types of equipment such as rock crushers, power shovels, well-drilling apparatus, etc., even though not self-propelled and even though not used primarily on the highways, might nonetheless qualify as fixed load vehicles. The case of portable rock crushers is illustrative. Testimony indicates that relatively inexpensive portable rock crushers are valued in excess of $100,000 apiece. Frequently this type of equipment is located at or near a construction project (off the highway) from whence it might not be budged for an extended period of time. Nevertheless, because it has wheels affixed to it and is thus capable of being moved over the highways, it could qualify as a fixed load vehicle. The injustice of a piece of equipment valued at $100,000 or more, which only occasionally or never uses the highways, escaping ad valorem taxation by the annual purchase of a $25 motor vehicle license seems apparent.

Testimony indicates that some county assessors place certain fixed load vehicles on the tax rolls along with other kinds of taxable personal property while other assessors construe the law to prohibit taxation of licensed fixed load vehicles and do not assess them. Some owners of fixed load vehicles refuse to pay ad valorem tax assessments on their equipment while others threaten to take the matter to court. Uncertainty and lack of uniformity as well as tax inequality motivated the Subcommittee on Ad Valorem and Transportation Taxes to study suitable legislative proposals to resolve these problems.

In a poll of county assessors, all respondents but one favored enactment of legislation to subject fixed load vehicles, which are not primarily used on the highways, to ad valorem taxation. The County Assessors Association was instrumental in seeking remedies to the problems cited above.

The subcommittee concludes that some fixed load vehicles are, in fact, not vehicles at all except in the most technical sense. Instead of qualifying for a vehicle license plate which might exempt them from all other taxes, they should be subject to ad valorem taxation the same as other income-producing tangible personal property with the proceeds to go to the taxing districts in which they are situated.

The Oregon Constitution specifies that the proceeds from all taxes on the ownership, operation or use of motor vehicles must be used exclusively for highway or park purposes. This feature of the constitution, which earmarks the proceeds of taxes imposed upon motor vehicles, follows the benefit theory of taxation, namely that the costs of certain public services should be apportioned among those benefited by the services in rough proportion to the benefits received. Highway user taxes, under the benefit theory, can be clearly justified on the basis that those who use the highways should pay for the highways.

It would seem, however, just as clearly unjustified, under the benefit theory approach of this section of the constitution, that proceeds of a tax on fixed load vehicles which do not use the highways or whose use of the highways is often meager and only incidental to their main and ordinary use, should be earmarked for highway construction and maintenance. Such circumstance is particularly difficult to justify when it is considered that many fixed load vehicles benefit much more from local public services, such as police and fire protection, than they do from use of the highways, and contribute both directly and indirectly more to the burden of local taxing districts than to the burden of highway upkeep. Many fixed load vehicles and the operations to which they are assigned, in fact, enjoy substantially more local government benefits than are received by other types of personal property, such as plant equipment and machinery, which pay their share of local government expenses.

The subcommittee carefully considered the constitutional question of whether or not ad valorem taxes could be levied upon fixed load vehicles without having the proceeds earmarked for highway purposes, particularly when the equipment is self-propelled. A Florida Supreme Court test case held that the mere fact that equipment is mounted on wheels and capable of being self-propelled does not make them motor vehicles and thus does not provide immunity from ad valorem taxation.[3] The Florida Constitution, somewhat similar in this respect to the Oregon Constitution, provides that motor vehicles are subject to a license tax for operation which is in lieu of all ad valorem taxation.

Advice furnished the Committee by its legal counsel, by the Law Section of the State Tax Commission, and by the Assistant Attorney General attached to the State Department of Motor Vehicles indicates that the fact that a piece of equipment is capable of being operated on the highways, or is licensed by the Department of Motor Vehicles, or is self-propelled, is not decisive in determining if it is a motor vehicle. The Committee is advised that subjecting some types of fixed load vehicles to ad valorem taxation has been held by the courts to be constitutional.

Information furnished by the Department of Motor Vehicles and the staff of the Legislative Highway Interim Committee indicates that there were more than 1,550 licensed fixed load vehicles in Oregon in 1957. At $25 per vehicle they accounted for license collections of slightly less than $39,000, proceeds of which, after deduction of administrative costs, went to the Highway Fund. Had all these vehicles been subject to ad valorem taxation in 1957 they would have paid approximately $269,000 in taxes for the support of counties, cities, schools and other taxing districts.

The Committee concludes that fixed load vehicles as a class are not paying their fair share of taxes compared with other types of income-producing personal property. The Committee further concludes that the proceeds of taxes imposed on fixed load vehicles whose primary use is off the highways should go for the support of local

[3] *Forbes v. Bushnell Steel Construction Co.*, 76 So. (2) 268 (Fla., 1954).

taxing districts and not for the construction and maintenance of highways except to the extent that such equipment actually uses the highways, in which case they should also be appropriately licensed for that additional privilege and benefit.

In order to put its conclusions into effect the Committee recommends enactment of a bill which creates a class of personal property to be known as "special mobile equipment". Special mobile equipment shall include vehicles, whether self-propelled or not, which are neither designed nor used primarily for the transportation of persons or property on the highways and which are only incidentally operated or used on the highways. The Committee recommends that special mobile equipment, as defined, be made subject to ad valorem personal property taxes whether or not such equipment is registered or licensed by the Department of Motor Vehicles. The Committee's bill in no way affects the registration and licensing of vehicles by the Department but merely provides that registration or licensing of special mobile equipment does not exempt such equipment from personal property taxes.[4]

[4] Senator Wilhelm was excused from voting on this recommendation.

PERSONAL PROPERTY TAX RETURNS

The Committee recommends changes in the penalties imposed upon taxpayers for failure to file personal property tax returns on time. The Committee also recommends imposition of penalties upon taxpayers who omit taxable personal property from personal property tax returns or who report inventory personal property at less than 90 percent of its true cash value or its book value.[5]

Under present law there is no penalty for failure to file personal property tax returns unless the failure to file results from intent to evade taxation, in which case there is a civil penalty of $10 a day for each day after the due date that the return is not filed. This penalty is recoverable in a civil action against the taxpayer. Under the present law, if the assessor discovers that a taxpayer has failed to file a personal property tax return, the assessor notifies the taxpayer in writing that he is delinquent. The taxpayer is then subject to a 5 percent penalty if he fails to file the delinquent return with 15 days after notification. There is at present no penalty for omitting personal property for under-reporting personal property on personal property tax returns.

The Committee feels that existing enforcement provisions in the personal property tax law are inadequate. At present, even if a return is not filed on time, no penalty is applicable unless the taxpayer fails to file with intent to evade taxation —intention which is difficult to prove. If intent to evade cannot be shown, there is no penalty unless and until failure to file a return has been discovered by the assessor and even then only if the taxpayer fails to file his delinquent return after 15 days' notice by the assessor. The fact that there is no penalty at all for omitting or under-reporting personal property might encourage some taxpayers to do just that in order to evade taxation with impunity.

The penalty provisions of the personal property tax returns are in sharp contrast to those found in the personal income tax and corporation excise and income tax returns where failure to file a return on time or pay a tax on time subjects the taxpayer to a 5 percent penalty plus interest on the unpaid tax at the rate of 6 percent a year and where wilful filing of a return which a taxpayer knows to be untrue and incorrect subjects the taxpayer, upon conviction, to a fine of not more than $1,000 or imprisonment for not more than one year or both.

The fact that the Committee feels that personal property tax enforcement is inadequate does not imply endorsement of the personal property tax. The Committee's views on the personal property tax are expressed elsewhere in this report. The Committee does feel, however, that tax laws should not discriminate against those taxpayers who, by virtue of high standards of citizenship and awareness of their responsibilities to society, faithfully obey the provisions of law. Nor should less conscientious taxpayers, who do not strictly abide by the provisions of law, be accorded a competitive advantage for want of edaquate enforcement of tax laws.

The Committee's recommendation provides an

[5] Senator Lowry and Representatives Bristol and Schedeen dissent from these recommendations. Senator Lowry's statement is included in his minority report.

automatic penalty of a 10 percent increase in the assessed value of personal property for failure to file personal property tax returns on time (before March 3 or before the expiration of an extension of time granted by the assessor). The Committee's bill repeals the $10 a day civil penalty for failure to file a personal property tax return with intent to evade.

The Committee further proposes that a taxpayer who omits taxable personal property from his personal property tax return be subject to a penalty of a 25 percent increase in the assessed value of the omitted property and that a taxpayer who reports taxable inventory at less than 90 percent of true cash value or book value be subject to a penalty of a 25 percent increase in the assessed value of that portion of his inventory which was not reported.

Protection is provided the taxpayer in the Committee's proposal since the liability for the penalty for failure to file a return on time can be excused upon a showing that for good cause the taxpayer was unable to file on time. And the penalty for under-reporting personal property inventories permits the taxpayer, at his option, to elect to report either the true cash value of his inventories or the value at which inventories are carried on his books.

The Subcommittee on Ad Valorem and Transportation Taxes, which studied this matter, notes that an overwhelming majority of the county assessors of Oregon endorse the provisions contained in the Committee's bill.

PERSONAL PROPERTY TAXATION

Taxable personal property in Oregon represents about 20 percent of the total assessed value of the state. Included in taxable personal property is merchandise and stock in trade (business inventories), business furniture, fixtures and equipment, livestock, and machinery and equipment. Business inventories represent slightly less than half of total personal property assessed value or approximately 9 percent of the total assessed value of the state.

In the 1958-59 fiscal year, property taxes levied in Oregon totaled $177 million all of which was dedicated to the support of local governmental units such as counties, cities, schools, etc. Assuming that the ratio of the assessed value of personal property to total assessed value of the state is the same as the ratio of personal property taxes to total property taxes, then personal property accounts for approximately $35 million in taxes and inventories alone account for about $16 million in taxes.

The Committee heard considerable testimony with regard to personal property taxes. It also had the benefit of studies on this subject conducted by prior interim committees.

The Committee concludes that personal property taxes in general and personal property taxes on inventories in particular are the most vexatious of taxes now levied in Oregon. Even if uniformity in assessment between taxpayers and between counties is achieved, the Committee finds that taxation of personal property is unsound and should, if possible, be eliminated at the earliest date feasible.

The personal property tax is not a fair tax since it does not accurately reflect ability to pay. A business with a large amount of inventory, for example, is not able to pay taxes if it make but a small profit or if it operates at a loss. On the other hand, a business with small inventories might possess substantial taxpaying ability if it operates at a high profit. A tax based on the value of inventories, therefore, does not fairly test the capacity of taxpayers to support governmental services.

Tax authorities have pointed out that there are three primary reasons why the personal property tax has been retained:

1. *Fiscal expediency.*
2. *The structural complexity of local government.*
3. *The difficulty of finding an acceptable substitute.*

The last reason, namely the difficulty of finding a suitable substitute, is probably the most important factor which has fostered retention of the personal property tax in Oregon. If the personal property tax is abolished or if only the personal property tax on inventories is abolished, it will mean that $35 million or $16 million, respectively, of local tax burden will be shifted onto other classes of property taxpayers unless a substitute tax is found.

The Committee felt it did not have sufficient time to study the matter thoroughly and to explore the possibilities of a substitute tax. The Committee recommends, however, that the Legislative Assembly or a future interim committee make a detailed study to find an acceptable substitute tax or taxes which can lead to the early abolition of either the entire personal property tax or, at the least, to abolition of the personal property tax on inventories.

PROCESSOR'S EXEMPTION

In 1941 the personal property assessment date was changed from March 1 to January 1. Many food processors and farmers complained that the change would work a hardship on them because their inventories on January 1 would be unusually large due to seasonal characteristics of their business. In order to eliminate this hardship, the 1941 legislature enacted the processor's law (ORS 308.250) which permits the cancellation of assessments on certain agricultural commodities, fish and processed products thereof where the product is shipped within four months following the assessment date.

The problem of seasonally and unreasonably high inventories on hand as of January 1 is not unique to food processors and farmers. Upon the recommendation of the 1953-55 Legislative Interim Tax Study Committee, the 1955 legislature enacted an optional monthly average inventory method which all inventory property taxpayers can elect to use if their inventories as of January 1 do not fairly represent their average stock (ORS 308.292).

The technique used in the processor's exemption is quite different from the technique used in the monthly average inventory method. The processor's exemption can result in substantially lower assessments than would obtain under the average monthly inventory method. It is possible for inventory assessments to be drastically reduced or completely canceled under the processor's exemption even when inventories are maintained at high levels throughout the year. If the qualified commodities which comprise inventories on hand as of January 1 are completely shipped by May 1, the entire assessment is canceled under the processor's exemption even though the level of inventories remains unchanged or increases in the interim or throughout the year.

Some of the advantages provided certain taxpayers by the processor's exemption were doubtless intended by the legislature. What may not have been intended is the advantage which processors can obtain by using the processor's exemption in combination with the average monthly inventory method—a combination which is legal and which has been available since 1955. Under the law processors can have part or all of their inventory assessment canceled and in addition can use this cancellation in conjunction with their average monthly inventories rather than their January 1 inventories, if they so elect.

The 1955-57 Legislative Interim Tax Study Committee studied the processor's exemption. That Committee took no action but recommended that the matter be given further study with a view to realistic revision or ultimate repeal.

Several questions should be answered before any changes are made in the law. Was it the intent of the legislature to permit the use of the processor's exemption in combination with the average monthly inventory method? Does this combination technique or any other feature of the processor's exemption accord processors an unfair advantage over other taxpayers? With the optional average monthly inventory method established in law, is it necessary to retain the processor's exemption? Are there other areas of possible abuse or administrative difficulty which might require the processor's exemption to be amended or repealed?

The State Tax Commission has prepared a comprehensive study on the history and effects of the processor's exemption. The Subcommittee on Tax Exemptions and the main Committee has requested the Tax Commission to make a report on this matter to the Fiftieth Legislative Assembly. The Committee requested that the report include the Tax Commission's recommendations together with appropriate bill drafts if amendment or repeal is recommended and urges that this matter be given serious legislative consideration.

TAX SUPERVISING AND CONSERVATION COMMISSIONS

The Committee recommends extension of the tax supervising and conservation commission system to each county in Oregon with a population of 50,000 or more inhabitants. At present commissions are created in each county which attains a population of 300,000 or more inhabitants and, consequently, the system is only in operation in Multnomah County.

The Committee's bill makes very few changes in the existing law relating to the tax supervising and conservation commission system other than expansion of the system to more counties. The principal change will be to expand each commission's authority to give it jurisdiction over **all** municipal corporations (all taxing districts except third class school districts, irrigation, drainage and road districts, and district improvement companies) in each county which by virtue of population qualifies to have a commission. Under the present law, the commission has jurisdiction only over municipal corporations with populations in excess of 100,000.

The Committee's bill will create tax supervising and conservation commissions in eight counties in addition to the commission which was created in Multnomah County in 1919. The eight counties affected are Clackamas, Coos, Douglas, Jackson, Lane, Linn, Marion and Washington Counties. The Committee's staff estimates that approximately 300 municipal corporations in Oregon will come under the jurisdiction of tax supervising and conservation commissions if its bill is adopted, versus the four districts now under commission jurisdiction in Multnomah County (City of Portland, Port of Portland, School District No. 1 and Multnomah County).

Under the Committee's bill, as in the present law, each commission will consist of five members to be appointed by the Governor for four year terms. Commissioners will serve without pay. Operating expenses of each commission will be included in its respective county's budget to distribute commission costs on a county-wide basis.

Each municipal corporation under a commission's jurisdiction will be required to submit its annual budget to the commission for public hearings. In preparation for the hearings the commission will study prior budgets, financial reports, audit reports, current budget operations and analysis of proposed budgets. After public hearings the commission will certify its recommendations or objections on the annual budgets to each municipality under its jurisdiction or else certify that it has no recommendations or objections to make. The commission will have no authority to order budget changes except in cases of illegal items or in cases of tax levies in excess of legal limits. Except in such cases, commission recommendations or objections will be advisory only, as in the present law.

Each commission will also be obliged to hold public hearings on special tax levies or bond issues which are proposed by municipal corporations for voter approval. In addition, each commission will be authorized to inquire into the management and accounting systems of each municipal corporation under its jurisdiction and if at any time it finds that money has been illegally expended, it will certify that fact to the District Attorney for action.

The Committee's bill provides that a municipal corporation which has territory in more than one county will come under the jurisdiction of the tax supervising and conservation commission of the county where the largest portion of its territory is located and if that county has no commission, the municipal corporation will not be subject to the jurisdiction of any tax supervising and conservation commission.

The Committee's recommendation is designed to secure more economical expenditure of local government public funds and more careful scrutiny of taxing district budgets by agencies created for that express purpose. The Committee feels that the creation of tax supervising and conservation commissions in all counties of Oregon, rather than only in those counties with a population of 50,000 or more, might be desirable. At the same time, however, the Committee feels that prompt establishment of the tax supervising and conservation commission system in the larger counties is manifestly desirable and could serve to pave the way for ultimate extension of the system to all counties.

The Legislative Interim Tax Committee embarked upon the initial phase of a comprehensive study of Oregon's constitutional 6% property tax limitation. The first lap of the Committee's study was prepared by Mr. F. LeRoy Spangler who generously donated his services to the Committee. Mr. Spangler was formerly a specialist in public debt and the money market for a large national investment company and is an authority in the field of property tax limitations. He is the author of the "Special Report of the State Tax Commission on Operation of Debt and Tax Rate Limits in the State of New York". The Committee wishes to express its gratitude to Mr. Spangler for his invaluable assistance in this Committee project.

The preliminary phase of the property tax limitation study covers the following areas of investigation:

1. A historical account of the development of the property tax limitation in Oregon.
2. Attorney General and Court opinions which are pertinent to the property tax limitation.
3. The background and reasons for the 1916, 1932 and 1952 amendments to the Oregon Constitution relating to tax limitation.
4. A brief comparative analysis of the types of property tax limitations in effect in other states.
5. An examination of the problems which have developed in the property tax field by virtue of Oregon's property tax limitation.
6. Some suggested techniques for resolving or reducing the tax limitation problems with which taxing units in Oregon are presently confronted.

OPERATION OF CONSTITUTIONAL SIX PER CENT TAX LIMIT IN THE STATE OF OREGON

The first tax limitation in the Oregon Constitution was initiated by the State Tax Payers' League over 40 years ago and approved by the voters on November 7, 1916. It limited the amount of taxes that could be levied by the state or any local taxing unit, other than that for the payment of bonded debt or interest thereon, to the amount levied in the preceding year plus 6 percent. If a higher levy was needed, the excess had to be specifically approved by the voters, but the excess levy voted could not be included in the legal taxing base. Provision was also made for the transfer of a proportionate amount or all of the taxing power of an existing unit of government to a newly created unit of the same kind which incorporated part or all of the existing unit.

The Tax Payers' League contended that Oregon's per capita tax was higher than that of any other state and that during the preceding decade taxes had increased 37 percent a year, or five times faster than population. As a result, the League said, people had begun to leave the state in large numbers and Oregon was "going steadily backward in population and wealth for the past three years". (Official Voters' Pamphlet for the Regular General Election, Nov. 7, 1916, p. 45.)

The operation of this limitation did not prove to be as satisfactory as had been expected. For example, if, through improved economy in operations or other reasons, a taxing unit was in a position to reduce its levy, it hesitated to do so because to reduce its levy would narrow its tax base for the future when its tax needs might be heavy by reason of population growth or inflationary forces. The limit therefore induced some of the taxing units to levy the maximum amount permitted each year, whether they needed all the funds or not.

In an attempt to correct this defect, the voters on November 8, 1932, approved an amendment changing the tax base to the highest levy in the **three** preceding years plus 6 percent. A taxing unit could now reduce the levy for one or two years without having the base narrowed, except for loss of the 6 per cent additional permitted each year. In order to protect the base at its original level, however, it would be necessary to raise the levy the third year back to that level. Hence, there was still an inducement to levy the maximum tax permissible, but the pressure to do so was now applied every third year instead of each year.

On the basis of Attorney General opinions, it seems that a taxing unit that had not levied any tax for three years or more (and thus had no base upon which the 6 percent limit could be computed) had no need to worry about being pinched for revenues for the year in which a tax levy would ultimately be required, for the Attorney General held that the base, in that event, is the amount necessary to defray the ordinary expenses for which taxes may be levied without vote of the people. This also applied to a newly created taxing unit, to which the tax limitation did not apply for the first year of its operation since there was no base upon which the limit could be computed. (Opinions of Atty. Gen. 1936-38, p. 660; 1938-40, pp. 639, 649; 1944-46, pp. 92, 177.)

Thus, a tax base was never completely lost. It could be reduced indefinitely but never to zero, for at that point it became based upon the taxing needs of the unit. Even before the 3-year clause was adopted, the Attorney General held, in a case involving a newly organized union high school district, that the question of exceeding the 6 percent limit did not arise because there was no levy of the preceding year as a base and the property was not previously included in any similar taxing unit. (Opinions of Atty. Gen. 1922-24, p. 24.)

Realizing that the original defects in the limitation had not been fully corrected by the 1932 amendment, the electorate in 1952 approved the addition of a paragraph permitting an increase (or decrease) to any specified amount in the tax base if approved by the voters "at a regular general or primary election". Another paragraph was also added providing for an automatic increase in the tax base of a unit when its boundaries are expanded to take in outlying territory. The increase is computed by multiplying the equalized assessed valuation of the taxable property in the annexed territory by the millage rate within the tax base of the annexing unit, then adding 6 per cent.

This latter provision was inserted in an attempt to relieve an anomalous condition whereby, when a municipality or other taxing unit annexed adjoining territory which had a taxing base, the annexing unit could not add the base to its own, although additional taxes were needed to finance the services to be rendered the annexed area. Those responsible for the insertion of this provision had in mind primarily the City of Portland, which added considerable outside territory with about 25,000 inhabitants in 1950 without its tax base being affected. (Official Voters' Pamphlet for the Regular General Election, Nov. 4, 1952, p. 18.) The provision, however, was a logical requirement for all expanding cities and school districts.

In interpreting the paragraph providing for the establishment of a new tax base on approval of the voters, the Attorney General held that the approval of a new base does not affect the application of the 3-year clause. For the year following voter approval of a new base the unit may levy a tax not in excess of the new base voted and thereafter the base remains the highest levy imposed during any of the three preceding years plus 6 per cent. (Opinions of Atty. Gen. 1954-56, p. 25.) The State Supreme Court did not uphold this opinion. It held that the amount of the new base voted becomes a permanent base until another is voted but that it cannot be increased by 6 percent. Upon rehearing, the Court modified its previous opinion by deciding that the 6 percent limitation does apply to the voted tax base and, if fully levied, a 6 percent addition is lawful. (School Dist. No. 1, Multnomah Co. v. Bingham, 204 Or. 601.) Two justices dissented from the second opinion.

With the provision now made for the establishment of a tax base by vote of the people, the Attorney General no longer took the position that a tax base could never be lost. A newly created taxing unit, hence, has no tax base, if the property therein was not previously included in any similar taxing unit, and its total operating levy, in that event, must be approved by the voters each year until a base is voted at a general election. (OF 256-V; Opinion of Atty. Gen. No. 3612, Feb. 26, 1957, also opinion handed down Sept. 25, 1958.) This is also true of existing units that have levied no taxes at all for three successive years. (Opinion of Atty. Gen. No. 3870, Dec. 16, 1957.)

There seems to be some reluctance on the part of most taxing units to ask the voters to approve a tax base, for several reasons. For one thing, there is a general feeling, probably justified, that it is easier to induce the electorate to vote a levy in excess of the tax limit, which would apply only one year, than to receive a favorable vote on establishing a new tax base, which would be of a permanent nature. Besides, should the voters turn down the tax base proposition, the taxing unit must wait until the next general or primary election to submit it again. The rejection of an outside levy, on the other hand, can be followed at any time by its resubmission to the voters.

Furthermore, in the case of a rapidly growing community, even should a new tax base be approved, it can within a short time be found insufficient to provide for the expanding needs of the growing population. Some taxing units, therefore, take the position that it is more realistic to submit to the voters each year their levy needs outside the 6 percent limit than to go before the people every few years with the request for a new tax base. Many units, particularly school districts, make it a practice to go to the trouble and expense of calling an election regularly every year to approve a levy in excess of the tax limit rather than ask for approval of a new tax base.

Such a small percentage of eligible voters usually turn out at a budget election that the outcome seldom represents a true cross-section of public opinion. Opposing minority groups of a militant nature are therefore given full opportunity to check, or at least delay, the proper evolution of governmental practices and to retard progressive educational processes.

By reason of economy in operations or expanded miscellaneous revenues, or even a decline in local industry or population, some units are able to operate on a levy smaller than their tax base. Rather than take chances on voter reluctance to approve an adequate levy, in the event of increased need for revenues some time in the future, such units have on occasion decided to protect their tax base by levying the full amount permitted each year or every three years, whether the money was needed or not. Hence, although the purpose of a tax limit is to restrict the imposition of property taxes to the minimum needed, the Oregon limitation provision has on occasion had the very opposite effect.

Just how widespread have been the unsatisfactory operating conditions arising from the effects of the 6 percent limit cannot be determined until after further research and study. The one favorable effect of the present Oregon limitation is that it does keep property taxes lower than they would otherwise be in many local taxing units. At least, the effect is favorable to the extent that it has minimized waste and extravagance. The limit's operation has also resulted in the yearly submission of budgets to the voters by many political subdivisions, especially school districts. Some would contend that this is also favorable, while others might consider such a procedure as fraught with some peril, especially since such a small proportion of voters usually turn out at budget elections. In any event, the present tax limitation does have these definite disadvantages:

1. The limit is too inflexible and, in particular, fails to meet conditions arising from population or industrial growth or inflationary forces in the economy.

2. It constricts too severely the revenue receipts of many taxing units and in some instances has the very opposite effect from what was intended by encouraging the levy of taxes in excess of needs.

3. It hampers forward planning by municipalities and school districts because of the impossibility of knowing how high a levy the voters will approve in future years.

A cursory perusal of some literature on tax limitations seems to indicate that all states, with the exception of possibly ten, have some form of limitation on ad valorem property taxes. As far as can be determined, all of these limitations but three are based on property values and, of these three exceptions, only two are based on taxes levied as in Oregon. The three exceptions are:

1. In Arkansas the school levy may not be in excess of the previous year's levy unless approved by the people. Other tax limitations in that state are based on the value of property.

2. In California property taxes for state purposes are limited to 25 percent of total appropriations from all state funds. All other limitations in that state appear to be based on property values.

3. In Colorado the statutes limit the ad valorem property levies by the state and any taxing district to those of the previous year plus 5 percent unless the excess is approved by the State Tax Commission or a majority of electors paying taxes on real estate.

The reason tax limits are almost invariably based on property values is because this permits the taxing power to expand automatically with the growth of the taxing unit or when inflation raises the costs of goods and services. Such limitations are relatively simple and easy of operation. They are often millage rates but sometimes are expressed in terms of percentage of property value or of a specific number of mills or cents per dollar or per $100. Sometimes full value, actual value or true value is specified, but usually they are based on assessed value. In New York State the property value used is a 5-year average, to prevent sharp fluctuations in the taxing power that could otherwise arise from sudden changes in the real estate market, such as occur in a business depression or when inflationary forces are rampant. Use of an average also tempers the sudden impact of the loss to a small community for instance, of a large industrial plant by fire or by removal of the plant to another town, by spreading the effect over a period of years.

Indiana, Kansas, Michigan, New Mexico, Ohio, Oklahoma, Washington and West Virginia have over-all limits which apply to combined property tax levies of overlapping taxing units where, for example, a county, a city and a school district all tax the same piece of property. Under this situation, where several taxing units must share a single limitation imposed upon them in combination, it is necessary to have a board or agency to supervise the allocation of millage rates to each of the various units in the combination.

In the great majority of cases, levies for the servicing of debt are excluded from the limitation, to enable public bodies to obtain the best possible price for bonds, or the lowest possible interest cost.

If Oregon amended its 6 percent tax limit by basing the limit on a suitable percentage of property values, it could not only continue to restrict property taxes to a satisfactory degree, but would also correct in large part the deficiencies of the present law. No tax limit has ever been devised that would be satisfactory all around, but one based on property values would seem to be a considerable improvement over the present limitation. The objection to the use of assessed valuations as the base is that it permits evasion of the limit by raising assessment ratios whenever the taxing units want to increase their tax revenue. This situation could be avoided by basing the limit on a set percentage of market value of taxable property.

What the limit should be for each class of taxing units cannot be determined before a detailed study is made as to the needs of each. If it be assumed that the needs are measured by the amount of taxes levied for general operating purposes, exclusive of debt service, in the latest fiscal year, the limit could be set at a point where the taxing power under the new provisions would approximate, as closely as practical, the tax base under the old limit plus the levy outside the limit which had been approved by the voters. The new limit could be restrictive enough to give the unit a taxing power no higher than that exercised the year before (including the voted levy) but at the same time high enough to preclude, or at least diminish, the future need for voter approval of an outside levy, especially since the new taxing power will automatically increase as industrial or population growth or inflationary forces demand an expansion in revenue needs.

CONCLUSION

The Committee feels that Oregon's constitutional property tax limitation has resulted in the creation of serious problems for taxing districts throughout the state and operates in an unreasonable, impractical and detrimental fashion. Accordingly, the Committee recommends that the study upon which it has embarked be continued to its conclusion by a subsequent interim committee of the legislature to the end that appropriate modification of the Oregon Constitution may be submitted to the people for adoption.

TIMBER TAXATION

HJR 42 (5) DIRECTIVE:

"Study the tax problems incident to the holding and cutting of timber to determine what if any amendments to existing property tax laws and reforestation laws would best insure an equitable contribution to existing revenue requirements of various governmental units, and at the same time insure a continuing sound economy within the timber industry."

Extensive hearings were held by both the Subcommittee on Timber and Natural Resources Taxes and by the main Committee relative to the taxation of timber. The Committee recommends two consequential and crucial changes in existing timber tax laws.

First, the Committee recommends enactment of a bill which will materially change the Oregon Forest Fee and Yield Tax Law. Secondly, the Committee recommends enactment of a bill which will impose property taxes upon merchantable timber not only in relation to its current market value (as in the ad valorem taxation of other types of property), but also in relation to the length of time that timber is on the tax rolls prior to severance. Details of these two bills are summarized elsewhere in this section of the report along with one other relatively minor timber tax bill which will amend an existing law relating to the filing of reports whenever timber subject to assessment is severed.

The forest products industry is the most important industry in the State of Oregon. The industry is essential to the state's economy and public policies should be designed to preserve it in a healthy and vigorous condition. At the same time, of course, the forest products industry, as with all other industries, must pay its fair share of taxes for the support of governmental services. These two factors—preservation of this important sector of the state's economic base and the fair distribution of the burden of taxation—must be brought into optimum harmony, one with the other.

The Committee recognizes that timber is unlike other types of property in many respects. The Committee also recognizes that a particular tax on timber might be quite suitable and justifiable from the standpoint of tax theory and at the same time be incompatible and unsatisfactory from the standpoint of encouraging good forestry practices and from the standpoint of protecting and maintaining an optimum economic base for the State of Oregon.

Finally, the Committee suggests that the distinctions between timber and other types of property be given legislative recognition by making the taxation of timber a separate part of the tax code to be treated differently than other types of real and personal property. In some respects, as in the case of the forest fee and yield tax and the forest products harvest tax, separation of timber taxation from other forms of taxation has been achieved. The Committee feels that code separation should be extended to include the ad valorem taxation of timber as well.

The Committee is not certain that its recommendations, sweeping as they are, are necessarily the final solution to the timber taxation problem. The Committee does feel, however, that enactment of its timber tax bills will constitute a significant step forward towards resolving Oregon's complex forest taxation affairs.

FOREST FEE AND YIELD TAX

The Subcommittee on Timber and Natural Resources Taxes held a number of public meetings throughout the state relative to the Oregon Forest Fee and Yield Tax Law (ORS Chapter 528), or reforestation act, as it is sometimes called. The subcommittee heard testimony anl received comments from the general public, industry representatives, technical experts, and public officials representing counties, the State Tax Commission and the State Board of Forestry.

The 1955-57 Legislative Interim Tax Study Committee earlier considered the problems involved in the forest fee and yield tax law. That Committee's report, in addition to its recommendation, contains information on the importance of forest based industries to Oregon's economy, the history of the forest fee and yield tax law, the provisions of the law, and a listing of its advanages and disadvantages.[1]

It is unnecessary to duplicate in this report the material which has already been published by an earlier interim committee. Suffice to say that the Oregon Forest Fee and Yield Tax Law was enacted in 1929 to encourage the growth and protection of forest crops on lands chiefly valuable therefor, and to provide fair, stable, and continuous tax revenues from such lands, according to the purposes expressed in the law. The original act has continued substantially unchanged since its original enactment in 1929. Perhaps the most significant change was the transfer of the jurisdiction and administration of the revenue sections of the law from the State Board of Forestry to the State Tax Commission in 1953.

Essentially, the present forest fee and yield tax law provides that lands devoid of merchantable timber may be classified, through recommendation of the Board of Forestry and final determination by the Tax Commission, as reforestation land. Upon such classification, lands are removed from the property tax rolls and are no longer subject to ad valorem taxation. Instead, lands which are classified pay an annual forest fee which is in lieu of ad valorem property taxation. The annual forest fee is five cents per acre in western Oregon and two and one-half cents an acre in eastern Oregon. In addition, all forest crops harvested from classified lands must pay a yield tax of 12½ percent of the value of the forest crop harvested. Proceeds of the annual forest fees and the yield tax are paid to the local county and then apportioned to the taxing districts in which the classified lands are situated.

The objective of the forest fee and yield tax law is to encourage land owners to grow new crops of trees on their cutover land. The law is designed to provide for low annual tax payments during the growing period and to defer the bulk of tax payments until the time of harvest when it is assumed there will be adequate income to pay the tax.

The principal objections to the existing law expressed to the subcommittee were as follows:

1. *The yield tax on forest products which are removed under a thinnings operation, in accordance with good forestry management, is too high because thinning of timber is more costly to the operator in terms of the value of the timber cut than is the normal harvesting of timber.*
2. *The yield tax on forest products removed as salvage and snags is too high because salvage operations involve the removal of valueless as well as valuable forest products which reduces the profit from such operations and sometimes results in net losses.*
3. *There is not ample provision to permit declassification of lands once they are classified under the law.*

Testimony before the subcommittee indicated that approximately one million acres of forest land have been classified under the forest fee and yield tax law—only ten percent of the private forest land in Oregon and far less than half of the acreage in the state which is eligible for classification. In actual practice the Board of Forestry has not recommended the classification of any lands over the objection of the owner. The Committee feels that the existing law is, in some respects, obsolete and inadequate and in recent years has not encouraged land owners to come under its provisions. The law has therefore not been successful in fully achieving it stated objectives.

The Committee recommends enactment of a bill which makes substantial changes in the Oregon Forest Fee and Yield Tax Law. In essence, the Committee's bill is designed to make it more attractive for the owners of qualified land and timber to come under the provisions of the forest fee and yield tax.

The Committee's bill changes the purposes of the act. Under the bill the act's purposes will be to promote the establishment of new forest crops on cutover or denuded, privately owned forest lands; to promote maximum growth and protection of immature stands; to provide tax relief during the growth period; to protect and maintain county tax bases and stabilize tax revenues; and to discourage premature harvesting of forest crops. These purposes are significantly changed from those expressed in the present law.

Because the State Board of Forestry is required to meet no more often than four time each year,

[1] *Report of the 1955-57 Legislative Interim Tax Study Committee,* (Salem, 1957), pp. 66-69.

the Committee's bill transfers a number of responsibilities from the Board to the State Forester.

The Committee's bill provides that the owner of timber lands may petition to have his lands classified in addition to initiation of classification by the State Forester. Under the present law only the Board of Forestry is authorized to propose the classification of lands. The Committee's bill further provides that no lands shall be classified over the owner's objection or, unless found by the Board of Forestry to be in the public interest, over the objection of the County Court or Board of County Commissioners.

The Committee's bill changes the qualifications necessary for classification to include only lands which are denuded by fire, insects, disease or other causes, or cutover lands which meet the requirements acceptable for release under the Oregon Forest Conservation Act, or lands with a minimum tree growth. In addition, lands, in order to qualify for classification, must have adequate tree seed sources available, must be suitable for production of new forest crops, and must be protected from fire, insects and disease.

In addition to the declassification of lands which fail to continue in a qualifying status or which were erroneously classified, as provided for in the present law, the Committee's bill further provides that the owner of classified land can petition to have his land declassified and thereafter be subject to ad valorem taxation. The present law provides that whenever lands are declassified because of disqualification or because of erroneous classification, there is due to the county the ad valorem taxes which would have been paid for each year if the land were not classified less the forest fee and yield taxes already paid. This feature is retained in the Committee's bill. Upon declassification by owner's petition, however, the owner must pay either the ad valorem taxes which would have been paid if the land were not classified less the forest fee and yield taxes actually paid, or 12½ percent of the market value of the forest crops on the land, **whichever is greater.** Moreover, lands declassified by petition of the owner cannot be reclassified for ten years after declassification.

The Committee's bill provides that the annual forest fee imposed on classified lands in lieu of ad valorem taxation be increased from five cents to ten cents per acre on lands west of the Cascades and from two and one-half cents to five cents per acre on lands east of the Cascades. This provision is designed to bring the forest fee into more realistic conformity with current ad valorem property taxes now imposed on timber land alone. In addition, the bill carefully defines the summit of the Cascade Mountains.

The Committee's bill retains the 12½ percent forest yield tax which is payable at the time of harvest. Most important, however, the Committee's recommendation exempts from the yield tax all of the forest products harvested under on approved plan of thinnings or sanitation cuttings up to 10 percent of the timber stand for each cutting cycle. Of equal importance, the bill exempts from the yield tax all salvage material and snags removed during the three years immediately following classification. In addition, 5,000 board feet of forest products will be exempted annually if harvested by the owner and used on the premises. None of these exemptions is provided in the existing law.

Finally, the Committee recommends that the State Forester, with the approval of the State Board of Forestry, make the necessary rules and regulations to achieve the purposes of the law.

The Committee feels that most, if not all, of the objections of timber land owners to the present Forest Fee and Yield Tax Law are met by its bill and that enactment of the Committee's proposal will encourage owners to favor classification of their lands as reforestation lands and will more likely result in realization of the desirable purposes of the act as set forth in the Committee's bill.

VALUATION AND ASSESSMENT OF MERCHANTABLE TIMBER

According to law the State Tax Commission is responsible for appraising taxable timber and timberland in those counties where timber and timberlands have been reappraised since 1950 under the reappraisal program. Beginning in 1961, the Tax Commission must appraise taxable timber and timberland in all counties (ORS 306.127).

Following the completion of timber reappraisal in Benton, Coos, Douglas and Lane Counties in 1958, it became the Tax Commission's responsibility to appraise timber in those counties for property tax purposes. In many instances reappraisal disclosed that a considerable amount of timber in each of these counties had been grossly undervalued. Accordingly, substantial increases in the valuation of timber for ad valorem tax purposes were made by the Commission's Valuation Division. The valuations were not uniformly adhered to by all of the county assessors or county boards of equalization involved. The variations and divergent actions on the Commission's valuations moved the Commission to hold a series of fact-finding hearings on timber taxation in the four counties.

One of the crucial factors about which the Commission's hearings centered was the definition of "area" which is used in determining the rate of depletion for timber taxation purposes. Under the present law, timber, in counties where timber reappraisal has been completed, is appraised by a method which takes into consideration factors bearing on the immediate value of timber, such as species, quality, volume after allowance for defect and breakage, accessibility to point of conversion, topography and growing conditions, as well as factors which bear on future value resulting from the holding of timber for a period of time prior to severance, such as risk of loss due to fire, insects, disease and storms, carrying charges and the rate of depletion in the area in which timber is located.

In interpreting the law the Tax Commission has adhered strictly to the ad valorem principle of taxation. The Commission has used single county-wide depletion rates for all timber stands in each county irrespective of the rates of depletion of individual ownerships.

Testimony of the Commission before the Committee suggests that the effect of depletion rates on true cash value operates with a fair degree of uniformity throughout the Douglas fir region. The Commission holds that "true cash value" means the price at which property would sell as between a willing buyer and a willing seller. The Commission finds that the cutting plans of an individual timber owner (individual rates of depletion) do not directly affect the price at which he would sell, nor equally important, the price which a buyer would pay. Accordingly, the Commission has determined that depletion rates used in the valuation of timber will be set for areas of not less than a county and that without enactment of legislation to the contrary, this is the policy it proposes to follow.

The Committee is concerned about the effect of this policy on Oregon's timber economy. If all timber in a county is assigned the same rate of depletion in the valuation of timber, it is obvious that the longer an owner holds his timber before cutting, the greater will be the cumulative taxes levied on his timber. As an illustration the Committee considered the hypothetical case of two identical timber stands under separate ownerships in one county. Both timber stands are assumed to be completely comparable in every respect—identical species, quality, volume, accessibility to point of conversion, etc. Using a single county-wide depletion rate, it is apparent that the cumulative taxes which will be levied on the owner who does not cut his timber for 30 years will be substantially greater than the cumulative taxes levied on the owner who will cut his timber in 15 years. Thus the effect of taxes might come to play an important role in determining how long timber will be held. The effect of using a single county-wide depletion rate in this illustration will be to encourage quick cutting of timber and discourage the long holding of private timber which is part and parcel of a sustained yield program.

The Committee finds that the existing law, while it adheres to the ad valorem principle of taxation, is not compatible with encouraging good forestry practices and with encouraging the protection and maintenance of an optimum economic base for Oregon.

The Committee recommends enactment of a bill which will provide that the valuation and assessment of merchantable timber, in those counties where timber has been reappraised or otherwise adequately inventoried, will take into consideration the actual rate of depletion of each individual ownership tract of timber. Under the Committee's bill the valuation and assessment of timber in each tract will be based on the actual length of the cutting operation within that tract. Under this proposal (and using the valuation factors presently utilized by the Tax Commission), property taxes in any particular year will be lower on a unit of timber if the tract in which it is located has a long cutting cycle than on a similar unit of timber if the tract in which it is located has a short cutting cycle.

Assuming a stable tax rate and stable market value for timber, the longer mature timber is held before cutting, the greater will be the cumulative taxes levied under the Committee's bill. But the amount of cumulative taxes will not vary in direct proportion to the length of time held before cutting. The following table illustrates this point:

HYPOTHETICAL CUMULATIVE TAX PAYMENTS OF ONE THOUSAND BOARD FEET OF MERCHANTABLE TIMBER AT VARIOUS YEARS OF SEVERANCE[2]

Number of Years Holding Period	×	*Average Valuation Factor*	×	*Market Value Per 1,000 Board Feet*	×	*Hypothetical Tax Rate on True Cash Value*	=	*Cumulative Taxes Paid on 1,000 Board Feet*
5		.75		$20		.01		$ .75
10		.61		20		.01		1.22
15		.51		20		.01		1.53
20		.42		20		.01		1.68
25		.36		20		.01		1.80
30		.31		20		.01		1.86
35		.28		20		.01		1.96
40		.25		20		.01		2.00

[2] Assumes valuation factors in current use by Tax Commission; assumes constant market value of $20 per 1,000 board feet; assumes constant tax rate of 1 percent on true cash value.

Under the Committee's bill (using the assumptions in the table above), a timber owner would pay cumulative taxes of $1.53 on a thousand board feet of timber held for 15 years compared with cumulative taxes of $1.86 which an owner would pay on a comparable thousand board feet held for 30 years. Although one owner holds timber twice as long as another owner, the cumulative taxes of the one would be only 21½ percent greater than the cumulative taxes of the other. Under existing law, if a single rate of depletion applies to both owners, one would pay twice the taxes as the other.

The Committee's bill provides that timber will be segregated by ownership tracts each of which must lie wholly within a single elementary school district. School districts were selected because all portions of the state are covered by a school district and no part of the state lies within more than one elementary school district. Further, school districts account for over 60 percent of total property taxes levied in Oregon.

The Committee's bill provides that the true cash value of merchantable timber subject to the act will be determined by the Tax Commission in the following manner:

First, the retail market value of each tract of timber will be determined. Retail market value is the price which a willing buyer would pay a willing seller on January 1 for 1,000 board feet multiplied by the number of thousand board feet in the tract. In determining retail market value the factors bearing on immediate value will be taken into consideration (species, quality, growing conditions, age, volume after allowance for defect and breakage, accessibility to point of conversion, topography, costs of conversion, market value of timber products, etc.).

Second, the retail market value of each tract will be reduced to adjusted market value by application of a valuation factor which will reflect factors bearing on future probabilities such as risk of loss due to fire, insects, disease and storms, carrying charges and, most particularly, the period of time between the year of assessment and the anticipated year of severance. "Anticipated year of severance" is the latest year in which it appears likely that merchantable timber will be severed in a tract as determined in each instance by the Tax Commission.

Finally, adjusted market value is corrected to true cash value for assessment purposes by application of the same percentage relationship, if any, as applies between market value of real property and true cash value of real property.

Upon determination of true cash value of each tract by the Tax Commission, the Commission furnishes the information to the appropriate county assessor who in turn computes the assessed value for ad valorem tax purposes.

Timber on land can be cut prior to the anticipated year of severance but the owner must notify the Tax Commission ten days before such cutting commences. Whenever timber subject to the act is cut, the owner must file a report with the Tax Commission by March 3 of the next year showing whether or not the timber was cut in the anticipated year of severance as established, the number of acres from which timber was cut and, if necessary, the percentage of total volume cut from the tract.

If timber is severed in any year other than the anticipated year of severance, the Tax Commission revalues the severed timber and recomputes the ad valorem taxes payable. First the Commission determines the total of all ad valorem taxes levied against the severed timber during the period it was subject to the act. Then the Commission determines the ad valorem taxes which would have been levied against the severed timber during that period had the year of actual severance been known. Notice of the difference in ad valorem taxes levied and the taxes which should have been levied is then sent to the owner and any additional amount shown to be due and owing is certified to the county tax collector for collection. The additional tax due is payable within 30 days after it is entered upon the county tax roll.

The proceeds of any additional tax found due and owing are deposited with the county treasurer and apportioned to the various taxing districts in which the severed timber was situated in the proportion that each district currently receives taxes from taxable property within its jurisdiction to be offset against each district's tax levy.

Whenever the owner of a tract believes the anticipated year of severance is later than that originally established, he shall so notify the Tax Commission which in turn can establish a later anticipated year of severance for the tract. If a later anticipated year of severance is established, the Commission revalues the timber involved and recomputes the ad valorem taxes payable using a new valuation factor which reflects the new anticipated year of severance. Any excess of the amount of taxes paid over the amount which should have been paid using the new valuation factor shall be certified to the county assessor and tax collector and automatically credited against future taxes on merchantable timber in the tract.

The Committee recognizes that its proposal constitutes a departure from a strict interpretation of the ad valorem principle. The Committee's recommendation, however, is designed to promote better economic utilization of Oregon's timber resource by discouraging otherwise undesirable quick-cutting of merchantable timber to avoid property tax burdens. It is also designed to provide more equitable tax treatment for timber owners based on the character of their individual operations and to encourage the trend toward sustained yield forestry practices.

TIMBER SEVERANCE REPORT

The Committee recommends changes in the present law which requires timber owners to file a report with the county assessor whenever merchantable timber subject to assessment is severed (ORS 308.309). The Committee's bill retains almost all of the existing law intact but changes some of the items which are required in the report.

The law was enacted in 1955 and amended in 1957. Its purpose is to provide county assessors with information to guide them in the assessment of timber by requiring each owner to file an annual informational report whenever timber is severed. These reports provide the assessors with an inventory which is corrected annually to show how much timber has been cut and removed (and therefore no longer taxable), and how much remains unsevered (and therefore taxable).

Testimony before the Subcommittee on Timber and Natural Resources Taxes by representatives of the timber industry indicates that the law as amended by the 1957 legislature has resulted in unforeseen complications and the imposition of hardships on some timber operators and that it is, for practical purposes, unworkable.

The Committee's recommendation retains the provision in the present law which requires that the timber severance report contain a legal description of the property from which timber has been severed. But the Committee's bill eliminates the provision which requires the owner's best estimate of the acres logged and the volume and percentage of timber, by species, which is severed together with his best estimate of the volume and percentage of timber, by species, remaining uncut. In place of this requirement concerning volume and percentage, the Committee's bill requires a statement of the area from which timber has been severed, the species severed, and the best estimate of the acres logged and the acres of merchantable timber remaining uncut. In other words, the Committee's proposal substitutes estimates of acres for estimates of volume and percentage.

The Committee feels that its proposal will overcome the objections to, and defects in, the present law.

INHERITANCE AND GIFT TAXATION

INHERITANCE TAXES

The Subcommittee on Inheritance and Gift Taxes made a comprehensive study of Oregon's Inheritance Tax Law (ORS Chapter 118) together with comparative analysis of the inheritance and estate tax laws of the other states and particularly the laws of eleven western states. The subcommittee also examined the federal estate tax and the effect of the federal code on state succession taxes.

Material prepared for the subcommittee by the Inheritance and Gift Tax Division of the Oregon Treasury Department and by the Committee's staff included detailed data on the features of the inheritance tax laws of Oregon, Washington and California (rates, exemptions, deductions, credits, etc.), the amount of taxes on different size bequests on hypothetical estates and on random selected estates in the three West Coast states, the incidence of state inheritance and estates taxes, homestead exemptions and family allowances in all the states, and the rates, exemptions, classes of beneficiaries, federal estate tax deductions, marital deductions, and status of life insurance proceeds in the eleven western states.

The subcommittee concluded that superficial comparisons of succession taxes between one state and another can be misleading. The complexity of death taxes in general and the lack of uniformity in the tax's features from one state to another makes comparison between states deceptively difficult and makes categorical generalizations suspect.

The subcommittee concluded that superficial ance tax is not out of line with other states in many respects. The practical effect of the inheritance tax in Oregon is a lower tax on most typical estates, large and small, than would be the case in either Washington or California. However, on some estates with certain characteristics, the Oregon inheritance tax could be substantially higher than in either Washington or California. This paradoxical situation stems from two major characteristics of the Oregon tax:

First, the top rates in Oregon's inheritance tax structure are higher, in most instances, than the top rates in Washington and California, although the top Oregon rate applies to larger estates than do the top rates of the other two states. Oregon's rates are particularly higher in the collateral relative and non-relative classes because all beneficiaries, no matter what their relationship to the deceased, must pay their proportionate share of the basic tax which is, in effect, an estate tax. Collateral relative and non-relative class beneficiaries pay an additional inheritance tax on their individual shares of a bequest. The subcommittee found that very little revenue is derived from the top rates levied in the collateral and non-relative classes.

Second, Oregon completely exempts from its inheritance tax all of the proceeds of life insurance policies which are paid to named beneficiaries. Of equal or greater importance, Oregon completely exempts from inheritance taxation all real property held by the entirety (held jointly by husband and wife). In addition, as a practical matter, Oregon appears to be more generous in many of the other exemptions and deductions which are allowed under the inheritance tax.

The first circumstance (high top rates) can result in the notion that Oregon's inheritance taxes are higher than in neighboring states because of higher published rates. The second circumstance (more liberal exemptions and deductions) results in lower inheritance taxes in Oregon than in our neighboring states on most, but not all, estates because the base on which the tax is computed is likely to be narrower.

The Committee concludes that the higher published rates found in Oregon's inheritance tax law is undesirable since it makes the tax structure susceptible to misinterpretation. The Committee also concludes that the blanket exemption accorded life insurance proceeds and real property held by the entirety is neither just nor equitable. There is a patent inequity and injustice when one estate, which is comprised of securities, bank deposits, business interest, cash, personal property or other assets subject to inheritance taxation, must pay a tax while another estate of comparable size, which is comprised essentially of life insurance or real property held by the entirety, pays no tax at all. Washington and California both tax the proceeds of life insurance above established maximum amounts ($40,000 and $50,000, respectively). Oregon is the only state levying a succession tax which exempts real property held by the entirety.

To overcome these two deficiencies—high published rates and the existence of two rather glaring loopholes—the Committee recommends substantial changes in Oregon's inheritance tax laws.①

An essential feature of the Committee's inheritance tax bill reduces the top rates at which inheritance taxes are now imposed—from a top rate of 15 percent to a top rate of 10 percent in the basic class (grandparent, parent, spouse, child, step-child and lineal descendant), from a top rate of 20 percent to a top rate of 15 percent in the collateral relative class (brother, sister, uncle, aunt, niece, nephew and lineal descendants thereof), and from a top rate of 25 percent to a top rate of 20 per cent in the non-relative class (all others). The Committee's bill also provides that son-in-law and daughter-in-law shall be removed from the non-relative class of beneficiaries and placed instead in the collateral relative class.

In addition, the Committee's bill increases the basic tax exemption under the inheritance tax law from $10,000 to $15,000 to compensate for the Committee's proposal to eliminate the maximum $3,500 family allowance deduction for the support of the surviving spouse and minor children.②

The Committee recommends that the proceeds of life insurance policies, which are exempt under the present law if paid to a named beneficiary, be made taxable in excess of $75,000. The Committee's bill exempts all life insurance payable to a named beneficiary which is or was issued before January 1, 1960 and the first $75,000 of such insurance issued after December 31, 1959.

① Senator Lowry dissents from the Committee's recommended amendments to the inheritance tax law. His statement is included in his minority report.

② Representative Barton dissents from this recommendation. He would prefer to retain the present $10,000 exemption plus the $3,500 family allowance.

The Committee recommends that real property held by the entirety (held jointly by a husband and wife), which property is exempt under the present law, be subject to the inheritance tax on the basis of one-half of the value of such property unless conclusively shown that the decedent had a greater or lesser interest in the property. In the case of a surviving wife, however, no less than one-half of the jointly held real property shall be deemed to have belonged to her absolutely.

The Committee's bill eliminates the present maximum $5,000 homestead exemption which is set aside for the surviving spouse and minor children under the present law and substitutes in its place a blanket exemption covering the total value of a homestead if it passes to any basic class beneficiary whether or not the homestead is the beneficiary's domicile.③

And finally, the Committee recommends an absolute three-year cut-off in the statute relating to gifts made in contemplation of death so that no transfer made more than three years before the death of a decedent shall be considered to have been made in contemplation of death.

The Committee estimates that the net effect of its recommendations will be to increase the revenues derived from the inheritance tax as a result of broadening the base on which the tax will be computed in spite of higher exemptions and lower top rates.

③ Representatives Barton and Haight dissent from the Committee's recommendation to grant a blanket homestead exemption. They would prefer a maximum of $37,500 homestead exemption instead, in place of the present maximum $5,000 exemption.

Senators Ohmart and Sweetland and Representatives Barton and Haight dissent from the Committee's homestead exemption provision which does not require the beneficiary to be domiciled in the homestead.

GIFT TAXES

The Subcommittee on Inheritance and Gift Taxes devoted considerable attention to the Oregon Gift Tax Law (ORS Chapter 119). As with its consideration of inheritance taxation, the subcommittee studied the characteristics of the Oregon law and made comparisons with the gift tax laws of other states.

Oregon was the first state in the nation to enact a gift tax law (1933). The gift tax in Oregon produces very little revenue for the state (less than 3 percent of the combined inheritance and gift tax receipts in the 1955-57 biennium were derived from gift taxes alone). The trend towards enactment of state gift tax laws is generally inspired by a desire to prevent evasion and circumvention of inheritance and estate tax laws. Accordingly, the rates imposed and the exemptions allowed under gift tax statutes usually follow quite closely the rates imposed and the exemptions allowed under the inheritance tax statutes in most states. In California, for example, the gift tax rates are identical with that state's inheritance tax rates. In Washington the gift tax rates are exactly 90 percent of that state's inheritance tax rates.

Oregon, however, is one of only two states whose gift tax structure is almost totally unrelated to its inheritance tax structure. Oregon's gift tax law has only one tax rate schedule which applies to all donees regardless of their relationship to the donor. This is in contrast to the three different rate schedules in the inheritance tax law for the three different classes of beneficiaries. As a result, taxable gifts made in Oregon to close relatives are generally taxed at higher rates than in other states while gifts made to distant relatives or to non-relatives are taxed at lower rates than in other states.

The Committee concludes that the present gift tax law does not satisfactorily accomplish one of the prime purposes for which it was enacted, namely to prevent evasion of inheritance taxes. Accordingly, the Committee recommends enactment of a bill which will make the Oregon Gift Tax Law conform with the Oregon Inheritance Tax Law (as revised by the Committee).

The Committee's bill creates three different gift tax rate schedules which are identical in every respect with the three rate schedules in the Committee's proposed inheritance tax bill. Thus a different effective gift tax rate will apply on taxable gifts depending on whether the donee is a close relative, a collateral relative, or a non-relative. The same definitions of close and collateral relative as used in the proposed inheritance tax law will apply.

The Committee proposes that the single lifetime exemption which now exempts the first $10,000 of gifts made by a donor during his lifetime be increased to $15,000 to correspond with the comparable change recommended in the inheritance tax law.[4]

In addition, the Committee recommends that instead of the two annual exclusions in the present law (the first $5,000 of gifts to each close relative donee each year is tax free as is the first $1,000 of gifts to each other donee each year), a third annual exclusion be allowed. Thus there will be a $5,000 annual exclusion for each close relative, a $3,000 annual exclusion for each collateral relative, and a $1,000 annual exclusion for each other donee.

The Committee's recommendation will result, in general, in lower gift taxes on gifts made to close relatives and higher taxes on gifts made to other donees. Even though the gift tax provisions will be almost identical with the Committee's inheritance tax provisions, there will nevertheless be an advantage to the transfer of property by gift since such transfers remove property from the highest bracket for inheritance tax purposes and place the property in the lowest bracket for gift tax purposes.

[4] Representative Barton dissents from this recommendation. He would prefer that the lifetime exemption be retained at $10,000.

TECHNICAL AMENDMENTS TO INHERITANCE AND GIFT TAX LAWS

The Subcommitte on Inheritance and Gift Taxes, during the course of its deliberations, considered features of the inheritance and gift tax laws which were alleged to be technically deficient from the standpoint of administration or undesirable from the standpoint of public policy. Defects and undesirable characteristics in the laws were brought to the subcommittee's attention by the State Treasury Department, which is charged with administration of inheritance and gift taxes, by representatives of the Committee on Taxation of the Oregon State Bar, and by other interested parties who gave testimony or submitted statements to the subcommittee.

Following the recommendations of the subcommittee, the main Committee recommends enactment of a series of technical amendments to the inheritance and gift tax laws of Oregon which are described briefly herewith.

GIFTS IN TRUST FOR A MINOR

The Committee recommends enactment of a bill which will provide that gifts to minors, even though made in trust or otherwise tied up for some future purpose, be treated as gifts of a present interest and thus benefit from the annual exclusions in the Gift Tax Law.[5] Under the existing law, only gifts which are immediately available to the donee and no longer controlled, either directly or indirectly, by the donor, entitle the donor to the

[5] Representative Barton dissents from this recommendation.

annual exclusion in computing gift taxes. The Committee's bill will make an exception to this provision of law in the case of gifts to minors. The Committee's bill will only apply, however, to gifts which may be expended by or for the benefit of the minor before he reaches 21 years of age and only if the unexpended portion passes immediately to the minor upon attaining 21 years of age or, in the event the minor dies before reaching 21 years of age, if the unexpended portion passes to his estate or to a lawful appointee.

This proposal of the Committee will bring the Oregon Gift Tax Law into conformity with the federal Internal Revenue Code with respect to gifts in trust for a minor.

INHERITANCE TAX CREDIT OR REFUND FOR GIFT TAXES PAID

The Committee recommends enactment of a bill which will provide a credit (or a refund, if necessary) against inheritance taxes if a tax has been paid on any gift and subsequently, upon the death of the donor, an inheritance tax becomes due upon the gift. Under the present law the State Treasury Department has no express legal authority to grant a credit or refund when an inheritance tax is subsequently imposed on a gift for which gift taxes were already paid.

PROBATE COURT JURISDICTION OVER NONPROBATED ESTATES

The Committee recommends adoption of a technical amendment to the Oregon Inheritance Tax Law which will permit probate courts to hear and determine questions, arising under the inheritance tax law, in nonprobated as well as probated estates and to determine the amount of tax to which such estates are liable or to determine that such estates are not liable to a tax. The Committee's bill does not, however, require that nonprobated estates be probated. The Committee's proposal is designed to recognize the growing trend toward nonprobated estates and to eliminate exposure of the state's inheritance tax officials to personal liability when they must go into court to enforce the tax laws.

REPORTING GIFTS WHERE A LIFE INTEREST IS RETAINED

The Committee recommends enactment of a bill which will require the reporting of a gift, even when not subject to gift taxation, if the donor reserves for his life an income or interest in the property transferred, provided the property so transferred has a value in excess of $1,000. A penalty of 1 percent of the value of the gift will be imposed for failure to report such gifts unless the failure to report was due to reasonable cause and not due to wilful neglect. The federal law requires not only that gifts where a life interest is retained be reported, but also requires immediate payment of gift taxes on such gifts. The Committee's bill does not go as far as the federal law. It is designed, however, to provide a record for the state's inheritance tax officials of transfers which may subsequently become subject to inheritance taxation and to reduce the possibility of circumvention of inheritance tax laws.

PENALTIES FOR FAILURE TO FILE GIFT TAX RETURNS

The Committee recommends modification of the present penalty provisions for failure to file gift tax returns on time. Under the present law there is a 25 percent penalty imposed for failure to file a gift tax return on time, unless it can be shown that the failure to file was due to reasonable cause and not due to wilful neglect. The Committee feels that a 25 per cent penalty is too harsh where, for example, the return is filed only a few days after the deadline. The Committee recommends instead that the penalty for failure to file a gift tax return on time be set at 5 percent for each month that the return is not filed after it is due, up to a maximum of 25 percent, unless the failure to file was due to reasonable cause and not due to wilful neglect, in which case no penalty will be imposed.

EXTENSION OF GIFT TAX STATUTE OF LIMITATIONS

Under the present law, if no gift tax return is filed after a taxable gift has been made, or in the case of a false or fraudulent gift tax return with intent to evade the tax, the State Treasurer may assess the correct gift tax at any time after the facts are discovered but not after the lapse of six years. The Committee recommends that this law be amended to allow the Treasurer to assess the correct tax at any time up to six years from the time the facts are discovered.® This proposal is designed to bring the gift tax law into closer conformity with the inheritance tax law, where a comparable provision is presently in effect, and to reduce the possibility of gift tax evasion.

® Senators Lowry and Pearson and Representatives Cone and Schedeen dissent from this recommendation.

TRANSPORTATION TAXATION

HJR 42 (4) DIRECTIVE:

> *"Study the impact of state and local taxes upon the trucking and railroad industries within the state to determine if either of those industries is injured competitively or is bearing an undue tax burden in comparison with the other, and compare the tax contribution required of the trucking and railroad industries in Oregon with the taxes paid by those industries in other states."*

Both the main Committee and the Subcommittee on Ad Valorem and Transportation Taxes heard considerable testimony and examined exhibits and prepared statements from representatives of various sectors of the transportation industry in general and from the trucking and railroad industries in particular.

The Committee's directive would have required extensive and time consuming study in order to arrive at meaningful or satisfactory conclusions. After giving some attention and consideration to the subject, the Committee concluded that it did not have adequate time to complete this phase of its assignment without jeopardizing the other important directives to which it was assigned.

EDUCATION TAX

The Committee took cognizance of the fact that public education in Oregon consumes 51 percent of the state's general fund budget and that over 60 percent of local property tax levies is destined for the support of public elementary and secondary schools. The Committee realizes that education is a most important function and obligation of government and is of vital importance to every individual and family in the State of Oregon.

The Committee faced the fact that the future cost of public education will not decline but will continue to increase for years to come because of an almost certain increase in the number of students and the necessity of furnishing more school facilities and more teachers to carry this load. Additional future costs for education will have to be borne by the taxpayers of Oregon. Many of the Committee members feel that it will not be possible to add any significantly greater burden onto our present tax structure for the support of schools.

It was for this reason that a subcommittee was created for the express purpose of studying the possibilities of a special tax to be used solely for the support of education. The Education Tax Subcommittee undertook a thorough study of this problem. The subcommittee scrutinized the principal present sources of receipts for public elementary and secondary education in Oregon. In addition, the subcommittee examined data on the amount of revenue which would be raised by various types and rates of general sales taxes and the types and amounts of state taxes which are earmarked for education in the other states. The subcommittee also studied different proposals for the distribution of additional revenue from the basic school fund account to the various school districts to offset local property taxes.

The subcommittee felt that a sales tax, if used entirely for education, would create several problems. In the first place, it would be an earmarked tax to which practically all of the members of the subcommittee were opposed. Secondly, the distribution of money to local school districts to offset property taxes is an extremely complex problem and an acceptable formula could not be devised without providing some districts with too much money and possibly other districts with not enough. The Committee was also faced with the problem of distributing money to school districts to offset local property taxes and at the same time providing that school districts be limited in the property tax field. No satisfactory formula was developed which could accomplish this objective.

A majority of the subcommittee agreed that it will be necessary to adopt a new tax base in order to meet the rising cost of education. It is possible that such a new tax base will have to be a sales tax, the proceeds of which would be distributed to the counties rather than to the school districts, coupled with adoption of a formula to limit property tax increases. At the same time, the personal income tax law would have to be amended so that taxpayers with incomes under $3,000 annually would be exempted. The subcommittee members were agreed that any new tax base, such as the sales tax, should be used primarily to offset present taxes and not for the purpose of obtaining additional revenues.

After considering these many ramifications, the subcommittee decided it did not have sufficient time to work out necessary details and unanimously agreed to disband, referring the matter back to the main Committee which took no further action on the matter.

DISTRIBUTION OF FEDERAL FOREST RESERVE FUNDS

The Committee considered several requests to change the present law relating to the distribution of moneys received from federal government forest reserves. Under a 1908 Act of Congress, twenty-five percent of all money received from each national forest is paid to the state in which the national forest is located, to be used for the benefit of public roads and public schools. Under the present Oregon law, all such moneys received by Oregon are distributed by the state to the counties in proportion to the amount of national forest area in each county (ORS 291.534). The present Oregon law directs that the counties, in turn, divide the moneys received from this source 75 percent to the county road fund and 25 percent to the county school fund (ORS 294.060).

Critics of the present apportionment formula point out that in none of the western states, in which national forest income is an important item, is so large a share allocated to roads as in Oregon. They suggest that either a larger share be allocated to schools than at present or that the county courts be given discretion, either absolute or within limitations, to determine allocation as between roads and schools.

After study of relevant information and after considering the statements from the proponents and the opponents of the present distribution formula, the Committee recommends that the present law remain unchanged.[1]

[1] Senators Pearson and Wilhelm dissent from this recommendation.

STATE TAX REVIEW AGENCY

The Committee recommends the establishment of a state tax review agency in Oregon as part of the tax appeals procedure available to taxpayers. The Committee feels it did not have sufficient time to develop specific recommendations beyond its general recommendation that a state tax court or state board of tax appeals be created.

The proposal to establish a state tax review agency was assigned to, and studied by, the Subcommittee on Inheritance and Gift Taxes. The subcommittee analyzed the existing tax appeal procedures which are available to income and property taxpayers in Oregon. Appeals procedures available to taxpayers were traced from beginning to end—from the point of initial tax assessment through the intermediate administrative and judicial reviews to the final review provided by appeal to the State Supreme Court.

The subcommittee also studied the tax appeal procedures in effect in the other states and notes that Oregon is one of 34 states which provides that administrative review of tax rulings is undertaken by the tax collecting agency itself. In addition, the subcommittee studied a bill draft to establish a state board of tax appeals introduced in the 1957 regular session of the legislature and a bill draft, based on a model act recommended by the Taxation Section of the American Bar Association and by the National Commissioners on Uniform State Laws, to establish a state tax court.

The Committee feels that present tax appeals procedures, although exhaustive in character and fair in administration, can be inadequate for several reasons. First, the State Tax Commission presently sits in judgment on its own determinations and assessments acting as both a principal in a tax dispute and quasi-judicial authority in adjudicating that dispute. The Tax Commission is the highest administrative authority to which a taxpayer may protest. It has review powers over decisions which it initially makes or where its own rulings and regulations are at issue. Second, present review procedures can impose serious financial and time burdens upon aggrieved taxpayers. Third, many cases which should be reviewed are not because of the small sums involved compared with the costs which would be incurred. Fourth, taxation is extremely complicated and requires a degree of expertness not always available in circuit courts whose judges must attend to all manner of judicial interest.

The Committee feels that a number of serious and complex problems must first be resolved before an appropriate bill creating a tax review agency can be enacted. Foremost among these problems is conformity with the Oregon Constitution which requires that judges must be **elected** for six-year terms. The jurisdiction of a tax review agency must be determined. The type of review and the review procedures must be decided upon. The exclusiveness of review, the place in the appeal procedure, the number of members, qualification and disqualification of members, salaries, enforcement of subpoenas, reporting of proceedings, requisites for Supreme Court review, etc., are some of the many questions which must be resolved.

The Committee's files contain substantial background material and a detailed anlysis of provisions which should be considered in preparing a bill to create a tax review agency. In addition, there is on file in the office of the Legislative Counsel a detailed opinion on the problem of constitutional conformity.

The Committee finds that the appeals remedies now provided taxpayers in Oregon might be outmoded and in some cases burdensome and unreasonable and that speedy, convenient and economical remedies for the determination of the validity of taxes should be furnished the taxpayers of Oregon.

The Committee favors creation of a tax review agency—either a state tax court or a state board of tax appeals—to replace either the State Tax Commission or the Circuit Court in the present tax appeals procedure. The Committee urges the legislature to give careful study to this matter and to enact suitable legislation in accordance with its recommendation.

OREGON ECONOMIC INDICATORS

There is a significant interrelationship between economic activity and taxation. Each affects the other in important ways.

Modern economic theory attaches importance to the influence which taxes can have on economic activity. An increase in taxation is a deflationary influence which tends to restrict economic activity. A decrease in taxation, on the other hand, is an inflationary influence which tends to stimulate business activity. Depending on whether the government wishes to combat inflation when business is booming or stimulate economic activity when business is lagging, it can either raise or lower taxes. The use of taxes as a tool in the formulation of economic policy tends to be restricted to the federal government because of relatively inflexible fiscal programs, lack of nationwide coordination and the difficulty of deficit financing, all of which are characteristic of state and local government fiscal operations.

More important to state government is the influence of economic activity on taxes rather than the influence of taxes on economic activity. When the economy is relatively steady or expanding at a "normal" rate, there is a continuing demand for increased state services. Creeping inflation, population growth, changing age distribution of the population, expanding federal aid programs which require additional state matching funds, building program backlogs, etc., all serve to increase state expenditures which in turn requires increased tax revenues.

When the national economy experiences rapid expansion as in the early post-war years, during the Korean emergency and in 1955 and 1956, state tax collection estimates tend to be on the conservative side and are usually exceeded by actual revenues. In states where balanced budgets are planned, surpluses tend to be created or increased.

When national economic activity contracts, pressures for additional public spending mount while state tax revenues tend to decrease. Revenues decline below estimates. Budget surpluses are reduced, deficits are created, and existing deficits are enlarged. New demands are placed on state services. Unemployment and welfare payments increase. And, if price inflation continues unabated, as it did in the recent recession, the cost of state government increases all along the line.

During the recessions of 1949, 1954 and 1958, for example, state and local government spending actually increased while spending by the private sectors of the economy declined. The increase in public spending in each of the three post-war recessions partially offset the decrease in private spending and served to moderate the severity of those recessions.

During the course of the Committee's work, Oregon and the nation experienced an economic recession. The impact of contracting economic activity upon state taxes was a matter to which the Committee gave some attention. The Committee studied the trend of state general fund revenues and compared actual collections with estimates prepared by the State Tax Commission on a month-by-month basis.

These studies were made in conjunction with analysis of a comprehensive set of key Oregon economic indicators prepared by the Committee's staff and periodically revised and brought up to date. The series of economic statistics considered by the Committee included data on employment and unemployment, income, population, sales, prices, log and lumber production, construction, bank debits, public assistance, business failures, agriculture and tourism. A complete set of these Oregon Economic Indicators appears in Appendix C of this report.

The economic statistics studied by the Committee indicate that Oregon experienced a rather severe economic recession the start of which was detected as early as mid-1956 and which intensified to very serious proportions in the last half of 1957 and the first half of 1958. Employment, on a seasonally adjusted basis, reached the lowest level since the summer of 1954. Unemployment reached the highest level since the start of World War II. Per capita personal income in Oregon declined, dropping further below the national average. Expansion in the state's population slowed or stopped. Retail sales contracted in most parts of the state. Consumer prices rose almost without interruption in the state as well as the nation. Home building on the national level (which significantly influences Oregon's lumber industry) fell to the lowest level since 1949. Log production was lower than in any year since 1948, as was the case with lumber production as well. The wholesale price of Douglas fir lumber began to decline in May, 1956 and in April, 1958 reached the lowest level in more than eight years. Bank debits fell below year earlier levels. Public assistance payments set new records. Business failures increased both in numbers and in the dollar value of liabilities. Farm income dropped. And tourist expenditures declined.

As the work of the Committee came to an end, many of the statistics relating to Oregon's economy began to exhibit some stability and a few displayed improvement. As this report is written it seems possible that the bottom of the recession in Oregon has been reached and that a return to further economic expansion might be in prospect. Improvement has been experienced in the lumber industry (national housing starts improved and the price of lumber firmed), in farm income and in tourist expenditures—Oregon's three most important industries.

The principal increases in state expenditures in Oregon which resulted from the recent recession were in unemployment compensation payments and in public assistance payments, both of which set new records in the fiscal year ended June 30, 1958.

Oregon's general fund tax revenues, however, held up remarkably well in the fiscal year ended June 30, 1958. The general fund surplus at the end of the 1957-58 fiscal year was only slightly below estimates. A large measure of the stability exhibited in state revenues stemmed from income tax collections based on prior years' liabilities.

Generally the states hardest hit by the national recession were those which depend heavily upon the general sales tax, collections of which seem to reflect a contraction in economic activity almost immediately. An economic recession of prolonged duration, however, could affect income tax revenues as much or more than other types of taxes because of graduated rates. The Committee notes that Oregon's tax structure might not be as immediately vulnerable to lower economic activity as is the case in other states because of the time lag in income tax collections. The Committee recognizes, however, that future tax collections in Oregon might suffer from the recent recession (particularly if economic recovery is delayed) and suggests that the Legislative Assembly consider this possibility.

In view of the close direct and indirect relationships which exist between economic activity and taxes, the Committee commends these economic statistics to the attention of each legislator as the type of information which should be considered in the formulation of taxation policies in the State of Oregon.

METHODS OF MEETING ANTICIPATED BUDGET REQUIREMENTS

HJR 42 (1) DIRECTIVE:

"Study and compare the Oregon personal income tax, corporation excise and income taxes and other taxes contributing to miscellaneous receipts in the General Fund of the state with similar laws of other states, for the purpose of determining the most feasible method of meeting the anticipated budget requirements for the biennium following the Fiftieth Legislative Assembly, by modifications or adjustments of the existing tax structure and without resort to new tax levies."

The size of the 1959-61 general fund budget is as yet undetermined. Some of the budget requirements for the next biennium can be predicted with a fair degree of accuracy because they constitute fixed expenditures. Basic school support, for example, is presently fixed by law at $105 per census child. In the 1957-59 biennium, basic school support alone accounted for 35 percent of the general fund budget—by far the largest single item in the budget. If the law remains unchanged, basic school support will cost approximately $110 million in the 1959-61 biennium.

The ultimate general fund budget, however, will depend on the variable expenditures for the various state departments and the magnitude of the building program which will be undertaken for state institutions, higher education and other agencies, in addition to expenditures already fixed by law or to which the state is otherwise committed.

The law requires the Governor to transmit copies of his 1959-61 budget to the legislature by December 20, 1958. What the Governor will present as his budget and what the legislature will ultimately authorize are, of course, unknown to the Committee at the time of preparation of this report.

In compliance with law, the Department of Finance and Administration and the State Tax Commission jointly prepared a statement showing anticipated fiscal changes for the coming biennium. This statement suggests that the 1959 session of the legislature will be able to work with a general fund revenue estimate for the 1959-61 biennium ranging between $285 million and $310 million.

The Committee has considered several proposals for meeting future state revenue requirements if Oregon's present revenue resources should prove inadequate. Among other proposals, the Committee considered the desirability of establishing a capital budget for part of the general fund building program. The proposal would segregate the general fund budget into a current budget (relating to current receipts and expenditures) and a capital budget (relating to capital improvements). Current budget expenditures would be financed from traditional pay-as-you-go sources as they are today. Capital budget expenditures for construction of buildings would be financed through the flotation of bonds, the principal and interest of which would be paid over an extended period of time. After studying the merits and demerits of the capital budget proposal, the Committee voted to reject the proposal.(1)

Other proposals for meeting state revenue requirements which the Committee considered include:

ELIMINATION OF PERSONAL EXEMPTIONS AND SUBSTITUTION OF FIXED DOLLAR CREDITS

About 28 percent of the total income reported on personal income tax returns in Oregon is deducted because of personal exemptions and dependency credits. This results in a decrease of approximately $735 million from taxable income of roughly $36 million in annual tax receipts (assuming an effective tax rate as currently applies to taxable income). If Oregon was to adopt fixed dollar credits to be deducted directly from the tax, as is now in effect in four of the income tax states, as a substitute for personal exemptions and dependency credits, not all of the $36 million in receipts would be recovered (depending, of course, on the size of the credits selected), but a net gain in revenue would result if the credits are comparable to those prevailing in any of the other four states which use this system.

ELIMINATION OF FEDERAL INCOME TAX DEDUCTION

The income tax states are about equally divided between allowing and not allowing the deduction of federal income taxes. Oregon allows the federal tax deduction. In order to avoid confiscatory characteristics, it is necessary to provide that one of two taxes, both of

(1) Senators Pearson and Sweetland and Representatives Barton, Haight and Kerbow dissent from this recommendation. Their joint statement is included in this part of the report.

which are levied on the same base, be allowed as a deduction in computing the other. In the case of the federal individual income tax and the Oregon personal income tax, each tax is allowed as a deduction in computing the other. If the federal tax deduction should be disallowed in computing the Oregon personal income tax, it will result in approximately a $17½ million increase in revenues annually (assuming no change in existing rates). Disallowing the deduction without adjustment in the rates, however, will result in uneven distribution of the tax burden among different taxpayers.

FILING ESTIMATED PERSONAL INCOME TAX RETURNS

The federal Internal Revenue Code requires taxpayers whose estimated income taxes will be in excess of the taxes withheld from wages and salaries, to file declarations of estimated income tax. The declaration must be filed by the 15th day of the fourth month of the tax year and must be accompanied either by full payment of the estimated tax or by the first of four equal installments. Taxpayers whose income derives solely from wages and salaries subject to withholding pay income taxes on a current pay-as-you-go basis in Oregon. Taxpayers with income not subject to withholding do not pay their tax liabilities on such income until 3½ months after the end of their tax year or 15½ months after other taxpayers have begun to make their tax payments through withholding. Adoption of the filing of estimated tax returns in Oregon would correct this inequity and at the same time provide the state with a nonrecurring "windfall" increase in revenues.

These proposals for meeting state revenue requirements are not accompanied by recommendations of the Committee. They are presented in this report only as propositions to be considered in the event that present revenue resources prove inadequate.

STATEMENT OF SENATORS PEARSON AND SWEETLAND AND REPRESENTATIVES BARTON, HAIGHT AND KERBOW CONCERNING THE CAPITAL BUDGET PROPOSAL

We dissent from the decision of the Committee in rejecting a capital budget proposal for the following reasons:

1. *The buildings and improvements that are needed at Oregon's institutions and seats of higher learning are needed now. Many of them are long overdue because of an archaic policy of former legislatures and former administrations in clinging to a so-called "pay-as-you-go" program of financing these essential improvements. As a result, Oregon's citizens have suffered through lack of these facilities, and this situation will become more acute, rather than lessen, as time goes on because it becomes more hopeless to try to build on a "pay-as-you-go" basis.*

2. *These buildings and improvements, so sorely needed, will have useful lives of fifty years and more. It is only fair and just that future taxpayers of Oregon, who will probably use these facilities just as much, or more, than will the present generation of taxpayers, help pay their cost.*

3. *It is only good business to issue bonds now and pay for these improvements over a long period of time. Each day we see private corporations issuing bonds to pay for improvements such as plants, dams, equipment and the like. If it is good business for private enterprise to do this, and in many cases pay in excess of 5% interest for the money borrowed, it is equally good business for the State of Oregon to do the same thing, especially when the State of Oregon borrows money at rates of interest somewhat under 3%. Moreover, if we are to continue in an era of inflation, (and there seems to be no indication to the contrary), the savings effected in building now instead of later, will more than offset the interest to be paid on bonds.*

We feel that any capital budget proposal which is submitted to the voters for their approval, should be permissive only and should provide for retention by the legislature of strict legislative control over the projects to be constructed and the amount and features of the bonds to be issued.

MINORITY REPORT OF SENATOR PHILIP B. LOWRY

Because the majority report of the Committee does not substantially reflect my views as to the recommendations and findings which should be presented to the next Legislative Assembly, I am compelled to file a minority report. Mention should be made that numerous dissents have been filed by other members of the Committee to particular proposals.

It should be made clear that the Committee has worked dilligently and competently in many fields of taxation. The administration of the Committee by Senator Pearson, as chairman, has been of a high order and was conducted with unusual fairness. Mr. Katz has done outstanding work as the Committee coordinator and his research has been of a superior quality.

The best work of the Committee has been produced in the technical aspects of taxation. The House Trailer Tax Bill proposed by the Ad Valorem Subcommittee is probably the best yet devised. It should be enacted into law.

Study of timber taxation has resulted in agreement for the framework of an excellent bill for the ad valorem taxation of standing timber. This bill may yet contain deficiencies as respects preservation of the small operator. Nevertheless, the bill represents a sound blending of the needs of raising revenue and conservation of this resource.

A notable achievement of the Committee has been the near unanimous recommendation of a capital gains bill. While not as extensive in its benefits as the Federal Act, it represents a tremendous forward step in Oregon's tax structure. Most noteworthy, the Committee has generally recognized that the capital gains issue is no longer a political question but an economic one.

A proposal to tax special mobile equipment should become law if the personal property tax is retained. This has been a notorious loophole in the ad valorem tax structure. Members of the next Legislative Assembly, not acquainted with the problem, should be cautioned to expect an onslaught on the bill and avoid commitment against it until its merits can be explained in detail.

In my opinion, certain of the recommendations of a majority of the Committee are inexcusably bad, as follows:

1. *The bill which allegedly would tighten up the administration of the personal property tax is punitive. It will penalize not only evasive taxpayers, but honest ones as well. This bill also represents an extension of the trend to shift the responsibility for assessment of property from the assessor to the taxpayer. Valuation for assessment purposes is at best somewhat speculative. Full application of the penalty provisions of the proposed law should lead to the early demise of the personal property tax. That is the sole merit of this suggested item of legislation.*

2. *The proposed Homestead Tax Deferral bill represents an unrealistic approach to the problem of affording necessary property tax relief to older citizens with limited incomes and limited employment opportunities. Inflation in the cost of living and rising property tax rates pose a critical problem for this class of taxpayers. The deferral bill is a "sop" to these people. It contains many unwieldy administrative provisions. If any substantial tax relief does occur from its enactment, it will tend to increase the problems of local computation of a rate percent of levy sufficient to defray budget needs because of uncertainty as to what persons will claim the deferral. Any accumulated tax, with interest, will arouse the wrath of those eventually confronted with paying it. Political pressure will arise and politicians will speedily seize upon any proposal to forgive the tax and interest in its entirety. Sole justification for any such deferral or exemption, in this instance, is hardship because no basic inequity exists between this class of taxpayers in the application of the tax. All property owners have been hard hit by taxation.*

   The writer favors a more forthright approach to this issue. It is suggested that there should be a basic exemption of somewhere in the vicinity of $7,500.00 and an income limitation of between twelve hundred and twenty-four hundred dollars. A Social Security payment should not be included in the computation of income. Final determination of recommended amounts of exemption and income should await a careful study of the extent of the shift of the burden to the remaining taxpayers.

3. *The majority report recommends extensive revisions of the inheritance tax law. For the most part, the present inheritance tax has*

been fair and only infrequently criticized. Administration of the tax has been outstanding. It has provided a steady but not unduly large yield of revenue. In considering the impact of taxes upon industrial location, little, if any, adverse criticism has been heard of this particular tax. There is no question that the majority report on the inheritance tax revision has been carefully considered. In my opinion, any tampering with the rate structure at this time will inevitably lead to proposals to drastically increase the revenue yield from this tax. Within a short time, we may anticipate that demand will be made that the exemptions be decreased and it will become a tax upon modest taxpayers rather than a tax upon the privilege of transferring wealth. A claim has been made by the proponents that our present rates could be increased and still leave Oregon on a competitive basis with most states. Perhaps this is true but it is poor justification to impose taxes on the sole ground that we are not as high in this field as certain other states.

4. *The majority recommendation to alter corporation filing and license fees is another example of disturbing a tax which has not been the subject of criticism or objection. This proposed change will generally confer an advantage upon larger corporations who have not been seeking the relief. Further, it suggests the needless loss of revenue. This bill seeks to extend the theory of cost accounting in the Oregon Corporation Department to the determination of taxes. Recognition has not been given to this theory in any other aspect of taxation.*

The principal deficiency of the majority report is its failure to make any positive findings or recommendations in the more critical areas of taxation. Notably the report ignores the first directive of the legislature which created the Committee. Under that directive, we were instructed to determine what taxation should be imposed if the existing tax base were insufficient to meet the general fund budget for the 1959-61 biennium.

Political timidity has paralyzed the Committee into complete inaction in this regard. Our general fund budget estimates for the next biennium have been so sketchy that the Committee has groped in the dark. Either the Department of Finance and Administration does not know what it is doing or the best available figures have been suppressed. There has been a striking failure of cooperation by the Executive Department with the legislative branch of government.

It would appear that political considerations by the Executve Department have resulted in some sort of cloak and dagger act to make sure that the Committee has no credible information as to the proposed budget for the next biennium. The preceding interim tax committee was constantly furnished with information by the Department of Finance and Administration and arrived at definite recommendations.

It is my opinion that this Committee should make the following findings and recommendations:

1. The traditional legislative procedure of first determining the amount of the general fund budget in the Ways and Means Committee and then raising taxes in the tax committees to defray the budget should be reversed. The Tax Committees of the legislature should first determine what taxes can be reasonably imposed for governmental purposes. Revenue which would be yielded from this tax structure should thereafter be reported to the Ways and Means Committee which should then allocate the revenues to the various purposes of government. Such a system would lead to control of expenditures through control of taxation. Most states have been conspicuously unsuccessful in controlling taxation because the taxes are tailored to the budget instead of tailoring the budget to reasonable taxes. The classical statement is made that taxes must be controlled by holding down expenditures and while this may be technically correct, it has not worked in practice. Unfortunately, the records show that the Ways and Means Committee has recently yielded consistently to pressure groups demanding larger expenditures One of the noticeable trends is the increasing tendency of Oregonians to identify themselves with particular organizations who press for a larger appropriation for special purposes.
   The resulting pressure has not been withstood by the Ways and Means Committee. This suggested approach, which is nothing more than a family budget plan, is not the original suggestion of the writer. It received some consideration at the 1955 session. The liaison between the Ways and Means Committee and the Tax Committees has deteriorated to the point where there has been very little, if any, coordination. The principal result to be expected from this suggested approach would be that the first inquiry to be made by the legislature would be whether taxes should be increased, lowered or remain the same. This appears to be a common sense inquiry instead of inquiring how much money should be spent.

2. At this time, expenditures for state government purposes should not be increased at any greater rate than the increase of revenue, if any, produced from the present tax base, in the absence of a popular vote of the people to the contrary. The idea is abroad and too generally accepted by legislators that each budget must inevitably be substantially increased beyond the last, irrespective of need or economic conditions.

3. The ad valorem tax on personal property should be repealed because of extreme inequities and cumbersome administration. In lieu thereof, we should substitute, at the county level, a business and occupation tax. Great care should be taken to prohibit the several counties from using such a tax beyond raising the deficiency resulting from abolition of the personal property tax.

4. Under no circumstances, except the popular vote of the people, should personal income tax **rates** be increased at the next session to meet a revenue deficiency. If absolutely necessary, a broadening of the base should be done through lowering the personal exemption, a painful political prospect for many legislators. Alternatively, and equally painful, would be the employment of a universal income tax with a system of dollar credits.

   While the committee has properly rejected the gross income tax possibility of raising a revenue deficiency, it should also affirmatively recommend against any change in deductions and particularly the elimination of the federal tax deduction.

5. The sales tax should be used only as a last resort. Heretofore proponents of the sales tax have entertained rather conservative budget ideas. More recently, however, the big spenders, who formerly opposed it, are showing some considerable interest in this tax. If the present trend of ever-increasing public expenditures continues in Oregon without regard to population, inflation and economic conditions, the tax should be enacted only with absolute property tax offset provisions. These could be similar to a property tax offset amendment attached to the basic school appropriation bill enacted at the special session of the legislature in 1957. In the absence of these safeguards, those who are anxious to expand the budget beyond reasonable requirements, will use the exceedingly substantial revenue to be produced from a sales tax for lavish public expenditures.

6. The comparisons of the tax structure of Oregon to Washington and California, while helpful, should not be deemed conclusive. The evidence presented before this Committee definitely shows that states other than Washington and California are definitely in competition with Oregon for industry. Comparisons with Washington and California can also be deceiving because the California tax structure seems not to have withstood its need for revenue and Washington has a badly balanced tax structure.

7. The unemployment compensation tax, presently at a penalty rate of 2.7%, is a serious obstacle to normal economic growth. In the field of business taxation, it should be considered as a substantial tax rather than a special assessment connected with employment. Immediate steps should be taken to restore experience ratings to employers and for that purpose some consideration should be given to using some of the surplus for this purpose.

8. No bonding program for capital improvements should be instituted, at least until such time as ways and means have been devised to retire the outstanding veterans bonds.

9. Immediate steps should be taken to devise ways and means of retiring the outstanding veterans bonds.

APPENDIX A

BIBLIOGRAPHY OF THE EFFECT OF STATE AND LOCAL TAXES ON INDUSTRIAL DEVELOPMENT

Prepared by: BUREAU OF BUSINESS RESEARCH, SCHOOL OF BUSINESS ADMINISTRATION—UNIVERSITY OF OREGON

BOOKS

Effects of Taxation on Industrial Location, by Joe Summers Floyd, Jr., Chapel Hill: University of North Carolina Press, 1952.

Dr. Floyd's book is one of the most complete works on this topic. He concludes that all generalizations concerning the supposed effect of tax differentials in the choice of plant sites should be treated with supicion. The author's theoretical analysis indicates that tax considerations generally have no weight in determining the location of certain market and certain resource oriented industries. In the case of other types of firms, tax factors may, under given circumstances, become highly important.

An inductive analysis indicates that it is impossible to rank potential plant sites on the basis of their relative tax advantages for industry in general.

For legislators and tax officials, Dr. Floyd has a number of suggestions for improving methods of industrial taxation and for reducing the range of interstate and interlocal tax variations.

The Location of Economic Activity, by Edgar M. Hoover, New York: McGraw-Hill, 1945.

Mr. Hoover, a staff member of the President's Council of Economic Advisers, discussed the locational effect of taxes in terms of both absolute rates and the form of tax used.

Location Factors in Establishing New Manufacturing Firms in Maryland, by Maryland State Planning Commission, 1951.

This is a report on Maryland's industrial location survey. It attempts to gauge the relative importance of the various location factors (markets, labor, power, taxes, etc.). Tax structure was found to be one of the least important considerations.

Plant Location in Theory and in Practise, by Melvin L. Greenhut, Chapel Hill: University of North Carolina Press, 1956.

The author summarized the findings of several other writers (Weber, Hoover, Martin, etc.) and concludes that state taxes "are at best a relatively unimportant secondary factor of location". An extensive bibliography is included.

Plant Location, by W. Gerald Holmes, New York: McGraw-Hill, 1930.

All the factors affecting industrial location are taken up and considerable space is devoted to taxation. While many of the statistics given are hopelessly dated (1930), Holmes' discussion of the equitability of the income tax is still timely.

Plant Location, by Leonard C. Yaseen, New York: American Research Council, 1956.

Yaseen, a senior partner in the Fantus Factory Locating Service, discusses all the factors that influence industrial location. He devotes half of one chapter to the consideration of taxes and includes detailed statistics on the tax rates of the different states. He calls attention to the importance of differential motor fuels taxes to industries that are highly dependent on motorist transport.

State and Local Tax Differentials and the Location of Manufacturing, by C. C. Bloom, Iowa City: University of Iowa, 1956.

Bloom presents a statistical analysis to show that high state taxes do not reduce the rate of growth of manufacturing. His evidence shows that other location factors are so important that taxes have little effect on location.

Tax Exemptions, by James W. Martin and others, New York: Tax Policy League, Inc., 1939.

Chapter III "Luring Industry Through Tax Exemption" is particularly pertinent. The authors minimize lowered taxation as an inducement factor. They emphasize that luring new business by tax omissions violates the first principles of a sound tax program.

The Tax System and Industrial Development, by George A. Steiner.

Steiner feels that taxes are minor location determinants. In a study of thirty basic industries, he found that the three important factors are markets, labor, and transportation. He concludes that "tax systems have not appreciably served to cause industrial migration. They have not fostered industrial development in prosperous years and have not prevented drastic industrial contraction in years of depression".

Theory of the Location of Industries, by Alfred Weber, Chicago: The University of Chicago Press, 1929.

Weber's book is a very scholarly treatment of this problem. Though he considers taxes to be a minor determinant of location, the book is interesting because of its theoretical approach.

Why Industry Moves South, by Glenn McLaughlin and Stefan Robock, Washington, D. C.: National Planning Association Committee of the South, 1949.

The growing southern market is cited as the primary reason for industrial migration to that area. The authors state that industrialists will not tend to locate in the state that has the most favorable tax structure, unless in the last stage of analysis, it is only a question of picking one of two or three satisfactory localities.

PAMPHLETS AND PERIODICALS

"Business Migration and Taxation," *Tax Policy*, Vol. IV, No. 12, October, 1937.

A review is made of the independent investigations of Wisconsin, New York, and Pennsylvania. The various state studies are well documented. All three indicate that high taxes on manufactures can be an important consideration in location or relocation.

"The Effect of State Taxation on the Migration of Industry," by Jesse Burkhardt and Donald C. Steele, *Journal of Business*, July, 1950, pp. 167-172.

The article shows the results of a survey of the cost of doing business in Pennsylvania. This state was chosen because of its extensive structure of corporation taxes. The authors conclude that state taxes represent a relatively small fraction of the cost of operating a business. However, they say, "if all other costs are equal, a small differential in state taxes could encourage industrial relocation."

"The Influence of Taxation upon Industrial Development," by James W. Martin and William G. Herzel, *State Government*, July, 1957.

The authors present arguments that tax differentials are not a primary influence upon industrial development. They claim that a large tax differential could be more than offset by a very small differential in labor, transport, or other major manufacturing cost component.

A summary of recent books and articles on this topic is also presented.

"It Can't Happen Here But It Did," *Iron Age*, Vol. 137, No. 12, March 26, 1953, pp. 32-37.

This article describes how burdensome taxes actually caused business to leave a state.

"Location Analysis," *Dun's Review*, April, 1956, p. 59.

The presentation is made in the form of a guide to businesses who plan to move or expand their facilities. Included is a list of questions on taxation for executives to answer before they make the big move. Samples: What is the outlook for increases in state corporate taxes? How do personal taxes compare with other states? The article offers advice for analyzing the answers to these questions.

"Should you Move your Plant?" *Business Week*, September 17, 1949, pp. 70-72.

The article describes the activities of Fantus, Inc., an organization that specializes in finding locations for businesses. They emphasize that tax concessions should play a minor role in the selection of a site.

"Techniques of Plant Location," *Studies in Business Policy*, No. 61, National Industrial Conference Board.

This report studies the problem of plant location from the standpoint of industry. It offers a guide to firms who plan to relocate their plants and discusses state taxes as one of the factors to consider.

"Why New Manufacturing Establishments Located in New England," by G. H. Ellis, *Monthly Review of the Federal Reserve Bank of Boston*, Vol. 31, No. 4, April, 1945, pp. 1-12.

The article describes a survey in which personal interviews were made with officials of 106 newly-located New England plants. They were asked to give the principal reason for the choice of site. The study concludes that taxes are relatively unimportant as location factors.

APPENDIX B

Combined Annual Registration Fee and License Tax on House Trailers

Under Provisions of the House Trailer Tax Bill

Retail Price When New	*Wholesale or Cost Price When New*	*First Year*	*Second Year*	*Third Year*	*Fourth Year*	*Fifth Year*	*Sixth Year and Over*
$ 0 - $ 75	$ 0 - $ 50	$ 16.00	$16.00	$16.00	$16.00	$16.00	$16.00
75 - 300	50 - 200	16.00	16.00	16.00	16.00	16.00	16.00
300 - 600	200 - 400	16.00	16.00	16.00	16.00	16.00	16.00
600 - 900	400 - 600	16.00	16.00	16.00	16.00	16.00	16.00
900 - 1,200	600 - 800	17.90	16.00	16.00	16.00	16.00	16.00
1,200 - 1,500	800 - 1,000	21.30	18.60	16.00	16.00	16.00	16.00
1,500 - 1,800	1,000 - 1,200	24.70	21.40	18.10	16.00	16.00	16.00
1,800 - 2,100	1,200 - 1,400	28.10	24.20	20.30	16.40	16.00	16.00
2,100 - 2,400	1,400 - 1,600	31.50	27.00	22.50	19.00	16.00	16.00
2,400 - 2,700	1,600 - 1,800	34.90	29.80	24.70	19.60	16.20	16.00
2,700 - 3,000	1,800 - 2,000	38.30	32.60	26.90	21.20	17.40	16.00
3,000 - 3,300	2,000 - 2,200	41.70	35.40	29.10	22.80	18.60	16.00
3,300 - 3,600	2,200 - 2,400	45.10	38.20	31.30	24.40	19.80	16.00
3,600 - 3,900	2,400 - 2,600	48.50	41.00	33.50	26.00	21.00	16.00
3,900 - 4,200	2,600 - 2,800	51.90	43.80	35.70	27.60	22.20	16.80
4,200 - 4,500	2,800 - 3,000	55.34	46.60	37.90	29.20	23.40	17.60
4,500 - 4,800	3,000 - 3,200	59.70	49.40	40.10	30.80	24.60	18.40
4,800 - 5,100	3,200 - 3,400	62.10	52.20	42.30	32.40	25.80	19.20
5,100 - 5,400	3,400 - 3,600	65.50	55.00	44.50	34.00	27.00	20.00
5,400 - 5,700	3,600 - 3,800	68.90	57.80	46.70	35.60	28.20	20.80
5,700 - 6,000	3,800 - 4,000	72.34	60.60	48.90	37.20	29.40	21.60
6,000 - 6,300	4,000 - 4,200	75.70	63.40	51.10	38.80	30.60	22.40
6,300 - 6,600	4,200 - 4,400	79.10	66.20	53.30	40.40	31.80	23.20
6,600 - 6,900	4,400 - 4,600	82.50	69.00	55.50	42.00	33.00	24.00
6,900 - 7,200	4,600 - 4,800	85.90	71.80	57.70	43.60	34.20	24.80
7,200 - 7,500	4,800 - 5,000	89.30	74.60	59.90	45.20	35.40	25.60
7,500 - 7,800	5,000 - 5,200	92.70	77.40	62.10	46.80	36.60	26.40
7,800 - 8,100	5,200 - 5,400	96.10	80.20	64.30	48.40	37.80	27.20
8,100 - 8,400	5,400 - 5,600	99.50	83.00	66.50	50.00	39.00	28.00
8,400 - 8,700	5,600 - 5,800	102.90	85.80	68.70	51.60	40.20	28.80
8,700 - 9,000	5,800 - 6,000	106.30	88.60	70.90	53.20	41.40	29.60
9,000 - 9,300	6,000 - 6,200	109.70	91.40	73.10	54.80	42.60	30.40
9,300 - 9,600	6,200 - 6,400	113.10	94.20	75.30	56.40	43.80	31.20
9,600 - 9,900	6,400 - 6,600	116.50	97.00	77.50	58.00	45.00	32.00
9,900 - 10,200	6,600 - 6,800	119.90	99.80	79.70	59.60	46.20	32.80

APPENDIX C

OREGON ECONOMIC INDICATORS

The tables on the following pages present a statistical chronicle of key economic indicators. This material was prepared by the Committee's staff for the use of the Committee in analyzing the current trends in Oregon's economy.

Wherever possible the tables portray annual data for each year from 1950 through 1957 and monthly figures for each month of 1955, 1956, 1957 and, to the extent available at the time of printing, 1958.

The set of economic statistics covers the following subjects:

1. Employment and Unemployment.
2. Non-Agricultural Employment.
3. Man Hours of Manufacturing.
4. Personal Income and Per Capita Personal Income.
5. Population.
6. Department Store Sales.
7. Consumer Price Index.
8. New Housing Starts.
9. Log Production.
10. Douglas Fir Lumber Production.
11. Western Pine Lumber Production.
12. Wholesale Lumber Price Index.
13. Bank Debits.
14. Public Assistance Payments and Applications.
15. Business Failures.
16. Farm Income.
17. Tourist Expenditures.

Employment and Unemployment in Oregon

(Thousands)

	Employ-ment	*Un-employ-ment*	*% of Labor Force Unemployed*
1950	607.0	41.3	6.4
1951	633.8	21.7	3.3
1952	640.4	27.5	4.1
1953	642.8	35.7	5.3
1954	635.2	43.9	6.4
1955	653.5	34.4	5.0
1955:			
Jan.	595.6	58.0	8.9
Feb.	599.4	56.0	8.5
Mar.	606.0	53.0	8.0
Apr.	618.4	44.0	6.6
May	641.5	32.0	4.7
June	676.6	26.0	3.7
July	707.1	21.0	2.9
Aug.	728.8	18.0	2.4
Sept.	707.0	16.0	2.2
Oct.	677.2	19.0	2.7
Nov.	646.3	32.0	4.7
Dec.	638.2	38.0	5.6
1956	668.3	31.6	4.5
1956:			
Jan.	615.2	51.0	7.7
Feb.	618.8	52.0	7.8
Mar.	626.8	49.0	7.2
Apr.	644.8	36.0	5.3
May	666.7	23.0	3.3
June	720.4	18.0	2.4
July	707.4	18.0	2.5
Aug.	736.6	15.0	2.0
Sept.	714.7	15.0	2.0
Oct.	680.4	21.0	3.0
Nov.	650.0	35.0	5.1
Dec.	639.0	46.0	6.6

	Employ-ment	*Un-employ-ment*	*% of Labor Force Unemployed*
1957	656.9	40.7	5.8
1957:			
Jan.	613.3	60.0	8.9
Feb.	612.4	59.0	8.8
Mar.	619.4	55.0	8.2
Apr.	637.3	44.0	6.5
May	655.6	30.0	4.4
June	707.4	25.6	3.6
July	701.0	25.0	3.4
Aug.	717.9	26.0	3.5
Sept.	689.6	30.3	4.2
Oct.	670.9	35.8	5.1
Nov.	634.7	43.0	6.3
Dec.	622.6	54.3	8.0
1958	....	....	....
1958:			
Jan.	599.7	79.5	11.7
Feb.	598.1	74.6	11.1
Mar.	603.2	70.9	10.5
Apr.	615.2	63.1	9.3
May	633.4	54.1	7.9
June	693.6	42.5	5.8
July	677.7	39.7	5.5
Aug.	689.8	37.2	5.1
Sept.	671.9	31.8	4.5
Oct.	658.9	29.9	4.3
Nov.	....	....	....
Dec.	....	....	....

Source: Oregon State Unemployment Compensation Commission.

Total employment in Oregon in the first ten months of 1958 averaged 3 percent below the comparable ten months of 1957 and 4 percent below the same period of 1956. Employment in October, 1958 was 2 percent below October, 1957 and 3 percent below October, 1956.

Total unemployment in Oregon in the first ten months of 1958 ran 34 percent above the corresponding period of 1957 and 76 percent above the same 1956 period. October, 1958 unemployment was 16 percent below October, 1957 and 42 percent above October, 1956.

Non-Agricultural Employment in Oregon

(Thousands of Wage and Salary Workers)

	Non-Ag. Total	Mfg.		Non-Ag. Total	Mfg.		Non-Ag. Total	Mfg.
1950	435.3	135.5						
1951	459.2	147.6						
1952	457.7	141.2						
1953	467.6	143.2						
1954	453.7	135.9						
1955	472.7	143.3	1956	489.0	144.9	1957	477.9	136.4
1955:			1956:			1957:		
Jan.	438.4	128.2	Jan.	457.6	130.0	Jan.	455.4	123.5
Feb.	439.1	128.9	Feb.	458.5	131.8	Feb.	453.5	123.7
Mar.	443.7	130.1	Mar.	465.1	133.2	Mar.	458.3	126.5
Apr.	451.9	133.1	Apr.	477.8	141.3	Apr.	471.0	133.2
May	464.7	139.9	May	490.5	147.1	May	480.2	139.4
June	483.4	150.9	June	508.0	157.2	June	495.6	148.9
July	490.7	154.7	July	509.0	158.4	July	495.2	148.3
Aug.	503.1	162.1	Aug.	516.1	162.6	Aug.	499.7	151.5
Sept.	505.2	159.4	Sept.	518.3	159.0	Sept.	502.1	146.5
Oct.	493.5	152.0	Oct.	501.2	148.8	Oct.	487.0	140.4
Nov.	480.7	143.7	Nov.	485.9	138.8	Nov.	471.1	131.0
Dec.	478.4	137.4	Dec.	479.8	131.1	Dec.	464.2	123.2
						1958	....	....
						1958:		
						Jan.	441.9	117.5
						Feb.	437.3	116.3
						Mar.	441.3	117.4
						Apr.	449.1	122.1
						May	456.2	126.8
						June	477.5	139.4
						July	478.6	139.8
						Aug.	484.4	146.5
						Sept.	492.4	146.4
						Oct.	484.9	140.3
						Nov.	....	....
						Dec.	....	....

Source: Oregon State Unemployment Compensation Commission.

Total non-agricultural wage and salary employment in Oregon in the first ten months of 1958 declined 3 percent below the same ten months of 1957 and 5 percent below the like period of 1956. Most of the decline between 1956 and 1957 occurred in the manufacturing sector while the decline between 1957 and 1958 was fairly well spread throughout the state's economy.

Non-agricultural employment, on a seasonally adjusted basis, reached a low plateau in the summer of 1958. Non-agricultural employment in October, 1958 stood at a level 0.5 percent below October, 1957 and 3 percent below October, 1956.

Man Hours of Manufacturing

(Index: 1951 = 100)

1950	91.9						
1951	100.0						
1952	97.6						
1953	94.9						
1954	88.2						
1955	94.5	1956	96.2	1957	87.5	1958	....

1955:		1956:		1957:		1958:	
Jan.	84.9	Jan.	84.1	Jan.	78.6	Jan.	72.1
Feb.	85.0	Feb.	84.2	Feb.	78.9	Feb.	72.2
Mar.	84.4	Mar.	84.1	Mar.	78.8	Mar.	72.2
Apr.	85.3	Apr.	93.4	Apr.	85.0	Apr.	75.2
May	92.7	May	96.6	May	92.2	May	81.0
June	102.1	June	107.1	June	99.8	June	90.0
July	102.8	July	107.3	July	95.4	July	87.9
Aug.	114.0	Aug.	113.6	Aug.	101.3	Aug.	97.3
Sept.	104.1	Sept.	108.7	Sept.	90.9	Sept.	95.6
Oct.	99.6	Oct.	99.8	Oct.	90.0	Oct.	91.8
Nov.	91.3	Nov.	91.7	Nov.	82.1	Nov.	......
Dec.	88.0	Dec.	84.1	Dec.	77.4	Dec.	......

Unadjusted for seasonal variation

Source: **Oregon Business Review**
Bureau of Business Research
School of Business Administration
University of Oregon

The man hours worked by industrial production workers in Oregon in the first nine months of 1958 dropped 7 percent below the corresponding period of 1957 and 16 percent below the same period of 1956.

September, 1958 was the first month in almost two years in which man hours of manufacturing in Oregon exceeded year earlier levels. The index in October, 1958, stood at a level 2 percent above October, 1957 although 8 percent below October, 1956.

Personal Income

(Millions of Dollars)

	Oregon
1950	$2,451
1951	2,748
1952	2,914
1953	2,934
1954	2,919
1955	3,139
1956	3,352
1957	3,385

Personal income in the United States increased by 5 percent between 1956 and 1957 against an Oregon increase in the same period of 1 percent.

Per Capita Personal Income

(Dollars)

	U. S.	Oregon
1950	$1,491	$1,602
1951	1,649	1,751
1952	1,727	1,824
1953	1,788	1,811
1954	1,770	1,764
1955	1,866	1,853
1956	1,961	1,934
1957	2,027	1,914

Per capita personal income in the United States increased by 3 percent between 1956 and 1957 against an Oregon **decrease** in the same period of 1 percent.

Oregon Per Capita Personal Income

(In relation to U. S.)

1938	3.2% above	1948	13.5% above
1939	4.7% above	1949	13.0% above
1940	4.7% above	1950	7.4% above
1941	16.6% above	1951	6.2% above
1942	25.6% above	1952	5.6% above
1943	27.1% above	1953	1.3% above
1944	18.5% above	1954	0.3% below
1945	11.9% above	1955	0.7% below
1946	11.8% above	1956	1.4% below
1947	15.3% above	1957	5.6% below

Source: U. S. Department of Commerce
Office of Business Economics

Population of Oregon

1930	953,786
1940	1,089,684
1950	1,521,341
1951	1,568,000
1952	1,602,100
1953	1,636,800
1954	1,662,680
1955	1,690,840
1956	1,734,650
1957	1,737,470
1958	1,726,630

Source: 1930 through 1950, U. S. Bureau of Census.

1951 through 1958, estimates of Oregon State Board of Census.

Between 1930 and 1940, the population of Oregon increased by 14 percent compared with a national population increase during that decade of 7 percent.

Between 1940 and 1950, the population of Oregon increased by almost 40 percent compared with a national population increase during the same period of 14½ percent.

In the eight years from 1950 to 1958, Oregon's population, as estimated by the State Board of Census, increased by 13½ percent—slightly less than the national population increase during the same eight-year period of 15 percent. The population of Oregon in recent years appears to have been increasing at a slower rate than the national average.

Department Store Sales

(Index: 1947-49 = 100)

	Oregon	Portland Area	Eugene	Salem
1950	104	103	103	119
1951	106	106	108	123
1952	107	107	110	116
1953	106	107	106	112
1954	104	105	104	110
1955	110	110	107	132
1955:				
Jan.	113	114	112	118
Feb.	108	108	107	119
Mar.	105	105	103	118
Apr.	107	108	105	116
May	107	109	104	115
June	108	109	107	114
July	113	114	109	121
Aug.	108	110	107	125
Sept.	111	110	112	130
Oct.	112	111	106	141
Nov.	110	106	105	160
Dec.	114	111	103	166
1956	116	110	113	170
1956:				
Jan.	113	109	109	168
Feb.	111	106	103	165
Mar.	114	111	106	161
Apr.	115	110	119	154
May	114	110	112	161
June	117	112	112	170
July	114	109	111	165
Aug.	118	110	123	183
Sept.	118	111	111	185
Oct.	113	106	111	168
Nov.	123	119	113	174
Dec.	115	108	114	173

	Oregon	Portland Area	Eugene	Salem
1957	109	105	100	170
1957:				
Jan.	102	96	93	168
Feb.	108	105	96	157
Mar.	110	105	105	169
Apr.	127	126	99	205
May	110	105	111	159
June	108	103	105	162
July	105	99	104	168
Aug.	107	101	113	167
Sept.	102	98	88	170
Oct.	100	96	87	156
Nov.	112	109	101	170
Dec.	106	101	99	170
1958	......	......	......	......
1958:				
Jan.	103	96	89	181
Feb.	105	100	92	167
Mar.	108	104	100	173
Apr.	110	106	100	169
May	107	102	99	163
June	112	107	103	182
July	108	100	106	186
Aug.	112	104	112	185
Sept.	111	106	99	189
Oct.	110	105	103	170
Nov.	......	......	......	......
Dec.	......	......	......	......

Monthly figures are adjusted for seasonal variation.

Source: Federal Reserve Bank of San Francisco.

Department store sales in Oregon in the first ten months of 1958 were approximately equal to the corresponding ten months of 1957. The retail dollar amount of Oregon department store sales in the month of October, 1958 was 10 percent above October, 1957. Store sales in 1958 have consistently lagged below 1956 levels.

Department store sales in Eugene experienced the greatest relative decline while store sales in Salem have held steady or improved with Portland in the middle.

Consumer Prices (Cost-of-Living)

(Index: 1947-49 = 100)

U. S. and Portland

	U. S.	*Portland*
1950	102.8	103.9
1951	111.0	112.4
1952	113.5	114.8
1953	114.4	115.5
1954	114.8	115.2
1955	114.5	115.1
1956	116.2	118.0
1957	120.2	121.6
1958	....	....

1955:	*U. S.*	*Portland*
Jan.	114.3	114.6
Feb.	114.3	
Mar.	114.3	
Apr.	114.2	114.2
May	114.2	
June	114.4	
July	114.7	114.7
Aug.	114.5	
Sept.	114.9	
Oct.	114.9	116.2
Nov.	115.0	
Dec.	114.7	

1956:	*U. S.*	*Portland*
Jan.	114.6	116.3
Feb.	114.6	
Mar.	114.7	
Apr.	114.9	116.4
May	115.4	
June	116.2	
July	117.0	118.6
Aug.	116.8	
Sept.	117.1	
Oct.	117.7	119.5
Nov.	117.8	
Dec.	118.0	

1957:	*U. S.*	*Portland*
Jan.	118.2	120.1
Feb.	118.7	
Mar.	118.9	
Apr.	119.3	121.6
May	119.6	
June	120.2	
July	120.8	122.2
Aug.	121.0	
Sept.	121.1	
Oct.	121.1	121.9
Nov.	121.6	
Dec.	121.6	

1958:	*U. S.*	*Portland*
Jan.	122.3	123.3
Feb.	122.5	
Mar.	123.3	
Apr.	123.5	125.0
May	123.6	
June	123.7	
July	123.9	124.7
Aug.	123.7	
Sept.	123.7	
Oct.	123.7	124.5
Nov.	123.9	
Dec.	....	

Source: U. S. Department of Labor
Bureau of Labor Statistics

The cost-of-living in Portland has declined slightly after reaching a new all-time high in April, 1958. The October index was 2 percent above a year ago and 4 percent above two years ago.

New Housing Starts (U. S.)

(Thousands of Privately Financed Houses)

1950	1,352.2
1951	1,020.1
1952	1,068.5
1953	1,068.3
1954	1,201.7
1955	1,309.5
1956	1,093.9
1957	992.8
1958	....

	1955:	1956:	1957:	1958:
Jan.	1,410	1,195	962	1,020
Feb.	1,324	1,127	935	915
Mar.	1,349	1,094	933	918
Apr.	1,363	1,157	962	983
May	1,381	1,146	994	1,039
June	1,372	1,091	995	1,057
July	1,316	1,070	1,015	1,174
Aug.	1,311	1,136	1,056	1,228
Sept.	1,285	1,008	1,012	1,220
Oct.	1,214	1,052	1,020	1,260
Nov.	1,176	1,027	1,009	1,330
Dec.	1,174	1,020	1,000	....

Monthly figures are seasonally adjusted **annual rates.**

Source: U. S. Department of Labor
Bureau of Labor Statistics

In February, 1958, new housing starts, on a seasonally adjusted basis, declined to the lowest level since early 1949. Since February, 1958, the number of new dwelling units started has increased and in November, 1958 reached the highest level in over three years.

The number of new private and public units put under construction in the first eleven months of 1958 was 13 percent more than the number begun in the same period a year earlier. Housing starts (both private and public) in November, 1958 were 30 percent above the November, 1957 figure.

About 85 percent of Oregon's Douglas fir lumber production is used in residential construction.

Log Production—Oregon

(Thousands of board feet, log scale)

1950	7,890,764
1951	8,704,373
1952	9,802,331
1953	8,585,574
1954	8,860,292
1955	9,709,875
1956	9,336,259
1957	7,563,330

Source: 1950 through 1956—Division of Forest Economic Research
Pacific Northwest Forest and Range
Experiment Station
Forest Service
U. S. Department of Agriculture

1957—Oregon State Forester

Data include logs cut from national forests, from Indian lands, other public lands and all private lands. National forest production is compiled by the U. S. Forest Service. Indian lands production is compiled by the U. S. Bureau of Indian Affairs. Other public and all private log production is compiled by the Oregon State Forester.

Log production in Oregon in 1957, as estimated by the State Board of Forestry, dropped 19 percent below 1956 and 22 percent below 1955 to reach the lowest production level since 1948.

Lumber Production

(Douglas Fir Region of Western Oregon and Western Washington)

(Thousands of Feet Board Measure)

	Total	*Western Oregon*	*Western Oregon as % of Total*
1950	10,107,751	6,960,922	69%
1951	9,850,084	6,988,763	71%
1952	10,364,171	7,510,680	72%
1953	9,744,627	6,907,219	71%
1954	9,283,236	6,911,198	75%
1955	9,679,641	6,972,526	72%
1955:			
Jan.	816,058		
Feb.	839,659		
Mar.	923,341		
Apr.	821,357		
May	853,696		
June	877,589		
July	669,794		
Aug.	871,884		
Sept.	835,894		
Oct.	755,554		
Nov.	723,587		
Dec.	691,228		
1956	8,759,010	6,286,510	72%
1956:			
Jan.	746,864		
Feb.	729,371		
Mar.	746,287		
Apr.	753,020		
May	810,828		
June	737,822		
July	634,169		
Aug.	802,684		
Sept.	693,988		
Oct.	782,827		
Nov.	721,667		
Dec.	599,483		

	Total	*Western Oregon*	*Western Oregon as % of Total*
1957	8,078,752	5,816,700	72%
1957:			
Jan.	666,980		
Feb.	668,225		
Mar.	733,853		
Apr.	762,032		
May	785,430		
June	693,408		
July	620,423		
Aug.	704,441		
Sept.	645,489		
Oct.	683,577		
Nov.	595,066		
Dec.	519,828		
1958			
1958:			
Jan.	667,339		
Feb.	632,814		
Mar.	664,873		
Apr.	690,766		
May	710,892		
June	665,826		
July	605,456		
Aug.	681,139		
Sept.	725,655		
Oct.	761,965		
Nov.	605,220		
Dec.	....		

Source: West Coast Lumbermen's Association.

Lumber production in the Douglas fir region (western Oregon accounting for about 72 percent of regional output) in the first eleven months of 1958 averaged 2 percent below the comparable eleven months of 1957 and 9 percent below the same eleven months of 1956.

Production in September, October and November, 1958 exceeded year earlier levels with November, 1958 output 2 percent above November, 1957 although 16 percent below November, 1956.

Lumber Production

(Western Pine Region: Includes Arizona, California, Nevada, Colorado, Idaho, Montana, New Mexico, eastern Oregon, South Dakota, Utah, eastern Washington and Wyoming)

(Thousands of Feet Board Measure)

	Total	*Eastern Oregon*	*Eastern Oregon as % of Total*
1950	7,611,586	1,559,194	20%
1951	7,288,019	1,522,437	21%
1952	7,259,232	1,472,363	20%
1953	7,721,079	1,607,000	21%
1954	7,982,610	1,734,200	22%
1955	8,817,522	1,853,697	21%
1956	9,030,000	1,800,000	20%
1957	8,014,000	1,600,000	20%
1958	....	....	....

Month	1955	1956	1957	1958
Jan.	503,000	557,000	495,000	493,000
Feb.	547,000	580,000	534,000	505,000
Mar.	645,000	666,000	612,000	541,000
Apr.	693,000	733,000	717,000	589,000
May	779,000	861,000	759,000	693,000
June	891,000	894,000	750,000	717,000
July	770,000	815,000	696,000	751,000
Aug.	978,000	998,000	829,000	847,000
Sept.	888,000	841,000	744,000	836,000
Oct.	867,000	883,000	773,000	844,000
Nov.	652,000	655,000	578,000	....
Dec.	605,000	547,000	527,000	....

Source: Western Pine Association

Lumber production in the Western Pine region (eastern Oregon accounting for about one-fifth of regional output) in the first ten months of 1958 was 1½ percent below the corresponding period of 1957 and 13 percent below the same period of 1956.

July, August, September and October production exceeded year earlier levels with October, 1958 output 9 percent above October, 1957 but 4 percent below October, 1956.

Wholesale Price Index of Douglas Fir Lumber

(Index: 1947-49 = 100)

1950	117.6
1951	128.6
1952	127.3
1953	117.2
1954	119.4
1955	130.5
1956	129.9
1957	116.8
1958	....

	1955:	1956:	1957:	1958:
Jan.	126.5	133.8	121.2	110.3
Feb.	127.2	133.2	120.3	110.4
Mar.	127.0	135.3	119.6	109.4
Apr.	128.5	136.0	119.8	110.6
May	130.5	135.7	118.2	112.1
June	131.9	133.8	118.0	112.0
July	132.4	131.7	117.8	112.2
Aug.	134.1	128.9	117.0	119.0
Sept.	134.7	125.1	114.5	123.3
Oct.	132.4	122.7	113.3	120.1
Nov.	130.1	122.0	112.0	....
Dec.	130.8	120.0	110.0	....

Source: U. S. Department of Labor
Bureau of Labor Statistics

The wholesale price of Douglas fir lumber, after declining to the lowest level in years in March, 1958, began to firm thereafter and by September, 1958 had reached the highest level in two years. The Bureau of Labor Statistics' price index in October, 1958 was 10 percent above the March, 1958 low and 6 percent above a year earlier although still 12 percent below the record high price level set in April, 1956.

Bank Debits

(167 reporting banks in Oregon)

(Millions of Dollars)

Annual figures are monthly averages.

1950	$1,028
1951	1,270
1952	1,275
1953	1,257
1954	1,280
1955	1,450
1956	$1,633
1957	$1,657
1958	$ ....

	1955:	1956:	1957:	1958:
Jan.	1,359	1,462	1,725	1,662
Feb.	1,210	1,325	1,422	1,493
Mar.	1,402	1,493	1,589	1,504
Apr.	1,375	1,502	1,612	1,581
May	1,351	1,582	1,683	1,646
June	1,454	1,476	1,610	1,661
July	1,486	1,619	1,678	1,763
Aug.	1,558	2,266	1,781	1,759
Sept.	1,570	1,681	1,652	1,754
Oct.	1,530	1,730	1,721	1,942
Nov.	1,522	1,705	1,706	1,806
Dec.	1,589	1,757	1,725	....

Source: **Oregon Business Review**
Bureau of Business Research
School of Business Administration
University of Oregon

Bank debits (the dollar value of checks drawn against deposit accounts of individuals and business firms), through which medium about 90 percent of all goods and services are purchased, in the first eleven months of 1958 were about 2 percent above the first eleven months of 1957 and 4 percent above the corresponding period of 1956. Debits in November, 1958 were 6 percent above November, 1957 and 6 percent above November, 1956.

Public Assistance Payments in Oregon

(Millions of Dollars)

Fiscal years ending June 30	
1950	$25.7
1951	26.4
1952	26.0
1953	27.1
1954	28.6
1955	29.4
Fiscal 1956	$28.1
Fiscal 1957	$31.4
Fiscal 1958	$35.1

	1955:	1956:	1957:	1958:
Jan.	2.6	2.4	2.7	3.2
Feb.	2.4	2.5	2.8	3.1
Mar.	2.5	2.5	2.8	3.3
Apr.	2.5	2.5	2.9	3.2
May	2.5	2.5	2.9	3.1
June	2.4	2.4	2.8	3.0
July	2.2	2.3	2.7	2.9
Aug.	2.2	2.3	2.6	2.9
Sept.	2.2	2.3	2.8	3.1
Oct.	2.3	2.4	2.9	3.1
Nov.	2.3	2.7	2.9	3.2
Dec.	2.4	2.6	3.0	....

Applications Received for Public Assistance in Oregon

Fiscal years ending June 30	
1950	41,022
1951	35,755
1952	32,826
1953	34,191
1954	39,574
1955	41,532
1956	39,735
1957	29,517*
1958	37,313

	1956:	1957:	1958:
Jan.	....	3,378	3,770
Feb.	....	2,471	3,145
Mar.	....	2,548	3,248
Apr.	....	2,464	3,138
May	....	2,412	2,648
June	....	1,897	2,398
July	2,697	2,552	2,801
Aug.	1,833	2,682	2,603
Sept.	1,691	2,818	3,082
Oct.	2,284	3,372	3,250
Nov.	2,718	3,437	3,255
Dec.	2,612	3,344	....

Source: Oregon State Public Welfare Commission
Division of Research and Statistics

* Data beginning July 1, 1956 are not comparable with earlier data because of change in procedures.

Public assistance payments in Oregon in the fiscal year ended June 30, 1958 increased 12 percent above the fiscal year earlier and established a new record. Applications received for assistance increased by 26 percent between the last two fiscal periods. Payments and applications in November, 1958 were 12 percent above and 5 percent below, respectively, November, 1957 and 21 percent and 20 percent, respectively, above November, 1956.

Business Failures in Oregon

	No.	Liabilities
1950	156	$ 3,141,332
1951	69	3,223,880
1952	71	2,622,109
1953	81	2,477,776
1954	112	5,063,472
1955	121	4,364,230

	No.	Liabilities
1956	290	$12,800,550

	No.	Liabilities
1957	538	$13,818,000

1955:		
Jan.	8	160,000
Feb.	2	76,000
Mar.	8	157,000
Apr.	13	259,000
May	14	368,000
June	11	310,000
July	6	236,000
Aug.	9	257,000
Sept.	7	1,009,000
Oct.	13	319,000
Nov.	14	559,000
Dec.	15	436,000

1956:		
Jan.	13	421,000
Feb.	7	1,234,000
Mar.	13	1,257,000
Apr.	13	604,000
May	21	365,000
June	30	593,000
July	17	534,000
Aug.	40	1,046,000
Sept.	22	504,000
Oct.	37	3,202,000*
Nov.	25	674,000
Dec.	44	882,000

1957:		
Jan.	36	908,000
Feb.	32	1,252,000
Mar.	33	735,000
Apr.	37	1,516,000
May	31	523,000
June	42	1,637,000
July	37	1,465,000
Aug.	68	1,024,000
Sept.	56	681,000
Oct.	49	1,413,000
Nov.	59	1,237,000
Dec.	58	1,427,000

Source: Dun and Bradstreet

1958	......	$................
1958:		
Jan.	46	1,110,000
Feb.	52	1,550,000
Mar.	46	818,000
Apr.	41	698,000
May	52	1,334,000
June	32	840,000
July	46	929,000
Aug.	51	1,400,000
Sept.	26	423,000
Oct.	56	939,000
Nov.	......	....
Dec.	......	....

* The unusually large dollar value of liabilities posted for October, 1956 results mostly from the bankruptcy that month of Commercial Lumber Sales Company of Dillard with liabilities of $1,586,189.

The number of commercial failures in Oregon in the first ten months of 1958 ran 6 percent above the corresponding period of 1957 and 110 percent above the same period of 1956.

The dollar value of liabilities in the first ten months of 1958 was 10 percent below the comparable 1957 period although 3 percent above the first ten months of 1956.

Oregon Cash Receipts from Farm Marketing

(Thousands of Dollars)

1950	$389,700						
1951	449,800						
1952	427,400						
1953	400,500						
1954	384,800						
1955	403,100	1956	$408,037	1957	$397,372	1958	$ ....

1955:		1956:		1957:		1958:	
Jan.	30,764	Jan.	26,660	Jan.	27,023	Jan.	29,160
Feb.	24,788	Feb.	20,640	Feb.	17,609	Feb.	21,222
Mar	20,457	Mar.	19,590	Mar.	19,430	Mar.	21,768
Apr.	20,652	Apr.	18,876	Apr.	18,710	Apr.	20,732
May	19,644	May	19,910	May	18,775	May	19,567
June	31,671	June	30,490	June	32,261	June	34,604
July	33,247	July	41,025	July	34,259	July	35,444
Aug.	45,697	Aug.	57,711	Aug.	53,382	Aug.	48,586
Sept.	54,882	Sept.	60,159	Sept.	60,167	Sept.	60,516
Oct.	48,985	Oct.	41,842	Oct.	42,718	Oct.	....
Nov.	38,208	Nov.	39,459	Nov.	42,664	Nov.	....
Dec.	33,184	Dec.	31,664	Dec.	30,374	Dec.	....

Source: U. S. Department of Agriculture
Agricultural Marketing Service

Agriculture is Oregon's second most important industry—ranking immediately behind lumber and ahead of tourism.

Cash receipts from farm marketing in the first nine months of 1958 were 3 percent above the comparable nine months of 1957 although 2 percent below the corresponding period of 1956.

Estimated Tourist Expenditures in Oregon

(Millions of Dollars)

1950	$113
1951	121
1952	121
1953	125
1954	125
1955	127
1956	141
1957	130
1958	150

Source: Oregon State Highway Department
Travel Information Division and
Traffic Engineering Division

Tourist expenditures rank immediately after lumber and agriculture as a source of income to the State of Oregon.

The Highway Department's travel survey indicates that there was a 15 percent increase in out-of-state tourist spending in 1958 compared with 1957.