Salem Scene
By
Jack Zimmerman

Senate bill writes final chapter on 'unfair tax'

The Senate on Feb. 12 passed without opposition a measure that may become the final chapter in a portion of this state's 135-year history of taxation.

It also points up the way Oregon's property tax system has evolved through the years and complexity of that evolution.

The measure is Senate Bill 170, introduced at the request of the Department of Revenue. Known in legislative parlance as a housekeeping bill, SB 170's major purpose is to remove references to inventory taxes from Oregon tax law.

It was prompted by House Bill 1214, enacted by the 55th Assembly in 1969. And that measure climaxed efforts over nearly 20 years to phase out what was—and still is—described as one of the most unfair, discriminatory types of taxation ever levied.

From a philosophical standpoint, even many opponents of the inventory tax phaseout in 1969 agreed that tax miserably failed the equity test lawmakers diligently seek to apply to all taxes levied in this state.

HB 1214 became effective Aug. 22, 1969 and called for a gradual phaseout of the inventory tax. It specified 5 per cent reductions in 1969-70 through 1972-73 and 10 per cent annual reductions until the phaseout is complete on Jan. 1, 1980. Its passage capped a concerted effort throughout the Sixties for repeal of inventory taxes by the Oregon Retail Council division of Associated Oregon Industries and others. And one might trace the movement almost to the day in 1844 when members of Oregon's provisional government levied its first tax. Intended to be paid voluntarily by earlier settlers, it levied a one-eighth of one per cent ad valorem tax on all improvements on town lots, mules, cattle, hogs, horses clocks, watches and merchandise for sale.

At that particular time, the targets of the tax obviously represented existing wealth. Distribution of equity was to intensify through the years. Aggravating the issue were a continuing series of exemptions that tended to heap an increasing burden on steadily shrinking segment of the business community—namely, those businesses that by their nature were forced to maintain a sizeable inventory of goods on hand in order to do business. Documentation further proved it was the only tax directly causing unemployment.

By the 1960s the inventory tax was recognized as an inequitable burden seriously hindering the economy at almost every level of endeavor.

While most lawmakers recognized its inequities, they were reluctant to give up a source of revenue that went largely to fund schools and other local government services. The House of Representatives in 1963 did approve a modified inventory tax phaseout bill but it failed to reach the Senate floor for a vote before that session adjourned. In 1965 another version was approved by both Houses and signed into law by then-Gov. Mark Hatfield.

That measure provided for a partial phaseout of inventory taxes and the exemption was funded by a General Fund appropriation aimed at taking up whatever slack might result for local governments. The appropriation was approved in 1965 but was reduced below prescribed levels in the regular '67 session and slashed irreparably during a special session later that year as the state suffered dwindling income tax revenue.

Phaseout proponents were forced to try again during the '69 session and their logic prevailed to the extent both Houses approved HB 1214 without attempting to fund the exemption through the General Fund.

How could this obvious source of revenue be replaced? More simply than one might suppose. Oregon's inventory tax was a serious deterrent to the establishment of new business and expansion of existing business and industry. The situation became even more critical as neighboring states reduced or eliminated similar taxes. Most eastern industrialized states had long-since recognized the problem and erased taxes on inventory. Each new repeal in other areas tended to blunt the competitive edge of Oregon's economy.

Eliminating the tax here has been a major contributor to business expansion, industrial diversification and attracting new business to the state, according to John Groupe, Director of the Department of Economic Development. Regional warehouse and distribution centers have become established in Portland, Umatilla and Medford areas. The combined activity has expanded payrolls and produced significantly more income tax revenue for the General Fund. Lawmakers subsequently have been able to help local governments and ease the impact on other taxpayers by boosting corporate income taxes, greatly increasing basic school support, providing city-county revenue sharing and establishing homeowner and renter tax relief.

Although the years immediately following passage of HB 1214 saw repeated attempts to freeze the inventory tax phaseout or repeal it altogether, it appears unlikely current lawmakers will interrupt its total demise 10 months hence.

The fact the phaseout was enacted in 1969 when the budgetary ending balance (surplus) was only $34 million and it stands at $273 million today reduces the likelihood of anyone resurrecting inventory taxes as a revenue source.

But perhaps the biggest deterrent is the fact Senate Pres. Jason Boe was primary sponsor of HB 1214 back in 1969 while serving as Minority Leader of the House. And Gov. Victor Atiyeh was a leading proponent of the phaseout throughout his long career in both House and Senate.

ODDS CHART Effective Feb. 24, 1979

PRIZE VALUE	NUMBER OF PRIZES	ODDS 1 TICKET	ODDS 13 TICKETS	ODDS 26 TICKETS
$1,000	61	1 in 136,783	1 in 10,522	1 in 5,261
100	222	1 in 37,584	1 in 2,891	1 in 1,446
20	381	1 in 21,900	1 in 1,685	1 in 842
10	784	1 in 10,643	1 in 817	1 in 409
5	7,356	1 in 1,134	1 in 87	1 in 44
1	53,151	1 in 157	1 in 12	1 in 6
TOTALS	61,958	1 in 135	1 in 10	1 in 5

Scheduled termination date, April 10, 1979.
TOTAL VALUE OF CASH PRIZES - $252,000.00

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