



AGRICULTURAL COOPERATIVE COUNCIL OF OREGON

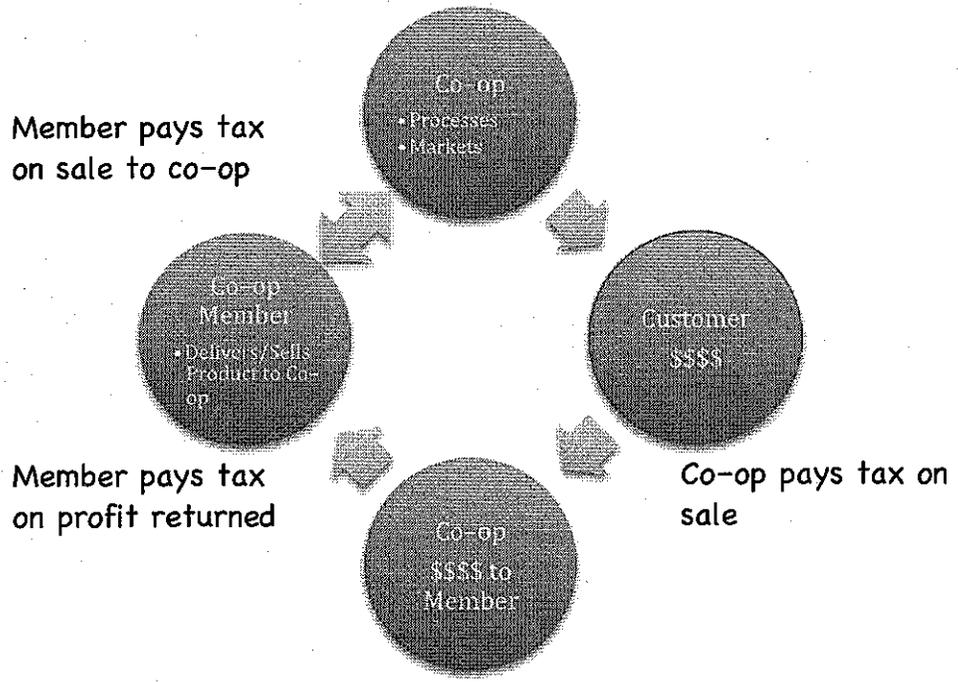
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Statement in Support of HB 3058 John McCulley Agricultural Cooperative Council of Oregon

One of the unintended consequences of Measure 67 was the impact on cooperative businesses. A key cooperative principle is operating at cost with the proceeds generated by the co-op passing through to the owners of the cooperative, the members.

Because of this unique business model, revenues are taxed twice under the gross receipts tax, once at the co-op level and again when that revenue is passed on to the co-op members.

Here is a simple illustration of how dollars flow through a cooperative to the members. In this example, a member provides product to the cooperative that processes and markets the product. The product is sold with proceeds from the sale going to the co-op to pay the expenses associated with preparing the product for market and for the operational expenses of the co-op. By law, the cooperative must return any profit to the members, the owners of the business.



The gross receipts tax is paid by the cooperative when the member's product is sold and then when those same revenues go to the member, they are subject to taxation again, either as personal income taxes or as a tax on gross receipts if the member is a corporation.

HB 3058 corrects this double taxation situation by exempting from the definition of "Oregon sales" business done with or for members of an agricultural cooperative. The exemption applies to cooperatives as defined in Section 1381 of the Internal Revenue Code. That section includes agricultural cooperatives exempt from federal taxation under Section 521 of the Code.

I believe there are about 40 agricultural cooperatives doing business in Oregon. These co-ops include both marketing organizations that take a member's product, process it and sell it, returning income to the member and supply cooperatives that purchase fuel, feed, fertilizer and other products on behalf of the members and return to the members the savings resulting from these bulk purchases.

I understand three other states have a gross receipts-type tax. All three exempt cooperatives from the tax. The Texas Franchise Tax specially holds that any cooperative organized under the state's co-op law is not subject to the tax (Texas Tax Code 171.075). Ohio, like Texas, provides a blanket exclusion from the Commercial Activities Tax for cooperatives (ORC 5751.01). Under Michigan's Business Tax, cooperatives exempt by Section 521 of the Internal Revenue Code and other cooperatives exempt through Section 1381(a)(2) are also exempt from the Michigan Business Tax (MCL 208.1207).

In conclusion, we believe it was not the intent of those crafting the corporate tax on gross receipts to include cooperative businesses. The tax is levied twice on the same revenue and excluding cooperatives from the gross receipts tax is consistent with how other states with similar provisions treat cooperatives. Please support HB 3058.