



HB 3249 – Establishing an Oregon Agricultural Heritage Fund within OWEB

W&M Natural Resources – Jody Wisner – 6.28.2017

Tax Fairness Oregon recommends against HB 3249.

HB 3249 appears to be a well-intentioned effort to provide more stimulus for environmentally sensitive management of agricultural and ranch lands. It creates a new 12 member Commission and a new Oregon Agricultural Heritage Fund, “separate from the General Fund” to provide grants and create program related to succession planning, implementation of conservation management plans, and providing technical assistance to organizations that are, or might be, involved in conservation management. These sound like worthy goals, however, on closer investigation, HB 3249 has serious flaws, both technically and fiscally.

On the technical level, Tax Fairness Oregon would call your attention to the Testimony by Mr. Moskowitz on behalf of the Deschutes River Alliance, NW Environmental Advocates, the Conservation Angler, and Willamette Riverkeepers. Tax Fairness Oregon’s hydrology and environmental assessment specialists concur with this technical analysis and feel that these arguments provide ample reason to oppose the bill.

In addition, from the basis of Tax Fairness Oregon’s expertise, we want to emphasize the lack of fiscal responsibility in this proposed measure. We address four specific concerns: (1) Oregon’s current tax subsidies to farmers and ranchers overall, (2) succession planning in particular, (3) additional funding for non-profits in the arena of conservation management, and the (4) budgetary availability of resources.

Existing Tax Subsidies to the Agricultural Sector

We have attached to this testimony a summary of the existing subsidies to this business sector. As this supplemental information indicates, we are currently providing subsidies that total over \$550 million in the next biennium. In addition, this session legislators have considered 18 bills aimed at this sector. We feel that this time of budget shortfall is not one in which to create or expand programs.

Succession Planning

We feel HB 2349’s emphasis on succession planning is misplaced for several reasons. First, an online review indicates that there is a considerable body of information available to provide this assistance. Oregon State University has a celebrated “Ties to the Land Program” and Farm Bureaus across the country have programs geared to helping farmers with such issues. In addition, Business Oregon cites a number of different resources including:

- Austin Family Business Program – OSU
- Family Business 360
- National Center for Employee Ownership, and
- The Oregon Small Business Development Center Network.

Secondly, succession planning for individual farming operations should be, primarily, the responsibility of the farm/business owner and should not require a significant use of public funds. The State's role should be to assist all Oregon businesses by providing information on available tools, and not target this one specific sector for special assistance.

Funding for Non-Profits

Although Tax Fairness Oregon recognizes the vital role that non-profits play in many sectors of civic life, including assistance to the agricultural community, we would have to concur with the consortium (Mr. Moskowitz's) comments that this support is so unstructured as to provide merely a basis for building nonprofit organizations without specific metrics for public benefit. Specifically, the bill would provide "development funding or technical assistance to organizations that enter into or propose to enter into agreements resulting in conservation management plans...". This provides no guarantee of environmental or other public benefit, focuses only on "plans" and not concrete actions, and allow grants for "development" without guidelines or results based evaluations.

Budget Concerns

As our supplemental material indicates, we already have a large number of ways to assist our important agricultural industries, but we do not have a process in place to compare these programs for cost/benefit. We also have a budget shortfall.

We simply cannot afford to create new programs, especially poorly defined programs without specific targeted results or specifically defined public benefits. Given the revenue shortfall, we feel that any new programs or commissions need to be balanced with either an independent funding source from the industry itself, or by the trimming or eliminating of one or more of the existing subsidies.



Oregon's Tax Subsidies for farmers & ranchers

There are 34,000 farms in Oregon which, in 2012, had gross sales of \$5.48 billion, with \$4.4 billion sold outside of Oregon.ⁱ While some farms pay income taxes, most declare losses, with the result that despite gross sales of \$5.48 billion, the state receives no net income tax revenue from the industry, and in fact losses \$ 10 million or more biennium.ⁱⁱ

Farmworker Housing Subsidies

Estimated Cost 2017-19ⁱⁱⁱ

- **Agricultural workforce housing construction and maintenance income tax credit** for 50% of the cost of construction, rehabilitation or acquisition, a benefit that is in addition to federal benefits. 10 corporations and 135 PIT farmers used this benefit in 2014, often as a match for federal benefits \$4.4 m
- **Farm labor housing and day care facilities** operated by non-profits are exempt from property tax \$.3 m
- **The new market tax credit** program is available for farmworker head start and housing projects ?

Property Taxes

- **Farmers pay reduced property taxes on farm land** at 12% of RMV while taxes on all property of all types in the state is taxed at 73% of RMV^{iv} \$375.8 m
- **Farm home sites** are taxed as farmland rather than as residential land \$25.8 m
- **Farm machinery and equipment is all tax exempt.** Other business owners pay property taxes on all machinery & equipment values above \$16,500 \$81.5 m
- **Farm inventory** including crops, trees, seeds, nursery stock, etc. is exempt \$25.8 m
- **Farmers can also put unproductive farmland into special assessment** as wildlife habitat or with conservation easements \$2.4 m
- **Industrial improvements on farmland** receive a five-year property tax exemption made available under a 2015 law ?

Additional Subsidies

- **Farmers also benefit from subsidies such as those for solar arrays, wind farms, manure digesters and water storage efforts** ?
- **Large farm equipment pays no weight-mile tax** for road use \$4.5 m
- **Farm owners are not required to pay overtime,** increasing employee dependence on public subsidies

Just for Wineries

- **A Small Winery provision** means only 46 of Oregon's 900 wineries, or small wineries in other states selling product in Oregon, actually pay the wine taxes of 65 cents per gallon that is shared by the General Fund and local jurisdictions \$4.8 m

Income Taxes

- **Farmers Capital gains** tax break: capital gains tax rate is reduced from 9.9% to 5% upon sale of farm assets when a farmer discontinues farming \$2.0 m
- **Income Averaging, Extended Carryback of Loss & Cancellation of Debt for Farmers** allow paying taxes on average income over three years, carrying back losses for three years longer than other taxpayers, and a debt cancellation benefit \$2.8 m
- **Cattle and dairy costs** can be expensed rather than depreciated \$1.5 m
- **Crop donation tax credit** for 15% of the value of donated crops \$0.3 m
- **Like other business owners, farmers benefitted from the 2013 legislation reducing business owners' income tax rate by .9 to 2.7% and an IC-DISC provision,** if they've less than \$5 million of taxable income. Some portion of the \$220 m cost accrues to farmers ?

Estate Taxes

- **Virtually all farm assets are exempted from estate tax,** as only farm assets valued at more than \$15 m are taxable (\$30 m for a couple) \$6.9 m

Due to these measures and the federal tax code, we lose \$10 million or more per biennium on farms' state income taxes and another nearly \$5 million in wine taxes. As a group, Oregon's 30,000 non-corporate farmers show losses every year, reducing revenue by over \$10 million, while the state's 3700 farm and forest corporate businesses pay only \$6 million a year in income taxes, a tiny portion of the nearly \$6 billion in farm sales.

TOTAL OREGON COST: Over \$550 million next biennium

FEDERAL TAXES:

According to the IRS, most farm income is taxed as individual income rather than as corporate income. In fact, LRO anticipated that only 10 farm, forestry, fishing and hunting businesses would have paid the Measure 97 tax because they have sales over \$25 m. **Farmers are major beneficiaries of recent Federal tax changes, benefitting not only from the lower individual tax rates but also from faster write-off of investment in machinery, equipment, and other eligible capital purchases.** The cumulative effect of these Federal income tax policy changes has **been the lowest Federal income tax burden on farm income in decades. About one out of every three farm households now owes no Federal income tax, with some actually receiving a refundable child or earned income credit.**^v

ⁱ <http://oregonfb.org/about/oregon-agriculture/>

ⁱⁱ 2016 Oregon Public Finance: Basic Facts, Legislative Revenue Office, statistics for 2012 for corporate numbers and Oregon Personal Income Tax Statistics 2016 edition for non-corporate numbers. Together, the farm and forest corporate businesses pay income taxes of \$6.5 million. 1433 c-corps pay the bulk at \$6.2 m, while 2,279 s-corps paid less than \$400,000 in total. Meanwhile 30,336 other farmers, as a group show farming losses every year, averaging \$5,258 each (for a total of \$159 m in losses, reducing state revenue by \$10 m or more)

ⁱⁱⁱ Values from 2017-19 Oregon Tax Expenditure Report

^{iv} Oregon Property Tax Statistics FY 2015-16 by County and Type of Property, page 3 and Table 1.8, http://www.oregon.gov/DOR/programs/gov-research/Documents/publication-or-pts_303-405_2015-16.pdf

^v See IRS tax guild for farmers <https://www.irs.gov/publications/p225/>