




## Oregon Family Farm Association

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Post Office Box 23504, Tigard, Oregon 97281

OregonFamilyFarm.com

 Facebook.com/OregonFamilyFarmer

Oregon Family Farm Association members are committed to natural resources stewardship. Our member farm families have been farming and ranching in Oregon for generations. The proposed Corporate Activities Tax (CAT) in HB 3427 exposes Oregon agriculture to higher costs and considerable uncertainty. Agricultural producers operate in dynamic conditions, many of which are not under their control. Weather conditions alone, both locally and globally, can place a family farm or ranch in a position of losing money or making money on any given year. Basing a tax on gross receipts rather than net income is inherently unfair for people that have no control over their abilities to make a profit.

Oregon agriculture is trade dependent and ships quality products domestically and globally. As drafted, the CAT applies to sales in Oregon while farm crops that leave the state would not be subject to the tax. We appreciate this attempt to mitigate the effect on Ag producers, but we still would like to point out that the prices of all the inputs that are required to produce farm crops will be driven up by the pyramiding effect of this tax. Farmers and ranchers cannot continue to absorb the actual cost of production and compete with out-of-state growers who aren't subject to this type of tax.

We appreciate the many exemptions in Section 3 of the -1 amendments as a way to reduce the pyramiding effect of this tax. The following sections our members feel either miss the mark or need additional clarification before they could be utilized.

Section 3(1)(b)(Z) states "Receipts from sales to a wholesaler in this state or to an agricultural cooperative in this state that is a cooperative organization described in section 1381 of the Internal Revenue Code, if the seller receives certification at the time of sale from the wholesaler or cooperative that the wholesaler or cooperative will sell the purchased property outside this state." How will this be determined? Use grass seed for an example: More than 95% of the grass seed produced in this state is shipped out of state but wholesalers mix and blend loads from many producers to create a final product. Will a wholesaler be required to determine where each load of seed delivered will be shipped at the time of delivery to meet this requirement? This section is unclear on as how it will be interpreted.

In Section 3(1)(b)(CC) "Receipts from the wholesale or retail sale of groceries," it is our understanding the intent is to exempt food. A deeper analysis raises questions about a partial or total exemption of food. Section 3 (11) defines 'groceries' as 'food' as defined in 7 U.S.C. 2012(k). The Federal code reference states "*Food*" means (1) any food or food product for home consumption...". This definition leads us to believe the exemption is limited to groceries sold at

retail, raising concerns. Would unprocessed farm food items such as Hazelnuts or Sweet Corn be exempt? These both could be sold directly to consumers or processors, either in state or out of state. If both are exempt, we feel this needs clarification in the bill. If not, it will create what we see as unintended consequences of taxing food grown locally for in-state consumption. If the intent is to exempt food from increasing in cost, the entire local supply chain needs to be considered. Farming behavior will be influenced by the impacts of this CAT, and when retailers and restaurants determine that shipping food in from out of state is an economic advantage, Oregonians lose the ability to buy local farm products and invest in the local economies and communities.

Section 3 (15)(a) excludes the receipts of motor vehicle fuel. However, it is limited to on-highway uses. Oregon farmers and ranchers utilize off-road fuels, which are not subject to the highway trust fund tax. Often purchased in bulk, off-road fuels would be a taxable activity for the distributor, who would pass this added tax onto the local farmer. The legislature is already considering adding costs to fuel under House Bill 2020. Hitting farmers and ranchers with two tax increases on their fuels will have devastating effects.

Another section of the amendment our members feel needs additional attention is Section 9. This section allows subtractions for either labor or inputs. However, do contract services and labor qualify for a labor subtraction in the -1s? Due to the specialized and seasonality of much agriculture work, farmers and ranchers rely on sometimes large labor crews to successfully harvest farm crops. Workforce crews used to hand-harvest, produce crops, seed, or support plant health are a significant cost to Oregon farmers and ranchers and should be eligible for this subtraction if it to be meaningful.

While the -1 amendment attempts to improve upon the structure proposed by Measure 97, it does little to address pyramiding. The ability to deduct 25% of a company's inputs only eliminates approximately 8% of the ultimate pyramiding effect. Pyramiding taxes are bad policy because they are both regressive to Oregonians while also harming Oregon's manufacturing and farming industries. A product that passes through multiple channels, on its way to final sale, will not only pass through the original 0.49% rate but they will also add their typical margin to the items that have been previously taxed in the process. This means the ultimate effect to the customer is not a simple, straight-line, addition of 0.49% but one in which the tax increases exponentially as wholesale and retail channels add their traditional margins. This will hurt Oregon farming and ranching families located in Oregon.