

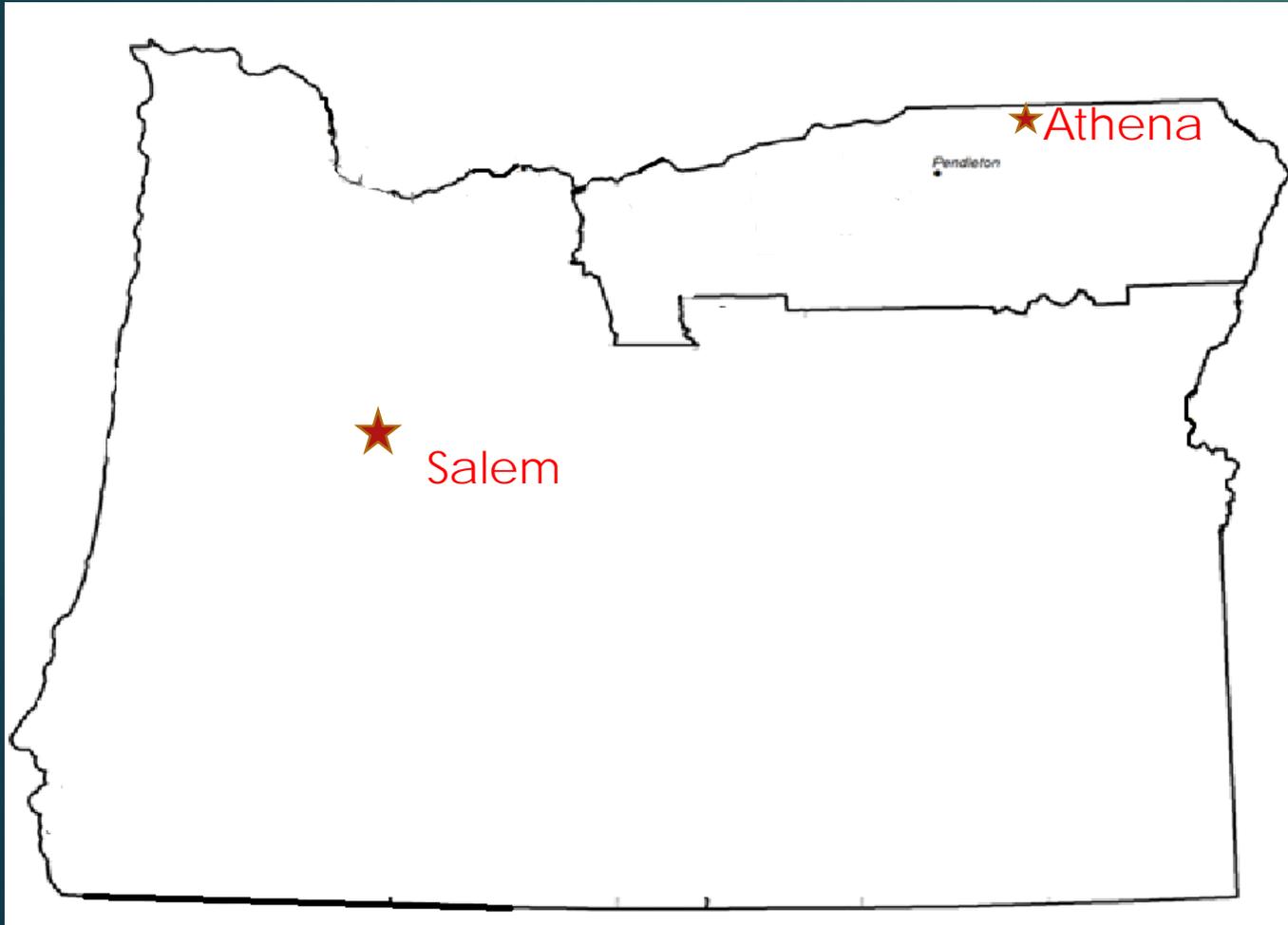


Ownership Transition for Oregon's working farms and ranches:

A Look at Oregon's Estate Tax

OREGON STATE SENATOR BILL HANSELL

Oregon with Senate District 29 identified



Oregon Size: 98,466 square miles

District #29 Size: 13,723 square miles
(Maryland Size: 12,407 square miles)

District #29 population: 126,663 people

The importance of farms and ranches to the Oregon economy

- ▶ #1 National Ranked products of Oregon Agricultural Production in 2016
 - ▶ Blackberries; Boysenberries; Hazelnuts; Orchardgrass seed; Ryegrass seed; Crimson clover; Red clover seed; Fescue seed; Potted florist azaleas; Sugarbeet for seed; Rhubarb; Christmas trees.
- ▶ Senate District 29 includes Wallowa, Union, Umatilla, Morrow, Gilliam, Sherman, ½ Wasco Counties.



Soft Winter Wheat

How to keep Oregon Family Farms Viable in the Future

| County | Market Value of Products Sold (2012) |
|-----------|--------------------------------------|
| Baker | \$93,256,000 |
| Benton | \$103,305,000 |
| Clackamas | \$325,190,000 |
| Clatsop | \$11,544,000 |
| Columbia | \$39,362,000 |
| Coos | \$50,370,000 |
| Crook | \$42,298,000 |
| Curry | \$21,357,000 |
| Deschutes | \$20,570,000 |
| Douglas | \$64,803,000 |
| Gilliam | \$44,054,000 |
| Grant | \$25,360,000 |

| | |
|------------|---------------|
| Harney | \$88,946,000 |
| Hood River | \$77,117,000 |
| Jackson | \$64,127,000 |
| Jefferson | \$65,032,000 |
| Josephine | \$18,807,000 |
| Klamath | \$181,485,000 |
| Lake | \$85,646,000 |
| Lane | \$142,508,000 |
| Lincoln | \$5,536,000 |
| Linn | \$241,236,000 |
| Malheur | \$359,309,000 |
| Marion | \$592,856,000 |
| Morrow | \$568,111,000 |
| Multnomah | \$68,936,000 |
| Polk | \$149,846,000 |

| | |
|------------|---------------|
| Sherman | \$54,482,000 |
| Tillamook | \$117,141,000 |
| Umatilla | \$423,334,000 |
| Union | \$68,370,000 |
| Wallowa | \$46,620,000 |
| Wasco | \$89,783,000 |
| Washington | \$237,972,000 |
| Wheeler | \$14,158,000 |
| Yamhill | \$280,852,000 |

Senate District 29 produces \$1,249,971,000 worth of agricultural products (Market Value of Products sold in 2012). More than any other Senate District in the state.



Family Farm



Wheat field
with farm in
background





Future Bean Field

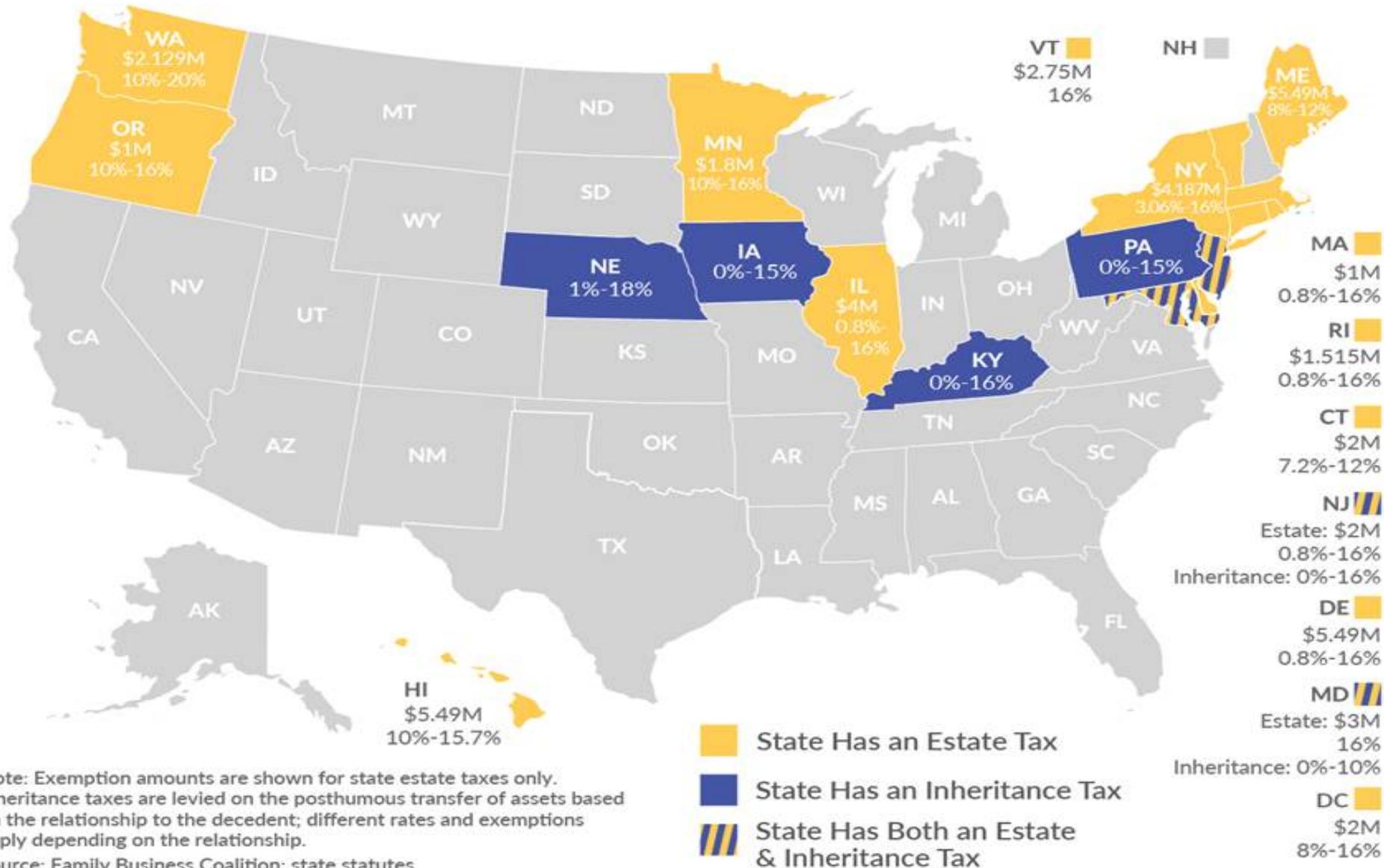


Planting

Estate Tax Across America

“Eighteen states and the District of Columbia impose either inheritance or estate taxes, with fourteen states (plus Washington, D.C.) levying estate taxes and six states levying inheritance taxes. Of these, two states (Maryland and New Jersey) impose both taxes, though New Jersey is in the process of repealing its estate tax.” – Tax Foundation

State Estate and Inheritance Tax Rates and Exemptions (2017)



Note: Exemption amounts are shown for state estate taxes only. Inheritance taxes are levied on the posthumous transfer of assets based on the relationship to the decedent; different rates and exemptions apply depending on the relationship.

Source: Family Business Coalition; state statutes.

Difference between Estate and Inheritance Taxes:

Taxes can be imposed on the entirety of a decedent's bequests (an estate tax) or on the receipt of an estate's proceeds (an inheritance tax). The differences are not merely semantic, and diverge in both their legal and economic incidence.



Estate Taxes:

Estate taxes are imposed on the net value of an estate, after any exclusions or credits, at the rate indicated by the total value of all taxable bequests and before any distribution to heirs.



Inheritance Taxes:

Inheritance taxes are paid by legatees based on their share of the inheritance and, often, their relationship with the deceased.

Whereas estate taxes are paid by the decedent's estate before assets are distributed to heirs, inheritance taxes are remitted by the recipient of a bequest.

Both inheritance and estate taxes exempt transfers made to a spouse after death.



Estate Tax:

Value of Estate After Deductions

| State | \$2.5m | \$5m | \$10m | \$20m |
|----------|--------|------|-------|-------|
| Conn. | 1.4% | 4.6% | 7.4% | 9.7% |
| D.C. | 1.6% | 5.9% | 9.8% | 12.9% |
| Delaware | 0.0% | 0.0% | 3.4% | 9.0% |
| Hawaii | 0.0% | 0.0% | 5.3% | 10.5% |
| Illinois | 0.0% | 0.7% | 5.2% | 10.2% |
| Maine | 0.0% | 0.0% | 3.9% | 7.8% |
| Maryland | 0.0% | 2.1% | 6.5% | 11.0% |
| Mass. | 5.7% | 8.0% | 10.8% | 13.4% |
| Minn. | 1.9% | 7.0% | 10.3% | 13.2% |



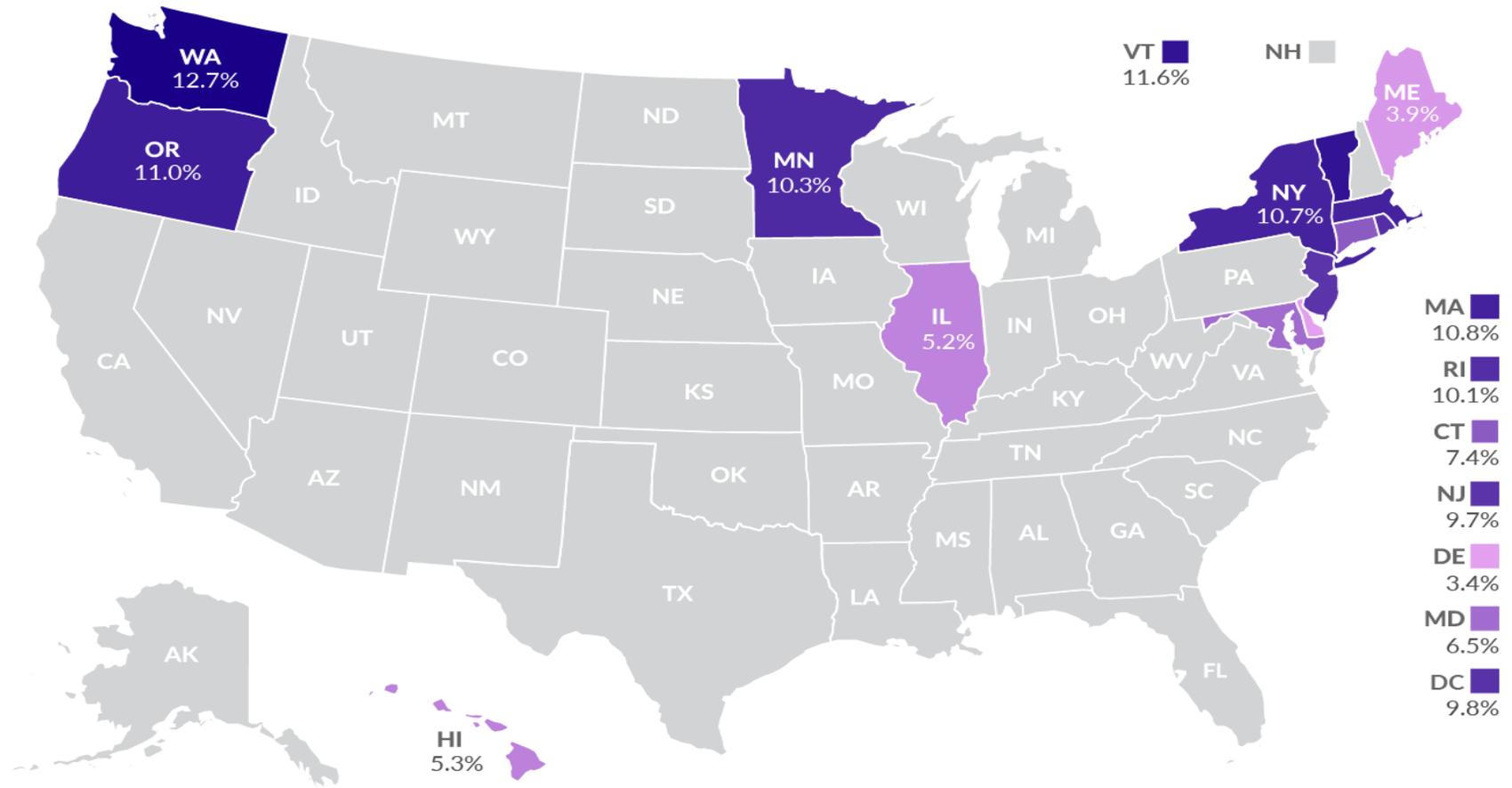
| State | \$2.5m | \$5m | \$10m | \$20m |
|--------------|--------|------|-------|-------|
| N.J. | 1.6% | 5.8% | 9.7% | 12.8% |
| N.Y. | 0.0% | 0.0% | 10.7% | 13.3% |
| Oregon | 6.1% | 8.5% | 11.0% | 13.5% |
| Rhode Island | 3.1% | 6.7% | 10.1% | 13.1% |
| Verm. | 0.0% | 7.2% | 11.6% | 13.8% |
| Wash. | 2.2% | 7.4% | 12.7% | 16.3% |

Sources: State Statutes; Bloomberg BNA;
Tax Foundation Calculations

| State | \$2.5m | \$5m | | State | \$2.5m | \$5m |
|----------|--------|------|--|--------------|--------|------|
| Conn. | 1.4% | 4.6% | | N.J. | 1.6% | 5.8% |
| D.C. | 1.6% | 5.9% | | N.Y. | 0.0% | 0.0% |
| Delaware | 0.0% | 0.0% | | Oregon | 6.1% | 8.5% |
| Hawaii | 0.0% | 0.0% | | Rhode Island | 3.1% | 6.7% |
| Illinois | 0.0% | 0.7% | | Verm. | 0.0% | 7.2% |
| Maine | 0.0% | 0.0% | | Wash. | 2.2% | 7.4% |
| Maryland | 0.0% | 2.1% | | | | |
| Mass. | 5.7% | 8.0% | | | | |
| Minn. | 1.9% | 7.0% | | | | |

Oregon has the highest Estate Tax rate of any state in the \$2.5m or \$5m brackets.

State Estate Tax Effective Rates at \$10 Million in Estate Value After Deductions (2017)



Source: State statutes; Bloomberg BNA; Tax Foundation calculations.



Federal Estate Tax Rates:

| Year | Exclusion Amount | Max/Top Tax Rate |
|------|------------------|------------------|
| 2001 | \$675,000 | 55% |
| 2002 | \$1 million | 50% |
| 2003 | \$1 million | 49% |
| 2004 | \$1.5 million | 48% |
| 2005 | \$1.5 million | 47% |
| 2006 | \$2 million | 46% |
| 2007 | \$2 million | 45% |
| 2008 | \$2 million | 45% |

| | | |
|------|----------------|----------|
| 2009 | \$3.5 million | 45% |
| 2010 | REPEALED | REPEALED |
| 2011 | \$5 million | 35% |
| 2012 | \$5.12 million | 35% |
| 2013 | \$5.25 million | 40% |
| 2014 | \$5.34 million | 40% |
| 2015 | \$5.43 million | 40% |
| 2016 | \$5.45 million | 40% |
| 2017 | \$5.49 million | 40% |

| Year | Exclusion Amount | Max/Top Tax Rate |
|------|------------------|------------------|
| 2016 | \$5.45 million | 40% |
| 2017 | \$5.49 million | 40% |

For example, assume an estate of \$10 million in 2017. There are two beneficiaries who will each receive equal shares of the estate. The maximum allowable credit is \$5.49 million for that year, so the taxable value is therefore \$4.51 million.

Since it is 2017, the tax rate on that \$4.51 million is 40%, so the total taxes paid would be \$1,804,000. For the Federal Estate Tax.

This does not include Oregon's Estate Tax.



Oregon Estate Tax:

| State | Tax Rate | | | Exemption |
|-------|----------|---|-------------|--------------|
| Ore. | 0.0% | > | \$0 | \$1,000,000* |
| | 10.0% | > | \$1,000,000 | |
| | 10.3% | > | \$1,500,000 | |
| | 10.5% | > | \$2,500,000 | |
| | 11.0% | > | \$3,500,000 | |
| | 11.5% | > | \$4,500,000 | |
| | 12.0% | > | \$5,500,000 | |
| | 13.0% | > | \$6,500,000 | |
| | 14.0% | > | \$7,500,000 | |
| | 15.0% | > | \$8,500,000 | |
| | 16.0% | > | \$9,500,000 | |

Oregon's tax also charges on that estate in a progressive tax structure..

This means the first million is taxed at 0% rate, then every \$500,000 is taxed at a different rate until the final \$500,000 taxed at the 16%.

This yields a tax of \$1,103,000.

The Fed. Amount due was \$1,804,000.

With the Oregon and Federal liabilities – the total yield is \$2,907,000 meaning the combined effective rate is 29.07%

SB 870 – The Elimination of Oregon's Estate Tax

Issues discussed in the committee hearing:

1. Opportunity to pass on to members of their families or beneficiaries all they have worked hard for over the years.
2. Estate Tax provides a disincentive for small and family-owned businesses and farms to grow or expand.
3. Estates grow from earned income and investments made. The wealth that is acquired has already been exposed to taxation and thus is viewed as a double tax.
4. Hansell Family almost lost the farm to estate taxes.
5. Continuous ownership in a family cannot pass along to future generation because of the hardship of the estate tax.



The Estate Tax – Effects on other states

Minnesota

- \$3 Billion of income was lost to the state between 1995 and 2010 because Minnesotans relocated to Florida and Arizona.
- If enough people move away and stop paying Minnesota taxes, then Minnesota could very well experience a net revenue loss due to the estate and gift tax.

(The Center for the American Experiment, a Minnesota research group)

Connecticut

- The Connecticut Department of Revenue estimated that the state lost \$1.2 billion in income annually from 2002 to 2006.
 - This was due to the loss in regular taxes, not the loss in estate tax revenue.
- A Gallup Poll in 2014 found that 49% of Connecticut residents would leave the state if they could. Second only to Illinois (both states have Estate Taxes)

The Estate Tax – Effects on other states

New Jersey

- “When it comes to estate taxes, NJ or any other state does not compete with the federal government. Instead the competition takes place on a state by state level. Those states with the highest exemption, or no estate taxes, tend to be more attractive to high-net-worth households.”

(Ocean State Policy Research Institute)

Rhode Island

- “The most significant driver of out-migration is the estate tax, especially considering that the number one destination state for former Rhode Island residents is Florida, a state with no estate tax (or individual income tax). It is no surprise that after Florida’s estate tax disappeared in 2004, the level of Rhode Island’s out-migration significantly accelerated. In fact, almost \$900m of all income lost (of the \$1b total) due to out-migration happened after 2004, of which over \$400m went to Florida.”

(Ocean State Policy Research Institute)

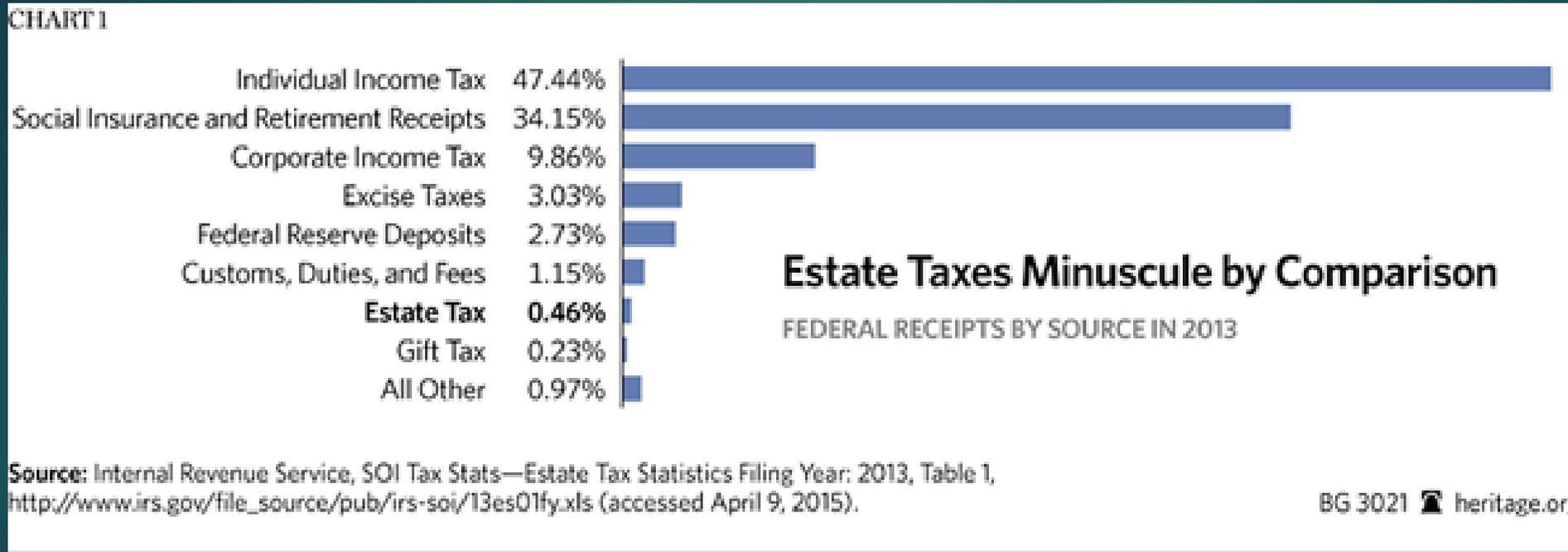
IN SUMMARY...

Why do we need a change to the Oregon Estate Tax?

- Follow other states that eliminated the tax. This will make Oregon significantly more competitive in attracting businesses as well as high-income residents
- The Estate Tax is a Double Tax. The items subjected to this tax were previously taxed while the individual was alive. For many of us this is unfair, unjust, and immoral.
- If we do nothing, Oregon will be subjected to similar out-migration as was experienced by Minnesota, Connecticut, New Jersey, Rhode Island and others.
- There are very good reasons why 36 states, soon to be 38 with Delaware and New Jersey repealing their statutes in 2018, eliminated the estate tax. Oregon should do the same.

SUMMARY CONTINUED...

Estate Taxes Do Not Raise Revenues or Reduce Inequality



“In 2013, only 4,687 estates paid any federal estate tax. This was about one-fifth of a percentage point of all deaths that year, about two out of every 1,000. Yet nearly every medium-sized estate must waste time and money filling out catalogs of tax forms. The joke in legal circles is that we have an estate tax not to raise money, but to create jobs for thousands of accountants and lawyers.”

- Joel Griffith, Research Associate, Project for Economic Growth

SUMMARY CONTINUED...

Oregon needs to be farming friendly to young farmers

| Age of Principal Operator of Oregon Farm | Percent |
|--|---------|
| Under 25 | 0.3% |
| 25-34 | 3.7% |
| 35-44 | 8.5% |
| 45-49 | 7.4% |
| 50-54 | 12.5% |
| 55-59 | 14.9% |
| 60-64 | 17.1% |
| 65-69 | 13.8% |
| 70 and over | 21.7% |

“One reason to suspect that outmigration from high-estate-tax states will accelerate in the future is that tens of trillions of dollars of wealth will be passed on from one generation to the next over the next two decades.”

*-Joel Griffith, Research Associate
Project for Economic Growth*

Average age of operator (years) → 59.6

67.5% of all Oregon Farmers are 55+

Finally...

If we are serious about transitioning from one generation to another, and keeping farm families farming, Oregon needs to seriously consider modifying or eliminating the Estate Tax.





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