

# What Oregonians Need to Know

about

**Taxes**

and

**Budgets**



“Taxes are what we pay  
for a civilized society.”

– Justice Oliver Wendell Holmes, 1927

# Why are we here?

1. Students become voters who need facts to cast an informed vote
2. People who care about public services need facts to talk to voters



# What do we need to know?

1. How does Oregon's tax and spending system work?
2. How would I know a good tax system if I saw one?
3. What are the problems with our current system?
4. What can we do to improve Oregon's future?

# Part One

Oregon's Tax  
and Budget  
System:

How it works.

# Oregon has two big taxes:

The income tax is the major source of money for state general fund.



The property tax is the major source of money for local governments

# How Do Property Taxes Work?

Rate x Value = Tax

# The Rate:

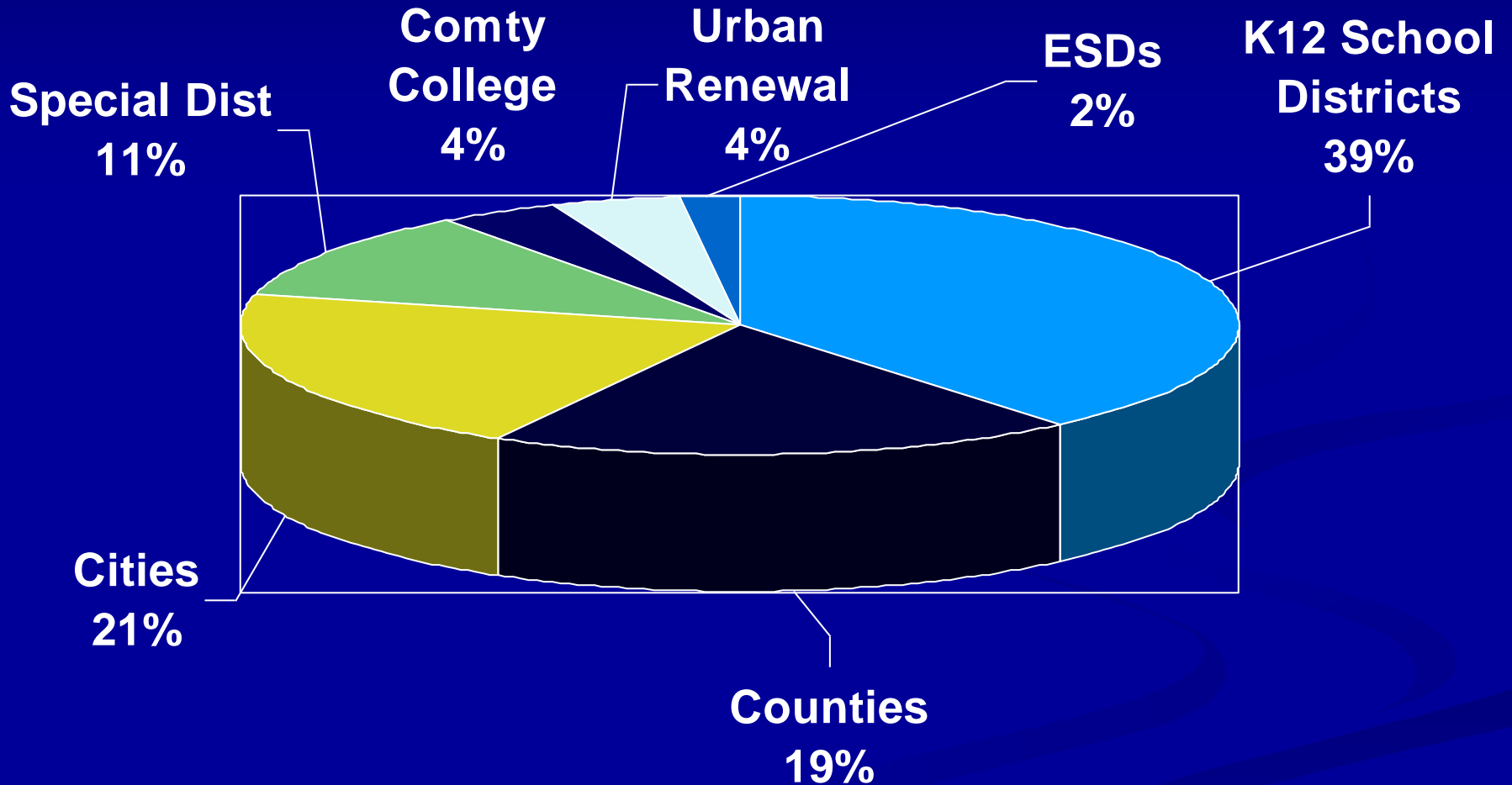
- Depends on the jurisdictions:
  - City, County, School District, etc.
- Limited by Ballot Measure 5 to:
  - \$5 per thousand for schools
  - \$10 per thousand for everything else
  - Except:
    - Bonds



# The Value:

- **Until 1996 based on:**  
Real Market Value
- **Ballot Measure 50 limits value to:**
  - 90% of what Real Market Value was in 1995
  - Caps increase in value to maximum of 3% per year

# Where do property taxes go?



# Income Tax Rates:

From 5% to 9% of taxable income

<i>Single Returns</i>	<i>Rate</i>	<i>Joint Returns</i>
<i>First \$3,400</i>	<i>5%</i>	<i>First \$6,800</i>
<i>Next \$5,100</i>	<i>7%</i>	<i>Next \$10,200</i>
<i>Next \$116,500</i>	<i>9%</i>	<i>Over \$233,000</i>

- *“Taxable Income” is less than “Gross Income” because of deductions and subtractions.*
- *Credits reduce tax further after the tax rates are applied.*

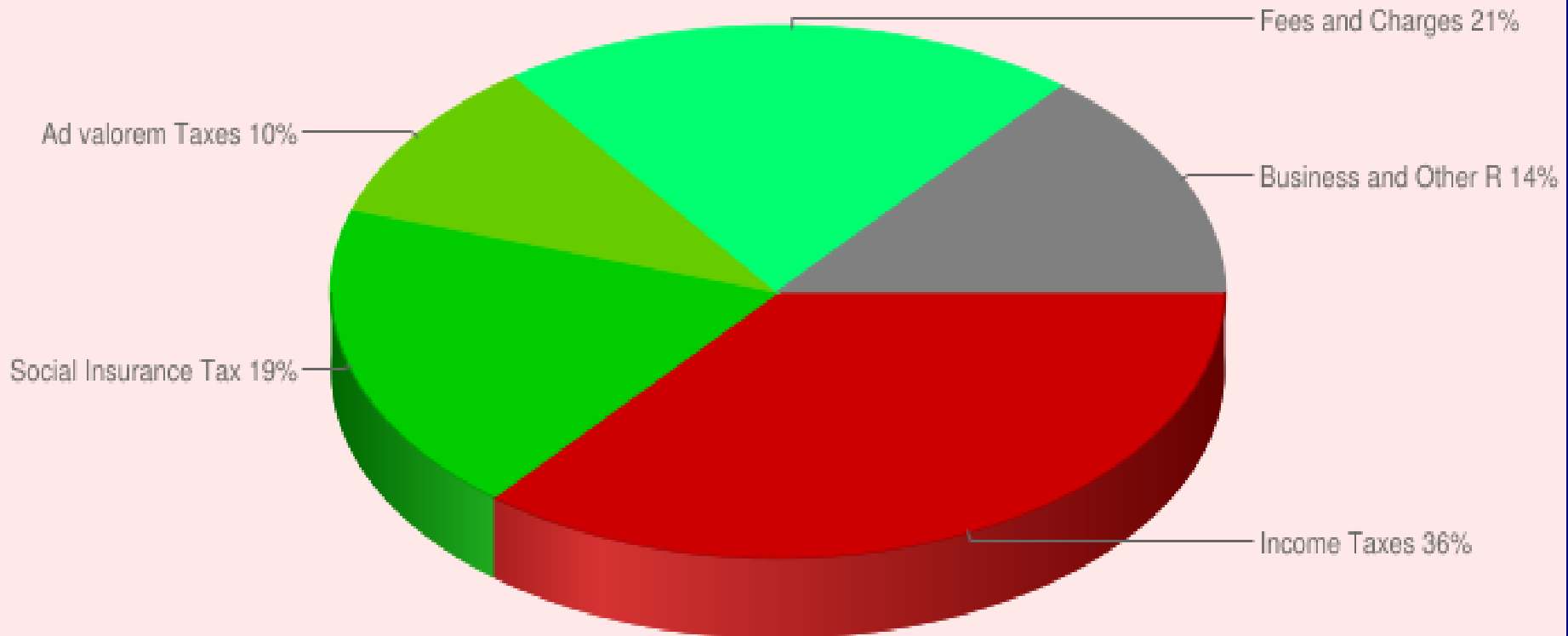
# The effective tax rate

<i>Household Income</i>	<i>Average Effective Rate</i>
<i>All households</i>	<i>6%</i>
<i>\$15,000 - \$20,000</i>	<i>4%</i>
<i>\$500,000 plus</i>	<i>17%</i>

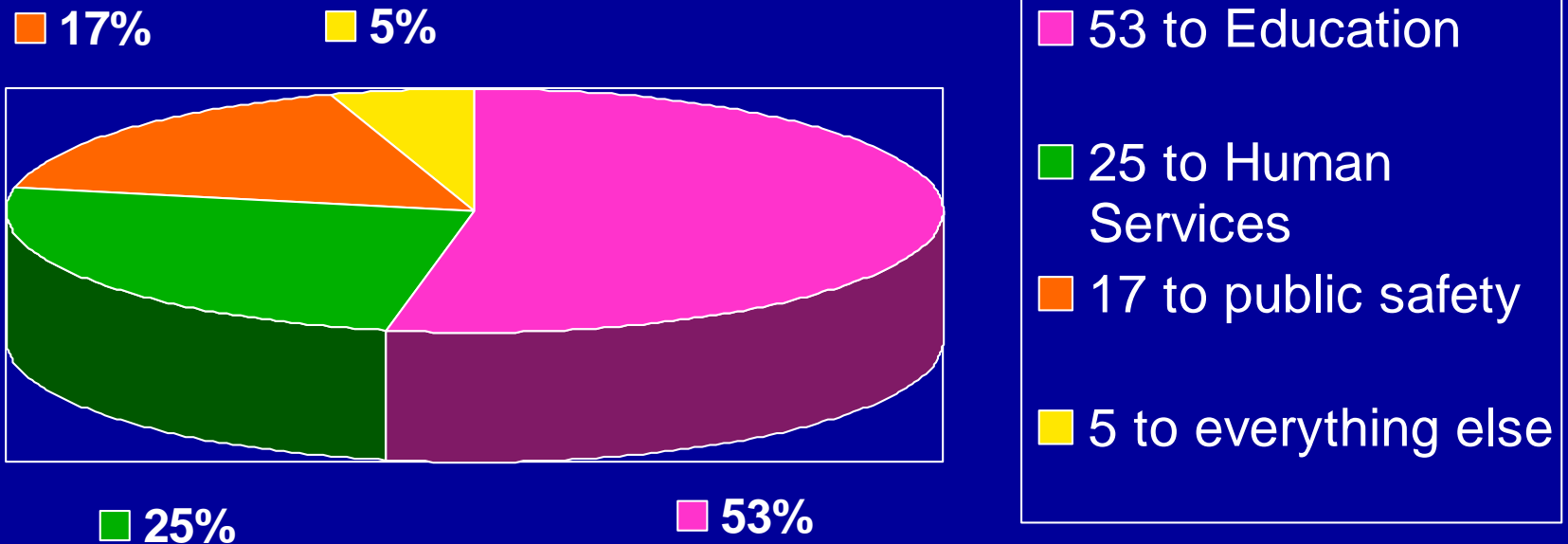
*The effective tax rate is what is actually paid on gross income after deductions, subtractions and credits.*

# The Personal Income Tax is the largest part of the state General Fund

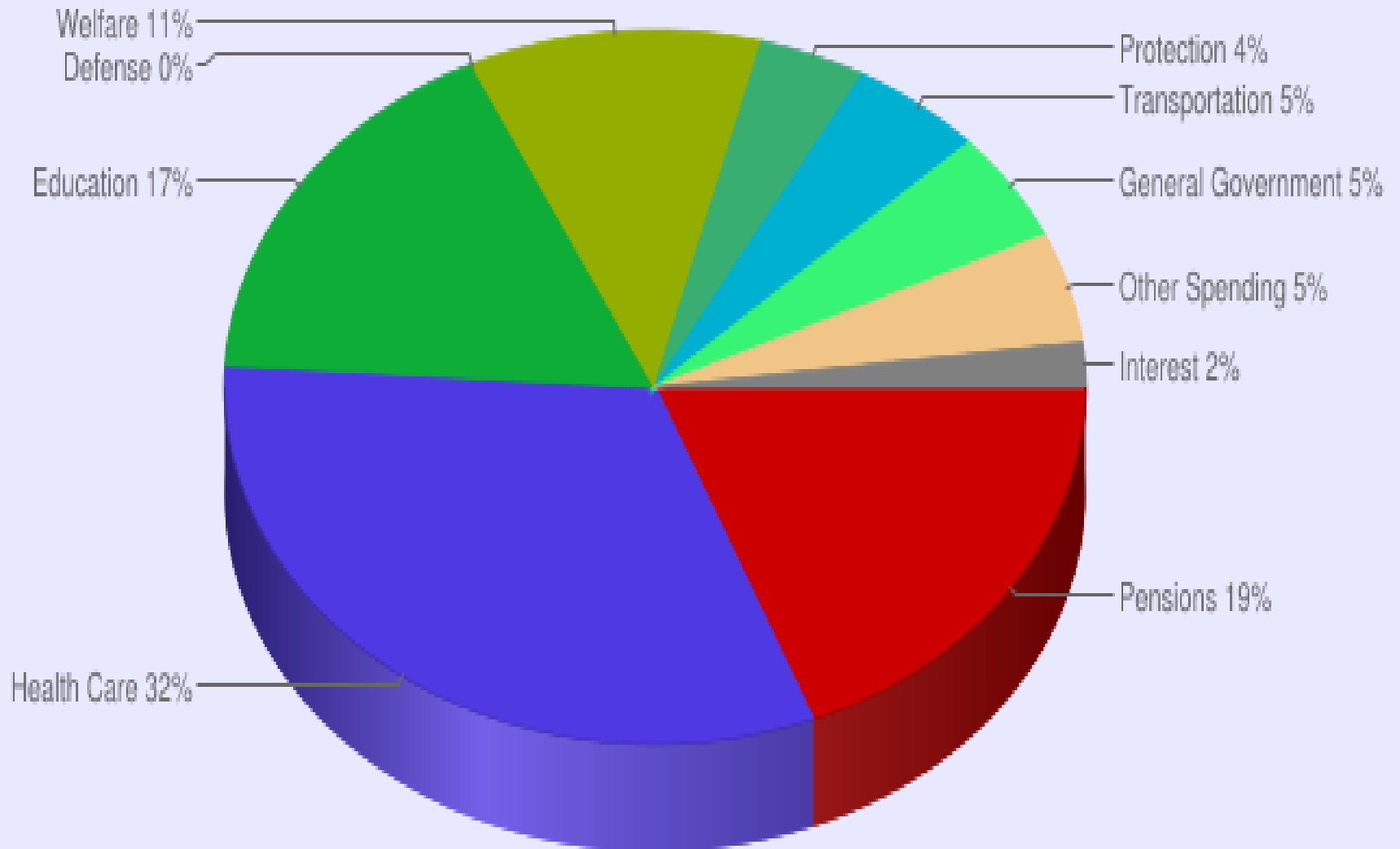
State Revenue for Oregon - FY 2018



# Where Do Income Taxes Go?



# State Spending for Oregon - FY 2018



# Ballot Measure 5

## shifted most school funding

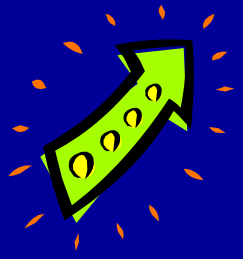
*From local property taxes to the*

*State income tax*

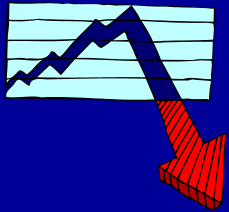
- Before Measure 5, 70% of school funding came from **local property taxes**.
- After Measure 5, 70% of school funding comes from the **State General Fund**
- Major school funding **decisions** are now **made by** the **legislature** instead of local districts.



# Income tax receipts went up sharply, then down



Incomes in Oregon went up in the '90s as Measure 5 was phasing in. Higher income taxes made up for lower property taxes.



Incomes dropped with multiple recessions.



Budget problems for almost 30 years were, in part, a delayed reaction to Measure 5.

# And:

No other state in the nation is more reliant on a single tax than Oregon is on the income tax.

# Part 2

**How would  
I know a  
good tax if I  
saw one?**

# Criteria for Evaluating Taxes

- **Adequate**

Does it provide enough revenue?

- **Stable**

Does it change from year to year?

- **Equitable**

Is it Fair?

# Equity

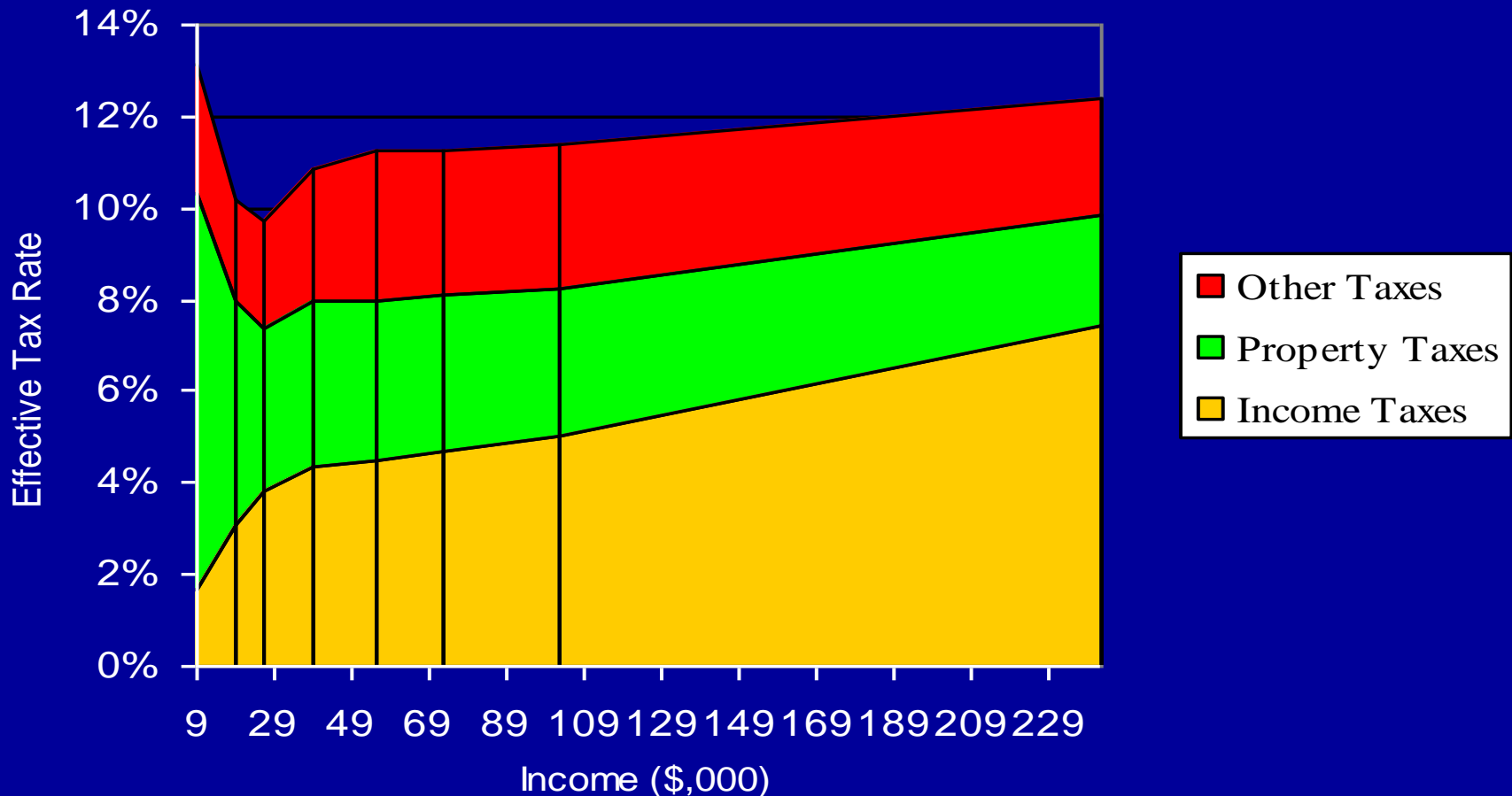
## What makes a tax fair?

Different people have different ideas about fairness.

- **Progressive:** Rate of taxation increases as income increases
- **Flat:** Rich and poor pay same rate
- **Regressive:** Poor pay a higher percentage of income for taxes than more affluent.

# OREGON'S TAX BURDEN:

## WHO PAYS STATE & LOCAL TAXES?



# Oregon State & Local Taxes in 2015

Details, Tax Code Features, & Tax Code Changes Enacted in 2013 & 2014

Income Group	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Top 20%		
					Next 15%	Next 4%	TOP 1%
Income Range	Less than \$19,000	\$19,000 – \$34,000	\$34,000 – \$55,000	\$55,000 – \$89,000	\$89,000 – \$172,000	\$172,000 – \$371,000	\$371,000 or more
Average Income in Group	\$11,200	\$26,400	\$43,500	\$70,200	\$117,300	\$240,200	\$952,600
<b>Sales &amp; Excise Taxes</b>	<b>2.0%</b>	<b>1.4%</b>	<b>1.0%</b>	<b>0.8%</b>	<b>0.5%</b>	<b>0.3%</b>	<b>0.1%</b>
General Sales—Individuals	—	—	—	—	—	—	—
Other Sales & Excise—Ind.	1.7%	1.2%	0.8%	0.6%	0.4%	0.2%	0.1%
Sales & Excise on Business	0.2%	0.2%	0.2%	0.1%	0.1%	0.0%	0.0%
<b>Property Taxes</b>	<b>4.2%</b>	<b>2.9%</b>	<b>2.3%</b>	<b>2.9%</b>	<b>2.7%</b>	<b>2.3%</b>	<b>1.5%</b>
Property Taxes on Families	4.1%	2.7%	2.1%	2.7%	2.4%	1.8%	0.8%
Other Property Taxes	0.1%	0.2%	0.2%	0.2%	0.3%	0.5%	0.7%
<b>Income Taxes</b>	<b>2.0%</b>	<b>3.1%</b>	<b>4.7%</b>	<b>4.9%</b>	<b>5.5%</b>	<b>6.2%</b>	<b>6.6%</b>
Personal Income Tax	2.0%	3.1%	4.7%	4.9%	5.4%	6.1%	6.5%
Corporate Income Tax	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%	0.2%
<b>Total Taxes</b>	<b>8.1%</b>	<b>7.3%</b>	<b>7.9%</b>	<b>8.6%</b>	<b>8.6%</b>	<b>8.7%</b>	<b>8.2%</b>
<i>Federal Deduction Offset</i>	—	–0.0%	–0.3%	–0.7%	–1.4%	–1.4%	–1.8%
<b>OVERALL TOTAL</b>	<b>8.1%</b>	<b>7.3%</b>	<b>7.6%</b>	<b>7.8%</b>	<b>7.2%</b>	<b>7.4%</b>	<b>6.5%</b>

Note: Table shows detailed breakout of data on previous page.

## Oregon Tax Code Features

### Progressive Features

- Graduated personal income tax structure
- Income tax brackets, standard deduction, and “exemption” credit indexed to inflation
- Provides an 8 percent refundable Earned Income Tax Credit (EITC)
- Provides a refundable property tax “circuit breaker” credit for renters via the personal income tax
- No statewide sales tax
- Requires the use of combined reporting for the corporate income tax

### Regressive Features

- Provides a limited income tax deduction for federal income taxes paid
- Fails to provide a property tax “circuit breaker” credit for low-income homeowners

Note: In 2020, Oregon now has a gross receipts tax for some businesses, which is considered regressive.

## Tax Changes Enacted in 2013 & 2014

- Earned Income Tax Credit increased from 6 to 8 percent
- Personal Exemption credit fully phased-out for upper-income taxpayers
- Elderly medical expense deduction narrowed and capped
- An alternative lower rate structure for pass-through business income now allowed
- 15 cent cigarette tax increase.
- Corporate income tax rate increased

# Washington State & Local Taxes in 2015

#1 of the Terrible 10

## Details, Tax Code Features, & Tax Code Changes Enacted in 2013 & 2014

Income Group	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Top 20%		
					Next 15%	Next 4%	TOP 1%
Income Range	Less than \$21,000	\$21,000 – \$40,000	\$40,000 – \$65,000	\$65,000 – \$103,000	\$103,000 – \$197,000	\$197,000 – \$507,000	\$507,000 or more
Average Income in Group	\$11,900	\$30,300	\$52,800	\$82,200	\$135,300	\$289,100	\$1,517,800
<b>Sales &amp; Excise Taxes</b>	<b>12.6%</b>	<b>9.4%</b>	<b>7.6%</b>	<b>6.1%</b>	<b>4.6%</b>	<b>2.9%</b>	<b>1.6%</b>
General Sales—Individuals	3.8%	3.1%	2.7%	2.2%	1.7%	1.1%	0.6%
Other Sales & Excise—Ind.	3.9%	2.6%	2.0%	1.6%	1.1%	0.7%	0.3%
Sales & Excise on Business	4.8%	3.6%	2.9%	2.3%	1.7%	1.1%	0.7%
<b>Property Taxes</b>	<b>4.3%</b>	<b>2.4%</b>	<b>2.6%</b>	<b>2.7%</b>	<b>2.5%</b>	<b>2.2%</b>	<b>1.2%</b>
Property Taxes on Families	4.2%	2.3%	2.5%	2.6%	2.4%	1.8%	0.6%
Other Property Taxes	0.1%	0.1%	0.1%	0.1%	0.1%	0.3%	0.6%
<b>Income Taxes</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.0%</b>
Personal Income Tax	—	—	—	—	—	—	—
Corporate Income Tax	—	—	—	—	—	—	—
<b>Total Taxes</b>	<b>16.8%</b>	<b>11.7%</b>	<b>10.3%</b>	<b>8.8%</b>	<b>7.1%</b>	<b>5.0%</b>	<b>2.8%</b>
<i>Federal Deduction Offset</i>	<i>-0.0%</i>	<i>-0.0%</i>	<i>-0.2%</i>	<i>-0.3%</i>	<i>-0.4%</i>	<i>-0.4%</i>	<i>-0.3%</i>
<b>OVERALL TOTAL</b>	<b>16.8%</b>	<b>11.7%</b>	<b>10.1%</b>	<b>8.5%</b>	<b>6.6%</b>	<b>4.6%</b>	<b>2.4%</b>

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## Washington Tax Code Features

### Progressive Features

- Sales tax base excludes groceries

### Regressive Features

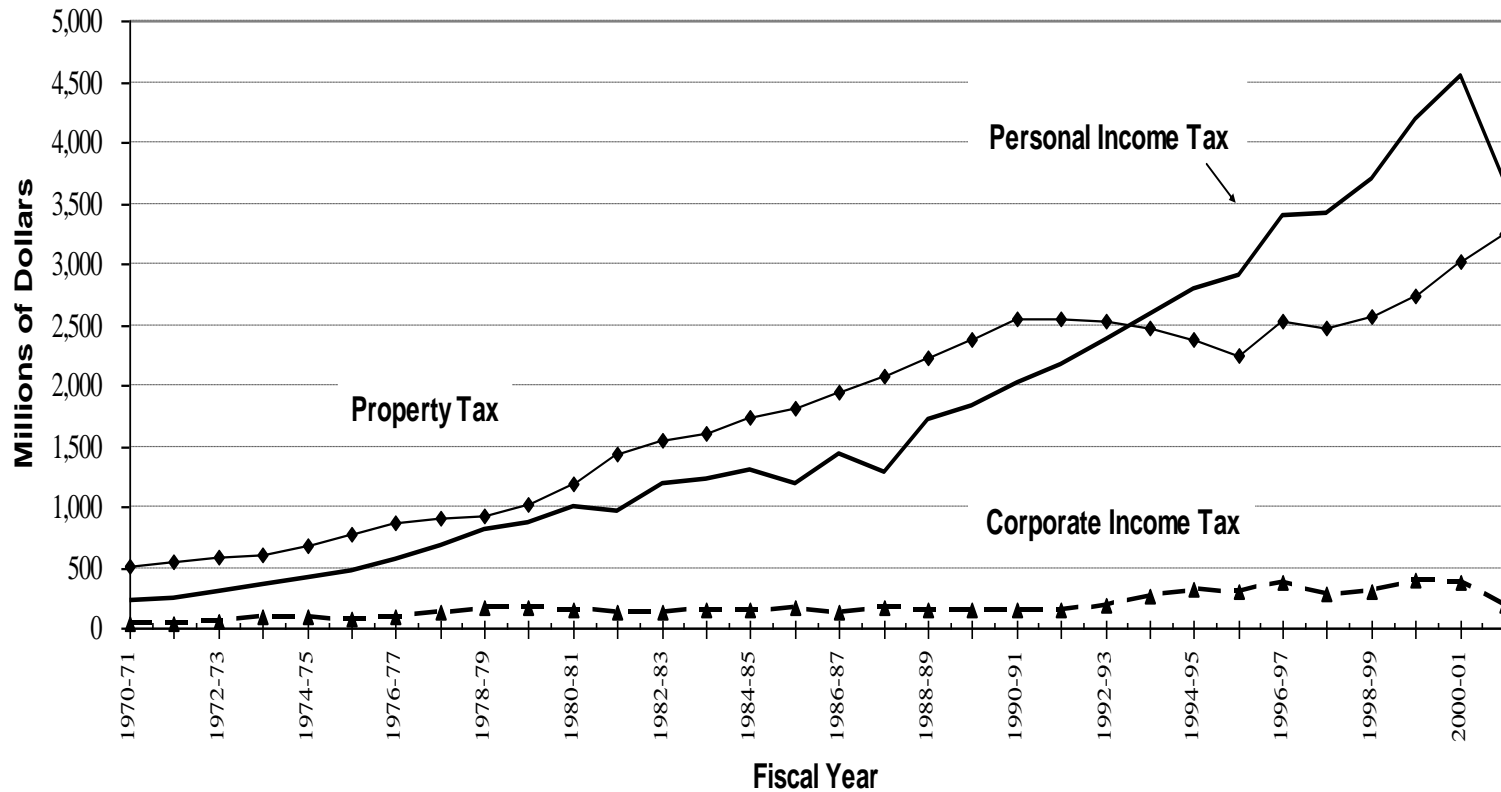
- No personal income tax
- Imposes a gross receipts tax in lieu of a corporate profits tax
- Enacted a refundable Earned Income Tax Credit, but lawmakers have failed to provide funding for the credit,



# Shift of tax burden from business to households and back

- Oregon once ranked second from the bottom of the 50-state pack with business taxes as a share of gross state product of 3.6 percent. Connecticut was 3.5 percent. (Statesman Journal, July 2017)
- With the passage of the Student Success Act, Oregon has moved closer to the middle of the states, in terms of business taxes.

## Oregon Income and Property Taxes



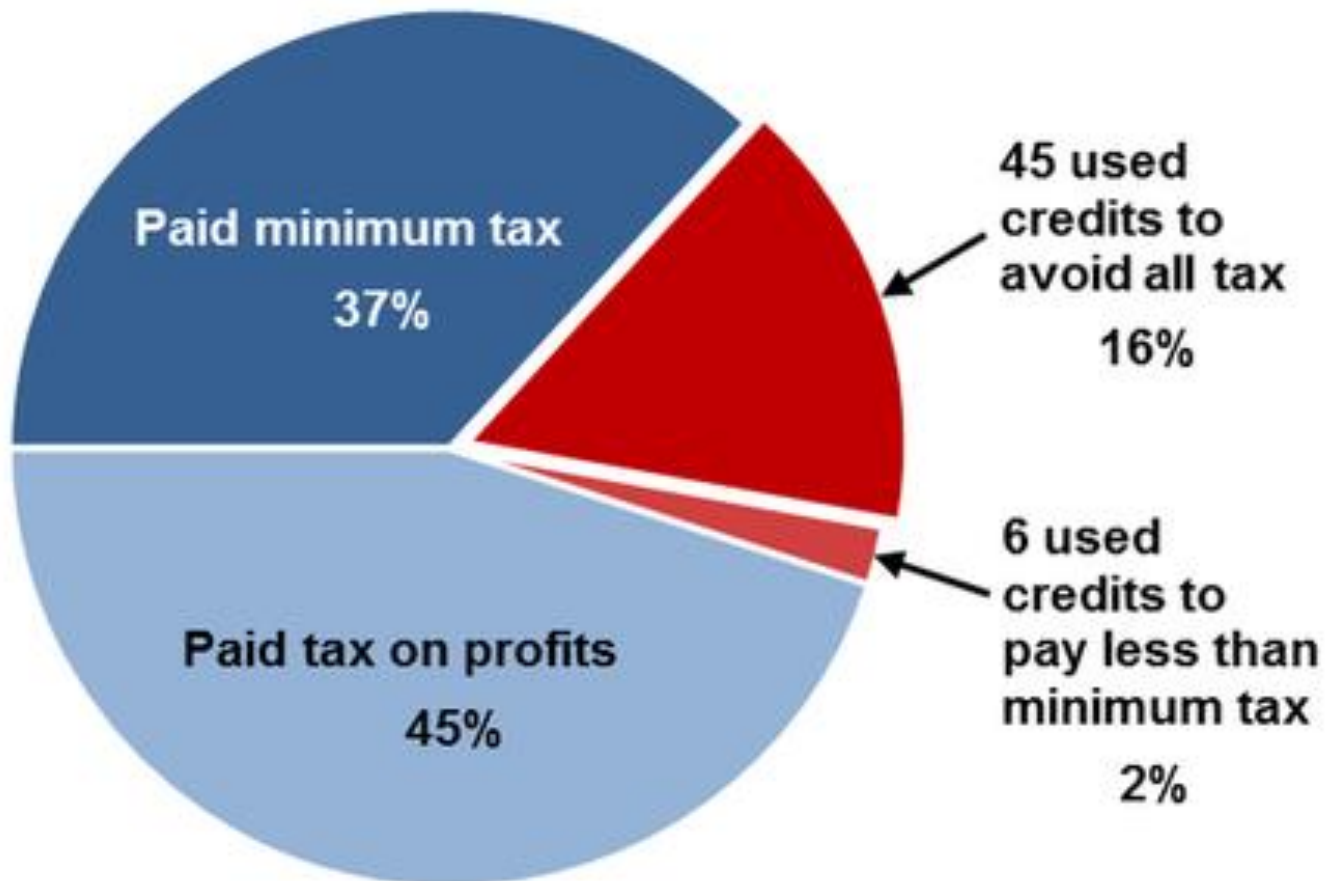
**Personal income tax revenue surpassed property tax revenue around 1992. Revenue from corporate taxes saw far slower rises and makes up a far smaller portion of state revenue.**

- Oregon small businesses pay no sales tax, unlike their counterparts in 45 other states.
- The state's per capita income tax collections are in the middle, the 24th highest in the nation—but other states use sales tax.

- The Tax Foundation's 2017 business tax climate index placed Oregon among the 10 most competitive states in the nation because of the lack of a sales tax and lower business property taxes.
- Oregon is one of a handful of states where businesses get more than they pay for -- \$1 of benefit for every 80 cents of taxes businesses pay. (Council on State Taxation (COST))

## Nearly 1 in 5 corporations with \$100 million or more in Oregon sales paid less than minimum

(Share of 280 corporations with \$100 or more in Oregon sales in tax year 2012)



Source: OCPP analysis of Department of Revenue data.

# 2019 Student Success Act

- In 2019, the legislature referred to the ballot the Student Success Act. This new law enacted a Corporate Activity “Gross receipts tax” on businesses with more than \$1 million in annual sales. The money raised will provide up to \$2 billion per biennium to schools and early education programs, for expanded electives, class size reduction, extracurricular programs.

# HOW DOES OREGON MEASURE UP?

- **Not adequate** to pay for the public services that Oregonians want, but the situation has improved.
- **Not very stable** – vulnerable to fluctuations in the economy, inadequate rainy day fund, too dependent on the income tax.
- **Relatively flat** with room for improving fairness.



# Part 3

**What are the  
problems?**



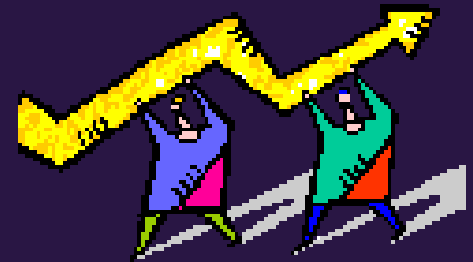
# What are the problems?

1. Increased demand for services
2. Increased costs
3. Concerns about government waste

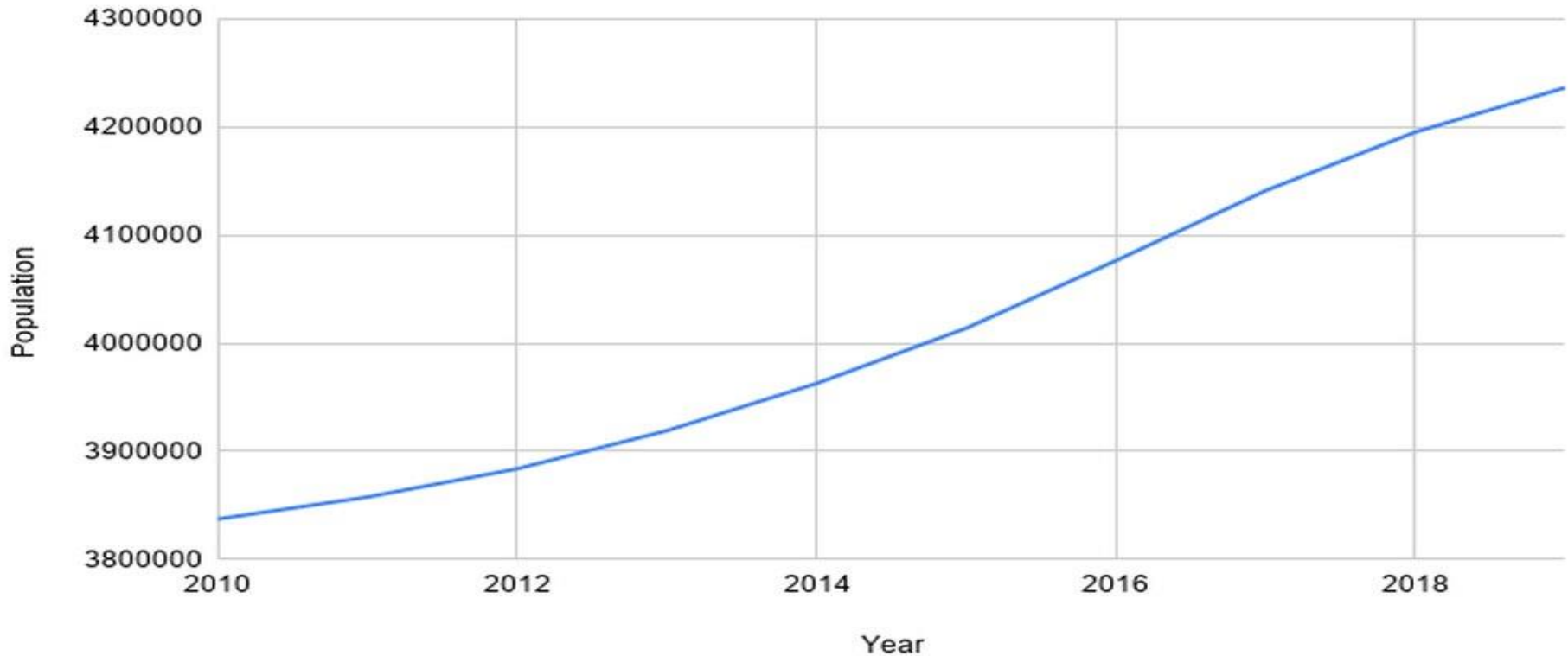


# Why is there increased demand for services?

- Population Growth
- Fluctuating Unemployment
- Mandated Services
  - *Voter approved*
  - *State legislature*
  - *Federal laws*

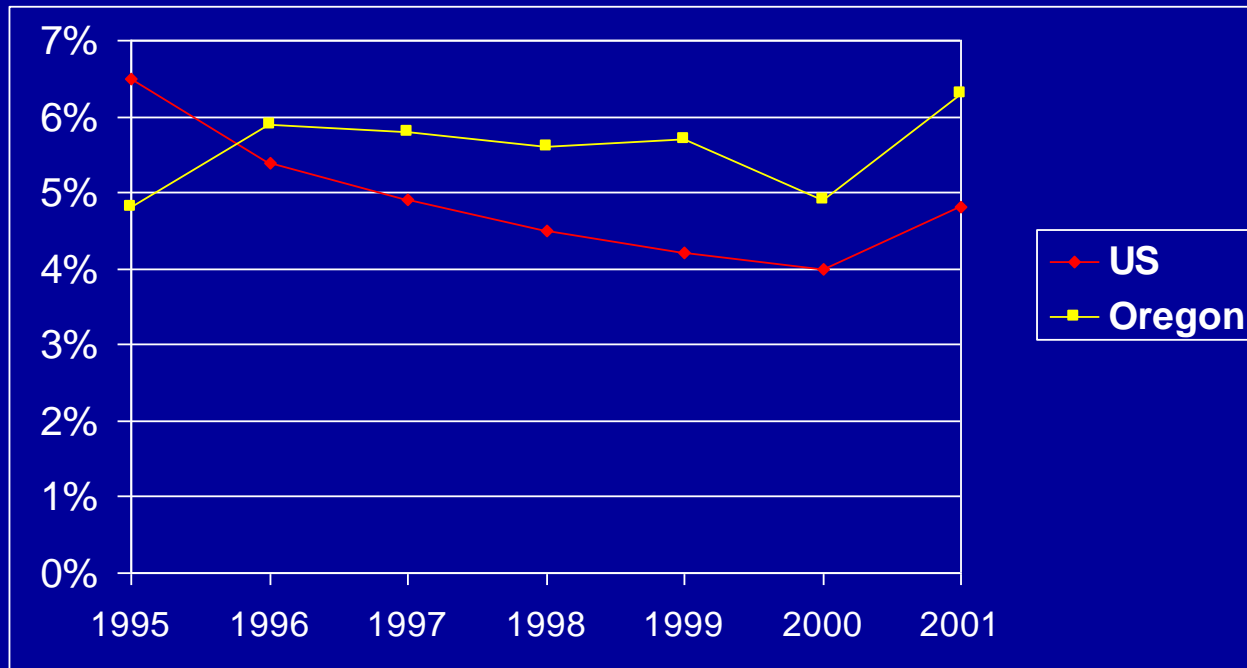


## Oregon's population per year



Oregon's population growth rate is slightly more than the national growth rate and the population grew 9.2% between 2010 and 2018, a slower growth than previous decades.

# Increasing Unemployment



- Oregon once had the highest unemployment in the nation, and will experience broad fluctuations in the next economic downturn.
- Increasing unemployment means higher demand for services AND lower income tax collections.

# Mandated services

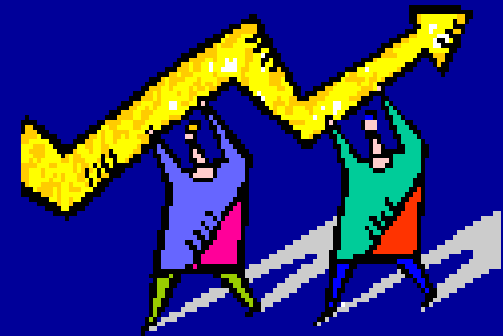
- Increased expenses from Federally mandated requirements in:
  - *Special Education -IDEA*
  - *Elementary and Secondary Education Act*
  - *Americans with Disabilities Act*
- Increased prison population because of Ballot Measure 11 requiring longer prison sentences. However, recent legalized drug laws will reduce the prison population, saving millions for Oregon.

# Why are costs going up?

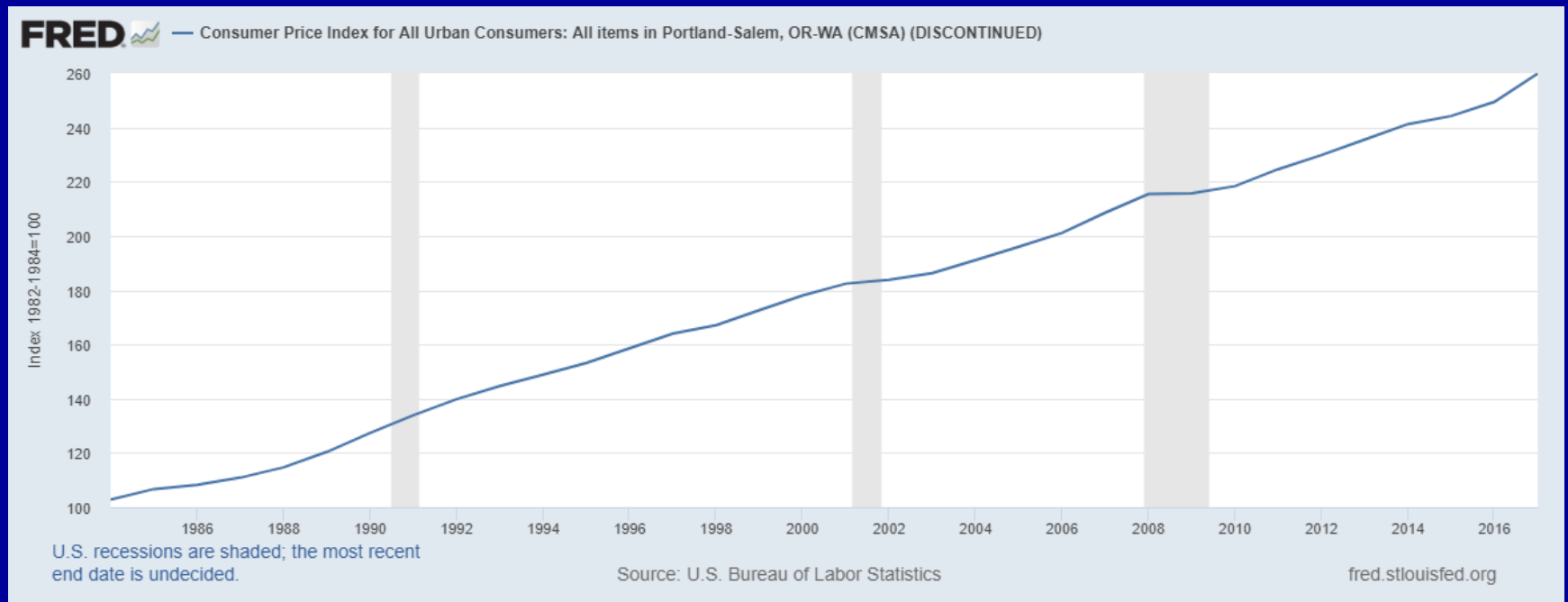
1. General Inflation

2. Healthcare Inflation

3. Increased Public  
Employee Pension Costs



# CPI Inflation 1990 - 2002



**CPI increased 44.4% from 2000-2016,**

**But MEDICAL COSTS are increasing at 7.5% PER YEAR,  
almost 3 times faster than CPI.**

# Increased Pension Costs

- The Public Employee Retirement System (PERS) is funded by employer contributions, employee contributions and earnings on investments.
- The stock market has fallen and reduced returns on investments. Investment earnings are more than 80% of PERS income.
- State and local government payments into the fund have increased, and in 2020 public employee retirements started paying taxes into the system, to keep it solvent.



**What about waste?**

**What about  
accountability?**



# What do Oregonians think?

- Public opinion polls show that Oregonians believe that government wastes a lot of money.
- But, waste means different things to different people.

# When you say “waste” you are saying that government has a problem with...

- **Priorities** - Doing the wrong things
- **Crime** - Stealing.
- **Inefficiency** - Spending too much to do the right things.
- **Mistakes** - Spending money on things that don't work.

**Different accountability tools are good for fighting different kinds of waste.**

# What are the tools of accountability and waste prevention in Oregon?

- Audits
- Budget processes
- Citizen advisory groups
- Quality improvement efforts



# What works to prevent waste?

- Increased **participation** in budget hearings and citizen advisory groups can improve accountability and prioritization.
- **Audits** and **quality improvement** teams can improve efficiency and reduce mistakes.
- Audits and **law enforcement** can stop crimes.
- **BUT, not all mistakes can be prevented and priorities will always be controversial.**

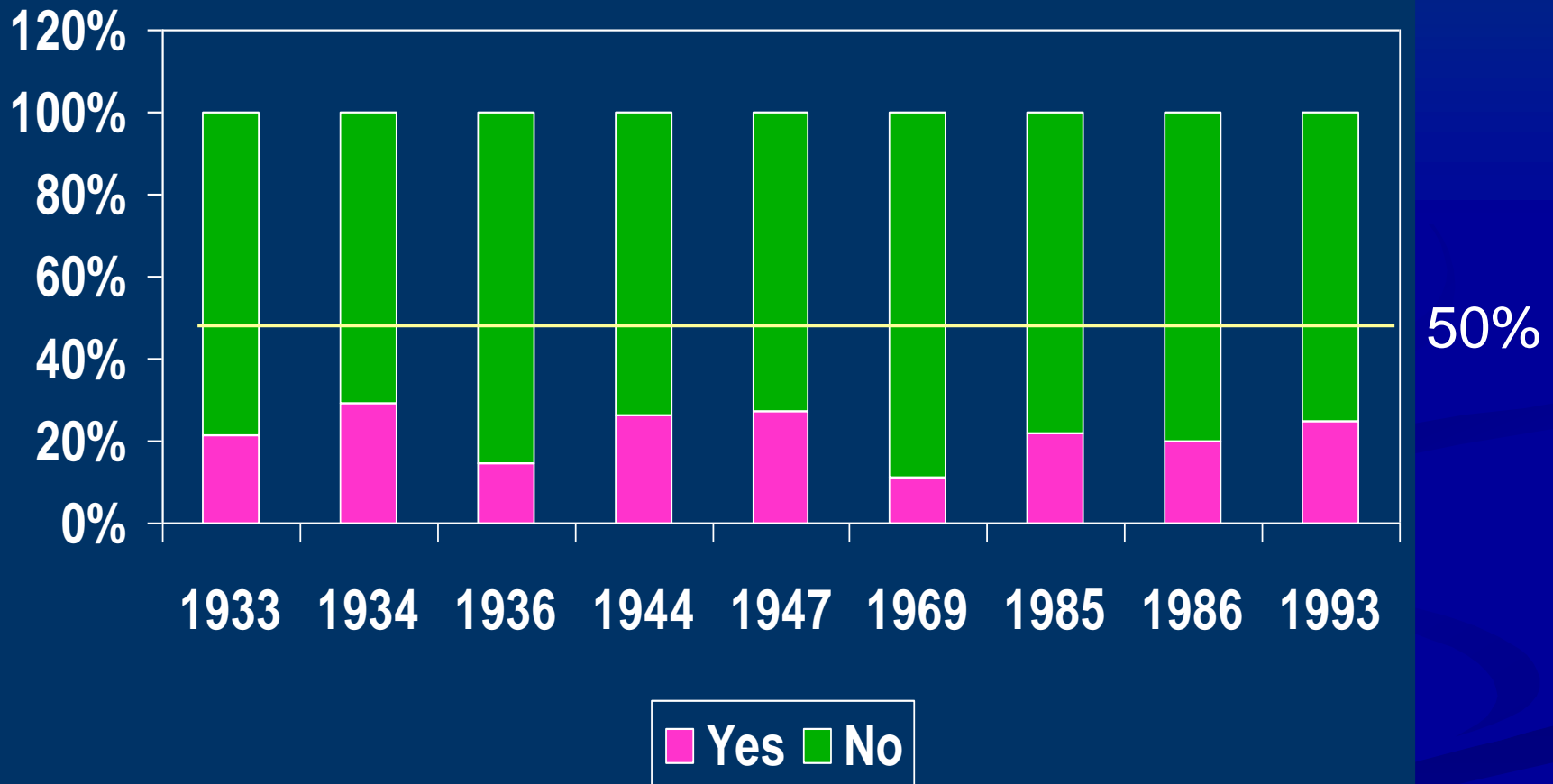
# Part 4

How can we  
improve  
Oregon's  
Future?

# Change doesn't come easily

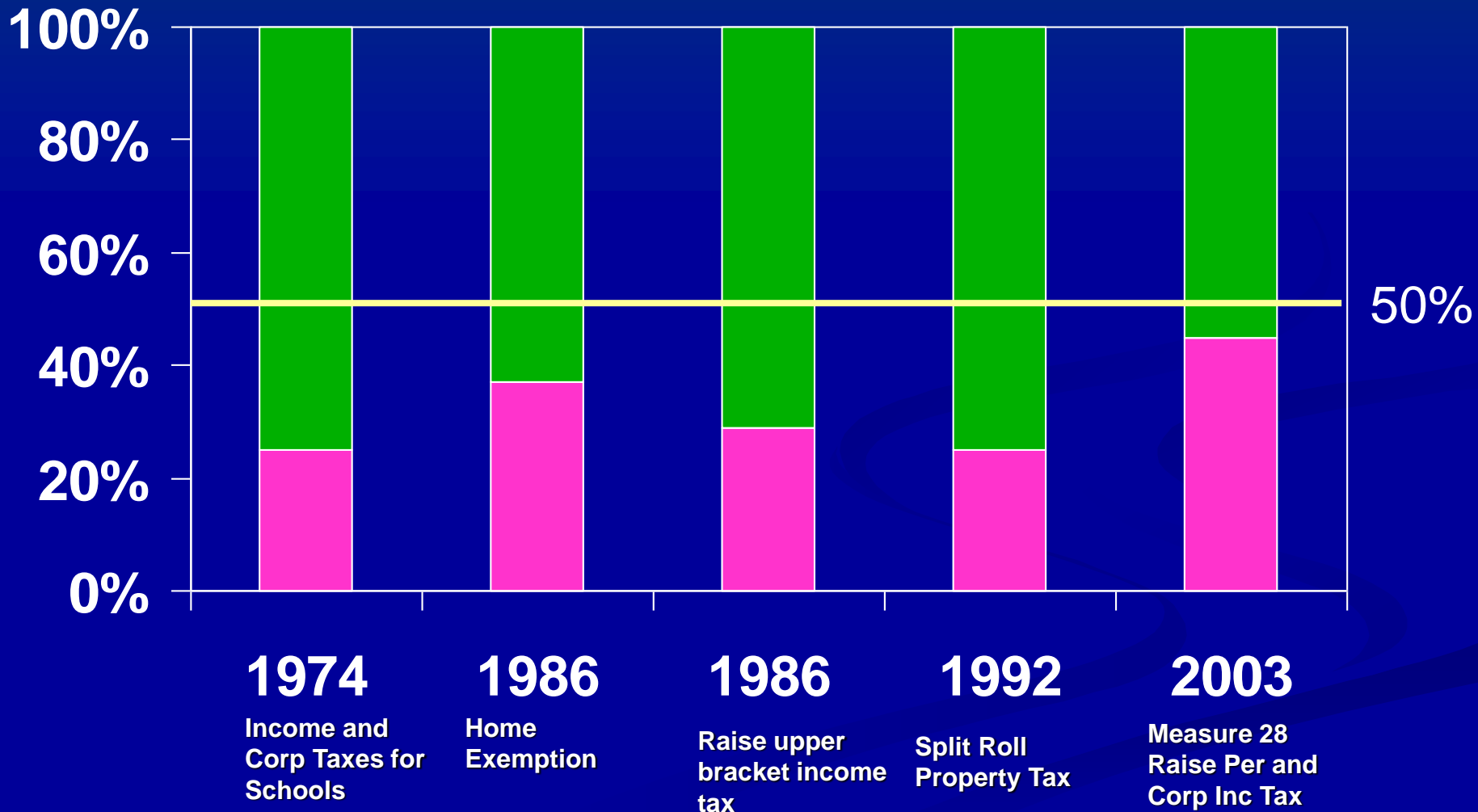
In the past, Oregonians  
have rejected tax reform  
measures by huge margins.

# Oregon Votes on a Sales Tax





# Votes on Tax Measures



# Change is happening, after many years of struggle.

- The emerging consensus from all groups has been that Oregon needs to invest in education of Oregon children.
- People still disagree about where that money should be invested.

# There are always proposals in legislative sessions.

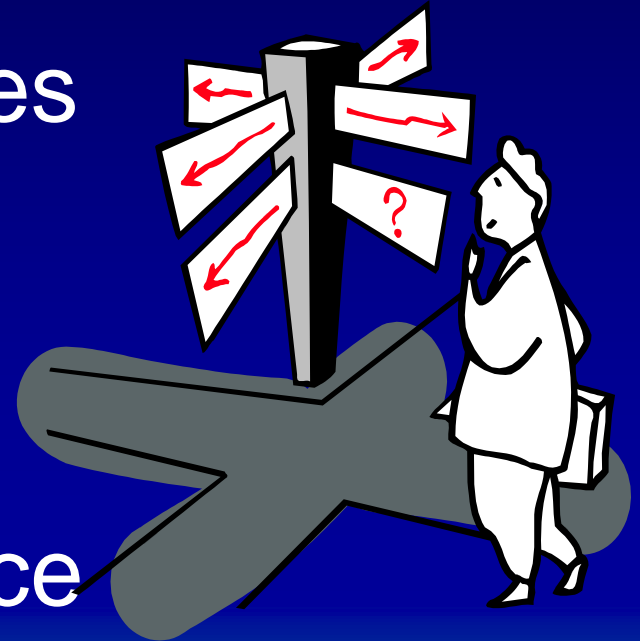
- Proposals to cut some taxes and raise others.
- Proposal for tax cuts to stimulate the economy.

# There ARE choices

- Voters need to analyze Oregon's choices and their own personal values.
- Organizations need to help create opportunities for discussions.

# Some tax reform options:

1. Income tax changes
2. Property tax changes
3. Create a sales tax
4. Create a business activity tax
5. Cut taxes and reduce services



# Income tax changes

A new 10% bracket for joint incomes over \$100,000 would raise **\$250.3 million per biennium**

*Pros: Progressive*

*Cons: Least stable (without a substantial reserve in “rainy day” fund)*

# Property tax changes

Change the \$5 per thousand limit on schools to \$6 - **\$439 million per biennium**

*Pros: Most stable*

*Cons: Regressive (unless tied to relief for low income homeowners and renters)*

*May require complex Constitutional changes*

# Create a Sales Tax

Using a base like the one in Washington State would raise about *\$1.47 billion per biennium* for each 1% of tax.

*Pros:* *It can generate a lot of money*  
*Some tax payers prefer “pay as you go”*

*Cons:* *Regressive*  
*Requires new collection system*  
*Oregonians have repeatedly rejected it*  
*Not deductible on Federal income taxes*



# Create a Business Activity Tax

A 0.1% Oregon tax on gross receipts of almost all businesses (modeled on Washington's tax) would raise **\$489.3 million per biennium**

*Pro: Probably less regressive than sales tax  
Deductible on Federal taxes*

*Con: Unfamiliar to voters, adds taxes to small business owners, hard to get passed by voters.*

# Other Options

## Impact on 2003 – 2005 Biennium

1. Increase corporate tax rates to equal personal tax rates - **\$260 million**
2. Increase wine tax by 15¢/bottle and beer tax by 7¢/bottle - **\$120 million**
3. Cap mortgage interest deduction at \$20,000 - **\$52 million**

# Tradeoffs

- Cutting services is another solution—reducing state spending. Here are some examples of the potential trade-offs:
- Less Healthcare vs. more education
- Less education vs. more prisons
- Fewer potholes, but more forest fires

# **What is the Process for Change?**

# What about an initiative?

- Next opportunity for a vote on an initiative is November, 2021.
- Would require 100,000 signatures or more by July, 2021
- Initiatives are limited by single subject rule. Some kinds of tax changes would be very difficult.



# What can the legislature do?

- Vote on the budget.
- Change parts of the tax structure.
- Refer single subject measures to the ballot.
- Refer a multi-subject constitutional revision to the ballot.
- Choose any election day.



# What can I do now to move Oregon toward adequate funding for public services?

- Contact legislators
  - Rep. Paul Holvey, Veneta/Elmira
  - Sen. Dick Anderson, Elmira
  - Sen. Floyd Prozanski, West Lane
- Learn more about budgets and taxes
- Help others learn more