

Oregon's Revenue System

Legislative Revenue Office

March 2016

Outline

- Revenue System Overview
- Implications for Oregon's Policy Makers and Citizens
- Tax Reform in Our Future?



Fundamentals of Revenue & Taxation

1. Adequacy—Primary purpose of raising revenue is to finance public goods & services.
2. Raise revenue in an equitable way
 1. Ability to Pay
 2. Benefits Received
3. Raise revenue in a way that minimizes market distortions
 1. Exceptions: Negative Externalities, Regional Economic Development
4. Raise revenue in an administratively efficient manner



Oregon's Overall Revenue Structure

(2012-13 Fiscal Year Census Data)

State & Local Revenue Source	Oregon		All States	
	Revenue Per Capita	Revenue as % of Total	Revenue Per Capita	Revenue as % of Total
Taxes	\$3,909	45.2%	\$4,599	54.1%
Federal	\$2,309	26.7%	\$1,847	21.7%
Charges	\$1,724	19.9%	\$1,403	16.5%
Misc.	\$715	8.2%	\$651	7.7%
Total General Revenue	\$8,657	100.0%	\$8,501	100.0%

Oregon's State and Local Tax Structure

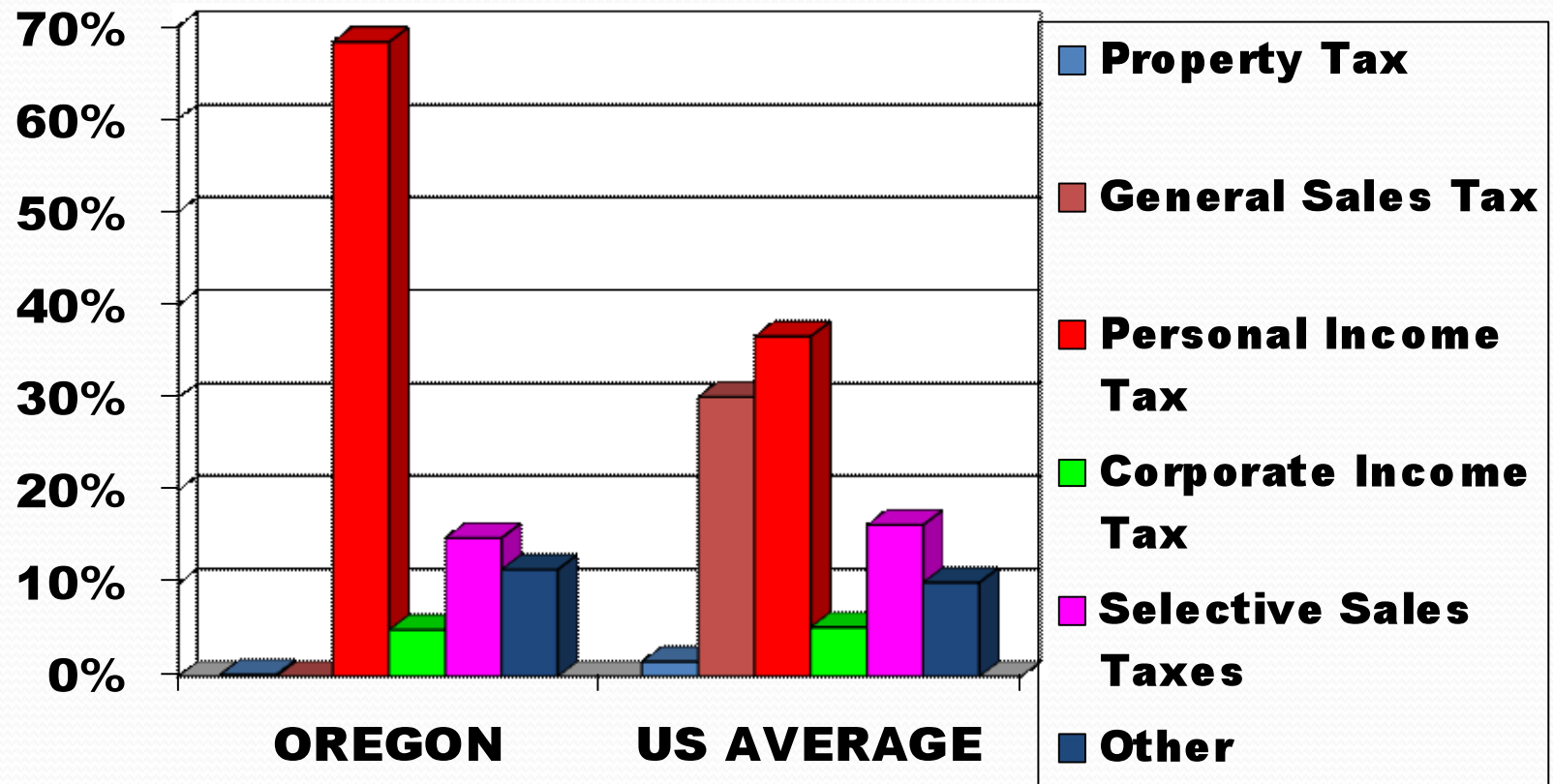
2012-13 Census	Oregon		All States	
	Per Capita	% of Income	Per Capita	% of Income
Personal Inc Tax	\$1,594	4.1%	\$1,069	2.4%
General Sales Tax	\$0	0%	\$1,033	2.4%
Property Tax	\$1,285	3.3%	\$1,439	3.3%
Corporate Inc Tax	\$132	0.3%	\$168	0.4%
Selective Sales Tax	\$453	1.2%	\$535	1.2%
Other Taxes	\$445	1.1%	\$354	0.8%
Total Taxes	\$3,909	10.1%	\$4,568	10.5%

Western State Tax Structures

2013-14 Fiscal Year	Individual Taxes as a Percentage of Total					
	Oregon	Washington	California	Nevada	Idaho	Montana
State Tax						
Personal Income Tax	68.7%	0%	49.2%	0%	36.4%	40.0%
General Sales Tax	0%	60.5%	27.0%	53.6%	37.4%	0%
Selective Sales Tax	14.9%	17.7%	9.3%	26.4%	12.2%	20.7%
Corporate Income Tax	5.1%	0%	6.4%	0%	5.2%	5.7%
Property Tax	0.2%	10.2%	1.6%	3.6%	0%	10.1%
Other Taxes	11.1%	11.6%	6.5%	16.4%	8.8%	23.5%

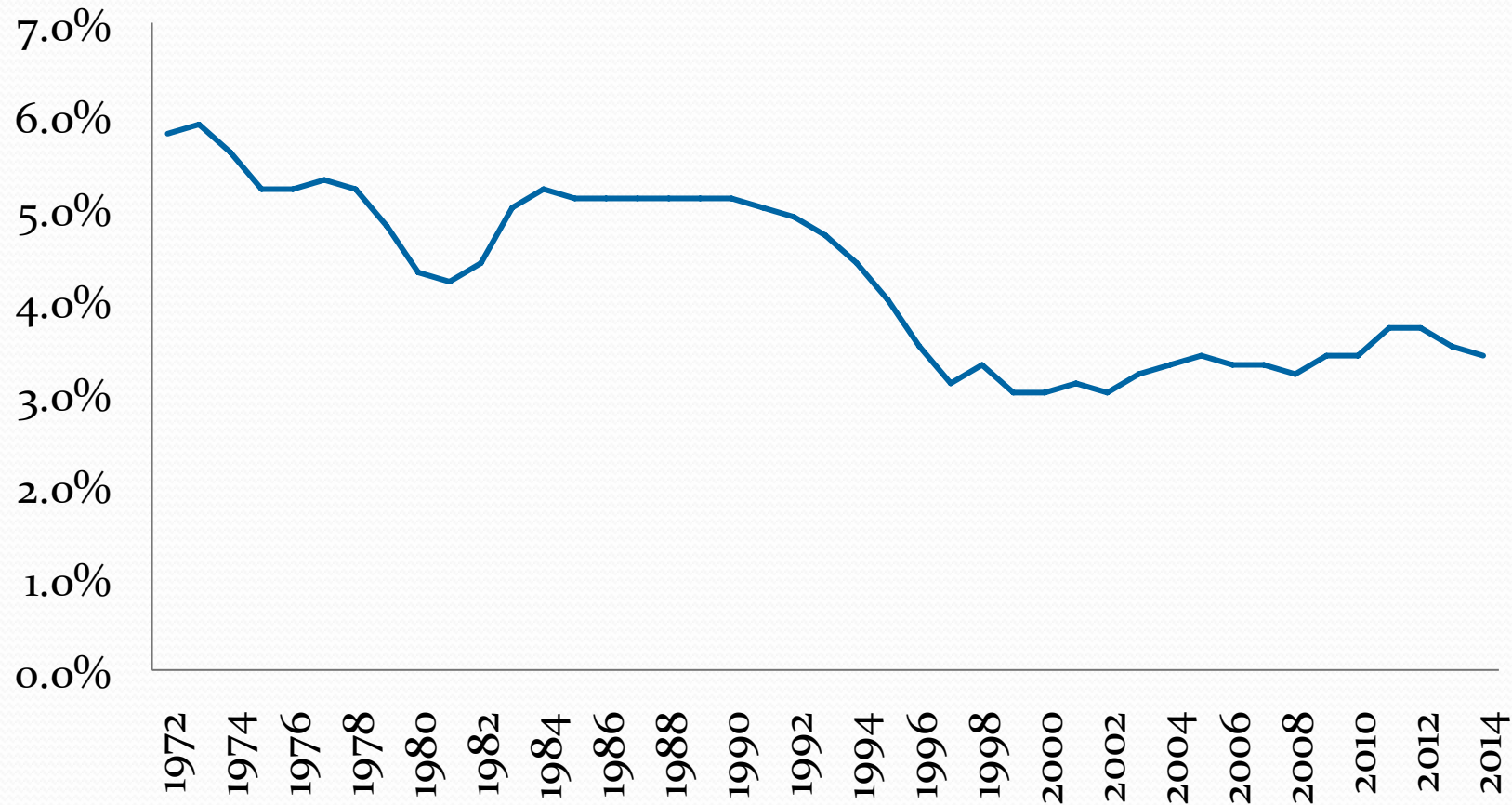
State Taxes by Source

(Percent of State Tax Collections in Fiscal Year 2013-14)



Oregon's Property Tax Burden Has Declined

(Property Taxes as a % of Personal Income)



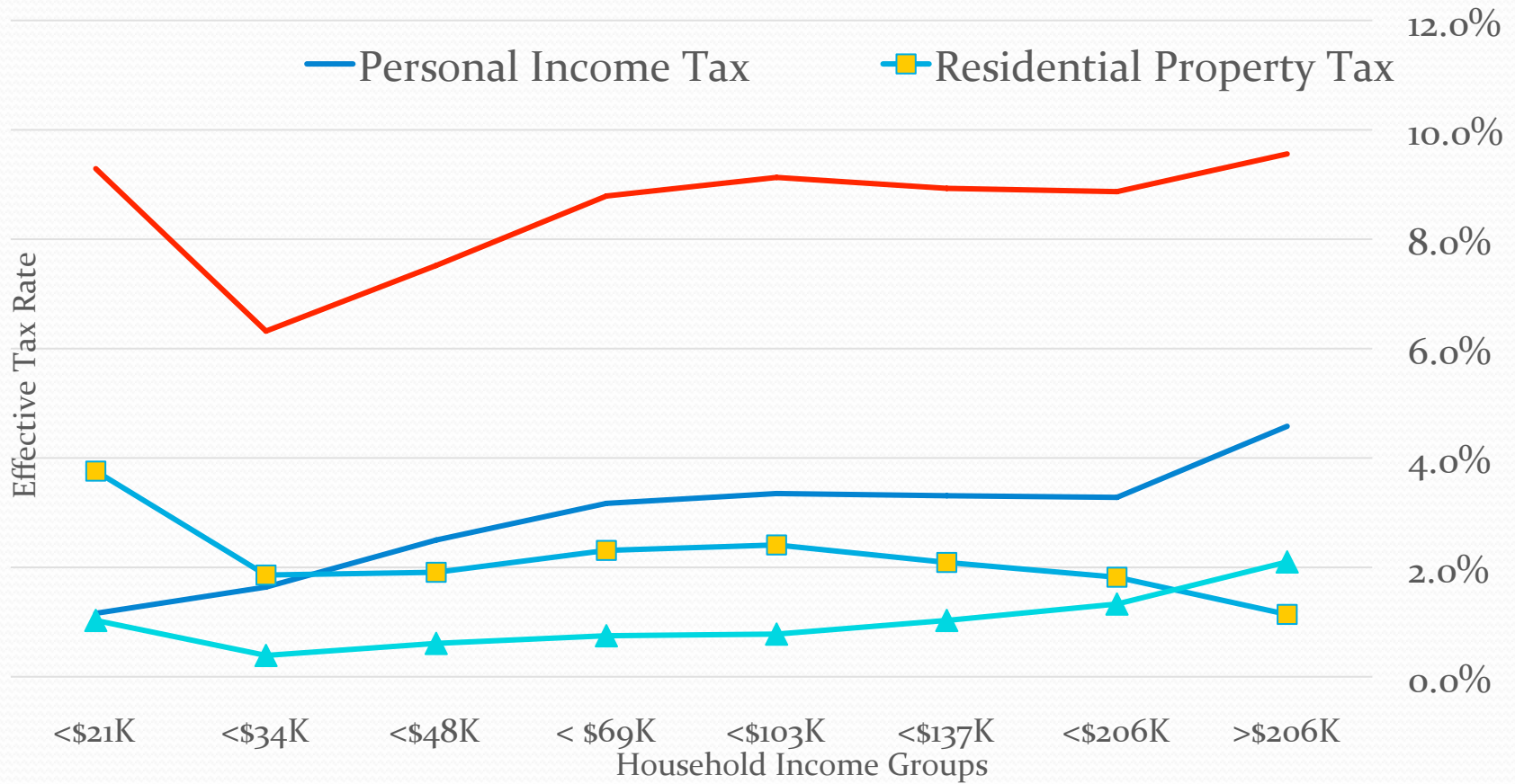
Implications for Citizens and Policy Makers

- Proportional
Distribution of Tax
Burden
- Volatility for State
Revenue
- Rigidity & Horizontal
Inequities for Local
Taxes



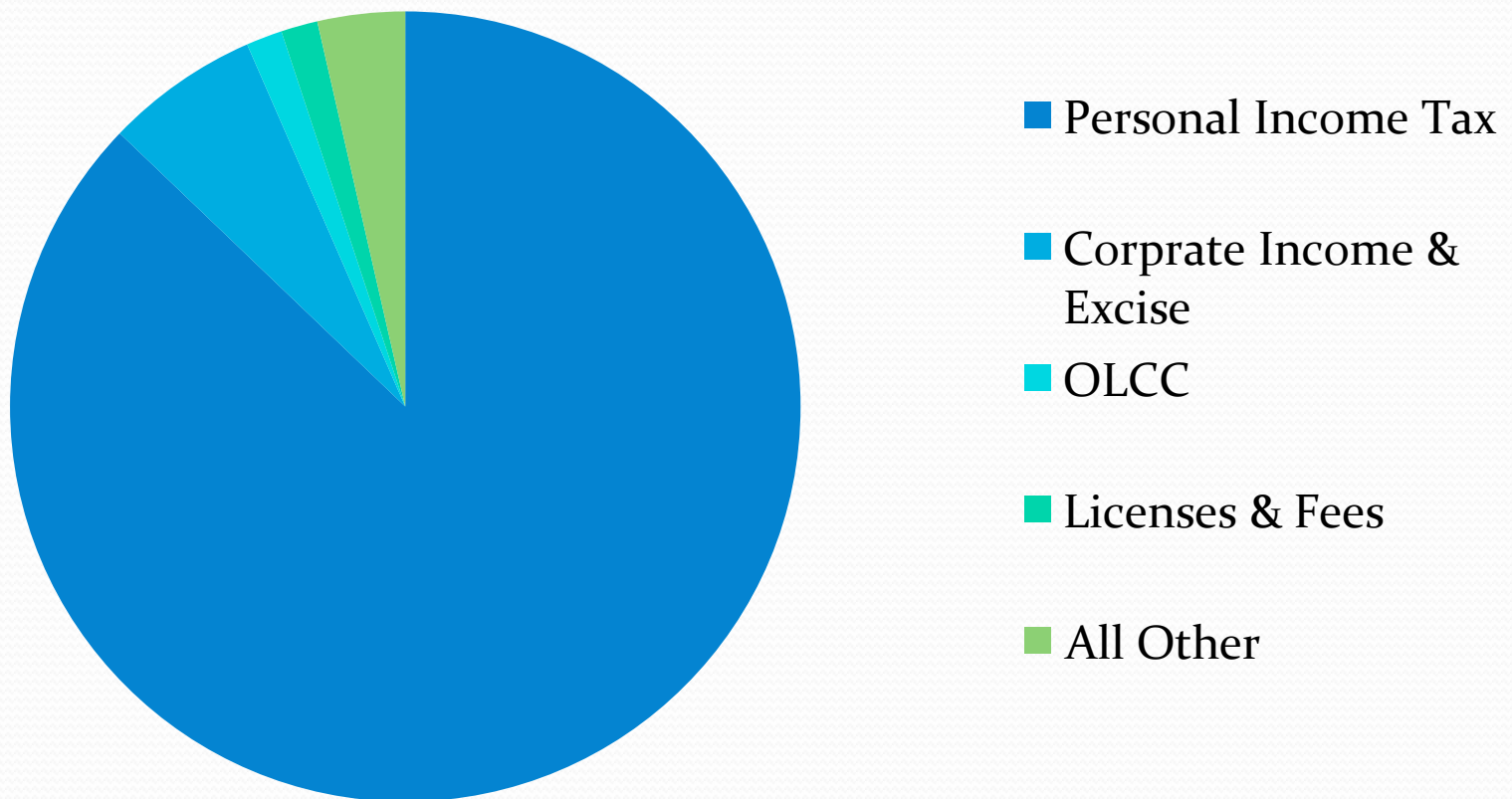
Distribution of Tax Burden for Oregon's Major Taxes

(Major Taxes Paid Directly and Indirectly Divided by Household Income)



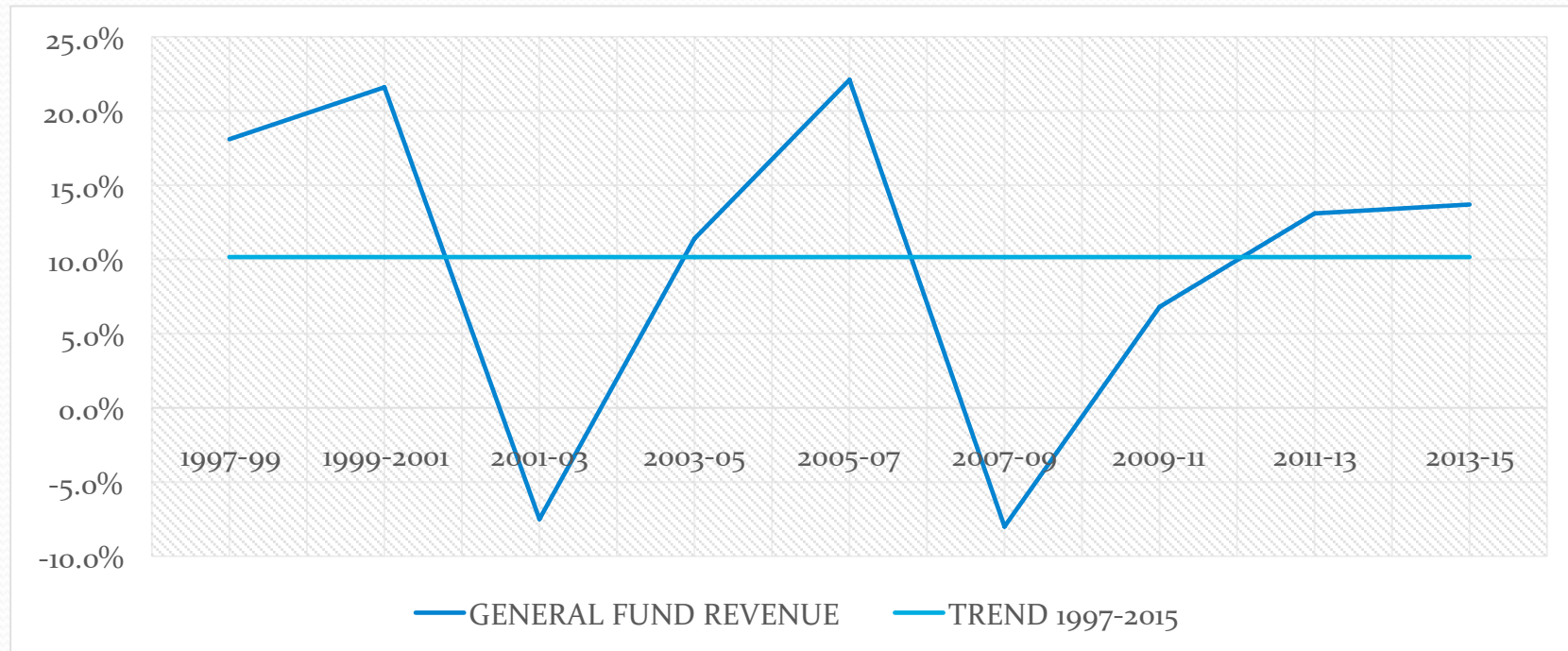
2015-17 Oregon General Fund Revenue By Source

In Millions



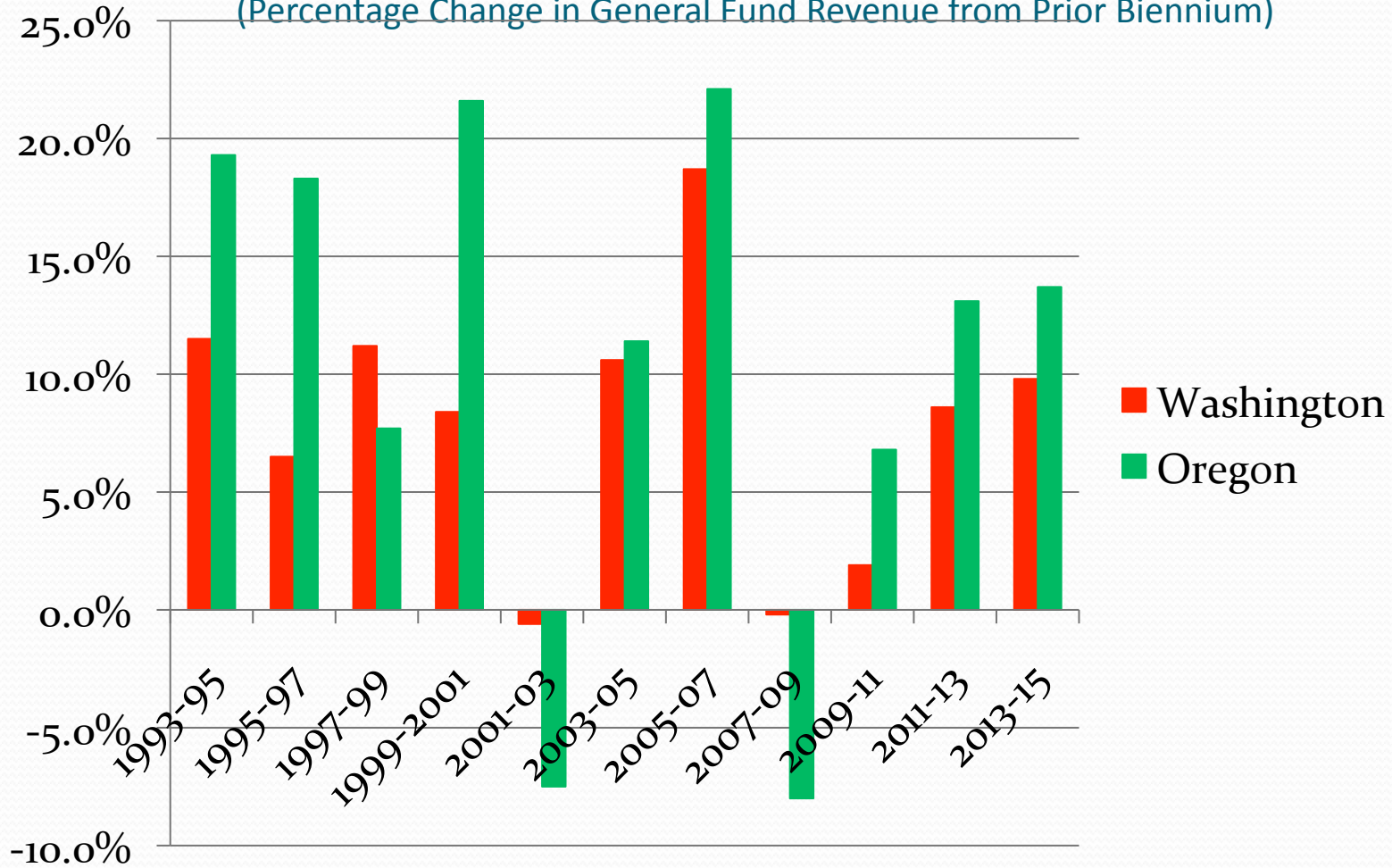
GENERAL FUND REVENUE

PERCENT CHANGE FROM PRIOR BIENNIUM

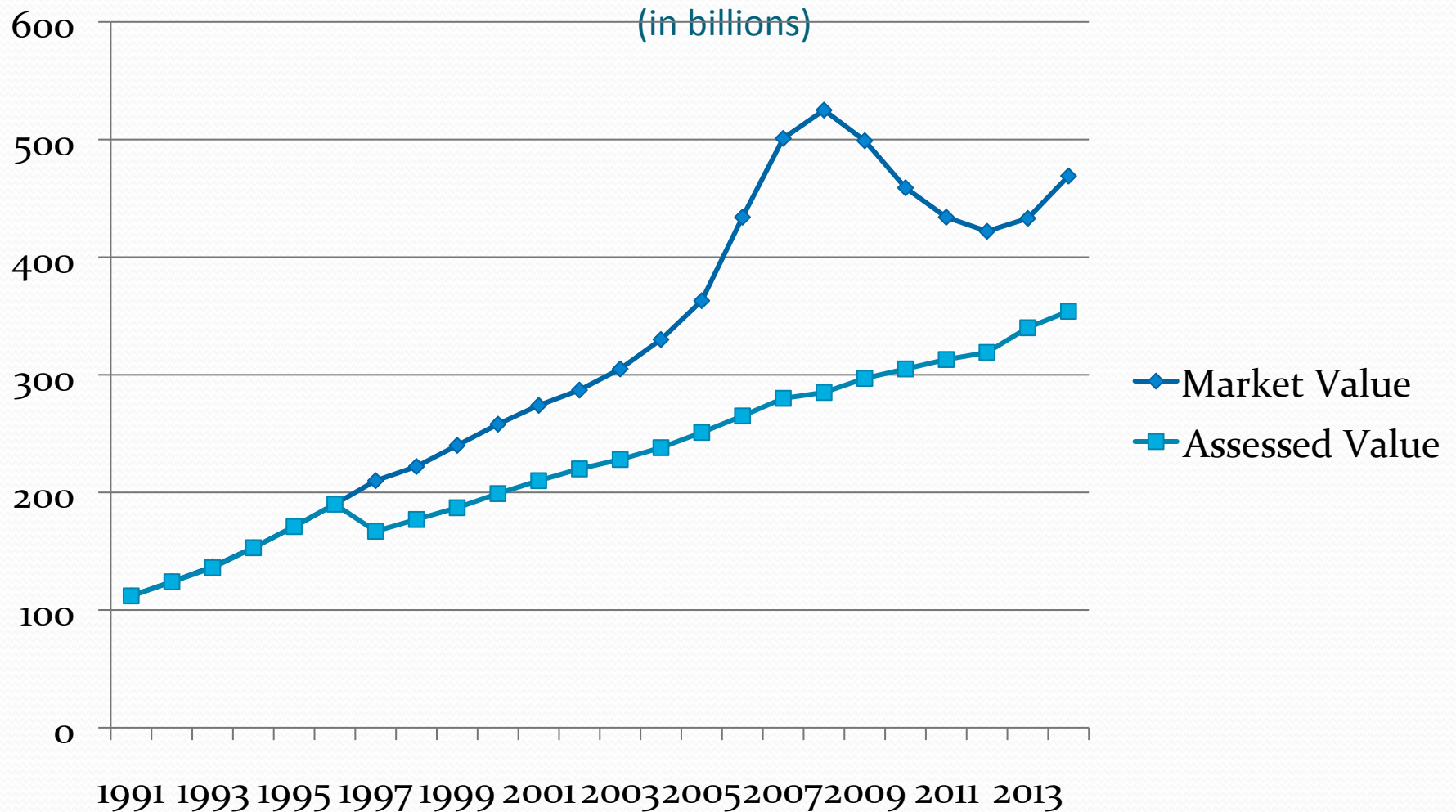


General Fund Revenue Stability Comparison: Washington vs. Oregon

(Percentage Change in General Fund Revenue from Prior Biennium)



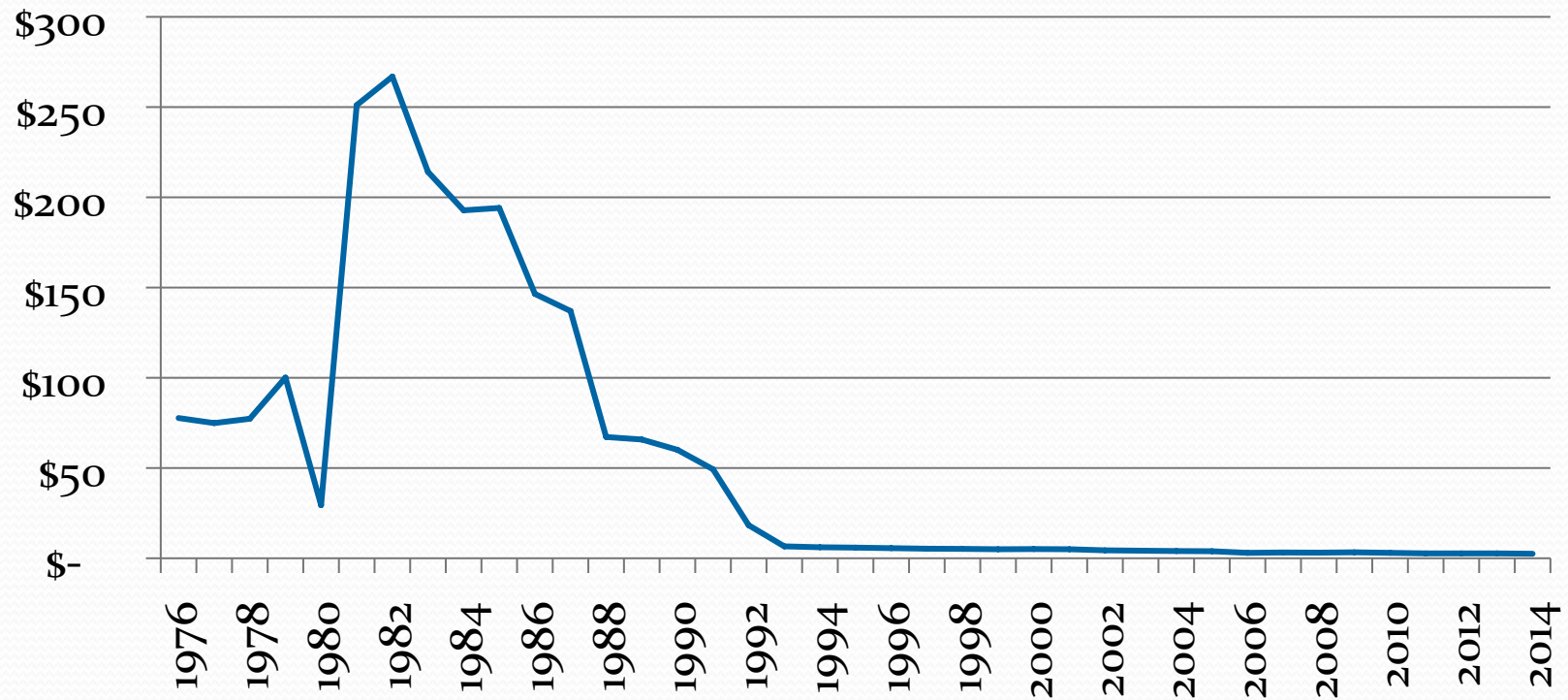
Property Values in Oregon



Property Tax Relief Programs Have Virtually Disappeared

(Includes State Funded PTR, ERA, NPH and HARRP,
excludes SPTD)

Property Tax Relief Expenditures (millions)



Tax Reform in Oregon's Future?

- Compelling Arguments
- Committed Legislators
- Major Ballot Measure Circulating
- Citizen Distrust of Complicated Tax Plans
- Interest in the Status Quo





Tax Reform: Major Premises

- Oregon's tax system is highly volatile due to its high level of dependence on income taxes.
- Oregon's local tax system is rigid and subject to both horizontal and vertical inequities caused primarily by complex constitutional property tax limitations.
- Both the state tax system, with its dependence on the personal income tax, and the local tax system, with its dependence on the property tax, lack diversification.



Tax Restructure: Key Elements

- Property Tax Reform
 - Move to modified market value assessments
 - Establish general homestead exemption program
- Business Tax Reform
 - Establish commercial activity tax
 - Reduce reliance on corporate income tax
- Provide personal income tax relief
 - Increase standard deduction
 - Lower marginal tax rates
 - Expand low income refundable credits
- Strengthen state reserve funds
 - Set aside portion of volatile revenue sources for reserve funds

Homestead Exemption Impact

Homestead Exemption Level Based on Assessed Value	Annual Revenue Loss to General Government	Annual Revenue Loss to Education	Annual Revenue Loss Total
(Thousands)	(Millions)		
\$25	\$175	\$145	\$320
\$50	\$349	\$286	\$635
\$100	\$677	\$554	\$1,231
\$200	\$1,102	\$902	\$2,004
\$300	\$1,246	\$1,020	\$2,266
\$500	\$1,319	\$1,079	\$2,399



Ohio's CAT

- All business entities with annual sales > \$150 K subject to tax.
- Tax is based on sales in Ohio—destination based
- The tax is equal to \$150 plus .26% of gross receipts above \$1 million
- Ohio allows tax credits for job creation and R & D
- Ohio's CAT raised \$1.5 billion in the 12-13 fiscal year



IP 28

- Applies to C-corporations with annual Oregon sales > \$25 million
- Maintains current corporate income tax definitions for Oregon sales.
- Establishes marginal rate of 2.5% for Oregon sales in excess of \$25 million (exempts benefit corporations from new marginal rate).
- Initial static revenue estimates are \$5.3 billion for the 2017-19 biennium.
- Based on latest corporate tax return data, roughly 1,000 C-corps would be affected by the new marginal rate. The 100 largest C-corps would pay about half of the estimated revenue.