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)

<table>
<thead>
<tr>
<th>State &amp; Local</th>
<th>Oregon</th>
<th>All States</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Revenue Per Capita</td>
<td>Revenue as % of Total</td>
</tr>
<tr>
<td>Taxes</td>
<td>$3,909</td>
<td>45.2%</td>
</tr>
<tr>
<td>Federal</td>
<td>$2,309</td>
<td>26.7%</td>
</tr>
<tr>
<td>Charges</td>
<td>$1,724</td>
<td>19.9%</td>
</tr>
<tr>
<td>Misc.</td>
<td>$715</td>
<td>8.2%</td>
</tr>
<tr>
<td>Total General Revenue</td>
<td>$8,657</td>
<td>100.0%</td>
</tr>
</tbody>
</table>
## Oregon’s State and Local Tax Structure

<table>
<thead>
<tr>
<th></th>
<th>Oregon</th>
<th>All States</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Per Capita</td>
<td>% of Income</td>
</tr>
<tr>
<td>2012-13 Census</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Personal Inc Tax</td>
<td>$1,594</td>
<td>4.1%</td>
</tr>
<tr>
<td>General Sales Tax</td>
<td>$0</td>
<td>0%</td>
</tr>
<tr>
<td>Property Tax</td>
<td>$1,285</td>
<td>3.3%</td>
</tr>
<tr>
<td>Corporate Inc Tax</td>
<td>$132</td>
<td>0.3%</td>
</tr>
<tr>
<td>Selective Sales Tax</td>
<td>$453</td>
<td>1.2%</td>
</tr>
<tr>
<td>Other Taxes</td>
<td>$445</td>
<td>1.1%</td>
</tr>
<tr>
<td>Total Taxes</td>
<td>$3,909</td>
<td>10.1%</td>
</tr>
</tbody>
</table>
### Western State Tax Structures

<table>
<thead>
<tr>
<th>2013-14 Fiscal Year</th>
<th>Individual Taxes as a Percentage of Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Oregon</td>
</tr>
<tr>
<td>State Tax</td>
<td></td>
</tr>
<tr>
<td>Personal Income Tax</td>
<td>68.7%</td>
</tr>
<tr>
<td>General Sales Tax</td>
<td>0%</td>
</tr>
<tr>
<td>Selective Sales Tax</td>
<td>14.9%</td>
</tr>
<tr>
<td>Corporate Income Tax</td>
<td>5.1%</td>
</tr>
<tr>
<td>Property Tax</td>
<td>0.2%</td>
</tr>
<tr>
<td>Other Taxes</td>
<td>11.1%</td>
</tr>
</tbody>
</table>
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)

- Personal Income Tax
- Residential Property Tax

Effective Tax Rate vs. Household Income Groups:
- < $21K
- < $34K
- < $48K
- < $69K
- < $103K
- < $137K
- < $206K
- > $206K

0.0% - 12.0% Effective Tax Rate
0.0% - 12.0% Effective Tax Rate
2015-17 Oregon General Fund Revenue By Source

In Millions

- Personal Income Tax
- Corporate Income & Excise
- OLCC
- Licenses & Fees
- All Other
GENERAL FUND REVENUE

PERCENT CHANGE FROM PRIOR BIENNium

-10.0%  -5.0%  0.0%  5.0%  10.0%  15.0%  20.0%  25.0%


GENERAL FUND REVENUE
TREND 1997-2015
General Fund Revenue Stability Comparison: Washington vs. Oregon
(Percentage Change in General Fund Revenue from Prior Biennium)
Property Values in Oregon

Market Value
Assessed Value
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

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

Legislative Revenue Office
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.