

Revenue Reform and Oregon's Tax System

Legislative Revenue Office

Oregon's State and Local Tax Structure

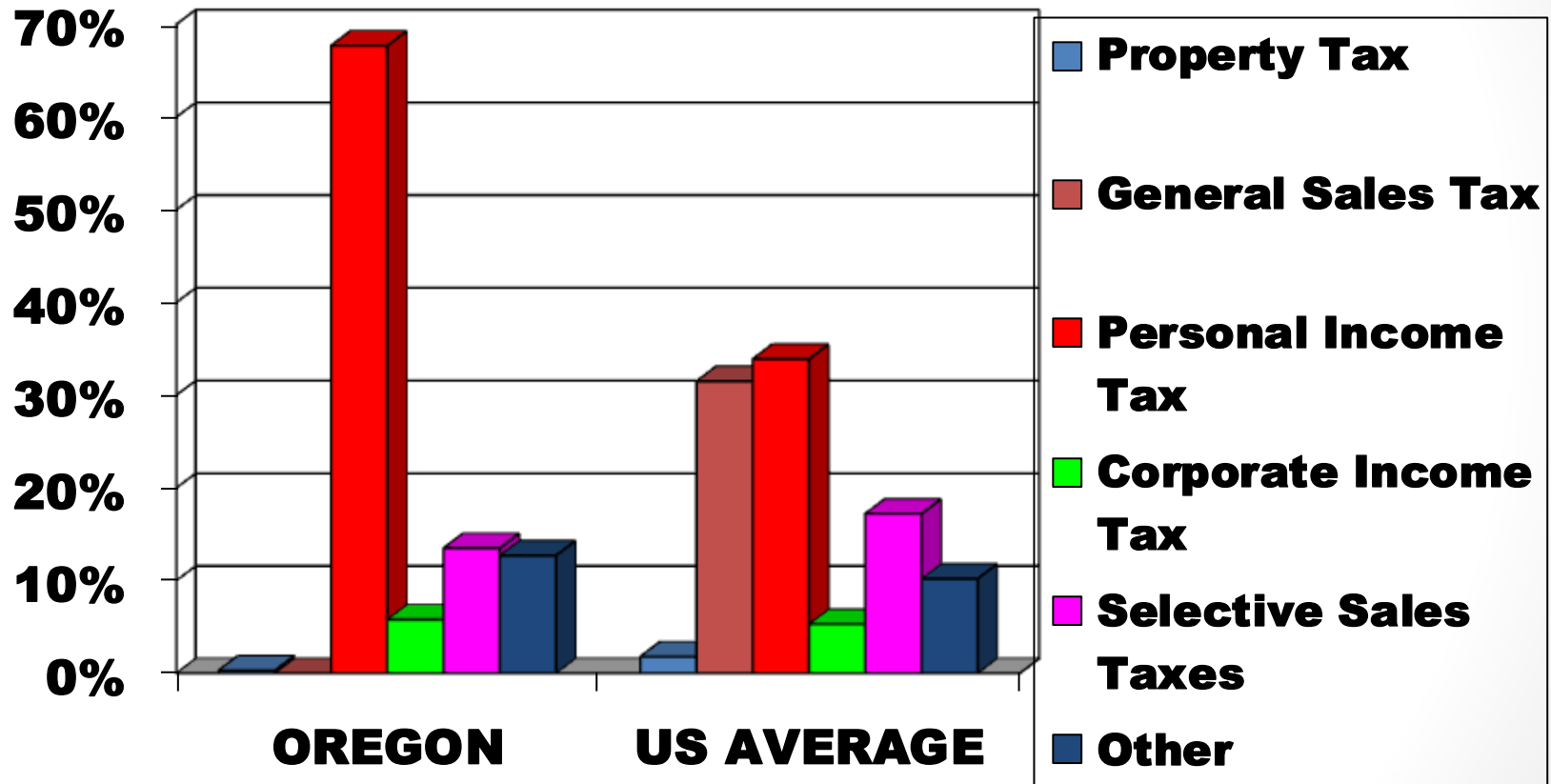
2009-10 Census	Oregon		All States	
	Per Capita	% of Income	Per Capita	% of Income
Personal Inc Tax	\$1,289	3.7%	\$842	2.2%
General Sales Tax	\$0	0%	\$921	2.4%
Property Tax	\$1,287	3.7%	\$1,428	3.7%
Corporate Inc Tax	\$104	0.3%	\$139	0.4%
Selective Sales Tax	\$343	1.0%	\$473	1.2%
Other Taxes	\$473	1.1%	\$317	0.8%
Total Taxes	\$3,420	9.8%	\$4,105	10.7%

Western State Tax Structures

2010-11 Fiscal Year	Individual Taxes as a Percentage of Total				
	Oregon	Washington	California	Nevada	Idaho
State Tax					
Personal Income Tax	67.7%	0%	41.0%	0%	35.8%
General Sales Tax	0%	60.8%	30.4%	46.3%	36.4%
Selective Sales Tax	13.5%	20.2%	11.5%	27.8%	13.1%
Corporate Income Tax	5.8%	0%	7.8%	0%	5.2%
Property Tax	0.3%	10.7%	2.6%	5.1%	0%
Other Taxes	12.7%	8.3%	6.7%	20.9%	9.5%

State Taxes by Source

(Percent of State Tax Collections in Fiscal Year 2010-11)

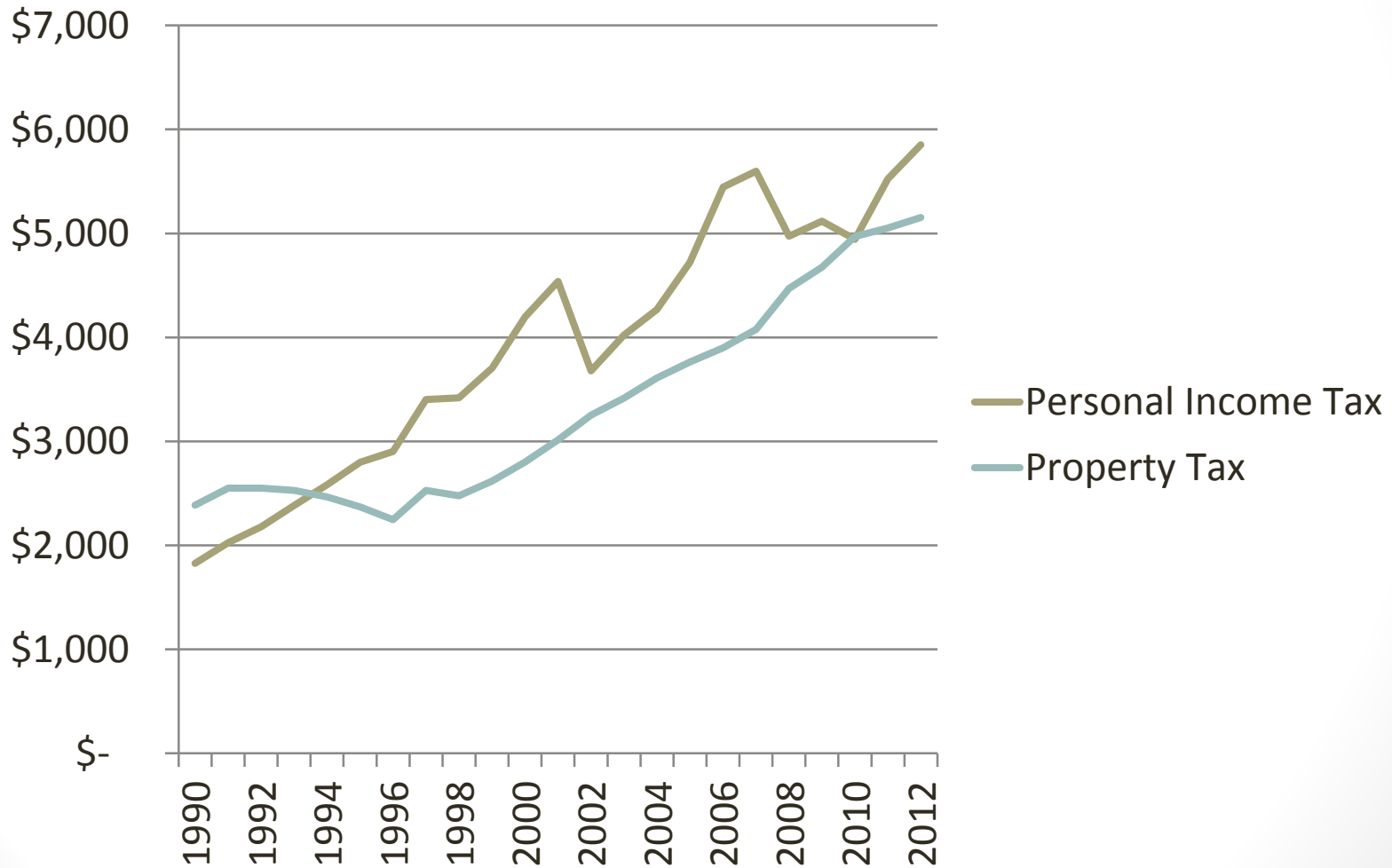


Revenue Stability Measures



Oregon's Major Taxes

(in millions)



Impact of Great Recession on State and Local Tax Revenue

State & Local Tax Collections	2007: Q4 (in billions of \$)	2009:Q2 (in billions of \$)	Percent Change
<i>All State Taxes</i>	759.9	712.5	-6.2%
Individual income	271.8	243.9	-10.3%
Corporate Income	50.5	43.7	-13.5%
General Sales	240.5	229.5	-4.6%
Property Taxes	12.7	12.8	+0.9%
<i>All Local Taxes</i>	514.9	533.5	+3.6%
Individual Income	20.0	18.6	-6.9%
Corporate Income	9.0	6.1	-31.8%
General Sales	64.7	63.0	-2.6%
Property Taxes	390.4	415.0	+6.3%

Growth & Stability of State and Local Government Tax Revenue Sources

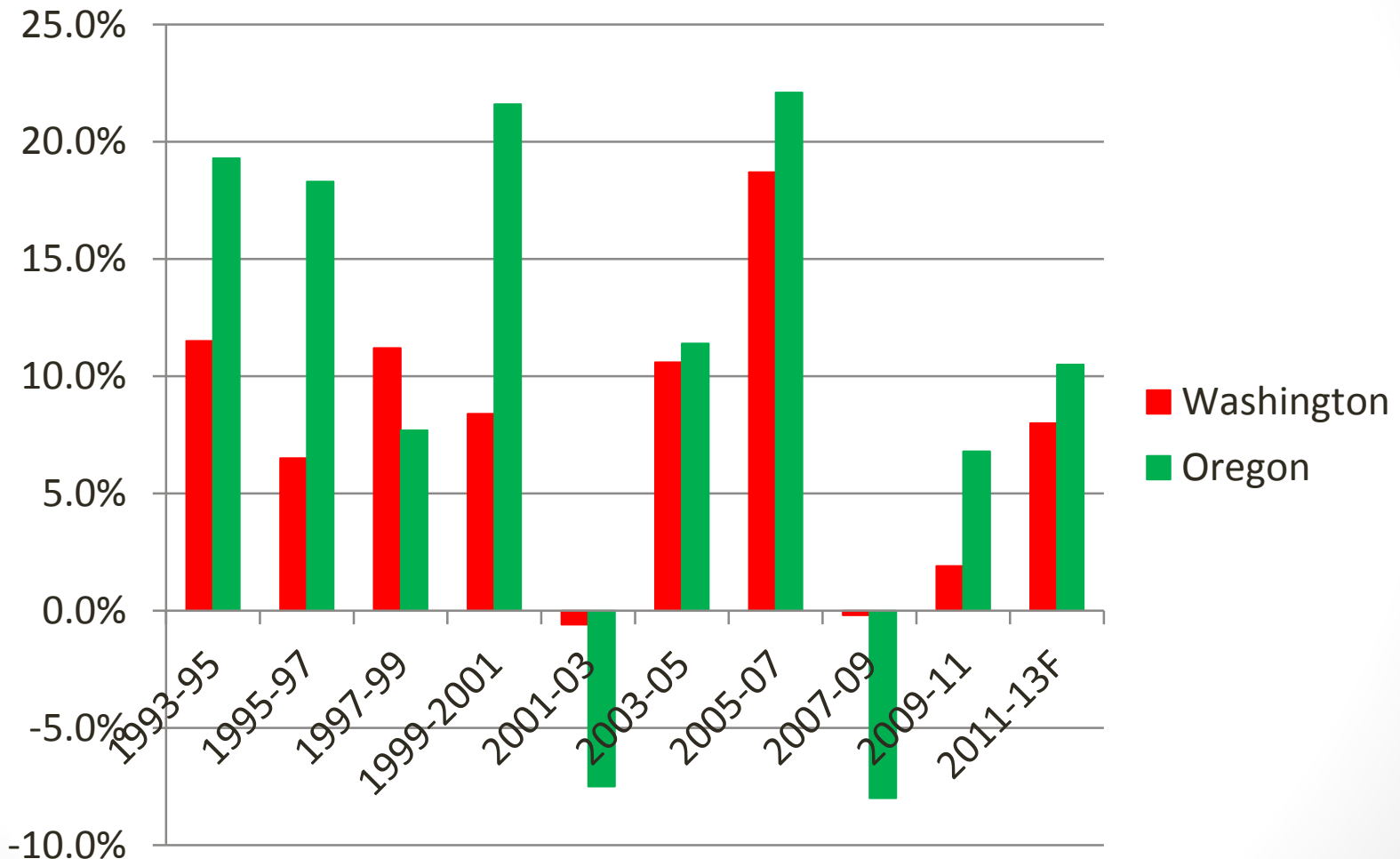
(Quarterly National Data: 1989-2012:3)

Revenue Source	Average Growth	Standard Deviation	Maximum Increase	Maximum Decline
Personal Income Tax	1.3%	2.3%	6.1%	-10.4%
Corporate Income Tax	.8%	3.8%	18.2%	-8.8%
Property Tax	1.4%	1.3%	4.9%	-1.7%
Sales Tax	1.1%	1.2%	3.5%	-2.5%
Excise Taxes	1.2%	1.3%	4.7%	-2.7%
Total	1.2%	0.9%	3.4%	-2.8%

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General Fund Revenue Stability Comparison: Washington vs. Oregon

(Percentage Change in General Fund Revenue from Prior Biennium)



Moving Toward Tax Reform

- Criteria for Good System
- Evaluation of Current System
- General Approaches to Tax Reform
- Major Components of SB 824



Criteria for a “Good” Tax System

- Adequacy—both long-term & cyclical
 - Taxes are used to fund public goods—they are a means of allocating resources
- Equity
 - In the eyes of the beholder: Society must decide
- Economic Impact
 - Economists emphasize non-distorting neutral taxes, policymakers focus on gaining a competitive edge
- Efficient Administration
 - Consistent and efficient compliance and enforcement

Evaluation of Oregon's Tax System

Strengths

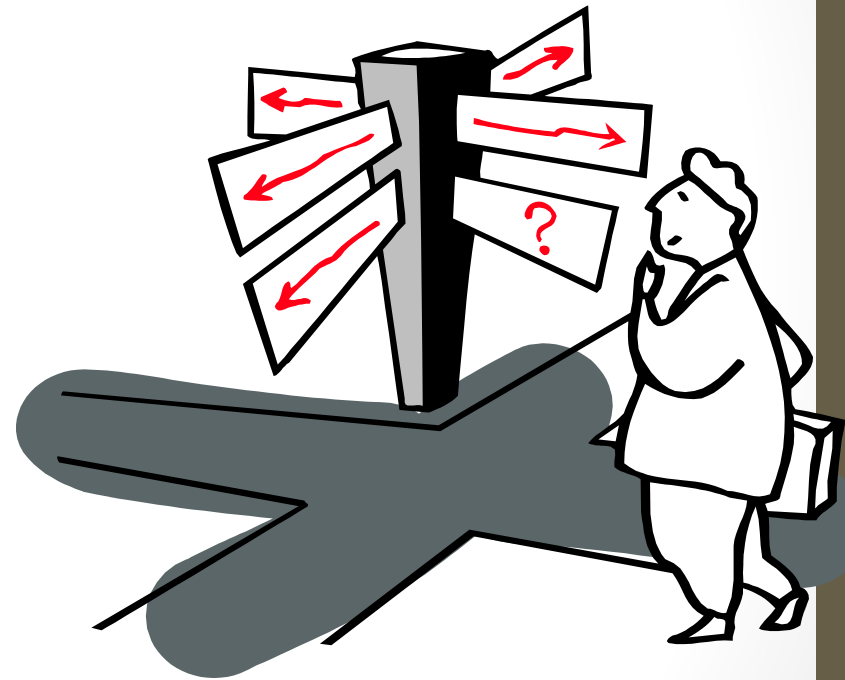
- Personal income tax responsive to economic growth
- Personal income tax best at addressing equity concerns
- Income tax system is closely tied to federal structure reducing administrative costs

Weaknesses

- High marginal income tax rates distort economic decisions
- Reliance on income taxes makes revenue stream unstable
- Lack of diversity adds to distortions and instability
- Property tax system is rigid, unresponsive to growth & subject to horizontal inequities

Approaches to Revenue Reform

- Establish Major Consumption Tax/
Reduce Reliance on Personal Income Tax
- Develop Strong Reserve Fund Policy to Cope with Instability
- Broaden Income Tax Base/ Lower Rates
- Incrementally Shift Base from Income to Consumption



Estimated Impact of SB 824

(Assuming 1-1-15 Start)

Components	Estimated 2015-17 Revenue Impact (in millions)
Personal Income Tax <ul style="list-style-type: none">• 2,4,6% Rates• EITC @ 25% of Fed• Low Income Credit• Narrow Capital Gains Exclusion	-\$6,005
Homestead Exemption @ \$50 K	-\$1,642
Investment Tax Credit--\$50 million Annual Cap	-\$100
5% Sale Tax on Goods and Services	+8,511
Net Revenue	+\$764