

# Overview of Oregon's revenue System

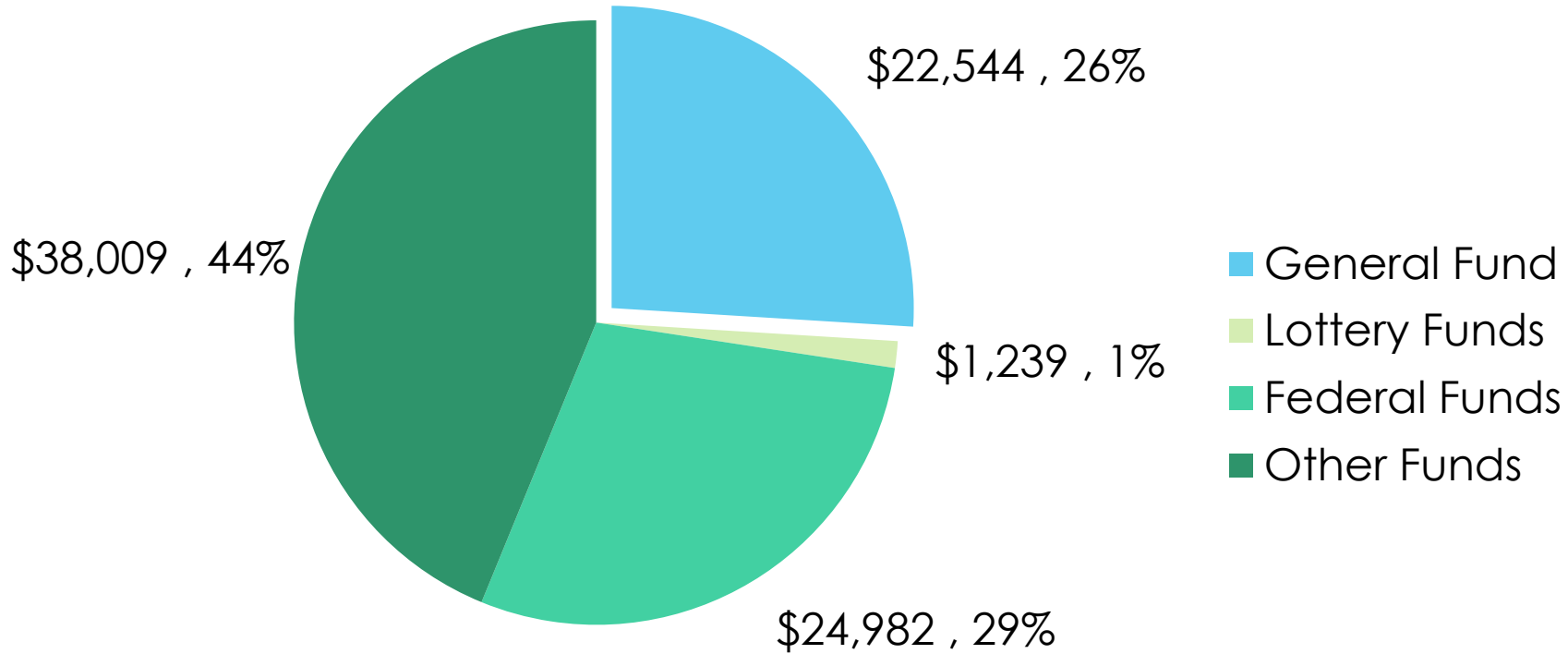
For the House Committee on Revenue  
Legislative Revenue Office  
January 2019

# Discussion Outline

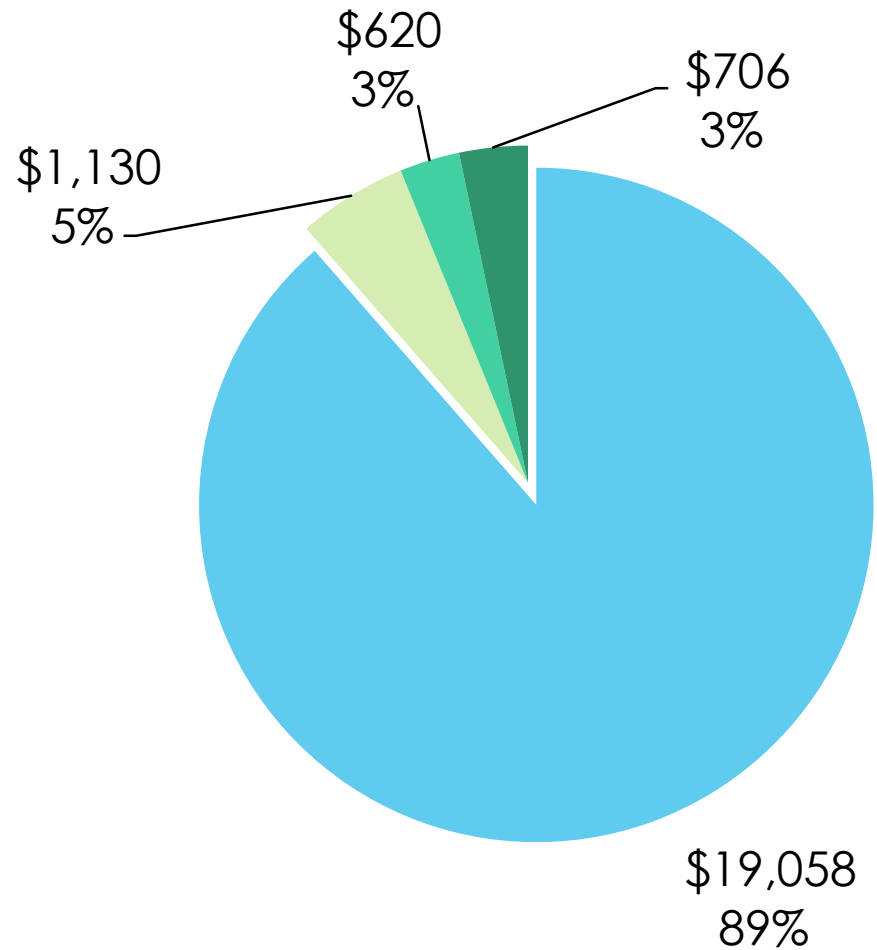
1. What are Oregon's sources of revenue?
2. How has Oregon's revenue system performed recently?
3. How Does Oregon's revenue system compare to other states?
4. What is the status of the kicker and reserve accounts?

# 2019-21 Revenue for the Governor's Budget By Fund Source

## All Funds (\$86,774 Million)



# 2019-21 General Fund Revenue By Fund Source



- Personal Income Tax
- Corporate Income Tax
- Other Taxes
- Other Revenue

# All Funds Revenue

Source	Estimated 19-21 Revenue (\$Millions)
Taxes	\$28,775
Federal Funds	24,982
Interest Earnings	10,742
Charges	5,336
Donations & Contributions	4,619
Bond Sales	2,795
Licenses & Fees	2,140
Lottery	1,432
Liquor & Other Sales	1,075
Loan Repayments	659
Other	4,218
Total	86,774

# Discretionary Revenue Sources (as of December forecast)

## ▶ GENERAL FUND

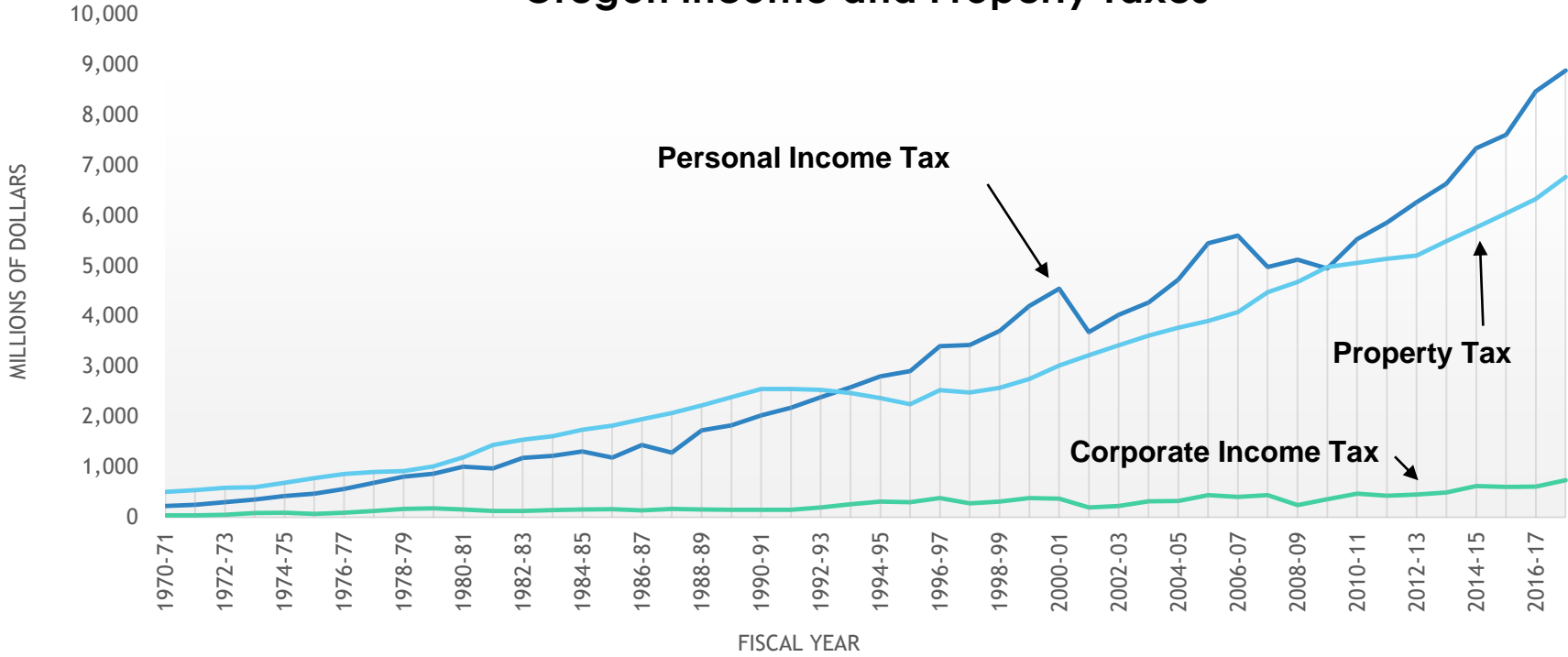
- ▶ Personal Income Tax (89%)
- ▶ Corporate Income Tax (5%)
- ▶ Other (6%)

## ▶ LOTTERY (85% VIDEO, 15% TRADITIONAL)

- ▶ Available for debt service and allocation (59%)
- ▶ Education Stability Fund (18%)
- ▶ Parks & Natural Resources Fund (15%)
- ▶ Veterans' Service Fund (1.5%)
- ▶ Other dedications (6%)

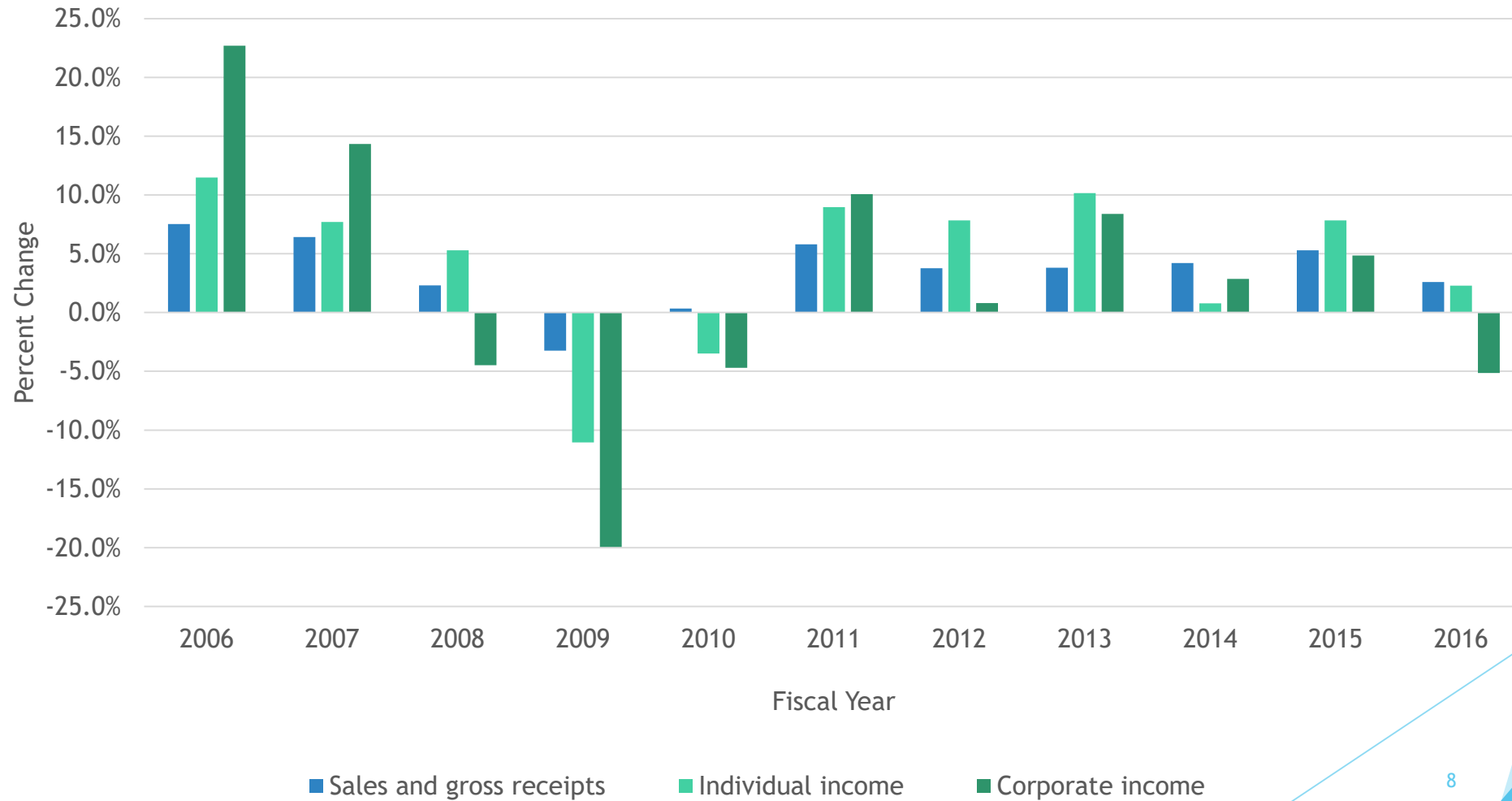
# History of Income and Property Taxes

## Oregon Income and Property Taxes



# National Data for Income and Sales Taxes over Past Decade

(Percent Change by Fiscal Year for all states, Census Data)



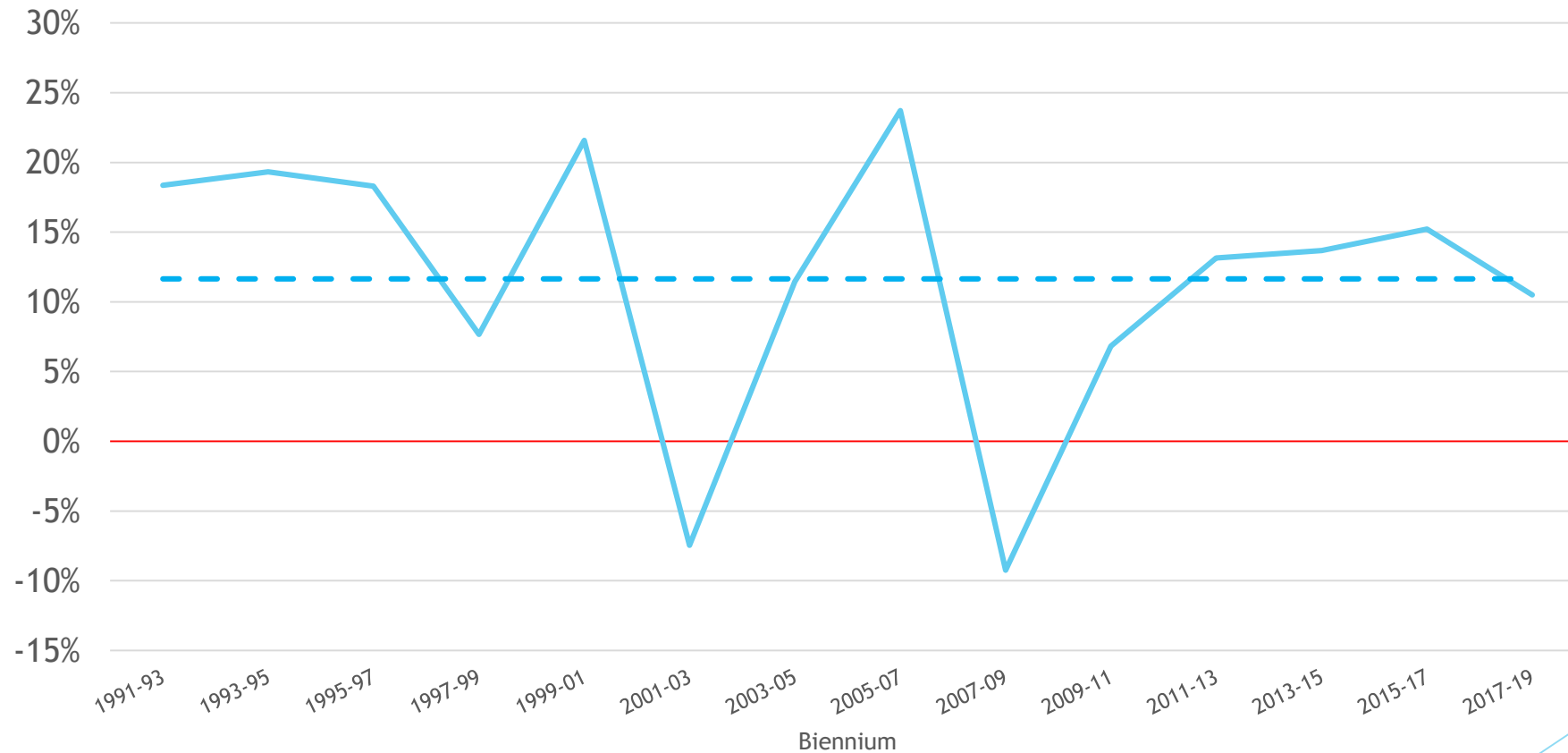


# Oregon's Property and Income Tax Burdens (as a % of Personal Income)

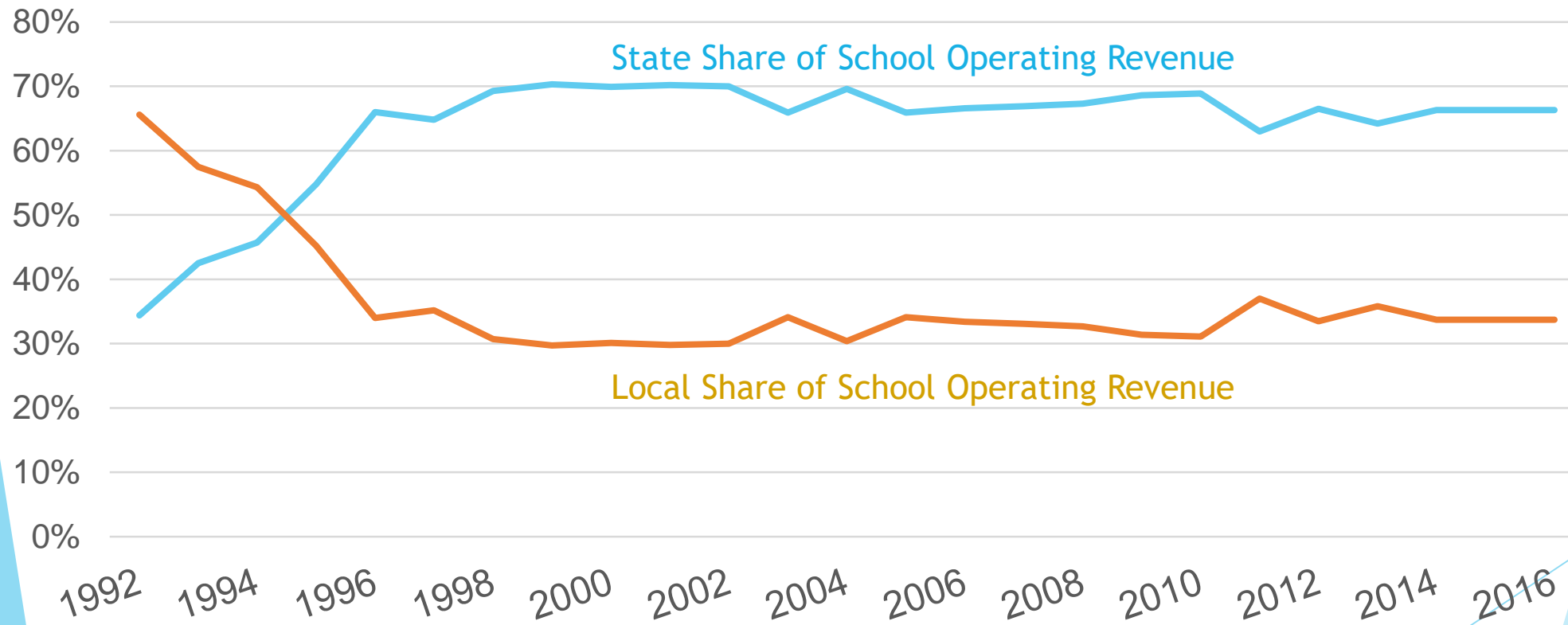


# General Fund Revenue Volatility

(Annual Percentage Change and trend)



# State's Responsibility for Schools



# Oregon Compared to Other States

2015-16 Census Data

# State and Local Revenue Sources Per Capita Basis (2015-16 Census Data)

	Oregon	Rank
Total Revenue	\$11,717	12
General Revenue	\$10,163	14
Federal	\$2,700	9
Own Source	\$7,463	18
Govt Enterprises	\$535	15
Insurance Trust	\$1,019	3

# State and Local Revenue Sources

## (A history of change – General Revenue)

Revenue Source	Oregon		All States	
	% of Total 1989-90	% of Total 2015-16		U.S. % of Total 2015-16
Taxes	54	45		53
Federal	20	27		23
Charges	13	20		17
Miscellaneous	13	8		7
Total	100	100		100

# State and Local Revenue Structure

2015-16 General Revenue

	Oregon	All States
Revenue Source	Revenue Per Capita	Revenue Per Capita
Taxes	\$4,577	\$4,984
Federal	\$2,700	\$2,151
Charges	\$2,043	\$1,552
Miscellaneous	\$843	\$687
Total General Revenue	\$10,163	\$9,374

# Oregon's State and Local Tax Structure

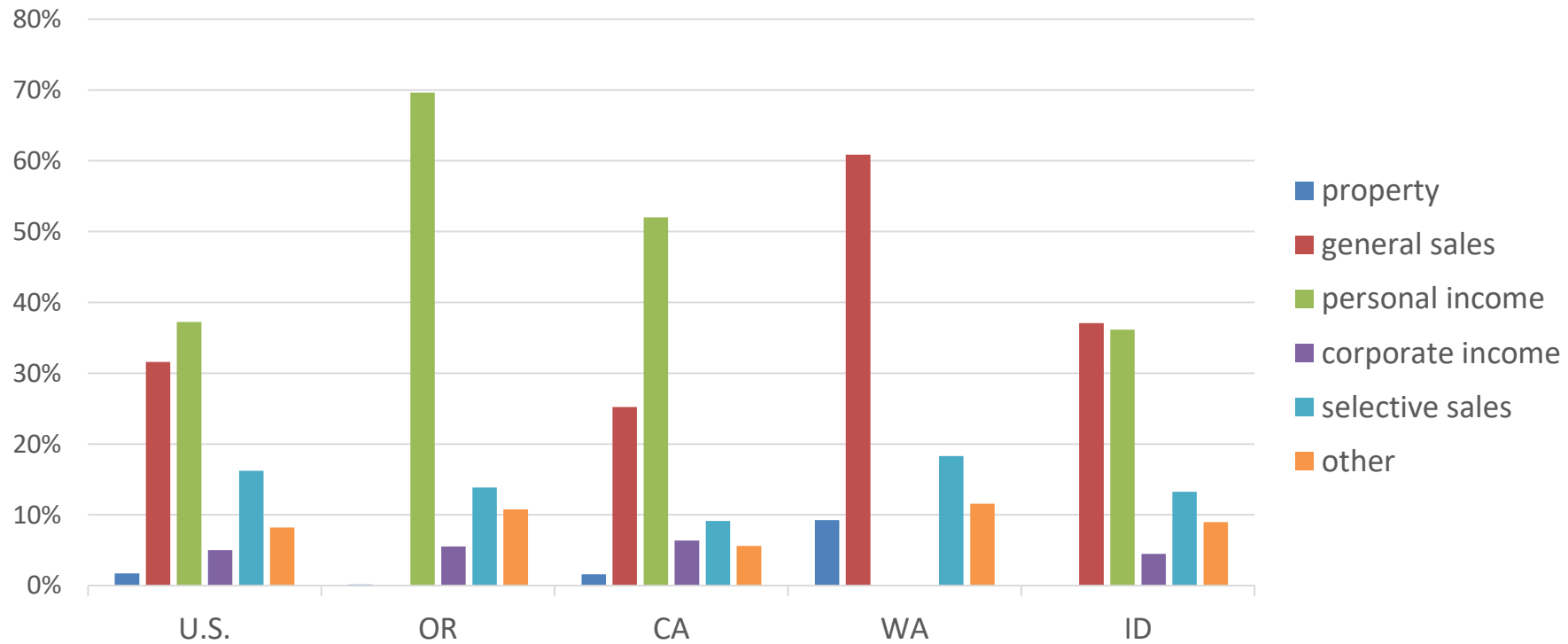
2015-16 Tax Collections

Tax	Oregon		All States	
	Tax Per Capita	Tax as % of Income	Tax Per Capita	Tax as % of Income
Personal Income	\$1,911	4.3%	\$1,173	2.4%
General Sales	\$0	0.0%	\$1,175	2.4%
Property	\$1,466	3.3%	\$1,568	3.2%
Corporate Income	\$172	0.4%	\$169	0.3%
Selective Sales	\$515	1.2%	\$567	1.2%
Other	\$513	1.2%	\$333	0.7%
Total	\$4,577	10.3%	\$4,984	10.3%



# State Taxes By Source

(Fiscal Year 2015-16)



# The Kicker and Reserve Funds

# Oregon's 2% Kicker

- ▶ Based on all General Fund revenue except corporate—mostly personal income tax collections
- ▶ Calculation is based on two points in time
  - ▶ Close of regular session estimate
  - ▶ Actual revenue for the biennium
- ▶ If actual >2% above—all revenue above forecast returned to taxpayers as credit
- ▶ Can be modified by the Legislature with a 2/3 vote in each chamber



# Kicker Mechanics

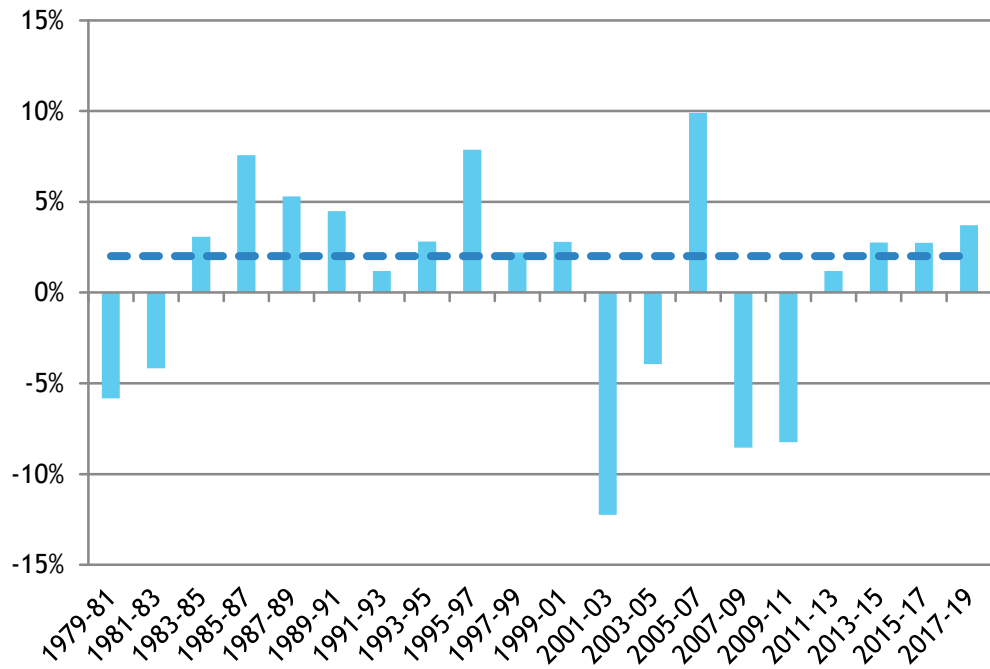
- ▶ Calculate Base (Close-of-Session estimates)
  - ▶ All non-corporate GF revenue (for personal kicker)
  - ▶ Corporate income tax revenue
- ▶ Compare actual revenue with base
- ▶ Check 2% trigger
  - ▶ If triggered, all revenue above forecast is returned less DOR administrative costs
- ▶ Calculate % return
  - ▶ Pre-credit liability (2007 change)
  - ▶ % of prior year liability (2007 corporate change)
- ▶ Return to taxpayers
  - ▶ Refund check or credit (depending on year) to personal income taxpayers
  - ▶ Credit on corporate returns

# Kicker history

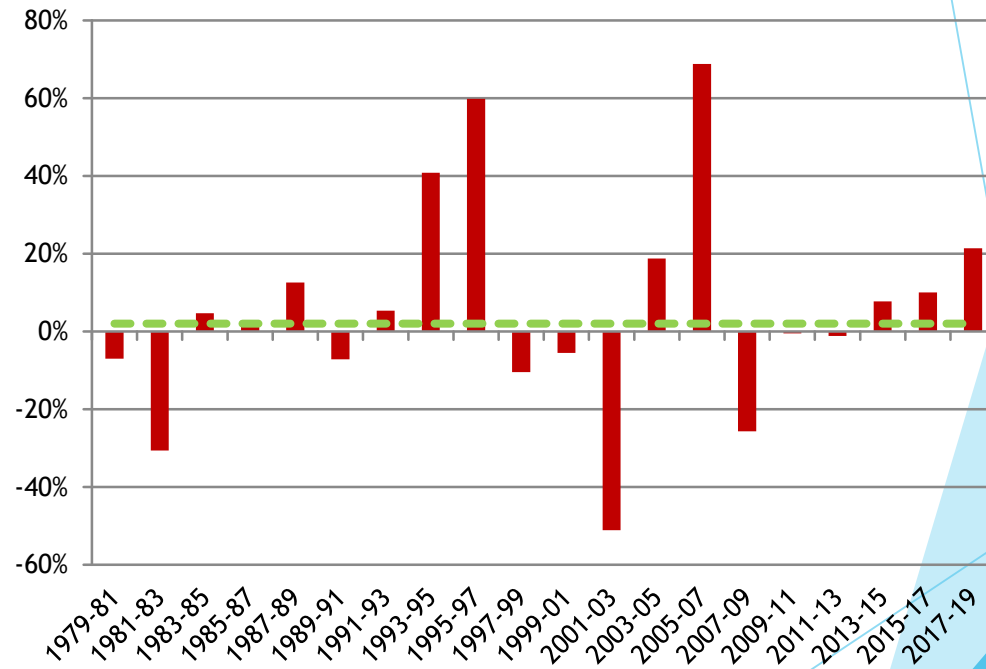
- ▶ Put in statute in 1979 as part of a fiscal package; approved by voters in 1980
  - ▶ First kicker was in 1985
- ▶ Put in constitution in 2000
- ▶ Personal kicker converted to a refund in 1995; back to a credit in 2011
- ▶ Personal kicker has been triggered 11 times (suspended once, 1991) in 19 biennia since 1979
- ▶ Personal kicker has triggered \$3.7 billion revenue reduction between 1979 and 2017—an average of 2.3% of General Fund revenue for that period
- ▶ Current personal kicker is estimated at \$724 million or 3.6 % of 2017-19 General Fund appropriations
- ▶ Current corporate kicker is estimated at \$230 million
- ▶ Corporate kicker has been triggered 10 times in 19 biennia since 1979
  - ▶ Twice suspended (1993 and 2007 – put into RDF)
  - ▶ Twice dedicated to K-12 spending (current law since 2014)

# History of Kickers and the 2% threshold

## Personal Kicker



## Corporate Kicker



# Education Stability Fund

- ▶ Created in 2002; Constitutional
- ▶ Revenue: 18% of lottery earnings
- ▶ Withdrawal is 3/5 vote in each chamber and:
  - ▶ Revenue forecast down 2% from COS
  - ▶ Payroll employment down 2 consecutive quarters
  - ▶ Governor declares emergency
- ▶ Uses: public education
- ▶ CAP: 5% of prior biennium revenue

# Rainy Day Fund

- ▶ Created in 2007; statutory
- ▶ Revenue:
  - ▶ One-time corporate kicker credit
  - ▶ GF ending balance up to 1% of prior biennium appropriations
  - ▶ Portion of corporate income tax
- ▶ Withdrawal: Same as ESF except no Governor emergency declaration
- ▶ Withdrawals cannot exceed 2/3 of beginning balance for any biennium
- ▶ Uses: general purpose
- ▶ Cap: 7.5% of prior biennium appropriations



# State Reserve Position

(\$ Millions)

	Education Stability Fund	Rainy Day Fund	Total Reserves
Source of funds	Lottery	1% of GF Appropriations	
Use of funds	Public education	General	
End of 15-17 Biennium	\$384	\$376	\$760
Net Deposits	\$233	\$220	\$450
End of 17-19 Biennium	\$617	\$596	\$1,213
Cap	\$971	\$1,456	\$2,427

# Based on Comparisons & History: Strengths & Weaknesses of Oregon's Revenue System

## Strengths

- ▶ Strong state revenue growth over time
  - personal income tax responsive to economic growth
- ▶ Use of non-tax revenue reduces general tax burden
- ▶ Personal income tax best at addressing equity concerns (ability-to-pay)
- ▶ Income tax system tied to federal structure reducing administrative costs
- ▶ Appropriate charges lead to efficient allocation (benefits received)
- ▶ Stability of local revenue

## Weaknesses

- ▶ Reliance on income taxes makes revenue stream unstable
- ▶ High income tax rates and lack of diversity adds to economic distortions and instability
- ▶ Reliance on federal funds reduces policy control
- ▶ Excessive charges create competitive/equity concerns
- ▶ Low growth local revenue system

# For More Information

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