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OREGON'S TAX SYSTEM

Background

Taxes are a major issue in every state. Taxes are one of the primary revenue sources used to fund public services. In most cases, taxes are used to fund services such as education and public safety that affect a broad number of citizens. This means that the overall level of taxation is important because it is connected to the level of services. However, taxes also represent a burden on a state's citizens. This means that both the level and the distribution of taxes should be considered in the context of the burden placed on the state's citizens. Finally, taxes are important because they can influence economic activity. This is particularly true for a state economy where labor and capital are free to move across state borders.

Taxes versus Revenue

Taxes are only one source of revenue for state and local governments. The Census Bureau divides state and local general revenue into four categories: taxes, federal funds, charges and miscellaneous. The Census Bureau defines taxes as compulsory contributions exacted by a government for public purposes. Other important sources of revenue include federal government transfers, direct charges for services such as tuition and park fees, and miscellaneous revenue. The largest component of miscellaneous revenue is interest earnings but it also includes lottery revenue.

Table 1 displays the major sources of general revenue received by state and local governments in Oregon. The 1999-2000 fiscal year is the latest in which both state and local revenue is available for all the states. The Census Bureau defines general revenue as all revenue except trust fund revenue and public enterprises. Trust fund revenue includes unemployment and workers' compensation insurance funds and public retirement systems. Public enterprises include government owned utilities and state run liquor monopolies.

Table 1. OREGON'S GENERAL REVENUE MIX

Revenue Source	% of 1989-90 Total	% of 1999-2000 Total
Taxes	54 %	45 % (57 %)
Federal Revenue	20 %	25 % (19 %)
Charges	13 %	18 % (14 %)
Miscellaneous	13 %	12 % (10 %)

(1999-2000 U.S. average shown in parenthesis)

Oregon is considerably less reliant on taxes as a source of revenue than is the average state. In 1999-2000, taxes made up 45 % of Oregon's general revenue. This compares with 57 % for the average state and local revenue system. Oregon has relatively greater reliance on all three of the other major revenue categories. In 1989-90, prior to the passage of Measure 5, Oregon's revenue composition was much closer to the national averages than it is today. One consequence of the property tax limit was to shift Oregon's revenue system away from taxation in general and move toward greater use of non-tax revenue sources.

Oregon's Tax Burden

Measure 5, approved by voters in 1990, significantly reduced Oregon's overall tax burden from its historical level. Tax burden is usually measured by summing up all taxes and dividing by the total amount of personal income for all the residents in a state. Personal income includes wages and salaries, other labor income such as medical and retirement benefits, transfer payments such as social security, interest income and proprietors income including farm income. Capital gains from the sale of assets such as corporate stock are not included.

Oregonian's state and local tax burden (taxes divided by personal income) was 10.5 % in 1999-2000 (see Table 2). This compares with 12.1 % in 1989, prior to the implementation of Measure 5. The average state and local tax burden was 11.2 % in 1999-2000. 38 states had a higher tax burden than Oregon in 1999-2000, 11 states (South Carolina, Nevada, Colorado, Virginia, Florida, Missouri, Texas, South Dakota, Alabama, Tennessee, New Hampshire) had a lower burden.

Table 2. OREGON'S STATE AND LOCAL TAX SYSTEM

	Oregon % of Personal Income	U.S. % of Personal Income	Oregon's Rank Among the States
Total Taxes	10.5 %	11.2 %	39
Personal Income Tax	4.6 %	2.7 %	2
Corporate Income Tax	0.5 %	0.5 %	18
Sales & Excise Taxes	1.0 %	4.0 %	50
Property Tax	3.1 %	3.3 %	25

Composition of Oregon's Taxes

Table 2 also shows the composition of Oregon's state and local taxes. The state's high dependence on the personal income tax is reflected in its number 2 rank among the states in personal income tax burden. Oregon ranks near the middle of the states in corporate income and property tax burden. The property tax burden fell significantly over the past decade due to Measures 5 and 50. In 1988-89, Oregon had the 5th highest property tax burden in the nation. Finally, Oregon has the lowest tax burden among the states for general and selective sales taxes. Selective sales taxes, including cigarette and gasoline, amounted to 1% of personal income in 1999-2000. The national average, reflecting the extensive use of retail sales taxes, is 4.0%. Oregon, Alaska, Montana, Delaware and New Hampshire are the only states without a general retail sales tax.

When considering state taxes only, excluding local taxes, the importance of personal income taxes in Oregon becomes even clearer. In the 2001-2002 fiscal year, 71.5 % of Oregon's state tax revenue came from the personal income tax. The remaining components of state taxes are selective sales taxes (12.7%), corporate income taxes (3.8 %) and other taxes (12.0 %). No other state is as dependent on a single tax source as Oregon is on the personal income tax. The second highest dependence on a single tax source is Washington's reliance on the sales tax (including the business and occupation tax) which made up 62.6 % of Washington's state tax revenue in 2001-2002.

Distribution of Oregon's Tax Burden

In many states the average tax burden differs significantly from the burden on individual income groups. A state-local tax system is defined as progressive if the tax burden rises as income rises. It is regressive if the tax burden falls with higher income. A system is proportional if the tax burden is roughly the same for different income groups.

The Oregon Tax Incidence Model (OTIM) can be used to analyze the distribution of Oregon's state and local taxes. OTIM accounts for tax shifting through changes in prices or wages caused by a tax. This allows the spreading of all taxes, including business taxes among the different income groups. Table 3 shows the tax burden among income groups after tax shifting has taken place.

Table 3. DISTRIBUTION OF OREGON'S STATE AND LOCAL TAX BURDEN

Household Income Group	Effective Tax Rate (Taxes/Household Income)
< $14,525	13.1 %
$14,525-$21,225	10.2 %
$21,225-$28,739	9.7 %
$28,739-$45,024	10.9 %
$45,024-$62,026	11.3 %
$62,026-$80,000	11.3 %
$80,000-126,173	11.4 %
>$126,173	12.4 %
Total	11.4 %

Oregon's state and local tax burden is distributed in a roughly proportional manner. Most household income groups have a tax rate near the overall average of 11.4 %. (This differs from the 10.5 % tax burden discussed above because household income and personal income are different measures.) However, the lowest household income group has an above average tax burden. This is primarily due to the property tax. The property tax imposes a relatively high burden on low-income seniors and renters. In addition, OTIM assumes property taxes on many businesses are shifted onto consumers in the form of higher prices. This has a disproportionate effect on lower income households. Oregon's highest income households also pay a slightly higher tax rate than the average household. This gives the tax system a progressive segment. The primary reason for the higher effective rate for this group is the progressive nature of the state's personal income tax.

Summary

- Compared to most states, Oregon is less dependent on taxes as a revenue source.
- Oregon's state and local tax burden is relatively low.
- Oregon's personal income tax burden is 2nd highest in the nation
- State government is highly dependent on the personal income tax as a source of revenue.
- Oregon's property tax burden is about average.
- Oregon's consumption tax burden (general plus selective sales taxes) is the lowest in the nation.
- Oregon's state and local tax burden is distributed in a roughly proportional way with slightly higher tax rates at the low and high end of the income spectrum.