



# OREGON AND ITS TAXES

Excerpts from *Funding Oregon: The Ins and Outs of State Finance*

Oregonians have engaged in heated discussions about taxes, often talking past each other. In an attempt to make the discussions more constructive, the League of Women Voters of Oregon Education Fund has published a report on how the current tax system works and some options for change. The full report is available at <http://www.lwvor.org>. Following are some highlights.

In 2001-2002, Oregon ranked 46th nationally in the combined state and local tax burden on individuals. Taxpayers in Oregon are likely to be most familiar with two sorts of taxes: property taxes (which are local taxes) and income taxes. In addition, taxes paid by corporations and businesses may show up in the price consumers pay for the goods and services they purchase.

## **Changes in Oregon's Tax System**

There have been major changes in Oregon's property tax system in the last 15 years. In 1990 Measure 5 limited the rate at which property could be taxed and in 1997 Measure 50 strictly limited the value at which property could be assessed. Before 1990, local property taxes and other local revenues provided about 70% of the operating funds needed for K-12 public education; now they cover only 30%. Almost 70% of school funding now comes from the State School Fund, which is supported primarily by state income taxes. Also, state and local governments have become more dependent on non-tax sources such as fees and lottery funds.

## **Personal and Corporate Income Taxes**

Oregon is more dependent than any other state on the income tax. Because of tax breaks, Oregon collects only about 55% of potential income tax revenue. The largest breaks are for the personal exemption, home mortgage interest, and pension contributions and earnings. In 2000, 67% of corporations that pay tax at the corporate level paid only the minimum \$10 tax—some because they had no taxable income, some because of tax breaks.

### **Questions to Ask Ourselves**

What programs do we need?

Why do we need them?

How much do they cost?

Are there consequences for me if these programs do not exist? For us?

If there is a gap between what is needed and what can be paid for, what should be done?

If not done by government, then how?

For a variety of reasons, the proportion of total state and local taxes paid by households versus businesses has shifted from about 50/50 in 1979 to 68/32 in 2003.

## **Instability in the System**

During the 1990s, as the state took over major funding of schools, Oregon's population increased by 20.4%, health care costs soared, and mandatory minimum sentences boosted prison costs. The booming economy helped minimize the budget impacts of these changes and of Oregon's increased reliance on income tax revenues. However, the plunge in

incomes during the recession that began at the end of that decade hit the Oregon budget hard: income tax revenues fell and high unemployment created demand for public services. Then the funding needed to support schools, even on reduced budgets, was financed by cuts to other programs and by borrowing.

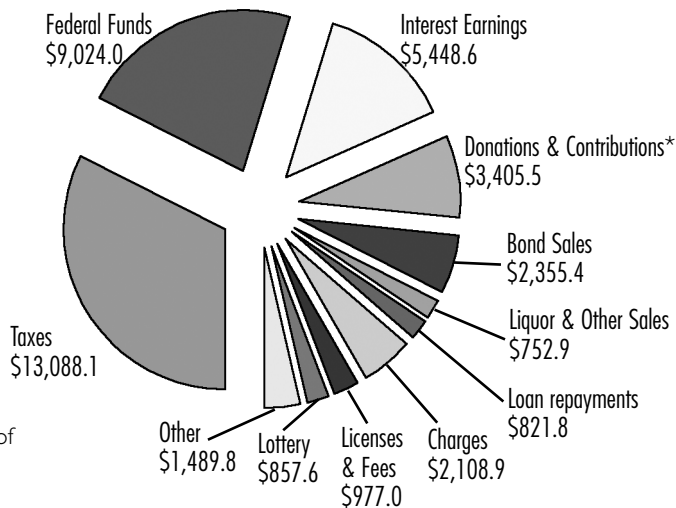
Oregon has no general reserve or rainy-day fund to tide us over during economic downturns. In years when tax collections exceed estimates by more than 2%, Oregon's kicker law returns to taxpayers any revenue collected in excess of the amount estimated in the budget.

## **Differing Philosophies on State Spending**

As shown on the reverse, the state currently spends 58% of your income tax dollar on education, 22% on human services, 16% on public safety, and 4% on all other programs.

Views on Oregon's finances are divided. Some people want to cut spending. They think governments provide too many services or that programs are not being run efficiently. Many want governments to keep providing the same services and feel there is enough tax revenue to pay for them if the money is managed wisely. Still others believe that Oregonians need better services that require more funding from taxes or other sources. Groups representing all these viewpoints have proposed tax reforms. We encourage you to inform yourself about the options and then let your legislators know your views.

## ALL FUNDS REVENUE (IN MILLIONS) 2001-2003 ESTIMATES



Source: Oregon Department of Administrative Services.

\*Donations & Contributions include PERS (retirement fund) contributions

### PROGRAMS YOUR INCOME TAX DOLLAR SUPPORTS (2003-2005 BIENNIUM)

#### EDUCATION – 58 CENTS

- K-12 System
- Community Colleges
- Higher Education

#### HUMAN SERVICES – 22 CENTS

- Medicaid/Oregon Health Plan
- Child Protective Services
- Senior Services
- Mental Health
- Food Stamps

#### PUBLIC SAFETY – 16 CENTS

- Adult Corrections
- Juvenile Corrections
- Department of Justice
- State Police

#### OTHER SERVICES – 4 CENTS

- Agriculture/Forestry
- Economic Development
- Environmental Quality
- Transportation

\*Personal income taxes provide about one-quarter of state revenues.  
All the above programs also get money from other sources.

### WHERE TO GET MORE INFORMATION

League of Women Voters of Oregon: [www.lwvor.org](http://www.lwvor.org)  
 Oregon Legislative Revenue Office: [www.leg.state.or.us/comm/lro](http://www.leg.state.or.us/comm/lro)  
 Oregon Legislative Fiscal Office: [www.leg.state.or.us/comm/lfo](http://www.leg.state.or.us/comm/lfo)  
 Oregon Department of Revenue: [www.dor.state.or.us](http://www.dor.state.or.us)  
 Citizens for Oregon's Future: [www.fororegon.org](http://www.fororegon.org)  
 Association of Oregon Counties: [www.aocweb.org](http://www.aocweb.org)  
 League of Oregon Cities: [www.orcities.org](http://www.orcities.org)  
 Special Districts of Oregon: [www.sdao.com](http://www.sdao.com)  
 Oregon School Boards Association: [www.osba.org](http://www.osba.org)  
 Oregon Education Association: [www.oregoned.org](http://www.oregoned.org)  
 Portland City Club: [www.pdxcityclub.org](http://www.pdxcityclub.org)  
 Oregon Center for Public Policy: [www.ocpp.org](http://www.ocpp.org)  
 Oregon Business Council: [www.orbusinesscouncil.org](http://www.orbusinesscouncil.org)  
 Oregon Business Association: [www.oba-online.org](http://www.oba-online.org)  
 Oregon Business Plan: [www.oregonbusinessplan.org](http://www.oregonbusinessplan.org)  
 Cascade Policy Institute: [www.cascadepolicy.org](http://www.cascadepolicy.org)  
 Oregon AFL-CIO: [www.orafclio.unions-america.com](http://www.orafclio.unions-america.com)  
 Utah State Tax Commission: [www.tax.utah.gov](http://www.tax.utah.gov)  
 Citizens for Tax Justice: [www.ctj.org](http://www.ctj.org)  
 Institute on Taxation and Economic Policy: [www.itep.org](http://www.itep.org)  
 The Center on Budget and Policy Priorities: [www.cbpp.org](http://www.cbpp.org)  
 Oregon Governmental Issues Survey: [www.oregonstate.edu/dept/polsci/pgre/oregon00.pdf](http://www.oregonstate.edu/dept/polsci/pgre/oregon00.pdf)  
 Oregon Tax Research: [www.oregontaxes.org](http://www.oregontaxes.org)