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Report on Oregon's Tax System

City Club of Portland (Portland, Or.)

REPORT

ON

OREGON'S TAX SYSTEM

This report is dedicated to the Memory of
DON A. ELLIS
A valuable member of this committee,
and a member of City Club Tax Committees since 1948

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To the Board of Governors,
City Club of Portland:

INTRODUCTION

Oregon's tax system and the issue of property tax relief have been widely discussed in recent years. To contribute to this discussion, your Board of Governors established this Committee in December 1982 and charged it to:

1. Review Oregon's present system of state and local taxation;
2. Compare Oregon's system to that of other states;
3. Develop criteria to evaluate Oregon's system; and
4. Recommend such changes as the Committee deemed appropriate.

This report is the result of your Committee's efforts.

In defining the scope of the study, your Committee made two major decisions. First, we have assumed that state and local government spending will be maintained at approximately the same levels in the future. There is no evidence to suggest that overall demand for state and local government services will abate. Moreover, 1983 legislative actions and school district levy approvals indicate that Oregonians do not favor radical, across-the-board cuts.

Second, the Committee decided not to take a position on the tax reform package proposed by the first special session of the 1983 legislature. If that plan does finally come before the voters, a report on it will be issued by a separate ballot measure committee.

This report is divided into five sections. Part I discusses the theoretical and philosophical bases for state and local government spending. Part II presents the criteria developed to evaluate Oregon's taxes. Part III contains a review of Oregon's present system of state and local taxation and, where appropriate, a comparison of that system to other states. Part IV contains your Committee's review of possible alternative sources of revenue. Part V contains the Committee's majority report.

I. THE BASIS FOR TAXING AND SPENDING

A. The Functions of Public Spending.

In order to evaluate taxes, it is helpful to understand why they are collected. There are two major reasons:

1) The government provides "public goods" which the private sector of the economy cannot or will not provide.
2) The government addresses policy objectives such as economic development, economic stability and income distribution.

1. The Public Goods Function. Some goods cannot be distributed by traditional market mechanisms. These goods are different in that they are used not only by the "consumers" who buy them but also by others who do not. The existence of a national military defense, for

example, affords the entire community a certain amount of protection--even those who would choose not to "buy" defense. The inability of traditional market forces to set an appropriate level of this service makes it a "public good".

Many goods and services provided by state and local governments are public goods. For example, highways, sewers, police and fire protection, the courts, and traffic controls can all be placed in this category. The case for government provision of public goods is generally a practical one--if the government does not provide them, no one will.

Not all goods and services provided by state and local governments are public goods, however. For example, liquor is not a public good; it is consumed privately and in many states is sold privately. Yet in Oregon, the state assumes this function.

2. The Policy Function. Governments also spend money to achieve policy objectives. One such policy objective, which is primarily the concern of the federal government, is stablization of the economy. State governments also help to stabilize the economy through various programs.

Another policy objective promoted at the state and local level is economic health and growth. State and local governments often make expenditures or offer tax deductions or exemptions to retain existing business, attract new business and promote the welfare of local citizens.

Income redistribution is another aspect of government taxing and spending. Some citizens are too young or too old to earn a living; others have family responsibilities which prevent them from holding a job; still others are disabled or are victims of natural or economic disasters. Taxing those who have resources for the benefit of those who do not is one way in which the citizenry as a whole provides for itself.

B. Non-Tax Alternatives for Financing Government Efforts.

Governments collect money in a variety of ways other than taxes: 1) by charging users of services a "fee"; 2) by asking higher-level governments, e.g., the federal government, to contribute funds; 3) by borrowing; or 4) by creating state-run businesses.

1. User Fees. Some government goods and services can be sold at a price which covers a portion of their costs. For example, Oregon charges a fee for certain uses of public parks, and it charges for admission to the State Fair. But governments cannot meet all of their expenses in this fashion.

A particular license or fee may be both a user fee and a tax. For example, some states charge motor vehicle registration fees which, in addition to paying motor vehicle-related costs, also provide revenue to be used for other purposes. The amount made available for these other purposes would more properly be considered a tax.

2. Intergovernment Transfers. Some government activities are financed by grants from higher-level governments. Such funding can come in many forms but are generally grouped into one of three categories: a) categorical grants for specific projects; b) block grants for use in a broader area, such as education or housing; and c) general revenue-sharing or grants without restrictions.

3. Government Borrowing. Governments sometimes enter private capital markets to borrow money. Bonds sold to finance a particular facility, for example, may be paid off by the revenue which that facility generates. The original bridge across the Columbia River at Jantzen Beach and the Memorial Coliseum were both financed by "revenue bonds."

When the need to borrow cannot be related to a particular project or the project is not income producing, "general obligation bonds" may be utilized. Repayment of these bonds, which are backed by the full resources of the issuing government, often depends upon increased tax revenues from anticipated economic growth. Since the full resources of the government are behind the bonds, investor risk is reduced and a better interest rate can often be achieved.

4. State-Run Businesses. Governments occasionally engage directly in for-profit businesses as a means of raising revenue -- e.g., state lotteries or Oregon's liquor stores. In general, though, governments are neither expected nor permitted to earn a profit in what could be privately-run enterprises.

C. Taxing Options.

1. Tax Expenditures. Governments often grant tax deductions, tax exemptions, or tax credits to private parties in order to encourage particular activities. Rather than paying a cash subsidy, the government offers instead to reduce taxes to cooperating taxpayers--as it does, for example, to homeowners who purchase certain energy saving devices. The result is an off-budget subsidy that appears not to "cost" the government anything although there is a real cost in terms of tax revenues foregone. This cost and the associated benefits often cannot be accurately determined.

2. Dedicated Taxes. Governments sometimes finance programs by levying taxes dedicated to one or more specific purposes. For example, the state excise tax on gasoline is constitutionally limited to highway construction and maintenance. One drawback of dedicated taxes is that they may make it less easy to direct tax revenue to where it is needed most in particular years.

3. Bases of Tax Revenue. As a general proposition, taxes may be levied on an individual's wealth, income or expenditures. In a broad sense, "tax structure" refers to the relative emphasis placed on these three bases.

Much has been written about the appropriate use of each of these bases in structuring a tax system. Taxes on wealth and on income are defended, inter alia, on the grounds that they tax on the basis of the ability to pay. Expenditure taxes, such as the sales tax, also have their defenders. Some commentators contend, for example, that taxes on consumption tend to discourage spending and thereby encourage capital accumulation for economic growth. Specific taxes based on wealth, income and expenditures are analyzed in Parts III and IV of this report.

II. CRITERIA FOR EVALUATING OREGON'S TAXES

It is tempting to evaluate taxes based on how they affect us personally. Several people suggested to us in jest that a good tax is one where your neighbor pays more than you; a bad tax is the opposite.

In order to provide a more objective approach, your Committee developed the following criteria for evaluating Oregon's present and proposed taxes. In some cases, the criteria are normative--that is, they set a standard to which we believe taxes should conform. In others, the criteria are merely descriptive--a way of describing what presently exists.

A. Equity.

Horizontal equity refers to the extent to which people with the same level of income pay the same amount of tax. For example (and ignoring certain costs incurred by society from the consumption of beer and wine), the beer and wine tax would be horizontally equitable if all people at a given income level consumed about the same amount of these beverages. To the extent to which there are drinkers and teetotalers at the same income level, the tax is not horizontally equitable.

By contrast, vertical equity refers to the impact which a tax has on persons with different levels of income. The concept of vertical equity is closely entwined with the so-called "ability-to-pay principle"--the idea that people who can pay more should pay more. A tax is considered progressive if people with higher incomes pay a greater percentage of their income to the tax. A tax is considered regressive if people with greater incomes pay relatively less. If the proportion of tax paid at all levels of income remains the same, a tax is considered proportional. Most income taxes, but by far not all, are structured to be progressive. Real property taxes, on the other hand, are regarded as regressive since people with lower incomes generally must use a greater proportion of their income to pay the tax.

From these examples, it should be clear that horizontal and vertical equity need not both be present at the same time. For instance, while the federal income tax is generally perceived to be progressive, some contend that the many deductions available only to persons engaging in certain types of activities make it horizontally inequitable.

B. Allocative Efficiency.

The term allocative efficiency, sometimes called "excess burden", relates to the extent to which a particular tax influences consumer or business decisions. Almost all taxes raise the ultimate cost to consumers of the items subject to them. As a result, purchasers face different relative prices between taxed and non-taxed items, and their spending or saving decisions may be affected accordingly. In fact, some taxes--the so-called "sin taxes" on products such as cigarettes--were initially assessed in order to discourage consumers from purchasing those products. Similarly, most economists believe that high marginal income tax rates discourage both earnings and savings because they tend to make "leisure" relatively more attractive.

Two caveats with regard to allocative efficiency are necessary. First, the impact of state or local taxes cannot be considered apart from federal taxes. For example, the maximum marginal federal income tax rate for individuals is 50%. Oregon's maximum marginal income tax rate is 10.8%. In addition, federal taxpayers who itemize their income tax deductions can deduct state taxes paid on their federal returns. Thus, an Oregon citizen taxed at the 50% federal rate only pays a net additional 5.4% of his income in state taxes. Clearly, Oregon's taxpayers are likely to be less influenced by the state income tax than by the federal income tax.

The second caveat concerns tax-free incentives to save which are built into the system such as Keogh plans, Individual Retirement Accounts and tax free municipal bonds, to name a few. Other provisions, such as the 60% exclusion for long-term capital gains, are designed to ease taxes on investments. The widespread availability of these options helps to eliminate the disincentive to save which normally would be present under a progressive income tax structure.

C. Economic Health and Growth.

Your Committee believes that fostering economic development is a critical public policy objective for Oregon's state and local governments. A firm statewide economic footing is necessary for all Oregonians to achieve adequate income and security. We interviewed a number of people with strong opinions about the extent to which present or proposed taxes affect economic health. Unfortunately, there were almost as many opinions as there were speakers, and most of the "evidence" presented was anecdotal rather than statistical.

On close examination, several different concepts are involved. Economic health refers to short-run measures of prosperity: low unemployment, generally high wages and salaries, adequate-to-full utilization of other available resources and satisfactory prices for Oregon's goods and services. There is general agreement that Oregon's taxes should be structured to help achieve these goals.

Economic growth, on the other hand, is a more far-reaching objective. It envisages rising standards of living, rising wages and salaries, a demand for additional facilities to house new factories and offices, and an expanded "infrastructure" -- more or better schools, better roads and bridges, etc. Some people believe that economic growth is a prerequisite for economic health since many of the state's traditional activities, such as those in the timber industry, are only healthy when the economy is growing. Not everyone agrees, however, that economic growth is an appropriate goal. Although many parts of the state have prospered greatly from growth in recent decades, there is no agreement that the result has been totally favorable for the state as a whole.

It is clear that the level and form of taxation can affect business location and development decisions which, in turn, affect economic health and growth. Your Committee believes, however, that the majority of business decision-makers consider not only the tax "costs" of doing business but also the related "benefits" in the form of available public services. The fact that it may cost more tax dollars to live in State X than State Y does not necessarily mean that State Y will win more new plants unless X has nothing to show for the difference. If, for example, State X has better roads, better schools and a larger pool of better educated workers, it may be in the stronger position.

Another factor complicating the relationship between taxation and economic health or growth is the use by state and local governments of special tax incentives to alter business location decisions. To the extent that businesses make decisions on the basis of these special inducements, the "normal" tax rate structure does not apply.

Because of these and other factors, the relationship between taxes and economic development is generally not well understood. As a result of its investigation, however, your Committee believes the following statements are justified:

(1) A substantial level of public spending to support schools, roads and the general quality of life is a necessary precondition to economic health or growth.
(2) Oregon's present <u>level</u> of taxation does not appear to present a substantial deterrent to economic health or growth.
(3) There are changes which can be made to <u>particular</u> taxes which would improve Oregon's business climate.

These points are discussed later in this report.

D. <u>Administrative Efficiency</u>.

When taxes are enacted, governments publish regulations, collect revenue and ensure compliance. Similar costs are imposed upon taxpayers who must fill out forms, keep records and perhaps employ tax advisors to determine what the law requires. The term <u>administrative efficiency</u> is used to describe these costs. The lower the combined cost of collecting tax revenue, the greater the administrative efficiency.

E. <u>Incidence</u>.

The term <u>incidence</u> indicates who ultimately pays the tax. While a tax may be paid by one party to a transaction, the actual burden of paying it may be shifted to someone else. Economists disagree, for example, about the extent to which the incidence of the corporate income tax falls on the consumers of a corporation's products as distinct from the owners of the corporation or suppliers of goods and services to the corporation.

F. <u>Productivity</u>.

<u>Productivity</u> refers to the relative amount of money raised by a tax. In Oregon, the property and personal income taxes would be considered highly productive. The tax on amusement games would not.

G. <u>Income Elasticity of Revenue</u>.

<u>Tax elasticity</u> refers to the extent to which the amount of tax revenue responds to changes in income of the group being taxed. For example, progressive income taxes are elastic. In years when the populace earns significantly more, income tax revenue can rise disproportionately due to the increased income which is taxed at progressively higher levels. By

contrast, property taxes tend to be inelastic; a change in income from one year to the next generally does not significantly affect revenue from these taxes.

High tax elasticity, which dictates variable tax revenue, may or may not be preferable from a policy standpoint. If income tax collections drop disproportionately when the economy recedes, the economic pressure on those whose income has declined is reduced. However, this also means that when the economic need is greatest, the state has less tax revenue to help those in need.

H. Visibility and Simplicity.

Visibility refers to the extent to which a particular tax is apparent to the "man in the street." The personal income tax, for example, is highly visible. The tax on insurance premiums is not.

Simplicity refers to the extent to which the average person can compute his or her tax without requiring outside help. The personal income tax is not simple; a sales tax is.

III. OREGON'S PRESENT SYSTEM OF TAXATION

A. General Comparison with Other States.

Your Committee found that the overall level of Oregon's state and local taxes is not excessive when compared to other states.

In recent years, Oregon has generally ranked in the low 20's among the states in per capita state and local taxes and in taxes per $1,000 of personal income. Among the 13 Western states(1), Oregon has ranked between 5th and 10th. During these years, Washington was slightly higher than Oregon on a per capita basis (except for 1981) and somewhat lower per $1,000 of personal income. See Tables 1 and 2.

However, Oregon differs significantly from other states in its relative reliance upon certain types of taxes. In 1980, for example, Oregon collected 33.7% of its total state and local tax revenue through its personal income tax. This was the highest among the 13 Western states, with the nearest competitor being Hawaii at 25.3%. See Table 3. In terms of the percentage of personal income collected by the personal income tax, Oregon ranked 2nd nationally, behind only Delaware in the years 1979-1981. Oregon also ranked 2nd nationally in 1979-1981 and 5th in 1982 for the amount of personal income tax collected per capita. See Tables 4 and 5.

Oregon's property taxes also are relatively high. In 1980, Oregon ranked 3rd among the 13 Western states in terms of the percentage of total state and local tax revenue collected from property taxes and ranked 4th in terms of property tax per capita. Nationally, Oregon ranked 12th in 1980, 11th in 1981, and 4th in 1982 in terms of the percentage of total

(1) Alaska, Arizona, California, Colorado, Hawaii, Idaho, Montana, Nevada, New Mexico, Oregon, Utah, Washington, Wyoming.

taxes collected by the property tax. In terms of national per cap- ita rankings, Oregon ranked 12th in 1980 and 1982 and 11th in 1981. See Tables 6, 7 and 8.(2)

Among the 10 western states with corporate income taxes, Oregon's corporate income tax is also relatively high. In 1980, for example, Oregon ranked 3rd in corporate income tax per capita and per $1,000 dollars of personal income , behind Alaska and California. Nationally, Oregon ranked 25th in 1982 and 13th in 1981 in corporate income tax per capita. See Tables 9 and 10.

The principal reason for Oregon's high level of personal income, real property and corporate income taxes is that unlike 45 states and the District of Columbia, Oregon has no general retail sales tax. Among the 13 Western states, only Alaska, Montana and Oregon do not use this tax. However, Alaska has given cities and boroughs authority to levy a "gross proceeds" tax on retail sales and services. See Table 11.

In terms of progressivity or regressivity of the 50 state tax systems as a whole, the most recent (1976) data available to the Committee suggest that as of that time, all 50 states had regressive systems. As between the states, Oregon's tax system appeared to be the second most progressive (or least regressive) in the country.(3)

B. <u>Oregon's Tax Structure</u>.

1. <u>State Government</u>. Oregon's state tax revenue comes from more than 20 different taxes. Nevertheless, the vast majority of the state's revenue is derived from only a few of these taxes. For the 1979-81 biennium, the personal income tax accounted for 54% of state taxes, the unemployment insurance tax 13.2%, and the corporate income tax 9.6%. These three taxes provided more than 75% of state-collected taxes. Motor fuels and workers' compensation taxes bring this total to more than 85%. See Table 12.

The state's day-to-day dependence upon the personal and corporate income taxes is greater than these figures suggest. Revenue from the unemployment, motor fuels and workers' compensation taxes are dedicated, i.e., they must be used for particular purposes. In terms of the state General Fund--money which may be appropriated for any public purpose--the personal income tax accounted for 71.7% of revenue in the 1979-81 biennium and is expected to provide 73.6% in 1981-83 and 79.7% in 1983-85. The comparable percentages for the corporate income tax are 12.8%, 9.1% and 8.5%. In short, the two taxes taken together provide 83

(2) In 1981 and before, property tax rankings compiled by the Census Bureau did not consider property tax relief programs. In 1982, property tax relief was considered. As a result, Oregon's ranking went down from 9th to 10th in 1982 even though levies grew substantially. With property tax relief considered for earlier years, Oregon would have ranked about 20th in 1980 and 15th in 1981 on a per $1,000 basis.

(3) Phares, "Who Pays State and Local Taxes?", Oelgeschlager, Gunn and Hain Publishers, Inc., 1980.

to 88% of the General Fund. For the relative contribution of other funding sources to the General Fund, see Table 13.

Tables 14 through 17 provide an overview of the relationship between state taxes and state spending. For the 1979-81 biennium, Oregon's total state revenue from all sources was $11.5 billion. Of this amount, $2.6 billion, or 22.6%, constituted General Fund money. The remaining $8.9 billion, or 77.4%, constituted revenue from other funds. Total taxes from all sources contributed $3.6 billion, or 30.1% of total state revenue. Tax revenue provided 95.1% ($2.5 billion) of the General Fund and 11.9%, ($1.1 billion) of the non-General Fund.

The growth in Oregon's state tax revenue has been substantial. In the decade from 1970 to 1980, state tax revenue grew from $430 million to approximately $1.45 billion, an annual increase of 12.9%. This growth took place, however, in a decade which included significant growth in real income, high inflation and sizeable population growth. If state tax revenue is adjusted for inflation based upon the Consumer Price Index for Portland, the annual rate of increase drops to 4.4%. If a further adjustment is made to reflect the 25.87% population increase during the decade, the rate of state tax revenue increase falls to 2.07%. If the amount of state tax revenue is computed per $1,000 of personal income, the annual rate of increase is .7%. See Table 18.

2. Local Governments. Oregon's local governments--which include cities, counties, public school districts, community colleges, police, fire, and other special districts--have also raised increasing amounts of tax revenue in recent years. The 1980 total was $1.12 billion while the 1970 total was $405 million. See Tables 19 and 20. After adjusting for inflation based on the Consumer Price Index for Portland, this equals a 2.2% annual rate of increase. Adjusting further to reflect population growth results in an annual decrease of -0.13%.

Almost all of the money raised by local governments comes from property taxes. Of the $1.3 billion in total tax revenue raised by local governments in Oregon in 1981, for example, roughly 90.7% came from property taxes. For 1981, 61.9% of this property tax revenue was spent on primary and secondary school education, and another 4.5% was spent on community colleges.

Local governments also receive significant transfer payments from the federal and state goverments. From the 1970-71 fiscal year to the 1980-81 fiscal year, for example, federal aid to Oregon's primary and secondary schools increased from $71.1 million to $183.4 million, and state transfers to local governments for educational purposes grew from $134.0 million to $633.9 million. Non-school federal and state transfer payments to local governments also have grown substantially. In 1970, total transfer payments amounted to 31.9% of all local general revenue. For 1980, this percentage was 41.4%.

C. The Three Principal Taxes.

1. The Property Tax.

a. General Background Information. As noted in part above, most local governments in Oregon raise money through a tax on real property and some business personal property. The state also has authority to levy a property tax, but it has not done so for more than 40 years.

In the 1980-81 fiscal year, Oregon's per capita property taxes were the 11th highest in the nation and the 4th highest among the 13 Western states. Oregon's per capita property taxes collected for education ranked 2nd both nationally and among the Western states. See Tables 8 and 21.

b. How Oregon Computes Property Taxes. Oregon uses a tax base rather than a tax rate system. This means that the voters of a taxing district initially approve the maximum amount of tax the district may levy and, subject to certain limitations, the tax rate is then computed by dividing this tax base by the assessed value of all taxable property within the district. If, for example, the voters of a district approve a $25,000 tax base and the district has taxable property assessed at $1 million, the tax rate would be 2.5% or $25 per $1,000 of assessed valuation. The total property tax to be levied on a given parcel of property is the sum of the taxes collectable from that parcel by each district in which that parcel is located. For administrative efficiency, all property taxes are collected by counties and then distributed to the appropriate governmental units.

One important consequence of Oregon's tax base system is that property taxes do not automatically rise with a general increase in assessed values. If, for example, all property in a given district were to double in value from one year to the next but the tax base remained unchanged, the tax rate per $1,000 of assessed valuation would be cut in half. This makes Oregon's property tax system significantly different from those of many other states, such as California, which have considered or passed property tax limitation measures.

In Oregon, tax bases can only be raised through the following means:

1) Article XI, Section 11 of the Oregon Constitution, adopted in 1916, permits tax bases to increase by up to 6% per year without voter approval. A district which raised $100,000 in 1983, for example, could raise up to $106,000 in 1984 without an additional election.
2) Voters can approve a new larger tax base.
3) Voters can approve a levy which permits the taxing district to raise the amount approved for a specified number of years. Levies are called "special" if they are for one year or "serial" if they are for more than one year.

The net effect of these three methods of change is that property tax collections as expressed in absolute dollar amounts have increased each year for more than 30 years. For changes in recent years, see Table 20.

c. Additional Factors. Oregon's system of property taxation is far more complex than this brief overview suggests, however. This section of the report reviews the principal complicating factors involved.

(i) Exempt Property. Property owned by the federal government, the state government, local governments and certain charitable, educational and religious organizations is generally exempt from real property taxes. See Table 22.

In a sense, property exempted from property tax may be viewed as increasing everyone else's property taxes from what they would be if all land was taxed. Federal lands, however, cannot constitutionally be taxed, and taxing state and local government properties would be largely circular. These three catagories account for about 92% of all exempt property.

The exemption of the remaining 8% of untaxed real property represents an example of a tax expenditure policy. In effect, Oregonians are underwriting the activities of charitable, educational and religious organizations by exempting them from real property taxes just as these organizations are exempt from income taxes. All states apply exemptions similar to Oregon's.

(ii) The Assessed Valuation Limitation on Homesteads. In the mid and late 1970's, the rate of growth in the market value of personal residences in Oregon far exceeded the rate of growth in value of other forms of real property. Because Oregon's tax base system allocates property taxes payable on the basis of the relative values of the parcels involved, the share of the property tax burden borne by homeowners increased while businesses, for example, paid less.

As a result, Oregon voters placed separate 5% annual limitations on the increase in the taxable value of owner-occupied homes and all other property. The limitation took effect in 1979. This instituted a "variable rate" assessment practice. The 1983 special session repealed the separate limitations on owner-occupied homes and all other property, which are still subject in total to an annual limitation.

(iii) Other Types of Differentially Assessed Property. In addition to personal residences, Oregon also uses a differential or non-market system of assessment for farm use property, open spaces, single family residences located in business areas and historic property.(4)

(4) As is indicated in Section D5 below, standing timber is also taxed by a different means.

Farm use special assessments may arise in two ways. First, all land zoned by a local government for exclusive farm use and which is in actual farm use is automatically assessed at a reduced level based upon the value of the land for farm-only purposes. For land not zoned for exclusive farm use, the owner may request the so-called deferral option. Under this option, the property is again assessed at a reduced rate. However, if this land is later removed from farm use, the owner must reimburse the affected governments for a portion of the tax benefits received.

Somewhat similarly, owners of open space land may request a special assessment based on the value of the land as open space rather than on its possible market value in other uses. As with the farm land deferral option, a portion of the tax loss is recaptured if the use subsequently changes.

An owner of a single family residence in a nonresidential district may request single family assessed valuation rather than the higher use value which might be attributed to the land for use in commercial, industrial or other purposes. This program also requires some repayment if the use later changes.

Finally, the owner of historically registered property may apply to have the assessed value frozen for fifteen years in return for preserving and renovating the property. Once again, a payment is due if the use is later changed.

As with the exemptions for charitable and religious organizations, the special treatment accorded to these four classes of property can be thought of as tax expenditures. In effect, Oregonians have decided that farm land, open spaces, homes in business areas and historic buildings are worth protecting.

(iv) Subsidies. In order to reduce the impact of the property tax system on those less able to pay, Oregon uses a number of property tax subsidies. The three major ones are the homeowners and renters relief program (HARRP), the so-called 30% property tax relief program, and the programs for assistance to the elderly.

Under HARRP, households earning less than $17,500 in annual household income receive direct state reimbursement of local property taxes on owner occupied homes ranging from $36 (at an income level of $17,499) to $750 (at incomes less than $499). Renters are eligible for one-half of the homestead subsidy. HARRP was first enacted in 1971 at a cost of $11.5 million from General Fund revenues; it presently costs the state about $87.5 million per year.

The 30% property tax relief program was enacted in 1979. Initially, the state subsidized most property taxes on owner-occupied residences to the extent of 30%

of the tax up to a total subsidy of $800. Renters received similar subsidies up to $400. This program is also funded by General Fund revenue. Budget shortages in subsequent years resulted in decreases in the maximum subsidy to the present $170 per owner-occupied residence and $85 for rental property. At these levels, the cost to the state was $126.5 million in fiscal 1983.

The senior citizen homestead deferral program allows participating senior citizens to have their property taxes paid directly by the state. In return, the state takes a lien on their homes. The lien amount plus 6% interest is repaid on the death of the owner or sale of the property. In 1982, the amount of taxes deferred under this program was about $9.7 million and the total outstanding liens were $23 million. The 1983 Legislature tightened eligibility requirements for this option.

Persons who are 58 or older and who rent their homes, earn less than $5,000 annually and pay more than 40% of their household income for rent and utilities, are entitled to have the state pay them a direct subsidy of up to $2,100. The subsidy is calculated by computing the difference between gross rent plus utilities and 40% of household income. In 1979-80, this program cost the state about $3.9 million and in 1982-83, $2.2 million.

Although Oregon's property tax subsidies significantly assist those at the very lowest levels of income, the overall property tax system is still regressive. See Table 23. Available data suggests that the property tax may be moderately progressive for households with annual incomes between $4,000 and $17,500 after the 30% and HARRP programs are considered.

d. <u>Recent City Club Attitudes About Property Tax Changes.</u> Since 1968, the City Club has reviewed 13 statewide ballot measures(5) which were intended to provide varying degrees of property tax relief. As a general proposition, the Club has not been willing to support changes in the existing property tax system unless the following conditions are met:

a. Local control of education and other local government services is maintained or enhanced.
b. Prospects for statewide economic health are maintained or enhanced.
c. Lower and/or middle income taxpayers are not made worse off.
d. Local governments are left able to meet demands for new or expanded services.
e. The aggregate tax burden on Oregon taxpayers is not increased.

(5) These measures are listed in the bibliography.

e. Concluding Remarks on Oregon's Present Property Tax System. Oregon's property taxes are the 3rd highest per capita in the west and the 11th or 12th highest nationwide. In terms of criteria developed by your Committee, Oregon's property tax system ranks well in some respects and poorly in others. On the positive side: the tax is productive, requires relatively little taxpayer recordkeeping, and is both visible and simple. In addition, the administrative machinery is already in place.

On the negative side, the major feature of the tax is its regressivity. Although a substantial number of the very lowest income individuals are largely or wholly excluded from the tax, the tax is still regressive with respect to income at most income levels.

Another negative feature of the property tax is due to Oregon's current political and economic environment. We believe that the continuing threat of a property tax rate limitation proposal has caused some business people who are considering locating or expanding in Oregon to become concerned about the future availability of state and local government services. Because of this, the state's prospects for maintaining economic health and growth are weakened.

A third negative feature concerns the horizontal inequities which are present in any system of property taxation. Because property is only one form of wealth, the tax falls disproportionately on those who hold a high portion of their wealth in this form. Other things equal, for example, property-intensive businesses pay a greater amount to this tax than do labor-intensive businesses. This inequity is reduced for some businesses, however, by the special arrangements available for timber land and farm land. In addition, investments in real property are used as tax shelters by many taxpayers to reduce their income tax liabilities.

2. The Personal Income Tax.

a. General Background Information. Prior to 1929, the single largest source of state tax revenue was the property tax. In reaction to public concerns that overall property tax levels were too high and to the growing use of the personal income tax at both the national and state levels, the 1929 legislature enacted the Property Tax Relief Act of 1929---a personal income tax.

Over the years, Oregon's personal income tax collections have grown dramatically, both in the money collected and in the percentage of General Fund revenue raised by the tax. In the 1981-83 biennium, the personal income tax raised approximately \$2.1 billion or 73.6% of General Fund revenue. In the 1983-85 biennium, it is anticipated that the personal income tax will raise \$2.6 billion or 77.7% of General Fund revenue.

As noted earlier in this report, Oregon has had one of the highest personal income taxes in the country in recent years. This is the result of Oregon's relatively high rate structure. From 1969 to 1981, the tax rates started at 4% for the first $500 of taxable income on a single return or $1,000 on a joint return and rose over several steps to 10% on taxable incomes over $5,000 for a single return or $10,000 for a joint return. Beginning in 1982, these rates were increased to the present rate structure shown in Table 24. Under present law, these rates will remain in effect through 1984, after which they will revert to the 4% to 10% rates which existed prior to 1982.

It should also be noted that Oregonians pay more income taxes at virtually all levels of income than people living in other states. Forty-five other states and the District of Columbia collect personal income taxes and only 8 have maximum marginal rates as high as or higher than Oregon's; in all cases the 10.8% level is not reached until a significantly higher level of taxable income is reached. For a listing of these states and their rates over 10.8%, see Table 25.

As Tables 26 and 27 indicate, Oregon's personal income tax collections are progressive, rising from .5% in 1981 for persons with adjusted gross incomes of $1,500 to 7.4% for persons with incomes of $300,000-$500,000. The tax appears somewhat regressive on incomes above $500,000. In fact, Oregon's personal income tax appears to be one of the most progressive in the country.

In terms of the actual effect on Oregon taxpayers net of federal taxes, however, Tables 26 and 27 significantly overstate the level of progressivity. This is because persons in higher income tax brackets can reduce their federal income taxes to a greater extent by deducting their state income taxes paid on their federal returns. Progressivity would also be reduced if it were measured using gross income as a base (before considering the effects of deductions and exemptions) rather than adjusted gross income.

b. <u>How Oregon Computes the Personal Income Tax</u>. Although the computation of an individual's Oregon taxable income and the resulting tax is far more complex than this outline suggests, the basic steps can be described as follows:

1) <u>Determine gross income</u>. As a general matter, gross income is defined to include all income from whatever source derived, e.g., wages, salaries, tips, interest income, rents, unincorporated business income, alimony received, and the like. Some receipts which could have been included in gross income, however, are excluded altogether or are only taxed in part. For example, the first $200 of dividends on a joint return are excluded, as are 60% of profits on long-term capital gains, Social Security receipts, interest on tax exempt bonds, employer contributions to health insurance plans and certain employer life insurance payments.

2) Subtract adjustments to gross income. Adjustments to gross income include, among others, certain moving and employee business expenses and alimony payments. Contributions for retirement purposes which are made to Individual Retirement Accounts or Keogh plans are also subtracted here.

3) Subtract the standard deduction or itemized personal deductions. The deductions and exclusions described above are available to all taxpayers. At this point in the process, however, the taxpayer must decide either (1) to take the maximum standard deduction of up to $750 for married persons filing separately or up to $1,500 for other returns; or (2) to itemize certain additional deductions and subtract them instead. In appropriate cases, itemized deductions can include unreimbursed medical and dental expenses, certain taxes paid to state and local governmental units, interest expenses and charitable contributions.

4) Compute the potential tax. This is done by referring to the applicable tax table.

5) Subtract certain credits. Personal income tax laws provide taxpayers with credits against taxes due for income taxes paid to other states, certain child care expenditures, expenditures for residential energy conservation and some political contributions to name just a few. For 1983 and 1984, Oregon law also provides for an $85 personal credit in lieu of the previously available personal exemptions.

c. Differences Between the Federal and State Personal Income Taxes. In 1969, Oregon adopted the federal Internal Revenue Code as the basis for computing state taxable income. For 1983 and subsequent years, the principal remaining differences are as follows:

1) Deductibility of taxes paid to other governments. Federal income tax regulations permit a full deduction of general sales, state and local income and property taxes paid. By contrast, Oregon limits the deduction for federal income tax payments to $7,000 per individual or joint return. It should be noted, however, that Oregon permits a greater deduction for federal taxes paid than do most states. This limited deduction also helps to make the state tax system more progressive.

2) The federal personal exemptions. Federal law permits taxpayers to subtract $1,000 from adjusted gross income for each taxpayer. Additional exemptions are available for persons over 65, for the blind, for dependent children living with the taxpayer and for certain other dependents. For 1983 and 1984 only, Oregon has substituted an $85 personal credit for each $1,000 personal exemption. For most taxpayers, this will raise total income taxes slightly. For example, a taxpayer in

the 10.8% marginal bracket who was entitled to claim only one exemption will lose $23 (= 10.8% tax on $1,000 or $108, minus the $85 credit).

3) Certain accelerated depreciation deductions. For 1983 and 1984 only, Oregon does not permit business depreciation under the favorable ACRS (Accelerated Cost Recovery System) method. This principally affects corporations, but it also affects unincorporated businesses. Barring further legislative action, ACRS will be available in Oregon in 1985.

4) Certain state-only tax credits. Oregon, like other states, provides certain relatively minor tax credits which are either unavailable under the federal tax system or available only under somewhat different circumstances. These include the state political contribution credit and the state credit for alternative energy devices.

d. Concluding Remarks on Oregon's Present Personal Income Tax. The importance of the personal income tax to Oregon can hardly be overstated. More than 70% of General Fund revenue comes from this one source. The tax is progressive, highly productive in terms of revenue raised, and highly visible. In view of the fact that Oregon's personal income tax system tracks the federal system, the marginal additional cost of completing and reviewing state income tax returns is reduced. To the extent the tax is inequitable and complex, it is no more so than the federal tax.

Nevertheless, your Committee believes Oregon's personal income tax system is at a crossroads. In the past, the tax has proven to be highly elastic. As statewide income has increased, state income tax revenue has increased dramatically --in part because more people have moved into higher marginal tax brackets. Under Oregon's present system, with a maximum marginal 10.8% rate at the relatively low income levels of $5,000 per single return or $10,000 per joint return, it is highly unlikely that Oregon will achieve similar benefits from bracket changes in the future. Consequently, the tax is likely to be less elastic in the future.

This problem could, of course, be resolved through the addition of more and higher income tax brackets, but any attempt to do so would only exacerbate another critical problem. Oregon's personal income tax is already among the very highest in the nation, and serious concerns have been raised by speakers before the Committee about the disincentive effect which the tax has on statewide economic health and growth. Higher marginal rates could well make matters worse by discouraging a greater number of new businesses from expanding, locating or remaining in the state. Higher rates could thus prove to be counterproductive.

3. The Corporate Income Tax.

a. General Background Information. Oregon's corporate income tax was enacted in 1929 as a part of the same property tax relief program which instituted the personal income tax.(6) The tax, which is assessed at a flat rate of 7.5% of taxable income, produced $332.9 million or 12.8% of General Fund revenue in the 1979-81 biennium and $263.7 million or an estimated 9.1% in 1981-83. It is expected to provide $285.4 million or 8.5% of General Fund revenue in 1983-85. The tax is thus the second largest revenue source in the General Fund. In 1982, more than 32,500 corporations paid income or excise taxes in Oregon, but nearly 60% of revenue came from 145 large corporations. Approximately 50% of the corporations were "inactive" and paid a $10 minimum fee.

Forty-five states plus the District of Columbia employ corporate income taxes. In terms of 1980 corporate income taxes per capita, Oregon ranked 13th nationally and 3rd among the Western states. See Tables 9 and 10. Table 28 shows the present corporate income tax rate for all states with rates higher than Oregon and the levels of income to which those rates apply.

b. How Oregon Computes the Corporate Income Tax. The basic steps used by a corporation attempting to determine its Oregon taxable income are as follows:

1) Determine total income. Income is generally defined to include all income from whatever source derived, i.e., all gross receipts or sales, dividends from unaffiliated corporations, interest, rents, royalties and the like.

2) Subtract deductions from total income. Deductions from total income include, for example, employee compensation, repairs, bad debts, rents paid, taxes, interest expense, contributions, depreciation, advertising and employee benefit programs.

3) Apportion a part of the income to Oregon. Once the total net income is determined, this amount is then divided among the various states and foreign countries in which a corporation does business. Nonbusiness income is allocated to the corporation's commercial domicile or

(6) Technically speaking, Oregon has two separate taxes -- a corporate excise tax and a corporate income tax. The corporate excise tax is imposed on corporations doing business in the state at a flat rate of 7.5% of taxable income, with a $10 minimum. The corporate income tax is also assessed at a 7.5% rate, but contains no minimum rate. The distinctions between these two taxes are historical and are largely irrelevant for purposes of this report. Throughout this report, the term "corporate income tax" is used to describe both taxes.

to the state in which the nonbusiness income originated. Business income is apportioned by the method described in Section d below.

4) Compute the potential tax. The Oregon tax is computed by adding the allocated and apportioned income assigned to the state and then multiplying this total by the statutory 7.5% rate.

5) Subtract certain credits. Like the personal income tax laws, corporate tax laws provide taxpayers with credits against taxes due for certain types of expenditures. These include energy conservation facility costs, money spent for reforestation of underproductive forest lands, pollution control expenditures, and others.

c. Differences Between the Federal and State Corporate Income Taxes. For tax years beginning with 1983, corporate taxable income in Oregon is essentially the same as corporate federal taxable income with some specific exceptions. Some of the more significant differences between the two systems are the following:

1) Oregon corporate income tax payments can be deducted for federal income tax purposes without limitation. Federal corporate tax payments are not deductible in computing Oregon taxable income.

2) Oregon taxes corporate capital gains at the rate applied to other income, whereas federal law uses a preferential rate.

3) Oregon's rules with respect to loss carrybacks and carryovers also differ. For federal purposes, a corporation may net current operating losses against income in the 3 preceding taxable years or the subsequent 15 years. In Oregon, operating losses may only be netted against income for the subsequent 5 years.

4) Depreciation rules are also different. As noted earlier, Oregon presently does not permit accelerated depreciation under the ACRS system, but this will be permitted in 1985.

d. The Unitary System of Taxation--How Oregon Handles MultiState and International Corporate Operations. The net income of a corporation which operates across state or national boundaries must be apportioned among the various taxing jurisdictions involved so that the corporate income will not be subject to multiple taxation and to prevent corporations from shifting income to low tax states or countries. This apportionment is usually done either by an allocation based on separate accounting for each area of operations or by a formula for apportionment of the entire business. Oregon uses a variant of the formula system frequently called the unitary method of taxation. The Oregon system also requires combined reporting on a worldwide basis.

For a corporation operating both in Oregon and elsewhere, the process of income allocation contains three steps:

1) Identification of one or more "unitary businesses" connected with the corporation's Oregon operations. A corporation may engage in one or more businesses through one or more corporate entities. The "unitary" business, generally speaking, includes all business operations which are dependent upon or contribute to each other. The process of determining what is or is not part of a unitary business can be extremely complex.

2) Determination of unitary business income. Once the scope and content of the unitary business is determined, the assets and operations of all corporations involved in each unitary operation are combined in one report. Oregon requires what is called world-wide combined reporting. Under this method, all world-wide income of both domestic and foreign corporations must be combined. Nationally, only 6 states (including Oregon) require the income of a foreign parent corporation to be combined with the rest of the group. See Table 29.

3) Division of the unitary business income among the jurisdictions involved. A part of the total unitary business income is then apportioned to Oregon on the basis of the average of 3 ratios--the ratio of property, payroll and sales in Oregon to property, payroll and sales outside of the state but within the unitary operations. The portion allocated to Oregon is then subject to tax at Oregon's regular corporate rate.

Representatives of the Oregon Department of Revenue have advised your Committee that they believe that Oregon's combined world-wide reporting method is a reasonable method of apportioning income and that any other reporting method would treat corporations differently based upon where their non-Oregon operations happen to be located. Because many international business people believe that the tax is unfair as applied to them, Governor Atiyeh has recently directed the Department of Revenue to investigate this tax and to consider alternative approaches to the combined world-wide reporting method.

Whether or not the tax is ultimately fair, your Committee believes that many international businesses view Oregon's combined world-wide reporting system as a disincentive to locate in Oregon as compared to the many other states which do not go this far. The system requires foreign parent corporations to furnish extensive information on their world-wide operations which must generally be translated into U.S. principles of taxation for domestic reporting. Oregon's method could also cause significant distortions if, for example, a new Oregon startup subsidiary which is incurring substantial losses is combined with significant profits of established operations elsewhere to yield taxable income in Oregon. As a general matter, the implicit premise of the unitary system is that every dollar spent, invested or collected in a business contributes on an approximately equal basis to profits. When the actual contribution is materially unequal, the system produces distorted apportionment.

Legislation to exclude foreign operations from Oregon's unitary tax system during the first 5 years of operations was introduced in 1983 but died in committee. The Oregon Department of Revenue testified generally in favor of continuing the present system but did not specifically oppose the proposed legislation. The Department estimates that abandonment of the combined world-wide reporting method and taxing only domestic earnings for all corporations would cost the state approximately $20 million per year. For the 1979-81 biennium, this would represent 12% of the total amount collected from the corporate income tax.

e. Concluding Remarks on Oregon's Present Corporate Income Tax. Oregon's corporate income tax is the second largest source (about 9% to 12%) of General Fund revenue. Like the personal income tax, it is very similar to the federal tax and is thus relatively easy to administer. It is also visible and productive.

Although a number of witnesses called for major changes in the personal income tax and real property tax, there was no widespread demand for a reduction in the corporate income tax. Even though Oregon's corporate income tax is about the 13th highest in the country, it appears to be a tax which most Oregonians are willing to accept. In part, this relative complacency may stem from the view that the tax is paid by "business" rather than by individuals. This is not strictly the case, however. A portion of the tax is borne by a corporation's customers, some is borne by its suppliers (including its employees) and the rest is borne by the shareholders. The extent to which each group pays the Oregon corporate income tax cannot be determined. One study of the incidence of state and local taxes throughout the country simply used a 50% shareholders-50% consumers assumption as a benchmark for all corporate income taxes without elaboration.(7)

The corporate income tax also has one feature which, from an Oregonian's point of view, is preferable to the personal income tax--a portion of the tax is shifted to non-Oregonians such as those who own stock in corporations subject to the tax. Of course, other states also "export" a portion of their corporate income taxes back to Oregonians.

D. Other Taxes.

1. The Unemployment Insurance Tax. Oregon collects a tax from all employers with quarterly payrolls in excess of $225. Beginning in 1983, the tax is assessed on the first $12,000 of wages to each employee at a rate between 2.2 and 4.0%. A new account starts with a rate of 3.5%. After two years, the employer earns an "experience" rating, and a rate between 2.2% and 4.0% is then assigned depending

(7) Phares, "Who Pays State and Local Taxes?" Oelgeschlager, Gunn and Hain Publishers, Inc., 1980.

upon the employer's "unemployment" experience. All money received is paid to the Unemployment Income Trust Fund which is managed by the Employment Division of the Department of Human Resources. One percent of the fund is utilized for administration and the balance goes to unemployment benefits.

The amount of money raised by this tax is substantial: $410.4 million in the 1977-79 biennium; $458.2 million in the 1979-81 biennium; and an estimated $472.0 million in the 1981-83 biennium.

2. The Motor Fuels Taxes. Oregon imposes a tax on motor vehicle and aircraft fuels which are sold, used or distributed within the state. The present tax rates are as follows: 9¢ per gallon (10¢ beginning in 1985) on gasoline; 9¢ per gallon on non-gasoline motor fuels (10¢ beginning in 1985); 3¢ per gallon on aircraft fuel dedicated for aeronautical purposes; and an extra 1/2¢ per gallon on fuel used exclusively for turbo gas prop or jet engines. The total revenue received from all motor fuel taxes was $194.8 million in 1977-79, $180.5 million in the 1979-81 biennium, and an estimated $183.6 million in 1981-83.

The revenue from motor vehicle fuel, excluding aircraft fuel, is collected by the Motor Vehicle Division. After deducting its related costs of operation, the Motor Vehicle Division transfers the revenue to the Highway Fund where some is matched by federal money. A part of these funds are used for state highway construction and maintenance and the rest is distributed by formula to counties and cities.

3. The Workers' Compensation Tax. Oregon imposes a three-part workers' compensation tax. One part is assessed at a rate of 16.8% of an employer's total workers' compensation insurance premiums. The second part is assessed against employers at a rate of 12¢ per covered worker per day. The third part is assessed against employees at a rate of 14¢ for each day of employment.

$117.9 million was raised in the 1977-79 biennium, $132.2 million in 1979-81, and $147.4 million in 1981-83. Distribution of the money is controlled by the Workers' Compensation Department. In the 1981-1982 fiscal year, 77% of the revenue received was distributed as disabled worker benefits and rehabilitation expenses. The remaining 23% was used to pay for administration of the Workers' Compensation Department and Board.

4. The Weight-Mile Tax. Oregon collects a tax based upon the weight and mileage of common, contract and private motor carriers within the state. The tax rates vary depending upon the fuel used as well as the weight and mileage of the vehicle. Publicly owned vehicles and farm trucks not for hire are exempt but pay a flat fee "in lieu of" the weight-mile tax.

In the 1977-79 biennium, $106.9 million was collected, and in 1979-81 $118.8 million was collected. The estimate for 1981-83 is $122.4 million. After the deduction of certain administrative costs by the Public Utility Commissioner's office, all revenue is transferred to the Highway Fund and is used for roads, streets and highways.

5. The Timber Severance Taxes. Beginning in 1856, Oregon timber was taxed each year according to its value as part of the general real property tax. This ad valorem system worked against the development of sustained yields of timber over time, however, because it required owners to pay taxes on the value of trees when the trees were not producing any revenue.

In 1961, the legislature exempted all standing timber in Eastern Oregon from property taxes and imposed the Eastern Oregon Severance Tax. Under the new tax, owners paid a percentage of the market value of all private timber when the timber was harvested. For the western part of the state, the 1961 legislature began two new systems: A partial property tax exemption for most timber and, for small owners, the Western Oregon Small Tract Option. The Small Tract Option permitted the owners of small parcels of timber to have their land assessed as of a particular date and avoid paying increased taxes in the future because of further growth of standing timber. These changes helped reduce the timber tax burden.

In 1977, the legislature adopted the Western Oregon Severance Tax in lieu of the partial exemption for Western Oregon Timber. Like the Eastern Oregon Severance Tax, this new tax required private timber owners to pay a tax when timber is harvested. The tax rates in eastern and western Oregon are not the same, however.

In 1947, the legislature also enacted the Forest Products Harvest Tax, which is levied on all forest products harvested throughout the state in order to finance forest research, fire protection (only on harvest from private lands), and administration of the Oregon Forest Practices Act.

During the last four fiscal years, the Western and Eastern Oregon Severance Taxes have collected a total of approximately $45 million to $50 million per year. Most of the revenue generated by these taxes (approximately 97% in 1982) is paid to local governments, which disburse the money to local taxing districts. The balance is retained in Salem by the Departments of Revenue and Forestry to cover administrative costs.

The amount of revenue produced by timber taxes is contingent upon three factors: (1) the amount of timber harvesting which takes place on private lands versus public lands; (2) the total volume of timber being harvested; and (3) the value of the timber being harvested. A shift in one or more of the factors causes a increase or decrease in tax revenues. Recently there has been a significant reduction in severance tax revenue. For example, the August 1982 quarterly payments to local governments totaled approximately $13 million. The August 1983 payments were $7 million. This reduction was due primarily to the decline in value of harvested timber and the general reduction in the amount of timber harvested from private land. It is likely to take several years before the total amount of revenue returns to the $45-50 million level.

6. The Insurance Tax. Oregon also assesses a tax on certain limited classes of insurance premiums. The tax, which is based on policy

premiums covering direct risks less returned premiums and dividends paid, has four components:

1) A "gross premiums tax" of 2.25% for non-Oregon insurers and for Oregon insurers organized after January 1, 1971 which are controlled by non-Oregon insurers. Payment of this tax exempts an insurer from the Oregon corporate income tax.
2) An additional .75% Fire Marshal Tax on certain premiums of insurers who write fire insurance policies.
3) A 5% tax on non-Oregon marine and transportation insurers based upon a three-year average of underwriting profits in Oregon.
4) A retaliatory or equalization tax imposed upon insurers from states which tax Oregon-based insurers at rates greater than Oregon's.

In the 1979-81 biennium, the gross premiums tax raised $76.5 million and the Fire Marshall Tax raised $1.5 million. Revenue from the Fire Marshal Tax is payable to the Office of the State Fire Marshal. Revenue from the other insurance taxes is payable to the General Fund.

7. The Cigarette Tax. Oregon began taxing cigarettes in 1966 at a rate of 4¢ per pack. The rate was increased to 9¢ in 1972, to 16¢ in 1981 and to 19¢ in 1982.

In fiscal year 1982-83, Oregon received $61.9 million from this tax. Oregon's present cigarette tax rate ranks only behind Washington (20¢ per pack) among the 13 Western states. This revenue is presently distributed 1/19 to cities and 1/19 to counties, apportioned by population; the remaining 17/19 is distributed to the General Fund. At January 1, 1986, the rate is scheduled to revert to 9¢ and the distribution fractions will revert to 1/9, 1/9, and 7/9.

8. The Gift and Inheritance Taxes. The Oregon inheritance tax is levied upon transfers of money or property from a decedent's estate. Oregon's gift tax is levied upon transfers during a person's life. Subject to the exclusions and deductions described below, the tax on both estates and gifts is 12%. The only increase above this rate is in the application of the so-called "pickup tax" for estates. Since present federal estate tax law permits a credit for state taxes paid, Oregon law and the law of many states has been amended so the state inheritance tax "picks up" this credit amount. Revenue from both taxes goes to the General Fund.

For gift tax purposes, there is an exclusion of $3,000 per donee per year. Thus, a married couple can give $6,000 per year to a child without incurring any gift tax liability. There is also a lifetime specific exemption for total gifts by an individual which follows the same phase-in schedule as the inheritance tax exemption described below.

For inheritance tax purposes, each estate receives a $200,000 exemption during 1983 and 1984. This amount will increase to $500,000 in 1985 and 1986. A taxable estate generally includes all real and personal property owned by a decedent less debts and final expenses of the decedent. However, certain types of property, such as retirement benefits and farm and timber properties, receive special treatment. Inheritance tax credits, such as those for surviving spouses, surviving dependents and transfers to qualifying charitable organizations also reduce the tax which would otherwise be payable.

In the 1979-81 biennium, Oregon collected $62.8 million in inheritance and gift taxes. For the 1981-83 biennium, collections are estimated to be approximately $76 million. For 1983-85, collections are estimated to be $46 million.

Beginning in 1987, Oregon is scheduled to eliminate its independent inheritance tax and gift tax and to collect from estates only the amount permitted as a credit on federal estate tax returns. In effect, the federal treasury will be paying the Oregon inheritance tax. Sixteen states have adopted this system.

9. The Beer and Wine Tax. Oregon imposes a beer and wine tax on persons who either manufacture or import these beverages for distribution. As with many taxes, there are certain exemptions. For example, no tax is imposed on the first 40,000 gallons of wine sold in Oregon by manufacturers which produce less than 100,000 total gallons annually.

Beer is taxed at a rate of $2.60 per 31 gallon barrel or 8.387¢ per gallon. Wine which contains more than 1/2% but not more than 14% alcohol by volume is taxed at a rate 65¢ per gallon. For wine containing more than 14% but less than 20% alcohol by volume, the rate is 75¢ per gallon. In the 1977-79 biennium, revenue totaled $17.7 million. For 1981-83, revenue is estimated to be $21.5 million.

The distribution of this revenue is set by statute as follows: 28% to the state General Fund; 5% to the counties on the basis of population; 10% to cities on the basis of population; 7% to cities according to a formula based on per capita income, population and property taxes; 20% to counties for alcohol rehabilitation and treatment programs; 20% to the State Mental Health Division to provide matching funds for local alcohol treatment programs; and 10% to the Mental Health Division for state mental health and alcohol services programs.

10. Additional State and Local Taxes. Oregon's state and local governments also collect a number of other taxes. These include the Tri-Met and Lane Transit payroll taxes, the Multnomah County business income tax, the Portland City business license fee, the state tax on amusement games and devices, the state tax on pari-mutuel betting, county and city gas taxes, hotel-motel taxes and others.

11. Concluding Remarks on Oregon's "Other Taxes". Some of the taxes discussed in this section could be described as user fees. This is the case, for example, with respect to the unemployment, motor fuels and weight-mile taxes. Some, such as the timber severance tax, are substitutes for other taxes. Still others, such as the taxes on cigarettes, amusement devices and beer and wine, can be viewed as "sin taxes" designed to discourage certain activities. More cynically, they might be described as a means of raising revenue from politically vulnerable sources.

E. Non-Tax Revenue.

1. Licenses and Fees. Oregon collects more than 240 general business and non-business licenses and fees on everything from oyster cultivation to x-ray machines. State policy generally is to charge a fee sufficient to reimburse the state for the actual costs of related services.

Total state revenue received from general licenses and fees was $207.3 million in the 1979-81 biennum. The principal sources were motor vehicle licenses ($83.6 million or 40.3%) and business licenses ($43.7 million or 21.1%).

Apart from these fees, the State Department of Education collects substantial tuition fees and related income such as auxiliary enterprise income and patient fees. Approximately $548 million was collected by these means during the 1981-83 biennium. For the 1983-85 biennium, this is expected to be approximately $611 million.

Local governments also collect substantial revenue from licenses and fees in connection with matters as diverse as building permits, community colleges and business taxes and permits. During the 1979-81 biennium, approximately $240 million was raised from such fees.

2. Liquor Store Revenue. Under Oregon law, the Oregon Liquor Control Commission (OLCC) purchases alcoholic beverages other than beer and wine for distribution through state-owned or operated stores. At present, the OLCC's prices are based upon cost plus a 99% markup. In 1980, liquor sales were $146.6 million and the net income to the state was $68.3 million. In 1981 sales increased to $154.7 million and net income to $71.4 million. 1982 sales were $154.9 million and 1982 net income was $71.9 million.

After an $8.2 million credit to the General Fund for 1983-85, liquor store revenue is distributed by statute as follows: 56% to the General Fund; 20% to incorporated cities; 14% to the city revenue-sharing account; 10% to counties.

3. Federal Payments for O&C Lands. In order to encourage western economic expansion, the federal government gave approximately 4.2 million acres of land to the Oregon and California (O&C) Railroad Company in the years following 1866. When they were owned by the federal government, these lands were not subject to state and local property taxes. When ownership was transferred to the O&C, the lands were subject to taxation.

In 1916 Congress returned approximately 3 million acres of O&C lands to federal ownership. In order to replace a part of property taxes lost as a result, the federal government allocated $7 million dollars per year for 10 years to the 18 affected counties. In 1937, Congress made further changes and adopted a new system of compensating Oregon's counties. Under this new system, the revenue from timber sales on the O&C lands was allocated as follows: 25% to the federal treasury; 50% to the affected Oregon counties and an additional 25% to the 18 counties after the federal treasury was repaid for certain advances which it had made for the payment of other back taxes.

This formula is still in effect. The allocation to each county is based upon the relative assessed values of O&C lands within the counties in 1915.

In the 1980-81 fiscal year, Oregon's counties received $97 million from the federal government for O&C lands. In the 1982-83 fiscal year, revenue declined to $58 million, due principally to the weak forest products market.

4. Revenue from State Forest Lands. The state owns and oversees development of forest lands in more than 20 Oregon counties. The profits from lands ceded by the counties to the state for management go back to the counties, and the rest goes to common school funds and is distributed to schools by formula. Revenue from this source was $34.9 million in the 1978-79 fiscal year, $34.9 million in 1979-80, $45.2 million in 1980-81, and $32.5 million in 1981-82.

5. Additional Revenue Sources. State and local governments also collect money from a number of other sources. These include veteran's bonds to finance housing ($800 million sold during the 1981-83 biennium), other general obligation and revenue bonds ($217 million in 1981-83), and state court fees and fines ($26 million in 1981-83) to name a few. As noted earlier in this report, federal transfer payments are also a significant revenue source.

F. Concluding Remarks and Recommendations Concerning Oregon's Present System of Taxation.

Oregon's system of state and local taxation does not conform to a consistently identifiable philosophy. To the contrary, Oregon uses a number of different taxes to serve a number of different and often conflicting purposes. This is also true of other states and the federal government, however.

In the past, Oregon's taxing system has served the state and its citizens adequately. It is one of the more progressive in the country, and it appears to be fairly and efficiently administered. However, the economic and political context within which the tax system must function has changed. The present tax system has flaws which must be addressed so that Oregon can better meet the challenges of the 1980's and beyond.

1. Oregon Needs Property Tax Relief. Your Committee believes that Oregon should enact a program to provide significant property tax relief for three main reasons.

First, public education depends too heavily on the property tax. A strong case for a quality system of public education can, of course, be made solely on economic grounds. Better educated citizens are likely to earn more and therefore to contribute more to the economic well-being of the state. In the Committee's view, however, the case for quality education goes much further. An intelligent, informed electorate is essential to the proper working of a democracy. Without a quality education, a person's ability to participate fully in modern society is limited.

In the absence of significant property tax relief, the continuing risks to the educational process caused by potential disruptions in property tax funding are unacceptably high. Moreover, this problem will continue as long as funding for primary and secondary education depends so heavily upon property taxes. We believe that Oregon will be unable to improve upon or even maintain its present educational system unless this property tax dependency is reduced and greater state responsibility for funding public education is assumed. Legislative consideration should therefore be given to establishing a substantially increased level of state support for public education. (Local districts should be left free, however, to raise additional revenue subject to voter approval.)

The Committee's second reason for supporting property tax relief is its concern about the possible passage of a measure which would radically limit property tax revenues and government spending if no property tax relief is enacted. As noted elsewhere in this report, enactment of such a measure could hurt Oregon's prospects for economic health and growth. The 1982 report adopted by the City Club on Ballot Measure 3 concluded, for example, that its enactment would have critically impaired Oregon's liveability and its ability to function as a state.

The Committee's third reason for supporting property tax relief concerns the effect which the present climate of uncertainty appears to have on Oregon's ability to attract and develop new businesses. Your Committee heard from a number of speakers who stated that unless and until Oregon puts its financial house in order, business people will tend to avoid the state because they cannot be certain that key public services will be available in the future. Your Committee believes that these speakers were essentially correct. In the absence of property tax relief, the risk of future disruptions is unacceptably high. Although it is possible to argue that this view is alarmist and that the state would always find a way to muddle through somehow, many businesses will not want to take this risk if they can avoid it by locating elsewhere.

Although Oregon's personal income taxes are among the highest nationwide -- higher than the comparable property tax ranking -- your Committee does not believe that the case for personal income tax relief is as strong as that for property tax relief. In part, this is because the personal income tax is progressive while the property tax is not. In part, this is due to the fact that there appears to be no widespread threat to the state posed by the advocates of personal income tax limitations. This is not to say, however, that Oregon can or should expect to rely upon increases in personal income tax rates to solve present or future economic problems. As is explained in the next section of this report, we believe that such an attempt would be undesirable. To the contrary, a way should be found to assure that the relative importance of the personal income tax to the state does not increase.

Your Committee also considered whether Oregon should abolish its corporate income tax in order to encourage more business development. Although additional business development would undoubtedly be promoted, your Committee is not persuaded that this benefit would be worth the lost revenue. Elimination of this source of revenue would require the state either to cut its programs accordingly or to raise additional money from other sources. The former seems inadvisable, and the latter seems impractical. The ability to "export" a portion of Oregon's tax burden would also be lost.

2. Property Tax Relief Can Not Be Funded by Sources Presently In Use. It is not feasible for Oregon to reduce either property taxes or personal income taxes significantly by increasing reliance on other existing taxes. For example, a 40% reduction in property taxes would mean a loss of over $700 million in revenue. Doubling the beer and wine tax would raise $6 million per year. A 1-cent increase in the cigarette tax would raise about $3.3 million. Each 1-cent rise in the gasoline tax would raise $12 million. Changes to the corporate income tax, which presently raises about $140 million per year, would also fall far short of generating sufficient revenue to offset existing property taxes.

Although property tax relief could conceivably be funded by increasing personal income taxes, your Committee believes it would not be feasible to tack another $700 million per year onto the $1,350 million already raised by this tax. Increasing the maximum personal income tax rate to a full 15% would only bring in about $315 million per year; eliminating the $7,000 deduction for federal income taxes would raise about $240 million; and taxing all capital gains as ordinary income would only raise $50 million to $70 million per year.(8)

More importantly, even if a rate structure could be determined which would raise $700 million more from a combination of the personal and corporate income taxes, your Committee believes it would not be advisable to do so. Oregon's anti-business image already presents a significant obstacle to the state's economic health. Major increases in these already high taxes would almost certainly be regarded by a substantial portion of the business community as a further indication Oregon is not a good place in which to locate or expand. The effect would thus be that the state and its residents could lose jobs, businesses, income and ultimately tax revenue as well.

3. Other Modifications to the Present System. Your Committee also recommends adoption or consideration of the following modifications to Oregon's present taxes:

a) If property tax relief is enacted, the remnants of the 30% relief program should be abolished. Your Committee believes, however, that a program similar to HARRP should be retained in order to offset the regressive nature of the property tax system.

b) At the November 1982 general election, Oregon voters defeated State Ballot Measure 1. This measure, which had been supported by the City Club membership, would have permitted local tax bases to increase up to 15% per year without voter approval to the extent of new development in a district. In other words, the presence of new development would have permitted a corresponding but limited rise in local rate bases in order to help defray the cost of delivering government services to the newly developed area. Your Committee supports this type of approach in order to (a) encourage local districts to plan for growth, and (b) provide local governments with greater ability

(8) Revenue estimates are from the Legisative Revenue Office.

to pay for the burdens caused by growth. Your Committee would therefore urge the 1985 legislature to consider the adoption of a new Measure 1 type of proposal.

c) As noted earlier, the worldwide reporting aspect of the unitary tax on corporations may represent a significant deterrent to new business development. This matter is the subject of legislative efforts on the federal level, and it may be resolved before the next session of the Oregon legislature. If not, we recommend that the legislature further evaluate the effects of this tax on Oregon business and investigate alternative approaches.

IV. NEW TAX REVENUE SOURCES

In addition to evaluating Oregon's present system of taxation, your Committee was also asked to examine possible new sources of tax revenue in order to determine whether or not Oregon's system might be improved. Through our interviews and our review of the available literature, we were able to identify two major new types of tax: a gross income tax and a tax on expenditures or consumption.

These alternatives are discussed and evaluated in this section of the report. In an appendix to this report, we have also presented information on two other possible new revenue sources--a new type of motor vehicle tax and a state lottery. The former is discussed principally to identify it as a source through which the state might raise additional funds. The latter is discussed principally to indicate that it is unlikely to prove a significant source of revenue to the state.

A. The Gross Income Tax.

1. General Background Information. The "gross income tax" is essentially a revision of the present personal income tax. The critical differences are two:

1) Unlike the present income tax, the gross income tax would be levied on all or nearly all of a taxpayers' personal income which is constitutionally subject to tax, including Social Security retirement benefits. The present deduction for 60% of long-term capital gains and IRA and Keogh contributions also could be eliminated. (With respect to unincorporated businesses, however, the tax would be levied on their net income--income after expenses--in order to place them on a par with corporations and to allow for the costs of producing income.)

2) Also unlike the present income tax, all or nearly all deductions and exemptions from income, such as the deductions for interest and charitable contributions, and tax credits would be eliminated.

Because of the broader base of income included and the narrowing of deductions, the marginal tax rates needed to raise a given amount of money under a gross income tax would be lower than under the present personal income tax. As with the present income tax, it would be possible to establish a gross income tax with more than one bracket so that the overall system would be progressive.

At present, only New Jersey uses a gross income type of tax. Tables 30 and 31 compare selected income inclusions and deductions under Oregon's present tax with those available in New Jersey. As can be seen, the present differences are more in the area of deductions than inclusions to income. Oregon need not, of course, follow New Jersey in any or all of these details. Assuming that an Oregon gross income tax were similar to New Jersey's tax, Oregonians who itemize deductions on their federal tax returns should be able to deduct this tax just as the present personal income tax is deducted.

At the federal level, there has been increasing discussion in recent years in favor of tax simplification measures such as the Bradley-Gephardt bill. This bill, which would reduce the number of deductions and exclusions from the federal income tax and lower tax rates as a result, is consistent with the spirit of the gross income tax.

2. Previous Attempts to Enact a Gross Income Tax in Oregon. As part of a tax package he proposed in 1982, Governor Atiyeh recommended adoption of a 1% net receipts tax which is similar to a gross income tax. Governor Atiyeh's net receipts tax was intended to be a supplement rather than a substitute to the present personal income tax, however. The proposal did not reach the floor of the 1983 legislature for a vote.

3. Advantages and Disadvantages of the Gross Income Tax. The following are the principal advantages of a gross income tax:

1) It would simplify Oregon's present income tax laws.
2) It would be visible and easily understood.
3) Through the use of lower marginal tax rates, the allocative inefficiency of the tax system would be reduced. There should be less "disincentive to save", for example.
4) The horizontal inequity of the present income tax system would be reduced. People who earned the same income would more often be taxed the same.
5) The gross income tax could be administered by the staff which presently oversees collection of the personal income tax. Thus, it would not be necessary to set up a new administrative organization to handle a new tax.

The following are the principal disadvantages of a gross income tax:

1) Many of the deductions and exclusions in the income tax laws--such as those for medical expenses, charitable contributions and interest deductions for homeowners--may serve important public policy objectives and should therefore be retained.
2) The gross income tax is still a relatively untried system which could have unpredictable adverse consequences. If so, Oregon's attempts to attract new businesses could be adversely affected.
3) The business community almost certainly would object to funding property tax relief in this manner.
4) The benefits of simplification can be overstated. Oregonians would still have to meet the same complex requirements in filling out their federal tax returns.

B. Taxes on Consumption.

Although Oregon presently taxes the consumption of certain products such as cigarettes, the state does not employ a broad-based consumption tax. Two principal alternatives are available: a retail sales tax and a general consumption tax.

1. The Sales Tax.

a. Experience of Other States. Forty-five states and the District of Columbia levy some form of retail sales tax. Only Oregon, Alaska, Delaware, New Hampshire and Montana do not. Some states also permit local governments to collect a sales tax. In 1982, state sales taxes varied from 2% to 7.5%, and local rates ranged from .5% to 5%. The combined state and local rates varied from 3% to 8%.

The amount of revenue raised by sales taxes on a per capita or percentage of personal income basis varies substantially from state to state. In fiscal 1980-81, for example, Vermont collected $87.52 per capita (1.12% of personal income) in sales taxes while Hawaii, with its substantial tourist influx, collected $569 per capita (5.62% of personal income) (Table 32). Sales taxes also vary in terms of the transactions which are subject to the tax. As of 1982, for example, 27 states either exempted food purchased for home consumption or taxed it at reduced rates. Forty-two states either exempted medicines or taxed them at reduced rates. Other than overnight accommodations, theatrical admissions and public utility bills, most states tax services to a limited extent, if at all.

Another difference concerns the extent to which states reimburse merchants who collect the tax. Some states do not do so at all. Others permit merchants to retain a percentage of the funds received in order to defray their costs.

At present, Washington uses a state-levied sales tax which is 6.5% for all counties except for those near the Portland metropolitan area (Clark, Cowlitz, Klickitat and Skamania) where it is 5.4%. Some local governments have also enacted sales taxes. In 1980, when the statewide rate was 4.5%, Washington raised $1.2 billion in state sales taxes ($415.34 per capita or 4.02% of personal income). Local sales taxes in that year netted about $136 million. The cost of administering the combined state and local tax system appeared to be approximately 6% of revenues raised.

The sales tax base in Washington includes retail sales of tangible personal property to all persons regardless of the nature of their businesses. The tax is not imposed upon purchases for resale or manufacturing for resale. Exemptions include casual sales, medical services, nonprescription drugs, food and the sale of goods to nonresidents. Washington does not reimburse retailers for collecting the tax.

b. Previous Attempts to Enact an Oregon Sales Tax. Oregon voters have repeatedly refused to adopt a retail sales tax in the past. Of the six sales tax measures to reach the ballot, none has received more than 29% approval:

Previous Votes on Sales Tax Measures

Date	Vote for	Vote Against
July 2, 1933	21%	79%
May 18, 1934	29%	71%
Jan. 31, 1936	15%	85%
Nov. 7, 1944	26%	74%
Oct. 7, 1947	27%	73%
June 3, 1969	11%	89%

Source: Research Report #7-82, February 14, 1983, General Sales Tax. Legislative Revenue Office.

In the most recent vote, the 1969 Legislature referred a tax package to the voters which included a 3% general retail sales tax with exemptions for food, drugs, feed, seed and fertilizer. Other aspects of the package included an increase in corporate income taxes, a partial offset to property taxes and somewhat increased tax bases for schools. The City Club committee which studied the matter recommended that the Club oppose the package. Even though the committee believed the package included some desirable reforms, it concluded:

> "The relatively small percentage of property tax relief achieved for those needing or demanding it most and the reforms in school finance do not justify the additional burden of the sales tax as proposed in this package, even if defeat of the measure involves the risk of further taxpayers' revolt. This particular solution to the taxpayer revolt is not acceptable to your committee."

Some commentators believe that one key factor in the rejection of the 1969 measure was the uncertainty at the time as to whether sales tax revenues would be used to relieve other taxes or would just be added to the governmental spending stream.

Although a retail sales tax has not been accepted by the voters in the past, current conditions in Oregon may make such a tax more acceptable. For example:

1) The recent recession, state revenue shortages, and the property tax revolt have increased public awareness of the state's need for a new, more stable revenue source.
2) Oregonians have become increasingly concerned about the state's anti-business image. Whether or not this image is justified, the fact that many business groups actively support a sales tax could increase the chance of acceptance.
3) An increasing percentage of Oregon voters have previously lived in other states which levy sales taxes.

c. The Sales Tax Plan Approved by the First 1983 Special Session. One example of a sales tax is the proposal passed by the first special session of the 1983 legislature. This measure was originally scheduled to come before the voters on March 27, 1984.(9) Although the legislature linked this tax to an expenditure limitation and a property tax rate freeze, only the sales tax provisions are discussed here.

The plan includes a 4% general retail sales tax dedicated to property tax relief for homeowners and renters. Both the tax rate and certain exemptions from the tax would be part of the Constitution. The principal exemptions are: food for home consumption; prescription drugs; hospital and medical services; plants, seed, fertilizer, pesticides, livestock and feed for animal life; physical ingredients in manufactured products; utility services; and sales or leases of real property. Beyond this, nearly all sales of goods and services would be subject to the tax. Businesses collecting the tax would be permitted to keep 2% of their collections in order to defray collection costs.

The exemptions on food, drugs and utility services would serve to reduce the impact of the tax on persons with low incomes. In addition, the plan provides that families with an annual income under $17,500 would receive credits for sales tax paid based upon their income and the number of dependents. The plan provides for a $40 credit per dependent for families with incomes of $5,000 or less. The credit decreases as family incomes rise, to a credit of $8 per dependent for families with incomes between $15,000 and $17,500. These credits are designed to lessen the regressivity of the tax.

The Legislative Revenue Office estimates that a 4% sales tax effective July 1, 1984, would produce gross revenues of $743 million during its first year. After subtracting $15 million for the 2% discount to persons collecting the tax, $18 million for the estimated cost of administration and $24 million to fund the low-income credit, this would leave a net of $686 million. Subtraction of another $57 million for relief to renters would leave $629 million.(10) (This figure excludes interest earnings in the sales tax account which could add as much as $15 million.) Since property tax levies are expected to be about $1,762 million in the 12 months starting July 1, 1984, the $629 million raised through a sales tax could reduce property taxes on all classes of property by about 35%. Assuming property tax levies do not grow more than 7% per year, the Legislative Revenue Office has estimated that by 1985-87, the reduction would be about 45%.

(9) On February 1, 1984 the Oregon Supreme Court declared unconstitutional the referral method adopted by the first 1983 special session. As of the date of completion of this report, it was not known whether this or any other sales tax measue would come before the voters.

(10) Legislative Revenue Office Research Report #9-83.

Before concluding this section, we wish to emphasize that this discussion of the first 1983 special session's sales tax proposal should not be taken to imply that it is the best sales tax imaginable. It is possible to contend, for example, that this proposal could be made more progressive, and therefore better, if items such as food and medicine were subject to the tax and an increased refundable credit was used to reimburse those least able to afford the tax; by contrast, the plan described above exempts purchases of food and medicine for rich and poor alike. Questions such as these can better be addressed by a separate ballot measure committee if and when this or any other plan should ultimately come before the voters.

d. <u>Advantages and Disadvantages of a Sales Tax</u>. The principal advantages of a retail sales tax are generally considered to be:

1) Compared to other kinds of taxes, a sales tax is relatively easy to administer and difficult to avoid. The sales tax would, for example, extend a portion of the tax burden to groups which may not now be paying their fair share of taxes such as tourists, people who earn income in the "underground economy", and high-income individuals who shelter a disproportionate share of their income from the personal income tax.
2) The tax provides a relatively, although not entirely, stable revenue source.
3) The sales tax is widely used. Oregon's adoption of the sales tax would make our system more congruent with neighboring states.
4) The tax is simple to understand.
5) The tax is somewhat "voluntary". To the extent that necessities are exempted from the tax, an individual can control the amount of tax by controlling expenditures.
6) Coupled with a reduction of property taxes, enactment of a sales tax would be seen as pro-business and would encourage economic growth in Oregon.
7) Because it taxes consumption, the tax may encourage savings.

The principal disadvantages of a retail sales tax are generally thought to be:

1) Sales taxes are generally regressive. People with high incomes pay at the same rate as those with low incomes but generally do not spend as high a percentage of their income on taxed items.
2) Sales taxes do not provide for horizontal equity. People with the same income will pay different amounts of tax depending upon their spending habits.
3) There would be additional costs of collection because Oregon does not now have a system in place for the administration and collection of a sales tax.
4) The sales tax would be a less visible tax than the property tax since people are less likely to be aware of the total amount of sales tax which they pay.
5) Once in place, the sales tax could be used as a means to increase overall government spending.

2. The General Consumption Tax.

a. General Background Information. A general "consumption tax" shares some features with a sales tax, but it also has some critical differences. Like the sales tax, it is levied upon an individual's consumption of goods and services. Unlike a sales tax, the consumption tax is not collected on each transaction. Instead, the taxpayer's total consumption is determined by subtracting his total savings or investments in a given year from the total of new funds made available to him during that year, whether from earnings, inheritances, welfare payments, sale of assets or any other source. The difference (the amount "consumed") is then subject to the tax. Also unlike a sales tax, the consumption tax would replace the present personal income tax.

The tax could be levied at varying and progressive rates which would bear more heavily on big spenders than on frugal ones. And because the consumption tax would not be levied on income as it is presently defined, it could be based in part upon receipts of a taxpayer which are presently tax-exempt.

At the federal level, the consumption tax has been advanced by a number of economists who believe it would be more fair and less disruptive to national economic decision-making than the personal income tax. No American state and no industrialized nation has ever used such a tax, however. There have been no previous attempts to enact a general consumption tax in Oregon.

b. Advantages and Disadvantages of the Consumption Tax. The principal advantages of a consumption tax are considered to be:

1) Because consumption rather than income is taxed, savings and therefore economic growth would be encouraged.
2) A consumption tax would "reach" some types of income not otherwise subject to tax.
3) Because all consumption of Oregon residents would be taxed, the tax would be more broad-based and arguably more fair than a sales tax. Oregonians who "consume" resources by vacationing in Hawaii would be just as much subject to the tax as those who stayed in-state.
4) Unlike a sales tax, a consumption tax could use progressive rates and would not require the establishment of a wholly new administrative system to oversee it.

The principal disadvantages of a consumption tax are considered to be:

1) Unless present federal laws are amended, state consumption taxes probably could not be deducted on federal income tax returns. This would greatly increase the cost to Oregon taxpayers of paying the tax.
2) Unlike a sales tax, the consumption tax would not assist in taxing out-of-state visitors or persons earning income in the underground economy.
3) The consumption tax has never been tried under comparable circumstances. It could turn out to have unexpected consequences and to be extremely difficult to administer.

At a minimum, compliance with the consumption tax will create additional complexities for taxpayers who will continue to be subject to federal income tax reporting requirements.

4) At least some of the deductions and exemptions available under the present personal income tax laws serve important public purposes and should not be eliminated.

5) Even if a progressive rate structure were enacted, the tax would be vertically inequitable. For example, a taxpayer who earned $100,000 and saved $60,000 would pay the same tax as someone who earned nothing because he was unable to work but spent $40,000 from savings. Each would be taxed based on the "consumed" $40,000 worth of goods and services.

6) In light of the "disincentive to save" built into the present federal income tax, it is questionable how much additional savings would occur in Oregon as a result of the enactment of a state-only consumption tax. Since capital can migrate readily from one state to another, there is also no guarantee that any additional savings would stay in Oregon.

V. MAJORITY REPORT

A. Majority Evaluation of the Gross Income and Consumption Tax Alternatives.

Although your Committee was able to agree on the issues addressed thus far in the report, we do not agree on our evaluation of the gross income, consumption tax and sales tax alternatives. In part, this is because different members of the Committee place differing degrees of importance upon each of the tax evaluation criteria discussed in Part II of this report. In part, this is due to differing philosophical beliefs.

1. Oregon Should Adopt a Sales Tax.(11) Given the particular importance which the Committee as a whole attaches to education and to property tax relief -- and given also the lack of available, feasible alternatives -- the majority of your Committee believes that the arguments in favor of a broad-based tax on retail sales and services outweigh those against it:

a. Enactment of a sales tax will provide a more stable system of financing local government services.

b. Decreasing the dependence of school funding on local property tax levies is particularly necessary if the quality of Oregon's present school system is to be maintained or improved.

c. The increased stability resulting from the adoption of a sales tax will produce a better climate for economic health and growth in Oregon.

d. Sales taxes have been used successfully by 45 states and the District of Columbia. Oregonians could be confident that a sales tax would work here as well. Business people would be unlikely to be scared away by the adoption of a tax which is so widespread.

(11) We wish to emphasize again that our recommendation of a sales tax in principle is neither an endorsement of the tax package put forward by the first 1983 special session nor a representation that the sales tax portion of that package cannot be improved upon.

e. Although enactment of a sales tax would increase administrative costs due to the need to fund a new collection and enforcement system, these costs would be more than offset by the ability to tax persons who do not presently pay taxes such as tourists and persons earning income in the underground economy. Furthermore, the benefits from tax reform outweigh these costs.

f. A sales tax can be designed to minimize regressivity, and sales tax revenues can be used to reduce the more regressive real property tax. The net effect of enacting a sales tax, then, would be to reduce the overall level of regressivity. (We would only favor the use of sales tax revenues to reduce personal income taxes if the overall effect would not make Oregon's taxing system more regressive.)

g. Some members of the minority have expressed concern that a sales tax might become riddled with exemptions over time and would thus become increasingly less equitable. This is no more likely to be true for a sales tax than for any other type of tax--including the consumption tax which the minority favors. And, although the minority correctly notes that Oregonians could conceivably find it desirable to raise the sales tax at some time in the future, this too is no more true for a sales tax than for other taxes.

h. We disagree with the minority's implicit assertion that the enactment of a sales tax would only represent a stopgap measure rather than structural reform. The personal and corporate income taxes, which were enacted in 1929 to fund property tax relief, certainly constituted structural reform, and we see no reason to distinguish between those taxes and the sales tax in this regard.

2. Oregon Should Not Adopt a General Consumption Tax. Although some members of the Committee favor the adoption of a general consumption tax, the majority believes that it would be extremely unwise for the state to adopt a general consumption tax at this time. The practical and conceptual roadblocks are too great, and the potential payoffs, if any, are too uncertain.

A large part of the appeal of the consumption tax lies in a comparison of apples to oranges. Consumption tax proponents compare the "real world" personal income tax with the "theoretically pure" consumption tax and, not surprisingly, conclude that the latter is better. In fact, economists are divided as to whether a "pure" consumption tax is preferable to a "pure" income tax. As noted earlier in this report, for example, the consumption tax burden would necessarily be the same for someone who earned $100,000 and saved $60,000 (thereby consuming $40,000) as for someone who could not work and had to spend $40,000 from savings. Indeed, it is possible to characterize the consumption tax as an income tax with "deductions" only for the rich since only they can afford to save.

Yet the core question which should be before the public is neither the real world income tax versus the pure consumption tax nor even a comparison between these two taxes in their theoretically pure states. The question should be how each tax is likely to function in practice. We believe, for example, that in actual practice, any consumption tax proposal would necessarily be subject to the same types of political pressures and resulting "loopholes" which the consumption tax advocates decry. To the extent to which this is so, the case for the consumption tax is weaker than its proponents suggest.

The consumption tax could also prove to be far more complex to administer than the personal income tax. Tracking and accounting for all income and savings or investment decisions in a fair and nonarbitrary manner would be a difficult job at best. If, for example, home and apartment rental payments were treated as "consumption," it seems clear that similar treatment would have to be given to the use of owner-occupied residences. How would the "fair rental equivalent" for each house be determined, and what sort of enforcement system would be needed to police this practice? To cite another example, what types of rules and reporting would be necessary during the transition period from an income tax based system to a consumption tax based system? Would earnings on previously tax exempt investments continue to be exempt? Would people who had made nonexempt savings in the past receive some sort of credit so as to avoid a second tax bite when they ultimately consumed the fruits of their labors? If not, the new system would arguably be taxing previously earned wealth in a disproportionate and unfair manner.

Another critical shortcoming of the consumption tax arises from the context in which this discussion takes place. Although a nationally imposed consumption tax would undoubtedly have some desirable features, such as the additional impetus for savings and growth, the central question before this Committee is whether Oregon should adopt such a tax. In our view, there are a number of cogent reasons why it should not:

a. As long as the present federal income tax laws remain unchanged, consumption tax payments probably would not be deductible on the federal income tax returns filed by Oregonians. This would substantially increase the real dollar cost to many Oregonians of paying the consumption tax.
b. Given the present high marginal federal income tax rates and the ready mobility of capital, it is questionable how much additional savings by Oregon would be generated by this change, and it is further questionable whether any significant portion of those savings would remain in Oregon. To the contrary, an Oregon-only consumption tax would give wealthy Oregonians who spend more than they earn and retired persons who live principally off of prior savings substantial incentives to move to other states where their tax burdens (based on present income) would be less.
c. Oregon's present personal income tax system is relatively easy to administer and to comply with because it is so closely patterned after the federal system. The substantial divergence between the two systems required to establish a state consumption tax would greatly increase the administrative costs incurred by both Oregonians and the state.
d. Both the state and local governments in Oregon sell bonds to finance many endeavors, and these bonds are sold in part on the basis of their tax exempt status under Oregon law. Since the interest income on all bonds would be treated equally, a state-level consumption tax would remove this advantage. The cost to Oregon's governments of selling bonds would increase.
e. We have not seen any evidence that the business community at large would either prefer or be neutral towards a consumption tax, and we are concerned that many business people would dislike it because of its novelty and the lack of available information on how the tax would operate in a "real world" setting.

The presently available exemptions and deductions from the income tax would be eliminated, and their elimination may cost many businesses more than any benefits derived. We would also note that the minority intends to use the consumption tax not only to replace the personal and corporate income taxes but also to fund property tax relief. Such a large new tax--levied directly against individuals--would represent a substantial dramatic burden on almost all Oregonians. We believe that this change would be perceived as making Oregon a less desirable place for businesses to locate or expand.

The majority of your Committee is not opposed in principle to further study of the consumption tax alternative at either the state or federal level. We believe, however, that the appropriate directive is not "full speed ahead" but at best "go slow." We also believe that it is undesirable to hold up property tax relief altogether, as the minority would do, until the bugs have been worked out of a consumption tax system. Because no state or western nation has ever used a consumption tax, the process is likely to take a long time--even assuming that the bugs can be worked out at all.

3. Oregon Should Consider the Adoption of a Gross Income Tax in Place of the Present Personal Income Tax. As was indicated earlier in this report, the gross income tax is in essence a modification of the present personal income tax to expand the definition of income and eliminate most deductions. The gross income tax should permit the same amount of tax revenue to be collected in a more simple tax system with lower marginal rates and lower allocative inefficiency.

We believe that the potential benefits of such a tax may be great enough that the possibility of enacting it should be studied further by the 1985 legislature. The specific issues which should be studied include at least the following:

a. Which deductions or exemptions could practicably be eliminated and which ones should or would need to be retained?
b. What rate structures could be used to raise the amount of money which would otherwise be collected by the personal income tax?
c. To what extent would the adoption of such a tax cause economic dislocation within the state and either impair or improve prospects for job growth and business development?
d. To what extent would the benefits of greater simplicity in the state tax system be outweighed by having greater differences between the federal and state systems?

If these issues can be resolved in a positive manner, we would favor the enactment of gross income tax in lieu of the present personal income tax. We doubt, however, that we would favor the use of a gross income tax as a means of funding property tax relief. As has been noted earlier in this report, your Committee heard from a number of speakers who expressed the view that Oregon's personal income taxes were already too high and that any increases in them could have an adverse impact upon the state's economic health. We believe that this impact is just as likely to occur under an expanded gross income tax as under an expanded personal income tax.

B. Majority Conclusions

In this report, we have reviewed Oregon's present system of taxation as well as possible changes to it. We did not evaluate state and local expenditures but have assumed that state and local government spending will be maintained at approximately current levels in the future. We are not taking a position on the need for either an increase or decrease in aggregate tax.

We have concluded that the state's taxing system is at a critical juncture. Although the present system is efficiently and fairly run and has served the state adequately in the past, there are compelling reasons to believe that it will not do so in the future. On the one hand, property taxes appear to be at or beyond their long-term sustainable limits. Relief in this area is needed to ensure a more stable system of local government financing, a better climate for economic growth and an improved school funding system. On the other hand, neither the personal nor corporate income taxes, which already provide over 80% of General Fund revenue, nor any other tax presently in use, can be expected to pick up the slack. And there are few workable alternatives.

With respect to the evaluation of Oregon's taxing system, the majority concludes that:

1. Oregon's tax system should be broadly based. Since all people benefit from the services and functions of government, all people who can afford to do so should be subject to taxes to pay for them.

2. Taxes should generally be based on ability to pay and not on who benefits from a particular public service. User fees should be limited to situations such as water and sewer services where both the beneficiaries and the amount of use of a good are readily identified.

3. The overall system should be progressive--not just in rate structure but in actual collections.

4. Where possible, the system should generally be horizontally equitable, relatively neutral in its effect on consumer or business decisionmaking, and easy to administer.

5. In order to improve the climate for economic growth, improve the system of school funding and assure a more stable funding system for local government, substantial property tax relief is needed.

6. The personal income tax, the historical mainstay of General Fund revenue, cannot and should not be used to fund property tax relief.

7. Other than the personal income tax, no other tax or combination of taxes presently in use could conceivably fund property tax relief.

8. Enactment of the general consumption tax alternative endorsed by the minority is not in the best interest of the state and its citizens. Such a tax has never been tried in comparable circumstances, and it could easily be more harmful than beneficial in application. Unless and until the details of such a proposal have been fully researched and evaluated, we do not feel that the adoption of an Oregon consumption tax would be advisable.

9. Whatever Oregonians decide, their decisions must take federal taxes into consideration since the impact of the federal tax structure weighs heavily on what Oregon can achieve.

C. Majority Recommendations

With respect to Oregon's present tax system and proposed changes to it, the majority of your Committee supports the following recommendations:

1. The state should enact a broad-based retail sales tax covering goods and services as the best means available to fund property tax relief in Oregon.

2. The personal income tax, which is among the highest in the nation, should not be increased. We would only favor the use of sales tax revenue to reduce the income tax, however, if the net effect of all changes would not make the system more regressive.

3. Oregon should not abandon its corporate income tax since doing so would exacerbate the present fiscal straits in which the state finds itself.

4. If property tax relief is enacted, the remnants of the former 30% property tax relief program should be eliminated. A program similar to HARRP should be retained, however, in order to reduce the regressivity of the property tax.

5. The 1985 legislature should consider the possible adoption of a gross income tax in lieu of the present personal income tax. Upon further analysis, the potential benefits in terms of producing a more simple taxing system with lower marginal rates may be sufficient to make the change worthwhile.

6. The currently permitted local tax base increases do not provide sufficient fiscal returns to pay for the costs of growth or to encourage local districts to plan for growth. The 1985 legislature should consider the adoption of a measure which would provide some increased return to local districts when new development occurs.

7. We recommend further study of Oregon's method of requiring worldwide reporting for the corporate income tax in order to determine whether this method is likely to cost the state more in terms of lost business development than it raises in taxes.

8. Oregon's legislature should adopt basic criteria for evaluating and implementing taxing mechanisms and should, where possible, separate issues relating to taxation or the raising of revenue from issues concerning how the money is to be spent. In other words, social objectives and expenditure policies should be independent of the revenue raising function.

Respectfully submitted,

E. Kimbark MacColl, Jr.
Sally McCracken
F. King Mitchell
Milo E. Ormseth
Marilyn Richen
Anne Seiler Jarvis, Chair

VI. MINORITY REPORT #1

A. Discussion

1. The Case for a Major Restructuring of Taxes. This Minority supports the Majority view that Oregon's tax structure must be modernized and improved immediately in order to (1) broaden the state's tax base (without increasing aggregate taxes collected), (2) refinance public education districts in order to guarantee a suitable education for all of Oregon's children, and (3) render the state a more attractive place in which to invest and prosper. The public demands a continued high level of public services and programs, yet it increasingly resists having to pay for them within the framework of the present tax structure.

For example, Oregon voters expect public schools to operate, but require an increasing number of elections - sometimes waiting until schools have actually closed down temporarily for lack of funds - before they approve the special levies needed to implement school budgets. Over the past 15 years, property tax collections have lagged behind the increase in personal incomes in Oregon. Pending efforts, intending to hobble them further, threaten the entire traditional system of property taxation. In general, property taxes seem to have reached their practical or political limit.

The state's personal income tax system is not faring any better. Until 1981, collections of this tax increased faster than did the personal incomes on which they were based, probably because taxpayers were being pushed into higher tax brackets all the while. In the 1981-82 tax year, however, personal income tax collections actually declined, despite rising personal incomes and an 8% income tax surcharge. Perhaps because the bulk of taxpayers has reached the top bracket ($5,000 in taxable income for single taxpayers, $10,000 if filing jointly), the elasticity has gone out of Oregon's personal income tax system. That is, revenues cannot respond as elastically to changing economic conditions as they once did. The system may perhaps be described as worn out. And, because it is already the second highest personal income tax in the nation in recent years, it resists further tinkering. (Indeed, our Governor has suggested that it be reduced.)

The Majority wants to modernize Oregon's tax system chiefly by creating a sales tax for the purpose of lessening the property tax burden, particularly as it relates to financing local school districts. The Majority also recommends that the legislature consider converting the present income tax to a gross income tax, and instituting various modifications to the existing system of taxation in Oregon.

The Majority's recommendations may be suitable for the near term. For the long run, however, this Minority believes Oregon's income tax is not as responsive to changes in economic conditions as it once was. In addition, states with essentially flat income and/or sales taxes have found that they have had to raise their rates periodically because neither tax is elastic. For these reasons, we believe that the Majority's recommendations should be expanded to look at real and long-term changes to Oregon's tax structure.

Table 1

Total State and Local Taxes Per Capita
for Fiscal Years 1978 to 1982

State	1982 Amount	1982 Rank	1981 Rank	1980 Rank	1979 Rank	1978 Rank
Alaska	$6,997.50	1	1	1	1	1
Wyoming	2,546.39	2	3	4	4	5
D.C.	1,923.88	3	2	3	3	3
New York	1,789.92	4	4	2	2	2
Hawaii	1,431.28	5	5	5	5	7
California	1,372.38	6	7	7	10	4
Massachusetts	1,353.04	7	6	6	6	6
New Jersey	1,353.00	8	8	8	9	10
Connecticut	1,324.01	9	9	13	15	15
Minnesota	1,289.70	10	11	9	8	9
Maryland	1,272.95	11	10	10	11	11
Nevada	1,267.24	12	17	23	7	8
Wisconsin	1,259.66	13	14	14	14	12
Michigan	1,230.49	14	13	12	12	13
Montana	1,226.70	15	18	17	24	24
Rhode Island	1,222.74	16	20	18	19	22
Delaware	1,215.72	17	15	15	13	14
Oklahoma	1,209.58	18	26	34	38	44
Illinois	1,197.02	19	12	11	17	17
Colorado	1,188.12	20	24	19	20	19
Washington	1,171.71	21	22	20	18	16
New Mexico	1,141.97	22	19	28	28	28
North Dakota	1,130.71	23	29	31	37	32
Iowa	1,129.94	24	21	24	26	27
OREGON	1,122.03	25	16	21	21	20
Pennsylvania	1,115.91	26	23	22	22	21
Vermont	1,106.42	27	28	28	23	23
Louisiana	1,101.46	28	30	32	30	33
Texas	1,079.43	29	32	36	40	34
Kansas	1,070.03	30	27	26	27	26
Arizona	1,059.70	31	25	16	16	18
Nebraska	1,047.90	32	31	25	25	25
Virginia	1,030.41	33	33	30	29	30
Maine	1,022.73	34	34	29	32	29
Utah	1,011.49	35	35	33	31	31
Ohio	972.81	36	36	35	35	37
West Virginia	954.68	37	40	37	33	40
Florida	946.17	38	38	41	34	38
Georgia	945.80	39	37	39	39	41
New Hampshire	925.55	40	44	46	45	42
South Dakota	916.11	41	39	38	42	39
North Carolina	884.87	42	43	43	46	46
Indiana	876.14	43	41	44	41	35
Idaho	858.87	44	42	42	36	36
Kentucky	855.17	45	46	45	43	43
Missouri	842.80	46	45	40	44	45
South Carolina	841.90	47	47	47	47	47
Tennessee	772.14	48	48	48	48	48
Alabama	763.56	49	49	50	50	50
Mississippi	751.02	50	50	51	49	49
Arkansas	728.88	51	51	49	51	51

Source: Oregon Legislative Revenue Office Report 6-82 and Governmental Finances in 1980-81 and 1981-82, U.S. Department of Commerce, Bureau of the Census.

Table 2

Total State and Local Taxes per $1,000 of Personal Income
for Fiscal Years 1978 to 1982

State	1982 Amount	1982 Rank	1981 Rank	1980 Rank	1979 Rank	1978 Rank
Alaska	$496.38	1	1	1	1	1
Wyoming	208.58	2	3	3	3	3
New York	155.72	3	2	2	2	2
D.C.	143.69	4	4	6	11	12
New Mexico	131.40	5	5	14	13	14
Montana	129.45	6	8	8	10	11
Hawaii	127.62	7	6	4	5	10
Vermont	125.72	8	9	10	8	6
Wisconsin	124.59	9	10	12	9	9
Massachusetts	120.82	10	7	5	4	5
Rhode Island	119.67	11	17	17	12	22
Minnesota	119.24	12	11	9	7	8
Maine	119.00	13	13	11	15	13
Utah	117.11	14	12	13	14	20
Oklahoma	115.17	15	24	41	42	43
Michigan	114.76	16	15	22	19	19
West Virginia	113.85	17	30	26	28	36
Louisiana	112.99	18	16	20	22	26
California	112.59	19	18	15	25	4
OREGON	111.37	20	14	23	20	17
New Jersey	110.98	21	22	18	21	23
North Dakota	109.79	22	20	40	41	32
Maryland	109.71	23	21	16	17	16
Delaware	108.76	24	28	19	24	24
Iowa	108.45	25	23	27	36	33
Pennsylvania	107.55	26	26	21	26	25
Arizona	105.67	27	19	7	6	7
South Dakota	104.53	28	27	34	39	34
Georgia	103.76	29	32	31	32	37
Nevada	103.64	30	36	36	16	15
South Carolina	103.25	31	31	32	38	39
Colorado	103.25	32	37	24	18	21
Illinois	103.10	33	25	25	35	29
Connecticut	102.46	34	38	35	30	31
Washington	101.80	35	40	29	23	18
Kentucky	101.50	36	34	37	33	38
North Carolina	101.08	37	35	33	37	41
Mississippi	100.98	38	29	30	29	30
Nebraska	100.65	39	33	28	27	27
Kansas	98.19	40	42	42	34	35
Virginia	98.05	41	39	39	40	40
Texas	96.95	42	41	44	47	45
Idaho	94.56	43	43	38	31	28
Ohio	94.48	44	49	48	51	51
Alabama	92.34	45	44	46	46	48
New Hampshire	91.17	46	51	50	45	46
Tennessee	91.00	47	45	47	44	42
Indiana	90.50	48	48	51	50	47
Arkansas	90.23	49	47	43	49	49
Florida	89.09	50	46	45	43	44
Missouri	86.91	51	50	49	48	50

Source: Oregon Legislative Revenue Office Report 6-82 and Governmental in Finances 1980-81 and 1981-82.

Table 3

Personal Income Taxes in the 13 Western States
1980

	Personal Income Tax as a Percent of Total State and Local Taxes	Personal Income Tax per $1,000 of Personal Income	Personal Income Tax Per Capita
Alaska	6.0%	$251.20	$22.06
Arizona	10.5%	105.78	13.93
California	23.3%	273.09	28.35
Colorado	16.1%	159.68	18.25
Hawaii	25.3%	322.70	37.27
Idaho	22.4%	168.58	23.23
Montana	17.2%	171.55	22.35
Nevada*	-	-	-
New Mexico	4.1%	36.04	4.99
OREGON	33.7%	329.65	38.43
Utah	21.6%	181.61	26.97
Washington*	-	-	-
Wyoming*	-	-	-

* No personal income tax.
Source: Oregon Legislative Revenue Office Report 6-82.

Table 4

State Personal Income Tax Collections
Percent of Personal Income
1981

	Percent	1981 Rank	1980 Rank	1979 Rank
Delaware	4.24%	1	1	1
OREGON	4.09	2	2	2
Wisconsin	3.75	3	6	4
New York	3.66	4	5	7
Massachusetss	3.53	5	4	5
Minnesota	3.51	6	7	3
Hawaii	3.43	7	3	6
North Carolina	2.83	8	8	9
Maryland	2.73	9	10	8
Utah	2.63	10	11	11
Virginia	2.56	11	12	15
California	2.54	12	9	17
South Carolina	2.51	13	13	19
Iowa	2.46	14	14	16
Vermont	2.46	14	16	13
Idaho	2.43	16	15	18
Georgia	2.34	17	18	21
Michigan	2.20	18	19	14
Montana	2.17	19	17	10
Rhode Island	2.15	20	22	20
Kentucky	2.05	21	23	23
Maine	1.98	22	24	29
Arkansas	1.87	23	21	26
Oklahoma	1.79	24	33	30
Alabama	1.77	25	31	33
West Virginia	1.76	26	26	24
Kansas	1.76	26	30	31
Illinois	1.69	28	27	27
Pennsylvania	1.68	29	29	28
Arizona	1.52	30	35	32
Missouri	1.51	31	32	34
Colorado	1.51	31	25	22
New Jersey	1.42	33	34	37
Nebraska	1.37	34	28	25
Indiana	1.31	35	36	36
Mississippi	1.15	36	38	35
Ohio	1.11	37	37	39
North Dakota	1.09	38	39	38
New Mexico	0.69	39	41	41
Louisiana	0.52	40	40	40
*Connecticut	0.32	41	42	42
New Hampshire	0.15	42	43	43
Alaska	0.14	43	20	12
Tennessee	0.10	44	44	44

* Based on capital gains, dividends and interest only on adjusted gross income above $50,000.

Source: Handbook of Oregon State Taxes, Oregon Tax Foundation, 1983. Governmental Finances, 1978-79 and 1979-80.

Table 5

State Personal Income Tax Collections
Per Capita
1982

	Total	1982 Rank	1981 Rank	1980 Rank	1979 Rank
Delaware	$481.60	1	1	1	1
New York	457.57	2	3	3	6
Massachusetts	405.10	3	4	4	8
Minnesota	380.06	4	7	6	3
OREGON	367.74	5	2	2	2
Wisconsin	357.07	6	5	7	4
Maryland	321.23	7	8	9	9
California	315.52	8	9	8	11
Hawaii	293.26	9	6	5	5
Virginia	270.47	10	10	13	13
Iowa	247.39	11	11	12	12
North Carolina	246.41	12	12	14	15
Idaho	233.13	13	16	17	20
Michigan	229.61	14	13	11	10
Rhode Island	227.20	15	14	20	18
Utah	226.66	16	15	15	17
Vermont	220.20	17	17	19	16
Georgia	216.51	18	18	22	22
Oklahoma	212.04	19	23	33	30
South Carolina	205.59	20	20	23	23
Kansas	194.51	21	22	25	27
Illinois	194.46	22	21	18	21
Colorado	189.95	23	28	21	19
Maine	186.30	24	25	31	35
Montana	182.72	25	19	16	14
New Jersey	177.27	26	27	29	28
Pennsylvania	167.34	27	24	26	25
Kentucky	164.16	28	26	28	26
Arizona	161.51	29	32	34	31
West Virginia	156.90	30	29	30	29
Arkansas	154.74	31	30	27	34
Missouri	154.71	32	31	32	32
Nebraska	144.31	33	34	24	24
Indiana	136.39	34	35	36	32
Alabama	123.52	35	33	35	36
Ohio	115.17	36	36	37	37
Mississippi	66.83	37	38	39	38
North Dakota	54.12	38	37	38	39
Louisiana	52.34	39	40	40	40
Connecticut	44.31	40	41	42	42
New Hampshire	16.37	41	43	43	43
New Mexico	10.94	42	39	41	41
Tennessee	9.69	43	44	44	44
Alaska	3.70	44	42	10	7

Source: Handbook of Oregon State Taxes, Oregon Tax Foundation, 1983. Governmental Finances, 1978-79, 1979-80, 1980-81 and 1981-82.

Table 6

Property Taxes in the 13 Western States
1979-1980

	Property Tax as a Percent of Total State and Local Taxes	Property Tax Per Capita	Property Tax Per $1,000 Personal Income
Alaska	21.5%	$900.01	$79.03
Arizona	34.9%	133.56	46.32
California	23.3%	273.67	28.41
Colorado	33.3%	329.38	37.63
Hawaii	15.1%	192.96	22.29
Idaho	30.0%	226.41	31.21
Montana	45.5%	455.27	59.32
Nevada	26.3%	255.89	27.68
New Mexico	16.2%	142.16	19.70
OREGON	39.0%	382.11	44.54
Utah	27.9%	234.63	34.84
Washington	29.4%	290.43	31.94
Wyoming	39.4%	551.70	58.20

Source: Oregon Legislative Revenue Office Report 6-82.

Table 7

Property Taxes as a Percentage of Total
State and Local Tax Revenue
1982, 1981 and 1980

State	1982 Percentage	1982 Rank	1981 Percentage	1981 Rank	1980 Percentage	1980 Rank
New Hampshire	61.82%	1	63.35%	1	60.90%	1
Montana	47.42	2	47.77	2	45.54	2
New Jersey	43.69	3	44.19	3	43.84	6
OREGON	43.02	4	40.61	11	39.05	12
Nebraska	42.84	5	42.63	7	41.59	9
Connecticut	42.67	6	43.84	4	44.21	5
Michigan	42.50	7	40.66	10	38.50	13
S. Dakota	42.08	8	43.24	6	44.48	4
Rhode Island	41.97	9	41.47	9	41.65	8
Vermont	41.00	10	41.50	8	41.86	7
Kansas	40.05	11	38.62	14	39.47	10
Iowa	38.65	12	38.64	13	37.21	15
Massachusetts	37.69	13	43.59	5	44.63	3
Maine	37.38	14	37.69	15	37.22	14
Illinois	35.57	15	34.43	18	33.87	20
Indiana	35.38	16	37.29	16	33.04	23
Colorado	35.00	17	35.30	17	33.28	22
Wyoming	34.91	18	39.15	12	39.42	11
Wisconsin	34.88	19	33.99	19	33.97	19
Florida	34.22	20	30.58	24	29.60	26
Texas	33.94	21	33.72	20	34.71	17
Ohio	33.75	22	33.65	21	34.69	18
New York	32.07	23	32.38	22	33.50	21
Arizona	31.15	24	31.16	23	34.91	16
Washington	29.57	25	29.00	27	29.37	27
Virginia	29.15	26	28.06	31	27.55	31
D.C.	27.63	27	24.83	37	23.32	38
Idaho	27.46	28	28.63	28	30.02	25
Utah	27.35	29	28.02	32	27.94	30
Missouri	27.19	30	28.15	30	28.33	29
N. Dakota	27.04	31	29.33	25	31.75	24
Georgia	26.90	32	25.86	35	25.84	34
Maryland	26.66	33	26.29	34	26.11	33
Minnesota	26.48	34	27.95	33	28.82	28
Pennsylvania	26.12	35	25.66	36	25.49	35
California	25.63	36	24.23	38	23.35	37
Tennessee	25.25	37	28.53	29	24.01	36
S. Carolina	23.81	38	22.91	40	22.53	40
N. Carolina	23.26	39	23.59	39	22.81	39
Mississippi	21.65	40	21.04	42	21.74	41
Arkansas	21.44	41	21.09	41	20.41	43
Hawaii	18.42	42	14.66	47	15.10	49
Nevada	18.23	43	29.15	26	26.33	32
Kentucky	17.57	44	18.03	43	18.30	45
W. Virginia	16.75	45	17.74	44	17.19	46
Delaware	15.17	46	15.27	46	15.81	48
Oklahoma	14.35	47	16.12	45	18.31	44
New Mexico	13.38	48	13.48	48	16.17	47
Alaska	12.84	49	13.36	49	24.49	42
Louisiana	12.22	50	12.52	50	13.19	50
Alabama	11.66	51	11.74	51	12.10	51

Source: Governmental Finances, 1979-80, 1980-81 and 1981-82.

Table 8

National Rankings of Property Taxes Per Capita and
Per $1,000 of Personal Income in 1980, 1981 and 1982

State	1982 Per Capita Rank	1982 Per $1,000 Rank	1981 Per Capita Rank	1981 Per $1,000 Rank	1980 Per Capita Rank	1980 Per $1,000 Rank
Alaska	1	2	1	1	1	1
Wyoming	2	1	2	3	3	4
New Jersey	3	9	4	8	5	8
Montana	4	3	6	2	7	3
New York	5	7	5	7	4	7
New Hampshire	6	4	8	5	9	5
Connecticut	7	14	7	14	6	11
D.C.	8	18	12	20	20	28
Michigan	9	8	9	11	8	16
Rhode Island	10	6	10	10	10	9
Massachusetts	11	11	3	4	2	2
OREGON	12	10	11	9	12	15
Vermont	13	5	14	6	13	6
Nebraska	14	16	13	15	11	14
Wisconsin	15	15	17	17	16	17
Iowa	16	17	15	16	17	18
Kansas	17	19	18	18	15	19
Illinois	18	20	16	16	14	20
Colorado	19	21	20	21	21	21
South Dakota	20	13	19	12	19	10
Maine	21	12	21	13	23	12
Texas	22	23	23	24	27	24
California	23	32	28	36	28	34
Washington	24	29	29	31	24	27
Minnesota	25	27	22	25	22	22
Maryland	26	31	26	30	25	29
Arizona	27	22	25	22	18	12
Ohio	28	26	30	28	26	26
Florida	29	28	34	33	36	33
Indiana	30	25	27	23	32	32
North Dakota	31	30	31	27	29	25
Virginia	32	33	32	34	33	35
Pennsylvania	33	34	33	35	31	31
Utah	34	24	35	26	34	23
Hawaii	35	40	40	43	39	43
Georgia	36	35	38	37	38	36
Idaho	37	36	36	32	35	30
Nevada	38	45	24	29	30	37
Missouri	39	38	37	39	37	38
North Carolina	40	39	41	41	40	39
South Carolina	41	37	42	40	42	40
Tennessee	42	41	39	38	43	42
Delaware	43	49	43	49	41	49
Oklahoma	44	48	44	48	44	48
Mississippi	45	42				
West Virginia	46	44	46	45	47	46
Arkansas	47	43	48	44	49	44
New Mexico	48	47	47	46	45	45
Kentucky	49	46	49	47	48	47
Louisiana	50	50	50	50	50	50
Alabama	51	51	51	51	51	51

Source: Governmental Finances in 1979-80, 1980-81 and 1981-82.

Table 9

Corporate Income Taxes in the 13 Western States
1980

	Corporate Income Tax as a percent of Total State and Local Taxes	Per Capita Corporate Income Tax	Corporate Income Tax per $1,000 Personal Income
Alaska	33.7%	$1,413.32	$124.11
Arizona	4.3%	43.33	5.71
California	9.0%	105.93	11.00
Colorado	3.9%	38.29	4.37
Hawaii	4.1%	52.08	6.01
Idaho	6.0%	45.13	6.22
Montana	5.8%	57.97	7.55
Nevada*	-	-	-
New Mexico	4.0%	35.59	4.93
OREGON	6.9%	67.39	7.86
Utah	3.3%	27.64	4.10
Washington*	-	-	-
Wyoming*	-	-	-

* No Corporate Income Tax

Source: Oregon Legislative Revenue Office Report 6-82.

Table 10

Corporate Income Taxes
Per Capita - 1980, 1981 and 1982

State	1982 Per Capita	1982 National Rank	1980 Per Capita	1980 National Rank	1980/1981 Western Rank	1981 Per Capita
Alaska	$1,750.41	1	$1,413.32	1	1/1	$2,226.80
Connecticut	112.38	2	79.20	6		
California	111.71	3	105.93	2	2/2	115.39
Massachusetts	104.28	4	92.80	5		
Michigan	102.82	5	98.37	3		
New Jersey	98.42	6	67.52	12		
New Hampshire	86.65	7	68.17	10		
Minnesota	79.81	8	93.50	4		
New York	76.44	9	70.36	8		
Pennsylvania	73.31	10	72.61	7		
Louisiana	69.41	11	59.31	16		
Wisconsin	68.62	12	66.17	14		
Illinois	62.50	13	69.88	9		
Delaware	60.84	14	68.16	11		
N. Dakota	57.79	15	55.60	19		
Montana	56.71	16	57.97	17	4/3	67.25
Rhode Island	55.46	17	56.62	18		
Kansas	51.84	18	63.27	15		
Ohio	50.76	19	47.92	23		
Iowa	50.49	20	47.57	24		
Georgia	49.00	21	43.87	27		
Vermont	48.84	22	43.88	26		
Idaho	48.31	23	45.13	25	6/6	53.89
N. Carolina	47.17	24	49.67	21		
OREGON	47.16	25	67.39	13	3/4	59.06
New Mexico	46.25	26	25.59	38	9/8	41.08
Oklahoma	45.96	27	29.71	40		
Kentucky	45.58	28	43.39	28		
Tennessee	45.05	29	43.18	30		
Hawaii	44.77	30	52.08	20	5/5	54.68
Arizona	42.22	31	43.33	29	7/7	46.54
S. Carolina	42.14	32	49.21	22		
Arkansas	40.12	33	36.64	36		
Florida	39.38	34	38.13	34		
Maryland	35.30	35	39.34	32		
Virginia	33.10	36	36.26	37		
Maine	32.08	37	40.08	31		
Alabama	31.64	38	28.08	41		
Colorado	31.63	39	38.29	33	8/9	35.80
Nebraska	30.89	40	36.67	35		
Mississippi	28.16	41	25.53	44		
Utah	27.99	42	27.64	42	10/10	27.83
Missouri	25.03	43	27.48	43		
Indiana	33.92	44	32.64	39		
W. Virginia	17.64	45	16.87	45		
S. Dakota	1.51	46	4.77	46		
Nevada	-	47	-	47	11/11	
Texas	-	47	-	47		
Washington	-	47	-	47	11/11	
Wyoming	-	47	-	47	11/11	

Source: Governmental Finances in 1979-80, 1980-81 and 1981-82.

Table 11

General Sales and Gross Receipt Taxes
in the 13 Western States
1980

	As a Percent of Total State and Local Taxes	Per Capita	Per $1,000 Personal Income
Alaska**	-	-	-
Arizona	29.7%	$299.70	$39.47
California	24.1%	282.87	29.36
Colorado	18.8%	186.01	21.25
Hawaii	40.4%	516.37	59.63
Idaho	19.3%	145.25	20.01
Montana*	-	-	-
Nevada	23.5%	228.94	24.77
New Mexico	35.3%	309.93	42.94
OREGON*	-	-	-
Utah	26.5%	222.28	33.01
Washington	39.8%	396.43	43.27
Wyoming	24.8%	346.36	36.54

* No general sales tax

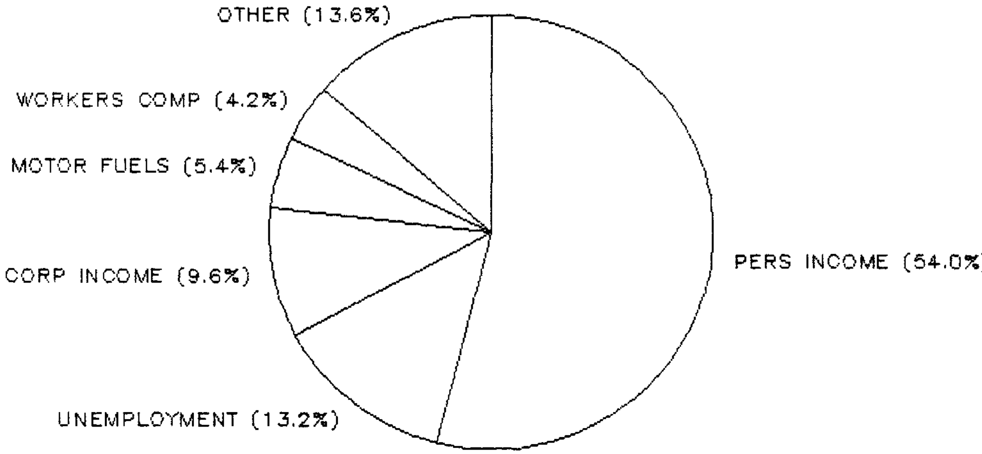
** Cities and boroughs may levy and collect a "gross proceeds tax"

Source: Oregon Legislative Revenue Office Report 6-82.

TABLE 12

OREGON STATE-COLLECTED TAXES

1979-81 (MILLIONS)



SOURCE: <u>Handbook of Oregon State Taxes</u>, 1983.

Table 13

General Fund Revenue Sources
1979-81 Biennium
(millions)

Taxes		
Personal income taxes	$1,873.2	
Corporate excise and income taxes	332.9	
Insurance taxes	79.2	
Gift and inheritance taxes	62.8	
Cigarette taxes	52.0	
Other taxes	4.1	
Total taxes		$2,404.2
Federal transfer payments		39.5
Interest earnings		48.5
Charges for services		8.0
Sales income (includes beer and wine tax)		71.5
Licenses and fees		15.6
Other revenues		24.5
Total		$2,611.8

Source: Handbook of Oregon State Taxes (1983). 1983-85 Governor's Recommended Budget, Executive Department, December 1, 1982.

Table 14

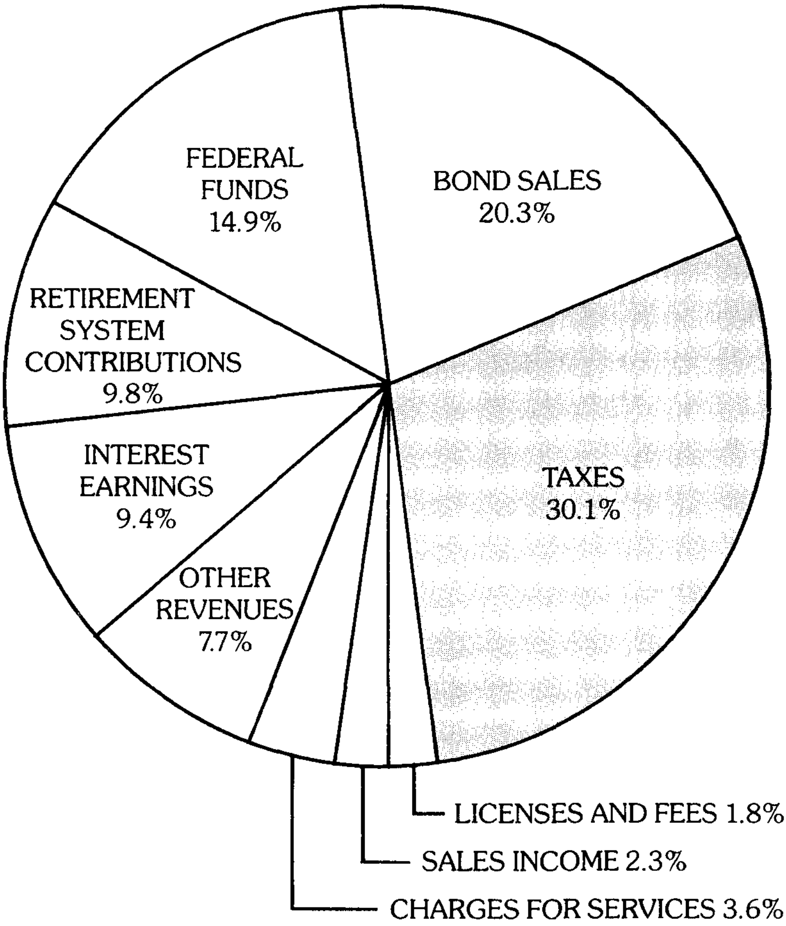
Oregon State Revenue
1979-81
(millions)

	General Fund	Other Funds	Total
Taxes	$2,404.2	$1,067.1	$ 3,471.3
Bond sales	0	2,344.4	2,344.4
Federal funds	39.5	1,681.2	1,720.7
Retirement systems contributions	0	1,129.3	1,129.3
Interest earnings	48.5	1,039.5	1,088.0
Charges for services	8.0	412.7	420.7
Sales income	71.5	192.3	263.8
Licenses and fees	15.6	191.8	207.3
Other revenues	24.5	871.1	895.6
Total	$2,611.8	$8,929.4	$11,541.1

Source: Handbook of Oregon State Taxes (1983).

Table 15

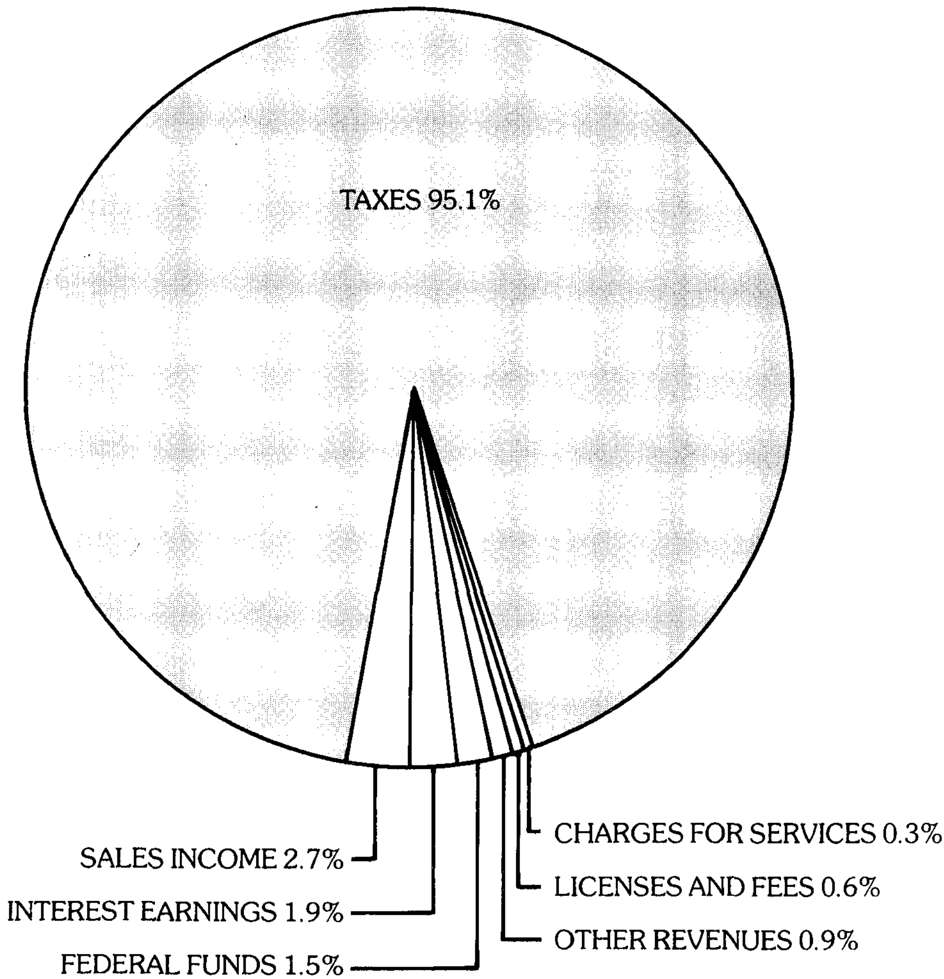
Oregon State Budget
Total Revenue, 1979-81



Source: Handbook of Oregon State Taxes (1983).

Table 16

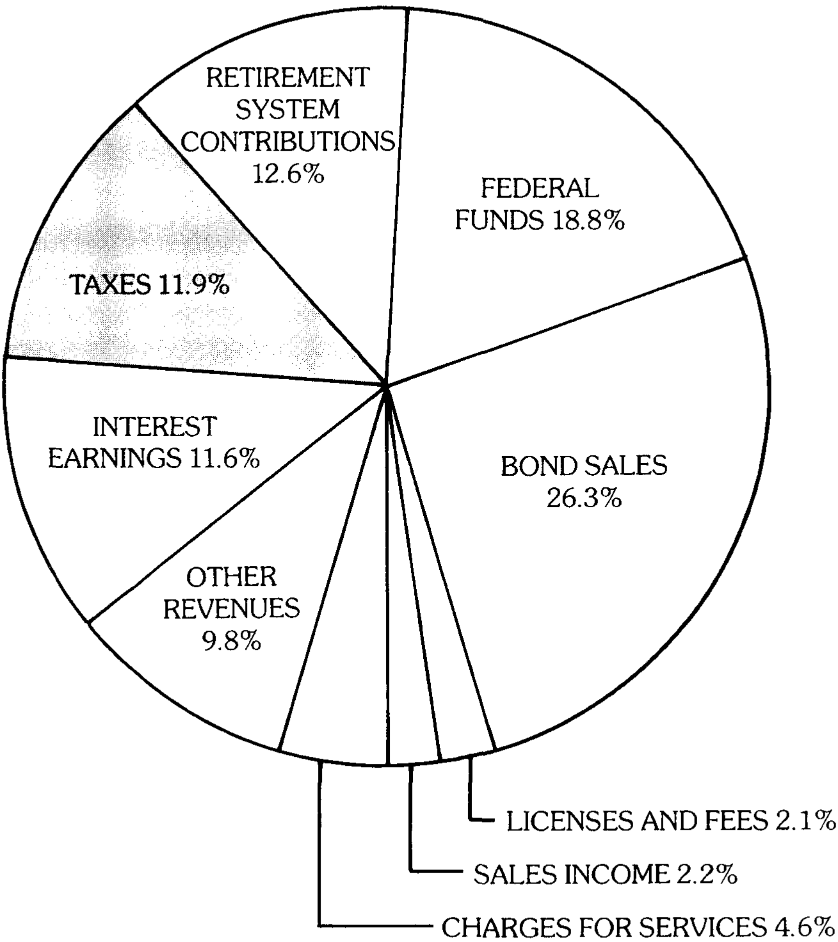
Oregon State Budget
General Fund Revenue, 1979-81



Source: Handbook of Oregon State Taxes (1983), Oregon Tax Foundation.

Table 17

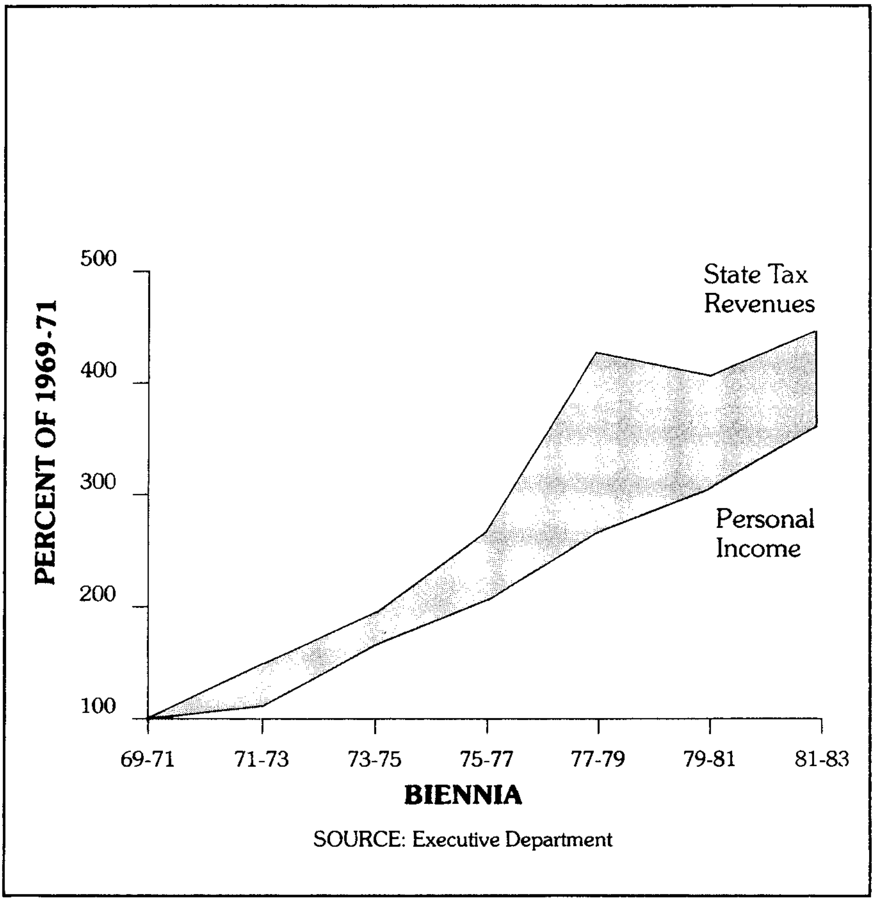
Oregon State Budget
Other Fund Revenue, 1979-81



Source: Handbook of Oregon State Taxes (1983), Oregon Tax Foundation.

Table 18

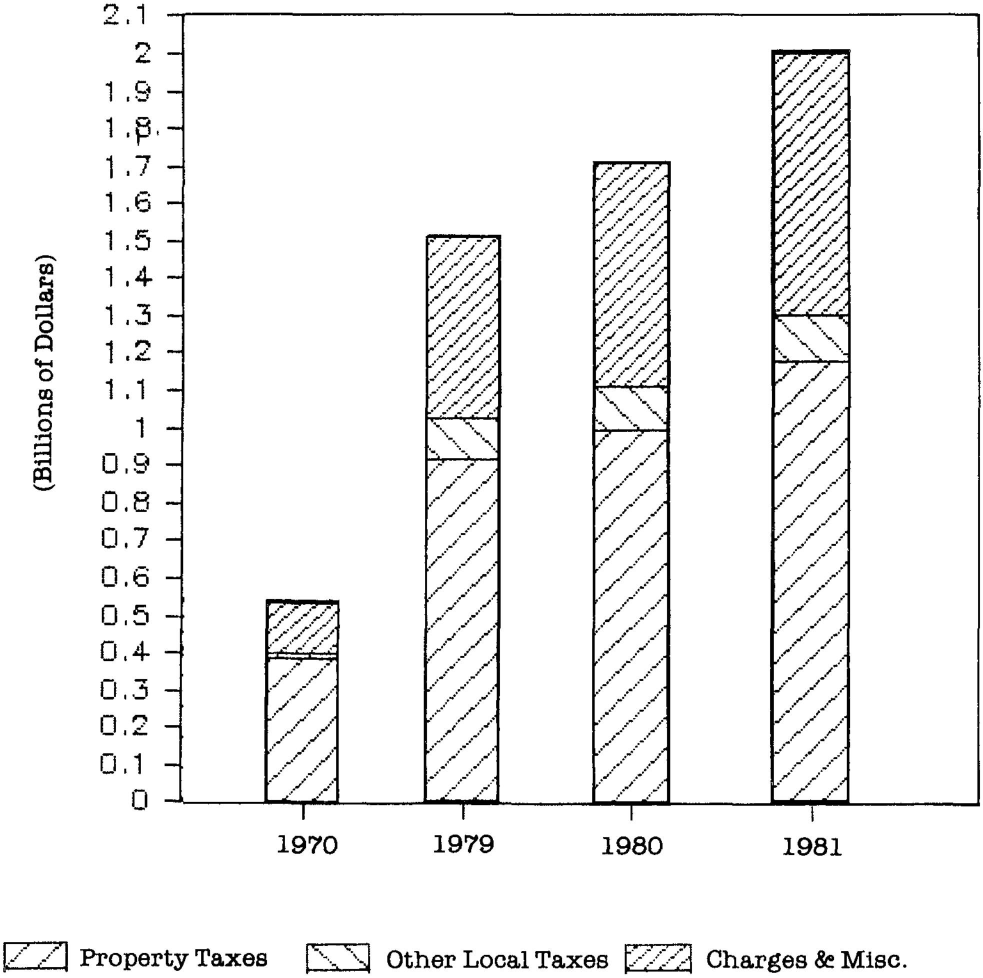
Growth Comparison
State Tax Revenue vs. Personal Income



Source: Handbook of Oregon State Taxes (1983).

Table 19

Oregon Local Government Revenues, 1970-1981



Source: Governmental Finances in 1969-70, 1978-79, 1979-80, 1980-81.

Table 20

Oregon Property Taxes as a Percentage of All
Local Tax Revenue, 1970-1981

(millions)

	1970	1979	1980	1981
General revenue from own sources, total	$548.0	$1,518.9	$1,718.9	$2,005.0
Taxes	405.4	1,030.2	1,121.2	1,304.6
Property	392.0	923.5	1,006.0	1,182.9
General sales	-	-	-	-
Motor fuels	-	3.4	3.2	2.9
Motor vehicle licenses	-	1.5	1.6	1.7
Income - individual and corporation	-	-	-	-
Other	13.4	101.8	110.4	117.1
Taxes	405.4	1,030.2	1,121.2	1,304.6
Current charges		291.9	351.6	376.6
Education		63.9	81.0	89.3
Hospitals		45.3	52.4	59.4
Other	* 142.6	182.6	218.1	227.9
Total current charges	142.6	291.9	351.6	376.6
Interest earnings		100.9	149.3	204.0
Other		96.0	96.9	119.8
Total other revenue		196.8	246.1	323.8
Total local tax revenue	405.4	1,030.2	1,121.2	1,304.6
Total property tax collections	392.0	923.5	1,006.0	1,182.9
Property tax as percentage of local tax revenue	96.69%	89.64%	89.73%	90.67%

*Includes both current and miscellaneous general revenue.

Source: Governmental Finances in 1969-70, 1978-79, 1979-80, 1980-81.

Table 21

Property Tax Burden Per Capita Among 13 Western States: 1980-81

State	Property Tax Per Capita	Rank	Property Tax for Education Per Capita	Rank
Alaska	$854	1	Not Compiled	-
Arizona	315	7	114	6
California	305	8	100	8
Colorado	362	5	228	3
Hawaii	204	12	Not Compiled	-
Idaho	231	11	108	7
Montana	526	3	179	4
Nevada	321	6	86	9
New Mexico	148	13	79	10
OREGON	449	4	302	2
Utah	255	10	150	5
Washington	301	9	58	11
Wyoming	667	2	324	1

Source: Governmental Finances in 1980-81.

Table 22

Value of Property Exempted from Property Taxation in Oregon
(In millions of dollars)

Property Owners	1981	1982
Federal	17,547	17,438
State	1,939	1,907
County	771	802
Cities & Towns	1,019	1,164
School Districts	2,410	2,551
Other Municipal Corporations	671	890
Fraternal Organizations	131	124
Literary & Charitable	649	786
Religious Organizations	1,018	1,102
Student Housing	27	27
Burial Grounds	109	114
Public Library Not Publicly Owned	9	10
All Other Privately Owned	83	200
	------	------
Total Value of Exempt Property	26,383	27,115
	======	======

Source: Oregon Property Tax Statistics 1981, Ore. Dept. of Revenue.
Oregon Property Tax Statistics 1982, Ore. Dept. of Revenue.

Table 23

The Incidence of Property Taxes by Income in Oregon
Not Including Subsidies
(Married)

Joint Income	Assessed* Home Value	Property Tax** @$21.44/M	Tax as % of Income
$ 7,110	$ 34,000	$ 729	10.3
15,287	38,000	815	5.3
24,922	52,000	1,115	4.5
37,989	70,000	1,501	4.0
59,018	80,000	1,715	2.9
112,643	140,000	3,002	2.7

*Assumptions developed by the Legislative Revenue Office
**1982-83 rate

Source: Legislative Revenue Office Memo, 5/26/83.

Table 24

Oregon Personal Income Tax Rates

Marginal Tax Rate	Income on Single Return	Income on Joint Return
4.2%	$0-500	$0-1,000
5.3%	$501-1,000	$1,001-2,000
6.5%	$1,001-2,000	$2,001-4,000
7.6%	$2,001-3,000	$4,001-6,000
8.7%	$3,001-4,000	$6,001,-8,000
9.8%	$4,001-5,000	$8,001-10,000
10.8%	Over $5,000	Over $10,000

Source: ORS 316.037(1).

Table 25

States with Marginal Tax Rates
Greater than Oregon's
(Single Return)

State		Taxable Income	Rate	Federal Deduction Limit
1) California	- Lowest	First $3,120	1%	Nondeductible
	- Highest	Over $24,200	11%	
2) Delaware	- Lowest	First $1,000	1.4%	$300
	- Highest	$35,000-$40,000	11%	
		$40,000-$50,000	12.2%	
		Over $50,000	13.5%	
3) D.C.	- Lowest	First $1,000	2%	Nondeductible
	- Highest	Over $25,000	11%	
4) Hawaii	- Lowest	First $1,000	0%	Nondeductible
	- Highest	Over $61,000	11%	
5) Iowa	- Lowest	First $1,023	0.5%	No limit
	- Highest	$30,690-$40,920	11%	
		$40,920-$76,725	12%	
		Over $76,725	13%	
6) Minnesota	- Lowest	First $668	1.6%	Specifically limited to federal tax on income taxed by the state
	- Highest	$9,327-$11,991	11.5%	
		$11,991-$16,653	12.8%	
		$16,653-$26,643	14.0%	
		$26,643-$36,632	15.0%	
		Over $36,632	16.0%	
7) Montana	- Lowest	First $1,200	2%	No limit for actual tax paid on a cash basis
	- Highest	Over $41,000	11%	
8) New York	- Lowest	First $1,000	2%	Nondeductible
	- Highest	$17,000-$19,000	11%	
		$19,000-$21,000	12%	
		$21,000-$23,000	13%	
		Over $23,000	14%	
9) OREGON	- Lowest	First $500	4.2%	$7,000
	- Highest	Over $5,000	10.8%	

Source: Commerce Clearing House, State Tax Reporter, October 1983.

Table 26

Oregon State Personal Income Tax
Average Liability by Income Level
1980

Adjusted Gross Income Level (Thousands)	Number of Returns	Average Adjusted Gross Income	Average Tax Due	Percentage of AGI Paid as Tax
Neg 10	3,633	$-52,081	$ 178	-0.1
Neg 10	7,715	-3,171	22	-0.0
0- 2	113,409	1,014	4	0.3
2- 4	112,736	2,976	37	1.2
4- 6	97,355	4,979	105	2.1
6- 8	84,860	6,981	189	2.7
8- 10	77,477	8,993	291	3.3
10- 12	70,392	10,977	387	3.6
12- 14	62,707	12,960	490	3.8
14- 16	56,944	14,989	598	4.0
16- 18	54,944	16,992	707	4.2
18- 20	51,819	18,986	812	4.3
20- 22	47,565	20,992	924	4.5
22- 24	43,365	22,975	1,035	4.6
24- 26	37,535	24,982	1,155	4.7
26- 28	33,948	26,984	1,276	4.8
28- 30	29,968	28,970	1,394	4.9
30- 32	25,858	30,977	1,159	5.0
32- 34	22,006	32,966	1,640	5.0
34- 36	18,215	34,974	1,763	5.1
36- 38	14,983	36,961	1,892	5.2
38- 40	12,374	38,968	2,031	5.3
40- 45	21,353	42,274	2,281	5.4
45- 50	12,407	47,279	2,687	5.7
50- 55	7,473	52,313	3097	5.9
55- 60	4,881	57,341	3,543	6.2
60- 70	5,861	64,506	4,153	6.4
70- 80	3,380	74,576	5,001	6.7
80- 90	2,233	84,673	5,867	6.9
90-100	1,506	94,504	6,862	7.2
100-125	2,076	110,723	8,192	7.3
125-150	1,020	136,269	10,607	7.6
150-200	848	170,629	13,888	7.9
200-300	561	238,686	20,084	8.1
300-500	231	369,366	32,999	8.3
500+	103	880,760	73,331	7.9
TOTAL	1,143,741	$ 15,938	$ 752	4.7%

Source: Analysis of Oregon for Tax Year 1980, Oregon Department of Revenue.

Table 27

Oregon State Personal Income Tax
Average Liability by Income Level
1981

Adjusted Gross Income Level (Thousands)	Number of Returns	Average Adjusted Gross Income	Average Tax Due	Tax as Percent of AGI (Effective Rate)
Neg $10	4,992	-$ 57,507	$ 152	-0.0%
Neg $10	9,401	-3,251	19	-0.1
0- 2	94,182	1,098	5	0.5
2- 4	105,782	2,986	38	1.3
4- 6	92,446	4,979	105	2.1
6- 8	81,479	6,977	188	2.7
8- 10	72,764	8,986	288	3.2
10- 12	68,278	10,988	386	3.5
12- 14	62,982	12,978	490	3.8
14- 16	56,197	14,984	598	4.0
16- 18	51,960	16,990	708	4.2
18- 20	49,734	18,984	819	4.3
20- 22	45,856	20,990	927	4.5
22- 24	42,856	22,983	1,048	4.6
26- 28	34,717	26,985	1,274	4.8
28- 30	34,051	28,985	1,398	4.9
30- 32	27,288	30,972	1,512	4.9
32- 34	21,786	32,975	1,636	5.0
34- 36	20,710	34,968	1,752	5.1
36- 38	17,789	36,969	1,886	5.2
38- 40	14,683	38,966	2,014	5.2
40- 45	26,909	42,291	2,258	5.4
45- 50	16,133	47,296	2,650	5.6
50- 55	9,772	52,304	3,054	5.9
55- 60	6,080	57,325	3,473	6.1
60- 70	6,985	64,464	4,051	6.2
70- 80	3,798	74,512	4,873	6.5
80- 90	2,416	84,658	5,787	6.7
90-100	1,678	94,673	6,636	6.9
100-125	2,207	111,031	8,087	7.1
125-150	1,076	136,552	10,480	7.4
150-200	931	171,284	13,782	7.7
200-300	589	237,763	19,679	7.9
300-500	232	376,334	32,755	8.0
500+	95	878,007	77,490	7.4
TOTAL	1,125,291	$ 16,924	$ 811	4.8%

Source: Analysis of Oregon for Tax Year 1981, Oregon Department of Revenue.

Table 28

States with Corporate Marginal Tax Rates Greater than Oregon's 7.5% Rate

State		Taxable Income	Rate	Ability to Deduct Federal Income Tax Payments*
1) Alaska	- Lowest	First $9,999	1%	Nondeductible
	- Highest	Over $90,000	9.4%	
2) Arizona	- Lowest	First $1,000,000	2-1/2%	Fully deductible
	- Highest	Over $6,000,000	10-1/2%	
3) California			9.6%	Nondeductible
4) Connecticut			10%	Nondeductible
5) Delaware			8.7%	Nondeductible
6) D.C. Nondeductible			9% + 10% surtax	
7) Iowa	- Lowest	First $25,000	6%	50% deductible
	- Highest	Over $250,000	12%	
8) Louisiana	- Lowest	First $25,000	6%	Fully deductible
	- Highest	Over $200,000	8%	
9) Massachusetts		9.5% + $2.60 per $m on tangible values or net worth		Nondeductible
10) Minnesota	- Lowest	First $25,000	9%	Nondeductible
	- Highest	Over $25,000	12%	
11) N. Hampshire			8%	Nondeductible
12) New Jersey			9%	Nondeductible
13) New York			10%	Nondeductible
14) Ohio	- Lowest	First $25,000	4.6%	Nondeductible
	- Highest	Over $25,000	8.7%	
15) Pennsylvania			10.5%	Nondeductible
16) Rhode Island			8%	Nondeductible
17) Wisconsin			7.9% + 10% surtax	Nondeductible

* Not deductible in Oregon.

Source: All States Tax Handbook, 1983 Edition, Prentice-Hall, Inc.

Table 29

Unitary Taxation

All states imposing some form of corporate tax utilize the unitary tax concept with respect to the integrated business operations of a single corporate taxpayer. Many states extend the concept of unitary taxation to related domestic corporations operating in the same unitary business. This extension is called combined reporting. A minority of states further extend the concept to foreign related coporations. This extension is called combined world-wide reporting. Some states, as a matter of policy, do not combine foreign parent corporations. The following is a list of states utilizing some form of combined reporting.

State	Domestic Combined Reporting	World-Wide Combined Reporting	Foreign Parent Corporations Included
Alaska	X	X	X
Arizona	X		
California	X	X	X
Colorado	X	X	
Florida	X	X	X
Idaho	X	X	X
Illinois	X		
Indiana	X	X	
Kansas	X		
Kentucky	X		
Maine	X		
Massachusetts	X	X	
Minnesota	X		
Mississippi	X		
Montana	X	X	
Nebraska	X		
New Hampshire	X	X	
New Mexico	X		
New York	X	X*	
North Carolina	X		
North Dakota	X	X	X
Oklahoma	X		
Oregon	X	X	X
Utah	X	X	
West Virginia	X		

*New York imposes combined world-wide reporting only upon oil companies.

Sources: James Rosapepe, "Summary of State Responses to Treasury Department Questionnaire on Use of Unitary Method and Taxation of Dividend Income", Multistate Tax Commission, May 11, 1982. Telephone Survey, Multistate Tax Commission, December, 1983 (confirmed February, 1984).

Table 30

Comparison of New Jersey and Oregon
Gross Income on Selected Items

Income Sources	Included in Oregon	Included in New Jersey
1. Salaries, wages, tips, fees, commissions, bonuses and other remuneration	X	X
2. Net profits from business	X	X
3. Net gain or income from disposition of property	X	X
4. Interest -- U.S. Government		
-- Municipal		
- taxing state		
- other state	X	X
-- Other	X	X
5. Distributive share of partnership income	X	X
6. Alimony and separate maintenance payments received, but excluding support for minor children	X	X
7. Social Security benefits and Railroad Retirement benefits		
8. Life insurance proceeds and employees' death benefits		
9. Valuation of property acquired by gift or inheritance		
10. Workers' compensation and damages for personal injury or sickness		
11. Unemployment insurance benefits	X *	
12. Standard income exclusion ($10,000 for married taxpayers filing jointly)		X

* Included if a base amount is exceeded.

Sources: State Tax Reporter - New Jersey, 1983, Commerce Clearing House, Inc.
State Tax Reporter - Oregon, 1983, Commerce Clearing House, Inc.

Table 31

Comparison of New Jersey and Oregon
Exemptions, Deductions and Credits

Item Description	Deduction or Credit in Oregon	Deduction or Credit in New Jersey
1. Alimony paid	X	X
2. Medical expense	X	X
3. Moving expenses	X	
4. IRA or Keogh Plan payments	X	
5. Charitable contributions	X	
6. Taxes paid	X	
7. Interest paid	X	
8. Nonbusiness casualty losses	X	
9. Union dues	X	
10. Qualifying adoption expenses	X	
11. $1,000 per allowable exemption		X
12. $85 credit per allowable exemption	X	
13. Education exemption		X
14. Credit for taxes paid to another state	X	X
15. Credit for the elderly	X	
16. Child care credit	X	
17. Political credit	X	

Sources: State Tax Reporter - New Jersey, 1983, Commerce Clearing House, Inc.

State Tax Reporter - Oregon, 1983, Commerce Clearing House, Inc.

Table 32

State Sales Tax Collections: Fiscal 1980-81

	Per Capita			% of Personal Income	
Hawaii	$569.00	1	Hawaii	5.62%	1
Wyoming	419.83	2	New Mexico	5.05	2
Washington	415.34	3	Mississippi	4.354	3
New Mexico	395.78	4	West Virginia	4.09	4
West Virginia	319.85	5	Washington	4.02	5
California	306.85	6	Wyoming	3.83	6
Arizona	296.40	7	Arizona	3.36	7
Connecticut	294.98	8	Utah	3.12	8
Mississippi	287.06	9	Tennessee	2.94	9
Florida	260.91	10	South Dakota	2.92	10
Nevada	253.73	11	Florida	2.87	11
Indiana	247.94	12	California	2.80	12
Utah	239.22	13	Indiana	2.77	13
South Dakota	228.76	14	South Carolina	2.71	14
Tennessee	227.43	15	Maine	2.64	15
Texas	210.45	16	Connecticut	2.51	16
Maine	209.49	17	Louisiana	2.41	17
Illinois	204.18	18	Arkansas	2.40	18
Louisiana	204.12	19	Nevada	2.36	19
North Dakota	198.42	20	Georgia	2.28	20
South Carolina	197.35	21	North Dakota	2.26	21
Michigan	193.55	22	Kentucky	2.25	22
Wisconsin	191.58	23	Texas	2.20	23
Kansas	190.00	24	Wisconsin	2.04	24
Rhode Island	187.45	25	Alabama	2.03	25
Georgia	184.74	26	Rhode Island	2.00	26
Colorado	183.87	27	Michigan	1.94	27
Nebraska	179.14	28	Illinois	1.93	28
Maryland	178.72	29	Nebraska	1.91	29
Iowa	176.65	30	Idaho	1.90	30
Pennsylvania	175.84	31	Kansas	1.90	31
Arkansas	174.49	32	Iowa	1.88	32
Kentucky	172.25	33	Pennsylvania	1.86	33
New Jersey	171.58	34	Colorado	1.83	34
New York	168.89	35	Missouri	1.78	35
Minnesota	168.47	36	Minnesota	1.73	36
Missouri	160.10	37	Maryland	1.71	37
Idaho	153.59	38	New York	1.64	38
Alabama	152.85	39	North Carolina	1.61	39
Ohio	151.52	40	Ohio	1.60	40
Massachusetts	149.85	41	New Jersey	1.57	41
Oklahoma	126.48	42	Massachusetts	1.48	42
North Carolina	125.62	43	Oklahoma	1.38	43
Virginia	120.67	44	Virginia	1.28	44
Vermont	87.52	45	Vermont	1.12	45
Alaska	0	--	Alaska	0	--
Delaware	0	--	Delaware	0	--
Montana	0	--	Montana	0	--
New Hampshire	0	--	New Hampshire	0	--
OREGON	0	--	OREGON	0	--

SOURCE: State Government Finances in 1981, U.S. Department of Commerce, Bureau of the Census

2. A Specific Proposal. This Minority urges intensive study of a new type of tax on consumption that is receiving serious attention even on the national level. It would represent fundamental structural reform rather than a new tax that is simply heaped on top of an already rickety tax structure. Fundamental reform would be preferable to a tax that is applied at a single rate and therefore lacks progressivity and elasticity. Fundamental reform would be preferable to a tax that has uneven impact because it exempts some commodities.

We propose the study of a Consumption Tax, levied at progressive rates on all consumption expenditures, as the cornerstone for Oregon's future tax structure. The study should be careful and thorough and it should be done in concert with the federal government and other states. As it has been presented to us, the Consumption Tax would tax Oregonians on the goods and services that they actually demand and use up, i.e., on what they take from the economy. It would not tax what Oregonians save and leave available to the economy at large. In that sense, the Consumption Tax would encourage thrift and the preservation of resources. It would not apply to transactions that reflect saving - the purchase of stocks and bonds, the acquisition of land, or life insurance, or an IRA or Keogh Account, or even the buying of rare stamps, paintings, gold or silver, or other collectibles. It would not tax capital gains, nor gifts, nor inheritances; indeed, it would not tax incomes at all. It would merely ask each taxpayer--in a tax return to be filed once a year--how much he/she actually consumed during that year, and it would apply a progressive tax rate to that total: a low rate if it was small; progressively higher rates as the sum increases.

How would taxpayers determine how much they have consumed in a year? Would they have to collect thousands of sales slips? What would prevent them from "losing" sales slips and arriving at too low a total for their annual consumption? Might not the proposed Consumption Tax require a stupendous amount of paper work and red tape?

Perhaps not at all. As present to us by the literature, the Consumption Tax return will only ask about a taxpayer's cash flow and certain non-cash benefits. It would require him/her to document additions to savings and investments from that flow. What is left over would be subject to the Consumption Tax.

The Consumption Tax return could be relatively simple. All sources of funds and benefits would be listed, including those from the sale of assets, gifts, inheritances, wages, salaries, drawdowns, interest or dividends, welfare payments, annuities, withdrawals from savings accounts or money market funds, non-cash employment fringe benefits, and so forth. Subtracted from this total would be all payments for non-consumption purposes: adding to savings accounts; buying stocks or bonds or life insurance; investments in real property, collectibles, or other non-consumable assets; making gifts, paying into Keogh or IRA accounts, loan principal payments, and all other non-consumptive expenditures. The difference represents the total consumption for the year and would be taxed at progressive rates.

We recognize, of course, that in the process of creating a Consumption Tax, legislators will be pressed to make special tax concessions to individual interest groups. However, we envision that, under our proposal, budget makers would be required to identify these concessions as specific budget expenditure items - not only the various transfer payments (including welfare and income support payments) that the legislature approves, but also hidden subsidies in the existing tax system that result from tax credits, exemptions, deductions, and other tax preference schemes. While individuals could still receive various subsidies, these would become reportable on their Consumption Tax returns, and therefore perhaps be subject to taxation. The general Consumption Tax we would support therefore would be one devoid of deductions, exemptions, or tax credits. A secondary but desired benefit might be that everyone would become more sensitive to tax policies, so that perhaps the public will become more aware of the workings of its government.

3. Response to Majority Concerns. The Majority registered several concerns about the Consumption Tax which we agree need to be adequately addressed during the study process. However, we do have some preliminary comments regarding the Majority's concerns.

First, the Majority suggests that someone who earns $40,000 and must spend all of that to meet living expenses would become worse off under a tax system which leaves untaxed the non-consumption income of those who earn $100,000 but need only $40,000 to live on. However, the propensity for this to occur is embodied in current tax law. Higher-income households presently enjoy a wide assortment of preferential tax benefits (tax exempt bonds, highly-leveraged stock and property purchases with attendant long-term gain treatment, depreciation, etc.) than do households with lower incomes. In this sense, our opinion is that both the existing tax system and a Consumption Tax would appear to affect taxpayers similarly.

The Majority's second concern is that any tax, whether income or consumption, will be subject to loopholes favoring one class of people over another. We acknowledge this concern and suggest that any Consumption Tax considered (or, for that matter, a radically reformed income tax) should require budget makers to go through the budgeting process as we have outlined above. Since every loophole has its cost, the cost should be budgeted, appropriated and treated by recipients as part of their resources subject to the Consumption Tax.

Third, the Majority is concerned about administrative complexities. Every tax system has its complexities, but the Consumption Tax may prove to be easier to administer in the long term than the income tax. In our view, no new administrative machinery needs to be established. In addition, the Consumption Tax may have a far simpler test to meet for tax purposes than the current income tax which distinguishes between gross, net, adjusted, exempt, and other kinds of income, each of them subject to different regulations. Under the Consumption Tax, the only test should be whether an expenditure can be declared "non-consumptive."

Admittedly, there will be borderline cases. For example, residential housing and works of art could be considered as both an investment and as a consumption expenditure. We propose that they be treated basically as investments, except to the extent that they also have consumptive value (e.g., when people reside in the house they own or enjoy their Picassos on the wall). The taxable value of this consumption could be found by determining the rental value of these items.

Fourth, the Majority is concerned about the transition from a widely-accepted and institutionalized income tax system to a brand new system. We share this concern, and suggest that a wide range of transition features would have to be investigated.

Fifth, the Majority is concerned that a Consumption Tax employed solely in Oregon would result in undesirable tax avoidance behavior. When Oregonians retire, both they and their tax-free savings might transfer to another state where the consumption of their savings would not be subject to a Consumption Tax; just as today, many Oregonians might retire to the State of Washington and transfer their IRA and Keogh accounts to Washington in order to avoid Oregon income tax. To the extent a local Consumption Tax promotes undesirable boundary effects, perhaps the Consumption Tax should be considered at the federal level.

4. Prospective Features of an Oregon Consumption Tax. A very rough estimate suggests that an Oregon Consumption Tax could be required to raise about $2.25 billion annually by supplanting:

a) One half to three quarters of a billion dollars in current property tax collections in order to provide from the state's budget a basically adequate level of public education, at least enough to insure year-round operations of individual schools, but not including locally-optioned programs that individual school districts may choose to offer with the approval and at the expense of local property taxpayers.

b) The state's $1 billion personal income tax.

c) The roughly $350 million collected annually by the state from the many (and often well hidden) special purpose taxes on items such as gasoline, timber severance, trucking, inheritance, cigarettes and so on.

d) The $160 million state corporate excise and income tax.

In sum, under our proposal, the only state and local taxes remaining would be the Consumption Tax, reduced local property taxes, licenses, and user fees. We believe that this is a significant simplification.

Since Oregonians spend roughly $25 billion annually for all goods and services, a progressive Consumption Tax with an average rate of approximately 9% would generate the $2.25 billion needed to replace the various taxes listed above. However, because this tax would replace an array of current taxes, the tax system could be much simplified and administrative expenses could also be much reduced, so that the revenue required may not even be that great.

B. Summary of Arguments in Favor of a Comsumption Tax Study.

The study of a Consumption Tax should include a look at all of these issues. We believe that the practical problems of the Consumption Tax are not as great as those associated with the current income tax system. Indeed, we view the Consumption Tax as the long term solution to our increasingly complicated tax system. We believe that the Consumption Tax shows better promise for meeting your Committee's criteria than any existing or proposed tax. In our opinion, it would:

* encourage savings and investments, generating more resources for production and economic expansion than does the current system.

* encourage more thoughtful consumer behavior. This may result in preserving resources for use over longer periods of time than the current tax system promotes.

* generate enough revenue to replace state (and perhaps national) taxes of all kinds.

* be purely equitable horizontally, as those who consume the same are taxed the same. In this regard, it should also be vertically progressive, taxing heavier consumers progressively.

* reduce administrative costs. By replacing all of the tax systems (such as sales, income, auto, severance, shipping, certain payroll, inheritance, cigarette, gasoline taxes and so on) and by instituting a single test for taxation purposes, the Consumption Tax would reduce administrative costs both for the taxpayer and for the authorities.

C. <u>Minority #1 Conclusions</u>

This Minority views the Consumption Tax, as it has been presented conceptually, as providing more potential benefits to society than the current system.

While this Minority is ambivalent about the Majority's recommendations to enact a sales tax and to study a gross income tax, we conclude that, for the long term, Oregon's taxes will need to be restructured in a major way. The local property tax is played out. The state's income tax system has lost its elasticity. We believe that, in the long run, the Consumption Tax that we propose conforms best to the criteria your Committee established as policy objectives.

D. <u>Minority #1 Recommendations</u>

1. This Minority recommends, in substitution for Majority Conclusion #8, the following:

   The Consumption Tax, as it has been presented conceptually, conforms best to the criteria established by the Committee as policy objectives and represents a fundamental reform of Oregon's tax structure. However, the Consumption Tax needs careful and thorough study in concert with the federal government and other states. If a Consumption Tax can indeed perform as we envision it, it should be implemented.

2. This Minority further recommends that the Majority's Recommendations be amended to include the following:

   a) The Oregon legislature and Oregon's Congressional delegation should commence a serious study of the implementation of an Oregon Consumption Tax, adequately coordinated with the federal system.

b) The City Club's Board of Governors consider the examination of this Consumption Tax in every reasonable detail for public education.

Respectfully submitted,

Gus Mattersdorff
Chris Nelson

VII. MINORITY REPORT #2

This Minority would like the Committee's report to serve as a long term resource document which could be used as a resource base against which any tax proposal could be evaluated. The Majority's report serves this goal with the exception of its recommendation for a sales tax to reduce property taxes as a means of heading off the perceived threat of a property tax limitation measure.

This Minority generally endorses Minority Report #1 which supports the study of a gross consumption tax as the best potential means of solving Oregon's long-range revenue requirements within the framework of the Committee's criteria on taxation. This Minority opposes the sales tax as either a practical short-term or a long-term solution to Oregon's tax problems.

A. Discussion

The sales tax recommendation is, in our opinion, a short-term solution to a tax system that sorely needs true reform. Furthermore, a sales tax is inconsistent with the Committee's own criteria on taxation with respect to horizontal and vertical equity, elasticity, efficiency and visibility (see Section IV, B, (1)).

We all agree that further reliance on the property and personal income tax base is inadvisable. The relief of one or both of these tax mechanisms by the imposition of a sales tax may have some political appeal. However, it would be an extremely costly political compromise for which all Oregonians will pay and pay dearly. In order to set up a sales tax system, it would cost an estimated $40 million for the state. This would be spent before a single cent is gathered from this source. Indeed, the legislative Emergency Board has been requested to grant $500,000 just to study the collection system by the revenue bureaucracy. This incredible amount has been requested even before an election is held! In addition, there will be an ongoing cost of $33 million every year to administer the program once it is in place (see Section IV, B, (1)). As a point of comparison, $33 million represents nearly one-half of all state revenue derived from liquor sales. The costs listed are the estimated costs to the state. There would be a tremendous set-up cost to the businesses collecting the tax as well. We have no estimate of what that cost will be but we know that it will be in the millions of dollars.

We join Minority #1 in its concern that the personal income tax has become inelastic and the sales tax, in every state we studied, is inelastic also. Due to the inelasticity of the income tax and the sales tax, there will very likely be a revenue shortfall if the demands for government services increase without a rebound in the economy. In this event, the legislature may very well be faced with some very unattractive options such as: 1) maintaining the 8% surcharge on personal income tax rates; 2) increasing even further the rates assessed on personal income; 3) increasing the sales tax rate; 4) cutting state budgets, including basic school support; or 5) a combination of any of the foregoing. When this happens, a political paralysis may grip the legislature that will be more onerous than that faced by the last session. What would happen in such an environment is anyone's guess. Where would we go? Would this report offer any assistance in providing a rational solution at that point?

A pure single-rate, retail sales tax is regressive; it impacts more heavily on low-income groups because they must spend a larger portion of their incomes on taxable purchases than do the affluent. Measures to remedy this defect (e.g., exempting food and medicines) are bound to be arbitrary and horizontally inequitable. They benefit, for no particular reason, taxpayers who must buy a lot of medicine and penalize, by comparison, taxpayers who must buy a lot of heating oil.

The imposition of a sales tax dedicated to property tax relief represents a major tax shift. In this shift, there will be "winners and losers." No one knows who the "winners" will be or who the "losers" will be. Furthermore, tax relief to unidentified "winners" and additional tax burdens to unidentified "losers" is bad public policy.

A pure retail sales tax, paid by every taxpayer in dribs and drabs, obscures his/her total tax burden; people are never brought face-to-face with their total contribution to their government. While this facilitates the job of the legislator or bureaucrat because the public is less aware of the costs of government, it has the effect of glossing over important information that we believe every taxpayer should have.

Oregon needs a stable tax revenue structure to promote economic growth and development. The imposition of a sales tax is a short-term solution which distracts from the ultimate objective of finding a fair, equitable, and stable tax structure in which our citizens can prosper.

The sales tax would be a new tax resource to state government. Due to its invisibility, however, there is a danger that this resource would be tapped to allow government to spend more without the attendant discipline of voter scrutiny.

B. Minority #2 Conclusions

1. This report should serve as a long-term resource document against which any further tax proposals could be evaluated. The recommendation of a sales tax is a distraction from this basic objective.

2. The sales tax recommendation proposed by the Majority is inconsistent with the committee's criteria on taxation.

3. The political aspects of the sales tax issue are more appropriately addressed in a City Club ballot measure study will be prepared when and if a sales tax is referred to the voters.

C. Minority #2 Recommendations

This Minority recommends that:

1. Majority recommendation #1, which recommends adoption of a retail sales tax, be deleted.

2. The second sentence in Majority recommendation #2, which approves use of sales tax revenue for reduction of income tax under certain conditions be deleted, so that it reads as follows: The personal income tax should not be increased.

Respectfully submitted,

Patricia McEntee
R. Joe Okoneski

Your Committee was fortunate to have the services of a research intern, William B. de C. Cussans, a Reed College senior majoring in Economics, during the early stages of their study.

Approved by the Research Board on January 26, 1984 for transmittal to the Board of Governors. Received by the Board of Governors on February 2, 1984 and ordered published and distributed to the membership for consideration and action on March 23, 1984.

Appendix A
OTHER NEW SOURCES OF REVENUE

Your Committee also reviewed a number of possible new sources of state and local revenue. Two are mentioned below:

1. A New Motor Vehicles Tax. Oregon presently levies a $20 biennial motor vehicle registration fee dedicated to the state highway fund. Many states, including Washington, employ a vehicle registration fee which is related in part to the value of the vehicle being registered. If Oregon followed Washington's lead and employed an additional registration fee of 2% of the market value of all vehicles registered, it could raise perhaps as much as $150 million per biennium. Although this amount could conceivably be used to replace other taxes, the Committee has determined not to take a position with respect to an increased motor vehicles tax.

2. A State Lottery. Seventeen states plus the District of Columbia operate lotteries. Several lottery-related measures were introduced during the 1983 legislative session, but none passed.

The four basic games offered by state lotteries are: an instant-winner game, a numbers game, lotto and a passive drawing. Both lotto and the numbers games require on-line computer systems. States initiating lotteries typically begin with instant-winner games because they are easier to administer. As the novelty of these games wears off and sales decrease, others may be added. Games where the player chooses a number to match the lottery's randomly drawn number have become the largest source of revenue for most state lotteries.

The "take out"--the amount of money not returned to the players--ranges from 50% to 55% of gross sales. Compared to other forms of gambling, this rate is quite high. The take out rate for Oregon greyhound and horse racing is 17.5%, and the take out for legal gambling casinos is approximately 15%. After deduction of administrative and selling expenses, roughly 40% is available for state treasuries. Even in the most successful states, lottery revenue still comprises less than 2% of state-raised revenue.

State lotteries generally collect revenue in a regressive manner. Even though per capita expenditures and participation rates are lower for lower income groups, lottery expenditures represent a larger percentage of income for lower income families than for higher income families.

In 1983, the Legislative Revenue Office made a series of estimates of possible Oregon lottery revenue based on the assumption that a lottery would begin with an instant winner game and make a transition after six months to on-line numbers games. It also was assumed the state would aggressively market the lottery. Under these conditions, the lottery was estimated to produce $28 million in the first six months, $45 million in the first year and sustained annual revenue of $30 million thereafter. With low-key advertising and instant-winner games only, Oregon could possibly net between $10 and $15 million per year.

To some, a lottery seems politically attractive because it is voluntary. Others oppose gambling on moral grounds or believe that it is inappropriate for state government to encourage or profit from games of chance. There also is a disagreement between lottery proponents and opponents as to whether lotteries decrease the public's appetite for illegal gambling or whet it.

Because of the substantial non-tax issues involved in any lottery/no lottery decision, your Committee declines either to favor or oppose the creation of an Oregon lottery. It is important to note, however, that the amount of money likely to be raised would make a relatively small contribution to Oregon's overall revenue.

Appendix B
PERSONS INTERVIEWED

Ted Achilles, President, Arnav Electronics
Len Andersen, Portland Association of Teachers
Governor Victor Atiyeh
Steve Bauer, League of Oregon Cities
Bob Baugh, Secretary-Treasurer and Lobbyist, AFL-CIO
Rich Borneman, Taxpayers for Better Economy
Ray Broughton, Economist, First Interstate Bank
Gary Carlson, Association of Oregon Industries
Peter Courtney, Oregon State Representative
John Danielson, Oregon Educational Association
Bill Dawkins, Oregon Taxpayers Union
Ted De Looze, Oregon Department of Justice
Terry Drake, Legislative Revenue Office
Jim Gaffney, CPA, Tax Manager, Arthur Andersen & Co.
Dan Goldy, Economic Consultant
Charles Hanlon, Oregon State Senator
Margie Hendriksen, Oregon State Senator
J. Alan Jensen, Attorney, O'Connell, Goyak, Jensen & Krage
Vera Katz, Oregon State Representative
Dr. Richard Lindholm, Professor of Economics, University of Oregon
Pat McCormick, American Electronics Association
Richard Munn, Legislative Revenue Officer
Ray Phillips, Oregon Taxpayers Union
Russell Sadler, Political Columnist
Jim Scherzinger, Legislative Revenue Office
R.P. "Joe" Smith, Former Oregon Democratic Party Chairman
Judge Samuel Stewart, Oregon Tax Court
Tom Throop, Oregon State Representative
Glen Ulmer, CPA, Tax Manager, Arthur Andersen & Co.
Tony Van Vliet, Oregon State Representative
Dr. John Walker, Professor of Economics, Portland State Univeristy
George Weber, Oregon Department of Revenue

Appendix C
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