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**Tax Reform in Oregon**

City Club of Portland (Portland, Or.)

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The City Club membership will vote on this report on Friday, April 19, 2002. Until the membership vote, the City Club of Portland does not have an official position on this report. The outcome of this vote will be reported in the City Club Bulletin dated May 3, 2002.
The City Club of Portland Mission
To inform its members and the community in public matters and to arouse in them a realization of the obligations of citizenship.

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EXECUTIVE SUMMARY

Oregon's state and local tax system is precariously unbalanced, not well structured to assure sufficient revenue to meet costs of public services approved by law. Further, the system is unfair to many taxpayers and confusing to nearly all. It's time for improvement, for broad reform instead of the piecemeal adjustments of the past two decades that have deepened the present set of problems.

In recent years, Oregonians in search of a better tax system have keyed on the property tax as the answer. On one level, their pursuit has been productive. The tax burden of Oregonians has declined since 1990 after approval of two initiative measures that placed limitations on the property tax: Ballot Measure 5 (1990) and Ballot Measure 50 (1997). In 1990-91, Oregon ranked 12th highest of 50 states when the tax bite is determined as a percent of personal income, but by 1999 Oregon was 46th.

Yet there is much more to the story. The targeted assault on the property tax has significantly and negatively affected the look and effectiveness of the structure. Oregon's state and local tax system still stands on two main supports, the income tax and the property tax, with voters consistently rejecting proposals for a statewide sales tax as a third foundation.

However, the new limitations on the property tax have caused a remarkable shift away from that revenue resource to the income tax. Little more than a decade ago, the property tax was the chief revenue resource in Oregon, with the income tax not far behind. Now Oregon is one of only a few states that is heavily dependent on a single tax, i.e., the income tax. Of the roughly $7.5 billion in taxes now being collected statewide, 62 percent are coming from personal and corporate income taxes.

The tilt towards the income tax can be good news when jobs and incomes continue to increase in a strong economy. But as Oregonians are discovering in the current recession, as jobs disappear and incomes decline, the income tax component of the system does not produce sufficient revenues, and the bust part of the economic cycle hits public services hard.

Long reliant on the less volatile property tax, Oregon school districts are now in an especially vulnerable position. They are greatly dependent on the State School Fund Appropriation, funded primarily by income taxes. About 35 percent of Oregon school operating revenues came from the fund in 1991-92; now some 70 percent comes
from it. General local governments are seeing limits on what they will be able to collect from approved tax levies, while facing cuts in their general funds due to the recession.

The shift in the balance of the structure, and the revenue insufficiency that can flow from it may be the most immediate reason to review Oregon’s tax system, but there are others.

Fairness, or equality as Adam Smith defined it, is an important criterion in evaluating a tax system. While fairness can be determined in the eye of the beholder, it’s clear that the structure of Oregon’s income tax system is unfair to the low-income taxpayer. Taxpayers with as little as $6,101 in taxable income fall into Oregon's highest income tax bracket of nine percent.

Further, the property tax has become more regressive since Ballot Measure 5. At its passage, a homeowner's relief program that had eased the property tax burden of low-income homeowners and renters was eliminated from the books. Ballot Measure 50 instituted the separation of assessed values from market values, producing anomalies if not inequities, where properties of similar value can be taxed at different levels.

The complexities of the property tax system following the 1990s changes have not been easy for taxpayers to grasp and public officials to interpret. Overall, Oregon’s tax system, packed also with tax credits, exemptions and deductions, is not simple or clear. It is difficult for citizens to appreciate the tax systems’ strengths and weaknesses and to debate the likely impact of frequently proposed changes.

This report is the final product of a City Club task force appointed in 1997 to act as the eyes and ears for the Club on public interest in changing Oregon’s state and local tax system. It offers detailed analysis and conclusions about the current system, and recommendations for action. The informational body of the report is intended to help City Club members and other Oregonians understand more clearly the current tax structure and to make more informed decisions about proposals to change it.

Key recommendations include:

To the Oregon State Executive and Legislature:

- Conduct a holistic, broad-based analysis of Oregon’s tax structure, originated by the State Executive and Legislature, and modeled after the approach taken by the Washington State Legislature at its 2001 session to institute and complete a two-year, wide-ranging review of Washington's state and local tax system, including its impact on neighboring states.
• Use standard criteria for evaluating a tax system, such as those described in this report under the headings of fairness, sufficiency, certainty, clarity, efficiency and neutrality.

• Set the following chief goals of the system review: improving the fairness of the system, making it simpler for taxpayers to understand, and increasing its ability to produce, with greater certainty, sufficient revenue to pay for public services.

• Seek a better balance in the system, making available a wider range of substantial revenue-raising options, so the inefficiencies and inequities of one key tax can be limited and offset by use of another.

To the City Club of Portland:

• Make the need for comprehensive tax reform a specific test for candidates for public office at the state and local level who appear before the Club to present their case for public support.

• Lead the public discussion of tax reform through its public forums and continuing research efforts, through partnerships with other public interest organizations, and advocacy for the use of this report and its recommendations in public debate of proposals to change Oregon’s state and local tax system.
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I. INTRODUCTION

Oregon's tax system has undergone dramatic changes in recent years. Much of the change has come through citizen initiatives that target only one element of the system at a time. With every legislative session and ballot measure season, individuals and groups at both ends of the political spectrum advocate further changes. After years of piecemeal changes, how good or bad is Oregon’s tax system? Is our tax system in good shape, does it need significant repair, or even radical reform?

Few citizens have a good understanding of the basic characteristics, strengths, and weaknesses of Oregon's existing tax system, and the relative impacts of the individual taxes that shape it. Most of us also lack useful tools to help us evaluate and consider the likely impacts and implications of proposed changes to Oregon's tax system.

The City Club Board of Governors, in response to these concerns, created a special Tax Reform Task Force in July 1997 to inform and advise the Club members and the public about tax reform issues, opportunities, and challenges.

Since then, Task Force members have interviewed and heard testimony from many of the key players knowledgeable about the state and local tax system in Oregon, including former U. S. Senator Bob Packwood, individual members of a Governor’s Tax Review Committee (1998), and former directors of the Oregon Revenue Department and Legislative Revenue Office. The latter, Richard Munn and Jim Scherzinger, have closely reviewed and critiqued recent drafts of this report and have been invaluable in assessing the accuracy and comprehensiveness of its contents.

The work of the Task Force has included review of numerous reports, studies and articles covering the theory and practice related to the federal, state and local systems in this country. Task Force members have interviewed representatives of public tax agencies in several other states. Special help with content has been provided by City Club Research Director Paul Leistner. Our efforts have been greatly enhanced by acute advice and recommendations from two members of the Club’s Research Board, Jane Cease and Bill June.

Our discussion over the past five years has focused on opportunities and challenges for change, and a wide variety of options for reform of Oregon’s state and local tax system. The Task Force presented two interim reports to City Club members, one of which was central to a City Club Friday luncheon program about two years ago.

The purpose of this report is to set the stage for discussion and debate among City Club members and other Oregon citizens on the need and
options for holistic review of our tax structure toward comprehensive reform, rather than to call for yet another piecemeal change. We hope the primary value of this report is to help Oregonians to understand Oregon’s current state and local tax system more clearly, and to make more informed decisions about proposals to change it.

A. What the report covers

As with many public policy issues, political leaders and citizens can be quick to argue over specific tax tools or approaches without first considering the larger context: Why do we have a tax system? What are the broader values or goals that should guide our decisions about taxes? We attempt to provide this larger context in the next two sections of this report with a brief discussion of the overall purpose of taxes followed by a description of key criteria which policy makers and citizens can use to evaluate a tax system and individual taxes.

An assessment of Oregon's tax system requires an understanding of the characteristics and impacts of the different taxes that are involved in the structure. We describe major taxes in this country, and then focus on Oregon, examining in depth the property and income tax used to raise revenue.

We assess the relative strengths and weaknesses of Oregon's tax structure, and examine each major tax employed in the system. We also provide a comparison of Oregon’s tax system to those of other states.

B. Other issues

Public spending: Our examination stays with the revenue side of Oregon’s public finance system. While acknowledging the relationship of revenue sufficiency to spending, we do not attempt to assess whether government is spending too much or too little on any specific public program or service.

Oregon Lottery revenues: Our review of revenue sources does not include the Oregon Lottery. The Oregon Lottery is a state-run business enterprise and its revenues are generated voluntarily and are not tax-based.

Federal tax system: We do acknowledge the relationship between the federal income tax structure and Oregon's, but we do not describe it in detail or analyze the impact of federal taxes on Oregonians' overall tax burden.
User fees, user charges and sales by public monopolies: Fees and charges for goods and services sold by government are tied to the value of the product or service. They are different than traditional taxes because they are voluntary purchases. We describe this category primarily to illustrate how they are different from taxes. Our study does not further examine these types of revenue, which are described by the National Conference of State Legislatures (NCSL) as follows:

- **User fees:** "Derived from government sales of licenses to engage in otherwise restricted or forbidden activities."

- **User charges:** "Prices charged for voluntarily purchases, publicly provided services that, while benefiting specific individuals or businesses, and are closely associated with basic government responsibilities." (such as water and sewer rates, public transit fares, toll roads, public golf course fees). ("Principles of a High-Quality State Revenue System," NCSL.)

"Fiscal monopoly and utility revenues" are those "that the government receives from exclusive sale" (e.g. utilities, liquor stores, state gambling operations).

Change in the state and local government relationship: We identify this shift in our discussion of the impact of recent tax system changes, especially with regard to school funding. This change has substantial consequences. As the 1998 report of the Governor's Tax Review Technical Advisory Committee, the most recent official review of Oregon's tax system, noted in its findings: "The changing tax structure leads to a fundamentally altered relationship between state and local governments."

Further, according to the 2001-02 Oregon Blue Book: "As the ability to raise revenue continues to shift towards the state, the interaction between state and local governments will continue to evolve. A changing of funding sources results in changing responsibility for providing services. In addition, with local governments' ability to raise revenue severely limited, legislation or initiatives that impact the property tax base will have larger effects than under the levy based system."

California may preview the future shock for Oregon. In a report on public finance in California since passage of the tax-limitation initiative measure, Proposition 13, in 1978, which was delivered to the Public Policy Institute of California in May 2000, the author, David W. Lyon, reported:

"Changes in public finance since 1978 have significantly expanded the state's role in the local arena. Some
jurisdictions have been able to offset the shift in control of the property tax to the state by increasing local taxes and user fees. Others, most notably schools and counties, have become increasingly reliant on the state and hence are susceptible to its fiscal problems and budget cycles."

He added: "The constraints on local governments' ability to generate revenues may become increasingly problematic as they seek to provide services to a rapidly growing and changing population."

Lyons concluded: "Changes in the control, discretion and composition of public finance have led to considerable political tension between different levels of government, as well as between voters and their government, as manifested by the limitations imposed on government behavior and spending over the past 20 years through the initiative process."

Tax exemptions, deductions, credits: Our analysis of these adjustments to the tax system is not in depth. The extent of our review brings us to the conclusion that on the whole, they reduce the fairness of the overall system and add to its complexity and loss of clarity. Often introduced by government to encourage or discourage behavior, exemptions, deductions or credits need to be reviewed regularly to ensure the desired goals are being achieved and at reasonable cost. They can and often do stay in force long after the need, or their effectiveness, is gone.

Taxing business: The fair distribution of taxes between individuals and businesses is a difficult issue in any state or local tax system. The complexity of relationships between individuals and businesses makes this a public policy, not strictly a technical decision, and represents an area for separate study.

Taxes on business are mostly passed through to customers (via higher prices), workers (by lowering wages and benefits), and shareholders (through lower dividends). It is argued that businesses' ability to pass on the cost of taxes depends very much on the market conditions in which the business operates.

One of the rationales for taxing business, suggested by the NCSL is that: "Business firms are intermediaries in economic processes from which it is administratively convenient to collect taxes. Businesses provide a large, accessible revenue stream, so that taxes on business help meet the need for revenue sufficiency." (‘Principles…..,” NCSL) (In Oregon, corporate taxes raise a small portion, about six percent, of total taxes for state and local government.)
In Oregon, the property tax burden has shifted in the past two decades decidedly toward individuals and away from business. The 1998 Governor’s Committee report showed the initial shares of state and local taxes on households in Oregon increased from 51 percent in 1978-79 to 61 percent in 1996-97, as the business share conversely dropped from 49 percent to 39 percent.

According to the report, "There are two primary reasons for this shift. The first is a rise in residential property values relative to commercial and industrial property. Second, rapid growth in personal income tax collections brought on by strong wage and salary growth and growth in capital gains from the booming stock market (of the 1990s)."

In 1998, the Oregon Governor’s Tax Review Technical Advisory Committee called for an economic incidence report to more fully address the equity implications of this shift in Oregon. The 1999 legislature responded by funding the development of the Oregon Tax Incidence Model (OTIM) to "evaluate the overall distribution and ultimate burden of Oregon taxes." The Legislative Revenue Office released a report on the OTIM methodology and findings in March 2001 (LRO Report Number 2-01.)

The OTIM assumes that businesses shift their taxes to consumers, workers and/or owners/shareholders (e.g. households). Incorporating this shift of business taxes to households, the OTIM found that, in 1997, "Oregon’s state and local tax system...places the highest percent tax burden...on the lowest and highest income classes." The highest effective tax rate, 13.1 percent, was paid by the lowest income group ($0-$14,525 annual income). The next highest rate, 12.4 percent, was paid by the highest income group ($126,173 and up). The lowest rate, 9.7 percent was paid by the income group earning $21,225 - $28,739. The average rate for all Oregon households was 11.4 percent.

The OTIM found that the "effective tax rates for business taxes shifted to households...are about the same for all income classes." The LRO report identified direct taxes paid by households as the major source of variation in tax burden by income group. The report found that property taxes are the biggest source of regressivity for the lowest income households, while Oregon’s income tax is the major source of progressivity for higher income households. (LRO Report Number 2-01, pp. 66-67.)

Citizen perception about Oregon taxes: One official called on during this study, Jim Scherzinger, former director of the State Legislative Revenue Office, sums up the perception issue succinctly:

"In general, people perceive the tax system by how it directly affects them. This does not necessarily mean
people are selfish, only that indirect effects are less obvious. The direct taxes we pay on property and income are more obvious than the business taxes embedded in the price of goods we buy. So most people believe taxes have not declined in Oregon since Measure 5 passed, despite the fact that the total tax burden has dropped.

"Most of the recent decisions voters have made about taxes are based on these perceptions, not on the basis of an economist's analysis of the actual effects and how they measure up against some criteria. And most of the initiatives presented to voters have been designed to play to these perceptions. It is a huge challenge to try to change these perceptions with a complex economist's analysis—one that most states do not have to do because they do not have the initiative process, or because that process is weaker than in Oregon."

**Rough road to reform:** As indicated in this report, the legislature faces challenges in shaping a successful legislative package for broad change to the tax system. Oregon Constitutional provisions give citizens or special interests added opportunity to test or overturn the legislature's work via the ballot box.

For example, the Constitution provides for the lowest number of required signatures to place a revenue raising initiative on the ballot—four percent of those who voted in the previous gubernatorial election. Non-revenue initiative measures require six percent, for a statutory change, or eight percent, for a change to the Constitution.

Another provision of the Constitution prohibits an emergency clause on revenue raising legislation, requiring that 90 days pass after adjournment of the Oregon Legislature before a revenue bill can become law. This offers a sizable window of opportunity for organizations or individuals opposed to a tax proposal to gather signatures to refer the legislation to the voters, delaying implementation by as much as 18 months to November of the following year. The final decision on this matter is up to the voters.
II. REVENUE SOURCES FOR GENERAL GOVERNMENT

Sound public policy and principles should drive the development of a responsible tax structure. Too much time is spent arguing about strategies and tactics without agreement on objectives. Creation of a high-quality tax system requires a clear understanding of the strengths and weaknesses of each of the major taxes within the overall tax system.

Too often the Oregon Legislature, or we, as voters, modify Oregon’s tax system with little discussion of how the change will affect the overall character of our tax system. Change to one tax in the system can influence the entire system, its degree of fairness, its stability or complexity.

This section discusses the fundamental purpose of taxes and evaluates the major traditional types of taxes.

A. Purpose of taxes

The fundamental reason for taxes within a democratic society is to raise revenue to pay for public services. Governments collect taxes primarily to provide "public goods" which are considered to be essential to the well being of all citizens, and that the private sector cannot or will not provide in a consistent and comprehensive way.

Services paid for by each Oregon income tax dollar (FY 2000-2001)

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<tr>
<th>Education—59 cents</th>
<th>Public Safety—14 cents</th>
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<tr>
<td>K-12 System</td>
<td>Police</td>
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<td>Community Colleges</td>
<td>Department of Justice</td>
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<td>Higher Education</td>
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<td>Juvenile Corrections</td>
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<th>Human Resources—20 cents</th>
<th>Other Services—7 cents</th>
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<td>Medicaid</td>
<td>Transportation</td>
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<td>Food Stamps</td>
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<td>Senior Services</td>
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<td>Mental Health</td>
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<td>Child Protective Services</td>
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B. What are government revenues?

"A government's revenue system is the entire means by which a government acquires funding," as one national tax system study puts it. As throughout the country, Oregon's state and local governments receive revenue from taxes, fees and other revenue sources. Major sources of this revenue include:

**Taxes:** Assessed on the general populace for benefits and services of government that are generally shared.

**User Fees and Charges:** Revenues that cover a portion or all of the cost of certain specific public goods and services that are paid by the users of those goods and services.

There are numerous other sources of revenue for government, including:

- **Intergovernmental Transfers:** grants from higher-level governments;
- **Government Borrowing:** revenue bonds and general obligation bonds;
- **Interest Income:** the income derived from assets in government bank accounts; and
- **State-run businesses:** such as the Oregon Lottery or the Oregon Liquor Control Commission.

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<th>Counties—20 cents</th>
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<td>Police</td>
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<td>Corrections</td>
<td>Parks</td>
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<th>Education—44 cents</th>
<th>Special Districts—11 cents</th>
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<td>K-12 System</td>
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<td>Community Colleges</td>
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<td>Roads</td>
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<td>Water Control</td>
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<td>Libraries</td>
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**Services paid for by each Oregon property tax dollar**

(FY 2000-01)
Some revenue sources are clearly in one category or another. Others have characteristics of more than one category. Sales, income and property taxes are clearly taxes. Park entrance fees and building permits are user charges. Still others, like the gasoline tax and developer impact fees, have elements of both of these categories.

C. A tool box of taxes

To introduce this section of the report, your committee wishes to acknowledge the use and great value of the publication *Fiscal Administration: Analysis and Applications for the Public Sector*, by John Mikesell, from which the material below is derived.

The most common forms of taxes are on wealth, income, or consumption. Below are the characteristics of the following types of taxes:

- Taxes on Property (wealth taxes)
- Income Taxes
- Taxes on Goods and Services

1. Taxes on property

An individual's wealth is commonly defined as the goods and possessions she or he owns that have a monetary value. A true wealth tax would apply to all forms of real property (land and buildings) and personal property, both tangible (such as cars, machinery, raw materials, household items) and intangible (such as stocks, bonds, other financial assets). The most common and familiar form of wealth tax is the property tax.

Local governments across the nation continue to be highly dependent on property taxes. A property owner's tax bill normally includes levies by multiple jurisdictions (city, county, schools, libraries, ports and others).

Most property taxes are not true wealth taxes. They usually apply only to real property (such as homes and stores) and not to forms of personal property (such as stocks or jewelry). Property taxes also apply to gross wealth, (i.e., payment on the value of the property, without subtracting what is still owed on a mortgage). Many forms of personal property are not taxed because they are difficult for government to track and it may be difficult to set a monetary value on them.

Property taxes require methods to assess the value of property for tax purposes and a tax rate structure to determine the size of the tax. The most widely used measure of property value is "market value." "Market
"value" is the cash price a property would bring in a competitive and open market. However, state and local tax law may use different "values" for tax purposes. Caps on rates of growth in taxable value, for example, are common and may cause taxable value to be different than market value.

The two primary approaches for setting property taxes are "tax base" and "tax rate" systems. Under the "tax base" system, a local jurisdiction identifies the amount of revenue it needs to raise. The tax is then levied on individual properties according to the percent of the total property value in the jurisdiction. If some properties increase in value, they will bear a greater share of the total tax burden, while other properties will see their tax reduced.

Under a "tax rate" system, a jurisdiction sets a tax rate (e.g. $5 per $1000 of assessed value). Changes in the market value of individual properties can cause the total revenue collected to vary widely. When property values increase, so does revenue. If property values decrease, tax revenues decrease. Under this approach, an increase in the value of one property does not reduce the tax burden of other properties.

Some jurisdictions set different tax rates for different kinds of property, such as commercial versus residential property, or agricultural lands compared to urban lands.

Special property tax relief

Many jurisdictions provide some form of tax relief to certain types of property owners, or types of property, or property uses. Forms of property tax relief include:

- **Exemptions**: reductions in the assessed value of property. Some reductions are dependent on who the owner is. For instance government, religious, charitable, educational or nonprofit organizations may receive a total exemption from property tax. Or a partial exemption may be granted, as for veterans and senior citizen exemptions or through a "homestead" exemption, which allows a certain amount of assessed value to be exempted before a tax is levied.

- **Preferential tax rates**: used to encourage certain activities, such as economic development, pollution control, preservation of natural areas, and agriculture.

- **Abatements**: allowing a property owner not to pay tax on a portion of the assessed value for a certain period of time.
• **Direct credits**: an amount subtracted from the tax owed by a specific group of taxpayers for any defined reason.

These policies can provide significant benefits to the targeted groups. However, they may accrue to the owners of property and not the tenants of property. Tax relief conveyed through a property tax may not be effective for low-income citizens or elderly citizens if their landowners benefit while they still pay market rates for rent.

Property tax relief targeted at categories of citizens, the elderly or veterans, may have no basis in the income or means of those citizens. If the intent of such relief is reward for past contribution to society, then government awards such relief regardless of means. If government policy is to reach the disadvantaged of a deserving group of citizens, then some form of means testing is incorporated.

Property tax relief is often enacted at the state government level, but the impacts are at the local level. Questions often arise about the effectiveness and return to the community of exemptions to encourage economic development and other activities.

Residential-property "circuit breakers" used by 29 states and the District of Columbia pinpoint relief of property tax overload (defined in terms of the ratio of property tax payment to current family income). Some of these programs are limited to the elderly who often experience a drop in income at retirement at the same time their property values increase. These programs reduce the likelihood that the elderly will be forced to sell their homes to pay their taxes. High property taxes can pose similar hardships on other low-income people. Some states set income ceilings to limit eligibility and reduce program cost. The definition of income should include all forms of income, including pension, social security and other non-taxed income sources.

Tax deferrals target special populations who are property owners, such as the elderly, disabled, people with limited incomes, owners of farms on the urban fringe. These people are permitted to pay tax on the basis of old values, with records kept on the difference between that payment and what it would have been at full property value. That difference is not forgiven but deferred to a later time, such as when an elderly person dies, or farmland is converted to non-farm use.

**Property tax limits and expenditure controls**

In recent decades, property taxes have been a primary target of tax revolts. Most property tax laws have traditionally included some limitations on the growth of statutory property tax rates. Since the 1970s, high and rising effective property tax rates on owner-occupied housing have led to a variety of additional limitations:
Statutory property tax rate limit: places a cap on the rate per thousand dollars of value that can be charged. This alone does not protect against higher taxes if the market values of the property rises significantly.

Property tax rate freeze: limits rate assessed to a certain year (in Oregon the rate is pegged to 1995) and not allowed to increase. While this may result in a roll back of taxes for some property owners, it also results in inequities in the amount that is paid by different taxpayers on property that has a similar market value.

Property tax levy limit: limits the overall increase in total property tax levy. Currently in Oregon it is limited to a three percent increase annually.

Local expenditure lid: limits the increase in local levies. Such limits pose a significant challenge for local governments to provide necessary services.

Some states choose to assess property at less than market value. Some have attempted to protect homeowners from rapid tax increases by assessing property for tax purposes only when the property is sold (California, Michigan and Florida). Others peg assessed value to the value in a certain year and limit the percentage annual increases in assessed value.

2. Income taxes

All but nine of the 50 states levy a broad-based personal income tax. Seven states have no tax on personal income: Alaska, Florida, Nevada, South Dakota, Texas, Washington and Wyoming. Two states levy a tax on a limited base of income from stocks and bonds (Tennessee) or interest and dividends (New Hampshire).

The key elements in the use of an income tax include a definition of what income will be taxed, what deductions and exemptions are allowed, what tax rates are used and a system for the administration of the tax.

Defining "Income"

Income can be, and is, defined in many ways for tax purposes. In its broadest sense income is: "The money or other gain received over a period of time by an individual, corporation, or other entity for labor or services rendered or from property, natural resources, investments, operations, and so on." (Mikesell, p. 315)
Federal and state governments define taxable income more narrowly as wages, salaries, interest, stock dividends, rents, and royalties. Federal tax law establishes an "adjusted gross income" to define the basis for federally taxable income. Some states, including Oregon, accept this definition and tie their state income tax to this definition.

The general formula for determining taxable income and tax owed for federal and state income taxes is as follows:

\[
\begin{align*}
\text{Total income} - \text{adjustments} &= \textit{Adjusted Gross Income} \\
\text{Adjusted Gross Income} - \text{Standard deduction or itemized deductions} - \text{personal exemptions} &= \textit{Taxable Income} \\
\text{Rate schedule or tax table applied to Taxable Income} &= \textit{Tax Owed} \\
\text{Tax owed} - \text{credits} &= \textit{Total Tax} \\
\text{Total tax} - \text{withholding and other payments} &= \textit{Tax Refund} \text{ or } \textit{Tax Due}.
\end{align*}
\]

\[(\text{Mikesell, p. 322)}\]

\textbf{Exemptions and Deductions}

Exemptions and deductions reduce the amount of income used to calculate tax owed. Most definitions of adjusted gross income exclude income from: interest on government bonds, welfare and Social Security payments, and employee fringe benefits. Some of these exclusions are targeted to assistance received by individuals with low incomes, others are available to all taxpayers, regardless of their income. Personal exemptions may remove many low-income households from the tax system.

Deductions represent activities government wants to encourage, such as charitable giving or home ownership through the mortgage interest deduction. Exemptions and deductions lead to greater tax savings for an individual who pays a high tax rate than for someone who pays a low tax rate.

Exemptions and deductions shape individual economic decisions. A high number of available exemptions and deductions can add tremendous complexity to an income tax system. Exemptions and deductions also reduce government revenue. Some argue that it would be better for government to allocate funds directly to support desired activities rather than using the tax system for this purpose. In some cases, tax policy influences behavior in a way that is unintended and sometimes inconsistent with broader policy objectives.
Tax credits

Unlike exemptions and deductions, which reduce the amount of taxable income, a tax credit "reduces tax liability by an amount exactly equal to the credit." (Mikesell, p. 335) The tax reduction is the same for taxpayers in all rate brackets. Because credits directly offset tax liability, they produce greater revenue loss for governments than equivalent deductions or exemptions. Tax credits are, as perceived by some, powerful tools to encourage private activity such as political contributions, purchase of energy-saving equipment, child-care, and college tuition.

Tax rates

Most income tax systems are generally progressive and have tax rates that increase in steps as the amount of income increases. Less progressive systems apply the highest rates at relatively low levels of income. The revenue generated by tax rate systems can also vary by how broadly income is defined. A lower tax rate applied to a broad definition of income may generate the same revenue as a high tax rate applied to a narrow definition of income.

In a more progressive system, changes in the lowest rate have the biggest impact on revenue, changes on the highest rate much less so because many fewer people are affected. The challenge is to structure a tax system to "raise necessary revenue and achieve the desired degree of progressivity without high marginal rates." (Mikesell, p.334) High marginal rates can distort individual behavior and discourage people in high tax brackets from additional work or investment.

Given all the adjustments, deductions, exemptions, and exclusions available in most income tax systems, the "effective tax rate" paid by an individual is usually substantially less than the statutory tax rates. The public can perceive these as "loopholes" where some beneficiaries are unfairly "winners" or as legitimate policy to "correct inequities or to encourage socially desirable behavior." (Mikesell, p.337)

Oregon is among the minority of states with broad-based income taxes that have passed legislation to periodically adjust, or index, tax brackets or personal exemptions/credits to account for inflation. Without this indexing it would be possible for the tax rate on an individual to increase even if income only rose by the rate of inflation. This is known as "bracket creep." Some states, not including Oregon, also index their standard deductions, thus maintaining the relative value of the deductions as inflation rises.
3. Taxes on goods and services

These taxes can be "general or selective, specific or ad valorem, single stage or multistage, for general or earmarked purposes..." (Mikesell, p.351). Some sales taxes are used to generate general fund revenues, while others (often excise taxes) are earmarked to support only particular government programs or services (e.g., the gas tax in Oregon dedicated to highway-related programs). The common forms of goods and service taxes include:

- **General sales tax:** "A general sales tax applies to all transactions at a level of economic activity...", except for any exempted transactions such as the purchase of food.

- **Selective sales tax:** "A selective sales tax (commonly called an excise tax) applies only to certain transactions", such as a lodging tax applied to room rentals for 30 days or less.

- **Unit tax:** "A specific tax (or unit tax) applies only to the number of physical units bought or sold", such as a motor fuel tax of a certain number of cents per gallon. Revenue from unit taxes (e.g., Oregon’s gas tax) does not necessarily change with inflation or the value of the product.

- **Ad valorem tax:** "An ad valorem tax applies to the value (number of units times price per unit) of the transaction."

- **Multi-stage tax:** May apply every time a transaction occurs in a production-and-distribution process. The Value Added Tax, which is used by many countries in the world, is a multi-stage tax.
TAX REFORM IN OREGON

Revenue Sources for General Government

- **Single stage tax**: applies only at one stage in the production/distribution process. Governments can impose goods and services taxes at different stages in the production and distribution process. (Mikesell, p. 354)

- **"Sumptuary excises" or "sin taxes"**: Applied to "seek to discourage excess consumption of items considered unhealthy or unsafe, both for the consumer and for the public as a whole." (Mikesell, p.357) "The best examples are taxes on tobacco products and alcoholic beverages: the prices paid to producers do not reflect the social cost of product use in terms of damage to health, property, and families. The tax may charge for these external diseconomies to compensate society in ways not attainable by the market."

  Sumptuary taxes are among the oldest forms of taxes. They have the advantage of raising general government revenue with minimal public protest and usually have little short-term effect on use of products. There are fairness issues: they are not linked to the ability to pay and unit taxing (tax per pack or gallon) can discriminate against lower-priced brands of the commodity taxed.

- **Benefit-based excises**: These are primarily motor-fuel taxes in the American tax system. They operate somewhat as a price to consumer for consumption of public good (such as use of the highway system.) Historically, they have been less expensive to administer than direct user charges (tolls) for streets, roads, and highways. In the future technology may make even toll collection cost effect to administer.

- **Regulatory and environmental excises, or "Green Taxes"**: The concept is to tax polluters, discourage or penalize particular actions and make "buyers and sellers cognizant of the full social cost of their actions." (Mikesell, p. 359)

**Use of sales taxes**

Sales taxes have three common features: they are usually ad valorem taxes, they are not applied to wholesale purchases, and they encourage separate quotation of the tax in each transaction (Mikesell, p. 362). Retail sales taxes are levied by all state governments, except Alaska, Delaware, Montana, and New Hampshire, and Oregon.

Nationally, the sales tax is the largest source of state government tax revenue, and the second largest for local governments (about ten percent of local government revenue) after the property tax. Among the states, Washington in recent years has relied heavily on a general sales tax; in 1996, nearly 47 percent of state revenue there emanated from state and local general sales taxes.
Under a sales tax, the vendor usually collects from customers and pays the tax to the government. The vendor is usually paid to collect the tax. The intent is that the ultimate consumer of a good or service pays the tax.

Business purchases: In theory, retail sales taxes should only apply to final sales. In reality most state governments require businesses to pay sales tax on their purchases of items such as fuel, fixtures, tools, furniture, machinery, and equipment (Mikesell, p.366). This can mean the effective tax rate on the final sale, including the taxes imposed on items used to make the product, can be different for products that use many items as opposed to those that do not, and can ultimately increase the final cost to consumers.

Services: Retail sales taxes apply to few services, even though services have grown to represent about half of the nation’s Gross National Product (Mikesell, p. 367). Governments with retail sales taxes will have to charge increased tax rates on goods to maintain revenue levels as this shift continues. "Taxing services on the same basis as goods can close a horizontal-equity gap, allow more revenue at any statutory rate, improve vertical equity...." (Mikesell, p.368). Challenges include the difficulty to differentiate between sales of services to a final consumer and services to businesses and the need to exclude some services (such as medical) for social policy reasons.

Commodity Exemptions: Sales taxes often exempt some products from taxation, most frequently "food for at-home consumption (more than half the states) and prescription drugs (all but one state)" (Mikesell, p. 368). These items constitute a higher percentage of the income of low-income families than for high-income families. Commodity exemptions can make tax systems less regressive, but increase the complexity of collection, particularly if they require differentiation between categories of similar products.

According to Mikesell: "Several states use the tax credit or rebate as an alternative to commodity exemption for controlling sales tax regressivity. Rather than provide exemption for all purchasers of selected commodities, the credit systems return a fixed sum to taxpayers at year’s end, usually equal to estimated payment of sales tax on food purchases by individuals in the lowest-income class." (Mikesell, p. 369) "The rebate concentrates assistance where assistance is most needed and eliminates the need for vendors to account for taxed and exempt sales. Overall, the rebate effectively reduces (or even eliminates) regressivity at lower loss of revenue than commodity exemption."
III. HISTORY OF THE OREGON TAX SYSTEM

Oregon’s tax system was a good deal simpler in the early days. Public services were funded by only one type of tax—a statewide tax on property. But simplicity did not guarantee popularity. In 1916, the first of many property tax revolts in Oregon’s history placed a six-percent limit on the amount of property tax a local body could impose. A report from the 1929-1930 State Tax Commission stated: "Evidence clearly indicates that state and local taxes have grown into a burden on real estate entirely disproportionate to its value or income."

In the 1920s, Oregon experienced significant population growth and a shift in its population from rural to more urban communities. The shift brought demand for more public services, and in time, the introduction of another major revenue source, the income tax.

A. Income tax

In 1923 the State Legislature enacted an income tax law but the voters repealed it the following year. Three more times the income tax was proposed and defeated by the voters until it was finally approved at the beginning of the Great Depression in 1929. It was designed solely to offset property taxes.

Two major changes to Oregon’s personal income tax have occurred since its inception. The first was in 1953 when the revenue from the income tax was redirected solely from property tax relief into the state’s general fund and began funding schools. The other was the Oregon Personal Income Tax Act of 1969, which tied the calculation of the personal income tax to federal taxable income.

However, tying the Oregon personal income tax to federal taxable income threatened to reduce revenue to the state because of more generous federal income tax exclusions, deductions and exemptions.

When interviewed, Richard Munn, former Director of the Oregon Department of Revenue and of the Oregon Legislative Revenue Office explained: "To compensate these losses in revenue the Oregon Income Tax rates and brackets were adjusted. The brackets were narrowed and rates were generally adjusted upward, with a heavier burden falling on low-income taxpayers. Even with these changes the Oregon income tax system remained regressive throughout a major portion of the income levels. Tax as a percent of adjusted gross income rose to about the average household income level and then decreased throughout the rest of the range."

In 1973 the Oregon State Legislature adopted a school finance program that included a limitation on the federal tax deduction of $3,000 for a
joint return. However, in 2000, a measure that would have allowed unlimited deductibility of the federal tax was placed on the ballot via citizen initiative.

Faced with the threat of significant reduction in state revenue, the legislature referred and the voters approved an alternative measure that increased the federal tax deduction to $5,000. While this limited the loss of revenue that the state would have experienced if the initiative had become law, it also weakened the progressivity of the Oregon personal income tax for many taxpayers.

B. Property tax

During the late 20th century, several Constitutional amendments were approved and laws enacted attempting to relieve, directly or indirectly, the property tax burden. In the 1970s the Homeowners and Renter Relief Program (HARRP) and the Property Tax Relief Program were passed.

The HARRP act provided property tax relief to homeowners and renters with the lowest total household incomes, generally below $17,500. While refunds under HARRP, funded from the general fund, in a peak year amounted to less than five percent of all property taxes paid, it was a substantial benefit to low-income households. For those with income below $10,000, refunds represented 65 percent of annual property taxes by the mid-1980s. HARRP greatly mitigated the regressivity of the property tax.

A combination of features made the 1978 Property Tax Relief Program very popular. First, it divided property into two categories, homesteads and all other property, and limited growth of assessed value of all property in the state to no more than five percent per year. It created a mechanism for the State Department of Revenue to calculate the ratio of assessed to true cash value for each category of property, homes and other property, and apportioned any reduction of market value to each class of property.

Second, there was a provision for the state General Fund to pay up to 30 percent of local residential property taxes per year. There was an $800 cap on the amount per homeowner, and $400 per rental unit. The program also increased the amount of money going to the HARRP program, which gave renters direct relief rather than leaving it up to rental property owners to pass on the relief to their renters.
This measure also introduced the two percent "kicker" and the state spending limit. On the income tax side, the measure increased the personal exemption from $750 to $1,000, provided for it to be adjusted by the change in the Portland Consumer Price Index, and also increased the maximum Oregon deduction for federal income taxes paid from $5,000 to $7,000.

While quite far-reaching and popular, the bargain struck in this property tax relief package eventually fell apart because property taxes continued to grow and the legislature could not fund it adequately during the recession of the early 1980s, and essentially property tax payments from the General Fund were discontinued in 1985. With the passage of Measure 5 in 1990, HARRP in effect was eliminated.

Measure 5 placed a rate limit on property taxes. This limit of $15 per $1,000 of assessed value had two components: $10 of the $15 would go to fund local governments and $5 was earmarked for schools. The intention of the sponsors was to limit the total amount of taxes collected on property. Two factors conspired to undermine this result. The first was the pre-existing Constitutional provision that allowed up to a six-percent increase in property taxes each year. The other was a rapid increase in overall property values during the early 1990s. Further, the measure required the Legislature to replace the lost revenue to schools resulting from the measure.

While Measure 5 drove taxes down in some districts, in others property taxes continued to rise. Another initiative was mounted and approved in 1996, Ballot Measure 47. It reduced property taxes by ten percent and limited future increases to three percent a year. However, the other provisions in the measure were so ambiguously written that the Oregon Legislature undertook a rewrite of portions of the law. This new measure, Measure 50, was approved by the voters in May of 1997.

Measure 50 maintained the property tax rate limit from Measure 5 and Measure 47's limit on future increases of the property tax. It then went on to limit the assessed value of all property to a 1995 level minus ten percent and allowed for short-term local option levies up to the Ballot Measure 5 limit of $15 per $1000 of assessed value.

While the local option gives Oregon communities some flexibility to fund schools and other local needs, at a higher level than the state would otherwise provide, a double majority provision makes it more difficult for local voters to pass a local option. Except in a general election, which in Oregon is the November election of every even-numbered year, a local levy must meet a requirement for a double majority to gain voter approval. The double majority provision requires that 50 percent of all eligible voters must vote, and 50 percent plus one of those voting must say "Yes" for a levy to pass. During a general
election a majority of those voting in the election is all that is required for passage of a tax measure.

Prior to the 1990s, schools were largely funded by local jurisdictions through property taxes. The net effect of a decade of property tax revolt measures has been to shift the major responsibility for schools to the state government, placing a greater burden on the income tax, which also has to fund state government programs. In 1991-92, the State School Fund appropriations, funded primarily by income taxes, accounted for 35 percent of Oregon school operating revenue. By 1999, the State School Fund paid for 70 percent of operating revenue for schools in Oregon.

C. Sales tax

While no one could predict the specifics of the kind of property tax revolt experienced during the 1990s, it was clear as early as 1933 that the state would need other sources of revenue to fund state services and fairly tax the citizens. Since then a sales tax has been proposed and defeated nine times in Oregon (1933, 1934, 1936, 1944, 1947, 1969, 1985, 1986, advisory 1990). Most of these sales tax proposals were either to offset property taxes or to provide school funding, or both. Oregon remains one of five states that does not impose a sales tax.

While it is true that it is rare for a legislative session or election to go by without a tax proposal, it is also true that there has been no fundamental or comprehensive change in the makeup of Oregon’s overall tax system since the introduction of the income tax in 1929.
IV. WHERE OREGON GETS ITS REVENUES

While taxes are a major source of revenue for state and local governments, these governments receive revenue from a number of other sources as well. In Oregon, the major source of tax revenue for state government is the personal income tax. The property tax is the largest tax revenue source for cities, counties, and special districts.

**State and Local — Taxes and Fees**

*Total = $9.69 Billion*

- 46% Income Taxes
- 29% Property
- 7% Highway
- 6% Unemp./ Work Comp.
- 7% Other Local
- 5% Other State
- 6% Other Local
- 5% Other State

A. State government

Of Oregon’s revenue, 46 percent comes from taxes, one of the lowest percentages among the 50 states. Twenty three percent is received from federal transfers, 17 percent from charges and fees, and 14 percent from miscellaneous revenues, including Oregon Lottery revenues. Many non-tax funding sources are earmarked for specific purposes and not available for other public programs and services.

The General Fund is Oregon’s source of discretionary spending. The general fund for fiscal years 1999-2001 is set at $10.2-billion. Approximately 85 percent of the general fund is collected via the income tax on individuals. The next largest source of funding is the state corporate income tax at seven percent of all revenues.
General Fund Revenues 1999-01*

B. Local government

Local governments are largely dependent on property taxes for the vast majority of their discretionary funds. In 1995-96 property taxes represented about 84 percent of the $2.8 billion in direct tax revenue received at the local level. The other revenue sources are, for the most part, targeted at specific programs.
V. CRITERIA FOR EVALUATING A STATE TAX SYSTEM

As with most areas of public policy, Oregon’s tax system was created not once but through many changes over time—by acts of the State legislature, by citizen initiatives and by local ordinances. Many of the changes responded to narrow needs. How good is Oregon’s current overall tax system? How does it stand the test of time? How can we evaluate the existing system and proposals to modify it?

Adam Smith, in *The Wealth of Nations* laid out some criteria for judging revenue systems. He said that a high-quality system should have "equity, explicitness, simplicity of compliance, and economy of administration."

No matter where people are on the ideological spectrum, they need a yardstick like Smith's to determine the effectiveness of our tax system and to evaluate proposals to change it. Principles for evaluation can be found in most textbooks on tax systems, and have been proposed by many groups, such as the Oregon League of Women Voters and by other states, such as Montana.

Principles used by Montana for development of a sound taxation system are: simplicity, accountability, neutrality, equity, complementary (between state and local governments), responsiveness to economic competition, balance and reliability.

This report includes a proposed set of City Club criteria to help citizens make evaluations. It amends somewhat the list of criteria previously adopted by the City Club in its 1984 and 1993 reports on tax reform. City Club members and other citizens may begin their evaluation of Oregon's tax system by employing the following criteria for a high-quality tax system:

- **Fairness**: A tax system should be progressive. As a taxpayer's income increases, so should the percentage of that income he or she pays in tax. Taxpayers with similar levels of income or assets should generally pay similar amounts of taxes.

- **Sufficiency**: A tax system should produce a flow of revenue adequate to pay for the public services and programs deemed necessary by citizens and the legislature.

- **Certainty**: A tax system should be subject to only limited changes over time.
Criteria for Evaluating a State Tax System

- **Clarity**: The basic functioning of a tax system should be understandable and capable of being described in clear and simple terms. This allows citizens to comprehend and debate the value of the system and the likely impact of proposed changes to the system.

- **Efficiency**: The cost and complexity of taxpayer compliance should be kept to a minimum, as should the burden of collection and enforcement. The state and local tax system should be complementary with the Federal tax system.

- **Neutrality**: A tax system generally should not have a strong impact on economic activities, and should minimize interference in private economic decisions. It should not adversely affect the ability of businesses within the state to compete with businesses in other states.

While this set of criteria is most appropriately applied when judging an overall tax system, some of them can also be relevant in attempting to measure the nature and likely effects of individual taxes and tax proposals to change the system.

**A. Fairness**

For many people fairness is the most compelling criterion. It emerges as the most complex and potentially the most controversial. Historically, most successful efforts to change tax systems arise out of perceptions that they are unfair.

Whatever the tax system is, it should be fair, and to achieve the greatest degree of fairness, it should be progressive, meaning that as a taxpayer’s income increases, so should the percentage of income that he or she pays in tax. The City Club has long advocated a progressive system of taxation in Oregon, rather than one that’s proportional (the wealthy and the poor pay the same percentage of their income in tax) or regressive (the poor pay a greater portion of their income in taxes than do the wealthy).

Further, fairness means taxpayers with similar levels of income or assets should generally pay similar amounts of tax, a condition called horizontal equity.

Measuring horizontal fairness is complicated because the base for assessing taxes changes with different kinds of taxes. For example, the income tax is based on salaries and returns on investments. Property
taxes are based on the market value of property established as taxable by the Oregon Legislature.

Tax exemptions and deductions in our system can affect horizontal fairness; those qualifying may pay less than taxpayers of similar income and assets. Credits, exemptions and deductions are often created to serve public purposes such as home ownership, raising children, environmental goals, or economic development.

The rationale behind these tax breaks involves both assumptions and realities. For instance, single persons as compared to those supporting families are assumed to have a greater ability to pay taxes. Or people with high medical expenses are recognized to have less ability to pay taxes.

Another aspect of fairness has to do with benefits received. Many economists support a policy of assigning the cost of public services and programs directly to those who benefit from them. In many cases this approach results in direct fees for service (permit processing fees, bridge tolls) rather than taxes. Following is a method for making that assignment for government goods and services by dividing them into three major categories:

- Specific goods and services whose individual users are identified and charged through fees and taxes (such as for sewer/water, transportation projects).
- Broad public goods and services, whose individual users cannot be identified and all taxpayers are billed (e.g., police, fire, judicial system).
- Goods and services that society decides should be paid for in part or in whole by the general population even if individuals who benefit can be identified (parks, schools, libraries, health services).

Determining whether government goods and services have been divided up into these categories appropriately and funded fairly is the primary objective of a benefits-received approach to fairness.

B. Sufficiency

Many citizens complain that tax systems do not produce enough revenue to pay for important public programs. Is this a problem with the structure of the tax system, the impact of economic fluctuations, or the tax level? For example, a well-designed income tax can generate many different levels of revenue depending on the tax rates.
It is up to legislatures to establish funding priorities and then adjust the tax system to generate enough revenue to fund those needs. Revenue should be adequate to fund public services, as determined by elected officials and voters. A revenue system that is elastic enough to provide desired levels of revenue will help avoid the need for frequent tax increases and spending cuts.

C. Certainty

Planning ahead is important for individuals, businesses, and government entities that either pay or receive tax revenues. A tax system that is subject to frequent and significant changes makes such planning difficult and interferes with economic choices.

The number and type of tax changes should be kept to a minimum. At the same time, there should be a measure of flexibility allowing the tax system to adapt to changing economic circumstances and service needs. A mix of taxes, in which each responds differently to economic fluctuations, provides both greater certainty of revenue and a measure of built in flexibility.

D. Clarity

The tax structure should be easy for citizens to understand and should minimize the costs of compliance. Citizens are more likely to support and comply with a system they can understand. Reducing complexity helps taxpayers determine that taxes are applied fairly and uniformly. Tax compliance relies on substantial citizen acceptance and support, so it is very important that taxpayers see the system as fair. If the tax structure is difficult to understand, it is easy to perceive that it is also unfair.

Complexity of tax structures arises out of pursuit of multiple policy goals. Tax credits to reduce impact on low-income people, for example, or to encourage certain behaviors or business decisions add to the complexity of the system. An evaluation of tax proposals should consider how all taxpayers, not just those directly affected, will understand the tax and how it is applied.
E. Efficiency

For a number of reasons, the cost of administering a tax structure should be considered and minimized. Costs include assessment, collection, compliance, and enforcement. The simplicity of administration reduces the likelihood of errors and unfairness. It also means more revenue received can be used for the purposes of funding public services.

A significant efficiency factor for state income taxes is their consistency with the Federal tax system. When state income tax calculations are based on federal income tax calculations, both the taxpayer and the state revenue department have less work to do. This increases the efficiency of the system.

Efficiency is affected by the way the same tax is administered throughout the state by various jurisdictions. Poor administration can lead to distribution of the tax burden in unintended ways. For instance, businesses that do business in more than one location would be unduly burdened by different collection and reporting requirements in different jurisdictions.

F. Neutrality

A desired goal for a tax structure is that its impact on personal and business decisions be as neutral as possible. It should provide a relatively level playing field for industries and firms within an industry and treat individual taxpayers as consistently as possible.

Conflicts with this principle arise when the tax system is used to pursue non-revenue raising policy goals, such as to change behavior (through deductions, credits and earmarking of funds), or when tax policies make a state more or less competitive with other states and foreign countries to attract businesses.
VI. HOW OREGON’S STATE AND LOCAL TAX SYSTEM STACKS UP

Evaluating Oregon’s tax system can be a daunting task. Even using the criteria outlined in this report, there will always be a fair degree of judgment and subjectivity involved. The evaluation below uses the collective judgment of the committee and the knowledge it acquired over the past four years, outlined in the other sections of this report. Other Oregonians may well come to different conclusions about our tax system.

Because there are two dominant taxes in the Oregon system, the property and income taxes, this evaluation will concentrate on them individually and then assess their combined effect in determining how Oregon’s overall system measures up against the criteria.

A. Fairness

Oregon’s current property tax has significant inequitable features, exacerbated by the changes made in the past decade. Increases in the property tax burden for businesses and homeowners have been restricted. This has meant that upper and middle-income people have benefited more from these tax limitation measures. Lower income people have benefited little. In fact, most now pay more property tax because of the elimination of the Homeowner and Renter Relief Program (HARRP).

Other features of the current system also contribute to the overall lack of fairness, including Measure 50’s separation of assessed values from market values, which means that similar properties are now taxed differently. This happens because different neighborhoods appreciated at different rates during the 1990s.
For example, as The Oregonian observed, the Irvington neighborhood in northeast Portland saw property values increase at a rapid rate during the first five years of the past decade. During that period, the nearby Albina neighborhood in northeast Portland was experiencing depressed rates in home values. However, the Albina neighborhood saw a healthy rise in housing market values during the last five years of the 1990s.

Under Measure 50, the higher assessed value of an Irvington house in 1995 represents the base for tax assessment. An Albina home, which today may have equal market value to the Irvington house, is locked into its lower 1995 assessment base, and the owner is paying less property tax than his or her Irvington counterpart. This inequity currently is fixed into law; there is no mechanism to equalize the tax payments over time between houses of the same market value.

Oregon's income tax has a similar fairness problem. Overall, and especially when linked to the federal income tax and coupled with a limit on federal tax deduction, it is mildly progressive throughout most income brackets. However, since application of the highest tax rate of nine percent occurs at such a low-income level ($6,100 in taxable income for an individual in 2000, $12,200 for a married couple) virtually everyone is in the top nine percent bracket. One does not have to work a full year at minimum wage to exceed that gross income. This makes the Oregon income tax very burdensome on low-income individuals. The accompanying chart shows this effect graphically.

<table>
<thead>
<tr>
<th>2000 Personal Income Tax Rates</th>
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<tbody>
<tr>
<td><strong>SINGLE</strong></td>
</tr>
<tr>
<td>&lt; $2,450</td>
</tr>
<tr>
<td>$2,450 - $6,100</td>
</tr>
<tr>
<td>&gt; $6,100</td>
</tr>
</tbody>
</table>

A system that is progressive throughout its range would have a consistent, rising relationship between income and tax rate, and would not impose any income tax on citizens with the lowest incomes.

Combining the effect of the property and income taxes produces an overall system that is relatively flat across income groups. To meet the City Club fairness criterion, the system should be made more progressive by relieving some of the burden on low-income taxpayers.
For all that, when Oregon’s system is compared to other states—which have generally regressive tax systems—we find that Oregon's is one of the fairest in the country. A direct comparison with Washington and California shows why. California and Washington have sales taxes that
are regressive, as well as regressive property taxes. Washington has no income tax, which would introduce a more progressive element into their system. With its combination of sales and property taxes, Washington has one of the most regressive tax systems in the country.

B. Sufficiency

It is the responsibility of the legislative bodies at all levels of state and local government to determine the level of services they think is appropriate, and then adjust the taxes within their control to pay for those services. Historically, the reverse has usually happened.

The tax system has been adjusted to reflect what the decision-makers, or the general public (in the case of tax initiatives on the ballot), decide is the appropriate tax system, with little regard for how much will be generated to pay for what services. Without first providing some mechanism to determine the appropriate level of services to be funded, it is difficult to say whether the tax system is capable of providing sufficient revenue.

Oregon has one such measure, which provides a guide for determining the sufficiency of the system. The Oregon Legislature has created the Quality Education Model to define the appropriate level of K-12 education funding for the state. While some legislators do not accept the model, it does provide a widely accepted measure of the per student cost to fund schools across the state. By this standard, Oregon's current tax system has been insufficient to fund education, a major part of the cost of all government services in the state. Even in the last biennium with rising income tax revenue, the legislature did not fully fund the model because of competing state program needs. This problem worsens when an economic downturn limits income tax receipts.

The property tax historically has generated a sufficient revenue stream for local governments and schools, with a few noteworthy exceptions
TAX REFORM IN OREGON
How Oregon’s State and Local Tax System Stacks Up

in rural communities with inadequate tax bases. BM 5 and 50 significantly limited the ability of this source to generate revenue to keep pace with inflation and per capita spending needs at the local level. This has created sufficiency problems for local governments and K-12 education.

The amount of revenue collected via the state income tax varies greatly with the ups and downs of the economy over time. In the 1990s, with the economy booming, income tax receipts rose dramatically, faster than the rate of inflation. However, as the economy slows, the increase in incomes and therefore tax receipts will decline, to a point where they no longer are able to support current education and state government service levels. In one legislator’s view, "It’s like owning only Microsoft stock-in good times that’s great, in bad times that can be awful."

In a down economy, this situation will create significant budget shortfalls because Oregon, unlike the federal government, cannot issue debt to cover its year-to-year deficits. Another contributing factor to the looming budget shortfall is Oregon’s unwillingness to put money into a reserve account during an extended period of economic and income tax growth. In part, this illustrates the shortcomings of over-reliance on a single tax to cover a major part of the state’s needs.

The problem is further exacerbated by the "kicker law", the 1979 statute that became a Constitutional amendment in 2000, which dictates that tax revenue exceeding two percent of what was projected for a given biennium must be returned to taxpayers. This can lead to the situation where the state returns "surplus" revenue to tax payers at the same time that it is facing an enormous budget shortfall in the following biennium. The combination of all of these factors leads to the conclusion that, especially in an economic downturn, Oregon’s income tax clearly will be insufficient to meet approved services, and a forced and politically charged round of budget cutting will occur.

Looking at Oregon’s overall tax system, with its property tax limitations and heavy reliance on the income tax to support both state government and the full education system, it is clear that, especially when the economy is in a downturn, the system will not generate sufficient revenue to pay for public services and programs at the levels established through the legislative process.
Another window on the sufficiency of Oregon's tax system can be seen in a comparison of tax rankings with other states. The table below shows the history of two traditional measures of Oregon's tax burden—(a) taxes per capita; and (b) taxes as a share of personal income—and how both measures have changed relative to other states over time. Data is from the US Census government Finance Series.

From 1978 through the early 1980s, Oregon's state and local tax burden per capita was generally close to the national average. Over the same period, Oregon's tax burden as a share of income was generally increasing. These trends began to change in the 1990s because of property tax relief under Measure 5 and growth in the Oregon Lottery, a non-tax revenue source. By 1998-99, Oregon's tax burden per capita had fallen well into the bottom 20 states, and only five states paid lower taxes as a share of personal income.

### Oregon's State and Local Tax Burden

**How We Rank Among the 50 States**

<table>
<thead>
<tr>
<th>Year</th>
<th>Oregon's Rank</th>
<th>Oregon % of Personal Income</th>
<th>US Per Capita</th>
<th>Oregon's Rank</th>
<th>Oregon % of Personal Income</th>
<th>U.S. % of Personal Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>1978-79</td>
<td>21</td>
<td>$956</td>
<td>20</td>
<td>12.2%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1979-80*</td>
<td>20*</td>
<td>$979</td>
<td>23*</td>
<td>11.4%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1980-81*</td>
<td>16*</td>
<td>$1,106</td>
<td>14*</td>
<td>11.8%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1981-82</td>
<td>25</td>
<td>$1,122</td>
<td>20</td>
<td>11.1%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1982-83</td>
<td>18</td>
<td>$1,229</td>
<td>13</td>
<td>11.9%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1983-84</td>
<td>21</td>
<td>$1,321</td>
<td>14</td>
<td>12.4%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1984-85</td>
<td>20</td>
<td>$1,420</td>
<td>14</td>
<td>12.3%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1985-86</td>
<td>23</td>
<td>$1,436</td>
<td>19</td>
<td>11.4%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1986-87</td>
<td>21</td>
<td>$1,612</td>
<td>11</td>
<td>12.2%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1987-88</td>
<td>27</td>
<td>$1,602</td>
<td>19</td>
<td>11.6%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1988-89</td>
<td>21</td>
<td>$1,806</td>
<td>10</td>
<td>12.4%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1989-90</td>
<td>19</td>
<td>$1,934</td>
<td>13</td>
<td>12.1%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1990-91</td>
<td>20</td>
<td>$2,017</td>
<td>12</td>
<td>12.1%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1991-92</td>
<td>22</td>
<td>$2,095</td>
<td>13</td>
<td>12.1%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1992-93</td>
<td>24</td>
<td>$2,167</td>
<td>15</td>
<td>11.8%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1993-94</td>
<td>24</td>
<td>$2,266</td>
<td>$2,514</td>
<td>18</td>
<td>11.9%</td>
<td></td>
</tr>
<tr>
<td>1994-95</td>
<td>27</td>
<td>$2,309</td>
<td>$2,747</td>
<td>26</td>
<td>11.4%</td>
<td>11.7%</td>
</tr>
<tr>
<td>1995-96</td>
<td>32</td>
<td>$2,259</td>
<td>$2,863</td>
<td>37</td>
<td>10.7%</td>
<td>11.3%</td>
</tr>
<tr>
<td>1996-97</td>
<td>28</td>
<td>$2,525</td>
<td>$2,747</td>
<td>34</td>
<td>10.7%</td>
<td>11.1%</td>
</tr>
<tr>
<td>1997-98</td>
<td>34</td>
<td>$2,479</td>
<td>$2,863</td>
<td>42</td>
<td>10.1%</td>
<td>11.2%</td>
</tr>
<tr>
<td>1998-99</td>
<td>34</td>
<td>$2,574</td>
<td>$2,992</td>
<td>46</td>
<td>10.0%</td>
<td>11.1%</td>
</tr>
</tbody>
</table>

*In 1979-80 and 1980-81 rates are higher than they should be because the Bureau of the Census did not adjust for state funded property tax relief.

**Source:** Oregon Legislative Revenue Office (LRO obtained the data from U.S. Bureau of Census “Governmental Finances” series).
C. Certainty

The property tax in Oregon is inherently a relatively steady source of revenue. It does not change dramatically or quickly in the short term in response to swings in the state's economy. However, continuing—almost biennial—efforts by citizen initiatives in recent years to change various aspects of Oregon’s property tax laws have created greater uncertainty about its long-term reliability as a stable revenue source for local governments and school districts. At the same time, the property tax measures have given taxpayers the ability to predict the amount of their annual property tax bill.

What Oregon’s income tax will produce in the way of revenue can be calculated with relative ease. But there can be surprises in a period of sharp economic downturn. During these periods, the Legislative projections can be widely off the mark, creating great difficulty balancing the state budget and finding dollars for the schools fund appropriation.

Overall, there is a clear element of revenue uncertainty and instability for government that could have serious consequences. The Oregon tax system needs to be closely examined for ways to improve its ability to provide a more stable and sufficient revenue stream to fund government services over the long term.

D. Clarity

Before Measure 50 it was relatively easy to understand the way in which property taxes were calculated, since they were linked to market value. Now, the new tax rate system is so complex that it is very difficult for most people to understand how it works.

The Oregon income tax is relatively clear and simple to understand. This clarity is enhanced by its link to the federal system.

Overall, Oregon’s full tax system is not easy for citizens to understand. As one state legislator puts it, "It’s not cohesive, it’s complex, and is not intuitive to learn." It cannot be described in clear and simple terms, despite the fact that one of its main elements by itself is relatively easy to understand.
The problem is that all of the other elements of the system, including other state taxes, the property tax and other local taxes, when combined to make up the full system presents a very complex picture for most citizens. This makes it difficult for them to appreciate its strengths and deficiencies, and to intelligently debate the likely impact of frequently proposed changes to the system.

This lack of transparency also plays a major role in the perception the public has about its fairness. The complexities of the property tax, and the system as a whole, may give people the perception that the tax system is unfair because they only see its impact on them, and do not understand how it affects others.

E. Efficiency

The property tax collection system is relatively efficient, with counties collecting the taxes and distributing them to each taxing jurisdiction. It does require counties to maintain a fairly large staff of assessors, although with passage of Measure 50 the need to appraise property has been diminished.

The income tax is relatively efficient to collect, with well-established procedures in place. Its ties to the federal system enhance its efficiency by simplifying the rules that govern its application.

Oregon’s tax system is reasonably efficient in its administration and requirements for citizen compliance.

F. Neutrality

With Oregon’s recent tax limitation initiatives locking in relatively low and predictable rates, neutrality does not appear to be an issue for the property tax.

Oregon’s income tax system has the same impact on people’s economic decisions as other income taxes with similar exemptions and deductions, including the federal system. Since neutrality is most important as a feature when looked at compared to other states, this does not appear to be an issue for Oregon's system.

Oregon’s system as presently configured is generally responsive to the needs of interstate and international economic competition. The lack of a sales tax in Oregon tends to encourage retail activity by luring residents of nearby states to shop here. And at the same time the
income tax may encourage some high-income earners and those with large capital gains to live in nearby Washington State. Overall, the tax system's neutrality is not a significant issue at this time.
VII. CONCLUSIONS

A. Measuring a tax system

The purpose of a tax system is to pay for public services. The expectation of those who are taxed is for a system that is fair, produces sufficient revenue, offers a degree of certainty from year to year, is reasonably clear, operates efficiently, and is as neutral as possible on personal and business decisions. Oregon’s state and local tax system can be made more fair, more reliable and less complex.

The following criteria are proposed to evaluate Oregon's tax system. These are standard criteria similar to those approved by the City Club in 1993 and employed nationally. They are: fairness, or equity; sufficiency to meet revenue needs of approved services and programs; certainty, or stability; clarity, or simplicity; efficiency of use and administration; and neutrality to minimize the impact of the system on private economic decisions.

B. A tilted tax structure

Piecemeal change to Oregon's state and local tax system—especially as conducted over the past decade through the state initiative process—does not equal tax reform. Oregon's tax system is a structure of interdependent parts. Yet proposals to change provisions of the system from citizen activists via the initiative process or inspired by special interests at the Legislature have often come in recent years without careful consideration or concern for the impact on the rest of the tax structure, or on the overall revenue picture.

In recent decades, proposals for broad, comprehensive change to the tax system have been referred to voters, especially when a new retail sales tax has been involved. This pattern of turning to voters for the answer has been reinforced by Oregon Constitutional provisions that facilitate citizen or special interest efforts to refer revenue raising measures to the voters, or create new revenue raising measures through the initiative process.

The outcome: voters have shaped the tilted tax structure Oregon has today, approving targeted changes inspired by the initiative process, and turning down virtually every proposal introduced by the Legislature in recent years to restructure the tax system more broadly.
In the 1970s, the legislature offered change in both the income tax structure and the property tax, with improved funding of schools as a key motivator. The package failed at the polls. So did a broad reform approach in 1985 that included a sales tax to fund schools.

Since 1990, the piecemeal efforts to adjust the system have produced mixed results. Of 23 tax-related measures placed before Oregon voters in the past decade, eight were approved, largely focused on the property tax.

Another single-shot change was made last year, when the cap on the deduction in Oregon for federal income taxes paid was raised to $5,000. This provision, presented by the Legislature as Ballot Measure 88, was offered as a means to head off an initiative measure that would have eliminated the cap. Its passage made the Oregon income tax structure less progressive.

Oregon’s tax structure currently stands in the main on the income tax, with declining reliance on the property tax. Indeed, the system is now one of the most heavily dependent among U.S. states on a single tax, the income tax. There is still no third leg of support, which for most states is a sales tax.

Oregon’s tax system needs to be broadened to provide better balance and depth, if only to be more sufficient and certain in delivering on its key function, paying for public services. No tax system is perfect, but when there is a broad balance of substantial revenue raising options available, the inefficiencies and inequities of one key tax can be offset by the use of another.
In the end, what it will take to win approval of a more balanced system from Oregon voters is a solid, bipartisan partnership, led by the Governor and the legislature, and supported by local government, business, labor and civic leadership throughout Oregon.

C. A system in need of attention

Oregon’s tax system, when evaluated against standard criteria for an effective state and local tax system, does not get high marks. It needs attention. The system is disproportionately unfair to lower income Oregonians. It is inadequate to provide consistently the revenues needed to meet government’s obligations to its citizens. It should be made simpler to enhance public understanding of how it works and be accessible for public debate of its strengths and weaknesses.

It has been 15 years since Oregon voters have been offered a chance to look at all parts of the system together, not just an individual component such as the property tax. There are real questions about the system’s ability to do its job—pay for public services and programs that Oregonians and their elected representatives have endorsed.

D. Unfairness in the tax system

Fairness, or equality as Adam Smith defined it, is an important criterion for evaluating a tax structure. Fairness is in the eye of the
Conclusions

beholder, and using it as a test leads to a value judgment about whether the overall state and local tax system should be:
(1) **proportional**—with everyone paying the same proportion of his or her income in taxes; (2) **progressive**—where people with higher taxable incomes pay out a larger proportion of their income in taxes; or (3) **regressive**—where persons with lower taxable incomes pay a higher proportion of their income in taxes.

On balance, the Oregon tax system in Oregon is mildly progressive, especially when compared to many other states that rely on sales taxes more than income taxes for their revenue.

However, the income tax rate structure of Oregon’s system is unfair for the low-income state taxpayer. Very low-income taxpayers face a five-percent state income tax rate, the bottom rung of the tax rate ladder. From there, the rates go up in two steps to the top rung of nine percent. The nine-percent rate is imposed on those with relatively low taxable income. For example, a single person with Oregon taxable income of $6,100 for the year 2000 found he or she was in the nine percent bracket. (Taxable income in this context means: federal gross income minus itemized deductions or the standard deduction, whichever is larger.)

The property tax has become more regressive since the voter-approved initiative of 1990 Measure 5. After passage of that property tax limitation, now part of the Oregon Constitution, a homeowners’ relief program (HARPP) was eliminated. This program had eased the property tax burden of low-income homeowners and renters during the early 1980s until a recession limited funding.

Another approved initiative measure, 1997 Measure 50, instituted the separation of assessed values from market values, producing anomalies if not inequities where properties of similar value can be taxed at different levels.

E. **Insufficient funds to pay for services**

Left alone, Oregon’s tax system is relatively elastic with revenues tending to grow with income, but it’s also volatile, with revenues tending to decline rapidly in bad times. Oregon has not created a reserve fund to take advantage of revenue received in good times to
help meet the cost of continuing state services and programs during an economic downturn.

Further, when a state budget surplus does emerge, Oregon's "kicker" law usually comes into play. This mandates that taxpayers receive an income tax refund or credit equal to the amount of the surplus if income tax revenues are more than two percent higher than the revenue forecast at the end of the previous session of the legislature. This law, embedded in the Oregon Constitution in 2000, can only be overridden by a two-thirds vote of the legislature. The kicker has been suspended twice in this decade, in 1991 and 1993, to address funding problems caused by the passage of 1990 Measure 5, but has been returned to taxpayers in every biennium since then.

Sufficiency depends on the level of government spending desired and approved by law. During a period of declining revenue, the level of spending declines with it as the legislature cuts programs and services to meet the Constitutional requirement to pass a balanced budget. Thus, it is hard to determine whether the level of sufficiency is what we want in the way of public services, or just what the tax system will allow us.

What is clear is that Oregon's heavier reliance on the income tax is not good news in the current economic recession, with jobs lost and incomes down. Oregon school districts are most vulnerable. Long reliant on the less volatile property tax, K-12 schools and community colleges are now beholden to the State Schools Fund Appropriation, funded primarily by income taxes. About 35 percent of Oregon school operating revenues came from that fund in 1991-92; now some 70 percent come from it.

The property tax initiatives of the 1990s have exacerbated the problem for local government, substantially limiting the ability of local governments to fund needed government services. Now the recession is reducing anticipated revenue for both the state and local government general funds. Revenue to pay for many public services will be insufficient in 2002 and substantial cuts in the budgets of all governments will follow.

F. Confusion among taxpayers

The complexities of the property tax system following changes in the 1990s are not easy for taxpayers to grasp and public officials to interpret. Oregon’s tax system today is not simple or clear; it’s difficult
for citizens to appreciate system strengths and weaknesses and to debate the likely impact of frequently proposed changes to the system.
VIII. RECOMMENDATIONS

To the Oregon Executive and Legislative Branches:

A. Begin a broad based review

Oregon is overdue for a holistic, broad-based review of Oregon’s tax structure, addressing the system, not just individual components. Oregon’s Executive and Legislature must initiate the review. Oregon should follow the path taken by the Washington State Legislature at its 2001 session to institute and complete a two-year, wide-ranging review of Washington’s state and local tax system. The Washington State study, to be completed late in 2002, is charged to develop multiple alternatives that:

- Increase harmony between tax systems of the state and its border states;
- Encourage commerce and business creation;
- Encourage home ownership.

The study committee leading the effort is composed of four members from academia, three state legislators, and others representing business and public interests. Advisory groups, representing a wide range of community interests, are also at work.

As part of Oregon’s process, requirements should be developed for legislative and Voters’ Pamphlet presentations on proposed changes to Oregon’s tax system that state how the change meets criteria for an improved system, and how the proposal will impact the whole system.

B. Set goals for a better Oregon tax system

The primary goals of the review should be to improve the fairness of the tax structure, to make it simpler for the taxpayer to understand, and to increase its ability to produce, with greater certainty, sufficient revenue to pay for public services.

Recommended approaches to this review should include:

- Consider the winners and losers from any new tax proposal. Ask if a tax proposal will shift the tax burden between income classes or types of taxpayers. Determine whether a proposal improves equity among similar classes of taxpayers, such as when different
neighborhoods pay widely different property taxes on houses with similar market values.

In seeking greater fairness, avoid change that shifts the burden of paying for general services towards the lowest income taxpayers. This means any retail sales tax proposal would face a stern test, and would benefit by inclusion of exemptions for an array of goods, and by going beyond goods to include services. This test also argues against Oregon's newly approved provision that allows more Oregonians with higher taxable income to reduce their state income tax burden by deducting a higher level of federal taxes paid.

- **Address sufficiency as an important part of the review.** Resist the use of tax policy as a mechanism to limit government spending. Ask for specific information about how tax proposals will affect the flow of revenue needed to pay for public services established by law. Look for means of giving local governments more control over their destiny, as occurred in California since the passage of the Proposition 13 tax limitation, by identifying new sources of local revenue, including fees and taxes. Estimate the performance of any proposed new tax structure under a variety of economic conditions.

- **Develop ways to achieve better balance in the system** using several major tools from the tax tool box, so that the deficiency of one tax at any one time in an economic or political cycle can be offset by the strengths of another. In exploring ways to broaden the Oregon tax base, link new tax options with the services to be covered by them. What do citizens want, and are willing to pay for, in the way of additional services for schools, for example? Can a sales tax be seen as the key to funding schools adequately? Examine variations such as extending indirect taxation of business to the development or pollution it creates, or broadening thinking on a sales tax to include services as well as goods to make the effect of the tax less regressive.

- **Culminate the review with a legislative proposal for broad reform** that articulates policy goals, reflects executive and legislative review of a broad range of options for change, and is clear about the impact of each proposed component on both the overall system and the taxpayer in the near and long term.

C. **Look at Oregon's initiative system**

While recognizing that current court tests in Oregon and nationally may reform use of the initiative system, it's important during the review to look at the relationship of Oregon's initiative process to the
state tax system. Attention must be given to the Constitutional provi-
sion requiring a relatively low number of signatures to place a revenue
raising measure on the ballot, and the practice of paying people to
gather signatures to qualify for the ballot.

To the City Club of Portland:

Sharpen public discussion of tax reform

The City Club should make the need for broad tax reform a specific
test for candidates for public office at the state and local level who
appear before the Club in 2002 to present their case for public support.

Active engagement of citizens and business in discussion about
Oregon’s state and local tax system needs to be intensified. The
Portland City Club and other civic organizations should lead the public
discussion around Oregon. Achieving tax reform will require expanded
public understanding of the nature and impact of taxes, and of the
strengths and weaknesses of the Oregon tax system. Discussion will
benefit from debate of public values and policy goals desired for a
more effective tax system.

Advocate for tax reform (see page ii-iii, Executive Summary)

Reach out to individuals and groups active in and in support of
improvement and change of the state and local tax system, including
the governor’s office, state and local legislators, public interest
organizations and taxation issue activists. Create a discussion area on
the City Club’s web site to stimulate dialogue and facilitate advocacy
for tax reform.

Respectfully submitted,

Brian Campbell
Paul Fellner
Nancy Glerum
Doug Marker
Janice Newton
Tamsen Wassell
Don Barney, chair
IX. APPENDICES

A. Testimony and Interviews

Gary Carlson, Associated Oregon Industries
Matt Evans, Oregon Tax Research
Elizabeth Harchenko, Oregon Department of Revenue
Tim Hibbitts, Davis and Hibbitts, Inc.
John Mitchell, M&H Economic Consultants, Portland, Oregon
Bob Moore, Oregon public opinion researcher
Richard Munn, former director, Oregon State Dept. of Revenue and
  Oregon State Legislative Revenue Office
Former U.S. Senator Robert Packwood
Jim Scherzinger, former director, Oregon State Legislative Revenue
  Office
Ethan Seltzer, director, Institute of Metropolitan Studies; Portland State University
Paul Warner, Oregon State Economist
Bruce Weber, economist, Oregon State University

Meetings/Conferences Attended by Task Force Members:

Multiple meetings of Governor's Tax Review Advisory Committee,

Oregon Taxpayers United, "Oregon Conference on Real Tax Reform",

B. Publications

Associated Oregon Industries. *Oregon's Tax System; Change it or Tweak It?*, October, 1997.


Dimond, Kathy. "We care, Oregon's new, untried tax system creates winners, losers and yawns: As the economy turns dim, will we wake up to a fiscal disaster?," *Oregon Business*, February 1999.


"The Flat Tax: Simple, Efficient, Fair, or is it?", *The Brookings Review*, Summer, 1998


Appendices


*The Oregonian:*

- "Oregon's tax system: some basics as reform moves into the spotlight," March 21, 1999.
- "When all's not fair in property taxes," October 18, 1999.

*Willamette Week:*


*City Club of Portland Reports:*


(The Portland City Club has published more than 150 reports on taxation issues and specific tax proposals since 1920.)

Websites:

Oregon State Legislative Revenue Office
Oregon State Dept. of Revenue
Washington State Dept. of Revenue
State of Vermont Dept. of Taxes
Montana Department of Revenue
The Tax Foundation, Washington, D.C.
U.S. Dept. of the Treasury
Citizens for Tax Justice, Washington, D.C.
National Conference of State Legislatures, Washington, D.C.
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