


Income Tax Breaks and the **Great Oregon Budget Crunch**

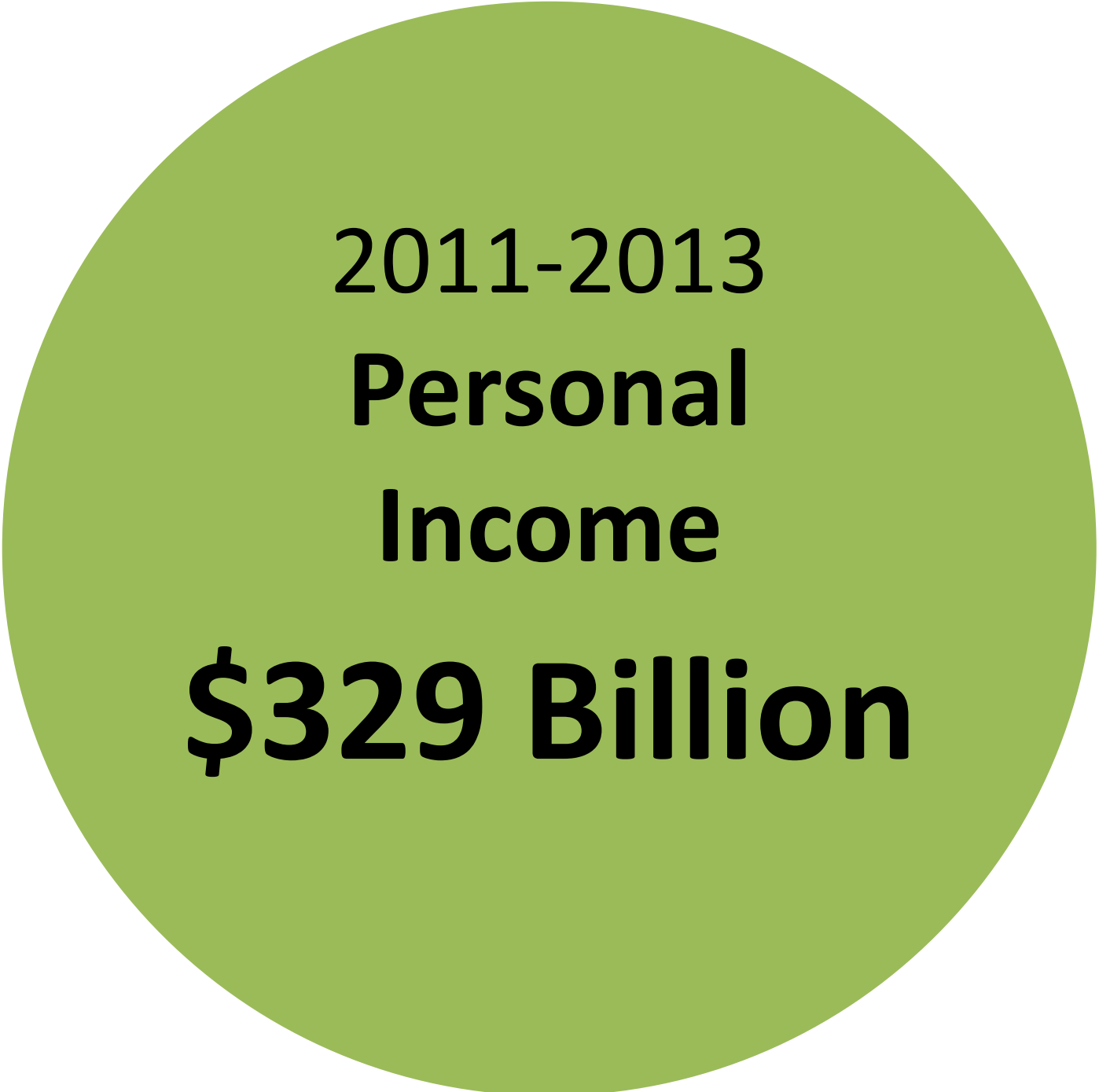
2013 Revision

Steve Robinson

Decision
Metrics 

Today's topics

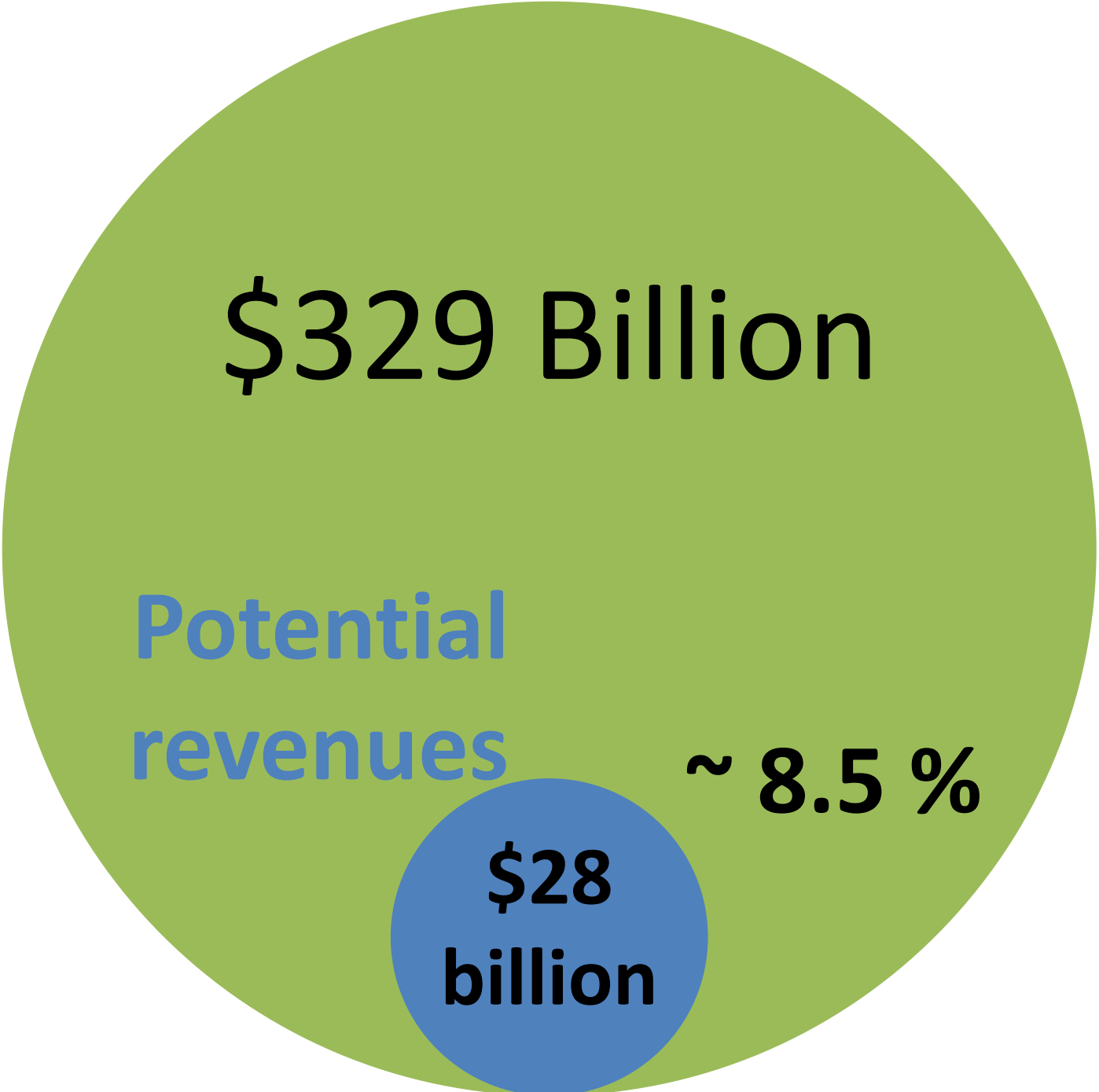
- Income tax breaks vs. potential revenue
- Real growth of tax breaks since 99-01
- Regressive state and local tax system
- Prime targets to control tax breaks
- How the situation evolved
- Ideas for fixing it



2011-2013

**Personal
Income**

\$329 Billion



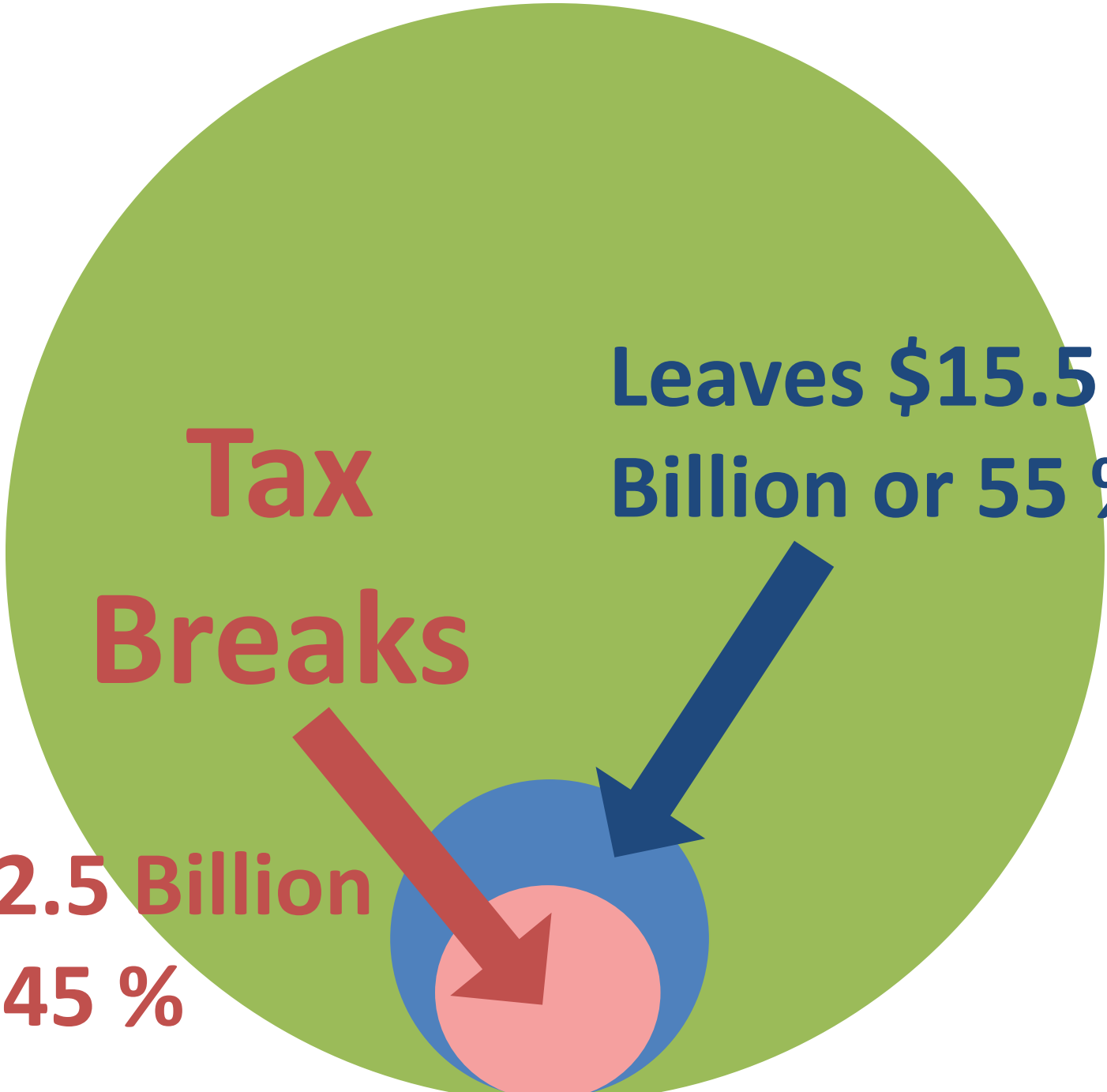
\$329 Billion

**Potential
revenues**

~ 8.5 %



**\$28
billion**



Tax

Breaks

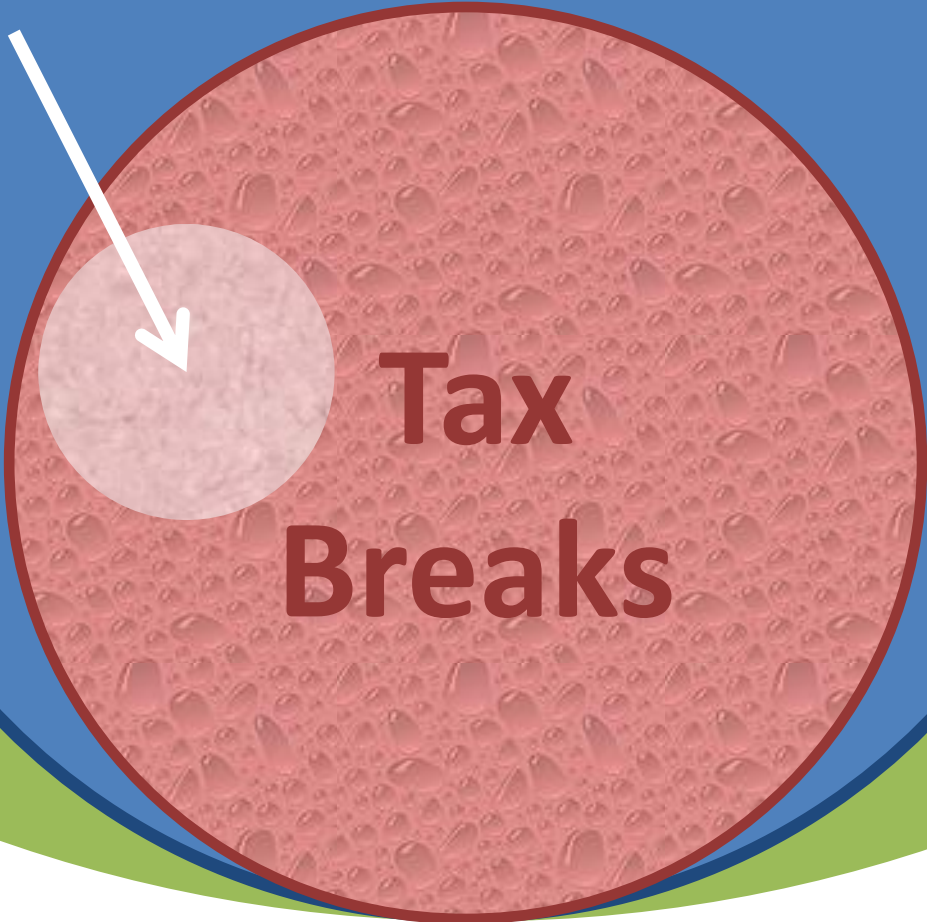
**Leaves \$15.5
Billion or 55 %**

**\$12.5 Billion
or 45 %**



**Tax
Breaks**

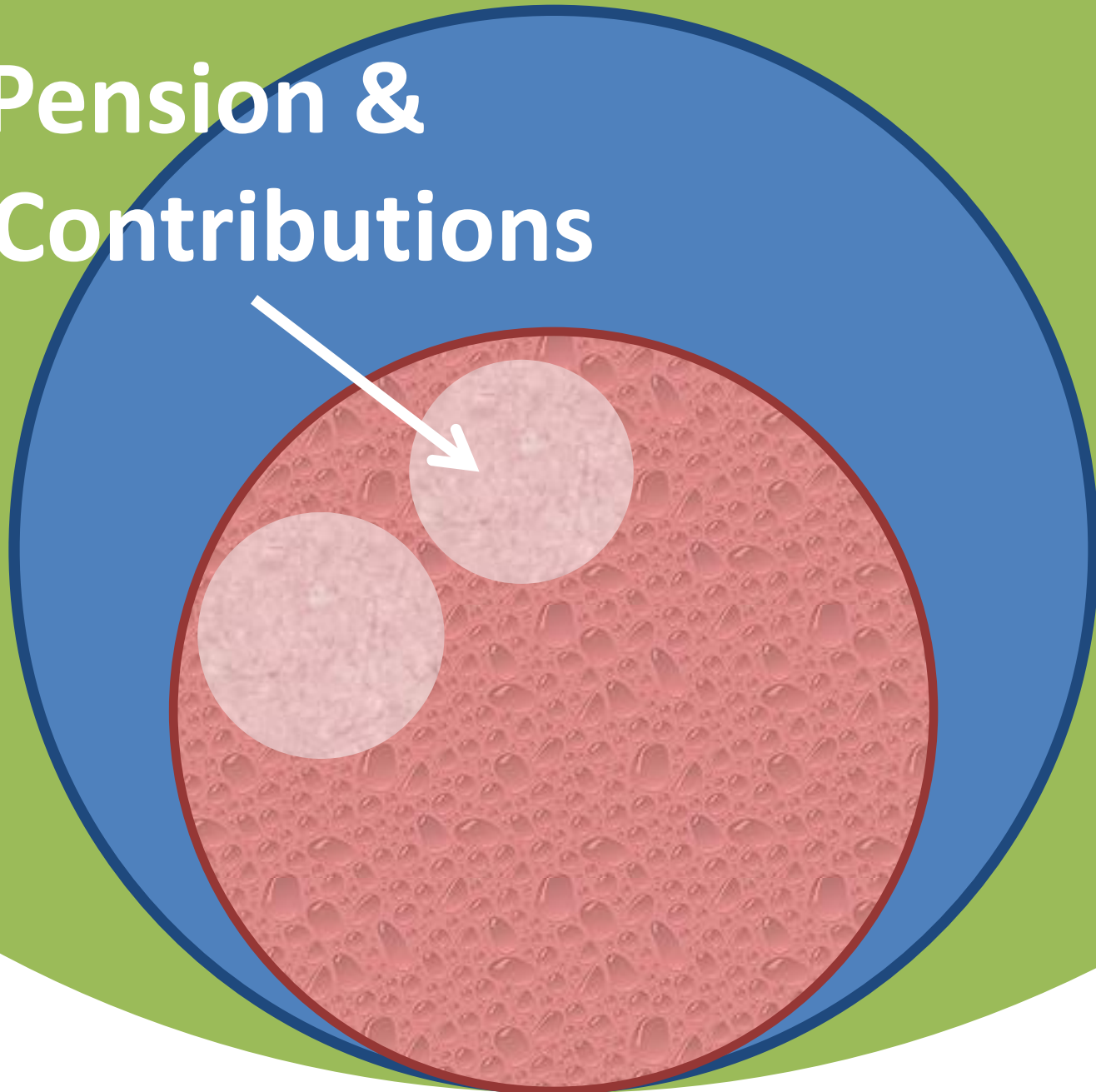
**Employer Paid
Benefits**



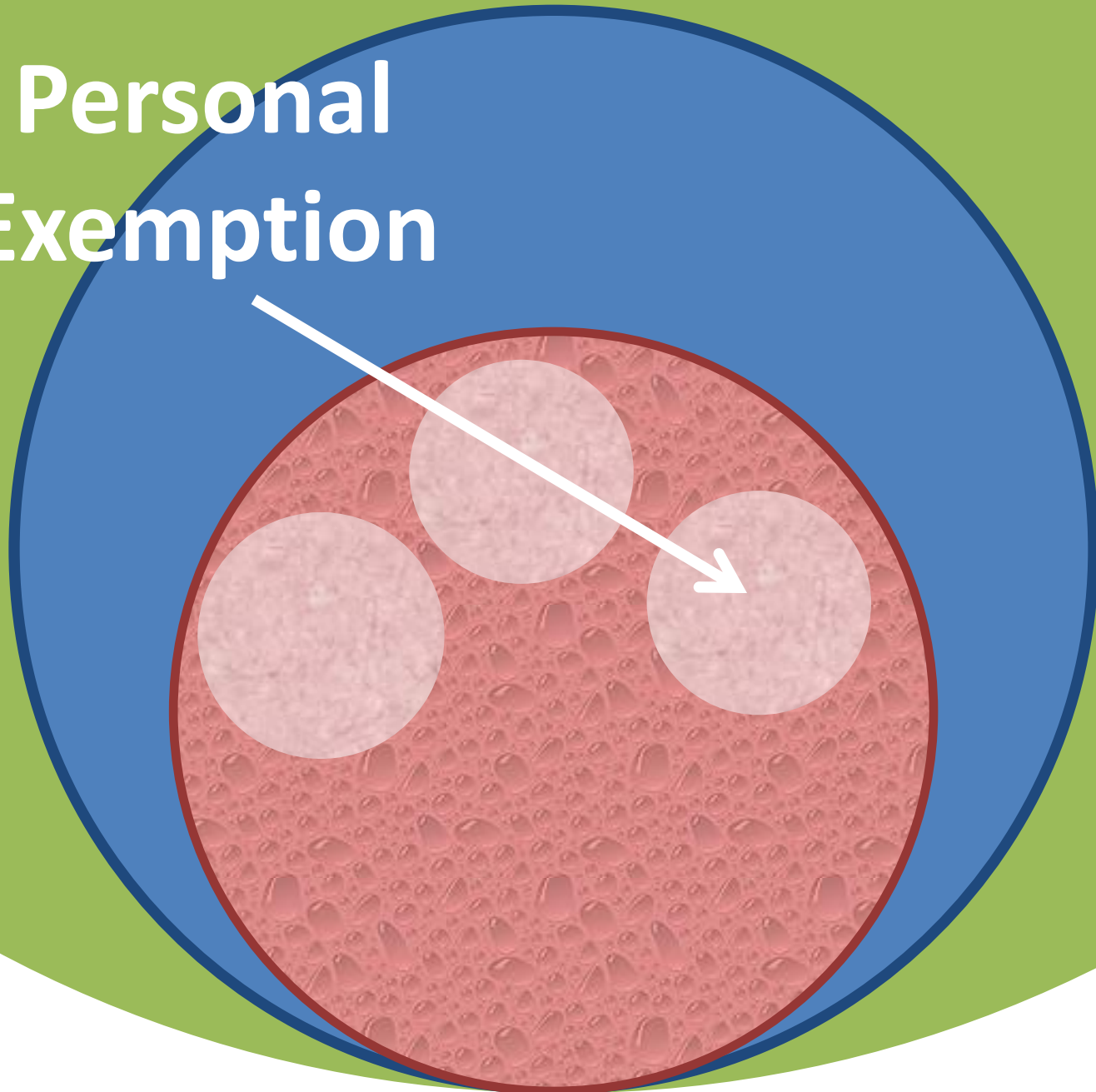
Tax

Breaks

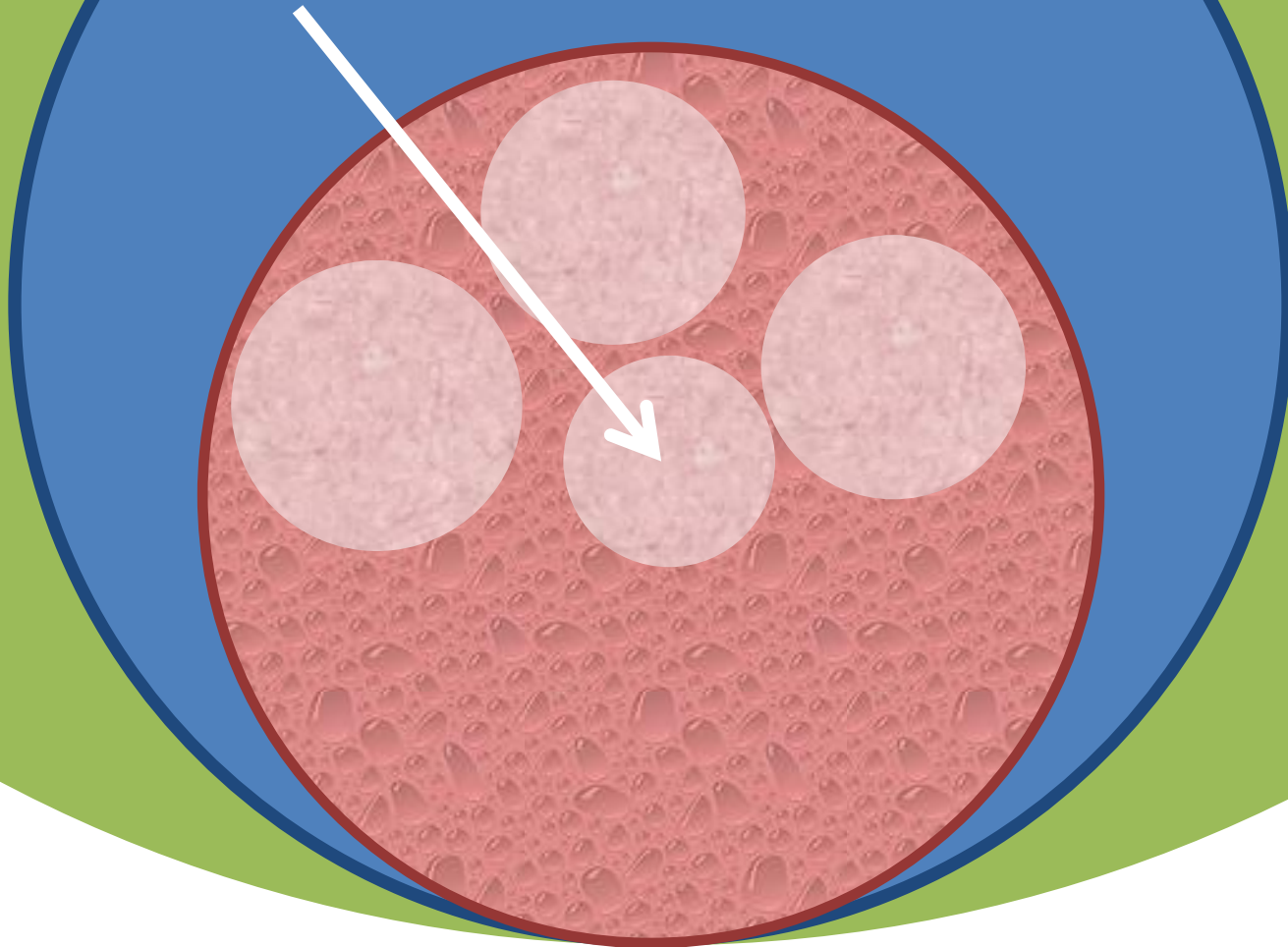
Pension & IRA Contributions



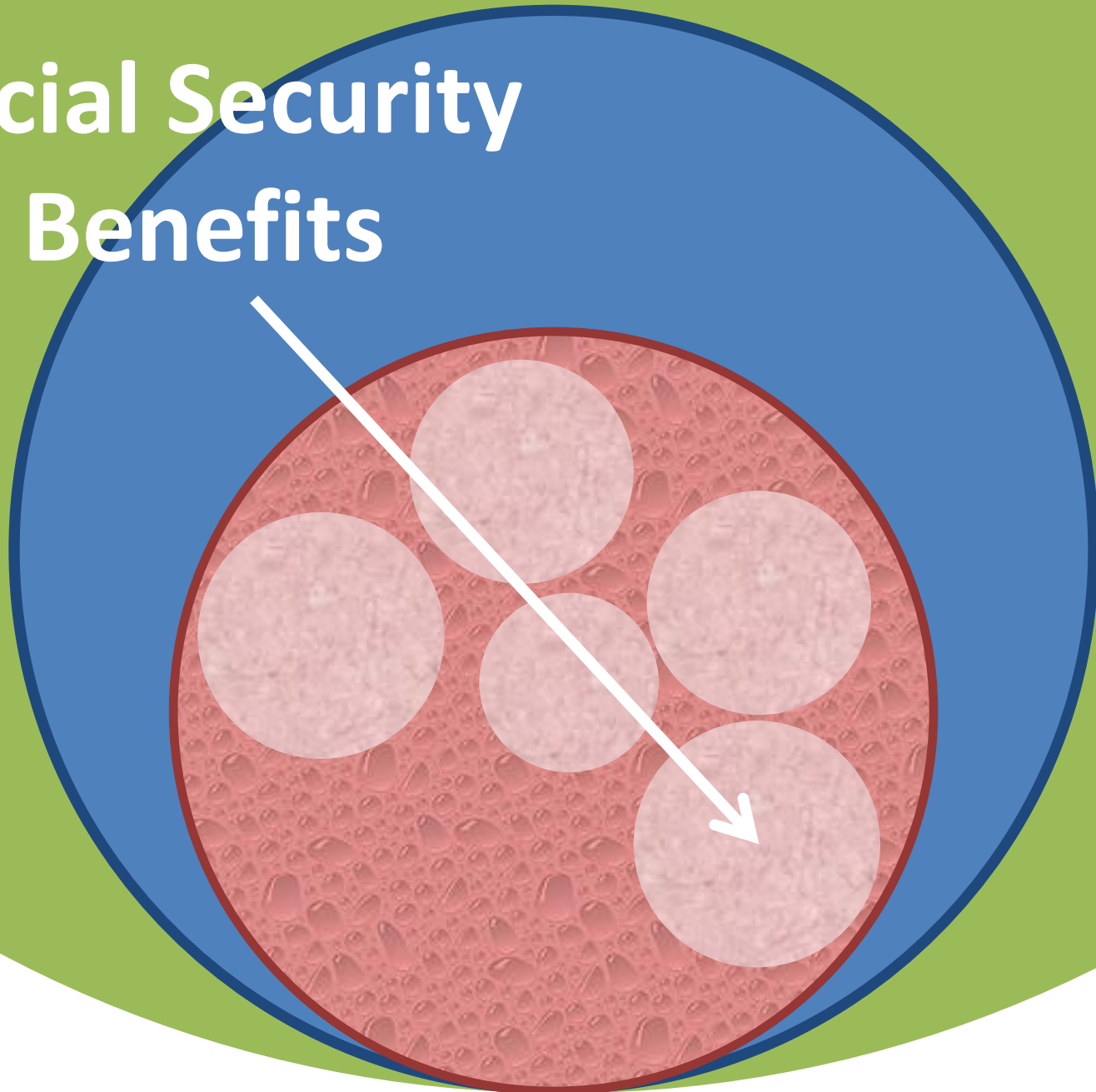
Personal Exemption



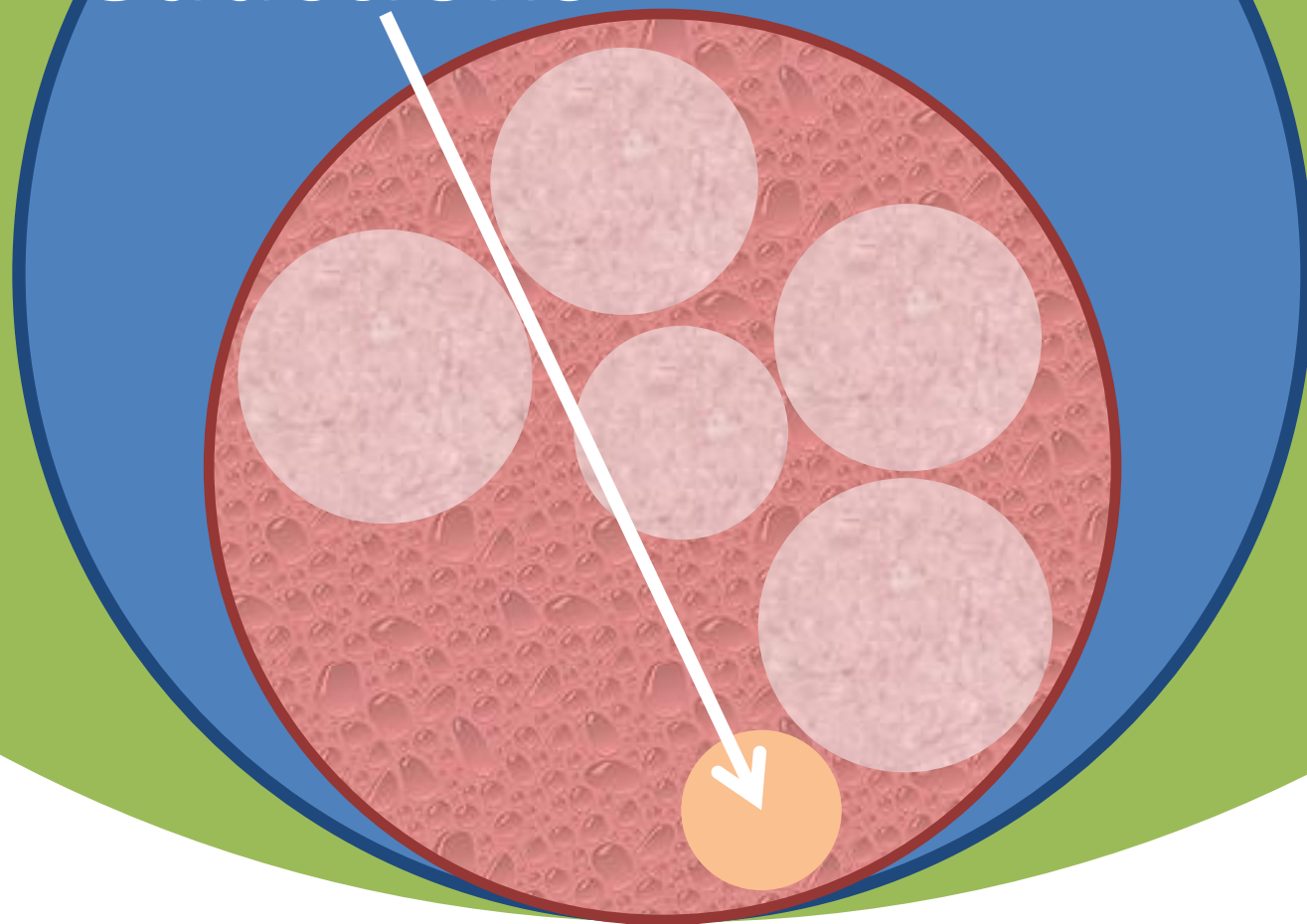
Federal Income Tax Deduction



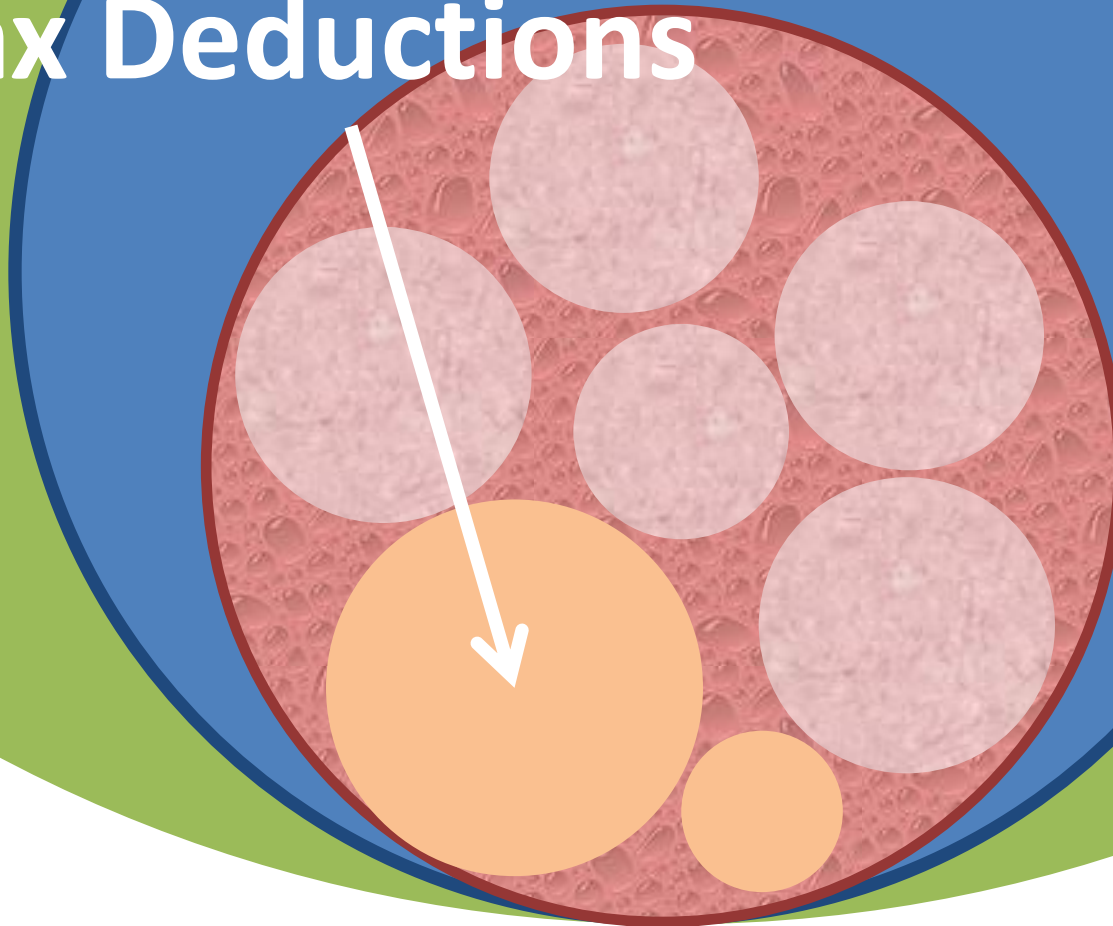
Social Security Benefits



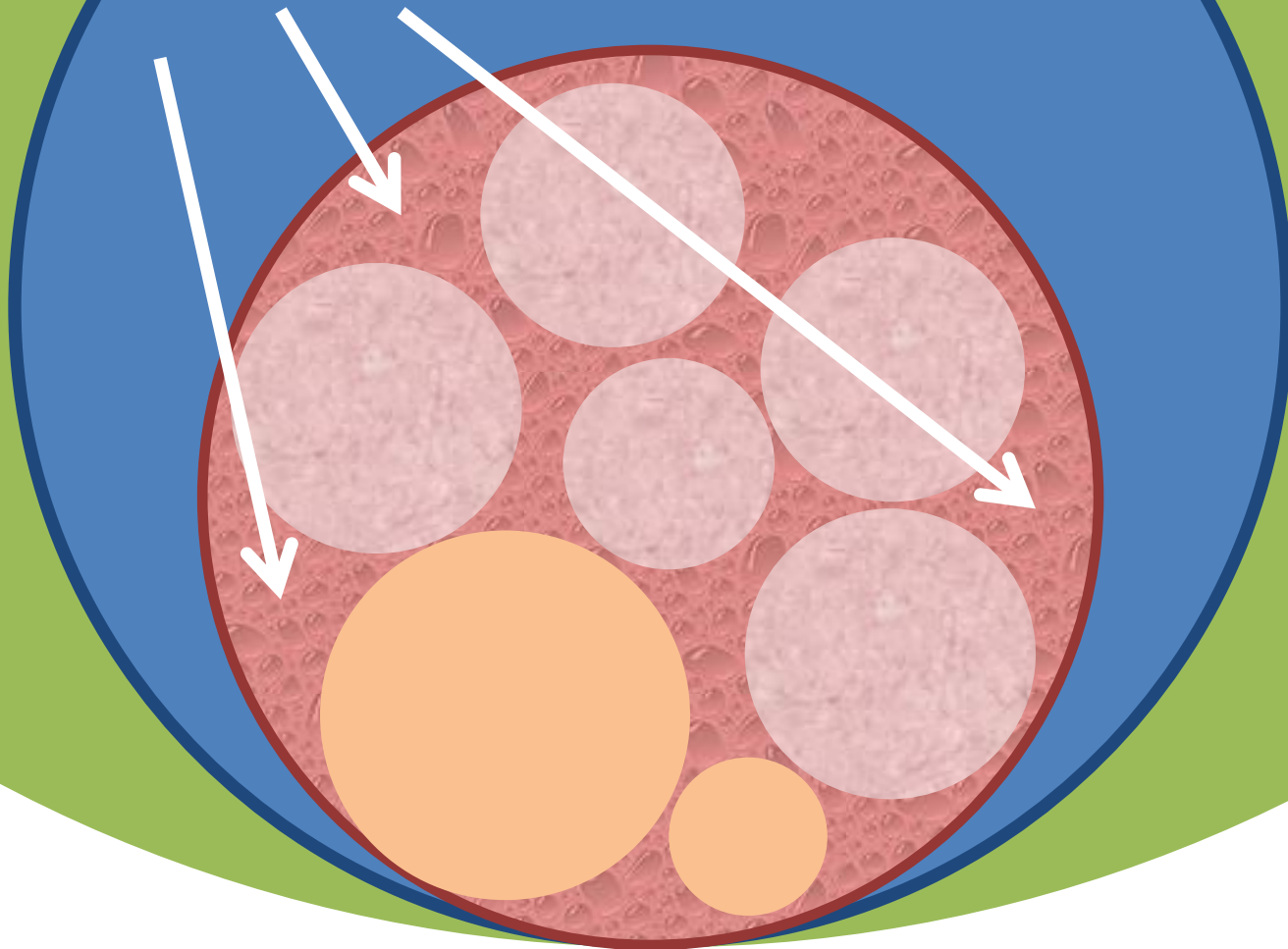
Itemized Medical & Additional Medical Deductions



Home Mortgage Interest & Property Tax Deductions



**~200 smaller state
& federal items**



2013-15 Tax Expenditure Report

1. Distribution tables added* and improved (39 vs. 24)
2. Actual revenue impacts
3. But still not closing past biennia

* E.g. Home Mortgage Interest, page 90

...Still not closing past biennia

1.202 CHARITABLE CONTRIBUTIONS: HEALTH

Internal Revenue Code Sections: 170 and 642(c)

Oregon Statutes: 316.695 and 317.013 (Connections to federal personal and corporation deductions)

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1917 (personal) and 1935 (corporation)

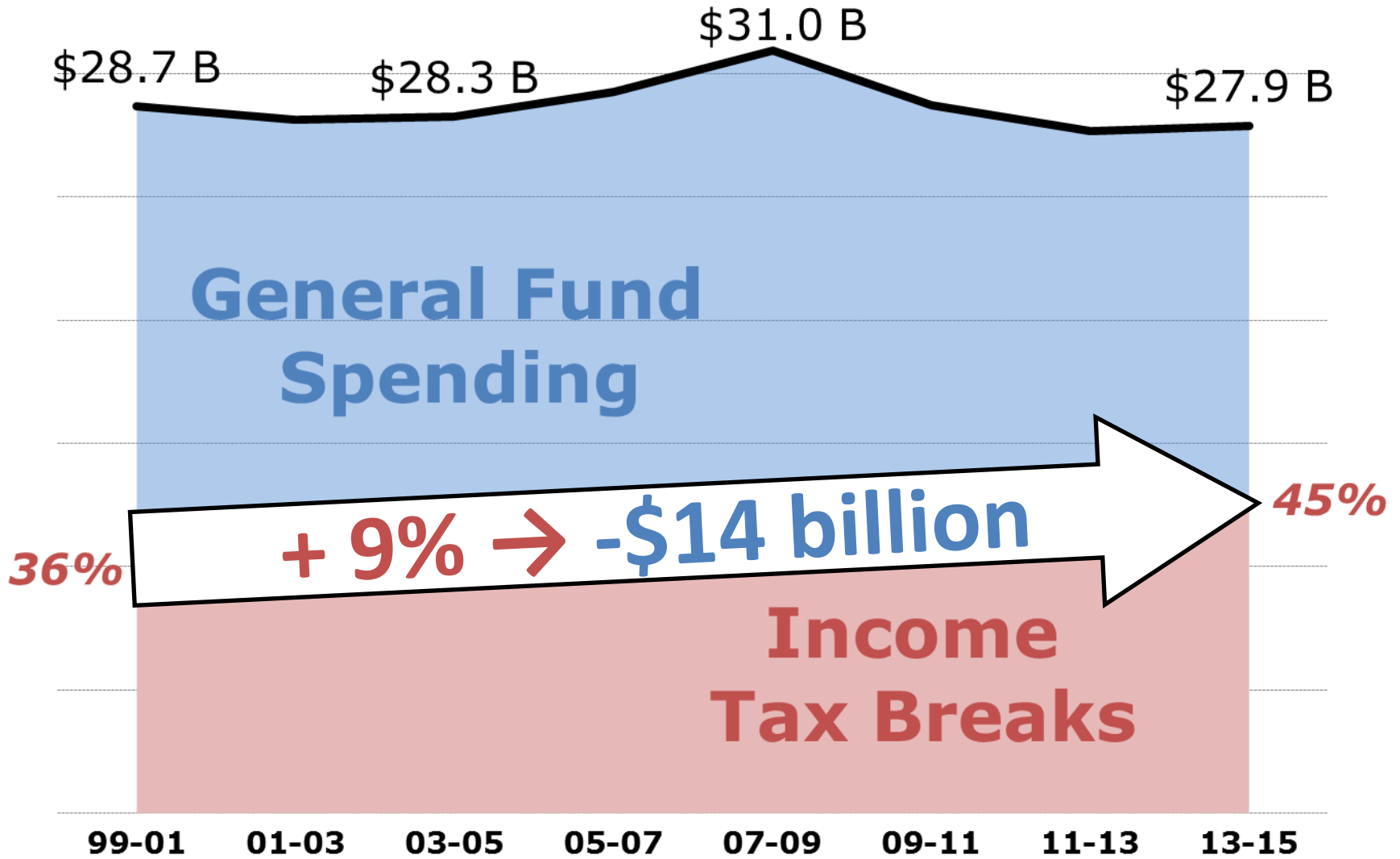
	Corporation	Personal	Total
2011-13 Revenue Impact:	\$7,600,000	\$22,400,000	\$30,000,000
2013-15 Revenue Impact:	\$8,100,000	\$25,800,000	\$33,900,000

Only half of the data from 2011-13 is available;
2009-11 is complete, but not shown

Trends* in the Data: 99-01 to 13-15

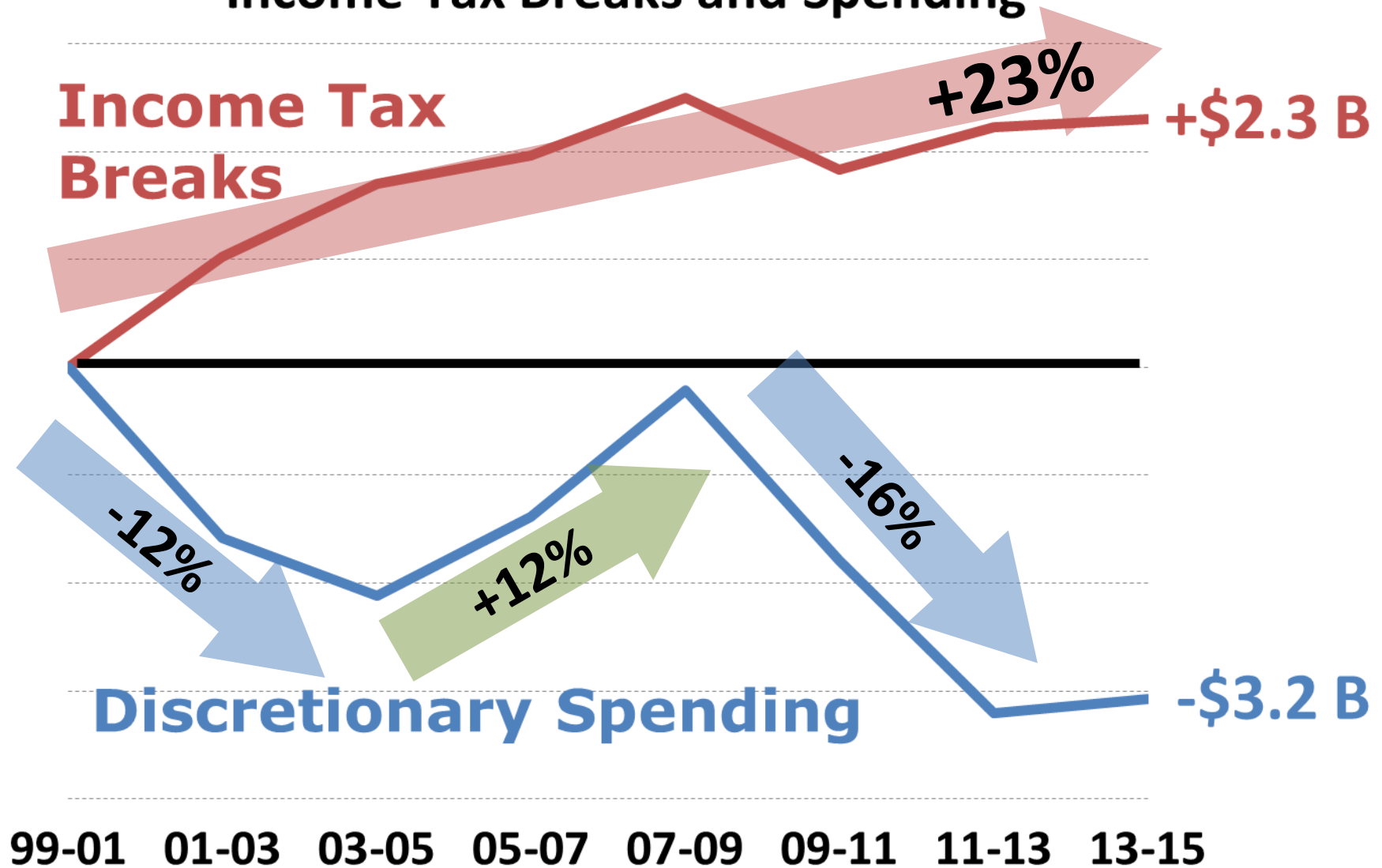
Adjusted for **long-term growth in
statewide personal income*

Potential Revenues

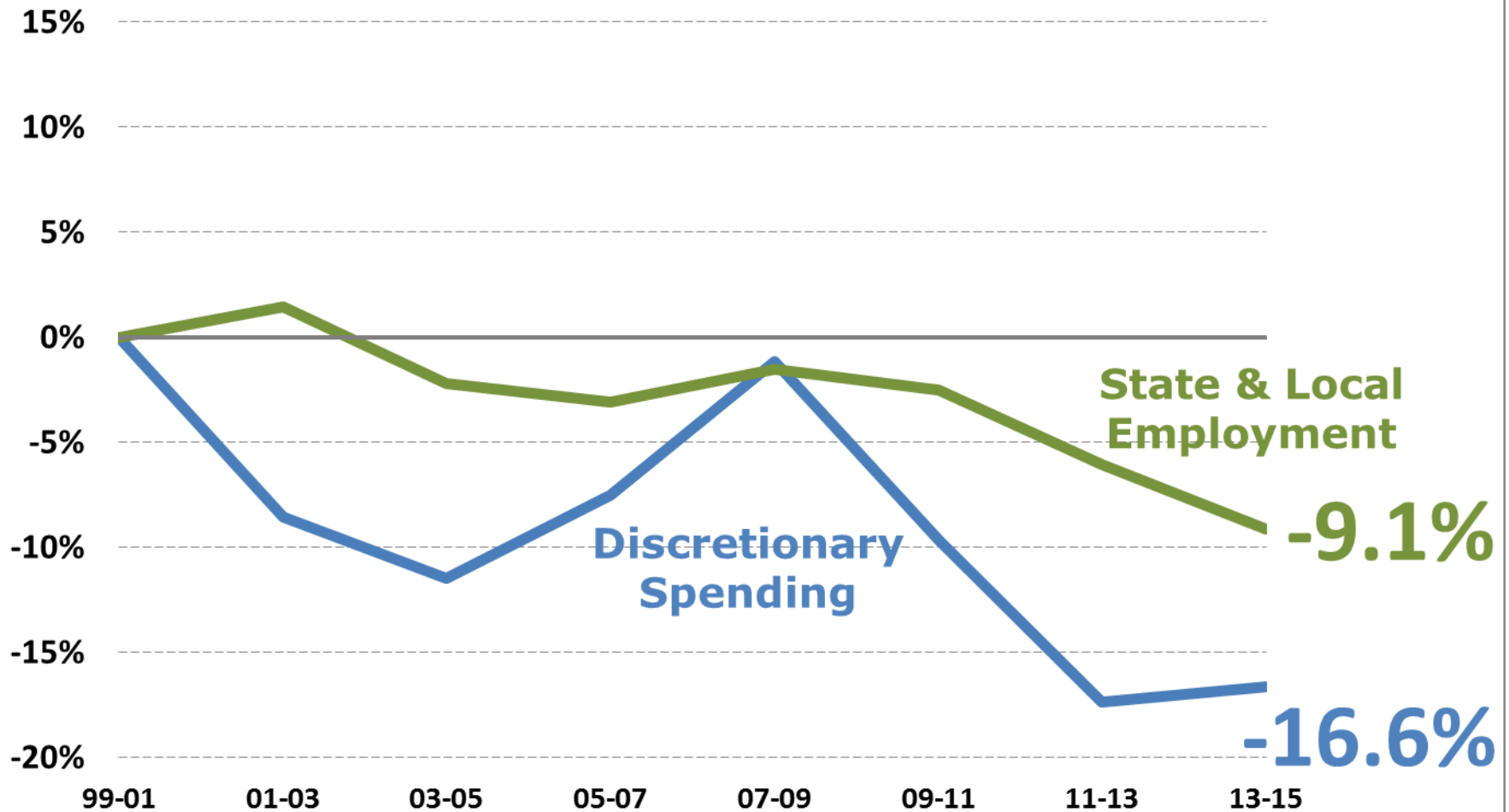


Change Since 99-01 Biennium:

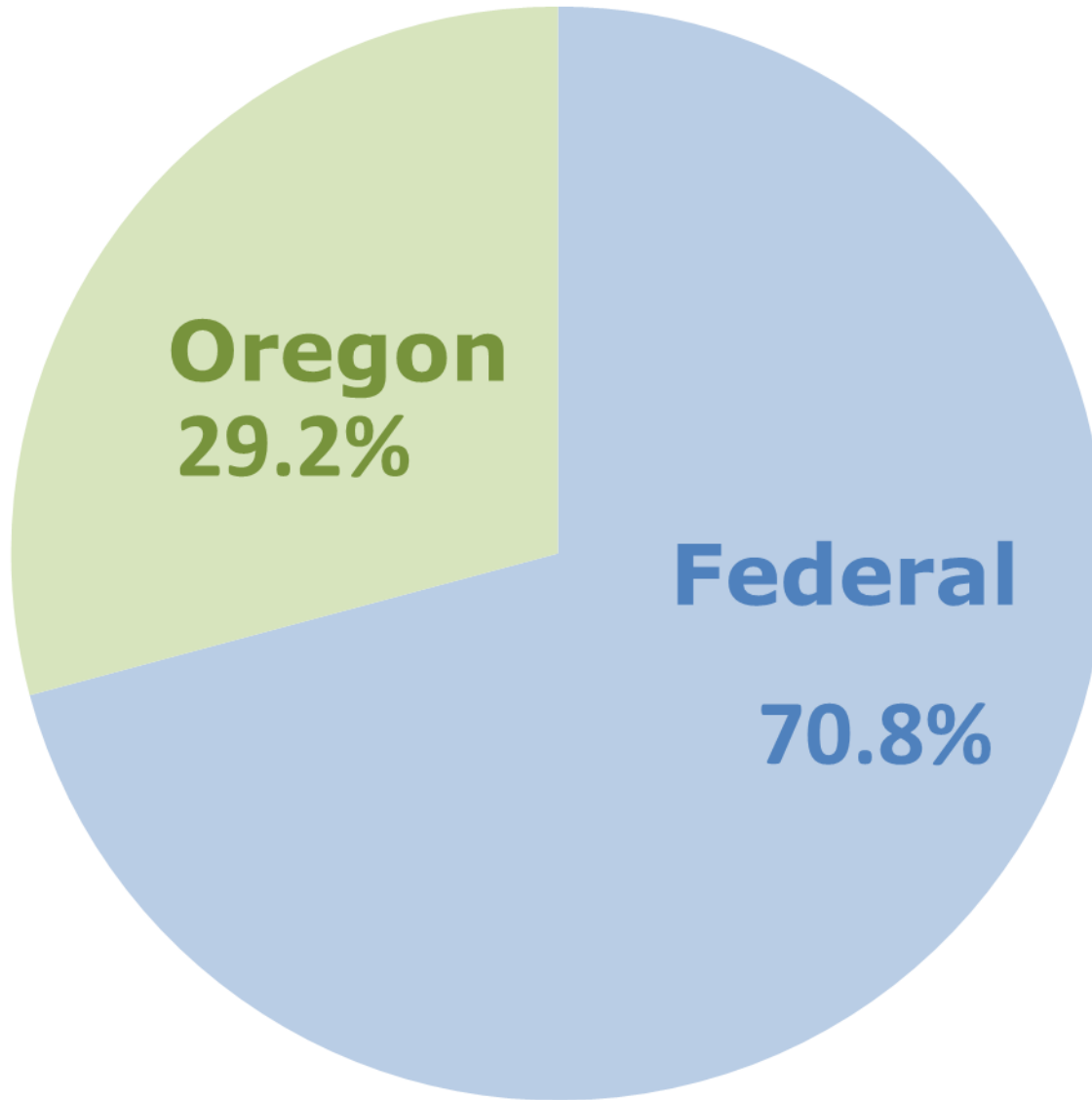
Income Tax Breaks and Spending



% Change Since 99-01 Biennium: Government Workers & Spending

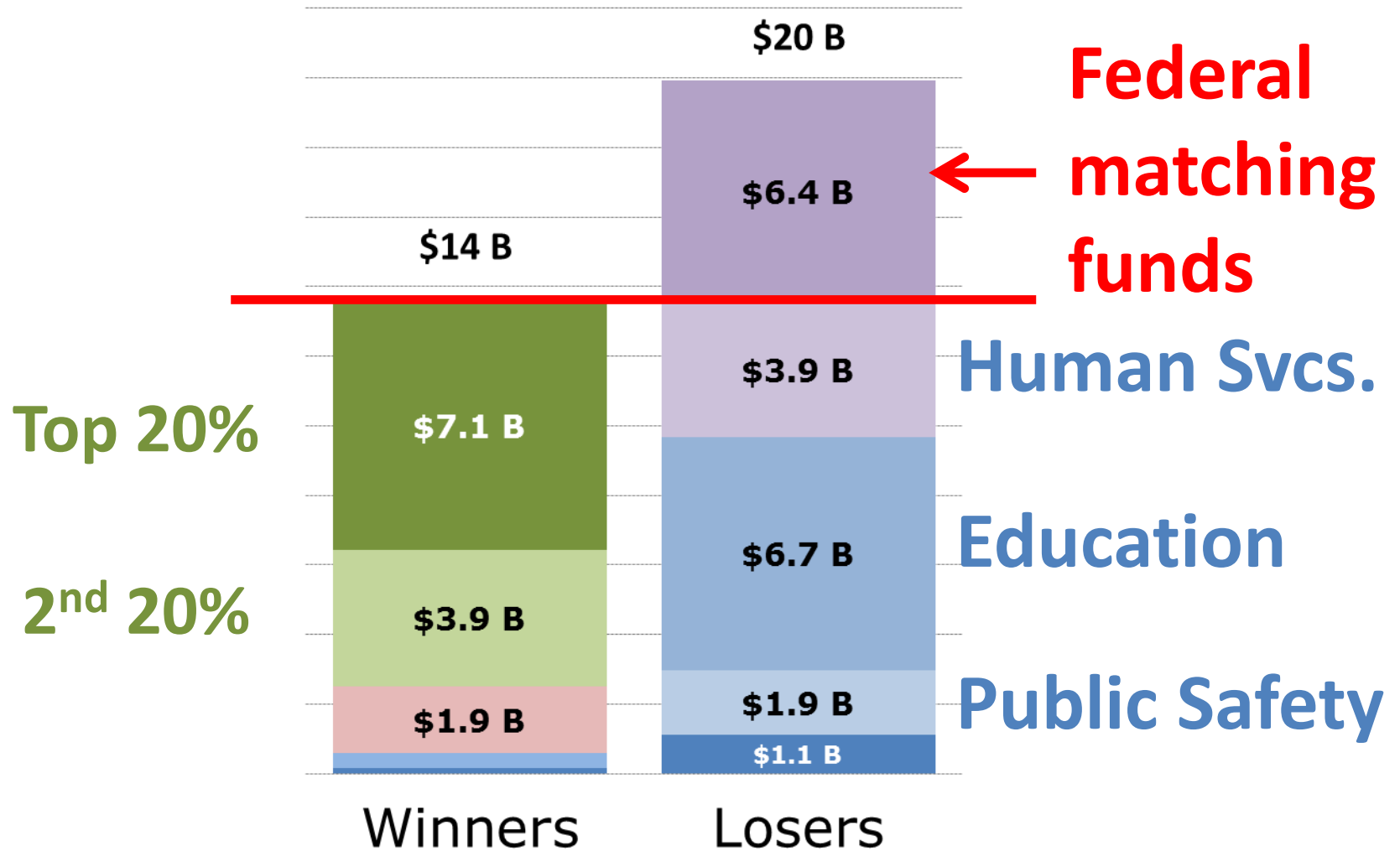


Federal and State Components of Tax Breaks, 2013



Cumulative Growth of Tax Breaks

99-01 thru 13-15



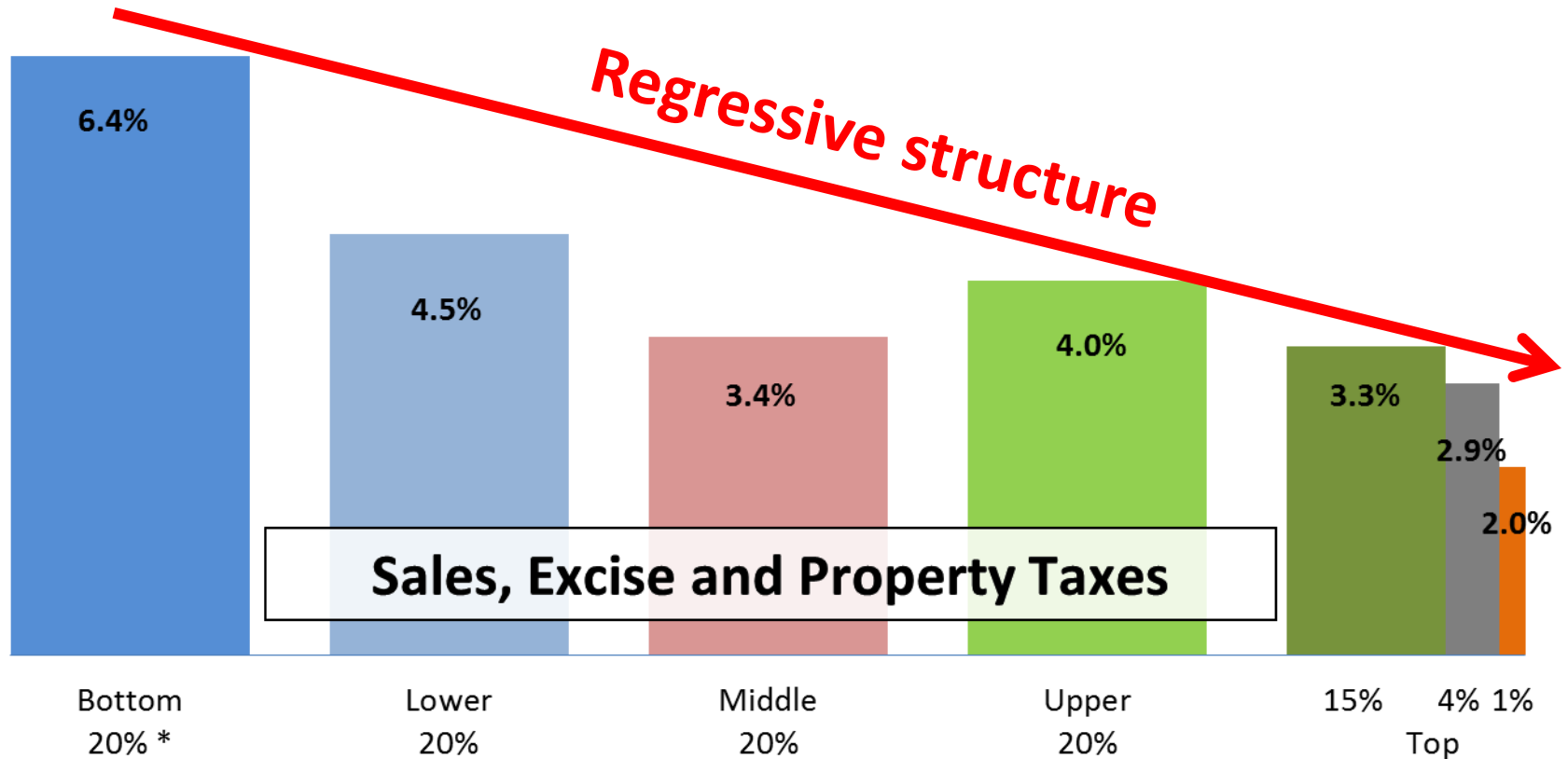
The Biggest Winner of All: The Feds

- \$6.4 billion** Federal matching funds left on the table (1.66:1 DHS)
- \$3.8 billion** More FIT from reduced SIT deductions
- \$10.2 billion** Total windfall to federal treasury, 2001-2015
- **\$20-30 billion** lost to OR economy

Who Pays How Much State and Local Tax

2013 Tax Law, 2010 Income Levels

by Quintile of Federal Adjusted Gross Income (AGI)

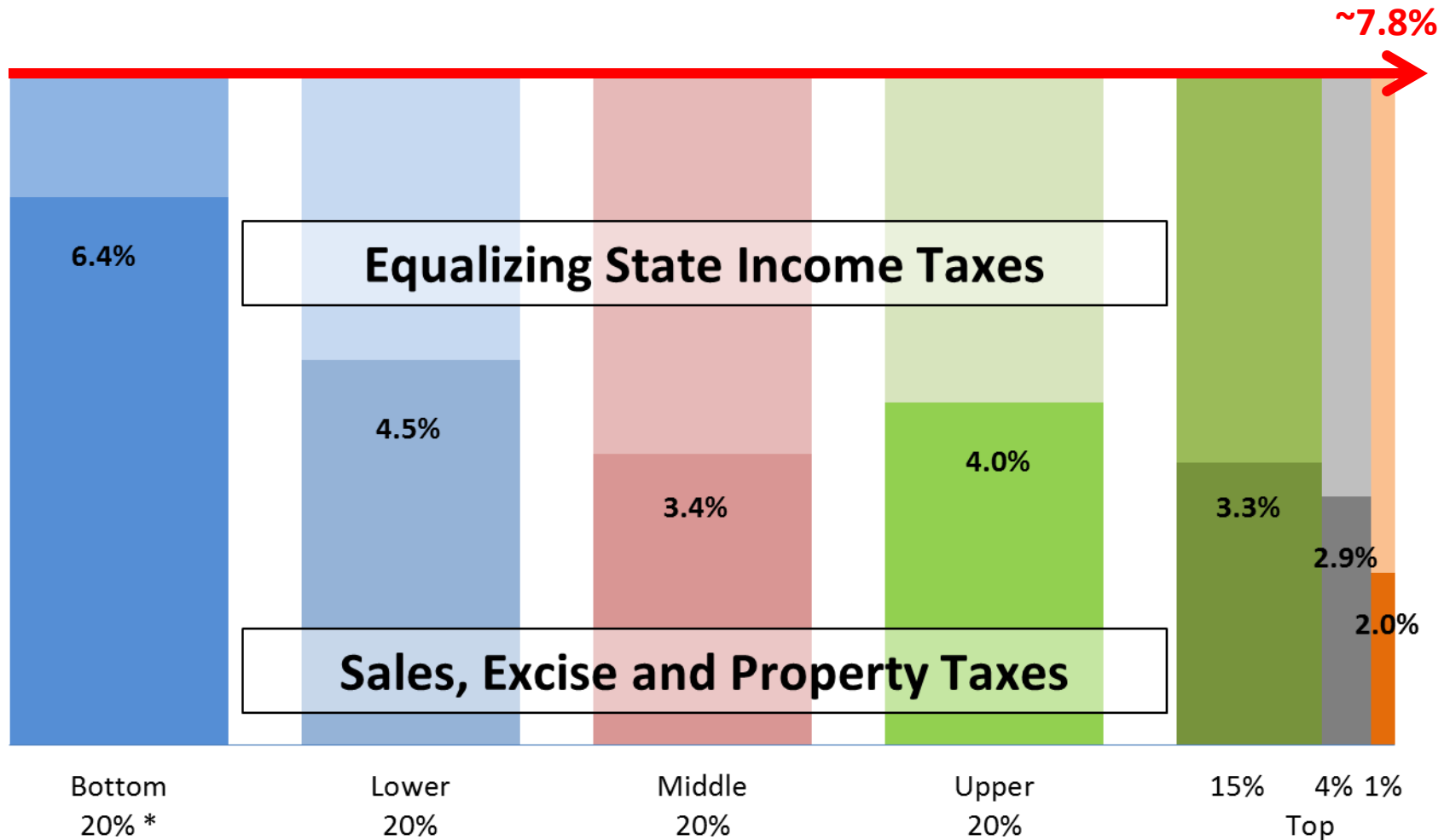


Source: Institute on Taxation & Economic Policy

Who Pays How Much State and Local Tax

2013 Tax Law, 2010 Income Levels

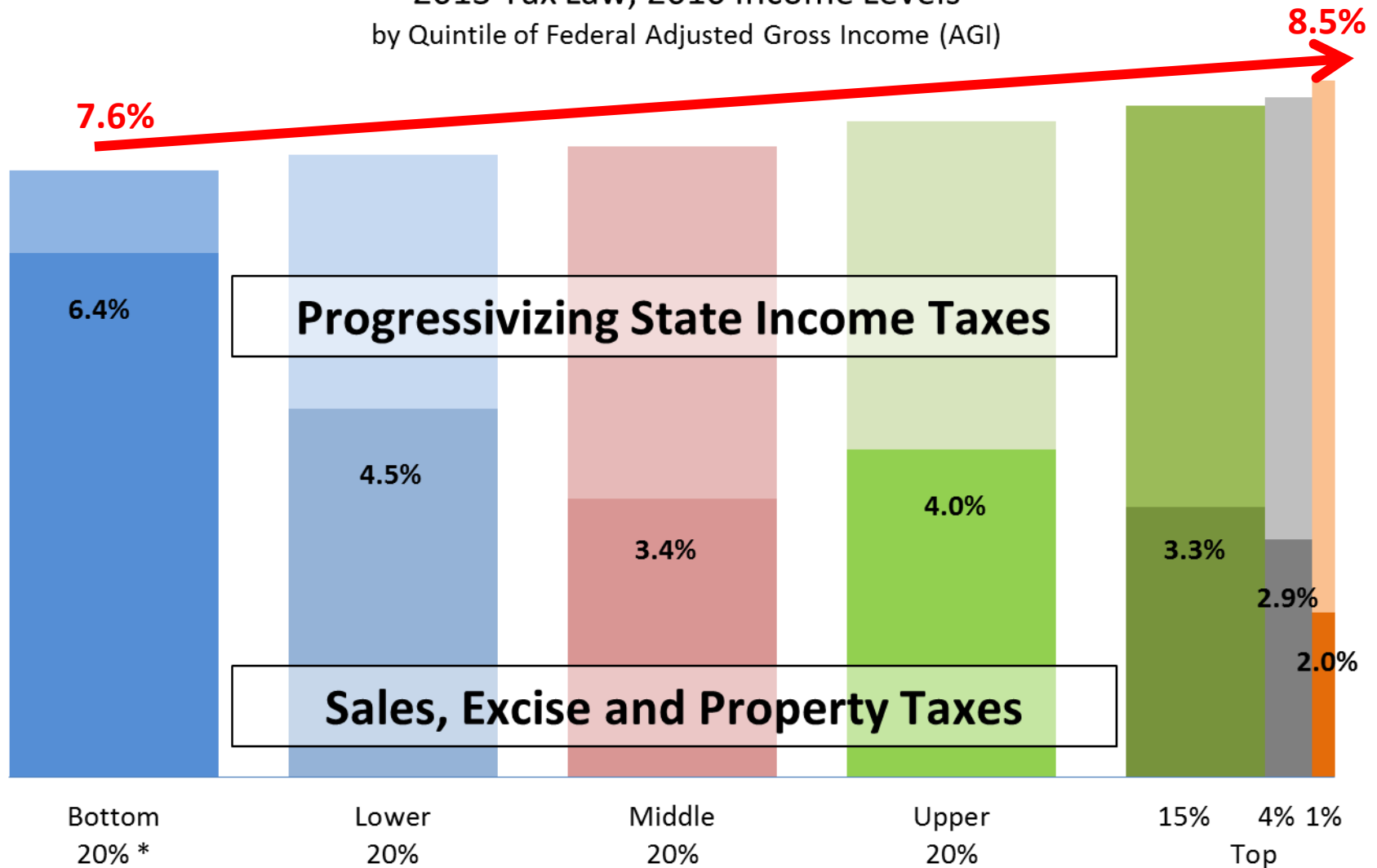
by Quintile of Federal Adjusted Gross Income (AGI)



Source: Institute on Taxation & Economic Policy

Who Pays How Much State and Local Tax

2013 Tax Law, 2010 Income Levels
by Quintile of Federal Adjusted Gross Income (AGI)

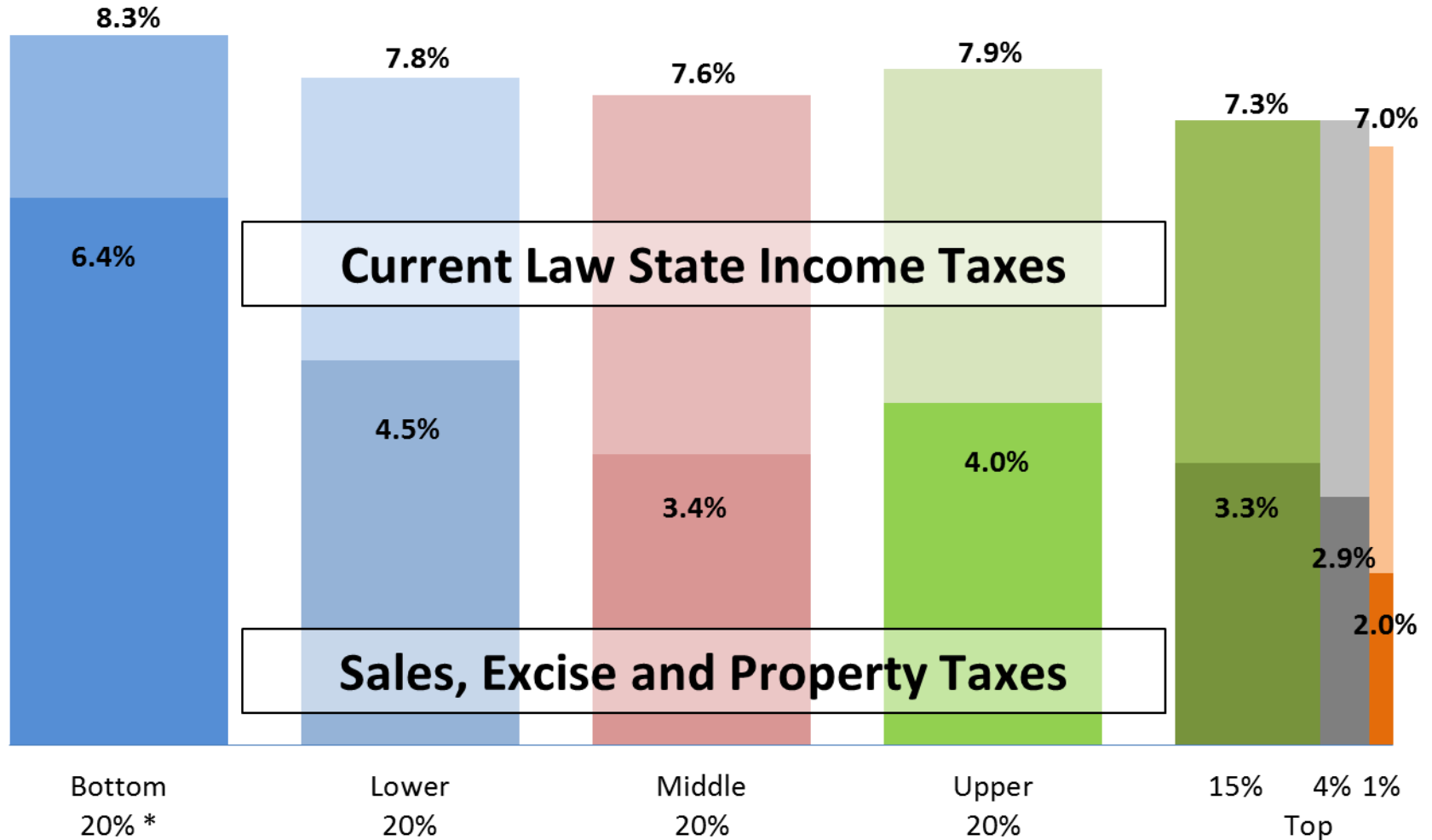


Source: Institute on Taxation & Economic Policy

Who Pays How Much State and Local Tax

2013 Tax Law, 2010 Income Levels

by Quintile of Federal Adjusted Gross Income (AGI)



Source: Institute on Taxation & Economic Policy

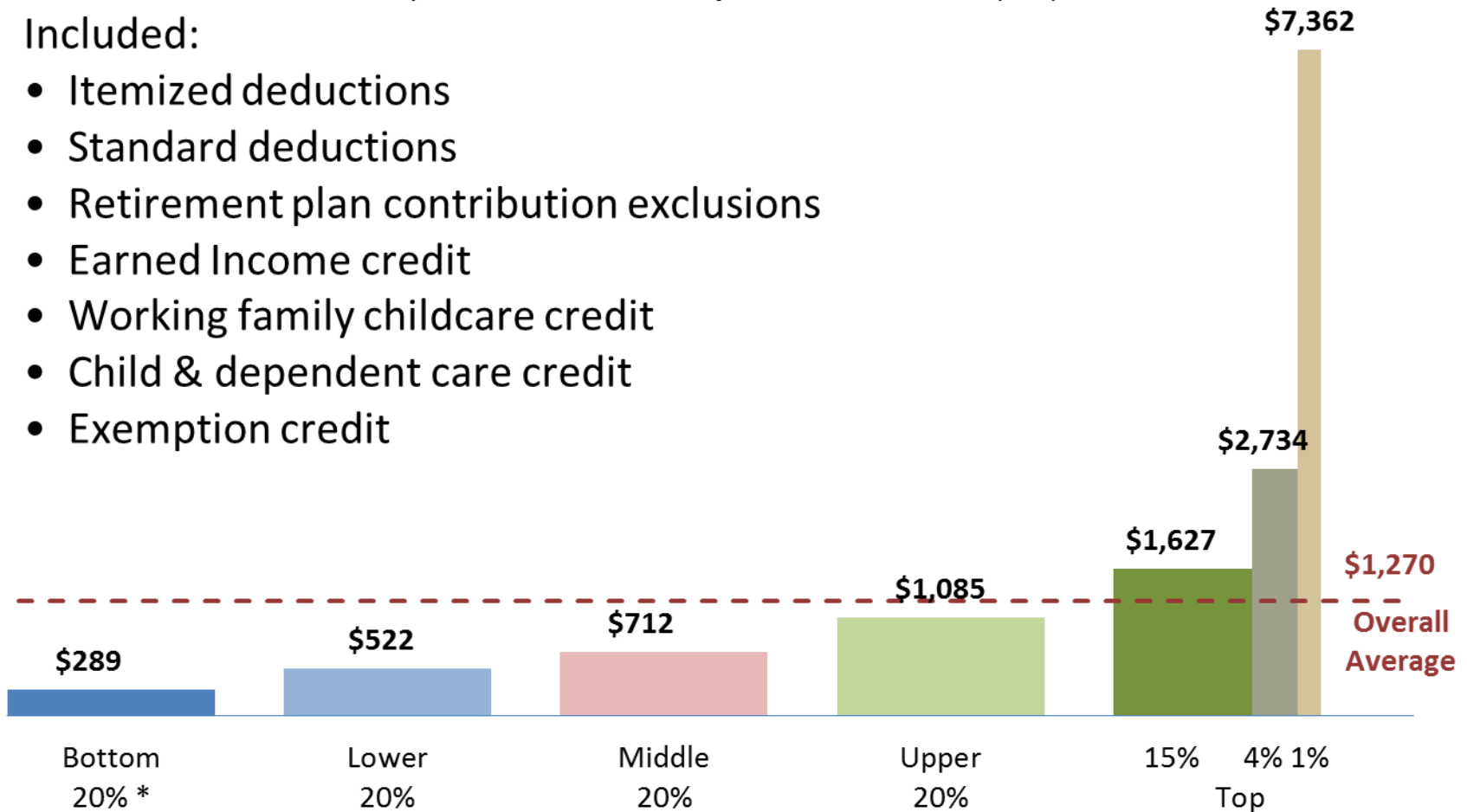
"Wealth-Building" Tax Subsidies in OR Personal Income Tax

Tax Year 2010

by Quintile of Federal Adjusted Gross Income (AGI)

Included:

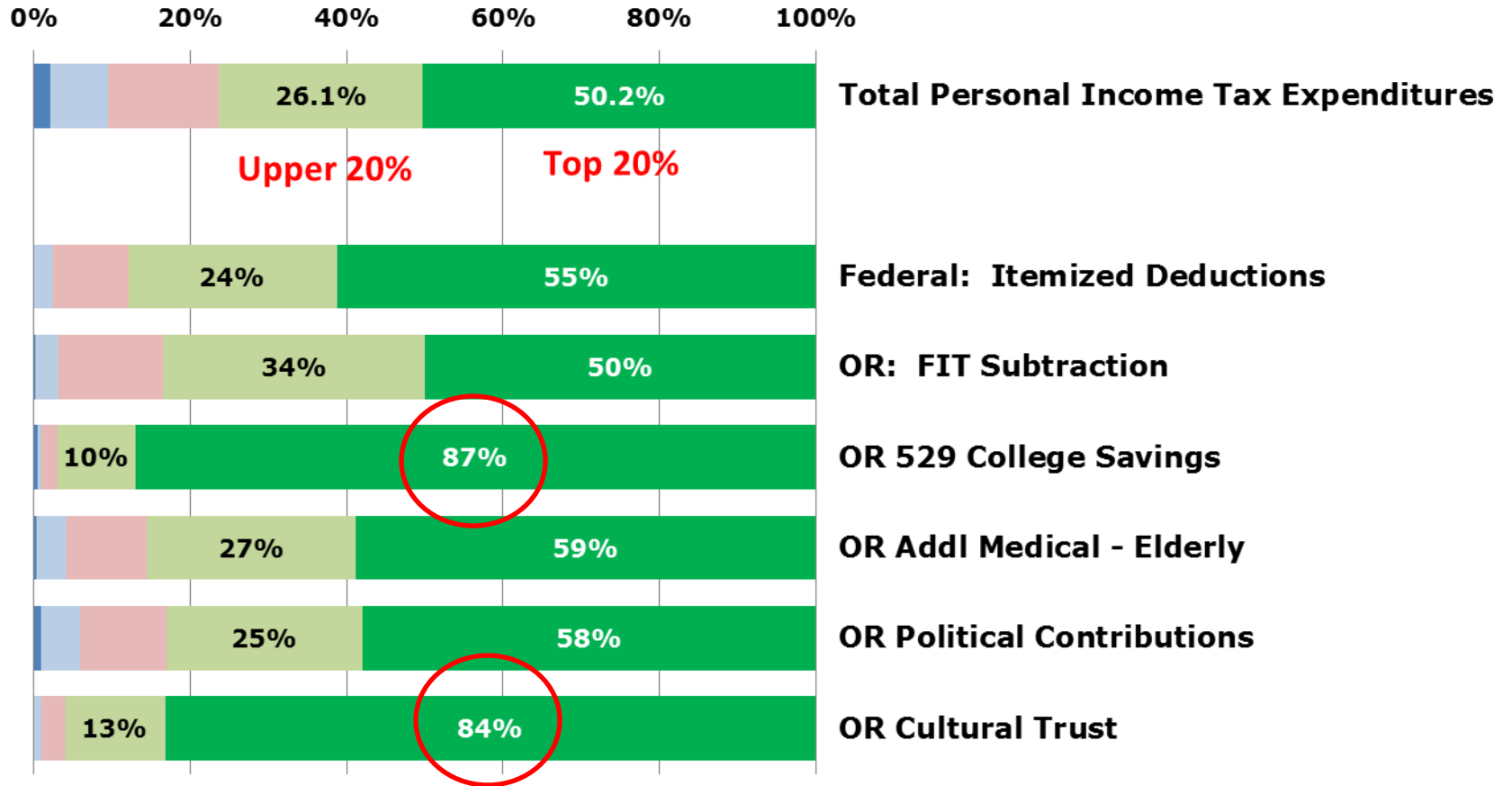
- Itemized deductions
- Standard deductions
- Retirement plan contribution exclusions
- Earned Income credit
- Working family childcare credit
- Child & dependent care credit
- Exemption credit



* Bottom tier excludes returns with AGI less than zero

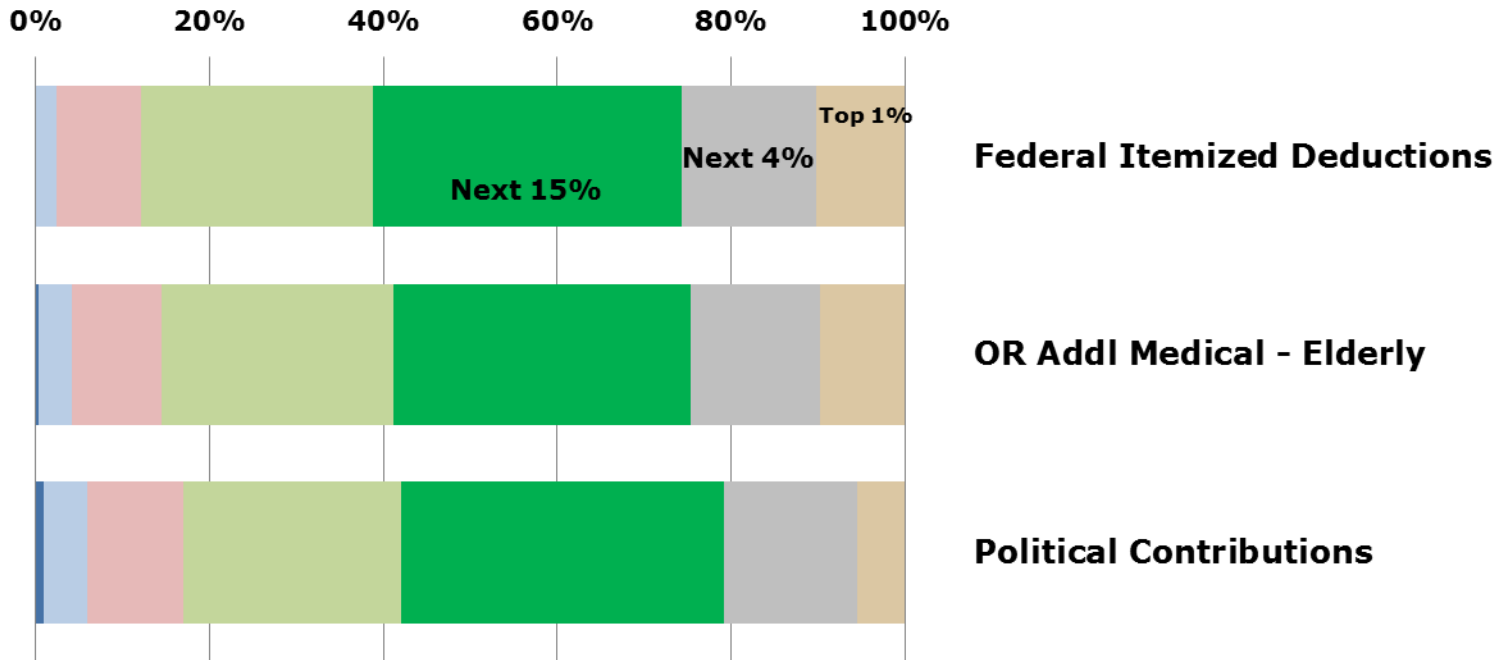
Prime Targets to Control Income Tax Expenditure Growth

Distributions by Income (AGI) Tier in 2011-13 Tax Expenditure Report



Source: Oregon Tax Expenditure Report

Distributions to top 1% - 4% - 15% (over \$300k - \$200k - \$70k)



Source: Oregon Tax Expenditure Report

Jobs Per Million

Program	Jobs Created /Lost For every \$1 million change
General tax cut (per GAO)	6.9
Human services program cut (based on ECONW study)	87.7

How did this happen?

- 1. No sunsets of federal breaks**
- 2. Growing inequity of wealth and income**
- 3. Imbalance of advocates' power**
- 4. TE cut = tax hike (3/5 vote)**

Recommendations

- 1. DOR close loop on past biennia**
- 2. Means-test senior medical**
- 3. Cap itemized deductions**
- 4. Test all TE for budget priorities**
- 5. Tighten criteria & accountability**
- 6. Fix windfalls & avoid new ones**

The Kiplinger Letter

FORECASTS FOR MANAGEMENT DECISIONMAKING

1100 13th Street NW, Washington, DC 20005 • Special Issue

Dear Client:

Washington, February 2013

INCENTIVE WARS

States are once again jumping into economic development programs. They'll dole out \$80 billion to firms that create new jobs by relocating to the area or expanding facilities already there. Texas will likely spend the most. On a per taxpayer basis, however, Alaska, Neb. and W.Va. will top the charts. Last year in Okla. and W.Va., such incentives sucked up a fifth of state revenues.

But there's scant evidence that the spending actually pays off in jobs.

A Minn. study, for example, found that four-fifths of jobs created by firms that got tax subsidies and other goodies would have come about anyway.

And too often states end up just trading one firm for another. For example, Kansas City, Mo., has lured 1,225 jobs from an online transportation broker, Freightquote, now based in Lenexa, Kan., 12 miles away. The cost to Mo. taxpayers: \$64 million. A year earlier, both Teva Neuroscience and AMC Entertainment negotiated deals worth \$40 million to go the opposite direction, from Mo. to Kan.

Emphasis added

decisionmetrics.org