



SB 824: Uniform Sales and Use Tax Administration Act

Senate Finance and Revenue Committee, Wednesday, April 17, Patrick Story

Our state tax system has goals that are set forth in the Oregon **Revised Statute 316.003**. These goals state in part that the system “should recognize fairness and equity as its basic values,” and that “any tax must be considered in conjunction with the effects of all other taxes on Oregonians.” [The full words are in the hand out.]

At present, Oregon is rated as being one of the five best states for fair tax policy in the Report called **Who Pays? A Distributional Analysis of the Tax Systems in all 50 States**, published by the nonprofit Institute on Taxation and Economic Policy (ITEP) in January of this year.

Still, our good ranking is only relative because currently the poor in Oregon pay more of their household income in state and local taxes than any other income group:

- Poorest 20% pays 8.3%
- Middle 20% pays 7.6%
- Top 1% pays only 7% of household income in state and local taxes.

Tax Fairness Oregon takes the position that our state legislators should vote only for those reform proposals that will keep Oregon’s taxes at least as fair as they are right now. That level of fairness can be seen on the page from the ITEP report that is about Oregon’s tax system which I’ve given you.

But in its present version, SB 824 does not meet that goal.

Four key elements to reduce the regressive effects inherent in a sales tax don’t do enough, particularly for middle-income households:

First, **the income tax rate reduction** proposes a 5% sales and use tax while lowering the income tax rates by 3% for most Oregonians, but by 3.9% for income over \$125,000. That leaves the highest earners getting the greatest benefit.

Second, **an increase in the Earned Income Tax Credit (EITC)** supports those industries that hire part-time or seasonal workers, usually at minimum wage, and does

help those impoverished workers, but does not help workers who are low income because they are unemployed, disabled, or can no longer work.

Third, **the sales tax refund** does provide relief for low income taxpayers, it will work. However, the relief provided phases out quite rapidly. If you look at page 70 of the bill, you'll see that a family of three with more than \$34,000 in income gets no refund.

Fourth, **the property tax break** is arbitrarily set at \$50,000 of property value regardless of family income, home value, or property tax rates. What is needed is what's called a property tax "circuit breaker" as exists in numerous other states. The circuit breaker is a means, sometimes applying an income ceiling, of reducing property taxes according to family income. (The nonprofit Center for Budget and Policy Priorities has examples.)

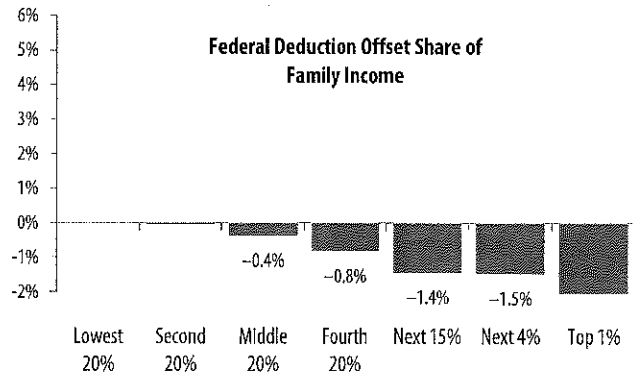
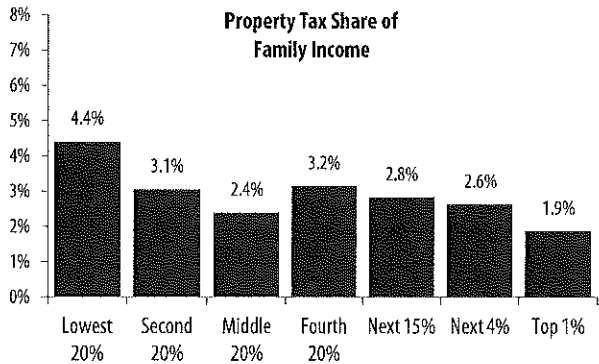
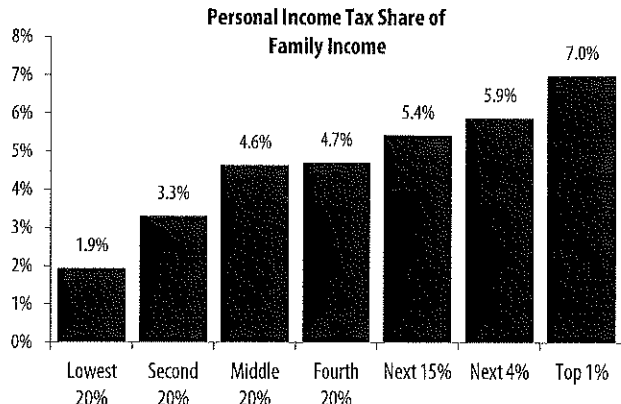
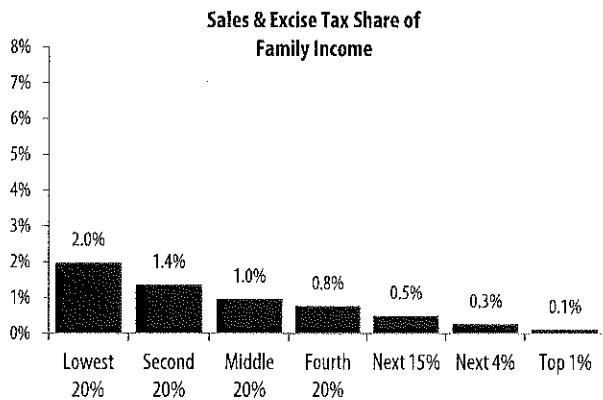
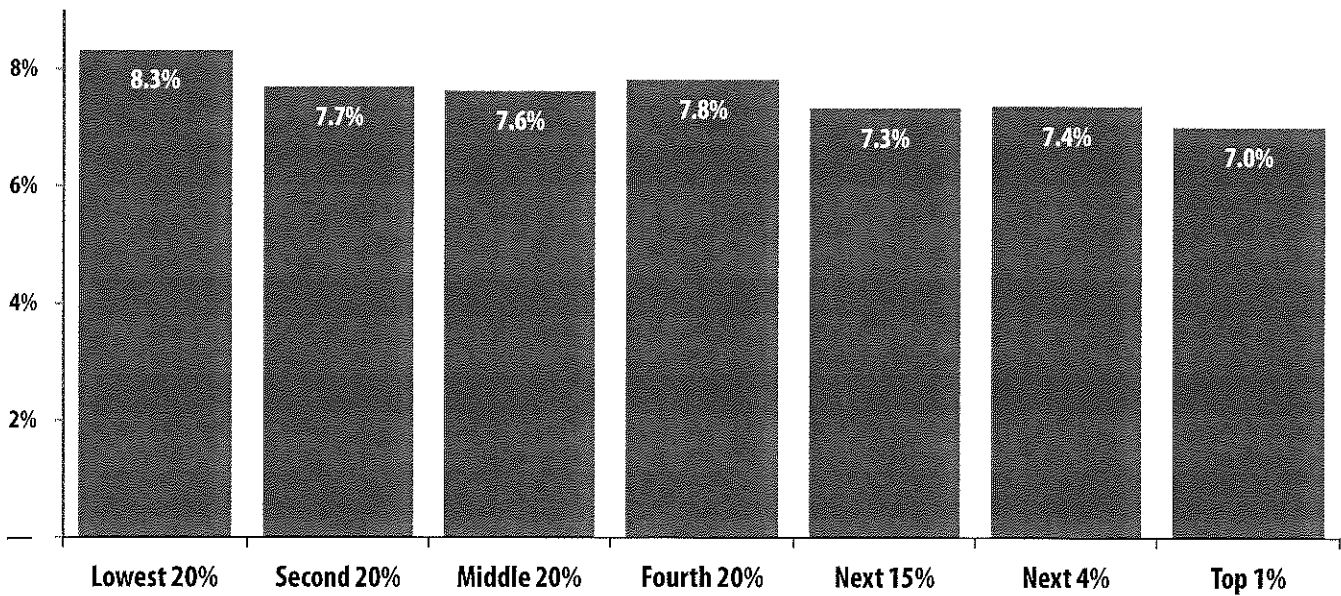
In sum, under the guise of improving tax fairness, SB 824 has the familiar look of handing out the biggest tax breaks to the highest earners.

In conclusion: If Oregon is to add a sales tax, then our goal from the outset must "recognize fairness and equity as its basic values" as required by Oregon Revised Statute 316.004. That means we must retain our position as one of the five fairest states for state and local taxes. Each of the other states in the "five fairest" category have income, property, and sales taxes. So it can be done.

Tax Fairness Oregon—a nearly all-volunteer group advocating for fair, stable, and adequate taxes

Oregon State & Local Taxes

Shares of family income for non-elderly taxpayers



Note: Figures show permanent law in Oregon enacted through January 2, 2013 at 2010 income levels. Top figure represents total state and local taxes as a share of income, post- federal offset.

Oregon State & Local Taxes

Details, Tax Code Features, & Recent Developments

Income Group	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Top 20%		
					Next 15%	Next 4%	TOP 1%
Income Range	Less than \$19,000	\$19,000 – \$31,000	\$31,000 – \$53,000	\$53,000 – \$84,000	\$84,000 – \$158,000	\$158,000 – \$330,000	\$330,000 or more
Average Income in Group	\$10,600	\$25,500	\$41,100	\$66,100	\$109,400	\$212,900	\$772,900
Sales & Excise Taxes	2.0%	1.4%	1.0%	0.8%	0.5%	0.3%	0.1%
General Sales—Individuals	—	—	—	—	—	—	—
Other Sales & Excise—Ind.	1.7%	1.2%	0.8%	0.6%	0.4%	0.2%	0.1%
Sales & Excise on Business	0.2%	0.2%	0.1%	0.1%	0.1%	0.0%	0.0%
Property Taxes	4.4%	3.1%	2.4%	3.2%	2.8%	2.6%	1.9%
Property Taxes on Families	4.3%	2.9%	2.2%	2.9%	2.6%	2.1%	1.0%
Other Property Taxes	0.1%	0.2%	0.2%	0.2%	0.3%	0.6%	0.9%
Income Taxes	1.9%	3.3%	4.6%	4.7%	5.4%	5.9%	7.1%
Personal Income Tax	1.9%	3.3%	4.6%	4.7%	5.4%	5.9%	7.0%
Corporate Income Tax	-0.0%	0.0%	0.0%	0.0%	0.0%	0.1%	0.1%
Total Taxes	8.3%	7.7%	8.0%	8.6%	8.8%	8.8%	9.1%
Federal Deduction Offset	0.0%	0.0%	-0.4%	-0.8%	-1.4%	-1.5%	-2.0%
OVERALL TOTAL	8.3%	7.7%	7.6%	7.8%	7.3%	7.4%	7.0%

Note: Table shows detailed breakout of data on previous page.

Progressive Features

- ✓ Income tax uses a graduated rate structure
- ✓ Income tax brackets, standard deduction, and “exemption” credit indexed to inflation
- ✓ Provides a refundable earned income tax credit (EITC)
- ✓ No statewide sales tax

Regressive Features

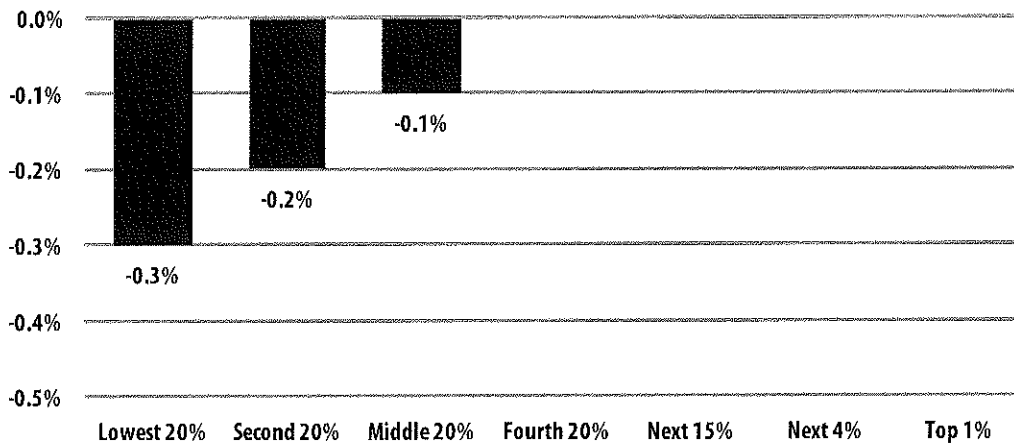
- ✗ Offers a limited income tax deduction for federal income taxes paid
- ✗ Fails to provide a property tax “circuit breaker” credit for non-elderly taxpayers

Recent Developments

- ▲ Temporary top rates of 10.8 and 11 percent were reduced to 9.9 percent in 2012

Oregon's Refundable 6% EITC Lessens Regressivity

Tax Cut as Share of Income





Tax Reform – Keep It Fair

Oregon is one of the five best states for fair tax policyⁱ--
We should stay there even as we reform our tax system.

By themselves, sales taxes are regressive, but as part of a carefully crafted whole, we can remain one of the top five states. That should be Oregon's goal.

Oregon's tax fairness goals are as stated in the Oregon Revised Statute 316.003 read:

The goals of the Legislative Assembly are to achieve for Oregon's citizens a tax system which recognizes:

- *Fairness and equity as its basic values; and*
- *That the total tax system should use seven guiding principles as measures by which to evaluate tax proposals.*

Those guiding principles are:

- *Ability to pay;*
- *Fairness;*
- *Efficiency;*
- *Even distribution;*
- *The tax system should be equitable where the minimum aspects of a fair system are:*
 - *That it shields genuine subsistence income from taxation;*
 - *That it is not regressive; and*
 - *It imposes approximately the same tax burden on all households earning the same income;*
- *Adequacy; and*
- *Flexibility.*

To meet those goals of Oregon's tax system, any tax must be considered in conjunction with the effects of all other taxes on Oregonians.

ⁱ "Who Pays? A Distributional Analysis of the Tax Systems in All 50 States" by the ITEP (The Institute on Taxation & Economic Policy), the 4th edition, January 2013, finds that Oregon is one of the five best states for fair tax policy.