

Oregon's Revenue System: Characteristics Options for Improvement



Legislative Revenue Office
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Oregon's Overall Revenue Structure

(2011-12 Fiscal Year Census Data)

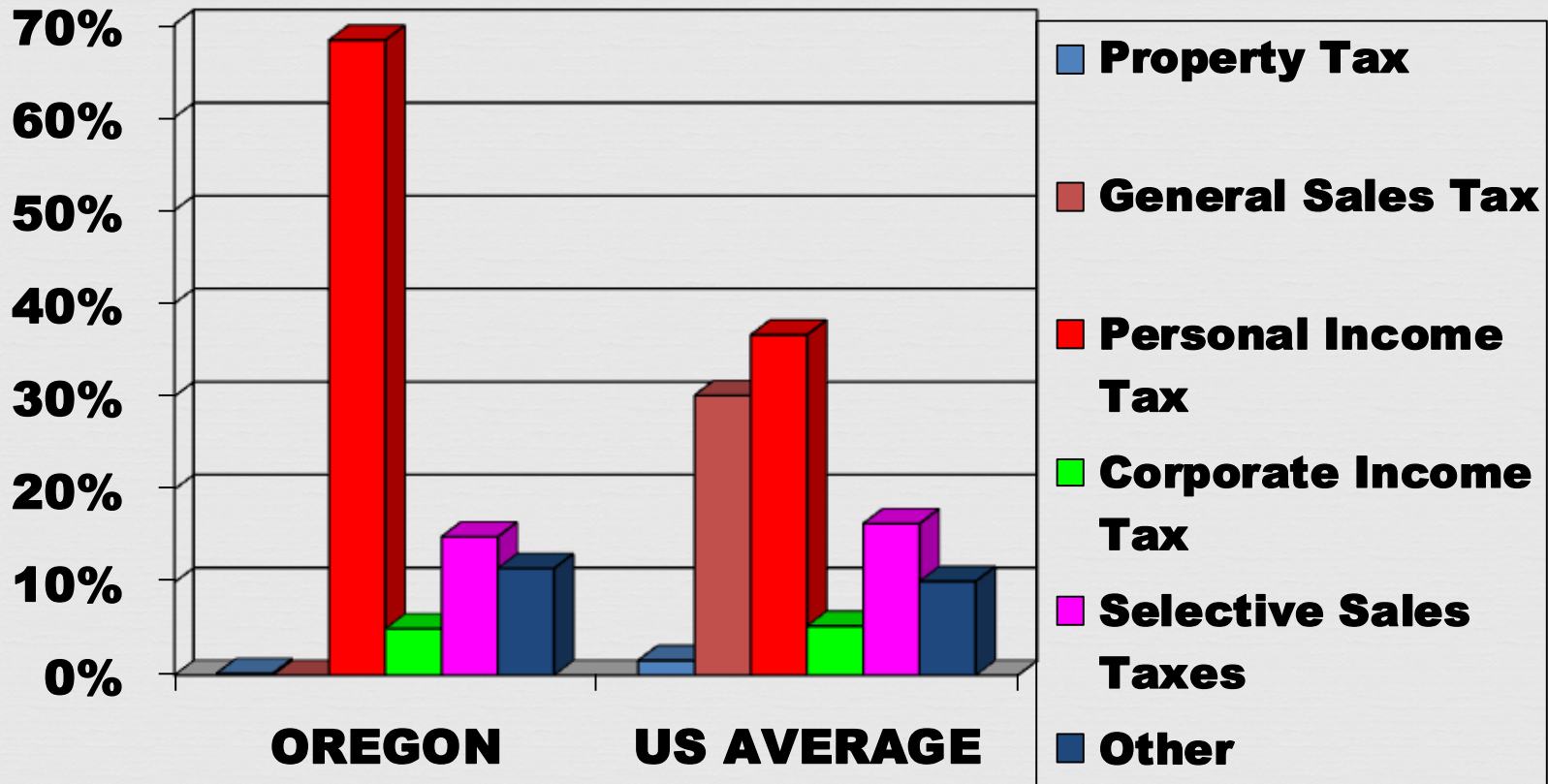
State & Local Revenue Source	Oregon		All States	
	Revenue Per Capita	Revenue as % of Total	Revenue Per Capita	Revenue as % of Total
Taxes	\$3,789	45.2%	\$4,568	53.4%
Federal	\$2,285	27.3%	\$1,923	22.5%
Charges	\$1,659	19.8%	\$1,404	16.4%
Misc.	\$644	7.7%	\$654	7.7%
Total General Revenue	\$8,377	100.0%	\$8,550	100.0%

Oregon's State and Local Tax Structure

2011-12 Census	Oregon		All States	
	Per Capita	% of Income	Per Capita	% of Income
Personal Inc Tax	\$1,494	4.0%	\$1,011	2.3%
General Sales Tax	\$0	0%	\$1,036	2.4%
Property Tax	\$1,291	3.5%	\$1,468	3.4%
Corporate Inc Tax	\$124	0.3%	\$161	0.4%
Selective Sales Tax	\$454	1.2%	\$532	1.2%
Other Taxes	\$300	0.8%	\$279	0.6%
Total Taxes	\$3,789	10.1%	\$4,568	10.5%

State Taxes by Source

(Percent of State Tax Collections in Fiscal Year 2012-13)



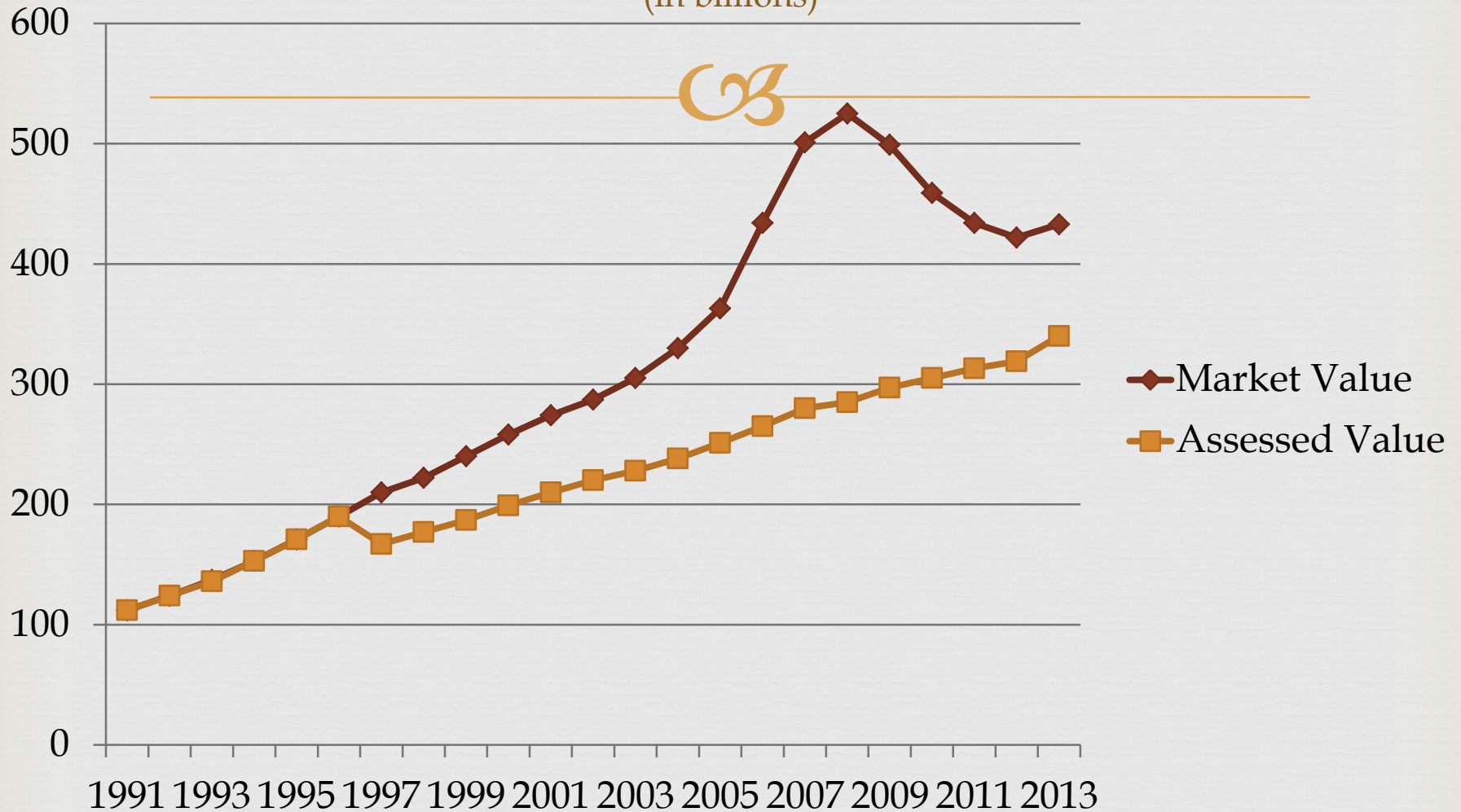
Western State Tax Structures

State Taxes

2012-13 Fiscal Year	Individual Taxes as a Percentage of Total				
	Oregon	Washington	California	Nevada	Idaho
State Tax					
Personal Income Tax	68.3%	0%	50.2%	0%	37.0%
General Sales Tax	0%	59.6%	25.5%	51.8%	36.1%
Selective Sales Tax	14.9%	18.9%	10.6%	26.1%	12.5%
Corporate Income Tax	5.0%	0%	5.6%	0%	5.6%
Property Tax	0.2%	10.4%	1.5%	3.3%	0%
Other Taxes	11.5%	11.1%	6.6%	18.8%	8.7%

Property Values in Oregon

(in billions)



Moving Toward Tax Reform

- ❧ Criteria for Good Tax System
- ❧ Evaluation of Current System
- ❧ Approaches to Tax Reform
- ❧ Advantages and Challenges of Diversification through Broad Consumption Tax



Criteria for a “Good” Tax System

- ❧ Adequacy – both long-term & cyclical
 - ❧ Taxes are the cost of funding public goods – they should be viewed in the context of the public goods and services they fund.
- ❧ Equity
 - ❧ In the eyes of the beholder: Society must decide. Progressive/Regressive have precise meanings/ Equity does not
- ❧ Economic Impact
 - ❧ Economists emphasize non-distorting neutral taxes, policymakers focus on gaining a competitive edge
- ❧ Efficient Administration
 - ❧ Consistent and efficient compliance and enforcement

Evaluation of Oregon's Tax System

Strengths

- ❧ Personal income tax responsive to economic growth
- ❧ Personal income tax best at addressing equity concerns
- ❧ Income tax system is closely tied to federal structure reducing administrative costs

Weaknesses

- ❧ High marginal income tax rates distort economic decisions
- ❧ Reliance on income taxes makes revenue stream unstable
- ❧ Lack of diversity adds to distortions and instability
- ❧ Property tax system is rigid and unresponsive to growth
- ❧ Property tax system subject to horizontal inequities

Approaches to Revenue Reform

- ❧ Incrementally Shift Base from Income to Consumption
- ❧ Broaden Income Tax Base and Lower Rates
- ❧ Develop Strong Reserve Fund Policy to Cope with Instability
- ❧ Establish Major Consumption Tax/ Reduce Reliance on Personal Income Tax



Advantages/Challenges of Diversification through Broad Consumption Tax

Advantages

- ❧ Positive long term economic impact
- ❧ Less volatile tax system
- ❧ Expansion of tax base to include non-contributing sectors of state economy

Challenges

- ❧ Reduced progressivity of overall state tax system
- ❧ Lower long term revenue growth
- ❧ Disruptions caused by major tax system change

Growth & Stability of State Tax Revenue Sources

(Quarterly National Data: 2001-2014:2)



Revenue Source	Average Growth	Standard Deviation	Maximum Increase	Maximum Decline
Personal Income Tax	3.7%	9.5%	19.7%	-27.4%
Corporate Income Tax	3.6%	16.8%	64.1%	-34.0%
Sales Tax	3.0%	4.4%	10.7%	-10.1%
Total	3.7%	6.0%	15.9%	-16.2%

General Fund Revenue Stability Comparison: Washington vs. Oregon

(Percentage Change in General Fund Revenue from Prior Biennium)

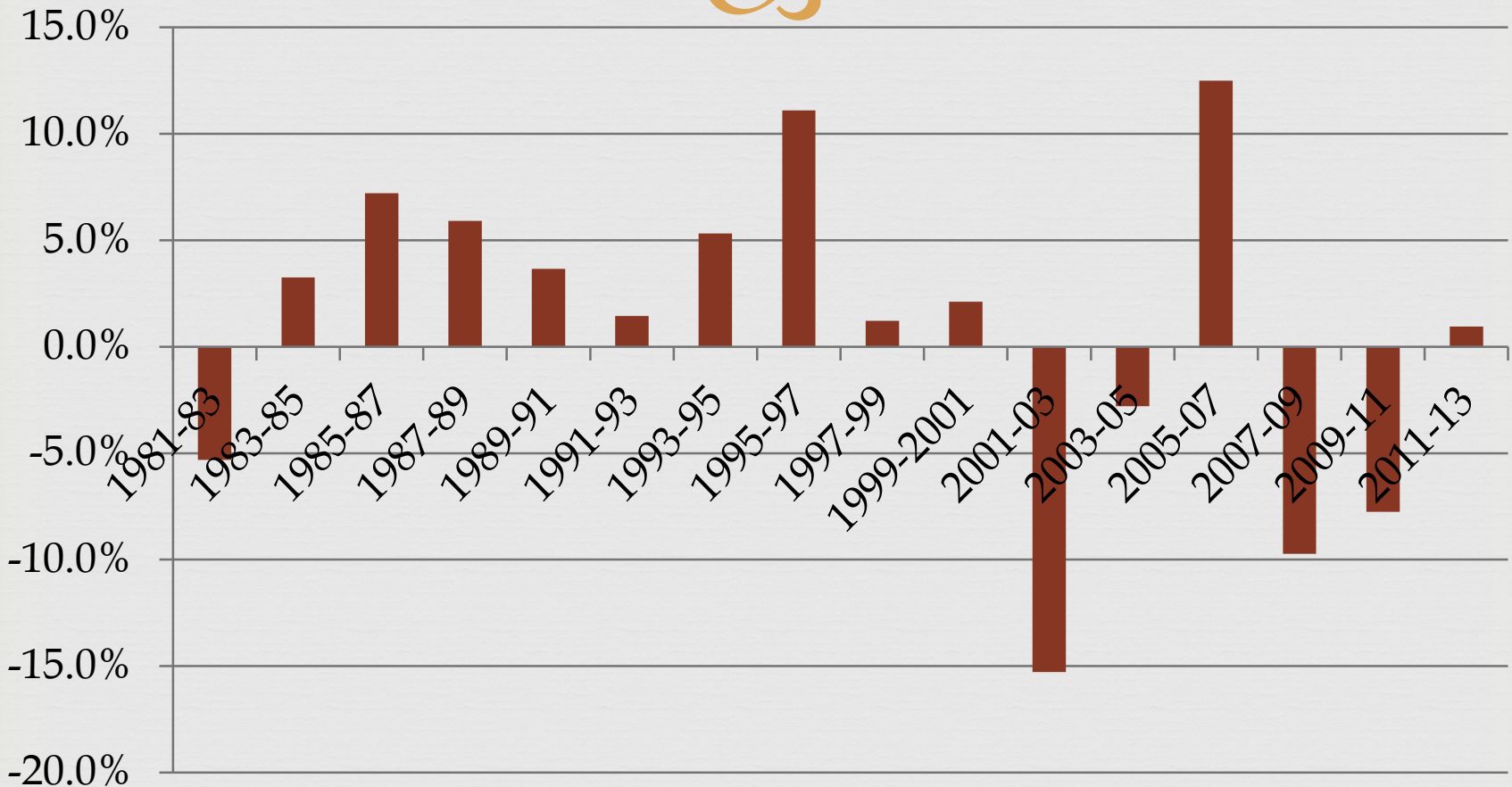


Oregon's General Fund Revenue: History & Forecast

(Percentage Change in General Fund Revenue from Prior Biennium)

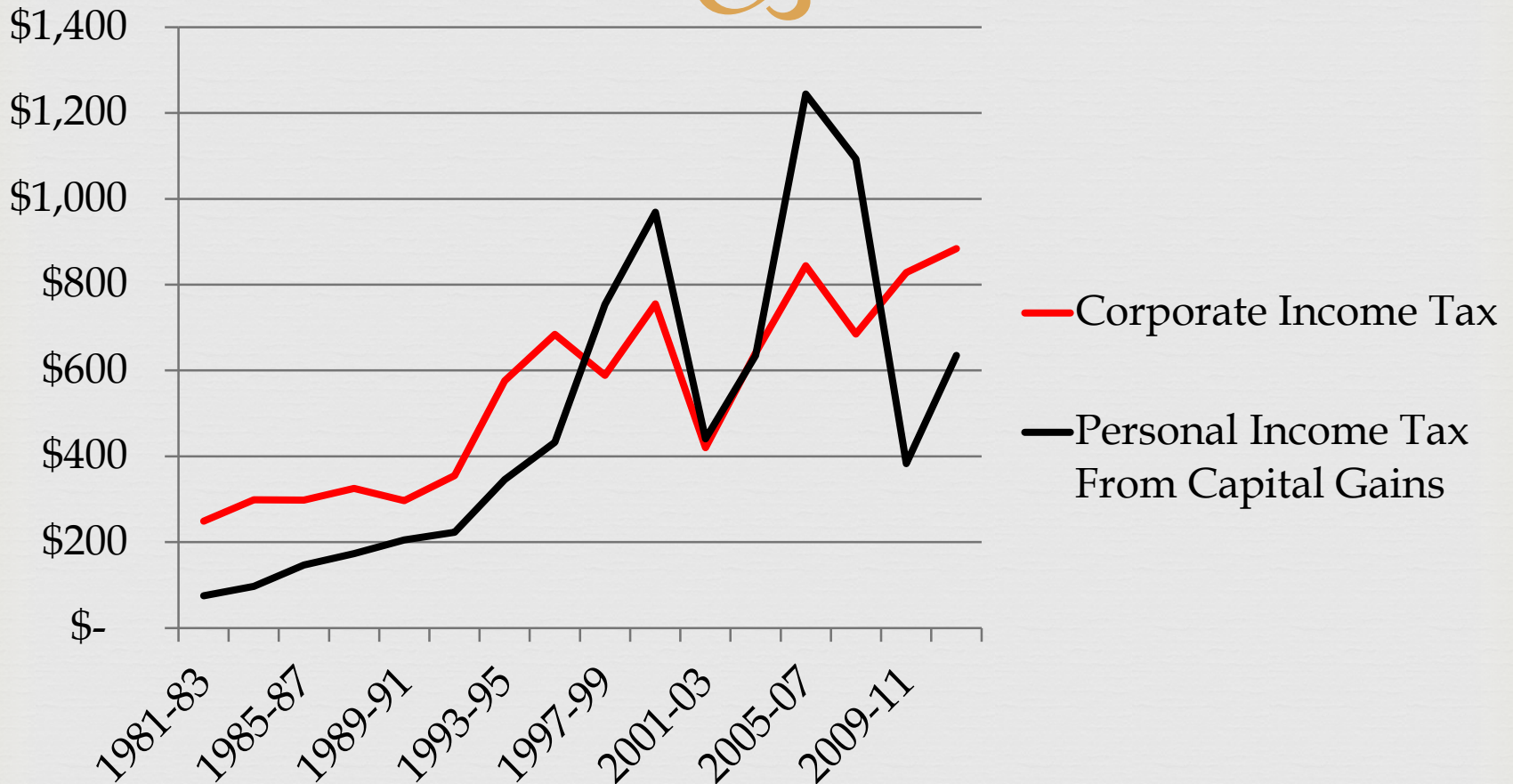


General Fund Forecast vs. Actual: Percent Deviation



Volatile Revenue Sources

(Biennial Revenue in Millions)



Forecast Deviation by Component

(Based on Biennia from 1981-83 through 2011-13)



Biennial Revenue	Forecast Compared to Actual: % Standard Deviation
General Fund	7.2%
Non Corp General Fund	6.1%
Corporate General Fund	29.9%
Personal Inc. Tax from Capital Gains	41.2%
General Fund Minus Capital Gains	5.7%
Non-Corp GF Minus Capital Gains	4.5%

Is General Fund Prepared for Next Recession?

(Current Projections Compared to Historical Risk)



Reserves	2015-17 Projection	2017-19 Projection
	(in millions)	
Rainy Day Fund	\$395	\$650
Education Stability Fund	\$352	\$544
Total Reserves	\$747	\$1,194
GF Risk at 1 std. (p=15.8%)	\$1,283	\$1,389
Reserve Shortfall	-\$536	-\$195
GF Risk at 2 std. (p = 2.3%)	\$2,566	\$2,777
Reserve Shortfall	-\$1,819	-\$1,583