

Revenue Reform Options for Oregon

Legislative Revenue Office

March 2015

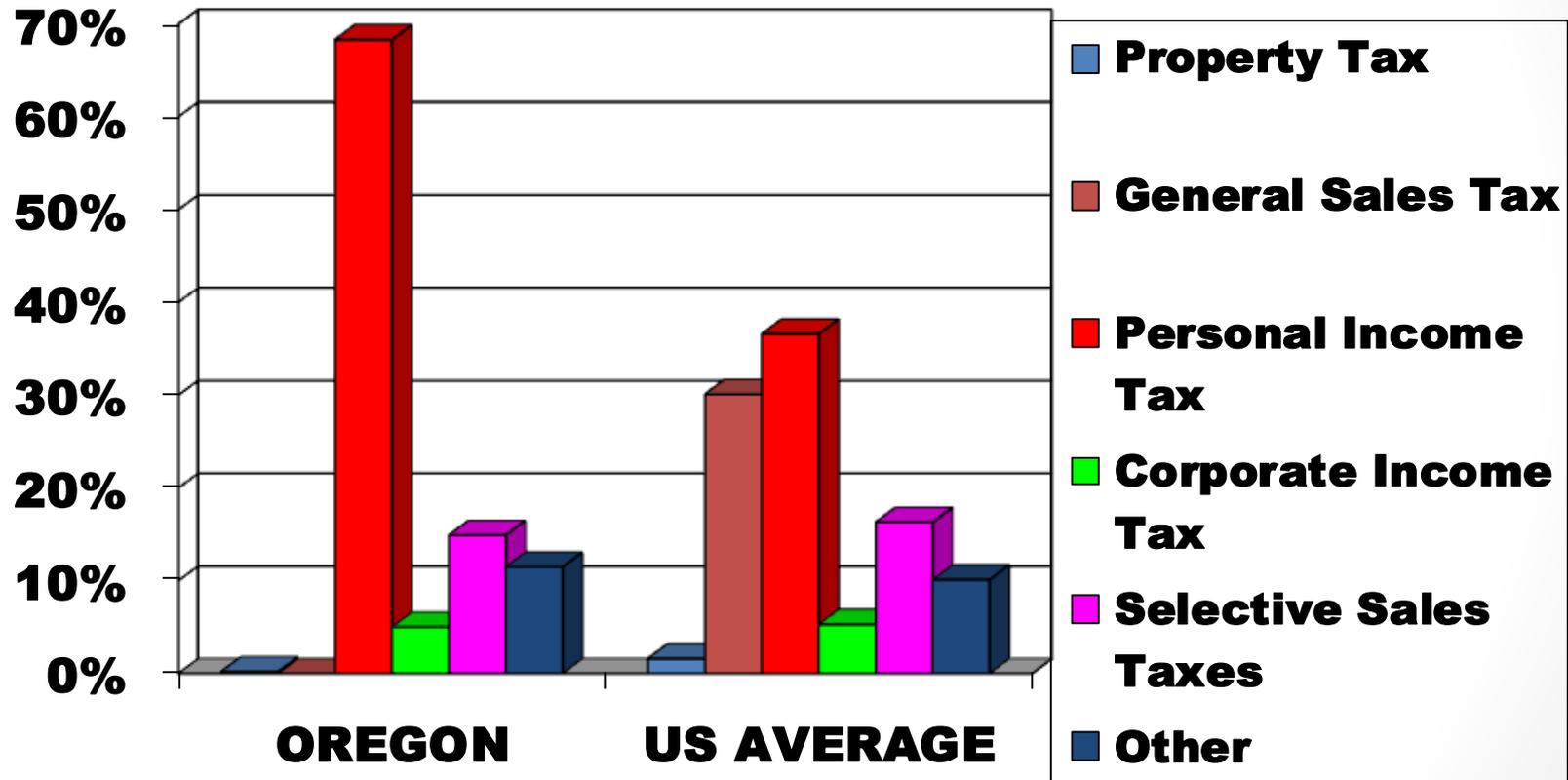
Revenue Reform in Oregon

- Description of current state and local revenue system.
- Strengths and weaknesses of current system
- Revenue reform pieces



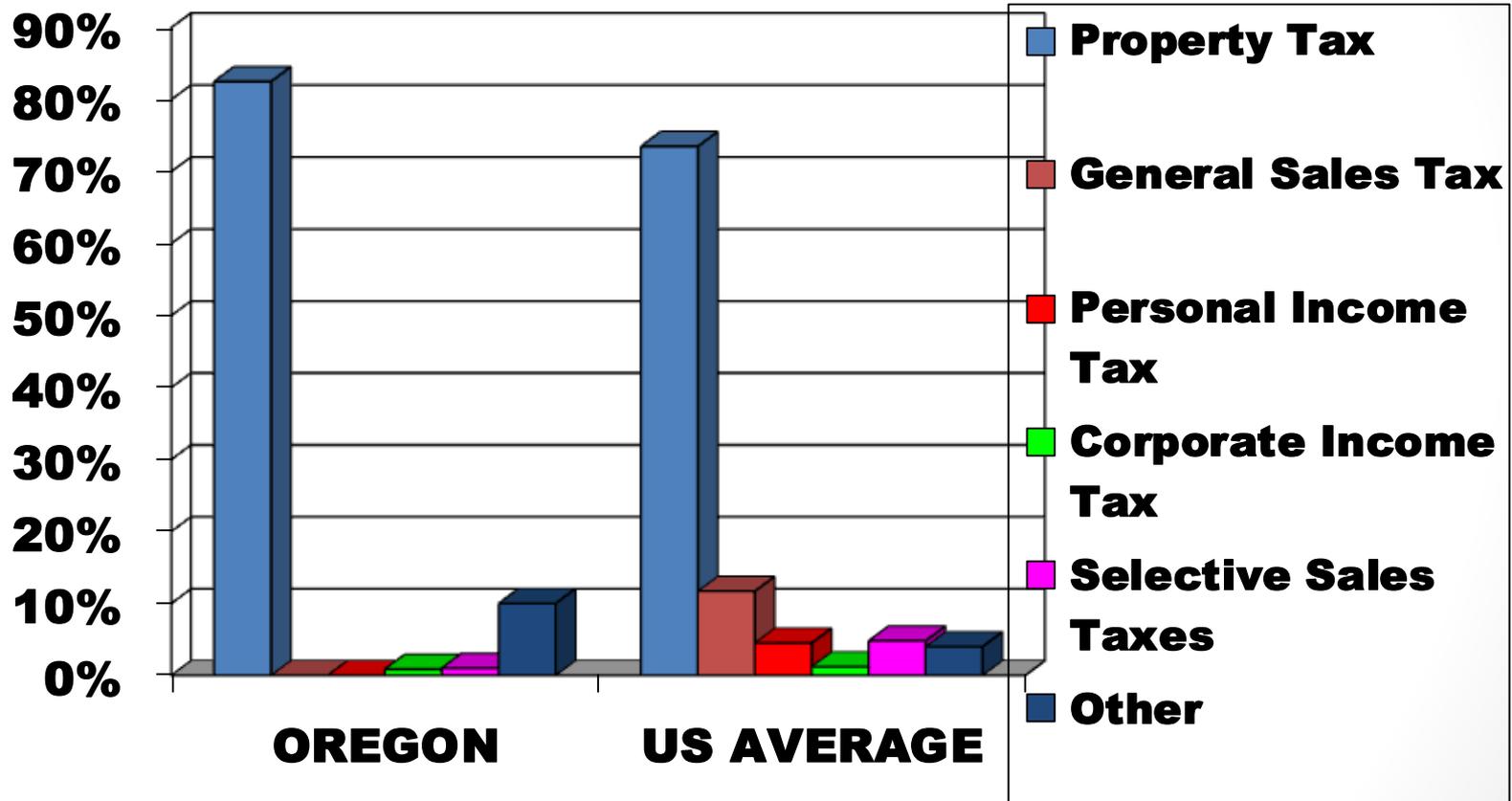
State Taxes by Source

(Percent of State Tax Collections in Fiscal Year 2013-14)



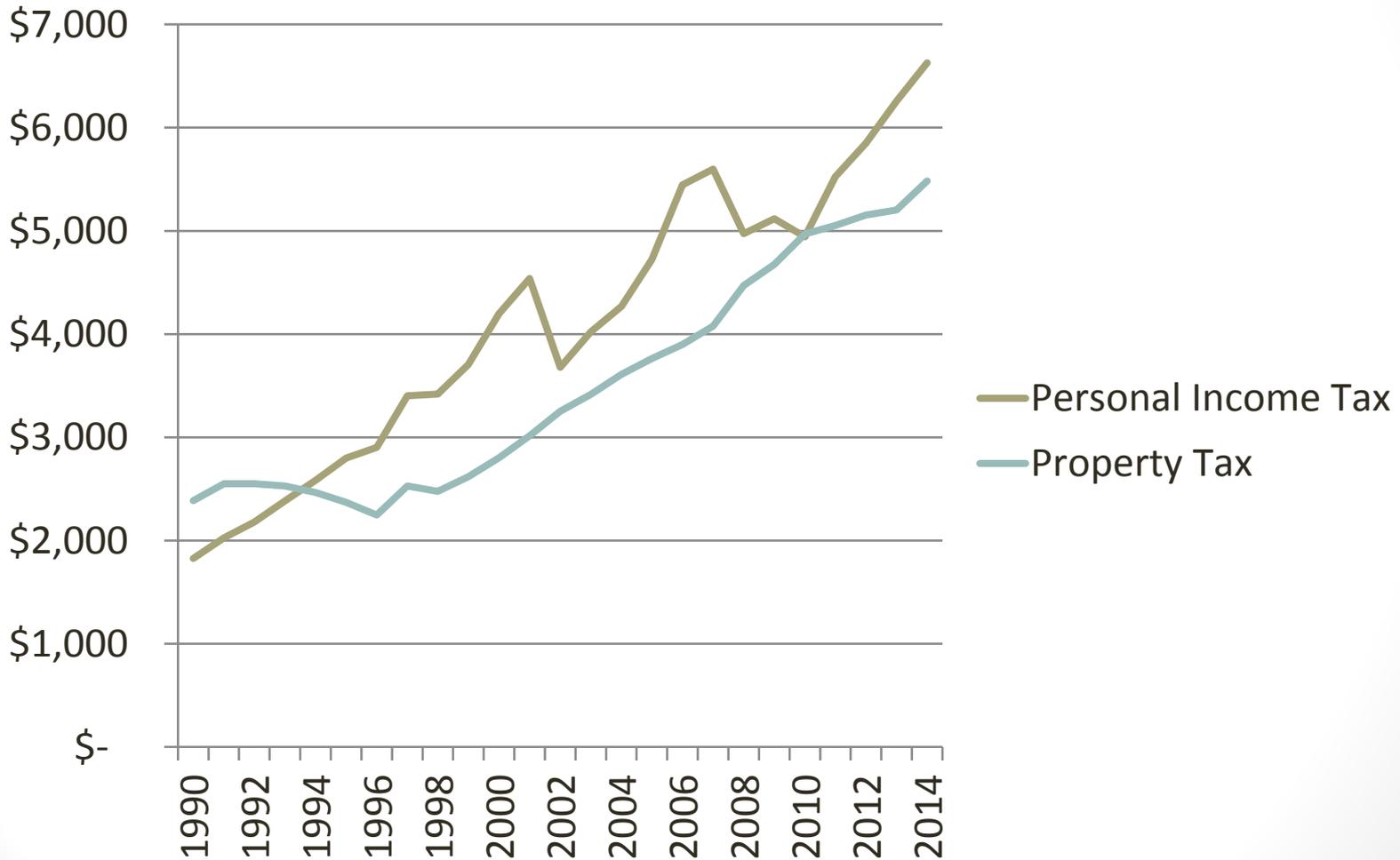
Local Taxes by Source

(Percent of Local Government Tax Collections in Fiscal Year 2011-12)



Oregon's Major Taxes

(in millions)



Evaluation of State Tax System

- Strengths
 - Equity
 - Long-Term Growth
 - Low Admin Costs
- Weaknesses
 - Instability
 - Economic Distortions
 - Lack of Diversity



Evaluation of Local Tax System

- Strengths
 - Stability
 - Voter Acceptance
- Weaknesses
 - Rigidity
 - Not Responsive to Economic Growth
 - Horizontal Inequities
 - Lack of Diversity



Revenue Reform: Major Pieces

- Strengthen reserve fund policy
- Examine connection point to federal income tax code
- Consider consumption tax options
- Property tax reform

Options to Strengthen Reserve Fund Policy

- 2% Kicker Reform
- Dedicate Portion of Volatile Revenue Sources
- Mandatory Set Aside as Part of Budget
- Limit Percentage of Revenue Forecast that can be Appropriated



Rebasing Federal Connection Point

- Connect to federal AGI before deductions
- Federal exclusions remain (\$6.6 billion in 2015-17)
- Federal deductions are not passed through to state return (\$2.56 billion in 2015-17)
- Revenue gain allows for the following options:
 - Lower marginal income tax rates
 - Larger standard deduction
 - State specific deductions/credits

Consumption Tax Options

- Traditional U.S. Retail Sales Tax
- Expanded Retail Sales Tax Base that Includes Services
- Gross Receipts Tax
- Value Added Tax



Consumption Tax Revenue

Base	Rate	2017-19 Revenue (in millions)
Retail Sales Tax (WA Base)	1%	\$1,434
Expanded Retail Sales Tax	1%	\$1,896
Gross Receipts (CAT)	0.25%	\$1,343
Value Added (Income Approach)	1%	\$1,367

Impact of Consumption Tax/Income Tax Plans

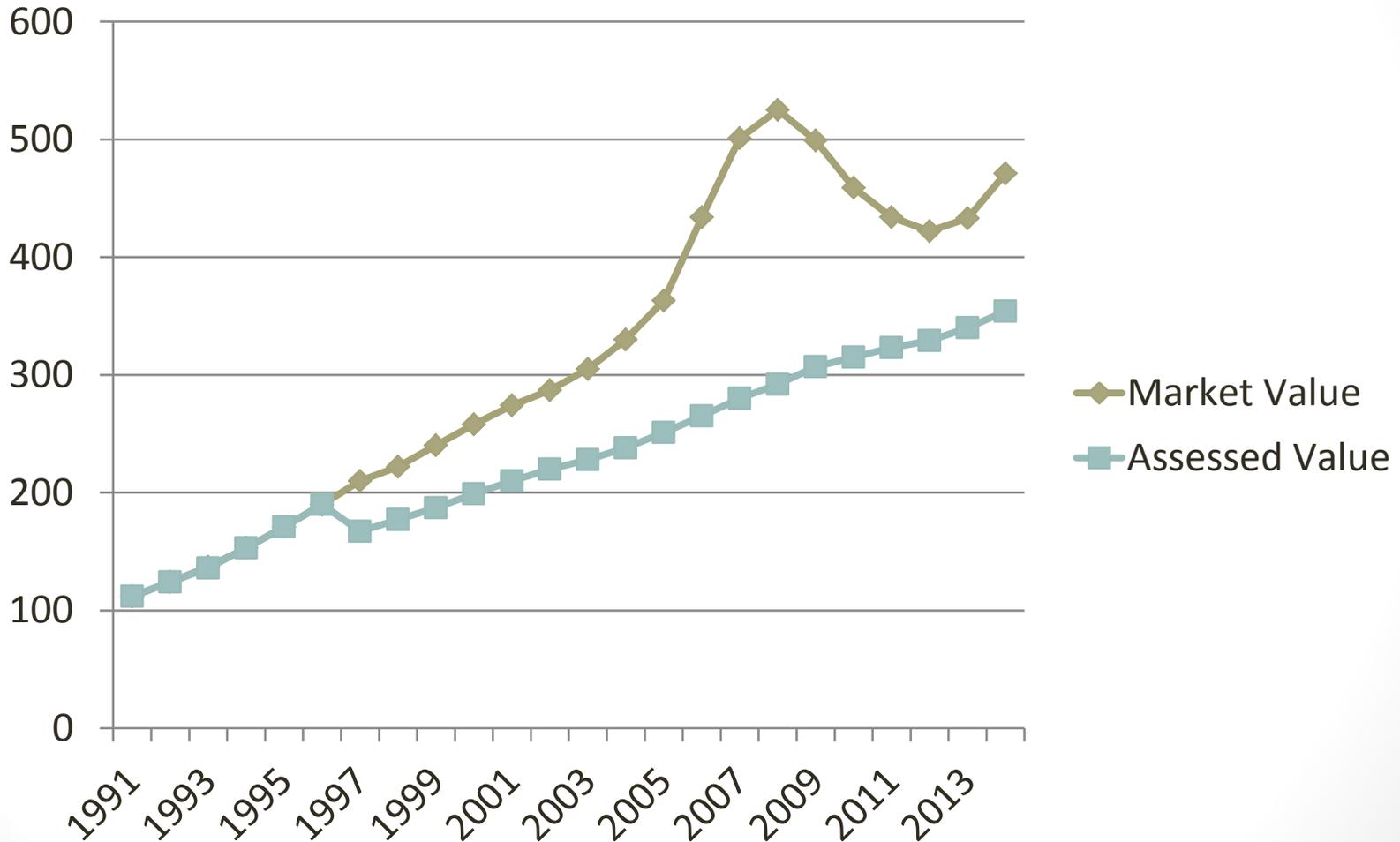
- Impacts from Economic Model (OTIM)
 - Positive revenue feedback effects even with static revenue gain
 - Long run job gains (25,000 to 75,000 under various plans)
 - Wages decline but after tax wage up
 - Investment up
 - Price level higher
 - Shift tax burden toward lower income households unless offset with specific policies
 - Upper income groups gain from lower marginal income tax rates
 - Distribution of state-local tax burden becomes more like rest of country

SJR 27: Property Tax Overhaul

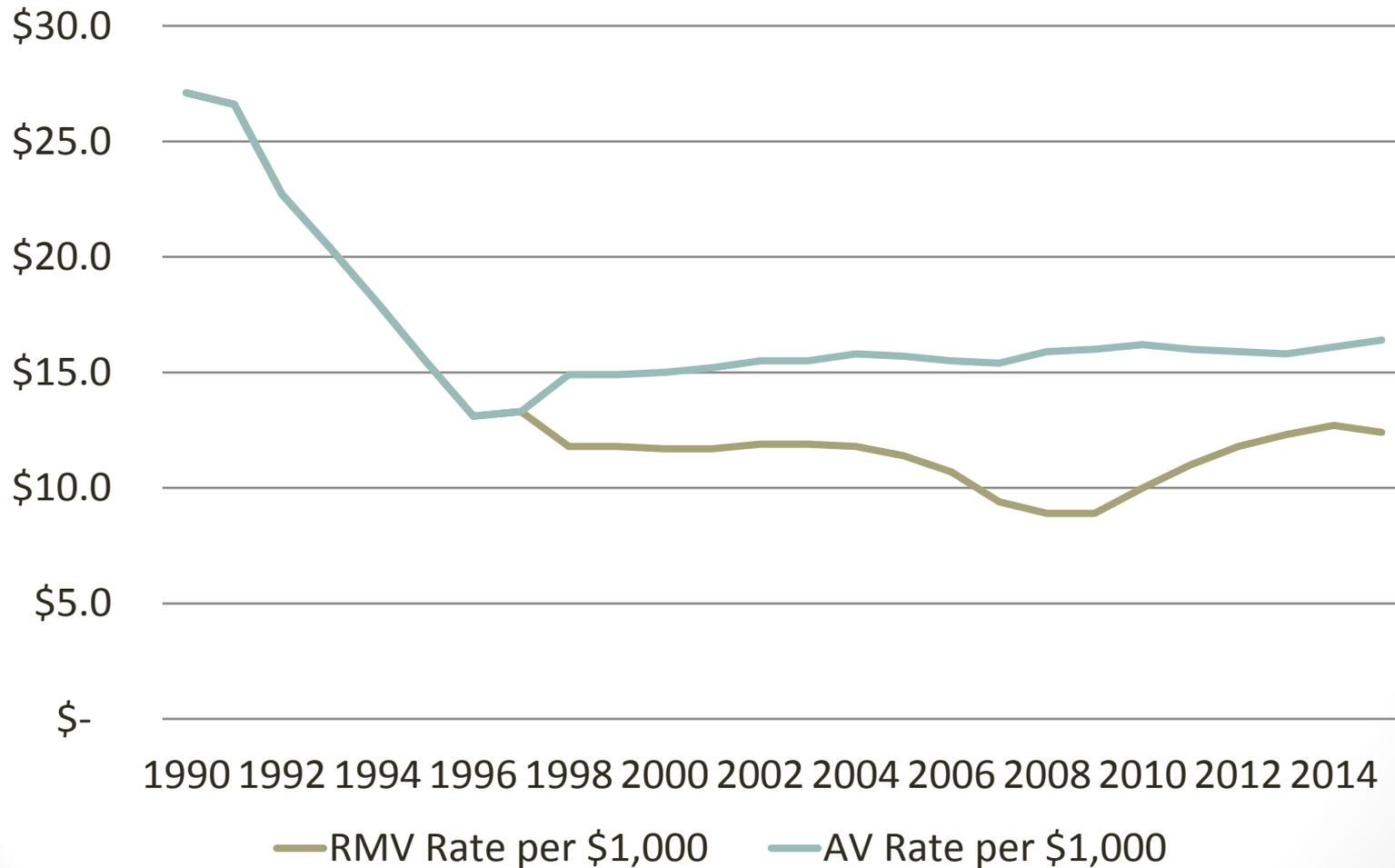
- Remove Measure 50 Limits
- Retain Measure 5 Limits
 - \$10 RMV for Governments
 - \$5 RMV for Education
 - Bonding capital above limit with voter approval
- Establish Homestead Exemption for Owner Occupied Residential Property

Property Values in Oregon

(in billions)



Property Tax Rates Under Measures 5 & 50



Homestead Exemption Impact

Homestead Exemption Level Based on Assessed Value	Annual Revenue Loss to General Government	Annual Revenue Loss to Education	Annual Revenue Loss Total
(Thousands)	(Millions)		
\$50	\$349	\$286	\$635
\$100	\$677	\$554	\$1,231
\$200	\$1,102	\$902	\$2,004
\$300	\$1,246	\$1,020	\$2,266
\$500	\$1,319	\$1,079	\$2,399