REVENUE IMPACT OF PROPOSED LEGISLATION

78th Oregon Legislative Assembly
2016 Regular Session
Legislative Revenue Office

Bill Number: HB 4054 - A
Revenue Area: Personal Income Tax
Economist: Paul Warner
Date: 2-10-16

Only Impacts on Original or Engrossed Versions are Considered Official

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Measure Description:

Phases in increase in state minimum wage over a 7-year period starting 7-1-16. Establishes three separate wage schedules for the state. The Portland metropolitan area is set at $14.75 when fully phased in for the 2022-23 fiscal year. The rate for non-urban areas phases up to $12.50 while the remainder of the state reaches $13.50 in the 22-23 fiscal year. Starting July 1, 2023 the minimum wage in all three regions is indexed to changes in the consumer price index.

Revenue Impact (in $Millions):

	Estimated Personal Income Tax Collections
2016-17 Fiscal Year	$2.8 million
2015-17 Biennium	$2.8 million
2017-18 Fiscal Year	$9.4 million
2018-19 Fiscal Year	$12.2 million
2017-19 Biennium	$21.6 million
2019-20 Fiscal Year	$13.0 million
2020-21 Fiscal Year	$11.3 million
2019-21 Biennium	$24.3 million
2021-22 Fiscal Year	$9.3 million
2022-23 Fiscal Year	$4.2 million
2021-23 Biennium	$13.5 million

Impact Explanation:

The measure does not directly affect state tax revenue. The estimates are based on the assumed secondary effects on overall wage and salary income in the state. Specifically the estimate is determined by the percentage change in overall wages and salaries triggered by the minimum wage increases and the estimated percentage change in the quantity of labor demanded. This partial equilibrium analysis assumes an elasticity of demand for labor equal to -0.5 (meaning a 1% increase in the average wage rate leads to a .5% decrease in the quantity of labor) in the first year of implementation. The elasticity is assumed to rise over time as employers gradually shift to labor saving technology. As the elasticity rises, the net impact on revenue gradually declines. If the elasticity rises above -1(in absolute terms), overall personal income tax collections will decline.

Empirical evidence suggests that the demand for labor is less flexible in the short term meaning that overall income tax collections are likely to rise. However, over the longer term the net impact on overall wages and therefore income tax revenue becomes more uncertain as employers shift toward labor saving technologies and production processes.

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