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Fact Sheet
February 14, 2017

13 Ways Oregon Can Raise Revenue to Support Schools and Other Vital Public Services

Oregon needs more revenue. Schools and other vital public services open the doors of opportunity for Oregonians, and yet they suffer structural underfunding. Public schools, for example, have not recovered from the devastating impact of property tax changes in the 1990s. And today, new threats to adequately funding public services have emerged. One of those is a $1.8 billion shortfall in the upcoming budget period, which could further erode public services. Another is a statewide housing crisis that requires public investment to address increased homelessness and strained budgets of many families.

The level of new revenue needed does not end at $1.8 billion. The long-term underfunding of Oregon's services require larger, more meaningful increases in revenue.

Oregon lawmakers have common sense options to raise the revenue needed to avoid cuts to key services in the upcoming budget period, as well as to significantly upgrade the public services that produce a strong economy. Over the years, the Oregon tax code has become riddled with tax giveaways for corporations and the wealthy. By eliminating some of those provisions and — at a time of historic levels of income inequality — asking the wealthiest to contribute more to the common good, Oregon can preserve and improve the services that benefit everyone.

Here are 13 options the Oregon legislature can pursue for raising revenue. Each option includes a rough estimate of how much money it would raise during the 2017-19 budget period.

1. Enact corporate gross receipts tax of 2 percent — $4 billion[1]

Corporations today pay far less in Oregon taxes than they used to — largely the result of powerful special interests having manipulated the system to their advantage. For example, in the 1973-75 budget period, corporations paid 18.5 percent of all Oregon income taxes. Today, they pay just 6.7 percent, a decline of nearly two-thirds.[2]

The coalition A Better Oregon (ABO) has put forward a proposal for a corporate gross receipts tax that addresses criticisms of November 2016's Ballot Measure 97. The ABO proposal would tax only corporate in-state sales above $100 million (the Measure 97 level was $25 million). This means the tax would apply only to the very largest companies. Further, the tax would apply to all business types, not just to C corporations, to foster a level playing field among Oregon's largest businesses. A gross receipts tax, as compared to a tax on profits, has the benefit of it being harder for corporations to avoid.

2. Expand and create new taxes within the health industry — $530+ million

A big part of the current budget gap is due to a decline in federal funding for the newly-eligible Medicaid population (from 100 percent federal share to 94 percent) and increased costs due to medical inflation. The shortfall in the state's health care budget is $882 million.

Because the Affordable Care Act, including its expansion of Medicaid, has benefitted much of the health care industry, the health care industry should chip in more to support Oregon's Medicaid program, allowing Oregonians to continue to receive the health care they need. Governor Brown has proposed increasing the state's tax on hospitals and reinstating a tax on managed care organizations (MCOs) and insurers, proposals which together would raise an estimated $530 million. In addition, lawmakers should turn to others in the health care industry to fill the remainder of the health care budget gap. For instance, taxing revenues of other types of health care providers and insurers would raise substantial revenues. Examples of such additional taxes are outlined in the OCPP paper *Oregon Should Turn to the Health Care Industry to Fill Medicaid Budget Gap*.[3]

3. Reform itemized deductions $436 million[4]

By itemizing tax deductions, a taxpayer can shrink his or her tax bill by more than they would if they were to take only the standard deduction. Most taxpayers do not itemize. Oregonians who comprise the top fifth of the income scale claim 47 percent of itemized deductions.[5] Itemized deductions can be reformed by eliminating them all together, capping the total that can be claimed, turning them into a credit so the value of an itemized amount is not greater for those at higher income levels, or phasing them out for higher income taxpayers. The legislature can hold low- and moderate-income households harmless by simultaneously increasing the standard deduction. The option that would generate the most revenue in Oregon would be to repeal all itemized deductions and increase the standard deduction. This reform would raise roughly $436 million while reducing the taxes of middle and lower income Oregonians.

4. Reinstate the top personal income tax rates under Measure 66 $323 million[6]

In January 2010, Oregon voters approved Measure 66, which raised taxes on very high income Oregonians. While the measure bumped up Oregon's top marginal tax rates, for the first two years those top rates stood at levels higher than where they ultimately settled. During the initial two years of the measure, joint tax filers with taxable income from $250,000 to $500,000 paid a tax rate of 10.8 percent on their income within that range, and a tax rate of 11 percent on taxable income above $500,000.[7] Those top rates, however, were temporary. After two years, the top rates came down to the current top rate of 9.9 percent on income in excess of $250,000 for joint filers (half that for single filers). During the time when the higher temporary rates were in place, Oregon's economy grew rapidly, outpacing nearly all other states.[8] Looking to the highest income earners to help cover the budget gap makes sense, given that income inequality in Oregon stands near historic highs.[9]

5. Repeal wealthy business owner pass-through income tax break $183 million[10]

In 2013, as part of the so-called "Grand Bargain," the legislature created a new tax break mainly benefiting very wealthy business owners. This tax break gives taxpayers the option of a lower tax rate on pass-through income from partnerships, S corporations, and limited liability companies. More than half of the tax benefits go to the wealthiest 1 percent of taxpayers, according to projections from 2013.[11] The law does not require business owners to create any jobs to get the benefit, and there is no evidence that it has created jobs. In her budget, Governor Brown called for repeal of this tax break, which would save $177 million in the biennium, and another tax break for exporters worth $6 million, also created by the Grand Bargain.[12]

6. Increase corporate tax rates 1 percentage point — $149 million[13]

Corporate income tax contributions have declined dramatically over several decades, as corporations have succeeded in gaming the tax system.[14] In opposing Measure 97 on the November 2016 ballot, the corporate lobby argued that businesses should be should be taxed on their profits, not on their sales. Accordingly, lawmakers should raise Oregon's corporate profits tax rates, which are currently set at 6.6 percent and 7.6 percent, depending on taxable income (profits).[15]

7. Reform the Oregon mortgage interest deduction — $100+ million

In the midst of a statewide affordable housing crisis, Oregon's biggest housing program — the Oregon mortgage interest deduction — will spend over $1 billion in the upcoming budget period subsidizing homeownership, with a majority of the subsidy going to the most well-off Oregonians.[16] The deduction goes so far as to subsidize vacation homes, even as a record number of children in our state experience homelessness.[17] Given it mostly benefits those who don't need help affording a home, it's not surprising that the deduction fails to promote homeownership.[18] Oregon should enact a common-sense reform of the mortgage interest deduction, reducing or eliminating the benefits for those on the upper end of the income scale, while preserving them for middle class and low-income families. The savings should be devoted to solving Oregon's housing crisis.

8. Eliminate unproductive tax credits not scheduled to expire — $82 million

Tax credits not scheduled to expire that do not clearly and effectively promote a social goal should end. These include political contributions (biannual savings of $12 million), the film production development contribution ($28 million), renewable resource equipment manufacturing facilities ($1 million), and business energy facilities, conservation and renewables ($41 million).[19]

9. Increase taxes on alcohol — $56 million

Governor Brown has proposed increasing the surcharge on distilled spirits from $0.50 per bottle to $1.00, and increasing alcohol licensing fees by 100 percent. The increases would generate an additional $39 million.[20] Taxes on products with undesirable social outcomes discourages use and generate resources to offset the cost of addressing negative impacts.

In addition to the Governor's proposal, Oregon should increase taxes on beer from $0.008 (eight-tenths of one cent) per bottle to $0.011 (a little over one cent), which would generate an estimated additional $6 million per biennium.[21] Oregon has one of the lowest beer taxes in the country, above only Kentucky. The proposed beer tax of $0.116 per gallon would move Oregon one notch up to 49th lowest among states and the District of Columbia. Furthermore, Oregon could increase taxes on wine from $0.126 per bottle to $0.172, which would raise $11 million in the next biennium, while still remaining the 47th lowest among states and the District of Columbia.[22]

10. Increase taxes on tobacco — $35 million[23]

Governor Brown has proposed increasing the tax on tobacco products. Specifically, she has called for raising the cigarette tax from $1.33 to $2.18 per pack; the tax cap on cigars from $0.50

per cigar to $1.00; the rate on snuff from $1.78 per ounce to $2.67; and the tax rate of all other tobacco products from 65 percent of the wholesale price to 75 percent.[24] Such taxes discourage use of products that have negative outcomes and would raise millions to help offset the costs of addressing those impacts, in addition to $35 million for the General Fund. The Governor's proposed tax on cigarettes would move Oregon's tax from 33th highest to 17th highest among states and the District of Columbia.[25]

11. Allow expiring tax credits to expire — $28 million[26]

Certain business and personal tax credits are scheduled to expire (sunset) during the upcoming biennium. In her budget, the Governor calls for allowing some of these tax credits to expire. These include two business research credits and four renewable energy tax credits.[27] There is no evidence these credits encouraged behavior that would not have happened without the credit. The legislature should follow the Governor's recommendation.

12. Restore the top corporate tax bracket to $250,000 in profits — $22 million[28]

Setting Oregon's top corporate income tax bracket to start at $250,000 in profits would not be novel, but rather would restore the top bracket to a previous level. In 2010, Measure 67 added a corporate minimum income tax bracket for profits above $250,000. Under that measure, beginning in 2013, the threshold rose to $10 million, meaning the top rate applied only to profits above $10 million. During the 2013 Special Session, the Legislature changed the tax bracket to apply to profits above $1 million, where it is set currently. Oregon's economy performed exceptionally well during the 2010-2012 period when the top corporate income tax bracket started at $250,000.[29]

13. Expand list of offshore tax havens — revenue impact unknown

In 2013, the Oregon legislature enacted a law designed to make it harder for corporations to avoid income taxes through the use of offshore tax havens. It requires corporations to include in their Oregon tax returns the income and apportionment factors of subsidiaries incorporated in countries designated by the legislature to be tax havens. The current list, however, fails to include some of the biggest tax havens: Netherlands, Ireland, Switzerland, and Hong Kong, for example.[30] The legislature should expand the list of required reportable tax havens to include these and other notorious tax havens.

Endnotes

[1] *The Services Oregon Families Need and a Proposal to Fund Them*, A Better Oregon, available at http://www.abetteroregon.org/wp-content/uploads/2016/12/A-Better-Oregon-Report.pdf.

[2] *The Gaming and Decline of Oregon Corporate Taxes*, Oregon Center for Public Policy, June 29, 2016, available at http://www.ocpp.org/2016/06/29/executive-summary-corporate-tax-decline/.

[3] Discussion of these taxes in *Oregon Should Turn to Health Industry to Fill Medicaid Budget Gap*, Oregon Center for Public Policy, January 18, 2017.

[4] *2016 Oregon Public Finance: Basic Facts*, Research Report #1-16, Legislative Revenue Office, February 1, 2016, op. cit., p, B6.

[5] 2014 income tax data from the Oregon Department of Revenue accessed at https://www.oregon.gov/DOR/programs/gov-research/Pages/research-personal.aspx.

[6] *2016 Oregon Public Finance: Basic Facts*, Research Report #1-16, Legislative Revenue Office, February 1, 2016, op. cit., p. B6.

[7] *Research Report Measures 66 and 67*, Legislative Revenue Office, November 2009, available at https://www.oregonlegislature.gov/lro/Documents/11-19-09%20RR%206-09%20Measures%2066-67.pdf.

[8] *No Correlation: Economic Growth and Tax Rates on the Rich*, Oregon Center for Public Policy, March 23, 2016, available at http://www.ocpp.org/2013/03/26/fs2013032-no-correlation-economic-growth-taxes/).

[9] *Outsized Gains at the Top Worsen Oregon Income Inequality*, Oregon Center for Public Policy, June 9, 2016, http://www.ocpp.org/2016/06/09/fs20160609-oregon-income-inequality-worse/.

[10] *Governor's Budget 2017-19*, p. 349-350, available at https://www.oregon.gov/das/Financial/Documents/2017-19_gb.pdf.

[11] *Analysis of Tax Provisions in "Grand Bargain",* slideshow, Oregon Center for Public Policy, September 9, 2013, slide 11, available at http://www.ocpp.org/2013/09/25/20130925slide-analysis-tax-provision-grand-bargain/.

[12] *Governor's Budget 2017-19*, op. cit., p. 349-350. As part of the 2013 "Grand Bargain," the legislature copied a federal tax break for exporters. As a result, an export business that establishes an Interest Charge Domestic International Sales Corporation (IC-DISC) can pay a lower state income tax rate. In addition, the IC-DISC converts ordinary income paid to business owners to dividend income, which can be subtracted from an owner's personal income reported to Oregon. The law does not require businesses to create any jobs to take advantage of this tax break, and there is no evidence that is has created jobs. *2013 Special Session Summary Tax Policy Changes*, Research Report #4-13, Legislative Revenue Office, November 2013, available at https://www.oregonlegislature.gov/lro/Documents/HB%203601%20Research%20Report.pdf

[13] *2016 Oregon Public Finance: Basic Facts*, Research Report #1-16, Legislative Revenue Office, February 1, 2016, op. cit., p. B6.

[14] *The Gaming and Decline of Oregon Corporate Taxes*, Oregon Center for Public Policy, June 29, 2016.

[15] *2016 Oregon Public Finance: Basic Facts*, Research Report #1-16, Legislative Revenue Office, February 1, 2016, op. cit., p. C13.

[16] Ibid., *Oregon Should Turn to Health Industry to Fill Medicaid Budget Gap*, Oregon Center for Public Policy, January 18, 2017.

[17] "Homeless Student Data Released: Despite improving economy, number of homeless students exceeds recession level," Oregon Department of Education, November 22, 2016, available at http://www.ode.state.or.us/news/announcements/announcement.aspx?ID=14220&TypeID=5.

[18] *The Mortgage Interest Deduction: Oregon's Biggest (and Ineffective) Housing Subsidy*, Oregon Center for Public Policy, May 4, 2015, available at http://www.ocpp.org/2015/05/04/fs20150504-oregon-mortgage-interest-deduction/.

[19] Revenue impact figures from *Tax Expenditure Report 2017-19*, Oregon Department of Revenue, Appendix E, available at https://www.oregon.gov/DOR/programs/gov-research/Documents/full-tax-expenditure_2017-19.pdf.

[20] *Governor's Budget 2017-19*, op. cit., p. 349-350.

[21] *2016 Oregon Public Finance: Basic Facts*, Research Report #1-16, Legislative Revenue Office, February 1, 2016, p, B6, available at https://www.oregonlegislature.gov/lro/Documents/Basic%20Facts%202016.pdf.

[22] OCPP analysis of data from *2016 Oregon Public Finance: Basic Facts*, Research Report #1-16, Legislative Revenue Office, February 1, 2016, op. cit., p. J3.

[23] The Governor's proposed tax increase on cigarettes would generate an estimated $21.5 million. The Governor's proposed tax increase on other tobacco products would generate an estimated $13.7 million in the 2017-19 biennium. See *Governor's Budget 2017-19,* p. 349, available at https://www.oregon.gov/das/Financial/Documents/2017-19_gb.pdf.

[24] *Governor's Budget 2017-19*, op. cit., p. 349-350.

[25] OCPP analysis of data in *2016 Oregon Public Finance: Basic Facts*, Research Report #1-16, Legislative Revenue Office, February 1, 2016, op. cit., p. J3.

[26] OCPP analysis of data in *Tax Expenditure Report* 2017-19, Oregon Department of Revenue, p. 7, op. cit.

[27] Ibid.

[28] *2016 Oregon Public Finance: Basic Facts*, Research Report #1-16, Legislative Revenue Office, February 1, 2016, op. cit., p. B6.

[29] *Oregon's Fast-Growing Economy Leaves Many Workers Behind*, Oregon Center for Public Policy, February 8, 2016, available at http://www.ocpp.org/2016/02/08/fs20160208-oregon-economy-fast-growth-workers/.

[30] See *2017 Recommendations on Listed Jurisdictions HB 2460 (2013 Regular Session)*, Oregon Department of Revenue, January 1, 2017, available at https://www.oregonlegislature.gov/lro/Documents/2017%20DOR%20Listed%20Jurisdiction%20Report_Full%20report.pdf; *Tax Battles: The dangerous global race to the bottom on corporate tax*, Oxfam, December 12, 2016, available at https://www.oxfam.org/sites/www.oxfam.org/files/bp-race-to-bottom-corporate-tax-121216-en.pdf.