

Oregon Center for Public Policy

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Helping The Top: SB 537-A Provides An Upper Middle Class Tax Cut

Under current law, Oregon taxpayers can deduct up to \$3,000 of federal personal income tax on their Oregon tax returns. Senate Bill 537-A would increase this limit from \$3,000 to \$5,000 starting in tax years beginning January 1, 2000, and would index the limit to changes in the consumer price index in subsequent years.

The Oregon Center for Public Policy asked the Washington, D.C.-based Institute on Taxation and Economic Policy (ITEP) to conduct a distributional analysis of the change using ITEP's nationally recognized microsimulation tax model. The table on page 3 summarizes ITEP's analysis of the consequences of SB 537-A.

The bulk of the tax cut goes to upper middle-income and wealthy Oregonians:

- The 60 percent of Oregon households in the lowest income groups will receive an average tax break that is less than \$7 a year.
- The poorest 40 percent of Oregon households receive no tax relief.
- Sixty percent of households will receive just 7 percent of the tax break offered by SB 537-A.
- The top 40 percent of Oregon households will average a \$128 reduction in yearly taxes, or 93 percent of the tax cut in SB 537-A.
- The wealthiest 20 percent of Oregon households, with an average income of about \$132,000 a year, will reap 59 percent of the tax break and have their tax bills reduced by \$164 on average.

The Legislative Revenue Office (LRO) projects that the tax cut would reduce Oregon Personal Income Tax revenues by \$143 million in the 1999-01 biennium. Because the tax credit does not start until the tax year beginning January 1, 2000, the revenue loss will increase substantially in future years. In

the following biennium, 2001-03, LRO projects that state general fund revenues will be reduced by \$223 million as a result of SB 537-A.

Senate Bill 537-A does not address the effect such a significant revenue impact would have on state services. The \$143 million of revenue lost in 1999-2001 is only slightly less than the Governor's Recommended 1999-01 spending for the entire natural resources program area (\$145.6 million in General Funds) and more than will be spent on Oregon Health Sciences University (\$107.9 million), the District Attorneys (\$9.5 million) and the Commission for the Blind (\$1.3 million) combined.¹

When the AOI tax cut is fully implemented in the 2001-03 biennium, the cost impact is even more significant. Full implementation costs exceed the Governor's Budget recommended spending in 1999-01 for the juvenile justice agency, the Oregon Youth Authority (\$211 million); the state's welfare agency, the Adult and Family Services Division of the Department of Human Resources (DHR) (\$219.3 million); or the Department of State Police (\$166 million). Full implementation will cost almost as much as requested for the state's child protective services agency, the State Office of Services to Children and Families in DHR (\$250.6 million). The tax cut's impact on providing these and other important state services should be considered by decision makers.

¹ All budget cost estimates come from the *Governor's Budget 1999-2001*, State of Oregon. The natural resources program area includes state departments of agriculture, forestry, environmental quality, fish and wildlife, parks and recreation, and others.

Effect of Increasing the Cap on Deductibility of Federal Income Taxes to \$5,000 (Oregon Residents by Income Group, 2000)						
Income Group	Bracket Starts At	Average Income In Group	Tax Cut as % of Income	Average Tax Cut	Percent of Total Tax Cut	Tax Cut as % of Income Tax
Lowest 20%	\$0	\$8,800	0.00%	\$0	0%	0.0%
Second 20%	\$14,000	\$19,800	0.00%	\$0	0%	0.0%
Middle 20%	\$26,000	\$31,900	-0.06%	-\$20	7%	-1.5%
Fourth 20%	\$40,000	\$51,600	-0.18%	-\$92	33%	-3.6%
Next 15%	\$65,000	\$82,700	-0.19%	-\$158	43%	-3.4%
Next 4%	\$119,000	\$169,200	-0.11%	-\$182	13%	-1.7%
Top 1%	\$273,000	\$720,500	-0.030	-\$184	3%	-0.4%

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 Source: Institute on Taxation and Economic Policy Microsimulation Tax Model, May 1999.