

Fool's Gold:

How Measure 41 would leave seniors and others behind

Measure 41 on the November 2006 ballot offers fool's gold to Oregonians. The measure would make Oregon's tax system more complicated and cause cuts in public services Oregonians rely upon, such as schools, the Oregon Health Plan, senior assistance programs, and public safety initiatives.

Measure 41 picks winners and losers among Oregon families. For example, elderly Oregonians lose out.¹ Most elderly Oregonians would receive no tax cut from Measure 41. Low-income elderly Oregonians are especially unlikely to receive a tax cut. Further, these low-income elderly Oregonians would be among the most exposed to the cuts in public services that would result if Measure 41 passes.

Measure 41: Complicating Oregon's Income Tax

Measure 41 would complicate Oregon's income taxes because tax liability would need to be calculated two ways, under current law and then under the alternative method that would be created by Measure 41. In other words, except for taxpayers who use software or hire a tax preparer to fill out their tax returns, some taxpayers would need to fill out their state income tax form twice or complete a separate worksheet to see if they benefit from the alternative method allowed by Measure 41.

Under current law, all taxpayers reduce their taxes by taking a personal exemption credit. In tax year 2005, the tax credit was \$154.² Each taxpayer multiplies this credit amount by her or his total number of exemptions. A taxpayer may take a credit for him or herself, a spouse and each dependent.³ The current tax credit is a dollar-for-dollar reduction in taxes owed, and the credit amount is the same for all taxpayers regardless of their income.⁴

As noted by the Measure 41 ballot title, Measure 41 "allows [an] income tax deduction equal to federal exemptions deduction to substitute for state exemption credit." What does that mean? In general it means that taxpayers must calculate whether taking a certain dollar-for-dollar reduction in taxes (the current exemption credit) is more valuable than taking a certain deduction from income before calculating tax liability (the Measure 41 alternative).

Here's how the Measure 41 scheme works:

When taxpayers file their federal income taxes, they reduce the amount of their income subject to tax using a deduction equal to the number of exemptions multiplied by an amount that is adjusted each year to keep up with inflation.⁵ In 2005, taxpayers multiplied their exemptions by \$3,200, and then subtracted the resulting amount from their taxable income.

Under Measure 41, Oregon taxpayers could deduct the same amount as their federal deduction on their state income tax return. That is, they could reduce the amount of income subject to tax in Oregon by the amount they deducted on their federal return, based on the calculations described above. If they do that, however, under Measure 41 they cannot use the current exemption credit.

Because the Measure 41 scheme allows taxpayers to subtract an exemption amount from their income before calculating tax liability as an alternative to the current law that allows a dollar-for-dollar reduction in the tax liability (i.e., it is a tax credit), taxpayers who do not use tax preparation software or hire a tax preparer would need to calculate their taxes twice to see which method is best for their particular situation, the current law or the Measure 41 alternative.

One out of five taxpayers would do better using the credit allowed under current law than using the alternative deduction in the Measure 41 scheme (Appendix, Table 1). Hence, one out of five taxpayers would get no tax benefit from the complicated method created by Measure 41.

Measure 41 is linked to the Bush tax cuts: the wealthy would do better over time

In 1991, the first President Bush signed a law that reduced the deduction that the very highest-income Americans can take for each exemption they claim on their federal tax returns. Once taxpayers reached a high income level, the deduction began to gradually phase out.

In 2001, the current President Bush successfully repealed his father's reform. Because of the 2001 tax measure, the richest Americans will be able to fully use the personal exemption deduction and get a big tax break. Once the new provision is fully implemented in 2010, the deduction will no longer phase out at high income levels.⁶

Because Measure 41 creates an alternative tax calculation based on the size of a taxpayer's federal exemption deduction, the highest-income Oregonians would see their tax cut from Measure 41 increase through the end of this decade as the new federal law fully takes effect. If this aspect of the Bush tax cut were made permanent, then Measure 41 would permanently provide the wealthiest Oregonians a larger tax cut than they would enjoy today.

Measure 41 raises federal taxes, reduces kicker refunds, and forces cuts in education, health care, and public safety

Measure 41 would result in a net loss of \$151 million in the current two-year budget cycle that ends on June 30, 2007. That loss of revenue then has an impact in the next budget period. Measure 41 would reduce the kicker that taxpayers currently expect to receive in November 2007 because it reduces the revenues the state would receive in the current budget period.

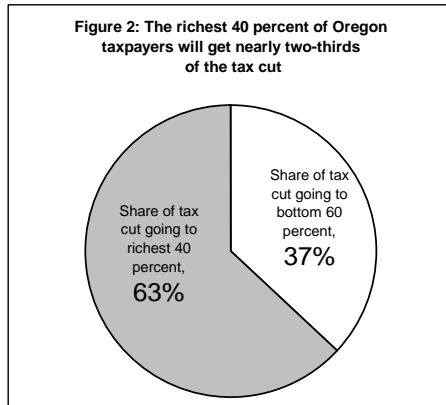
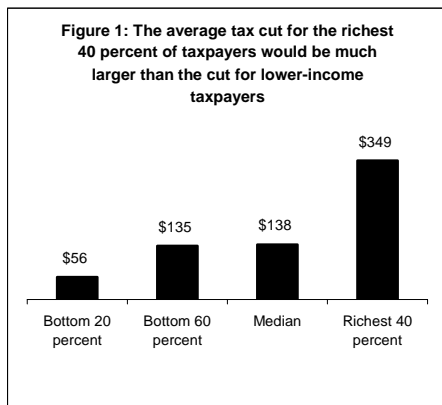
Next biennium Oregonians would see popular public services scaled back as a result of Measure 41. Measure 41 would result in a net loss of \$792 million in the upcoming two-year budget period that begins on July 1, 2007. That represents approximately a six percent reduction in available general fund revenues for state services in the 2007-09 budget period. With about nine out of every ten dollars spent in the state budget supporting education, senior programs, health care, and public safety, it is difficult to imagine any Oregonians not feeling the impact of the budget cuts that Measure 41 would force. Because Seniors and People with Disabilities is the second largest cluster in the DHS budget, seniors would be particularly hard hit by the cuts in public services.

Adding insult to the injury of reduced state services and the reduced kicker next biennium, Measure 41 would result in Oregonians paying about \$40 million more each year in federal income taxes.⁷

Nearly half of low-income taxpayers would get no tax cut

Although Measure 41 is being sold as a "family tax cut,"⁸ it picks certain families to be bigger winners than others, and ignores some families altogether. One out of five Oregon taxpayers would not get any tax reduction from Measure 41. The typical (or "median") taxpayer would receive \$138 a year (less than \$12 a month). Almost half (49 percent) of low income Oregonians (those in the bottom fifth of the income spectrum) would receive no tax cut from Measure 41, and the average net "benefit" would be just \$56 a year (less than \$5 a month) for that income group.

Low- to middle-income taxpayers (those in the bottom three fifths of the income spectrum) on average would receive \$135 a year off their taxes. Almost one-third (30 percent) of those taxpayers would not receive any tax reduction. For those who would get a tax benefit, the benefit would average \$180 a year.



Wealthier taxpayers will get more of the “benefit” from Measure 41.

Source: Institute on Taxation and Economic Policy

Among the wealthiest 40 percent of Oregon taxpayers (those in the top two fifths), by contrast, the average net tax cut would be \$349 a year and only 5 percent of those richer taxpayers would receive no tax reduction (Figure 1). For those who would get a benefit from Measure 41, their annual savings would be \$360. Since their tax cuts would be significantly larger than the cuts that the 60 percent of taxpayers who are low- to middle-income would receive, the richest 40 percent of Oregon taxpayers would receive nearly two-thirds – 63 percent – of the tax cut. The 60 percent of taxpayers who are in the middle- and low-income groups would share the remaining third of the tax cut pie (Figure 2).

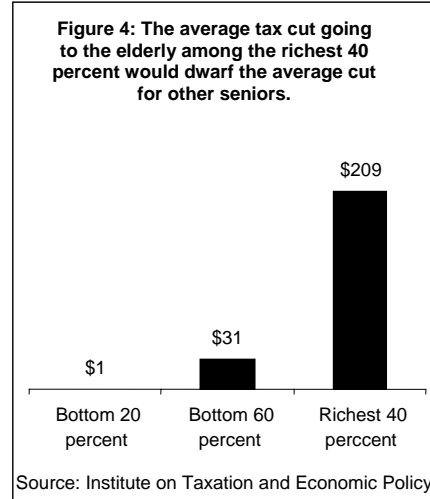
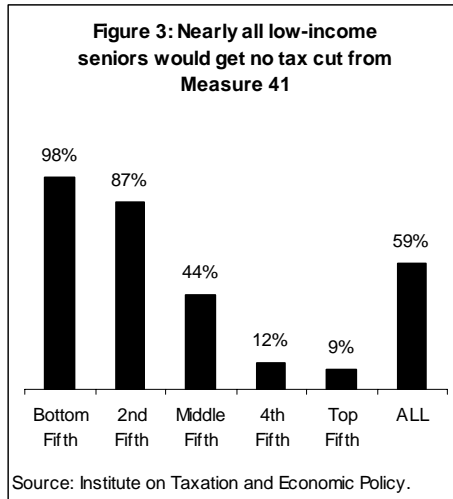
The claim made by proponents of Measure 41 that the “typical Oregonian” would pay “several hundred dollars a year in lower taxes” is overstated.⁹ The typical Oregonian would save only \$69 in taxes each year because the typical taxpayer saves \$138 a year and has 2.01 people (i.e., exemptions) in the household.

Measure 41 leaves most elderly Oregonians out and favors richer elderly Oregonians, too

Over half of all elderly Oregonians – 59 percent or almost six out of ten – get nothing from Measure 41 (Appendix, Table 2). In other words, the typical (median) elderly Oregonian gets nothing from Measure 41. In addition, the average tax cut for elderly Oregonians would be only \$81 a year, or less than \$7 a month.

Measure 41 particularly ignores low- and middle-income elderly. Among the lowest income elderly Oregonians, those in the bottom fifth of the income scale, only two percent would see lower taxes as a result of Measure 41 and the average tax cut for that group would be just \$1. Put another way, 98 percent of all low-income elderly Oregonians get nothing from Measure 41 (Figure 3). The two-percent of low-income elderly Oregonians who benefit from Measure 41 would average \$43 a year.

Nearly all low-income elderly get no benefit from Measure 41, and over half of all elderly get nothing from the measure. The richest seniors receive a significantly larger tax cut from Measure 41.



Almost seven out of ten elderly Oregonians (69 percent) are low- and middle-income elderly Oregonians. In other words, seven out of ten elderly Oregonians are in the bottom three fifths of the income spectrum. Their average tax cut would be just \$31 a year (less than \$3 a month), and three-quarters of those elderly Oregonians (77 percent) would not see their taxes go down at all. The 23 percent of low- and middle-income elderly Oregonians who would get a tax cut would see a \$95 annual (\$8 monthly) savings.

Among elderly taxpayers in the wealthiest 40 percent of all taxpayers (those in the top two fifths), the average tax cut would be \$209 and only 11 percent of those taxpayers would receive no tax reduction (Figure 4). Only 30 percent of elderly Oregonians are in those income groups. If the Bush tax cuts were permanent today, the wealthiest elderly Oregon taxpayers would see their average tax cut increase slightly to \$234, and in contrast to three-quarters of low- and moderate-income elderly, seven (7) percent of the elderly taxpayers in the top two fifths would not get any tax reduction.

Appendix

Table 1. Distribution of Measure 41 Winners and Losers								
2006: All Oregonians								
Income Group	Bottom Fifth	2nd Fifth	Middle Fifth	4th Fifth	Top Fifth	ALL	Top 1%	Median or Typical Taxpayer
Income Range	Less Than \$17,000	\$17,000 – \$30,000	\$30,000 – \$47,000	\$47,000 – \$79,000	\$79,000 – Or More		\$350,000 – Or More	
Average Income in Group	\$11,000	\$24,000	\$38,000	\$62,000	\$166,000	\$59,000	\$967,000	
Average Number of Exemptions Per Household	1.35	1.71	2.01	2.65	2.73	2.08	2.75	
Impact Currently								
Tax Change as a Share of Income for All Taxpayers	-0.5%	-0.5%	-0.6%	-0.6%	-0.21%	-0.4%	-0.002%	
Average Tax Change for All Taxpayers	-56	-127	-221	-351	-346	-217	-17	-138
% of Tax Change	5%	11%	20%	32%	31%	100%	0%	
% Would Receive No Benefit	49%	31%	11%	3%	6%	21%	91%	
Average Tax Change for "Winners"	-111	-183	-247	-363	-369	-275	-195	
Average No. Exemptions Per "Winner" Household	1.20	1.66	1.99	2.67	2.73	2.17	2.45	
Impact if 2010 or if Bush Cut Made Permanent								
Tax Change as a Share of Income for All Taxpayers	-0.5%	-0.5%	-0.6%	-0.6%	-0.22%	-0.4%	-0.04%	
Average Tax Change for All Taxpayers	-56	-127	-221	-351	-371	-222	-379	-138
% of Tax Change	5%	11%	20%	31%	33%	100%	2%	
% Would Receive No Benefit	49%	31%	11%	3%	1%	20%	0%	
Average Tax Change for "Winners"	-111	-183	-247	-363	-375	-278	-380	
Average No. Exemptions Per "Winner" Household	1.20	1.66	1.99	2.67	2.73	2.18	2.75	

Source: Institute on Taxation and Economic Policy, August 2006

Table 2. Distribution of Measure 41 - Elderly Winners and Losers								
2006: All Elderly Oregonians								
Income Group	Bottom Fifth	2nd Fifth	Middle Fifth	4th Fifth	Top Fifth	ALL	Top 1%	Median or Typical Elderly Taxpayer
Income Range	Less Than \$17,000	\$17,000 – \$30,000	\$30,000 – \$47,000	\$47,000 – \$79,000	\$79,000 – Or More		\$350,000 – Or More	
Average Income of Elderly in Group	\$12,000	\$23,000	\$38,000	\$62,000	\$242,000	\$59,000	\$1,748,000	
Average Number of Exemptions Per Household	1.35	1.62	1.59	1.78	1.78	1.56	1.82	
Impact Currently								
Tax Change as a Share of Income for All Taxpayers	-0.01%	-0.05%	-0.21%	-0.32%	-0.09%	-0.14%	-0.001%	
Average Tax Change for All Taxpayers	-1	-13	-80	-197	-221	-81	-25	0.00
% of Tax Change	0%	4%	19%	40%	37%	100%	0%	
% Would Receive No Benefit	98%	87%	44%	12%	9%	59%	86%	
% of Elderly in each Fifth	24%	26%	19%	17%	13%	100%	1%	
Average Tax Change for "Winners"	-43	-98	-143	-224	-244	-197	-181	
Average No. Exemptions Per "Winner" Household	1.02	1.16	1.31	1.78	1.79	1.60	1.93	
Impact if 2010 or if Bush Cut Made Permanent								
Tax Change as a Share of Income for All Taxpayers	-0.01%	-0.05%	-0.21%	-0.32%	-0.10%	-0.14%	-0.014%	
Average Tax Change for All Taxpayers	-1	-13	-80	-197	-239	-84	-250	0.00
% of Tax Change	0%	4%	18%	39%	38%	100%	3%	
% Receive No Benefit	98%	87%	44%	12%	2%	58%	0%	
% of Elderly in each Fifth	24%	26%	19%	17%	13%	100%	1%	
Average Tax Change for "Winners"	-43	-98	-143	-224	-245	-198	-251	
Average No. Exemptions Per "Winner" Household	1.02	1.16	1.31	1.78	1.78	1.60	1.82	

Endnotes:

¹ In this analysis, “elderly” is defined as 65 and older.

² The personal exemption credit, and the federal exemption deduction discussed below, both increase each year to reflect inflation.

³ Severely disabled adults get an additional credit, as do disabled children.

⁴ The lowest income Oregonians do not fully enjoy the personal exemption credit because they do not have adequate tax liability to fully utilize it and the credit is not refundable. Moreover, the credit is worth more to a low-income Oregonian than a high-income Oregonian. See *\$15 Means More to Low-Income Families than \$145 Means to Phil Knight: Why the personal exemption credit should be phased out, not reduced “across the board”*, Oregon Center for Public Policy, July 28, 2003, available at <http://www.ocpp.org/2003/issue030728.pdf>

⁵ The number of exemptions taxpayers claim on their federal return is generally the same as the number they claim on their Oregon return. Severely disabled adults and disabled children are not allowed an additional exemption on their federal return, as they are on their Oregon return.

⁶ The phase out of the exemption for the wealthy is being phased out by the 2001 Bush tax cut. In 2010 it will be entirely eliminated. Because the Bush tax cuts are currently only temporary, in 2011 the phase out of use of the exemption by the wealthy would be fully reinstated. The Bush Administration and some members of Congress, however, want to make the elimination of the phase out permanent.

⁷ Because taxpayers who itemize can deduct state income taxes on their federal tax return, federal taxes would increase for itemizers who benefit from the alternative tax scheme in Measure 41. See Final Financial Estimate Explanatory Statement, Initiative 14, Ballot Measure 41, November 7, 2006 General Election, http://www.sos.state.or.us/elections/nov72006/es_fi/m41_fes.pdf.

⁸ *“Oregon Family Tax Cut” Approved for the Ballot*, FreedomWorks, July 21, 2006. Available at http://www.freedomworks.org/newsroom/press_template.php?press_id=1874

⁹ Ibid.

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