



# ISSUE BRIEF

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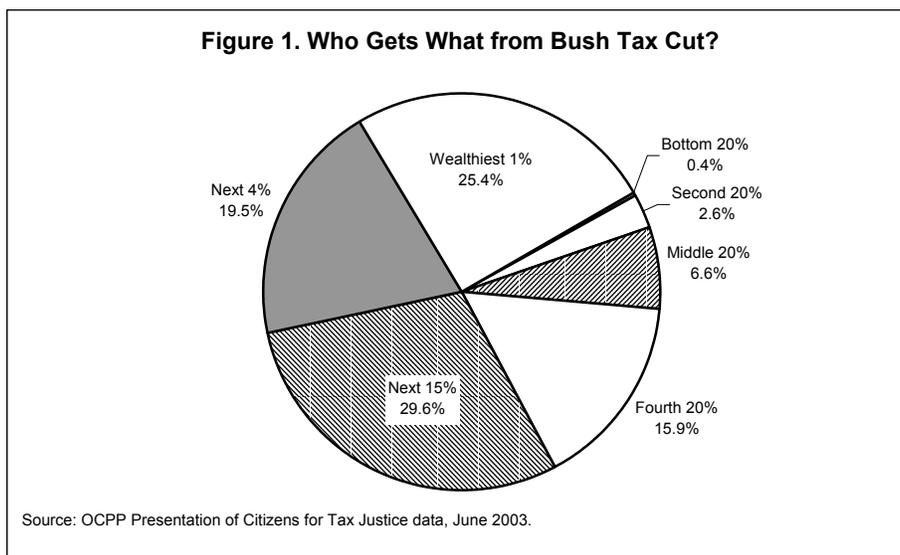
## Finding the Money: Federal Tax Cuts Signal New Tax Revenue Options for Oregon

Recent federal tax cuts provide Oregon policy makers an opportunity to raise revenue to fund state services. Since the federal tax cuts are heavily tilted toward Oregon's most affluent households, state income taxes can be raised on those households without increasing their combined federal-state tax burden.

### *Distribution of the Federal Cuts*

Two-thirds of the total federal tax reduction was specifically targeted to reducing taxes on capital gains and dividend income, both of which are heavily concentrated among affluent households, and to lowering the top income tax rate.<sup>1</sup> Between 2003 and 2006, nearly half of the federal tax cut will benefit the highest-income five percent of Oregon households (Figure 1).<sup>2</sup> The richest one-percent of households get over 25 percent of the tax cut while the next richest four percent of households get nearly 20 percent of the cut. The highest-income fifth (20 percent) of households get 75 percent of the tax cut. On the other hand, most Oregon households, the lowest-income sixty percent, will get less than 10 percent of the federal tax cut.

Over the next four years, upper-income households will realize thousands of dollars in lower federal taxes while most Oregonians will see modest reductions. Between 2003 and 2006, the richest one percent of Oregon households will see their federal taxes reduced by \$57,438 on average, while the lowest-income fifth will get just \$51 in reduced federal income taxes (Table 1 and Figure 2). For the bottom 60 percent of Oregon households the total four-year reduction will average just \$368.



**Table 1. IMPACT OF BUSH 2003 TAX CUT ON OREGONIANS**

Income group	Ave. 2003 Income	Average Tax Cuts					% of tax cut among Oregon taxpayers				
		2003	2004	2005	2006	4 years	2003	2004	2005	2006	4 years
<b>Bottom 20%</b>	\$9,600	-\$16	-\$32	-\$3	-\$1	-\$51	0.4%	0.7%	0.2%	0.1%	0.4%
<b>Second 20%</b>	\$21,000	-107	-151	-20	-15	-292	2.7%	3.2%	1.1%	1.5%	2.6%
<b>Middle 20%</b>	\$34,000	-293	-377	-51	-38	-760	7.5%	8.0%	2.8%	3.8%	6.6%
<b>Fourth 20%</b>	\$55,600	-710	-843	-151	-99	-1,804	18.2%	18.1%	8.6%	10.2%	15.9%
<b>Next 15%</b>	\$91,000	-1,636	-1,861	-686	-296	-4,479	31.4%	29.8%	28.8%	22.5%	29.6%
<b>Next 4%</b>	\$177,000	-3,517	-4,159	-2,169	-1,209	-11,054	18.0%	17.8%	24.3%	24.5%	19.5%
<b>Wealthiest 1%</b>	\$710,000	-\$16,868	-20,970	-12,213	-7,387	-57,438	21.6%	22.4%	34.2%	37.4%	25.4%

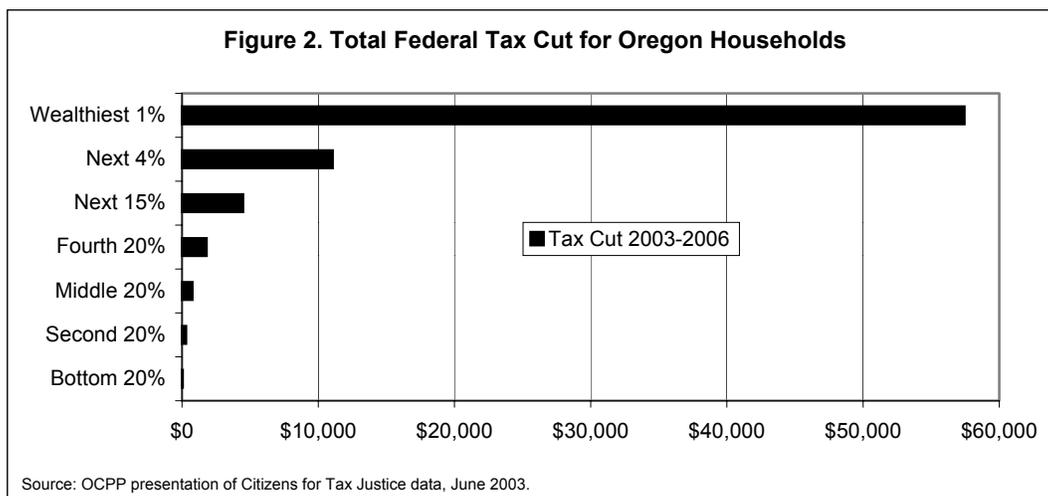
Source: OCPP presentation of Citizens for Tax Justice data, June 2003.

In the final year of the tax cut, 2006, the top one percent of Oregon households will receive a federal income tax cut of \$7,387, the middle-income fifth will receive \$38, and the lowest-income fifth will see their federal income taxes go down by just \$1.

*Raising Money for Oregon Programs: Two Lessons*

The distribution of the recently passed federal income tax cuts provides two lessons. As legislators struggle to find new revenue to make up a \$3.2 billion gap in funding for services, they should consider levying new taxes on those households that will benefit the most from the federal income tax cuts.<sup>3</sup> Legislators can increase taxes on Oregon’s wealthiest and still leave them with an overall decrease in net (combined federal and state) income tax liability.

Second, proposals which concentrate tax increases on the lowest income Oregonians, consumption and excise taxes, should be avoided or coupled with targeted, low-income tax relief that is sufficiently large to offset the added burden. Oregon’s tax system currently falls more heavily on low-income households than on upper income households.<sup>4</sup> It would be counterproductive to exacerbate tax regressivity in the drive to address Oregon’s revenue shortfall and funding needs.



## Endnotes

<sup>1</sup> The new federal tax cuts are scheduled to expire in 2006. Of the \$350 billion tax cut, \$74 billion is for lowering the top income tax rate and \$148 billion is for reducing taxes on capital gains and dividend income. See Greenstein, Robert, Richard Kogan, and Joel Friedman, *New Tax Cut Law Uses Gimmicks to Masks Costs; Ultimate Price Tag Likely to be \$800 Billion to \$1 Trillion*, Center on Budget and Policy Priorities, June 1, 2003.

<sup>2</sup> *The Bush Tax Plan, State-by-State*, Citizens for Tax Justice, June 2003. Available at: <http://www.ctj.org/html/gwb03st.htm>.

<sup>3</sup> According to the Legislative Revenue Office, the Governor's proposed budget was \$2.1 billion short of meeting continuing service levels. Then the March and May revenue forecasts projected a total of \$1.1 billion less revenue than used when the Governor's budget was developed, leaving Oregon with a \$3.2 billion revenue shortfall. See "Summary Analysis of the Governor's 2003-05 Budget," Legislative Fiscal Office, page 3, available at [http://www.leg.state.or.us/comm/lfo/summary\\_govbudget\\_03\\_05.pdf](http://www.leg.state.or.us/comm/lfo/summary_govbudget_03_05.pdf), *Oregon Economic and Revenue Forecast*, June 2003, Table R.1 available at <http://www.oea.das.state.or.us/economic/forecast0603.pdf> and *Oregon Economic and Revenue Forecast*, March 2003, page 46, available at <http://www.oea.das.state.or.us/economic/forecast0303.pdf>.

<sup>4</sup> *Who Pays? A Distributional Analysis of the Tax Systems in All 50 States – 2<sup>nd</sup> Edition*, Institute for Taxation and Economic Policy, January 2003. Oregon data available at: <http://www.ocpp.org/2003/2003WhoPaysCol.pdf>.