

## Income Tax Kickers Disproportionately Benefit Multistate Corporations and Wealthy Oregonians

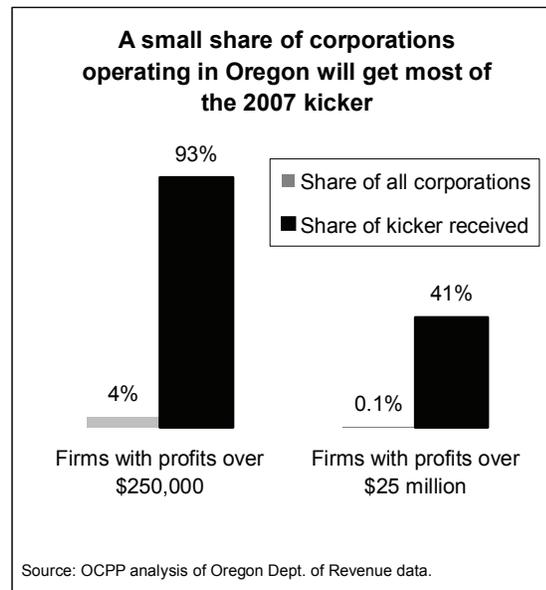
If the amount of Oregon revenues collected over a two-year budget cycle exceeds the state economists' projections made near the end of a legislative session by two percent or more, the entire amount of the unanticipated revenue is returned to taxpayers. This Oregon policy is commonly known as the "kicker."

The March 2006 Oregon Economic and Revenue Forecast projected that when the current budget cycle ends in June 2007, unanticipated revenues will exceed the May 2005 forecast by more than two percent for both personal and corporate income taxes. While the final kicker amount (if any) will not be definitively established until the September 2007 "close of session" forecast, the current estimate is that personal income tax kicker refund checks in November 2007 will total \$460.5 million and corporate income tax kicker tax credits for 2007 will total \$205.4 million.

### Corporate Kicker Helps Profitable Multistate Corporations the Most

The corporate kicker comes in the form of a tax credit against projected tax liability for the second year of the biennium. The 2005-07 corporate kicker is currently estimated to reduce the 2007 income tax liability of corporations operating in Oregon by 55 percent and is currently estimated to cost \$205.4 million. Because it is a tax credit, it will help only corporations that are profitable in 2007.

- Multistate firms will get 86 percent of the credit's value. Less than 14 percent of the 2007 corporate kicker tax credit's value will go to companies operating only in Oregon.<sup>1</sup>
- 41 percent of the credit's value will go to a small group of companies with profits of over \$25 million. In 2003, there were only 27 companies in this group.
- A mere four percent of corporations operating in Oregon will reap 93 percent of the kicker tax credit.
- The projected kicker comes on the heels of a large kicker from last biennium's forecast. Profitable corporations that operated in Oregon in 2005 are receiving a 36 percent reduction in their 2005 tax returns as a result of the 2003-05 corporate kicker. Valued at \$101 million in the "close of session" forecast in September 2005, the State now estimates that the 2003-05 corporate kicker tax cut will cost \$133.5 million.<sup>2</sup> The size of the 2003-05 corporate kicker is increasing because companies are reporting higher-than-expected profits in tax year 2005.



**Personal Income Tax Kicker Helps Primarily the Wealthy**

The personal income tax kicker is calculated as a percent of individual taxpayers' tax liability during the prior tax year. If the kicker ultimately kicks in the fall of 2007, taxpayers will get a refund based on their 2006 tax liability.

The table below shows the distribution of the projected Oregon personal income tax kicker in 2007.

- While the average refund will be about \$263, the typical (or median) taxpayer will receive approximately \$113.<sup>3</sup> Reporting the average kicker does not represent what the typical Oregon taxpayer will receive.
- The wealthiest one-percent of taxpayers will receive nearly one-fifth of the kicker refund. Their average refund will be \$4,857.
- The poorest twenty percent of taxpayers will receive an average refund of just \$8.
- The projected kicker -- \$460.5 million or a 9.4 percent refund -- will be the largest personal income tax kicker in terms of dollar amount in the history of the kicker, and the fourth highest in terms of percent refunded.
- Oregon taxpayers will not be able to enjoy the full \$460.5 million kicker. Under current law, they will send about \$33 million of the \$460.5 million kicker refund - about 7 percent - to the federal government in the form of higher federal income taxes. If Congress extends to 2007 an exemption to the Alternative Minimum Tax in place for tax year 2005, Oregon taxpayers will lose about \$56 million - or 12 percent - of the \$460.5 million kicker to higher federal income taxes.

<b>2007 Estimated Kicker by Income Group</b>			
<b>Income Groups</b>	<b>Approximate Adjusted Gross Income (AGI) of Group</b>	<b>Estimated Average 2007 Kicker for Income Group*</b>	<b>Percent of Total Kicker to Income Group</b>
Lowest Quintile	Less than \$9,000	\$8	0.6%
Second Quintile	Between \$9,000 and \$20,000	\$47	3.6%
Middle Quintile	Between \$20,000 and \$36,000	\$131**	10.0%
Fourth Quintile	Between \$36,000 and \$63,000	\$265	20.2%
Top Quintile	Above \$63,000	\$939	65.7%
Top Five Percent	Above \$94,000	\$1,889	35.9%
Top One Percent	Above \$250,000	\$4,857	18.5%

\*The average kicker for all returns will be about \$263.

\*\*This figure represents the average kicker to be received by taxpayers in the middle quintile. The Legislative Revenue Office estimates the median income taxpayer will receive a kicker of \$113. See endnote #3.

Source: OCPP analysis of March 2006 Oregon Economic and Revenue Forecast and 2003 ODR Personal Income Tax Statistics adjusted by OCPP for projected growth in personal income tax returns from 2003 to 2007.

**Endnotes:**

<sup>1</sup> These estimates, and the others in this section describing the disproportionate share of the corporate kicker that will go to a small portion of firms, are based on the latest publicly available data on corporate tax liability, for tax year 2003.

<sup>2</sup> Oregon Office of Economic Analysis, *Oregon Economic and Revenue Forecast, March 2006*, Appendix B, Table B-3, p. 87.

<sup>3</sup> The median can be estimated only if one has access to all the returns. If one does not have access to all the tax returns, an “approximate median” can be estimated by calculating the average of the middle income group. The Legislative Revenue Office (LRO) has access to all returns, and based on the March 2006 revenue forecast, the LRO estimates that the median income taxpayer will receive a kicker of \$113. OCPP analyzed 2003 personal income tax data, the most current data that is publicly available, and adjusted for projected growth in the number of returns between 2003 and 2007. OCPP’s analysis found that the “approximate median” – the average kicker for taxpayers in the middle income quintile – will be about \$131.

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