Oregon Center for Public Policy
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Executive Summary

December 21, 2003

A Small Price to Pay:
Measure 30 Asks Little of Most Oregonians

By Jeff Thompson, Michael Leachman, and Charles Sheketoff

In February, Oregonians will vote on a revenue package adopted by the 2003 Legislative Assembly in an effort to balance the budget and avoid deeper budget cuts in vital programs. If Measure 30 fails, education, public safety, and human services programs will be cut by $790 million in the current state budget.

Cuts of this magnitude will impact all Oregonians, while the increased taxes under Measure 30 are small for most taxpayers.

OCPP's analysis shows that:

- Middle-income households will pay $81 in net additional taxes under Measure 30 in 2003, or less than $7 per month.
- Low-income households will pay just $14 in net additional taxes.
- The richest one percent of Oregonians will pay $4,084 in net additional Measure 30 taxes.

Several large federal income tax cuts in recent years ensure that most Oregonians will be paying less in federal taxes. For all Oregonians, the decrease in federal taxes in considerably larger than the small increases under Measure 30:

- Middle-income Oregonians will get an $844 federal tax cut in 2003.
- Low-income Oregonians will get a $106 federal tax cut in 2003.
- The richest one-percent of Oregonians will benefit from a $36,500 federal tax cut in 2003.

Similar to most other taxpayers, most Oregon seniors will pay little under Measure 30, and wealthy seniors will pay more than middle- and low-income seniors.

- Low-income seniors, with incomes under $15,000, will pay an additional $8.
- Seniors with incomes between $30,000 and $50,000 will pay $67.
- High-income seniors, those with incomes with $100,000 or more (averaging $280,000), will pay an additional $1,373.

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On February 3, 2004, Oregonians will vote on a revenue package adopted by the 2003 Legislative Assembly in an effort to balance the budget and avoid deeper budget cuts in vital programs. If Measure 30 fails, education, public safety, and human services programs will be cut by $790 million in the current state budget. Cuts of this magnitude will impact all Oregonians, while the increased taxes under Measure 30 are small for most taxpayers. In addition, due to recent federal tax cuts most Oregonians will still pay far less in total taxes even if Measure 30 is approved by the voters.

This paper describes the combined impact of the Measure 30 components on taxpayers of various income levels. The OCPP's analysis is different from prior analyses produced by the Legislative Revenue Office, which examined the impact by income level of just two components of the measure.[1]

Tax changes under Measure 30

In the closing days of the 2003 session, a "super-majority" of Oregon's Legislative Assembly agreed on a revenue package, House Bill 2152, to balance the state budget and avoid further cuts to education, public safety and human services programs. Opponents of the revenue package successfully petitioned to refer the measure to voters for a February 3, 2004, special election.

A temporary progressive income tax surcharge raises most of the additional revenue under Measure 30. Other Measure 30 provisions raise the minimum corporate income tax, reduce or eliminate some corporate tax breaks, extend an existing 10-cent cigarette tax, lower the depreciation for SUVs purchased for business use, and progressively phase out a special state medical deduction for seniors while also raising the deduction's age requirement.[2] In addition, Measure 30 scales back the discount for early payment of local property taxes, although this change in the property tax discount is not included in this distributional analysis.[3]

Temporarily boosting income taxes

The income tax surcharge, in place from 2003 to 2005, is levied at rates from zero to nine percent *of tax liability*, depending on the taxpayer's income. If tax collections rise higher than predicted, the surcharge will automatically be cancelled for 2005.[4] Under the graduated rates of the income tax surcharge, household heads and married couples with incomes under $20,000 pay nothing, while households with incomes of $120,000 or more pay nine percent of their tax liability. Single individuals with incomes below $10,000 would pay nothing.

The income tax surcharge accounts for 64 percent of General Fund revenue raised under Measure 30. The other income tax change, phasing out the special state deduction for seniors' medical expenses, accounts for about eight percent of General Fund revenue raised by the measure.

Under all of the changes to the personal income tax, low-income Oregonians will pay $3, middle-income Oregonians will pay $71, and the richest one-percent will pay $4,483 (Table 1).

Measure 30 is based on the ability to pay, asking $14 of low-income households, and $4,084 of wealthy households.

Table 1. Impact of Tax Changes in Measure 30 - All Oregon Taxpayers, 2003

	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Income Range	Less Than $16,000	$16,000 – $27,000	$27,000 – $43,000	$43,000 – $71,000	$71,000 – $129,000	$129,000 – $265,000	$265,000 – Or More
Average Income in Group	$9,600	$21,000	$34,000	$55,600	$91,000	$176,900	$709,800
State Tax Changes, All Taxpayers in 2003							
Personal Income Tax	$3	$22	$71	$142	$350	$920	$4,483
Corporate Income Tax	$1	$2	$3	$5	$12	$36	$234
Cigarette Tax	$10	$11	$12	$14	$13	$12	$14
Combined Average Gross State Tax Increase	$ +14	$ +35	$ +85	$ +161	$ +375	$ +969	$ +4,730
as % of income	+0.1%	+0.2%	+0.3%	+0.3%	+0.4%	+0.5%	+0.7%
Federal Offset, avg $	$ —	$ –0	$ –4	$ –16	$ –70	$ –134	$ –646
Net state/federal impact of M30	**$ +14**	**$ +34**	**$ +81**	**$ +145**	**$ +305**	**$ +835**	**$ +4,084**

SOURCE: Institute on Taxation and Economic Policy, December 2003.

Reforming corporate income taxes

Increased corporate income taxes account for 24 percent of the General Fund revenue raised by the measure. The measure calls for increasing the minimum corporate income tax to a range of $250 to $500 for "S" corporations and $250 to $5,000 for "C" corporations, based on the amount of sales in Oregon. Currently, the minimum corporate income tax is $10 for all corporations. Measure 30 also increases corporate income taxes by including corporate "extraterritorial" income from foreign sales corporations. In addition, only farming, forestry and construction businesses could use the federal SUV expense and depreciation deduction when calculating their state tax liability. Last, Measure 30 temporarily reduces corporate tax credits and the subtraction for corporate dividends; these two provisions would expire in three years.[5]

Measure 30's changes to the corporate income tax are relatively modest and will have little impact on most Oregonians' tax burden. Only companies with Oregon sales of $25 million or more would be subject to the new $5,000 minimum tax. Much of the corporate tax increase will be "exported" to residents of other states, and much of it will be paid by company shareholders.[6] Corporate tax changes in Measure 30 will result in low-income Oregonians paying $1 in additional taxes, middle-income households paying $3, and the richest one-percent of Oregonians paying $234.

Maintaining the Oregon Health Plan cigarette tax

Measure 30 maintains for two more years a 10-cent per pack cigarette tax for the Oregon Health Plan. First enacted in 1993, continuation of this tax for two years will raise $22 million in 2003-05 for the Oregon Health Plan. Low-income households would pay $10 in cigarette taxes under Measure 30, while middle-income households would pay $12, and the richest one-percent of households would pay $14.

Combined impact of Measure 30 and Net Tax Increases

The combined impact of all the provisions in Measure 30 would raise state taxes by $14 for low-income households, $85 for middle-income households, and $4,730 for the richest one-percent of Oregonians.

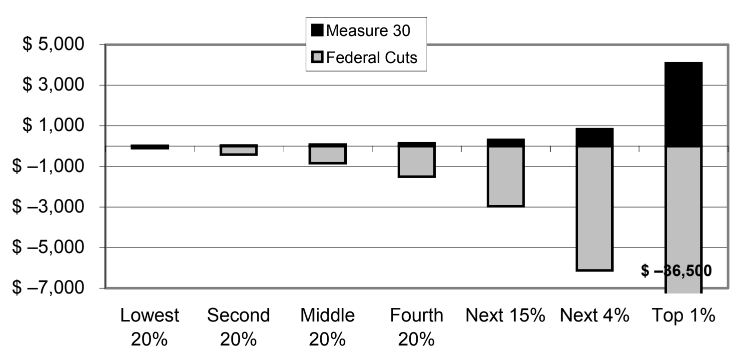
Because state income taxes are deductible for federal income taxes for those who itemize, the tax increase resulting from Measure 30 will lower the federal income tax liability of those taxpayers who itemize. After accounting for the lower federal tax liability for itemizers, the net tax increase under Measure 30 for middle-income households will be $81, or less than $7 per month. The richest one-percent of Oregonians, with an average income of nearly $710,000, will pay a net tax increase of $4,084 under Measure 30.

Overall distribution and the federal tax cuts

Several large federal income tax cuts in recent years ensure that most Oregonians will be paying less in federal taxes. For all Oregonians, the decrease in federal taxes is considerably larger than the small increases under Measure 30.[7] Middle-income Oregonians will pay $81 in additional state taxes due to Measure 30, but will also pay $844 less in federal taxes. (Figure 1 and Table 2.) Low-income Oregonians will pay $14 under Measure 30, but get a $106 federal tax cut. The richest one-percent of Oregonians will pay $4,084 under Measure 30, and benefit from a $36,500 federal tax cut in 2003.

For all Oregonians, federal tax cuts are much larger than what they would pay under Measure 30.

Figure 1. Distribution of Measure 30 and federal tax cuts



Source: OCPP analysis of ITEP data.

Unlike the regressive federal tax cuts, which mostly benefit the wealthy, Measure 30 is designed to fund programs that benefit all Oregonians based on their ability to pay. Measure 30 counteracts some of the unfairness built into the federal tax cuts, but hardly makes a dent in the massive federal cuts that wealthy Oregonians will receive over the next few years. Measure 30 offsets 13 percent of the federal tax cut received by the richest one-percent of Oregonians, 10 percent of the cut received by middle-income households, and 13 percent of small cut received by low-income Oregonians.

Even with Measure 30, Oregonians will be paying less in state and federal taxes in 2003. Middle-income Oregonians will pay $63 less, and the richest one percent will pay $32,416 less.

Table 2. State and federal tax changes - All Oregon taxpayers 2003

	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Income Range	Less Than $16,000	$16,000 – $27,000	$27,000 – $43,000	$43,000 – $71,000	$71,000 – $129,000	$129,000 – $265,000	$265,000 – Or More
Average Income in Group	$9,600	$21,000	$34,000	$55,600	$91,000	$176,900	$709,800
Net impact of Measure 30	$ +14	$ +34	$ +81	$ +145	$ +305	$ +835	$ +4,084
Federal Tax cuts	$ –106	$ –419	$ –844	$ –1,506	$ –2,963	$ –6,127	$ –36,500
Combined impact of Measure 30 and Federal Tax Cuts	$ –93	$ –385	$ –763	$ –1,361	$ –2,658	$ –5,292	$ –32,416
Average % of Bush cuts offset by M30	13%	8%	10%	11%	13%	16%	13%

SOURCE: Institute on Taxation and Economic Policy, December 2003.

Most seniors will pay little

Similar to most other taxpayers, most Oregon seniors will pay little under Measure 30, and wealthy seniors will pay more than middle- and low-income seniors. Seniors with incomes above $100,000 will pay $1,373 in increased taxes from Measure 30 (Table 3). Low-income seniors, with incomes under $15,000 will pay just $8, while those with incomes between $30,000 and $50,000 will pay $67, on average.

The tax burden on seniors has attracted considerable attention due to the provision in Measure 30 that will reduce the special medical expense deduction enjoyed by some Oregon seniors who itemize. Only 31 percent of seniors will face higher taxes due to the changes in the medical expense deduction, and most of the impact is on higher income seniors.[8]

Most seniors will pay little under Measure 30.

Table 3. Impact of Tax Changes in Measure 30

Elderly Oregon Taxpayers, 2003	2003 Income Group				
Income Range	Less Than $15,000	$15,000 – $30,000	$30,000 – $50,000	$50,000 – $100,000	$100,000 – Or More
% of Taxpayers	22%	32%	20%	18%	7%
Average Income in Group	$10,000	$22,000	$38,000	$67,000	$280,000
Average State Tax Increase	$ +8	$ +19	$ +71	$ +276	$ +1,799
Federal Offset, avg $	$ —	$ –0	$ –4	$ –28	$ –426
Net state/federal impact of M30	**$ +8**	**$ +19**	**$ +67**	**$ +248**	**$ +1,373**

SOURCE: Institute on Taxation and Economic Policy, December 2003.

Conclusion

The increased taxes under Measure 30 are small for most taxpayers. The net tax increase under Measure 30 for middle-income households will be $81, or less than $7 per month. The lowest income Oregonians will average just $14 a year, or about $1.17 a month, in increased taxes. The richest one-percent of Oregonians, with an average income of nearly $710,000, will pay a net tax increase of $4,084 under Measure 30. For all income levels, these increases are more than offset by recent federal tax cuts.

Endnotes:

[1] LRO's analysis of the graduated personal income tax assessment contained in Measure 30 can be found at http://www.leg.state.or.us/comm/lro/income_faq.pdf. LRO's analysis of the changes to the special senior medical deduction can be found at http://www.leg.state.or.us/comm/lro/rr5_03.pdf.

[2] Two other tax increases are included in House Bill 2152, but are not part of the general fund budget and are not part of what voters will consider on February 3rd. These are two industry-specific taxes, impacting providers of long-term care facilities and managed care and designed to draw down extra federal Medicaid funding. These levies will bring in $73 million in 2003-05 and $132 million in 2005-07, but are not included in the calculations in this paper because they were not referred to the voters for approval.

[3] Currently property tax payments made by November 15th of each year receive a three percent discount, and early payments of two-thirds of the amount owed receive a two percent discount. The legislative revenue package reduces the first discount to two percent, and eliminates the two-thirds discount altogether.

[4] Section 5(1) of House Bill 2152 provides that the surcharge will not be collected in 2005 unless the December, 2004, projected ending balance for the 2003-05 budget cycle is less than four percent of 2003-05 General Fund Appropriations.

[5] The revenue package defers 20 percent of corporate tax credits until 2006. Deductions for dividends that corporations receive from subsidiaries are reduced from 70 percent to 35 percent through the end of 2005. Previously "extraterritorial" income was excluded from a corporation's taxable income, but the revenue package requires that it be included.

[6] The Institute on Taxation and Economic Policy's model estimates that 17 percent of the corporate income tax increases are paid by Oregonians; 83 percent are exported to shareholders and consumers in other states.

[7] In each year since 2000, Congress has passed major tax cut legislation. Analysis of the cumulative impact of these tax cuts at the state level is provided by the Institute for Taxation and Economic Policy (ITEP).

[8] See "No Change for Most Seniors," Leachman, Michael, October 29, 2003, Oregon Center for Public Policy, available at www.ocpp.org.

This work is made possible in part by the support of the Ford Foundation, the Governance and Public Policy Program of the Open Society Institute, the Penney Family Fund, the John and Martha Marks Fund of the Oregon Community Foundation, and by the generous support of organizations and individuals. The Oregon Center for Public Policy is a part of the State Fiscal Analysis Initiative (SFAI) and the Economic Analysis and Research Network (EARN).