Oregon Center For Public Policy

Issue Brief

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$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"

The personal exemption credit allows Oregonians to reduce their state income taxes by a certain amount for each member of their household. In 2002, the credit was worth $145 for each household member, plus an additional $145 for each member who is severely disabled. The lowest income families don't get to enjoy the credit fully; once it reduces their tax liability to zero they forego the remaining portion of the $145 per household member. Each year, the size of the personal exemption credit is increased to keep pace with inflation.

The Oregon Legislative Assembly is currently considering two proposals for altering the personal exemption credit to raise some of the revenue needed to fund vital services. The first proposal, generally promoted by Republicans in the budget negotiations, would cut the credit "across-the-board" by $15, making it $130 for all taxpayers. The other proposal, generally promoted by Democrats, would raise the additional revenue by phasing out the credit for upper-income Oregonians while preserving it for most taxpayers.

The Democrats' plan is the fairer of the two proposals. The $15 is worth a lot more to a low-income Oregon family than the full $145 is worth to the wealthiest of Oregonians. In 2002, a three-person family living at the poverty line earned just $15,020. On the other hand, in 2002 the total compensation for Phil Knight, CEO of Nike, was over $2.7 million.[1]

As a percent of income, the Republicans' across-the-board $15 tax increase would cost poor families 19 times more than the Democrats' upper income $145 tax increase would cost Phil Knight.

At a time when thousands of Oregonians are out of work, the Republican plan to raise taxes on low- and middle-income families by cutting their personal exemption credit is misguided. Although raising some taxes will be necessary to fund basic state services over the next two years, increasing taxes and reducing tax expenditures for affluent Oregonians is more fair, and better for the economy, than raising taxes on families who are struggling financially.[2]

Low-income families in Oregon already pay a higher percentage of their income in state and local taxes than affluent Oregonians. There is no need to make this problem worse.

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[1] "Top 50 highest-paid executives of local public companies," The *Business Journal* (Portland), July 4, 2003, page 11.

[2] Orszag, Peter and Joseph Stiglitz, "Budget Cuts vs. Tax Increases at the State Level: Is One More Counter-Productive than the Other During a Recession?" Center on Budget and Policy Priorities, updated November 6, 2001. Accessed at http://www.cbpp.org/10-30-01sfp.htm.