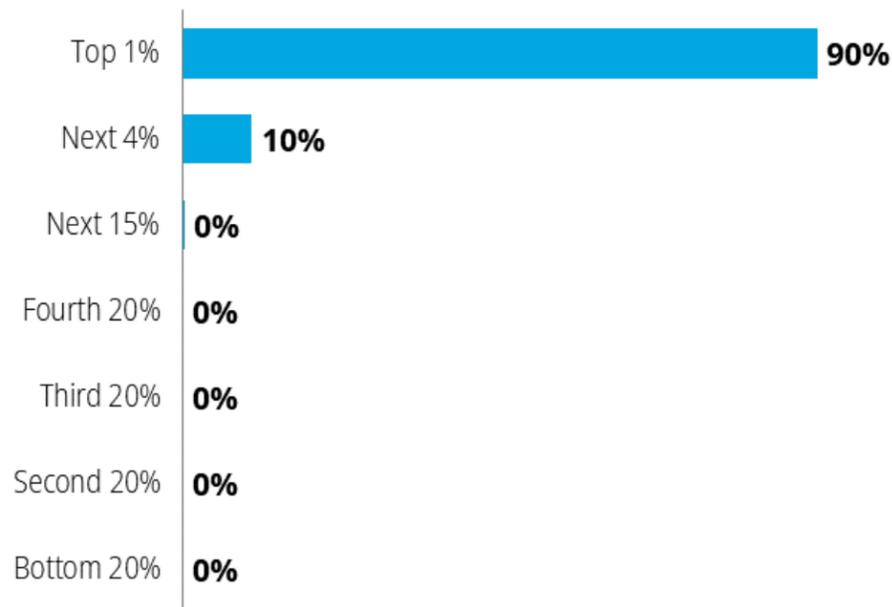


# How to pay (PAE) for it? Phase out itemized deductions for the rich.

**Making Oregonians more economically secure requires investing in our well-being: housing, education, child care, and more. One fair way to pay for these investments is to phase out itemized deductions — one of the principal ways our taxes are structured to benefit the most well-off.**

## Reducing itemized deductions would only impact the richest Oregonians

Share of total revenue raised paid by income group



Source: OCPP analysis of ITEP data.

For full citations and other publications in the How to PAE For It? series please read this report on our website [OCPP.org/how-to-pay-for-it/](https://ocpp.org/how-to-pay-for-it/)

## Good tax reform is Progressive, Adequate, and Equitable (PAE)

Good tax reforms share three characteristics. They are **progressive**, asking proportionately more of the rich than the poor. They are **adequate**, meaning they raise enough revenue to support the public services Oregonians need. And they are **equitable**, helping reduce economic disparities that are the product of our nation's history of racial and gender exclusion and oppression.

### Progressive: Phasing out itemized deductions limits tax breaks for the rich

When preparing their tax returns, Oregonians can either take the standard deduction or they can itemize their deductions, whichever is larger. In other words, they can reduce the amount of income subject to tax by either a set amount or by adding up what they spent on things that can be deducted, like interest on mortgages, charitable contributions, and more. Itemized deductions mainly benefit the rich because they have more deductions and the value of the deduction is larger due to higher tax rates. More than 40 percent of Oregon state tax filers itemize their deductions, and those that do tend to be the more well-off. In 2020, nearly every member of Oregon's top 1 percent used itemized deductions, with an average deduction of more than \$100,000.

If Oregon phases out itemized deductions starting at \$500,000 of annual income and ends them completely at \$1 million, the top 1 percent will pay 90 percent of the new revenue raised. Under this proposal, they will still be able to use the standard deduction that most Oregonians take.

### Adequate: Phasing out itemized deductions raises \$440 million per budget cycle

Confronting the economic insecurity that so many Oregonians experience requires investments in basic needs such as housing, education, and transportation. Making such investments could prove challenging, as state economists expect revenue growth to slow in the next decade.

Phasing out itemized deductions is a smart way for Oregon to raise needed revenue. The reform described above would raise about \$440 million per budget period. That is enough to cover tuition and fees at an Oregon public university for about 36,000 students.

### Equitable: Limit tax breaks for the rich reduces inequality

Itemized deductions exacerbate racial and income inequality. Those who itemize are disproportionately white and richer than most. Two of the largest itemized deductions, charitable contributions and mortgage interest deduction, were recently assessed for racial impact in a study by the U.S. Department of Treasury. While white families make up about 67 percent of filers, the study found that 91 percent of charitable deductions and 84 percent of the mortgage interest deduction accrue to white families. Phasing out itemized deductions makes Oregon's tax system more equitable for all Oregonians, but especially for Oregonians of color.

**36,000**  
The number of college students whose tuition could be fully covered by this reform.

