

Notes From Advisory Council Discussions

January 23, 2008

Strengths

- Income tax revenue outpaces economic growth
- The overall state and local tax system is one of the most progressive (or least regressive) of all states
- Property taxes are not likely to increase suddenly for individual property owners
- No sales tax may give Oregon a competitive advantage over neighboring states
- A state rainy day fund has been established
- State and local taxes are mostly deductible for federal tax purposes, although the relative advantage of this feature has decreased in recent years
- The close tie between federal and state income tax codes tends to minimize administrative and compliance costs, and facilitates enforcement

Weaknesses

- Income tax revenue is volatile
- High income tax rates, taxation of capital gains, and the inheritance tax may discourage some individuals and businesses from locating here
- Personal income tax brackets start low, are narrow, and have not been adequately adjusted for inflation
- Property taxes are limited relative to cost drivers of local government services, 3% annual growth may not relate to cost increases
- The property tax has horizontal inequities
- The property tax permanent rates (the maximums set by Measure 50) are somewhat arbitrary
- The rainy day fund was funded with one-time revenue sources and does not have a source for replenishment if needed
- There are many tax exemptions for local property and special assessments
- The property tax permanent rates are problematic for changing revenue streams, e.g., timber revenue counties
- The close tie between federal and state income taxes tends to impair Oregon's discretion on related policy issues.
- The heavy reliance on personal income taxes may reduce incentives to earn, save and invest
- The corporate and individual "kickers" appear expensive to administer

Risks

- Forest receipts
- Reduction in other federal revenues
- Additional unfunded mandates (from federal or state)
- Inflation
- Recession

- Drop in property values (low risk relative to other states)
- Voter initiatives that circumvent the legislative planning process
- Demographic changes
- Changes in business activities

Issues

- How big should the rainy day fund be, how should it be funded, and what rules should govern its use?
- Should the state compensate local governments for property tax exemptions or special assessments or reduce the number of exemptions?
- Corporate minimum tax
- Tax expenditures (tax reductions that effectively subsidize certain activities) – should they be eliminated in favor of budgeted expenditures that go through the legislative appropriation process?
- Revenue sharing from state to local governments
- Should state provide tax administration for local option taxes?
- Should capital gains receive favorable treatment?
- High personal tax rates
- Should state agencies be allowed to have reserves, i.e., develop their own rainy day funds?
- How to fund capital needs

Possible Additional Issues

- Lottery Revenues
- Sales or other consumption tax
- Tax competition among jurisdictions
- Road finance system
- User Fees
- Estate Tax
- Gross receipts tax
- Opportunities to create incentives within state government to achieve change (e.g. technology advances, process efficiencies, etc)

Criteria

- Revenue adequacy
- Stability
- Equity
- Efficiency
- Administrative and Compliance Cost
- Certainty
- Tax exporting
- Neutrality (i.e., minimum impact on business and personal decisions)
- Clarity