

OREGON'S REVENUE SYSTEM OVER THE NEXT TWO DECADES

THE STATE SYSTEM

- Personal Income Tax
 - Characteristics:
 - Relatively high long-term elasticity (1.1 to 1.2)
 - Even higher short-term elasticity (1.5 to 2)—appears to be rising as components of income change
 - High marginal rates relative to other states
 - Federal deductibility for itemizers
 - Implications:
 - Will rise relative to income over time
 - Will remain volatile—possibly more so
 - High marginal rates will remain major business concern
 - Risks
 - Tax expenditures for seniors will erode base as population ages
 - Volatility will make service provision unreliable
 - High rates will discourage investment and high wage earners as state and global competition increases
 - Target of citizen initiatives
 - Feds will phase out deductibility through AMT or through tax reform
- Corporate Income Tax
 - Characteristics:
 - Relatively low long-term elasticity (0.8 to 0.9)
 - High short-term elasticity (>2) but sales factor should reduce volatility
 - Complex administration
 - Implications:
 - Will shrink relative to income without rate or base changes—or reform
 - Pressure for tax expenditures will decline but remain as interstate competition intensifies
 - Risks
 - Complexity & competition will erode base faster than expected
 - Feds will intervene in nexus definition
- Lottery
 - Characteristics:
 - Video poker thought to be near unitary elastic in long term (1.0)
 - Was very stable in 2001 recession
 - Implications
 - Will remain near same size relative to economy in current institutional environment
 - Risks
 - Competition from tribes, other states & internet
 - Long-term social costs
- Excise Taxes & Charges
 - Characteristics:
 - Low long-term elasticity in most cases
 - Relatively stable over course of business cycle in most cases

- Implications
 - New bases must be found or rates increased for revenue to keep up with growth of economy
 - Narrow base puts heavy burden on particular consumers (for example higher education or tobacco)
- Risks
 - Key dedicated revenue sources such as tobacco & gas expected to trend down over time

THE LOCAL SYSTEM

- Property Tax
 - Characteristics
 - Long-term growth for existing property limited to 3% and new construction limited by change ratio
 - Very stable in nominal terms over course of business cycle
 - Rates set in constitution
 - Implications
 - Slow predictable revenue growth over time.
 - Revenue growth will lag behind economic growth in most jurisdictions particularly high growth regions.
 - Risks
 - Re-emergence of inflation
 - High growth coupled with in-migration causes service demand to outstrip revenue growth
 - County funding problems reduce quality of assessment function
- Federal Timber Revenue
 - Characteristics
 - Unevenly distributed across counties with some dependent on revenue for basic services
 - Very stable and predictable under PL 106-393
 - Future dependent on federal policy
 - Implications
 - Local revenue system—especially property taxes-- built around federal revenue commitment
 - Risks
 - PL 106-393 not renewed or renewed in much diminished form
- Excise Taxes & Charges
 - Characteristics
 - Wide variation in use
 - Increased reliance in light of property tax limits
 - Implications
 - Local governments likely to continue to try to diversify revenue especially if federal timber payments are significantly reduced
 - Risks
 - Distorts economic activity within region
 - Non-uniform system poses compliance problems

