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# Growth, Balance, and Distribution of Burden in Oregon's State-Local Tax System



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Growth, Balance and Distribution of  
Burden in Oregon's State-Local Tax System

by

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During the late 1960s and 1970s, the economy of Oregon experienced moderate growth. Between 1967 and 1982 total per capita personal income increased at an annual rate of about 8.5 percent (from \$3,043 to \$10,316) (Figure 1). The annual inflation rate during this period averaged about 7 percent; a dollar in 1982 was worth about one-third of what it was worth in 1967. At the same time, Oregon's population grew from 2,006,000 residents in 1967 to 2,656,000 in 1982, an average annual increase of about 2 percent.

Adjusted for inflation, real per capita personal income in Oregon grew slightly each year until 1978 (Figure 1). Every year since 1979, real per capita income has decreased.

Growth and Balance

State and local governments in Oregon rely heavily upon income taxes and property taxes. The property tax provided 44 percent of local government's revenues in 1982, while the personal income tax provided 33 percent of the Oregon state government revenues. Oregon is one of five states that does not have a general sales tax.

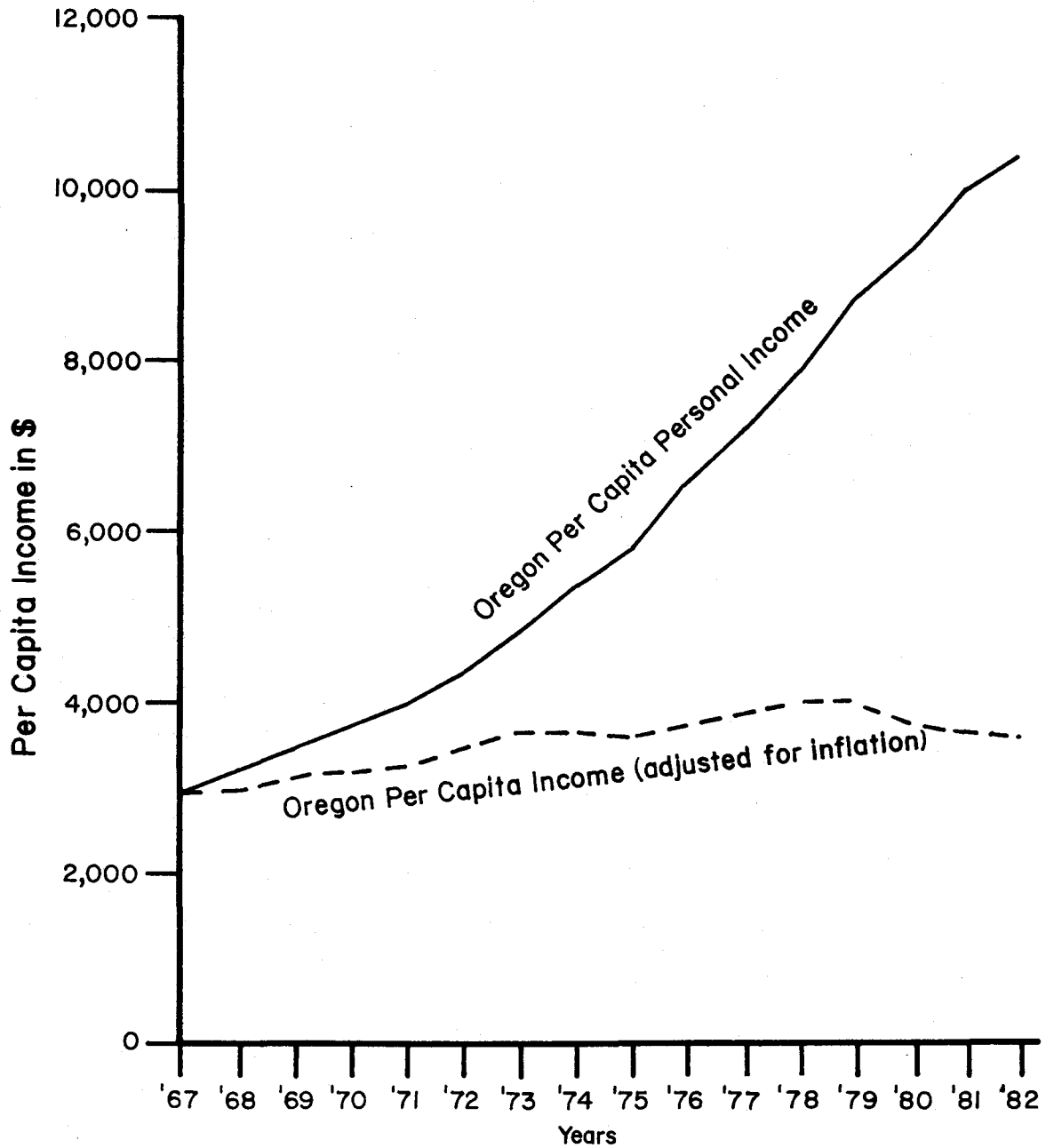


Figure 1. Oregon Per capita total personal income, 1967-1982, and Oregon per capita income adjusted for inflation.

SOURCE: Bureau of Economic Analysis, U.S. Department of Commerce.

### Personal Income Tax

During the expansion years of 1967-78, personal income taxes per capita increased steadily (Figure 2), due to real income increases, inflation, and consequent "bracket creep." "Bracket creep" occurs when personal income tax rates remain constant and nominal incomes increase on account of inflation; as this happens, taxpayers move into higher tax brackets, a greater proportion of personal income is taxed at higher rates, resulting in income tax revenues increasing at a faster pace than income. Real per capita incomes increased 34 percent from 1967 to 1978 (Figure 1); real per capita income taxes increased from \$95 in 1967 to \$190 in 1978, an increase of 100 percent (Figure 2).

Between 1978 and 1982, when the economy slowed and inflation decreased, real per capita incomes declined by 12 percent; per capita income taxes paid declined to \$130, a decrease of 32 percent. One of the causes of this tax revenue decline was what might be termed "bracket slump," where taxpayers with reduced incomes slid back into lower tax brackets. Also, there was a change in total personal income composition, away from salary and wages and toward dividends, interest, and transfer payments (unemployment, social security, etc.). Since a portion of these are not taxed, or may be excluded or deferred, revenues collected from personal income taxes continued to shrink.

On the average, between 1967-1982 per capita Oregon income taxes increased a total of 37 percent, while real per capita income in the same period increased by 17 percent.

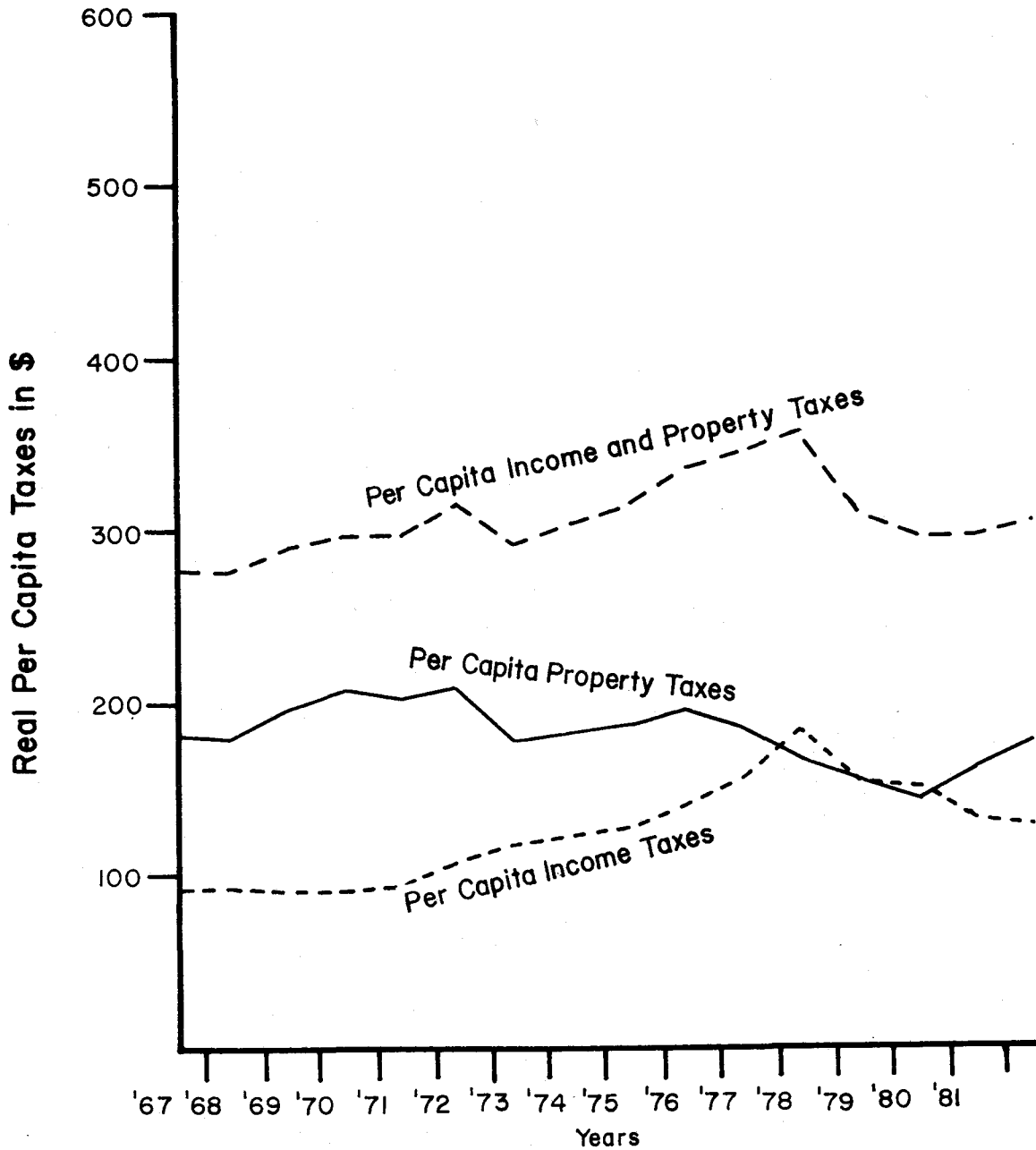


Figure 2. Per capita real income tax and real property tax\* paid in Oregon.

\* Property Taxes, Net of Property, Tax Relief.

SOURCE: Oregon Executive Department, Oregon Legislative Revenue Office.

### Property Tax

Real per capita property taxes, after accounting for property tax relief, have generally declined over the period between 1967-1980 (Figure 2).

The State inaugurated a major program of low-income Homeowners and Renters Relief (HAARP) in 1973 and a program of Property Tax Relief (PTR) under which the State paid a portion of the property taxes of all homeowners and initiated a payment to renters in 1979. Accounting for inflation and property tax relief, per capita property taxes in constant dollars declined from \$181 in 1967 to \$144 in 1980. This downward trend reversed between 1980 and 1982, in part because of reduction in the property tax relief programs and voter approval of increased local tax levies in response to cutbacks in Federal payments to local governments. Overall, between 1967 and 1982, per capita real property taxes, after accounting for property tax relief, decreased from \$181 to \$173, a reduction of 4.5 percent.

### Personal Income and Property Taxes Combined

The real per capita tax burden from income and property taxes increased 9 percent between 1967 and 1982, while real per capita income increased by 17 percent (Figures 1 and 2). These relative percentages could be distorted because of the recession and high rate of unemployment in 1982. In the absence of the recession the increase in real tax rates would be expected to exceed the increase in real income. Based on the same tax rates, if the economy should recover, a larger increase in per capita income tax per capita income would be expected.

Income and property taxes as a percent of personal income have remained quite constant over the 1967-82 period, showing a decline in 1978

through 1981 (Figure 3). An upward turn in 1981 brought these taxes to 9.0 percent of personal income, down from 9.2 percent in 1967.

#### Composition of Personal Income and Property Tax Package

The composition of the personal income/property tax package has shifted back and forth over the 1967-82 period. In 1967 the property tax was dominant, yielding 1.6 times as much revenue as the income tax. By 1978-79, income tax payments were 1.4 times property taxes. This trend reversed in 1980-81 so that the 1981-82 fiscal years have seen a return to the dominance of the property tax. By 1982-1983 declines in income tax revenues and in property tax relief payments, combined with voter approval of higher property tax levies, caused property taxes to increase to 1.2 times income tax payments.

#### Distribution of Tax Burden

The "total" tax package of all major taxes, both federal and state, is progressive; that is, the proportion of one's income paid in taxes increases as one's income increases. The federal income tax takes the largest share of the taxes collected and is also the more progressive of the two (Figure 4).

The Oregon income tax, while less progressive than the Federal income tax, is progressive as well (Figure 4).

Because of property tax relief for low income taxpayers, the property tax is progressive, at least up to the \$17,500 maximum income for the participation in the HAARP program.

Property taxes in Oregon are imposed mainly on the value of real property, which consists of land and permanent fixtures such as buildings.



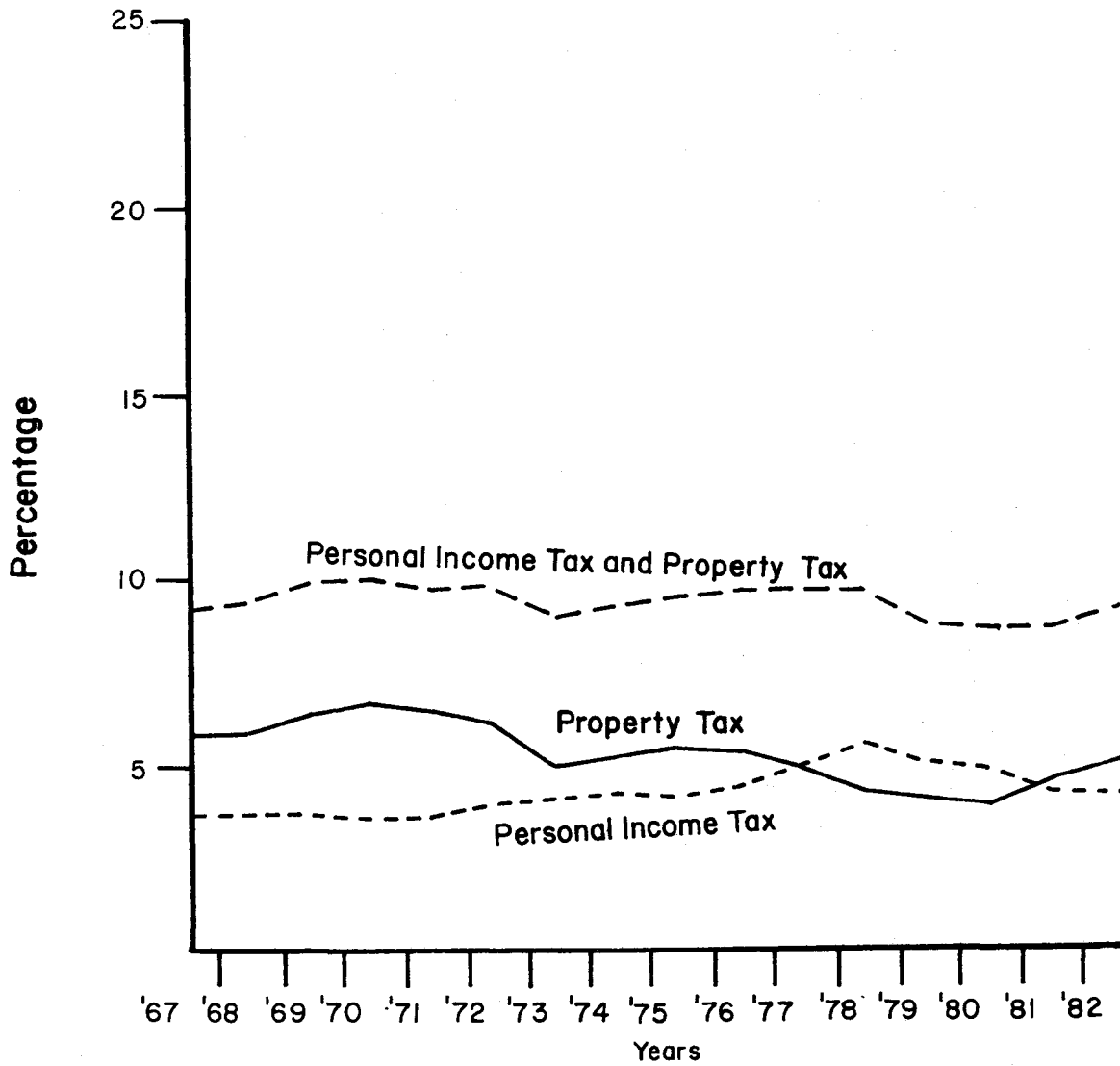


Figure 3. Percent of total personal income tax and property tax\* to total personal income in Oregon.

\* Property Taxes, Net of Property, Tax Relief.

SOURCE: Oregon Executive Department, Oregon Legislative Revenue Office.

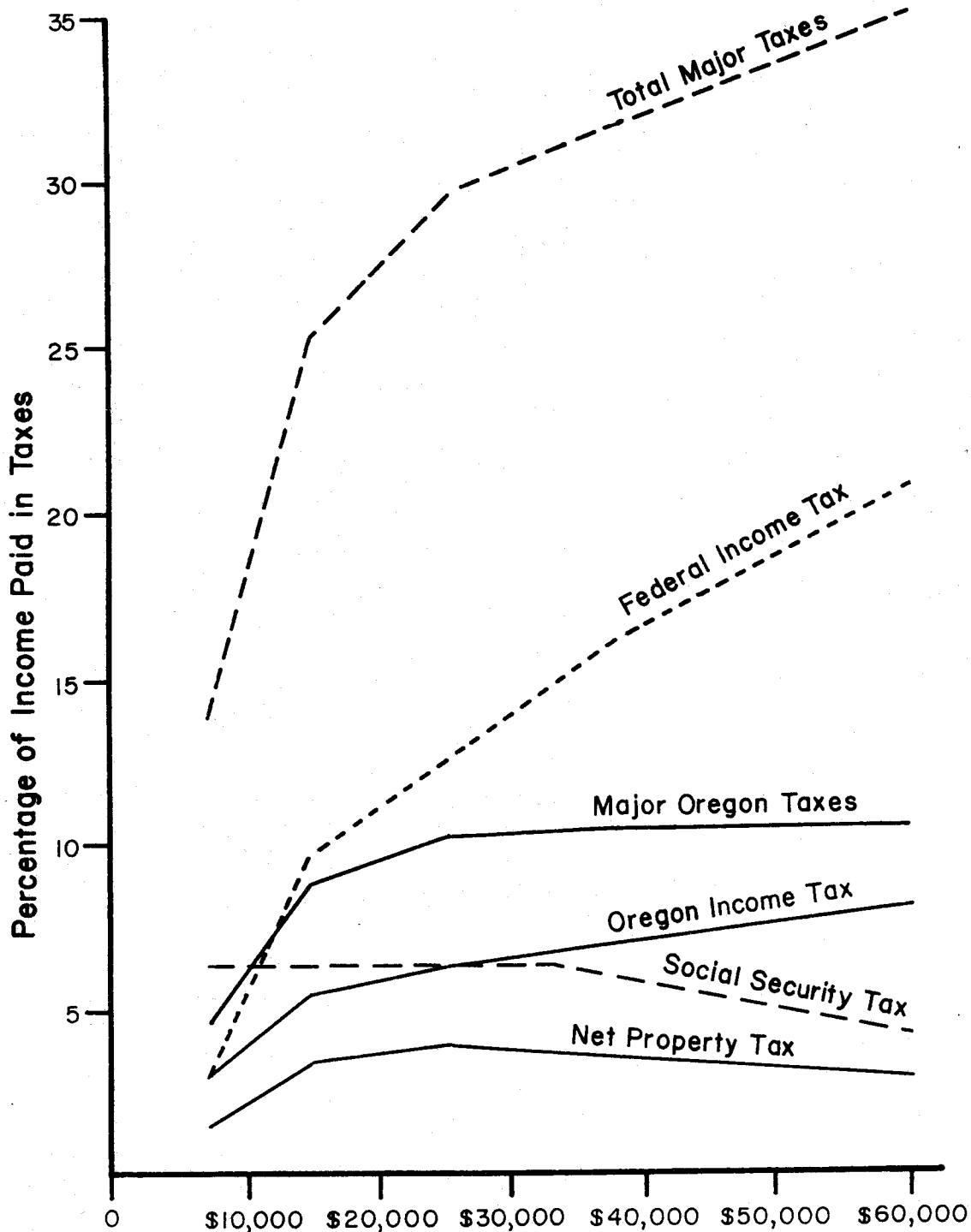


Figure 4. Equity in Oregon's tax system\* percentage of adjusted gross income paid in taxes.

\* Percentage of adjusted gross income to Social Security, net property tax, Federal income tax, Oregon income tax, total major taxes. Family of two with increasing house values.

SOURCE: Oregon Executive Department, Oregon Legislative Revenue Office.

According to information gathered by the Oregon Legislative Revenue Office, the value of housing above a certain level usually does not increase in direct proportion to increases in personal income. The result is that the property tax in Oregon is slightly regressive above \$25,000 of adjusted gross income (Figure 4).

The total Oregon state-local income and property tax package is a progressive system up to about \$25,000 in income and a proportional system for taxpayers above this income level (Figure 4). In 1982, the 59 percent of the taxpayers reporting adjusted gross income of less than \$15,000 accounted for 25 percent of the total income in Oregon. They also paid 20 percent of the state's personal income taxes and 25 percent of the property taxes (after accounting for property tax relief) (Table I). The 19 percent with adjusted gross incomes of more than \$25,000 received 49 percent of total Oregon income and paid 54 percent of the state's income taxes and 45 percent of the local property taxes.

Table I. Percentage of Returns, Percentage of State Personal Income Tax Collected, and Percentage of Net Property Tax Collected from Homeowners in Selected Income Groups (1982)

Adjusted Gross Income Bracket	0 - 7,110	7,110 - 15,287	15,287 - 24,922	24,922 - 37,981	37,981 - 59,018	> 59,018
Percentage of Returns	26	23	21	13	5	1
Percentage of Total Oregon Per- sonal Income	8	17	26	25	14	10
Percentage of State Per- sonal Income Tax Collected	5	15	25	25	18	11
Percentage of Net Property Tax Collected	6	19	30	26	12	7

SOURCE: Oregon Executive Department, Oregon Legislative Revenue Office.

### Summary

Total personal income in Oregon has increased 340 percent during 1967-1982, yet when adjusted for inflation, real per capita income increased only 17 percent during this period. The sum of state income taxes and local property taxes has, as a percent of personal income over this 16-year period, remained quite constant (around 9 percent). The income-property tax system in Oregon is progressive up to \$25,000 of adjusted gross income and proportional thereafter. The mix of the two tax sources has shifted from heavier reliance on property taxes in the early years, to greater reliance on income taxes during the late 1970s, and back to greater reliance on property taxes during the most recent period.



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