

Tax Reform Overview

Senate Finance & Revenue

September 28, 2023

State of Oregon

LEGISLATIVE REVENUE OFFICE





Discussion Outline

- Tax Reform Efforts
- Policy Change Analysis
 - Static vs Dynamic Scoring
- Federal Child Tax Credit and Poverty

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Tax Reform Efforts

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1998 Governor's Tax Review

- The impact of voter initiatives
- Increased sensitivity to changes in the economy
- Fundamental change in relationship between state and local governments
- Less regressive due to shift in income and property taxes
- The new property tax system may create equity issues





2002 Revenue Options, School Funding and Accountability Task Force

- Reduced property tax burden reduced overall relative tax burden
- S&L governments use non-tax revenue to offset property tax reductions
- Schools are critical to Oregon's quality of life and economic development
- Accountability between school districts and their communities has eroded





2008 Task Force on Comprehensive Revenue Restructuring

- The state revenue system remains highly volatile over the short-term.
- The GF budget has been forced out of balance by passage of voter initiatives
- School finance remains vulnerable to the volatility of the personal income tax
- The budget process may not properly account for long-term fiscal implications
- The state faces immediate revenue needs in transportation and health care
- Local government revenue remains closely tied to the property tax
- Local governments are put under stress when the inflation rate rises above 5%
- Measure 50 does allow for voter-approved new taxing districts for services
- Measure 50 creates inequities in the property tax system
- Fiscal stress at one level of government affects the other





2015 Analysis of Options for Restructuring Oregon's State and Local Revenue System*

- The tax system can be restructured for gains in income, employment, and investment
- A move toward consumption taxes is likely to improve the cyclical stability
- The tax burden distribution for Oregon is essentially proportional
- Important considerations of comprehensive tax reform includes:
 - Planning for a transition period
 - Addressing tax administration changes
 - Impact of changing expenditures on long-term economic performance





Policy Change Analysis

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Oregon's Personal Income Tax Brackets

2023 TAX YEAR RATE SCHEDULE

| SINGLE RETURNS | | JOINT RETURNS | |
|-----------------------|--|-----------------------|--|
| Taxable Income | Tax Before Credits | Taxable Income | Tax Before Credits |
| Not over \$4,050 | 4.75% of taxable income | Not over \$8,100 | 4.75% of taxable income |
| \$4,050 to \$10,200 | \$192 + 6.75% of income over \$4,050 | \$8,100 to \$20,400 | \$385 + 6.75% of income over \$8,100 |
| \$10,200 to \$125,000 | \$608 + 8.75% of income over \$10,200 | \$20,400 to \$250,000 | \$1,215 + 8.75% of income over \$20,400 |
| Over \$125,000 | \$10,653 + 9.9% of income over \$125,000 | Over \$250,000 | \$21,305 + 9.9% of income over \$250,000 |

2012 TAX YEAR RATE SCHEDULE

| SINGLE RETURNS | | JOINT RETURNS | |
|----------------------|--|-----------------------|--|
| Taxable Income | Tax Before Credits | Taxable Income | Tax Before Credits |
| Not over \$3,150 | 5% of taxable income | Not over \$6,300 | 5% of taxable income |
| \$3,150 to \$7,950 | \$158 + 7% of income over \$3,100 | \$6,300 to \$15,900 | \$315 + 7% of income over \$6,200 |
| \$7,950 to \$125,000 | \$494 + 9% of income over \$7,750 | \$15,900 to \$250,000 | \$987 + 9% of income over \$15,500 |
| Over \$125,000 | \$11,028 + 9.9% of income over \$125,000 | Over \$250,000 | \$22,056 + 9.9% of income over \$250,000 |





Static Impact Analysis (Doubling Brackets)

DOUBLE THE 5% AND 7% TAX BRACKETS

| SINGLE RETURNS | | JOINT RETURNS | |
|-----------------------|--|-----------------------|--|
| Taxable Income | Tax Before Credits | Taxable Income | Tax Before Credits |
| Not over \$6,300 | 5% of taxable income | Not over \$12,600 | 5% of taxable income |
| \$6,300 to \$15,900 | \$315 + 7% of income over \$6,300 | \$12,600 to \$31,800 | \$630 + 7% of income over \$12,600 |
| \$15,900 to \$125,000 | \$987 + 9% of income over \$15,900 | \$31,800 to \$250,000 | \$1,974 + 9% of income over \$31,800 |
| Over \$125,000 | \$10,806 + 9.9% of income over \$125,000 | Over \$250,000 | \$21,612 + 9.9% of income over \$250,000 |

| | Biennium (\$M) | | |
|--------------|----------------|----------|----------|
| | 2011-13 | 2013-15 | 2015-17 |
| General Fund | -\$545.0 | -\$838.2 | -\$911.4 |





Distribution for tax year: 2012

| Income Class (\$) | FY Returns | Oregon Tax (\$M) | | | | Federal Tax (\$M) | | Total Income (\$M) | Average \$ Change |
|-----------------------|------------------|------------------|------------------|-----------------|------------|-------------------|---------------|--------------------|-------------------|
| | | Current | Proposed | Change | % Change | Base | Change | | |
| All Returns | | | | | | | | | |
| LESS THAN 10,000 | 236,873 | \$10.8 | \$8.0 | -\$2.8 | -26% | -\$42.1 | \$0.0 | -\$488.0 | -\$12 |
| 10,000 TO 20,000 | 251,480 | \$91.6 | \$67.2 | -\$24.4 | -27% | -\$202.8 | \$0.0 | \$3,706.2 | -\$97 |
| 20,000 TO 30,000 | 210,514 | \$183.7 | \$146.9 | -\$36.8 | -20% | -\$49.2 | \$0.4 | \$5,123.9 | -\$175 |
| 30,000 TO 40,000 | 149,015 | \$219.7 | \$184.3 | -\$35.4 | -16% | \$137.4 | \$0.8 | \$5,122.5 | -\$238 |
| 40,000 TO 50,000 | 120,325 | \$242.6 | \$209.6 | -\$33.0 | -14% | \$220.9 | \$1.6 | \$5,328.6 | -\$275 |
| 50,000 TO 70,000 | 184,896 | \$519.1 | \$463.4 | -\$55.8 | -11% | \$694.3 | \$5.8 | \$10,892.4 | -\$302 |
| 70,000 TO 100,000 | 221,679 | \$944.4 | \$867.2 | -\$77.2 | -8% | \$1,576.8 | \$9.8 | \$18,456.1 | -\$348 |
| 100,000 TO 200,000 | 185,765 | \$1,409.1 | \$1,338.2 | -\$70.9 | -5% | \$2,904.6 | \$13.9 | \$23,959.1 | -\$382 |
| 200,000 TO 500,000 | 37,739 | \$752.1 | \$737.2 | -\$14.9 | -2% | \$2,260.3 | \$2.5 | \$10,569.5 | -\$394 |
| 500,000 AND OVER | 7,738 | \$729.4 | \$726.3 | -\$3.1 | 0% | \$2,957.1 | \$0.4 | \$8,811.5 | -\$397 |
| TOTAL | 1,606,024 | \$5,102.5 | \$4,748.2 | -\$354.3 | -7% | \$10,457.2 | \$35.2 | \$91,481.9 | -\$221 |
| Single Returns | | | | | | | | | |
| LESS THAN 10,000 | 190,947 | \$14.3 | \$11.6 | -\$2.8 | -19% | -\$8.2 | \$0.0 | \$540.9 | -\$14 |
| 10,000 TO 20,000 | 168,189 | \$95.8 | \$75.4 | -\$20.4 | -21% | -\$10.1 | \$0.0 | \$2,439.2 | -\$121 |
| 20,000 TO 30,000 | 113,167 | \$142.0 | \$120.1 | -\$21.8 | -15% | \$79.1 | \$0.4 | \$2,758.4 | -\$193 |
| 30,000 TO 40,000 | 74,255 | \$135.9 | \$121.7 | -\$14.1 | -10% | \$146.7 | \$0.8 | \$2,546.7 | -\$191 |
| 40,000 TO 50,000 | 55,428 | \$129.0 | \$118.4 | -\$10.6 | -8% | \$184.8 | \$1.0 | \$2,454.2 | -\$192 |
| 50,000 TO 70,000 | 75,426 | \$229.5 | \$214.7 | -\$14.7 | -6% | \$470.6 | \$2.6 | \$4,406.2 | -\$196 |
| 70,000 TO 100,000 | 51,317 | \$233.3 | \$223.0 | -\$10.3 | -4% | \$665.8 | \$2.0 | \$4,180.4 | -\$200 |
| 100,000 TO 200,000 | 19,945 | \$156.6 | \$152.6 | -\$4.0 | -3% | \$498.7 | \$0.7 | \$2,511.7 | -\$203 |
| 200,000 TO 500,000 | 3,238 | \$68.6 | \$67.9 | -\$0.7 | -1% | \$243.3 | \$0.1 | \$915.7 | -\$207 |
| 500,000 AND OVER | 806 | \$70.5 | \$70.4 | -\$0.2 | 0% | \$361.2 | \$0.0 | \$976.9 | -\$210 |
| TOTAL | 752,717 | \$1,275.5 | \$1,175.8 | -\$99.7 | -8% | \$2,631.8 | \$7.5 | \$23,730.3 | -\$132 |
| Joint Returns | | | | | | | | | |
| LESS THAN 10,000 | 45,926 | -\$3.6 | -\$3.6 | \$0.0 | 0% | -\$33.8 | \$0.0 | -\$1,029.0 | \$0 |
| 10,000 TO 20,000 | 83,291 | -\$4.2 | -\$8.2 | -\$4.0 | -95% | -\$192.7 | \$0.0 | \$1,267.0 | -\$48 |
| 20,000 TO 30,000 | 97,347 | \$41.7 | \$26.8 | -\$15.0 | -36% | -\$128.3 | \$0.0 | \$2,365.5 | -\$154 |
| 30,000 TO 40,000 | 74,760 | \$83.8 | \$62.5 | -\$21.3 | -25% | -\$9.4 | \$0.1 | \$2,575.8 | -\$285 |
| 40,000 TO 50,000 | 64,897 | \$113.6 | \$91.2 | -\$22.4 | -20% | \$36.2 | \$0.6 | \$2,874.5 | -\$345 |
| 50,000 TO 70,000 | 109,471 | \$289.7 | \$248.7 | -\$41.0 | -14% | \$223.7 | \$3.2 | \$6,486.2 | -\$375 |
| 70,000 TO 100,000 | 170,362 | \$711.1 | \$644.1 | -\$67.0 | -9% | \$911.0 | \$7.9 | \$14,275.7 | -\$393 |
| 100,000 TO 200,000 | 165,820 | \$1,252.5 | \$1,185.6 | -\$66.9 | -5% | \$2,405.9 | \$13.1 | \$21,447.5 | -\$403 |
| 200,000 TO 500,000 | 34,501 | \$683.5 | \$669.3 | -\$14.2 | -2% | \$2,017.0 | \$2.4 | \$9,653.8 | -\$412 |
| 500,000 AND OVER | 6,932 | \$658.9 | \$656.0 | -\$2.9 | 0% | \$2,595.9 | \$0.4 | \$7,834.6 | -\$418 |
| TOTAL | 853,307 | \$3,827.0 | \$3,572.4 | -\$254.6 | -7% | \$7,825.4 | \$27.7 | \$67,751.6 | -\$298 |

Double the
5% & 7% Tax
Brackets

Distributional
Impact

2011 Projections for
Tax Year 2012



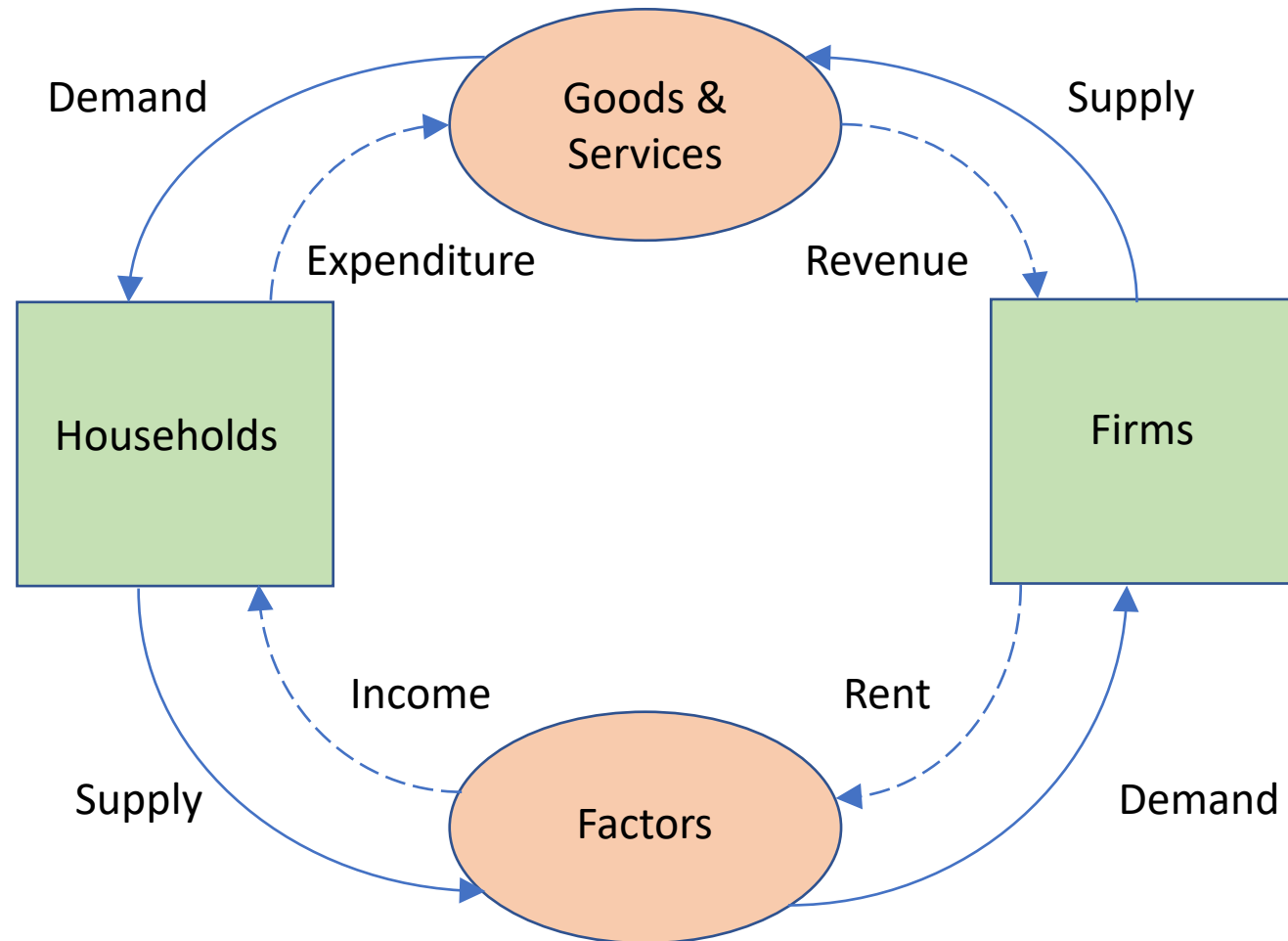
Moving to Dynamic Scoring

- **Microeconomic Effects**
 - Taxpayer specific behavioral responses to tax law changes
 - May not affect total economic activity
- **Macroeconomic Effects**
 - Large scale behavioral changes
 - Changes volume of economic activity
- **Partial Equilibrium**
 - Single market analysis
- **General equilibrium**
 - Economywide markets



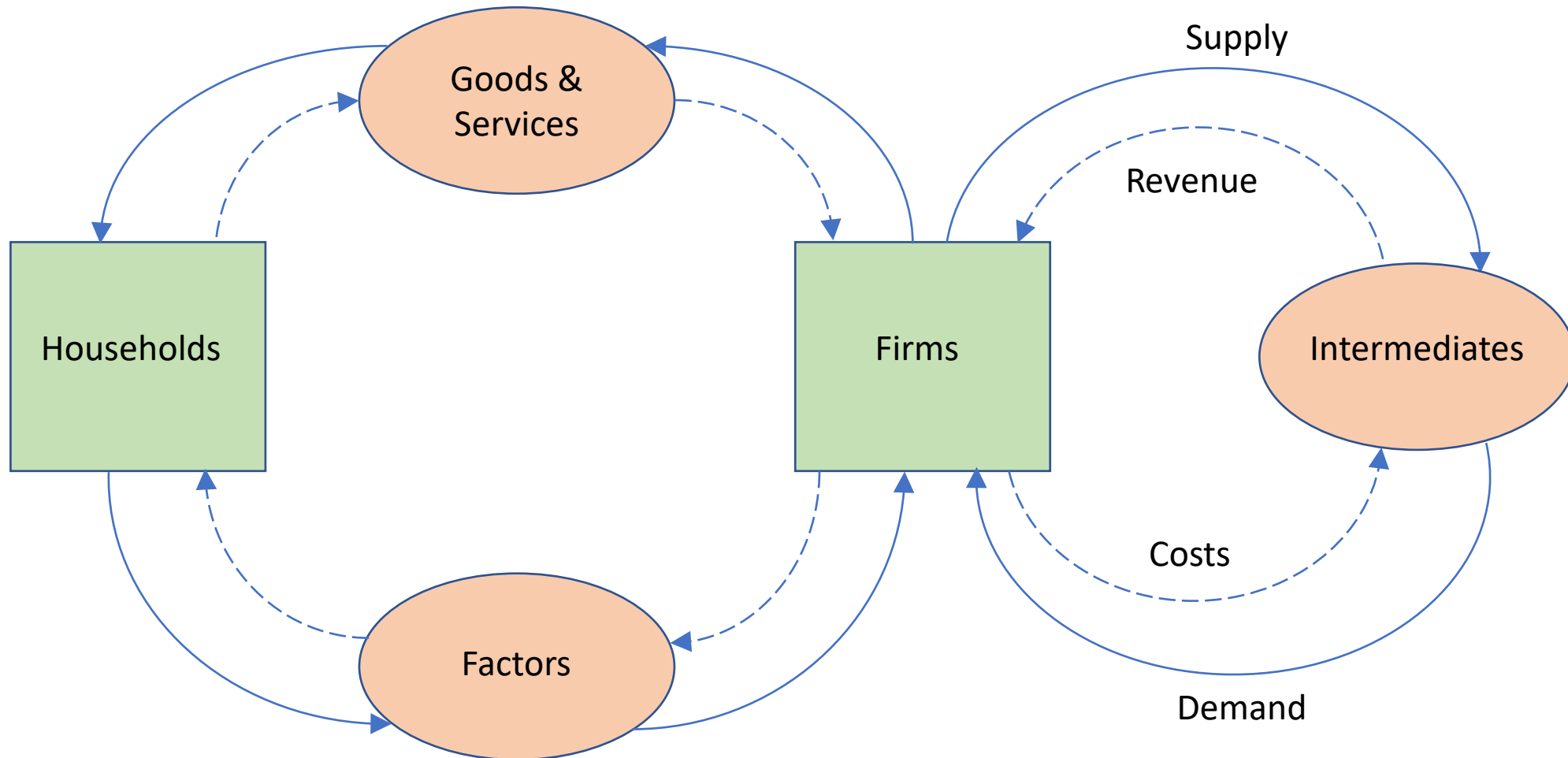


OTIM: The Basic Circular-Flow Diagram



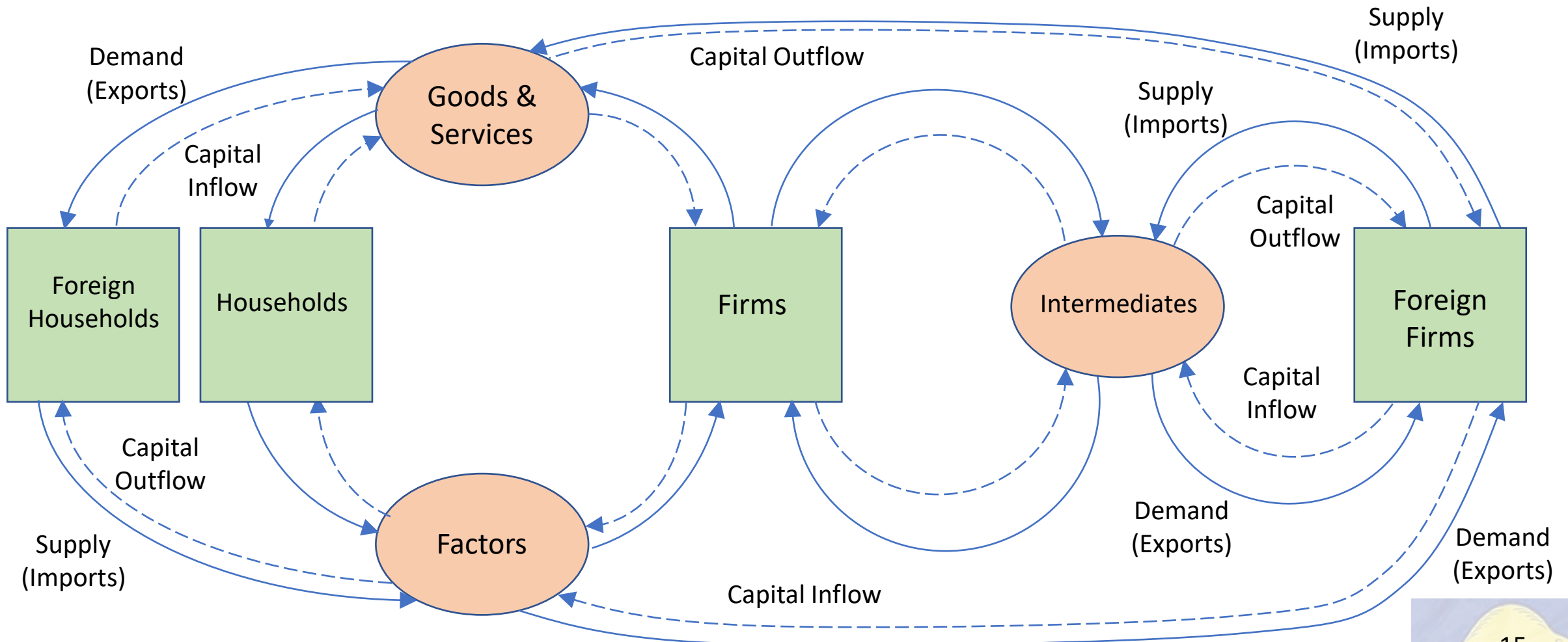


...plus Intermediate Goods & Services



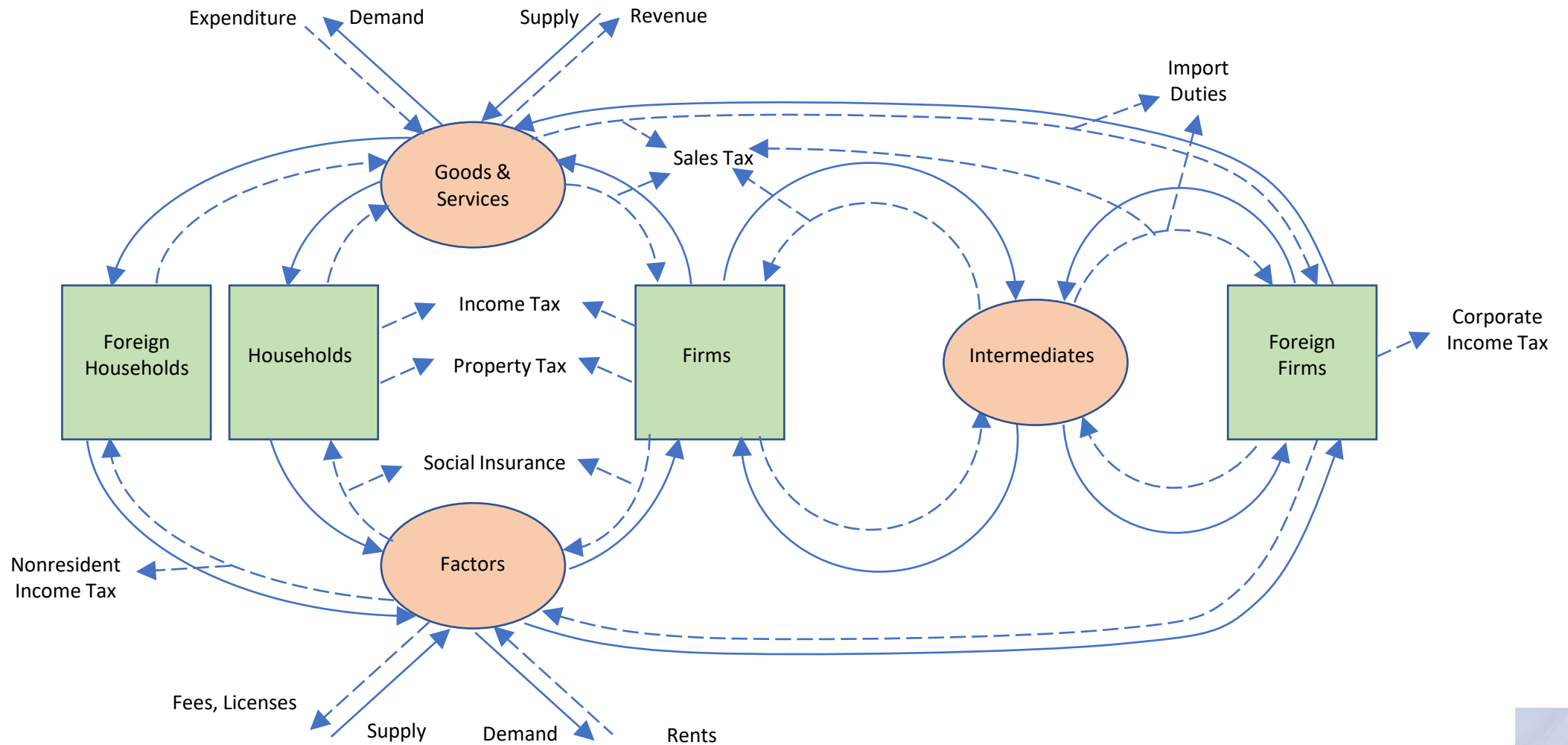


...plus Rest-of-World Trade





...plus State & Local Governments





Double the 5% & 7% Tax Brackets

Dynamic Impact

OTIM Simulation

(effective 1-1-2012):

4/20/2011

(1) Double 5% and 7% tax brackets

| 2012 Levels | | | | |
|--------------------------------------|-----------|-----------------|-------------------------|-------------------|
| | Baseline | New Equilibrium | Change From Baseline | Percent Change |
| Private Sector | | | | |
| Personal Income (\$M) | \$155,380 | \$155,947 | \$567 | 0.4% |
| Employment | 2,180,013 | 2,195,519 | 15,506 | 0.7% |
| Population | 3,891,698 | 3,900,937 | 9,239 | 0.2% |
| Investment (\$M) | \$17,197 | \$17,237 | \$39 | 0.2% |
| Wage Index | 100.0 | 99.5 | -0.5 | -0.5% |
| Return to Capital | 100.0 | 100.3 | 0.3 | 0.3% |
| Price Levels | 100.0 | 99.9 | -0.1 | -0.1% |
| Public Sector | | | | |
| State Spending (\$M) | \$21,647 | \$21,329 | -\$318 | -1.5% |
| GF Revenue (\$M) | \$7,132 | \$6,791 | -\$341 | -4.8% |
| OF Revenue (\$M) | \$14,515 | \$14,537 | \$22 | 0.2% |
| Local Govt Revenue (\$M) | \$11,636 | \$11,665 | \$29 | 0.3% |
| Federal Tax Paid by Oregonians (\$M) | \$31,087 | \$31,198 | \$111 | 0.4% |

| | |
|--------------------------------------|--------|
| Static Revenue Impact (\$ Millions) | -\$354 |
| Dynamic Revenue Impact (\$ Millions) | \$65 |
| Net Revenue Impact (\$ Millions) | -\$289 |

| | |
|------------------------------------|--------|
| General Fund Change (\$ Millions) | -\$341 |
| Other Funds Change (\$ Millions) | \$22 |
| Local Revenue Change (\$ Millions) | \$29 |





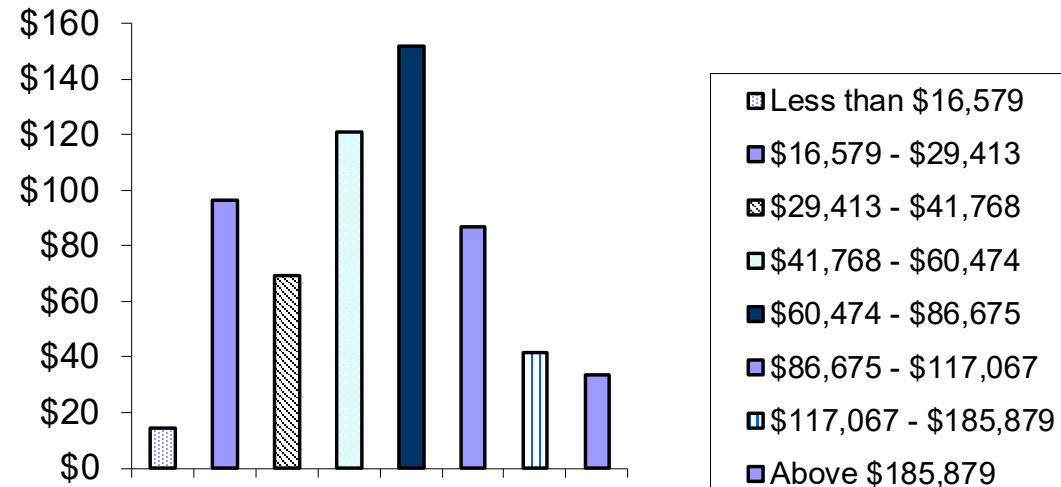
Total Net Household Income

| | Baseline (\$M) | New Equilibrium (\$M) | Difference (\$M) | % Difference | Change in Number of Hholds | Mean HH Income Change (\$) |
|-----------------------|-------------------|--------------------------|---------------------|--------------|----------------------------------|----------------------------------|
| Less than \$16,579 | \$4,277 | \$4,291 | \$14 | 0.3% | 117 | \$60 |
| \$16,579 - \$29,413 | \$9,574 | \$9,671 | \$97 | 1.0% | 960 | \$281 |
| \$29,413 - \$41,768 | \$13,711 | \$13,781 | \$69 | 0.5% | 481 | \$203 |
| \$41,768 - \$60,474 | \$19,953 | \$20,073 | \$121 | 0.6% | 840 | \$244 |
| \$60,474 - \$86,675 | \$32,120 | \$32,271 | \$152 | 0.5% | 687 | \$291 |
| \$86,675 - \$117,067 | \$17,334 | \$17,421 | \$87 | 0.5% | 379 | \$314 |
| \$117,067 - \$185,879 | \$14,490 | \$14,532 | \$42 | 0.3% | 146 | \$222 |
| Above \$185,879 | \$10,933 | \$10,966 | \$34 | 0.3% | 67 | \$393 |
| TOTAL | \$122,391 | \$123,006 | \$615 | 0.5% | 3,677 | |

Double the
5% & 7% Tax
Brackets

Dynamic Impact

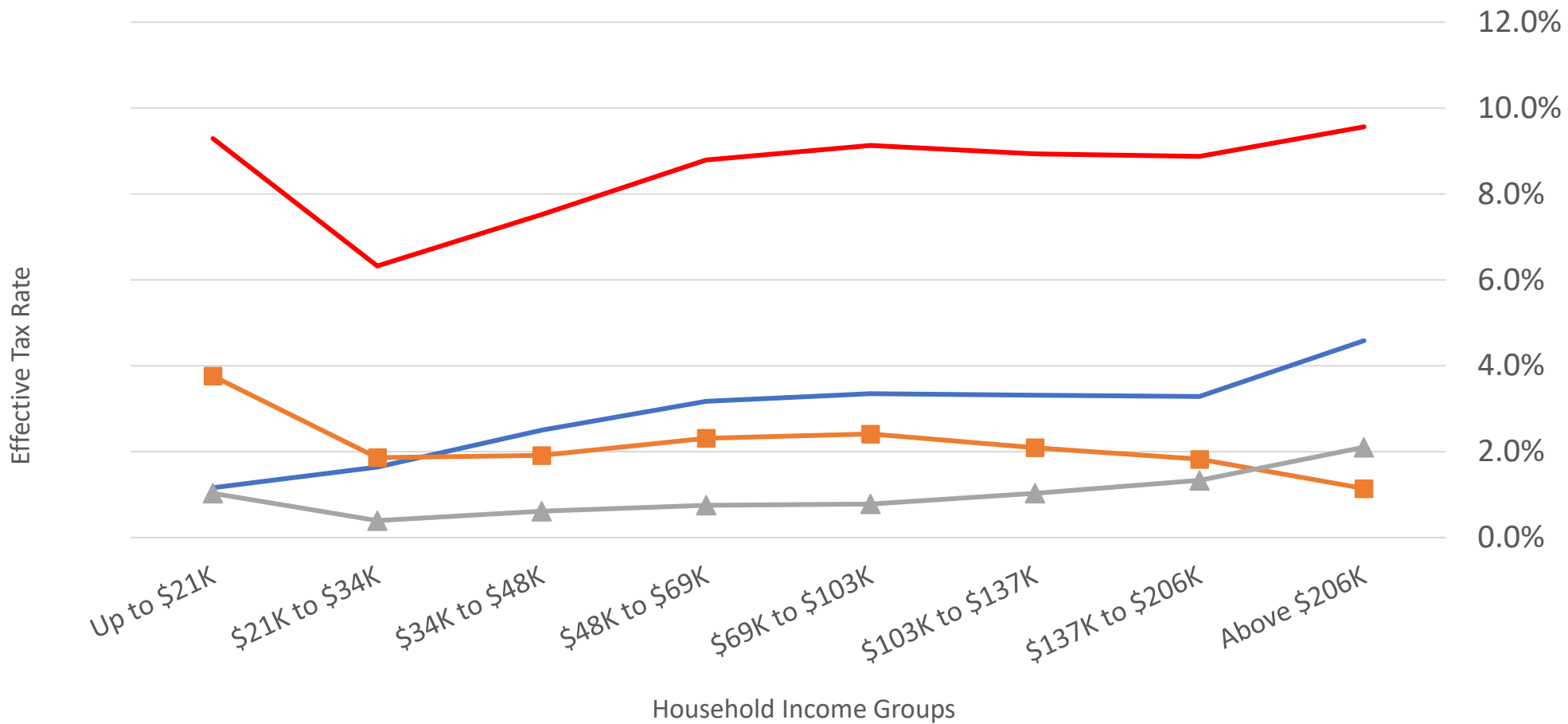
Change in Total Net Household Income (\$M)





Distribution of Tax Burden for Oregon's Major Taxes

(Taxes Paid Directly and Indirectly Divided by Household INCOME)



— Personal Income Tax — Residential Property Tax — Business Property Tax — All Taxes





Federal Child Tax Credit

State of Oregon

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The Impact of the
2021 Expanded
Child Tax Credit on
Child Poverty

by

Kalee Burns and
Liana E. Fox, U.S.
Census Bureau

| Child Tax Credit Policy: 2020 and 2021 | | |
|--|---|--|
| Year | 2020 (Tax Cuts and Jobs Act—TCJA) | 2021 (American Rescue Plan Act—ARPA) |
| Credit | \$2,000 credit per child under aged 0-16 | <ul style="list-style-type: none"> • \$3,600 credit for children aged 0-5 • \$3,000 for children aged 6-17 |
| Refundability | Partially refundable, up to \$1,400/child | Fully refundable |
| Eligibility | Must have at least \$2,500 in earned income | No minimum earned income |
| Phase Out | Begins to phase out at a rate of \$50 for every \$1,000 in additional income over income thresholds | Gradually phases out at a rate of 5 percent as income exceeds specified thresholds until the credit amount equals the TCJA-law maximum of \$2,000 per child |
| Phase-Out Income Thresholds | <ul style="list-style-type: none"> • \$200,000 for single/head-of-household filers • \$400,000 for married-joint filers | <ul style="list-style-type: none"> • \$75,000 for single filers • \$112,500 for head of household filers • \$150,000 for married joint filers |

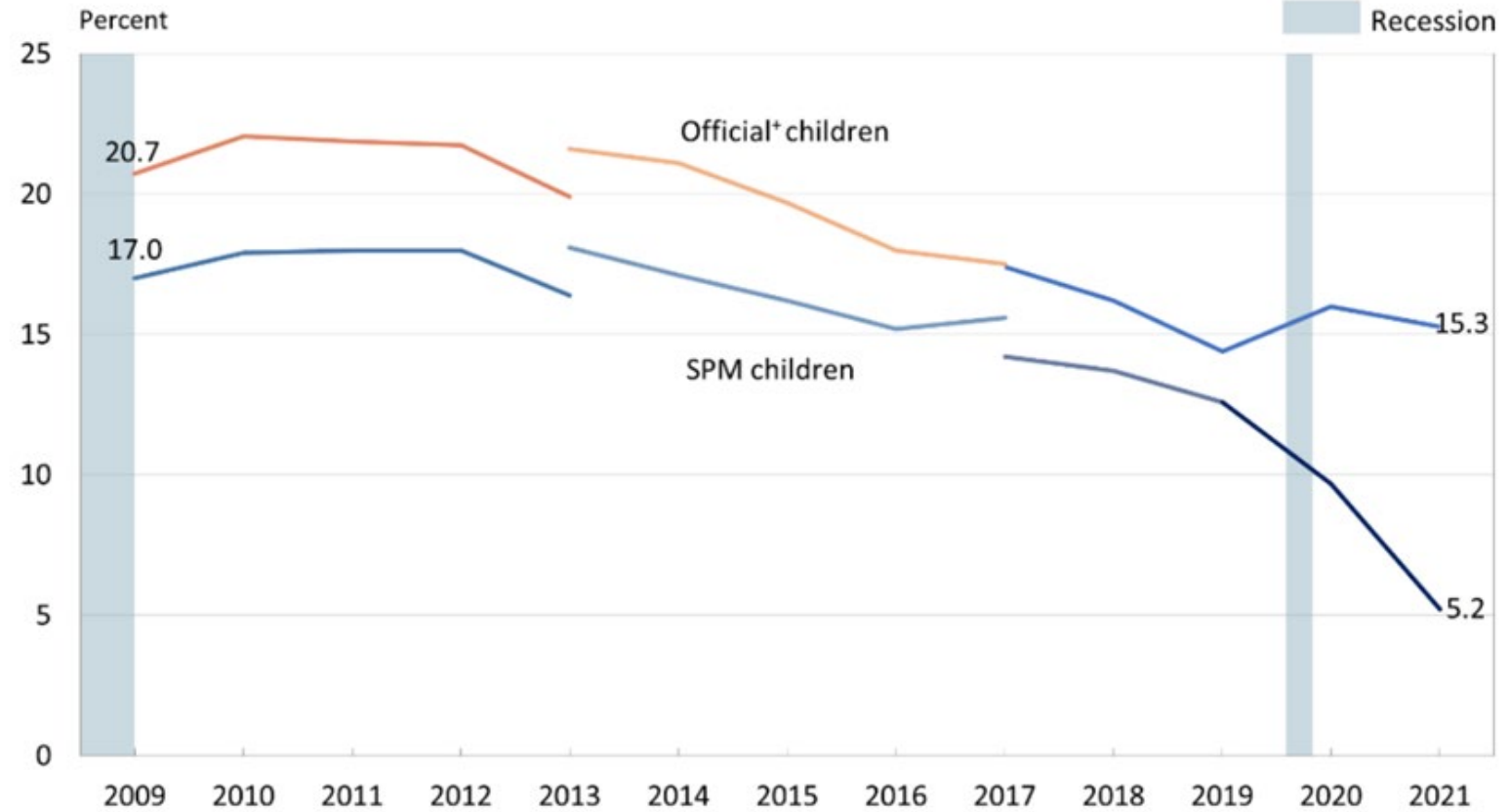


The Impact of the 2021 Expanded Child Tax Credit on Child Poverty

by

Kalee Burns and Liana E. Fox, U.S. Census Bureau

Figure 1.
Child Poverty Rates Using the Official+ and the Supplemental Poverty Measures: 2009 to 2021



Notes: Population as of March of the following year. Official+ includes unrelated individuals under age 15. The Supplemental Poverty Measure (SPM) estimates for 2019 and beyond reflect the implementation of revised SPM methodology. More information is available in *Poverty in the United States: 2021*. The data for 2017 and beyond reflect the implementation of an updated processing system. The data for 2013 and beyond reflect the implementation of the redesigned income questions. The data points are placed at the midpoints of the respective years. More information on confidentiality protection, sampling error, nonsampling error, and definitions is available at <https://www2.census.gov/programs-surveys/cps/techdocs/cpsmar22.pdf>.

Source: U.S. Census Bureau, Current Population Survey, 2010 to 2022 Annual Social and Economic Supplements (CPS ASEC).

For More Information

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