Oregon’s Tax System in Context

Some basic facts

This publication is a companion to Measure 2 and Oregon’s Tax System, Extension Circular 1214. Both these publications are available at no charge. They are also part of an information kit, “Oregon’s Tax System and Measure 2,” published jointly by the OSU Extension Service and the Bureau of Governmental Research and Service at the University of Oregon.

Q. What are the major revenue sources for the state general fund?
A. The state personal income tax provides 77 percent of the expected $3.2 billion revenue in Oregon’s 1983-85 general fund. Another 9 percent of the expected revenue comes from the corporate income/excise tax, and the remaining 14 percent comes from a variety of sources, including interest earnings, liquor revenues, cigarette taxes, insurance taxes, and gift and inheritance taxes.

Q. What is the state general fund used for?
A. Thirteen percent of the 1983-85 state general fund is budgeted for property tax relief for individuals and 32 percent for aid to local education (elementary schools, secondary schools, and community colleges). The remaining 55 percent is budgeted for state agency operations such as human resources, higher education, the judiciary, and natural resources.

Source: Oregon Legislative Revenue Office

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For most current information: http://extension.oregonstate.edu/catalog

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Q. How are local governments in Oregon financed?
A. There are four kinds of local governments in Oregon. School districts provide elementary and secondary education through the public school system. Cities provide basic urban services, including police, fire protection, streets, water, sewers, planning, libraries, and parks.

Counties provide roads, public safety (sheriff and corrections), health services, planning, and parks. Counties are also responsible for assessment and tax collection. Special districts are formed to provide particular services. Examples of special districts are fire districts, water districts, sanitary districts, port districts, and park and recreation districts.

The major sources of revenue for these local governments are property taxes; state payments; federal payments; other taxes; and charges and miscellaneous revenue (including interest earnings and special assessments).

In fiscal year (FY) 1981-82, school districts relied most heavily on the property tax (49 percent of their total revenue) and state aid (41 percent). Cities used charges and miscellaneous revenues for 37 percent of their total revenue, and property taxes for 30 percent.

County governments received 35 percent of their revenue from state aid, 20 percent from property taxes, 21 percent from federal aid, and 21 percent from charges. Special districts in Oregon used charges and miscellaneous fees for 54 percent of their revenue.

Sixty-six percent of Oregon property tax revenue in FY 1981-82 went toward support for elementary and secondary schools and community colleges. Cities received 16 percent of Oregon’s property tax revenue, counties received 10.5 percent, and special districts received 7.5 percent.

Q. What portion of Oregon property taxes are paid on residential property?
A. A total of $1.7 billion in local property tax levies is projected for FY 1984-85. The Oregon Legislative Revenue Office (LRO) has estimated that 58 percent of property taxes are levied on residential property (42.5 percent for owner-occupied homes and 15.5 percent for rental housing).

Property tax relief is available to all homeowners and renters of residential property through the Property Tax Relief (PTR) program, and to lower income households through the Homeowner and Renter Refund Program (HARRP). These tax relief programs are financed by the general fund. For 1984-85, relief under PTR amounts to 12 percent of the estimated taxes on residential property and refunds under HARRP amount to 8 percent.

The property taxes paid by owners of nonresidential property amount to 42 percent of all Oregon property taxes. This is primarily industrial (14 percent), commercial (12 percent), and utilities (6 percent).
Q. What share of my income do I pay in taxes?
A. That depends on your income. The total tax bill for individuals in Oregon—including federal income, social security, state income, and local property taxes—is progressive; that is, taxpayers with a higher income pay a higher percentage of their income in taxes than do lower income taxpayers.

According to LRO estimates, in 1982, a homeowning family of four with an adjusted gross income of $15,000 paid about 20 percent of its income in taxes (7 percent for federal income tax, 7 percent for state income tax, 3 percent for social security, and 3 percent for net property tax. Net property tax is the property tax actually paid after subtracting PTR and HARRP).

In the case of a similar family with an adjusted gross income of $50,000, the total bill for major taxes was about 20 percent of their income (17 percent for federal income tax, 6 percent for social security, 4 percent for state income tax, and 2 percent for net property tax).

Q. How has state-local taxation in Oregon changed over time?
A. The sum of state personal income taxes and all (residential and nonresidential) local property taxes (net of tax relief) has, as a percent of Oregon personal income, remained quite constant (around 9 percent) over the past 15 years. The mix of the two tax sources has shifted from heavier reliance on property taxes in the 1960's and early 1970's, to greater reliance on income taxes during the late 1970's, and back to greater reliance on property taxes during the most recent period.

Q. What limits are there on state-local taxation in Oregon?
A. Voters have the opportunity to petition for a vote on any new state or local tax proposed or enacted. In practice, governments often refer such measures to voters. Non-"home rule" counties must refer proposed new taxes to the voters. In addition, there are currently at least four limits on the property taxing authority of local governments in Oregon:

1) The 6 percent constitutional limitation limits increases in the tax base to 6 percent per year without voter approval. Voters may approve levies outside the tax base in up to six elections per year.

2) The 1983 legislature instituted a tax rate freeze which limits local governments to two elections per year on tax levies resulting in a net tax rate higher than the frozen tax rate.

3) The total assessed value statewide of existing property is limited to an increase of 5 percent per year. The assessed value of each individual property is multiplied by a ratio to keep assessments within this 5 percent limit.

4) Local governments are limited in the amount of general obligation bonds they can issue to a percentage of true cash value of property in the taxing district.

Oregon's tax system compared with other states
Q. How does Oregon's state-local tax system compare with tax systems in other states?
A. In FY 1981-82, three taxes provided 78 percent of the tax revenues of state and local governments in the United States:

1) Real and personal property tax (30 percent);
2) State income tax (25 percent, including both personal and corporate); and
3) General sales tax (23 percent).

Other taxes (including selective sales taxes, gift and inheritable taxes, and severance taxes) supplied the remaining 22 percent.

States which do not have a general sales tax rely more heavily on other sources of revenue for state and local governments. Oregon is one of five states in the nation without a general sales tax, the others being Alaska, Delaware, Montana, and New Hampshire. In Oregon, state-local tax revenues came mainly from property taxes (43 percent) and income taxes (37 percent) in FY 1981-82.
Q. How high are Oregon’s state local taxes compared with other states?
A. In FY 1981-82, Oregon’s per-capita state-local tax collections ($1,118) were 14 percent below the average for the 10 western states ($1,304), and 5 percent below the national average ($1,175). Oregon ranked eighth among the 10 western states in total state-local taxes per capita. Among the western states, only Utah and Idaho had lower overall tax collections on a per-capita basis than Oregon.

Oregon’s property tax burden ($479 per capita) was almost a third higher than the average for the western states ($365) and the national average ($362). However, Oregon’s relatively high property tax burden in FY 1981-82 was balanced by relatively low payments for all other state-local taxes. Of the western states, only Idaho ranked lower than Oregon on nonproperty-taxes-per-capita.

Q. What are some of the major impacts of state-local tax limitations in other states?
A. An examination of major tax and expenditure limitations in California, Idaho, Missouri, New Jersey, and Massachusetts suggests the following conclusions.

Tax and expenditure limitations appear to reduce services and alter local government financing by shifting to “user pays” systems, to new or increased taxes outside the limitation, and to increased dependence on state aid. These measures have led to an examination of what level of government should provide which service, and in some cases to an actual reallocation of responsibilities between the state and the local level.

They have also led to searches for other ways of providing services, including the use of volunteers, paraprofessionals, and contracts with the private sector. Finally, there is some evidence that local control over programs and funding is reduced.

Q. What determines the effect of tax limitations in any given state?
A. The effect of a limitation in any particular state depends on at least five factors:

1) The unique language of the limitation, and its interpretation by the courts.
2) The existing state-local tax and finance structure, including the types of taxes currently levied and the existence of a state surplus.
3) The ways in which state government chooses to respond to the limitation, including reallocation of resources, passage of new taxes, changes in service levels, and the assumption of local responsibilities.
4) The ways in which local governments respond within the framework established by the state, including seeking new sources of revenue and/or cutting services.
5) The condition of the state’s economy, which affects the ability of state and local governments to finance the public sector.

For further reading

The information kit, “Oregon’s Tax System and Measure 2,” published jointly by the OSU Extension Service and the Bureau of Governmental Research and Service at the University of Oregon, contains this circular and four others:

- Extension Circular 1213, Oregon Governmental Finance Compared to Other States.
- Extension Circular 1214, Measure 2 and Oregon's Tax System.

Send orders for the information kit ($1.50 per kit) to the Bulletin Mailing Office, Oregon State University, Corvallis, OR 97331-5092.

Other recent publications published by the Bureau of Governmental Research and Service, University of Oregon, are available from P.O. Box 3177, Eugene, OR 97403-0177:

- Fifty Years of Public Finances in Oregon, $5.50 each.
- Issues in Oregon State and Local Finance, $6.00 each.
- Oregon City Finances, Fiscal 1983, $5.00 each.
- Oregon County Finances 1983, $5.00 each.
- Oregon Property Tax Primer, $5.00 each.

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