

# Growth, Balance, and Progressivity in Oregon's State-Local Tax System, 1967-1983

During the late 1960s and 1970s, the economy of Oregon experienced moderate growth. Between 1967 and 1983 total per capita personal income increased at an annual rate of 8.3 percent (from \$3,043 to \$11,977; see figure 1).

The annual inflation rate during this period averaged 6.6 percent; a dollar in 1983 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 2,635,000 in 1983, an average annual increase of 1.6 percent.

In Oregon, real personal income (that is, nominal personal income adjusted for inflation) per capita grew slightly each year until 1978 (figure 1). Between 1979 and 1982, real per capita income decreased. A slight increase took place in 1983, caused in part by a real increase in the state's total income and in part by a small decrease in total state population (from 2,656,000 in 1982 to 2,635,000 in 1983).

## Growth and balance

State and local governments in Oregon rely heavily on income taxes and property taxes. The property tax provided 44 percent of local government's revenues in 1982, while the

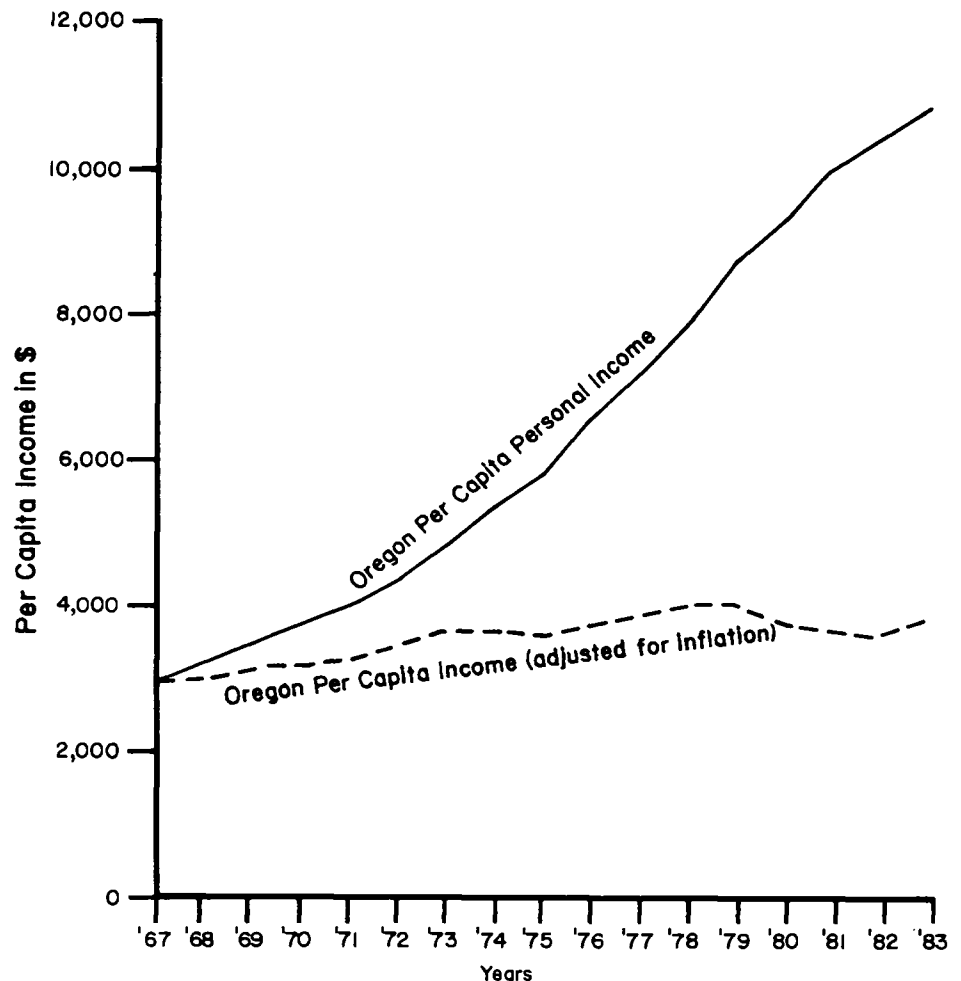


Figure 1.—Oregon per capita total personal income, 1967-1983, and Oregon per capita income adjusted for inflation. Source: Bureau of Economic Analysis, U.S. Department of Commerce.

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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.

## Personal income tax

During the expansion years of 1967-78, real personal income taxes per capita increased steadily (figure 2), because of 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, and a greater proportion of personal income is taxed at higher rates. The result is that income tax revenues increase 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 1983, when the economy slowed and inflation decreased, real per capita incomes declined by 6 percent. Real per capita income taxes declined to \$151, a decrease of 21 percent.

One of the causes of this tax revenue decline was what we might term "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.

Between 1967 and 1983, real per capita Oregon income taxes increased a total of 59 percent. Real per capita income in the same period increased by 21 percent.

## Property tax

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

The state inaugurated a low-income Homeowner and Renter Refund Program (HARRP) in 1973. In 1979, the state launched a broader program of Property Tax Relief (PTR),

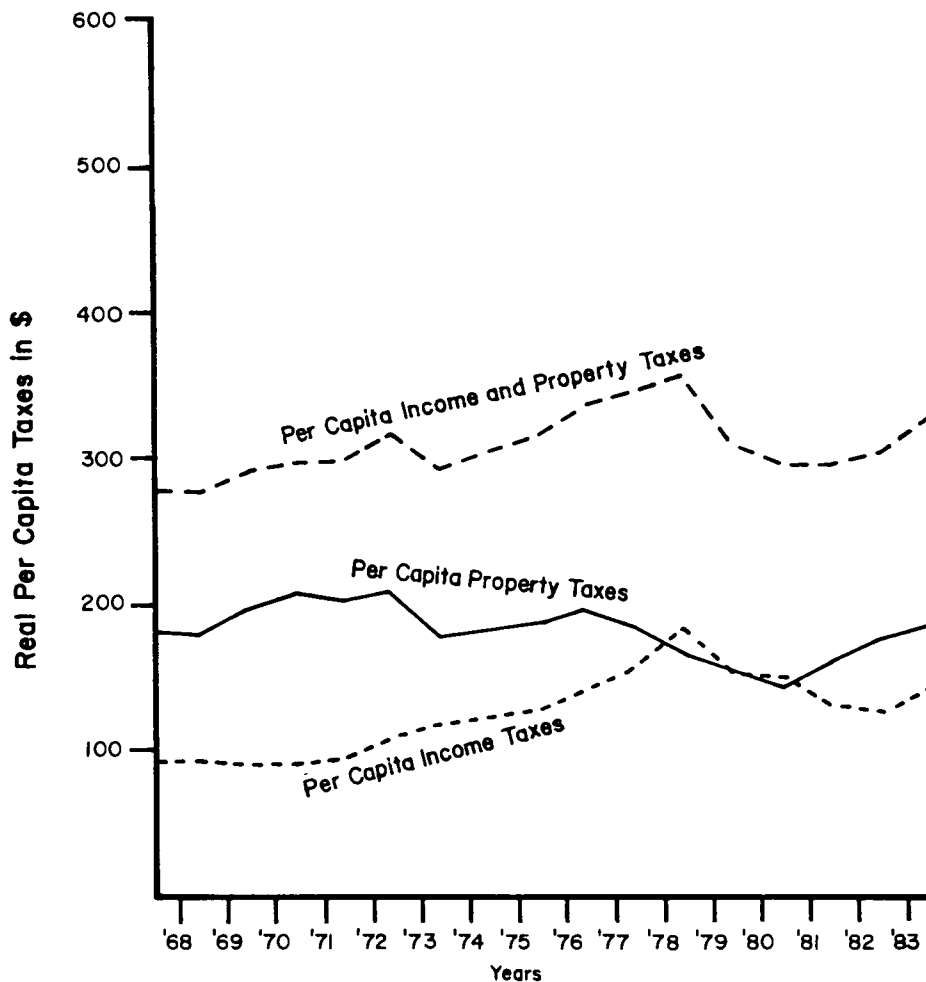


Figure 2.—Per capita real income tax and real property tax (net of tax relief) paid in Oregon. Source: Oregon Executive Department, Oregon Legislative Revenue Office.

under which the state paid a portion of the property taxes of all homeowners and made payments to renters.

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 1983, in part because of reduction in the property tax relief programs and because voters approved increased local tax levies as Federal payments to local governments declined.

Overall, between 1967 and 1983, per capita real property taxes, after accounting for property tax relief, increased 1 percent from \$181 to \$183.

## Personal income and property taxes combined

The real per capita tax burden from income and property taxes increased 21 percent between 1967 and 1983. Real

per capita income also increased by 21 percent (figures 1 and 2).

Income and property taxes as a percent of personal income have remained quite constant over the 1967-83 period, at about 9 percent (figure 3).

## Balance between personal income and property taxes

The composition of the personal income/property tax package has shifted back and forth over the 1967-83 period. In 1967 the property tax was dominant, yielding 1.6 times as much revenue as the income tax.

By 1978, income tax revenues were 1.3 times property taxes. This trend reversed in 1981 so that in subsequent years property tax revenues have become greater than income tax revenues.

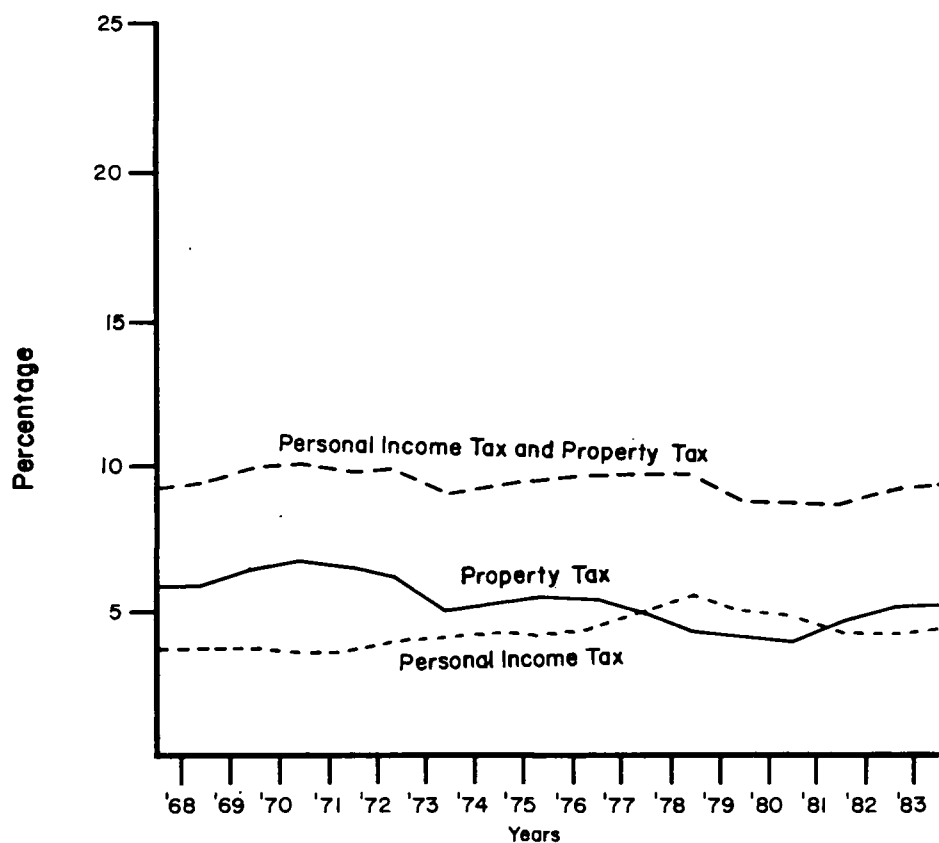


Figure 3.—Percent of total personal income tax and property tax (net of tax relief) to total personal income in Oregon. Source: Oregon Executive Department, Oregon Legislative Revenue Office.

## Progressivity

The “total” package of all major Federal, state, and local taxes 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 most progressive (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 participation in the HARRP program.

Property taxes in Oregon are imposed mainly on the value of real property, which consists of land and permanent fixtures such as buildings. 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 \$15,287 received 25 percent of the total income in Oregon. They paid 20 percent of the state’s personal income taxes and 25 percent of the property taxes (after accounting for property tax relief). See table 1.

Table 1.—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	>
Percentage of returns	36	23	21	13	5	1
Percentage of total Oregon personal income	8	17	26	25	14	10
Percentage of state personal income tax collected	5	15	25	25	18	11
Percentage of net property tax collected	6	19	30	26	12	7

Source: Estimates based on data from Oregon Legislative Revenue Office.

The 19 percent with adjusted gross incomes of more than \$24,922 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.

## Summary

The sum of state income taxes and local property taxes has, as a percent of personal income over this 17-year period, remained quite constant (around 9 percent). 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. The income-property tax system in Oregon is progressive up to about \$25,000 of adjusted gross income and proportional thereafter.

## For further reading

The Oregon State University Extension Service has several publications describing Oregon’s tax and revenue system. Available from your local Extension office or from the Bulletin Mailing Office, Oregon State University, Corvallis, OR 97331-4202:

Extension Circular 906, *Oregon’s 6 Percent Limitation*, 25 cents each

Extension Circular 907, *How Your Property Tax Bill is Computed*, no charge

When ordering priced publications or quantities of no charge publications, call the Bulletin Mailing Office for a postage and handling quotation (754-2967).

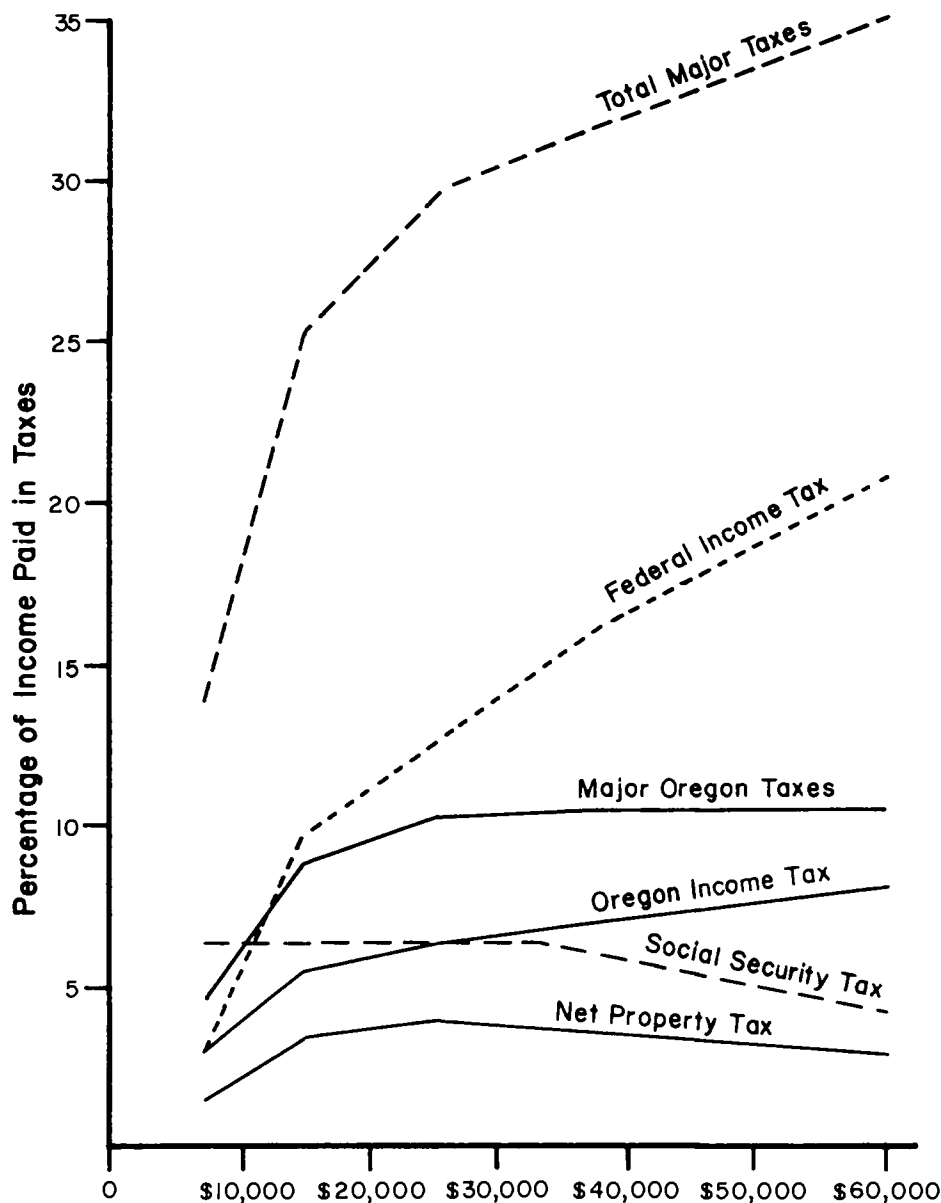


Figure 4.—Progressivity in Oregon's tax system (taxes as a percent of adjusted gross income). Estimates are based on a hypothetical family of two with typical home values and standard or itemized deductions, for five income levels. Source: Estimates based on data from Oregon Legislative Revenue Office.

Available from the Department of Agricultural and Resource Economics, Oregon State University, Corvallis, OR 97331-3601:

Special Report 649, *Oregon's Fiscal Crisis: An Historical Perspective*, single copies at no charge

The Oregon Department of Revenue also has a number of publications on Oregon's system of taxation. You can obtain a list and copies of the publications by writing to Publications, Oregon Department of Revenue, State Office Building, Salem, OR 97310.

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