



June 2008

## Inside this Brief

- **Taxes vs. Revenue**
- **Oregon's Tax System Compared to Other States**
- **Oregon's Tax System Over Time**
- **Summary**
- **Staff Contact**

Legislative Committee Services  
State Capitol Building  
Salem, Oregon 97301  
(503) 986-1813

Background Brief on ...

# Oregon's Tax System

*Prepared by: Paul Warner*

Taxes are a major issue in every state. Taxes are one of the primary revenue sources used to fund public services. In most cases, taxes are used to fund services such as education and public safety that affect a broad number of citizens. This means that the overall level of taxation is important because it is connected to the level of services. However, taxes also represent a burden on a state's citizens. This means that both the level and the distribution of taxes should be considered in the context of the burden placed on the state's citizens. Finally, taxes are important because they can influence economic activity. This is particularly true for a state economy where labor and capital are free to move across state borders.

## **Taxes vs. Revenue**

Taxes are only one source of revenue for state and local governments. U.S. census data for the 2004-2005 fiscal year (released in June of 2007) provides a consistent set of information for the states and also combines state and local revenue so revenue systems can be shown in their entirety. The Census Bureau divides state and local revenue into six major categories: taxes, federal funds, charges, miscellaneous, government enterprises, and insurance trusts. Taxes are defined as compulsory contributions extracted by governments for public purposes. Other revenue categories are federal government transfers to state and local governments, direct charges for services such as tuition and park fees, and miscellaneous revenue. Miscellaneous includes interest earnings and proceeds from the sales of government assets. It also includes net revenue from state-run lotteries. Government enterprises include government-owned utilities and state run liquor stores. Government insurance trusts are the current revenue of trust funds such as unemployment compensation, employee retirement, and workers' compensation.

Table 1 shows Oregon's revenue from six major categories. It also shows Oregon's rank among the 50 states—number 1 ranking means highest revenue. Revenue is shown on a per capita basis (revenue divided by state population) and as a percentage of total personal income of state residents.

Oregon's ranking among the states very much depends on the measure of revenue being considered. Oregon ranks relatively high when all revenue sources are included—12<sup>th</sup> on a per capita basis and 13<sup>th</sup> as a percentage of personal income. However, this includes

Table 1  
**OREGON'S REVENUE MIX FROM ALL SOURCES**

Revenue Source FY04-05	Revenue Per Capita	Rank	Revenue As % of Personal Income	Rank
All Revenue	\$8,902	12	27.6	13
General Revenue	6,411	28	19.9	28
Taxes	3,052	36	9.5	44
Charges	1,261	9	3.9	8
Federal Revenue	1,445	28	4.5	28
Miscellaneous	653	17	2.0	15
Gov Enterprises	427	10	1.3	10
Insurance Trusts	2,064	2	6.4	2

revenue not usually available for general governmental purposes. General revenue excludes government enterprise and insurance trust funds. By this measure Oregon ranks near the middle of the states on both a per capita basis and as a percentage of personal income. The different ranking between the two measures is caused by Oregon's relatively high ranking in insurance trust revenue, partially due to the issuance of pension obligation bonds during the 2004-2005 fiscal year. Oregon ranks relatively low when only taxes are considered. On a per capita basis, Oregon ranks 36<sup>th</sup>, collecting \$3,052 per person in 2004-2005. As a percentage on personal income, Oregon's state and local tax burden ranks among the lowest in the country at 44<sup>th</sup>.

Compared to other states, Oregon's revenue system is heavily weighted toward non-tax revenue sources. Thirty-four percent of Oregon's total revenue comes from taxes. Only Alaska and Wyoming have a lower percentage among the states. Oregon receives a disproportionate amount of its revenue from direct charges for government services. Charges, the largest being higher education tuition and public hospitals, totaled \$1,261 per person in 2004-2005. Only eight states had higher charges on a per capita basis. Oregon ranks in the upper half on per capita miscellaneous revenue, due to net lottery earnings and government enterprises due to revenue from the Oregon Liquor Control Commission. The state has dropped significantly in per capita revenue from

the federal government—now ranking 28<sup>th</sup> at \$1,445 per person.

**Oregon's Tax System Compared to Other States**

Table 2 narrows revenue sources to taxes only. This shows that Oregon's system is unique in another way. Oregon is one of five states (Montana, New Hampshire, Delaware and Alaska are the others) without a broad sales tax. This leaves the state tied with three others (Alaska has a small amount of collections that census classifies as gross receipts revenue) at no per capita revenue from this source. Personal income taxes on the other hand are fifth highest on a per capita basis and second highest as a percentage of personal income. Oregon's corporate income tax and property tax burden rank near the middle of the states. Oregon's property tax burden consistently ranked among the top 10 before the passage of Ballot Measure 5 in 1990.

Table 2  
**OREGON'S TAX SOURCES**

Revenue Source FY04-05	Revenue Per Capita	Rank	Revenue As % of Personal Income	Rank
Personal Income Tax	\$1,327	5	4.1	2
Corporate Income Tax	100	30	0.3	32
Property Taxes	979	28	3.0	25
General Sales Taxes	0	47(T)	0	47(T)
Selective Sales Taxes	267	50	0.8	47
Other Taxes	379	14	1.2	13
All Taxes	3,052	36	9.5	44

When considering state taxes only, excluding local taxes, the importance of personal income taxes in Oregon becomes even clearer. In the 2006-2007 fiscal year, 72 percent of Oregon's state tax revenue came from the personal income tax. The remaining components of state taxes are selective sales taxes (10.1 percent), corporate income taxes (5.2 percent), and other taxes (12.4 percent). No other state is as dependent on a single tax source as Oregon is on the personal income tax. The second highest dependence on a single tax source

is Washington's reliance on the sales tax (including the business and occupation tax) that made up 61.4 percent of Washington's state tax revenue in 2006-2007.

Table 3 breaks down Oregon's state taxes and compares them with neighboring western states. Oregon has the lowest per capita state tax burden among the Western states. California, the highest tax state in the group, collects \$1,073 per resident more than Oregon does. The diversity of state tax structures in the West can also be seen in Table 3. Nevada and Washington have no personal or corporate income tax; however, while Washington has the highest sales tax burden in the nation, Nevada receives significant revenue from selective sales taxes which includes revenue from the state's gross gaming receipts tax. Idaho has the most diversified state tax system among the comparator states.

Table 3  
**OREGON'S TAXES COMPARED TO WESTERN STATES**

Revenue Source FY06-07	OR	CA	NV	ID	WA
	(\$ PER STATE RESIDENT)				
ALL TAXES	\$2,066	\$3,139	\$2,458	2,359	\$2,735
PERSONAL INCOME TAX	\$1,494	1,460	0	939	0
CORPORATE INCOME TAX	107	305	0	125	0
GENERAL SALES TAXES	0	895	1,254	852	1,679
SELECTIVE SALES TAXES	209	213	745	262	462
OTHER TAXES	256	270	460	182	593

**Oregon's Tax System Over Time**

The fundamental shape of Oregon's tax system has changed dramatically over the past 15 years (see Table 4). Taxes fell from 54 percent of general revenue in 1989-1990 to 48 percent in 2004-2005. This is largely due to the relative decline of property taxes caused by the passage of Ballot Measures 5 and 50 in the 1990s. Tax revenue has been replaced by increased reliance

on direct charges for services and federal transfers. Miscellaneous revenue declined as a source of revenue despite the state's increased dependence on lottery. The primary reason for the decline was the low interest rates prevailing through most of the past decade, which reduced interest earnings on government accounts—the largest revenue source in this category.

Table 4  
**OREGON'S CHANGING REVENUE SOURCES\***

General Revenue Source	% OF 1989-90 TOTAL	% OF 2004-05 TOTAL
Taxes	54%	48%
Charges	13%	20%
Federal Revenue	20%	22%
Miscellaneous	13%	10%

\*General revenue excludes revenue from enterprises and trust funds

The impact of voter initiatives on Oregon's tax system can be seen even more clearly in Table 5. Table 5 shows Oregon's tax burden at 10 year intervals beginning in fiscal year 1984-1985. Personal income taxes have consistently been among the highest in the nation. Corporate income taxes have tended toward the middle while property taxes have fallen considerably. The net result of these trends in the major individual taxes is a significant reduction in Oregon's total state and local tax burden compared to other states.

Table 5  
**OREGON'S CHANGING TAX SYSTEM**

		OREGON RANK		
FISCAL YEAR	BASIS	1984-85	1994-95	2004-05
TOTAL TAXES	PERCAP	20	27	36
	% INC	14	26	44
PERSONAL INCOME TAXES	PERCAP	7	5	5
	% INC	3	2	2
CORPORATE INCOME TAXES	PERCAP	25	21	30
	% INC	28	24	32
PROPERTY TAXES	PERCAP	10	20	28
	% INC	5	19	25

### **Summary**

- Compared to most states, Oregon is less dependent on taxes as a revenue source.
- Oregon's state and local tax burden is relatively low.
- Oregon's personal income tax burden is second highest in the nation
- State government is highly dependent on the personal income tax as a source of revenue.
- Oregon's property tax burden has fallen and is now about average.
- Oregon's consumption tax burden (general plus selective sales taxes) is the lowest in the nation.

### **Staff Contact**

Paul Warner

[Legislative Revenue Officer](#)

503-986-1263