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OREGON TAXES: THE ONE-LEGGED STOOL.

When people think about systems of taxes to raise revenue, the common analogy is the three-legged stool – property taxes, income taxes and consumption (most often retail sales) taxes. Oregon doesn't have a sales tax, and probably never will, so that makes for a two-legged stool. What Springfield City Club members learned at the January 17 program is in that in our state, the voters cut off a good portion of the property tax leg, leaving us with a one-legged stool.

The lesson was provided by retired legislators with a long history of deep involvement in the state system of taxation. Former Representative Vicki Berger, a long time Republican who served on the House Revenue Committee for many years, former Speaker of the House Dave Hunt, who represented parts of Clackamas County, and Phil Barnhart who represented areas of Lane County and served as the Chair of the House Revenue Committee for a dozen years, described the system used by Oregon at the January 17 program. This program, co-sponsored by the Eugene City Club, was one of a series of programs offered by City Clubs around the state on the vexing issue of how Oregon raises money to support the services the voters demand.

Rep. Walker was blunt in describing the effects of Measures 5 and 50, which she called the worst import from California. It's not, she said, that property taxes were limited, but that they were limited to a flat dollar amount, rather than being indexed.

The result, the legislators agreed, was that while Oregon is in the middle range of all the states for total taxation for capita, we have one of the highest personal income tax rates. Rep. Berger pointed to the heart of the problem that creates – the income tax is extremely volatile and unreliable as a stable revenue source. She added, the burst of the "dot.com" bubble didn't directly affect many Oregonians, but it did have a disastrous effect on income tax revenue; we were devastated by events far beyond our borders that we could neither influence nor control.

Rep. Hunt delved deeper into the issue of corporate taxes, which he described as very low in Oregon. While personal income tax rates are high, corporate tax revenues are less than tax revenues from the Oregon Lottery. Because almost every state has higher corporate taxes, Oregonians end up subsidizing taxes imposed by other states. Multi-state and multi-national corporations make pricing decisions based on national levels of taxation and are indifferent to levels in individual states. Prices reflect spreading the tax burden which, since it is so low in Oregon, means more of the prices we pay goes to support the tax burdens the companies face in other states.

Rep. Barnhart agreed, and both he and Rep. Hunt suggested that one solution might be a tax somewhat like the business and occupations tax imposed by our neighbor to the north. While it is a consumption-based tax, it is not imposed at the retail level and thus may be less offensive to Oregonians. (In our December 20 legislative preview, Senator Lee Beyer suggested that such a tax might emerge from the 2019 session which has just begun). Rep. Berger cautioned that any such tax would have to be carefully crafted to avoid compounding on products that move through then supply chain. The representatives acknowledged that the recently defeated Measure 97 was a variety of such a tax but, as Representative Berger pointed out, it impacted high-volume, low-margin businesses like grocery stores, which lead to its defeat. Any new effort would need to be much more carefully drafted.

Adding to all these woes, the three agreed, was the existence of the "kicker." While most states use excess revenue built up during good years to fund rainy day funds to help stabilize lean years, in Oregon we send it back. While recently the State did create two rainy day funds – one for education and one for general funds purposes, those funds, which now are at about $1 billion, are truly inadequate for the purpose.

During the question and answer session, Representative Barnhart pointed to another problem – the proliferation and high level of fees. Governments resorted to user fees when Measure 5 cut off the property tax leg of the stool. As an example, before Measure 5, the University of Oregon got 50 percent of its revenue from state taxes; now it gets ten percent. The impact – fees (in this case tuition) have exploded. He urged then audience to recognize that in almost every user fee, a building permit, a license, even a park charge, there is some part of the benefit that is enjoyed by the overall population of the state. That portion should be funded out of general taxes. If the tax base can fund the appropriate portion, fees can be reduced.

For those who find the discussion stimulates their interest in learning more about Oregon's system for raising revenue, the panelists point to two sources: the Basic Facts book published by the Legislative Revenue Office, which has an almost mind numbing amount of detail on Oregon's system of revenues and how it compares with others; and 2) the chart in the Governor's Proposed 2019-2021 Budget, which summarizes where the money comes from and where it goes.