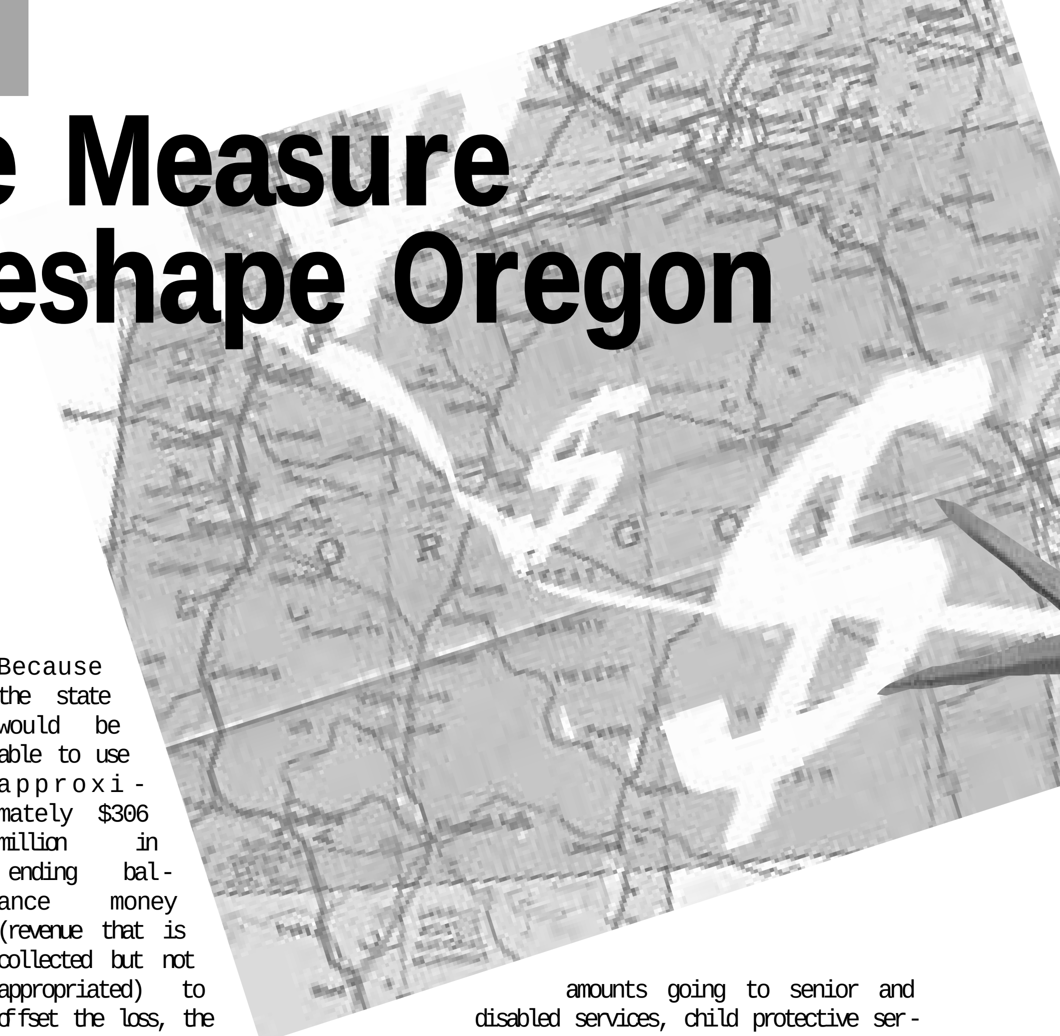
Sizemore Measure Would Reshape Oregon

by Steve Novick



One of the initiatives sponsored by Bill Sizemore this election season would make federal tax payments fully deductible for state income tax purposes. By eliminating the current $3000 cap on federal income tax deductions, the proposed initiative would increase the take-home income of Oregon s richest citizens, while doing little or nothing for low and middle-income Oregonians. The resulting loss of revenue would reduce funding for programs supported by state income taxes, such as education, health care, public safety, and services for seniors and the disabled.

Sizemore s proposal would have a greater impact here than it would in most other states, because Oregon depends more heavily on income taxes. We have no sales tax and have reduced property taxes in recent years. Our schools, which were once funded mainly by local property taxes, are now funded mainly by state income tax revenue.

Unlike previous tax reduction measures, this one would take effect immediately, the day after Election Day, and would apply retroactively to the entire 2000 tax year. According to the Legislative Revenue Office, the proposed measure would cost about $938 million in lost revenue during the current (July 1999-July 2001) biennium. Because the state would be able to use approximately $306 million in ending balance money (revenue that is collected but not appropriated) to offset the loss, the measure would require program cuts of about $632 million. At the time of the election this November, less than $3.4 billion will be left in the state s biennial budget. Therefore, Sizemore s measure would require across the board spending cuts that amount to nearly one-fifth of the remaining budget for the final eight months of the budget period.

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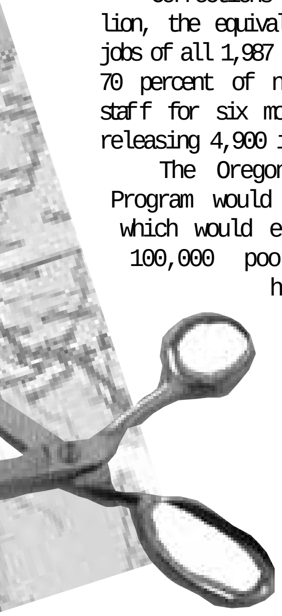
What does this mean, in practical terms? The overwhelming majority of the state budget goes to education (over 57 percent of the budget includes K-12, universities and community colleges), public safety (about 15 percent includes prisons, courts, State Police, etc.), and health care (about 14 percent includes the Oregon Health Plan and mental health services), with smaller amounts going to senior and disabled services, child protective services, and a smattering of other small programs. These are the programs that would have to be cut.

The Legislative Fiscal Office recently lowered its estimate of the budget cut that would result from the full deductibility measure, in order to take into account an increase in the projected ending balance for the 1999-2001 biennium. In March, when the total cut amount was estimated to be $767 million, the LFO took a stab at providing some specific examples of potential results. According to the LFO, if $767 million in cuts were made across the board in the current budget period, here is what would happen:

K-12 schools would lose $323 million the equivalent of eliminating almost four weeks of the school year. Proportionally, Portland Public Schools would lose $32.3 million; Bend, $6.8 million; Medford, $7.1 million; Salem-Keizer, $20 million; Eugene, $10.6 million; Pendleton, $2.1 million.

The university system would lose $65.7 million, which could be made up with a 36 percent increase in tuition, beginning in Winter Term 2001.

Community colleges would lose $32.4 million, which could be made up with a 50percent increase in tuition in those institutions.



Corrections would lose $57.8 million, the equivalent of eliminating the jobs of all 1,987 corrections officers and 70 percent of non-security institution staff for six months, or, alternatively, releasing 4,900 inmates for six months.

The Oregon Medical Assistance Program would lose $47.6 million, which would eliminate coverage for 100,000 poor people receiving health coverage care under the Oregon Health Plan.

State mental health and developmental disability assistance would be cut by $49.6 million, which would equate to eliminating coverage for 100,000 people currently receiving services, and the elimination of residential, outpatient, and vocational services to 8,500 persons.

The State office for Services to Children and Families would lose $15.9 million, which could translate into cutting 50 percent of SCF staff, more than 950 positions. These are people who investigate reports of abuse and neglect, and find foster-care services or arrange adoptions for children in danger. (Alternatively, the state could lay off fewer people if it reduced foster care or adoption assistance payments to families, and reduced respite and day care payments.)

State senior and disabled services would lose $33.8 million, which would equate to the elimination of Oregon Project Independence, General Assistance, and long term care for about 15,500 elderly and disabled persons.

The LFO has not revised these figures to reflect the current projection of $632 million in total cuts. To adjust the individual projections proportionally, simply reduce each figure by 17.6 percent. Schools, for instance, would lose about $266 million, the university system would lose about $54 million, and so on.

After July 2001, the picture does not change much. In the 2001-03 biennium, the measure would cost approximately 2 billion dollars: 17 percent of the state s projected General Fund/Lottery revenue for that biennium.

If Sizemore s measure passes, more money will remain in the pockets of some taxpayers. But it does not make any difference for people at lower income levels. Oregonians currently can deduct up to $3,000 of federal income taxes on their state income tax forms. Because half of all taxpayers pay $3,000 or less in federal taxes, they are not affected by the measure. Many other people already get to deduct most of their federal income tax payments, so their situation would not change much. The average tax cut for the 94 percent of Oregon tax filers making under $100,000 per year would be $10.67 per month.

Oregonians who pay well over $3,000 in federal income taxes, however, would benefit handsomely if their tax payments were fully deductible. Nearly half of the Oregon income tax cut would go to the 1.5 percent of Oregonians who make more than $200,000 per year. The average tax cut for people in this group would be over $1,000 per month. Over two-thirds of the cut would go to the 6 percent of Oregonians who make over $100,000 per year. Their average tax cut would be over $370 per month.

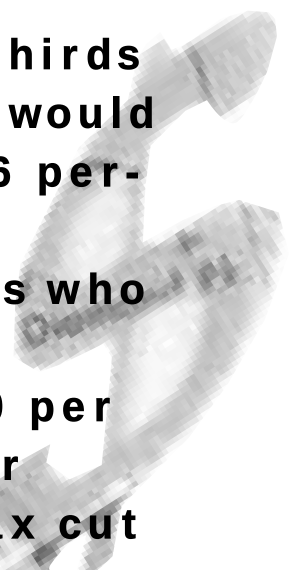
Interestingly, there is reason to believe that not all wealthy Oregonians are dying for a tax cut. Some of the wealthiest areas of the state, such as west Portland and the Lake Oswego area, voted against Measure 47, Sizemore s 1996 property tax cut plan. Apparently, a number of rich people have decided they have an interest in preserving public services.

Corporations in Oregon also would benefit significantly from the measure. Currently, corporations are given no deduction at all for federal income taxes. Sizemore s proposal extends full deductibility to them as well. As a result, corporations would receive an estimated $68 million in tax relief in 2000-01, and over $400 million in the 2001-03 biennium.

Bill Sizemore dismisses the notion that his measure is a tax cut for the rich and corporations. He has said, Anyone with taxable income over $20,000 would get a tax cut. That is technically correct but comes with two caveats. First, taxable income means income after exemptions and deductions, so a family of four making $38,500 per year has only $20,000 in taxable income. More importantly, the key question is how much of a tax cut? According to the Legislative Revenue Office, a family of four making $40,000 would get $20 per year, or $1.66 per month.

Does the idea of making federal income taxes fully deductible on state income tax returns make sense as tax policy? Sizemore claims that there is something fundamentally wrong about not allowing full deductibility of federal taxes. As he puts it, If you can t deduct federal taxes, you re being taxed on your taxes! And he says that s morally outrageous. I don t think Sizemore s real concern is taxing taxes , however. If all he really cared about was the deductibility issue, he could have made a revenue-neutral proposal that would have established full deductibility, but offset that by raising tax rates (which are not set in stone) for wealthy people and corporations.

Moreover, there are a lot of things we can t deduct on our state income tax returns, including some other kinds of taxes. We can t deduct the cost of food or rent or clothing. And, as former Secretary of State Phil Keisling has pointed out, we can t deduct the cost of Social Security and Medicare taxes.



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Unlike the federal income tax, these are regressive taxes, which fall most heavily on the middle class and the poor.

An important tax policy question to consider: Should our tax system be progressive? The absence of full deductibility is part of what makes Oregon s system relatively (although still not very) progressive: According to a 1995 Revenue Department fact sheet, a family of four making $40,000 per year paid state income taxes at an effective

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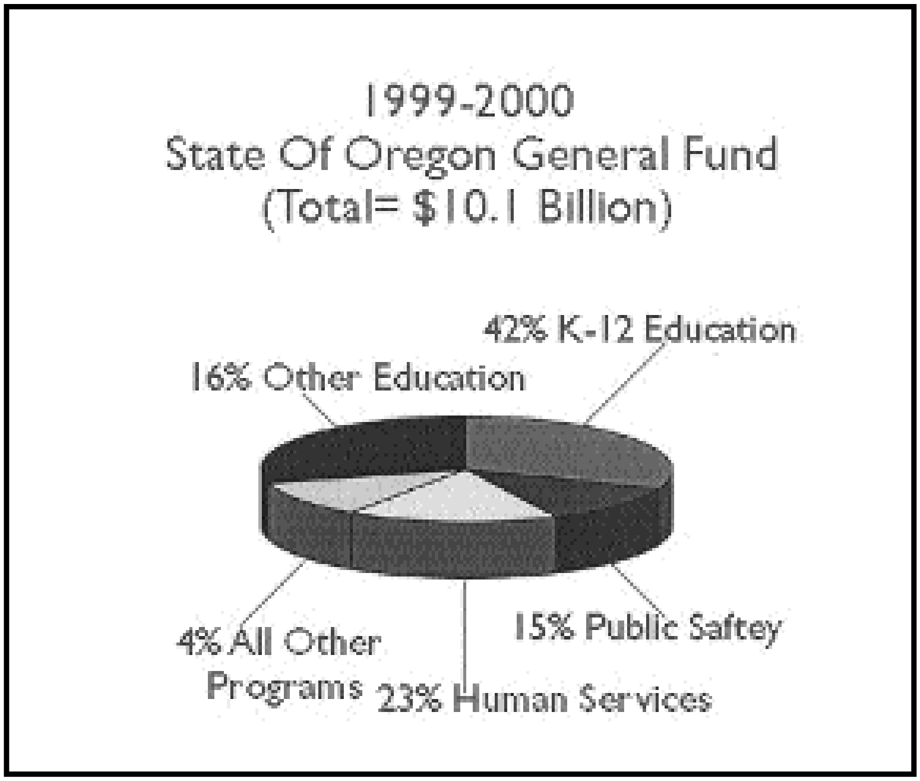

rate of about 4.9 percent; a family of four making $300,000 paid at an effective rate of about 7.6 percent.

Giving rich people the tax cuts discussed above would make Oregon s income tax less progressive. At the very highest income levels, for people who are making, say, $500,000 in taxable income, and thus paying a federal tax rate of 39.6 percent, the measure would effectively reduce Oregon s top marginal tax rate of 9 percent to 5.4 percent. The Legislative Revenue Office has calculated that the system would actually become regressive at about the $180,000 level of income: People with incomes above $180,000 would pay at a lower effective rate than people who make $180,000.

Bill Sizemore denounces progressive taxation as a Karl Marx notion . I think that a progressive system is a good idea, because it s easier for someone making $300,000 to pay 8 percent of their income in taxes than for someone making $40,000 to pay 5 percent of their income. And I confess, I m nostalgic. I think of the Golden Age of the United States as 1945-73, a period during which we steadily reduced poverty, incomes rose at all levels, there was no designated hitter in Major League Baseball....and we had a very progressive federal income tax. I also revere Abraham Lincoln, who instituted the first progressive income tax. I associate progressive taxation with progress, period.

Still, the most important thing to consider about Sizemore s proposal is not its impact on progressivity, but the impact it would have on class sizes in public schools, on the quality of our universities and community colleges, on health care and other services for children, on programs for senior citizens who need a little help in order to keep living in their own homes, on Oregon s future.

Steve Novick is the director of the Center for Constructive Citizen Action, where he does research and organizing for political campaigns. He was a Trial Attorney in the Environment Division of the United States Justice Department from 1987 to 1996, working on Clean Air Act, Clean Water Act, and Superfund cases. Returning to Oregon in 1996, he served as Issues Director to the Tom Bruggere for Senate campaign and as chief of staff to the State Senate Democrats (1997-98).