



Legislative Revenue Option: Increase Rates for Personal Income Tax and Corporate Excise or CAT Tax

Higher rates for those who benefit most from tax savings in HR 1

Introduction

Oregon is highly dependent on the personal income tax for state revenue. With the passage of HR 1 by Congress, deep cuts and higher expenses to administer Federal programs will leave Oregonians without services they require. Increasing our tax rates requires a supermajority vote but is the action Legislators have taken in the past.

History/Issues

Facing the Great Recession of 2008, legislators passed two bills increasing tax rates and making other adjustments. For Personal Income Taxes, HB 2649 created a 10.8% tax rate for joint filers with taxable income of \$250,000 or more (\$125,000 for single filers) and an 11% tax rate for joint filers with income over \$500,000 (\$250,000 single filer). The rates were in effect for 2009-2011 with the rate dropping to 9.9% in 2012 where it remains today. The bill also phased out the deduction for Federal taxes paid at \$250,000/\$125,000 and excluded from income up to \$2400 of unemployment income in 2009.

HB 3405 increased the corporate minimum tax rate from \$10 to \$150 and up depending on Oregon sales. It also increased the S Corporation minimum tax to \$150 and created a \$150 partnership entity tax. The corporate marginal tax rate for entities was raised to 7.9% for tax years 2009-10, dropped to 7.6% for tax years 2011-12. For tax years after 2012 the top rate of 7.6% applies to sales over \$10 million. Other fees were also changed.

Individuals and businesses led by Associated Oregon Industries (now OBI) challenged the bills. They forced a vote on the laws with Measures 66 and 67 in January of 2010. The measures passed with over 5% margins.

Recommendation/Justification

The Legislature should consider raising taxes on those individuals and businesses who will be most highly rewarded by the tax decreases under HR1.

Increasing both personal and corporate rates and/or the CAT rate (which didn't exist in 2008) and the business \$150 minimums will provide additional resources to backfill programs and pick up the administrative costs being forced on the state by the Federal legislation.

We read the bills and follow the money