



# ROBIN HOOD

WILL A RELUCTANT KULONGOSKI AND HIS MERRY BAND FINALLY GIVE THE POOR TAX REFORM?

BY ALAN PITTMAN

Robin Hood may have robbed from the rich and gave to the poor, but Oregon does just the opposite.

Oregon effectively taxes its wealthiest 1 percent of families at a rate one-third lower than the poorest 20 percent of state families, according to a study this year by the Institute on Taxation and Economic Policy (ITEP). The wealthiest families averaging \$672,400 of income pay 6.1 percent of their income in combined state income, property and excise taxes. The poorest families averaging \$9,300 in income pay 9.4 percent of their income in state taxes.

Such unfairness appears ripe for reform and tax reform is a major topic in the state as Oregon struggles to fund schools and basic services with billions in red ink. But while most agree on the need for reform, there's little agreement on what exactly "reform" means. For some reform means more

breaks for the rich and yet higher taxes for the poor. For others it means taxing the rich to help the poor. For some reform means more taxes. For others it means less.

"Everybody wants tax reform, but that means a hundred different things to different people," says Tim Hibbits, one of the state's leading pollsters. "I don't know how you stitch together a majority coalition."

Stitching a majority vote to mend Oregon won't be easy. But there's a lot of ideas on how to do it, and a growing number of people say the key may be taking from the rich to give to the poor.

## REVERSE ROBIN HOOD

The unfairness of Oregon's tax system is made worse by the state's many questionable tax breaks for the wealthy and businesses, according to studies by the Oregon Center for

Public Policy (OCP), a progressive think tank, and Fund Oregon's Future Today (FOFT), a coalition of 50 progressive groups pushing for tax reform.

The wealthy cash in on a host of tax breaks in Oregon including:

- Wealthier Oregonians that itemize their deductions get \$300 million a year through a break that allows them to deduct their federal income taxes from their state taxes. About 74 percent of Oregonians with incomes under \$40,000 don't benefit from itemized tax deductions. Among people with incomes over \$100,000, 95 percent itemize.

- Oregon spent \$22 million in 2001 helping wealthy homeowners with incomes more than \$200,000 pay their mortgages by allowing them to deduct their loan payments. About \$21 million a year in such deductions goes to owners of second homes.

- The income tax kicker benefits mostly the rich. In 2001 the richest fifth of Oregonians reaped two-thirds of the kicker money.

- Oregon gives \$18 million a year in tax breaks to households earning more than \$100,000 to help cover medical expenses.

- Oregon gives yacht owners \$14 million in property tax exemptions a year.

Big business in Oregon also gets big breaks, including:

- State Enterprise Zone and Strategic Investment programs give corporations about \$80 million a year in property tax breaks.

- Oregon spends about \$12 million a year on a Pollution Control Tax Credit that pays industry for projects that they are legally required to do anyway.

- Oregon gives corporations about \$35 million a year in tax breaks to support their foreign operations.

- The state taxes large corporations' income at 6.6 percent while taxing small businesses and individuals at 9 percent.

- Oregon business were recently given a state break to accelerate depreciation of their purchases, a \$52 million a year windfall.

All these big business breaks have left the state with the lowest business taxes in the West, according to a study by the Association of Washington Business. Last year, more than 80 percent of Oregon's corporations used enough income tax loopholes and dodges to qualify for the minimum payment of \$10, according to the FOFT coalition.

Many of the business breaks are supposed to create jobs, but there's little evidence of that. Ed Whitelaw, a UO professor and one of the Northwest's leading economists, recently told *EW* that study after study has shown that corporate incentives don't do much to improve the economy. "We've know [that incentives don't work] for decades, yet people keep getting suckered into it," Whitelaw says.

The unfairness is only getting worse. During the last decade, the tax burden on Oregon's low income families increased by 2 percentage points to 9.4 percent of income. The wealthiest Oregonians saw a slight decrease in taxes, according to OCP. In 1990, businesses paid more than 40 percent of the cost of running state schools. Now they pay less than 30 percent.

## POOR TAXES

Many of the leading proposals for tax reform in the state Legislature would only make the system more unfair.

House Bill 3500 has the backing of some moderate Republicans and some Democrats. The bill would trade a 5 percent sales tax for a reduction in state income taxes.

OCP found that even if the sales tax exempts groceries and other necessities, the bill would result in an average tax increase of \$227 for the poorest 20 percent of Oregonians and an average tax break of \$21,000 for the richest 1 percent.

The problem is that sales taxes hit the poor much harder because they tend to spend all their money while the wealthy save most of their money. Income taxes hit the poor comparatively less because they are based on a percentage of income. Washington state has a sales tax but no income tax and has the most regressive tax system in the nation, according to ITEP.

HB 3500 "is a double hit to tax fairness," says Tim Nesbitt, director of the Oregon AFL-CIO, a leading member