

of the FOFT tax reform coalition.

Lynn Lundquist, director of the Oregon Business Association, says his group will "probably" support some sort of sales tax. The regressive impact of the tax on the poor is a concern, he says, but could be partially offset with income tax breaks targeted at lower incomes, he says. "Can you completely do away with it? Probably not," he says.

Jeff Thompson, an economist with OCPP, says even if the poor were protected with targeted income tax breaks, the middle class would probably still see a big tax hit while the rich get a tax cut.

Another problem with sales taxes is that they aren't deductible on federal taxes like income taxes. With HB 3500, Oregon will in effect end up sending 15 percent of the new tax revenue or \$400 million to Washington, D.C., Nesbitt says.

The idea of the federal government in effect taking a big chunk out of the proposed tax increase is troubling for Lundquist. "It's the biggest single issue that we don't have an answer to."

A sales tax proposal would also have little chance in passing, says Hibbitts. "I've been down this road. I've been polling in this state for almost 30 years," he says, pointing out that sales tax proposals have failed in the state nine times with support below 30 percent.

Nesbitt says most Oregonians will recognize the unfairness of a sales tax with income tax cuts that benefit the rich. "There's not a chance in hell of that passing."

"The odds of us being successful are tough to say the least," admits Lundquist.

ROBIN HOOD

Increasing income taxes on the wealthy would have many advantages, progressive reformers say. "You could keep the fairness and get more revenue," Thompson says.

The rich would only have to actually pay about 70 percent of the state income tax increases because the federal government would cover the rest with federal income tax deductions.

Wealthy Oregonians could afford to pay more. In Oregon, the wealthiest 1 percent doubled their incomes in the 1990s while most other Oregonians saw stagnant wages. In the 1990s, the state had the largest jump in income inequality in the nation, according to OCPP. The situation is only getting worse. Almost half of the recent federal tax cut went into the pockets of the wealthiest 5 percent of state residents.

To make the income tax more fair, Oregon could reduce the percentages it charges the poor and increase the percentage charged on the wealthy. Oregon's income tax rates are effectively nearly flat right now. About 70 percent of taxpayers qualify for the top 9 percent rate. That's far more regressive than most states. Oregon's effective income tax rates (before federal deductions) are about three times higher for the wealthiest 1 percent than the poorest 20 percent. The national average for state income taxes is a nine times difference between the rich and poor. California's steeply progressive income tax hits the very rich 40 times harder than the poor.

Oregon's flat taxes mean that the poor here pay some of the highest state income taxes in the nation. Oregon families of four with incomes at 125 percent of poverty pay \$730 in income tax, the second highest such bill in the country, according to ITEP.

To make income tax revenue more stable during economic downturns, the state could create a rainy day fund to take it through recessions, Thompson says.

But boosting income taxes on the rich could meet sharp opposition from business groups. "I don't think that will fly," says the OBA's Lundquist.

"Our income taxes are so high they certainly have a negative effect on business," Lundquist says. Charging more "may drive some of the executives from here to Washington," he says.

Thompson says studies show the argument that high income taxes hurt the economy isn't true. Oregon had the fastest growing economy in the nation in the 1990s despite its comparatively high reliance on income taxes, he says. Most businesses value the government services and quality of life

that taxes bring and won't go to all the trouble to move just to seek out lower taxes.

But Thompson acknowledges that opposition to higher income taxes is widespread, even among Democrats. Lower income taxes has been a "right-wing mantra" for years in Oregon, he says. "A lot of Democrats have unfortunately fell under the sway of that siren song."

Nesbitt says strong business opposition could make higher income taxes on the wealthy hard to pass. Other progressive reforms may be more viable, he says. "They would fight them all, but I'm trying to figure out which ones they would fight the strongest."

BREAKS ON TAX BREAKS

An alternative to raising income taxes would be going after all the tax breaks for the wealthy and big business.

Currently about 45 cents of every tax dollar is lost to tax breaks, according to FOFT. A law limiting such breaks to 33 cents on the dollar would generate \$1.7 billion in new revenue, Nesbitt says. The law would require the Legislature to budget expenditures for tax breaks for businesses and the wealthy just as it budgets expenditures for government services, he says. "We have polling that shows people like that idea."

Lawmakers need to consider that each dollar in tax breaks steals a dollar from needed state services, according to FOFT. Cutting a million dollars in tax breaks would buy one day of school for 51,000 students, in-home care for 77 seniors for two years or two years of medical insurance for 129 Oregonians.

State spending on social services may also be a better creator of jobs than tax breaks by bringing into the state economy millions of dollars in federal matching funds, according to OCPP.

A variety of other reform ideas are floating around, including:

- Making the 6.6 percent corporate income tax rate match the 9 percent personal and small business rate would bring in \$300 million, according to Nesbitt.

- A statewide commercial and industrial property tax for schools (\$3 per \$1,000), would raise \$645 million in the next biennium, according to FOFT.

- As part of a reform package, the tax burden on the poor could be lessened by a homestead exemption or other relief directed at low-income property tax payers, according to OCPP.

- Expanding Oregon's Earned Income Tax Credit and making it refundable would also provide relief for the poor. Oregon's credit is set at only 5 percent of the federal credit while Vermont gives the poor up to 32 percent of the federal credit, according to ITEP.

- Means testing income tax deductions for medical care, home mortgage and tax expenses and other deductions by making them unavailable for wealthy taxpayers would save the state millions while protecting low-income tax payers, according to FOFT.

- Some legislators have proposed a value added or other internal business sales tax similar to those in Europe. Such taxes would likely be passed on directly to low-income consumers and share the same unfairness as a sales tax, according to OCPP.

- Eugene Mayor Jim Torrey has proposed the state

allow a local option for school districts to increase property taxes to fund their schools. Property taxes are more progressive than sales taxes, but not as progressive as income taxes, according to ITEP.

- Repealing the state income tax kicker would bring in more revenue by increasing taxes mostly on the wealthy.

- The Oregon Business Association has proposed an across-the-board 23 percent reduction in itemized deductions and personal income tax exemptions to generate \$620 million. OCPP says the reduction should apply only to higher income tax payers. OBA has also proposed increasing the corporate minimum tax to bring in \$50 million and capping the state deduction for federal income taxes to bring in another \$100 million.

LEADERLESS

Reformers have little hope that the state Legislature will do much to reform taxes and bail the state out of its \$3 billion hole. "Their [Republican] caucus is held hostage by a handful of right-wing ideologues," says Joy Marshall, director of Stand for Children, a member of the revenue coalition.

Nor do reformers see much hope in Robin Hood-like leadership from Gov. Ted Kulongoski. "He doesn't want to go to the public with a major tax reform proposal," says the governor's spokesperson Marian Hammond.

Hammond says Kulongoski may propose a reform in a couple years but believes that the public needs time to discuss and understand the revenue and tax problems the state has. Rushing to voters "is not going to succeed," she says.

Hammond says the governor hasn't yet decided even how to begin discussing reforms with voters. "That's something we will be looking at in years to come."

The lack of leadership from the governor has caused frustration among coalition members. "Many people would like to see the governor take a stronger stand," Marshall says.

Kulongoski may be shying away from a vote on tax increases during the statewide races in 2004. He had a tough fight to win election last year with Measure 28 looming on the ballot.

But Hibbitts says with the down economy, the governor's race would have been close even without Measure 28.

