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Flat Tax

Will county get rolled by proposed income tax?

By Alan Pittman

The $32.5 million Lane County income tax would tax a family struggling on food stamps at the same rate that it would charge the wealthiest millionaire in the county.

Measure 20-129 on the May 15 ballot imposes a flat 1.1 percent income tax regardless of income level.

"This is really going to hurt the working poor," Lane County Commissioner Peter Sorenson lamented, saying the tax was unfair because it wasn't based on ability to pay.

But unfairness isn't the only concern of opponents of the tax. Critics also question what the money will be spent on, whether the dire threats of cuts are exaggerated and whether the tax has much chance of passing.

FLAT TAX

The county's flat tax is different from the long tradition of progressive, graduated income taxes in the U.S. The federal income tax increases from 10 to 35 percent as income rises.

By not imposing a similarly graduated income tax, the county decided, in effect, to give a huge tax advantage to the wealthy (see chart). The wealthiest 1 percent of county residents, about 600 people with average incomes of about $776,000 a year, would pay an estimated average of about $5,700 a year less in taxes under the county's flat tax than under a graduated tax, a 73 percent tax break. The next wealthiest 4 percent would pay about $950 a year less with the flat tax. The next wealthiest 15 percent would pay about $192 less.

Under the flat tax the county has proposed, the poor and middle class would pay for a big tax advantage for the wealthy. The poorest 40 percent of taxpayers would pay an average of about $36 a year more in taxes compared to a graduated tax, a 51 percent tax increase. The middle-class 40 percent would pay $78 more on average.

County Commissioner Bill Dwyer said the county chose the flat tax to avoid well-funded opposition from the rich. With a graduated tax "we would have had a lot of people invest money in shooting it down," he said.

Commissioner Faye Stewart, a Republican timber heir, said he should be praised for his brave leadership in voting for the flat tax. "I have put myself out on the line to save the people."

Stewart said he originally thought a flat tax of $150 per person in the county would have been more fair, but he settled for the flat income tax. He said his accountant told him the rich would pay most of the total tax revenue. "I don't see the unfairness in this tax."

A flat tax has long been the holy grail of Republicans. Billionaire Steve Forbes has championed a flat tax that would cut millions off his taxes. But arguments about the fairness of the poor paying for a huge tax break for the rich have discouraged implementing a flat tax, except in Iraq, where the Bush administration's military occupation imposed it by fiat.

The Lane County flat tax does include some provisions to reduce its impact on the very poor. The tax would exempt single filers with income below $10,000 and joint filers with income below $20,000. Single filers would get a $7,500 deduction, and joint filers would get a $15,000 deduction.

But the exemptions and deductions would still leave many struggling families paying the tax. The federal poverty line for a family of four is $20,650. Families of four earning up to $27,000 qualify for food stamps. Other public assistance programs go to families of four earning up to $31,000 a year, about what many labor groups consider a minimum living wage.

In Lane County the average taxpayer would pay about $224 filing jointly or $306 filing single, assuming no deductions.

Progressive groups have called for tax reforms to limit the growing income inequality in Oregon, but the county flat tax would do the opposite. In the last three decades the income of the wealthiest 1 percent of Oregonians has doubled while the wage of the typical Oregon worker has dropped slightly after adjusting for inflation, according to the Oregon Center for Public Policy (OCPP).

Critics also complain that the county tax unfairly burdens individuals over businesses. The flat tax would receive an estimated 86 percent of its revenues from individuals, but only 14 percent would come from business income.

Business loopholes included in the flat tax may greatly limit the taxes corporations pay. For example, the county chose to charge corporations income taxes only on income from sales within the county. That tax break could be a huge windfall for corporations like Hynix, which has millions in local income but sells few of its chips in Lane County.

Sorenson notes that Multnomah County's income tax is paid entirely by businesses with no tax on individuals.

If, instead of 14 percent, Lane County businesses paid an equal 50 percent of the proposed county income tax, the average single taxpayer would save about $130 a year.

But Commissioner Dwyer opposes lowering individual taxes by increasing taxes that he said would "hurt" business. "Business is the engine that drives the economy," he said.