Vote Due May 1 on 'Most Comprehensive Tax Measure Ever to Emerge From an Oregon Legislature'

Editor's Note: The following analysis of the tax measure referred to the people by the legislature for a May 1 vote—as well as the other material on these two pages—were provided to The OSEA News by Jim Jones, Tax Relief NOW Committee, 335 State Street, Salem, Oregon, 97301. Where appropriate, identification has been made of the reporters who wrote the articles and the newspapers in which they appeared.

BY HENNY WILLIS
EUGENE REGISTER-GUARD

On May 1, the voters of the state will pass judgment on one of the most comprehensive and far-reaching taxation measures ever to emerge from an Oregon legislature.

Known throughout the state as Gov. Tom McCall's school finance and property tax relief program and formally as the "Property Tax Relief and School Finance Act of 1973," the measure would accomplish three major alterations in the funding of education in Oregon:

(1) It would put the financing of elementary and secondary schools primarily on the state income tax, rather than the traditional local property tax.

(2) It would put an absolute ceiling of $2 per $1,000 true cash value on remaining homeowner property taxes for the support of schools and a $10 per $1,000 TCV on business property for school funding.

(3) It would have the state pay virtually 95 per cent of the cost of public education in Oregon, rather than only 21 per cent.

The tax package, which McCall considers the most important single piece of legislation during his tenure as governor, does a number of things—and does not do a number of things. It is important to know what it does and what it doesn't do.

According to McCall's staff, the package is designed to (1) drastically reduce property taxes for school purposes on business property and virtually eliminate them on homes; (2) more nearly equalize the tax burden for schools; (3) move funding of education from reliance on property taxes to a funding system based on income, and (4) provide school districts with their current operating revenues from state sources, plus six per cent for inflationary factors over each of the next two years.

It does not (1) make significant shifts in the tax burden from business to individuals or vice versa; (2) change property taxes other than for elementary and secondary schools; (3) deal directly with community college, school consolidation (although some claim it will force consolidation) or education standards, or (4) equalize educational expenditure among the state's 300-plus school districts.

What, then, is the plan as it now goes to the voters?

PROPERTY TAX RELIEF (HOMES)

In its very core, the McCall plan would have the state assume virtually 95 per xent of the operating costs of local public schools. Currently, state support is about 21 per cent, the rest coming from the local property tax.

Local districts would still levy property taxes for such things as capital outlay (construction), school lunches, 45 per cent of transportation costs (the state would pay 55 per cent) and existing bonded indebtedness.

Since schools are supported by an average of between 70 and 75 per cent of the property taxes around the state, the McCall plan would drastically reduce property taxes.

For example, a homeowner in the Eugene school district would see his overall property tax burden drop from $34.11 per $1,000 of property value to $16.92 per $1,000. For a $20,000 home, that is a decrease from $682 to $338 a year or more than 50 per cent.

Also, the McCall plan continues the present property tax relief program for low-income families.

HOMEOWNER TAX CREDIT

In the Senate, the plan was further refined by including a 10 per cent tax credit for homeowners for the total property tax paid AFTER the McCall plan's initial reductions are put into effect.

The tax credit provision applies only to homeowners, not to non-residential property. It would work like this, using the example of a $20,000 home in the Eugene school district:

As mentioned above, the $20,000 Eugene home would have its property taxes drop from $682 to $338 under the McCall plan. In addition, the owner of that home would be entitled to a $33 credit against his income tax liability (10 per cent of $338).

A tax credit differs sharply from a deduction in that it is applied after the computations have been made and comes out of the final tax liability.

PROPERTY TAX REDUCTION (BUSINESS)

For business property, the plan also envisions a tax reduction, although not as great as for homes.

Business now pays the same rate per $1,000 of value as homes in each school district. Under the McCall plan, the tax on business for schools would fall to $7.50 (and never more than $10) under the statewide property tax levy inherent in the program.

The plan eliminates immediately the inventory tax now levied on businesses.

For businesses with large inventories (retail stores, for example) or large property holdings (lumber companies), the property tax reduction should be significant.

PROPERTY TAX LIMITATION

The plan contains a property tax limitation of $2 per $1,000 true cash value on homes and the $10 per $1,000 TCV on business for educational purposes. Since these limits would be locked into the state constitution, not even a majority vote of local taxpayers in a specific district could cause a school district to exceed them.

The $7.50 per $1,000 statewide property tax on business falls within the $10 limitation. (One of the business community arguments against the plan has been that it would be too easy for future legislative sessions to put business at the top of the $10 limit in order to raise more revenue.)

Homeowners' property taxes for education would be virtually eliminated, except for the $2 limitation. Any levy within the $2 would be for matching state equalization money or for program improvement.

A final note on limitations. Any levy within the $2 would fall on all classes of property, not just homes. This means that in reality business property conceivably could be subject to a $12 limit (the $2 plus the $10), but homes would remain at $2.

RENTER RELIEF

For the first time in the state's history, a program of renter's tax relief is presented within the McCall plan. Since owners of rental property would realize some property rax relief, the program tries to insure that the renter himself is the beneficiary as well as the landlord.

All renters would realize an income tax credit equal to nine per cent of their annual net rent (less utilities, ect.). Also, an extra relief for low-income renters is included in the program, providing an additional relief of up to another 12 per cent tax credit on net rent, depending on income levels.

BUSINESS TAXES

Besides the statewide property tax levy on income-producing property for school purposes, the McCall program also alters significantly the corporate excise tax and imposes a new tax on the business community in Oregon—a net profits tax.

Originally, McCall made no proposal to change the corporate tax structure from its present rate of a flat eight per cent on banks and financial institutions and six per cent on all other corporations.

In the House, however, the Democratic majority on the House Revenue Committee changed the flat rate on corporations to a graduated rate of four to ten per cent. Further changes put it finally at a four to nine per cent range. The effect of this change was to soften somewhat the plan's impact on small businesses, while hitting the large ones harder.

In the original McCall plan, the governor requested a flat three per cent business profits tax, but, again, the House Democrats altered this to a graduated scale of one and two per cent, with exemptions from the tax on the first $15,000 profit. This change, too, was made to soften the impact on small businesses and partnerships or sole proprietorships.

The Democrats estimate now that virtually 80 per cent of all businesses in the state would be exempted from the profits tax because of the Democratic amendments. The corporate giants, however, will be hit the hardest.

PERSONAL INCOME TAXES

To help pay for the state assumption of 95 per cent of school costs, the govefnor went to several financial wells to get money. One of those wells was a proposed increase in the personal state income tax.

The program changes the current personal income tax rates from a scale of 4-10 per cent to a new range of 5-13 per cent.

Most taxpayers in Oregon will end up paying more in income tax under the McCall plan. But the governor's staff and his program's supporters claim that some 60 per cent of the state taxpayers will realize a net gain once they figure in their property tax relief.

The "breaking point," according to the Department of Revenue figures, is around $16,000 annual adjusted gross income. In other words, persons with incomes of $16,000 a year or less are likely to come out ahead under the McCall plan, while those with annual incomes of more than $16,000 will likely pay more in net taxes.

FEDERAL TAX REDUCTION

Another feature of the McCall plan which proponents say makes it more progressive is the elimination of federal tax deduction on Oregon returns over $2,000. Currently, a taxpayer can deduct all of the federal income tax paid in computing his state income tax. Under the McCall plan, only that federal tax paid under $2,000 could be deducted. This feature will hit upper income taxpayers the hardest—and virtually exclusively.

DISTRIBUTION

The most controversial and complex item in the McCall plan is the distribution formula—how the state allocates its money to the local school districts.

In essence, the plan calls for a basic state grant of $900 per pupil to local districts, with appropriate adjustments for those districts currently spending more or less than the per-student grant.

For districts now pending less than the $900 per student, they can elevate themselves to that level from funds in a state contingency fund, provided they secure the approval of the State Department of Education and-or the Emergency Board.

For districts spending more than $1,200 per student, any additional money would have to be raised locally within the $2 limit, with some assistance from the state contingency fund.

KINDERGARTENS

McCall originally proposed 50 per cent state aid to existing kindergarten programs, but the House jumped that to full state funds for all kindergarten programs—existing and new.

The Senate modified these differences somewhat, with the final version being full state aid for kindergartens now operating, 50 per cent state help for those that begin within the next two years and then full funding for all kindergartens after that.

INTERMEDIATE EDUCATION DISTRICTS

The plan puts IEDs outside the $2 limitation, but places an absolute limit on the money IEDs can spend at an amount equal to current costs for operation and special resolution services, plus six per cent.

The major portion of most current IED budgets is for equalization purposes, i.e., taxing rich districts to help poor ones. The McCall plan, since it would have the state pay virtually all school costs, would eliminate the need for an IED equalization levy, thus sharply reducing the amount of money an IED needs to raise through property taxes.

The ceiling on IED spending was inserted by the Senate to prevent what some senators feared could be a "loophole" for school districts wanting to exceed the $2 limitation. Under this theory, a district might use the IED (originally unencumbered with a limit) for special programs to avoid having to levy for that program within the district's $2 limit. The ceiling on IED spending, however, closes such possibilities.

Tax Plan 'Myths' Are Examined

BY CHARLES E. BEGGS
THE OREGON STATESMAN

Some myths are being circulated about Gov. Tom McCall's tax program which should be set straight.

The general assumption on the part of many dissenters to the plan is that it is going to cause hardship on significant segments of the populace. Such drivel is just that—distortions and manipulations.

Examine some of the following presumptions, now being widely circulated among the public:

(1) Oregonians don't want any more taxes, period, and therefore will vote against the governor's plan.

Gov. Tom McCall's plan does not increase the overall tax burden of Oregonians, and it is false to say that it does. The schools, if the plan is approved, will get the same amount of money to operate on that they will have whether or not the plan is approved. The difference is that their money will come mainly from state income taxes, instead of mainly from locally collected property taxes.

(2) Well, if my property taxes for the schools goes down, the cities and counties will just make it up by raising their property taxes even more.

The school tax program has no effect on city and county taxes. They may do as they please. But property taxes for city and county government cannot increase any more than six per cent without a vote of the people, and they will not be able to increase taxes any more than that whether or not the school tax plan is approved.

(3) I won't have local control of my schools if the governor's plan is adopted.

The practical functioning of local control will not change due to this plan. The school districts, if the plan is approved, will get a flat state grant of so many dollars per student. Opponents will say that the state will set teacher salaries, etc., if the plan is approved. However, the local district will get a flat amount of money per student, and it will be left to the local school board to decide how to spend it, under the same statewide guidelines as presently exist.

(4) I don't own any property, so it won't do me any good to vote for the governor's plan.

The governor's plan provides opportunity for some tax relief for all persons, whether or not they own property. The plan allows renters to subtract a portion of their rent from their income tax, in order to give them property tax relief in effect.

It would work this way. A single renter who earns $8,000 a year and pays $100 a month rent presently gets no property tax relief. He pays $1,399 in state and federal income taxes. Under the governor's plan, he would be able to subtract nine per cent of his annual rent, or $108, from his income tax.

Because his state income tax would increase under McCall's plan, his total income tax would be $1,495. But then he would subtract the $108 renter credit from that—leaving his total tax bill at $1,387—or $12 less in total tax than he paid without the governor's plan.

The overall plan comes down to this: the schools will end up with the same amount of money to spend for their operations. The whole question is whether it is fairer to pay for the schools mainly through property taxes or whether it is fairer to finance the schools by means of the graduated income tax.

The question also will come up as to how 80 per cent of the people can pay less tax and the schools still will have as much money. The main reason is that $130 million will go to schools which is not now allocated to them. Of this, $67 million is in federal fevenue sharing funds, which is new money. The rest is in additional state general funds, on top of what is allotted to the schools.

Example of Tax Impact Average Oregon Homeowner (Eugene)

Family of 4 income $11,000 per year

Value of home $17,000	Current	Proposed
Property tax liability	580	287
Income tax liability	1,322	1,486
Tax credit	--	29
Total	$1,902	$1,744

All income liability computations in these examples include both State and Federal income taxes.

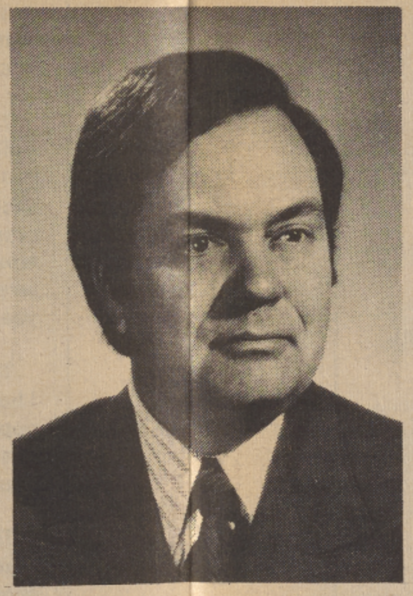
Example of Tax Impact Average Oregon Renter

Married, no children, Income $8,000 per year

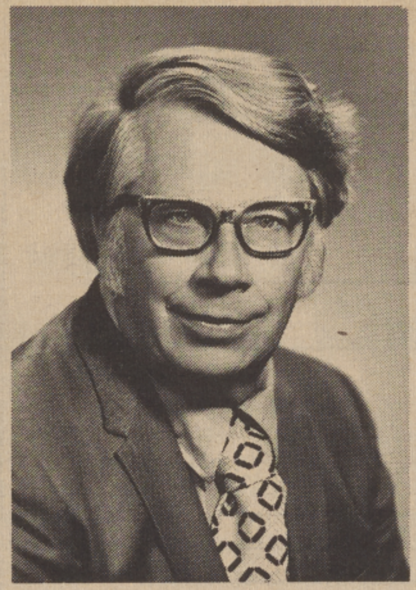
Family of 2, Rent $125 per month	Current	Proposed
Income tax liability	1,111	1,196
Renter credit	--	135
Total	$1,111	$1,061

Governor, Legislators Favor Plan

"An estimated 85 per cent of Oregon taxpayers will get tax relief if this school finance program is adopted May 1. Renters join homeowners in receiving tax relief." —Governor Tom McCall



"It's hard to say no to tax reform that benefits 85 per cent of Oregonians." —Senate President Jason Boe (D-Reedsport)



"It's a people's tax relief program that provides property tax relief for the average Oregonian. It deserves support at the polls." —House Speaker Richard Eymann (D-Springfield)

Table Shows Income Tax Impact

The following table shows the impact of the McCall tax plan on state and federal income taxes, on the basis of limiting federal tax deductions from state returns to the first $2,000 and increasing the state rates as indicated for a family of four which itemizes 15 per cent of its total income.

	PRESENT TAX			McCALL PLAN		
Adjusted Gross Income	State	Federal	Total	State	Federal	Total
$ 1,000	0	0	0	0	0	0
$ 3,000	0	0	0	0	0	0
$ 4,000	$10	0	$10	$13	0	$13
$ 5,000	$48	$98	$146	$61	$98	$159
$ 7,000	$141	$402	$543	$188	$402	$590
$ 9,000	$227	$700	$927	$304	$686	$990
$10,000	$276	$853	$1,129	$367	$835	$1,202
$12,000	$378	$1,156	$1,534	$500	$1,133	$1,633
$14,000	$468	$1,471	$1,959	$654	$1,434	$2,088
$20,000	$866	$2,544	$3,410	$1,219	$2,455	$3,674
$30,000	$1,500	$4,700	$6,200	$2,324	$4,436	$6,750
$50,000	$2,595	$10,747	$13,342	$4,534	$9,906	$14,440

'Yes' Vote Urged on Tax Plan

FROM THE OREGON JOURNAL

The Journal for many years has advocated the basic concepts contained in the govenor's tax program. As it was given form and substance by Gov. Tom McCall and his staff, and improved by both houses of the legislature, it emerged on the whole as a very impressive reform.

While our support has been stated frequently, this newspaper today (April 4) strongly endorses the tax package and urges voter approval at the polls in a special election May 1.

The package is in two parts. One is a constitutional amendment, placing limits on the use of property taxes for the operation of schools. This is the part on which the people will vote. The other portion is the bill containing the machinery for property tax relief and school finance that will take effect upon passage of the constitutional amendment.

Two of Oregon's most persistent problems would be resolved by voter approval on May 1. First, substantial property tax relief, especially on homes, finally will be provided. Second, a stable and equitable financial structure will be placed under the state's public schools.

They are, of course, related. The cost of schools, falling mainly on the property tax, created the massive tax burden on people's homes, which, in turn, led to the decade-long "property tax revolt." The consequences have been apparent year after year as school districts have had to submit their operating levies to their voters repeatedly before finally gaining the approval that would allow them to operate the following year.

Ever constant was the threat that the approval would not be granted and the schools might be forced to close. That has not happened so far, but only because in the end the public's concern about education has outweighed its dissatisfaction with the burgeoning tax load on homes.

Twice, indeed, the voters have rejected measures that would have provided property tax relief, but only by placing schools in jeopardy. In both cases, the promise was held out that the legislature would act to relieve the property tax. The tax measure sent by the legislature to the voters keeps that promise.

It nearly eliminates the cost of operating schools from homes, placing a limit of $2 per $1,000 of assessed value. Nonresidential property also would get a break. The rate initially would be $7.50 per $1,000 and a constitutional limitation would prevent the rate from climbing beyond $10 per $1,000.

The financing of schools would shift largely to income and corporate taxes, based on ability to pay. It is by all odds a fairer system. Furthermore, the schools will be assured of operating from year to year. The program, additionally, will stop the drift between wealthy districts and poor districts that has been leading to an ever greater disparity of educational opportunity and start moving all schools in the state toward equality.

Home owners particularly will benefit. They not only will have their property taxes for operating schools nearly eliminated, but may subtract 10 per cent of the remaining property tax from their income tax. But renters, who pay taxes through their rents, were not forgotten. They will receive a refund of nine per cent of the rents paid.

While property taxes go down, income taxes will go up. While each taxpayer will have to determine his own situation, an estimated 80 per cent of the taxpayers of Oregon would wind up with a smaller total tax payment.

It need hardly be said that some persons can, and will, find fault with the package. Any undertaking of this scale is bound to contain items that anyone can attack, if he is looking for an excuse on which to base opposition.

But it is important to keep in mind that it provides a lot of property tax relief, shifts school finance essentially to ability to pay, gives schools financial stability and moves toward guaranteeing a child equal access to a good education regardless of where his parents happen to live.

Each of these points is worthy by itself. Together, they add up to an outstanding reform in taxation that merits the support of the voters on May 1.

Example of Tax Impact Pharmacist (Salem)

Owns building, T.C.V. $30,000, Inventory $50,000
Owns home, value $28,000

Income $18,000 per year, Family of two	Current	Proposed
Property tax liability	$3,548	1,289
Income tax liability	$3,330	4,354
Business profits tax	--	49
Tax credit	--	51
Total	$6,878	$5,641