

Oregon forecasts a record \$3 billion tax kicker in 2024

BY PETER WONG

Oregon Capital Bureau

Taxes kept rolling into Oregon's coffers at record amounts this year, but state economists say much of that money is likely to go back to taxpayers in 2024 in record credits against their state tax bills.

While they also are not forecasting an economic downturn soon, the economists say that if it happens in 2023 or 2024, Oregon's tax collections could drop by as much as 20% — and the state's discretionary budget still relies largely on personal and corporate income taxes.

Still, shortly after the state's quarterly economic and revenue forecast was released Wednesday, May 18, Gov. Kate Brown said the forecast will yield slightly more money that can be spent on one-time needs

in the next state budget cycle in 2023-25.

Brown said in a statement: "The good news is that the continued strength in the economy will allow the Legislature to look at additional one-time investments in the coming budget cycle — like those we've recently made in housing, behavioral health and child care — to further spur growth and support working families, so that all Oregonians see and feel the benefits of our economic bounce back."

Though Brown leaves office on Jan. 9, 2023, her administration will prepare most of the next state budget that goes to the Legislature. Whoever is elected governor Nov. 8 will have until Feb. 1 to propose changes.

Even allowing for \$1.9 billion in credits against taxes af-

ter the 2019-21 budget cycle, state economist Mark McMullen said Oregon still collected \$1.2 billion more than economists projected a year ago, when they prepared a forecast for the current two-year budget. Though McMullen said the trend is similar in other states dependent on income taxes, their gains were 35% to 40% above forecasts; Oregon's was 70%.

"We never really could have imagined the sort of things we have seen in the past couple of months. What that has left us with is unprecedented balances for the current cycle," he told lawmakers on the House and Senate revenue committees. "Those are largely, but not entirely, offset by a larger kicker in 2023."

"We're going to do our best to explain how we could possibly be this stupid to make this kind of forecasting error in the outlook."

Forecast: \$3 billion kicker

The latest projections are for a record "kicker" of \$3 billion in credits to taxpayers against their 2023 tax bills — paid out when they file returns in spring 2024 — and \$931 million in excess corporate income taxes that will go automatically into the state school fund.

Under a 1979 law, which voters wrote into the Oregon Constitution in 2000, taxpayers get a "kicker" when actual tax collections exceed 2% of the forecasted amounts at the time that lawmakers approve the two-year budget. The rebate covers the entire excess, not just the amount above 2%.

McMullen said the principal reason tax collections are higher now is that higher-income taxpayers are cashing in on capital gains, which are profits from the sale of assets such as stock. Unlike the federal tax code, which offers a tax break, Oregon taxes capital gains as

ordinary income with a top rate of 9.9%. Some taxpayers may anticipate federal changes that will increase their taxes.

Based on a conference call with economists from other states the previous day, McMullen said:

"The trend is the same; it's not an Oregon phenomenon. We are seeing it across the board. It's a lot higher than our 2% threshold for the kicker, which made a dramatic change for the outlook for 2023-25."

However, as part of a presentation McMullen and senior economist Josh Lehner made to the lawmakers, they said there are increasing signs of a potential downturn, which would result in less money coming into state coffers.

Potential indicators of a downturn:

- Shrinkage of economic activity, as measured by the gross domestic product in the first quarter of this year.

- The war between Russia and Ukraine. Though the United States has cut off Russian oil, which accounted for only a small share of its imports, Lehner said there are indirect effects on oil prices, although the price has stabilized at \$100 to \$110 per barrel.

- Continuing problems with supply chains, particularly the coronavirus-related economic shutdowns in China, a major manufacturer of goods.

- Inflation, which has been running at annual rates (8%) not seen since the early 1980s. "Consumers are pessimistic because the cost of living is rising," Lehner said. Though wages nationally have risen 17% since the onset of the pandemic two years ago, Lehner said the average drops to just 5% when adjusted for inflation — and rising prices eat away at that gain.

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Idaho Gov. Little turns back Trump-backed challenger

BY KEITH RIDLER

Associated Press

BOISE — Idaho Gov. Brad Little won the GOP gubernatorial primary by beating a Trump-backed challenger who had repeatedly criticized the incumbent for not being conservative enough and who downplayed the loss on Wednesday, May 18.

The intraparty contest Tuesday, May 17 between Little and Lt. Gov. Janice McGeachin was an example of the choice GOP voters face nationwide between established candidates and insurgents endorsed by former President Donald Trump.

Little and McGeachin frequently feuded over coronavirus precautions and the role of government. Last year McGeachin twice attempted a power grab when Little was out of state on business.

"I felt the honor of serving the great state of Idaho in good times and in tough times," Lit-

tle said at a Republican gathering in downtown Boise late Tuesday after winning the primary. "Once again I'm humbled by the awesome opportunity to serve and work for the great people of Idaho."

Little won 53% of the vote against seven challengers, including McGeachin, who received about 32%.

McGeachin was at a private gathering in Boise where reporters weren't allowed. She issued a statement posted on Facebook on Wednesday.

"Last night, Idahoans showed Brad that he does not have a mandate," she said.

"Brad Little barely managed a majority even with tens of thousands of democrats and liberals infiltrating the Republican Primary to support him. Conservatives must get smarter and understand that we beat ourselves when we don't unite behind each other, we must never do that again.

The establishment counts on that, and we fell for it."

Little didn't gloat in his speech Tuesday, with much of it sounding like a standard stump speech recounting the state's red-hot economy and large income tax cuts the last two years as well as taking shots at Democrats.

"The leftist states are dysfunctional places with broken policies that limit opportunity," Little said. "We would like to build a wall around Idaho and make California pay for it."

Idaho is among the nation's fastest-growing states, with some of those new residents coming from California.

Republicans are almost guaranteed of winning in the general election as Democrats haven't held the governor's office since 1995 or statewide office since 2007. Republicans hold supermajorities in the House and Senate, and Democrats aren't even contesting

more than half of the Legislature's 105 seats.

Various groups encouraged independents and Democrats to register as Republicans to halt a slate of far-right candidates, including McGeachin. The number of voters doing that appeared to be too small to make a significant difference, but Alicia Nelson took that path and voted for Little over McGeachin, as well as other mainstream Republicans.

"In Idaho you have a lot of crazy people, so you kind of have to weed them out to get to somewhat logical thinking," she said.

Bill Brown stuck with the Democratic primary as he has done for decades, but acknowledged the dominance of the Republican party in Idaho.

"It has turned so far right it's kind of scary," he said.

Little was attending a Republican Governors Associa-

tion meeting in Tennessee last May when McGeachin issued an executive order banning mask mandates. Little quickly rescinded the order and decried her actions as an "irresponsible, self-serving political stunt." He had never issued statewide COVID-19 mask mandates, instead saying that local officials should be able to do what they see fit.

She tried it again a few months later when Little was away, issuing an executive order that expanded on a directive that no Idaho government could require vaccine passports. She sought to add K-12 schools and universities to the ban.

McGeachin accused Little, the first-term governor, of rejecting conservative principles, writing on Twitter that "protecting individual liberty means fighting against tyranny at ALL levels of government."

Little, a rancher from

southwest Idaho, served as lieutenant governor from 2009 to 2019 before becoming governor. He touts the record \$600 million income tax cut he signed earlier this year that includes a one-time \$350 million in rebates and \$250 million in permanent income tax reductions going forward for people and businesses.

The 68-year-old Little also highlighted his "Leading Idaho" plan that includes a record \$300 million education spending increase, plus spending \$200 million ongoing for roads and bridges, the largest ever increase for transportation.

The 59-year-old McGeachin had, and frequently touted, an endorsement by Trump, who won Idaho with 64% of the vote in the last general election. McGeachin has also promoted Trump's lies that the 2020 election was stolen from him through mass voter fraud.

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