

# 8 things to know about Oregon's tax system

Commentary



Photo by T Harper

April 15, 2021 By [Juan Carlos Ordóñez](#)

Tax Day will arrive a month later than usual this year, another consequence of the COVID-19 pandemic. With [additional time to file your return](#), you may want to spend a few minutes reflecting on the tax system.

Here are eight things to know about Oregon's tax system.

## 1. The tax system pays for the things that matter to Oregonians

Taxes are essential for our communities to thrive. Taxes pay to educate our children, to care for our seniors, and for many other services that we alone cannot shoulder.

In Oregon, there is no more consequential tax than the personal income tax — the taxes we pay out of our earnings. It brings in more than four in five dollars that fund what people usually refer to as the "state budget," the General Fund & Lottery Funds Budget. More than 90 percent of the state budget goes to three key areas: education, health and human services, and public safety.

## 2. Oregon's personal income tax is mildly progressive; the entire tax system is not

From [Jesus to Adam Smith](#), there is wide agreement that a fair tax system is one based on the ability to pay — one that asks proportionately more of a rich person than of a poor person. That's called a progressive tax system.

Oregon's personal income tax is progressive, but mildly so. Marginal tax rates start at 4.75 percent and, as a taxpayer's income goes up, rates quickly rise to 6.75 percent and 8.75 percent, topping out at 9.9 percent. The thing to note is that it doesn't take much income to get to the next-to-highest tax bracket of 8.75 percent. For couples filing taxes together, the 8.75 percent tax rate kicks in at \$18,400 of taxable income (what you're left with after all tax subtractions and deductions, but before tax credits). That rate stays in place until a couple reaches \$250,000 of taxable income. This means a lower-income family with just \$20,000 of taxable income pays the same tax rate on its last dollar of income as a family making a quarter-million dollars.

When you consider not just income taxes, but all the taxes collected by state and local governments, the tax structure [turns upside-down](#). It is no longer progressive. While the personal income tax is based on a taxpayer's ability to pay, Oregonians pay other taxes not connected to how much someone can afford to pay. They include property taxes and excise taxes on things like gasoline, alcohol, and tobacco. When you [add up all state and local taxes](#), Oregon's tax structure is actually regressive – meaning low-income Oregonians pay a higher share of their income in taxes than the richest Oregonians.

### 3. Some rich business owners are paying a lower tax rate than their employees

In 2013, the Oregon legislature [blew up a bedrock principle of tax fairness](#) when it established [lower tax rates for some owners of "pass-through" businesses](#), such as S-corporations and partnerships. These pass-through businesses don't pay corporate income taxes. Instead, the owners pay personal income taxes on the profits of the business. As a result of the legislature's decision, some rich business owners are paying not just lower tax rates than others who make the same amount of money, but often lower tax rates than their own employees.

### 4. The corporate income tax has weakened, despite strong corporate profits

In the mid-1970s, corporations contributed almost 19 percent of all income taxes collected by the state of Oregon. In the last budget period, corporations paid about [7 percent](#). This relative decline of the corporate income tax has occurred despite an environment of [strong corporate profits](#).

To a large extent, the weakness of the corporate income tax is the result of [aggressive tax avoidance](#) by corporations: the artificial shifting of corporate profits abroad and the relentless lobbying for new tax breaks.

### 5. When it comes to raising taxes, the minority rules

If you want to *cut* taxes in Oregon, a simple majority of the Oregon legislature suffices. If you want to create a new tax giveaway for the well-off or a new tax subsidy for corporations, again, a simple majority is enough.

But if you want to raise tax rates on the rich and big corporations to fund schools or other essential services, then you need three-fifths of each chamber of the legislature to agree. In other words, a minority of lawmakers — more easily captured by special interests — can block the will of the majority.

### 6. Oregon tax breaks often get written in Washington, D.C.

Whenever Congress creates new tax breaks, Oregon often ends up copying them automatically, without Oregon lawmakers having ever voted to approve them. This is because Oregon connects to federal tax law definitions. The only way to stop these new tax breaks is for the Oregon legislature to vote to reject them — to "disconnect" from them.

In recent years, Congress has been tossing out tax breaks for the rich and corporations like confetti at a parade. That was the case with the massive overhaul of the federal tax code under the Trump administration and in two stimulus packages in response to the pandemic. Though the Oregon legislature has disconnected from some of these, too often it has failed to act in the interest of the vast majority of Oregonians, letting tax breaks for the rich and corporations become part of Oregon law.

### 7. The tax system is not race-neutral

In 1862, not long after joining the Union, Oregon enacted a tax on people of color. If you were Black, mixed-race, Hawaiian, or Chinese, you had to pay a tax not levied on white Oregonians. If you couldn't afford it, you paid it off by performing road work.

Though Oregon tax law is no longer explicitly racist, it continues to [entrench and even deepen](#) racial disparities that are the result of past and present policy choices.

### 8. The tax system can be a powerful tool to advance economic and racial justice

The tax system both reflects the prevailing economic forces of its time and helps shape economic outcomes. In recent decades, income inequality has [climbed to historic levels](#). Not coincidentally, [business taxation has declined](#) and [tax rates for the superrich have collapsed](#).

But the pendulum can swing the other way. Our tax system can be a powerful tool for advancing economic and racial justice, but we must put that tool to good use.

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