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October 1, 1976

TO: Senator Victor Atiyeh

FROM: Richard A. Munn  
Legislative Revenue Officer

Ronald L. Chastain  
Economist

SUBJECT: Estimation of Tax Change

You requested I analyze and provide examples of the following tax proposal.

Proposal

Eliminate the school property taxes on owner-occupied homes. School property taxes would be collected on all other classes of property. Owner-occupied homes would be on the property tax rolls for all other property tax levies--city, county, ports, and special district. The school property tax revenue normally collected from owner-occupied homes would be replaced by a personal income tax increase. The increase would be for those over the median family income, or over \$30,000. There would be a limitation on all other property taxes of 3% of family income. Finally, there would be a prohibition on reassessment of a person's home who is 65 or older. What would the impact be in 1975-77?

Analysis

(1) School Levies

In 1975-76, school property tax levies amounted to \$522 million. It is estimated that school levies will be approximately \$590 million in 1976-77. Owner-occupied homes make up about 36% of the property tax roll. Thus, owner-occupied homes will pay about 36% of the school levies for 1975-77.

1975-76	\$ 522 million
1976-77	590 million
Total	<u>\$1,112 million</u>
Owner-occupied homes	.36
Share	<u>\$ 400 million</u>

(2) Homeowner Property Tax Relief

By eliminating school property taxes on owner-occupied homes, it would reduce the cost of the state homeowner property tax relief program. This would amount to about a \$24 million savings to the State General Fund.

(3) 3% Limit on Homeowner Property Taxes

Another aspect of the program is to limit the homeowner property taxes to 3% of a family's income. If all property taxes above 3% of a family's income are to be paid out of the General Fund, it would cost about \$10 million in 1975-77. Or, alternatively, \$10 million would have to be shifted to other classes of property over the 1975-77 biennium.

(4) Total Cost to General Fund

1. School Levy	\$400 million
2. Saving in HARRP	- 24 million
3. 3% Limitation	<u>10 million</u>
Total	<u>\$386 million</u>

(5) Personal Income Tax Change

This \$386 million was to be made up from increasing the personal income tax in one of two ways.

(a) Increase in the personal income tax for all taxpayers over the median--about \$13,000 in 1974. To raise \$386 million from those above \$13,000 during the 1975-77 biennium would have required a 49% tax increase for those brackets.

(b) Increase in the personal income tax for all taxpayers over \$30,000 in annual income. To raise the \$386 million from these taxpayers would have required a 142% increase. The upper personal income tax rate would have to approach 25%.

(6) Long Run

Over a longer period of time, the proposal might well create a significant tax shift. The magnitude of the shift is unknown.

(7) Assumption

It is assumed that the school property tax levy is extended against the homestead and then offset by the state contribution. This would be much like the homestead property tax deferral law operates.

(8) Warning

I would caution you that the analysis is quick and, thus, possibly subject to error.

(9) Examples

EXAMPLES  
 Family of Four  
 Wage Income & Itemized Deductions

I. Multnomah County	Before	After	
		Above \$13,000	Above \$30,000
A. AGI \$10,000			
Home Value \$17,000			
Property Tax (net of refund)	\$387	\$142	\$142
State Income Tax	263	263	263
B. AGI \$15,000			
Home Value \$25,000			
Property Tax	\$716	\$356	\$356
State Income Tax	530	790	530
C. AGI \$35,000			
Home Value \$65,000			
Property Tax	\$1,862	\$926	\$926
State Income Tax	1,865	\$2,779	\$4,513

(9) Examples (continued)

EXAMPLES  
 Family of Four  
 Wage Income & Itemized Deductions

II. Lincoln County	Before	After	
		Above \$13,000	Above \$30,000
A. AGI \$10,000 Home Value \$17,000			
Property Tax (net of refund)	\$ 336	\$ 106	\$ 106
State Income Tax	263	263	263
B. AGI \$15,000 Home Value \$25,000			
Property Tax	\$ 641	\$ 304	\$304
State Income Tax	530	790	530
C. AGI \$35,000 Home Value \$65,000			
Property Tax	\$1,666	\$ 790	\$ 790
State Income Tax	\$1,865	\$2,779	\$4,513
III. Washington County			
A. AGI \$10,000 Home Value \$17,000			
Property Tax (net of refund)	\$ 394	\$ 44	\$ 44
State Income Tax	263	263	263
B. AGI \$15,000 Home Value \$25,000			
Property Tax	\$ 727	\$ 211	\$ 211
State Income Tax	530	790	530
C. AGI \$35,000 Home Value \$65,000			
Property Tax	\$1,890	\$ 549	\$ 549
State Income Tax	1,865	\$2,779	\$4,513