MEMORANDUM

OREGON SCHOOL BOARDS ASSOCIATION

TO: Tricia Yates, Associate Executive Director
FROM: David Williams, Legislative & Public Affairs Specialist
SUBJ: Background on Potential Revenue Referenda
DATE: August 24, 2009

The Legislation: HB 2649 and HB 3405

House Bill 2649 increases personal income tax rates on higher-income households by creating and fluctuating a higher tax bracket. For tax years 2009, 2010 and 2011, two new tax brackets are created, a 10.8% bracket for joint filers with taxable income between $250,000 and $500,000 (between $125,000 and $250,000 if single) and an 11% bracket for joint filers with income above $500,000 (above $250,000 if single).

For tax years 2012 and beyond, both new tax rates are compressed to a single new top rate of 9.9% for joint filers with income above $250,000 (above $125,000 if single). The current top tax rate is 9% on all income in excess of $5,000. Additionally the legislation permanently phases out the federal tax subtraction for joint filers with adjusted gross income above $250,000 (above $125,000 if single) and excludes up to $2,400 of unemployment compensation only for tax year 2009.

Combined, these changes to the personal income tax code raise $230 million for fiscal year 2009-10 and $242 million for 2010-11, or $472 million for the 2009-11 biennium. In subsequent biennia, the measure raises approximately $375 million per biennium.

House Bill 3405 increases the corporate minimum tax, corporate income taxes and other Secretary of State fees. This bill increases the minimum tax for C-Corporations from the current $10 minimum to a sliding scale based on Oregon sales, from $150 for corporations with less than $500,000 in Oregon sales to $100,000 for corporations with Oregon sales of more than $100 million. It also increases the minimum tax for S-Corporations from the current $10 to a flat $150 and imposes a $150 entity tax on entities filing a partnership return.

In addition to the increase in the corporate minimum for a business not reporting an income, the bill increases the general corporate tax rate by creating a second marginal tax rate of 7.9% on all income greater than $250,000 for tax years 2009 and 2010. This rate is reduced to 7.6% for tax years 2011 and 2012, and for tax years beyond 2012, the income threshold is raised to $10 million. The current corporate tax rate is a flat 6.6%. The bill also increases several other minor Secretary of State corporate filing fees.

Combined, these changes to the corporate income tax code raise $52 million for fiscal year 2009-10 and $209 million for 2010-11, or $261 million for the 2009-11 biennium. In subsequent biennia, the measure raises on average $250 million per biennium.

Estimated Impact

Combined, the two measures **raise $733 million for the 2009-11 biennium**. This sum was used to balance the legislatively approved budget. For the biennium, funding for K-12 public education makes up approximately 40% of the entire state General Fund & Lottery budget. If the two measures are overturned and the loss of revenue is spread evenly across all sectors, schools could anticipate a biennial reduction of approximately $285.5 million or $431 per ADMw.

The Potential Referenda

Opponents of the two tax bills have 90 days from the close of the legislative session to collect the required number of signatures to refer any measure to a vote of the public. In anticipation of such a move, the legislature pre-assigned an election date for the measure of January 26, 2010. It is well known that opponents are actively collecting signatures to refer the measure, having even produced one television advertisement asking voters to sign circulating petitions.

Supporters of the two measures, likewise, are actively organizing into a campaign framework and preparing for what many believe is an inevitable campaign. While there is some dispute about the state of polling on these measures, it is clear that at worst (for proponents), the election is a toss-up. There have been several news reports on polling that has suggested more support for the measures than there has traditionally been for tax measures.

The opposition campaign, if session lobbying tactics were any indication, will focus on the possible damage the tax measures will do to businesses in the state. On the other hand, proponents are likely to focus on a message of "tax fairness," tapping into a populist sentiment that was strong in the previous general election. They are likely to focus on putting the increases in perspective relative to the business tax rates of Washington and California and other nearby or comparative states.

Timeline

2009

June 29	Legislature adjourns Sine Die
July 20	Governor signs both measures into law
July 21	Referenda petitions filed with Secretary of State
September 27	Deadline to turn in 55,179 valid signatures to refer measures
October 25	Deadline for Sec. of State to verify signatures
November 19	Deadline to submit Voters' Pamphlet statements

2010

January 5	Voter registration deadline
January 8	Ballot mailed to registered voters
January 26	Deadline for returning ballots to county elections offices