

Oregon Tax System Does Better Job Than Most in Not Worsening Income Inequality

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Every state tax system in the country makes income inequality worse, but Oregon's tax system does so less than most, according to a report released today by the Washington, D.C.-based Institute on Taxation and Economic Policy (ITEP).

Oregon's tax system is one of the nation's least regressive, due to the absence of a sales tax and the inclusion of a refundable state Earned Income Tax Credit (EITC), said Chuck Sheketoff, executive director of the Oregon Center for Public Policy, who examined the ITEP report. Only two states, Delaware and California, and the District of Columbia have tax systems that are less regressive.

The state tax system that most exacerbates income inequality belongs to Washington state, according to ITEP. Washington has a sales tax but no personal income tax – the opposite of Oregon's system.

“This report should give pause to those who point to Washington in urging Oregon to adopt a sales tax and scale back our income tax,” said Sheketoff. “With income inequality at record highs, making our tax system even more unfair would be the wrong way to go.”

Though Oregon's tax system compares favorably to that of most states, state and local taxes still take a bigger bite out of the pocketbooks of poor and middle-class families than those of wealthy families.

Adding up all state and local taxes, Oregon's low-income

families have the highest effective tax rate (8.1 percent) of any income group. Meanwhile, the wealthiest 1 percent of families have the lowest effective tax rate (6.5 percent).

Middle-income families in Oregon also pay a larger share of their income than the wealthiest families. Families in the middle have an effective tax rate of 7.6 percent.

The [ITEP study, Who Pays?](#), takes into account all major state and local taxes, including personal income taxes, corporate income taxes, sales taxes, property taxes and excise taxes such as gasoline and cigarette taxes. It also factors in federal income tax rules that allow taxpayers to deduct state and local property and income taxes.

“While Oregon’s tax system is one of the best, lawmakers should still look for ways to make it more in tune with people’s ability to pay,” said Sheketoff. “A progressive tax system reflects our values of fairness and opportunity.”

Sheketoff said that lawmakers can improve the system by eliminating tax subsidies that mainly benefit the wealthy, raising the top marginal tax rate, strengthening the EITC and providing a property tax circuit breaker.

“Income inequality is the defining challenge of our time,” Sheketoff said. “We certainly shouldn’t pass tax laws that make matters worse. On the contrary, our tax system needs to evolve to meet that challenge posed by inequality.”

The Oregon Center for Public Policy is a non-partisan, non-profit institute that does in-depth research and analysis on budget, tax and economic issues. The Center’s goal is to improve decision making and generate more opportunities for all Oregonians.