



NONPARTISAN VOTERS' GUIDE

OREGON SPECIAL ELECTION, JANUARY 26, 2010

Volume 39, Number 1

LEAGUE OF WOMEN VOTERS® OF OREGON *Education Fund*

We're pleased to offer you this **FREE NONPARTISAN ELECTION REPORT**

The League of Women Voters of Oregon Education Fund publishes the *Voters' Guide*. We work hard to make this guide as informative, impartial, and nonpartisan as possible. We do not support or oppose any political party or candidate. No candidates or interest groups pay us to publish information about them or their views.

This information is available to you for free, thanks to the volunteer efforts of League members and the support of generous individuals, foundations, and businesses. We are grateful to all who contributed to this effort to help Oregonians become informed and active voters.

IMPORTANT DATES

January 5 Last day for new voters to register
January 8-10 Ballots mailed to voters
January 26 ELECTION DAY

Remember to... VOTE BY MAIL

Most ballots will be mailed to registered voters January 8-10. Fill out your ballot and sign the return envelope. Stamp and mail your ballot in time for it to arrive at your county election office by January 26th (Election Day) or drop it off at the election office or a designated site by 8 p.m. on January 26th. Postmarks do not count.

ABOUT THIS ELECTION

In the January 2010 Special Election all registered voters are eligible to vote for or against two state ballot measures. This guide provides information about the statewide measures.

Measures 66 and 67 are referenda on two bills passed by the 2009 Legislature amending corporate and individual tax rates. The measures are on the ballot as a result of citizen petitions.

ON THE WEB

The information in this VOTERS' GUIDE is also available on-line at the election website for the League of Women Voters of Oregon.

www.VoteSource.org

HOW WE RESEARCHED THE BALLOT MEASURES

League of Women Voters members researched and wrote this guide on the ballot measures. We obtained information from supporters and opponents; experts at state agencies that administer current laws that would be changed; pro, con, and government agency websites; literacy groups; and other reports. **Supporters, opponents, and neutral experts reviewed this guide.**

League researchers and editors tried to **verify all the factual information** in our explanations and in the pro and con argument sections. We did not include arguments from the two sides that are not supported by objective data, unless they clearly are statements of opinion about values or about consequences. We worked diligently to ensure that this guide is **balanced, accurate, and fair**. We hope that this will give you the information you need to make an informed vote.

Ballot Measure 66

DRAFT TITLE to be finalized by Dec. 1, 2009: RAISES TAX ON HOUSEHOLD INCOME AT AND ABOVE \$250,000 (\$125,000 FOR INDIVIDUAL FILERS). REDUCES INCOME TAXES ON EMPLOYMENT BENEFITS IN 2009. PROVIDES FUNDS CURRENTLY BUDGETED FOR EDUCATION, HEALTH CARE, PUBLIC SAFETY, OTHER SERVICES.

This referendum of actions taken by the 2009 Legislature approving HB 2649 was placed on the ballot by initiative petition with an estimated 130,000 valid signatures. The chief petitioners are opposed to HB 2649 and thus want Measure 66 defeated.

Estimate of Financial Impact

This measure increases state budget revenues by \$217 million to \$242 million per year for fiscal years 2010, 2011, and 2012. It increases revenues by approximately \$180 million per year after that, depending upon growth in personal income and federal tax liability.

Revenue from this measure is included in the 2009-11 state budget. Failure of the measure

would reduce money available for the 2009-11 biennium state budget by \$472 million. This could result in lower state payments to schools and local governments. Failure of the measure also may result in a reduction of federal matching funds that are used to pay for state services. Failure of the measure would have a negative impact on the state's bonding capacity and credit rating.

<i>Probable results of a Yes Vote</i>	If this measure passes, HB 2649, passed by the 2009 Legislature, becomes law and an estimated \$472 million more General Fund revenue would be available for the 2009-11 biennium. For joint filers it would add 1.8% to the existing 9% rate (for a 10.8% rate) on taxable income between \$250,000 and \$500,000, and an additional 2% (for an 11% rate) on amounts above \$500,000. For single filers, the 10.8% rate would apply to taxable incomes between \$125,000 and \$250,000, and the 11% rate would apply to amounts over \$250,000. In addition, this measure would phase out the federal income tax deduction for joint filers who have more than \$250,000 of adjusted gross income (\$125,000 single filers) and exempt from personal income tax the first \$2,400 of unemployment benefits for tax year 2009.
<i>Probable results of a No Vote</i>	If this measure fails, HB 2649 does not become law and tax rates will remain at 9%, as they have been since 1987. In 2009-2011 an estimated \$472 million in taxes would not be collected, and the Legislature would need to balance the budget in other ways.

Background

The 2009 Legislature faced a \$3.7 billion projected revenue shortfall in preparing a 2009-2011 General Fund budget that would provide the same level of services and programs as the previous budget. So the Legislature made budget cuts and passed two bills to raise additional taxes totaling \$733 million to balance the budget. Measure 66 deals with a personal income tax increase and Measure 67 with

corporate tax increases.

Personal and corporate taxes supply 90% of the General Fund. Lottery receipts provide 7.5%. The General Fund pays for all levels of education (\$6.8 billion, which is 52% of the fund); human services, including services to the elderly, children, disabled and the State's share of Medicaid (\$3.5 billion, which is 25% of the

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Ballot Measure 66, Continued

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fund); public safety, including prisons and the court system (\$2.4 billion, which is 17% of the fund); and natural resources and all other programs (\$0.5 billion, which is 6% of the fund).

To close the gap between budgetary needs and anticipated revenue, the Legislature cut about \$2 billion from agency expenditures. It also allocated \$255 million from reserve funds (including \$225 million from the Rainy Day Fund), and \$978 million in federal stimulus funds. Monies from the Education Stability Fund were used to balance the 2007-2009 budget. The remaining \$801 million gap is to be filled with money from a personal income

tax increase (HB 2649), an increase in corporate taxes (HB 3405), and miscellaneous revenues.

Since the inception of the income tax in 1930, the Oregon Legislature has changed the income tax rate to address existing situations. The top income tax rate has been as high as 11.6% (in 1955) but has been at the 9 percent level since 1987. HB 2649 passed in the House by a vote of 37 to 23 and in the Senate by a vote of 18 to 11.

The Proposal

HB 2469, now Measure 66, creates a 10.8% marginal tax bracket for joint filers with taxable income of \$250,000 - \$500,000 (\$125,000 - \$250,000 if single) and an 11% marginal tax bracket for joint filers with taxable income over \$500,000 (\$250,000 if single). These rates apply for tax years 2009, 2010 and 2011. For tax years beginning in 2012, the marginal tax rates are reduced to 9.9%. (A marginal tax is the tax applied to a portion of taxable income above a

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Supporters Say "Vote Yes"

Oregon needs the money to fund schools, health care, and public safety. Since the state budget relies almost exclusively on income taxes, the only way to generate more funds is to increase the income tax.

This tax is fair. Currently the lowest-income Oregonians pay 8.7% of their total income in state and local taxes. Joint filers with taxable incomes between \$250,000 and \$500,000 pay approximately 7% of their total income in taxes. The wealthiest 1% of households with incomes averaging over \$1 million pay only 6.1% of their total income in taxes.

Cutting the state budget would mean laying off service workers, such as school employees, state police, and other government employees, but the money they earn is mostly spent locally and helps keep other people employed.

Cash reserves are earmarked for purposes such as maintaining the state's contractual obligations for state bonds and ensuring that the budget can be met if the economy declines further.

Oregon's income tax has many loopholes that mostly benefit wealthy taxpayers. Other states collect sales tax and have an income tax with few loopholes or deductions, so they can collect more money with lower rates.



Opponents Say "Vote No"

Oregon will have the highest income tax rate in the nation. Businesses are less likely to locate in Oregon, and we will attract fewer high-quality, high-earning professionals and workers to the state.

Oregon's tax system is not balanced. It relies too heavily on capital gains, which fluctuate greatly during economic boom and bust cycles. The proposed higher tax brackets increase dependence on Oregon's high-income earners.

Higher taxes will cause as many as 30,000 more Oregonians to lose their jobs over the next five years.

The Legislature can use more of the cash reserves and cut unnecessary spending to balance the budget.

The tax burden should be shared with everyone paying something. The proposal places too much burden on too small a group.

Ballot Measure 66, Continued

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tax bracket threshold. For example, a couple with taxable income of \$260,000 would pay the 10.8% rate on \$10,000, which means they would pay an additional \$180 in taxes.)

The measure phases out the federal tax deduction for joint filers with Adjusted Gross Incomes (AGI) beginning at \$250,000 (\$125,000 if single) in five steps until the deduction is fully eliminated at \$290,000 AGI for joint filers (\$145,000 if single). For 2009 only, Measure 66 exempts up to \$2,400 per recipient of unemployment insurance benefits from income tax.

Opponents and supporters of the measure disagree about the effect a tax increase would have on jobs. Pat McCormick, spokesperson

for Oregonians Against Job-Killing Taxes states that higher taxes will result in 30,000 people losing their jobs and will slow the growth rate of the economy over the next five years. Phil Barnhart, chair of the House of Representatives Revenue Committee says that economists expect the economy and jobs will be slightly better with the new tax than without. The Legislative Revenue Office Research Report #6-09 states that "state economies grow by attracting labor and capital or by increasing the productivity of capital and labor within their borders." After-tax rate of return on capital and labor is one factor affected by state tax policy. However, factors such as quality and availability of labor and natural resources and proximity to markets are also important.

ARE YOU REGISTERED?

To vote in the January 26th Special Election **you must register by January 5**. There are many ways to do it:

- Register in person at a county election office, DMV, or voter registration event.
- Mail in an Oregon Voter Registration Card which you can pick up at a library or post office, or print the card from www.Oregonvotes.org or www.lwvor.org.

The law requires that you **provide acceptable ID** to register to vote in Oregon. If registering in person, you can use either your Oregon driver's license or ID number, or the last four numbers of your Social Security number. If you are registering by mail, you may use a copy of one of the following: valid photo ID, paycheck stub, utility bill,

bank statement, government document, or proof of eligibility under the Uniformed and Overseas Citizens Absentee Voting Act or the Voting Accessibility for the Elderly and Handicapped Act.

Who may register? You may register if you are an Oregon resident, U.S. citizen, and at least 17 years old. You must fill out a new registration card if you move, change your name, or want to change your party.

Voting in the Special Election: All registered voters will receive the same ballot for their appropriate district. For more information visit www.Oregonvotes.org.

AUDIO, BRAILLE, LARGE-PRINT, AND INTERNET VERSIONS OF THIS GUIDE

To make election information available to voters who cannot use the printed version of our regular nonpartisan voters' guide, HAVA, the Help America Vote Act, helped pay for the development and expanded distribution of voting guides in large-print, Spanish, Braille, *Easy Voter Guide*, audio, and Internet versions.

To get an audio, large-print or Braille copy of this nonpartisan *Voters' Guide*, call Talking Book and Braille Services at **1-800-452-0292**. You also can get copies of the *Voters' Guide* online at www.VoteSource.org, by calling **1-866-ORE-VOTE**, at many libraries and elections offices, or by contacting the League of Women Voters at 503-581-5722 or lwvor@lwvor.org.

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Ballot Measure 67

DRAFT TITLE to be finalized by Dec. 1, 2009: RAISES \$10 CORPORATE MINIMUM TAX, BUSINESS MINIMUM TAX, CORPORATE PROFITS TAX. PROVIDES FUNDS CURRENTLY BUDGETED FOR EDUCATION, HEALTH CARE, PUBLIC SAFETY, OTHER SERVICES.

This referendum of actions by the 2009 Legislature was placed on the ballot with an estimated 99,471 valid signatures. The chief petitioners are opposed to HB 3405 and thus want Measure 67 defeated.

Estimate of Financial Impact

This measure increases state budget revenues between \$118 million and \$138 million per year for fiscal years 2010, 2011 and 2012. The measure increases revenues by approximately \$123 million per year thereafter, depending upon growth in corporation activity. Revenue from this measure is included in the current 2009-2011 state budget. Failure of the measure will reduce revenues available for expenditure by \$255 million. Failure may also result in a reduction in federal funds (matching dollars) and the state's bonding capacity and the state's credit rating.

Probable results of a Yes Vote	If this measure passes, HB 3405, passed by the 2009 Oregon Legislature, becomes law. It will make significant changes to Oregon's tax code as it applies to corporations that do business in the state or derive income from the state. These changes, described below, will become effective for the 2009 tax year.
Probable results of a No Vote	If this measure fails, HB 3405 does NOT become law and there will be no changes made to corporate tax rates. Current corporate tax rates, described below, will remain in effect. Available revenues will be reduced for the current and future fiscal years.

Background

Oregon began taxing corporate net taxable income, or profit, in 1929, the same year the state began taxing personal income. The tax rate has changed a number of times since 1929 with rates ranging from 5% to 9%. The current rate of 6.6% has been in effect since 1987. The minimum corporate tax was also established in 1929 at a rate of \$25 and then reduced to \$10 effective in 1932. The minimum \$10 tax rate still applies today.

There are different types of corporations, which are taxed in different ways. "S-corporations" are also known as "pass-through" entities because their income (or loss) is passed through to the individual shareholders. The income is then taxed as personal income. The majority of S-corporations pay the \$10 minimum corporate tax. The number of S-corporations has grown in recent years. In 1990 fewer than 20,000 S-corporation returns were filed in Oregon.

In 2007 there were over 50,000 S-corporation returns. Limited Liability and Limited Partnership Corporations (LLCs and LLPs) are currently not subject to the corporate minimum tax.

The second-type of corporation in Oregon is the C-corporation. C-corporations doing business in Oregon currently pay a 6.6% tax on taxable income, also called net income or profit (gross income minus deductible expenses such as payroll, employee benefits, repair and maintenance, and other expenses allowable under the federal tax code). When C-corporations have no taxable income, they pay the \$10 minimum corporate tax. Reasons why some corporations may not have taxable income include: 1) They had insufficient net income, 2) they carried forward profit losses from previous years, up to 15 years allowable, and/or 3) they qualified for tax credits. The Oregon Department of Revenue reports that for 2006, 63% of C-corporations in

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Oregon paid the \$10 minimum corporate tax. According to the Oregon Department of Revenue, corporate taxes accounted for about 6.3% of total General Fund revenue for Fiscal Year 2007-08. For the same period, personal income taxes accounted for 87% of the General Fund; the rest was made up of other taxes.

The Proposal

The 2009 Oregon Legislature, citing declining revenue due to the economic recession, passed HB 3405, which amends Oregon Statutes to make significant changes to corporate taxation. The changes to the corporate tax laws would be as follows:

- Increase business-filing fees for all for-profit corporations. This fee increase would increase revenues by \$20 million for the 2009-2011 fiscal period. Non-profit corporations would continue to pay \$50 per year. Oregon-based corporations would see their rates rise from \$50 to \$100, and all other corporations would pay \$275 per year.
- Increase the corporate minimum tax for S-corporations from \$10 to \$150 and require that Limited Liability Corporations (LLCs) and Partnerships pay this tax. Sole Proprietorships would not pay a minimum tax.
- Increase minimum tax from \$10 for C-corporations doing business in Oregon with no taxable income, or profit. The tax would be \$150 if they have Oregon-generated sales under \$500,000. If they have sales higher than that, they would pay higher amounts (see Table 2 on back page).
- Impose a temporary tax rate increase on taxable income (profits) over \$250,000 through tax year 2012 and a permanent tax increase on profits over \$10 million beginning with tax year 2013. (see Table 1 on next page). If a C-corporation has profit (taxable income), it will

pay the **higher** of either applicable tax from Table 1 or Table 2 but **not both**.

The Explanatory Statement provided by the Secretary of State's office states that the additional tax rate will affect about 5% of C-corporations in 2009 and roughly 0.5% in 2013 when the new top rate applies only to corporations with more than \$10 million in taxable income. The Legislative Revenue Office report predicts that 20,417 of the 33,593 C-corporations forecast to file a tax return for 2009 are expected to have less than \$500,000 of Oregon sales and would be subject to the new minimum tax of \$150, which is an increase of \$140 from the current \$10 minimum.

There are different methods for determining how Oregon ranks against other states in its level of corporate and business taxation. Some of these methods are cited by the supporters of Measure 67 (HB 3405) and some are cited by the opponents of Measure 67.

Supporters of Measure 67 point to a report from the Council on State Taxation, which did a report with Ernst & Young that determined that when all business taxes are considered as a percentage of Gross State Product, Oregon currently ranks 3rd lowest in taxation and with Measure 67 would rank 5th lowest among the 50 states. Supporters also point out that Oregon will continue to have the lowest business taxes on the West Coast and that the corporate minimum tax will be about one-tenth of 1% of all sales inside Oregon.

Opponents of Measure 67 point out that historically Oregon has ranked 32nd in corporate taxes per capita (with 1st being the highest), but with Measure 67 Oregon's rank would rise to 17th in the nation. Opponents also point out that only 19 states with a corporate excise tax charge a minimum tax and all but two of them have a flat minimum tax. The average among the states with a flat minimum is about \$200 a

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Ballot Measure 67, Continued

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year. New York and Minnesota have graduated minimum taxes based on total sales. New York's taxes range from \$25 - \$5,000; Minnesota's from \$0 - \$5,000. The minimum tax under Measure 67 would range from \$150 - \$100,000, the highest rate being 20 times higher than the rates of the two highest states and 500 times more than the average of the flat-rate states.



Opponents Say "Vote No"

Opponents of Measure 67 do not want HB 3405 and its corporate tax changes to become law. There is organized opposition to Measure 67 headed by a group called Oregonians Against Job-Killing Taxes (<http://www.stopjobkillingtaxes.com/>). Their arguments against Measure 67 include:

- It's unfair to create a new gross sales tax on corporations of up to \$100,000 a year even if they don't make a profit.
- Increasing state business taxes by 37% in the midst of the worst recession since the Great Depression inevitably makes it harder for businesses to create the jobs Oregon needs to raise itself out of our current economic crisis and increase revenues the state needs to fund public services.
- As President Obama said on NBC News in August, "The last thing you want to do is raise taxes in the middle of a recession because that would just suck up, take more demand out of the economy and put businesses in a further hole." Oregon already has lost more than 130,000 private-sector jobs since the current recession started, and Measure 67 could cause 40,000 more Oregonians to lose their jobs over the next few years.
- When business taxes increase, small businesses would be forced to lay off workers, reduce wages and benefits, or close their doors.

TABLE 1

*Starting with the 2013 tax year, revenues generated by the increased rate (1%) for taxable incomes above \$10 million will be diverted to the state's rainy day fund.

Tax Years	Taxable Income Level	Tax Rate
2009 through 2010	Less than \$250,000	6.6%
	More than \$250,000	7.9% (on amount over \$250,000)
2011 through 2012	Less than \$250,000	6.6%
	More than \$250,000	7.6% (on amount over \$250,000)
2013 and beyond	Less than \$10 Million	6.6%
	More than \$10 Million	7.6% (on amount over \$10 million)*



Supporters Say "Vote Yes"

Supporters of Measure 67 want to see HB 3405 and its corporate tax changes become law. There is organized support for Measure 67 headed by a group called Defend Oregon (<http://www.defendoregon.org/>). Their arguments in favor of Measure 67 include:

- Measure 67 will restore tax fairness. Because the \$10 corporate minimum tax hasn't increased since 1932, multi-million-dollar companies often pay only the \$10 minimum tax.
- Even with Measure 67, Oregon will continue to have the third lowest corporate taxes on the West Coast and the fifth lowest in America.
- Measure 67 will prevent large cuts in important services such as education, health-care, public safety, and more, which make up 90% of the State General Fund budget. This will benefit Oregon's economy because money spent on services stays in the local area and helps keep people employed.
- The current reserve funds are inadequate to balance the budget without increasing taxes. *The Oregonian* has already criticized the Legislature for cutting too deeply into reserves.

Ballot Measure 67, Continued

TABLE 2 C-corporation's Oregon Sales	Minimum Tax (Equivalent to approximately 0.1% or less of Oregon sales, except for sales under \$150,000, in which case the % is higher)
Under \$500,000	\$150
\$500,000 to 999,999	\$500
\$1,000,000 to 1,999,999	\$1,000
\$2,000,000 to 2,999,999	\$1,500
\$3,000,000 to 4,999,999	\$2,000
\$5,000,000 to 6,999,999	\$4,000
\$7,000,000 to 9,999,999	\$7,500
\$10,000,000 to 24,999,999	\$15,000
\$25,000,000 to 49,999,999	\$30,000
\$50,000,000 to 74,999,999	\$50,000
\$75,000,000 to 99,999,999	\$75,000
\$100,000,000 and above	\$100,000



Yes! *I want to support the League of Women Voters.*

Please join us in encouraging the informed and active participation of citizens in government. We'll send you information on membership if you complete and return this form or email us at lwvor@lwvor.org. Membership in the League of Women Voters is open to all men and women. There are Leagues in many communities around the state.

I would like membership information.

Dues are \$60 to \$70 depending upon local community.

I would like to make a donation of _____ to help support the Voters' Guide and other educational projects. (Tax-deductible donations may be made to the League of Women Voters of Oregon Education Fund.)

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