I. Introduction

The personal income tax, Oregon's largest source of revenue, will account for 87 percent of the General Fund for the 2001–03 biennium. Because it is the state's major revenue source, information about this tax program is valuable to businesses, government officials, policymakers, and taxpayers, as well as the general public. The purpose of this publication is to provide a foundation for understanding Oregon's personal income tax. This edition of *Oregon Personal Income Tax Annual Statistics* provides detailed statistics for tax year 2001 as well as historical tables and graphs comparing 2001 data to previous years. The information is based on 2001 income tax returns received by the Department of Revenue in the 2002 calendar year.

The first chapter highlights such key statistics as the number of filers, total income, and total tax liability for 2000 and 2001. It also contains a guide to using the report and a summary of current personal income tax law, including a diagram outlining the main components of the personal income tax system. Chapter II provides an historical summary of these components: income and tax, adjustments, additions, subtractions, deductions, and credits.

Chapter III, the largest chapter, is a series of tables detailing different components of the tax system for various groups of taxpayers. The tables provide data based on both an adjusted gross income distribution and an income quintile distribution.[1] Finally, the Appendices provide a history of the income tax brackets and rates (Oregon and federal); the Oregon exemption deduction and credit; federal personal exemptions and standard deductions; the 2 percent surplus refund (kicker); income tax law changes since 1980; and a glossary of terms.

Highlights

- For tax year 2001, the Oregon Department of Revenue received 1.62 million personal income tax returns, a 0.3 percent decrease from 2000. This decline was the first since 1983.
- The total adjusted gross income (AGI) of 2001 Oregon filers fell to $67.8 billion, down 4.5 percent from 2000, the first decline since 1982.
- The average AGI of full-year resident filers declined 4.4 percent to $44,157. Over the same period the Consumer Price Index, the most commonly used measure of inflation, rose 2.8 percent.
- The 2001 total tax liability for all filers was $3.8 billion, down 8.6 percent from 2000, and was less than the 1999 level of $3.9 billion. The average tax liability for all filers

Oregon Personal Income Tax
Selected Statistics, 2000 and 2001
(Dollars in millions except where indicated)

	2000	2001	% Change
Number of Returns	1,628,413	1,623,813	-0.3%
Full-Year	1,435,203	1,434,684	0.0%
Part-Year & Nonresident	193,210	189,129	-2.1%
Adjusted Gross Income	$71,022	$67,806	-4.5%
Full-Year	$66,259	$63,351	-4.4%
Part-Year & Nonresident	$4,763	$4,454	-6.5%
Taxable Income	$55,835	$52,101	-6.7%
Full-Year	$51,729	$48,274	-6.7%
Part-Year & Nonresident	$4,106	$3,827	-6.8%
Tax Liability	$4,196	$3,836	-8.6%
Full-Year	$3,904	$3,567	-8.6%
Part-Year & Nonresident	$292	$268	-8.2%
Avg. AGI (dollars)	$43,615	$41,757	-4.3%
Full-Year	$46,167	$44,157	-4.4%
Part-Year & Nonresident	$24,655	$23,552	-4.5%
Avg. Tax Due (dollars)	$2,578	$2,362	-8.4%
Full-Year	$2,720	$2,486	-8.6%
Part-Year & Nonresident	$1,516	$1,419	-6.4%
Effective Tax Rate*	5.9%	5.7%	-4.2%
Full-Year	5.9%	5.6%	-4.4%
Part-Year & Nonresident	6.1%	6.0%	-1.9%

* Tax liability divided by adjusted gross income

[1] The 20 percent of taxpayers with the lowest income make up the first quintile, the 20 percent of taxpayers with the next highest income make up the second quintile, and so on. The top 20 percent is separated into three groups — the top 1 percent, the next 4 percent, and the next 15 percent.

declined 8.4 percent, falling from $2,578 in 2000 to $2,362 in 2001. The figures for full-year filers followed a similar pattern.

- Capital gains income suffered the largest decline in 2001, falling 51 percent from $6 billion in 2000 to $2.9 billion. Pension and wage income were the only two components to grow between 2000 and 2001. Pension income grew by 2.5 percent while wage income grew by just under 1 percent.
- The number of taxpayers choosing to file their return electronically grew 25 percent to just over 414,000 returns. These electronic filers represent roughly 25 percent of all filers.

Guide to Using this Report

Because the starting point on Oregon's main tax form (Form 40) is federal adjusted gross income, this report includes information found on the federal tax forms — namely components of income and federal adjustments (gross income minus adjustments equals AGI).[2] The federal and Oregon tax returns are organized into distinct sections, each focusing on a certain component of the income tax system. This report follows that structure and discusses each component separately. The flowchart on page 4 outlines the calculation of income taxes while Chapter II provides a summary and historical trends for the following components:

- Income and Tax – The components of income are listed on the federal form and include wages, interest, capital gains, etc. The total of these components is referred to as gross income. Tax refers to the tax liability reported on the 2001 Oregon tax forms.
- Adjustments – These elements are deductions (often referred to as above-the-line deductions) that all filers are allowed to take, including those who claim the standard deduction. They are on the federal form and reduce the amount of income that is taxed. Examples include IRA contributions, moving expenses, and student loan interest. Gross income reduced by adjustments is referred to as federal adjusted gross income (AGI).
- Additions – These elements represent income that the federal government does not tax, but Oregon does. They are added to AGI on the Oregon form. Examples include interest on government bonds of other states and interest or dividends of a minor child that were included on the federal return.
- Subtractions – These elements represent income that the federal government taxes, but Oregon does not. They are subtracted from AGI on the Oregon form. Examples include federal tax liability (up to $3,000 in 2001), Social Security income, and federal pension income.
- Deductions – Taxpayers are allowed to reduce the amount of income that is taxed by the total of their itemized deductions or standard deduction, whichever is greater. Oregon allows the same itemized deductions as the federal government with one exception—state income taxes. Examples of itemized deductions include property taxes paid, charitable gifts, and mortgage interest. Oregon also allows a deduction for certain medical expenses for elderly taxpayers who choose to itemize their Oregon deductions.
- Credits – These elements reduce tax liability on a dollar-for-dollar basis. All of Oregon's credits in 2001 were nonrefundable (the working family child care credit becomes refundable in 2003), which means that liability could be reduced only to zero. If total credits exceeded liability then some of the credits remained unused, although some could be carried over to subsequent years. Examples include the personal exemption credit, earned income credit, and retirement income credit.

[2] Technically, Oregon law ties to the federal definition of taxable income; however, it can be helpful to think of federal adjusted gross income (AGI) as the starting point for determining Oregon taxes.

Chapter II, “2001 Summary and Historical Trends,” discusses each of these components in an historical context. Key figures from 2001 are combined with historical numbers to provide a sense of trends and changes over time. Chapter III contains tables that provide detailed information for various groups of taxpayers for tax year 2001 only. For tables that include part-year and nonresident returns, only the Oregon portion of income is used.

The majority of the exhibits and tables in Chapters I and II are devoted to full-year returns, which represent 88 percent of all returns and constitute the strongest base for statistical inference. Focusing on full-year returns allows the user to obtain a clearer understanding of the income tax program for two reasons. First, the calculations involved with full-year returns are more straightforward because they don’t involve the sharing of any income, deductions, or credits among states. Second, part-year and nonresident returns may reflect significant amounts of income and deductions that have nothing to do with economic activity in Oregon.

Understanding how the tables are labeled is helpful when sorting through the detail provided in Chapter III. The two key pieces of information are the letter designation and the group of taxpayers listed at the top of each table. Tables that have the same letter designation contain the same pieces of data but represent different groups of taxpayers. For example, Table A provides a summary of total income and tax, so there is a “Table A” for full-year returns and part-year returns, as well as for other groups of taxpayers. For a more complete description of these tables, refer to page 25.

There are two definitions to keep in mind when using the information in this report:

- One household does not always correspond to one tax return. In some cases, no one in a household may be required to file a tax return (e.g., certain low-income households). In other cases, more than one person in a household may file a tax return (e.g., a household where the parents and children each file a return).
- The definition of family size as used in this report pertains to the number of personal exemptions claimed on the tax return, excluding exemptions for disabilities. Essentially this total is the number of taxpayers (2 if joint, 1 otherwise) plus the number of dependents claimed on the return.

Summary of Oregon Personal Income Tax Law for 2001

Since tax year 1997, Oregon personal income tax law has been permanently tied to the federal definition of taxable income. Therefore, Oregon law automatically adopts any changes made at the federal level that affect taxable income. The diagram below shows how tax is computed for full-year residents.

How Oregon Personal Income Tax is Computed

Gross Income

minus

Adjustments to Income

equals

Federal Adjusted Gross Income

plus

Additions

minus

Subtractions

minus

Deductions

equals

Oregon Taxable Income

multiplied by

Tax Rates

plus

Interest on Installment Sales

equals

Gross Tax

minus

Credits

equals

Net Tax

The following examples are elements from the above diagram:

Gross income includes:
- Salaries and wages
- Interest
- Dividends
- State income tax refunds (if deductions were itemized in the prior year)
- Alimony received
- Business income/loss
- Farm income/loss
- Capital gains/losses
- Rental income
- Royalties
- Partnership income/loss
- Estate and trust income
- Subchapter S distributions
- Unemployment compensation
- Taxable Social Security income
- Retirement plan distributions
- Other income

Adjustments to income include:
- IRA, Keogh, and SEP contributions
- Medical savings account contributions
- Self-employment health insurance
- Forfeited interest
- Moving expenses
- Alimony paid
- Self-employment tax
- Student loan interest

Additions include:
- Interest on bonds of other states
- Federal deduction for long-term care insurance premiums
- Federal income tax refunds from an amended or audited return
- Federal deduction of unused business credits
- Lump-sum payment from a qualified retirement plan

Subtractions include:
- Oregon income tax refunds
- Social Security income
- Federal income tax (up to $3,000 or $1,500 if married filing separately)
- Federal pension income
- U.S. bond interest
- Military active duty pay
- Scholarship awards used for housing expenses

Deductions (standard/itemized) include:
- One of the following Oregon standard deductions:
  $3,000 for joint filers
  $2,640 for head-of-household filers
  $1,800 for single filers
  $1,500 for married-filing-separately
- An additional standard deduction for persons age 65 or older or blind of $1,000 for joint and married-filing-separate filers or $1,200 for single and head-of-household filers

OR

- Federal itemized deductions (except state income taxes), including:
  - Medical and dental expenses
  - Property taxes
  - Home mortgage interest
  - Investment interest
  - Charitable gifts
  - Casualty or theft losses
- Special medical deduction

Tax credits include:
- Personal exemption of $142
- Earned income
- Working family
- Child and dependent care
- Political contribution
- Elderly or permanently disabled
- Retirement income
- Income tax paid to other states
- Other credits

Tax Rates

The tax rates and brackets for tax year 2001 are provided in the table below. Taxpayers whose filing status is either single or married filing separately are subject to the same brackets. Similarly, taxpayers whose filing status is either joint or head of household are subject to the same brackets. The three tax rates have not changed since 1987, but since 1993, the tax brackets have been indexed for inflation, using the United States Consumer Price Index (CPI) as the gauge of inflation.

2001 Tax Rates	For persons filing single or married-filing-separately	
	If taxable income is:	then tax is:
	Not over $2,500	5% of taxable income
	Over $2,500 but not over $6,300	$125 plus 7% of excess over $2,500
	Over $6,300	$391 plus 9% of excess over $6,300
	For persons filing joint, head-of-household, or qualifying widow(er) with dependent child	
	If taxable income is:	then tax is:
	Not over $5,000	5% of taxable income
	Over $5,000 but not over $12,600	$250 plus 7% of excess over $5,000
	Over $12,600	$782 plus 9% of excess over $12,600

For part-year residents, tax rates are applied to federal income (the sum of Oregon and non-Oregon income). The resulting tax is apportioned based on the ratio of Oregon income to federal income. For nonresidents, federal tax and standard or itemized deductions are prorated based on the ratio of Oregon income to federal income and the tax rates applied to income from Oregon sources. Some Oregon credits, such as the exemption credit, child and dependent care credit, and credit for the elderly or the disabled, are prorated for part-year residents and nonresidents.

For additional information, please refer to Oregon Department of Revenue's *Publication 17½, Oregon Individual Income Tax Guide*, 2001 edition. A history of Oregon tax rates and brackets is provided in Appendix A of this publication. For additional information on adjustments, deductions, subtractions, and credits, refer to the *State of Oregon 2003–05 Tax Expenditure Report*.