I. Introduction

The personal income tax, Oregon's largest source of revenue, has accounted for 80 percent of General Fund revenues since fiscal year 1988–89. 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 the personal income tax program. This edition of *Oregon Personal Income Tax Statistics* provides detailed statistics for tax year 2000 as well as historical tables and graphs, comparing 2000 data to previous years. The information is based on 2000 income tax returns received by the Department of Revenue in the 2001 calendar year.

The first chapter highlights key statistics such as the number of filers, total income, and total tax liability for 1999 and 2000. 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, contains a series of tables detailing different components of the tax system in relation to various groups of taxpayers. The tables provide data based on both an adjusted gross income distribution and an income quintile distribution. (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.[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 two percent surplus refund (kicker), income tax law changes, and a glossary of terms.

Highlights

- For tax year 2000, the Oregon Department of Revenue received 1.63 million personal income tax returns, a 1.6 percent increase from 1999. Over the same period, population grew by 1.4 percent.
- The total adjusted gross income (AGI) of 2000 Oregon filers rose to $71.0 billion, up 7.1 percent from 1999.
- The average AGI of full-year resident filers rose 5.7 percent to $46,200. Over the same period the Consumer Price Index, the most commonly used measure of inflation, rose 3.1 percent; so average incomes rose faster than inflation.
- The 2000 tax liability for all filers was $4.2 billion, up 8.4 percent over 1999. The average tax liability for all filers increased 6.7 percent, growing from $2,416 in 1999 to $2,578 in 2000.
- The 2000 tax liability of full-year filers was

Oregon Personal Income Tax
Selected Statistics, 1999 and 2000
(Dollars in millions except where indicated)

	1999	2000	% Change
Number of Returns	**1,602,850**	**1,628,413**	**1.6%**
Full-Year	1,414,966	1,435,203	1.4%
Part-Year & Nonresident	187,884	193,210	2.8%
Adjusted Gross Income	**$66,331**	**$71,022**	**7.1%**
Full-Year	$61,807	$66,259	7.2%
Part-Year & Nonresident	$4,524	$4,763	5.3%
Taxable Income	**$51,875**	**$55,835**	**7.6%**
Full-Year	$48,024	$51,729	7.7%
Part-Year & Nonresident	$3,851	$4,106	6.6%
Tax Liability	**$3,872**	**$4,196**	**8.4%**
Full-Year	$3,602	$3,904	8.4%
Part-Year & Nonresident	$269	$292	8.4%
Avg. AGI (dollars)	**$41,383**	**$43,615**	**5.4%**
Full-Year	$43,681	$46,167	5.7%
Part-Year & Nonresident	$24,076	$24,655	2.4%
Avg. Tax Due (dollars)	**$2,416**	**$2,578**	**6.7%**
Full-Year	$2,546	$2,720	6.8%
Part-Year & Nonresident	$1,434	$1,516	5.7%
Effective Tax Rate*	**5.8%**	**5.9%**	**1.2%**
Full-Year	5.8%	5.9%	1.1%
Part-Year & Nonresident	6.0%	6.1%	3.0%

* Tax liability divided by adjusted gross income

[1] The top 20 percent is separated into three groups – the top 1 percent, the next 4 percent, and the next 15 percent.

$3.9 billion, an increase of 8.4 percent from 1999. The average tax liability increased 6.8 percent, growing from $2,546 in 1999 to $2,720 in 2000.

- Capital gains income was the fastest growing component of income, with an increase of 10.7 percent over 1999. Pension income also experienced substantial growth (10.3 percent).
- The number of taxpayers choosing to file their return electronically again grew at a rapid pace, growing 33 percent to over 330,000 returns. This marks the first year that more than 20 percent of all filers filed electronically.

Guide to Using this Report

The federal and Oregon tax returns are organized into distinct sections, each focusing on a certain component of the income tax system. This report draws from that structure and discusses each component separately. The flowchart on page 3 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 2000 Oregon tax forms.
- **Adjustments** – 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 (FAGI).
- **Additions** – These elements represent income that the federal government does not tax, but Oregon does. They are added to FAGI on the Oregon form. One example is interest on the government bonds of other states.
- **Subtractions** – These elements represent income that the federal government taxes, but Oregon does not. They are subtracted from FAGI on the Oregon form. Examples include federal tax liability (up to $3,000), Social Security income, and federal pension income.
- **Deductions** – Taxpayers are also 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 the 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 2000 are nonrefundable, which means that liability can be reduced only to zero. If total credits exceed liability, then some of the credits remain unused. Examples include the personal exemption credit, earned income credit, and retirement income credit.

Chapter II, "2000 Summary and Historical Trends," discusses each of these components in an historical context. Key figures from 2000 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 2000 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 90 percent of all returns and constitute the strongest base for statistical inference. Part-year and nonresident returns contain a mix of income that was earned in Oregon and elsewhere by taxpayers who spent various amounts of time in Oregon. Focusing on full-year returns allows a clearer understanding of the income tax program to emerge.

Understanding how the tables are labeled is helpful when trying to sort through all of 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 data elements 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 both full-year returns and part-year returns, as well as for various other groups of taxpayers.

There are a number of definitions to keep in mind when using the information in this report. First, one household does not 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). Second, the notion of family size as used in this report pertains to the number of personal exemptions claimed on the tax return, excluding exemptions for disabilities. Finally, references to AGI in this report pertain to Oregon AGI.

Summary of Oregon Personal Income Tax Law for 2000

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 liability is computed for full-year residents.

Components of the Oregon Personal Income Tax

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

Tax Before Credits

minus

Tax Credits

equals

Total Tax Liability

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

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
- 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-separately or $1,200 for single and head-of-household

OR

- Federal itemized deductions, minus itemized state income taxes, plus special medical deduction

Tax credits include:

- Personal exemption of $139
- Earned income
- Working family
- Child and dependent care
- Political contribution
- Elderly or permanently disabled
- Retirement income
- Income tax paid to other states
- Other

Tax Rates

The tax rates and brackets for tax year 2000 are provided in the table on the following page. Taxpayers whose filing status is either single or married filing separate 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.

2000 Tax Rates	**For persons filing single or married-filing-separately**	
	If taxable income is:	then tax is:
	Not over $2,450	5% of taxable income
	Over $2,450 but not over $6,100	$123 plus 7% of excess over $2,450
	Over $6,100	$378 plus 9% of excess over $6,100
	For persons filing joint, head-of-household, Or qualifying widow(er) with dependent child	
	If taxable income is:	then tax is:
	Not over $4,900	5% of taxable income
	Over $4,900 but not over $12,200	$245 plus 7% of excess over $4,900
	Over $12,200	$756 plus 9% of excess over $12,200

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*, 2000 edition. For detailed information on adjustments, deductions, subtractions, and credits, refer to the Governor's *Tax Expenditure Report*, 2001–03 edition.