Oregon Personal Income Tax Statistics

Tax Year 2006

OREGON DEPARTMENT OF REVENUE

150-101-406 (Rev. 4-08)

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Oregon
Personal Income Tax
Statistics

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Prepared by
Research Section
Oregon Department of Revenue
Salem OR 97301-2555

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I. Introduction

The personal income tax, Oregon's largest source of revenue, accounts for 87 percent of the General Fund for the 2007–09 biennium. Because it is the state's primary revenue source for discretionary spending, 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 and to present statistical summaries of information about the personal income tax system. This edition of *Oregon Personal Income Tax Statistics* provides detailed statistics for tax year 2006 as well as historical tables and graphs. The information is based on 2006 income tax returns received by the Oregon Department of Revenue in the 2007 calendar year.

This chapter highlights key statistics such as the number of filers, total income, and total tax liability for 2005 and 2006. It also outlines the structure of the report and explains how personal income tax is currently calculated, including a diagram outlining its main components. Chapter II provides a historical summary of returns and the following components: income and tax, adjustments, additions, subtractions, deductions, and credits.

Finally, the appendices provide a history of the 2 percent surplus refund (kicker), a description of how the data is compiled for this report, and a glossary of terms.

Further tables and background information are available on the Oregon Department of Revenue website at:
http://www.oregon.gov/DOR/STATS.

Oregon Personal Income Tax
Selected Statistics, 2005 and 2006

(Dollars in millions except where indicated)

	2005	2006	% Change
Number of Returns	1,697,166	1,755,568	3.4%
Full-Year	1,495,091	1,546,097	3.4%
Part-Year & Nonresident	202,075	209,471	3.7%
Adjusted Gross Income	$83,058	$90,213	8.6%
Full-Year	$77,248	$83,831	8.5%
Part-Year & Nonresident	$5,810	$6,383	9.9%
Taxable Income	$64,211	$69,098	7.6%
Full-Year	$59,232	$63,648	7.5%
Part-Year & Nonresident	$4,980	$5,450	9.4%
Tax Liability	$4,786	$5,151	7.6%
Full-Year	$4,437	$4,775	7.6%
Part-Year & Nonresident	$348	$376	7.9%
Avg. AGI (dollars)	$48,939	$51,387	5.0%
Full-Year	$51,668	$54,221	4.9%
Part-Year & Nonresident	$28,751	$30,471	6.0%
Avg. Tax Liability (dollars)	$2,820	$2,934	4.0%
Full-Year	$2,968	$3,088	4.1%
Part-Year & Nonresident	$1,724	$1,795	4.1%
Effective Tax Rate*	5.8%	5.7%	-0.9%
Full-Year	5.7%	5.7%	-0.8%
Part-Year & Nonresident	6.0%	5.9%	-1.8%

* Tax liability divided by adjusted gross income

Highlights

- Tax year 2006 marked several records. The number of returns, the total Oregon adjusted gross income (AGI), and the total tax liability each reached higher values than any previous tax year.
- For tax year 2006, the Oregon Department of Revenue received over 1.75 million personal income tax returns, a 3.4 percent increase from 2005.
- The total Oregon AGI of 2006 Oregon filers grew to $90 billion, up 8.6 percent from $83 billion in 2005.
- The average AGI for all filers was $51,387, 5.0 percent above the 2005 level. For full-year resident filers, the average AGI was $54,221.

- The 2006 total tax liability for all filers was $5.2 billion, up 7.6 percent from $4.8 billion in 2005. This is the fourth year of increasing tax liability.
- The average tax liability for all filers was $2,934, growing 4.0 percent above $2,820 in 2005. The average tax liability for full-year filers was $3,088 in 2006.
- The number of taxpayers choosing to file their return electronically grew 14.1 percent to roughly 981,500. Electronic returns represented 56 percent of all returns filed.

Structure of this Report

Because the starting point on Oregon's main tax form (Form 40) is federal AGI, this report includes information found on the federal tax forms — components of income and federal adjustments (gross income minus adjustments equals AGI).[1]

The federal and Oregon tax returns are organized into distinct sections, each focusing on a specific component of the income tax system. This report follows that structure and discusses each component separately. The flowchart on page four outlines the calculation of income taxes, while Chapter II provides summaries and historical trends for the following components:

- **Income and Tax** – The components of income are listed on the federal form and include wages, interest, and capital gains. The total of these components is referred to as gross income. Tax refers to the tax amount reported on Oregon tax forms.
- **Adjustments** – These elements on the federal form 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 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 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 from other states and long-term care insurance premiums (if claiming a federal deduction and an Oregon credit for those premiums).
- **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 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 the standard deduction, whichever is greater. Oregon allows the same itemized deductions as the federal government with two exceptions: (1) Oregon does not allow a deduction for state income taxes; and (2) Oregon does allow a deduction for certain medical expenses for elderly taxpayers. Examples of itemized deductions include property taxes paid, charitable gifts, and mortgage interest.

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

- **Credits** – These elements reduce tax liability on a dollar-for-dollar basis. If total credits exceed gross tax liability (tax before credits are applied), then part of the non-refundable credits remain unused, although some could be carried over to subsequent years. Refundable credits, on the other hand, can be viewed as payments to taxpayers. The credits are first used to reduce tax, but if the tax is reduced to zero, any unused credits are refunded to the taxpayer. The two largest refundable credits are the Working Family Child Care Credit and the Earned Income Credit.

Chapter II, "2006 Summary and Historical Trends," discusses each of the components in a historical context. Key figures from 2006 are compared to historical numbers to show trends and changes over time.

Most exhibits and tables in Chapters I and II are devoted to full-year resident returns (as opposed to part-year resident and nonresident returns), which represent approximately 88 percent of all returns filed and constitute the most stable base for statistical inference. Focusing on full-year resident returns provides a clearer understanding of the income tax program for two reasons. First, the calculations involved with full-year returns are more straightforward because they do not involve the sharing of any income, deductions, or credits among states. Second, part-year resident and nonresident returns may reflect significant amounts of income and deductions that are not related to economic activity in Oregon.

Detailed tables (which had been Chapter III of this publication in the past) are available on the Oregon Department of Revenue website at http://www.oregon.gov/DOR/STATS. The detail tables provide information for various groups of taxpayers for tax year 2006 only. For tables that include part-year resident and nonresident returns, only the Oregon portion of income is used.

There are three terms to keep in mind when using this report:

- **Filer** refers to individuals who file a personal income tax return. Each return is associated with one filer (including joint returns which represent two taxpayers).
- **Taxpayer** is an individual who is represented by a return. In the case of joint returns, there are two taxpayers represented: the filer and the spouse.
- **Return** is an individual Oregon state personal income tax return. This may refer to the physical return or to the data information making up the return.

Personal Income Tax Calculation

From 1997 to 2002, Oregon personal income tax law was continuously tied to the federal definition of taxable income. Oregon law automatically adopted changes made at the federal level that affected taxable income. The 2003 Legislature suspended this “rolling reconnect” for tax years 2003 through 2005. In 2005, the Legislature again established a rolling reconnect to the federal definition of taxable income (other definitions have subsequently been connected to federal law as of the end of 2007). The diagram below shows the full-year resident tax computation. See the next page for details about specific elements.

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

*For a small number of filers, Gross Tax includes interest on installment sales, farm capital gains taxed at five percent, or farm taxes calculated from income averaging.

The following examples are elements from the preceding 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
- S corporation income
- Unemployment compensation
- Social Security income taxed at the federal level
- Retirement plan distributions

Adjustments to income include:

- IRA, SIMPLE, and SEP contributions
- Self-employment health insurance
- Forfeited interest
- Moving expenses
- Alimony paid
- Self-employment tax
- Student loan interest
- Tuition and fees
- Educator expenses
- Qualified business expenses
- Health savings account contributions

Additions include:

- Interest on bonds from 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 $5,000 or $2,500 if married filing separately)
- Federal pension income
- U.S. bond interest
- Military active duty pay
- Scholarship awards used for housing expenses

Deductions (standard or itemized):

- **Standard deduction:**
  - $3,685 if joint filer, or
  - $2,965 if head of household filer, or
  - $1,840 if single filer, or
  - $1,840 if married filing separately, or
  - One of the listed four amounts plus an additional $1,000 for each taxpayer age at least 65 or blind. The additional amount is $1,200 for single and head-of-household filers.

- **Itemized deductions include:**
  - 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 $159
- Earned income (refundable)
- Working family childcare (refundable)
- Child and dependent care
- Political contribution
- Elderly or permanently disabled
- Retirement income
- Income tax paid to other states

Tax Rates

The applicable tax rates and brackets are in the table below. The rates are applied to Oregon taxable income of taxpayers represented by individual returns. Income for returns with filing status of single or married filing separately is subject to lower brackets. Income for returns with filing status of either joint or head of household is subject to higher brackets. The three tax rates have not changed since 1987, but the tax brackets have been indexed for inflation since 1993, and currently use the U.S. City Average Consumer Price Index (CPI) as the gauge of inflation.

	For persons filing single or married filing separately	
	If taxable income is:	then tax is:
	Not over $2,750	5% of taxable income
2006	Over $2,750 but not over $6,850	$138 plus 7% of excess over $2,750
Tax Rates	Over $6,850	$425 plus 9% of excess over $6,850
	For persons filing joint, head of household, or qualifying widow(er) with dependent child	
	If taxable income is:	then tax is:
	Not over $5,500	5% of taxable income
	Over $5,500 but not over $13,700	$275 plus 7% of excess over $5,500
	Over $13,700	$849 plus 9% of excess over $13,700

For part-year residents, tax rates are applied to federal income (the sum of Oregon and non-Oregon income). The resulting tax is apportioned to Oregon 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 are 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.

A history of Oregon tax rates and brackets is available on the Oregon Department of Revenue website at http://www.oregon.gov/DOR/Stats. For additional information, please refer to the Oregon Department of Revenue's *Publication 17½, Oregon Individual Income Tax Guide*, 2006 edition. For additional information on adjustments, deductions, subtractions, and credits, refer to the State of Oregon 2007–09 *Tax Expenditure Report*. This publication is available on the web at http://www.oregon.gov/DOR/STATS.

II. 2006 Summary and Historical Trends

In this chapter, data for the 2006 tax year is summarized and compared to data from previous years. The number and types of returns filed are discussed first, followed by income and tax trends. Summaries of adjustments, additions, subtractions, deductions, and credits are followed by information on part-year filers and county level data. When making year-to-year comparisons, tax law changes should be considered.

Returns

Exhibit 1 shows the number of 2006 returns by form type and filing status. Full-year residents are required to use either Form 40 or Form 40S, part-year residents Form 40P, and nonresidents Form 40N. Of over 1.75 million returns filed for tax year 2006, most filers used Oregon's Form 40. Full-year residents are allowed to use Form 40S only if they meet certain requirements, including using the standard deduction and having income from only wages, interest, ordinary dividends, and unemployment compensation.

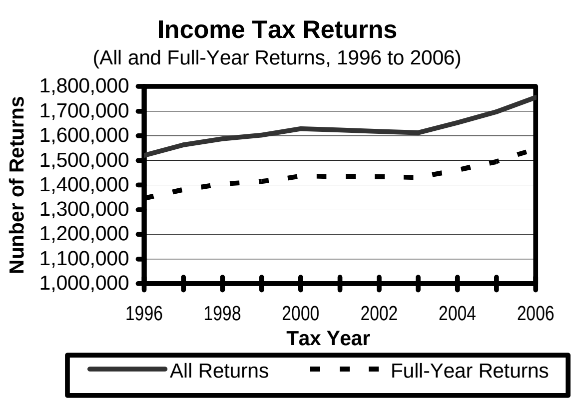
EXHIBIT 1

All 2006 Returns	Single	Joint	Married-Filing-Separately	Head-of-Household	Qualifying Widow(er)	Total
Long Form (40)	471,445	619,496	16,020	113,334	644	1,220,939
Non-Resident (40N)	48,039	77,322	2,601	9,747	51	137,760
Part-Year (40P)	38,495	26,078	1,676	5,436	26	71,711
Short Form (40S)	225,714	42,900	4,869	51,600	75	325,158
Total	783,693	765,796	25,166	180,117	796	1,755,568

Returns – Historical Trends

The number of returns filed generally increases each year, with the recent exception of 2001 through 2003. The growth in 2006 was unusually high. The same relative growth was seen in both resident and nonresident returns. This is most likely due to underlying increases in employment, improvements in economic conditions, and population growth. Exhibit 2 shows the trend in returns filed since 1996 for all returns and full-year resident returns.

EXHIBIT 2



	All Returns		Full-Year Returns	
Tax Year	Number	% Change	Number	% Change
1996	1,519,984	3.6%	1,345,533	3.3%
1997	1,563,139	2.8%	1,381,479	2.7%
1998	1,587,399	1.6%	1,403,128	1.6%
1999	1,602,850	1.0%	1,414,966	0.8%
2000	1,628,413	1.6%	1,435,203	1.4%
2001	1,623,813	-0.3%	1,434,864	0.0%
2002	1,616,700	-0.4%	1,432,971	-0.1%
2003	1,611,785	-0.3%	1,430,750	-0.2%
2004	1,653,203	2.6%	1,461,735	2.2%
2005	1,697,166	2.7%	1,495,091	2.3%
2006	1,755,568	3.4%	1,546,097	3.4%

The table to the right shows the number of filers in each tax bracket. In 2006, Oregon's top tax rate of 9 percent took effect at $6,850 of taxable income for single filers and $13,700 for joint filers. Most filers have some income taxed at the top rate. It should be noted that a portion of the income of these taxpayers is also taxed at the 5 and 7 percent rates.

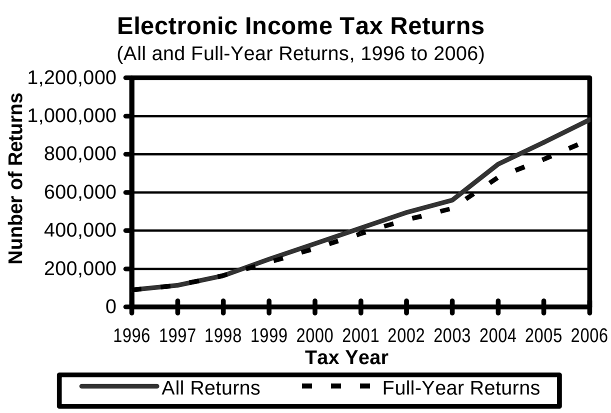
All 2006 Returns

	Returns	Share
No Taxable Income	141,113	8.0%
5% bracket	153,462	8.7%
7% bracket	218,432	12.4%
9% bracket	1,242,561	70.8%

Electronic Returns

Oregon started offering electronic filing with a limited pilot project in 1993. Since 1994, the growth of electronic filing has been dramatic, as shown in Exhibit 3. This growth can be attributed to a number of factors. Between 1994 and 1997, only professional tax preparers could file electronic returns. During this time, the number of electronic filers tripled from roughly 35,000 to just over 113,000. In 1998, individuals who prepared their own returns were allowed to file electronically for the first time and growth was 45 percent. In 1999, nonresident and part-year resident filers were allowed to file electronically, and growth again increased. Strong growth in electronic filing for 2004 was likely prompted by several factors. The IRS introduced 'e-services,' a web incentive service for tax preparers who e-file. Additionally, more software companies supported Oregon electronic filing and more e-filing training was offered to tax preparers by the IRS and the Oregon Department of Revenue.

EXHIBIT 3

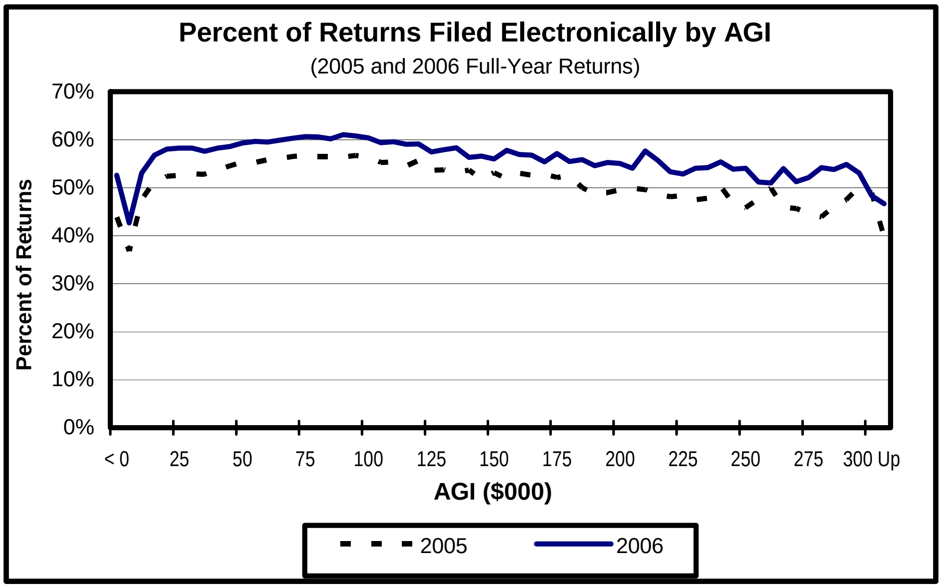


	All Returns		Full-Year Returns	
Tax Year	Number	% Change	Number	% Change
1996	88,649	39.8%	88,649	39.8%
1997	113,167	27.7%	113,167	27.7%
1998	164,132	45.0%	164,132	45.0%
1999	249,710	52.1%	233,280	42.1%
2000	330,759	32.5%	307,235	31.7%
2001	414,126	25.2%	382,973	24.7%
2002	494,465	19.4%	457,403	19.4%
2003	558,951	13.0%	514,299	12.4%
2004	748,330	33.9%	678,001	31.8%
2005	860,549	15.0%	771,866	13.8%
2006	981,486	14.1%	876,064	13.5%

Notes: 1998 was the first year self-prepared returns could be filed electronically.
1999 was the first year part-year resident and nonresident returns could be filed electronically.

Exhibit 4 shows the percent of full-year electronic filers by income level for 2005 and 2006. The exhibit shows that for both years, as income rises, filers are generally less likely to file an electronic return. It also shows that the increase in the percentage of electronic filers seen in 2006 occurred over all income levels. Though not shown here, it is also true that the increase occurred across the full range of filer ages.

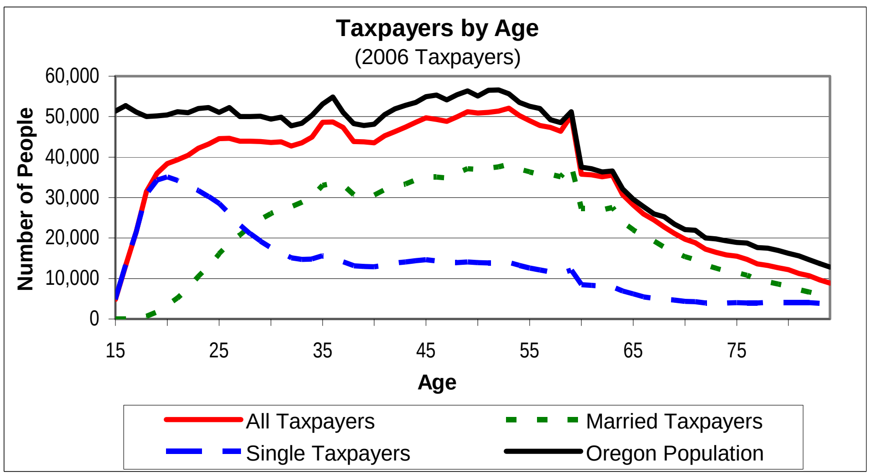
EXHIBIT 4



Age of Taxpayers

Exhibit 5 shows information on returns filed by age of the taxpayers represented (i.e., for joint returns both the primary and the spouse are represented). A wide range of ages is represented by returns, including a fair number of children. If parents set up investments in the child's name, then taxable income from the investment would require a return to be filed in the child's name. The estimated number of Oregonians at each age is also displayed for reference; note that Oregon income taxpayers are not all Oregonians.

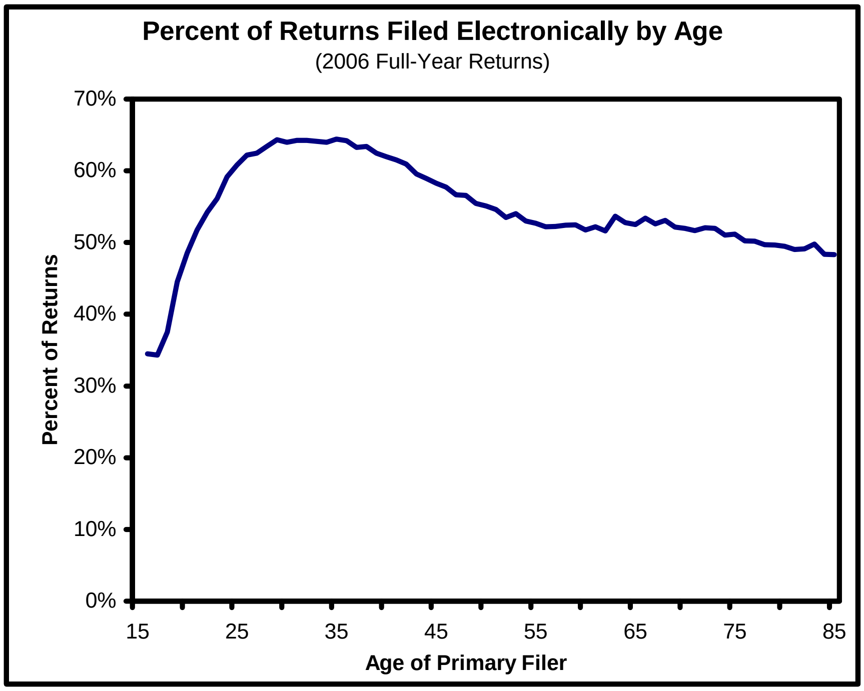
EXHIBIT 5



Notes: Age is not known for less than 2% of taxpayers, so they are not represented.
The chart represents 2.47 million taxpayers including non-residents.
Oregon population age is based on Department of Administrative Services data.

Exhibit 6 shows the percentage of all returns filed electronically by age of the primary filer. At least half of filers between ages 21 and 77 filed electronically. Filers 35 years old were most likely to file electronically (64.5 percent).

EXHIBIT 6



Income and Tax

Exhibit 7 is a summary of the number of returns, AGI, and Oregon tax liability by residency status. Full-year resident returns account for 88 percent of the returns and 93 percent of Oregon AGI and tax liability in 2006.

EXHIBIT 7

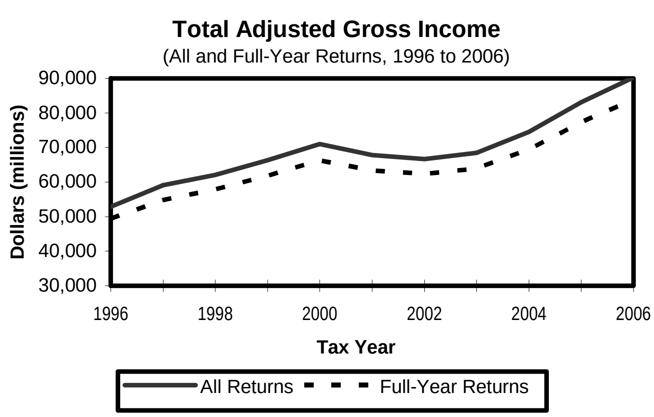
Return Type	Returns		AGI		Tax Liability	
(All 2006 Returns)	Number	Percent	$ (Million)	Percent	$ (Million)	Percent
Full-Year (40 & 40S)	1,546,097	88%	83,831	93%	4,775	93%
Non-Resident (40N)	137,760	8%	4,524	5%	268	5%
Part-Year (40P)	71,711	4%	1,859	2%	108	2%
Total	1,755,568	100%	90,213	100%	5,151	100%

Income – Historical Trends

Total Oregon AGI increased by 8.6 percent to $90 billion in 2006. Exhibit 8 shows the level of AGI for tax years 1996 to 2006. AGI typically grows between 5 and 9 percent each year. However, from 2000 to 2002 it fell by an average of 3.1 percent per year. Growth since 2003 has been relatively strong.

Over one-half of the total AGI growth in 2006 can be attributed to increased wage income which grew by 7 percent, while 30 percent growth in dividends and interest income accounted for another 14 percent of the total growth (based on full-year residents). 2006 saw AGI growth of 8.6 percent, close to the growth of 8.9 percent in 2004.

EXHIBIT 8



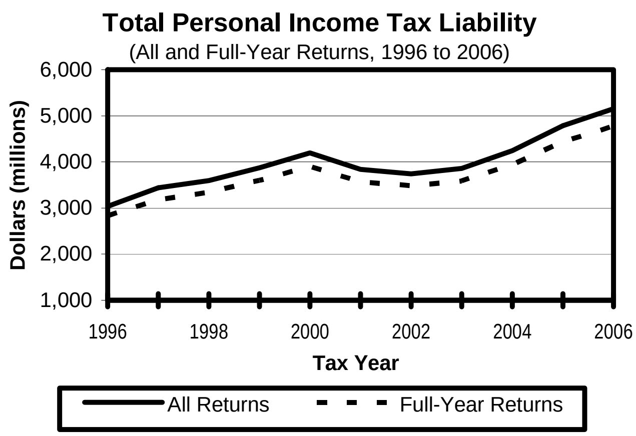
	All Returns		Full-Year Returns	
Tax Year	AGI ($ Million)	Percent Change	AGI ($ Million)	Percent Change
1996	52,890	9.7%	49,368	9.4%
1997	59,077	11.7%	54,821	11.0%
1998	62,086	5.1%	57,836	5.5%
1999	66,331	6.8%	61,807	6.9%
2000	71,023	7.1%	66,259	7.2%
2001	67,806	-4.5%	63,351	-4.4%
2002	66,624	-1.7%	62,361	-1.6%
2003	68,464	2.8%	63,958	2.6%
2004	74,577	8.9%	69,415	8.5%
2005	83,058	11.4%	77,248	11.3%
2006	90,213	8.6%	83,831	8.5%

Tax – Historical Trends

Exhibit 9 shows the history of total personal income tax liability from 1996 to 2006. Oregon personal income tax liability followed the same general trend as income but in a more exaggerated fashion. This can be seen by comparing Exhibit 8 to Exhibit 9. More pronounced peaks and dips can be linked to the progressive nature of the Oregon income tax.

In 2006, tax liability totaled $5.15 billion, a 7.6 percent increase over the previous year, and reached a new peak. The growth rate of tax liability peaked in 1997 — at 13.1 percent — due largely to significant growth in capital gains. For the full-year returns, tax liability growth reached its maximum of 12.6 percent in 2005. The increases in 2003-2006 followed two years of decreases in 2001 and 2002.

EXHIBIT 9



	All Returns		Full-Year Returns	
Tax Year	Tax ($ Million)	Percent Change	Tax ($ Million)	Percent Change
1996	3,038	10.6%	2,832	10.2%
1997	3,436	13.1%	3,185	12.4%
1998	3,592	4.5%	3,346	5.1%
1999	3,872	7.8%	3,602	7.7%
2000	4,196	8.4%	3,903	8.3%
2001	3,836	-8.6%	3,567	-8.6%
2002	3,741	-2.5%	3,484	-2.3%
2003	3,858	3.1%	3,588	3.0%
2004	4,245	10.0%	3,939	9.8%
2005	4,786	12.7%	4,437	12.6%
2006	5,151	7.6%	4,775	7.6%

Effective Tax Rates

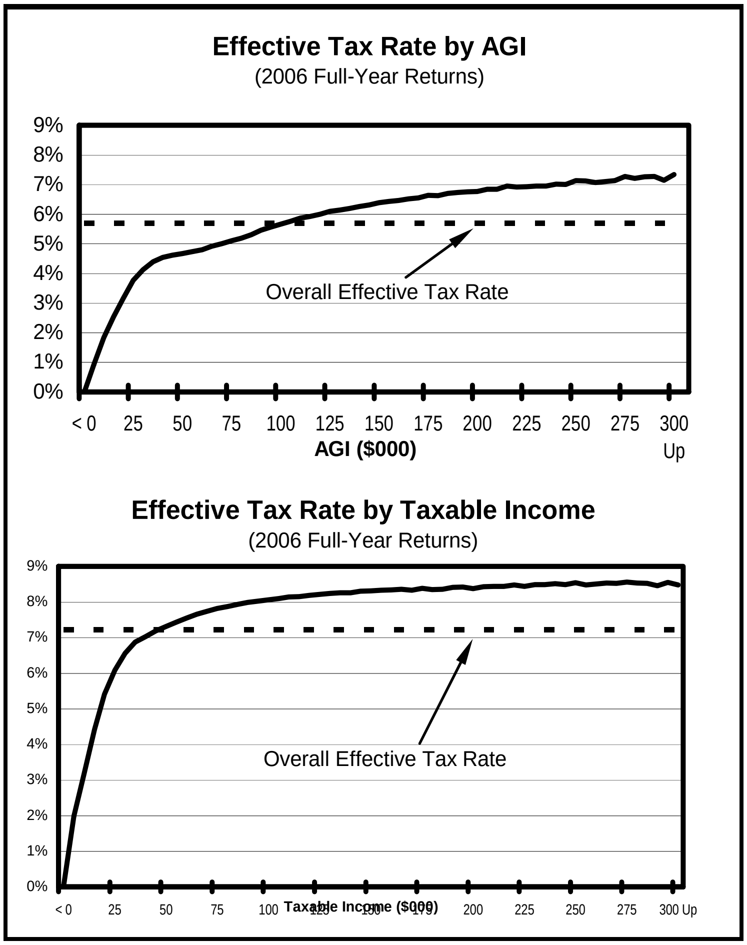
Exhibit 10 shows two effective tax rates – tax as a percent of AGI and tax as a percent of taxable income – for full-year resident filers in 2006.

Tax as a percent of AGI (the top chart in Exhibit 10) provides a sense of the tax rate necessary to apply to AGI to raise the same amount of revenue as current tax law. It essentially averages all deductions and credits used across all filers.

The rate climbs quickly from zero to 4.4 percent for filers with income of roughly $40,000. The rate continues to increase but at a slower pace and gradually reaches 7.3 percent for the top income filers.

The effective tax rate is influenced significantly by subtractions and deductions (standard and itemized), which tend to lower it. The effective tax rate increases for taxpayers with higher incomes because the effect of subtractions and deductions wears off fast for high income, while at the same time a greater share of income is taxed at 9 percent. The overall effective tax rate is 5.7 percent, which corresponds to the rate at an AGI level of roughly $105,000.

EXHIBIT 10



Tax as a percent of taxable income (the bottom chart in Exhibit 10) shows the average tax rate at each taxable income level. It has the same general shape as the top chart, just shifted up on the percent axis. The rate increases quickly to 7 percent, and then gradually approaches 9 percent. The rate cannot reach 9 percent, because even the highest income taxpayers have some income taxed at the 5 and 7 percent rates.

Distribution of Returns, Income, and Tax by AGI Level

Exhibit 11 contains three charts that show the percentages of full-year resident returns, the percentages of total AGI, and the percentages of total tax by AGI levels for 1996 and 2006.

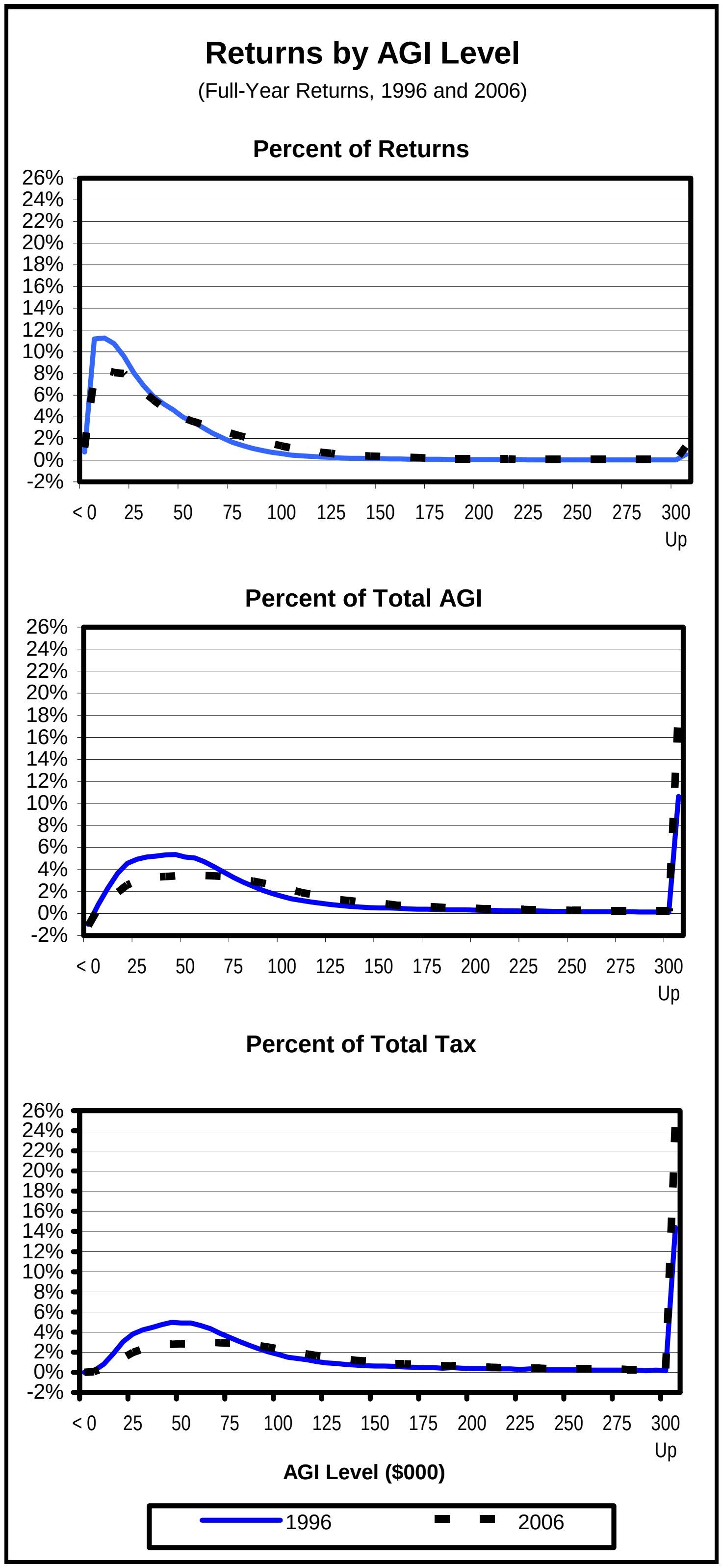
The information conveys two main points: (1) the differences among the concentrations of returns, AGI, and tax liability; and (2) how those differences have changed over the last ten years.

Starting with the first of these points, the charts show that the majority of returns report lower income while returns representing higher-income taxpayers have a higher share of income and an even higher share of tax liability.

Based on the number of returns, low-income returns represent a relatively small part of the total AGI, and an even smaller part of the total tax liability. On the other hand, high-income returns represent a relatively large part of the total AGI, and an even larger part of the total tax liability.

For example, consider two different groups: low-income returns reporting under $25,000 in AGI, and high-income returns reporting over $300,000 in AGI. For 2006 full-year resident returns, the low-income group accounted for 42 percent of the returns, 8 percent of the AGI, and 5 percent of the tax liability. On the

EXHIBIT 11



other hand, the high-income group accounted for only 1 percent of the returns, 18 percent of the AGI, and 25 percent of the tax liability.

Exhibit 11 also shows the changes in the distributions between 1996 and 2006. Compared to tax year 1996, there are more returns at higher income levels. Following the general increase in income, the percentage of total income and percentage of total tax has also shifted to higher income returns.

Another way to see the uneven distribution is to compare the group of all returns reporting less than the median tax to the group reporting more than the median tax. Each group represents 50 percent of the returns, but the first group accounts for only 6 percent of the total tax liability while the second group accounts for the remaining 94 percent.

Components of Income and Tax

Exhibit 12 shows federal gross income components based on the federal tax forms. The retirement component includes pension income, Social Security income, and IRA distributions. The miscellaneous component includes alimony, unemployment, and other income. The tax liability associated with each component is determined by apportioning the tax according to the component's share of gross income on an individual return basis.

EXHIBIT 12

Income Componet	**Gross Income**		**Tax Liability**	
(2006 Full-Year Returns)	**($ Million)**	**Percent of Total**	**($ Million)**	**Percent of Total**
Wages, Salaries, Tips	54,698	64%	3,070	64%
Dividends & Interest	4,466	5%	226	5%
Capital Gains	7,650	9%	519	11%
Business	3,175	4%	151	3%
Retirement	9,330	11%	334	7%
Rent, Partnership, S Corp	5,404	6%	398	8%
Farm	-271	0%	-8	0%
Miscellaneous	841	1%	85	2%
Total	85,292	100%	4,775	100%

Note: Tax liability values represent the sum of individual returns' tax apportioned to each income component based on the relative size of the component.

As shown in Exhibit 12, wages are the dominant source of income, representing $54.7 billion of the $85.3 billion total, or 64 percent. Taxes apportioned to wages in 2006 amounted to roughly $3.1 billion of the $4.8 billion total for full-year resident filers.

The capital gains and rent, partnership, and S corporation income together represent 15 percent of total income, but account for 19 percent of the total tax. This indicates that returns with a higher proportion of these income components tend to pay somewhat higher tax. The reverse is true of the retirement income component. It represents 11 percent of the total income, but only 7 percent of the tax, indicating that returns with a high proportion of retirement income tend to pay somewhat lower tax.

Components of Income - Historical

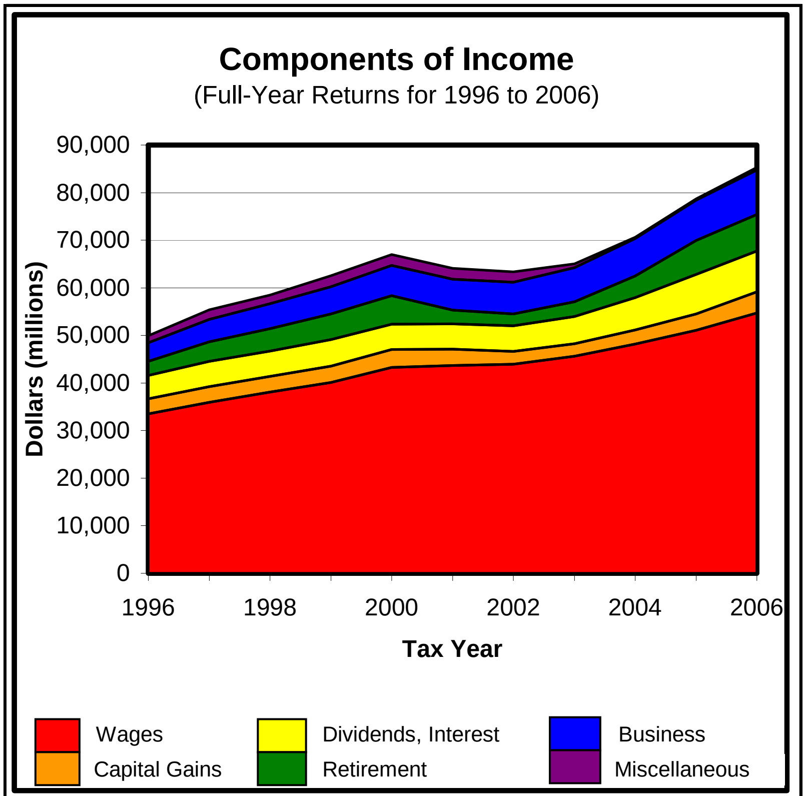
This section discusses federal gross income historically using similar income components. Exhibit 13 shows these income sources for tax years 1996 through 2006 for full-year resident filers. In this exhibit, income from rent, partnerships, and S corporations is included in the business category; farm income is included in the miscellaneous category.

Overall, gross income rose steadily throughout the 1990s, followed by a dip in 2001 and 2002. Two things caused this decline. First, there was a significant decrease in capital gains. Second, the total of all other income components experienced a flattening. These effects resulted in net declines in 2001 and 2002, followed by increases in 2003-2006.

The composition of income for 2006 differed very little from 2005. Wages comprised the greatest share of income, representing roughly 64 percent of income for all full-year returns in 2006; the next two most significant income sources were pensions (11 percent) and capital gains (9 percent).

Exhibit 13 also shows that gross income in 2006 set a new record over the previous peak last year.

EXHIBIT 13



Note: Due to improvements in data handling for 2003, roughly $1.1 billion has been moved from Miscellaneous to all other categories, with most (86%) going to Wages.

Adjustments

Exhibit 14 illustrates the distribution of federal adjustments to gross income (above-the-line deductions) claimed on full-year returns in 2006. Adjustments are deductions that all filers may take if they qualify, regardless of whether they itemize deductions. They are found on federal Forms 1040 and 1040A and are subtracted from gross income when computing federal AGI. Oregon ties to federal AGI with a few exceptions. For example, the domestic production activities deduction allowed on federal returns is not permitted for Oregon.

The deductions for educator expenses and tuition and fees expired in 2005, but were reinstated by Congress after the federal forms were printed. Taxpayers were instructed to add educator expenses to the Archer MSA amount and likewise combine the tuition and fees and domestic production deductions. Thus, these adjustments cannot be separated and examined individually.

EXHIBIT 14

Federal Adjustments (2006 Full-Year Returns)	**Number of Claims**	**Percent of Total**	**Amount Claimed ($000)**	**Percent of Total**	**Average Claim ($)**
IRA Contributions	47,831	8.7%	186,942	12.8%	3,908
Student Loan Interest	112,531	20.5%	87,329	6.0%	776
Moving Expenses	6,979	1.3%	13,379	0.9%	1,917
Self-Employment Tax	184,335	33.6%	280,068	19.2%	1,519
Self-Emp Health Insurance	61,382	11.2%	308,520	21.1%	5,026
SEP, SIMPLE	20,348	3.7%	270,886	18.5%	13,313
Penalty on Early Withdrawal	11,896	2.2%	3,893	0.3%	327
Alimony Paid	9,868	1.8%	124,884	8.5%	12,655
Jury Duty Pay	935	0.2%	194	0.0%	207
Archer MSA/Educator Expenses	27,108	4.9%	6,862	0.5%	253
Employee Business Expenses	1,371	0.3%	3,063	0.2%	2,234
Health Savings Accounts	6,957	1.3%	17,859	1.2%	2,567
Domestic Production/Tuition&Fees	55,325	10.1%	156,038	10.7%	2,820
Other/Unknown	1,110	0.2%	1,445	0.1%	1,302
Total	547,976	100.0%	1,461,364	100.0%	

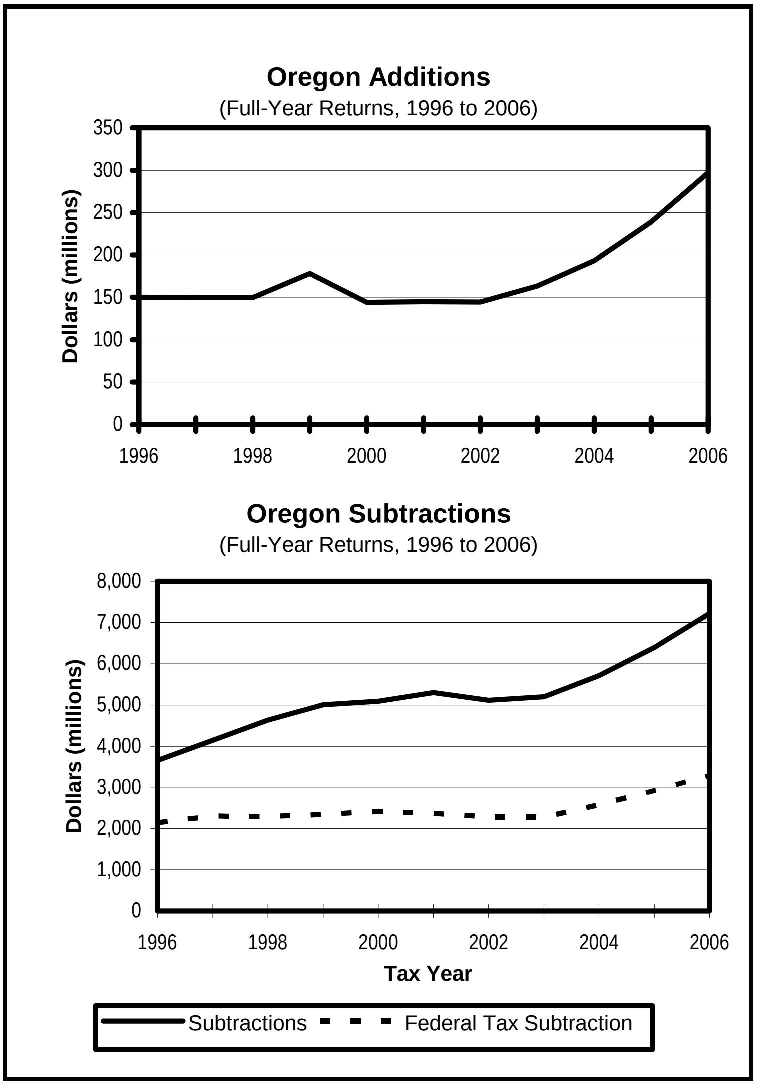
Exhibit 14 shows that the most frequently claimed deduction was for federal self-employment taxes. Taxpayers who are self-employed are required to make payments in lieu of Social Security and Medicare taxes. These payments, called self-employment taxes, represent the taxes that are usually paid by both the employer and employee. Essentially, this deduction allows self-employed taxpayers to subtract the employee portion of the payments from their gross income. Oregonians deducted $280 million of self-employment taxes for tax year 2006.

The three adjustments associated with self-employment (self-employment tax, self-employment health insurance, and tax deferred SEP and SIMPLE plans) together account for 59 percent of total adjustments claimed. Over 13 percent of full-year resident returns claimed one of these adjustments.

Additions and Subtractions

Additions and subtractions adjust the federal AGI to account for income that Oregon taxes or does not tax, respectively. Exhibit 15 shows the amount of Oregon additions and subtractions in the past 10 years for full-year resident filers.

EXHIBIT 15



Additions

The top chart in Exhibit 15 shows that additions over the decade from 1996 to 2006 ranged between $144 million in 2000 and $297 million in 2006.

Although total additions are small compared to gross income or subtractions, they are very significant for some returns. Some taxpayers pay a significant amount of Oregon income tax due solely to Oregon additions. Without the additions, they would have little or no tax liability.

Subtractions

The bottom chart in Exhibit 15 shows Oregon total subtractions generally increasing since 1996. Because the federal income tax subtraction represents almost half of all subtractions, it is shown separately in the exhibit.

There was 13 percent growth in subtractions in 2006, due primarily to a 12.7 percent increase in the federal tax subtraction and 18.4 percent growth in the Social Security income subtraction.

The federal tax subtraction has historically been the largest subtraction. Although the limit on the maximum amount that can be subtracted has increased significantly in recent years, the increases have not caused commensurate growth in the amount claimed. This is most likely due to federal tax reductions. The federal tax cuts in 1998 and 2001 and the recession of 2001 and 2002 caused this subtraction to decline by 0.7 percent in 1998, 2 percent in 2001, and 3.7 percent in 2002.

For each major subtraction, Exhibit 16 shows the number of claimants, the average and total amount of the subtraction claimed, and the share each subtraction represents of the total amount subtracted.

EXHIBIT 16

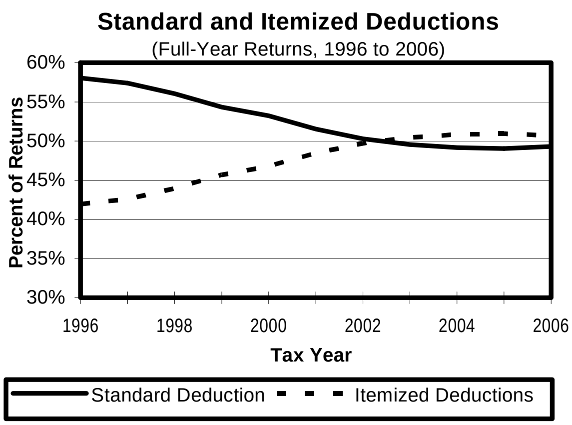
Subtractions (2006 Full-Year Returns)	**Number of Claims**	**Average ($)**	**Total ($ millions)**	**Percent**
Federal Tax	1,095,044	3,000	3,286	46%
Social Security	182,206	10,397	1,894	26%
Income Tax Refunds	407,468	1,089	444	6%
U.S. Bonds	75,964	3,214	244	3%
Federal Pension	42,450	21,136	897	12%
Other	127,158	3,561	453	6%
Total			7,218	100%

Deductions

In general, taxpayers who itemize their federal deductions also itemize their Oregon deductions. The most significant of these deductions include home mortgage interest, local income and property taxes, charitable contributions, and qualified medical expenses.

Exhibit 17 shows the percent of filers claiming either a standard deduction or itemized deductions on their Oregon return. The share of full-year resident filers using itemized deductions grew steadily from 1996-2005 and declined just slightly in 2006. Although the quantity of returns was similar for the two deduction types, the total dollar amount for itemized deductions far exceeded the amount for standard deductions, accounting for 87 percent of the $15 billion in total deductions for full-year returns.

EXHIBIT 17



Tax Year	Full-Year Returns	Standard Deduction		Itemized Deductions	
		Number	Percent	Number	Percent
1996	1,345,533	781,352	58.1%	564,181	41.9%
1997	1,381,479	792,762	57.4%	588,717	42.6%
1998	1,403,128	786,532	56.1%	616,596	43.9%
1999	1,414,966	768,811	54.3%	646,155	45.7%
2000	1,435,203	763,750	53.2%	671,453	46.8%
2001	1,434,684	739,532	51.5%	695,152	48.5%
2002	1,432,971	720,867	50.3%	712,104	49.7%
2003	1,430,750	709,236	49.6%	721,514	50.4%
2004	1,461,735	718,616	49.2%	743,119	50.8%
2005	1,495,091	733,188	49.0%	761,903	51.0%
2006	1,546,097	762,240	49.3%	783,857	50.7%

When taxpayers itemize deductions, their federal and Oregon deductions must equal each other, with two exceptions. First, Oregon does not allow the deduction for state income taxes. Second, Oregon allows a special medical deduction for taxpayers age 62 or older. This deduction is the amount of medical and dental expenses that could not be deducted on the federal Schedule A.

While most filers use the same deduction type on both the federal and Oregon returns, some taxpayers will itemize deductions only for the federal return or only for the Oregon return, but not both. The exception can occur if a significant share of the federal itemized amount is due to state income taxes. In this case, some filers find that their Oregon standard deduction is greater than the total of their other itemized deductions. Similarly, some filers who itemized their deductions for Oregon due to a significant special medical deduction may use the standard deduction on their federal return.

Credits

Credits Claimed vs. Credits Used

Exhibit 18 shows the credits claimed and used by full-year return filers in 2006. The personal exemption credit was the most widely claimed credit with more than 1.44 million full-year filers claiming a total of $491.9 million. About 90 percent of the amount could be used with the remaining 10 percent being unused by filers because their credits claimed exceeded their pre-credit tax liability.

While the average personal exemption credit claimed was $341, on average only $308 was used. The credit for income taxes paid to another state was the largest average claim and the second largest total amount used. Filers used almost all of this credit. In contrast, only 55 percent of the retirement credit was used, and just 7.5 percent of the elderly or disabled credit amount claimed could be used.

EXHIBIT 18

Credits Claimed and Used (2006 Full-Year Returns)	Number of Claims	Total ($ Million) Amount Claimed	Total ($ Million) Amount Used	Average ($) Amount Claimed	Average ($) Amount Used	Percent Used
Personal Exemption	1,442,238	491.9	443.4	341	307	90.1%
Earned Income	206,626	18.1	18.1	88	88	100.0%
Working Family Child Care	25,209	20.7	20.7	822	822	100.0%
Retirement	7,642	2.0	1.1	258	142	54.8%
Child and Dependent Care	44,601	10.2	8.6	228	193	84.5%
Elderly or Disabled	1,215	0.2	0.0	171	13	7.5%
Political Contributions	90,064	6.3	6.0	70	66	95.1%
Income Taxes Paid to Another State	13,340	37.4	37.3	2,805	2,799	99.8%
Involuntary Mobile Home Move	68	0.2	0.2	2,554	2,554	100.0%
Other	77,157	52.7	46.4	683	602	88.2%
Total		639.6	581.9			91.0%

Note: The number of claims reflects counts of all returns which claim the credit amount. This differs from Table I.1 which provides the number of returns with an amount used (as opposed to claimed).

The working family child care credit, earned income credit, and involuntary mobile home move credit are the only credits listed above that are refundable. This means that any portion of the credit that is greater than the filer's pre-credit tax liability is refunded to the filer. If the tax liability is reduced to zero and a credit amount remains, the filer receives a refund payment for the remaining excess. Consequently, Exhibit 18 shows that the amount claimed equaled the amount used for these three credits.

Considering both resident and nonresident filers, there were almost 105,000 returns warranting a refund-of-credit payment, with an average refund-of-credit payment of $198 (the actual net amount refunded would typically include the filer's withholding and estimated payments, as well as the refund-of-credit).

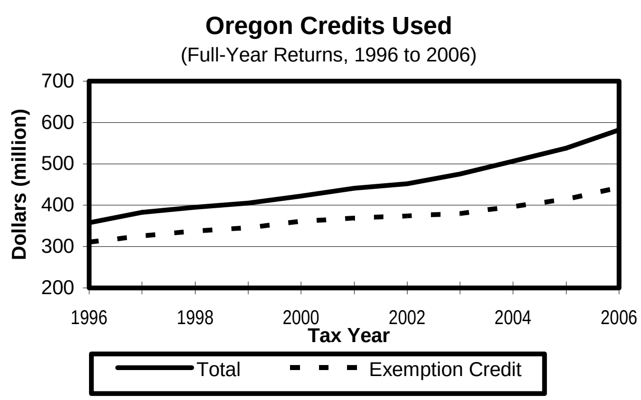
Credits – Historical Trends

Exhibit 19 shows the recent history of Oregon credits used by full-year resident filers. Because most of the total is due to the personal exemption credit, it is shown separately.

Growth in total credits has been relatively stable. The earned income and working family childcare credits were first allowed in 1997. Together, they accounted for roughly 58 percent of the growth between 1996 and 1997. In total, full-year resident filers claimed $582 million in credits for 2006, with the personal exemption credit accounting for $443.4 million.

The growth in total credits used in 2003 was largely due to the working family childcare credit becoming refundable; the growth in 2006 is largely due to the earned income credit becoming refundable.

EXHIBIT 19



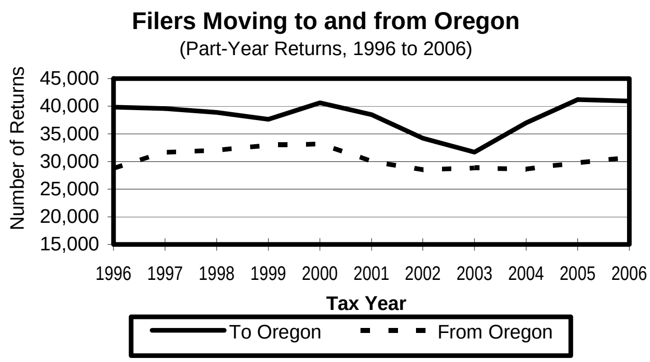
Tax Year	Total Credits ($ million)	Total Credits % Change	Exemption Credit ($ million)	Exemption Credit % Change
1996	357.6	5.6%	310.9	5.9%
1997	383.0	7.1%	325.6	4.7%
1998	395.3	3.2%	337.6	3.7%
1999	405.2	2.5%	345.3	2.3%
2000	422.6	4.3%	361.1	4.6%
2001	440.7	4.3%	368.9	2.2%
2002	452.0	2.6%	373.9	1.4%
2003	475.9	5.3%	380.1	1.7%
2004	506.6	6.5%	397.4	4.5%
2005	538.2	6.2%	414.6	4.3%
2006	581.9	8.1%	443.4	7.0%

Part-Year Residents

The number of part-year return filers moving to Oregon (based on the address reported on the return) ranged between roughly 32,000 and 41,000 from 1996 to 2006. Exhibits 20, 21, and 22 show information on part-year residents entering or leaving Oregon.

Exhibit 20 shows the total number of filers moving to and from Oregon between 1996 and 2006. In every year, the number of filers moving into Oregon exceeded the number moving out.

EXHIBIT 20



	To Oregon		From Oregon	
Tax Year	Filers	% Change	Filers	% Change
1996	39,845	3.2%	28,715	12.7%
1997	39,559	-0.7%	31,685	10.3%
1998	38,915	-1.6%	32,068	1.2%
1999	37,653	-3.2%	32,964	2.8%
2000	40,651	8.0%	33,159	0.6%
2001	38,466	-5.4%	30,052	-9.4%
2002	34,196	-11.1%	28,523	-5.1%
2003	31,695	-7.3%	28,840	1.1%
2004	36,989	16.7%	28,643	-0.7%
2005	41,196	11.4%	29,809	4.1%
2006	40,962	-0.6%	30,749	3.2%

Exhibit 21 shows the number and percent of in-migrants by county of destination for selected tax years. In 2006, as in previous years, in-migrants were drawn to counties roughly in proportion to current county populations. The three counties of the Portland metropolitan area—Multnomah, Washington, and Clackamas—contain 42.5 percent of the state's population and attracted 50 percent of in-migrant taxpayers. Lane and Deschutes counties were the next most popular destinations.

Exhibit 22 shows the number of income tax filers moving from Oregon for selected tax years by state of destination. In 2006, taxpayers moved from Oregon to all 49 other states, Washington, D.C., some U.S. territories, and several other countries. The most frequent destinations were the border states of Washington and California, which attracted almost 43 percent of all out-migrants.

EXHIBIT 21

NUMBER OF FILERS MOVING TO OREGON BY COUNTY OF DESTINATION

	1996		2005		2006		County Share of
County	Number	Percent	Number	Percent	Number	Percent	State Population
Baker	163	0.4%	143	0.3%	164	0.4%	0.4%
Benton	1,111	2.8%	970	2.4%	989	2.4%	2.3%
Clackamas	3,910	9.8%	3,231	7.8%	3,069	7.5%	9.9%
Clatsop	376	0.9%	363	0.9%	403	1.0%	1.0%
Columbia	343	0.9%	370	0.9%	361	0.9%	1.3%
Coos	454	1.1%	572	1.4%	566	1.4%	1.7%
Crook	129	0.3%	170	0.4%	186	0.5%	0.7%
Curry	305	0.8%	328	0.8%	281	0.7%	0.6%
Deschutes	1,568	3.9%	2,661	6.5%	2,417	5.9%	4.1%
Douglas	872	2.2%	955	2.3%	824	2.0%	2.8%
Gilliam	20	0.1%	10	0.0%	11	0.0%	0.1%
Grant	50	0.1%	51	0.1%	66	0.2%	0.2%
Harney	65	0.2%	63	0.2%	57	0.1%	0.2%
Hood River	228	0.6%	238	0.6%	246	0.6%	0.6%
Jackson	2,030	5.1%	2,257	5.5%	2,199	5.4%	5.4%
Jefferson	98	0.2%	181	0.4%	162	0.4%	0.6%
Josephine	825	2.1%	866	2.1%	791	1.9%	2.2%
Klamath	695	1.7%	711	1.7%	670	1.6%	1.8%
Lake	54	0.1%	64	0.2%	64	0.2%	0.2%
Lane	3,773	9.5%	3,600	8.7%	3,546	8.7%	9.2%
Lincoln	633	1.6%	594	1.4%	533	1.3%	1.2%
Linn	853	2.1%	775	1.9%	865	2.1%	2.9%
Malheur	306	0.8%	270	0.7%	293	0.7%	0.9%
Marion	2,184	5.5%	2,104	5.1%	2,033	5.0%	8.3%
Morrow	51	0.1%	85	0.2%	60	0.1%	0.3%
Multnomah	9,638	24.2%	9,873	24.0%	10,584	25.8%	19.0%
Polk	452	1.1%	646	1.6%	581	1.4%	1.8%
Sherman	16	0.0%	10	0.0%	15	0.0%	0.1%
Tillamook	247	0.6%	239	0.6%	210	0.5%	0.7%
Umatilla	583	1.5%	563	1.4%	620	1.5%	2.0%
Union	211	0.5%	217	0.5%	223	0.5%	0.7%
Wallowa	57	0.1%	61	0.1%	72	0.2%	0.2%
Wasco	170	0.4%	158	0.4%	215	0.5%	0.7%
Washington	6,696	16.8%	7,079	17.2%	6,806	16.6%	13.6%
Wheeler	9	0.0%	6	0.0%	14	0.0%	0.0%
Yamhill	670	1.7%	705	1.7%	766	1.9%	2.5%
Total	39,845	100.0%	41,189	100.0%	40,962	100.0%	100.0%

EXHIBIT 22

NUMBER OF FILERS MOVING FROM OREGON, BY DESTINATION

	1996		2005		2006	
State	Number	Percent	Number	Percent	Number	Percent
Alabama	73	0.3%	92	0.3%	84	0.3%
Alaska	434	1.5%	414	1.4%	426	1.4%
Arizona	1,429	5.0%	1,940	6.5%	1,775	5.8%
Arkansas	151	0.5%	127	0.4%	131	0.4%
California	5,889	20.5%	4,940	16.6%	5,137	16.7%
Colorado	1,025	3.6%	945	3.2%	1,028	3.3%
Connecticut	101	0.4%	89	0.3%	94	0.3%
Delaware	14	0.0%	17	0.1%	19	0.1%
Florida	420	1.5%	661	2.2%	645	2.1%
Georgia	277	1.0%	275	0.9%	320	1.0%
Hawaii	217	0.8%	405	1.4%	407	1.3%
Idaho	1,586	5.5%	1,661	5.6%	1,646	5.4%
Illinois	413	1.4%	438	1.5%	480	1.6%
Indiana	182	0.6%	181	0.6%	242	0.8%
Iowa	175	0.6%	171	0.6%	178	0.6%
Kansas	182	0.6%	167	0.6%	156	0.5%
Kentucky	104	0.4%	109	0.4%	140	0.5%
Louisiana	89	0.3%	89	0.3%	115	0.4%
Maine	63	0.2%	64	0.2%	76	0.2%
Maryland	151	0.5%	169	0.6%	191	0.6%
Massachusetts	281	1.0%	319	1.1%	312	1.0%
Michigan	287	1.0%	246	0.8%	292	0.9%
Minnesota	373	1.3%	360	1.2%	414	1.3%
Mississippi	59	0.2%	55	0.2%	59	0.2%
Missouri	287	1.0%	285	1.0%	322	1.0%
Montana	593	2.1%	610	2.0%	603	2.0%
Nebraska	144	0.5%	119	0.4%	133	0.4%
Nevada	800	2.8%	944	3.2%	950	3.1%
New Hampshire	40	0.1%	65	0.2%	65	0.2%
New Jersey	118	0.4%	146	0.5%	149	0.5%
New Mexico	234	0.8%	304	1.0%	315	1.0%
New York	380	1.3%	534	1.8%	569	1.9%
North Carolina	256	0.9%	341	1.1%	340	1.1%
North Dakota	84	0.3%	91	0.3%	80	0.3%
Ohio	270	0.9%	282	0.9%	330	1.1%
Oklahoma	224	0.8%	217	0.7%	233	0.8%
Pennsylvania	247	0.9%	273	0.9%	292	0.9%
Rhode Island	18	0.1%	22	0.1%	35	0.1%
South Carolina	81	0.3%	99	0.3%	124	0.4%
South Dakota	62	0.2%	75	0.3%	101	0.3%
Tennessee	156	0.5%	217	0.7%	219	0.7%
Texas	818	2.8%	1,018	3.4%	1,223	4.0%
Utah	623	2.2%	786	2.6%	858	2.8%
Vermont	59	0.2%	76	0.3%	69	0.2%
Virginia	277	1.0%	348	1.2%	389	1.3%
Washington	8,139	28.3%	8,021	26.9%	7,985	26.0%
West Virginia	41	0.1%	40	0.1%	32	0.1%
Wisconsin	238	0.8%	274	0.9%	266	0.9%
Wyoming	118	0.4%	199	0.7%	222	0.7%
Washington, D.C.	42	0.1%	88	0.3%	72	0.2%
U.S. Territories	10	0.0%	19	0.1%	14	0.0%
Armed Forces	N/A	N/A	54	0.2%	53	0.2%
Outside U.S.	381	1.3%	328	1.1%	339	1.1%
Total	28,715	100.0%	29,809	100.0%	30,749	100.0%

County Data

This section provides tax information by county to show how taxpayer characteristics vary by region. Exhibit 23 shows a breakdown of the number of returns filed, total Oregon AGI, and total tax liability by county, and the percent change from 2005 to 2006. Exhibits 24 and 25 are maps showing average AGI and tax liability for all returns in each county, and Exhibit 26 shows effective tax rates by county.

Most counties showed growth in the number of returns, and all showed growth in income. The following Central and Eastern Oregon counties led the state in percentage growth:

- Number of returns: Wheeler, Jefferson, and Deschutes
- Income: Wheeler, Deschutes, and Baker
- Tax liability: Wheeler, Deschutes, and Baker

The map in Exhibit 24 shows that the counties with the highest averages AGI income were Clackamas ($69,531), Washington ($65,285), Benton ($60,450), Deschutes ($60,079), Multnomah ($57,188), and Yamhill ($54,638).

The map in Exhibit 25 shows that counties with the highest AGI also had the highest tax liabilities, with the exception of Josephine and Curry counties. The largest average of $4,158 was in Clackamas County. The statewide average was approximately $3,088.

The map in Exhibit 26 shows effective tax rates (tax divided by AGI) for each county. Wheeler County's effective tax rate was 6.1 percent, followed by Clackamas and Washington with 6.0 percent, and Multnomah and Benton counties with 5.9 percent. Jefferson County had the lowest rate at 4.7 percent.

EXHIBIT 23

DISTRIBUTION OF RETURNS, AGI, AND TAX LIABILITY, BY COUNTY

County or Area	All 2006 Returns: Returns Number	Returns Share	Adjusted Gross Income ($000)	AGI Share	Total Tax Liability ($000)	Tax Share	% Change 2005 to 2006: No. of Returns	Total AGI	Total Tax
Baker	6,498	0.4%	$247,319	0.3%	$12,644	0.2%	2.5%	15.0%	18.5%
Benton	34,309	2.0%	$2,013,777	2.2%	$119,065	2.3%	2.1%	12.2%	13.4%
Clackamas	160,699	9.2%	$11,029,591	12.2%	$659,604	12.8%	2.5%	10.4%	10.5%
Clatsop	15,493	0.9%	$682,057	0.8%	$36,076	0.7%	2.7%	7.0%	6.4%
Columbia	20,248	1.2%	$1,023,280	1.1%	$55,827	1.1%	3.2%	9.2%	8.3%
Coos	25,714	1.5%	$1,029,108	1.1%	$53,981	1.0%	2.0%	6.2%	5.7%
Crook	8,709	0.5%	$440,418	0.5%	$24,879	0.5%	2.8%	9.7%	9.3%
Curry	9,696	0.6%	$395,124	0.4%	$19,421	0.4%	0.2%	1.0%	-3.2%
Deschutes	67,325	3.8%	$3,949,784	4.4%	$226,894	4.4%	5.0%	15.2%	15.8%
Douglas	43,434	2.5%	$1,797,783	2.0%	$92,774	1.8%	1.9%	4.0%	1.7%
Gilliam	806	0.0%	$29,906	0.0%	$1,635	0.0%	3.7%	5.2%	7.9%
Grant	3,048	0.2%	$120,300	0.1%	$6,667	0.1%	1.0%	11.2%	13.1%
Harney	2,904	0.2%	$91,948	0.1%	$4,741	0.1%	1.4%	5.4%	1.6%
Hood River	9,283	0.5%	$427,373	0.5%	$23,058	0.4%	2.7%	13.2%	15.1%
Jackson	85,328	4.9%	$4,151,666	4.6%	$223,968	4.3%	2.5%	8.4%	7.9%
Jefferson	8,768	0.5%	$343,127	0.4%	$16,238	0.3%	6.5%	12.7%	13.8%
Josephine	33,118	1.9%	$1,327,409	1.5%	$65,758	1.3%	2.3%	3.4%	1.2%
Klamath	26,270	1.5%	$1,091,595	1.2%	$57,771	1.1%	2.6%	7.5%	5.5%
Lake	3,046	0.2%	$104,754	0.1%	$5,547	0.1%	1.5%	6.0%	8.4%
Lane	145,787	8.3%	$7,152,646	7.9%	$400,146	7.8%	2.6%	8.5%	7.9%
Lincoln	19,581	1.1%	$872,214	1.0%	$44,794	0.9%	2.7%	11.1%	11.9%
Linn	45,837	2.6%	$1,991,366	2.2%	$105,082	2.0%	3.5%	8.8%	8.7%
Malheur	10,062	0.6%	$348,919	0.4%	$16,723	0.3%	4.3%	8.9%	11.8%
Marion	122,513	7.0%	$5,676,435	6.3%	$309,424	6.0%	3.3%	8.2%	9.0%
Morrow	3,962	0.2%	$148,855	0.2%	$7,740	0.2%	-1.0%	6.6%	6.8%
Multnomah	313,093	17.8%	$17,488,288	19.4%	$1,031,325	20.0%	4.5%	13.0%	13.1%
Polk	28,967	1.7%	$1,435,887	1.6%	$75,854	1.5%	4.8%	9.6%	9.7%
Sherman	769	0.0%	$29,331	0.0%	$1,542	0.0%	4.1%	10.0%	8.1%
Tillamook	11,018	0.6%	$470,172	0.5%	$23,539	0.5%	2.6%	9.7%	8.1%
Umatilla	27,374	1.6%	$1,082,226	1.2%	$56,752	1.1%	2.2%	6.7%	6.2%
Union	10,655	0.6%	$436,442	0.5%	$22,881	0.4%	2.1%	7.6%	6.6%
Wallowa	3,220	0.2%	$121,851	0.1%	$6,363	0.1%	3.0%	6.9%	4.7%
Wasco	9,744	0.6%	$404,881	0.4%	$21,057	0.4%	3.7%	10.8%	11.4%
Washington	218,621	12.5%	$13,998,185	15.5%	$841,933	16.3%	3.3%	0.6%	-3.2%
Wheeler	555	0.0%	$20,633	0.0%	$1,255	0.0%	8.4%	28.2%	48.0%
Yamhill	37,820	2.2%	$2,035,705	2.3%	$114,040	2.2%	4.7%	8.3%	5.7%
Clark Co., Wa.	58,030	3.3%	$2,403,368	2.7%	$138,882	2.7%	-3.5%	-2.2%	-4.2%
Other Wash.	32,991	1.9%	$1,100,562	1.2%	$76,168	1.5%	17.5%	40.7%	36.7%
California	26,622	1.5%	$915,042	1.0%	$33,399	0.6%	7.8%	25.5%	20.7%
Idaho	10,652	0.6%	$266,493	0.3%	$15,418	0.3%	0.9%	7.3%	11.7%
Other	52,999	3.0%	$1,517,560	1.7%	$100,076	1.9%	7.1%	12.5%	12.1%
Total	1,755,568	100.0%	$90,213,382	100.0%	$5,150,942	100.0%	3.4%	8.6%	7.6%

Exhibit 24
Average Adjusted Gross Income
Full-Year Resident Filers
Tax Year 2006

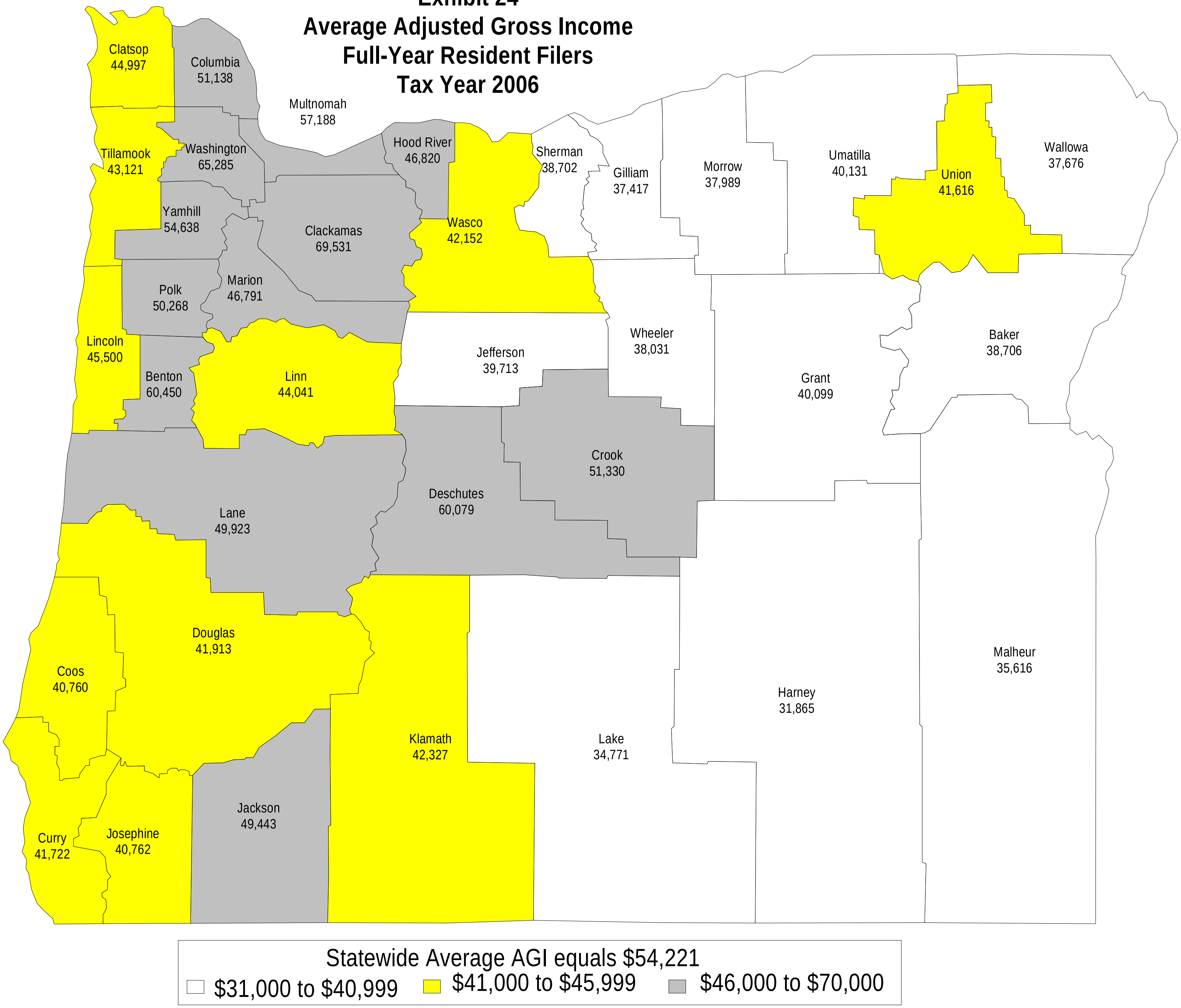


Exhibit 25
Average Tax Liability
Full-Year Resident Filers
Tax Year 2006

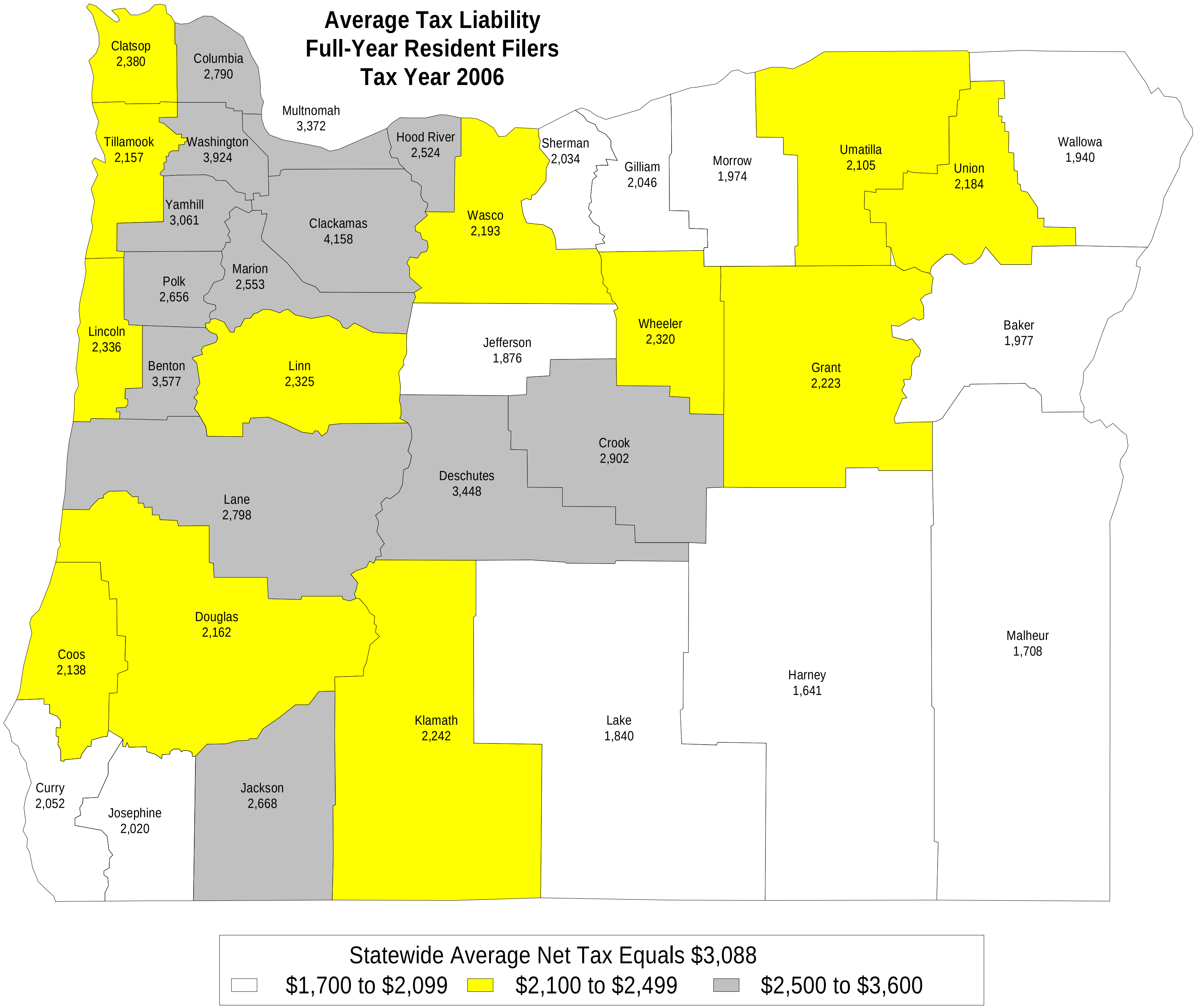
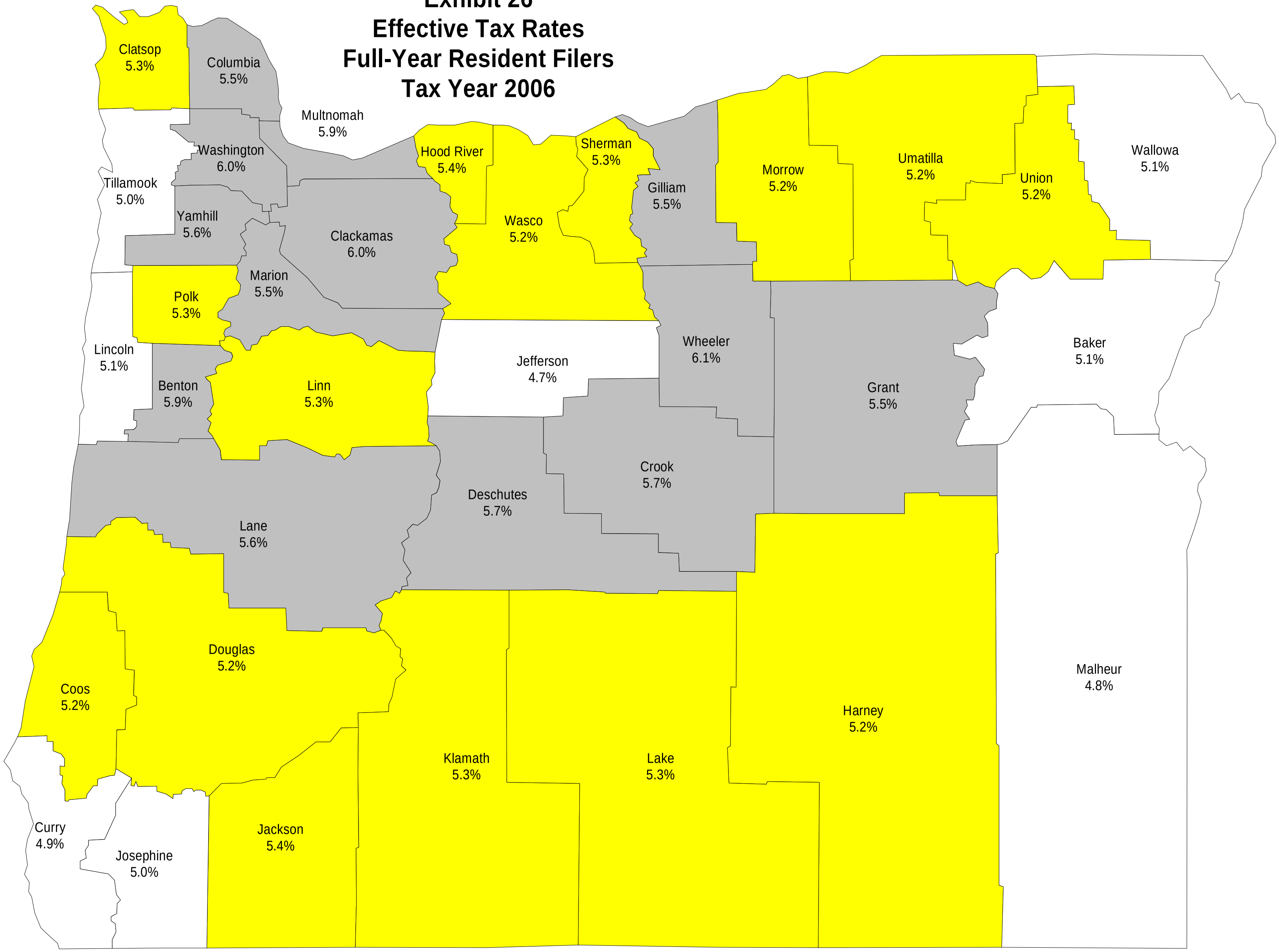


Exhibit 26
Effective Tax Rates
Full-Year Resident Filers
Tax Year 2006



Statewide Average Effective Rate Equals 5.7%

4.7% to 5.1% | 5.2% to 5.4% | 5.5% to 6.1%

III. Appendices

Appendix A
2 Percent Surplus Refund (Kicker) History

The 1979 Oregon Legislature passed the “2 percent kicker” law, which requires the state to refund excess revenue to taxpayers when actual General Fund revenues exceed the forecast amount by more than 2 percent.

This limitation is applied separately to corporate income tax revenue and the sum of personal income tax revenue and all other General Fund revenue. If revenues from the corporation income tax exceed their forecast by more than 2 percent, then all revenue in excess of the forecast is refunded to corporations. If revenues from all other General Fund sources exceed their forecast, the total excess is refunded to individuals through the personal income tax program. The information included here pertains only to the personal income tax kicker.

Prior to 1994, these refunds were made via a tax credit on the Oregon tax form for the calendar year in which the biennium ended. For example, actual revenues exceeded the forecast amount for the 1987–89 biennium (which ended on June 30, 1989), so the credit was allowed on the 1989 tax returns.

The 1995 Oregon Legislature changed the method by which the refund was issued to taxpayers. Since 1995, the refunds have been made as direct payments to taxpayers via a check. Prior to the 2007 kicker, the amount of the refund was based on tax liability for the first full calendar year of the biennium. The 2007 Oregon Legislature changed the basis of the refund to tax before credits. This change increased refunds to filers with large credits relative to their pre-credit liability, and decreased the refund for others.

2 Percent Personal Income Kicker History

Biennium	Year*	Surplus/ Shortfall ($ Million)	Credit or Refund* Percentage	Mean ($)	Median ($)
1979-81	1981	-141.0	None	----	----
1981-83	1983	-115.2	None	----	----
1983-85	1985	88.7	7.7%	81	48
1985-87	1987	224.2	16.6%	192	103
1987-89	1989	175.2	9.8%	133	69
1989-91	1991	185.9	Suspended	----	----
1991-93	1993	60.1	None	----	----
1993-95	1995	162.8	6.27%	111	55
1995-97	1997	431.5	14.37%	287	140
1997-99	1999	167.3	4.57%	103	49
1999-01	2001	253.6	6.02%	155	70
2001-03	2003	-1,249.5	None	---	---
2003-05	2005	-401.3	None	---	---
2005-07	2007	1,070.0	18.60%	609	295

** Prior to 1995, the kicker was returned to taxpayers via a credit on the tax return, so "Year" corresponds to the tax year. Since 1995, refund checks have been mailed directly to taxpayers. In these cases, "Year" reflects the year when the kicker was distributed.*

Refund checks are mailed to taxpayers in the year in which the biennium ends and are commonly referred to as “kicker checks.” For example, actual revenues exceeded the forecast amount for the 2005–07 biennium, so refunds were required. Based on 2006 income tax liability, taxpayers were issued checks in the fall of 2007.

Since the inception of the kicker law, refunds have been issued for seven of the 14 biennia.

For the 1989–91 biennium, the surplus of $186 million would have resulted in a credit of approximately 10 percent, but the Legislature voted to suspend the kicker. The 2005-07 biennium had revenues that exceeded the forecast by $1.07 billion, resulting in a refund of 18.6 percent of pre-credit liability.

Appendix B
Method

Information presented in this publication comes primarily from Oregon tax returns that were received by the Oregon Department of Revenue (DOR) during the calendar year following the tax year. Amended returns and returns received later are not included. Prior to 2006, the few manually processed returns were not included, but they were added to the 2005 and 2006 data for this publication.

Aside from initial adjustments made during return processing, data concerning return adjustments (e.g., from audit activity) is not included nor accounted for. Considerable data validation is used in an attempt to maintain accuracy of reported information and ensure the internal consistency of individual returns.

Data Handling

As returns are received, initial screening is performed to identify obvious errors. Following that, the return data are independently double-entered into the DOR computer system and processed through a system that identifies tax amount errors.

Some of the errors will result in letters to taxpayers or some human intervention to make corrections before final processing can be completed. Following processing, additional data checks are performed to identify returns that are not internally consistent. In many cases, the physical returns (or some percentage thereof) are inspected in an effort to identify systematic errors and encode data handling rules for those returns.

To the extent possible, inconsistent data are modified in a manner believed to correct errors on the returns. The data handling procedures are used for the purpose of this report and are not connected with other DOR business. Examples of the data handling procedures used include:

- If the return reports a tax liability that is incorrect given the reported income and tax rates, the reported amount is replaced with the corrected amount.
- If the return claims a credit or subtraction that is larger than what is statutorily allowed, the reported amount is replaced by the maximum amount allowed.
- If the amount reported for the total of non-refundable credits exceeds the amount of pre-credit tax liability, the amount used for each credit is calculated by proportionally reducing those credits so their sum equals the pre-credit tax liability.
- The city reported in the address on a return is screened for spelling and corrected as appropriate. (Reported cities do not always match with officially incorporated cities.)
- To determine counties and cities accurately, address standardization software is used.
- If a line on a return is blank, the associated value is set to zero.
- Missing data concerning the federal tax is imputed using data provided by the IRS.
- If the date of birth would make a filer's age unreasonable, the age is set to missing. (Age is the taxpayer's age on July 1 of the tax year.)

If an amount on a return is computed based on other line items (e.g., tax liability depends on income, subtractions, credits, etc.) and data handling alters the line items on which it depends, the amount is recomputed.

Statistical Reporting

Following the finalization of the data handling, statistical summaries are created. All summaries are derived from the complete base of returns; they are not based on statistical samples. Means, sums, percentages, etc. are computed using their simple arithmetic definitions (computations are performed using SAS and Excel).

Rates that span several years (e.g., percent increase in income from 1993 to 2000) are computed as the percentage change between the first and last years, and then annualized. For summaries associated with claims of certain adjustments, additions, subtractions, or credits, zeros in the data are excluded when calculating means (except as noted). A return is counted as having claimed the item if the associated amount is non-zero.

In tables summarizing amounts by AGI quintile, ranking is used to determine what quintile each return is placed in. Due to ties in ranks, the number of returns represented by each quintile differs slightly.

Components of Income

Components of income as displayed in Exhibits 12 and 13 use simple categorization of income based on the line items of the income section of the federal tax returns. They are summarized by line item with several exceptions.

- Interest and Dividends component: interest and dividend line items are grouped to form this component.
- Retirement component: IRA distributions, pensions and annuities, and taxable Social Security line items are grouped to form this component.
- Miscellaneous component: alimony, unemployment and other income line items, as well as income that is of unknown source due to missing data, are grouped to form this component.

For Exhibit 13, additional grouping is done. Farm income is grouped in the Miscellaneous component and rental real estate, royalties, partnerships, S corporations, trusts, etc. are grouped with the Business component.

Appendix C
Glossary of Terms

Additions. Amounts added to federal AGI to reflect differences between Oregon and federal tax laws.

Adjusted gross income (AGI). AGI consists of income subject to federal tax minus federal adjustments. For full-year returns, Oregon AGI equals federal AGI.

Adjustments. Federal adjustments include IRA deductions, student loan interest deductions, medical savings account deductions, moving expenses, one-half of self-employment taxes, self-employed health insurance deductions, self-employed SEP deductions, penalties on early withdrawal of savings, alimony paid, certain business expenses, and health savings account deductions.

These adjustments are subtracted from total taxable income to compute federal AGI on Forms 1040 and 1040A.

AGI level. Adjusted gross income ranges by which personal income tax information is grouped in all but the four county summary tables. The AGI levels are increments of $5,000 for low-income returns and $10,000 or more for higher income filers.

Amortization. The gradual reduction of any amount over a period of time.

Basis. A taxpayer's cost of acquiring an asset, which is used to determine the asset's capital gain or loss.

Biennium. The period of two fiscal years for which the state budgets are determined. For example, July 1, 2005 to June 30, 2007 is referred to as the 2005–2007 biennium.

Business income. Profit or loss from sole proprietorship business (not partnership and corporate income). Reported on federal Schedule C.

Capital gains. For tax years 1986 and earlier, this figure indicates the amount after the 60 percent capital gains exemption. Beginning with tax year 1987, this figure indicates 100 percent of the net capital gains. Reported on federal Schedule D.

Capital gain distributions. Non-Schedule D capital gains reported separately from Schedule D capital gains on federal Form 1040 for tax years 1988 through 1993.

Credits. Total amount of tax credits, excluding exemption tax credit. Includes Oregon earned income credit, working family childcare credit, retirement income credit, credit for elderly and disabled, child and dependent care credit, political contribution credit, credit for taxes paid to another state, and other credits.

Deductions. Items that may be subtracted from income to arrive at taxable income.

Demographic. A statistical characteristic of human populations.

Donations. Optional check-offs by which taxpayers may designate all or part of a tax refund as a contribution to charities such as:

— Oregon Nongame Wildlife Fund.

— AIDS/HIV Education and Services Fund.

— Child Abuse Prevention Fund.

— Alzheimer's Disease Research Fund.

— Stop Domestic and Sexual Violence Fund.

Earned income credit. *See* ***Federal earned income credit*** *or* ***Oregon earned income credit.***

Effective tax rate. Tax liability divided by income.

Exemptions (number of). Total number of exemptions claimed (self, spouse, and dependents plus special exemptions for severely disabled adults and disabled children). Individuals who are claimed as dependents on their parents' returns but who receive separate income claim zero exemptions on their own return.

Exemption tax credit. A credit for each exemption claimed on a return. In 2006, the exemption credit was $159. This replaced a $1,000 exemption deduction in 1983. Exemption credits have been indexed for inflation since tax year 1987.

Expensing. To distribute qualifying, deductible expenses over several years.

Farm income. The amount of farm income reported on farm Schedule F. It does not include the farm income of any farm operated as a partnership or corporation.

Federal adoption credit. A credit for qualifying adoption expenses. For 2006, the maximum credit was $10,960 for an eligible child.

Federal child credit. A maximum credit of $1,000 for each qualifying child is allowed.

Federal earned income credit. A federal, refundable income tax credit for low-income working taxpayers. The amount depends on income and the number of dependents.

Federal education credits. For 2006, the Hope credit had a maximum of $1,650 for qualified expenses for each student who qualifies, and the lifetime learning credit has a maximum of $2,000 per return.

Federal election on interest and dividends of a minor child. The amount of interest and dividend income earned by a minor child that is subject to the special federal tax.

Beginning in 1989, this addition to federal AGI is required when parents elect to report the child's income on their own return. This addition was combined with other additions beginning on 1996 returns.

Federal pension subtraction. The portion of federal pension income earned before October 1, 1991, can be subtracted from adjusted gross income.

Federal tax deduction. An Oregon deduction for federal income tax liability. For 2006, the deduction is limited to $5,000 per return ($2,500 for married filing separately).

Federally taxable Social Security. Oregon does not tax Social Security income. The taxable portion of Social Security from the taxpayer's federal return is reported in Table D.1. The Social Security subtraction is reported in Table F.1.

Full-year returns. Returns filed by full-year Oregon residents (Form 40 or Form 40S).

HARRP. The Homeowner's and Renter's Refund Program, established in 1973 to provide property tax relief to low- and middle-income Oregonians. The limit on household income of HARRP recipients was reduced from $17,500 to $10,000 for tax year 1990, and the program was discontinued for 1991 and subsequent tax years.

Head of household. Returns filed by unmarried persons who furnished over half of the cost of maintaining a household for the entire year for at least one qualifying relative.

Interest on installment sales. Interest on deferred tax liability for certain installment sales. Added to Oregon tax before credits.

Itemized returns. Returns claiming itemized deductions rather than taking the standard deduction.

Joint returns. A return representing the combined income of husband and wife, i.e., a return representing two taxpayers.

Kicker. *See* ***State surplus refund.***

Minor child income addition. See ***Federal election on interest and dividends of a minor child.***

Miscellaneous income. Positive and negative income from rents, royalties, estates, trusts, S corporations, and partnerships reported on federal Schedule E.

Net federal tax. The sum of basic federal tax, alternate minimum tax, and tax on IRAs, minus federal tax credits.

Nonresident returns. Returns filed by individuals with income earned in Oregon whose permanent homes were outside Oregon for the entire tax year (Form 40N).

Nontaxable returns. Returns with no tax liability. Such returns are filed to receive a refund of withholding, estimated payments, or refund-of-credit payment.

Oregon deferral of reinvested gain. Beginning with 1996 returns, filers may defer capital gains on the sale of certain business assets if they reinvest proceeds in qualifying business assets within six months.

Oregon earned income credit. In 1997, Oregon gave its own earned income credit, equal to 5 percent of the federal credit amount. Beginning in tax year 2006, the Oregon earned income credit is refundable.

Oregon medical deduction. Beginning with 1991 returns, filers who itemized and met the age requirement were entitled to an additional deduction of the lesser of Schedule A line one or line three.

The age eligibility was 58 or older for 1991 and 1992 returns, and increased by one year every two years until it reached 62 in 1999. It was fixed at this level for subsequent tax years.

Other income. Income derived from a variety of sources such as gambling winnings, activity not for profit, credit card insurance, estate and trust income, cancelled debts, etc.

Part-year resident returns. Returns filed by individuals who permanently moved either into or out of Oregon during the tax year (Form 40P).

Property sales. The sum of capital gains/losses and supplemental gains/losses (lines 13 and 14 on federal Form 1040).

Quintile (income). A subset of a database that contains 20 percent of all records; it is determined by arranging the records from the lowest income to the highest income and then dividing the database into five equally-sized subsets.

Real property. Land and land improvements, including buildings, timber, and orchard trees.

Retirement income credit. Beginning with 1991 returns, filers who meet the income and age restrictions and have income from pensions, annuities, IRAs, or deferred income compensation plans are entitled to a retirement income credit.

Taxpayers 62 or older may qualify. Household income limits are $45,000 for joint returns and $22,500 for other returns.

Returns (number of). The number of returns filed. For low AGI levels, this figure can be misleading. For example, the Oregon Department of Revenue receives returns each year from individuals who are claimed as dependents on their parents' returns, but who receive individual earnings.

Separate return. The return of a married individual not filing a joint return.

Single return. The return of a single individual who does not qualify as head of household.

Standard and itemized deductions. The total deduction amount taken, whether a standard deduction or itemized deductions.

State surplus refund (kicker). Oregon is required by law to refund revenue when revenues collected for the biennium are more than 2 percent higher than was forecast at the time the budget was adopted.

Before 1995, refunds were made in the form of a credit on the tax return for the second year of the biennium. Surplus refunds are now made as a direct payment based on a taxpayer's tax liability. Before 2007, the refund was based on tax after credits. Beginning in 2007, the liability used to calculate the refund is tax before credits.

Subtractions. Amounts subtracted from federal AGI to reflect differences between Oregon and federal tax laws.

Supplemental income. Income derived from the sale of business property and reported on federal Form 4797.

Tangible property. Any capital asset having physical existence, including real property.

Tax after credits. Amount of tax liability after subtracting credits.

Tax due. Amount of final tax liability after subtracting tax credits, when applicable.

Tax from rates. The amount of state tax computed from rates and assessed before tax credits are subtracted.

Tax liability. The amount of tax owed by a taxpayer. It is the total tax reduced by non-refundable credits and further reduced by any portion of refundable credits up to the amount of remaining tax.

Tax withheld. Amounts withheld by employers from salaries and wages. Amount withheld is based on wages earned during the pay period and the number of withholding allowances claimed. Tax also may be withheld from other income sources such as pensions and IRA distributions.

Taxable balance. Oregon AGI plus additions, minus subtractions, minus allowable deductions. The amount of income subject to Oregon tax. Set to zero if negative.

Taxable pensions (Table D). Includes taxable pension income, federally taxable Social Security income, and IRA distributions.

Taxable returns. Returns with positive final tax liability (i.e., tax due greater than zero).

Unknown income. Total adjusted gross income is listed as "unknown" when the taxpayer does not identify the specific component(s) of income.

Working family childcare credit. A credit available to low-income families with qualifying childcare expenses. The amount is based on adjusted gross income and household size.