Oregon Personal Income Tax Statistics

Characteristics of Filers

2009 Edition

Tax Year 2007

OREGON DEPARTMENT OF REVENUE

150-101-406 (Rev. 7-09)

To order additional copies, please contact:

Publications
Oregon Department of Revenue
955 Center Street NE
Salem OR 97301-2555
503-945-8636

Statistical publications are also available on our website:
www.oregon.gov/DOR/STATS

Have Questions?

General tax information.............. www.oregon.gov/DOR
Salem.. 503-378-4988
Toll-free from an Oregon prefix 1-800-356-4222

Asistencia en español:
En Salem o fuera de Oregon 503-378-4988
Gratis de prefijo de Oregon.................... 1-800-356-4222

TTY (hearing or speech impaired; machine only):
Salem area or outside Oregon 503-945-8617
Toll-free from an Oregon prefix 1-800-886-7204

Americans with Disabilities Act (ADA): Call one of the help numbers for information in alternative formats.

Oregon Personal Income Tax Statistics

Characteristics of Filers

2009 Edition

Tax Year 2007

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

150-101-406 (Rev. 7-09)

Table of Contents

List of Exhibits

Part-Year Residents:

County Data:

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 the characteristics of Oregon personal income tax filers 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 2007 as well as historical tables and graphs.

The information is based on 2007 income tax returns received by the Oregon Department of Revenue in the 2008 calendar year. Actual tax receipts may vary from this report because some filers failed to pay their tax liability or paid after 2008. The report does not include information from audits, amended tax returns, or returns received after 2008.

This chapter highlights key statistics such as the number of filers, total income, and total tax liability for 2006 and 2007. 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.

More detailed tables, a historical summary of significant federal and Oregon tax law changes, 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, 2006 and 2007
(Dollars in millions except where indicated)

	2006	**2007**	**% Change**
Number of Returns	1,755,568	1,835,095	4.5%
Full-Year	1,546,097	1,617,135	4.6%
Part-Year and Nonresident	209,471	217,960	4.1%
OR Adjusted Gross Income	$90,213	$98,746	9.5%
Full-Year	$83,831	$91,795	9.5%
Part-Year and Nonresident	$6,383	$6,951	8.9%
Taxable Income	$69,098	$74,892	8.4%
Full-Year	$63,648	$69,035	8.5%
Part-Year and Nonresident	$5,450	$5,856	7.5%
Tax Liability*	$5,151	$5,600	8.7%
Full-Year	$4,775	$5,185	8.6%
Part-Year and Nonresident	$376	$415	10.3%
OR Avg. AGI (dollars)	$51,387	$53,810	4.7%
Full-Year	$54,221	$56,764	4.7%
Part-Year and Nonresident	$30,471	$31,891	4.7%
Avg. Tax Liability (dollars)	$2,934	$3,051	4.0%
Full-Year	$3,088	$3,206	3.8%
Part-Year and Nonresident	$1,795	$1,903	6.0%
Effective Tax Rate**	5.7%	5.7%	-0.7%
Full-Year	5.7%	5.6%	-0.8%
Part-Year and Nonresident	5.9%	6.0%	1.3%

* See glossary of terms in Appendix C
** Tax liability divided by adjusted gross income

Highlights

- For tax year 2007, the Oregon Department of Revenue received over 1.83 million personal income tax returns, a 4.5 percent increase from tax year 2006.
- The total adjusted gross income (AGI) of 2007 Oregon filers grew to $98.7 billion, up 9.5 percent from $90 billion in 2006.

- The average AGI for all filers was $53,810, 4.7 percent above the 2006 level. For full-year resident filers, the average AGI was $56,764.
- The 2007 total tax liability for all filers was $5.6 billion, up 8.7 percent from $5.2 billion in 2006. This is the fifth year of increasing tax liability.
- The average tax liability for all filers was $3,051 in 2007, growing 4.0 percent above $2,934 in 2006. The average tax liability for full-year filers was $3,206 in 2007.
- The number of taxpayers choosing to file their return electronically in 2007 grew 11.7 percent to 1,095,882. Electronic returns represented 60 percent of all returns in 2007 compared to 56 percent in 2006.

Structure of this Report

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 8 outlines the calculation of income taxes, while Chapter II provides summaries and historical trends for the following components:

- **Returns**–The number of returns, type of returns, filing status, electronic returns, age of taxpayers, and historical trends are described.
- **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.

- **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 nonrefundable 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, "2007 Summary and Historical Trends," discusses each of the components in a historical context. Key figures from 2007 are compared to historical numbers to show trends and changes over time. The chapter includes historical data about filers moving to and from Oregon and tax information by county. County maps with selected tax information are provided.

Most exhibits and tables in Chapters I and II are devoted to full-year resident returns because they represent approximately 88 percent of all returns filed and 93 percent of the tax liability. Full-year resident returns constitute the most stable base for statistical inference. Part-year resident and nonresident returns may include significant income and deductions that are not related to economic activity in Oregon and only part of the income is subject to Oregon taxation.

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

- **Return** is an Oregon personal income tax return. This may refer to the physical or electronic return or to the data information making up the return.
- **Filer** refers to an individual who files a personal income tax return. A return is associated with only one filer. For joint returns the person listed first on the tax return is the filer.
- **Taxpayer** is an individual or individuals represented by a return. In the case of joint returns, there are two taxpayers represented: the filer and the spouse.

Appendix A provides a discussion and historical surplus (kicker refund) data for 1979 through 2007. **Appendix B** provides additional detail and discussion about return data, statistical reporting, and the components of income for the current report. **Appendix C** provides a glossary of common term used in the report and websites for additional information.

Detailed tables, previously published as Chapter III for this publication in the past, are available on the Oregon Department of Revenue website at: www.oregon.gov/DOR/STATS. The detail tables provide information for various groups of taxpayers for tax year 2007 only. For tables that include part-year resident and nonresident returns, only the Oregon portion of income is used.

Visit the department's webpage for additional personal income tax information and tax forms at:
www.oregon.gov/DOR/PERTAX/formspit.shtml

Personal Income Tax Calculation

Since 1969, Oregon's personal income tax has been closely tied to the federal definition of taxable income, but connected in different ways over time. From 1981 to 1997, the legislature regularly acted to tie Oregon's definition to the federal definition as of a specific date. In 1997, the legislature began a 'rolling reconnect' where Oregon's definition of taxable income would automatically change with federal changes. In 2003, this 'rolling reconnect' was suspended by the legislature for tax years 2003 through 2005. It was re-established in 2005 for tax years 2006 to 2008. The 2009 legislature again suspended the 'rolling reconnect' and tied Oregon's definition of taxable income to the federal definition as of May 1, 2009 for tax years 2009 and 2010 and restored the 'rolling reconnect' for tax years 2011 forward. They suspended the 'rolling reconnect' because they anticipated passage of the American Recovery and Reinvestment Tax Act of 2009 and did not want to automatically connect to all of its tax provisions.

The material in this publication is for tax year 2007 when Oregon had a 'rolling reconnect' with the federal definition of taxable income. The following diagram shows the full-year resident tax computation.

How Oregon Personal Income Tax is Computed

Federal Gross Income

minus

Federal Adjustments to Income

equals

Federal Adjusted Gross Income

plus

Oregon Additions

minus

Oregon Subtractions

minus

Oregon Deductions

equals

Oregon Taxable Income

multiplied by

Tax Rates

plus

Interest on Installment Sales

equals

Gross Tax *

minus

Credits

equals

Tax Liability

*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 $5,500 or $2,750 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) include:

- **Standard deductions:**
  - $3,650 if joint filer, or
  - $2,940 if head of household filer, or
  - $1,825 if single filer, or
  - $1,825 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:**
  - 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 $165
- Earned income (refundable)
- Working family child care (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. 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 $2,850	5% of taxable income
2007	Over $2,850 but not over $7,150	$138 plus 7% of excess over $2,850
Tax Rates	Over $7,150	$425 plus 9% of excess over $7,150
	For persons filing joint, head of household, or qualifying widow(er) with dependent child	
	If taxable income is:	then tax is:
	Not over $5,700	5% of taxable income
	Over $5,700 but not over $14,300	$275 plus 7% of excess over $5,700
	Over $14,300	$849 plus 9% of excess over $14,300

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.

Tax Rate History

A history of Oregon tax rates and brackets is available on the Oregon Department of Revenue website at: www.oregon.gov/DOR/STATS. For additional information on adjustments, deductions, subtractions, and credits, refer to:

- The State of Oregon 2009–11 *Tax Expenditure Report*. This publication is available on the web at: www.oregon.gov/DOR/STATS.

- The Oregon Department of Revenue's *Publication 17½, Oregon Individual Income Tax Guide,* 2007 edition. This publication is available on the web at: www.oregon.gov/DOR/PERTAX/docs/2004Forms/101-431-04.pdf.

II. 2007 Summary and Historical Trends

In this chapter, data for the 2007 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.

Returns

Exhibit 1 shows the number of 2007 returns by form type and filing status. Full-year residents are required to use either Form 40 or Form 40S, part-year residents are to use Form 40P, and nonresidents are to use Form 40N. Of almost 1.84 million returns filed for tax year 2007, 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

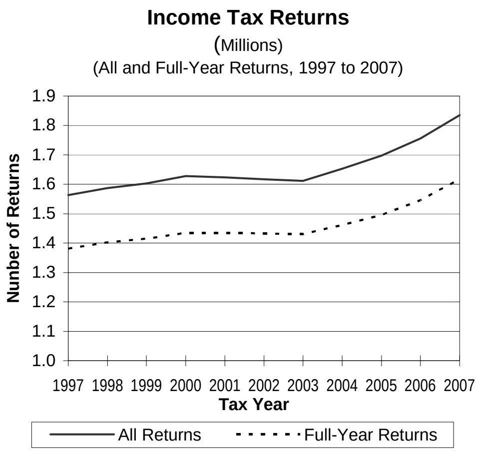
2007 Income Tax Returns by Filing Status and Form Type

	Single	Joint	Married Filing Separately	Head-of-Household	Qualifying Widow(er)	Total
Long Form (40)	564,882	648,437	18,982	127,997	780	1,361,078
Short Form (40S)	174,969	34,389	3,861	42,764	74	256,057
Nonresident (40N)	50,797	80,431	2,702	10,528	59	144,517
Part-Year (40P)	41,128	25,051	1,621	5,623	20	73,443
Total	**831,776**	**788,308**	**27,166**	**186,912**	**933**	**1,835,095**

Returns–Historical Trends

Exhibit 2 shows the trend in returns filed since 1997 for all returns and full-year resident returns. The number of returns filed generally increases each year. The economic downturn from 2001 through 2003 marked an exception and returns decreased. The growth in 2007 was unusually high. Similar growth was seen in both resident and nonresident returns. The growth is likely due to a number of factors including the cumulative recovery from the economic downturn of 2001–2003, employment increases, improvement in economic conditions, and population growth. Some 2007 federal returns were filed only for the purpose of receiving a federal stimulus payment. Some of these filers may also have filed an Oregon return which may have contributed to the growth in the number of Oregon returns, but we are unable to quantify the magnitude of this effect.

EXHIBIT 2



	Oregon Population		All Returns		Full-Year Returns	
Tax Year	Number	% Change	Number	% Change	Number	% Change
1997	3,304,300	1.8%	1,563,139	2.8%	1,381,479	2.7%
1998	3,352,400	1.5%	1,587,399	1.6%	1,403,128	1.6%
1999	3,393,900	1.2%	1,602,850	1.0%	1,414,966	0.8%
2000	3,430,530	1.1%	1,628,413	1.6%	1,435,203	1.4%
2001	3,471,700	1.2%	1,623,813	-0.3%	1,434,864	0.0%
2002	3,504,700	1.0%	1,616,700	-0.4%	1,432,971	-0.1%
2003	3,541,500	1.1%	1,611,785	-0.3%	1,430,750	-0.2%
2004	3,582,600	1.2%	1,653,203	2.6%	1,461,735	2.2%
2005	3,631,440	1.4%	1,697,166	2.7%	1,495,091	2.3%
2006	3,690,500	1.6%	1,755,568	3.4%	1,546,097	3.4%
2007	3,745,455	1.5%	1,835,095	4.5%	1,617,135	4.6%

The table to the right shows the number of filers in each tax bracket. In 2007, Oregon's top tax rate of 9 percent took effect at $7,151 of taxable income for single filers and $14,301 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.

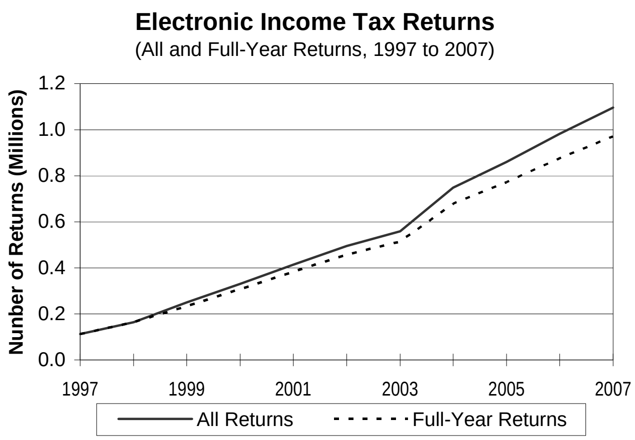
2007 Oregon Tax Brackets (All Returns)

Tax Bracket	Returns	Share	Taxable Income Single or Married Filing Separately (joint filers double the amount)
No Taxable Income	152,465	8.3%	$0
5% bracket	170,782	9.3%	First $2,850
7% bracket	237,640	12.9%	$2,851–$7,150
9% bracket	1,274,208	69.4%	Over $7,150

Electronic Returns

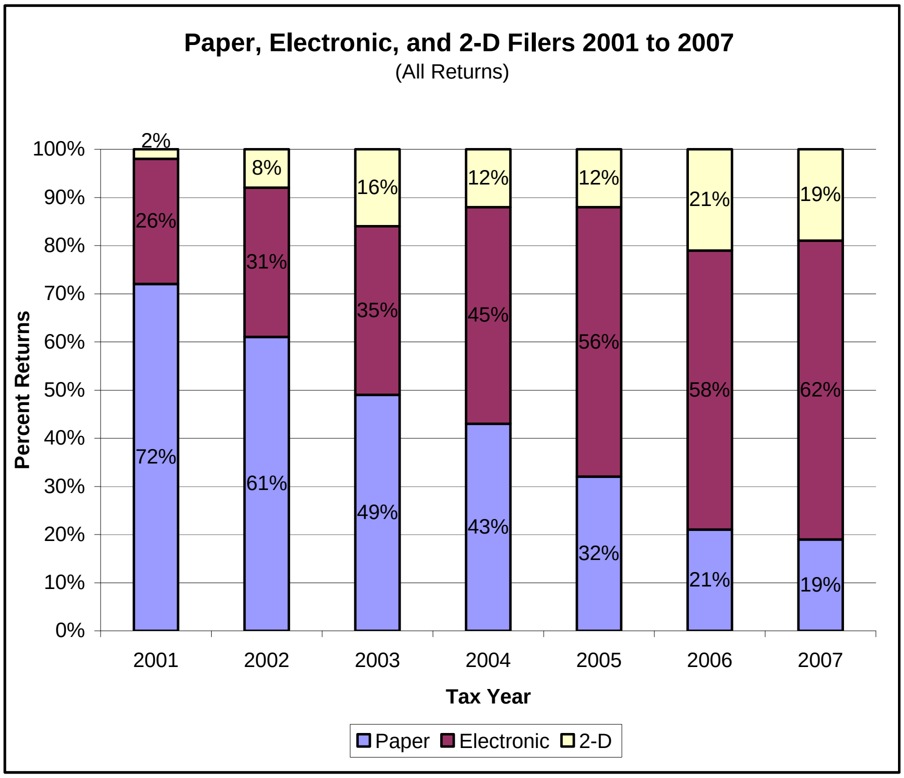
Oregon started offering electronic filing with a limited pilot project in 1993. The growth in electronic returns over time is dramatic as shown in Exhibit 3. This growth can be attributed to a number of factors. Between 1994 and 1997, only professional tax preparers could file electronic returns and 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 the IRS introduction of 'e-services,' a web incentive service for tax preparers.

EXHIBIT 3



	All Returns		Full-Year Returns	
Tax Year	Number	% Change	Number	% Change
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%
2007	1,095,882	11.7%	970,743	10.8%

EXHIBIT 4

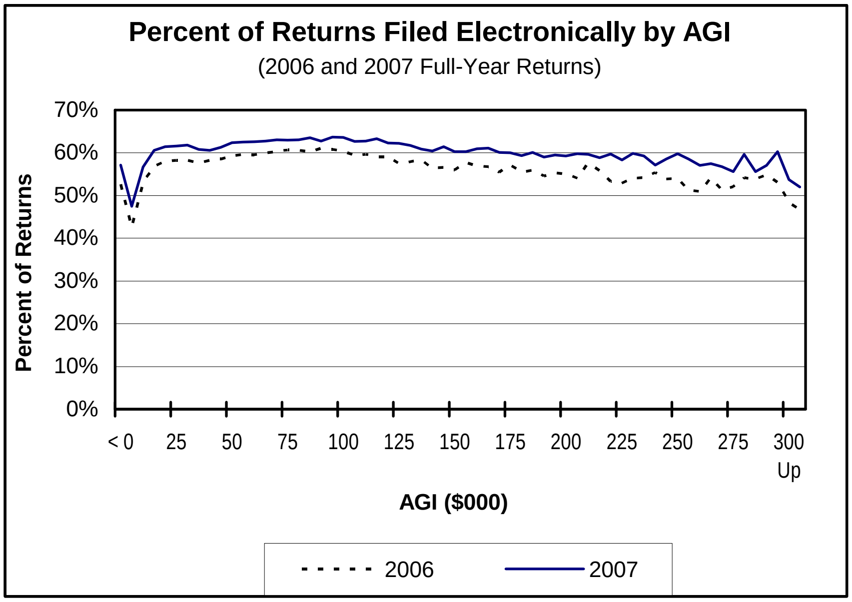


In 2001 Oregon first offered 2-D barcode filing where tax return information is scanned from a barcode submitted on a paper form. The 2-D filing type is a hybrid of paper and electronic filing. Similar to paper forms, 2-D forms must be mailed to and opened by the Department of Revenue. Once 2-D filings are scanned, they are treated like electronic returns and do not require manual data entry. Only full-year resident forms were available in 2-D until 2007 when nonresident and part-year resident forms were added. In the first year only 2 percent of returns were filed using 2-D and that grew to 19 percent in 2007.

Over the years more software companies supported Oregon electronic and 2-D filing and more training was offered by the IRS and the Oregon Department of Revenue. Electronic and 2-D filings grew to 81 percent and paper filing shrunk to 19 percent by 2007.

Exhibit 5 shows the percent of full-year electronic filers by income level for 2006 and 2007. The exhibit shows that for both years, filers with the lowest and the highest AGI are less likely to file electronic returns. It also shows that the increase in the percentage of electronic filers seen in 2007 occurred over all income levels.

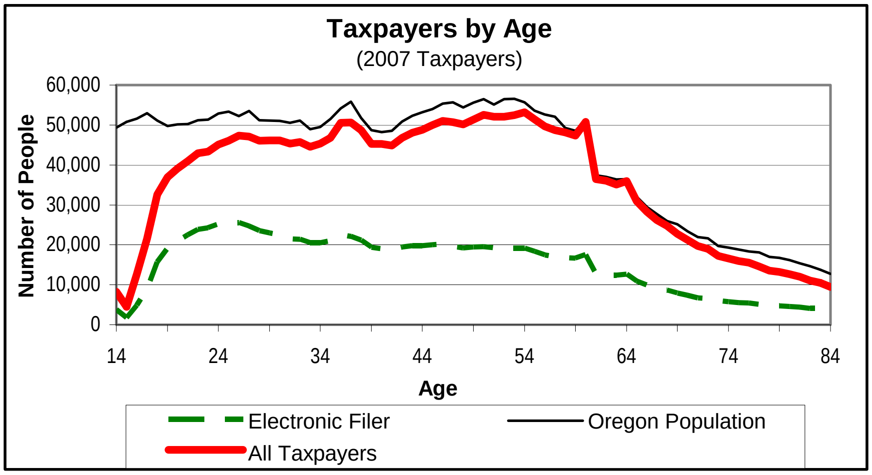
EXHIBIT 5



Age of Taxpayers

Exhibit 6 shows the distribution of electronic filers, the Oregon population, and all taxpayers by age. The exhibit includes children at least fourteen years old because parents that set up investments in a child's name are required to file a return when there is taxable income. The estimated number of Oregonians at each age is displayed for reference; note that Oregon income taxpayers are not all Oregonians. Nearly half of all filers between the ages of 19 and 84 filed electronically. Filers 30 years old were the most likely to file electronically (68.1 percent).

EXHIBIT 6



Notes: Age is not known for less than 2 percent of taxpayers, so they are not represented.
The chart represents 2.62 million taxpayers including nonresidents.
Oregon population age is based on Department of Administrative Services data.
For electronic filers only the age of the primary filer is shown.

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 accounted for 88 percent of the returns and 93 percent of Oregon AGI and tax liability in 2007.

EXHIBIT 7

Returns, AGI, and Tax by Residence Type

(All Returns)

Return Type	Returns		AGI		Tax Liability	
	Number	Percent	$ (Million)	Percent	$ (Million)	Percent
Full-Year (40 & 40S)	1,617,135	88%	91,795	93%	5,185	93%
Nonresident (40N)	144,517	8%	5,063	5%	300	5%
Part-Year (40P)	73,443	4%	1,888	2%	115	2%
Total	**1,835,095**	**100%**	**98,746**	**100%**	**5,600**	**100%**

Income–Historical Trends

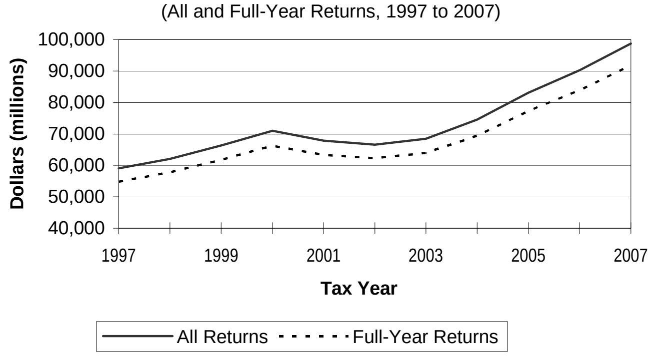
Total Oregon AGI increased by 9.5 percent to $98.7 billion in 2007. Exhibit 8 shows the level of AGI for tax years 1997 to 2007. AGI grew each year with the exception of the economic downturn from 2001 to 2003. AGI declined by an average of 3.1 percent in 2001 and 2002 and began to recover in 2003. Growth since 2003 was relatively strong with an average rate of about 8 percent.

Nearly half (47 percent) of the total AGI growth for full year returns in 2007 can be attributed to increased wage income which grew by 7 percent. Capital gains grew 26 percent and accounted for another 25 percent of the total growth in AGI.

EXHIBIT 8

Total Adjusted Gross Income

(All and Full-Year Returns, 1997 to 2007)

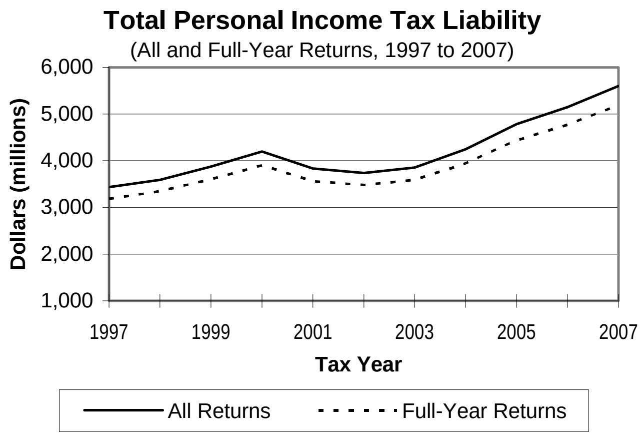


	All Returns		Full-Year Returns	
Tax Year	AGI ($ Million)	Percent Change	AGI ($ Million)	Percent Change
1997	59,077	11.7%	54,821	11.0%
1998	62,086	5.1%	57,836	5.5%
1999	66,331	6.8%	61,807	6.9%
2000	71,023	7.1%	66,259	7.2%
2001	67,806	-4.5%	63,351	-4.4%
2002	66,624	-1.7%	62,361	-1.6%
2003	68,464	2.8%	63,958	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%
2007	98,746	9.5%	91,795	9.5%

Tax–Historical Trends

In 2007, tax liability totaled $5.6 billion, an 8.7 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.

EXHIBIT 9



	All Returns		Full-Year Returns	
Tax Year	Tax ($ Million)	Percent Change	Tax ($ Million)	Percent Change
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%
2007	5,600	8.7%	5,185	8.6%

Effective Tax Rates

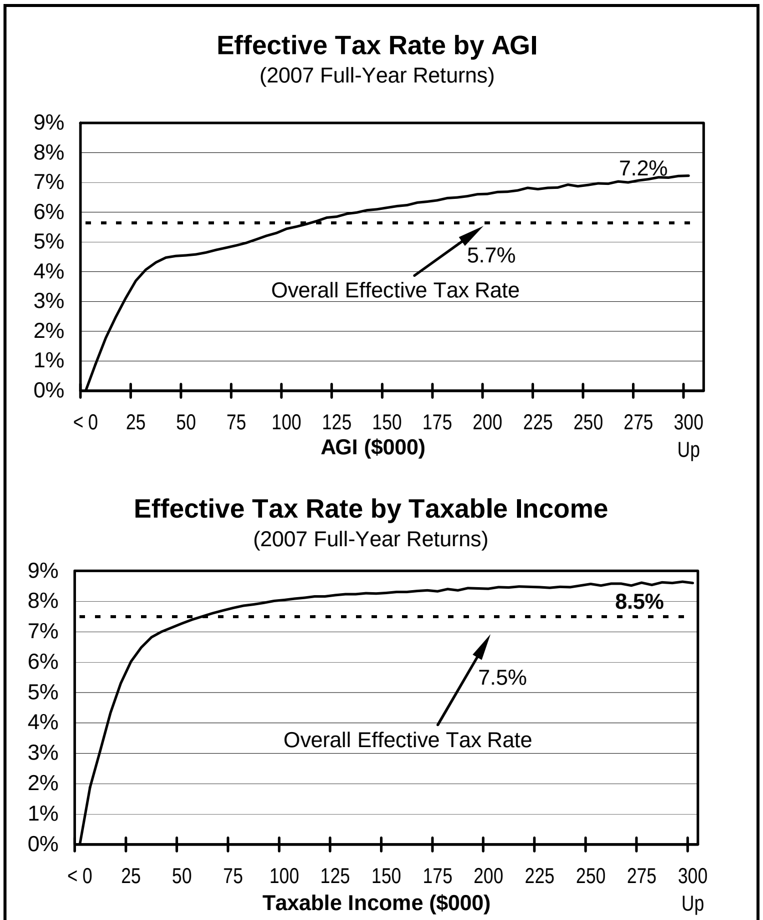
Exhibit 10 shows two effective tax rates–tax as a percent of AGI and tax as a percent of taxable income–for full-year resident filers in 2007.

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 effective tax rate is influenced significantly by subtractions and deductions (standard and itemized), which tend to lower it. The effective tax rate increases for higher income taxpayers because the magnitude of additions and subtractions is relatively less, while at the same time a greater share of their income is taxed at 9 percent.

The rate climbs quickly from zero to 4.5 percent for filers with income of roughly $40,000. The rate continues to increase, but at a slower pace, and

EXHIBIT 10



gradually reaches 7.2 percent for the top income filers.

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 effective 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 shows the number of returns, AGI, and the amount of tax liability by AGI quintile. The top one percent account for 25 percent of the total tax liability.

EXHIBIT 11

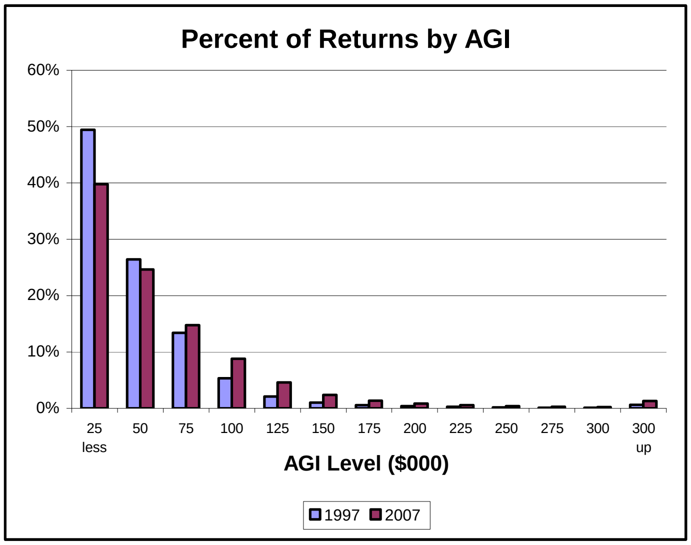
2007 Returns, Income, and Tax by AGI Quintiles
(Full-Year Returns)

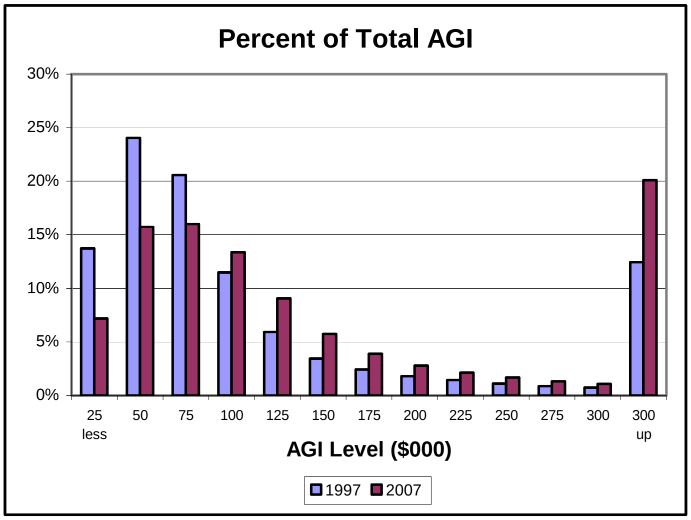
Quintile	AGI Level	Number of Returns	Total AGI ($000)	Total Tax Liability ($000)	% Total Tax Liability
First 20%	Less than $11,725	323,438	765,722	31,436	1%
Second 20%	$11,725–$25,157	323,409	5,895,859	192,947	4%
Middle 20%	$25,157–$44,224	323,434	10,980,738	476,935	9%
Fourth 20%	$44,245–$76,745	323,430	19,051,676	896,800	17%
Next 15%	$76,745–$149,917	242,568	24,842,067	1,376,729	27%
Next 4%	$149,917–$352,236	64,685	13,473,969	905,826	17%
Top 1%	$352,236 +	16,171	16,785,135	1,304,140	25%
Total		**1,617,135**	**91,795,166**	**5,184,812**	

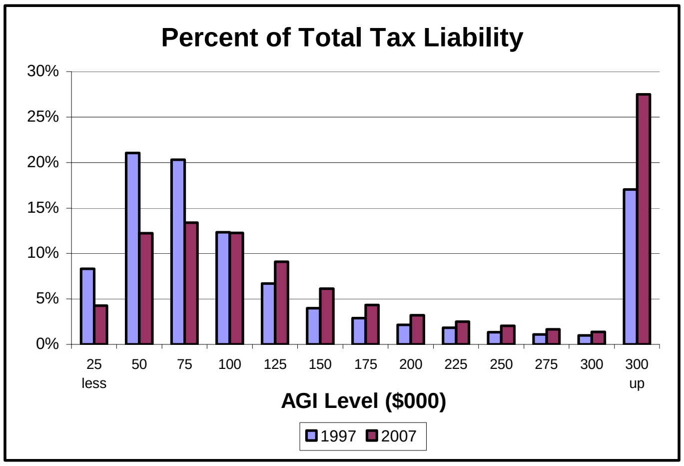
Exhibit 12 contains three charts that show the percentages of full-year resident returns, the percentages of total AGI, and the percentages of total tax by AGI levels for 1997 and 2007. The information conveys the differences among the concentrations of returns, AGI, and tax liability and how differences changed over the last ten years.

The first chart shows the distribution of returns filed by AGI. The majority of filers reported AGI less than $50,000 for both 1997 and 2007. The second chart shows how much of the total AGI is contributed by filers in each AGI level. The third chart shows the percent of total tax liability by AGI. Filers with $300,000 or greater AGI represent less than 2 percent of total returns, but contributed 20 percent of total AGI and 28 percent of total tax liability in 2007.

EXHIBIT 12







Components of Income and Tax

Exhibit 13 shows the 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. As shown in Exhibit 13, wages are the dominant source of income, representing $58.5 billion of the $93.4 billion total, or 63 percent.

EXHIBIT 13

2007 Components of Income
(Full-Year Returns)

Income Component	Gross Income ($ Million)	Gross Income Percent of Total
Wages, Salaries, Tips	58,487	63%
Retirement	10,368	11%
Capital Gains	9,636	10%
Dividends & Interest	5,301	6%
Rent, Partnership, S Corp	5,164	6%
Business	3,174	3%
Miscellaneous	1,473	2%
Farm	-241	0%
Total	**93,362**	**100%**

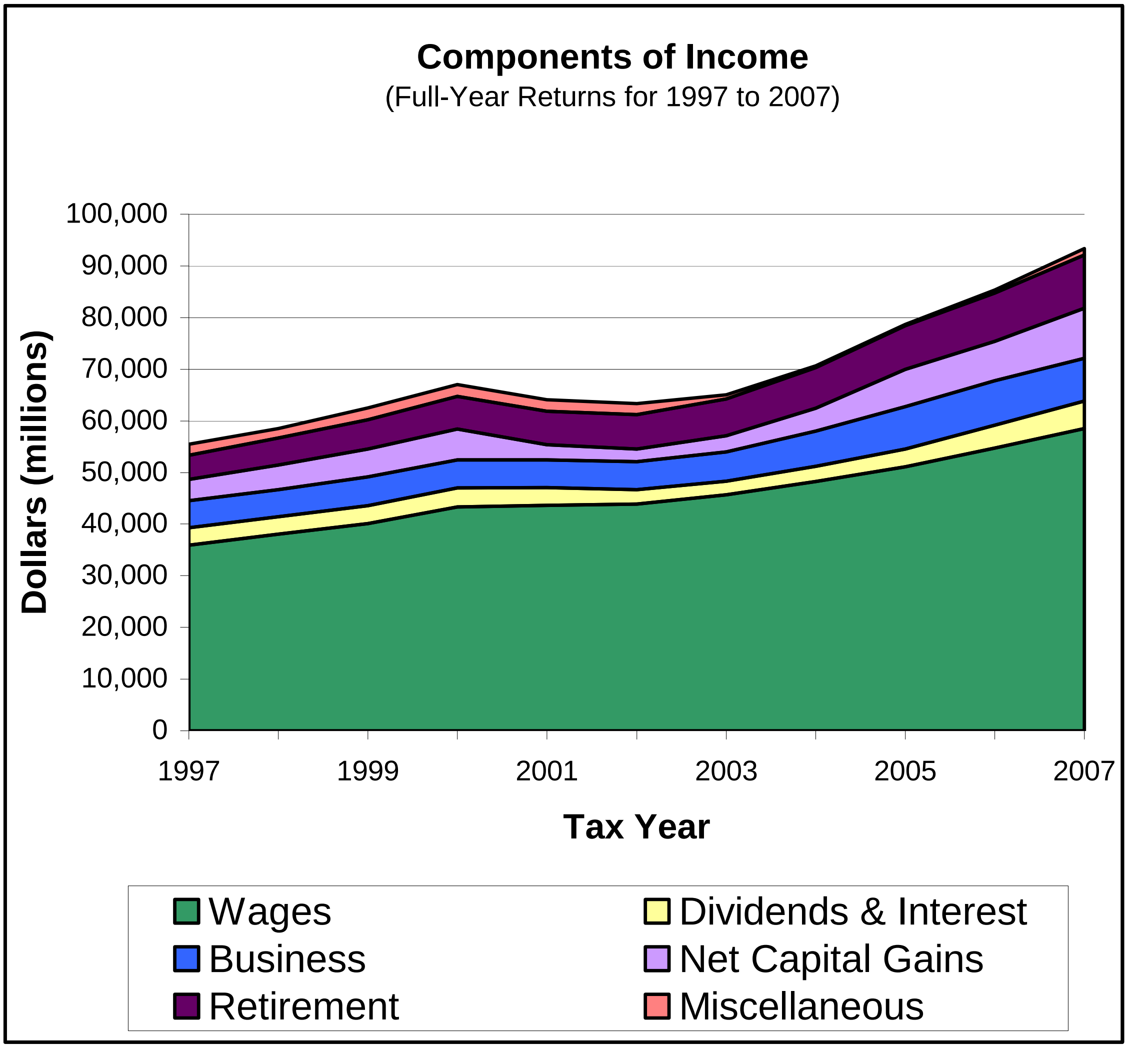
Components of Income–Historical

This section discusses federal gross income historically using similar income components. Exhibit 14 shows these income sources for tax years 1997 through 2007 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 2003–2007.

The composition of income for 2007 differed very little from 2006. Wages comprised the greatest share of income, representing roughly 63 percent of income for all full-year returns in 2007. The next two most significant income sources were pensions (11 percent) and capital gains (10 percent). Capital gains is the most volatile income component, changing more than 50 percent in some years.

EXHIBIT 14



Note: Due to improvements in data handling for 2003, roughly $1.1 billion was moved from Miscellaneous to other categories with most (86 percent) moved to Wages.

Adjustments

Exhibit 15 illustrates the distribution of federal adjustments to gross income (above-the-line deductions) claimed on full-year returns in 2007. 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 federal government changed adjustments related to tuition and educator expenses in 2006 and 2007 making them incomparable over time. In 2007 jury duty pay and Archer MSA adjustments were eliminated.

EXHIBIT 15

2007 Federal Adjustments
(Full-Year Returns)

	Number of Returns	Percent of Total	Amount Claimed ($000)	Percent of Total	Average Claim ($)
Self-Employment Tax	192,627	33.2%	289,326	18.5%	1,502
Student Loan Interest	119,444	20.6%	101,506	6.5%	850
Self-Emp Health Insurance	65,585	11.3%	322,206	20.6%	4,913
Tuition and Fees	52,284	9.0%	117,229	7.5%	2,242
IRA Contributions	49,122	8.5%	191,028	12.2%	3,889
Educator Expenses	33,232	5.7%	8,073	0.5%	243
SEP, SIMPLE	16,061	2.8%	266,278	17.0%	16,579
Penalty on Early Withdrawal	12,855	2.2%	3,972	0.3%	309
Alimony Paid	9,983	1.7%	129,181	8.2%	12,940
Health Savings Accounts	9,668	1.7%	26,249	1.7%	2,715
Domestic Production	9,344	1.6%	93,467	6.0%	10,003
Moving Expenses	6,887	1.2%	12,636	0.8%	1,835
Employee Business Expenses	1,503	0.3%	3,567	0.2%	2,374
Other/Unknown	1,125	0.2%	1,636	0.1%	1,454
Total	**579,720**	**100.0%**	**1,566,353**	**100.0%**	2,702

Note: Jury pay and Archer MSA expenses were eliminated in 2007. Tuition and Fees and Educator Expenses were retained.

Exhibit 15 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 $289 million of self-employment taxes for tax year 2007.

The three adjustments associated with self-employment (self-employment tax, self-employment health insurance, and tax deferred SEP and SIMPLE plans) together account for 56 percent of total adjustments claimed. About 15 percent of full-year resident returns claimed al least one of these adjustments.

Additions and Subtractions

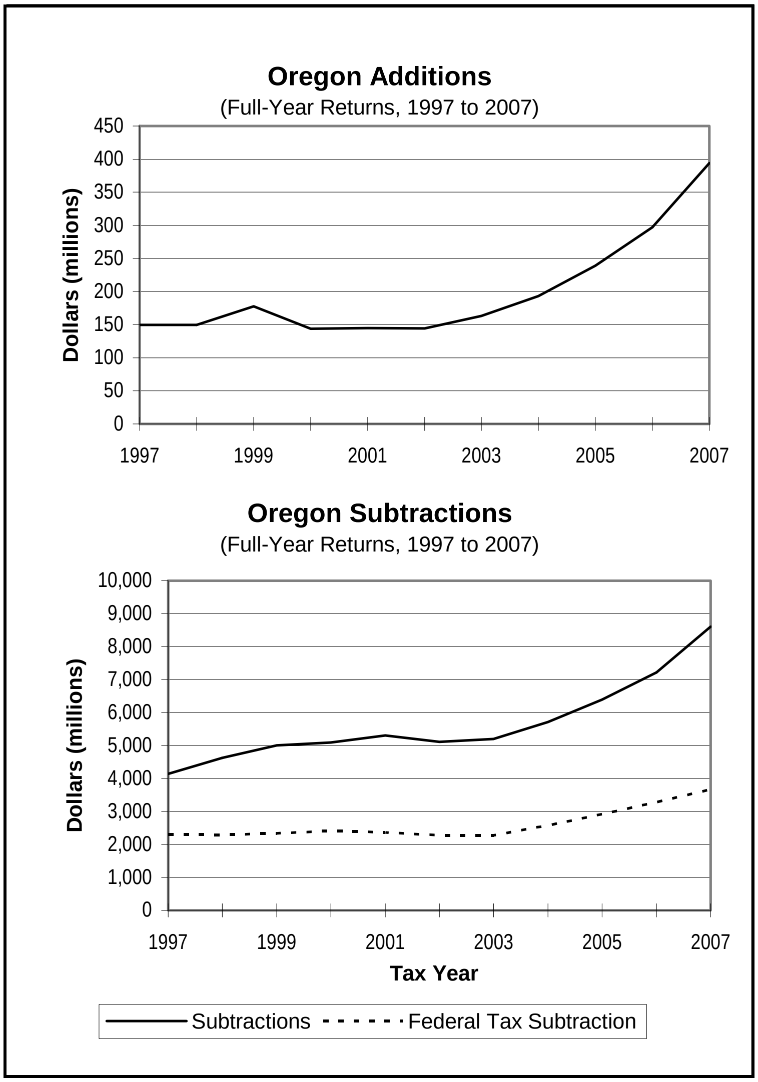
Additions and subtractions adjust the federal AGI to account for income that Oregon taxes or does not tax, respectively. Exhibit 16 shows the amount of Oregon additions and subtractions in the past 10 years for full-year resident filers.

Additions

The top chart in Exhibit 16 shows that additions over the decade more than doubled from $150 million in 1997 to $394 million in 2007. Additions grew nearly $100 million from 2006 to 2007. Most of the increase over the last year was due to a $24 million increase in the interest on bonds of other states addition and a $48 million increase in the domestic production activities addition.

Although total additions are small compared to gross income or subtractions, they are high 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.

EXHIBIT 16



Subtractions

The bottom chart in Exhibit 16 shows Oregon total subtractions generally increasing since 1997. Because the federal income tax subtraction represents almost half of all subtractions, it is shown separately in the exhibit.

There was a 19 percent growth in subtractions in 2007 following a 13 percent increase in 2006. The growth was due primarily to a 12 percent increase in the federal tax subtraction and 15 percent growth in the Social Security income subtraction.

The federal tax subtraction historically is the largest subtraction and the maximum amount that can be subtracted increased in recent years. Although the federal tax subtraction is the largest, the rate of increase in total subtractions was larger than the increase in federal subtractions.

For each major subtraction, Exhibit 17 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 17

2007 Oregon Subtractions
(Full-year Returns)

	Number of Returns	Average ($)	Total ($ millions)	Percent of Total
Federal Tax	1,138,593	3,220	3,666	43%
Income Tax Refunds	535,179	1,878	1,005	12%
Social Security	199,364	10,971	2,187	25%
Other	146,386	3,582	524	6%
U.S. Bonds	79,165	3,553	281	3%
Federal Pension	43,088	21,732	936	11%
Total			**8,600**	**100%**

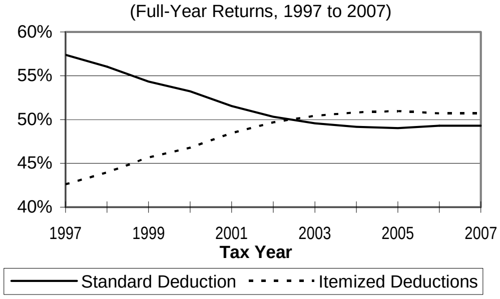
Deductions

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 18 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 about 42 percent in 1997 to 51 percent in 2007. 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 88 percent of the $16.6 billion in total deductions for full-year returns.

EXHIBIT 18

Filing Type: Percent Standard and Itemized Deductions
(Full-Year Returns, 1997 to 2007)



Tax Year	Full-Year Returns	Standard Deduction Number	Standard Deduction Percent	Itemized Deduction Number	Itemized Deduction 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%
2007	1,617,135	797,087	49.3%	820,048	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 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, Credits Used, and Refundable Credit Payments

Most credits are not refundable which means they can only be used to reduce tax liability to zero. If a filer has more nonrefundable credits than tax liability then the excess credits are not used. Refundable credits are used after all nonrefundable credits to reduce tax liability to zero or below. When tax liability goes below zero a payment is issued for filers eligible for refundable credits.

Exhibit 19 shows the credits claimed and used by full-year return filers in 2007 separated by nonrefundable and refundable credits. Refundable credits are further described by the number and amount of payment.

The personal exemption credit was the most widely claimed credit with more than 1.51 million full-year filers claiming a total of $523.8 million. About 90 percent of the credit amount was used with the remaining 10 percent unused because credits claimed exceeded the tax liability.

While the average personal exemption credit claimed was $346, on average only $309 was used. The credit for income taxes paid to another state was the largest nonrefundable credit average claim and total amount used. In contrast, only 51 percent of the retirement credit was used.

EXHIBIT 19

2007 Oregon Credits Claimed and Used
(Full-Year Returns)

		Total ($ Million)		Average ($)		
	Number of Returns	Amount Claimed	Amount Used	Amount Claimed	Amount Used	Percent Used
Nonrefundable Credits:						
Personal Exemption	1,514,471	523.8	468.3	346	309	89.4%
Political Contributions	91,643	6.3	6.0	68	65	95.1%
Other	78,362	75.0	66.6	957	850	88.8%
Child and Dependent Care	40,926	8.8	7.7	215	189	87.7%
Income Taxes Paid to Another State	13,023	37.3	37.1	2,863	2,849	99.5%
Retirement	6,704	1.7	0.9	256	131	51.0%
Elderly or Disabled	446	0.0	0.0	57	43	76.0%
Total	**1,745,575**	**652.9**	**586.5**	**4,762**	**4,436**	**89.8%**
Refundable Credits:						
Earned Income	214,705	19.5	19.5	91	91	100.0%
Working Family Child Care	25,175	20.0	20.0	793	793	100.0%
Mobile Home Park Closure	220	0.8	0.8	3,548	3,548	100.0%
Total	**240,100**	**40.2**	**40.2**	**4,432**	**4,432**	**100.0%**
Received a payment for refundable credit	102,180	19.8	19.8	194	194	100.0%
Total		**693.1**	**626.7**			**90.4%**

The working family child care credit, earned income credit, and involuntary mobile home move credit are the only credits that are refundable. The working family child care credit is a credit for low-income working families. The credit is based on qualifying child care expenses, household size, and AGI. To qualify a filer must have at least $7,550 of earned income from Oregon, have $2,950 or less of investment income, meet AGI requirements, and pay qualifying child care expenses.

The Oregon earned income credit is based on federal tax filing. If a tax filer qualifies for a federal earned income credit, then they are allowed an Oregon earned income credit. The Oregon earned income credit is 5 percent of the federal earned income credit.

The involuntary mobile home move credit is a credit for $5,000. To be eligible for it filers must own their own mobile home, rent space in a park that is closing, occupy the mobile home as a principal residence, receive notice that the park is closing, and move out along with all members of the household on or after January 2007.

Exhibit 19 shows that the amount claimed for refundable credits equals the amount used because filers can use all of the refundable credits if eligible. In 2007 there were 240,100 claims for refundable credits totaling $40.2 million. In 2007 there were 102,180 full-year resident filers that received refund-of-credit payments averaging $194 for compared to 96,843 filers that received an average payment of $205 in 2006.

Including part-year and nonresident filers, there were almost 105,000 returns warranting a refund-of-credit payment, with an average payment of $198 in 2006. In 2007 there was an increase of 5 percent to nearly 110,800 returns warranting a refund-of-credit payment, with an average payment of $187.

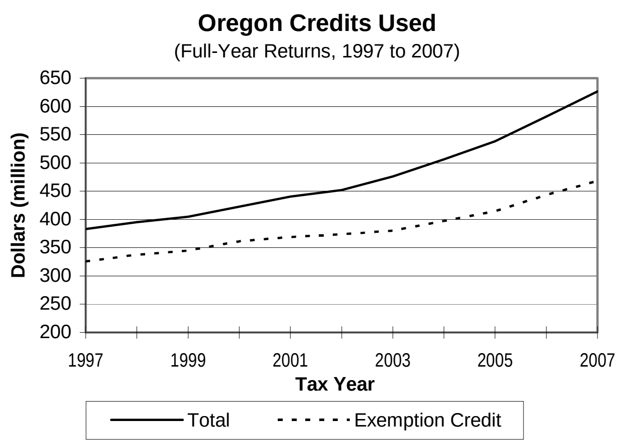
Credits–Historical Trends

Exhibit 20 shows the recent history of Oregon credits used by full-year resident filers and the steady growth over time. Because most of the total is due to the personal exemption credit, it is shown separately.

The earned income and working family child care credits were first allowed in 1997 and accounted for $14.8 million in credits. In 2007 the two credits more than doubled to $39 million in credits. In total, full-year resident filers used $627 million in credits for 2007 compared to $383 million in credits for 1997. The personal exemption credit accounted for $468.3 million in 2007 and $326 million in 1997.

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

EXHIBIT 20



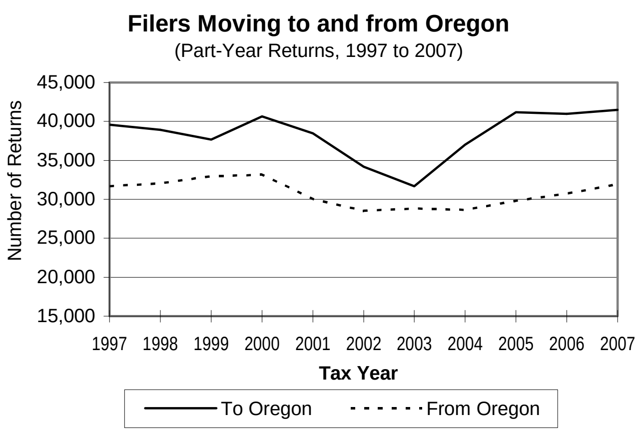
Tax Year	Total Credits ($ million)	Total Credits % Change	Exemption Credit ($ million)	Exemption Credit % Change
1997	383.0	7.1%	325.6	4.7%
1998	395.3	3.2%	337.6	3.7%
1999	405.2	2.5%	345.3	2.3%
2000	422.6	4.3%	361.1	4.6%
2001	440.7	4.3%	368.9	2.2%
2002	452.0	2.6%	373.9	1.4%
2003	475.9	5.3%	380.1	1.7%
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%
2007	626.7	7.7%	468.3	5.6%

Part-Year Residents

The number of part-year return filers moving to Oregon (based on the address reported on the return) ranged between roughly 40,000 and 41,000 from 1997 to 2007. Exhibits 22, 23, and 24 show information on part-year residents entering or leaving Oregon.

Exhibit 21 shows the total number of filers moving to and from Oregon between 1997 and 2007. In every year, the number of filers moving into Oregon exceeded the number moving out.

EXHIBIT 21



	To Oregon		From Oregon	
Tax Year	Filers	% Change	Filers	% Change
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%
2007	41,497	1.3%	31,946	3.9%

Exhibit 22 shows the number and percent of in-migrants by county of destination for selected tax years. In 2007, 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 51 percent of in-migrant taxpayers. Lane and Deschutes Counties were the next most popular destinations.

Exhibit 23 shows the number of income tax filers moving from Oregon for selected tax years by state of destination. In 2007, 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 48 percent of all out-migrants.

EXHIBIT 22

Number of Filers Moving to Oregon by County of Destination

County	1997 Number	1997 Percent	2006 Number	2006 Percent	2007 Number	2007 Percent	County Share of State Population
Baker	160	0.0%	164	0.4%	132	0.3%	0.4%
Benton	1,160	0.2%	989	2.4%	1,045	2.5%	2.3%
Clackamas	4,682	0.7%	3,069	7.5%	3,216	7.7%	9.9%
Clatsop	5,029	0.8%	403	1.0%	398	1.0%	1.0%
Columbia	5,391	0.9%	361	0.9%	365	0.9%	1.3%
Coos	5,957	1.0%	566	1.4%	577	1.4%	1.7%
Crook	6,071	1.0%	186	0.5%	139	0.3%	0.7%
Curry	6,345	1.0%	281	0.7%	281	0.7%	0.6%
Deschutes	8,011	1.3%	2,417	5.9%	2,382	5.7%	4.3%
Douglas	8,893	1.4%	824	2.0%	863	2.1%	2.8%
Gilliam	8,904	1.4%	11	0.0%	10	0.0%	0.1%
Grant	8,965	1.4%	66	0.2%	52	0.1%	0.2%
Harney	9,052	1.4%	57	0.1%	74	0.2%	0.2%
Hood River	9,300	1.5%	246	0.6%	255	0.6%	0.6%
Jackson	11,459	1.8%	2,199	5.4%	2,044	4.9%	5.4%
Jefferson	11,543	1.8%	162	0.4%	174	0.4%	0.6%
Josephine	12,289	2.0%	791	1.9%	817	2.0%	2.2%
Klamath	12,954	2.1%	670	1.6%	676	1.6%	1.8%
Lake	13,015	2.1%	64	0.2%	72	0.2%	0.2%
Lane	16,609	2.7%	3,546	8.7%	3,657	8.8%	9.2%
Lincoln	17,133	2.7%	533	1.3%	484	1.2%	1.2%
Linn	17,886	2.9%	865	2.1%	887	2.1%	2.9%
Malheur	18,202	2.9%	293	0.7%	274	0.7%	0.8%
Marion	20,356	3.3%	2,033	5.0%	2,066	5.0%	8.3%
Morrow	20,437	3.3%	60	0.1%	62	0.1%	0.3%
Multnomah	30,122	4.8%	10,584	25.8%	11,063	26.7%	19.0%
Polk	30,584	4.9%	581	1.4%	580	1.4%	1.8%
Sherman	30,599	4.9%	15	0.0%	13	0.0%	0.0%
Tillamook	30,810	4.9%	210	0.5%	180	0.4%	0.7%
Umatilla	31,492	5.0%	620	1.5%	630	1.5%	1.9%
Union	31,723	5.1%	223	0.5%	230	0.6%	0.7%
Wallowa	31,779	5.1%	72	0.2%	65	0.2%	0.2%
Wasco	31,982	5.1%	215	0.5%	238	0.6%	0.6%
Washington	38,842	6.2%	6,806	16.6%	6,789	16.4%	13.6%
Wheeler	38,849	6.2%	14	0.0%	7	0.0%	0.0%
Yamhill	39,559	6.3%	766	1.9%	700	1.7%	2.5%
Total	626,144	100.0%	40,962	100.0%	41,497	100.0%	100.0%

EXHIBIT 23

Number of Filers Moving from Oregon by Destination

	1997			2006			2007	
State	Number	Percent		Number	Percent		Number	Percent
Alabama	93	0.3%		84	0.3%		103	0.3%
Alaska	437	1.4%		426	1.4%		420	1.3%
Arizona	1,773	5.6%		1,775	5.8%		1,725	5.4%
Arkansas	125	0.4%		131	0.4%		158	0.5%
California	6,987	22.1%		5,137	16.7%		5,510	17.2%
Colorado	1,132	3.6%		1,028	3.3%		1,098	3.4%
Connecticut	148	0.5%		94	0.3%		103	0.3%
Delaware	24	0.1%		19	0.1%		17	0.1%
Florida	571	1.8%		645	2.1%		635	2.0%
Georgia	282	0.9%		320	1.0%		313	1.0%
Hawaii	268	0.8%		407	1.3%		430	1.3%
Idaho	1,679	5.3%		1,646	5.4%		1,570	4.9%
Illinois	400	1.3%		480	1.6%		452	1.4%
Indiana	209	0.7%		242	0.8%		234	0.7%
Iowa	190	0.6%		178	0.6%		211	0.7%
Kansas	162	0.5%		156	0.5%		181	0.6%
Kentucky	107	0.3%		140	0.5%		139	0.4%
Louisiana	86	0.3%		115	0.4%		107	0.3%
Maine	79	0.2%		76	0.2%		95	0.3%
Maryland	168	0.5%		191	0.6%		202	0.6%
Massachusetts	340	1.1%		312	1.0%		300	0.9%
Michigan	323	1.0%		292	0.9%		299	0.9%
Minnesota	434	1.4%		414	1.3%		395	1.2%
Mississippi	54	0.2%		59	0.2%		71	0.2%
Missouri	315	1.0%		322	1.0%		316	1.0%
Montana	566	1.8%		603	2.0%		664	2.1%
Nebraska	162	0.5%		133	0.4%		139	0.4%
Nevada	883	2.8%		950	3.1%		896	2.8%
New Hampshire	62	0.2%		65	0.2%		71	0.2%
New Jersey	172	0.5%		149	0.5%		168	0.5%
New Mexico	279	0.9%		315	1.0%		341	1.1%
New York	436	1.4%		569	1.9%		635	2.0%
North Carolina	291	0.9%		340	1.1%		399	1.2%
North Dakota	86	0.3%		80	0.3%		73	0.2%
Ohio	341	1.1%		330	1.1%		332	1.0%
Oklahoma	216	0.7%		233	0.8%		269	0.8%
Pennsylvania	228	0.7%		292	0.9%		357	1.1%
Rhode Island	24	0.1%		35	0.1%		26	0.1%
South Carolina	89	0.3%		124	0.4%		142	0.4%
South Dakota	85	0.3%		101	0.3%		95	0.3%
Tennessee	213	0.7%		219	0.7%		265	0.8%
Texas	1,023	3.2%		1,223	4.0%		1,330	4.2%
Utah	733	2.3%		858	2.8%		795	2.5%
Vermont	55	0.2%		69	0.2%		65	0.2%
Virginia	313	1.0%		389	1.3%		348	1.1%
Washington	8,131	25.7%		7,985	26.0%		8,336	26.1%
West Virginia	26	0.1%		32	0.1%		42	0.1%
Wisconsin	239	0.8%		266	0.9%		311	1.0%
Wyoming	164	0.5%		222	0.7%		241	0.8%
Other	482	1.4%		478	1.6%		522	1.7%
Total	31,685	99.9%		30,749	100%		31,946	100%

County Data

This section provides tax information by county to show how taxpayer characteristics vary by region. Exhibit 24 shows a breakdown of the number of returns filed, total Oregon AGI, and total tax liability by county, and the percent change from 2006 to 2007. Exhibits 25 and 26 are maps showing average AGI and tax liability for all returns in each county, and Exhibit 27 shows effective tax rates by county.

All counties showed growth in the number of returns, and most showed growth in income. The following Oregon counties led the state in percentage growth:

- Number of returns: Harney, Sherman, Linn, and Hood River
- Income: Sherman, Morrow, and Washington
- Tax liability: Sherman, Morrow, and Washington

The map in Exhibit 25 shows that the counties with the highest average AGI were Washington ($72,835), Clackamas ($72,136), Benton ($61,329), Deschutes ($60,152), and Multnomah ($59,514).

The map in Exhibit 26 shows that counties with the highest AGI also had the highest tax liabilities. The largest average of $4,158 was in Clackamas County. The statewide average was approximately $3,206.

The map in Exhibit 27 shows effective tax rates (tax divided by AGI) for each county. Washington County's effective tax rate was 6.2 percent, followed by Clackamas, Multnomah and Benton. Jefferson County had the lowest rate at 4.6 percent.

EXHIBIT 24

2007 Distribution of Returns, AGI, and Tax Liability by County

County or Area	Returns Number	Returns Share	Adjusted Gross Income ($000)	AGI Share	Total Tax Liability ($000)	Tax Share	% Change 2006 to 2007 No. of Returns	% Change 2006 to 2007 Total AGI	% Change 2006 to 2007 Total Tax
Baker	6,801	0.4%	$263,020	0.3%	$13,207	0.2%	4.7%	6.3%	4.5%
Benton	35,349	1.9%	$2,113,922	2.1%	$122,433	2.2%	3.0%	5.0%	2.8%
Clackamas	167,513	9.1%	$11,931,862	12.1%	$703,546	12.6%	4.2%	8.2%	6.7%
Clatsop	16,080	0.9%	$729,500	0.7%	$38,068	0.7%	3.8%	7.0%	5.5%
Columbia	21,119	1.2%	$1,106,530	1.1%	$59,059	1.1%	4.3%	8.1%	5.8%
Coos	26,714	1.5%	$1,102,497	1.1%	$56,838	1.0%	3.9%	7.1%	5.3%
Crook	9,086	0.5%	$443,119	0.4%	$24,253	0.4%	4.3%	0.6%	-2.5%
Curry	9,935	0.5%	$417,000	0.4%	$20,297	0.4%	2.5%	5.5%	4.5%
Deschutes	70,994	3.9%	$4,178,176	4.2%	$233,231	4.2%	5.4%	5.8%	2.8%
Douglas	45,226	2.5%	$1,887,091	1.9%	$95,929	1.7%	4.1%	5.0%	3.4%
Gilliam	835	0.0%	$34,636	0.0%	$1,891	0.0%	3.6%	15.8%	15.7%
Grant	3,148	0.2%	$120,416	0.1%	$6,857	0.1%	3.3%	0.1%	2.9%
Harney	3,077	0.2%	$100,365	0.1%	$5,314	0.1%	6.0%	9.2%	12.1%
Hood River	9,796	0.5%	$475,595	0.5%	$25,808	0.5%	5.5%	11.3%	11.9%
Jackson	89,564	4.9%	$4,229,442	4.3%	$218,761	3.9%	5.0%	1.9%	-2.3%
Jefferson	9,086	0.5%	$363,655	0.4%	$16,596	0.3%	3.6%	6.0%	2.2%
Josephine	34,682	1.9%	$1,448,833	1.5%	$71,558	1.3%	4.7%	9.1%	8.8%
Klamath	27,265	1.5%	$1,187,785	1.2%	$60,086	1.1%	3.8%	8.8%	4.0%
Lake	3,155	0.2%	$110,032	0.1%	$5,773	0.1%	3.6%	5.0%	4.1%
Lane	152,166	8.3%	$7,585,122	7.7%	$411,820	7.4%	4.4%	6.0%	2.9%
Lincoln	20,404	1.1%	$915,738	0.9%	$45,312	0.8%	4.2%	5.0%	1.2%
Linn	48,360	2.6%	$2,261,687	2.3%	$120,417	2.2%	5.5%	13.6%	14.6%
Malheur	10,383	0.6%	$371,831	0.4%	$17,671	0.3%	3.2%	6.6%	5.7%
Marion	127,742	7.0%	$6,483,177	6.6%	$348,256	6.2%	4.3%	14.2%	12.5%
Morrow	4,137	0.2%	$176,030	0.2%	$9,671	0.2%	4.4%	18.3%	24.9%
Multnomah	329,379	17.9%	$19,125,986	19.4%	$1,120,580	20.0%	5.2%	9.4%	8.7%
Polk	30,347	1.7%	$1,600,907	1.6%	$83,800	1.5%	4.8%	11.5%	10.5%
Sherman	812	0.0%	$36,585	0.0%	$2,056	0.0%	5.6%	24.7%	33.4%
Tillamook	11,355	0.6%	$501,376	0.5%	$24,460	0.4%	3.1%	6.6%	3.9%
Umatilla	28,529	1.6%	$1,229,506	1.2%	$65,583	1.2%	4.2%	13.6%	15.6%
Union	11,138	0.6%	$470,042	0.5%	$24,744	0.4%	4.5%	7.7%	8.1%
Wallowa	3,390	0.2%	$133,401	0.1%	$6,878	0.1%	5.3%	9.5%	8.1%
Wasco	10,252	0.6%	$436,302	0.4%	$21,998	0.4%	5.2%	7.8%	4.5%
Washington	227,702	12.4%	$16,241,780	16.4%	$999,470	17.8%	4.2%	16.0%	18.7%
Wheeler	566	0.0%	$17,449	0.0%	$913	0.0%	2.0%	-15.4%	-27.3%
Yamhill	39,697	2.2%	$2,188,213	2.2%	$119,666	2.1%	5.0%	7.5%	4.9%
Clark Co., Wa.	59,161	3.2%	$2,547,719	2.6%	$147,612	2.6%	1.9%	6.0%	6.3%
Other Wash.	35,615	1.9%	$1,222,087	1.2%	$82,902	1.5%	8.0%	11.0%	8.8%
California	28,302	1.5%	$954,196	1.0%	$39,290	0.7%	6.3%	4.3%	17.6%
Idaho	10,996	0.6%	$269,811	0.3%	$16,398	0.3%	3.2%	1.2%	6.4%
Other	55,237	3.0%	$1,733,654	1.8%	$110,591	2.0%	4.2%	14.2%	10.5%
Total	1,835,095	100.0%	$98,746,077	100.0%	$5,599,596	100.0%	4.5%	9.5%	8.7%

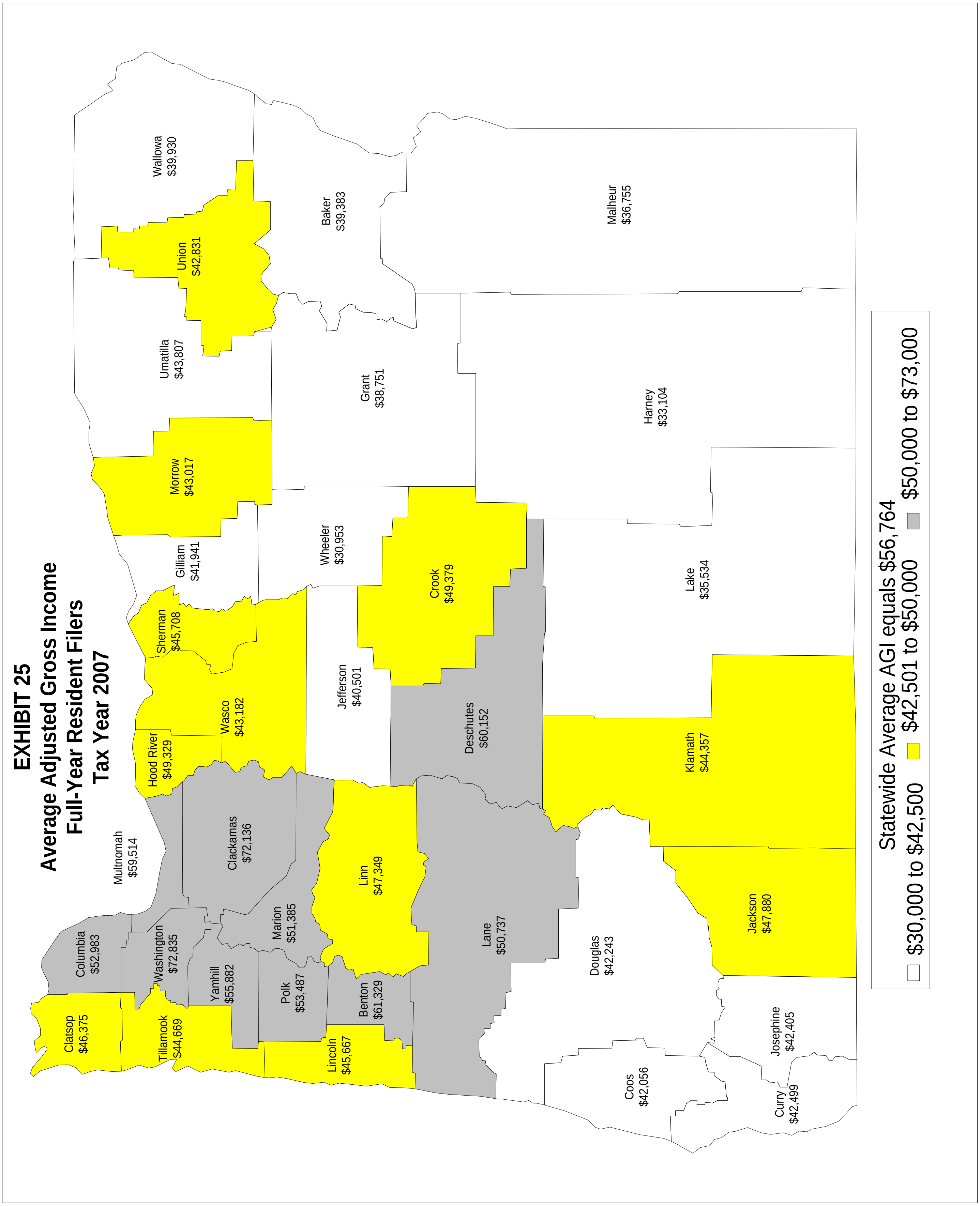


EXHIBIT 25
Average Adjusted Gross Income
Full-Year Resident Filers
Tax Year 2007
Wallowa $39,930
Union $42,831
Baker $39,383
Malheur $36,755
Umatilla $43,807
Grant $38,751
Harney $33,104
Morrow $43,017
Gilliam $41,941
Wheeler $30,953
Crook $49,379
Lake $35,534
Sherman $45,708
Wasco $43,182
Jefferson $40,501
Deschutes $60,152
Klamath $44,357
Hood River $49,329
Multnomah $59,514
Clackamas $72,136
Linn $47,349
Jackson $47,880
Columbia $52,983
Washington $72,835
Marion $51,385
Lane $50,737
Douglas $42,243
Yamhill $55,882
Polk $53,487
Benton $61,329
Josephine $42,405
Clatsop $46,375
Tillamook $44,669
Lincoln $45,667
Coos $42,056
Curry $42,499
Statewide Average AGI equals $56,764
$30,000 to $42,500
$42,501 to $50,000
$50,000 to $73,000

EXHIBIT 26
Average Tax Liability
Full-Year Resident Filers
Tax Year 2007

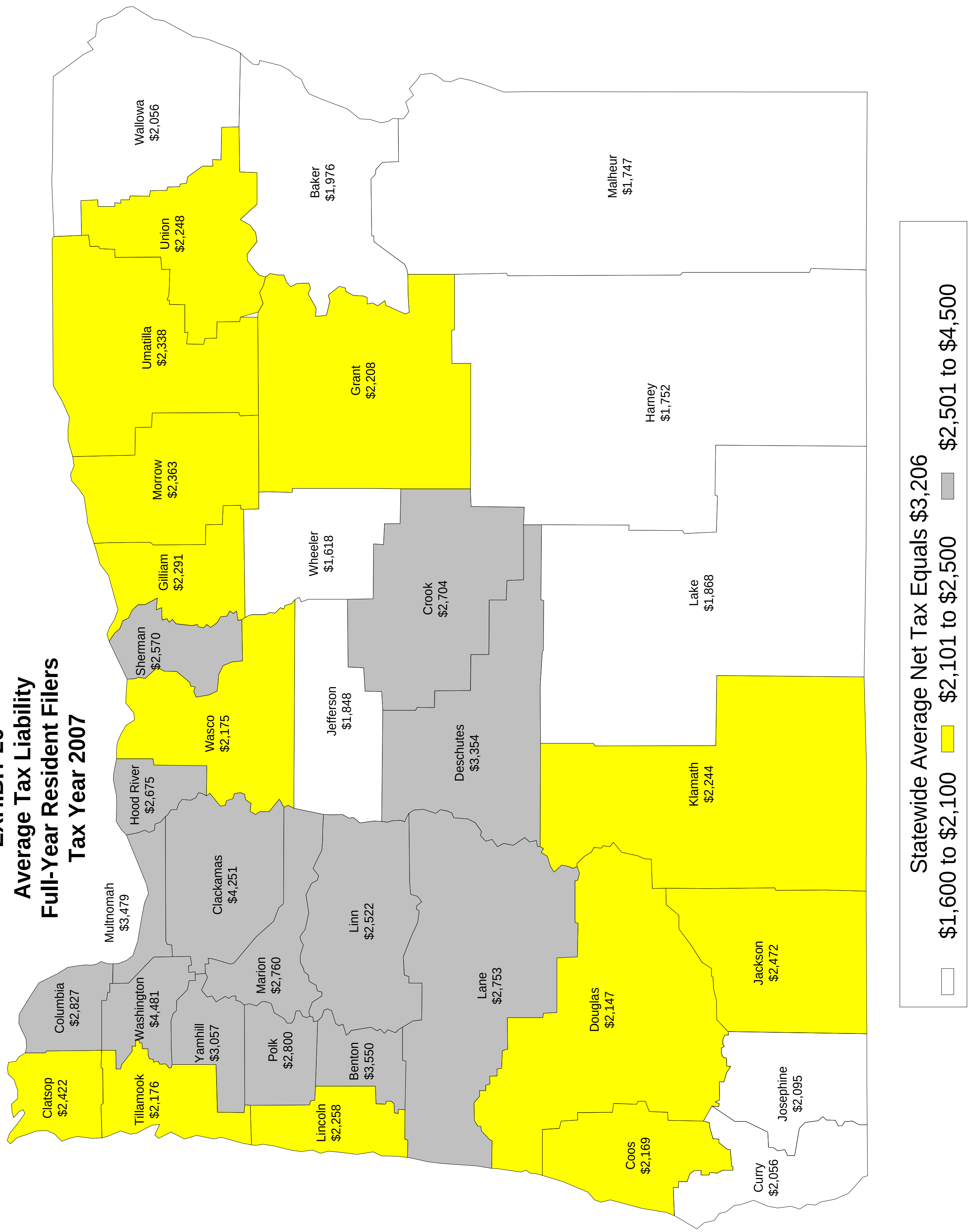
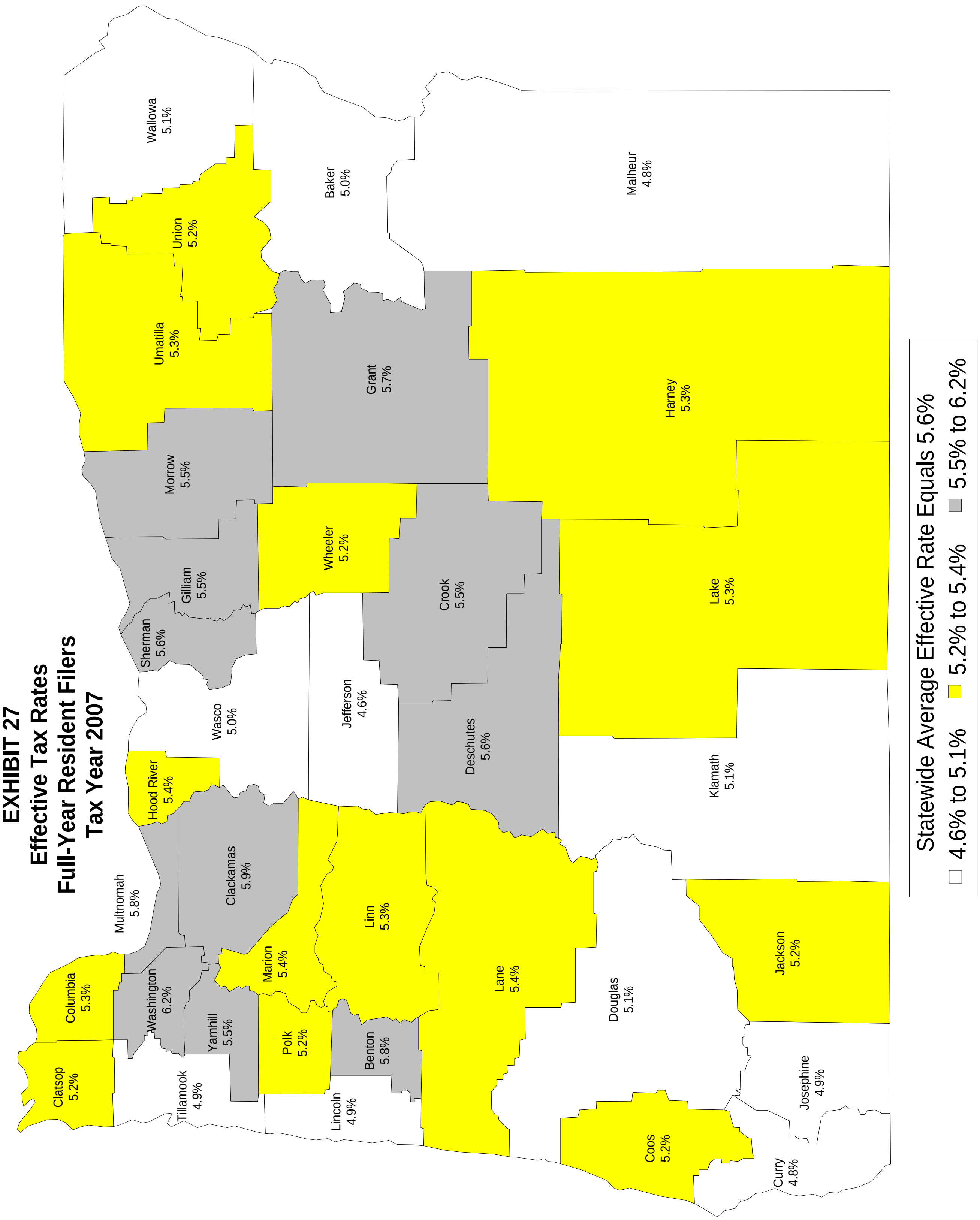


EXHIBIT 27
Effective Tax Rates
Full-Year Resident Filers
Tax Year 2007



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 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.

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 2007 income tax liability before credits, 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.

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.*

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.

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 nonrefundable 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 13 and 14 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: interest and dividend line items are grouped to form this component.
- Retirement: IRA distributions, pensions and annuities, and taxable Social Security line items are grouped to form this component.
- Miscellaneous: alimony, unemployment and other income line items, as well as income that is of an unknown source due to missing data, are grouped to form this component.

For Exhibit 14, 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 federal Forms 1040 and 1040A.

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 child care 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 2007, the exemption credit was $165. Exemption credits have been indexed for inflation since tax year 1987.

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 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 2007, 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 2007, the deduction is limited to $5,500 per return ($2,750 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 who's 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 1 or line 3.

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. If refundable credits exceed the amount of tax owed, then the taxpayer receives a refund for the balance. Refund of credit payments is not included in tax liability.

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