



Arts Education and Access Income Tax

June 2012

City of Portland Revenue Bureau
Office of Management and Finance

Background

The City of Portland, in partnership with the Creative Advocacy Network (CAN), is considering an art and music education and access funding proposal that may be referred to voters by ballot measure on November 6, 2012.¹ This funding proposal, known as the Arts Education and Access Income Tax is designed to create an equitable and predictable way to fund the arts with a low-burden to taxpayers. Money would be dispersed to Portland schools and to the Regional Arts & Culture Council (RACC) to fund the arts and art education.

Representatives from the Mayor's Office and CAN initiated discussions with the Revenue Bureau to seek advice in the administration of the Arts Education and Access Income Tax. The Revenue Bureau's initial recommendation was that the Oregon Department of Revenue (DOR) be the primary administrator of the tax because that agency already has an income tax collection infrastructure. Conversations with DOR management have resulted in that agency communicating it cannot collect this income tax at this time.

Structure

Under the proposed Arts Education and Access Income Tax, all income-earning adult residents of Portland would be subject to an annual tax in the amount of \$35. There would be an exemption available based on 100% of the Federal Poverty Level (updated annually) based on family size. "Income earning adults" would include individuals with wage (W-2) income, self-employment income, rental income, retirement income (including Social Security income), "flow-through" income from partnerships and S-corporations, investment income (interest, dividends and capital gains) or any other income.

Under the current proposal, individuals would file an annual tax return which would be due on April 15, the same time as their other income tax returns. If the Arts Education and Access Income Tax is approved by voters in the November 6, 2012 election, the tax would be effective for the 2012 tax year and the first return would be due on April 15, 2013. The return would be simple and would be no more than one page in length. There would be a simple online filing and payment option and its use would be strongly encouraged. Taxpayers would have the option of paying with a credit card and they would likely be subject to a "convenience fee" in addition to the \$35 if they use a credit card. The amount of this convenience fee would likely be less than \$1.

All adult residents would be required to file the one-page form. There would be a section of the form dedicated to claiming the "poverty level exemption" and there would be a requirement to send in verification (federal income tax returns, etc.) in lieu of the \$35 payment if claiming the exemption. If an individual is claiming that they had no income, they would sign a statement to that effect and their claim would be subject to future verification.

The proposed Arts Education and Access Income Tax would use the same residency definition that the State of Oregon uses in determining the residency of taxpayers for individual income tax purposes. If an individual is notified of a filing requirement under the proposed tax and they claim that they are not a resident of Portland, they would be required to provide verification such as a rental contract, utility bills, etc.

Taxpayers would be offered two payment options. The first option would be to pay the entire balance due (\$35) by April 15. The second option would be to pay \$18 by April 15 and then pay a second installment of \$18 by May 15. There would be no extension of time to file or pay. If a resident's federal and Oregon tax returns have a filing deadline extension until October 15, they can request an extension of time to provide

¹ CAN is a non-profit organization established to research and support funding and access to arts education and the arts in the Portland area. See <http://theartscan.org/>.

supporting documentation. If a resident pays the \$35 fee in error, they can request a refund of the overpaid amount.

As with any income tax, penalties would need to be used as a tool to encourage compliance. An example of an appropriate penalty structure would be to add a \$15 penalty if the tax is paid after the April 15 due date and then to add a \$20 penalty if the return is more than six months late. There would be policies in place to waive penalties in certain limited circumstances.

Figure 1. Payment Options

Proposed Payment Options for the Arts Education and Access Income Tax	
\$35	Tax if paid by April 15
\$36	\$18 paid by April 15 and remaining \$18 paid by May 15 (\$35 tax plus \$1 charge)
\$50	Includes \$15 penalty if paid from April 16 to October 15
\$70	Includes additional \$20 penalty if paid after October 15
\$0	Adults (18 and over) under the poverty level
\$0	Adults with no income
\$0	Residents under 18 years of age

Projected Revenue

In order to project the revenue that would be generated by the proposed Arts Education and Access Income Tax, the population of Portland must first be analyzed. Based on Census Bureau data, in 2010 there were approximately 398,582 individuals that would have been responsible for paying the tax. See the table below for a summary of eligible taxpayers.

Figure 2. Estimated Eligible Residents in Portland²

2010 US Census & American Community Survey	
583,776	City of Portland residents
472,253	Adult (18 and over) residents
73,671	Adults under the poverty level (15.6% of 18 and over pop.)
398,582	Estimated Eligible Residents in Portland

Based on the 2010 figures and more recent census figures and projections, the total Portland population can be estimated for the first five years of the tax (2013 through 2017). See the table below.

Figure 3. Estimated/Projected Total City of Portland Population 2010-2017³

Year	2010	2011	2012	2013	2014	2015	2016	2017
Total Population	583,776	585,845	590,415	595,964	602,341	603,046	610,403	618,094

² Source: <http://censusviewer.com/city/OR/Portland>, American Community Survey

³ Sources: www.pdx.edu/prc/population-estimates-0 (March 2012: 2011 Annual Population Report Tables) www.oea.das.state.or.us/DAS/OEA/docs/economic/appendixc.pdf (Page 106)

Based on the 2010 US Census figures, 68.28% of all Portland Residents would be subject to the \$35 tax (398,582 eligible residents out of 583,776 total residents per Figure 2). This 68.28% figure can be used to estimate the number of eligible taxpayers in future years as the poverty guidelines demonstrate that this figure has been relatively stable over time.⁴ See the table below for projected eligibility and revenue over time.

Figure 4. Projected Total (After Full Collection Cycle) Gross Revenue by Tax Year 2012-2016⁵

Year	2012	2013	2014	2015	2016
Estimated Total Population	590,415	595,964	602,341	603,046	610,403
Eligible %	68.28%	68.28%	68.28%	68.28%	68.28%
Eligible Taxpayers	403,110	406,899	411,253	411,734	416,757
Compliance Rate ⁶	85%	87%	89.70%	89.70%	89.70%
Actual Taxpayers	342,643	354,002	368,894	369,325	373,831
Tax Amount	\$35	\$35	\$35	\$35	\$35
Revenue	\$11,992,516	\$12,390,074	\$12,911,282	\$12,926,388	\$13,084,090

Bureau experience with the Multnomah County Personal Income Tax (ITAX), administered by the Revenue Bureau from 2003-2010, has indicated that the first year of a tax will have a lower initial and terminal compliance rate than subsequent years; the percentage of total payments for the 2012 tax year that are deposited by April 15, 2013 will be lower than the percentage of tax year 2013 payments that are deposited prior to April 15, 2014. This difference will be much greater than the terminal compliance rate difference of 2%.⁷ This is due to the fact that there is normally initial confusion regarding filing requirements and that it takes some time for enforcement mechanisms to compel non-filers to come into compliance. In addition to a tax year analysis, an “actual deposits by fiscal year” analysis is important.

Based on experience administering the ITAX, we believe that 75% of the estimated potential revenue of \$11,992,516 will be received during the fiscal year ended (FYE) June 30, 2013. About 20% of the \$11,992,516 will be received during FYE June 30, 2014 and the remaining 5% will be received during FYE June 30, 2015.

Also based on ITAX administration experience, we believe that all tax years subsequent to the first tax year will be collected sooner than the first year. We believe that 85% of the estimated potential revenue (\$12,390,074 for the 2013 tax year, \$12,911,282 for the 2014 tax year, etc.) will be collected by June 30 of the following year. We then estimate that 10% will be collected by the end of the next June 30 and then the remaining 5% would be collected by the next June 30.

For example, a total of \$12,926,388 is estimated to be collected for the 2015 tax year (Figure 4). The tax return will be due on April 15, 2016. We expect 85% of the \$12,926,388 (\$10,987,430) to be received by

⁴ Likewise, research indicates that the percentage of Portland’s population that is 18 or over has historically been a relatively constant figure (based on Multnomah County census information). Source: www.pdx.edu/prc/population-estimates-0. An assumption has been made that this will continue into the future.

⁵ Estimated revenues in this table and elsewhere in this document are not guaranteed revenues, but rather, represent the Bureau’s best effort at modeling a flat, capped income tax without any known comparable jurisdiction to benchmark against.

⁶ The estimated compliance rate of the Arts Education and Access Income Tax is modeled on past Revenue Bureau experience administering the temporary Multnomah County Personal Income Tax (2003-2005 tax years). After considering a range of factors, the Bureau estimates the compliance rate of the Arts Education and Access Income Tax will likely be about 2 percentage points below the final compliance rates of the 2003-2005 tax.

⁷ Ibid.

June 30, 2016. We expect 10% of the \$12,926,388 (\$1,292,639) to be received by June 30, 2017. We expect 5% of the \$12,926,388 (\$646,319) to be received by June 30, 2018.

Based on these assumptions, the cash flow in the first five years of the program can be projected (Figure 5).

Figure 5. Projected Gross Revenue by Fiscal Year FYE 6/30/13-6/30/17

Year	FYE 6/30/13	FYE 6/30/14	FYE 6/30/15	FYE 6/30/16	FYE 6/30/17
Gross Revenue	\$8,994,387	\$12,930,066	\$12,813,223	\$12,898,062	\$13,059,680

Projected Cost

The Revenue Bureau has formulated cost estimates based on information specific to the proposed Arts Education and Access Income Tax based on experience in administering new and existing tax programs with features similar to the Arts Education and Access Income Tax. The Revenue Bureau estimates that the annual ongoing cost to the City of Portland to administer this program will be \$525,000. This amount will increase with inflation (principally personnel costs) and applicable General Fund Overhead Charges over time.

Additionally, the Revenue Bureau estimates that there will be a one-time cost in the first year of the program in the amount of \$500,000 to mail materials to all Portland households and modify the ITAX database to administer this tax. The ongoing annual cost estimate includes hiring 4.5 FTE to administer the program. The total estimated cost in the first year of the program is \$762,500 (\$500,000 plus one half of \$525,000). The ongoing costs in the first year will be approximately 50% of the calculated amount (Figure 7) as the tax will not have any significant costs prior to the November election results.

Figure 6. One-time (First-year) Costs

Total External Material & Services	\$105,000
Total Internal Materials and Services	\$395,000
Total One-time (First-year) Costs	\$500,000

Figure 7. Annual (Ongoing) Costs – Unadjusted for Inflation or General Fund Overhead Charges

Total Personnel	\$366,382
Total External Material & Services	\$31,225
Total Internal Materials and Services	\$127,393
General Fund Overhead Charges ⁸	Variable
Total Annual (Ongoing) Costs	\$525,000

Net Revenue Projection

When the revenues and costs are examined together and compared to the 5% planned “ceiling” for the program’s administration costs, it is clear that the costs will exceed 5% of revenues in the first year of the

⁸ E-mail from Sara Lowe, Financial Analyst, to Andrew Scott, Financial Planning Division Manager, 29 May 2012. “General Fund Overhead projections [will] increase costs in FY 2012-13 by \$11,700, FY 2013-14 by \$20,700, and FY 2014-15 by \$24,600.” In conversations subsequent to this e-mail, the FPD Manager indicated that first year overhead costs will probably be zero because the models and rates have already been set by City Council ordinance. For purposes of the chart the most conservative, final/full estimate is used. Actual costs will vary.

program. In the second year and in each subsequent year, the costs will be under 5% of the revenues. See Figure 8 below.

Figure 8. Combined Deposits and Costs over the First Five Fiscal Years (Ended June 30) of the Arts Education and Access Income Tax (Table)

Year	FYE 6/30/13	FYE 6/30/14	FYE 6/30/15	FYE 6/30/16	FYE 6/30/17
Projected Cost (Adjusted by CPI and General Fund Overhead)	\$762,500	\$551,400	\$574,972	\$589,957	\$600,134
Projected Gross Revenues	\$8,994,387	\$12,930,066	\$12,813,223	\$12,898,062	\$13,059,680
Projected Net Revenues (Reduced by Projected Costs)	\$8,231,887	\$12,378,666	\$12,238,251	\$12,308,105	\$12,459,546
5% of Projected Gross Revenues	\$449,719	\$646,503	\$640,661	\$644,903	\$652,984
Gap Between Projected Gross Revenues and 5% of Gross Revenues	-\$312,781	\$95,103	\$65,689	\$54,946	\$52,850
Costs as a Percentage of Projected Gross Revenues	8.5%	4.3%	4.5%	4.6%	4.6%

Figure 9. Combined Revenue and Cost over the First Five Fiscal Years of the Arts Education and Access Income Tax (Chart)

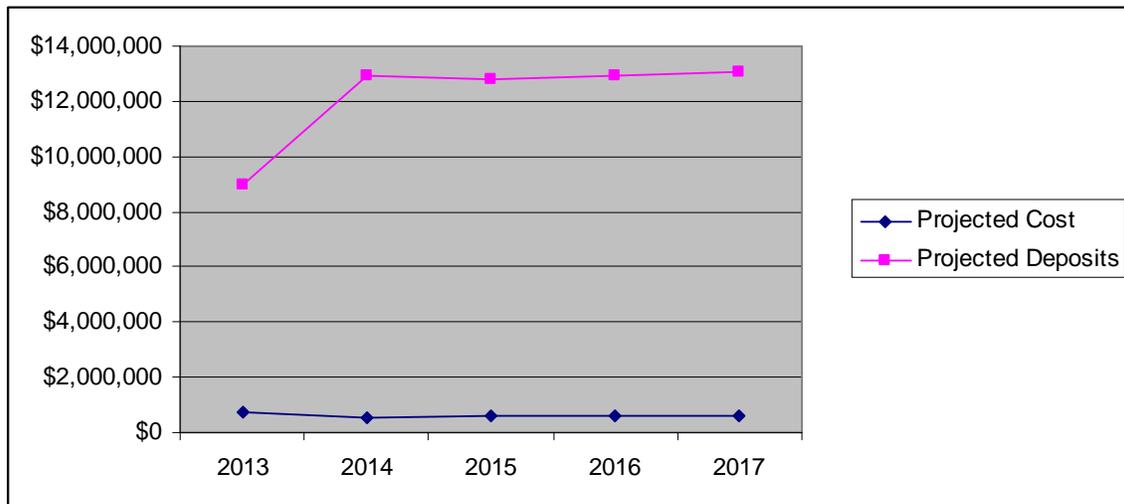
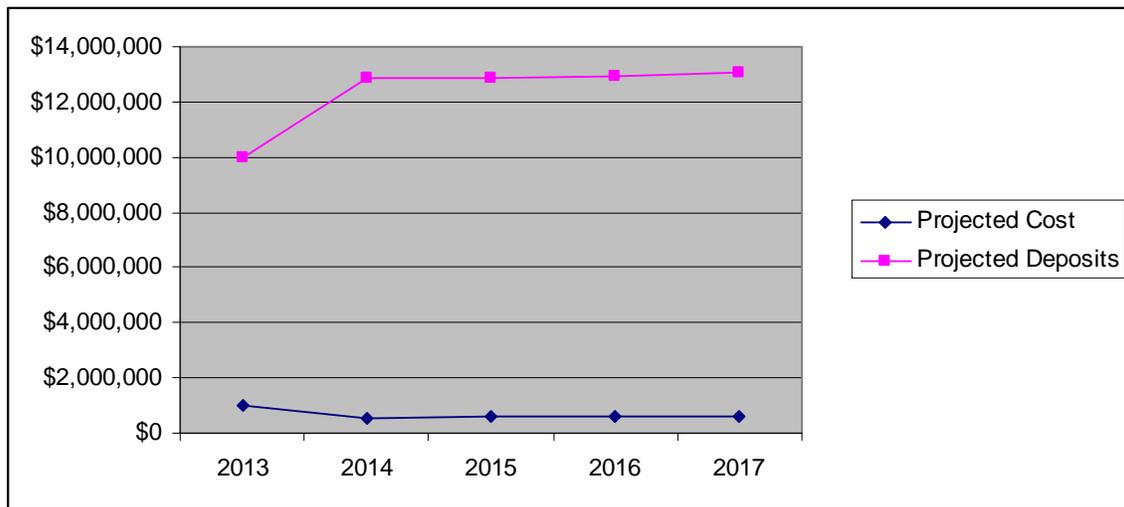


Figure 10. Combined Deposits and Costs over the First Five Calendar Years (Ended December 31) of the Arts Education and Access Income Tax (Table)

Year	YE 12/31/13	YE 12/31/14	YE 12/31/15	YE 12/31/16	YE 12/31/17
Projected Cost (Adjusted by CPI and General Fund Overhead)	\$1,025,000	\$551,400	\$574,972	\$589,957	\$600,134
Projected Gross Revenues	\$9,953,788	\$12,830,019	\$12,847,235	\$12,909,242	\$13,067,867
Projected Net Deposits (Reduced by Projected Costs)	\$8,928,788	\$12,278,619	\$12,272,263	\$12,319,284	\$12,467,733
5% of Projected Total Deposits	\$497,689	\$641,501	\$642,362	\$645,462	\$653,393
Gap Between Projected Gross Revenues and 5% of Gross Revenues	-\$527,311	\$90,101	\$67,390	\$55,505	\$53,260
Projected Costs as a Percentage of Projected Total Deposits	10.3%	4.3%	4.5%	4.6%	4.6%

Figure 11. Combined Revenue and Cost over the First Five Calendar Years of the Arts Education and Access Income Tax (Chart)



Compliance Rate and Other Assumptions

One key assumption in this document is the compliance rate. The Revenue Bureau was the administrator of the County ITAX passed by voters for the 2003, 2004 and 2005 tax years⁹. The terminal compliance rate for the three years of the ITAX was 87% (2003), 89% (2004) and 91.7% (2005). These compliance rates were used as a point of reference in formulating an estimated compliance rate for the Arts Education and Access Income Tax. Based on differences in the programs, including the available collection tools and the amount of the tax, an assumption was made that the compliance rate for the proposed tax would be two percentage points lower than the ITAX compliance rate. An assumption was also made that the compliance rate would reach its maximum after three years at the 89.7% level.¹⁰

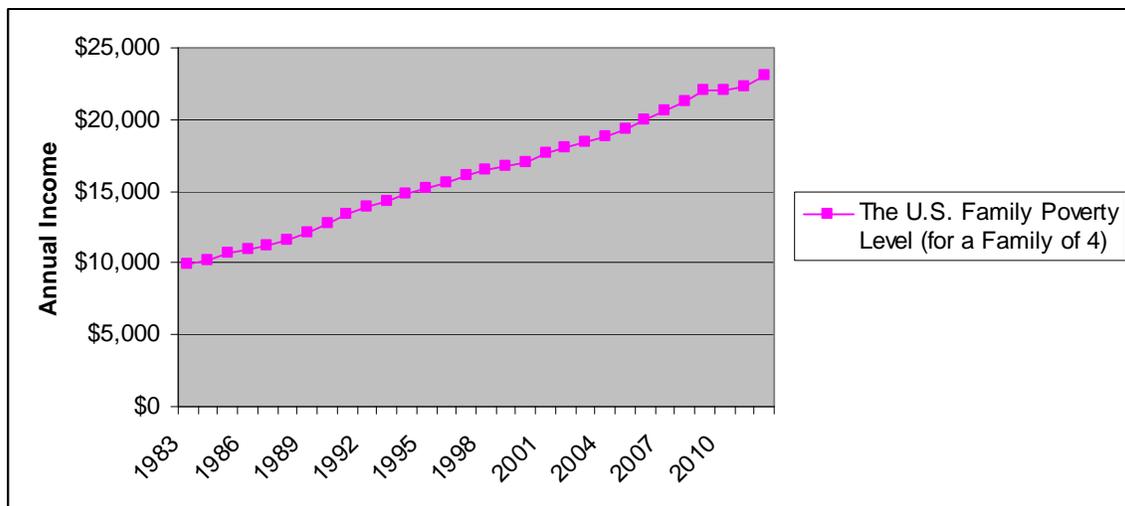
⁹ The three-year (2003, 2004 and 2005) Multnomah County Personal Income Tax (ITAX) was passed by Multnomah County voters in May of 2003. In the November 2004 Multnomah County election, a ballot measure to repeal the ITAX for the 2004 and 2005 tax years was defeated.

¹⁰ This compliance rate assumption is also thought reasonable given data published by the Oregon Department of Revenue and the U.S. Internal Revenue Service.

An assumption that relates to the compliance rate assumption is the inventory of enforcement tools that will be available during the administration of the proposed tax. The Revenue Bureau expects to have access to Portland voter registration records and Oregon Department of Motor Vehicles records. The Revenue Bureau also expects to have limited access to Internal Revenue Service (IRS) records for use to verify income amounts and other relevant information reported on the taxpayer's federal Form 1040.

Another assumption relates to the "poverty level exemption." The assumption was made that this level would not dramatically fluctuate and would increase at a fairly steady and predictable rate going into the future. The assumption was based on historical data. The U.S. Family Poverty Level (Figure 12) has had substantially a linear increase from 1983 to 2012. It has mirrored the U.S. CPI over those same years as the U.S. Family Poverty Level changes are based on the U.S. CPI.¹¹

Figure 12. The U.S. Family Poverty Level from 1983 to 2012¹²



An assumption was also made regarding the marketing of the program. To maximize the success of the program, steps must be taken to ensure that residents are aware of the filing requirement and the procedure to file. There should be advertising, press releases, mailings to residents and other outreach efforts. There should also be a well-branded and easily found website and this website should walk people through the filing process and answer any questions about the tax in general as well as the specific filing requirements. As alluded to earlier, a critical component to the success of this program is to offer and encourage a simple online filing and payment option.¹³

The effective administration of this tax needs to be based on the general rule that all residents of Portland will be presumed to be subject to the tax until records are available or can be provided that verify that they are not subject to the tax. Once a potential non-filing resident is identified using one of the available compliance tools, the burden of proof should then shift to the resident when determining whether or not they have a tax obligation.

¹¹ Per the Bureau of Labor Statistics CPI Inflation Calculator at www.bls.gov/data/inflation_calculator.htm

¹² Source: <http://aspe.hhs.gov/poverty/figures-fed-reg.shtml>

¹³ Per www.irs.gov/newsroom/article/0,,id=231381,00.html, IRS electronic filing (e-file) is used by approximately 70% of taxpayers. 25% of taxpayers e-file from their home computer (using tax preparation software such as TurboTax) and 45% of taxpayers e-file using a paid tax preparer's tax preparation software.

The revenue projections in this document are in part based on assumptions. For example, there will be a number of taxpayers that have no income that will file a joint return with a spouse that does have income. In these cases, there would only be one person subject to the \$35 tax. With the information available, it is impossible to predict with any degree of certainty how many taxpayers will fall into this fact pattern. This type of exempt individual will be fairly rare in our estimation, but we recognize that there will be an adverse impact to the overall revenue when these individuals are considered.

There are also a significant number of adults who live with their parents (or are away at college) and who do not have any income. They also would be exempt from the tax, but it is difficult to determine the number of individuals that would fit into this category. We have assumed that the number of these individuals is relatively small.

Appendix A – Draft Contents of Tax Form

- Taxpayer name
- Social Security number
- Address (residence and mailing)
- Phone/contact info (name, date, signature)
- Request for payment plan
- Online filing instructions
- Instructions for claiming exemption (tax return, etc. to verify no income/poverty level)
- Information regarding policy, procedures, etc.
- Names, social security numbers and years of birth of dependent children

Appendix B – Possible Supporting Documents for Poverty Level Exemption

- Federal income tax return
- Free or reduced lunch approval documents
- Oregon Trail Card
- Federal Form W-2s
- Medicaid qualification documents

Appendix C – Proposed Administration/Collection Timeline

11/6/2012	Election Day
1/15/2013	Informational mailer (with payment coupon, online filing instructions, etc.) sent to all Portland households
4/15/2013	2012 tax year filing deadline
5/15/2013	Second payment of \$18 due (if payment plan option is chosen)
6/15/2013	First “non-filer” letter mailed
8/15/2013	\$50 (\$35 plus \$15 penalty) billed to non-responders
9/15/2013	\$50 billed to non-responders (second notice)
11/15/2013	Final notice of \$70 billed (\$50 plus \$20 penalty)
1/15/2014	\$70 balance due forwarded to collection agency
4/15/2014	2013 tax year filing deadline

Appendix D – Outreach Examples

- Informational mailer
- Reminder postcard
- Earned media (press releases, etc.)
- Websites (City, CAN, etc.)
- Social media
- Emails
- Tax return preparers
- Curbsider newsletter
- Water bill insert
- Tax forms, etc. at post offices and libraries

Appendix E – Estimated Cost Breakdown of First-year Mailing Projects

Informational mailer (one-page) to 244,803 households = \$123,000

Postcard mailer/reminder to 244,803 households = \$79,000

If one informational mailer and three postcard mailers were done in the first year of the tax, total estimated (one-time) costs for mailers is \$360,000

Appendix F – Workload Information

The 4.5 FTE for this program will provide data entry, customer service and collection services. As with any tax system, there will be peak and reduced workload times for the program, which requires the Revenue Bureau to shift internal resources between programs to meet demands. For example, during peak call periods, as many as 10 staff, some from other program areas, could be assigned to handle the volume. Overall, the workload requirements of the Arts Tax equates to 4.5 FTE.

Projected Workload Estimates:

Telephone Calls	16,000 annually
Emails	5,000 annually
Documents	220,000 annually
Poverty/Family verifications	33,000 annually

Audit workload will include identifying non-filing taxpayers through data-matching with various government records.

Appendix G – United States Department of Health and Human Services 2012 Poverty Guidelines

2012 Poverty Guidelines for the 48 Contiguous States and the District of Columbia ¹⁴	
Persons in family/household	Poverty guideline
1	\$11,170
2	15,130
3	19,090
4	23,050
5	27,010
6	30,970
7	34,930
8	38,890

For families/households with more than 8 persons, add \$3,960 for each additional person.

Appendix H – Potential Compliance Tools

- Department of Motor Vehicles (DMV) data
- Voter registration data
- Water billing data
- Existing City of Portland mailing lists
- Oregon Department of Revenue (DOR) data
- Internal Revenue Service (IRS) data

¹⁴ Source: <http://aspe.hhs.gov/poverty/12fedreg.shtml>

Appendix I – Conceptual Model of Taxfiler Identification Methods

The outer double-lined box represents the total population of non-exempt residents; inner boxes represent various means used to identify them.

<p style="text-align: center;">“Voluntary filers” (voluntary compliance)</p>		Remaining non-filers (estimated at about 10.3%)
		DOR and IRS data
		Water billing data
DMV data	Voter registration data	Existing City of Portland mailing lists

Appendix J – Clarifying Examples of Exemptions

Example 1. Joint taxfilers with sole wage earner and no other income

One spouse earns \$100,000 in wages. The other spouse has no income whatsoever. There are no joint incomes earned by both spouses. The household income is not at or below the federal poverty guidelines. The \$35 tax is imposed upon the single income earner.

Example 2. Joint taxfilers with sole wage earner and joint income

One spouse earns \$100,000 in wages. A jointly held savings account earns \$50 in interest. Both spouses are deemed “income earning residents”. The household income is not at or below the federal poverty guidelines. The \$35 tax is imposed upon each spouse for a total of \$70.

Example 3. Dependent student 18 years and over

This household is not at or below the poverty level. A dependent student, age 19, attends college outside of Portland. The student returns annually to Portland and earns some income from a part-time summer job. The student has maintained residency status in Portland and has income. The student owes a \$35 tax despite being a dependent for federal and state tax purposes. This is in addition to the tax that may be imposed upon the parents of the student.

TOTAL ANNUAL TAXES DUE

Example 1 (Joint taxfilers with single income)	\$35
Example 2 (Joint taxfilers with joint income)	\$70
Example 3 (Joint taxfilers with joint income plus liable student)	\$105

CONDITIONAL DECISION MATRIX

1. Is income earned (including joint incomes)? If not, no tax is due.

2. Is household income (for the entire household) less than federal poverty guidelines? If less than federal poverty guidelines, no tax is due.
3. Is the taxpayer a legal resident of Portland? If not, no tax is due.
4. If none of the three conditions above are met for exemption from tax, tax is due.