

Arts Education and Access Income Tax Tax Year 2012 Compliance, Collections, Disbursements & Costs April 2014

City of Portland Revenue Bureau Office of Management and Finance

Background

On November 6, 2012, voters passed Ballot Measure 26-146, the Arts Education and Access Income Tax (Arts Tax) with over 62% of the vote. As a result, a program was created at the Revenue Bureau (Bureau) to collect Arts Tax revenues. The broad goals of the ballot measure were to fund arts education positions in Portland schools, provide grant funding to non-profits and schools in support of the arts and increase access to the arts. On February 25, 2013, the Bureau began collecting Arts Tax payments for Tax Year 2012.

This document provides a status update on Tax Year 2012 Arts Tax compliance rates, tax collections, tax disbursements and program expenses for taxes that were due on June 10, 2013.

Summary

- Tax Year 2012 taxpayer compliance rates are in line with the last forecasted rates
- Tax Year 2012 revenues are in line with the last forecasted revenues
- 87% of tax receipts were distributed or are available for distribution to Portland school districts and the Regional Arts and Culture Council (RACC); this percentage is expected to rise to about 94% for Tax Year 2013
- The Bureau's collection and one-time start-up costs are under the 5% cost cap and below budget

Taxpayer Compliance Rates

Table 1 illustrates estimated taxpayer compliance rates for Tax Year 2012.

Table 1. Tax Year 2012 Estimated Payment Compliance Rates²

Description	Amount
1. Original Number of Eligible Taxpayers ³	403,110
2. Number of Eligible Taxpayers No Longer Subject to the Tax After Legal Changes ⁴	42,017 to 70,588
3. Number of Eligible Taxpayers Subject to the \$35 Tax After Legal Changes to the Arts Tax	332,522 to 361,093
4. Number of Tax Year 2012 Individuals Filed and Paid In Full as of February 28, 2014 ⁵	224,575
5. Estimated Tax Year 2012 Payment Compliance Rate as of February 28, 2014	62% to 68%
6. Original Taxpayer Compliance Projection Through June 30, 2013 ⁶	63.75% ⁷

¹ Multnomah County General Elections Results, November 2012, http://web.multco.us/elections/november-2012-general-election-results.

The Bureau expects an increase in voluntary compliance when Arts Tax forms are available in tax preparer software (e.g., TurboTax), as early as Tax Year 2014. The IRS reports that more than 80% of taxpayers file electronically.

³ Revenue Bureau, *Arts Education and Access Income Tax Program Administration*, June 2012, figure 4, http://www.portlandoregon.gov/revenue/article/486526.

Revenue Bureau, *City Council Work Session: Arts Education and Access Income Tax,* July 24, 2013, slide 4, http://www.portlandoregon.gov/revenue/article/486527. \$1.25 million in reduced revenue represents 35,714 taxpayers at \$35 per taxpayer. The \$1.25 million had been reduced to reflect the 85% assumed terminal compliance rate so the actual decrease in the number of taxpayers, when compared to the 403,110 on line 1 of Table 1, is 42,017 (35,714/85%). \$2.1 million/\$35 tax = 60,000 taxpayers. 60,000/85% = 70,588 taxpayers.

⁵ The Bureau selected February 28, 2014 because the end of an accounting period is a widely accepted, uniform metric for financial reporting and analysis.

⁶ Revenue Bureau, *Arts Education and Access Income Tax Program Administration*, June 2012, 4, http://www.portlandoregon.gov/revenue/article/486526.

⁷ Ibid. The original taxpayer compliance projection is calculated by multiplying the terminal compliance rate of 85% (percentage of all eligible taxpayers who will have paid by June 30, 2015) by the 75% compliance rate for June 30, 2013 (85% x 75% = 63.75%).

Tax Year 2012 Revenue Projections vs. Actual Collections

Before the passage of the Arts Tax, the Bureau prepared estimates of the amount and timing of revenues and costs related to the administration of the program. In the absence of any comparable program in another jurisdiction, the Bureau modeled projected revenues based on experience administering the 2003-2005 Multnomah County Personal Income Tax, U.S. Census Bureau statistics, and tax filing statistics published by the U.S. Internal Revenue Service (IRS) and the Oregon Department of Revenue (DOR). The IRS estimates the voluntary compliance rate for federal personal income taxes is 83.1%, rising to 85.5% after enforcement action.⁸ The DOR has published a similar finding. No income tax collection program collects all taxes owed.

Table 2 summarizes the revenue projections from the Bureau-prepared program document⁹ included with Portland City Council Resolution 36939, which referred the Arts Tax to the November 2012 ballot. In June 2012, the Bureau estimated \$12 million in collections for Tax Year 2012 after terminal compliance, ¹⁰ which is the compliance rate after a full two-year cycle of collection activity. ¹¹ The initial June 2012 projection of \$12 million was the estimated sum of all Tax Year 2012 collections received through June 30, 2015. In July 2013, the June 2012 estimates were revised downward (by a range of \$1.25 to \$2.1 million¹²) due to changes made to the tax after its passage, including raising the income threshold to \$1,000¹³ and not taxing Social Security and other sources of income.

Table 2. Projected Tax Year 2012 Revenue

Description	Collected by June 30, 2013	Collected by June 30, 2014	Collected by June 30, 2015
Estimated Percentage of Tax Year 2012 Projected Revenue Collected, by Year of Collection ¹⁴	75%	95%	100%
2. June 2012 Projected Total Gross Revenue for Tax Year 2012, by Year of Collection ¹⁵	\$8,994,387	\$11,392,890	\$11,992,516
3. July 2013 Estimated Revenue Reduction Resulting from Legal Changes to the Arts Tax ¹⁶		\$1.25 to \$2.1 million	
4. July 2013 Adjusted Projected Total Gross Revenue for Tax Year 2012, by Year of Collection ¹⁷ (row 2 minus row 3)	\$6,894,387 to \$7,744,387	\$9,292,890 to \$10,142,890	\$9,892,516 to \$10,742,516
5. Actual Receipts	\$7,835,082	Pending (\$8,039,413 as of February 28, 2014)	Pending

⁸ U.S. Internal Revenue Service, *IRS Releases New Tax Gap Estimates; Compliance Rates Remain Statistically Unchanged From Previous Study*, January 6, 2012, http://www.irs.gov/uac/IRS-Releases-New-Tax-Gap-Estimates;-Compliance-Rates-Remain-Statistically-Unchanged-From-Previous-Study.

⁹ Revenue Bureau, *Arts Education and Access Income Tax Program Administration*, June 2012, figure 4, and four paragraphs beneath figure 4, http://www.portlandoregon.gov/revenue/article/486526.

¹⁰ Ibid.

¹¹ Revenue Bureau, *City Council Work Session: Arts Education and Access Income Tax*, July 24, 2013, slide 4, http://www.portlandoregon.gov/revenue/article/486527.

¹² lbid.

¹³ City of Portland, *Arts Education and Access Income Tax Impact Analysis: Excluding Income under \$1,000*, March 2013, 2, http://www.portlandoregon.gov/revenue/article/486764.

¹⁴ Revenue Bureau, *Arts Education and Access Income Tax Program Administration*, June 2012, 4, http://www.portlandoregon.gov/revenue/article/486526.

¹⁵ Revenue Bureau, *Arts Education and Access Income Tax Program Administration*, June 2012, figure 4, http://www.portlandoregon.gov/revenue/article/486526.

¹⁶ Revenue Bureau, *City Council Work Session: Arts Education and Access Income Tax*, July 24, 2013, slide 4, http://www.portlandoregon.gov/revenue/article/486527.

¹⁷ Ibid.

Tax Year 2012 Arts Education and Access Fund Distribution

All Arts Tax revenues were deposited to the Arts Education and Access Fund for distribution by the City in accordance with PCC 5.73.030.18 Net Revenues are available for distribution to the schools and arts organizations. Net Revenues are defined by City Code as the revenue remaining after interest, collection, administrative and other costs and refunds are deducted from Gross Revenues. First, funds are distributed to the school districts for the purpose of hiring certified arts or music education teachers for elementary school students for Kindergarten through 5th grade (K-5).19 Any funds remaining *after* distribution to the school districts are distributed to RACC. Table 3 provides an accounting of collections and costs, disbursements and available funds, including the percentage each component accounts for of the total gross tax collections as of February 28, 2014.

Table 3. Tax Year 2012 Arts Tax Collections, Costs and Disbursements²⁰

Description	Amount	Percentage
Collections and Costs		
Gross Tax Collections	\$8,039,413	100.00%
Refunds to Taxpayers	(\$73,473)	0.90%
Net Tax Collections	\$7,965,940	
Credit Card Fees (net)	(\$16,872)	0.20%
One-time Start-up Costs	(\$589,085)	7.30%
Revenue Bureau Collections Costs	(\$360,285)	4.50%
	(\$966,242)	12.00%
Net Revenues (PCC 5.73.010 E) <u>Disbursements</u>	\$6,999,698	
Centennial School District	\$539,956	6.70%
David Douglas School District (DDSD)	\$947,256	
DDSD Charter School (1)	\$17,861	
	\$965,118	12.00%
Parkrose School District	\$294,264	3.70%
Portland Public Schools (PPS)	\$4,408,990	
PPS Charter Schools (6)	\$103,249	
	\$4,512,239	56.10%
Reynolds School District	\$357,942	4.50%
Riverdale School District	\$40,429	0.50%
Total School Disbursements	\$6,709,947	83.50%
Regional Arts & Culture Council	\$200,000	2.50%
Disbursements to Date ²¹	\$6,909,947	86.00%
Net Revenues Less Disbursements	\$89,751	1.10%
Interest Earnings on Arts Education and Access Fund	\$22,276	
Available Funds	\$112,027	

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¹⁸ Online Charter and Code of the City of Portland, Oregon, Chapter 5.73.030, *Net Revenues Distribution*, December 5, 2012, http://www.portlandonline.com/auditor/index.cfm?c=60467#cid 424624.

¹⁹ For a more detailed description of distribution ratios and school/school district guidelines and calculations: Chapter 5.73.030, *Net Revenues Distribution*, December 5, 2012, http://www.portlandonline.com/auditor/index.cfm?c=60467#cid_424624 or the Revenue Bureau website, *Arts Tax revenue distribution*: http://www.portlandoregon.gov/revenue/60079.

²⁰ Columns may not total correctly due to rounding.

²¹ Disbursements to date total \$6,909,947, which is 86% of gross tax collections. Were it not for first-time costs of \$589,085, nearly \$7.5 million would have been disbursed (93.3% of gross tax collections), which would have increased the RACC disbursement to \$789,085.

Arts Tax Administrative Cost Cap

In accordance with Ballot Measure 26-146²² and PCC 5.73.090,²³ as amended, Arts Tax administrative costs cannot exceed an average of five percent (5%) of the program's gross revenues over a five year period, and one-time start-up costs cannot exceed \$600,000. Table 4 shows that based on gross revenue and collection expenses for Tax Year 2012, the Bureau's administrative costs are currently under the cap. Start-up expenses are also under budget, at \$589,085.

Table 4. Tax Year 2012 Arts Tax Administrative Cost Cap

Description	Amount
1. Gross Revenue for Tax Year 2012 as of February 28, 2014	\$8,039,413
2. Revenue Bureau Collection Expenses for the 2012 Tax Year as of February 28, 2014	\$360,285
3. Ongoing expenses as a percentage of gross receipts (row 2 divided by row 1)	4.5%

²² Ballot Measure 26-146: Restore School Arts, Music Education: Fund Arts Through Limited Tax, 2012: http://web.multco.us/sites/default/files/elections/documents/26-146_vp_nov_12.pdf.

²³ Online Charter and Code of the City of Portland, Oregon, Chapter 5.73.090, *Limitation on Costs*, May 3, 2013, http://www.portlandonline.com/auditor/index.cfm?c=60467#cid 450104.