Jeremy Rogers. Oregon Business Council. Project Manager, Oregon Business Plan
Testimony before the Oregon House Committee on Revenue. March 10, 2011

Co-Chair Berger, Co-Chair Barnhart, members of the Revenue Committee. Thank you for the opportunity to testify before you. The work of the Revenue Committee is fundamental to Oregon's ability to both create jobs and to fund quality public services that Oregonians need and value.

My name is Jeremy Rogers, and I am the Project Director for the Oregon Business Council. The Oregon Business Council is an association of roughly 45 CEOs from companies either based in or with significant operations in Oregon. Since 1985, The Oregon Business Council (OBC) has played a central role in addressing public issues that are important to Oregonians. Through research and analysis, internal discussions, and collaboration with other organizations and public officials, OBC is an advocate for policies that improve Oregon's quality of life and economy.

I am also the Project Manager for the Oregon Business Plan. The Oregon Business Plan is a collaborative effort among the state's largest business associations, along with representatives from key state boards and commissions, chambers of commerce and regional economic development organizations. The goal of the Plan is to identify, advocate for and track progress on initiatives that can help Oregon create 25, 000 new jobs per year and raise Oregon's per capita income above the national average by 2020. We are pleased to see that these goals have been adopted by Governor Kitzhaber and that key elements of the Plan are included in his agenda. We are also pleased to say that the legislature in the first month of the session has made progress on key Business Plan initiatives such as improved processes for permitting linear facilities, investing in multi-modal transportation and making prime industrial land more quickly available.

Today's topic-tax policy-is one of 10 key initiatives identified in the Oregon Business Plan. Based on research from OBC and conversations with business leaders around the state in developing the Oregon Business Plan, we believe that Oregon's current tax policy is slowing job creation and income growth. The current policy provides almost no stability and, while the overall tax burden on Oregonians is slightly below the national average, the tax on income and capital gains is the highest in the nation. This type of tax policy discourages investment, wealth and the very type of high wage activity that we aspire to, yet its instability leaves Oregon struggling to fund basic services in both good and bad times. And that is just the tax side of the equation. On the spending side, Oregon faces a similar problem to other states: the cost of providing public services, due to a multitude of factors including rising health care costs and unfunded pension liabilities, is outstripping our ability to pay for them. These are serious, and connected, challenges. I appreciate this legislature's willingness to take on these big, messy issues.

To the issue before us today, I do not believe that I can overstate the negative consequences of Oregon's nation leading income and capital gains taxes. Generally speaking, high capital gains tax rates substantially increase the difference between what an investment yields and what an individual investor actually receives (known as the "tax wedge"). The higher the tax wedge, the fewer the number of investments that will meet the "hurdle rate," or the minimal acceptable rate of return for an investor, resulting in fewer investments being undertaken.[i]

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Oregon's problem however is much worse than simply an incentive against investment. The Portland/Metro region is the only metropolitan region in the United States where within the same metro area an individual or household can gain all of the same quality of life amenities while at the same time chose between paying 9-11% in income and capital gains taxes versus 0%. Vancouver, Washington is as close to downtown Portland as Tigard, Oregon. Economists like to use the term "all else being equal." Usually it's a meaningless term because all else is not equal. However, the Portland Metro area is perhaps the only place in the US where all else is equal. And when all else is equal, the difference between 9-11% and 0% is vast.

Concerned about the impact to Oregon of losing some of our wealthiest and brightest people to other places, the Oregon Business Council, working with our Business Plan partners, hired ECONorthwest in 2009 to determine if there is a significant migration of wealth north of the border to Clark County. The results we found were clear, and match up with national work that has been done on the effect of marginal tax rates on household location.

ECONorthwest used IRS data on filers that move from one county to another between tax years. ECO used this migration data to determine if the incomes of taxpayers that moved to Clark County, Washington from the three principal Oregon counties of Portland metropolitan area (Multnomah, Clackamas, and Washington) were substantially different than those that moved in the other direction. The analysis limited the scope to Clark and the three Portland area counties to avoid systematic biases that are common when comparing places with substantially different socio-economic characteristics. All four counties share a common labor market, are all within commuting distance of one another, and none has large retirement communities. I've submitted the full study by ECONorthwest for the record, and have included a table from the study below in my written testimony.

The study revealed that the average AGI of those moving from the three Oregon counties of Portland to Clark County was substantially higher than those migrating out of Clark County. For example, those that moved out of Clark County, Washington to one of the three Oregon counties in the year 2000 reported an average of $46,470 in AGI on their 2006 federal tax returns. However, those that left the three counties of Oregon and moved into Clark County reported an average AGI 52 percent greater—$70,463. The net dollar value of the income moving from the three counties to Clark County that year was nearly $150 million. On average over time, migrating taxpayers leaving the three Oregon counties for Clark County earned 37 percent more in the year they relocated than those changing their residences in the opposite direction. Over the course of fifteen years between 1992 and 2006, the net loss in AGI to Oregon exceeded $1.3 billion—and that counts only the taxable incomes reported in the first year after moving. It's very difficult to track these individuals after the first year that they move, but according to numerous estate planning attorney's, CPAs and wealth advisors that I have spoke with, most individuals that move to Clark County for tax purposes do not move back to Oregon and those that do spend at least 3 years in Washington. If we were able to calculate the overall loss in income to Oregon, I suspect that it would be significantly higher.

Table 4: AGI of Taxpayers Moving Between Multnomah, Washington, Clackamas, Oregon to and from Clark County, Washington, 1992 - 2006

Year	Average AGI of Taxpayer: Moves to Clark County from PDX area	Average AGI of Taxpayer: Moves from Clark County to PDX area	% difference of out migrants	$ Value of net outflow from Oregon
1992	$38,336	$26,726	43%	$47,889,000
1993	37,177	26,634	40%	50,809,000
1994	38,099	26,304	45%	54,678,000
1995	38,286	29,286	31%	57,801,000
1996	49,021	32,427	51%	89,858,000
1997	45,045	41,383	9%	60,828,000
1998	52,508	35,923	46%	89,351,000
1999	60,553	36,016	68%	127,237,000
2000	70,463	46,470	52%	148,673,000
2001	47,400	46,550	2%	69,043,000
2002	46,385	34,913	33%	95,841,000
2003	50,546	40,326	25%	128,959,000
2004	57,087	41,033	39%	120,020,000
2005	56,930	41,530	37%	89,154,970
2006	54,562	40,148	36%	76,739,000

Source: IRS County-to-County migration data. June 1, 2009.

An important question at this point is "So What." Oregon loses wealthy people because of a strong incentive created by the difference between 9-11% and 0%. Oregon still earns significant resources from its capital gains tax which it invests in the health, education and safety of its people.

The problem is that these people that we are losing are the same people who become angel investors in startup companies, that provide management expertise to these companies or that actually start new companies. They are also people who
invest in philanthropy. And we have only looked at migration from Oregon to Washington within the Portland Metro Area. There are a significant number of people who never move to Oregon in the first place, those that decide upon the Northwest but chose Washington over Oregon, and those who leave Oregon for places other than Clark County, Washington.

And when an individual leaves, Oregon doesn't just lose their capital gains tax revenue. Oregon loses all of their tax revenue, along with many of the contributions discussed above.

If it were possible to add up the total impact of this loss, I suspect that Oregon would have already changed its tax policies to be more favorable to investment and wealth creation.

To be sure, there are several factors that impact a regions economic health, and there are reasons other than tax policy that contribute to the Portland Metro region (including Clark County)'s, and Oregon's high unemployment rates and lower per capita incomes.

We invest fewer of our tax dollars in higher education than our competitor states. We have an initiative system that ties the hands of the legislature and that directs investment toward priorities that may not help economic growth. And, mere circumstance probably plays a role.

But tax policy is something that we can control. It's something that creates obvious incentives and distortions. And it's an area where Oregon is a clear outlier.

As it stands now, our capital gains tax is creating a brain and wealth drain in Oregon that accounts for some portion of our state's low per capita income compared to the rest of the United States. I commend the committee for considering bills to improve the situation, and I thank you for the opportunity to testify. I'm glad to answer any questions.

[I] American Council on Capital Formation. http://www.accf.org/publications/119/state-individual-capital-gains-tax-rates