TAX FAIRNESS OREGON

MEASURE: HB 2412
EXHIBIT: E
HOUSE REVENUE COMMITTEE
DATE: 3/10/2011 PAGES: 3
SUBMITTED BY: JODY WISER

House Bills 3187, 3050, 3221, 2412
Providing Reductions in Capital Gains Tax

Jody Wiser Testimony for House Revenue 3.10.2011

Washington has no capital gains tax, while Oregon has one of the highest. This is an explanation often given for the differences between our states, and a stimulus for the four bills before you today.

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Phil Knight's garage and Gert and Tim Boyle's family hat business were in Oregon.

Likewise, no one lured to Oregon such business leaders as Wendt (Jeld-Wen), DeBoer (Lithia Motors), Schnitzer (Schnitzer Steel), Vollum (Tektronix), Les Schwab or the Austins (ADEC). They started businesses here because this was home. Where one calls home isn't really within the legislature's purview.

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Federal dollars in Washington State far exceed dollars sent to Oregon, helping to create some of the difference in wealth and per capita income. The new Boeing contract will have a major effect on Washington and a minor effect on Oregon, but it happened to be Washington State's forests that lured Bill Boeing west, his fascination with planes that built Boeing, and contracting wars beyond legislatures that brought the latest contract. Further, we are far from the point in time when the decisions were made about where to locate military bases. And the billions in federal dollars invested annually in Hanford's clean-up costs is income few Oregonians would wish for.

Washington has three times more large public companies, with Costco, Microsoft, Paccar, Amazon, Nordstrom, Starbucks and Safeco leading the list. But Oregon exceeds Washington 8:1 in large privately held companies including Jeld-Wen, Hoffman, Knowledge Learning, Les Schwab, North Pacific Corporations, Roseburg Forest Products and Columbia Forest Products. The legislatures in neither state designed for this outcome.

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Generosity in stock distribution is not something legislators in either state can affect. One hears of many Microsoft millionaires because Bill Gates broadly distributed stock to his early employees. Oregon's major business owners have not. This difference has had deep influence on the number of wealthy in each state. One doesn't hear of a like number of Intel, Nike, InFocus or Tektronix millionaires, but this is about a company's early business plan, not taxes or legislation.

For decades the primary tax system in each state has been largely beyond legislative control. The public in each state rejects any major change. Though likely not chosen for the outcomes we now have, the tax systems do affect each state's current economic story. Oregon's tax system is far less onerous than Washington's for most workers, but not for the wealthy. The wealthiest 1% of Washingtonians pays 5% less in state and local taxes than do their counterparts in Oregon. Over time this helps the wealthy get wealthier in Washington, giving a larger portion of the population high net worth.

Meanwhile, the bottom 80% of Oregonians pays nearly 5%[1] less in state and local taxes than do their counterparts in Washington. In fact, Oregon's bottom 20% pay only half what their counterparts in Washington pay. Since base wages are a reflection of the cost of living, and taxes are nearly 5% lower here for most citizens, this accounts for some of the 10% in lower wages Oregon's businesses pay for equivalent jobs. Lower pay levels lead directly to our lower per capita income.

Most of the differences in the economic wealth of Oregon and Washington are based on happenstance, history, or factors now outside the control of the legislature, not our capital gains tax rate.

Even if we go to a zero capital gains tax rate, changing Oregon's economic landscape by reducing our capital gains tax is unlikely to convince wealthy outsides to move here and start new companies. Certainly not enough to make up the $400 million a year in lost revenue. Only if we go to zero will you convince the tax adverse to stay here when they are going to sell their companies. Cutting that kind of revenue could mean ending entirely our commitment to higher education.

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Likewise, we don't believe a capital gains tax cut would convince Oregon businesses to increase all wages by 10%, or convince 9% of Oregonians to move away, and we need one of those to bring our per capita income up to national averages. The solution to the differences between Washington and Oregon isn't in a radical change in our tax structure.

HB 3050 reduces our capital gains rate by half, HB 3187 by 100%, and HB3221 reduces it by spreading payments out over time. HB2412 reduces capital gains taxes by .9% while solving Oregon inability to address our rainy day fund savings problem.

We like HB 2412, for the diversion of capital gains revenue to a Rainy Day Account. Had HB 2412 been in place in 2003, when we started coming out of the last recession, we would have begun this downturn with roughly 6 times more money in rainy day accounts than we had. But out of concern for recovery, and just adding up the numbers, we'd probably suggest diverting only ½ of capital gains income to Rainy Day. We'd also increase the cap for this fund from 7 ½% to at least 12%. With the 5% cap on the Education Stabilization Fund and the 7.5% cap on the RDF, the most we would have had in savings prior to this recession is $1.8 billion. But conceptually, the idea is certainly worthy of discussion.

There are bill concepts that allow for capital gains reductions for new Oregon investments that we might support, but those bills are more carefully drafted than HB 3221, which defers the capital gains from the sale of a "capital asset" and investment in "a business entity doing business in Oregon during the tax year" without providing definitions of either crucial element. With HB3221, it appears that with a one year loan to a friend's company, one can spread tax payments out over 11 years – payments that would otherwise be collected in year one. Short term capital is unlikely to sustain a struggling business. Generally it is patient capital that businesses need. Yet with this bill a short-term investment reduces the capital gains owed by the "investor" by qualifying him for a 10 year tax payment schedule.

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