

April 19, 2011

Testimony in favor of reducing Oregon's Capital Gains Tax Rate

Before the House Committee on Revenue
by Steve Buckstein

Co-chairs Barnhart and Berger and members of the Committee, my name is Steve Buckstein. I'm Senior Policy Analyst and founder of Cascade Policy Institute, a non-partisan, non-profit public policy research organization based in Portland. Our mission is to promote policies that enhance individual liberty, personal responsibility and economic opportunity in Oregon.

I'm here to testify in favor of reducing Oregon's capital gains tax rate, which is currently the highest rate in the country. This high rate has the effect of discouraging investment and hiring activity in the state.

Previous research by a member of the Governor's Council of Economic Advisors calculated that cutting the capital gains tax rate to 4.5 percent would add approximately 6,000 new jobs a year and increase venture capital activity in the state by approximately \$300 million a year. This is consistent with more recent research suggesting that completely eliminating the capital gains tax would add approximately 14,000 more jobs by 2013.*

As I'm sure you already know, the capital gains tax is the most volatile segment of Oregon's tax structure. Between 2007 and 2008, revenue from capital gains declined by 60 percent. Capital gains accounted for 10 percent of state income in 2007, dropping to 4 percent in 2008, and I believe it was as little as 2 percent of income in 2009. In fact, because of tax-loss carry-forwards, in a deeper recession it wouldn't be impossible to see capital gains income actually turn negative.

From a legislator's standpoint, I think the best time to reduce or eliminate the capital gains tax is when there aren't many gains to be taken. Like now.

over



I'm not a fan of putting conditions on any capital gains rate reduction. Requiring investors to reinvest in specific businesses may be well-intentioned, but it's not necessary. Reducing or eliminating Oregon's capital gains rate would send a positive message to business people and investors everywhere. It not only would unleash more economic activity from those already living in Oregon, it would help attract such people to relocate to Oregon and bring their capital with them.

The more strings you put on the deal, the less likely enough people will want to take advantage of your offer.

So, rather than trying to pick winners and losers, in this case trying to direct more capital to Oregon businesses through favors in the tax code, simply ensure a level playing field and then trust in the market's ability to evaluate good deals and invest in them. The more attractive you make Oregon as a place to do business, the more business and investment capital will flow here.

So, in closing, please reduce or eliminate Oregon's capital gains rate, and then watch the economy pick up. Watch jobs be created. And watch state revenue increase as a result. This is a perfect example of where asking for less will result in generating more.

Thank you.

* All numbers from "Facing Reality: Ideas to Reset Oregon's Budget and Recharge its Economy", Cascade Policy Institute and Americans for Prosperity-Oregon, October 2010, p. 13. (http://cascadepolicy.org/wp-content/uploads/2010/10/Facing_Reality.pdf)

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