# REVENUE IMPACT OF PROPOSED LEGISLATION

**Seventy-Sixth Oregon Legislative Assembly**
**2011 Regular Session**
**Legislative Revenue Office**

**Bill Number:** SB 883 - 2
**Revenue Area:** Personal Income Tax
**Economist:** Paul Warner
**Date:** 5-4-11

## Measure Description:

Creates a subtraction for income derived from long term capital gains. Defines long term capital gain as income resulting from the sale of assets that have been held for more than 60 months. Establishes 50% subtraction for long term capital gains resulting from the sale of real and tangible personable property held in Oregon that has a primary purpose of producing income. 50% subtraction applies to assets sold on or after 1-1-13. Establishes subtraction schedule for all other capital gains as defined by IRS held for more than 60 months. Phases in subtraction for these assets over eight year period starting in 2013. Subtraction starts at 5% in 2013, increases at 5% increments until reaching 40% for the 2020 tax year.

## Revenue Impact (in $Millions):

| | 2011-13 | 2013-15 | 2015-17 | 2017-19 |
|---|---|---|---|---|
| Real and tangible personal property held in Oregon | $0 | -$16.7 | -$18.5 | -$18.1 |
| All other capital gains held more than 5 years | $0 | -$60.1 | -$136.2 | -$222 |
| Total General Fund Revenue Impact | $0 | -$76.8 | -$154.7 | -$240 |

## Impact Explanation:

Impact estimate based on deriving static impact by taking 60% of capital gains revenue projected in March revenue forecast. 60% is the assumed proportion of capital gains income derived from sale of assets held longer than 5 years. This assumption is based on national data from the IRS. The static estimate is adjusted separately for Oregon real assets and other capital gains. Oregon real assets are assumed to have a 25% revenue feedback 5 years after implementation. The feedback effects are assumed to grow 5% each year until they reach 25%. This feedback results from a cost of capital effect increasing investment in the state and a reduction in net out-migration of high income households. There is also assumed to be a 25% portfolio effect spread over the first two years triggered by the 50% subtraction. The new lower tax burden encourages sales that were locked in because of the tax consequences of sales. This effect is short term only and is based on national estimates. 5% of long term capital gains are estimated to come from sale of Oregon income producing property. The remaining 95% of long term capital gains are subject to the phased in smaller subtraction. The revenue impact for these assets is assumed to have a 12% economic feedback largely caused by reduced net out-migration. The estimate for these assets is not adjusted for a portfolio effect because of the long phase-in. The economic feedback effects are based on simulations of the Oregon Tax Incidence Model.

## Creates, Extends, or Expands Tax Expenditure: Yes X No ☐

The policy purpose of this measure is to encourage investment in the Oregon economy and to reduce net out-migration of high income households.

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