



Prepared Testimony

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Hearing on HB 2541
Oregon Senate: Finance and Revenue Committee
Monday, May 23, 2011

Chairwoman Burdick, Vice-Chair Morse, and members of the Finance and Revenue Committee of the Oregon Senate. Thank you for the opportunity to discuss how HB 2541, the bill to replace Oregon's inheritance tax with an estate tax, will impact family business owners, farmers, workers, and the wider Oregon economy.

My testimony draws on the latest economic research on estate taxes. It is on the basis of this research that the American Family Business Institute and the family business owners we represent in Oregon strongly urge you to reject HB 2541 and instead pass legislation to permanently repeal the state inheritance tax.

In 2008, the Connecticut Department of Revenue published a study which found that the 26 states without an estate tax produced twice as many new jobs and their economies grew nearly 50 percent more from 2004-2007 than the 24 states with such taxes.¹

What explains the huge impact of the death tax? Allow me to briefly walk through the research on the death tax and how it affects the states that impose them.

The Connecticut Treasury Department's study tried to determine why so many of its wealthiest citizens were fleeing Connecticut and where they were going. The study found that the estate tax was the leading cause of out-migration and that Florida, a state which not only imposes no estate tax, but is constitutionally barred from doing so,² was the top destination.³

Connecticut learned the hard way that capital – and the people who own it – are highly fluid between states. Those who are impacted by one state's inheritance or estate tax are able to easily "flee" – with their investments and capital – to other states which do not impose an inheritance or estate tax.

Connecticut lost over 27,000 total residents over a five year period to Florida. The average gross estate of those leaving Connecticut was a whopping \$7.5 million and their average taxable income was \$446,000.⁴

Connecticut's loss of productive people and capital resulted in a major slow-down in economic growth. The Treasury Department found that between 2004 and 2007, employment grew at less than half the rate in states without estate taxes. Population grew at less than a tenth of the rate in states without estate taxes.⁵

¹ "Estate Tax Study," *Connecticut Department of Revenue Services: Connecticut Office of Policy and Management*, February 1, 2008, p. 18.

² J. Scott Moody and William J. Felkner, "Leaving Rhode Island: Policy Lessons from Rhode Island's Exodus of People and Money," *Ocean State Policy Research Institute*, November, 2010, p. 14, <http://www.oceanstatepolicy.org/leavingri.html>.

³ "Estate Tax Study," p. 16.

⁴ "Estate Tax Study," p. 16.

The trend of wealthy retirees relocating to avoid high state taxes is not new observation. The National Bureau of Economic Research published a study in 2004 which found that “wealthy elderly people change their state of residence to avoid high state taxes.” As people move out, the study found that states lose as much as one out of three dollars from their estate tax revenue.⁶

The latest economic research indicates that as capital shrinks, net tax revenues shrink, too. Duquesne University economists Antony Davies and Pavel Yakovlev have calculated that for every \$1 increase in Federal Estate Tax revenues, state and local governments lose almost \$3 in non-Estate Tax revenues. Eliminating the federal estate tax would increase state and local tax revenues annually by approximately \$9.3 billion.

Repealing Oregon’s estate tax would have similar economic effects.

HB 2541, on the other hand, will only make the situation worse, by increasing the rate to nearly 20 percent – the highest in the nation.⁷ This legislation will send a negative message to Oregon’s investors, entrepreneurs, and family business owners and discourage others from moving to and investing in the Beaver State.

Two-thirds of the American people believe that the estate tax is fundamentally unjust and support permanent repeal.⁸ Their sentiments are in line with those of the author of the Declaration of Independence, Thomas Jefferson, who repealed America’s first “death tax” in 1802. Jefferson recognized that the estate tax represented an unjust confiscation the fruits of a person’s labor and a violation of property rights.

In a letter to a friend, he writes: “The laws of civil society....give the property of the parent to his family on his death, and in most civilized countries permit him even to give it, by testament, to whom he pleases.”⁹ Karl Marx, on the other hand, listed “Abolition of the rights of inheritance” as a mandatory step towards socialist utopia in his Communist Manifesto.¹⁰

⁵ “Estate Tax Study,” p. 18.

⁶ Jon Bakija and Joel B. Slemrod, “Do the Rich Flee from High State Taxes? Evidence from Federal Estate Tax Returns,” NBER Working Paper No. W10645, July 2004, <http://ssrn.com/abstract=579792>.

⁷ At 19 percent, neighboring Washington State currently has the highest rate in the nation. For an overview of all state estate and inheritance tax rates, please see: State Death Taxes Issue Brief: A Current Assessment, by Alexander Guin and Shawn Arnold, *American Family Business Foundation*, February 2011, http://www.nodeathtax.org/uploads/view/2393/state_estate_taxes_report_-_final.pdf.

⁸ “Poll: Tax Code Complex, Needs Reform; Federal Income Taxes ‘Too High,’” *Tax Foundation/Harris Interactive*, April, 9, 2009, <http://www.taxfoundation.org/press/show/24600.html>.

⁹ Thomas Jefferson, “letter to Thomas Earle, 1823,” in *The Writings of Thomas Jefferson*, ed. Albert E. Bergh, (Washington: Thomas Jefferson Memorial Association, 1904), Vol. 15, p. 470.

I leave you with this question: are we property-rights bearing citizens, or are we merely tax-paying serfs?

The Senate Finance and Revenue Committee has the opportunity today to affirm property rights, investment, and job-creation for a stronger Oregon by rejecting HB 2541 and repealing the state inheritance tax.

Thank you for your time.

¹⁰ Karl Marx, "The Communist Manifesto," 1848,
<http://www.anu.edu.au/polsci/marx/classics/manifesto.html>.