Co-Chair Barnhart, Co-Chair Berger, members of the committee,

Thank you for allowing me to testify. My name is John Calhoun. I am an entrepreneur and investor in early stage companies. I am currently the CEO of InsideValuation Partners, a property valuation company serving the national financial industry with offices in four Western states. Today I am representing the Equity Alliance of Oregon, a group of business leaders concerned that further, avoidable budget cuts in response to our revenue shortfall will damage the state's economic recovery, and that what the state SHOULD be doing is investing in education and business infrastructure.

This morning's Revenue Forecast is relatively good news, in that it won't require even further deep cuts beyond what has already been agreed upon. What it doesn't do is provide us with so much revenue that we can start giving it away in tax credits or tax cuts and that is why I am here today to oppose HB4076.

There is a myth that lower capital gains taxes or no capital gains taxes will increase business investment. My experience as an investor in new businesses and in raising money from other investors over a thirty-year period is that the current capital gains rate does not impact investment decisions. This country did not see a flurry of new investments when the federal capital gains rate was cut dramatically ten years ago. In fact, in the prior decade we saw an explosion of investment in new companies during the dot-com boom, all when the capital gains rate was higher. When the dot-com companies went bust, we did not see an increase in investment just because the tax rate was lower.

When I invested in my first Oregon start-up in 1990, there was no discussion of tax rates. When we sold the business in 1995—at a great return for all investors–we paid higher taxes than we would today, but all the investors were happy because they got a great return on their investment.

Good investment decisions are based upon a solid business plan that satisfies a strong customer demand. If a company can show that customers want to buy a product or service at favorable prices then they will be able to find investors. There are a lot of risks in making investments in new ventures; technology, sales channel, competitors, customer demand, cost structure, personnel. As those of us who have done this know, most new businesses do not succeed. When that happens no one needs to worry about having a low tax rate. When an investment does well, then paying taxes is a non-issue because you have the profits to pay the taxes.

When Nike, Intel, Microsoft, etc. were looking for investors back when the capital gains rates were much higher, did potential investors turn them down because they might have had to pay taxes if they were successful? If someone did make that decision, did they regret it later when those companies were successful? You bet they would have.

My point is that good investment decisions are not driven by tax rates. When I first started private investing back in the '80s, I was sold a couple of investments that were designed to reduce my taxes; oil wells, a movie, and real estate. I soon learned that the tax benefits were not enough if the business itself was unsuccessful. I have never considered taxes when making an investment since.

Oregon has seen a resurgence in venture investing in the last year with venture capital growing 25%, beating the national average. Could we do even better with a lower capital gains rate? Not at all, since the capital gains rates venture capitalists pay is based upon the state where the investors reside, not where they invest. Cutting the tax rate in Oregon will have no impact on national venture capital interest in Oregon.

So what will be the impact of cutting capital gains taxes? The state will have less money to invest in schools, support our justice system, and help for seniors in need. That is all. It will not lead to additional jobs. Those who already have wealth, like me and the other business leaders supporting the Equity Alliance of Oregon, will all have more money. The state government will have less.

As business leaders, we believe that the worst thing the legislature could do right now for the business community is to reduce funding for education and other basic infrastructure. We need solutions that will jumpstart our economy, keep Oregon a competitive location for businesses, and start rebuilding the middle class. We need to invest, not cut. Lastly, as business executives and upper income individuals, we believe that the most equitable and effective tax system is one that is based on the ability to pay. We believe that Oregon's ongoing prosperity is tied directly to the strength of the middle class and providing real economic opportunities for all Oregonians. That is why we oppose HB 4076.