



DATE February 4, 2022
FROM Randall Pozdena, PhD CFA
TO The House Committee on Human Services

SUBJECT Why HB 4079 is a Such a Terrible Idea
BACKGROUND

The Oregon legislature is considering passage of HB 4079 which would levy a tax of 3% on the sale of “luxury goods”. By taxing luxury goods, the intention is to tax the rich and re-distribute their income to poorer Oregonians. The purpose of this commentary is to point out the economic folly of such a tax and its redundancy and ineffectiveness. **I strongly oppose the passage of this Bill, for the following reasons.**

It is duplicative of much stronger redistribution initiatives already in place.

The United States already has the strongest redistributive tax laws in the world, according to the OECD. In 2016, the lowest income households paid an average of \$300 in federal taxes but received nearly \$20,000 in social insurance and means-tested entitlement benefits—a redistribution rate of 16-fold.¹ The Bill is redundant and not needed.

Taxing sales of “luxury goods” results in burdens on WORKERS and NOT high income buyers.

By definition, the rich can afford to shop for other goods, whereas the manufacturers and workers in luxury industries receive lower revenues. The result is that the workers in the targeted industries, many of whom are themselves lower income, will likely lose jobs and incomes. For example, the 10% “luxury tax” levied by President George H. W. Bush in 1991, destroyed over 9,000 jobs in the affected industries just in the first year.² The 1991 tax also yielded barely one-half the anticipated revenues.³

Passage of the bill will cost Oregon money in lost tax revenue and higher costs.

Because of the resulting lower revenues of affected luxury good makers, Oregon will receive lower corporate tax revenues. Because of the increase in unemployment in these industries, Oregon will also bear higher unemployment insurance costs and lower personal income tax revenues. Given the costliness and complexity of the bureaucracy contemplated to implement the Bill, HB 4079 has no virtues.

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¹ <https://www.oecd.org/els/soc/growingunequalincomedistributionandpovertyinoecdcountries.htm>

² <https://www.bostonherald.com/2019/05/26/target-the-rich-been-there-regret-that/>

³ https://www.cbo.gov/sites/default/files/102nd-congress-1991-1992/reports/1992_02_effectsofadloptingavat.pdf