



## **SB 1018: A problematic “solution” for a part of the tax system**

Senate Committee on Finance | Bennett Minton | 4/20/2023

Chair Meek, Vice Chair Boquist, members of the committee:

I’m Bennett Minton with Tax Fairness Oregon. We are a network of volunteers who advocate a tax code that is rational and equitable.

We are in the fifth decade of an era of destruction of government services it took generations to create, as many state legislatures defund the services citizens require to live in safety and prosperity. This isn’t entirely your fault as legislators, because you are elected representatives. The problem is fear. Most citizens are afraid their share of the pie is shrinking, and fear chokes vision. Instead of stepping into our challenges, the state’s board of directors—that’s you—plays at the edges.

This bill plays at the edges. It is a notion that if the legislature cut taxes for median-income taxpayers by a couple thousand dollars a year, it could start eliminating programs without hurting the people those unnamed programs help. With no proposed program cuts to offset the revenue loss—Ms. Parrish told you the loss is \$940 million—this bill is a notion, even without the bracket cliff LRO described.

The larger subject—how to pay for government, the agent of our common purpose—is worthy. So allow me to sketch the Oregon tax system. It leaves much to be desired.

The **property tax** limits of Measures 5 and 50 are unsustainable. The limits led, finally, to the CAT tax, a substitute for funding schools.

A **sales tax** could be designed to mitigate its inherent regressivity. But we don’t have one, instead relying on the income tax. Which means revenue flows are counter-cyclical, and that exacerbates economic instability and damages services. The CAT helps offset the absence of a sales tax, to a degree.

The **income tax** is hobbled by the **kicker**. It is an arbitrary formula based only on the revenue projection of a bureaucrat. That’s not the fault of the bureaucrat that the state’s income projection has no relation to the how much the state spends. It is the worst state tax provision in the country.

To wit, the legislature is scrounging for pocket change to maintain current services, fund a bridge and accomplish other goals, and \$4 or \$5 billion is sitting in the kicker.

***We read the bills and follow the money***

The income tax structure is relatively flat and therefore regressive, as most taxpayers climb to the 8.75% bracket at only \$19,000 for joint filers.

A tax with a lower rate up to some modest threshold, like this bill, has appeal. But it's fair to note that absence of a sales tax counterbalances the relative regressivity of the income tax.

The sponsor, Senator Hayden, points to the higher rate imposed on individuals compared to that paid by corporations. We would welcome that discussion. We would add that business owners pay tax at a lower rate than individuals with wage and investment income. Oregon's different tax rates for different types of income have no logic, though defenders posit that the extra pocket change for those owners creates jobs. The math shows that the rate difference isn't significant enough to achieve any public goal.

We encourage the committee to ponder how to structure our tax system to make it more progressive. As I've said before this panel: I'm aligned with Adam Smith. In *The Wealth of Nations*, he wrote:

*The subjects of every state ought to contribute toward the support of the government, as nearly as possible . . . in proportion to the revenue which they respectively enjoy under the protection of the state.*

Which is the way a Scot in 1776 writes: Taxes should be progressive.