

DRANEAS HUGLIN DOOLEY LLC

Attorneys at Law

Suite 600
4949 Meadows Road
Lake Oswego, Oregon 97035

Fax: (503) 496-5510
Phone: (503) 496-5500

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House Revenue Committee

Darin J. Dooley
John H. Draneas
Mark L. Huglin
Michelle M. Yang

Of Counsel:
Charles A. Kovas
Robert S. Perkins

Re: SB 1511

Dear Committee Members:

I am writing in opposition to SB 1511. I have been practicing as an Oregon lawyer since 1977, with the majority of my practice devoted to estate planning. I serve clients at all levels, with estates from \$1 million up to hundreds of millions, giving me a broad understanding of issues that affect taxpayers of every level. I am currently serving on the Executive Committee of the Estate Planning & Administration Section of the Oregon Bar as its Secretary. I am also an actively-engaged Fellow in the American College of Trust & Estate Counsel, which gives me insight into how estate taxes work throughout the country.

While eliminating Oregon estate taxes for taxpayers having estate taxes of \$2.5 million or less is a laudable improvement to our current system, the primary negative to SB 1511 is the dramatic clawback of these benefits for estates over \$2.5 million. This is accomplished via a very complicated mathematical calculation that increases the normally-derived estate tax. I am totally confident that none of my clients (or anyone else) will ever understand that formula. But here is what they will easily understand.

A \$3 million estate will pay an Oregon estate tax of \$261,250. That is more than half, 52.25% to be exact, of the \$500,000 increment over \$2.5 million. That is an effective marginal tax rate of 52.25%.

The Legislative Revenue Office tries its best to avoid this characterization, but this is exactly what this is. This is exactly how it will be explained to taxpayers, and they will understand it this way.

I cannot believe that any taxpayer whose estate falls into this bracket will ever believe that it has any fairness associated with it. I get that the Bill wants to eliminate the \$1.5 million increase in the exemption for the larger estates to maintain revenue neutrality, but the range in that is done should, at the least, be a much broader range to eliminate these huge marginal tax brackets.

The additional highly serious, but perhaps less evident, problem is that SB 1511 raises the tax rates for the larger estate to make our tax the 3rd highest tax in the country – a mere 0.1% behind the highest. This gives enormous incentives to Oregonians who face this tax burden to move to other states. While some may think that such a “slight” increase of 3.9% at the top bracket isn’t going to do that, it comes on top of all of the other taxes that hit Oregonians in the Portland area, which have been well documented by the national media.

Relocation is a daily conversation that I have with my clients and acquaintances. Many have moved, and many are planning to move. Many of them already own secondary residences in states that do not levy estate taxes. For them, it isn’t all that difficult to reduce their time in Oregon and make their secondary residences their primary residences, completely avoiding the Oregon estate tax.

To make that worse, no one waits until just before they die to move to another state. They do it now, resulting in our state’s loss of their income tax revenue each and every year.

SB 1511 is simply bad tax policy and will very likely trigger serious unintended consequences.

Very truly yours,

DRANEAS HUGLIN DOOLEY LLC

/s/ John H. Draneas

John H. Draneas