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New Report Shows that Capital Gains Tax Cuts Are “The Wrong Answer” for Oregon’s Economy

(Silverton, Oregon) A new report released today by the Oregon Center for Public Policy finds that proposals to reduce taxes on capital gains income cannot be expected to generate significant new investment or jobs in Oregon.

Despite claims by the Oregon Business Council and the Oregon Council on Knowledge and Economic Development, the report, *The Wrong Answer for Oregon’s Economy: Cutting Taxes on Capital Gains Income*, shows that there is little support in the economic research or the economic data for significant gains from such tax cuts.

“The economic growth expected from a capital gains tax cut is quite small even at the federal level,” commented Jeff Thompson, economist with the Oregon Center for Public Policy and the report’s author. “The economic benefits of a state-level cut are much smaller, if any.”

“Cutting Oregon’s capital gains tax would result in increased federal taxes and lost federal matching funds that would dwarf any expected economic growth,” Thompson noted.

Supporters of the tax cut have claimed that Oregon’s tax on capital gains income has impeded economic growth in Oregon. “The fact that Oregon’s economy grew faster than almost every other state during the 1990s with its current capital gains tax suggests that these claims are false,” said Thompson.

The report documents that Oregon had the fastest growth in Gross State Product between 1995 and 2000. Between 1989 and 2000 Oregon experienced 415,000 jobs and 30,000 new companies. During those years Oregon’s population grew by 650,000 (23 percent), faster than all but ten states.

“Oregon’s capital gains tax has not prevented people or companies from moving to and staying in Oregon,” said Thompson. “The tax has not prevented Oregon’s economy from recovering during the last year, either.” The report documents

that Oregon’s unemployment rate has declined and employment increased more than in most other states since December 2001.

“Claims that cutting capital gains taxes will boost venture capital in Oregon are also suspect,” noted Thompson. The report documents that only 12 percent of all venture capital is from sources that are subject to the tax on capital gains income. California, which has a higher capital gains tax rate than Oregon, consistently receives 40 percent of all venture capital investment.

“Studies of previous capital gains tax incentive programs in Oregon show that they have failed,” said Thompson. “The basic reason is that capital gains taxes have very little impact on venture capital.”

The report further documents that the benefits from cutting taxes on capital gains income are heavily tilted to those with very high incomes. Previous studies show that the richest five percent of Oregonians would get about 73 percent of a capital gains tax cut, while the bottom 80 percent would get about 9 percent.

“Most Oregonians don’t own any assets that are subject to the capital gains tax,” said Thompson. Corporate stock that Oregonians hold through retirement savings plans, such as 401(k) plans and IRAs, is not affected by the capital gains tax. Sales of owner-occupied housing are generally exempt from the tax, as well. The most recent data on wealth show that only 21 percent of American households directly own any stocks.

The Oregon Center for Public Policy uses research and analysis to advance policies and practices that improve the economic and social prospects of low- and moderate income Oregonians, the majority of Oregonians.

NOTE TO EDITORS AND REPORTERS: The full text of the report is available at the OCPP website, <http://www.ocpp.org>.