



EXECUTIVE SUMMARY

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March 17, 2003

The Capital Gains Bird Does Not Fly: The Unmoving Case of Tax Cut Advocates

By Jeff Thompson

Opponents of Oregon's tax on capital gains income argue that many households move out of state, particularly to Clark County, Washington, to avoid paying the tax. These claims are overstated. The number of taxpayers with capital gains income moving to Clark County is quite small. Movement to Clark County is also largely offset by movement from Clark County to Oregon. Most households likely move to Clark County for other reasons than to avoid paying the capital gains tax, primarily housing affordability and school quality.

Analysis of tax and migration data suggests that few, households move to Clark County to avoid the capital gains tax:

- An average of 357 households with any capital gains income moved from Oregon to Clark County each year between 1993 and 2001, representing 0.03 percent of all full-year returns and 0.16 percent of full-year returns with capital gains income;
- Between 1998 and 2000 more than 60 percent of total migration to Clark County was offset by households moving from Clark County to Oregon;
- An average of 16.5 percent of full-year residents had capital gains income between 1993 and 2001, compared to 10 percent of households moving to Clark County, and;
- Most mobile Oregonians move to other Oregon counties, not different states. Those choosing to move to Clark County, Washington, have similar incomes as households that remain in Oregon, providing no evidence that movement to Clark County is an exodus of wealthy Oregonians.

Even if there are households that move to avoid the tax, this does not mean that Oregon loses investment or jobs. The ease of restructuring investments makes it likely that the investments will remain in Oregon even if the owners move to Clark County.

According to the Legislative Revenue Office, reducing the tax from 9 percent to 4 percent would cost \$319 million in the 2005-07 budget cycle. Because capital gains income is so highly concentrated among the affluent, most Oregonians would see little or no benefit:

- The richest one-percent of households has 57 percent of capital gains income in Oregon, and the bottom 80 percent have just 13 percent, and;
- More than 80 percent of households have no capital gains income, and the top 0.4 percent of households averaged \$524,000 in capital gains income in 2000.

That the richest one percent of households had \$3.5 billion in capital gains income in 2000 and remained in Oregon, further suggests that the tax has little impact on migration.
