

OREGON TAX REFORM

Change must come from the top

Legislator's plan is interesting, but Gov. Kitzhaber's effort is the one to watch



BENJAMIN BRINK/THE OREGONIAN

Senator Mark Hass' proposal would partially substitute a sales tax for the income tax.

Because we like a good tax-reform discussion as much as anyone (and a lot more than most), we're intrigued by a proposal championed by Sen. Mark Hass, D-Beaverton. It would slash income taxes, establish a 5 percent sales tax and, if estimates by the Legislative Revenue Office held true, create more than 50,000 jobs. The subject matter may be familiar, but this latest iteration is certainly intriguing, especially the employment projection.

But is the plan more than a conversation piece? Nope.

Don't get us wrong: Continuing the tax-reform discussion is a valuable exercise for reasons we'll mention below. But the place Oregonians should be looking for a politically viable reform proposal is the governor's office, where an exploratory process involving business and labor has been inching forward for months in relative obscurity.

Many more months are likely to pass before the process yields anything resembling a concrete proposal. But when (and if) that happens, you can be sure it'll be designed carefully not only to achieve policy ends — like stabilizing the state's tax system — but also to win support from various interest groups and voters. In the end, Oregonians may reject it, but when it comes to effecting big-picture policy change, the smart money's on the guy who's already cut PERS costs and reformed the delivery of health care and the governance of higher education.



Agenda 2013 Address Oregon's tax structure

In the meantime, those who support tax reform should learn from the reception given Hass' proposal, which partially substitutes a regressive tax (the sales tax) for a progressive tax (the income tax). The plan attempts to mitigate this shift through tax credits for low-income Oregonians, but the end result benefits households making more than \$185,879 more than it benefits any other group.

Predictably, objections have arisen on the left, as reported by The Oregonian's Christian Gaston. "What you're doing is you're doing a huge shift," said Chuck Sheketoff of the Oregon Center for Public Policy. "The across-the-board rate cut is giving Phil Knight and his ilk a huge tax cut." Leaving aside the fact that Knight doesn't have any "ilk" in Oregon — he's that rich — the three-letter insult speaks volumes.

Most Oregonians probably wouldn't disparage the wealthy in this fashion, but Sheketoff articulates a fairly widespread view, which is that any change that makes Oregon's system of taxation less progressive is necessarily bad. They're right to be concerned about the well-being of the less affluent, but it's important to remember that the system so many people want to reform is already one of the most progressive in the country, characterized by very high income taxes and the absence of a broad-

based sales tax. It isn't easy to reform such a system in a way that achieves the desired results — stability, economic growth and so on — without also making it less progressive.

This perception is a particular problem for Democrats, who are both leading the push for tax reform and responsible for promoting the point of view Sheketoff articulates, most notably (though far from exclusively) through Measure 66, the soak-the-rich tax hike placed on the ballot by legislative Democrats in 2009. As they say, you reap what you sow.

If Democrats really want responsible tax reform to happen, they need to acknowledge that the state's tax structure may need to become less progressive if it is to become more effective. They also need to start challenging claims to the contrary and — even worse — proposed ballot measures that would raise taxes on high-earners further and make the state's tax code even more lopsided.

Like it or not, the Legislature is playing second fiddle to the governor on tax reform, the sincere efforts of lawmakers like Hass notwithstanding. It can play a vital role nonetheless by tempering the political climate in which the governor's plan will emerge. Fortunately, it looks like lawmakers will have plenty of time.

— The Oregonian editorial board



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