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Opinion

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A tax cut that bleeds revenue and penalizes work

By Chuck Sheketoff, Guest columnist

In eras past, doctors routinely bled patients in an effort to cure them. Fortunately, the medical profession eventually recognized that bloodletting actually made patients worse.�

In the field of economic policy, however, an idea akin to bloodletting retains faithful adherents. That misguided idea argues that cutting the income tax on capital gains creates jobs and prosperity.

For the good of Oregonians, let's hope that the 2011 legislature ignores the bloodletting call. Cutting the income tax on capital gains, as some in the business community are lobbying for, would not create jobs. Rather, it would bleed state revenue that pays for education, health care and public safety �" structures that are essential for a good business climate.

A capital gain is income generated when assets such as stocks, bonds and real estate are sold at a profit. Right now Oregon treats people who earn their income from work the same as those who have income from capital gains.

Because the wealthy disproportionately own capital assets, giving capital gains a favored tax status would mostly benefit the fortunate few. Last time the Oregon Center for Public Policy crunched the numbers, we calculated that if Oregon slashed the tax rate for capital gains, the richest 1 percent would bank 70 percent of the money.

In addition, the proposal to give favored status to capital gains would leave many Oregonians who work for a living �" who earn a paycheck to put food on the table �" paying a higher income tax rate than those who live off their investments. Put another way, it creates a work penalty.

Some might say, "So what, if it creates jobs?"

Yet, as numerous studies have shown, cutting taxes on income from capital gains will not stimulate the economy or create jobs, especially at the state level. There's no guarantee that the tax savings by Oregon's millionaires would be reinvested in our state rather than invested in some other state, or handed over to a Wall Street hedge fund or invested in the Shanghai stock market.

"But," some might ask, "what if we limit the tax cut to capital gains income that is reinvested in Oregon?"�

Done that; didn't work.

From 1996 until the law expired in 1999, the legislature allowed investors to defer state income taxes on capital gains if the gains were reinvested in Oregon businesses. But an official review of the program concluded that it failed to increase investment in Oregon, that much of the investment that did occur "probably would have occurred even without the deferral" and that the favored status "created few, if any, new jobs."

The fact is that the current system �" which doesn't penalize work by favoring capital gains �" is no impediment to investment and growth in our state. Oregon startup businesses are attracting venture capital. Businesses are moving here and (think "Intel") are expanding.�

It's also a fact that Oregon's economic growth has far outpaced the national average under current law without the proposed work penalty. From 2001 to 2009, Oregon's Gross State Product increased by nearly 34 percent after taking inflation into account, more than double the nation's GDP growth.

Of course, the Great Recession hammered Oregon and the nation's economy, causing sharp revenue drops in nearly all states.�

Oregon's fiscal situation would worsen if lawmakers were to give favored status to capital gains. The business-backed work penalty would bleed revenue that's essential to providing the public services that make Oregon a great place to work, raise a family and grow a business.�

The 2011 legislature should reject the business community's call to cut the income tax on capital gains, which would only bleed more revenue without creating jobs. We should continue to treat income from capital gains the same as income from work.

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