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Tax cuts for the rich grow income inequality, not the economy

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By **Guest Columnist**

By Chuck Sheketoff

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Rich Oregonians got a tax cut at the start of this year, when the top marginal income tax rates set by voter-approved Measure 66 came down. As far as I know, no wealthy beneficiary of this tax cut has claimed that it's helped grow Oregon's economy.

That's not surprising, because reducing the top tax rates has no correlation with economic growth.

Unfortunately, The Oregonian editorial board refuses to look at the mountain of evidence showing that cutting top tax rates has no connection with economic growth. The paper's recent editorial calling for a cut of Oregon's income tax on capital gains adheres to myth, not fact (**"Cut Oregon capital gains tax,"** Oct. 1).

A recent report by the nonpartisan Congressional Research Service, Congress' think tank, analyzed 65 years of data to determine whether there is a correlation between tax rates and economic growth. The conclusion: While there's no evidence that tax cuts for the rich stimulate investment or economic growth, the data indicate that such tax cuts exacerbate income inequality.

To paraphrase venture capitalist Nick Hanauer: If tax cuts for the rich spurred the economy, we'd be swimming in jobs today.

Not only do tax cuts for the rich fail as economic stimulus, but also higher tax rates are no impediment to growth. Oregon's economy grew faster than that of all but a handful of other states in 2010 and 2011, following Measure 66's income tax increase on rich Oregonians. Indeed, over the past decade, Oregon's economy has been a top performer among states, even though our tax code treats income from work and from capital gains the same.

Does Oregon's income tax on capital gains encourage many of the rich to migrate across the Columbia River, as alleged by The Oregonian editorial board?

In 2009, out of nearly 1.8 million total tax returns, 97,000 reported income from capital gains. Of those, only 88 taxpayers with income from capital gains moved to Clark County, Wash.

The Oregonian cites a deeply flawed study claiming that a significant number of wealthy Oregonians were moving to

Clark County, where there is no income tax. The Center on Budget and Policy Priorities analyzed the corporate-funded study and found that it "wrongly blames taxes for a set of changes in residency and migration patterns that actually reflect other economic and demographic factors."

There's no evidence, moreover, that the relatively few Oregonians who move to Clark County stopped investing in Oregon. Nor is there any reason to assume that reducing Oregon's income tax on capital gains would cause the rich to invest their windfall in Oregon.

Finally, the editorial understates the nature of cutting the income tax on capital gains. It's not just a tax cut for the "rich." It's mainly a tax giveaway for the richest of the rich.

In 2010, the richest one-tenth of 1 percent of Oregon taxpayers reaped nearly half of all income from capital gains. In total, the top 1 percent garnered more than two-thirds of all capital gains income.

Cutting the income tax on capital gains will exacerbate Oregon's income inequality. It will rob schools, health care and other public structures of badly needed revenue while lining the pockets of the richest of the rich. And giving the rich special treatment on income from capital gains will do nothing to boost Oregon's economy.

*Chuck Sheketoff is executive director of the **Oregon Center for Public Policy**.*

EDITORIAL

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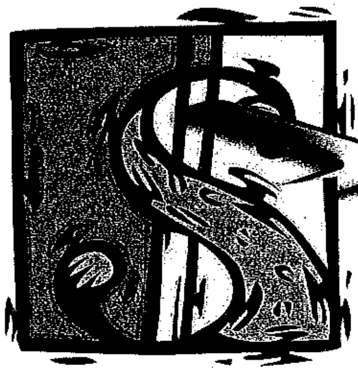
Oregon's Tax Trouble | An occasional series

Cut Oregon capital gains tax

Oregon's famously high rate pushes the wealthy into no-tax Washington, and they take their revenue, business smarts and investing muscle with them

Of all the beneficial changes one might make to Oregon's tax code, perhaps none is as vulnerable to simplistic ideological parry as cutting the capital gains tax. Why, the response goes, would you even consider giving rich guys a tax break when teachers across the state are losing their jobs?

It's hard to argue with that. Never mind that what it suggests — that capital gains serve no purpose but to further enrich the wealthy — isn't true.



STAN SHAW/THE OREGONIAN; SOURCE: ADOBE SYSTEMS

To be sure, the people affected most by capital gains taxes probably don't buy ramen noodles by the case. That doesn't mean, however, that all — or even most — people use their capital gains to buy boats, champagne, poodles or whatever it is rich people are supposed to enjoy.

In many cases, capital gains go right back to work, which is to say they're poured into businesses, property or anything else investors consider potentially lucrative — emphasis on potentially. An investment that promises to be lucrative can turn out to be disastrous because, you know, investing involves risk. That's one reason why capital gains are often taxed at a lower rate than regular income.

Why should those who don't have money to invest value such tax-code incentives? Because other people's investments allow companies to grow, allowing those businesses to hire more people, who, in turn, buy stuff and pay taxes. The more heavily you tax capital gains, the more expensive private capital becomes for the small businesses so many Oregonians support.

Yet Oregon's tax structure, which taxes capital gains at the standard income rate, is famously unfriendly to investors and small business owners alike. For long-term capital gains, Oregon's top combined federal and state rate, 21.4 percent, is higher than every other state's except California's (21.7 percent) and Hawaii's (22.2 percent), according to a March study by the American Council for Capital Formation, a Washington, D.C.-based organization that advocates for low taxes on capital gains.

The rates imposed by individual states matter because people may move freely, and taxpayers can time their capital gains. Don't want to pay the tax? Don't sell your asset until you've established residency in a more hospitable state — like Washington, which, like eight other states, does not tax capital gains.

Numbers provided by the Oregon Department of Revenue illustrate the phenomenon (please see graphic). In tax year 2007, for example, 297 Oregonians with capital gains income moved to Clark County, Wash. Their average capital gain that year was $166,455, or four and a half times the size of the average capital gain reported by the roughly 264,000 capital gains payers who remained in Oregon. And the year before packing up for tax-friendly Washington, the tax emigrants reported, on average, $32,468 in capital gains.

Would cutting capital gains taxes enough to prevent this movement generate enough money to offset the reduced tax payments made by people who stay in Oregon? Maybe not. But pushing away wealthy people — or not-so-wealthy people who leave Oregon before selling long-held businesses or stock — is bad policy for other reasons, including the effect on fledgling companies.

For many tech startups, and perhaps other businesses, the first round of funding often comes from friends and family, says Bob Wiggins, manager of Mount Hood Equity Partners in Lake Oswego. The economy has taken its toll in recent years, he notes, but in better times there existed "a group of very active, well-to-do people who would provide equity funding for startups." In many cases, these are people who had sold companies and invested — risked — some of their gains in other people's promising ideas. Presumably, they will become more active as the economy rebounds ... but not as active as they might be.

"If you believe that we're better off having people who have significant amounts of money living here so they can take that money and reinvest it here," says Wiggins, "then doing something that drives people away seems like a bad idea."

These people take more than their taxes when they leave. Last year, both Wiggins and Jeremy Rogers, manager of the Oregon Business Plan, testified before the Senate Finance and Revenue Committee, which at the time was considering a number of capital gains proposals for inclusion in a revenue stabilization plan pushed unsuccessfully by Senators Ginny Burdick and Frank Morse. Rogers pointed out that those who flee Oregon's tax code, which takes a big chunk out of personal income as well as capital gains, not only build and own companies and become angel investors, but also mentor new entrepreneurs and engage in philanthropy.

Read more editorials in the Oregon's Tax Trouble series, at **ORne.ws/oregon-tax-trouble.**

To gauge the scope of such flight, Rogers' group commissioned a study in 2009 that examined the movement of people between the Portland metro area's three counties and Clark County. Not surprisingly, those moving north made a lot more than those moving south — 37 percent more in the year they migrated, to be exact. The impact of this shift adds up. Between 1992 and 2006, Oregon lost $1.3 billion in net income just in the first year after people made the move. That number doesn't include income earned in subsequent years, the study notes, nor does it include movement of Oregonians from other counties or to other states.

Capital gains rates are only one component of a tax structure that nudges wealthy Oregonians toward the border, and perhaps not the most meaningful. Another is the state's income tax rate, which is among the nation's highest. Both of these taxes must be included in the tax-reform discussion to which Gov. Kitzhaber recently committed.

Even more than that, reducing both taxes must receive enthusiastic support from the governor and key lawmakers. It's a lot harder to explain the benefits of lower rates on capital gains and income than it is to say, "No tax breaks for the rich." But no one said improving Oregon's tax code would be easy.

Oregon taxpayers with capital gains income

Full-year residents compared with taxpayers moving to Clark County by tax year.

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Full-year residents	271,317	189,429	138,922	142,440	185,710	215,990	241,635	263,691	154,021	94,320
Total capital gains reported (millions of dollars)	$6,123.80	$3,179.70	$2,838.70	$3,417.00	$4,729.40	$7,313.40	$7,767.70	$9,747.00	$4,209.80	$2,562.30
Average capital gain	$22,570	$16,786	$20,434	$23,989	$25,467	$33,860	$32,147	$36,964	$27,333	$27,166
Taxpayers moving to Clark County during the tax year	459	244	184	230	311	358	328	297	138	88
Total capital gains reported (millions of dollars)	$108.10	$8.20	$6.70	$8.40	$39.60	$43.10	$38.60	$49.40	$21.60	$22.10
Average capital gain	$235,528	$33,418	$36,512	$36,541	$127,258	$120,510	$117,559	$166,455	$156,488	$251,660
Average capital gain in the prior year	$12,948	$100,320	$12,337	$83,750	$9,011	$13,470	$64,765	$32,468	$23,762	$58,406

Source: Oregon Department of Revenue, Research Section

PAM MARTIN/THE OREGONIAN

The Stump

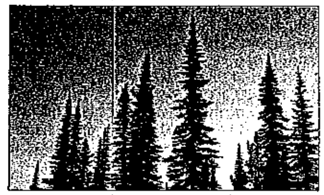
Bike commuter culture

Edgar T. Numrich of Lake Oswego examines the shortfalls of biking infrastructure and commuting in Portland: "In Portland, the City Hall mission to convert many principal streets and boulevards into high-speed, no-holds-barred expressways for 'commuter' bicyclists is all but **taken for granted.** It's bad enough to have undisciplined rider observance of traffic laws and no common sense to look over your shoulder before changing lanes abruptly. Little uniformity in the placement and marking of bicycle lanes makes it worse. ... In a phrase, it's stupid — not to encourage bicycle commuting as opposed to cars, but to insist on throwing them together willy-nilly on the busiest streets, which only encourages a witch's brew of 'Us vs. Them.' "

Read and comment at The Stump.

Parking in Portland

"Regarding the parking debate ... let me provide you with a real example of how the current policy works. ... We usually park our cars in our driveway and do not use the **on-street parking.** Our neighbor will park one car in the driveway and up to nine cars on the street — taking not only the space in front of our house but spaces in front of other houses as well. Consequently, on-street parking on our block is often at capacity," Larry Scruggs writes at the public blog My Oregon, found at The Stump.



JAMIE FRANCIS/THE OREGONIAN

Oregon timberlands

"I have traveled extensively in the **state's backcountry,** and I've seen firsthand how a large portion of the U.S. government's forestland in Oregon is relatively unproductive from the perspective of tree-growth rates. Most of this relatively less-productive forestland is managed by the U.S. Forest Service. Examples of less-productive forestland are forested sites above 4,200 feet in the Cascade Range. These high-elevation places are absolutely priceless and spectacular. Most of these lands are now, justifiably, managed for recreation, fish and wildlife use, and watershed protection," Andrew Swanson of Clackamas writes at the public blog My Oregon, found at The Stump.

Monday morning roundup

The Oregonian's Susan Nielsen shares **links to opinions** from around the Web to get you caught up from the weekend and ready for the week ahead.

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