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DEMOCRATS' TAX PLAN IS "COUNTER-PRODUCTIVE AND MISGUIDED"

The House and Senate Democrats' tax plan will "line the pockets of Oregon's most affluent and threaten Oregon's long-term fiscal health" according to the Oregon Center for Public Policy. The Silverton-based non-profit research institute is calling the plan "counter-productive and misguided."

The Democrats have developed a plan to raise revenue through a series of changes to Oregon's tax structure. Among their targets: increasing the corporate minimum tax and changing some tax breaks. The largest, and likely most controversial, change would be a decrease in the state income tax and the adoption of an unspecified "consumption tax."

Charles Sheketoff, executive director of the Oregon Center for Public Policy, praises efforts to raise the corporate minimum tax and to target some tax breaks. "The focus on reducing Oregon's income tax, however, is disconcerting," said Sheketoff. "The income tax is a fair tax that should not be traded for a consumption tax."

"The income tax is Oregon's best hope for revenue," said Sheketoff. "When the economy picks up, the income tax will again be our knight in shining armor, providing the money we will need for public services and funds to save for the next recession. It makes no sense to cut it off at the knees during these difficult economic times."

Wealthy Oregonians will benefit disproportionately from an across-the-board income tax reduction. "Oregon's wealthiest households benefited most from the past economic boom," said Sheketoff. During the 1990s the income gap between rich and middle income families grew faster in Oregon than in any other state.

Sheketoff asks: "How can we give a tax cut to those who don't need it when so many Oregonians are unemployed or struggling to make ends meet? Like the Bush tax cuts that benefit primarily the rich, this is class warfare."

Arguments for lowering the income tax are based on the idea that the income tax hurts the economy. "Nonsense," says Sheketoff.

"Those who make such claims forget – or refuse to remember – that for six years prior to the national and Oregon's recession, from 1995 to 2000, Oregon's economy grew faster than any state in the nation with our current income tax structure," he said. "At best such claims reflect amnesia. At worst, they are political opportunism."

Furthermore, cutting Oregon's income tax would mean more money leaving the state through increased federal taxes. Itemizers are allowed to deduct their state income taxes on federal returns. "Reduce the size of the deduction and you increase the amount of federal taxes paid," said Sheketoff. "Sending more money out of Oregon to the federal government doesn't make economic sense."

Some lawmakers and members of the business community have argued that the income tax should be reduced to lower the volatility of Oregon's tax system. "Any tax is going to have some volatility," said Sheketoff. "Plenty of states who depend on consumption taxes, or who depend on both consumption and income taxes, are also hurting. A rainy day fund is the answer to stability problems."

Although he does praise efforts to examine Oregon's tax breaks, Sheketoff offers one caveat: "don't cut the personal exemption credit." Every Oregon taxpayer is allowed to take a personal exemption credit to lower the taxes they owe. "Upper income families don't need it, but the personal exemption credit provides needed tax relief to lower income families. The across the board cut is a bad idea; instead they ought to phase it out."

The House and Senate Democrats have yet to make public the details of their income tax reduction scheme. "Even with what little we know of the plan, we know it's a bad idea. The real devil will be in the details," said Sheketoff.

"The income tax is Oregon's star player when it comes to generating revenue," said Sheketoff. "The Blazers didn't trade Drexler when we lost the finals in 1990," said Sheketoff. "Oregon shouldn't trade our tax system's best player just because, like the rest of the country, we're in an economic slump."

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.