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Senate Finance and Revenue 76th Session
DATE: 03-23-2011 PAGES: 3
SUBMITTED BY: Larry Scruggs

Capital Gains Tax Cuts Will Not Stimulate the Economy

Testimony of Larry Scruggs

Co-Chairs, Vice Chairs, Members of the Senate Finance and Revenue Committee

My name is Larry Scruggs and I am a member of Tax Fairness Oregon. To establish my credentials to testify on this subject I hold a Ph.D. in Policy Analysis from Portland State University and have held senior administrative positions in higher education and business throughout my career.

I come to you today to argue against cutting capital gains taxes and present the following information to substantiate my position:

1. Weller of the Economic Policy Institute argues that "Corporate tax cuts and reductions in capital gains taxes will likely improve the bottom line for companies and boost the wealth of stock holders, but they will do little to stimulate the economy (*or create jobs)*. Businesses are unlikely to spend the money they will receive from lower taxes; rather, they are likely to save it. Stock holders are just as unlikely to spend all of their additional income from capital gains tax cuts, thereby reducing the effectiveness of this tax cut in enhancing demand. Both tax cuts are likely to increase corporate and private savings, which means less spending - exactly the opposite of what the economy needs right now."

2. Fisher and Ditsler of the Iowa Policy Project, in their research on capital gains tax cuts in Iowa, found that they are irrelevant to Iowa's economic growth. They found that there are several reasons for the limited effects of capital gains taxes on growth.

    a. About half of taxable capital gains are not taxed anyway
    b. A cut in capital gains taxes reduces only the cost of investment financed by equity (approximately one-third of corporate [*and business*] investment is financed through debt).

3. Capital Gains Tax cuts do not stimulate the economy in Oregon

    a. Where is the data showing that a capital gains tax cut will create more jobs in Oregon?

    b. Friedman, et al, from the Center on Budget and Policy Priorities show that business tax cuts do not necessarily create jobs. Their research shows the following:

        i. The theory that less taxes equals more jobs does not hold true – more demand creates more jobs.

ii. American corporations are more profitable now than they were at the beginning of the recession but are still not hiring.
iii. Reducing the tax overhead for a business or an individual allows them to reallocate tax expenditures elsewhere – but not necessarily to hire more workers.

c. We've had significant federal tax cuts in 2001, 2003, and 2010 – where are the jobs?

d. Those who say that our capital gains tax rate hurts business need to look at our overall tax rates in Oregon. Don't just use one tax rate to prove a point. Rather use Oregon's overall tax rate to show that we are favorable to business. According to the Tax Foundation we're 14th in State Business Tax Climate. The Public Policy Institute of New York ranks us 9th in State Business Tax Climate.

Our recommendations relating to capital gains taxes are as follows:

1. Continue to follow Federal Law and allow up to 60% exclusion of capital gains for investing in small business corporations as defined in 26 USC 1202.

2. Continue to tax all income the same..

3. Conduct a cost benefit analysis of these bills. How much will this cost the State of Oregon in lost revenue? What will the state gain from this reduction? How many jobs will be created? How much development will result directly from these cuts?

We are in a very difficult financial position in Oregon. We don't see how more tax cuts are going to help us solve our problems.

Thank you very much for the opportunity to testify today.

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