MEASURE:
EXHIBIT: H
Senate Finance and Revenue 76th Session
DATE: 03-23-2011 PAGES: 2
SUBMITTED BY: Laurie Wimmer

OREGON EDUCATION ASSOCIATION

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Date: March 23, 2011
To: Senate Finance and Revenue Committee, Chair Burdick and Members
From: Laurie Wimmer, OEA Government Relations
RE: *Capital Gains Tax Cuts [SB 824, SB 8, SB 336, SB 625, SB 714, SB 715, and SB 883]*

On behalf of OEA's 45,000 members, I respectfully submit testimony in strong opposition to the enactment of special tax treatment for the realization of a capital gain in Oregon tax law. This is, plain and simple, a tax break for the wealthy that Oregon can ill-afford with its $3.5 billion revenue shortfall and a grim future ahead in terms of cuts to education and other vital services that our citizens value.

Our review of the research literature is clear: most plans to reduce capital gains taxes simply enable individuals -- generally wealthy tax subjects -- to avoid paying taxes on this form of income, but it does not provide economic stimulus, job creation, or business development incentives.

Some have argued that a reduction that favors investments made in Oregon would be viable because it would induce investment here. We disagree. Assuming that the Interstate Commerce Clause of the U.S. Constitution is enforced, Oregon-only investing would never be possible. Multi-state corporations could easily manipulate the law, too, by shifting their reported investments "on paper". Oregon would not be able to assume that investments claimed are truthfully "Oregon" investments unless a huge enforcement and regulatory operation is invested in by the state to ensure compliance.

Finally, there would be no way to ensure that only labor-intensive investing would occur, instead of capital-intensive investing. Put another way, you couldn't likely structure a capital gains tax cut that would reward only the investor who buys or creates an Oregon car wash, for instance, that employs 10 people to hand-wash cars. More likely, if an Oregon investment is made at all, it would be to mechanize the 10-worker car wash, thereby laying off seven of the employees because the new capital investment has reduced the cost of – and need for – labor. Your Oregon-only capital gains tax cut will have just rewarded the elimination of 70 percent of that business's workforce. ***Not all capital gains tax cuts are created equal.***

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- What should be the *quid pro quo* for the state's significant lost revenue?
- How will we be assured that good jobs will result from the benefit's inducement to make qualifying investments?
- What recourse will the state have if a taxpayer does not invest as required but claims the cap-gains tax cut nevertheless?

We would argue that Oregonians expect good stewardship of their public weal. It would be bad stewardship to offer this tax break without a structural guarantee of accountability and transparency. With this thought in mind, we suggest that any rate reduction or subtraction you may consider should have the following features:

1. A reporting, certification, tracking, and enforcement process must exist and be used.
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