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Date: February 8, 2016

To: House Revenue Committee Chair Barnhart and Members

From: Laurie Wimmer, OEA Government Relations Consultant

RE: *HB 4063 [Equalized Kicker]*

Thank you for this opportunity to submit for your record OEA's testimony in support of HB 4063 on behalf of our 43,000 members. We believe that when the State Economist's two-year revenue prediction is off by more than 2 percent, Oregon's "kicker" attempts to respond in what has been since its inception a very unequal and unfair manner. This bill fixes that problem.

As you will see from the attached piece published in Bloomberg Report (September 2015), Oregon's recovery from the Great Recession has resulted in a personal income tax kicker of $402 million, but these resources disproportionately flow to those who could benefit least from it and who may not immediately infuse Oregon's economy with stimulus because wealthier people are better able to set aside resources for saving or for purchases and travel outside of the state. By contrast, our least wealthy taxpayers typically spend every dollar on the cost of basics, thereby providing economic stimulus more efficiently. Clearly, this is not just a matter of fairness, but also, of good economic policy.

The clearest illustration of the problem with Oregon's kicker is found in the second chart of the Bloomberg article, which shows the difference between the median kicker credit of $125 and the amount received on average by the "one percenters" -- $4614. Recall that kickers are awarded to taxpayers in the year following the mis-prediction, not the year of the unanticipated receipts. That is, those who receive the kicker credit are not necessarily the same taxpayers as those whose taxes created the revenue level. Nor can it be said that the proportional allocation reflects the amounts paid in – either in the year of the so-called "surplus" or in the year that the credit is taken. This point should defeat the argument that the kicker amounts to a fair "return" of the "the taxpayer's overpayment". It's just not true.

By equalizing the amount of the kicker credit, each taxpayer will be able to claim the same credit, just as each is able to do in the personal exemption credit. We thank the sponsors of this legislation for a great idea that is long overdue. Please pass HB 4063. Thank you.

Wealthy Reap the Most as Revenue Rush Triggers U.S. State Rebates

Alison Vekshin alisonvekshin
September 25, 2015 — 2:00 AM PDT

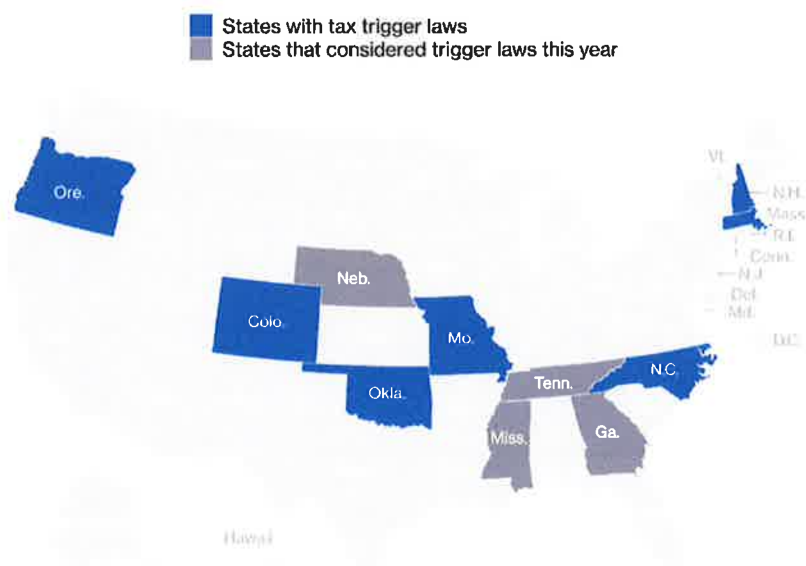
- **Tax repayments arrive as economies recover from recession**
- **Critics say laws offer help to those who need it least**

In another sign that U.S. states are recovering from the Great Recession, a handful are triggering mechanisms that repay taxpayers when coffers overflow, and the wealthiest are receiving the most.

At least seven states have such laws. Oregon this year paid back $402 million to taxpayers. Colorado and North Carolina set off similar triggers. The product of taxpayer revolts aimed at checking government's growth, the laws typically call for a rebate or reduction in income-tax rates when revenue exceeds benchmarks.

States Offer Tax Rebates or Cuts to Residents

The benefits are triggered when revenue exceeds thresholds.



Sources: Center for State Fiscal Reform, Center on Budget and Policy Priorities

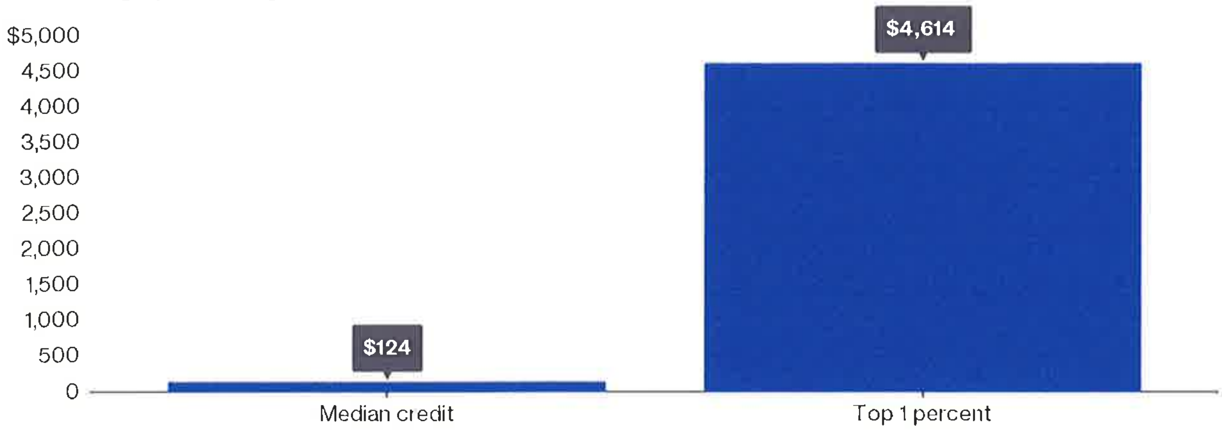
Bloomberg

Opponents say returning money to taxpayers leaves governments unprotected in the event of another recession, deprives states of cash for schools and roads, and prevents them from socking away money in rainy-day funds. Supporters say the policies keep states from overspending.

"The wrong people are getting the bulk of the money," said Chuck Sheketoff, executive director of the Oregon Center for Public Policy, a research group that supports a progressive tax system and policies that help the poor. "If you want to boost the economy, you give money to low- and middle-income people, not people who earn more than they spend already."

The 1 Percenters Collect Windfall from Oregon Trigger

State taxpayers will get $402 million in credits on their 2015 tax returns



Source: Oregon Office of Economic Analysis

Bloomberg

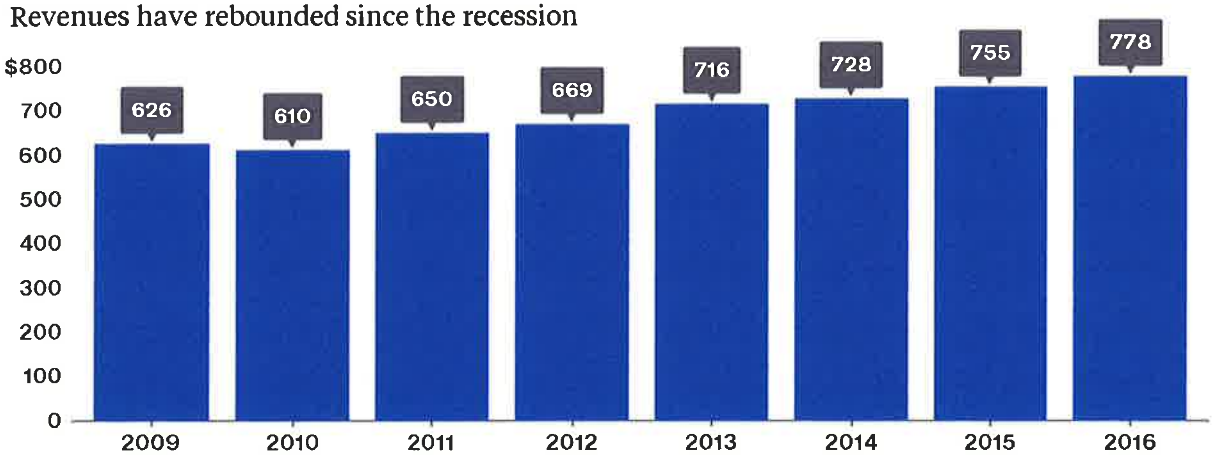
The repayments show that states are committed to business, said Jonathan Williams, vice president of tax and fiscal policy at the American Legislative Exchange Council, which supports free markets and limited government.

"You've seen a trend with states moving toward the direction of wanting to have more competitive business climates," he said. "Tax-cutting triggers allow them to show that they're serious about becoming more competitive as a state economy."

A surge in revenue has created the controversy. States' tax take grew 24 percent between 2010 and 2015, according to estimates by the Washington-based National Association of State Budget Officers.

U.S. State General Fund Revenue on the Rise

Revenues have rebounded since the recession



Source: National Association of State Budget Officers.

Note: Dollars in billions

Bloomberg

"While we have seen revenue growth, it has been slow growth compared to prior recovery periods and revenue has become increasingly volatile," said Brian Sigritz, the group's fiscal studies director. "Much of the personal income tax increases we have seen have been due to high-income earners and capital gains," an unstable source of revenue.

Tax-trigger policies can leave states with a shortfall or keep them from maintaining services whose costs grow each year, said Erica Williams, assistant director of state fiscal research at the Washington-based Center on Budget and Policy Priorities, which analyzes budgets with a focus on low-income families.

"You're setting in motion a series of tax cuts or rebates that keep future lawmakers from having a full range of choices on what they can spend money on," she said.

Efforts to stop or modify the tax cuts have had little success. In Oklahoma, lawmakers defeated a measure to suspend that state's 2014 law that set off an income-tax reduction this year even though revenue has since fallen sharply because of a decline in oil prices.

"The economy is struggling, we have a huge budget shortfall, we have teacher vacancies, everything is in disarray and yet they managed to write a bill that tied a tax cut to revenue growth, and it's still going to take effect," said David Blatt, executive director of the Oklahoma Policy Institute, a Tulsa group that supports public-services funding.