

February 6, 2020

Testimony in Support of HB 4010-1

Chair Nathanson, Vice-Chair Reschke, Vice-Chair Marsh, and members of the committee,

My name is Daniel Hauser, tax policy analyst for the Oregon Center for Public Policy, and I respectfully submit this testimony in support of House Bill 4010 with the -1 amendments. HB 4010 disconnects Oregon from the flawed Opportunity Zone tax breaks included in the federal tax package rushed through Congress at the end of 2017. These subsidies are designed to cut the taxes of wealthy investors — not help struggling communities. The research on tax breaks like these often find public resources were wasted subsidizing investments that would happen anyway, while displacing existing residents.

Capital gains income largely flows to the richest Oregonians. In the most recent year we have data, the 2017 tax year, the richest one-tenth of 1 percent (richest 1 in 1,000) Oregonians collected nearly the same amount of capital gains income as the bottom 99 percent of Oregonians. Oregon should not be cutting the tax rate on capital gains income by connecting to the Opportunity Zone provisions at a time of record inequality.

There are three distinct capital gains tax breaks embedded in this federal policy. One reduces the capital gains on prior investments reinvested in an Opportunity Zone, another delays taxes on the remaining capital gains, and the final tax break is the exemption of capital gains on the actual Opportunity Fund investment if held for a certain time period.

These tax breaks for the rich have a modest short-term cost but could be incredibly harmful to the Oregon budget in the long-run. Most of the cost to the state from these capital gains tax breaks won't hit the budget for five, seven, or even 10 years after the Opportunity Fund investment.

There is no requirement for investments in Opportunity Zones to consider the impact on the low-income residents of these communities. Surges in profit-seeking investment in established communities are likely to lead to expanded displacement of long-term residents and gentrification of the neighborhood.

HB 4010-1 wisely recognizes the dangers posed by Opportunity Zones. While we can't change the fact these Opportunity Zones exist and federal taxpayers will subsidize these investments for years to come, HB 4010-1 stops Oregon from doubling down on these tax subsidies moving forward. It then gives time for the Legislative Revenue Office to study any potential benefits of a partial reconnection to this tax break, such as how they can be used to increase the supply of affordable housing.

Please support House Bill 4010-1.