Capital Gains and the Kicker

Where is the substantive analysis that proves that lowering or eliminating capital gains tax has a positive effect on the overall economy rather than only on the personal wealth of some individuals and families?

The taxpayers who are usually mentioned in discussions of Oregon's capital gains tax are those who are having one-time events and tempted to move. But what percentage of all capital gains taxes is from these events? Does anyone have that number? It's likely not that big a piece of the pie, just the most compelling to talk about.

Most taxable capital gains income is generated in the normal buying and selling of assets as investors reposition portfolios or harvest money for living expenses.

Many investors experience more capital gains income outside "the event" than in it. In fact, for business owners, the sale of the family business often comes decades after they've started earning significant capital gains on income taken out of the business and invested in the stock market.

But let's look at a taxpayer who is selling their business with a $30 million in gain

- at 9.9% the Oregon tax is $2.97 million (the rate as of 1.1.2012).
- at 9.0% it is $2.7 million (our top rate prior to the passage of Measure 66)
- at 5.0% it is $1.5 million (a suggested new lower rate)
- at 3.0% it is $ .9 million (another suggested new lower rate)

Wouldn't the family who is willing to move for $2.7 million also be willing to move for $900,000?

We'd have to go to zero tax on capital gains to change the behavior of those taxpayers who have one-time events and the propensity to move. But in the process we'd lower taxes for all those who have benefitted the most from living in our state.

Of course we know that there are folks who choose to move. But there are many more who choose to stay.

ECONorthwest studied[1] IRS data for the Metro Counties and Clark County and the dollar drain from movers. From their analysis we find that the lost taxes on part-year returns of movers would be less than $20 million a biennia. So we lose $20 and collect $844 million. Does it really matter then that the net dollar value of AGI moving from the three metro counties to Clark County was 34% higher than those who made the opposite move. Some people with wealth move to Vancouver, .

Unfortunately there isn't data available for those same taxpayers for the year after they move, when "one time events" most likely occur. But even if you assume that many who would never have moved but for the presence of Oregon's taxation of capital gains then stay away and avoid years of Oregon capital gains tax, it's hard to imagine that the cost to Oregon's revenue stream from the moves of tax sensitive captains of industry is more than $200 million a biennia. From those who live in Oregon, and do pay our taxes, we can expect to collect $822 million a biennia.[2]

---

[1] ECONorthwest Memorandum "Tax migration analysis" June 4, 2009

[2] Based on the average of the most recent ten years 2000-2009.

[redacted]

Capital Gains and the Kicker

What is the connection?

Year or	Capital Gains	Biennia	Personal	Surplus or	Corporate	Surplus
	Tax Revenue[3]		**Kicker History[4]**	**Shortfall**	**Kicker History**	**Shortfall**
1990	$101m					
1991	100	1989-91	suspended	$186m	none	$-23m
1992	123					
1993	179	1991-93	none	60	suspended	18
1994	167					
1995	185	1993-95	kicked	163	kicked	167
1996	248					
1997	351	1995-97	kicked	432	kicked	203
1998	403					
1999	460	1997-99	kicked	167	none	-69
2000	509					
2001	248	1999-01	kicked	254	none	-44
2002	212					
2003	264	2001-03	none	-1249	none	-439
2004	382					
2005	608	2003-05	none	-401	kicked	101
2006	650					
2007	819	2005-07	kicked	1071	suspended	344
2008	326					
2009	198	2007-09	none	-		

The average of the capital gains revenue for the last 10 years is $844/biennia while the average of the kicker and suspended personal kickers is $266/biennia. The percentage of PIT income that was capital gains is 8.91%, So only $24 million of the average kicker is capital gains.[5]

There is of course, no evidence that a reduction would end moving to avoid taxes or draw new business creators. Elimination would cost $844/biennia.

Further, we know that roughly three fourths of the any tax break for capital gains and dividends will go to the richest 0.6 percent, whether they stay in Oregon or move.[6] This 0.6% enjoys incomes above $500,000. In 2006, 8191 tax filers with AGI above $500,000 remained in Oregon and filed full-year[7] returns despite average capital gains income of $4 million in their $11.3 million of AGI.[8] The more recent numbers are similar, though because of stock losses, the percentage of income from capital gains has dropped.

---

[3] LRO Data received by email from Chris Allanach 4.2011

[4] LRO Research Report #1.09

[5] Using 20 years' data makes it no better. Capital gains revenue averaged $654/biennia while the average of kicked and suspended personal kickers averaged $228/biennia over the last 20 years. Capital gains as a percentage of all personal income taxes is 8.02%. So the capital gains portion of each kicker is but $19 million.

[6] Citizens for Tax Justice analysis of 2005 data http://www.ctj.org/pdf/cgdiv.pdf

[7] LRO Research Report #1-09, page C10

[8] LRO Research Report #1-09, page C11