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Changing America's worst tax structure

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A new group, the Revenue Restructuring Task Force, has been charged by the Legislature with studying Oregon's tax system and submitting recommended policy changes to the 2009 Legislature.

The task force is the result of a bipartisan bill because many of us believe Oregon has the nation's worst tax structure. And a few of us are convinced that if we don't have the courage to radically change it soon, Oregon will be forever relegated to economic mediocrity.

Our tax structure is crippling for many reasons. First, income tax rates on our work, our jobs, are among the highest in the nation, as is our tax rate on investment gains. If you believe that taxes affect behavior, that whatever activity we tax we get less of, then it's easy to see that Oregon's tax structure stifles incentives for work and investment.

Our tax structure is also family unfriendly. For an average working family with kids, the only tax benefit is a paltry \$159 child tax credit. Don't we all agree that children are our state's most important asset? From an economic perspective, this sentiment is equally true. Children are the ones who will pay all future taxes and supply all the future economic underpinning providing the rest of us with security as we age. And parents are the ones who make the financial sacrifices now to raise these children -- sacrifices largely ignored by the state.

Finally, Oregon's feast-or-famine tax structure makes consistent legislative budgeting nearly impossible. Oregon's fiscal history shows that when the economy is good, personal income tax receipts far outpace economic growth. When the economy slows, income tax receipts are much slower. This roller-coaster effect makes it difficult for our school districts to plan with any consistency. It leaves transportation needs unmet. And it's resulted in a 10-year divestment from higher education, reversed only this year. Yet even with stronger support for higher ed in 2007, our current tax system virtually guarantees that colleges will suffer greatly with every future downturn in the economy.

But there is a solution to all of this: revenue neutral tax reform -- tax reform that lowers the rate of taxation for every working Oregonian, lowers the cost of savings and investment, promotes economic growth, provides tax relief for every Oregon family and flattens the peaks and valleys of state tax receipts. The solution is tax reform that recognizes that what we tax is just as important as how much we tax.

A new structure could look something like this: a 50 percent reduction in personal income taxes, a 50 percent reduction in capital gains taxes and a \$500 per child tax credit for every family. To keep these changes revenue neutral, they could be offset by a 5 percent tax on all consumer purchases except food, medicine and medical services. Further, these rates could be established by the people of Oregon via constitutional amendment. In that way, only the people of Oregon, not the Legislature, could ever change them.

Of course, nobody likes consumption taxes, including me. But isn't a tax paid by choice, like a sales tax, inherently better than an income tax in which we really have no choice?

The good news with this sort of system is that if you live and work in Oregon, you'll see a tax reduction, a reduction largely recovered with new revenue from the hundreds of thousands of tourists who visit Oregon each year as well as those in Oregon now who, unfortunately, work in the underground economy.

Real tax reform has been a taboo subject for too long. We owe it to the families and working people of Oregon to embrace change.

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