The tax code and the legislature's role in wealth inequality

The Issue: Wealth inequality has grown steadily for 50 years. As OCPP has written, "Vast inequality weakens economic growth and innovation, undermines physical and mental health, leads to lower levels of happiness and trust in others and is an existential threat to our democracy." **In Oregon the top 10% own more than three times the other 90%. Three of the state's billionaires have as much wealth as 2.1 million.**

The Problem: The Oregon legislature keeps supporting tax legislation that makes the Wealth Gap worse and fails to take action to support bills that would reduce inequity.

2023 tax legislative actions with wealth distribution implications

Worsened Inequity	Reduced inequity
Estate Tax exemption for wealthy landowners **Maximum benefit $2,400,000 per family**	Kids' Credit **Maximum benefit $5,000 per family**
SALT workaround for business owners Benefits the top 20%	Eliminated sale of tax credits to investors for Opportunity Grants. Benefits students
R&D Tax Credit – Benefits investors	
Failure to disconnect from federal Opportunity Zone's capital gains exemption	
Failure to cap the Mortgage Interest Deduction	
Failure to pass Kicker reform equalizing payments. Top 20% get 2/3 of payments	

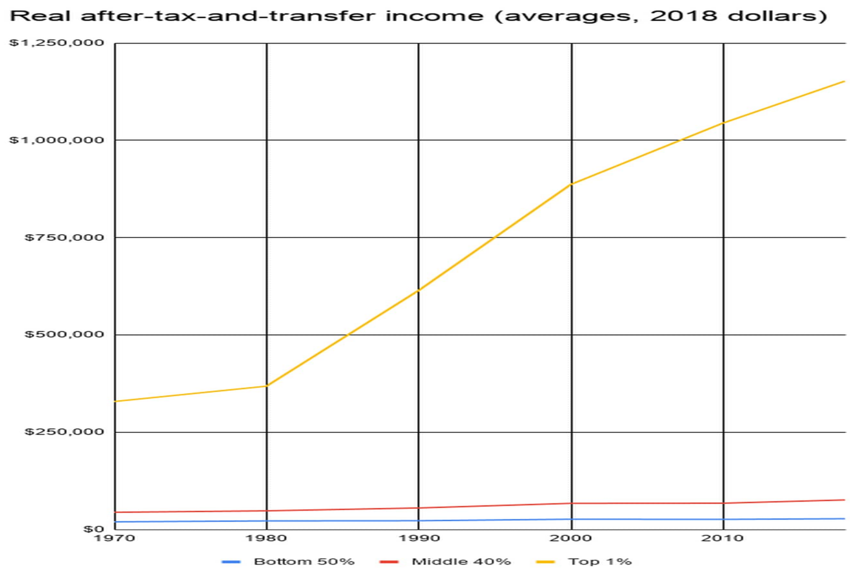
Often overlooked when we address Oregon taxes is what takes place at the federal level. The progressivity of the U.S. federal tax system at the top of the income distribution has declined dramatically since the 1960s due to a drop in corporate, estate, and personal income tax rates. In addition, the effective tax rate for the wealthy keeps dropping due to tax provisions that only the wealthy can take advantage of. When federal, state, and local taxes are combined, the working class pays a higher tax rate than the top 10%.

Response: Legislators can help reduce the problem or add to it by focusing on how bills affect the wealth gap. Congress employs an informative tool: The Joint Committee on Taxation—the equivalent of LRO—produces a distributional analysis for every tax bill approved in committee. Analysts break down revenue costs and benefits by income category. Oregon could adopt a similar law. If every tax bill on the floor were accompanied by a distributional analysis legislators would be aware how their votes widen or lessen the wealth gap.

Two examples: (1) The bill to extend SALT benefits for pass-through business partnerships got almost unanimous approval because it did not affect Oregon revenue. However, the bill overwhelmingly benefits high-income families and adds to our nation's disparity. (2) When new legislation is proposed to reduce estate taxes, legislators will see that only 4% of estates currently pay any Oregon estate tax.

The trend in after-tax-and transfer income in the U.S.

The yellow line is the top 1%. Red is middle 40%, blue the bottom 50%



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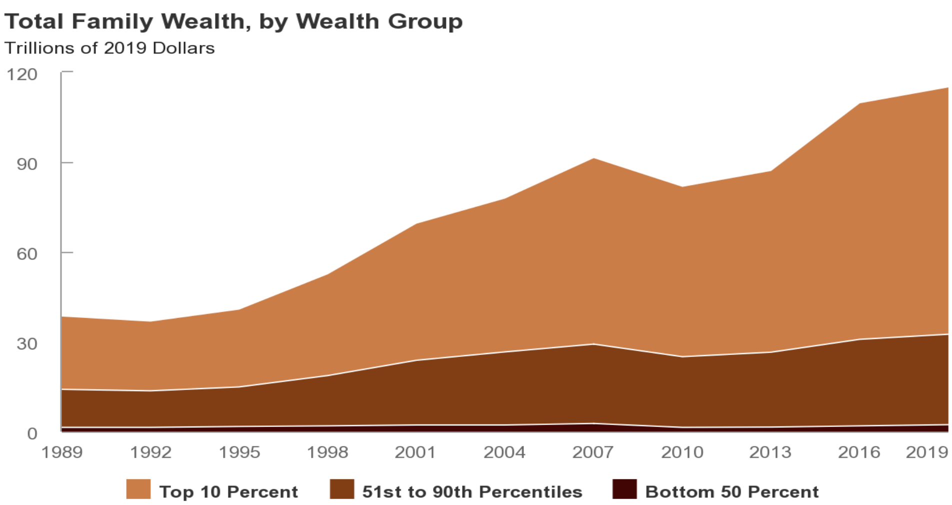

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