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Dear Wall Street Journal: No Need to File a Missing Persons Report

Oregon's High-Income Taxpayers Have Not "Vanished"

The Wall Street Journal recently published an editorial suggesting that a 2 percentage point increase in Oregon's top income tax rate caused up to 10,000 wealthy Oregonians to flee the state.[1] In support of its claim, the *Journal* points to new data showing that 10,000 fewer Oregonians were affected by this tax increase than the state's Legislative Revenue Office (LRO) had originally anticipated.

But there is a much simpler explanation for this discrepancy, and it's made clear both in the LRO data and in its analysis of that data. These 10,000 taxpayers earned less than the LRO expected in 2009 as a result of the economic recession, and therefore fell below the income threshold at which the new brackets took effect.

The Oregon tax increase in question was adopted by the legislature in 2009 and approved by voters in early 2010 via Measure 66. It took effect at the beginning of tax year 2009. Measure 66 raised the state's top income tax rate from 9% to 11% for married couples with taxable income over $500,000 per year (and for single filers with over $250,000). It also created a new 10.8% bracket on taxable income between $250,000 and $500,000 for married couples (and between $125,000 and $250,000 for single filers). In 2012, these two brackets will merge to create a 9.9% tax bracket on taxable income over $250,000 ($125,000 for singles).

Unfortunately, the economy was weaker than the LRO realized at the time this plan was enacted, causing them to overestimate its potential revenue yield by $50 million. As the LRO explained to the Oregon House Revenue Committee, this was driven in part by overly optimistic estimates of how many Oregonians would earn enough

Oregon Taxpayers Moved … to a Lower Tax Bracket

Income Range	Number of 2009 Tax Returns: Original Projection (May 2009)	Prelim Tax Return Data (Dec 2010)	Change
Over $500,000	8,753	5,578	(3,175)
$200,000 to $500,000	36,507	29,665	(6,842)
$100,000 to $200,000	170,716	146,840	(23,876)
Under $100,000	1,325,600	1,386,057	60,457
TOTAL	**1,541,576**	**1,568,140**	**26,564**
Addendum: Over $100,000	*215,976*	*182,083*	*(33,893)*

Source: Oregon Legislative Revenue Office

[1] "Ducking Higher Taxes," *The Wall Street Journal*, December 21, 2010. http://online.wsj.com/article/SB10001424052748704034804576026233823935442.html

to be affected by the new tax rates. Specifically, the LRO noted that many taxpayers have been "driven down the income distribution because [of lower than expected capital gains income], and they move from the affected category to the unaffected categories."[2]

As indicated by the chart on the previous page, LRO originally estimated, for example, that almost 216,000 Oregonians would earn over $100,000 in 2009. It turns out they overshot by about 34,000 — only 182,000 Oregonians actually earned this much. As a result, LRO also overestimated by 10,000 the number of Oregonians that would be affected by the tax increase — a fact which the *Journal* has spun as "evidence" that 10,000 Oregonians have fled for states like Texas, which lacks an income tax.

But the *Journal* ignores the fact that the number of Oregonians earning *under* $100,000 shot up by 60,000 relative to the LRO's initial projections — a jump more than large enough to explain a 34,000 decline in returns earning over $100,000. Furthermore, over 26,000 more tax returns were filed overall than the LRO originally anticipated, which flies in the face of claims that taxes are driving people from the state. It's unclear why the *Journal* would immediately begin looking for Oregonians as far away as Texas, when the LRO data (and the LRO's explanation of that data) strongly suggest that they've simply moved to a lower tax bracket. It's also unclear why the *Journal* would assume such a large exodus occurred in 2009, when final approval for the tax increase wasn't given by voters until January 2010.[3]

In addition to ignoring the impact of the economic recession (or, to be more accurate, dismissing it without explanation), the *Journal's* recent editorial includes two other glaring factual errors:

- In claiming that Oregon's situation is an "instant replay" of recent developments in Maryland, the *Journal* asserts that one-third of Maryland's millionaires "vanished from the tax rolls after rates went up" on millionaires in 2008. This is completely false. The *Journal* originally made this claim in May 2009, and ITEP debunked it shortly thereafter.[4] By March 2010, even the *Journal* had abandoned this talking point when it confessed that most of these people had simply become less rich.[5] At that point, the *Journal* then claimed that only one-eighth of Maryland's millionaires were actually "missing." ITEP pointed out in a letter to the editor that the real number of millionaires who filed a tax return in 2007 but not in 2008 was 6.8% (not much different than the average 5.6% decline seen in previous years due to normal migration patterns and deaths), but the *Journal* chose not to publish that letter.[6] Nonetheless, the *Journal* itself has already demonstrated that it understands the "one-third" claim is bogus.

[2] Audio of the December 15, 2010 hearing before the Oregon House Revenue Committee is available on the Oregon legislature's website (for the 2009-10 Interim session) at: http://www.leg.state.or.us/listn/

[3] "Facts (and Logic) Go Missing Again in a Wall Street Journal Editorial," *Blue Oregon*, December 21, 2010. http://www.blueoregon.com/2010/12/facts-and-logic-go-missing-again-wall-street-journal-editorial/

[4] "Millionaires Go Missing," *The Wall Street Journal*, May 27, 2009. http://online.wsj.com/article/SB124329282377252471.html. Institute on Taxation and Economic Policy, *Where Have All of Maryland's Millionaires Gone?*, Washington, DC, May 29, 2009. http://www.itepnet.org/pdf/MD_Millionaires.pdf

[5] "Maryland's Mobile Millionaires," *The Wall Street Journal*, March 12, 2010. http://online.wsj.com/article/SB10001424052748703976804575114241782001262.html

[6] Institute on Taxation and Economic Policy, *The Wall Street Journal and the Maryland Millionaire Migration Myth*, Washington, DC, April 2, 2010. http://www.ctj.org/taxjusticedigest/archive/2010/04/the_wall_street_journal_and_th.php

- The *Journal* also argues that a 2 percentage point increase in Oregon's top income tax rate will prevent wealthy Oregonians from selling their stocks: "Successful entrepreneurs like Nike owner Phil Knight don't get rich by being fools with their money. They don't sell tens of millions of dollars of assets when capital gains taxes go up." Amusingly, however, Knight did exactly that. The *Portland Business Journal* reported that in October 2009 (four months after the tax increases were approved by the legislature and were then pending before the voters) Knight sold $185 million in Nike stock.[7] Apparently Oregon's "successful entrepreneurs" think about factors other than the state's top tax rate when deciding how to conduct business.

The *Journal's* recent editorial is both misleading and factually inaccurate. It takes the same boilerplate language it used in arguing against Maryland's "millionaires' tax" and attempts to apply it to the situation in Oregon. But even a cursory examination of the evidence reveals that the *Journal* has been extremely sloppy in doing so. Even one of the *Journal's* own employees — blogger Robert Frank — has begun to criticize the *Journal's* brand of spin, describing claims of "tax-driven wealth flight" as "exaggerated," and noting: "That demographics and economics matter more than taxes in increasing and retaining wealth may seem like an obvious point. Still, it is one that seems to get lost in the increasingly emotional debate over taxing the wealthy."[8]

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[7] "Knight Sells $185 million in Nike stock," *Portland Business Journal*, October 21, 2009. http://www.bizjournals.com/portland/stories/2009/10/19/daily21.html

[8] "High-Tax States Still Grow Millionaires," WSJ Blog: The Wealth Report, September 28, 2010. http://blogs.wsj.com/wealth/2010/09/28/high-tax-states-still-grow-millionaires/