REFORMING OREGON'S ESTATE TAX

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March 5, 2025

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Executive summary

Oregon's estate tax, while generating only 2.5% of General Fund revenue, imposes disproportionate economic costs through wealth outmigration and resource misallocation. This tax is harmful to Oregon's competitiveness vis-à-vis states with less burdensome tax systems and creates a measurable exodus of high-income individuals aged 55 and older, who contributed $319 million in AGI losses in 2022 alone.

Key Findings

- 75% of estate tax filers account for less than 25% of revenue, while 2.5% of filers generate nearly one-third of collections.
- High-income earners ($200,000+ AGI) who leave Oregon take with them an average of $35,100 in annual income taxes per filer.
- Outmigration severs local business investment, philanthropy, and entrepreneurship from precisely the demographic (age 45-65) most likely to launch high-growth startups.
- Current policy contradicts sound tax principles by applying high rates (10-16%) to a narrow base.
- Estate tax revenue volatility makes forecasting unreliable, with economists describing collections as driven by "random events."

Recommended Reforms

- Raise the exemption threshold to align more closely with other states' estate taxes.
- Implement a flat tax rate to simplify compliance, reduce administrative costs, and eliminate inefficiencies of the current 10-bracket system.
- Create targeted exemptions for family-owned businesses and primary residences to prevent forced liquidations and to allow aging-in-place.

These targeted reforms would preserve most revenue while dramatically reducing economic distortions. Evidence suggests that increased income tax retention would offset estate tax reductions within five years. ■

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I am president and chief economist at Economics International Corp., a consulting firm that provides economics services to private and public sector clients. I am also a senior scholar at the International Center for Law & Economics, focusing on antitrust, competition, and telecommunications policy.

I have a masters' and a doctorate degree in economics and a bachelors' degree in business economics and public policy. My graduate-level training included the study of statistics and econometrics (the application of statistical methods to economics issues). I have taught graduate-level courses in economics, econometrics, finance, and the economics of regulation and antitrust. I have published several peer-reviewed papers, each of which have included statistical and econometric analysis. In 2012, I co-authored a study of Oregon's estate that was distributed to the Oregon Legislature.[1]

1 Background

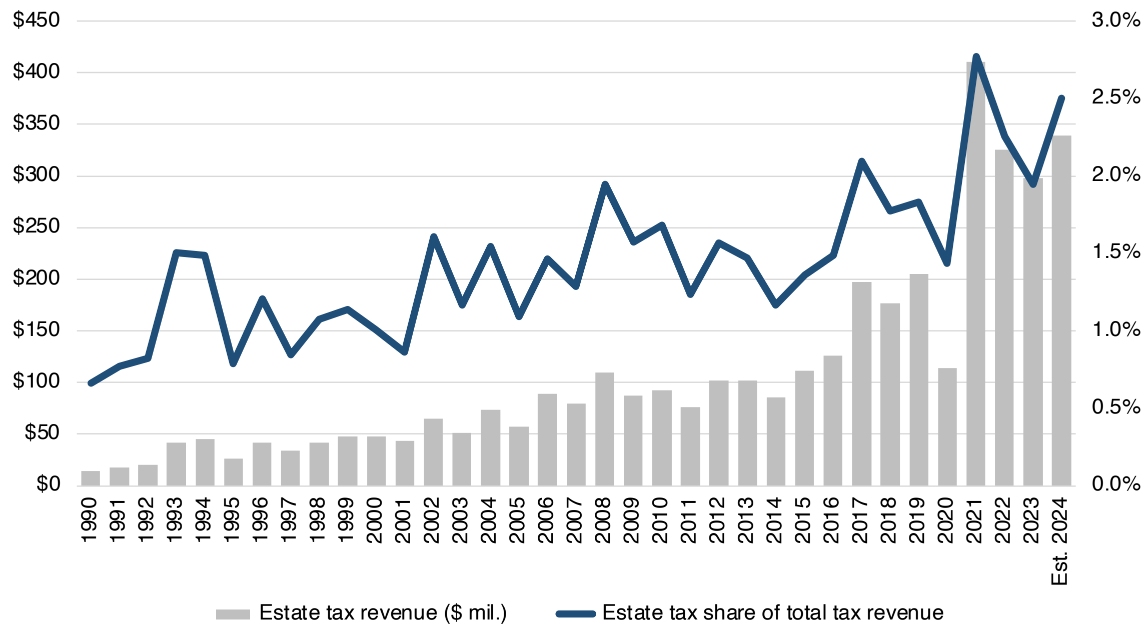
The estate tax is a small but growing share of total state tax revenues, as shown in Figure 1.[2] The Oregon Office of Economic Analysis projects that estate tax will

[1] Eric Fruits & Randall J. Pozdena, *Oregon's Death Tax: An Impediment to Economic Growth, In-Migration, and Public Revenue* (Feb. 12, 2012) *available at* https://olis.oregonlegislature.gov/liz/2017R1/Downloads/CommitteeMeetingDocument/111926.

[2] Oregon Office of Economic Analysis, *GF Revenues (FY 1978-)* (n.d.), https://www.oregon.gov/das/oea/Documents/General-Fund-History.xlsx.

generate $703.5 million in the 2023-25 biennium, or about 2.5% of gross General Fund revenue.[3]

Figure 1: Oregon estate tax revenues, $ millions and as share of tax revenues



Approximately 75% of estate tax filers account for less than 25% of estate tax revenues, as shown in Table 1.[4] Less than 2.5% of filers account for nearly one-third of estate tax revenues.

[3] Oregon Office of Economic Analysis, *Oregon Economic and Revenue Forecast, March 2025* (Feb. 26, 2025), https://www.oregon.gov/das/oea/Documents/OEA-Forecast-0325.pdf.

[4] Legislative Revenue Office, Section F—Estate Tax (Feb. 4, 2025), https://olis.oregonlegislature.gov/liz/2025R1/Downloads/CommitteeMeetingDocument/289660.

Table 1: Oregon estate tax returns, 2022 tax year

Taxable Estate	Marginal Tax Rate	Returns	Total Tax ($ mil.)	Avg. Tax per Return	% of Total Assessed: Returns	% of Total Assessed: Total Tax
Under $1M	0.00%	888	$0.0	$0		
$1M-$1.5M	10.00%	1,012	$17.4	$17,220	45.6%	5.4%
$1.5M-$2.5M	10.25%	656	57.8	88,048	29.6%	17.8%
$2.5M-$3.5M	10.50%	237	42.3	178,625	10.7%	13.1%
$3.5M-$4.5M	11.00%	98	25.7	261,875	4.4%	7.9%
$4.5M-$5.5M	11.50%	59	22.7	384,309	2.7%	7.0%
$5.5M-$6.5M	12.00%	36	15.5	430,819	1.6%	4.8%
$6.5M-$7.5M	13.00%	28	13.8	494,339	1.3%	4.3%
$7.5M-$9.5M	14.00-15.00%	38	24.9	654,761	1.7%	7.7%
More than $9.5M	16.00%	54	103.9	1,923,882	2.4%	32.1%
Total / Average		**2,218**	**$324.0**	**$146,068**	**100.0%**	**100.0%**

2 Economic impact of outmigration

While the estate tax is only a small share of Oregon's tax revenues, it can be an enormous burden to the families who must navigate its complex process and pay the assessed taxes. A general principle of "good" tax policy is that it should be applied to a broad base with a low tax rate. Oregon's estate tax is the opposite of a "good" policy in that it is applied to a small group who face an exorbitant tax rate. This small group, however, tends to be well-informed, financially savvy, and highly mobile.

That is why Oregon's estate tax is a key driver of wealth outmigration, particularly among high-income retirees. An *Oregonian* headline recently described Oregon as a "most frightening place to die" because of the state's estate tax.[5] A popular financial planning podcast had an episode titled "Don't Die in Oregon."[6]

[5] Aimee Green, *Oregon "Most Frightening Place to Die," with Nation's Most Expansive Estate Tax, Republicans Say. They Hope to Change That*, OREGONIAN (Feb. 14, 2025), https://www.oregonlive.com/politics/2025/02/oregon-most-frightening-place-to-die-with-nations-most-expansive-estate-tax-republicans-say-they-hope-to-change-that.html.

[6] Jonny West, *Don't Die in Oregon*, ONE FOR THE MONEY (Oct. 15, 2024), https://podcasts.apple.com/ca/podcast/dont-die-in-oregon-ep-72/id1590932593?i=1000673147844 ("The Beaver State is the worst place in the U.S. to die if you're concerned about estate taxes. Oregon has resisted the trend to raise its estate tax exemption or even adjust it for inflation. In addition to taxing estates valued at as little as $1 million, Oregon imposes a relatively high minimum tax rate of 10% on even the smallest of qualifying estates.").

When asked by Oregon Representative Pam March whether the estate tax "discourages people from living out their lives in Oregon," a Legislative Revenue Office (LRO) economist responded, "I think undoubtedly it has an impact. I think that it's very clear that it has an impact. I think the question is: Can you look at data and isolate that impact?"[7]

Recent data shows that individuals aged 55 or older with incomes above $100,000 account for 60% of the state's adjusted gross income (AGI) loss due to interstate migration, amounting to $319 million in 2022 alone, as shown in Table 2.[8] Many of these individuals relocate to states like Texas, Florida, and Idaho, which have no estate tax or have lower overall tax burdens.[9]

Table 2: Oregon net migration, age 55 and older, $100,000 AGI and over

Age & Income Group	Net Migration, Number of Taxpayers	Net AGI ($1,000s)	Net Migration, % of Total Group Number	Net AGI, Percent of Total Group AGI
Age 55-64				
$100k-$200k	-414	-24,994	-0.34%	-0.31%
$200k+	-189	-276,349	-0.29%	-1.81%
Age 65+				
$100k-$200k	-59	1,272	-0.04%	0.01%
$200k+	37	-19,051	0.06%	-0.10%
Total	**-625**	**-319,122**		

Source: Tax Foundation

[7] Jonathan Hart testimony before House Committee on Revenue, Informational Meeting, Estate Tax Overview (Feb. 6, 2025), https://olis.oregonlegislature.gov/liz/mediaplayer/?clientID=4879615486&eventID=2025021057.

[8] Andrey Yushkov, *Proposed Estate Tax Changes in Oregon: A Long-Overdue Reform?*, Tax Foundation (Feb. 28, 2025), https://taxfoundation.org/blog/oregon-estate-tax-reform/ ("A particularly concerning trend for Oregon is the outmigration of taxpayers approaching retirement age (55-64), who are among the most likely to relocate. Our analysis of the most recent IRS data shows that individuals in this age group with incomes of $200,000 and above are the primary contributors to adjusted gross income outmigration.")

[9] *Id.*

This outmigration has cascading effects:

- **Lost income tax revenue**: High-income earners contribute significantly to state income taxes. Full-year Oregon filers with an AGI of $200,000 or more accounted for 46% of personal income tax revenues and paid an average of $35,100 in state income taxes in 2022.[10] My earlier research found that if the estate tax were eliminated, within five years, the increased Oregon income tax revenues would exceed the foregone estate tax revenues.[11]
- **Reduced economic activity**: Wealthy individuals often invest locally in businesses, real estate, and philanthropy. Research published in the *Harvard Business Review* reports about one-third of the "highest growth startups" are founded by individuals aged 50 or older.[12,13] Projects funded by these investments create jobs and stimulate secondary economic activity. The departure of these individuals severs their ties to the state, thereby eliminating their contributions to Oregon and its local communities.

People who leave Oregon to avoid the state's estate tax deprive the state not only of estate tax revenues but also of years of income tax revenues. These older, higher-income individuals are precisely the types of people the state should be seeking to attract. They contribute substantial sums in tax revenues and invest in their communities. Because of their age and income, they consume few public services. Their kids are no longer in school and are much less likely to use public assistance such as Medicaid, housing vouchers, or SNAP benefits.

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[10] Oregon Department of Revenue, All Returns and Full-Resident Returns (by AGI) 2022, Oregon Personal Income Tax Statistics (n.d.), https://www.oregon.gov/dor/programs/gov-research/Documents/All%20Returns%20and%20Full-Resident%20Returns%20(by%20AGI)%202022.xlsx.

[11] Fruits & Pozdena, *supra* note 1.

[12] Pierre Azoulay, Benjamin F. Jones, J. Daniel Kim & Javier Miranda, *Research: The Average Age of a Successful Startup Founder Is 45*, HARVARD BUSINESS REVIEW (July 11, 2018), https://hbr.org/2018/07/research-the-average-age-of-a-successful-startup-founder-is-45.

[13] Migration is a dynamic process with substantial lags. Thus, while year-over-year net migration statistics provide useful information, data does not account for longer term effects of migration. For example, the year-over-year migration statistics might capture the individual who is given a year to live by his doctor and relocates to avoid the estate tax. However, the year-over-year migration statistics would miss the healthy, middle-aged individual who considers the estate tax when deciding whether relocate years before his or her anticipated death.

Older, higher-income individuals—especially those starting and running businesses—tend to be more knowledgeable and better informed about the economic, regulatory, and tax environment in which they live and work. Those moving into Oregon do so with an understanding of tax consequences. Similarly, for those moving out, the tax burden is likely one of several important factors. For example, a recent presentation by ECONorthwest to Portland City Council showed that the average AGI of someone moving out of Multnomah County was about $105,000, while the average income of someone moving in was about $75,000.[14]

Over the past 20 years, Oregon has lost its competitiveness as a place to live and work. In 2004, Portland was lauded as one of the "most livable" cities in the country.[15] Population growth was so robust that Washington County negotiated a deal with Intel to charge a $1,000 per employee "head tax" if Intel hired "too many" employees.[16] Today, ECONorthwest reports the Portland region ranks "near bottom" in job growth.[17] Compared with Oregon, the Washington side of the Portland region—Clark County—is booming, with rising population and employment.

In addition to state taxes, higher-income business owners in Portland face the city's Business License Fee (a business income tax), Multnomah County's Business Income Tax, the county's Preschool for All income tax, as well as Metro's Supportive Housing Services business income tax and personal income tax. Oregon's estate tax is just part of a constellation of taxes faced by higher-income earners and business owners.

By increasing the estate tax exemption threshold or lowering rates, Oregon could stem the outflow of residents without significantly reducing estate tax revenues.

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[14] ECONorthwest, State of the Economy, Presentation to City of Portland Arts and Economy Committee (Feb. 25, 2025), https://www.portland.gov/sites/default/files/council-documents/2025/2025-039-presentation.pdf.

[15] *See*, *e.g.*, *The Early Show, 8:30 AM*, CBS NEWS (May 4, 2004); Haya El Nasser, *Most Livable? Depends on Your Definition*, USA TODAY (Apr. 12, 2004).

[16] Sam Howe Verhovek, *Fighting Sprawl, Oregon County Make Deal With Intel to Limit Job Growth*, NEW YORK TIMES (June 9, 1999).

[17] ECONorthwest, *supra* note 14.

3 The estate tax's economic inefficiencies

Oregon's estate tax structure distorts economic behavior by encouraging costly tax avoidance strategies and reducing investment in local businesses.

Oregon's estate tax incentivizes individuals and families to engage in costly and economically inefficient behaviors to minimize their tax liability. These include:

- **Estate planning costs**: Wealthy individuals often hire lawyers, accountants, and financial advisors to structure their estates in ways that reduce or avoid taxes. This can involve creating trusts, transferring assets to family members early, or purchasing complex life insurance policies. While legal, these strategies divert resources from productive investments in businesses, real estate, or other economic activities.
- **Asset liquidation**: Families with illiquid assets, such as farms or small businesses, may be forced to sell these assets to pay estate taxes. Table 3 shows from 1997 to 2022, the number of family or individual farms has decreased by 15%, while the number of corporate farms increased by 33%.[18] This is made all the worse when the market value of the assets in the estate decline after the estate is assessed for taxes. In the worst-case scenario, the liquidation of the assets may not be sufficient to cover the estate tax levy. Such risks and uncertainty disrupt business continuity, reduce local employment opportunities, and weaken the broader economy.

Table 3: Oregon farms by legal status for tax purposes

							1997 to 2022	
	1997	2002	2007	2012	2017	2022	Change	%
Family or individual	34,489	35,375	32,793	29,858	31,673	29,265	-5,224	-15%
Partnership	2,778	2,284	2,907	2,330	2,362	2,429	-349	-13%
Corporation	2,316	2,064	2,507	2,540	2,752	3,086	770	33%
Other	392	310	346	711	829	767	375	96%
Total	**39,975**	**40,033**	**38,553**	**35,439**	**37,616**	**35,547**	**-4,428**	**-11%**

Source: USDA

[18] National Agricultural Statistics Service, U.S. Department of Agriculture, 2022 Census of Agriculture, Historical Highlights, Oregon (June 2024), https://www.nass.usda.gov/Publications/AgCensus/2022/Full_Report/Volume_1,_Chapter_1_State_Level/Oregon/st41_1_001_001.pdf.

These behaviors result in *deadweight loss*, an economic term for the inefficiency created when resources are allocated based on tax avoidance rather than productive use. Unlike trade where both sides benefit or a zero-sum exchange where one side benefits and the other loses, with a deadweight loss, the economic value dissipates, and no one benefits.

The estate tax discourages long-term investments in Oregon by reducing capital accumulation. Estate taxes effectively reduce the after-tax return on investments made during a person's lifetime. This discourages wealth creation and long-term planning, particularly for entrepreneurs and small business owners.

Oregon's progressive estate tax structure—with 10 brackets and a top rate of 16%—is complex and costly to administer. Both taxpayers and the state incur significant administrative costs:

- **For taxpayers**: Compliance costs include legal fees, financial advisory expenses, and time spent navigating complex regulations. Even those filers who are assessed at a rate of zero nevertheless must spend time and money to value their estates to determine the rate at which their estates will be assessed.
- **For the state**: Enforcing the tax requires significant resources for audits and litigation to ensure compliance, especially given the prevalence of avoidance strategies.

Simplifying the tax structure—such as adopting a flat rate or reducing the number of brackets—could lower these costs for both taxpayers and the government.

4 Minimal revenue dependence on estate tax

Figure 1 shows, over the past few years, the estate tax accounts for only about 2% of Oregon tax revenues. The total amount of estate taxes collected in any given year is less than a *tenth* of the size of the *swing* in annual total tax collections.[19] That's a very complicated way of saying estate tax revenues are less than a rounding error in total tax collections.

[19] The standard deviation in total tax collections over the past five years was $3.1 billion and the average estate tax revenue was $270 million, *supra* note 2.

Moreover, the estate tax is an inefficient revenue tool due to its narrow base. Only a small fraction of estates are subject to the tax. The *Oregonian* reports, in 2021, just a few thousand estates exceeded Oregon's $1 million threshold, out of approximately 42,000 annual deaths in the state.[20] The majority of estate tax revenue comes from a handful of ultra-high-value estates.[21] For example, state economists attribute most of the recent increases in estate tax collections to a small number of wealthy decedents.[22]

This reliance on a narrow group of taxpayers creates volatility in revenue streams and makes forecasting estate tax revenues little more than a guessing game. In testimony before the Oregon House Committee on Revenue, an LRO economist testified:

> It's actually hard to know what we'd expect with [estate tax revenues] in an average year because the estate tax itself is driven by random events—people's deaths, and you never know when they're coming, or who's going to be affected. So, it's hard to know what a normal year might look like.[23]

5 Proposed reforms

The current session of the Oregon Legislature has several bills before it to reduce the burden of Oregon's estate tax. Five of these bills have had hearings with public testimony, summarized in Table 4. These hearings have generated thoughtful questions regarding the future of the estate tax. This section summarizes the broad categories for reform: reducing the exemption threshold, simplifying and reducing the rate structure, and protecting small businesses, family farms, and primary residences.

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[20] Mike Rogoway, *Oregon Estate Tax Collections Are Soaring, and Not Just Because of More Deaths*, OREGONIAN (Jun. 23, 2024), https://www.oregonlive.com/business/2024/06/oregon-estate-tax-collections-are-soaring-and-not-just-because-of-more-deaths.html.

[21] *Id.*, *see also* Table 1.

[22] *Id.* ("'The majority of the revenue increase is due to a relatively small number of very high valued estates, said state economist Josh Lehner.")

[23] Hart testimony, *supra* note 7.

Table 4: Estate tax bills before the 2025 Oregon Legislature

Bill	Estate Tax Exemption	Estate Tax Rate	Rate Progressivity
Current law	$1 million	10-16%	Yes
SB 380	Floating $0 - $1.5 million	10-16%	Yes
SB 405 & SB 648	$13.61 million (matching federal)	10-16%	Yes
SB 764	$1 million plus full exemption for some family-owned businesses	10-16%	Yes
HB 2301	$7 million	7%	No

5.1 Raise the exemption threshold

Increasing Oregon's exemption threshold (as proposed in SB 405, SB 648, and HB 2301) would reduce the number of estates subject to taxation while still targeting larger estates that can better afford it. The benefits include:

- Reducing incentives for costly avoidance strategies.
- Protecting family-owned businesses and farms from forced liquidation (as proposed in SB 764, which allows a full exemption for some family-owned businesses).
- Reducing incentives to migrate from Oregon to Washington ($2.193 million threshold).

LRO economist Jonathan Hart points out that reducing the threshold does more than just exempt more filers from the tax, it also reduces the taxable amount for every estate that pays the tax.[24] In this way, raising the exemption threshold is the simplest way to implement an across-the-board reduction in the estate tax burden.

Another option to raise the exemption threshold would be to allow full exemption for full-time residents' primary residence. For many filers subject to the estate tax, the value of the primary residence is a key asset "triggering" estate tax

[24] Hart testimony, *supra* note 7 ("That's because you're changing the thresholds for every category, or every row on the table. And, so, each row on the table—each return—would have about $500,000 less of taxable estate value.").

liability. Fully exempting a primary residence would allow older residents to age-in-place without fear that their heirs will be forced to sell the residence to satisfy an estate tax levy.

5.2 Simplify the tax structure

Adopting a flat rate (e.g., 7%, as proposed in H.B. 2301) would:

- Eliminate inefficiencies caused by multiple brackets.
- Reduce compliance costs for taxpayers and the state.
- Make Oregon's tax system more transparent and easier to administer.

Connecticut provides a successful model by combining a high exemption threshold ($13.61 million) with a flat rate (12%), which has improved its competitiveness while maintaining revenue generation.[25]

5.3 Protect small businesses and family farms

Introducing targeted exemptions for family-owned businesses or farms (as proposed in S.B. 764) would prevent forced sales due to liquidity constraints. This policy would:

- Preserve local jobs.
- Encourage intergenerational wealth transfer within families.
- Strengthen Oregon's small business ecosystem, by retaining and attracting entrepreneurs, especially those in middle age.

For decades, Oregon has prioritized protecting family farms. State law protects family farms through policies like right-to-farm laws[26] and urban growth

[25] Joseph Johns, *Estate and Inheritance Taxes by State, 2024*, Tax Foundation (Nov. 12, 2024), https://taxfoundation.org/data/all/state/estate-inheritance-taxes/.

[26] See, e.g., ORS. § 30.936 (insulating farmers from nuisance claims arising from farm operations); Hood River County v. Mazzara, 193 Or. App. 272, 276, 278, 89 P.3d 1195, 1198-99 (2004) (insulating farmer from public nuisance claim because dog barking was farm practice).

boundaries.[27] Reforming the estate tax would be in clear alignment with long-standing state policy by preserving family farms across generations.

6 Economic benefits of reform

Reforming Oregon's estate tax could yield significant economic benefits:

- **Increased retention of high-income residents**: A more competitive estate tax policy would reduce outmigration of wealthy retirees, preserving income tax revenues during their lifetimes2.
- **Enhanced business continuity**: Protecting family-owned businesses ensures they remain operational, contributing to local economies rather than being sold off due to liquidity pressures.
- **Reduced deadweight loss**: By minimizing avoidance behaviors and compliance costs, resources could be redirected toward productive investments that generate jobs and economic growth.

For example, states like Connecticut have demonstrated that aligning exemption thresholds with federal levels can reduce inefficiencies without sacrificing substantial revenue. ■

[27] *See, e.g.*, ORS § 197A.355; 1000 Friends of Or. v. Land Conservation & Dev. Comm'n, 244 Or. App. 239, 271, 259 P.3d 1021, 1039-40 (2011) (exemplifying how Oregon's urban growth boundaries protect agricultural land from urban expansion).