The Illusion of Preschool Tax Flight

Prepared by Erik Dean, Ph.D. for Councilor Mitch Green
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In the age of neoliberalism, every crisis is an opportunity for the economic elite to expand their influence and grow their wealth. The Great Financial Crisis of 2007-2009 saw the contrivance of 'too big to fail', by which the same bankers responsible for the crash were bailed out for the greater good of the economy. Handsome bonuses returned in short order (Story and Dash 2009). A 2022 Oxfam report found that during the pandemic, while millions died worldwide, a new billionaire was minted every 30 hours on average.

Naomi Klein calls it the 'shock doctrine.' All varieties of catastrophe become an excuse to put more money and more power into the hands of the largest corporations and the wealthiest households. Today, a new crisis, a new opportunity, has emerged: Portland faces the possibility of a so-called 'doom loop,' in which declining economic activity leads to declining tax revenue, leads to declining government services, leads to declining economic activity, and so on (Kish 2025). And once again, we are being asked to meet this challenge with policy designed for the benefit of the affluent.

Passing with 64% of the popular vote in November 2020 (Multnomah County, n.d. "About Preschool for All"), Preschool for All (PFA) is a program that will provide universal preschool for all county residents by 2030. It is funded with a marginal tax of 1.5% on individual incomes above $125,000 and joint incomes above $200,000 with an additional 1.5% on incomes above $200,000 (or $400,000 for joint filers) (Multnomah County 2025). But this year, efforts have been made at both the state and local levels to pause, reduce, index, or simply discard the marginal tax that funds this program.

To be sure, this is not the beginning of this effort; nor is it specific to Multnomah County. A report from the Urban Institute (Dadayan 2024) found that many states during the pandemic departed from the normal reaction to periods of economic hardship by cutting taxes. In fiscal year 2023, for instance, 20 states cut personal income tax rates while only 2 increased them (Figure 1). Now, opponents of Preschool for All are trying to bring this trend to Multnomah County. To justify it, they offer a limited selection of data to argue that the higher marginal tax rates created by PFA are driving high-income households out of Multnomah County in search of lower taxes. The shock doctrine, apparently, is equally applicable to both the pandemic and the rebuilding after.

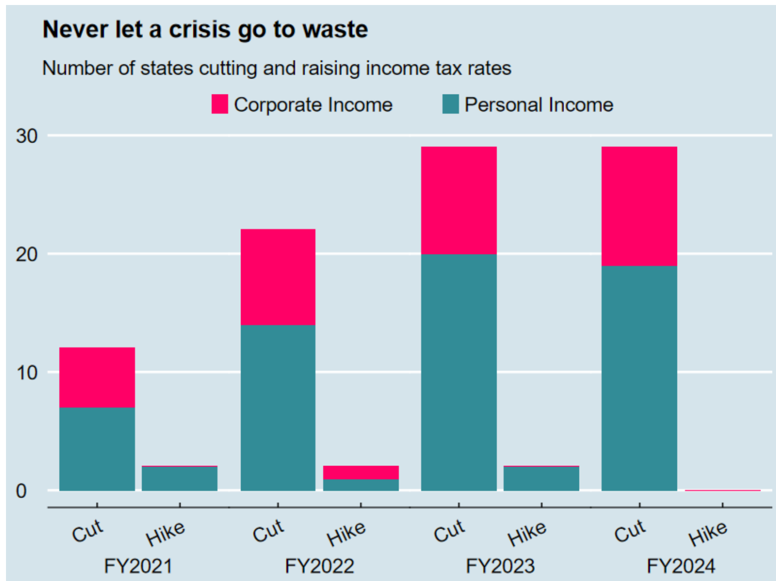

Figure 1. Source: Dadayan 2024, p. 69

Were it true, this claimed preschool tax flight would be an interesting finding. The best research on how taxes impact the locational preferences of more affluent households shows very little connection between the two, as Cornell Professor of Sociology recently testified before the Multnomah County Board of Commissioners on August 6, 2025. Refer to the video recording at 1:30:00 (Multnomah County 2025 and Young 2018). But the data proffered by opponents of PFA simply does not show a mass exodus of high-income households.

Instead, the data offered is indicative of a more common-sense reality: a small set of households with the financial means to leave areas of high population density during the pandemic, combined with – and this is the most important part – windfall income gains in that same period for those with such means. This is a trend that was replicated across the country. Not shown in the data selected by PFA opponents is the simple fact that Multnomah County continues to add more high-income households each year. From 2021 to 2023, the number of households with incomes of $200,000 or more grew by 28.7% (King 2025).

But we'll come back to that. First, let's look at this preschool tax flight theory, and the data being given to support it, in a bit more detail. Then we'll turn to a much more plausible explanation for what the data actually tells us.

The Preschool Tax Flight Theory

As far as supporting data goes, the argument for preschool tax flight rests mainly on two sources: the County's own tax collection data and the IRS's migration data.

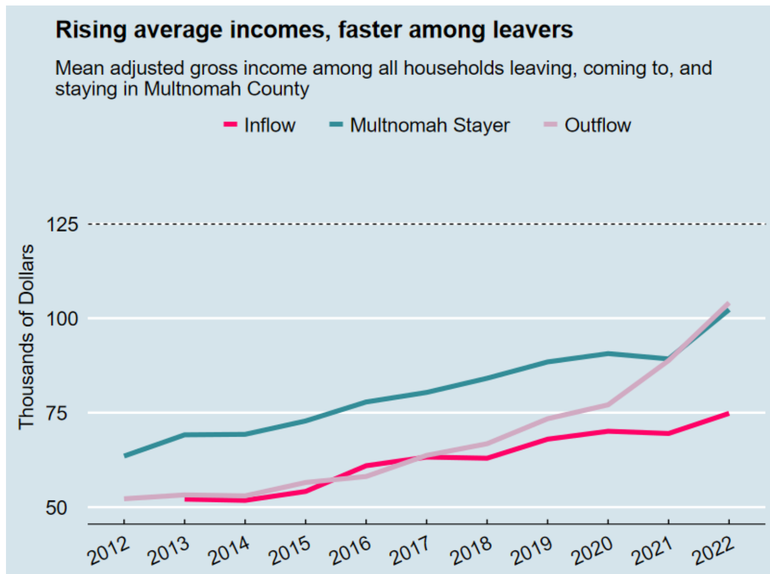

Figure 2. Source: Internal Revenue Service, SOI tax stats - Migration data

Figure 2 recreates the keystone graph for opponents of Preschool for All. Here, calculations based on the IRS migration data show a rapid rise in the average incomes of households leaving Multnomah County as compared to those newly entering and those staying in the county. To put some more precise numbers on this, from 2019 to 2022, the average income of households leaving the County increased by $30,700 (or 41.8%), while those staying increased by only $13,800 (15.7%) and those moving to the county increased by $6,800 (10.1%). The conclusion PFA opponents would have us draw from this is that exorbitant taxes on high-income households are driving them elsewhere.

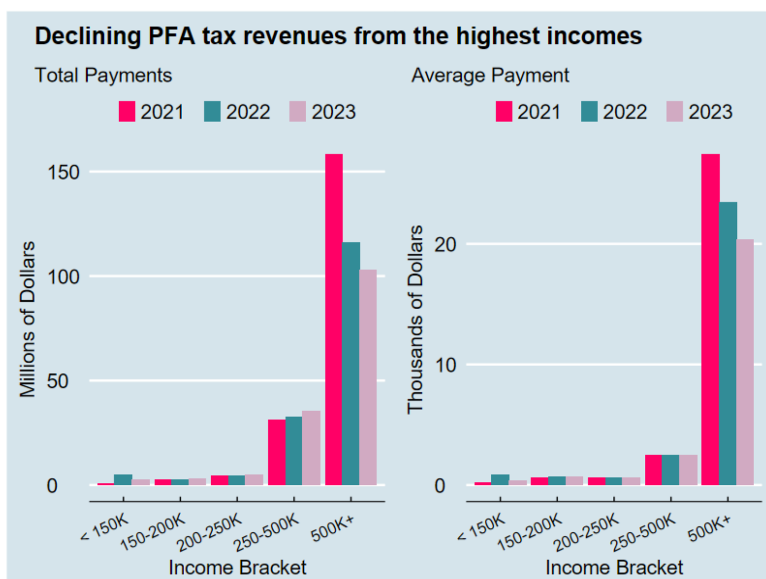

Figure 3. Multnomah County Board Briefing, August 6, 2025, video at 36:25

If that isn't sufficiently convincing of the problem of preschool tax flight we're directed to the County's own data. Figure 3, breaks out total and average PFA payments by year and income bracket. Immediately it should be obvious that the program relies heavily on the County's highest-income households (here, $500,000 and above), and that revenues from that cohort have declined significantly since the introduction of the tax. The most affluent residents, we're told, have been fleeing the high taxes of Multnomah County since the introduction of Preschool for All.

A Closer Look at the Data

At first glance, the data may seem convincing. But before we settle on this conclusion, let's spend a bit more time looking at what the data does and doesn't really say.

The Wrong Kind of Average

First, a technical note on the IRS data as presented. Average income here is being calculated for those coming into, staying in, and leaving the county by simply dividing the total income associated with each of these groups by the total number of returns – a mean. But a mean is only one kind of average, and not the right one here. Normally, a median – that is, the income of the filer in the middle of the distribution of incomes – would be more appropriate (see county economist Jeff Renfro's discussion in Multnomah County Board Briefing video at 48:40), but the IRS data simply does not offer the necessary information. The problem is the mean is subject to variation in both the denominator (returns) and numerator (income) as well as outliers, especially uncommonly high incomes.

To give an example, migration from Multnomah County to Skamania County, Washington has been fairly steady and small at around 50 households per year. From 2019 to 2020, however, the average income of those households spiked from around $100,000 to over $400,000, before returning to around $100,000 in 2021. This surely wasn't due to any policy changes in either county in these years. It was simply the result of a small number of households (possibly just one) with exceptionally high incomes making the move in that year. Because of this outlier effect, it's important to be careful when interpreting the data in Figure 1.

All but One Data Point Suggest No Tax Flight

So it's important to bear in mind the limitations of the data (for further discussion, see Dean 2025). Just the same, we can take the information for what it's worth and dig a bit deeper. Let's begin with a very simple observation about Figure 2, above: despite increases over time, at no point was the average income of those leaving Multnomah County above the $125,000 threshold for an individual to pay the PFA tax (the dashed line in the graph), nor was it even close to the $200,000

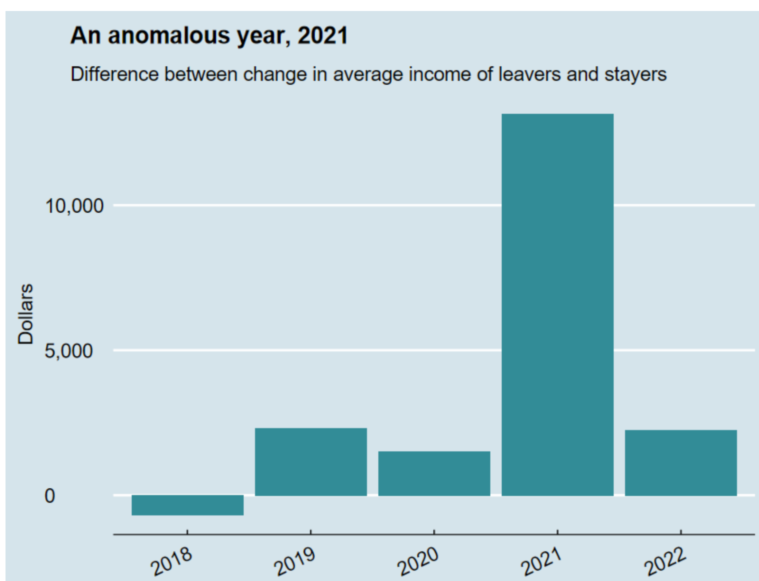

Figure 4. Source: Internal Revenue Service, SOI tax stats - Migration data

threshold for joint filers. This, of course, doesn't mean that no one leaving the county was paying or would have paid the tax, as the data here are averaging out the high- and low-income leavers. Still, the mean household simply did not and would not have paid the tax – an obvious weakness of the preschool tax flight theory. And it's not the only one.

Look closer at Figure 2. Across all years for which data is available, the average income of those leaving Multnomah County has been lower than those staying, and the two have tracked upwards at roughly the same pace – except in one year: 2021. Figure 4 makes this clearer, showing the rate at which the average income of those leaving the county catches up to (or, in 2018, falls behind) those staying. The small dollar values for years other than 2021 suggest that income has not generally been a driving factor of trends in migration in Multnomah County, which in turn implies that differences in marginal tax rates have also not been a major factor.

Still, there remains the issue of that one year – incidentally, the first year of the PFA tax. What happened in 2021?

A Year for the Shock Doctrine

As a first step to answering this question, let's see if Multnomah County was unique in that rapid increase in the average incomes of those leaving.

It wasn't. As Table 1 shows, this trend was present in many urban counties throughout the nation, including some, like King County, WA (Seattle) and Suffolk County, MA (Boston), with significantly lower taxes on high-income households. Other cities, like Newark, saw considerably smaller increases in mean incomes despite much more sizable effective tax rates on higher incomes.

County (City)	Increase in Mean Income of Leavers, 2019-2021	Effective Tax Rate on Income of $150,000	Effective Tax Rate on Income of $250,000
New York County, NY (Manhattan)	53.8%	11.4%	12.1%
Suffolk County, MA (Boston)	27.8%	10.3%	9.9%
King County, WA (Seattle)	25.0%	6.7%	5.8%
Multnomah County, OR (Portland)	21.0%	11.6%	12.5%
Cook County, IL (Chicago)	20.4%	11.9%	11.5%
Los Angeles County, CA (L.A.)	18.4%	11.7%	12.5%
Essex County, NJ (Newark)	10.4%	17.2%	18.1%

Table 1. Sources: Mean Income: Internal Revenue Service (May 2025).
Effective Tax Rates, calculated for cities, tax year 2022: Office of Revenue Analysis 2025.

If the Preschool for All tax is driving affluent households out of Multnomah County, it's curious that so many other cities saw the same pattern of increasing average incomes among those leaving. And it would be more than a little tricky to explain why these average incomes for Multnomah County began once again to track those of households staying in the county after 2021 (Figure 4). Perhaps there's a more plausible alternative explanation?

There is a More Plausible Alternative Explanation

No great analytical talent is necessary to realize that the genesis of the Preschool for All program coincided with the COVID-19 pandemic. That crisis included restrictions on gatherings and a trend toward work-from-home arrangements. It also saw some households with the means to do so leaving areas of high population density. And one more peculiar feature: unprecedented financial income gains.

Income from capital gains, interest, and dividends increased dramatically in 2021. First, in Figure 5, notice that financial incomes in Oregon track the national numbers extremely closely. Given that these investments and their associated markets are mostly national and international in nature, this shouldn't surprise. Second, and more importantly, notice the gigantic increase in financial incomes specifically in 2021. Oregonians with financial investments saw an increase in income from those sources of just under $10 billion in this one year – a good year, indeed.

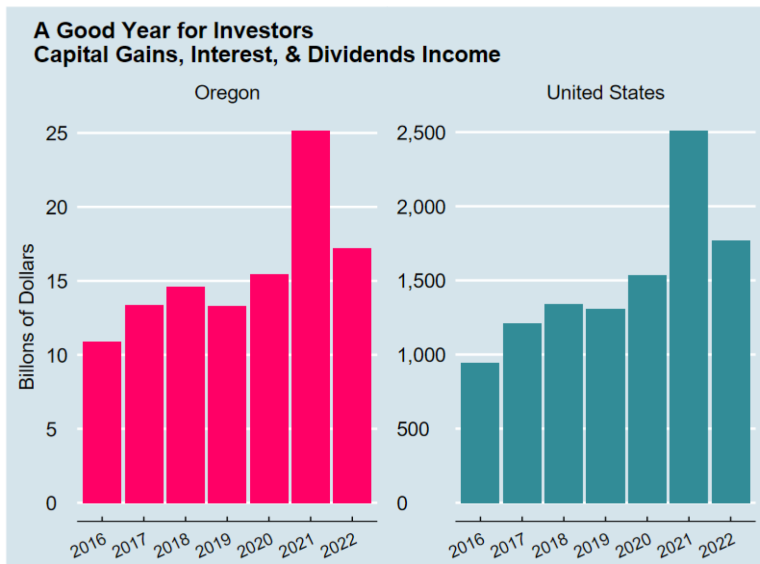

Figure 5. Source: Internal Revenue Service, SOI tax stats - Adjusted gross income (AGI) percentile data by state (May 2025).

The windfall did not go unnoticed at the time. A 2022 report from Penn Wharton Budget Model found that, nationally, personal income taxes not withheld by employers increased substantially in the pandemic, "mostly the result of a surge in capital gains and other income from financial assets in 2021." The report further observes: "financial income made up nearly one fifth of [adjust gross income] in 2021, higher than any year since at least 1990."

To some modest extent, these capital gains likely reflected not just sales of stocks and other financial assets, but also of real estate. The vast majority of home sales are exempted from capital gains taxes. However, by the last quarter of 2023, 8.2% of Oregon home sales exceeded the $500,000 exemption limit (for joint filers), quadruple the average from 2017-19. The sharpest year-over-year increase happened, of course, in 2021 (Cotality 2024).

This is all the information we need to dispel the illusion of preschool tax flight and see what really caused the changes depicted in Figures 1 and 2. As briefly as possible, a fair number of households fled the city in the pandemic, especially in 2021. Some of these movers, likely a very small fraction, garnered considerable income from financial investments, making the pandemic years, and again especially 2021, a very lucrative time for them. Indeed, we'd expect to see capital gains among those leaving outstrip those staying as moving typically involves selling your home and potentially also selling financial assets to finance the purchase of a new home.

A Better Explanation of the Facts

This is both a more common-sense and a more analytically plausible reading of the data than the preschool tax flight theory. Not only does it explain the rapid rise in average income among leavers in 2021, it also explains the more modest increase in the next year. Likewise, the fact that financial incomes in Oregon track the national numbers so closely helps to explain the rapid rise in the average incomes of those leaving other cities across the US. Figure 1, in short, isn't showing us the impact of the Preschool for All tax on migration; it's showing us how lucrative the period was for a handful of those with the means to leave the cities in the pandemic.

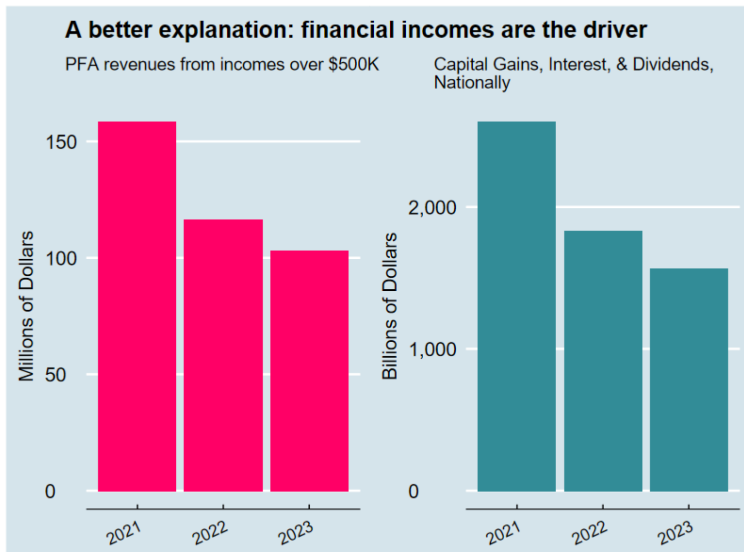

Figure 6. Sources: Multnomah County Board Briefing, August 6, 2025, video at 36:25 and Congressional Budget Office, Budget and Economic Data

Finally, these unprecedented financial income gains, in 2021 especially, explain the subsequent declines in PFA tax revenue from incomes over $500,000 (Figure 2). In fact, the PFA revenue data tracks national financial income surprisingly well (Figure 6), with financial income falling from 2021 to 2023 only slightly faster than PFA revenues. And what little difference there is between the two makes intuitive sense given that PFA revenues from these highest-income households will draw from other sources of income (salaries, business income, and the like) in addition to capital gains, interest, and dividends.

Opportunities

Opponents of Preschool for All are asking us to ignore an obvious way of looking at this: are there more high-income households now than before the tax was introduced? The answer is yes. Figure 7 shows the ever-growing number of households in Multnomah County with incomes of $200,000 or more. Notice, there is no great exodus of high-income households in this graph, even in 2021. This is because we're looking at a simple count of households, and the highest incomes, including the windfall years for financial investments, are consolidated into the $500,000+ bracket.

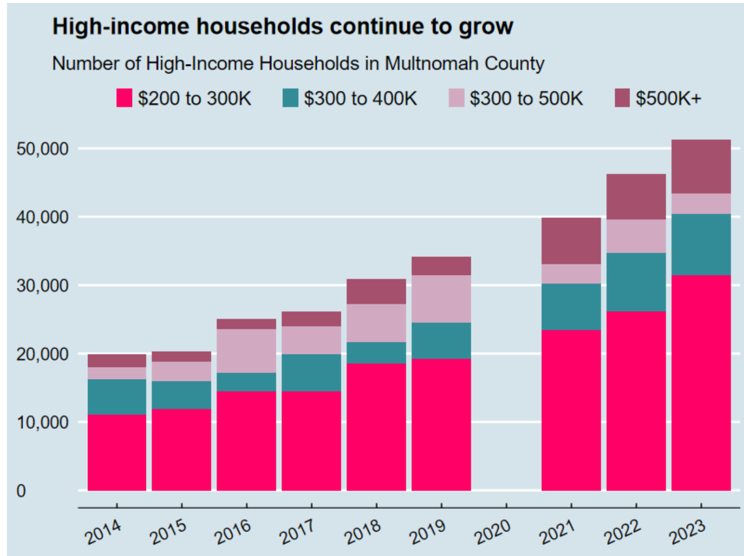

Figure 7. Source: King 2025. Data for 2020 unavailable due to the impact of COVID-19

The PFA data confirms this as well. From 2021 to 2023, the total number of filers paying the PFA tax rose from 32,941 to 38,370, a 16.5% increase in just two years. Only the highest-income cohort, with incomes of $500,000 and above, shrank in this period, from 5,770 to 5,056 (Multnomah County Board Briefing August 6, 2025, slideshow). But this shouldn't be surprising given the spike in financial incomes in 2021. A handful of those 714 highest-income filers likely left the county, probably to avoid getting sick, or because they were going to regardless. More than likely, the vast majority didn't go anywhere; they simply saw a dramatic drop in their 2022 investment incomes, moving them out of the $500K+ bracket and potentially below the threshold for paying the tax at all. Indeed, the number of filers in this top bracket appears to have bottomed out in 2022, rising in the next year. It would be wildly irresponsible to formulate policy based on specious assumptions about this (less than) 1% of the County's population fleeing a small marginal tax increase in, essentially, this one year.

By exploiting the pandemic's extraordinary financial benefits to the most affluent among us, opponents of Preschool for All are asking us to forget the obvious questions and instead believe an illusion constructed from selected data manipulations. Shock doctrine during COVID is being carried forward to the recovery. To be sure, Multnomah County faces real challenges – most conspicuously, the high costs of housing and of raising a family. Center-based childcare for a preschool-aged child now costs over $17,000 per year in Multnomah County (US Department of Labor – Women's Bureau). Preschool for All cannot address the affordability problem in its entirety, but with it we have an opportunity to make a very substantial contribution toward an affordability solution – if we can just put down the shock doctrine and see through the illusions.

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