CHAPTER 1. INCOME TAX (PERSONAL AND CORPORATION)

Personal Income Tax

The personal income tax, sometimes called the "individual" income tax, is the state of Oregon's largest source of revenue. For the 1999–01 biennium $8.7 billion, or 86 percent, of General Fund revenues came from this source. The Department of Revenue also publishes an annual report that provides detailed statistics on the personal income tax. The most recent edition of *Oregon Personal Income Tax Annual Statistics* is for tax year 2000.

In estimating tax expenditures related to the personal income tax, the first step is to define the 'normal' tax system. Any departures from the normal system that reduce taxes are considered tax expenditures. For this report, we adopt the definition of the normal tax system used by the U.S. Congressional Research Service and the Congressional Joint Committee on Taxation. Under that definition, the normal tax base is income from all sources, including both monetary and non-monetary income, less any expenses incurred in earning the income. Monetary income includes wages, salaries, interest, dividends, public assistance payments, and all other monetary income. Examples of non-monetary income include the value of health benefits provided by employers, the value of gifts received by the taxpayer, and discounts that employees may receive when they buy products from their employer.

The starting point for calculating Oregon's personal income tax is federal taxable income, and this connection to the federal tax code has a number of important implications for Oregon's tax. The connection substantially reduces compliance costs for taxpayers. Using the same definition of income allows taxpayers to transfer substantial amounts of their federal tax return information directly onto their Oregon tax returns, greatly reducing the number of calculations taxpayers need to make and reducing the possibility for errors. The connection to the federal definition of taxable income also makes the tax easier for the state of Oregon to administer.

The other important effect of connecting to the federal definition of taxable income is that doing so implicitly adopts many of the tax expenditures that exist in the federal tax code. Any special provisions allowed by the federal government that reduce taxable income will flow through to Oregon's tax and result in lower Oregon tax collections. There currently are 107 of these special federal provisions—exclusions and deductions—that flow through to Oregon's personal income tax. Because federal tax credits are applied after the calculation of federal taxable income, federal credits do not flow through to Oregon's tax.

For the 2001–03 biennium, the connection to the federal definition of taxable income reduces Oregon personal income tax revenue by approximately $4.9 billion. While Oregon could "disconnect" from the federal tax code (or parts of it) to collect some of that potential revenue, doing so would increase compliance costs for taxpayers and administrative costs for the state of Oregon.

In addition to the tax expenditures resulting from exclusions and deductions in the federal tax code, there are 29 subtractions in Oregon law that further reduce taxable income. In 2001–03 these subtractions reduce tax revenue by about $1.2 billion.

Once taxable income is calculated, tax liabilities (prior to credits) are calculated by applying the tax rates. Oregon's personal income tax has three rate brackets: 5, 7, and 9 percent. Since 1993, the brackets have been indexed to reflect changes in the U.S. Consumer Price Index.

For 2003 the brackets are:

Single and Separate Returns		*Joint and Head of Household Returns*	
Taxable Income	Tax before Credits	Taxable Income	Tax before Credits
Not over $2,550	5% of taxable income	Not over $5,100	5% of taxable income
$2,550 to $6,350	$128 + 7% of income over $2,550	$5,100 to $12,700	$255 + 7% of income over $5,100
Over $6,350	$394 + 9% of income over $6,350	Over $12,700	$787 + 9% of income over $12,700

Oregon's personal income tax contains 46 credits that are considered tax expenditures. The personal exemption credit is available to nearly all taxpayers and increases each year based on growth in the Portland Consumer Price Index. For 2002 the credit is $145. The other 55 credits are designed to provide tax relief for specific groups of taxpayers. Aside from the Oregon Working Family Credit, none of the credits is "refundable," meaning that taxpayers can use the credit only up to the amount of their tax liabilities. If the credit is larger than the tax liability, the share of the credit that exceeds the tax liability goes unused or, for some credits, can be used in later years. In 2001–03, credits reduce Oregon personal income tax revenue by nearly $1 billion.

Corporation Excise and Income Taxes

Oregon's corporation excise and income taxes are the taxes on corporate profits where net income is the measure of profitability. The excise tax is paid by corporations that are "doing business" in Oregon, and the income tax is paid by corporations that have income originating in Oregon but that are not considered to be "doing business" here. "Doing business" is defined as having sales activity in Oregon and one or more of the following: a stock of goods, an office, and/or a place of business (other than an office) where affairs of the corporation are regularly carried on. About 99 percent of all corporations pay the excise tax, and just one percent pays the income tax. Because the taxes are nearly identical and the tax base is net income, we refer here to both taxes simply as the corporation income tax. The corporation income tax is the second largest source of revenue for the state General Fund. For the 1999–01 biennium, corporation income taxes were $755 million, or 7.5 percent of General Fund revenues.

As with the personal income tax, the "normal" tax base for the corporate income tax includes income from all sources, both monetary and non-monetary, less expenses incurred in earning the income. Tax provisions that are departures from the normal base represent tax expenditures.

Oregon uses federal taxable income with some modifications as its tax base. As with the personal income tax, connecting to the federal tax code reduces compliance costs for taxpayers, makes administration of the tax easier for the state of Oregon, and implicitly adopts many of the tax expenditures that exist in the federal tax code. For the 2001–03 biennium, the connection to the federal definition of taxable income reduces Oregon corporation income tax revenue by roughly $401 million. There are only six Oregon-specific subtractions that can further reduce the taxable income of corporations, and they have a negligible effect in reducing corporate taxes. After Oregon taxable income is calculated, the tax rate of 6.6 percent is applied to arrive at the tax liability prior to credits.

There are 40 credits available on the corporation income tax. None is refundable, but most allow unused credit amounts to be carried forward and used in later years. In 2001-03, these credits reduce corporation tax revenue by roughly $78 million.

Since 1997, foreign insurance companies have been subject to the corporation income tax, rather than the insurance gross premium tax. For more details, see the introduction to Chapter 5 Insurance Taxes.

Measure 28

On January 28, 2003, Oregonians will vote on Measure 28, which would temporarily increase the top personal income tax marginal rate from 9% to 9.5% and increase the corporation income tax rate from 6.6% to 6.93%. If passed, the increases would be in effect from 2002 through 2004. The estimates included in this report reflect current law and do not incorporate the effects of this measure. If Measure 28 passes, then most of the revenue impacts related to the personal and corporation income taxes will be understated.

1.001 SCHOLARSHIP AND FELLOWSHIP INCOME

Internal Revenue Code Section: 117
Oregon Statute: 316.048 (Connection to federal personal taxable income)
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1954

	Corporation	Personal	Total
2001–03 Revenue Impact:	Not Applicable	$9,600,000	$9,600,000
2003–05 Revenue Impact:	Not Applicable	$11,200,000	$11,200,000

DESCRIPTION: Scholarships and fellowships are excluded from personal taxable income to the extent that they cover tuition and course-related expenses of individuals who are candidates for undergraduate or graduate degrees at primary or secondary schools, colleges or universities, or other educational institutions.

PURPOSE: Originally, grants were included in gross income unless it could be proven that the money was a gift. This provision was enacted to clarify the status of grants to students and provide equitable treatment among taxpayers. It has also been defended on the grounds that it reduces the cost of higher education.

WHO BENEFITS: Individuals receiving scholarship or fellowship income, or reduced tuition. Students attending private schools benefit the most because tuition and course-related fees are likely to be greater than at public schools.

EVALUATION: This tax expenditure achieves its purpose as well as reduces the cost of higher education for students receiving these grants. This provision allows the maximum use of these funds to go toward direct educational costs, rather than having some of the funds collected by the government and used to fund other programs. It keeps more money available for these students and facilitates the recipients' opportunity to successfully complete their education with minimal debt or need for extending the time in school. The economic and societal returns on the investment in higher education are very high. Aside from the benefits of a well-educated population, increasing levels of education ultimately lead to increasing levels of income. These incomes result in a growing national tax base that, in turn, generates increasing levels of government revenue.

It is a fiscally effective method of achieving its purpose. Controlling costs has become increasingly important as tuition rates have exceeded the rate of inflation in recent years. [*Evaluated by the Oregon University System*.]

1.002 INTEREST ON EDUCATION SAVINGS BONDS

Internal Revenue Code Section: 135
Oregon Statute: 316.048 (Connection to federal personal taxable income)
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1988

	Corporation	Personal	Total
2001–03 Revenue Impact:	Not Applicable	$100,000	$100,000
2003–05 Revenue Impact:	Not Applicable	$200,000	$200,000

DESCRIPTION: The interest earned on U.S. Series EE savings bonds purchased and owned to finance higher education for the taxpayer, his or her spouse, or dependents is excluded from personal taxable income. The bonds must be purchased and owned by people age 24 or over and must have been issued after 1989. They must be used for qualified higher education expenses at certain institutions in the same year in which they are redeemed. Qualified higher education expenses include tuition and fees, but not room and board expenses. In 2001, a full exclusion was allowed if income was less than $55,750 if single and $83,650 if married. The exclusion phased out through incomes of $70,750 (single) and $113,650 (married) at which point no exclusion was allowed.

PURPOSE: To help compensate for increasing college costs that have risen faster than the general rate of inflation and faster than the income of many Americans.

WHO BENEFITS: Taxpayers with incomes below a certain level who are pursuing higher education or who have a dependent pursuing higher education.

EVALUATION: It is a fiscally effective method of achieving its purpose. The program helps reduce the cost of higher education. Furthermore, the program facilitates the spreading of the cost of higher education over a longer payment period that may extend prior to the student's time in school. [*Evaluated by the Oregon University System*.]

1.003 EARNINGS ON EDUCATION SAVINGS ACCOUNTS

Internal Revenue Code Section: 530
Oregon Statute: 316.048 (Connection to federal personal taxable income)
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1997

	Corporation	Personal	Total
2001–03 Revenue Impact:	Not Applicable	$2,200,000	$2,200,000
2003–05 Revenue Impact:	Not Applicable	$4,000,000	$4,000,000

DESCRIPTION: Taxpayers may establish trust or custodial accounts for the exclusive purpose of paying the qualified higher education expenses of a named beneficiary. Contributions are not deductible. However, earnings on contributions to the accounts are not subject to tax. Distributions from the accounts may be excluded from gross income to the extent that they do not exceed the qualified education expenses of the beneficiary. Beginning in 2002, if a Hope or lifetime learning credit is claimed in a given year, distributions from an education savings account in the same year are allowed tax-free, provided that the distributions are not used for the same expenses for which the credit is claimed. Tax-free and penalty-free transfers or rollovers from an education savings account of one beneficiary to an education savings account of another beneficiary are allowed provided that the new beneficiary is a family member of the old beneficiary, and the distribution is deposited in the new account within 60 days.

Annual contributions in 2001 were limited to $500 per beneficiary and could not be made after the beneficiary reached age 18. Beginning in 2002, the contribution limit was increased to $2,000 and could be contributed on behalf of special needs beneficiaries older than age 18. The contribution limit for 2002 phases out for taxpayers with modified adjusted gross incomes between $95,000 and $110,000 (single), and $190,000 and $220,000 (married). Corporations and other entities are allowed to make contributions beginning in 2002, regardless of their income. Beginning in 2002, contributions may be made to both an educations savings account and a qualified tuition program (1.004) for the same beneficiary without penalty.

PURPOSE: To help students afford the rising costs of higher education.

WHO BENEFITS: Families or individuals who assume responsibility for paying tuition for themselves, or beneficiaries such as children or grandchildren.

EVALUATION: It is a fiscally effective method of achieving its purpose. The program helps reduce the cost of higher education. Furthermore, the program facilitates the spreading of the cost of higher education over a longer payment period that may extend prior to the student's time in school. [*Evaluated by the Oregon University System.*]

1.004 QUALIFIED TUITION PROGRAMS (FEDERAL)

Internal Revenue Code Section: 529
Oregon Statute: 316.048 (Connection to federal personal taxable income)
Sunset Date: None
Year Enacted: 1996

	Corporation	Personal	Total
2001–03 Revenue Impact:	Not Applicable	$1,000,000	$1,000,000
2003–05 Revenue Impact:	Not Applicable	$1,700,000	$1,700,000

DESCRIPTION: Individuals may establish tax-deferred and tax-exempt college savings plans through state sponsored savings plans, or as of 2002, prepaid tuition accounts through qualifying educational institutions. These accounts are set up for the purpose of paying education related expenses or tuition on behalf of a designated beneficiary. Total contributions to these accounts are allowed up to the amount necessary to cover the qualified higher education expenses of the beneficiary. Under federal law, contributions to these accounts are not tax deductible. Prior to 2002, distributions of account earnings from state sponsored accounts were taxable. Beginning in 2002, qualifying distributions from state sponsored programs are excluded entirely from tax. Beginning in 2004, qualifying distributions from educational institution sponsored programs are also excluded entirely from tax.

Non-qualifying distributions are subject to a penalty, and the earnings share of the non-qualifying distribution is subject to income taxation.

The revenue impacts for this expenditure do not include the value of the subtraction Oregon allows for contributions. That is included in the tax expenditure for Oregon Qualified Tuition Savings Program (1.113).

PURPOSE: To clarify the federal tax status of state sponsored qualified tuition savings programs and increase the ability of families and individuals to save for higher education.

WHO BENEFITS: Students and families of students are able to defer and eventually avoid tax on earnings of these accounts, and therefore may accumulate savings more quickly for future higher education expenses. Participants in the Oregon administered plan are described in Oregon Qualified Tuition Savings Program (1.113).

EVALUATION: It is too early to determine if this tax expenditure achieves its purpose. [*Evaluated by the Oregon University System*.]

1.005 PUBLIC ASSISTANCE BENEFITS

Revenue Rulings, Internal Revenue Code Section 61 (defines gross income)
Oregon Statute: 316.048 (Connection to federal personal taxable income)
Federal Law Sunset Date: None
Year Enacted in Federal Law: Pre-1955

	Corporation	Personal	Total
2001–03 Revenue Impact:	Not Applicable	$9,800,000	$9,800,000
2003–05 Revenue Impact:	Not Applicable	$10,100,000	$10,100,000

DESCRIPTION: Public assistance benefits in the form of cash payments or goods and services, whether provided for free or at an income-scaled charge, are not included in the personal taxable income of the recipient. Some examples include Temporary Assistance to Needy Families (TANF), which replaced Aid to Families with Dependent Children (AFDC) in 1997; Supplemental Security Income (SSI) for the aged, blind, or disabled; and State-local programs of General Assistance (GA).

PURPOSE: To recognize the low ability to pay taxes of people receiving public assistance and to reduce the cost to government of providing such assistance.

WHO BENEFITS: Those people receiving public assistance benefits above the income level where taxation begins. It should be noted that many welfare recipients, however, have income below this threshold and would have no tax liability even without the exemption.

EVALUATION: This tax expenditure achieves its purpose. Families receiving public assistance benefits are living below the poverty level and, as a result, generally are incurring debts beyond their ability to pay or are deferring necessary expenses until they can find a family-wage job and become self-sufficient. It would be counterproductive to add welfare benefits to their taxable income, thereby reducing their ability to overcome the effects of poverty.

This is a fiscally effective means of achieving its purpose. By implementing this low-income benefit as an income exclusion under state and federal income tax programs, there is less cost to administer it than would result from a separate means tested program. [*Evaluated by the Children, Adult, and Families Services Cluster*.]

1.006 CERTAIN FOSTER CARE PAYMENTS

Internal Revenue Code Section: 131
Oregon Statute: 316.048 (Connection to federal personal taxable income)
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1982

	Corporation	Personal	Total
2001–03 Revenue Impact:	Not Applicable	$3,500,000	$3,500,000
2003–05 Revenue Impact:	Not Applicable	$4,200,000	$4,200,000

DESCRIPTION: Payments made by a state, local, or state-licensed tax exempt child-placement agency to a foster care provider for the purpose of caring for a foster individual in the provider's home is excluded from personal taxable income of the foster care provider.

PURPOSE: To encourage individuals to assume the responsibility of caring for foster children and to relieve foster care providers from maintaining complex records that might deter families from accepting foster children or prevent them from claiming their full tax benefit.

WHO BENEFITS: Foster care providers.

EVALUATION: This tax expenditure achieves its purpose. Without this exclusion, foster parents would deduct the relevant expenses from the foster care payments when calculating taxable income. In order to deduct these expenses, however, they would need to maintain extensive records of those expenses. The payments to foster parents for room and board, clothing replacement, and personal incidentals are estimated to be less than 60 percent of what the average family spends on raising a child. Consequently, deductions for expenses are likely to be greater than the payments received, so tax liability (for the foster care income) is likely to be zero. Having the exclusion does not significantly decrease revenue to Oregon but does improve the recruitment and retention of foster parents. [*Evaluated by the Children, Adults, and Families Services Cluster*.]

1.007 EMPLOYEE ADOPTION BENEFITS

Internal Revenue Code Section: 23 and 137
Oregon Statute: 316.048 (Connection to federal personal taxable income)
Federal Law Sunset Date: 12-31-10
Year Enacted in Federal Law: 1996

	Corporation	Personal	Total
2001–03 Revenue Impact:	Not Applicable	Less than $50,000	Less than $50,000
2003–05 Revenue Impact:	Not Applicable	Less than $50,000	Less than $50,000

DESCRIPTION: Benefits received under employer-sponsored adoption assistance programs are excluded from personal taxable income. Prior to 2002, the maximum exclusion was $5,000 per child or $6,000 in the case of a child with special needs. Beginning in 2002, the maximum exclusion is $10,000 per child, including special needs children. Expenses may be incurred over several years. Employer-provided adoption assistance must be received under an established employer-sponsored adoption assistance program. The exclusion is phased out at incomes between $150,000 and $190,000 in 2002. Starting in 2003, the limit and phase-outs will be indexed to inflation.

PURPOSE: To encourage and facilitate adoption.

WHO BENEFITS: Adoptive parents.

EVALUATION: Some employers have developed programs to encourage and support their employees in adopting children. This is one of several programs that provide incentives to adoption. It is difficult to measure its direct impact. Since the exclusion is phased out at higher income levels, it encourages and sometimes makes it possible for lower income families to adopt children from a variety of sources, including foreign countries, through private adoption agencies, and independently adopt related, unrelated, or stepchildren. Although families and individuals with incomes of less than $150,000 who adopt through any of these sources or from the public child welfare foster care system are eligible for this credit, it is unlikely that those adopting children from foster care (these children frequently have physical, emotional, or mental health issues or other special needs that make them difficult to place) would benefit from this tax credit. This is because the costs associated with foster care adoption are very low and are generally fully reimbursable to the adoptive parents at the time of finalization by the state’s Adoption Assistance program which is jointly funded by federal Title IV-E and state general funds.

Nationally and within Oregon, considerable focus has been placed on achieving permanent homes for children who are waiting in foster care. This includes the federal Adoption and Safe Families Act of 1997, as well as Oregon SB 408 (1999; conforms Oregon statute to the ASFA) and the earlier SB 689 (1997). All three pieces of legislation have as their primary goal the movement of children from temporary foster care to permanent (adoptive) homes. In Oregon, where approximately 800 foster children and 1,400 non-foster children are adopted each year, it is unlikely that the employer-sponsored adoption assistance program created by ORS 316.048 significantly decreases revenue. Likewise, it is unlikely that it provides any significant financial incentive to achieve the national and federal goals of achieving permanent homes for children who are waiting in foster care. [*Evaluated by the Children, Adults, and Families Services Cluster*.]

1.008 CAFETERIA PLAN BENEFITS

Internal Revenue Code Section: 125
Oregon Statute: 316.048 (Connection to federal personal taxable income)
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1974

	Corporation	Personal	Total
2001–03 Revenue Impact:	Not Applicable	$87,000,000	$87,000,000
2003–05 Revenue Impact:	Not Applicable	$108,500,000	$108,500,000

DESCRIPTION: Employer-paid benefits under cafeteria plans, where employees are offered a choice between taking monetary compensation or qualified benefits (such as health insurance) are not included in the employee's personal taxable income. The employee pays no tax when choosing the benefits but does pay tax when choosing the cash.

PURPOSE**:** To encourage employers to include a flexible benefits package as part of a compensation package and employees to utilize such non-taxable qualified benefit options.

WHO BENEFITS: Employees receiving employer-paid cafeteria plan benefits. Employers may benefit by using flexible benefit plans as an incentive in recruiting high-quality employees.

EVALUATION: This tax expenditure achieves its purpose and offers employees flexibility not present when an employer simply offers health insurance coverage. Employees are free to choose the option that is most beneficial to them, whether non-taxed health benefits or taxed monetary compensation. When choosing benefits, employees often receive benefit packages that are worth more than the foregone cash amount due to the advantages of group-based purchasing. This is particularly true when costs in a benefit area increase more than costs in non-benefits areas. Such tax incentives may encourage increased costs but also encourage preventive services and reduce barriers to health care. Employers also benefit from the choice of health benefits instead of cash payments. [*Evaluated by Oregon Health Plan Policy & Research*.]

1.009 EMPLOYER PAID MEDICAL BENEFITS

Internal Revenue Code Sections: 105 and 106
Oregon Statute: 316.048 (Connection to federal personal taxable income)
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1918

	Corporation	Personal	Total
2001–03 Revenue Impact:	Not Applicable	$532,800,000	$532,800,000
2003–05 Revenue Impact:	Not Applicable	$634,400,000	$634,400,000

DESCRIPTION: Employer payments for health insurance and other employee medical expenses are not included in the employee's personal taxable income.

PURPOSE: To encourage employers and employees to include health insurance coverage in compensation packages.

WHO BENEFITS: Employees, their spouses, and dependents receiving employer-paid health benefits. Employers may benefit from offering highly valued health services as a recruitment and retention tool for high quality employees. Employers will also benefit from having a healthier work force.

EVALUATION: This tax expenditure has achieved its purpose. While not entirely responsible for the fact that 70 percent of Oregon workers received employer offered health benefits, it is a major incentive for employers to offer such benefits. Increased health care coverage and use of health services are encouraged by this benefit.

This tax expenditure benefits workers on a differential basis depending on industry and wage levels. Many of the fastest growing industries, such as retail trade, construction, and services, are less likely to offer coverage to employees. Workers earning between 100–200 percent of the federal poverty level are less likely to be offered employer paid medical benefit coverage. Self-employed individuals do not currently receive the same benefit though this will change over the next two years. [*Evaluated by Oregon Health Plan Policy & Research*.]

1.010 COMPENSATORY DAMAGES

Internal Revenue Code Sections: 104
Oregon Statute: 316.048 (Connection to federal personal taxable income)
Federal Law Sunset Date: None
Year Enacted in Federal Law: Pre-1955

	Corporation	Personal	Total
2001–03 Revenue Impact:	Not Applicable	$200,000	$200,000
2003–05 Revenue Impact:	Not Applicable	$200,000	$200,000

DESCRIPTION: Payments received as compensatory damages for physical injury or physical sickness, whether paid in a lump sum or in periodic payments, are excluded from taxable income.

PURPOSE: To avoid reducing the monetary value of these payments.

WHO BENEFITS: People who have been injured and received compensatory damages.

EVALUATION: This tax expenditure achieves its purpose. It allows funds meant to compensate for injury or illness to be fully used for that purpose. Such uses should lead to improved quality of life longevity and productivity through return to the workforce. [*Evaluated by Oregon Health Plan Policy & Research*.]

1.011 PENSION CONTRIBUTIONS AND EARNINGS

Internal Revenue Code Sections: 401–407, 410–418E, and 457
Oregon Statute: 316.048 (Connection to federal personal taxable income)
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1921

	Corporation	Personal	Total
2001–03 Revenue Impact:	Not Applicable	$611,900,000	$611,900,000
2003–05 Revenue Impact:	Not Applicable	$633,900,000	$633,900,000

DESCRIPTION: Employer contributions to pension plans are not included in the employee's personal taxable income in the year of contribution. Certain amounts contributed by employees are excluded from income as well. The maximum regular contribution for 2002 is $11,000; this limit increases by $1,000 each year until it reaches $15,000 in 2006. After 2006, the limit is indexed to inflation. Taxation on contributions and earnings are deferred until distribution, when withdrawals are included in taxable income. The estimated tax benefit is a net figure, i.e. the revenue foregone in a given year offset by the amount of tax paid on withdrawals in that year.

PURPOSE: To promote saving for retirement and to tax income when it is received.

WHO BENEFITS: Employees receiving employer-paid pension benefits, although lower income workers are less likely to be covered by these plans. Employers may benefit by paying lower wages than would be paid if these benefits were not offered.

EVALUATION: This tax expenditure achieves its purpose. It is likely that pensions result in greater savings, thereby reducing the amount of government assistance needed by retirees. The tax deferral on contributions is particularly favorable to employees because earnings accrue to the amounts that would otherwise be paid in taxes, significantly increasing earning over the life of the plan. It should be noted, however, that current projections suggest that the rate of retirement savings must increase threefold from present levels for future retirees to maintain their current living standards. Insufficient retirement savings could have a dramatic impact on government service programs, especially as the population age distribution shifts. [*Evaluated by the Seniors and People with Disabilities Cluster*.]

1.012 HOSPITAL INSURANCE (PART A)

Internal Revenue Service Ruling 70-341, 1970-2 Cumulative Bulletin page 31
Oregon Statute: 316.048 (Connection to federal personal taxable income)
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1965

	Corporation	Personal	Total
2001–03 Revenue Impact:	Not Applicable	$132,400,000	$132,400,000
2003–05 Revenue Impact:	Not Applicable	$158,300,000	$158,300,000

DESCRIPTION: Part A of Medicare pays for certain in-patient hospital care, skilled nursing facility care, home health care, and hospice care for eligible individuals age 65 or over or who are disabled; these benefits are not included in the personal taxable income of the recipient. The subsidy equals the benefits that exceed an individual's lifetime contributions through payroll tax. The tax expenditure equals the subsidy multiplied by the recipient's marginal tax rate.

PURPOSE: To ensure consistent treatment with non-taxed Social Security benefits and to avoid imposing taxes during a period of illness.

WHO BENEFITS: Recipients of the medical services provided through Part A of Medicare.

EVALUATION: This tax expenditure achieves its purpose and lowers the direct cost of hospital care for the elderly. The costs associated with serious illness can be quite large and it is generally considered neither fair nor good public policy to tax people at a time they are most vulnerable. Also, it is difficult to determine the value of benefits received exceeding an individual's contributions. The primary recipients of these subsidized benefits are people who became eligible for the program in its earliest years, who had low taxable wages, who qualified as a spouse with little or no contributions of their own, and who have a longer-than-average life expectancy. Over time, the amount of these subsidized benefits is expected to decline as future recipients will have made greater contributions over their lifetimes. [*Evaluated by the Seniors and People with Disabilities Cluster*.]

1.013 SUPPLEMENTARY MEDICAL INSURANCE (PART B)

Internal Revenue Service Ruling 70-341, 1970-2 Cumulative Bulletin page 31
Oregon Statute: 316.048 (Connection to federal personal taxable income)
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1970

	Corporation	Personal	Total
2001–03 Revenue Impact:	Not Applicable	$78,500,000	$78,500,000
2003–05 Revenue Impact:	Not Applicable	$96,400,000	$96,400,000

DESCRIPTION: For those who elect to pay the required monthly premiums ($50 in 2001), Part B of Medicare covers certain doctors' services, outpatient services, and other medical services for people who are age 65 and over or who are disabled. The portion of the program's costs that are paid with governmental general revenues are not included in the personal taxable income of recipients. Currently, these costs account for 75 percent of the program's costs. Under current law, annual increases in the Part B premium is limited to the percentage increase in the social security cost of living allowance.

PURPOSE: To ensure the consistent treatment with non-taxed Social Security benefits.

WHO BENEFITS: Recipients of the medical services provided through Part B of Medicare.

EVALUATION: This tax expenditure achieves its purpose and lowers the direct cost of hospital care for the elderly. While it may be possible to assign a value to these non-taxed subsidies according to individual use, it is generally considered neither fair nor good public policy to tax people at a time they are most vulnerable. However, because this subsidy is not means tested, it is argued that the exclusion benefits higher income retirees. Congress has recognized this issue in discussions on health reform. While no conclusions have been reached, the merits of incorporating gross income thresholds that would raise the premiums for higher income retirees have been debated. [*Evaluated by the Seniors and People with Disabilities Cluster*.]

1.014 SPECIAL BENEFITS FOR DISABLED COAL MINERS

Internal Revenue Service Ruling 72-400, 1972-2 Cumulative Bulletin 75
Oregon Statute: 316.048 (Connection to federal personal taxable income)
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1969

	Corporation	Personal	Total
2001–03 Revenue Impact:	Not Applicable	Less than $50,000	Less than $50,000
2003–05 Revenue Impact:	Not Applicable	Less than $50,000	Less than $50,000

DESCRIPTION: Benefits to coal mine workers or their survivors for total disability or death resulting from coal workers' pneumoconiosis (black lung disease) paid under the Black Lung Benefits Act are not considered taxable. These benefits may be either monthly cash payments or coverage of black-lung-related medical costs.

PURPOSE: To ensure consistent treatment with workers' compensation.

WHO BENEFITS: Former coal mine workers and their survivors.

EVALUATION: The Department of Human Services does not have sufficient information to determine if this expenditure achieves its purpose. [*Evaluated by the Seniors and People with Disabilities Cluster*.]

1.015 SOCIAL SECURITY BENEFITS (FEDERAL)

Internal Revenue Code Section: (various and multiple Revenue Rulings)
Oregon Statute: 316.048 (Connection to federal personal taxable income)
Federal Law Sunset Date: None
Year Enacted: 1938

	Corporation	Personal	Total
2001–03 Revenue Impact:	Not Applicable	$226,900,000	$226,900,000
2003–05 Revenue Impact:	Not Applicable	$238,600,000	$238,600,000

DESCRIPTION: Only a portion of Social Security and Railroad Retirement Board benefits are considered nontaxable at the federal level while the state of Oregon extends the tax exemption to the full amount of benefits. As a result there are two tax expenditures pertaining to these benefits. This tax expenditure pertains to those benefits that are exempt at the federal level. The tax expenditure pertaining to the portion of benefits that are taxed at the federal level but are exempt in Oregon is Social Security Benefits (Oregon) (1.121).

The amount of benefits subject to taxation depends on the amount of "provisional income" above certain thresholds. "Provisional income" is adjusted gross income plus one-half of Social Security benefits and otherwise tax-exempt interest income (i.e., interest from tax-exempt bonds). Taxpayers with "provisional income" under $25,000 (if single) or $32,000 (if married filing jointly) pay no tax.

If "provisional income" is above these thresholds but below $34,000 (single) or $44,000 (joint) then the amount of benefits subject to tax is the lesser of: (1) 50 percent of benefits or (2) 50 percent of income in excess of the first threshold. If income is above the second threshold, the amount of benefits subject to tax is the lesser of: (1) 85 percent of benefits or (2) 85 percent of income above the second threshold, plus the smaller of $4,500 if single ($6,000 if a couple) or 50 percent of benefits. For couples filing separately, taxable benefits are the lesser of 85 percent of benefits or 85 percent of "provisional income."

PURPOSE: The Congressional Research Service cited three reasons for the original exclusion: (1) Congress did not intend for these benefits to be taxed, (2) the benefits were intended to be in the form of "gifts," and (3) taxing these benefits would defeat their intended purposes.

WHO BENEFITS: The number of Oregon taxpayers who receive some nontaxable Social Security and Railroad Retirement Board benefits has ranged from approximately 122,000 to 143,000 between 1990 and 1998. In 1998, the average exclusion was slightly over $7,100.

EVALUATION: This tax expenditure achieves its purpose; however, the issue continues to be the focus of significant national discussions and debate. While this tax exclusion provides the recipients with more disposable income, there are severe concerns over the viability of the Social Security benefits system in the long term. Current retirement index data forecasts that current retirement programs and savings patterns of persons aged 30–48 are not adequate to maintain these individuals at a living standard commensurate with their current living standards. Projections suggest that the rate of retirement savings must increase threefold from present standards in order to accomplish this future parity. The inability to achieve this parity will cause greater numbers of people to look to government service programs to assist them. The present population of those age 30–48 is substantial and this program could have a dramatic impact when they reach the retirement age. [*Evaluated by the Seniors and People with Disabilities Cluster.]*

1.016 ACCELERATED DEPRECIATION OF BUILDINGS

Internal Revenue Code Sections: 167 and 168
Oregon Statutes: 316.048 and 317.013 (Connections to federal personal and corporation taxable incomes)
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1954

	Corporation	Personal	Total
2001–03 Revenue Impact:	$5,300,000	$3,500,000	$8,800,000
2003–05 Revenue Impact:	$4,500,000	$3,000,000	$7,500,000

DESCRIPTION: In general, taxpayers may deduct from corporation and personal taxable income the depreciation of buildings based on a "straight-line" method where equal amounts are deducted in each period. This tax expenditure represents the impact of depreciation methods accelerated over the straight-line method. The tax expenditure is the additional tax that would have been paid if straight-line depreciation had been used instead. The tax expenditure associated with rental housing is covered separately in Accelerated Depreciation of Rental Housing (1.035). The decreased revenue impact across the biennia shown above could reflect a recent nationwide tendency to acquire a greater proportion of shorter-lived real assets.

PURPOSE: To promote investment in business buildings.

WHO BENEFITS: This expenditure benefits owners of buildings used in a trade or business.

EVALUATION: This expenditure appears to achieve its purpose. By reducing the cost of new and young buildings below what it would be under straight-line depreciation, this tax expenditure tends to increase the supply of new or younger buildings relative to older buildings. In doing so, it may reduce the financial incentive to remodel and re-use older buildings in favor of demolishing them and replacing them with new buildings. Therefore, the exemption may favor industrial modernization and high-density urban development. [*Evaluated by the Economic and Community Development Department*.]

1.017 ACCELERATED DEPRECIATION OF EQUIPMENT

Internal Revenue Code Sections: 167 and 168
Oregon Statutes: 316.048 and 317.013 (Connections to federal personal and corporation taxable incomes)
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1954

	Corporation	Personal	Total
2001–03 Revenue Impact:	$208,900,000	$75,200,000	$284,100,000
2003–05 Revenue Impact:	$198,300,000	$77,400,000	$275,700,000

DESCRIPTION: In general, taxpayers may deduct from corporation and personal taxable income the depreciation of equipment based on a "straight-line" method where equal amounts are deducted in each period. This tax expenditure represents the impact of depreciation methods accelerated over the straight-line method. The tax expenditure is the additional tax that would have been paid if straight-line depreciation had been used instead.

The revenue impact includes the bonus depreciation provision of the "Job Creation and Worker Assistance Act of 2002." This federal economic stimulus bill allows a special first year bonus depreciation deduction equal to 30 percent of the adjusted basis for qualified property placed in service between September 10, 2001, and September 11, 2004. The remaining 70 percent of the property is depreciated according to prior standards.

PURPOSE: To promote investment in business equipment.

WHO BENEFITS: Owners of equipment used in a trade or business.

EVALUATION: This expenditure appears to achieve its purpose. By reducing the cost of new and young equipment below what it would be under straight-line depreciation, this tax expenditure tends to increase the demand for new or younger equipment relative to older equipment. In doing so, it may reduce the financial incentive to repair and re-use older equipment in favor of scrapping it and replacing it with new equipment. Therefore, the exemption may favor industrial modernization and productivity. [*Evaluated by the Economic and Community Development Department*.]

1.018 INCOME EARNED ABROAD BY U.S. CITIZENS

Internal Revenue Code Section: 911
Oregon Statute: 316.048 (Connection to federal personal taxable income)
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1926

	Corporation	Personal	Total
2001–03 Revenue Impact:	Not Applicable	$19,800,000	$19,800,000
2003–05 Revenue Impact:	Not Applicable	$23,500,000	$23,500,000

DESCRIPTION: For the 2002 tax year, U.S. citizens (except U.S. federal employees) who live abroad may exclude from personal taxable income up to $80,000 earned from employment overseas. A taxpayer must meet foreign residence tests in order to receive the exclusion. Taxpayers may also exclude a certain amount of employer-provided foreign housing expenses.

PURPOSE: To encourage U.S. exports by encouraging U.S. citizens to work abroad. U.S. citizens working abroad may play an important role in promoting the sale of U.S. goods abroad. The exclusion also compensates for higher living costs overseas, and for the fact that the individual living overseas may pay taxes to the foreign country that are often higher than U.S. taxes.

WHO BENEFITS: Individuals who live and work abroad.

EVALUATION: This expenditure appears to achieve its purpose. It would appear that a relatively large number of Oregonians (or U.S. citizens who work for Oregon companies) are working overseas. This not only benefits Oregon exports, but also helps Oregon attain an international frame of mind as many of these individuals return to Oregon. [*Evaluated by the Economic and Community Development Department*.]

1.019 INVENTORY PROPERTY SALES SOURCE-RULE EXCEPTION

Internal Revenue Code Sections: 861–863 and 865
Oregon Statute: 317.013 (Connection to federal corporation taxable income)
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1921

	Corporation	Personal	Total
2001–03 Revenue Impact:	$21,500,000	Not Applicable	$21,500,000
2003–05 Revenue Impact:	$24,900,000	Not Applicable	$24,900,000

DESCRIPTION: In general, U.S. corporations that have foreign operations must consider the income from sales of personal property as U.S. rather than foreign-source income. This provision allows the income from inventory property sold by the foreign operation of a U.S. company to be sourced to the foreign operation. This sourcing rule exemption allows a company to use the foreign tax credit provisions in a way that can effectively exempt a portion of a firm's export income from corporate taxable income.

PURPOSE: To encourage U.S. exports and to promote "just-in-time" supply to the buyer.

WHO BENEFITS: Corporations involved in the sale of exports.

EVALUATION: This provision may have had some effect on the increase in Oregon exports over the past 10 years, and thus may achieve its purpose. It probably provides the additional benefit of moving inventory closer to the customer and thereby increases U.S. firms' competitive advantage over countries that do not have a similar provision. It fosters "just-in-time" supply. [*Evaluated by the Economic and Community Development Department*.]

1.020 MAGAZINE, PAPERBACK, AND RECORD RETURNS

Internal Revenue Code Section: 458
Oregon Statutes: 316.048 and 317.013 (Connections to federal personal and corporation taxable incomes)
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1978

	Corporation	Personal	Total
2001–03 Revenue Impact:	Less than $50,000	$100,000	$110,000
2003–05 Revenue Impact:	Less than $50,000	$100,000	$110,000

DESCRIPTION: Generally, if a buyer returns goods to the seller, the seller's income is reduced in the year in which the items are returned. An exception has been granted to publishers and distributors of magazines, paperbacks, and records. (Records include audiocassettes, CDs, and laser discs that contain pre-recorded sounds.) These publishers and distributors may elect to exclude from corporate or personal taxable income any goods sold during a tax year that are then returned shortly after the close of the tax year. This allows publishers and distributors to sell more copies to wholesalers and retailers than they expect will be sold to consumers.

Overstocking of inventory occurs for two reasons. First, it is difficult to predict consumer demand for particular titles. Second, overstocking is used as a marketing strategy that relies on the conspicuous display of selected titles.

PURPOSE: To encourage the purchase of printed magazines, paperbacks and recordings. To promote the business of those involved in publishing and distributing those materials.

WHO BENEFITS: Publishers and distributors of magazines, paperbacks and records.

EVALUATION: This expenditure appears to achieve its purpose by promoting increased sales of materials. The removal of this provision might cause irritating back-orders of popular materials and reduce sales of published materials due to an insufficient number of copies to allow for conspicuous display. However, the provision probably also encourages the over-printing of copies and the resultant waste. [*Evaluated by the Economic and Community Development Department*.]

1.021 CASH ACCOUNTING, OTHER THAN AGRICULTURE

Internal Revenue Code Sections: 446 and 448
Oregon Statutes: 316.048 and 317.013 (Connections to federal personal and corporation taxable incomes)
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1916

	Corporation	Personal	Total
2001–03 Revenue Impact:	$100,000	$1,900,000	$2,000,000
2003–05 Revenue Impact:	$100,000	$2,200,000	$2,300,000

DESCRIPTION: For tax purposes, certain small businesses and personal service corporations are allowed to use the cash method of accounting, rather than the accrual method, for tax purposes. This effectively defers corporation and personal income tax by allowing qualifying businesses to record income when it is received rather than when it is earned.

PURPOSE: To simplify record keeping for small businesses and to eliminate an additional drain on the working capital of small businesses.

WHO BENEFITS: Small businesses and personal service corporations benefit directly.

EVALUATION: This expenditure achieves its purpose by helping to reduce working capital constraints often faced by small business. Startup businesses often fail for lack of sufficient investment funds to maintain an adequate level of working capital. Ongoing successful businesses can have temporary unforeseen downturns or periods of rapid growth that can use up precious working capital and threaten business survival. This expenditure helps small businesses by allowing them to pay income tax only on income received rather than on income promised in the future due to a sale in the present. This provision also simplifies the record keeping of small businesses by allowing them to recognize costs and income for tax purposes in the same manner as for their own record keeping.

This is a fiscally effective method to simplify record keeping and to help eliminate the shortage of working capital for small businesses. No other more efficient method is apparent. [*Evaluated by the Economic and Community Development Department*.]

1.022 REGIONAL ECONOMIC DEVELOPMENT INCENTIVES

Internal Revenue Code Sections: 38(b), 39(d), 45A, 168(j), 280C(a), 1391–1397D, and 1400-1400B
Oregon Statutes: 316.048 and 317.013 (Connections to federal personal and corporation taxable incomes)
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1993

	Corporation	Personal	Total
2001–03 Revenue Impact:	Less than $50,000	Less than $50,000	$100,000
2003–05 Revenue Impact:	Less than $50,000	$100,000	$100,000

DESCRIPTION: The original 1993 federal legislation specified that nine empowerment zones and 95 enterprise communities in the U.S. be designated to receive special tax benefits. There are two major benefits: 1) provisions for deducting certain expenditures in the year made rather than depreciating them over a number of years, and 2) the benefits derived from tax-exempt financing. Designated areas must satisfy eligibility criteria including poverty rates and population and geographic size limits. They are eligible for benefits for 10 years. The main benefits of designation are social service block grants from the U.S. Department of Housing and Urban Development or the U.S. Department of Agriculture.

Additional communities were able to participate in these economic development tools through expansions to the program offered by 1997 and 2001 federal legislation.

Oregon currently has no empowerment zones. It does have two enterprise communities, one rural and one urban (Josephine County and Portland). Enterprise communities may receive tax-exempt/bond financing for zone businesses and special tax credits for investment in qualified-zone academy bonds for local education. (Empowerment zone businesses receive additional tax incentives, including wage credits and equipment expensing allowances). Tax-exempt bonds for any one community cannot exceed $3 million and must be part of the state's existing allocation for such bonds.

PURPOSE: To revitalize economically distressed areas.

WHO BENEFITS: Businesses and employees within the designated areas and holders of bonds nationwide.

EVALUATION: Indeterminate; not enough usage to evaluate effectiveness. [*Evaluated by the Economic and Community Development Department*.]

1.023 INCOME OF CONTROLLED FOREIGN CORPORATIONS

Internal Revenue Code Sections: 11(d), 882, and 951–964
Oregon Statute: 317.013 (Connection to federal corporation taxable income)
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1909

	Corporation	Personal	Total
2001–03 Revenue Impact:	$18,400,000	Not Applicable	$18,400,000
2003–05 Revenue Impact:	$20,800,000	Not Applicable	$20,800,000

DESCRIPTION: When a U.S. firm earns income through a foreign subsidiary, the income is exempt from U.S. corporate taxes as long as it is in the hands of the foreign subsidiary. At the time the foreign income is repatriated, the U.S. parent corporation can credit foreign taxes paid by the subsidiary against U.S. taxes owed on the repatriated income. Because the deferral principle allows U.S. firms to delay any residual U.S. taxes that may be due after foreign tax credits, it provides a tax benefit for firms that invest in countries with low tax rates.

PURPOSE: To encourage the purchase and operation of foreign subsidiaries by U.S. firms, thereby increasing these firms' penetration into foreign markets and their global competitiveness.

WHO BENEFITS: U.S. multinational firms with foreign operations in low tax countries.

EVALUATION: This expenditure appears to achieve its purpose. Encouraging companies to purchase and operate foreign subsidiaries may result in a short-term reduction in employment in the United States as production is moved to the foreign country where production costs may be cheaper than in the U.S. However, this move is likely to make the parent company more competitive worldwide, so that its remaining operations and employment in the United States become more secure in the long-term. If a company were to maintain all its production facilities in the United States, it might not be able to compete successfully with foreign-based companies and thus would not even employ the technical staff, marketers, corporate executives, and others that it currently employs in the United States.

Acquisitions of foreign subsidiaries could, however, have limited impact on local employment, and this is often the case. In many instances, these acquisitions are in complementary products to those manufactured domestically. These provide, as a result, greater market access through channeling, which could increase corporate profitability of the domestic parent corporation. [*Evaluated by the Economic and Community Development Department*.]

1.024 EXTRATERRITORIAL INCOME EXCLUSION

Internal Revenue Code Sections: 114; 941-2
Oregon Statute: 316.048 and 317.013 (Connection to federal personal and corporation taxable incomes)
Federal Law Sunset Date: None
Year Enacted in Federal Law: 2000

	Corporation	Personal	Total
2001–03 Revenue Impact:	$19,000,000	Not Applicable	$19,000,000
2003–05 Revenue Impact:	$24,900,000	Not Applicable	$24,900,000

DESCRIPTION: Through this tax provision taxpayers may exclude certain export income from taxation. This excluded extraterritorial income is the portion of income that is attributable to "qualifying foreign trade income."

"Qualifying foreign trade income" is the amount of gross income that, if excluded, would result in the reduction of taxable income by the greatest of:

- 15 percent of foreign trade income
- 1.2 percent of foreign trading gross receipts
- 30 percent of foreign sale and leasing incomes

The goods or services sold abroad must have no more than 50 percent of the market value of the property attributable to articles manufactured or assembled outside the United States or to the cost of labor performed outside the United States.

When a taxpayer excludes extraterritorial income they cannot also deduct foreign taxes associated with that income.

The extraterritorial income (ETI) law was enacted in late 2000 to replace the foreign sales corporation (FSC) laws. In 2000 the World Trade Organization declared that the FSC structure was an illegal export subsidy under international trade agreements. In early 2002 the ETI provision was also declared an illegal export subsidy. As of September 2002 the ETI federal law has not been modified nor has an alternative regime been implemented.

Oregon currently ties to the ETI exclusion through the connection to federal taxable income. Under the former FSC regime, Oregon specifically broke from this federal law and required corporations to add back the income associated with an FSC to their Oregon income.

PURPOSE: To encourage foreign trade.

WHO BENEFITS: Taxpayers with extraterritorial income.

EVALUATION: The impetus for the FSC/ETI legislation is to encourage smaller and mid-size companies to become engaged in international trade. FSCs were sometimes operated as cooperatives with several being state sponsored because of the needed economies of scale that smaller firms needed to make them financially viable. FSCs and ETIs have continued to come under fire from international trade organizations as unfair trade practices. They are valuable assets for larger firms that have a considerable amount of export business/revenues and could be considered a competitiveness tool. For most companies however, there is limited benefit. [*Evaluated by the Economic and Community Development Department.*]

1.025 CANCELLATION OF DEBT FOR NON-FARMERS

Internal Revenue Code Sections: 108(a)(1)(D)
Oregon Statute: 316.048 and 317.013 (Connection to federal personal and corporation taxable incomes)
Federal Law Sunset Date: None
Year Enacted in Federal Law: Pre-1955

	Corporation	Personal	Total
2001–03 Revenue Impact:	Less than $50,000	Less than $50,000	Less than $50,000
2003–05 Revenue Impact:	Less than $50,000	Less than $50,000	Less than $50,000

DESCRIPTION: In general if a taxpayer has a debt forgiven ("discharge of indebtedness") the forgiven debt is considered income to the taxpayer. Exceptions are allowed for certain qualified debt forgiveness. One such qualified exception is associated with the discharge of indebtedness incurred in connection with qualified real property business indebtedness. This indebtedness must be connected with real property used in a trade or business.

PURPOSE: To reduce the tax burden on businesses that are insolvent or facing severe economic difficulty.

WHO BENEFITS: Taxpayers having debt discharged.

EVALUATION: Very limited usage of this credit could lead to the conclusion that it is not achieving its purpose. However, elimination would likely result in little added revenues as the target population is insolvent businesses. [*Evaluated by the Economic and Community Development Department.*]

1.026 EMPLOYER PAID GROUP LIFE INSURANCE PREMIUMS

Internal Revenue Code Sections: 79, 105, and 106
Legal Opinion 1014, 1920-2 Cumulative Bulletin page 8
Oregon Statute: 316.048 (Connection to federal personal taxable income)
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1920

	Corporation	Personal	Total
2001–03 Revenue Impact:	Not Applicable	$17,400,000	$17,400,000
2003–05 Revenue Impact:	Not Applicable	$19,600,000	$19,600,000

DESCRIPTION: Employer payments for employee life insurance (up to $50,000 in coverage) and death benefits are not included in the employee's personal taxable income.

PURPOSE: To encourage employers and employees to incorporate life insurance benefits into compensation packages. This exclusion from the federal income tax passes through to Oregon tax returns, simplifying tax preparation.

WHO BENEFITS: Employees who do not have to purchase their own life insurance and the dependents of employees who would not otherwise be insured. Employers may benefit by paying lower wages than would be paid if these benefits were not offered. Higher income individuals are more likely than lower income individuals to benefit from this exclusion because they are more likely to have this benefit.

EVALUATION: This tax expenditure achieves its purpose and is an effective way of providing employee security. It is an important component of the total benefits package in terms of attracting and retaining Oregon workers. In the increasingly competitive national labor market there is merit in retaining incentives that are available in other states. In addition, the tax expenditure is structured so that it does not discriminate in favor of select employees. The life insurance itself provides heirs with a greater sense of stability and reduces the potential for future public assistance. [*Evaluated by the Employment Department*.]

1.027 EMPLOYER PAID ACCIDENT AND DISABILITY INSURANCE

Internal Revenue Code Sections: 79, 105, and 106
Oregon Statute: 316.048 (Connection to federal personal taxable income)
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1954

	Corporation	Personal	Total
2001–03 Revenue Impact:	Not Applicable	$17,500,000	$17,500,000
2003–05 Revenue Impact:	Not Applicable	$20,300,000	$20,300,000

DESCRIPTION: Employer payments for employee accident and disability insurance premiums are not included in the employee's personal taxable income.

PURPOSE: To encourage employers and employees to incorporate accident and disability insurance into compensation packages. This exclusion from the federal income tax passes through to Oregon tax returns, simplifying tax preparation.

WHO BENEFITS: Employees who do not have to purchase their own accident and disability insurance and the dependents of employees who would not otherwise be insured. Employers may benefit by paying lower wages than would be paid if these benefits were not offered. Higher income individuals are more likely than lower income individuals to benefit from this exclusion because they are more likely to have this benefit.

EVALUATION: This tax expenditure achieves its purpose and is an effective way of providing employee security. As is the case with Employer Paid Group Life Insurance Premiums (1.026), it is an important component of the total benefits package in terms of attracting and retaining Oregon workers. In the increasingly competitive national labor market there is merit in retaining incentives that are available in other states. In addition, the tax expenditure is structured so that it does not discriminate in favor of select employees. Accident, disability, and supplemental unemployment benefits allow an employee to maintain a standard of living through short-term transitions. [*Evaluated by the Employment Department*.]

1.028 EMPLOYER PROVIDED DEPENDENT CARE

Internal Revenue Code Section: 129
Oregon Statute: 316.048 (Connection to federal personal taxable income)
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1981

	Corporation	Personal	Total
2001–03 Revenue Impact:	Not Applicable	$5,000,000	$5,000,000
2003–05 Revenue Impact:	Not Applicable	$6,500,000	$6,500,000

DESCRIPTION: Employer payments for dependent care through a dependent care assistance program and employee contributions to a dependent care account are not included in the employee's personal taxable income. The maximum exclusion is $5,000 and may not exceed the lesser of the earned income of the employee or the earned income of the employee's spouse, if married. To qualify, the employer assistance must be provided under a plan that meets certain conditions, such as eligibility requirements that do not discriminate in favor of certain employees.

PURPOSE: To promote the provision of dependent care benefits by employers and to reduce the costs of dependent care for employees. This exclusion from the federal income tax passes through to Oregon tax returns, simplifying tax preparation.

WHO BENEFITS: Most of the benefit goes to employees making contributions to tax-free dependent care accounts set up by their employers. A relatively small share goes to employees receiving employer-paid dependent care benefits because those benefits are not widespread.

EVALUATION: This tax expenditure achieves its purpose. For employee contributions to dependent care accounts, dependent care costs are reduced because they are paid for with pre-tax dollars. Employees whose employer does not offer dependent care accounts can qualify for a dependent care credit against their federal and Oregon income tax.

For employer-provided benefits, the typical practice is that the benefit is part of a cafeteria plan (Cafeteria Plan Benefits 1.008) in which employees can choose from various taxable or non-taxable benefits. Consequently, those choosing this option would be meeting specific needs so the tax expenditure is well targeted. It also has the potential for reducing the need for public funds in providing the needed care. Further, in the increasingly competitive national labor market there is merit in retaining the incentives that are available in other states. While any one benefit may not appear significant by itself, it is an important piece in the total benefits package in terms of attracting and retaining Oregon workers. [*Evaluated by the Employment Department.*]

1.029 MISCELLANEOUS FRINGE BENEFITS

Internal Revenue Code Sections: 132 and 117(d)
Oregon Statute: 316.048 (Connection to federal personal taxable income)
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1984

	Corporation	Personal	Total
2001–03 Revenue Impact:	Not Applicable	$45,100,000	$45,100,000
2003–05 Revenue Impact:	Not Applicable	$48,500,000	$48,500,000

DESCRIPTION: Certain fringe benefits are exempt from personal income tax. These benefits include no-additional-cost services (such as free stand-by flights for airline employees), qualified employee discounts, working condition fringe benefits, and de minimis fringe benefits (such as providing coffee to employees or allowing them occasional personal use of an office copy machine). Also included are subsidized parking and eating facilities and provision of on-premises athletic facilities. The provision of these fringe benefits must meet certain nondiscrimination rules to qualify. The benefits must be provided solely to employees, their spouses and dependent children, retired employees, or the widows or widowers of former employees.

PURPOSE: To codify the traditional treatment of these benefits as not contributing to taxable income and to avoid the difficulty of monitoring and assigning values to them. This exclusion from the federal income tax passes through to Oregon tax returns, simplifying tax preparation.

WHO BENEFITS: Employees receiving fringe benefits. Employers may benefit by paying lower wages than would be paid if these benefits were not offered.

EVALUATION: This tax expenditure achieves its purpose and is a benefit to varying degrees, depending on the industry involved. For some occupations, this benefit may be specifically relevant to those employees who are willing to accept lower wages in exchange for these benefits. It is also difficult to establish a dollar amount for these items without an elaborate accounting system to monitor use. Consequently, the tax expenditure provides a benefit by preventing the need to establish such a system. [*Evaluated by the Employment Department.*]

1.030 EMPLOYEE MEALS AND LODGING (NON-MILITARY)

Internal Revenue Code Sections: 119 and 132(e)(2)
Oregon Statute: 316.048 (Connection to federal personal taxable income)
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1918

	Corporation	Personal	Total
2001–03 Revenue Impact:	Not Applicable	$6,300,000	$6,300,000
2003–05 Revenue Impact:	Not Applicable	$7,000,000	$7,000,000

DESCRIPTION: Employees do not include in personal taxable income the fair market value of meals furnished by employers if the meals are furnished on the employer's business premises and for the convenience of the employer. In certain situations, this includes the value of meals provided to an employee at a subsidized eating facility operated by the employer.

Fair market value of lodging provided by the employer can also be excluded from income, if the lodging is furnished on business premises for the convenience of the employer, and if the employee is required to accept the lodging as a condition of employment.

PURPOSE: To eliminate record-keeping difficulties and to acknowledge that the fair market value of employer provided meals and lodging may be difficult to measure. This exclusion from the federal income tax passes through to Oregon tax returns, simplifying tax preparation.

WHO BENEFITS: Employees and their employers in those occupations or sectors in which the provision of meals and/or lodging is common.

EVALUATION: This tax expenditure achieves its purpose and provides a benefit to both the employer and the employee. In many cases provided meals and lodging are considered a condition of hire. An example is the individual who is hired to tend an oil derrick in the Gulf of Mexico. It is not practical to have the individual ferry back and forth between the derrick and shore when a shift changes. The employee has no option but to accept the room and board if he or she wishes to take the job. In the case of apartment house managers, free apartment rent is likely a significant factor in accepting the position. This tax expenditure simplifies the bookkeeping process associated with tracking this benefit. [*Evaluated by the Employment Department*.]

1.031 EMPLOYEE STOCK OWNERSHIP PLANS

Internal Revenue Code Sections: 133, 401(a)(28), 404(a)(9), 404(k), 415(c)(6), 1042, 4975(e)(7), 4978, and 4979A
Oregon Statute: 316.048 and 317.013 (Connections to federal personal and corporation taxable incomes)
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1974

	Corporation	Personal	Total
2001–03 Revenue Impact:	$3,700,000	$1,500,000	$5,200,000
2003–05 Revenue Impact:	$3,900,000	$2,200,000	$6,100,000

DESCRIPTION: An Employee Stock Ownership Plan (ESOP) is a defined-contribution plan that is required to primarily invest in the stock of the sponsoring employer. These plans contain several tax exemptions. Employer contributions may be deducted from corporation taxable income as a business expense. An employer may also deduct dividends paid on stock held by an ESOP if the dividends are paid to plan participants. Employees are not taxed on employer contributions or the earnings on invested funds until they are distributed. A benefit is also available to certain lenders. Qualified lenders may exclude from taxable income 50 percent of the interest earned on an ESOP loan if the ESOP owns over 50 percent of the company's stock. Under certain circumstances, a stockholder may defer the recognition of the gain from the sale of stock to an ESOP. The estimated tax benefit is a net figure, i.e., the revenue foregone in a given year offset by the amount of tax paid on distributions in that year.

PURPOSE: To broaden employee stock ownership and provide employees with a source of retirement income. This exclusion from the federal income tax passes through to Oregon tax returns, simplifying tax preparation.

WHO BENEFITS: Employers and employees of participating companies.

EVALUATION: This tax expenditure achieves its purpose as well as promoting stability and loyalty in business organizations. These plans create a sense of ownership among employees which, in turn, enhances performance. The success of this tax expenditure may be measured in future company growth resulting in more tax revenue for the state. The tax expenditure also promotes a means of accumulating retirement funds. In the increasingly competitive national labor market there is merit in retaining incentives that are available in other states. This particular incentive could be an integral piece in terms of recruiting and/or retaining Oregon workers. [*Evaluated by the Employment Department*.]

1.032 EMPLOYEE AWARDS

Internal Revenue Code Sections: 74(c) and 274(j)
Oregon Statute: 316.048 (Connection to federal personal taxable income)
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1986

	Corporation	Personal	Total
2001–03 Revenue Impact:	Not Applicable	$800,000	$800,000
2003–05 Revenue Impact:	Not Applicable	$800,000	$800,000

DESCRIPTION: Awards given to employees for length of service or for safety are excluded from personal taxable income. The amount of the exclusion is usually limited to $400 but may be as much as $1,600. There are certain qualification requirements to ensure that the awards do not constitute disguised compensation.

PURPOSE: To encourage longevity in employment and safety practices on the job. This exclusion from the federal income tax passes through to Oregon tax returns, simplifying tax preparation.

WHO BENEFITS: Employees who receive length of service or safety awards and employers who save costs related to training and time loss injuries.

EVALUATION: This tax expenditure achieves its purpose while recognizing bona fide achievements. The exclusion promotes such positive goals as loyalty and safety. It also helps stabilize the workforce. As a result, it has a positive impact in reducing unemployment and workers compensation claims. Productivity is likely to increase thus contributing to future growth and greater tax revenue for the state. [*Evaluated by the Employment Department*.]

1.033 EMPLOYER PROVIDED EDUCATION BENEFITS

Internal Revenue Code Section: 127
Oregon Statute: 316.048 (Connection to federal personal taxable income)
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1997

	Corporation	Personal	Total
2001–03 Revenue Impact:	Not Applicable	$4,200,000	$4,200,000
2003–05 Revenue Impact:	Not Applicable	$6,100,000	$6,100,000

DESCRIPTION: Employer-provided educational assistance benefits, up to $5,250 annually, are excluded from the personal taxable income of the recipient if they are part of undergraduate assistance as part of an educational assistance program. The program must not discriminate in favor of highly compensated employees; assistance provided to employees owning more than 5 percent of the employer may not receive more than five percent of the benefits; employees may not have a choice between these benefits and other benefits that may be considered taxable income; and employees must have reasonable notification of the program's availability and terms.

Educational assistance includes the payment of tuition, fees, books, supplies, and equipment; it excludes items such as meals, lodging, and transportation. The exclusion does not apply to education pertaining to sports, games or hobbies.

Prior to the passage of the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA), this law was set to expire on December 31, 2001. Prior to the passage of the Small Business Job Protection Act of 1996, payments for graduate level education were also excluded from taxable income. With the passage of EGTRRA, this provision has been made permanent and extended to graduate level education.

PURPOSE: To promote the provision of educational benefits by employers. This exclusion from the federal income tax passes through to Oregon tax returns, simplifying tax preparation.

WHO BENEFITS: Employees receiving employer provided educational assistance. Employers may benefit by paying a lower wage than would be paid if these benefits were not offered. Employers also benefit from a better educated and trained work force.

EVALUATION: This tax expenditure achieves its purpose and provides a benefit to both the employer and the employee. The exclusion promotes improved job skills for the employee and a better educated work force for the employer. In the increasingly competitive national labor market there is merit in retaining the incentives that are available in other states. [*Evaluated by the Employment Department*.]

1.034 SPREAD ON ACQUISITION OF STOCK

Internal Revenue Code Sections: 422
Oregon Statute: 316.048 (Connection to federal personal taxable income)
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1981

	Corporation	Personal	Total
2001–03 Revenue Impact:	Not Applicable	$3,800,000	$3,800,000
2003–05 Revenue Impact:	Not Applicable	$5,900,000	$5,900,000

DESCRIPTION: Employees who have been granted stock options under an Incentive Stock Option plan or an Employer Stock Purchase plan are allowed to exercise, or buy, those options within a specified time frame. Presumably, the value of the stock at the time it is exercised is greater than the option price. At the time the employee exercises his or her options, the stock is transferred from the company to the employee, but the difference in value between the exercise and options prices is not considered taxable income. This value is ultimately taxed when the employee sells the stock.

PURPOSE: To defer tax liability until the income is realized by the taxpayer.

WHO BENEFITS: Taxpayers who receive stock options as a form of compensation.

EVALUATION: This tax expenditure achieves its purpose of allowing employees to exercise stock options without having to sell them immediately to pay taxes. This expenditure, in conjunction with the Employee Stock Ownership Plans (1.031) creates a sense of ownership among employees, promotes a means of accumulating retirement funds, and becomes an incentive in terms of recruiting and/or retaining Oregon workers. [*Evaluated by the Employment Department*.]

1.035 ACCELERATED DEPRECIATION OF RENTAL HOUSING

Internal Revenue Code Sections: 167 and 168
Oregon Statutes: 316.048 and 317.013 (Connections to federal personal and corporation taxable incomes)
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1954

	Corporation	Personal	Total
2001–03 Revenue Impact:	$1,300,000	$17,500,000	$18,800,000
2003–05 Revenue Impact:	$1,300,000	$21,000,000	$22,300,000

DESCRIPTION: In general, taxpayers may deduct from corporation and personal taxable income the depreciation of rental housing based on a “straight-line” method where equal amounts are deducted in each period. This tax expenditure represents the impact of depreciation methods accelerated over the straight-line method. In general, for rental housing property placed in service since 1986, the depreciation life is 27.5 years, and the property is depreciated in equal amounts each year. In other words, the rental property follows a “straight-line” depreciation method, but only for 27.5 years, instead of the total anticipated life of the property. Rental housing properties placed in service prior to 1986 continue depreciation according to the method they started with, which may allow the property to depreciate faster than under the "straight-line" method.

PURPOSE: To promote investment in rental housing by effectively deferring taxes paid on those investments.

WHO BENEFITS: Owners of rental housing.

EVALUATION: This expenditure appears to achieve its purpose. As described by the Congressional Research Service, accelerated depreciation is intended as "a general stimulus to investment." There are likely instances where the tax deferral represented by accelerated depreciation provides a critical incentive to developers and investors in making decisions regarding construction or purchase of rental property. However, rental housing is not the only item that receives some form of preferential tax treatment. It is difficult to ascertain the fiscal effectiveness of this expenditure.

The Congressional Research Service discusses a further impact of accelerated depreciation. When rental property is eventually sold, the relatively larger gain is taxed at a potentially lower capital gains rate. Under straight-line depreciation, the gain to which this preferential treatment could be applied would be smaller, and less depreciation would have been used to reduce ordinary income over the life of the asset. [*Evaluated by the Housing and Community Services Department*.]

1.036 CAPITAL GAINS ON HOME SALES

Internal Revenue Code Section: 121
Oregon Statute: 316.048 (Connection to federal personal taxable income)
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1997

	Corporation	Personal	Total
2001–03 Revenue Impact:	Not Applicable	$129,700,000	$129,700,000
2003–05 Revenue Impact:	Not Applicable	$140,900,000	$140,900,000

DESCRIPTION: Homeowners may exclude from personal taxable income up to $250,000 (single taxpayers) or $500,000 (married taxpayers filing joint returns) of capital gain realized on the sale of their principal residence. The exclusion applies only to the portion of the property associated with the residence, not portions of the property used in business activity. The exclusion is allowed each time a taxpayer meets the eligibility requirements, but generally not more than once every two years.

PURPOSE: To promote home ownership by reducing the after-tax cost.

WHO BENEFITS: Homeowners who sell their principal residences.

EVALUATION: This exclusion achieves its purpose of reducing the tax burden on individuals selling their principal residence. According to the Congressional Research Service,

> Congress believed that taxing capital gains from the sale of principal residences imposed a "hardship," because capital gains may reflect only a general rise in housing prices, in which case, the tax on the gain would reduce the...ability to replace the home they had sold.

Although this does amount to preferential treatment compared with other capital investment opportunities, the justification is that “much of the profit from the sale of a personal residence represents inflationary gains, and because the purchase of a principal residence is less of a profit-motivated investment than other types of investments.”

As previously noted, this law replaces a commonly used deferral, the one-time capital gains exclusion for taxpayers aged 55 or older. The 1997 law increases the amount eligible for exclusion from $125,000 to $250,000 ($500,000 if married filing a joint return).

Allowing the exclusion for taxpayers under age 55, and permitting the exclusion to be used more than once achieves certain policy objectives. The deferral could only be fully utilized if the taxpayer purchased a new principal residence of equal or greater value than the one being sold. Therefore, the prior law may have encouraged some taxpayers to purchase more expensive homes based solely on tax consequences. Prior law may also have discouraged older taxpayers from selling their homes, if they had already used the exclusion. The new law removes this constraint.

Finally, the law change simplifies what had been “among the most complex tasks faced by a typical taxpayer.” To claim the exclusion under the prior law, many taxpayers had to determine the basis of each home they owned and adjust the basis of their current home to reflect any untaxed gains. This involved making determinations of “improvements” that added to the basis (as compared to “repairs” which did not) and retaining related records for several years. “By excluding from taxation capital gains on principal residences below a relatively high threshold, few taxpayers will have to refer to records in determining income tax consequences of transactions related to their house.” [*Evaluated by the Housing and Community Services Department*.]

1.037 VETERANS’ BENEFITS AND SERVICES

38 U.S. Code Section 3101
Oregon Statute: 316.048 (Connection to federal personal taxable income)
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1917

	Corporation	Personal	Total
2001–03 Revenue Impact:	Not Applicable	$22,700,000	$22,700,000
2003–05 Revenue Impact:	Not Applicable	$24,500,000	$24,500,000

DESCRIPTION: All benefits provided by the U.S. Department of Veterans Affairs (VA) are excluded from the personal taxable income of recipients, including disability compensation, pensions, and GI bill benefits.

PURPOSE: To recognize the service and sacrifices made by veterans for the country and to compensate veterans for reductions in civilian earning capacity due to disabilities.

WHO BENEFITS: Veterans, their survivors, and dependents and their families receiving benefits from the VA.

In addition to the on-going benefits described above, the Oregon Department of Veterans’ Affairs manages a veterans nursing care facility, the Oregon Veterans Home, which opened in November 1997. Located in The Dalles, 123 veterans resided in this facility in 1999.

EVALUATION: This expenditure achieves the purpose for which it was enacted.

- Service-connected disability compensation helps to compensate veterans who have mental or physical disabilities as a result of their service. This compensation assists in raising the standard of living in Oregon, brings federal funds into the state, and, in many cases, keeps recipients off other social assistance programs.

- Veterans' pensions help to compensate war time veterans for their service to state and nation. Without this income supplement, some of these recipients would most likely utilize other social services.

- Federal educational benefits assist returning veterans in furthering their education. This falls within many of the Oregon Benchmarks. The more citizens who are educated to their potential, the better off the state of Oregon.

All three programs achieve their purpose in a fiscally effective manner. [*Evaluated by the Department of Veterans' Affairs*.]

1.038 MILITARY AND DEPENDENTS CHAMPUS/TRICARE INSURANCE

Internal Revenue Code Section: 112 and 134
Oregon Statute: 316.048 (Connections to federal personal taxable incomes)
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1925

	Corporation	Personal	Total
2001–03 Revenue Impact:	Not Applicable	$14,800,000	$14,800,000
2003–05 Revenue Impact:	Not Applicable	$15,700,000	$15,700,000

DESCRIPTION: Military personnel are provided with a variety of in-kind benefits that are not taxed, such as medical and dental benefits. These benefits are also provided to active duty dependents, as well as retired military and their dependents. Some military care for such dependents is provided directly in military facilities and by military doctors on a space available basis.

The Department of Defense is implementing a new program, entitled Tricare, in an effort to coordinate the efforts of armed services' medical facilities and civilian providers. Beneficiaries can receive care under one of three options: 1) Tricare prime, a DoD-managed HMO; 2) Tricare Extra, a preferred-provider organization; or 3) Tricare Standard, formerly known as CHAMPUS. Under the latter two options, beneficiaries are reimbursed for portions of the costs of health care received from civilian providers.

Beginning in 2002, retirees and their dependents who are eligible for Medicare and participate in Medicare Part B will be allowed to retain their Tricare coverage, which includes pharmaceutical benefits. As with the case with the exclusion of medical and health care benefits in general, the tax benefits of CHAMPUS/Tricare are greater for military personnel in higher tax brackets.

PURPOSE: A 1925 court case, *Jones v. United States* (60 CT. CL. 552 (1925)) drew a distinction between the pay and allowances provided for military personnel. The court found that housing and other housing allowances were reimbursements similar to other non-taxable expenses authorized by the executive branch.

The CHAMPUS exclusion is consistent with the court's reasoning and extends it to military health benefits.

WHO BENEFITS: The families and dependents of military personnel.

EVALUATION: According to the Congressional Research Service, although health and dental care for active duty military personnel is essential to the mission of the armed forces, the provision of such non-taxable benefits to dependents is much more like a fringe benefit and probably encourages individuals to substitute medical care for taxable wages. [*Evaluated by the Department of Veterans' Affairs*.]

1.039 AGRICULTURE COST-SHARING PAYMENTS

Internal Revenue Code Section: 126
Oregon Statute: 316.048 and 317.013 (Connections to federal personal and corporation taxable incomes)
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1978

	Corporation	Personal	Total
2001–03 Revenue Impact:	$100,000	$100,000	$200,000
2003–05 Revenue Impact:	$100,000	$100,000	$200,000

DESCRIPTION: Under certain federal and state programs, governments make payments to taxpayers that represent a share of the costs of certain improvements to the land made by the taxpayer. These programs generally are designed to promote conservation, protect the environment, improve forests, or provide habitats for wildlife. Payments made under these programs are not included in the corporation or personal taxable income of the recipient. To qualify for the exclusion, the payment must not produce a substantial increase in the annual income from the property.

PURPOSE: To promote the conservation of soil and water resources and the protection of the environment.

WHO BENEFITS: Because these payments cannot be used to make improvements that increase the income-earning capacity of the property, the major beneficiaries are the general public to the extent they value conservation and improvements in the environment.

EVALUATION: This expenditure achieves its purpose. Numerous state and federal government grant and cost-sharing programs provide funds for land-related projects that will improve the environment. Some programs are geared to improving a land condition which has developed over a long period of time. Others relate to improving land which has been damaged in a specific storm event. Many projects may be too expensive for the landowner to afford alone. The cost-sharing and other assistance programs make these improvements possible.

Nearly all conservation-related cost-sharing programs in the state require or expect match dollars or in-kind services for each project. The match dollars and in-kind service dollars often exceed a 2:1 ratio. In this respect the program is working well. Additionally, it is likely that many of the conservation improvement projects that are presently being done on private land would not be possible without the assistance of the tax expenditure. The federal program for improving land or restoring it to its pre-storm condition, the Emergency Watershed Protection program, requires that a landowner provide 25 percent of the cost of the improvement or restoration work. The federal agencies that oversee the program are the Natural Resources Conservation Service of the U.S. Department of Agriculture and the U.S. Army Corps of Engineers. All Emergency Watershed Protection projects require a local sponsor which, in Oregon, has been the local soil and water conservation districts. The Emergency Watershed Protection projects that have been conducted, in response to the February 1996 flood, have all been successful. [*Evaluated by the Department of Agriculture*.]

1.040 CANCELLATION OF DEBT FOR FARMERS

Internal Revenue Code Sections: 108 and 1017
Oregon Statute: 316.048 (Connection to federal personal taxable income)
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1986

	Corporation	Personal	Total
2001–03 Revenue Impact:	Not Applicable	$400,000	$400,000
2003–05 Revenue Impact:	Not Applicable	$400,000	$400,000

DESCRIPTION: The cancellation of debt for farmers is not included in taxable income.

PURPOSE: To reduce the tax burden on farmers who are insolvent or in bankruptcy or facing severe economic stress, and to avoid forcing farmers to sell their farmland in order to pay large tax liabilities on income arising from canceled debt.

WHO BENEFITS: Farmers who have debt canceled by lenders. Debt cancellations are not often granted, but may be of substantial value when they do occur.

EVALUATION: This tax expenditure achieves its purpose. Cancellation of debt is extremely rare, but in certain circumstances it may occur. In such instances, there is little likelihood that farmers experiencing financial difficulty would have the ability to pay taxes on the canceled debt without selling the income-generating asset (i.e., the land). Unmeasurable benefits are stability in rural communities during severe economic downturns in the agriculture industry.

The exclusion of the discharge of indebtedness is limited to specific circumstances. To qualify, the debt must have been incurred in connection with a farm operation; the farmer must receive 50 percent or more of his average annual gross receipts in the previous three years from farming; and the discharging creditor must be in the business of lending money and not related to the farmer. The discharge of indebtedness for a solvent farmer requires the reduction of tax attributes (net operating loss, credit carry-overs, capital loss carry-over, basis of property other than farmland retained by the farmer, basis farmland retained by the farmer). Debt discharged outside bankruptcy or insolvency above the off-setting tax attributes is related as taxable income.

The specifics of the law are very technical and specific to the circumstances of the farmer. [*Evaluated by the Department of Agriculture*.]

1.041 ENERGY CONSERVATION SUBSIDIES (FEDERAL)

Internal Revenue Code Section: 136
Oregon Statute: 316.048 (Connection to federal personal taxable income)
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1992

	Corporation	Personal	Total
1999–01 Revenue Impact:	Not Applicable	$100,000	$100,000
2001–03 Revenue Impact:	Not Applicable	$100,000	$100,000

DESCRIPTION: Residential energy customers can exclude from personal taxable income subsidies provided by utilities for the purchase or installation of an energy conservation device. Oregon legislation excluding these subsidies from taxation was enacted in 1981, so these payments would be exempt from Oregon's income tax even in the absence of the federal exclusion. Prior to 1997, a partial exclusion was granted to subsidies received with respect to business property. This provision was repealed in 1996, unless a particular subsidy was pursuant to a binding contract in effect on September 13, 1995.

PURPOSE: To encourage customers to install energy-conserving devices.

WHO BENEFITS: Homeowners who install conservation devices.

EVALUATION: See the evaluation of Cash Payments for Energy Conservation (1.129).

1.042 CONTRIBUTIONS IN AID OF CONSTRUCTION FOR UTILITIES

Internal Revenue Code Section: 118(c),(d)
Oregon Statute: 317.013 (Connection to federal corporation taxable income)
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1996

	Corporation	Personal	Total
2001–03 Revenue Impact:	$100,000	Not Applicable	$100,000
2003–05 Revenue Impact:	$100,000	Not Applicable	$100,000

DESCRIPTION: Contributions in aid of construction received by regulated water and sewage disposal utilities are not included in the utilities' gross income if the contributions are spent for the construction of new facilities within two years. Contributions in aid of construction are charges paid by utility customers, usually builders or developers, to cover the cost of expanding, improving, or replacing the utility's water or sewerage disposal facilities. Contributions that are an advance of funds to the utility, that the utility is obligated to repay, are also excluded from income. Connection fees charged to customers for installing lines to connect to the customer's lines cannot be excluded from income unless the line to be installed will serve multiple customers.

This tax treatment allows the utility to treat the contribution as a tax-free addition to its capital rather than treating it as taxable income.

PURPOSE: To encourage the modernization of water and sewage facilities.

WHO BENEFITS: Oregon water or sewage disposal utilities and ultimately their customers benefit because the utilities are able to attract capital through contributions in aid of construction in addition to, or rather than from debt or equity financing sources.

EVALUATION: Prior to enactment, the federal corporation income tax liability on contributions in aid of construction was a serious drawback to utilities accepting contributions. For tax purposes, the utility was responsible for paying taxes on contributions in aid of construction. For ratemaking purposes, however, the income tax on contributed capital was not allowed to be recovered from customers through regulated utility rates.

After enactment, the utility benefits because the contribution is no longer considered taxable income for tax purposes. The change in the law did not directly affect regulated utility ratemaking. Ultimately, customers also benefit by having the utility add investment through contributions in aid of construction rather than an increased need to issue debt or equity. [*Evaluated by the Public Utility Commission*.]

1.043 EMPLOYER PAID TRANSPORTATION BENEFITS

Internal Revenue Code Section: 132(f)
Oregon Statute: 316.048 (Connection to federal personal taxable income)
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1992

	Corporation	Personal	Total
2001–03 Revenue Impact:	Not Applicable	$26,100,000	$26,100,000
2003–05 Revenue Impact:	Not Applicable	$27,700,000	$27,700,000

DESCRIPTION: Employer payments for employee parking, transportation in a commuter highway vehicle, and transit passes are excludable from the personal taxable income of the employees. Parking facilities provided free of charge by the employer are also excludable from income. Employees are allowed to elect taxable cash compensation in lieu of qualified transportation fringe benefits. Effective in tax year 2002, the maximum exclusion for parking will increase to $185 per month and the maximum exclusion for transit and commuter transportation will increase to $100 per month. The maximum exclusion amounts are indexed for inflation in $5 increments after 2001.

PURPOSE: To codify the standard practice of not taxing this benefit. The ceiling was established for parking benefits in order to limit that long-standing subsidy. The exclusions for mass transit and commuter transportation were introduced to encourage mass commuting.

WHO BENEFITS: The subsidy provides benefits to both employees (more are employed and they receive higher total compensation) and to their employers (who have lower wage costs). The parking exclusion is more likely to benefit higher income individuals than do the transit and vanpool subsidies.

EVALUATION: Overall, this expenditure appears to achieve its purpose. The exclusion recognizes long-standing and generally accepted treatment of benefits by employees, employers, and the Internal Revenue Service as not giving rise to taxable income. For Oregon, the exclusion also recognizes the difficulty of disconnecting the Oregon income tax from federal code.

The exclusion subsidizes employment in businesses and industries in which transportation fringe benefits are feasible and commonly used. Since these benefits are not equally feasible and common in all industries, the exclusion may create inequities in tax treatment among different employees and employers. For example, employer-provided parking is commonly provided at no cost to employees at suburban work sites; free parking is less common in developed central cities. Free employee parking also significantly under-prices the cost of commuting, leading to more auto travel than would be the case otherwise.

Employer-provided transit passes and vanpools can be effective methods of encouraging the use of mass transit services rather than commuting by personal auto, thereby reducing traffic congestion and improving air quality. However, employer-provided transit passes and vanpools are common only in areas with well-developed public transportation systems. [*Evaluated by the Department of Transportation*.]

1.044 LIFE INSURANCE INVESTMENT INCOME

Internal Revenue Code Sections: 72, 101, 7702, and 7702A
Oregon Statutes: 316.048 and 317.013 (Connections to federal personal and corporation taxable incomes)
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1913

	Corporation	Personal	Total
2001–03 Revenue Impact:	$5,800,000	$166,200,000	$172,000,000
2003–05 Revenue Impact:	$6,300,000	$180,900,000	$187,200,000

DESCRIPTION: The investment income of life insurance and annuity contracts is not included in corporation or personal taxable income as it accrues or when it is received by beneficiaries upon the death of the insured.

PURPOSE: To promote the welfare of insurance beneficiaries.

WHO BENEFITS: Policyholders who purchase both life insurance and annuities for financial security for their families and themselves.

EVALUATION: This expenditure achieves its purpose. Often an annuity or life policy serves as an important retirement planning tool that underpins the financial welfare of Americans. Some people underestimate the financial loss their deaths could cause and so tend to be underinsured. If this is the case, some encouragement of the purchase of life insurance is warranted. A current income tax on these products would discourage ownership of adequate amounts of permanent insurance protection, which in turn could put more strain on government social services programs. Taxing this investment income might also reduce overall savings levels.

The practical difficulties of taxing this investment income and the desire not to add to the distress of heirs by taxing death benefits have discouraged many tax reform proposals covering life insurance. Taxing at the company level as a proxy for individual income taxation has been suggested as an alternative. [*Evaluated by the Department of Consumer and Business Services*.]

1.045 WORKERS' COMPENSATION BENEFITS (NON-MEDICAL)

Internal Revenue Code Section: 104(a)(1)
Oregon Statute: 316.048 (Connection to federal personal taxable income)
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1918

	Corporation	Personal	Total
2001–03 Revenue Impact:	Not Applicable	$41,100,000	$41,100,000
2003–05 Revenue Impact:	Not Applicable	$45,600,000	$45,600,000

DESCRIPTION: Non-medical workers' compensation benefits to disabled workers, and to their families in cases of work-related death, are not included in personal taxable income. Benefits received through private accident, health, or disability insurance are not considered income and also are not taxed. The expenditure estimates shown above are for workers' compensation non-medical benefits only. The effect of workers' compensation *medical* benefits is covered in Workers' Compensation Benefits (Medical)(1.046).

PURPOSE: To help compensate for the economic hardship imposed by injury, sickness, or death and to be consistent with the tax treatment of court awarded damages, which also are not taxed.

WHO BENEFITS: Workers receiving workers' compensation benefits. Under the provisions of Social Security law, workers' compensation benefits can be counted as income in determining Social Security benefits, so recipients of workers' compensation payments who also receive Social Security income may have their Social Security benefits reduced.

EVALUATION: This expenditure achieves its purpose. Generally, workers' compensation benefits paid to injured workers or their beneficiaries are less than the wages earned by the worker prior to the disability. By exempting injured workers' disability benefits from taxation, this tax expenditure essentially increases the replacement wage to injured workers. A similar outcome could be accomplished in other ways. For example, injured worker benefits could be increased, and be subject to taxation in such a manner that the effective after-tax replacement wage is commensurate with the tax-exempt benefit. Removal of the exemption without benefit increases would effectively reduce the injured workers' or beneficiaries' replacement wages. Consequently, the state of Oregon might spend more in social services to meet needs of injured workers or their beneficiaries. [*Evaluated by the Department of Consumer and Business Services*.]

1.046 WORKERS' COMPENSATION BENEFITS (MEDICAL)

Internal Revenue Code Section: 104(a)(1)
Oregon Statute: 316.048 (Connection to federal personal taxable income)
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1918

	Corporation	Personal	Total
2001–03 Revenue Impact:	Not Applicable	$28,000,000	$28,000,000
2003–05 Revenue Impact:	Not Applicable	$29,700,000	$29,700,000

DESCRIPTION: Workers' compensation medical benefits are not included in personal taxable income. Medical benefits received through private accident, health, or disability insurance are also not considered income and are not taxed. The expenditure estimates shown are for workers' compensation (medical) benefits only. The expenditure estimates for worker's compensation non-medical benefits are covered in Workers' Compensation Benefits (Non-Medical)(1.045).

PURPOSE: To exclude from taxable income the value of medical care received by an injured worker who is covered by worker's compensation. Workers' compensation provides mostly disability payments to disabled workers, but also, in certain cases, reimbursements for medical costs, to disabled workers. These benefits, although income to the recipients, are not subject to the income tax.

WHO BENEFITS: Workers that are injured and then receive medical care need not include the value of such care in taxable income. This is consistent with the general exclusion of sums received for workers compensation.

EVALUATION: This expenditure achieves its purpose. Generally, workers compensation benefits paid to injured workers or their beneficiaries are for disability compensation that is less than wages earned by the worker prior to disability. In some cases, injured workers receive reimbursements for medical costs incurred. By exempting injured workers' medical benefits from taxation, this tax expenditure essentially increases the replacement wage to injured workers. A similar outcome could be accomplished in other ways.

For example, injured worker benefits could be increased, and be subject to taxation in such a manner that the effective after tax replacement wage and medical costs reimbursed are commensurate with the tax-exempt benefit. Removal of the exemption without benefit increases would effectively reduce the injured workers' or beneficiaries replacement compensation. Consequently, the state of Oregon might spend more in social services to meet the needs of injured workers or their beneficiaries. [*Evaluated by the Department of Consumer and Business Services*.]

1.047 CREDIT UNION INCOME

Internal Revenue Code Section: 501(c)(14)
Section 122 Fed. Credit Act (RVSC Sec. 1768)
Oregon Statute: 317.013 (Connection to federal corporation taxable income)
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1951

	Corporation	Personal	Total
2001–03 Revenue Impact:	$3,800,000	Not Applicable	$3,800,000
2003–05 Revenue Impact:	$4,100,000	Not Applicable	$4,100,000

DESCRIPTION: Credit unions are organized and operated for mutual purposes and as nonprofits they are exempt from corporate income taxation.

PURPOSE: Prior to 1951, the income of mutual banks, savings and loans, and credit unions were not taxed. In 1951, the exemption from mutual banks and savings and loans was removed, but credit unions retained their exemption. The rationale for the continued exemption for credit unions was not made explicit in the legislation. According to the Congressional Research Service, the reason may be that credit unions serve a unique niche in financial markets. They are non-profit cooperatives organized by people with a common bond that distinguishes them from the general public. Members pool their funds to make loans to one another. They also are thought to be more likely to provide services to low-income individuals at rates lower than other financial institutions.

Credit union board of directors and committees are composed of volunteers who are not paid. The board is elected by the members.

WHO BENEFITS: Members of credit unions, primarily by receiving services at lower rates than are available from other financial institutions. In Oregon, the exemption affects 109 credit unions who have $8.4 billion in total assets and include over a million people as members.

EVALUATION: This expenditure achieves its purpose. Historically, credit unions were conceived to provide basic financial services to members who were typically out of the mainstream financial service lanes. They were generally lower income people. Today's average members are more affluent. The National Credit Union Administration is actively promoting a program to appeal to the under-served in an attempt to get back to their roots. Member benefits include lower interest rates on loans than in traditional markets, as well as higher interest rates on savings. It is not likely that these benefits could be provided as efficiently in a direct spending program. [*Evaluated by the Department of Consumer and Business Services*.]

1.048 LIFE INSURANCE COMPANY RESERVES

Internal Revenue Code Sections: 803(a)(2), 805(a)(2), and 807
Oregon Statute: 317.013 (Connection to federal corporation taxable income)
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1984

	Corporation	Personal	Total
2001–03 Revenue Impact:	$5,400,000	Not Applicable	$5,400,000
2003–05 Revenue Impact:	$5,800,000	Not Applicable	$5,800,000

DESCRIPTION: In calculating corporation taxable income, most businesses cannot deduct expenses until the business becomes liable for paying them. Life insurance companies, however, can deduct additions to reserve accounts for future liabilities. This effectively allows them to offset current income with expenses that will not actually be paid until some future time period.

PURPOSE: To make tax rules consistent with standard industry accounting practices. For most regulated industries the tax code was written to be consistent with the accounting rules already used in those industries (in most cases dictated by state regulation). In the insurance industry it is common practice to use some form of reserve accounting in estimating net income, and those methods were adopted into the tax code when life insurance companies first became taxable in 1909.

WHO BENEFITS: Competitive pressures in the life insurance industry probably result in the benefits being passed on to policyholders in the form of lower premiums.

EVALUATION: This expenditure achieves its purpose. Life insurance companies incur expenses in the current year for underwriting and acquisition of business. In addition, they are allowed to deduct from current income those expenses that they expect to pay out as benefits in the future. This is a timing issue and is the standard method of accounting for insurance regulatory purposes, where the primary goal is to assure that a company will be able to pay its promised benefits. Ultimately, if this tax expenditure were repealed, costs would be higher for life insurance companies. This could result in reductions in policyholder dividends and excess interest credits, or reductions in services to policyholders. [*Evaluated by the Department of Consumer and Business Services*.]

1.049 STRUCTURED SETTLEMENT ACCOUNTS

Internal Revenue Code Sections: 104(A)(2) and 130
Oregon Statute: 317.013 (Connection to federal corporation taxable income)
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1982

	Corporation	Personal	Total
2001–03 Revenue Impact:	Less than $50,000	Less than $50,000	Less than $50,000
2003–05 Revenue Impact:	Less than $50,000	Less than $50,000	Less than $50,000

DESCRIPTION: Individuals who are liable for damages due to personal injury or sickness can make a payment to a settlement company rather than making a lump sum payment to the injured party. The settlement company invests in an annuity and then makes periodic payments to the injured party. This allows the persons responsible for causing the damage to pay a smaller total settlement. The interest on the annuity or bond is not included in the taxable income of the settlement company. Likewise, the periodic annuity payments, which contain both principal and interest components, are not included in personal taxable income for the injured party. If the lump sum payment were made directly to the injured party, interest subsequently earned would be taxed.

PURPOSE: The purpose for exempting investment income from structured settlement accounts is not clear and may have been inadvertent. The intent of the federal legislation that exempts periodic payments for damages was to make the tax treatment consistent with that of lump sum payments. It may not have been recognized that the periodic payments included an investment income component. Because the legislation made the investment component tax-free also, the tax treatment of periodic payments is more favorable than that of lump sum payments.

WHO BENEFITS: The individual who is liable for damage payments—although the tax benefit accrues to the annuity company and the individual receiving the periodic damage payments.

EVALUATION: Structured settlements are a tremendous advantage, especially when a minor is involved. Usually the settlements are court ordered and provide the security of guaranteed periodic payments.

However, allowing those responsible for causing injury or sickness to reduce the cost of their actions by tax-exempt funding of liabilities may encourage less responsible behavior. This tax exemption also encourages investment through the particular vehicles prescribed (insured annuities and government bonds) rather than through competing vehicles (banks, mutual funds). [*Evaluated by the Economic and Community Development Department*.]

1.050 SMALL PROPERTY INSURANCE COMPANIES

Internal Revenue Code Sections: 501(c) (15), and 831(b)
Oregon Statute: 317.013 (Connection to federal corporation taxable income)
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1986

	Corporation	Personal	Total
2001–03 Revenue Impact:	Less than $50,000	Not Applicable	Less than $50,000
2003–05 Revenue Impact:	Less than $50,000	Not Applicable	Less than $50,000

DESCRIPTION: Insurance companies, other than life insurance companies, whose written premiums do not exceed $350,000 are exempt from the corporation income tax. Companies with written premiums between $350,000 and $1.2 million can elect to be taxed only on their investment income.

PURPOSE: To promote the formation and economic viability of small property and casualty insurance companies.

WHO BENEFITS: Because most of the companies that qualify are mutual insurance companies, the benefits accrue primarily to their policyholders.

EVALUATION: In an increasingly competitive insurance environment, this expenditure is effective in helping small regional and Oregon companies stay in the marketplace. This is a benefit to consumers who desire the personal service of an insurance company that is sensitive to the specific needs of Oregonians. Without the benefit afforded by this tax law, premiums would need to be increased considerably. These small companies are often located in communities that depend on the physical existence of home offices that hire locally and support community activities. Without this expenditure, these companies might close down or merge with larger companies located out of the state, which would affect the economic foundation of Oregon's communities.

This exemption for small companies is probably also fiscally effective. Since it involves minor revenue losses, the administrative cost involved in collecting taxes is likely to exceed the revenue loss. [*Evaluated by the Economic and Community Development Department*.]

1.051 IMPUTED INTEREST RULES

Internal Revenue Code Sections: 163(e), 483, 1274, and 1274A
Oregon Statute: 316.048 and 317.013 (Connections to federal personal and corporation taxable incomes)
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1964

	Corporation	Personal	Total
2001–03 Revenue Impact:	$100,000	$1,700,000	$1,800,000
2003–05 Revenue Impact:	$100,000	$2,200,000	$2,300,000

DESCRIPTION: For debt instruments that do not bear a market rate of interest, the Internal Revenue Service assigns or "imputes" a market rate to them to estimate interest payments for tax purposes. The imputed interest must be included as income to the recipient and is deducted by the payer. There are several exceptions to the general rules for imputing interest on these debt instruments. Debt associated with the sale of property when the total sales price is no more than $250,000, the sale of farms or small businesses by individuals when the sales price is no more than $1 million, and the sale of a personal residence are not subject to the imputation rules at all. Debt instruments for amounts not exceeding an inflation-adjusted maximum (currently about $3 million), given in exchange for real property, may not have imputed to them an interest rate greater than 9 percent. This tax expenditure is the revenue loss caused by these exceptions.

According to the Congressional Research Service, the imputed interest rules relating to property sales were enacted to prevent taxpayers from overstating the price, and understating the interest rate, to take advantage of the lower tax rate on capital gains.

PURPOSE: To reduce the tax burden on the sales of homes, small businesses, and farms.

WHO BENEFITS: Sellers of residences, small businesses, and farms who structure the sales to defer income to later years.

EVALUATION: Not Evaluated.

1.052 GAIN ON NON-DEALER INSTALLMENT SALES

Internal Revenue Code Sections: 453 and 453A(b)
Oregon Statute: 316.048 and 317.013 (Connections to federal personal and corporation taxable incomes)
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1921

	Corporation	Personal	Total
2001–03 Revenue Impact:	$2,600,000	$2,800,000	$5,400,000
2003–05 Revenue Impact:	$2,800,000	$2,900,000	$5,700,000

DESCRIPTION: Persons who do not deal regularly in selling property (i.e., non-dealers) are allowed to report some sales of property for corporation and personal tax purposes under a special method of accounting called the installment method. Under the installment method, gross profit from the sale is prorated over the years during which the payments are received. This conveys a tax advantage compared to being taxed in full in the year of sale because the taxes are deferred to future years.

PURPOSE: To match the timing of tax payments to the timing of the cash flow generated by the sale of the property. Requiring an up-front payment of taxes by a seller who won't receive the bulk of payments for the property until the future can place a heavy burden on infrequent sellers of property.

WHO BENEFITS: Infrequent sellers of property who sell the property on an installment basis.

EVALUATION: The installment sales rules have always been pulled between two opposing goals: taxes should not be avoidable by the way a deal is structured, but they should not be imposed when the money to pay them is not available.

Trying to collect taxes from taxpayers who do not have the cash to pay is administratively difficult and strikes many as unfair. After having tried many different ways to balance these goals, lawmakers have settled on a compromise that denies the advantage of the method to taxpayers who would seldom have trouble raising the cash to pay (retailers, dealers in property, investors with large amounts of sales) and continues to permit it to small, non-dealer transactions.

According to the Congressional Research Service, present law results in modest revenue losses and probably has little effect on economic incentives. [*Evaluated by the Department of Revenue*.]

1.053 GAIN ON LIKE-KIND EXCHANGES

Internal Revenue Code Section: 1031
Oregon Statute: 316.048 and 317.013 (Connections to federal personal and corporation taxable incomes. Amended 2001 HB 2206)
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1921

	Corporation	Personal	Total
2001–03 Revenue Impact:	$5,800,000	$3,100,000	$8,900,000
2003–05 Revenue Impact:	$6,300,000	$3,600,000	$9,900,000

DESCRIPTION: Like-kind exchanges are exchanges of properties that are of the same general type but that may be of very different quality and use, such as real estate. Gain or loss at the time of exchange is deferred until the property is ultimately disposed of. In the case of properties being exchanged in a series of transactions, the accumulated gains from each transaction are claimed for tax purposes only in the year the final property in the series is disposed of.

Prior to 2001, non-Oregon residents were required to claim the accumulated gains on property within Oregon at the time the property was disposed of in exchange for property outside Oregon. With the passage of HB 2206, non-Oregon resident taxpayers are allowed the same benefits as Oregon resident taxpayers in regard to continuing to defer the gains from the Oregon property until the series of like-kind exchanges is ended by the disposal of the final property.

PURPOSE: To recognize that the investment in the new property is much like a continuation of the investment in the old and, therefore, is not a taxable event.

WHO BENEFITS: Taxpayers who engage in exchanges of like properties. This type of activity is concentrated in the real estate sector.

EVALUATION: According to the Congressional Research Service, this provision is used primarily by investors in real estate to alter their holdings without paying tax on their appreciated gain. Allowing these tax-free exchanges somewhat reduces the “lock-in” effect that the current tax treatment of capital gains creates, but it is hard to justify restricting the like-kind exchange rules to relatively sophisticated real estate transactions. [*Evaluated by the Department of Revenue*.]

1.054 ALLOWANCES FOR FEDERAL EMPLOYEES ABROAD

Internal Revenue Code Section: 912
Oregon Statute: 316.048 (Connection to federal personal taxable income)
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1943

	Corporation	Personal	Total
2001–03 Revenue Impact:	Not Applicable	$2,200,000	$2,200,000
2003–05 Revenue Impact:	Not Applicable	$2,800,000	$2,800,000

DESCRIPTION: U.S. federal civilian employees working abroad are allowed to exclude from personal taxable income certain special allowances that are primarily for the costs of living abroad, such as the costs of housing, education, and travel.

PURPOSE: To offset the extra living costs of working abroad and to encourage employees to accept these assignments. This exclusion from the federal income tax passes through to Oregon tax returns, simplifying tax preparation.

WHO BENEFITS: Federal civilian employees working abroad.

EVALUATION: This tax expenditure achieves its purpose. It provides an inducement to federal employees who might otherwise choose not to work in foreign countries. It is likely that employees would not endure the challenge of living abroad without offsetting adjustments. The tax expenditure also eliminates the need for assigning value to and accounting for the costs of living abroad as compared to the U.S. [*Evaluated by the Employment Department*.]

1.055 INTEREST ON OREGON STATE AND LOCAL DEBT

Internal Revenue Code Sections: 103, 141, 142, 143, 144, 145, 146, and 501(c)(3)
Oregon Statutes: 316.048 (Connection to federal personal taxable income)
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1913

	Corporation	Personal	Total
2001–03 Revenue Impact:	Not Applicable	$65,300,000	$65,300,000
2003–05 Revenue Impact:	Not Applicable	$61,300,000	$61,300,000

DESCRIPTION: Oregon does not include interest income from Oregon state or local government obligations in personal taxable income (it is included in corporation taxable income). These obligations are primarily bonds issued by the state of Oregon and local government taxing districts such as cities, counties, and school districts.

These bonds fall into two categories. First, there are "governmental" bonds where the bond proceeds generally are used to build capital facilities that are owned and operated by governmental entities and serve the general public interest, such as highways, schools, and government buildings. The majority of the tax benefit falls in this category.

Second, there are qualified "private activity" bonds where a portion of the bond benefits accrue to individuals or businesses rather than to the general public. These are specifically listed in code and include the following state and local government bonds: industrial development bonds for energy production facilities; sewage, water and hazardous waste facilities bonds; bonds for owner-occupied housing; bonds for rental housing; small-issue industrial development bonds; bonds for high-speed rail; bonds for private airports, docks, and mass-commuting facilities; student loan bonds; bonds for private nonprofit hospital facilities; and bonds for veterans' housing. Many of these bonds are subject to the state private activity bond annual volume cap.

Interest income on these qualified private activity bonds is exempt from federal income tax as well as Oregon income tax. There are other non-qualified private activity bonds. The interest earned on these bonds is taxable at the federal level but not at the state level (Municipal Bond Interest (1.124)).

The tax benefit estimates above are based on the excluded interest income on both the governmental bonds and the qualified private activity bonds.

PURPOSE: To lower the cost of borrowing for Oregon state and local governments.

WHO BENEFITS: In 2000, nearly 51,200 Oregon taxpayers received roughly $375 million in interest on Oregon state or local government debt obligations, or an average of about $7,300 per return. Investors holding such debt instruments may claim this income tax-free. However, financial markets compensate for the tax-free status of state and local government debt by reducing the rate of return on that debt. Therefore, the primary beneficiaries are the state of Oregon and local governments, whose cost of borrowing is reduced.

EVALUATION: This tax expenditure achieves its purpose. Borrowing costs for the state of Oregon and Oregon local governments are reduced because of the exemption from state income taxes on interest earned on bonds issued by these public bodies. The lower costs associated with lower bond interest rates benefits Oregon citizens by reducing the costs of public investment in, for example, infrastructure needs such as schools, roads, sewers, water systems, colleges, and correctional facilities among many other projects.

Investors who are subject to an Oregon state income tax liability are willing to accept lower interest rates on Oregon state and Oregon local government bonds because the interest income they earn from these investments are excluded from state income taxes.

The state income tax exclusion for interest on Oregon bonds helps create demand for these securities, which improves their marketability and attracts not only in-state investors, but also national institutional and other national investors who wish to purchase tax-exempt bonds that have a strong market demand and reputation.

Even though most of these national investors are not subject to Oregon state income taxes, they are willing to pay higher prices and accept lower interest rates because of the good market performance of Oregon bonds. Oregonians benefit from these out-of-state purchases because Oregon governments can finance needed public activities at lower costs and state level income tax revenue flows are not affected. [*Evaluated by the State Treasury*.]

1.056 CAPITAL GAINS ON INHERITED PROPERTY

Internal Revenue Code Sections: 1001, 1002, 1014, 1023, 1040, 1221, and 1222
Oregon Statute: 316.048 (Connection to federal personal taxable income)
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1921

	Corporation	Personal	Total
2001–03 Revenue Impact:	Not Applicable	$374,800,000	$374,800,000
2003–05 Revenue Impact:	Not Applicable	$444,300,000	$444,300,000

DESCRIPTION: When property is transferred upon death, any capital gains accrued but not recognized on the property during the decedent's ownership are excluded from personal taxable income. The new basis for the heir is set to the market value on the date of the decedent's death.

PURPOSE: To provide tax relief to heirs who inherit property. A rationale may be that estates are subject to taxation at the federal level.

WHO BENEFITS: Heirs who inherit property.

EVALUATION: This expenditure achieves its purpose of providing tax relief to heirs. According to the Congressional Research Service, however, the failure to tax capital gains at death is probably one of the primary causes of the lock-in effect, where taxpayers hold particular assets longer than they otherwise would specifically to avoid the tax consequences of selling the assets. The lock-in effect causes investors to base their investment decision on the tax consequences rather than on the inherent economic soundness of the investments, resulting in slower economic growth.

There are, however, several problems with taxing capital gains at death. There are administrative problems, particularly for assets held a long time where the heirs do not know the basis. In addition, taxing capital gains at death may often force heirs to sell the assets in order to pay the taxes. [*Evaluated by the Department of Revenue*.]

1.057 CAPITAL GAINS ON GIFTS

Internal Revenue Code Sections: 1001, 1002, 1015, 1221, and 1222
Oregon Statute: 316.048 (Connection to federal personal taxable income)
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1921

	Corporation	Personal	Total
2001–03 Revenue Impact:	Not Applicable	$41,300,000	$41,300,000
2003–05 Revenue Impact:	Not Applicable	$47,000,000	$47,000,000

DESCRIPTION: When a gift is made, any capital gain accrued on the property while held by the donor is excluded from personal taxable income until the recipient disposes of the property. The recipient is taxed on the capital gains at the time of sale of the property.

PURPOSE: To allow the transfer of property as a gift without imposing a tax burden on the donor who, without selling the property, may not be able to pay the tax.

WHO BENEFITS: Donors and recipients of gifts.

EVALUATION: Not evaluated.

1.058 GAIN ON INVOLUNTARY CONVERSIONS IN DISASTER AREAS

Internal Revenue Code Section: 1033(h)
Oregon Statute: 316.048 (Connection to federal personal taxable income)
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1996

	Corporation	Personal	Total
2001–03 Revenue Impact:	Not Applicable	$100,000	$100,000
2003–05 Revenue Impact:	Not Applicable	$100,000	$100,000

DESCRIPTION: When a taxpayer is reimbursed for damaged property, by insurance for example, it is possible for the recovery to exceed the taxpayer's basis in the property. In those cases the property is "involuntarily converted" into cash and is generally taxed unless the proceeds are used to replace the damaged property with similar property within a specified period.

This deferral of gain provides special rules for a taxpayer's principal residence or any of its contents when involuntarily converted if the property is located in a presidentially declared disaster area. In the case of unscheduled personal property (property that is not specified but is insured), no gain is recognized as a result of any insurance proceeds. In addition, the replacement period is increased from two years to four years.

PURPOSE: To defer or reduce the tax burden for taxpayers who experience large losses due to a natural disaster.

WHO BENEFITS: Taxpayers in presidentially declared disaster areas who experience an involuntary gain as a result of being reimbursed for damaged property.

EVALUATION: Not evaluated.

1.059 VOLUNTARY EMPLOYEES' BENEFICIARY ASSOCIATIONS

Internal Revenue Code Sections: 419, 419A, and 501(c)(9)
Oregon Statute: 316.048 (Connection to federal personal taxable income)
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1928

	Corporation	Personal	Total
2001–03 Revenue Impact:	Not Applicable	$11,400,000	$11,400,000
2003–05 Revenue Impact:	Not Applicable	$12,600,000	$12,600,000

DESCRIPTION: A Voluntary Employees' Beneficiary Association (VEBA) provides life, sickness, accident, and other insurance and fringe benefits to its employee members, their dependents, and their beneficiaries; these benefits are not included in personal taxable income. Also, employer contributions to fund future benefit payments are deductible.

PURPOSE: To promote the provision of life, sickness, accident, and other insurance and fringe benefits and treat VEBA benefits identical to employer provided benefits. This exclusion from the federal income tax passes through to Oregon tax returns, simplifying tax preparation.

WHO BENEFITS: Recipients of the program benefits and employers who contribute.

EVALUATION: This tax expenditure achieves its purpose and is one means of providing critical benefits. The tax expenditure has the potential for relieving reliance on the state to provide these benefits to uninsured people. An employer that does not directly purchase life, health, or disability insurance may provide those benefits through a VEBA. The benefit to the employer involves certain tax advantages pertaining to contributions, within specified limits. This tax expenditure increases insurance coverage among taxpayers in a non-discriminatory manner and who would otherwise not purchase or could not afford such coverage. [*Evaluated by the Employment Department.*]

1.060 RENTAL ALLOWANCES FOR MINISTERS' HOMES

Internal Revenue Code Section: 107
Oregon Statute: 316.048 (Connection to federal personal taxable income)
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1921

	Corporation	Personal	Total
2001–03 Revenue Impact:	Not Applicable	$2,800,000	$2,800,000
2003–05 Revenue Impact:	Not Applicable	$3,500,000	$3,500,000

DESCRIPTION: Ministers can exclude from personal taxable income the fair rental value of a church-owned or church-rented home furnished as part of his or her compensation or a cash housing allowance paid as part of the minister's compensation.

PURPOSE: To avoid the difficulty in putting a value on the provision of a church-provided rectory and to provide equal treatment between ministers who receive a cash allowance and those who have their home included in their compensation package. This exclusion from the federal income tax passes through to Oregon tax returns, simplifying tax preparation.

WHO BENEFITS: Ministers who receive a housing allowance or who live in a church-provided home.

EVALUATION: This tax expenditure achieves its purpose and provides a benefit to both the employer and the employee. In many cases, church-provided housing is a condition of hire or is necessitated by a lack of other housing available in the area. The minister may have no option but to accept the housing if he or she wishes to take the job. This tax expenditure relieves the employer from having to establish a fair rental value for the property, especially in areas with few comparable properties. It simplifies the bookkeeping process associated with tracking this benefit. [*Evaluated by the Employment Department.*]

1.061 MILITARY DISABILITY BENEFITS

Internal Revenue Code Section: 104(a)(4)
Oregon Statute: 316.048 (Connection to federal personal taxable income)
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1942

	Corporation	Personal	Total
2001–03 Revenue Impact:	Not Applicable	$700,000	$700,000
2003–05 Revenue Impact:	Not Applicable	$700,000	$700,000

DESCRIPTION: Individuals who were members of the armed forces on or before September 24, 1975, are eligible for the exclusion of disability pay from personal taxable income. The amount of disability pay is calculated as the greater of:

- The percentage of disability multiplied by the terminal monthly basic pay; or
- The terminal monthly basic pay multiplied by the number of service years times 2.5.

Only the amount calculated under the first method is excluded from taxable income.

Members of the armed forces who joined after September 24, 1975, may exclude Department of Defense disability payments equivalent to disability payments they could have received from the Veterans Administration. Otherwise, disability pensions may be excluded only if the disability is a combat-related injury.

PURPOSE: To treat veterans' disability benefits the same as compensation for injuries and sickness such as workers' compensation payments.

WHO BENEFITS: Veterans who are retired on disability and were members of the armed forces on or before September 24, 1975, benefit from this exclusion. During fiscal years 1997 and 1998, three Oregon Army National Guard soldiers received this benefit with total compensation of roughly $38,000. It is not precisely known how many Oregon veterans from other branches of the military receive this benefit.

EVALUATION: This tax expenditure achieves its purpose and is a valuable benefit to members of the Oregon National Guard, both Army and Air, as well as other military personnel. National Guard members may receive these benefits because of injuries incurred while performing Inactive Duty Training whereas Active Guard Reserve soldiers may have incurred injuries at any time during their tour of duty and are no longer capable of performing their jobs. While these compensation payments may not be a great deal of money, they may be the only income these soldiers and airmen have because their injuries prevent them from obtaining adequate full-time employment. The federal tax code excludes from taxation disability compensation from the Veterans' Administration for personal injury or sickness resulting from duty in the armed forces. The state of Oregon should continue to treat these benefit payments the same as the Internal Revenue Service. [*Evaluated by the Military Department*.]

1.062 BENEFITS AND ALLOWANCES OF ARMED FORCES PERSONNEL

Internal Revenue Code Sections: 112 and 134
Oregon Statute: 316.048 (Connection to federal personal taxable income)
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1925

	Corporation	Personal	Total
2001–03 Revenue Impact:	Not Applicable	$17,400,000	$17,400,000
2003–05 Revenue Impact:	Not Applicable	$18,700,000	$18,700,000

DESCRIPTION: Various in-kind benefits received by military personnel are not taxed. These benefits include medical and dental benefits, group term life insurance, professional education and dependent education, moving and storage, premiums for survivor and retirement protection plans, subsistence allowances, uniform allowances, housing allowances, overseas cost-of-living allowances, evacuation allowances, family separation allowances, travel for consecutive overseas tours, emergency assistance, family counseling and defense counsel, burial and death services, and travel of dependents to a burial site. Other benefits include combat-zone compensation and combat-related benefits.

PURPOSE: To treat these benefits similar to fringe benefits, although certain allowances were not considered compensation, but rather intrinsic elements in the military structure.

WHO BENEFITS: Oregonians serving in the U.S. military.

EVALUATION: This tax expenditure achieves its purpose and is a valuable benefit to Oregonians serving in the Armed Forces. Many of these allowances, such as overseas cost-of-living, emergency assistance, dependent education, and housing allowances, are provided to military personnel to offset the increased cost and complexity of living and working in a foreign country on behalf of the United States, or of temporarily maintaining two households when family members are separated through assignment. It is more cost-effective for the government to centrally provide these benefits to all active-duty members of the Armed Forces than it would be to increase individual compensation sufficiently to allow for the additional personal expense and time. Since the provision of these benefits and allowances eliminates the necessity for personnel to seek out new housing, schools, and medical care each time relocation occurs, this approach benefits the military organization as much as it does the military personnel. Also, since these benefits and allowances are a truly intrinsic element of the military structure, and are not taxed at the federal level or by other states, maintaining this tax expenditure prevents selectively detrimental financial hardship for Oregonians serving in the military and maintains parity between states. The state of Oregon should continue to treat these benefit payments the same way as the Internal Revenue Service. [*Evaluated by the Military Department*.]

1.063 RESTITUTION PAYMENTS FOR HOLOCAUST SURVIVORS

Internal Revenue Code Sections: P.L. 107-36, Sec 803
Oregon Statute: 316.048 (Connection to federal personal taxable income)
Federal Law Sunset Date: None
Year Enacted in Federal Law: 2001

	Corporation	Personal	Total
2001–03 Revenue Impact:	Not Applicable	Less than $50,000	Less than $50,000
2003–05 Revenue Impact:	Not Applicable	Less than $50,000	Less than $50,000

DESCRIPTION: Historically, the IRS has ruled that payments made by Germany, Austria, and the Netherlands on account of Nazi persecution that caused damage to life, body, health, liberty, or to professional or economic advancement, were not taxable income. For capital gains on property received as such a payment, decisions were made on the facts of particular cases. These rulings had very limited application and did not apply generally to recipients of such restitution payments. In 2001, a new law was passed that excludes all such payments received by an eligible individual, or the individual's heirs or estate, from taxable income.

PURPOSE: To formalize in policy historical rulings made by the IRS that pertained to specific individuals.

WHO BENEFITS: Holocaust survivors who receive restitution payments.

EVALUATION: Not evaluated

1.064 SURVIVOR ANNUITIES

Internal Revenue Code Sections: 101(h)
Oregon Statute: 316.048 (Connection to federal personal taxable income)
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1997

	Corporation	Personal	Total
2001–03 Revenue Impact:	Not Applicable	$100,000	$100,000
2003–05 Revenue Impact:	Not Applicable	$100,000	$100,000

DESCRIPTION: Income received as a survivor annuity due to the death of a public safety officer killed in the line of duty is not considered taxable income. The annuity must be attributable to the officer's service as a public safety officer and must be paid to the spouse or child of the officer to qualify for this exclusion

PURPOSE: To recognize the service these citizens provide and to avoid taxation at times of trauma.

WHO BENEFITS: Surviving family members of officers killed in the line of duty.

EVALUATION: In evaluating this expenditure, the question is whether the credit successfully achieved the purpose for which it was enacted. The survivor annuity paid to the surviving family members of officers killed in the line of duty accomplishes two important goals. The funds provide for immediate financial relief at a time when the surviving family is dealing with the trauma of unexpected death in the family and in many cases, the deceased was the sole provider of income for the family. The second goal is to treat the survivor annuity as exempt from income taxes, allowing all of the money to be used by the family without a tax liability and without the additional burden of having to determine how and when to pay the taxes.

This method of providing the survivor annuity as a tax-exempt payment to the surviving family is the most fiscally effective means of achieving its purpose. [*Evaluated by the Oregon State Police*]

1.065 INTEREST ON STUDENT LOANS

Internal Revenue Code Section: 221
Oregon Statute: 316.048 (Connection to federal personal taxable income)
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1997

	Corporation	Personal	Total
2001–03 Revenue Impact:	Not Applicable	$6,100,000	$6,100,000
2003–05 Revenue Impact:	Not Applicable	$8,000,000	$8,000,000

DESCRIPTION: A taxpayer may deduct interest on qualified higher education loans. The maximum deduction is $2,500. For 2001, the deduction was allowed only with respect to interest paid on a qualified loan during the first five years in which interest payments were required. Beginning 2002, the five-year limit is repealed. Months during which the loan is in deferral or forbearance do not count against the five-year period (for 2001 tax year). The deduction is not allowed to individuals who may be claimed as a dependent on another taxpayer's return.

A qualified education loan is indebtedness incurred to pay for qualified higher education expenses, such as tuition, fees, and room and board. Interest on loans from relatives or qualified employer plans may not be deducted. The qualifying expenses must be reduced by amounts received from other tax-free education benefits. The deduction is phased out for taxpayers with income between $50,000 and $65,000 (if single) or $100,000 and $130,000 (if married). While the maximum deduction amount is not indexed for inflation, the phase out ranges are indexed for inflation starting in 2003.

PURPOSE: To encourage higher education by reducing the costs.

WHO BENEFITS: In 2000, roughly 41,400 full-year resident taxpayers deducted from taxable income an average of $610 of interest paid on higher education loans. The table below shows the tax year 2000 usage of this deduction for each of the five income quintiles.

Income Group (Quintiles)	Taxpayers		Mean Deduction
	Number	Percent	
Below $10,000	2,374	5.7%	$529
$10,000 - $22,000	6,352	15.3%	$531
$22,000 - $37,000	11,871	28.7%	$703
$37,000 - $63,000	15,600	37.7%	$674
Above $63,000	5,205	12.6%	$364
Total	41,402	100.0%	$613

EVALUATION: It is a fiscally effective method of achieving its purpose. The program helps reduce the cost of higher education. Furthermore, the program facilitates the spreading of the cost of higher education over a longer payment period that may extend beyond to the student's time in school. However, the maximum deduction amount should be indexed for inflation, or the tax advantage to the debtor will steadily erode over time. [*Evaluated by the Oregon University System*.]

1.066 CHARITABLE CONTRIBUTIONS: EDUCATION

Internal Revenue Code Sections: 170 and 642(c)
Oregon Statutes: 316.695 and 317.013 (Connections to federal personal and corporation deductions)
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1917 (personal) and 1935 (corporation)

	Corporation	Personal	Total
2001–03 Revenue Impact:	$6,600,000	$37,800,000	$44,400,000
2003–05 Revenue Impact:	$7,900,000	$45,000,000	$52,900,000

DESCRIPTION: Contributions to educational organizations are allowed as itemized deductions from personal taxable income of amounts up to 50 percent of adjusted gross income. Corporations can deduct from corporate taxable income contributions up to 10 percent of pre-tax income. Taxpayers who donate property may deduct the current market value of the property, up to 30 percent of adjusted gross income, and do not need to pay tax on any capital gains realized on the property. Contributions in excess of the limits may be applied to up to five future tax years until the contributions are completely deducted. See Land Donated to Schools (1.112) for the related Oregon subtraction.

PURPOSE: To encourage donations to qualifying educational organizations.

WHO BENEFITS: In 1998, nearly 500,000 Oregonians took a deduction for charitable contributions worth a total of roughly $1,250 million, of which $153 million went to educational organizations. The average total charitable deduction was $2,500.

EVALUATION: This tax expenditure achieves its purpose. Declining public support for public higher education has led to an increasing demand for private support. Public and private institutions of higher education have experienced an increased need for charitable support for their operations to supplement their normal operating revenues in an attempt to control the rate of increase in tuition. Endowments created through such giving enable institutions to develop on-going income to underwrite operating and capital expenses. Individuals often feel a strong sense of identification with a local institution or their alma mater. This tax deduction provides an economic incentive for individuals to act on those feelings and make monetary contributions. It also encourages businesses to make donations because they benefit from a well-educated and appropriately skilled workforce. [*Evaluated by the Oregon University System*.]

1.067 QUALIFIED HIGHER EDUCATION EXPENSES

Internal Revenue Code Sections: 222
Oregon Statutes: 316.048 (Connection to federal personal taxable income)
Federal Law Sunset Date: 12-31-05
Year Enacted in Federal Law: 2001

	Corporation	Personal	Total
2001–03 Revenue Impact:	Not Applicable	$11,200,000	$11,200,000
2003–05 Revenue Impact:	Not Applicable	$24,100,000	$24,100,000

DESCRIPTION: A limited deduction is allowed for qualified higher education expenses paid by the taxpayer during tax years 2002 through 2005. Qualified expenses include tuition and fees paid as a condition of enrollment or attendance at a post-secondary educational institution. For tax years 2002 and 2003, the deduction may not exceed $3,000 per taxpayer and is only available to taxpayers with adjusted gross income not exceeding $65,000 ($130,000 on a joint return). In tax years 2004 and 2005, the limit is $4,000 per taxpayer with income not exceeding $65,000 ($130,000 on a joint return), or $2,000 if the taxpayer's income is above $65,000 but not exceeding $80,000. For joint returns in 2004 and 2005, the $2,000 limit applies to returns with income above $130,000 and no more than $160,000. If adjusted gross income exceeds the limits, then no deduction is allowed.

The deduction may not be claimed, or may be partially reduced, if the expenses were deducted or claimed as a credit under certain provisions of federal law, or if distributions from certain tax exempt or tax deferred accounts were used to pay the expenses.

PURPOSE: To reduce the cost of higher education.

WHO BENEFITS: College students or their parents.

EVALUATION: It is too early to determine if this tax exenditure achieves its purpose. [*Evaluated by the Oregon University System*.]

1.068 CHARITABLE CONTRIBUTIONS: HEALTH

Internal Revenue Code Sections: 170 and 642(c)
Oregon Statutes: 316.695 and 317.013 (Connections to federal personal and corporation deductions)
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1917 (personal) and 1935 (corporation)

	Corporation	Personal	Total
2001–03 Revenue Impact:	$6,600,000	$26,100,000	$32,700,000
2003–05 Revenue Impact:	$7,900,000	$31,100,000	$39,000,000

DESCRIPTION: Contributions to health organizations are allowed as itemized deductions from personal taxable income of amounts up to 50 percent of adjusted gross income. Corporations can deduct from corporate taxable income contributions up to 10 percent of pre-tax income. Taxpayers who donate property may deduct the current market value of the property and do not need to pay tax on any capital gains realized on the property.

PURPOSE: To encourage donations to designated health organizations.

WHO BENEFITS: In 2000, nearly 500,000 Oregonians took a deduction for charitable contributions; the average deduction was $2,700. Of the $1.4 billion in charitable contributions, roughly $133 million went to health organizations.

EVALUATION: This tax expenditure achieves its purpose. Most of the tax advantages are received by those in the higher income ranges because this expenditure is only available to those who itemize deductions. However, given that this tax expenditure is expected to equal $30.4 million dollars for the 2001–03 biennium, it can be expected that a good portion of the donated funds and equipment will provide direct and indirect benefits to all state residents. These benefits will likely take the form of lower costs for health services or access to services or equipment that previously may not have otherwise been available. [*Evaluated by Oregon Health Plan Policy & Research*.]

1.069 MEDICAL AND DENTAL EXPENSES

Internal Revenue Code Section: 213
Oregon Statute: 316.695 (Connection to federal personal deductions)
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1942

	Corporation	Personal	Total
2001–03 Revenue Impact:	Not Applicable	$116,900,000	$116,900,000
2003–05 Revenue Impact:	Not Applicable	$140,700,000	$140,700,000

DESCRIPTION: Medical and dental expenses in excess of 7.5 percent of a taxpayer's adjusted gross income are allowed as a deduction from personal taxable income for taxpayers who itemize deductions. The deduction includes amounts paid for health insurance.

PURPOSE: To compensate for large medical expenses that are viewed as involuntary expenses and reduce the ability of the person to pay taxes.

WHO BENEFITS: There were nearly 105,000 full-year resident taxpayers who took this deduction in 2000 with an average deduction of roughly $6,500.

EVALUATION: This tax expenditure achieves its purpose. The 7.5 percent threshold limits this deduction to those with unreimbursed medical expenses that are largely relative to their level of income. Lower income earners are more likely to qualify than those in higher income brackets; partly because the latter group must incur greater expenses before reaching the 7.5 percent threshold but also because they tend to be covered by employer-provided insurance. [*Evaluated by Oregon Health Plan Policy & Research*.]

1.070 SELF-EMPLOYMENT HEALTH INSURANCE

Internal Revenue Code Section: 162(1)
Oregon Statute: 316.048 (Connection to federal personal taxable income)
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1986

	Corporation	Personal	Total
2001–03 Revenue Impact:	Not Applicable	$23,700,000	$23,700,000
2003–05 Revenue Impact:	Not Applicable	$36,800,000	$36,800,000

DESCRIPTION: Self-employed individuals may take 70 percent of amounts paid for health insurance in 2002 as an adjustment from personal taxable income. The adjustment increases to 100 percent in 2003. The insurance must be for themselves, their spouses, or their dependents. The adjustment is limited to the taxpayer's earned income. This adjustment is also available to working partners in a partnership and employees of an S corporation who own more than two percent of the corporation's stock.

Effective in 1997, self-employed individuals may also adjust personal income by amounts paid for qualified long-term care insurance. This adjustment is subject to limits of $200 to $2,500 per individual, depending on the age of the insured person.

PURPOSE: To promote the purchase of health insurance by the self-employed and provide some degree of equity between the self-employed and employees covered by employer-sponsored health care insurance.

WHO BENEFITS: The number of full-year residents who claimed this adjustment has steadily risen from 52,100 in 1995 to roughly 60,300 in 2000. The average adjustment amount has risen from $710 to nearly $1,900 over the same time period. Part of the reason the average adjustment amount has risen so dramatically is that the portion of health insurance premiums considered deductible has increased during this time period.

The table below shows the tax year 2000 usage of this adjustment for each of the five income quintile groups.

Income Group (Quintiles)	Taxpayers		Mean Deduction
	Number	Percent	
Below $10,000	6,253	10.4%	$1,349
$10,000 - $22,000	8,611	14.3%	$1,418
$22,000 - $37,000	10,646	17.7%	$1,613
$37,000 - $63,000	12,631	20.9%	$1,796
Above $63,000	22,169	36.8%	$2,350
Total	60,310	100.0%	$1,867

EVALUATION: Equity of treatment under the tax code between the self-employed and others engaged in the workforce is an important health policy issue. Maintaining and expanding the percentage of citizens who receive health insurance coverage through the workplace is vital for long-term stability of publicly sponsored health programs and access to necessary medical treatment. Accelerating the percentage of health insurance costs that the self-employed can deduct from personal taxable income, while reducing government revenues, will increase equity of treatment in a rapidly changing workforce and potentially reduce pressure for expanded public health coverage programs. [*Evaluated by Oregon Health Plan Policy & Research*.]

1.071 MEDICAL SAVINGS ACCOUNTS (FEDERAL)

Internal Revenue Code Section: 220
Oregon Statute: 316.048 (Connection to federal personal taxable income)
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1996

	Corporation	Personal	Total
2001–03 Revenue Impact:	Not Applicable	$400,000	$400,000
2003–05 Revenue Impact:	Not Applicable	$400,000	$400,000

DESCRIPTION: Individuals' contributions to medical savings accounts are deductible from gross income up to an annual limit of 65 percent of the insurance deductible or earned income, whichever is less. Employer contributions are excluded from the personal taxable income of the employee as well as from the employment taxes of both the employee and employer. Individuals cannot make contributions if their employer does. Earnings on account balances are not taxed. Distributions from medical savings accounts are tax-exempt if used to pay for deductible medical expenses.

Contributions are allowed if individuals are covered by a high-deductible health plan and no other insurance. For tax year 2000, plan deductibles must be at least $1,550 (but not more than $2,350) for coverage of one person and at least $3,100 (but not more than $4,650) for more than one. Individuals must also be self-employed or covered through plans offered by small employers. Eligibility to establish accounts will be restricted to 750,000 taxpayers nationally. Once restricted, participation will be generally limited to those individuals who previously had contributions to their accounts or who work for participating employers. Unqualified distributions are included in taxable income and a 15 percent penalty is added except in cases of disability, death or attaining age 65. No new accounts are allowed after 12-31-00, but existing accounts continue to be eligible for deductions with no sunset.

PURPOSE: To slow the growth of health care costs by encouraging high-deductible insurance. Presumably this encourages consumers to make more cost-conscious choices. Medical savings accounts were also advanced as a way to preserve a role in the system for health care indemnity insurance, that is, insurers who reimburse providers on a fee-for-service basis.

WHO BENEFITS: The number of full-year taxpayers who claimed this adjustment has increased from 540 in 1997 to 1,160 in 2000. Over the same period, the average adjustment has increased from $1,000 to $1,700. The table below shows the tax year 2000 usage of this adjustment for each of the five income quintiles.

Income Group (Quintiles)	Taxpayers		Mean Deduction
	Number	Percent	
Below $10,000	38	3.3%	$1,521
$10,000 - $22,000	112	9.7%	$1,298
$22,000 - $37,000	199	17.2%	$1,379
$37,000 - $63,000	273	23.6%	$1,659
Above $63,000	534	46.2%	$2,008
Total	1,156	100.0%	$1,733

EVALUATION: Because the medical savings accounts (MSA) option does not appear to be widely used by consumers or aggressively marketed by insurers, it remains premature to evaluate the impact of MSA as either a medical cost containment strategy or an alternative to managed care strategies in the private sector. National policy experts have predicted that MSA will be attractive to higher income individuals with favorable health status profiles since time is necessary to accumulate enough to cover non-catastrophic expenses associated with preventive and chronic health care services. This tax policy treats MSA, a recent innovation in health care benefits, on an equitable basis with other models of health benefits available to employers and the self-employed. [*Evaluated by Oregon Health Plan Policy & Research*.]

1.072 IRA CONTRIBUTIONS AND EARNINGS

Internal Revenue Code Sections: 219 and 408
Oregon Statute: 316.048 (Connection to federal personal taxable income)
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1974

	Corporation	Personal	Total
2001–03 Revenue Impact:	Not Applicable	$97,900,000	$97,900,000
2003–05 Revenue Impact:	Not Applicable	$114,000,000	$114,000,000

DESCRIPTION: There are two types of Individual Retirement Accounts (IRAs) from which taxpayers may enjoy a tax benefit: Traditional and Roth. The Traditional IRA allows for tax deductible contributions, while the Roth IRA allows for tax-free withdrawals. Prior to 2002, a taxpayer could make a deductible contribution to a Traditional IRA of up to $2,000 or the taxpayer's compensation, whichever was less, if neither the taxpayer nor the taxpayer's spouse was an active participant in an employer-sponsored retirement plan. For 2002 – 2004, the contribution limit is $3,000; for 2005 – 2007 the limit is $4,000; for 2008, the limit is $5,000; and beginning in 2009, the amount is indexed to inflation.

The deductibility in 2002 is phased-out for taxpayers with incomes between $34,000 and $44,000 for single filers ($54,000 to $64,000 if married). These ranges increase over the next several years until they reach $50,000 to $60,000 for single filers in 2005 and $80,000 to $100,000 for married filers in 2007. Deductible contributions of up to $2,000 per year are also allowed for spouses of individuals who participate in an employer-sponsored retirement plan. This deduction is phased out for taxpayers with income between $150,000 and $160,000.

The limit for nondeductible contributions to a Roth IRA is also $2,000, the same as for Traditional IRAs. The phase-out schedule, however, is different. The contribution limit is phased out for taxpayers with incomes between $150,000 and $160,000 for joint returns ($95,000 and $110,000 for single returns). Qualified distributions from a Roth IRA are not taxed. Accounts must be held at least five years in order for distributions to qualify for the tax exemption. Individuals with income of $100,000 or less may convert an IRA into a Roth IRA.

Penalty-free withdrawals are allowed from all IRAs for qualified higher education expenses and up to $10,000 of first-time homebuyer expenses.

PURPOSE: To provide an incentive for taxpayers to save for retirement, education, and homeownership, and to provide a savings incentive for workers who do not have employer-provided pension plans.

WHO BENEFITS: The number of full-year residents claiming an adjustment for contributions has steadily fallen from 97,700 in 1990 to roughly 47,300 in 2000. During the same period, the average adjustment rose from $1,400 to $2,200.

Income Group (Quintiles)	Taxpayers		Mean Deduction
	Number	Percent	
Below $10,000	1,975	4.2%	$1,695
$10,000 - $22,000	5,173	10.9%	$1,881
$22,000 - $37,000	10,898	23.0%	$1,998
$37,000 - $63,000	14,172	29.9%	$2,100
Above $63,000	15,115	31.9%	$2,492
Total	47,333	100.0%	$2,161

EVALUATION: This tax expenditure has partially achieved its purpose. Whether it has substantially increased savings for retirement is still a matter of debate. Proponents have argued that the tax benefits of IRAs induce savings while opponents maintain that they simply result in a transfer of savings. Those with higher incomes (below the cap) benefit more from this deduction because participation rates steadily decline as income declines. While this tax deduction does provide an incentive to save for retirement, current forecasts indicate that retirement savings for people aged 30–48 needs to increase threefold from present standards in order for these individuals to maintain their living standards. Without sufficient savings for retirement, there is an increased likelihood of reliance on government service programs. One possible improvement to this tax expenditure would be to increase the income thresholds to claim this deduction. [*Evaluated by the Seniors and People with Disabilities Cluster*.]

1.073 KEOGH PLAN CONTRIBUTIONS AND EARNINGS

Internal Revenue Code Sections: 401–407, 410–418E, and 457
Oregon Statute: 316.048 (Connection to federal personal taxable income)
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1962

	Corporation	Personal	Total
2001–03 Revenue Impact:	Not Applicable	$39,400,000	$39,400,000
2003–05 Revenue Impact:	Not Applicable	$42,400,000	$42,400,000

DESCRIPTION: Self-employed taxpayers who make contributions to their own retirement (Keogh) accounts may subtract those contributions from personal taxable income. The maximum adjustment allowed is the lesser of 25 percent of income or $30,000. Taxes on Keogh earnings are deferred until distribution during retirement. Withdrawals from Keoghs are included in personal taxable income.

PURPOSE: To encourage the self-employed to save for retirement and to eliminate discrimination against the self-employed who do not have access to other tax-deferred pension plans.

WHO BENEFITS: The number of full-year residents making contributions to Keogh plans increased from about 12,400 in 1990 to 18,400 in 2000. The average adjustment has grown from approximately $7,400 in 1995 to $8,900 in 2000.

Income Group (Quintiles)	Taxpayers		Mean Deduction
	Number	Percent	
Below $10,000	271	1.5%	$2,664
$10,000 - $22,000	697	3.8%	$2,361
$22,000 - $37,000	1,585	8.6%	$3,290
$37,000 - $63,000	3,379	18.3%	$4,282
Above $63,000	12,484	67.8%	$11,297
Total	18,416	100.0%	$8,855

EVALUATION: This tax expenditure achieves its purpose and is an important option in accumulating retirement savings. As our national economy changes and self-employment becomes an option for many people, this savings option becomes more vital. Keogh accounts provide a valuable tax-deferred savings device to that segment of the population without comparable alternatives. Current forecasts indicate that current retirement savings of those aged 30–48 are not nearly sufficient to maintain their current lifestyles. While by itself this tax expenditure will not solve the problem, it does address certain aspects of it. One potential improvement would be to raise the thresholds and allow greater participation. [*Evaluated by the Seniors and People with Disabilities Cluster*.]

1.074 REMOVAL OF ARCHITECTURAL BARRIERS

Internal Revenue Code Section: 190
Oregon Statute: 316.048 and 317.013 (Connections to federal personal and corporation taxable deductions)
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1976

	Corporation	Personal	Total
1999–01 Revenue Impact:	Less than $50,000	Less than $50,000	Less than $50,000
2001–03 Revenue Impact:	Less than $50,000	Less than $50,000	Less than $50,000

DESCRIPTION: A deduction from corporation or personal taxable income of up to $15,000 is allowed for the removal of architectural and transportation barriers. Eligible expenses include those necessary to make facilities or transportation vehicles for use in the trade or business more accessible to the handicapped and those 65 and over.

PURPOSE: To encourage the modification of business facilities to a more barrier-free environment for both employees and customers.

WHO BENEFITS: The taxpayers incurring the costs of making the structural changes and the elderly and handicapped who have access to areas they may not have had without the deduction.

EVALUATION: This tax expenditure has not really achieved its purpose. The program incentives have been adjusted downward over time rather than upward to correspond with increasing costs due to inflation and tighter regulations. While the Americans with Disabilities Act did not require retrofitting, it does mandate that if modifications are made, they must comply with all of the Act's requirements. The current ceiling of $15,000 allowable for deduction most often is not representative of the real cost of the rehabilitation necessary to bring about access accommodation. [*Evaluated by the Seniors and People with Disabilities Cluster*.]

1.075 DEFERRAL OF CERTAIN FINANCING INCOME OF FOREIGN CORPORATIONS

Internal Revenue Code Section: 954
Oregon Statutes: 317.013 (Connection to federal corporation deduction)
Federal Law Sunset Date: 12-31-01
Year Enacted in Federal Law: 1997

	Corporation	Personal	Total
2001–03 Revenue Impact:	$2,100,000	Not Applicable	$2,100,000
2003–05 Revenue Impact:	$100,000	Not Applicable	$100,000

DESCRIPTION: In general U.S. tax law defers income earned abroad by foreign subsidiaries of U.S. companies from taxation until the income is repatriated to the U.S. The tax laws exclude certain types of income from this deferral—most notably income from passive activities. This limitation effectively excludes financial corporations from the benefit of this tax provision.

This deduction of certain financing income expands the deferral principle to allow financial corporations the same advantage as other. Companies that conduct active financial operations overseas may defer taxes on income earned abroad until that income is repatriated to the U.S. Such corporations need to conduct active financial operations overseas.

PURPOSE: To allow companies conducting active financial business abroad the same privileges as those conducting manufacturing operations in foreign countries; to give financial and manufacturing businesses operating abroad similar tax benefits.

WHO BENEFITS: Certain foreign corporations that do business in Oregon. These are not liable for Oregon corporate income tax until they actually repatriate taxable income back to the United States.

EVALUATION: Limited data for assessment of response and limited fiscal impact. [*Evaluated by the Economic and Community Development Department.*]

1.076 RESEARCH AND DEVELOPMENT COSTS

Internal Revenue Code Section: 174
Oregon Statutes: 316.048 and 317.013 (Connections to federal personal and corporation deductions)
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1954

	Corporation	Personal	Total
2001–03 Revenue Impact:	$19,100,000	Not Applicable	$19,100,000
2003–05 Revenue Impact:	$20,700,000	Not Applicable	$20,700,000

DESCRIPTION: Research and development (R&D) expenditures can be fully expensed in the year made for purposes of computing corporation and personal taxable income. This is considered a tax expenditure because these expenditures presumably provide a business with benefits over a period of time. To be consistent with the treatment of other investments with multi-year benefits, R&D expenditures would need to be depreciated over their useful life.

PURPOSE: To encourage investment in research and development and, additionally, to avoid the difficulty of determining whether the expenditures are “successful” and the length of useful life.

WHO BENEFITS: Firms with certain research and experimental expenditures.

EVALUATION: This expenditure appears to achieve its purpose. In conjunction with the Oregon tax credit (Qualified Research Activities (1.153)), it benefits research-intensive companies such as those in the fast-expanding high-tech and biotechnology sectors. The following benefits can be identified:

- Encourages existing companies to put more efforts into research and development. Product introduction cycles for products such as personal computers and high definition television and telecommunication products are getting shorter and shorter. They demand R&D commitments.
- Encourages small companies to explore new niche technology opportunities and enhances their ability to attract joint R&D capital.

- Encourages companies to utilize existing state research institutes to assist with R&D activities.

This last point is an issue in Oregon. Recent data indicate that corporate R&D funding to state research institutes is low compared with other states. This could be an indication that state research facilities are not well equipped to assist or are not responsive to industry needs, or that corporations fail to engage Oregon's state research facilities for some other reason. [*Evaluated by the Economic and Community Development Department*.]

1.077 SECTION 179 EXPENSING ALLOWANCES

Internal Revenue Code Section: 179
Oregon Statutes: 316.048 and 317.013 (Connections to federal personal and corporation deductions)
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1959

	Corporation	Personal	Total
2001–03 Revenue Impact:	$1,300,000	$9,000,000	$10,300,000
2003–05 Revenue Impact:	$900,000	$6,100,000	$7,000,000

DESCRIPTION: In general, the cost of business property must be deducted from personal and corporation income as it depreciates over its useful life. This expenditure allows a taxpayer to deduct, as an expense, up to $17,500 of the cost of qualifying property in the year it is purchased. The amount that can be expensed is phased out if the taxpayer purchases more than $200,000 of property during the year. This limitation ensures that smaller businesses receive most of the benefit from this expenditure. A likely reason for the declining expenditure impact is the effect of inflation on the purchase price of business property, especially when phase-out brackets are not inflation-indexed.

PURPOSE: To promote investment in equipment, specifically by smaller businesses.

WHO BENEFITS: Firms with tangible personal property purchases below $217,500.

EVALUATION: This expenditure appears to achieve its purpose. Expensing the cost of an investment allows the business to reduce its tax in the year of purchase rather than over a longer period of depreciation. An investment tax credit tailored to smaller businesses could serve as an alternative to this provision, although it is unlikely to be any more efficient at stimulating small business investment. [*Evaluated by the Economic and Community Development Department*.]

1.078 AMORTIZATION OF BUSINESS START-UP COSTS

Internal Revenue Code Section: 195
Oregon Statutes: 316.048 and 317.013 (Connections to federal personal and corporation deductions)
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1980

	Corporation	Personal	Total
2001–03 Revenue Impact:	$100,000	$3,400,000	$3,500,000
2003–05 Revenue Impact:	$100,000	$3,600,000	$3,700,000

DESCRIPTION: Generally, costs incurred before the beginning of a business are not deductible. However, under this tax provision a taxpayer may elect to deduct from personal or corporation taxable income eligible start-up expenditures over a period of at least five years. An expenditure must satisfy two requirements to qualify for this treatment. First, it must be paid in connection with creating or investigating a trade or business before the taxpayer begins an active business. Second, it must be an expenditure that would have been deductible for an active business.

PURPOSE: To encourage the formation of new businesses, and to reduce the controversy over how these start-up costs were supposed to be treated for tax purposes.

WHO BENEFITS: New businesses that incur start-up costs.

EVALUATION: This expenditure appears to achieve its purpose by putting new businesses on a more even playing field with existing businesses. Many new businesses have insufficient income from which to benefit by a deduction of all their startup costs in the first year or two. Established businesses that are expanding, on the other hand, are more likely to have sufficient income to benefit by deducting their expansion expenses in one year. An indirect benefit is increased free market competition. Finally, the “cost” of this provision is quite likely more than recovered by the increased economic activity and improved distribution of income encouraged by this provision. [*Evaluated by the Economic and Community Development Department*.]

1.079 CONSTRUCTION FUNDS OF SHIPPING COMPANIES

Internal Revenue Code Section: 7518
Oregon Statute: 317.013 (Connection to federal corporation deductions)
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1936

	Corporation	Personal	Total
2001–03 Revenue Impact:	$1,200,000	Not Applicable	$1,200,000
2003–05 Revenue Impact:	$1,200,000	Not Applicable	$1,200,000

DESCRIPTION: U.S. operators of vessels on foreign seas, on the Great Lakes, in noncontiguous domestic trade, or in U.S. fisheries, may each establish a capital construction fund into which they may make certain deposits. Such deposits are deductible from corporate taxable income, and income tax on the earnings of the deposits in the fund is deferred. When tax-deferred deposits and their earnings are withdrawn from a fund, no tax is due if the money is used to construct, acquire, lease, or pay off the debt on a qualifying vessel.

PURPOSE: To encourage domestic shipbuilding and registry under the U.S. flag and to ensure an adequate supply of shipping capability for national security.

WHO BENEFITS: U.S. shipbuilding firms.

EVALUATION: The estimated revenue impacts above imply that roughly about $20 million of deposits and their earnings were withdrawn for qualifying capital expenditures. While we cannot easily determine the additional amount of money that has been spent for these purposes as a result of the existence of this tax expenditure, it is likely that this provision has some stimulative impact. [*Evaluated by the Economic and Community Development Department*.]

1.080 ORDINARY TREATMENT OF LOSSES FROM SMALL BUSINESS CORPORATION STOCK

Internal Revenue Code Sections: 1244
Oregon Statute: 316.048 (Connection to federal personal taxable income)
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1958

	Corporation	Personal	Total
2001–03 Revenue Impact:	Not Applicable	$300,000	$300,000
2003–05 Revenue Impact:	Not Applicable	$300,000	$300,000

DESCRIPTION: Taxpayers may deduct as an ordinary loss (rather than a capital loss) a loss on the sale, trade, or worthlessness of qualifying small business corporation stock. Small business corporation stock (Section 1244 stock) is stock issued for money or property in a small business corporation. A small business corporation must meet numerous statutory requirements that include the requirement that the amount of money and property received by the corporation for its stock may not exceed $1 million.

Up to $50,000 ($100,000 on a joint return) may be deducted as an ordinary loss in one year.

PURPOSE: To encourage investment in small businesses.

WHO BENEFITS: Individuals with losses from small business corporation stock.

EVALUATION: The limited nature of Section 1244 stock issues (in particular the $1 million cap on investment) make this a very narrow tool. Additionally, many of the benefits of Section 1244 can be obtained by Sub-S corporations. This would lead to a conclusion that this benefit applies to a very narrow range of businesses and is not a significant stimulus to business formation or capital flows to small business. [*Evaluated by the Economic and Community Development Department*.]

1.081 MOVING EXPENSES

Internal Revenue Code Sections: 1073–1078
Oregon Statute: 316.048 (Connection to federal personal taxable income)
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1964

	Corporation	Personal	Total
2001–03 Revenue Impact:	Not Applicable	$3,400,000	$3,400,000
2003–05 Revenue Impact:	Not Applicable	$3,400,000	$3,400,000

DESCRIPTION: Taxpayers may take qualified moving expenses as an adjustment to personal taxable income. The expenses include costs of moving household goods and traveling expenses while moving. The move must be in conjunction with a new job or business at least 50 miles farther away than one's current job. Congress limited the deductible amount in 1993 but made the deduction available to taxpayers who take the standard deduction.

PURPOSE: To provide tax relief for people where moving expenses are an employee business expense necessary to earn income. This federal income tax deduction passes through to Oregon tax returns, simplifying tax preparation.

WHO BENEFITS: Employees incurring moving expenses related to a new job or business. The number of taxpayers claiming this adjustment in 2000 was up from 1998, increasing from approximately 14,100 to 15,700. The average moving expense claimed increased from $1,800 in 1998 to $2,000 in 2000.

Income Group (Quintiles)	Taxpayers		Mean Deduction
	Number	Percent	
Below $10,000	3,633	23.1%	$1,981
$10,000 - $22,000	3,255	20.7%	$1,788
$22,000 - $37,000	3,200	20.3%	$1,871
$37,000 - $63,000	3,043	19.3%	$1,996
Above $63,000	2,622	16.6%	$2,786
Total	15,753	100.0%	$2,056

EVALUATION: This tax expenditure achieves its purpose. It provides an incentive for taxpayers to accept new jobs or opportunities that they may not otherwise find acceptable. For example, it facilitates the mobility of the person who has a job offer of equal pay but more growth potential. It lessens the financial risk and contributes to economic growth by encouraging workers to take advantage of better jobs in different locations. It may also lessen the need for public assistance for those who face the choice of relocation or unemployment. [*Evaluated by the Employment Department*.]

1.082 PROPERTY TAXES

Internal Revenue Code Section: 164
Oregon Statute: 316.695 (Connection to federal personal deductions)
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1913

	Corporation	Personal	Total
2001–03 Revenue Impact:	Not Applicable	$208,000,000	$208,000,000
2003–05 Revenue Impact:	Not Applicable	$233,700,000	$233,700,000

DESCRIPTION: Property taxes on non-business property, paid to state or local governments for services or benefits for the general public welfare, are deductible from personal taxable income for taxpayers who itemize deductions. The taxes must be based on the assessed value of the property and be charged uniformly across all property in the jurisdiction of the governing entity.

PURPOSE: To promote home ownership by reducing the after-tax cost. According to Congressional Research Service, under the original 1913 Federal income tax law nearly all state and local taxes were deductible. The rationale was that such payments reduced disposable income "in a mandatory way," and thus affected the taxpayer's ability to pay federal income tax. Congress has since eliminated the deductibility of many taxes, such as local income taxes and sales taxes.

WHO BENEFITS: In 2000, 495,000 full-year resident taxpayers claimed $1,040 million in itemized deductions for the property taxes paid on their residences. The average deduction was about $2,100.

EVALUATION: This expenditure appears to achieve its purpose. According to the Congressional Research Service, proponents of the continuing deductibility of property taxes argue that it promotes fiscal federalism by helping state and local governments raise revenue from their own taxpayers. Itemizers receive an offset for their deductible state and local taxes in the form of lower federal income taxes. Deductibility thus helps to equalize total federal-state-local tax burdens across the country: Itemizers in high-tax states pay somewhat lower federal taxes as a result of their deduction, and vice versa.

The Congressional Research Service notes that property tax is one of several deductions subject to the phaseout on itemized deductions for taxpayers whose AGI exceeds the applicable threshold amount. To some extent, this addresses criticisms that the deduction primarily benefits higher income taxpayers. Higher income taxpayers are more likely to itemize deductions, have higher marginal tax rates, and have higher assessed values on their homes. Because of the relatively greater benefits afforded higher income taxpayers, questions as to the fiscal effectiveness of this tax expenditure were raised. However, the phaseout of the benefit reduces that concern. [*Evaluated by the Housing and Community Services Department*.]

1.083 HOME MORTGAGE INTEREST

Internal Revenue Code Section: 163(h)
Oregon Statute: 316.695 (Connection to federal personal deductions)
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1913

	Corporation	Personal	Total
2001–03 Revenue Impact:	Not Applicable	$786,500,000	$786,500,000
2003–05 Revenue Impact:	Not Applicable	$882,000,000	$882,000,000

DESCRIPTION: Mortgage interest paid by owner-occupants on their primary and secondary residences is deductible from the personal taxable income for taxpayers who itemize deductions. Interest may be deducted on loans up to $1,000,000 for the purchase of the residence ($500,000 in the case of a married individual filing a separate return) and on loans up to $100,000 ($50,000 for married individuals filing separately) for home equity loans. These dollar limitations do not apply, however, to qualified indebtedness acquired on or before October 13, 1987.

PURPOSE: To promote home ownership. According to the Congressional Research Service, initial enactment of the mortgage interest deduction in 1913 was part of the deduction for all types of interest, which in those days were almost exclusively business related. The original purpose was not, therefore, to encourage home ownership. In recent years the deduction has, however, been defended on those grounds.

WHO BENEFITS: In 2000, about 452,000 taxpayers claimed a total of $3,769 million of itemized deductions for home mortgage interest. The average deduction was about $8,350.

EVALUATION: Generally, this expenditure appears to achieve its purpose. It is likely that for some individuals, the deductibility of mortgage interest is the determining factor in an economic decision to purchase a home. The Congressional Research Service points out that the rate of home ownership in the United States is not significantly higher than in countries such as Canada that do not provide a mortgage interest deduction under their income tax. However, other factors may impact the housing market differently in the United States.

The Congressional Research Service notes that mortgage interest is one of several deductions subject to the phaseout on itemized deductions for taxpayers whose AGI exceeds the applicable threshold amount. To some extent, this addresses criticisms that the deduction primarily benefits higher income taxpayers. Higher income taxpayers are more likely to itemize deductions, have higher marginal tax rates, qualify for larger loans and tend to spend more on housing. In addition, no equivalent benefit exists for renters, who tend to be lower income than homeowners. Because of the relatively greater benefits afforded higher income taxpayers, questions as to the fiscal effectiveness of this tax expenditure are often raised. However, the phaseout of the benefit at higher incomes reduces that concern.

Down payment assistance programs or other programs targeting low- to median-income populations represent alternatives to increase home ownership. [*Evaluated by the Housing and Community Services Department*.]

1.084 CASH ACCOUNTING FOR AGRICULTURE

Internal Revenue Code Sections: 162, 175, 180, 447, 461, 464, and 465
Oregon Statute: 316.048 and 317.013 (Connections to federal personal and corporation taxable deductions)
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1916

	Corporation	Personal	Total
2001–03 Revenue Impact:	$100,000	$4,200,000	$4,300,000
2003–05 Revenue Impact:	$100,000	$3,300,000	$3,400,000

DESCRIPTION: For income tax purposes, cash accounting typically results in a deferral of taxes relative to the accrual method, which is considered the standard, so cash accounting represents a tax expenditure. Most farm operations, with the exception of some farm corporations, may use the cash method of accounting to deduct costs attributable to goods held for sale and in inventory at the end of the year. These farms also can expense some costs of developing assets that will produce income in future years. Both of these rules allow deductions to be claimed in the calendar year the expense occurred, while income associated with the deductions may be realized in later years.

PURPOSE: The cash method of accounting serves two purposes for the agriculture industry: 1) simplification of record-keeping for family farms; and 2) a way to deal with the cyclical nature of income that is part of the industry, with some years bringing large revenues and others large losses.

WHO BENEFITS: Small farmers.

EVALUATION: This expenditure achieves its purpose. Because of the variation in farm commodities (some are perishable and sold soon after harvest, while others can be stored for years), this provision enables producers to recognize expenses in the year they occur, while assisting producers to meet marketing objectives by selling crops when they feel the market conditions are best. Income averaging was reinstated in 1997 to assist producers by enabling averaging of income over three years. Requiring all producers to use an accrual accounting system would place a large burden on small operators. [*Evaluated by the Department of Agriculture*.]

1.085 SOIL AND WATER CONSERVATION EXPENDITURES

Internal Revenue Code Section: 175
Oregon Statute: 316.048 and 317.013 (Connections to federal personal and corporation taxable deductions)
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1954

	Corporation	Personal	Total
2001–03 Revenue Impact:	$100,000	$200,000	$300,000
2003–05 Revenue Impact:	$100,000	$200,000	$300,000

DESCRIPTION: For corporation and personal income tax purposes, certain investments in soil and water conservation projects that produce benefits over a number of years can be expensed rather than depreciated. The expensing of these costs represents a departure from the typical practice of depreciating improvements and represents a tax expenditure because deductions can be claimed before the income associated with the deductions is realized.

PURPOSE: To encourage expenditures that promote soil and water conservation and to reduce the tax burden on farmers.

WHO BENEFITS: Farmers who engage in projects that conserve soil and water. In many cases these improvements are made to land or water areas that may not provide any return on investment to the farmer.

EVALUATION: This expenditure appears to be achieving its purposes. Most soil and water conservation cost-sharing and payment programs were incorporated into the 1996 Farm Bill and were expanded on in the 2002 Farm Bill. Oversight of these programs is done cooperatively through local Soil and Water Conservation Districts and the USDA Natural Resources Conservation Service. The Conservation Reserve Program (CRP) and Wetland Reserve Program (WRP) allow farmers to set aside land that is either highly erodible or which should be protected as wetland, without the farmers having to suffer a significant loss of income.

The Environmental Quality Incentives Program (EQIP), which was created in the 1996 Farm Bill and expanded in the 2002 Farm Bill, provides cost-share funding to construct animal waste facilities, fence streamlines, plant trees, and implement other conservation measures. Forty percent of the funds are reserved for crop producers and 60 percent for livestock producers. Additionally, the 2002 Farm Bill also created a new Conservation Security Program (CSP) which will provide payments to producers to implement a wide range of conservation and land management practices. This program will be implemented by USDA in 2003 or 2004. [*Evaluated by the Department of Agriculture*.]

1.086 FERTILIZER AND SOIL CONDITIONER COSTS

Internal Revenue Code Section: 180 (Reg. S1.180-1 and S1.180-2)
Oregon Statute: 316.048 and 317.013 (Connections to federal personal and corporation taxable deductions)
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1960

	Corporation	Personal	Total
2001–03 Revenue Impact:	$100,000	$1,100,000	$1,200,000
2003–05 Revenue Impact:	$100,000	$1,100,000	$1,200,000

DESCRIPTION: For corporation and personal income tax purposes, certain investments in soil fertilization and conditioning projects that produce benefits over a number of years can be expensed rather than depreciated. The expensing of these costs represents a departure from typical practice and represents a tax expenditure because deductions can be claimed before the income associated with the deductions is realized. This tax expenditure is different from 1.085 (Soil and Water Conservation Expenditures) because these activities improve the soil for farming purposes. Soil and water conservation activities may result in retention or improvement of soil or water resources, but may not directly improve the soil quality.

PURPOSE: To promote activities that maintain and improve the fertility of the soil.

WHO BENEFITS: Farmers who invest in projects to fertilize and condition their soil.

EVALUATION: The expensing of costs related to fertilizing or soil conditioning provides an important tool for farmers to enable the cost-effective use of these activities. Determining long-term potential benefits and trying to match those to a depreciation schedule would be virtually impossible. Therefore, expensing such costs best meets the needs of growers and makes the accounting straightforward. Fertilizing and soil conditioning activities are part of a broad array of conservation practices that may qualify for expensing of costs. Some federal cost-sharing through the U.S. Department of Agriculture may also be available to growers. [*Evaluated by the Department of Agriculture*.]

1.087 COSTS OF RAISING DAIRY AND BREEDING CATTLE

Internal Revenue Code Section: 263A(d)(1)(A)(i)
Oregon Statute: 316.048 and 317.013 (Connections to federal personal and corporation taxable deductions)
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1916

	Corporation	Personal	Total
1999–01 Revenue Impact:	$100,000	$100,000	$200,000
2001–03 Revenue Impact:	$100,000	$100,000	$200,000

DESCRIPTION: Costs incurred in the raising of dairy and breeding cattle can be expensed rather than depreciated in calculating taxable income. In most industries, expenses that provide benefits over a number of years must be depreciated. This approach includes dairy and breeding cattle because they generate income over an extended period of time. The expensing of these costs represents a departure from typical practice and represents a tax expenditure because deductions can be claimed before the income associated with the deductions is realized. Producers generally borrow funds to purchase these animals and expenses accrue from the date of purchase for feed, care, etc. Breeding stock and dairy cattle are generally kept for five to eight years or longer. Income is generated from the sale of byproduct (milk) or offspring rather than from the original stock. The “expenditure” in this case enables producers to expense the purchase along with the costs associated with the animal rather than waiting until the animal is sold years later.

PURPOSE: To reduce the tax burden on farmers.

WHO BENEFITS: Farmers who raise dairy and breeding cattle.

EVALUATION: This expenditure achieves its purpose. The ability to expense the purchase reduces the complication of accounting and expenses associated with record keeping. The cash method of accounting fits the treatment of animals better than the accrual method because the value of the animals can vary significantly from year to year, first increasing, then falling. Under the accrual method, producers would have to depreciate the purchase amount of the animals over some set amount of time. The impact would be increased record keeping requirements and a mismatch between the actual value of the animals and the value used for tax purposes. Additionally, feed and care of animals incurred on an ongoing basis generally are more than the actual cost of the animal. Expensing these costs as they occur against annual income (from milk or progeny sales) makes more sense than depreciating the costs. [*Evaluated by the Department of Agriculture*.]

1.088 SALE OF STOCK TO FARMER'S COOPERATIVE

Internal Revenue Code Section: 1042(g)
Oregon Statute: 316.048 and 317.013 (Connection to federal personal and corporation taxable incomes)
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1998

	Corporation	Personal	Total
2001–03 Revenue Impact:	Less than $50,000	Less than $50,000	Less than $50,000
2003–05 Revenue Impact:	Less than $50,000	Less than $50,000	Less than $50,000

DESCRIPTION: The sales of stock of qualified agricultural refiners and food processors to eligible farm cooperatives are exempt from long-term capital gains taxes if the taxpayer (seller) purchases replacement property. If the replacement property value is less than the sale price of the original property, then long-term capital gains will be recognized only to the extent that the original sale price exceeds the replacement cost.

PURPOSE: To encourage the sale of food processing facilities.

WHO BENEFITS: Both the buyers and sellers in such transactions benefit.

EVALUATION: It is too early to tell whether this provision is serving its purpose. There have been several major food processing facility bankruptcies in the past few years, and whether this provision was useful in a bankruptcy setting is unclear. [*Evaluated by the Department of Agriculture*.]

1.089 REDEVELOPMENT COSTS IN CONTAMINATED AREAS

Internal Revenue Code Section: 198
Oregon Statute: 316.048 and 317.013 (Connection to federal personal and corporation taxable incomes)
Federal Law Sunset Date: 12-31-01
Year Enacted in Federal Law: 1997

	Corporation	Personal	Total
2001–03 Revenue Impact:	$400,000	$400,000	$800,000
2003–05 Revenue Impact:	$100,000	$0	$100,000

DESCRIPTION: Under this expenditure certain environmental remediation expenditures that would otherwise have been deducted over a number of years could be fully deducted from taxable personal or corporate income in the year the expenditures were made. The federal law allowing this type of expensing expired at the end of 2001. The expenditures must have been incurred in connection with the abatement or control of hazardous substances at qualified contaminated sites ("brownfields") located within targeted areas. These included Enterprise Communities, Empowerment Zones, and certain other areas with high poverty rates.

Taxpayers who cause contamination can, under a 1994 IRS ruling, deduct certain environmental cleanup expenditures. This tax incentive permitted taxpayers not causing the contamination to deduct remediation expenditures on property located in the targeted areas.

PURPOSE: To encourage the cleanup of environmentally contaminated areas by reducing the cost.

WHO BENEFITS: The brownfields tax incentive primarily benefited taxpayers who purchased property that had already been contaminated. It may also have allowed taxpayers responsible for the contamination to deduct remediation-related expenditures that would otherwise have been chargeable to a capital account. Because the tax incentive promoted environmental cleanup efforts that might otherwise not have been undertaken, it also benefited the general public, especially the communities in the targeted areas.

EVALUATION: DEQ received a number of inquiries on the tax incentive, but only two requests for certification were submitted. The department believes that the low response rate was due to the stringent eligibility criteria. Specifically, that only brownfield sites in certain areas (Empowerment Zones, etc.) qualified for the incentive, and that sites contaminated with petroleum products were excluded from the incentive. The Department believes the tax incentive could have been more successful had it applied to a wider variety of brownfield sites. [*Evaluated by the Department of Environmental Quality*.]

1.090 CLEAN-FUEL VEHICLES AND REFUELING PROPERTY

Internal Revenue Code Sections: 179A
Oregon Statute: 316.048 and 317.013 (Connection to federal personal and corporation taxable incomes)
Federal Law Sunset Date: 12-31-04
Year Enacted in Federal Law: 1993

	Corporation	Personal	Total
2001–03 Revenue Impact:	Less than $50,000	Less than $50,000	Less than $50,000
2003–05 Revenue Impact:	Less than $50,000	Less than $50,000	Less than $50,000

DESCRIPTION: Taxpayers are allowed a limited deduction for the cost of clean-fuel vehicles and refueling property. The deduction for clean-fuel refueling property may only be taken in connection with trade or business. The deduction for a clean-fuel vehicle may be taken even if the property is not used in a trade or business.

Clean-fuel vehicles must use natural gas, liquefied natural gas, liquefied petroleum gas, hydrogen, electricity, or other qualified fuel.

The deduction ranges from $2,000 for cars up to $50,000 for certain large trucks and vans. The deduction for clean-fuel refueling property may be up to $100,000 per location. Taxpayers may not take both the federal credit for an electric vehicle and the deduction for a clean-fuel vehicle for the same vehicle.

The deduction applies to property placed in service after June 30, 1993, and before 2005. The deduction is phased out by 25 percent per year starting with tax year 2002.

PURPOSE: To promote the use of vehicles that exceed motor vehicle emission standards.

WHO BENEFITS: Taxpayers who purchase clean-fuel vehicles or install refueling property.

EVALUATION: Oregon DEQ has no data to assess the fiscal or environmental effects of this tax expenditure. [*Evaluated by the Department of Environmental Quality*.]

1.091 INTANGIBLE DEVELOPMENT COSTS FOR FUELS

Internal Revenue Code Section: 263(c), 616
Oregon Statute: 316.695 and 317.013 (Connection to federal personal and corporation taxable incomes)
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1978

	Corporation	Personal	Total
2001–03 Revenue Impact:	Less than $50,000	Less than $50,000	Less than $50,000
2003–05 Revenue Impact:	Less than $50,000	Less than $50,000	Less than $50,000

DESCRIPTION: Intangible drilling and development cost incurred in oil, gas, and geothermal wells may be expensed.

PURPOSE: To encourage development of petroleum, natural gas, and geothermal wells.

WHO BENEFITS: The owners incurring the specified expenses for qualified activities.

EVALUATION: Not evaluated

1.092 DEPLETION COSTS FOR NATURAL RESOURCES

Internal Revenue Code Section: 611-613; 613(A)
Oregon Statute: 316.695 and 317.013 (Connection to federal personal and corporation taxable incomes)
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1962

	Corporation	Personal	Total
2001–03 Revenue Impact:	Less than $50,000	Less than $50,000	Less than $50,000
2003–05 Revenue Impact:	Less than $50,000	Less than $50,000	Less than $50,000

DESCRIPTION: In the case of natural resources like mines, hydrocarbon wells, and timber, a deduction in computing taxable income is allowed for depletion allowances and depreciation of improvements. If as a result of operations or of development work, it becomes apparent that the recoverable units are greater or lesser than the prior estimate, then the prior estimate (but not the basis for depletion) shall be revised and the allowance under this section for subsequent tax years shall be based on such a revised estimate.

The basis on which depletion is to be allowed shall be the adjusted basis for the purpose of determining the gain upon the sale or other disposition of such property.

PURPOSE: To permit correction of preliminary estimates of depletion costs and depreciation of improvements.

WHO BENEFITS: Owners of natural resources incurring resource depletion and depreciation of improvements.

EVALUATION: Not evaluated.

1.093 TERTIARY INJECTANTS

Internal Revenue Code Section: 193
Oregon Statute: 316.695 and 317.013 (Connection to federal personal and corporation taxable incomes)
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1980

	Corporation	Personal	Total
2001–03 Revenue Impact:	Less than $50,000	Less than $50,000	Less than $50,000
2003–05 Revenue Impact:	Less than $50,000	Less than $50,000	Less than $50,000

DESCRIPTION: A deduction for qualified tertiary injection expenses is allowed for enhanced recovery of natural petroleum deposits. Tertiary injectants are substances such as carbon dioxide injected into oil bearing geological formations to enhance oil recovery from declining reserves.

PURPOSE: To provide incentives to increase oil recovery from declining reserves.

WHO BENEFITS: Owners of nearly depleted oil wells, which require enhanced recovery methods to provide any remaining production.

EVALUATION: Not evaluated.

1.094 MULTI-PERIOD TIMBER GROWING COSTS

Internal Revenue Code Sections: 162, 263(d)(1)
Oregon Statute: 316.048 and 317.013 (Connections to federal personal and corporation taxable deductions)
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1986

	Corporation	Personal	Total
2001–03 Revenue Impact:	$7,000,000	$1,100,000	$8,100,000
2003–05 Revenue Impact:	$7,000,000	$1,200,000	$8,200,000

DESCRIPTION: Indirect expenses incurred in the growing of timber can be expensed rather than capitalized when computing corporation and personal taxable income. Expensing allows full deduction in the year the expenses are incurred, while capitalization requires the deduction to be taken over a number of years. In most other industries, these expenses must be capitalized.

The Tax Reform Act of 1986 reduced the overall capital gains tax rate, removed a number of exemptions from capital gains taxation (including a portion of timber value), and maintained the practice that nearly all young-growth timber growing costs are to be capitalized rather than expensed. The law continued Congress' recognition of the long growing periods for timber during which no revenue is produced by continuing a favorable tax treatment of timber. It did so by permitting indirect costs of growing timber (expenses not associated with re-establishment of a timber stand and not producing revenue) to be expensed during the year they occurred.

PURPOSE: To provide tax relief to the timber-growing sector.

WHO BENEFITS: Taxpayers who have timber growing expenses that are not connected with a timber harvest or reforestation activity. According to the Congressional Research Service, nationally about 80 percent of the benefits accrue to corporations and 20 percent to non-corporate timber growers. In Oregon the percentage benefiting corporations may be even greater because the proportion of Oregon private timberlands owned by corporations is larger than the national average.

EVALUATION: It is not clear if this expenditure is achieving its purpose. If the purpose is to extend tax benefits to all who grow timber for sale, the purpose has not been fully achieved because the expensing is unavailable to those who are not "materially participating" in the management of the timber stand involved. If the taxpayer is an "investor" these expenses must be capitalized, thus effectively adding to the current tax burden. If the purpose extends only to those investing "sweat equity" in the land and to those entities for which the timber-growing is their sole business, then there is evidence that the purpose is being achieved.

There is controversy surrounding this tax provision. The position of IRS and Congress' tax-writing committees is that equity has been achieved through the 1986 Tax Reform Act so far as timber growing is concerned. Many landowners and small woodlands groups maintain, however, that their tax burdens were increased as a result of the passive loss rules and loss of the 60 percent capital gains exclusion provisions of the Act. They feel strongly that their ability to produce timber in a cost-effective manner has been diminished. [*Evaluated by the Forestry Department*.]

1.095 AMORTIZATION OF REFORESTATION EXPENDITURES

Internal Revenue Code Section: 194
Oregon Statute: 316.048 and 317.013 (Connections to federal personal and corporation taxable incomes)
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1980

	Corporation	Personal	Total
2001–03 Revenue Impact:	$200,000	$100,000	$300,000
2003–05 Revenue Impact:	$200,000	$100,000	$300,000

DESCRIPTION: Individuals, partnerships, and corporations can choose to amortize a limited amount of reforestation costs for qualified timber property over a period of 84 months. Reforestation costs are the direct costs of planting or seeding for forestation or reforestation. Qualifying costs include only those costs the taxpayer must capitalize and include in the adjusted basis of the property. They include costs for site preparation, seeds or seedlings, labor, tools, and depreciation on equipment used in planting and seeding.

Costs the taxpayer can deduct currently are not qualifying costs. If the government reimburses the taxpayer for reforestation costs under a cost-sharing program, the taxpayer can amortize these costs only if the taxpayer includes the reimbursement in their income.

Qualified timber property is property that contains trees in significant commercial quantities. It can be a woodlot or other site that is owned or leased. The property qualifies only if it meets the following requirements:

1. It is held for the growing and cutting of timber the taxpayer will either use in, or sell for use in, the commercial production of timber products.

2. It consists of at least one acre planted with tree seedlings in the manner normally used in forestation or reforestation.

Qualified timber property does not include property on which the taxpayer has planted shelter belts or ornamental trees, such as Christmas trees.

Each year, the taxpayer may choose to amortize up to $10,000 ($5,000 if married filing separately) of qualifying costs paid or incurred during the tax year. Taxpayers cannot carry over or carry back qualifying costs over the annual limit. The annual limit applies to qualifying costs for all the taxpayer's qualified timber property. If the taxpayer's qualifying costs are more than $10,000 for more than one piece of timber property, the taxpayer can divide the annual limit among any of the properties in any manner they wish.

PURPOSE: To lower the annual after-tax cost of reforestation. Since there is a $10,000 annual cap, this expenditure proportionally helps smaller owners more as a percentage of their total holdings or income.

WHO BENEFITS: Taxpayers that are reforesting forest lands.

EVALUATION: Not Evaluated

1.096 DEVELOPMENT COSTS FOR NONFUEL MINERALS

Internal Revenue Code Sections: 263(1)A, 291, 616–617, 56, and 1254
Oregon Statute: 316.048 and 317.013 (Connections to federal personal and corporation taxable deductions)
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1951

	Corporation	Personal	Total
2001–03 Revenue Impact:	$100,000	$200,000	$300,000
2003–05 Revenue Impact:	$100,000	$200,000	$300,000

DESCRIPTION: Entities engaged in mining are allowed to expense, rather than capitalize, certain exploration and development costs when computing corporation and personal taxable income. Expensing allows full deduction in the year the expenses are incurred, while capitalization requires the deduction to be taken over a number of years.

PURPOSE: To encourage mining and to reduce the ambiguity in the way mining operations were taxed.

WHO BENEFITS: Mining companies.

EVALUATION: This provision effectively allows mining companies to get a quicker return on their investment through tax deductions, hence it encourages more mining explorations and operations. For a state like Oregon that has relatively little mineral mining, this provision costs very little but may lead to long-term increases in economic activity and tax revenue by encouraging explorations.

According to the Congressional Research Service, however, the expensing of capital costs for tax purposes can lead to investment decisions that are based solely on tax considerations rather than on the inherent economic worth of the activity. The result in this case may be more resources devoted to mining than is economically justified. [*Evaluated by the Department of Geology and Mineral Industries*.]

1.097 DEPLETION COSTS FOR NONFUEL MINERALS

Internal Revenue Code Sections: 611, 612, 613, and 291
Oregon Statute: 316.048 and 317.013 (Connection to federal personal and corporation taxable deductions)
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1913

	Corporation	Personal	Total
2001–03 Revenue Impact:	$400,000	$700,000	$1,100,000
2003–05 Revenue Impact:	$400,000	$700,000	$1,100,000

DESCRIPTION: Firms that extract minerals, ores, and metals from mines are permitted a deduction from corporation or personal taxable income to recover their capital investment. There are two methods of calculating this deduction: cost depletion and percentage depletion. Cost depletion is considered the standard method for tax purposes. Because percentage depletion is based on the market value of the minerals recovered, it generally exceeds cost depletion, which is limited to the total capital investment. To the extent that percentage depletion exceeds cost depletion, this provision is a tax expenditure.

PURPOSE: To encourage discovery and development of mineral deposits by reducing the taxes on mining operations.

WHO BENEFITS: Mining companies using the percentage depletion method.

EVALUATION: This provision appears to be effective in encouraging exploration and development of mineral deposits by reducing tax liabilities of mining companies. It is difficult to measure how effective it has been, but it should have a positive effect stimulating mining activity in Oregon. [*Evaluated by the Department of Geology and Mineral Industries*.]

1.098 MINING RECLAMATION RESERVES

Internal Revenue Code Section: 468
Oregon Statute: 316.048 and 317.013 (Connection to federal personal and corporation taxable income)
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1984

	Corporation	Personal	Total
2001–03 Revenue Impact:	$100,000	$100,000	$200,000
2003–05 Revenue Impact:	$100,000	$100,000	$200,000

DESCRIPTION: Mine reclamation costs, which typically occur at the end of a mining project, are deductible from corporation and personal taxable income at the beginning of the project, thus allowing deduction of the expenses before they occur.

PURPOSE: To encourage mine reclamation activities and to compensate mining companies for the cost of reclamation.

WHO BENEFITS: Mining companies with reclamation costs. Oregonians also benefit greatly from the reclamation encouraged through this expenditure. The environmental and habitat benefits can be very large, although difficult to place exact values on.

EVALUATION: This provision has been effective at assisting mining operations because tax deductions can be taken for the life of the mining operation instead of at the end of the project. It encourages reclamation throughout the length of the mining operation, which probably has the long-term value of benefiting mine site and surrounding land values during and after mining. It appears to be an effective way to encourage reclamation and help the environment. [*Evaluated by the Department of Geology and Mineral Industries*.]

1.099 BAD DEBT RESERVES OF FINANCIAL INSTITUTIONS

Internal Revenue Code Sections: 585, 593, and 596
Oregon Statute: 317.013 (Connection to federal corporation taxable income)
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1947

	Corporation	Personal	Total
2001–03 Revenue Impact:	Less than $50,000	Not Applicable	Less than $50,000
2003–05 Revenue Impact:	$100,000	Not Applicable	$100,000

DESCRIPTION: Small banks (those with an average adjusted asset basis of up to $500 million) and savings and loans institutions can use a reserve method of accounting in calculating write-offs for bad debts. Under a reserve method, payments are made into a reserve account to cover bad debts expected to accrue in the future. These payments can be deducted from corporate taxable income. This differs from the technique used by large commercial banks, which can only write off bad debts at the time they become worthless. The effect of the reserve method is to allow future bad debts to be written off against current income. In effect, this defers taxes, lowering the effective tax rate on the financial institution. Credit unions also qualify because they are already eligible for the tax benefits stated in Title 26, Subtitle A, Chapter 1, Subchapter F, Part I, Section 501 of the Internal Revenue Code.

PURPOSE: To provide tax relief to small banks and savings and loans.

WHO BENEFITS: Small banks and savings and loans institutions.

EVALUATION: This expenditure appears to achieve its purpose. Bad debt reserves create a cushion for loans that may go bad. It is probably the simplest and easiest way to mediate the vagaries of the business cycle. If the benefit were removed, banks would be more inclined to curtail risks and tighten underwriting standards. The economy could be affected if this resulted in reduced availability of loans. [*Evaluated by the Department of Consumer and Business Services*.]

1.100 SMALL LIFE INSURANCE COMPANIES

Internal Revenue Code Section: 806
Oregon Statute: 317.013 (Connection to federal corporation taxable income)
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1984

	Corporation	Personal	Total
2001–03 Revenue Impact:	Less than $50,000	Not Applicable	Less than $50,000
2003–05 Revenue Impact:	Less than $50,000	Not Applicable	Less than $50,000

DESCRIPTION: Life insurance companies with less than $500 million in assets and taxable income of less than $15 million are allowed a special deduction on their corporate income taxes. For taxable income less than $3 million, companies can deduct 60 percent of their corporate taxable income. The deduction is reduced by a further 15 percentage points for each additional $3 million of taxable income that exceeds $3 million, so the deduction falls to zero when taxable income reaches $15 million.

PURPOSE: To provide a benefit to small insurance companies in an industry dominated by very large companies.

WHO BENEFITS: Small life insurance companies with assets less than $500 million and taxable income of less than $15 million. Competitive pressures in the life insurance industry may cause the benefits to be passed on to policyholders in the form of lower premiums.

EVALUATION: This expenditure is generally effective in achieving its purpose. It may serve to help newer companies to become established and build up the reserves state law requires of insurance companies. Many of these newer companies are located in smaller communities where they become an integral part of the economic fiber. Without this tax law incentive to strengthen smaller life insurance companies, they could be taken over by the larger national companies.

However, there is a concern that inequities are created by this expenditure, since taxes on business income are based on the size of the business rather than profitability. It distorts the efficient allocation of resources, since it offers a cost advantage based on size and not economic performance. Nor does this tax reduction serve any simplification purpose, since it requires an additional set of computations and some complex rules to keep it from being abused. [*Evaluated by the Department of Consumer and Business Services*.]

1.101 UNPAID LOSS RESERVES

Internal Revenue Code Sections: 832(b)(5) and 846
Oregon Statute: 317.013 (Connection to federal corporation taxable income)
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1986

	Corporation	Personal	Total
2001–03 Revenue Impact:	$12,900,000	Not Applicable	$12,900,000
2003–05 Revenue Impact:	$13,300,000	Not Applicable	$13,300,000

DESCRIPTION: In calculating corporate taxable income, most businesses cannot deduct expenses until the company becomes liable for paying them. Property and casualty insurance companies, however, are allowed to deduct the estimated losses they expect to pay in the future, including claims in dispute. This allows them to deduct future expenses from current income and thereby defer tax liability.

PURPOSE: To make tax rules consistent with standard industry accounting practices. For most regulated industries, the tax code was written to be consistent with the accounting rules already used in those industries (in most cases dictated by state regulation). In the insurance industry it is common practice to use some form of reserve accounting in estimating net income, and those methods were adopted for tax purposes when property and casualty insurance companies first became taxable in 1909.

WHO BENEFITS: Competitive pressures in the insurance industry could result in the benefits being passed on to policyholders in the form of lower premiums.

EVALUATION: This expenditure achieves its purpose. The nature and purpose of insurance is to reduce financial uncertainty. Insurers must estimate the amounts of unpaid losses because of the same uncertainty. Were this not so, insurance would be unnecessary. Historically, the liability estimates have been accurate or understated. Excessive estimates result in tax penalties and competitively ineffective pricing.

Insurance pricing already anticipates investment income or the time value of maintaining assets for unpaid liabilities. The insurance-buying public benefits from this tax expenditure because any increase in the taxes insurance companies must pay or any acceleration in the taxes requires the companies to increase the cost of insurance protection. The tax expenditure may encourage insurance companies to maintain liabilities at adequately stated values. Historically, companies have tended to understate unpaid liabilities. Eliminating or reducing this expenditure could increase the risks of company insolvencies to the detriment of those who purchase insurance as well as to the state General Fund since the General Fund offsets excise taxes for guaranty fund assessments on surviving companies. [*Evaluated by the Department of Consumer and Business Services*.]

1.102 BLUE CROSS/BLUE SHIELD AND OTHER NONPROFITS

Internal Revenue Code Section: 833
Oregon Statute: 317.013 (Connection to federal corporation taxable income)
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1986

	Corporation	Personal	Total
2001–03 Revenue Impact:	Not Available*	Not Applicable	Not Available*
2003–05 Revenue Impact:	Not Available*	Not Applicable	Not Available*

* *In certain cases, to conform with individual or corporate taxpayer privacy disclosure laws, revenue numbers are not provided for tax expenditures that may affect at most a few taxpayers. This includes tax expenditures that do not currently affect any Oregon taxpayer, but could at a later date.*

DESCRIPTION: Blue Cross and Blue Shield health insurance companies in existence on August 16, 1986, and other nonprofit health insurers that meet strict community service standards are allowed a special deduction from corporate taxable income of up to 25 percent of the excess of the year's health-related claims over their accumulated surplus at the beginning of the year. These organizations are also allowed a full deduction for unearned premiums, unlike other property and casualty insurance companies. Accumulated surplus is defined in Section 833 of the Internal Revenue Code as the excess of total assets over total liabilities as shown on the annual statement.

PURPOSE: To encourage the provision of health insurance by companies that provide community-service and "community-rated" insurance coverage (coverage at rates that take into account the customer's ability to pay) .

WHO BENEFITS: Because of competitive pressures in the health insurance industry, the benefits of this provision probably accrue to policyholders.

EVALUATION: This expenditure appears to achieve its purpose. These companies contain in their charters a commitment to offer individual policies not available elsewhere. Some continue to offer policies with premiums based on community payout experience ("community rated"). Their former tax exemption and their current reduced tax rates presumably serve to subsidize these community activities. The question to ask is whether for-profit health insurers would make available health care to the less fortunate of society if there were no nonprofit insurers. Without this exemption, the state might spend more in social services than is lost in revenue. [*Evaluated by the Department of Consumer and Business Services*.]

1.103 MAGAZINE CIRCULATION EXPENDITURES

Internal Revenue Code Section: 173
Oregon Statute: 316.048 and 317.013 (Connections to federal personal and corporation taxable deductions)
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1950

	Corporation	Personal	Total
2001–03 Revenue Impact:	$100,000	$100,000	$200,000
2003–05 Revenue Impact:	$100,000	$100,000	$200,000

DESCRIPTION: Publishers of periodicals are permitted to deduct from corporation and personal taxable income expenditures to establish, maintain, or to increase circulation in the year that the expenditures are made. Normally, those expenses pertaining to establishing and developing circulation would have to be capitalized. The tax expenditure is the difference between the current deduction of costs and the recovery that would have been allowed if these expenses were capitalized and deducted over time.

PURPOSE: To reduce the cost of tax compliance by eliminating the problem of distinguishing between expenditures to maintain circulation and those to establish or develop circulation.

WHO BENEFITS: Publishers of periodicals.

EVALUATION: According to the Congressional Research Service, this expenditure greatly simplifies tax compliance for magazine publishers and is unlikely to adversely affect economic behavior. [*Evaluated by the Department of Revenue*.]

1.104 NET OPERATING LOSS LIMITATION

Internal Revenue Code Section: 381(l)(5)
Oregon Statute: 317.013 (Connection to federal corporation taxable income)
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1954

	Corporation	Personal	Total
2001–03 Revenue Impact:	$2,200,000	Not Applicable	$2,200,000
2003–05 Revenue Impact:	$2,200,000	Not Applicable	$2,200,000

DESCRIPTION: Under federal tax law, when one corporation acquires another, the acquiring corporation inherits the tax situation of the acquired corporation, including net operating loss carryovers. Limitations are imposed, however, so that the acquiring corporation cannot write off losses faster than the acquired corporation would have. The limitations were imposed to prevent abuses. When the acquired corporation is in bankruptcy, however, the limitations do not apply. The favorable tax treatment in this departure from the limitations is a tax expenditure.

PURPOSE: To allow creditors of a bankrupt corporation that is acquired by another corporation to recover some of their losses through faster write-off of the bankrupt corporation's losses against the acquiring corporation's income.

WHO BENEFITS: Creditors of bankrupt corporations that are acquired by other corporations.

EVALUATION: According to the Congressional Research Service, the rationale for the provision is reasonable, but the exception is not structured to be fully consistent with the rationale. There is no test to determine what portion, if any, of the preacquisition net operating loss carryforwards was borne by creditors who became shareholders. [*Evaluated by the Department of Revenue*.]

1.105 COMPLETED CONTRACT RULES

Internal Revenue Code Section: 460(e)
Oregon Statute: 316.048 and 317.013 (Connections to federal personal and corporation taxable income)
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1986

	Corporation	Personal	Total
2001–03 Revenue Impact:	$900,000	$100,000	$1,000,000
2003–05 Revenue Impact:	$900,000	$100,000	$1,000,000

DESCRIPTION: Some taxpayers with construction or manufacturing contracts extending for more than one tax year are allowed to use the "completed contract" method of accounting rather than the "percentage of completion" method. Under the "completed contract" method, income and costs pertaining to the contract are reported when the contract is completed; however, several indirect costs may be deducted from corporation and personal taxable income in the year paid or incurred. This mismatching of income and expenses results in a deferral of tax payments.

According to the CRS, contractors prior to 1986 were less restricted on the use of the "completed contract method." However, due to recognized abuses of the law, most notably by contractors with government agency contracts (where overall contract risk was low), the law was over a number of years restricted to now allow use of the method mostly for long-term home construction contracts. Other residential construction contracts (that are not for the building of dwelling units) may be partially accounted for under the "completed contract" method. Non-residential construction contracts can qualify if the average annual gross receipts of the contractor do not exceed $10 million, and the contract is estimated to be completed within two years.

PURPOSE: To match the tax liability related to a contract with the final determined income from the contract, when the profitability of such a contract was uncertain. This accounting method, according to the CRS, has been allowed under IRS regulations since 1918 on the basis that without knowing whether a contract would be profitable, any other accounting method would have been difficult to administer.

WHO BENEFITS: Residential construction contractors are the main beneficiaries, although some other contractors may benefit as well, but to a lesser extent.

EVALUATION: According to the Congressional Research Service, the principal justification for the completed contract method of accounting has always been the uncertainty of the outcome of long-term contracts, an argument that lost a lot of its force when applied to contracts in which the government bore most of the risk. It was also noted that even large construction companies, who used the method for tax reporting, were seldom so uncertain of the outcome of their contracts that they used it for their own books; their financial statements were almost always presented on a strict accrual accounting basis comparable to other businesses.

Since the use of completed contract rules is now restricted to a very small segment of the construction industry, it produces only small revenue losses for the government and probably has little economic impact in most areas. One area where it is still permitted, however, is in the construction of residential housing, where it adds some tax advantage to an already heavily tax-favored sector. [*Evaluated by the Department of Revenue.*]

1.106 CASUALTY AND THEFT LOSSES

Internal Revenue Code Section: 165(c)(3)
Oregon Statute: 316.695 (Connection to federal deductions)
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1913

	Corporation	Personal	Total
2001–03 Revenue Impact:	Not Applicable	$1,400,000	$1,400,000
2003–05 Revenue Impact:	Not Applicable	$1,300,000	$1,300,000

DESCRIPTION: Taxpayers who itemize deductions may deduct from personal taxable income nonbusiness casualty and theft losses that are not reimbursed through insurance. Taxpayers may deduct only losses of more than $100 each, but only to the extent that the total of such losses exceed 10 percent of adjusted gross income (AGI).

PURPOSE: To reduce the tax burden for taxpayers who experience large casualty and theft losses.

WHO BENEFITS: Approximately 1,100 taxpayers claimed $10.4 million in casualty and theft losses that were not covered by insurance in 2000. The average deduction was $9,100.

EVALUATION: Critics have pointed out that when uninsured losses are deductible but insurance premiums are not, the income tax discriminates against those who carry insurance and favors those who do not. It similarly discriminates against people who take preventive measures to protect their property but cannot deduct their expenses. No distinction is made between loss items considered basic to maintaining the taxpayer's household and livelihood versus highly discretionary personal consumption. The taxpayer need not replace or repair the item in order to claim a deduction for an unreimbursed loss.

Up through the early 1980s, when tax rates were as high as 70 percent and the floor on the deduction was only $100, high income taxpayers could have a large fraction of their uninsured losses offset by lower income taxes, providing them reason not to purchase insurance. The imposition of the 10-percent-of-AGI floor effective in 1983, together with other changes in the tax code during the 1980s, substantially reduced the number of taxpayers claiming the deduction. (Congressional Research Service, p. 513) [*Evaluated by the Department of Revenue.*]

1.107 CHARITABLE CONTRIBUTIONS: OTHER

Internal Revenue Code Sections: 170 and 642(c)
Oregon Statutes: 316.695 and 317.013 (Connections to federal personal and corporation deductions)
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1917 (personal) and 1935 (corporation)

	Corporation	Personal	Total
2001–03 Revenue Impact:	$11,300,000	$206,400,000	$217,700,000
2003–05 Revenue Impact:	$13,400,000	$245,300,000	$258,700,000

DESCRIPTION: Contributions to charitable, religious, and certain other nonprofit organizations are allowed as itemized deductions from personal taxable income of amounts up to 50 percent of adjusted gross income. Corporations can deduct from corporate taxable income contributions up to 10 percent of pre-tax income. Taxpayers who donate property may deduct the current market value of the property and do not need to pay tax on any capital gains realized on the property.

PURPOSE: To encourage donations to designated charitable organizations.

WHO BENEFITS: In 1998, nearly 500,000 Oregonians took a deduction for charitable contributions worth a total of roughly $1,250 million, of which $981 million went to organizations that were not considered educational or health-related. The average total charitable deduction was $2,500.

EVALUATION: Not evaluated.

1.108 EXPATRIATE RESIDENTIAL STATUS

Oregon Statute: 316.027
Sunset Date: None
Year Enacted: 1999

	Corporation	Personal	Total
2001–03 Revenue Impact:	Not Applicable	$1,600,000	$1,600,000
2003–05 Revenue Impact:	Not Applicable	$1,600,000	$1,600,000

DESCRIPTION: Certain taxpayers who worked in foreign countries used to be taxed on income from all sources, because they considered Oregon their permanent home and planned to return. 1999 legislation allows these individuals to file as nonresidents in the year they departed and the year they returned to Oregon to live. For instance, someone who left or returned to Oregon in the middle of a year is now allowed to file as a part-year resident, thus being liable for Oregon income tax only on the income they earned while in the state. This allows for potential savings in personal income tax liability for such individuals.

It modifies the definition of "resident for personal income tax purposes" to exclude certain individuals present in foreign countries under IRC 911(d)(1) and is applicable to tax years beginning January 1, 1995, or to tax years for which a notice of deficiency may be issued on the effective date of the bill.

PURPOSE: This provision affords tax relief to individuals who are absent from the state and earn income abroad for a substantial part of the year, even if they have a permanent place of abode in Oregon. It thus affords potential tax savings to such individuals, making them liable for Oregon income tax only on the income they earned while in the state and removing any income tax liability for income earned while abroad.

WHO BENEFITS: Those residents who end up paying lower income taxes; companies with substantial overseas operations also benefit, because they are more attractive to prospective employees.

EVALUATION: This expenditure achieves its purpose of not penalizing employees of companies that require such employees to hold foreign assignments. In this way, it makes the corporate climate more attractive for such companies, leading to easier recruitment and retention of hard-to-attract employees. [*Evaluated by the Department of Economic and Community Development*.]

1.109 INCOME AVERAGING FOR FARMERS

Oregon Statutes: 314.297
Sunset Date: None
Year Enacted: 2001 (HB 2554)

	Corporation	Personal	Total
2001-03 Revenue Impact	Not Applicable	$100,000	$100,000
2003-05 Revenue Impact	Not Applicable	$100,000	$100,000

DESCRIPTION: This permits personal income taxpayers to use the federal farm income averaging method to compute Oregon personal income taxes on farm income. This applies to tax years beginning on or after January 1, 2002.

PURPOSE: To allow the 1997 reintroduction of federal farm income averaging to pass through to Oregon taxable income.

WHO BENEFITS: Farmers with volatile farm incomes will be under less financial stress, enabling them to continue farming.

EVALUATION: Farmers often face substantial price swings from year to year while expenses stay fixed or rise. Matching the Oregon tax code to the federal code allowing farmers to use income averaging is consistent and provides a tool for growers to smooth out their financial management. *[Evaluated by the Department of Agriculture]*

1.110 CAPITAL GAINS FROM FARM PROPERTY

Oregon Statutes: 318.020/317.063
Sunset Date: None
Year Enacted: 2001 (HB 2555)

	Corporation	Personal	Total
2001-03 Revenue Impact	Less than $50,000	Less than $50,000	Less than $100,000
2003-05 Revenue Impact	$100,000	$100,000	$200,000

DESCRIPTION: Reduces Oregon long-term personal and corporate income tax rates to 5 percent on assets liquidated that were previously used in qualified farming activities. Qualified sales must constitute a substantially complete termination of the taxpayer's agricultural business activity. This applies to tax years beginning on or after January 1, 2002.

PURPOSE: To lower the tax burden on farmers liquidating their farming businesses.

WHO BENEFITS: Retiring growers benefit by realizing more of their capitalized equity (retirement savings). The farm economy benefits from an orderly transfer of ownership to other growers.

EVALUATION: Farmers build equity in their operations over time through ownership (paying down debt), appreciation, and improvements. Years of work are capitalized into the land, buildings, and equipment used to operate a viable farm business, which represents the retirement savings for the farm family. Capital gains taxes can substantially reduce the retirement "savings" of growers and discourage land sales. Many retired growers simply lease or rent out their land because of the capital gains penalty from selling. This simply pushes the tax burden to those inheriting the assets at the owner's death. The average age of farmers in Oregon is over 55 years of age. These farmers own more than 50 percent of the farmland in Oregon; this farmland is destined to change hands in the next decade. Lower capital gains rates for those leaving agriculture achieves the purpose of an orderly transfer of ownership with a better secured retirement for older farmers. *[Evaluated by the Department of Agriculture]*

1.111 INCOME EARNED IN BORDER RIVER AREAS

Federal Law: USC 46, Sect. 11108 (P.L. 106-489), USC 4 sect. 111 (P.L. 105-261)
Oregon Statute: 316.127
Sunset Date: None
Year Enacted: 2001 (SB 426)

	Corporation	Personal	Total
2001–03 Revenue Impact:	Not Applicable	Less than $50,000	Less than $50,000
2003–05 Revenue Impact:	Not Applicable	Less than $50,000	Less than $50,000

DESCRIPTION: Nonresident taxpayers who either provide services at federally operated dams on the Columbia River or work on ships that operate on navigable waters of more than one state may exclude income from those activities from their Oregon-sourced income. Prior to 2001, Oregon law followed federal law, which only exempted the income earned of nonresident federal employees working on the Columbia River dams. The 2001 Oregon law change followed a federal law change in 2000, which exempted the income of nonresidents working on ships in state-border waters. The law also broadened the exemption to include all nonresident dam workers, not just the federal employees working at the dams.

PURPOSE: To follow federal law and to treat federal dam contract workers in the same manner as the federal employees at those sites.

WHO BENEFITS: Nonresident workers at federal dams on the Columbia River, and nonresident pilots, captains, and crews of boats operated on navigable waters of more than one state.

EVALUATION: This expenditure follows federal law and also relieves the specified taxpayers of the difficulty of determining the portion of income earned in Oregon while working on dams or boats in state-border waters. [*Evaluated by the Department of Revenue*.]

1.112 LAND DONATED TO SCHOOLS

Oregon Statute: 316.852 and 317.488
Sunset Date: 12-31-07
Year Enacted: 1999

	Corporation	Personal	Total
2001–03 Revenue Impact:	Less Than $50,000	Less Than $50,000	Less Than $100,000
2003–05 Revenue Impact:	Less Than $50,000	Less Than $50,000	Less Than $100,000

DESCRIPTION: A subtraction is allowed from corporate and personal taxable income for land donated or sold at below-market price on or after January 1, 2000, and before January 1, 2008, to a public school district, a non-profit private school, or a public or non-profit private community college, college, or university. For a donation, the amount of the subtraction is the fair market value of the land. For a sale, the amount of the subtraction is the difference between the fair market value and the sale price of the land. The amount of the subtraction is limited depending on whether the transfer was a donation or sale. In the case of a donation, the subtraction in a given tax year cannot exceed 50 percent of the taxpayer's taxable income in that year. When the land is sold the subtraction cannot exceed 25 percent of the taxpayer's taxable income.

Any amount taken as a charitable contribution deduction is to be added to income on the Oregon return so that the taxpayer does not receive a double deduction. Unused amounts in excess of the limitations may be carried forward and subtracted from taxable income for up to 15 succeeding years.

Oregon law supplements federal law in that federal law specifies that the unadjusted fair market value of the donation may be deducted only up to 30 percent of income, but Oregon allows the subtraction up to 50 percent of income. The federal deduction is described in Charitable Contributions: Education (1.066).

PURPOSE: To help schools meet the challenge of providing facilities when faced with rapid student enrollment growth by encouraging developers to donate land.

WHO BENEFITS: Taxpayers disposing of land to educational institutions receive the main benefit. Those who donate rather than sell their property receive the most benefit, since property sold at below market price may not be deducted as quickly as donated property. Donated property may be deducted at a faster rate for Oregon taxes than for federal taxes.

EVALUATION: The Oregon Department of Education has no data at this time with which to evaluate this tax expenditure since the measure recently took effect in January 2000. [*Evaluated by the Department of Education*.]

1.113 OREGON QUALIFIED TUITION SAVINGS PROGRAM

Oregon Statute: 348.844 and note after 316.680
Sunset Date: None
Year Enacted: 1999, modified in 2001 (HB2124, HB 2125, and HB 3080)

	Corporation	Personal	Total
2001–03 Revenue Impact:	Not Applicable	$4,700,000	$4,700,000
2003–05 Revenue Impact:	Not Applicable	$9,700,000	$9,700,000

DESCRIPTION: Individuals may establish tax-deferred and tax-exempt college savings accounts through the Oregon Qualified Tuition Savings Program for the purpose of paying education-related expenses to a designated beneficiary (possibly themselves). Total contributions to these accounts are allowed up to the amount necessary to cover the qualified higher education expenses of the beneficiary, or limits specified by the Oregon Qualified Tuition Savings Board. This program meets the specifications of a state-administered federal Qualified Tuition Program (QTP), and thereby passes the federal exclusion of earnings income through to Oregon. The revenue impact and description of the federal tax benefits are detailed in Qualified Tuition Programs (Federal) (1.004).

In addition to the federal tax benefits, Oregon taxpayers may also subtract from federal taxable income up to $2,000 per year ($1,000 if married filing separately) for contributions made to these Oregon-administered accounts. Non-qualifying distributions are added into federal taxable income for Oregon purposes but only to the extent of the first $2,000 distributed or the amount of contributions made in the year preceding the distribution, whichever is less. The revenue impact above includes only the impacts of the state-allowed subtraction for contributions and the state limit on the amount of non-qualifying distributions that would be added back to taxable income.

PURPOSE: To increase the ability of families and individuals to save for higher education.

WHO BENEFITS: Oregon residents are able to defer and eventually avoid tax on earnings of these accounts, and therefore may accumulate savings more quickly for future higher education expenses. In 2001, roughly 6,200 contributors established accounts with a total balance of $33.4 million in assets. By the end of June 2002, the program had expanded to approximately 10,200 contributors and $62.8 million in assets, a participation increase of 65 percent and an 88 percent increase in assets. Almost all of the contributors were from within Oregon and roughly 80 percent of them claimed to have household incomes between $40,000 and $250,000.

EVALUATION: It is too early to determine if this tax expenditure achieves its purpose. [*Evaluated by the Oregon University System*.]

1.114 SCHOLARSHIP AWARDS USED FOR HOUSING EXPENSES

Oregon Statute: 316.846
Sunset Date: None
Year Enacted: 1999

	Corporation	Personal	Total
2001–03 Revenue Impact:	Not Applicable	Less than $50,000	Less than $50,000
2003–05 Revenue Impact:	Not Applicable	Less than $50,000	Less than $50,000

DESCRIPTION: There is a federal exclusion, Scholarship and Fellowship Income (1.001), for income received from scholarships and fellowships to the extent that the awards cover tuition and course-related expenses only. This Oregon subtraction extends this non-taxable treatment of scholarship awards to the extent they are used for housing expenses. The scholarship recipient must be either the taxpayer or a dependent of the taxpayer and must be attending an accredited community college, college, university, or other institution of higher education. Scholarships for housing during grades K-12 may not be subtracted. A subtraction may not be allowed under this section if the amounts are not included in the taxpayer's federal gross income for the tax year or are taken into account as a deduction on the taxpayer's federal income tax return for the tax year. The subtraction applies to tax years beginning on or after January 1, 2000.

PURPOSE: To help students meet the financial challenges of attending college.

WHO BENEFITS: Individuals receiving scholarship or fellowship income to pay for housing expenses.

EVALUATION: It is too early to determine if this tax expenditure achieves its purpose. [*Evaluated by the Oregon University System*.]

1.115 INDIVIDUAL DEVELOPMENT ACCOUNTS

Oregon Statute: 316.848
Sunset Date: None
Year Enacted: 1999, modified in 2001 (HB 3391)

	Corporation	Personal	Total
2001–03 Revenue Impact:	Not Applicable	Less than $50,000	Less than $50,000
2003–05 Revenue Impact:	Not Applicable	Less than $50,000	Less than $50,000

DESCRIPTION: Contributions, matching deposits (from fiduciary organizations), and account earnings of individual development accounts (IDAs) for low-income households are exempt from state income tax if funds are withdrawn for approved purposes. Contributions to the accounts by the account holder are subtracted from federal taxable income of the account holder as they are made, and the matching deposits and account earnings are exempt from taxation until withdrawn. If withdrawals from the account are for a qualified purpose, the entire withdrawal is exempt from taxation. Low-income households are defined as those having a net worth less than $20,000 and income no greater than 80 percent of the area median household income as determined by the U.S. Dept. of Housing and Urban Development.

The Oregon Housing and Community Services Department (OHCS) administers the program and selects fiduciary organizations to manage the IDAs. These fiduciary organizations may establish lower thresholds for income and net worth of account holders than prescribed by statute. Approved purposes for which withdrawals may be made include: acquiring post-secondary education, the first-time purchase of a primary residence, and capitalization of a small business. An account may not exceed $20,000.

As of January 2002, accounts may be rolled over into qualified tuition savings program accounts. See Oregon Qualified Tuition Savings Program (1.113) for more on these accounts.

A companion expenditure, Individual Development Accounts (Credit) (1.141), provides a credit for individuals or businesses that make contributions to fiduciary organizations to support IDA programs.

PURPOSE: To help lower income Oregonians obtain the assets needed to become economically self-reliant by instituting an asset-based antipoverty strategy that promotes improved personal financial management and savings and the accumulation of key assets.

WHO BENEFITS: Lower income households benefit from the existence of these accounts. In the past five years, more than 300 accounts have been established using a variety of private and federal grant funds.

EVALUATION: The $250,000 exemption was not utilized during the 1999–01 biennium and is not likely to be fully utilized during the 2001–03 biennium for two reasons. Low-income households typically have very slight state income tax liabilities to begin with, so tax liabilities on the amount of savings accrued in IDA accounts will also be very slight. Also, this initiative is only now getting under way. Credit provisions in the 1999 legislation proved unworkable and required amendment in the 2001 Legislative session. Those provisions are now being instituted with greater success; however, the full impact of the account holders' exemption is not expected until probably 2004, when the greatest number of active account holders are anticipated for a given year of funding. [*Evaluated by the Housing and Community Services Department*.]

1.116 JOBS PLUS PARTICIPANTS

Oregon Statute: 316.680(1)(e)
Sunset Date: None
Year Enacted: 1995

	Corporation	Personal	Total
2001–03 Revenue Impact:	Not Applicable	Less than $50,000	Less than $50,000
2003–05 Revenue Impact:	Not Applicable	Less than $50,000	Less than $50,000

DESCRIPTION: Participants in the JOBS Plus program are allowed a subtraction from personal taxable income for certain payments received from the program. The JOBS Plus program places individuals who receive public assistance payments in jobs in the private or public sector. As part of the program, the amount of public assistance received by the individual is reduced. If the wages the participants earn in their jobs are less than the equivalent value of the public assistance they formerly received, the Department of Human Resources makes supplemental payments to the participants to bring their total compensation up to the level they received while on public assistance. These supplemental payments are not included in Oregon personal taxable income.

PURPOSE: To help maintain the purchasing power of Jobs Plus participants and recognize their limited ability to pay taxes.

WHO BENEFITS: On average in 2000, the program involved roughly 1,200 employers and 1,400 clients per month statewide. In the vast majority of cases, the wages earned by the clients were greater than their compensation through public assistance. Consequently, few participants benefit from this tax expenditure.

EVALUATION: This tax expenditure achieved its purpose during the initial phase of the JOBS Plus program and appears to continue doing so as the program expands statewide. Families receiving public assistance benefits are living below the poverty level and, as a result, are incurring debts beyond their ability to pay or are deferring necessary expenses until they can find a family wage job and become self-sufficient. The supplemental amounts provided through this program are only intended to bring a family's income up to the total they were receiving from welfare and food stamps. As in the case with Public Assistance Benefits (1.005), it would be counterproductive to add these supplements to their taxable income, thereby reducing their ability to overcome the effects of poverty.

This is a fiscally effective means of achieving its purpose. By implementing this low-income benefit as an income exclusion under state and federal income tax programs, there is less cost to administer it than would result from a separate means tested program. [*Evaluated by the Children, Adult, and Families Services Cluster*.]

1.117 MEDICAL SAVINGS ACCOUNTS (OREGON)

Oregon Statute: 316.743
Sunset Date: None
Year Enacted: 1997, repealed in 2001 (HB 2272)

	Corporation	Personal	Total
2001–03 Revenue Impact:	Not Applicable	Less than $50,000	Less than $50,000
2003–05 Revenue Impact:	Not Applicable	$0	$0

DESCRIPTION: This tax expenditure is an extension of the federal deduction for Medical Savings Accounts (Federal)(1.071), which is limited to 750,000 participants. This subtraction ensures that certain Oregonians who are unable to participate in the federal program will at least receive a tax break at the state level.

Participants in the federal program are allowed to deduct contributions to medical savings accounts up to an annual limit of 65 percent of their insurance deductible or earned income, whichever is less. Employer contributions are excluded from the personal taxable income of the employee as well as from the employment taxes of both the employee and employer. Individuals cannot make contributions if their employer does. Earnings on account balances are not taxed. Distributions from medical savings accounts are tax-exempt if used to pay for deductible medical expenses.

Contributions are allowed if individuals are covered by a high-deductible health plan and no other insurance. Plan deductibles must be at least $1,500 (but not more than $2,250) for coverage of one person and at least $3,000 (but not more than $4,500) for more than one. Individuals must also be self-employed or covered through plans offered by small employers. Eligibility to establish accounts will be restricted to 750,000 taxpayers nationally. Once restricted, participation will be generally limited to those individuals who previously had contributions to their accounts or who work for participating employers. Unqualified distributions are included in taxable income and a 15 percent penalty is added except in cases of disability, death, or attaining age 65.

For those participating in the federal program, the contributions are not included in federal personal taxable income, and hence are not included in Oregon personal taxable income. The estimated tax benefit for federal participants is shown in Medical Savings Accounts (Federal) (1.071). For non-participants of the federal program, the contributions are taxed at the federal level. Therefore, they must be subtracted from federal personal taxable income when calculating Oregon personal taxable income. The provision became effective January 1, 1998.

Due to minimal usage, the 2001 Legislature repealed this provision.

PURPOSE: To allow all qualified Oregonians equal access to this tax benefit, whether or not they are included in the federal program.

WHO BENEFITS: The self-employed and employees receiving employer-sponsored health benefits (and their respective spouses and dependents, as applicable) who desire this form of health benefit coverage, and who cannot take advantage of the federal deduction due to the national limit on participants. Employers may benefit by offering additional choice of health benefit plans in the recruitment and retention of employees.

EVALUATION: Because the medical savings accounts (MSA) option does not appear to be widely used by consumers or aggressively marketed by insurers, it remains premature to evaluate the impact of MSA as either a medical cost containment strategy or an alternative to managed care strategies in the private sector. National policy experts have predicted that MSAs will be attractive to higher income individuals with favorable health status profiles since time is necessary to accumulate enough savings to cover non-catastrophic expenses associated with preventive and chronic health care services. This tax policy treats MSAs, a recent innovation in health care benefits, on an equitable basis with other models of health benefits available to employers and the self-employed. [*Evaluated by Oregon Health Plan Policy & Research*.]

1.118 PHYSICIANS IN "MEDICALLY DISADVANTAGED" AREAS

Oregon Statute: 316.076
Sunset Date: None
Year Enacted: 1973

	Corporation	Personal	Total
2001–03 Revenue Impact:	Not Applicable	$0	$0
2003–05 Revenue Impact:	Not Applicable	$0	$0

DESCRIPTION: Certain physicians who practice medicine in medically disadvantaged areas may subtract from personal taxable income an amount equal to the annual expense of attending medical school. This subtraction applies to people licensed between January 1, 1974 and January 1, 1982 to practice medicine in Oregon. The amount subtracted cannot exceed $10,000 and can be taken for up to four tax years. "Medically disadvantaged area" means any area of the state designated by the Department of Human Resources to be in need of primary health care providers.

PURPOSE: To promote the provision of medical care in areas considered medically disadvantaged.

WHO BENEFITS: Currently, no one is taking advantage of this tax expenditure.

EVALUATION: Because this provision applies to a select number of physicians (those licensed in an eight-year period between 1974 and 1982) and is not well publicized, there are currently no participants. Consequently, this program should either be repealed or updated by amendment during the next legislative session. [*Evaluated by the Office of Rural Health*.]

1.119 ADDITIONAL DEDUCTION FOR ELDERLY OR BLIND

Oregon Statute: 316.695(7)
Sunset Date: None
Year Enacted: 1989

	Corporation	Personal	Total
2001–03 Revenue Impact:	Not Applicable	$10,800,000	$10,800,000
2003–05 Revenue Impact:	Not Applicable	$8,700,000	$8,700,000

DESCRIPTION: Oregon taxpayers who are age 65 or over or who are blind receive a larger standard deduction from personal taxable income based on their filing status. For taxpayers who are single or head of household, the additional amount is $1,200 per qualifying condition (e.g., the amount is $2,400 if the taxpayer is age 65 or over and blind). For all other filers, the amount is $1,000 per qualifying condition. This tax expenditure does not benefit taxpayers who itemize deductions because they do not use the standard deduction.

PURPOSE: To provide additional tax relief to Oregon taxpayers who are elderly or blind.

WHO BENEFITS: The number of individuals who benefit from the additional deduction due to age has declined from 176,000 in 1990 to 99,000 in 2000. The number of Oregon taxpayers age 65 or over has increased from approximately 259,000 in 1990 to 286,000 in 2000. However, the percentage of these taxpayers who claim the standard deduction, and hence qualify for this additional deduction, has fallen from 68 percent in 1990 to 35 percent in 2000. Because more elderly taxpayers are itemizing deductions, fewer are able to make use of this subtraction.

The number of taxpayers who benefit from the additional deduction due to blindness has decreased between 1990 and 2000 from over 3,000 to just over 2,500. The number of blind Oregon taxpayers has risen from approximately 4,000 in 1990 to nearly 5,500 in 1998. Of these, the percentage who claim the standard deduction, and hence qualify for the additional deduction, has fallen from 76 percent in 1990 to 46 percent in 2000. Because more blind taxpayers are itemizing deductions, fewer are able to make use of this subtraction.

EVALUATION: This tax expenditure achieves its purpose and is effective in promoting independence among its recipients. The deduction allows for greater disposable income for eligible individuals and helps build individual self-sufficiency. This money enables individuals to avoid needing other services offered by the state Department of Human Services. It is most beneficial to those people who are on the margin between self-reliance and reliance on the state. [*Evaluated by the Seniors and People with Disabilities Cluster*]

1.120 ADDITIONAL MEDICAL DEDUCTION FOR ELDERLY

Oregon Statute: 316.695(1)(d)(B)
Sunset Date: None
Year Enacted: 1991

	Corporation	Personal	Total
2001–03 Revenue Impact:	Not Applicable	$64,300,000	$64,300,000
2003–05 Revenue Impact:	Not Applicable	$72,200,000	$72,200,000

DESCRIPTION: All taxpayers who itemize deductions may deduct from personal taxable income medical and dental expenses that exceed 7.5 percent of their adjusted gross income (Medical and Dental Expenses (1.069)). This tax expenditure extends that non-taxable treatment to any amount of qualified medical or dental expenses that does not exceed the 7.5 percent of adjusted gross income. To be eligible for this deduction, taxpayers must be at least 62 years of age and itemize their Oregon deductions (but not necessarily their federal deductions). Thus, these taxpayers may deduct the full amount of their medical and dental expenses from Oregon taxable income.

PURPOSE: To provide additional tax relief to older taxpayers with medical and dental expenses.

WHO BENEFITS: The number of older Oregon taxpayers who benefit from the additional medical deduction has risen from approximately 91,000 in 1991 to approximately 152,500 in 2000. The average additional medical deduction amount has risen from roughly $1,800 in 1991 to $2,600 in 2000. The table below shows the tax year 2000 usage of this subtraction for each of the five income quintiles.

Income Group (Quintiles)	Taxpayers		Mean Deduction
	Number	Percent	
Below $10,000	12,993	8.5%	$550
$10,000 - $22,000	35,575	23.3%	$1,164
$22,000 - $37,000	30,386	19.9%	$1,992
$37,000 - $63,000	32,703	21.4%	$3,013
Above $63,000	40,816	26.8%	$4,745
Total	152,473	100.0%	$2,632

EVALUATION: This tax expenditure achieves its purpose and has similar benefits to the Additional Deduction for Elderly or Blind (1.119) in that it supports self-sufficiency and independence. This tax expenditure creates more disposable income for the affected individuals. Elderly people are more likely to have a greater percentage of their income devoted to medical and dental care. This deduction is an important element of financial assistance for these individuals and helps them avoid reliance on other state services. [*Evaluated by the Seniors and People with Disabilities Cluster*.]

1.121 SOCIAL SECURITY BENEFITS (OREGON)

Oregon Statute: 316.054
Sunset Date: None
Year Enacted: 1985

	Corporation	Personal	Total
2001–03 Revenue Impact:	Not Applicable	$220,300,000	$220,300,000
2003–05 Revenue Impact:	Not Applicable	$249,500,000	$249,500,000

DESCRIPTION: The Oregon Constitution (Article IX, Section 9) prohibits state and local governments from considering Social Security and Railroad Retirement Board benefits as income for the purpose of any tax, or from being used to compute any tax liability. Only a portion of these benefits is considered nontaxable at the federal level. Consequently, there are two tax expenditures. This tax expenditure pertains to those benefits that are exempt only in Oregon (i.e., they are taxable at the federal level). The tax expenditure pertaining to those benefits that are exempt at both the federal level and in Oregon is Social Security Benefits (Federal) (1.015).

PURPOSE: To maximize the amount of benefits provided from the Social Security Act.

WHO BENEFITS: The number of Oregon taxpayers who benefit from the subtraction has risen consistently from 62,100 in 1990 to 133,000 in 2000. The average subtraction grew from $3,800 in 1990 to $8,300 in 2000. When the maximum federally taxable percentage increased in 1994 from 50 to 85 percent, the average subtraction amount jumped by 50 percent to $6,500.

Income Group (Quintiles)	Taxpayers		Mean Subtraction
	Number	Percent	
Below $10,000	387	.3%	$4,182
$10,000 - $22,000	4,464	3.4%	$1,476
$22,000 - $37,000	37,395	28.1%	$2,777
$37,000 - $63,000	43,552	32.7%	$8,313
Above $63,000	47,206	35.5%	$13,350
Total	133,004	100.0%	$8,303

EVALUATION: This tax expenditure achieves its purpose; however, the issue continues to be the focus of significant national discussions and debate. While this tax exclusion provides the recipients with more disposable income, there are severe concerns over the viability of the Social Security benefits system in the long term. Current retirement index data forecasts that current retirement programs and savings patterns of persons aged 30–48 are not adequate to maintain these individuals at a living standard commensurate with their current living standards. Projections suggest that the rate of retirement savings must increase threefold from present standards in order to accomplish this future parity. The inability to achieve this parity will cause greater numbers of people to look to government service programs to assist them. The present population of those age 30–48 is substantial, and this program could have a dramatic impact when they reach the retirement age. [*Evaluated by the Seniors and People with Disabilities Cluster*.]

1.122 DONATIONS OF ART BY THE ARTIST

Oregon Statute: 316.838
Sunset Date: None
Year Enacted: 1979

	Corporation	Personal	Total
2001–03 Revenue Impact:	Not Applicable	Less than $50,000	Less than $50,000
2003–05 Revenue Impact:	Not Applicable	Less than $50,000	Less than $50,000

DESCRIPTION: Under Chapter 170 of the Federal Internal Revenue Code, artists can deduct charitable contributions of their work only to the extent of the costs of materials in producing the art. This tax provision allows artists liable for Oregon personal income taxes to subtract from taxable income the fair market value of the art, not just the costs of materials.

PURPOSE: To encourage the donation of artists' works to charitable organizations.

WHO BENEFITS: Artists who donate their art to charitable organizations, the charitable organizations themselves, and the organizations' patrons.

EVALUATION: It is not clear whether this tax expenditure has achieved its purpose. The calculation of "fair market value" of a donated work of art may be highly subjective and difficult to substantiate because of a very limited number of comparable sales. This raises the likelihood of inflated values being placed on donated works of art for the purpose of obtaining larger income tax subtractions. The introduction of subjective values into tax subtractions presents difficulties for tax auditors.

On the other hand, encouraging the donation of artwork to charitable organizations is a reasonable policy, and some donations of artists' work to galleries may not be made without this tax incentive. A solution to these opposing values may be a compromise such as a deduction that is calculated as a simple multiple of the cost of materials used in producing the art. This would compensate the artist for the cost of materials and at least a portion of the artist's time and effort, but would circumvent the reliance on a subjective "market value" for one-of-a-kind items that do not have a well-established market value. A multiple cost-of-materials subtraction may have its own undesirable effects, such as encouraging the use of the most expensive materials available, whether or not warranted by the art. [*Evaluated by the Economic and Community Development Department*.]

1.123 CAPITAL GAINS FROM OREGON REINVESTMENT

Oregon Statute: 316.874
Sunset Date: 12-31-99
Year Enacted: 1995

	Corporation	Personal	Total
2001–03 Revenue Impact:	Not Applicable	$0	$0
2003–05 Revenue Impact:	Not Applicable	$0	$0

DESCRIPTION: Under this expenditure personal income tax on certain capital gains could be deferred if the gain was reinvested under qualified conditions. This provision required that reinvestments of such gain were made by December 31, 1999.

Deferrals were limited to gains on assets used in a trade or business of the taxpayer or gain from the sale of expansion shares of qualified Oregon businesses. In order to defer the gain, the taxpayer must have reinvested the sale proceeds in either a qualified Oregon business, a qualified investment fund, or in qualified business assets. Reinvestments in financial and certain professional service businesses, real estate, and investment type businesses were excluded.

The taxpayer had six months to make a qualified reinvestment of gain. The deferral period ended and tax payment was required if any of the following occurred:

- The business, investment fund, or asset ceased to qualify;
- The business discontinued operation;
- 50 percent or more of business capital assets were withdrawn; or
- The business was sold and the proceeds were not reinvested in another qualified reinvestment within six months.

This provision went into effect January 1, 1997. Taxes on capital gains realized on or after this date were eligible for deferral. Reinvestment of sale proceeds must have been made by December 31, 1999.

PURPOSE: To promote investment in Oregon companies and to prevent the movement of capital out of Oregon to avoid Oregon income tax on capital gains. As capital gains are reinvested in qualified businesses, these businesses would be expected to grow and create employment opportunities for Oregon residents.

WHO BENEFITS: Investors who sold business assets and reinvested the proceeds in an Oregon company were the direct beneficiaries. In each of the tax years 1996 and 1997, fewer than 50 taxpayers used this expenditure. In 1996 the amount of capital gains income deferred was about $7.3 million. This amount fell to $1.4 million in 1997.

EVALUATION: This program has had limited impact on reinvestment in Oregon due to several flaws. Given Oregon's high marginal tax rates on personal income, the issue is paramount to investors in upstart companies in Oregon who need equity investors. [*Evaluated by the Economic and Community Development Department*.]

1.124 MUNICIPAL BOND INTEREST

Oregon Statute: 316.056
Sunset Date: None
Year Enacted: 1987

	Corporation	Personal	Total
2001–03 Revenue Impact:	Not Applicable	$6,400,000	$6,400,000
2003–05 Revenue Impact:	Not Applicable	$6,400,000	$6,400,000

DESCRIPTION: Bonds issued by Oregon state and local governments that are included in gross income for federal tax purposes may be subtracted from Oregon taxable income. The interest or dividends received from obligations of counties, cities, districts, ports, or other public or municipal corporations or political subdivisions of Oregon qualify.

The majority of the time federally taxable debt is issued to avoid the restrictive tax covenants imposed by the IRS for tax-exempt bonds. Taxable debt is also issued to avoid having to use the federal allotted private activity volume cap.

Some of these taxable bond issues include non-qualified private activity bonds, which are bonds primarily issued by local governments and used to finance private developments. There are two types of local private activity bonds: 1) qualified bonds, which are exempt from federal income tax, and 2) non-qualified bonds, which are taxed at the federal level. With non-qualified private activity bonds, a substantial portion of the bond benefits accrue to individuals or businesses rather than to the general public. Interest on these non-qualified private activity bonds is taxed at the federal level, but Oregon allows that income to be subtracted from Oregon personal taxable income.

By way of contrast, interest earned on qualified private activity bonds is exempt at the federal level and hence in Oregon because of our connection to federal code—see Interest on Oregon State and Local Debt (1.055).

PURPOSE: To encourage the purchase of federally taxable bonds by Oregon residents in order to promote projects that have some public benefits.

WHO BENEFITS: Taxpayers holding such bonds benefit from the tax-free income. The state of Oregon and local governments, whose costs of borrowing are reduced, also benefit. Those individuals or businesses financing projects using non-qualified private activity bonds also benefit because their cost of borrowing is reduced.

As of June 30, 2002, about $1.6 billion of federally taxable bonds issued by Oregon state and local governments were outstanding.

EVALUATION: It is uncertain whether this expenditure is effective. Very few non-qualified private activity bonds are issued in Oregon. Without the federal tax exemption, most projects do not find this source of funding attractive and use conventional funding sources. In addition, private activity bonds are more likely to be privately placed with institutional investors rather than sold to individual investors who would benefit from a personal income tax subtraction.

Nearly every state provides an interest income exemption for bonds of in-state municipal issuers. This allows municipal issuers to benefit from lower-than-market interest rates. In addition, the subtraction encourages state residents to purchase bonds of in-state issuers, which helps to create a market for the bonds and provide liquidity.

When private activity bonds are issued on the behalf of individuals or businesses, it is typically for projects that are expected to result in the creation or retention of jobs, which in turn increases income. For private activity bonds issued by the Economic Development Commission, a cost-effectiveness analysis is undertaken to ensure that the public benefits of a project exceed the public costs. Projects must meet this cost-effectiveness test to be eligible for the program. [*Evaluated by the Economic and Community Development Department*.]

1.125 OUT-OF-STATE FINANCIAL INSTITUTION

Oregon Statute: 317.057
Sunset Date: None
Year Enacted: 1999

	Corporation	Personal	Total
2001–03 Revenue Impact:	Not Available	Not Applicable	Not Available
2003–05 Revenue Impact:	Not Available	Not Applicable	Not Available

DESCRIPTION: This exclusion specifies that certain out-of-state financial institutions may engage in mortgage activities in Oregon without being subject to certain tax and corporation laws. These out-of-state financial institutions are required to designate the Director of the Department of Consumer and Business Services (DCBS) as attorney for purposes of service of process.

The 1997 Legislative Assembly had revised the Oregon Bank Act, but in doing so, had inadvertently left out a couple provisions of law, which resulted in a change in the definition of which activities are taxable by Oregon. These provisions were added back into law through 1999 SB 26. As before 1997, the acquiring of an Oregon mortgage loan will not subject the out-of-state or foreign lender to Oregon taxation. However, if the financial institution forecloses a loan and then sells or otherwise disposes of the property, the income associated with that property will be taxed to the same extent an Oregon corporation would be taxed. In addition, as was the case under the pre-1997 law, a foreign entity may acquire mortgage loans without authorization to transact business under ORS Chapter 60 (Corporations), they will still be required to appoint the DCBS director as agent for service of process and pay a $200 annual licensing fee.

PURPOSE: To reinstate the tax status of out-of-state financial institutions to the pre-1997 conditions.

WHO BENEFITS: Four out-of-state financial institutions are currently registered with DCBS. Indirect beneficiaries could include Oregon residents who have mortgages acquired by such out-of-state banks.

EVALUATION: Insufficient information to evaluate this new tax expenditure at this time. [*Evaluated by the Department of Housing and Community Services*.]

1.126 SERVICE IN VIETNAM ON MISSING STATUS

Oregon Statute: 316.074
Sunset Date: None
Year Enacted: 1973

	Corporation	Personal	Total
2001–03 Revenue Impact:	Not Applicable	$0	$0
2003–05 Revenue Impact:	Not Applicable	$0	$0

DESCRIPTION: This statute exempts personal income from all sources for individuals who were classified as missing during the Vietnam conflict. The exemption applies to income received during months when the individual was in a missing status.

PURPOSE: To provide tax relief to individuals (and their families) who were classified as missing during the Vietnam conflict.

WHO BENEFITS: No one qualifies for the exemption. There are no longer any Oregonians classified as missing as a result of the Vietnam conflict.

EVALUATION: This exemption has no effect, because no Oregonians are classified as missing in action due to the Vietnam War. With few exceptions, all missing U.S. armed forces personnel have been declared dead by the U.S. Government. [*Evaluated by the Department of Veterans' Affairs*.]

1.127 OIL HEAT TANK CLEANUP COSTS

Oregon Statute: 316.746
Sunset Date: None
Year Enacted: 1991

	Corporation	Personal	Total
2001–03 Revenue Impact:	Not Applicable	$0	$0
2003–05 Revenue Impact:	Not Applicable	$0	$0

DESCRIPTION: This program was abolished by the 1999 Legislature (SB 542) and was never implemented with funds collected from heating oil distributors. Payments by the Oil Heat

Commission to reimburse persons who incur costs for environmental cleanup of heating oil tank releases would have not been included in Oregon personal taxable income. Prior to abolishment and while waiting to see if the Oil Heat Commission would collect the fees from distributors, the Department of Environmental Quality (DEQ) received a grant from the federal government to implement a small portion of the program.

The 1997 legislature created a new program, under the direction of the Department of Environmental Quality, designed to help homeowners to "decommission" their heating oil tanks. Most of the funding formerly used for the Oil Heat Commission program to help homeowners clean up heating oil releases, which came from fees paid by heating oil distributors, will be used for the new program. Unlike payments under the Oil Heat Commission program, payments to homeowners under the new program are not excluded from the personal taxable income of the recipients.

Through a federal grant administered by the Department of Energy, DEQ made pass-through grants to home owners to decommission their underground heating oil tank if they met federal criteria. Energy (oil) was conserved through the removal and recycling of oil from decommissioned tanks. DEQ made 191 grants between January 1 and June 30, 1999, to eligible recipients with annual income levels of $35,000 or less. These grants did not include reimbursement for any cleanup costs, as was previously covered by the program administered by the Oil Heat Commission. The grants were fully taxable.

PURPOSE: To comply with federal Internal Revenue Service requirements. The funds passed on to Oregon homeowners were federal funds for a program to provide energy-related grants for projects designed to conserve energy.

WHO BENEFITS: This credit has not been utilized.

EVALUATION: In the past, this expenditure effectively achieved its purpose. Through legislation adopted in 1989, the Oregon oil heat industry contributed about $1 million annually to finance the environmental cleanup of heating oil tank releases. Under Oregon law, property owners would otherwise be liable for all costs of cleaning up the release to meet standards adopted by the Department of Environmental Quality. While the costs now average $5,100 per release, the costs have ranged to more than $100,000 if groundwater is affected. These costs would impose a severe economic hardship on the people who live in these homes, most of whom are aged 55 or older.

Given the current lack of funds to finance clean-up grants, this expenditure has no effect. [*Evaluated by the Department of Environmental Quality*.]

1.128 UNDERGROUND STORAGE TANK GRANTS

Oregon Statutes: 316.834 and 317.383
Sunset Date: The tax law provision has no sunset date, but the grant program sunset December 31, 1999.
Year Enacted: 1991

	Corporation	Personal	Total
2001–03 Revenue Impact:	$0	$0	$0
2003–05 Revenue Impact:	$0	$0	$0

DESCRIPTION: Underground storage tank essential services grants made by the Department of Environmental Quality are subtracted from federal taxable income. The original grant program sunset June 30, 1997, but the 1997 legislature extended it to December 31, 1999, and made $2.8 million more in lottery and general funds available for grants. The programs concluded with minor wrap-up work in the 1999–2001 biennium.

PURPOSE: To promote fuel availability in rural areas by partially funding the upgrade and cleanup of underground storage tanks by businesses with limited financial resources and in public ports and airports. To maintain and ensure the existence of a transportation infrastructure throughout the state.

WHO BENEFITS: Tank owners receiving grants from the Department of Environmental Quality. A typical grant project was an owner-operated gas station with one or two employees, combined with a repair shop, grocery store, cafe, motel and/or post-office, or a small port serving the public and commercial fishermen.

Tank owners must show financial need and be located in rural areas, so most of the benefits went to independent gas stations with marginal profitability. Ports must be those defined in ORS 777.005 or 836.005.

EVALUATION: This expenditure has been very effective in achieving its purpose. The tax benefit received by the grantee preserves the benefit of the grant program by the amount of the tax savings. Grantees are required to pay at least 25 percent of the project costs and would be less able to do so if the grant were counted as income subject to taxation. The program funded 133 gas station projects and 9 public port and airport projects. Without the program, most of the 142 facilities would have had to shut down in 1998 pursuant to state and federal law, according to their owners.

Approximately 88 percent of the $9.2 million received has gone directly into projects, with the other 12 percent being spent by the department to administer the program. Of the 142 projects, all but one, have resulted in an upgraded, operating fueling facility that complies with federal and state laws to ensure future fuel availability. [*Evaluated by the Department of Environmental Quality*.]

1.129 ENERGY CONSERVATION SUBSIDIES (OREGON)

Oregon Statutes: 316.744 and 317.386
Sunset Date: None
Year Enacted: 1981

	Corporation	Personal	Total
2001–03 Revenue Impact:	Less than $50,000	$200,000	$200,000
2003–05 Revenue Impact:	Less than $50,000	$200,000	$200,000

DESCRIPTION: Income subsidies provided by utilities for the purchase or installation of an energy conservation device can be excluded from corporation and personal taxable income. A similar federal law treats these payments as exempt for residential energy customers only (Energy Conservation Subsidies (Federal) (1.041).

PURPOSE: To promote energy conservation by encouraging customers to install energy-conserving devices.

WHO BENEFITS: Homeowners and owners of rental housing who receive cash payments from utilities as part of energy conservation programs. Because these programs reduce the individual demand for energy, they help keep energy bills lower.

EVALUATION: This expenditure is achieving its purpose of protecting the full value of the energy conservation incentives the utilities give to homeowners and owners of rental housing. Taxing rebates would reduce the value of the incentive and likely reduce participation in conservation programs. Investing in conservation measures lowers home energy costs and helps meet Oregon's Benchmark for affordable housing.

The revenue impact of this provision continues to decline in recent years as utilities reduce their conservation programs. [*Evaluated by the Office of Energy*.]

1.130 WET MARINE AND TRANSPORTATION POLICIES (INCOME TAX)

Oregon Statute: 317.080(6)
Sunset Date: None
Year Enacted: 1995

	Corporation	Personal	Total
2001–03 Revenue Impact:	$400,000	Not Applicable	$400,000
2003–05 Revenue Impact:	$400,000	Not Applicable	$400,000

DESCRIPTION: Ocean marine insurers are exempt from the corporation income tax, but only with respect to the income derived from writing wet marine and transportation insurance. These insurers pay a tax based on underwriting profits for wet marine and transportation policies under ORS 731.824. Taxable *premiums* allocable to the wet marine and transportation policy component of ocean marine insurers is estimated as follows, by year:

1999: $17.6 million
2000: $17.4 million
2001: $17.7 million

The revenue impacts are estimated based on a percentage profit margin of such taxable premiums, which are expected to be stable in both biennia.

As described in ORS 731.194, wet marine and transportation insurance covers: (1) the insurance of ships and freight; (2) the insurance of personal property in transport between countries or transported by coast or inland waterways; and (3) the insurance of railroads and aircraft along with their freight while engaged in interstate transport or commerce.

This expenditure became effective January 1, 1997. Prior to that date, these insurers were exempt from the gross premium tax as reported in Wet Marine and Transportation Policies (Gross Premium) (5.002).

PURPOSE: To reduce the burden of taxes on ocean marine insurers, who instead pay a tax based on underwriting profits.

WHO BENEFITS: Insurers who sell ocean marine policies and their policyholders.

IN LIEU: For calendar year 2001, ocean marine insurers paid about $50,000 of in lieu tax based on underwriting profits from writing wet marine and transportation insurance. This in lieu tax continues even after the full phase out of the gross premium tax.

EVALUATION: Not evaluated.

1.131 INCOME EARNED IN "INDIAN COUNTRY"

Title 4, U.S. Code Section 109
Oregon Statute: 316.777
Sunset Date: None
Year Enacted: 1977

	Corporation	Personal	Total
2001–03 Revenue Impact:	Not Applicable	$2,500,000	$2,500,000
2003–05 Revenue Impact:	Not Applicable	$2,900,000	$2,900,000

DESCRIPTION: Income earned in "Indian country" in Oregon by members of federally recognized Indian tribes is exempt from taxation under Oregon's personal income tax. The taxpayer must reside in "Indian country" in Oregon to qualify for the exemption.

PURPOSE: To reflect provisions in federal law restricting the ability of states to tax tribal members.

WHO BENEFITS: Tribal members who earn income in Indian country. About 750 Oregon residents benefited in 2000. Slightly over $17 million was excluded. The average tax benefit was about $1,550 per claimant.

EVALUATION: Not evaluated.

1.132 FEDERAL PENSION INCOME

Oregon Statute: 316.680(1)(f) and note after 314.415.
Sunset Date: None
Year Enacted: 1998

	Corporation	Personal	Total
2001–03 Revenue Impact:	Not Applicable	$220,000,000*	$220,000,000*
2003–05 Revenue Impact:	Not Applicable	$130,400,000	$130,400,000

** Revenue impact includes $104 million in refunds paid to taxpayers for taxes collected for tax years 1991 to 1997.*

DESCRIPTION: In June 1998 the Oregon Supreme Court ruled that Oregon was illegally taxing federal pension income (*Vogl v. Dept. of Revenue*). The Court ruled that personal income taxes paid to Oregon on federal pension income for tax years 1991 through 1997 were to be refunded to taxpayers during the 1997–99 biennium. Beginning on July 1, 2001, the law allowed refunds to taxpayers who had not filed protective claims. This "opened up" previously closed years and allowed a greater number of taxpayers to receive refunds. Starting with tax year 1998, federal pension income attributable to service prior to October 1, 1991, is to be subtracted from federal taxable income to arrive at Oregon taxable income.

This court decision was the latest in a series of court decisions and legislative responses that goes back to 1989 when the U.S. Supreme Court ruled that federal pension income could not be taxed differently from state and local pension income (*Davis v. Michigan Dept. of Treasury*). In response, the 1991 Legislature passed a bill that allowed taxation of all pension income, but instituted a credit of up to 9 percent of the pension income (Retirement Income (1.191)). But in 1992, the Oregon Supreme Court ruled that taxing PERS state and local pensions was a breach of past contract. The 1995 Legislature addressed that issue by increasing PERS pension benefits to certain members to compensate for having the pension taxed. In response, the Oregon Supreme Court ruled that this system of taxing still constitutes illegal tax discrimination between PERS retirees and federal retirees.

In summary, 1998 legislation modified the provisions of this expenditure by authorizing payments of refunds back to 1991 and to decedents; authorized refund of personal income tax imposed on federal pension income before October 1, 1991; and excluded federal pension income tax refunds from federal adjusted gross income for purposes of eligibility under the Oregon senior citizen property tax deferral program.

PURPOSE: To comply with court ruling.

WHO BENEFITS: In 2000, just under 37,500 taxpayers claimed an average subtraction of about $19,200.

Income Group (Quintiles)	Taxpayers		Mean Subtraction
	Number	Percent	
Below $10,000	1,258	3.4%	$7,193
$10,000 - $22,000	7,145	19.1%	$11,954
$22,000 - $37,000	9,069	24.2%	$17,278
$37,000 - $63,000	10,509	28.0%	$21,563
Above $63,000	9,511	25.4%	$25,319
Total	37,492	100.0%	$19,166

**Does not total 100 percent due to rounding.*

EVALUATION: Not evaluated.

1.133 OREGON STATE LOTTERY PRIZES

Oregon Statute: 461.560
Sunset Date: None
Year Enacted: 1985

	Corporation	Personal	Total
2001–03 Revenue Impact:	Not Applicable	$46,300,000	$46,300,000
2003–05 Revenue Impact:	Not Applicable	$44,100,000	$44,100,000

DESCRIPTION: Originally, all prizes awarded by the State Lottery were exempt from the Oregon personal income tax. In 1997, the Legislature changed the law so that only prizes up to and including $600 are exempt. Currently, prizes greater than $600 are taxable.

PURPOSE: To enable ease of play and prize redemption for Lottery game participants and to support ease of selling and prize payment for Lottery game retailers. This $600 threshold conforms with IRS tax reporting requirements for lottery prize claims. The tax exemption also recognizes that individuals who choose to play the Lottery are contributing to state revenues whenever they purchase a non-winning ticket and, therefore, should not be taxed when they win a prize of $600 or less.

WHO BENEFITS: Oregon Lottery players who win a prize of $600 or less are the most direct beneficiaries. However, since Lottery prizes up to and including $600 can be redeemed at Lottery retailer locations, retailers also benefit by avoiding the labor/expense that would be needed to collect tax reporting information from each player who redeems a prize. Conversely, taxation of prizes of $600 or less would be a disincentive to play or sell these games, thereby severely reducing sales and state revenues.

EVALUATION: This tax expenditure achieves its purpose and helps support the statutory purpose of the Lottery: to generate revenue for the public purpose without the imposition of additional or increased taxes. Eliminating this tax expenditure would be a major disincentive to players and would place a huge burden on Lottery retailers. Approximately 83 percent of all traditional game Lottery prizes won and 100 percent of all Video Lottery game prizes won are $600 or less, and payable at Lottery retailers (3,300 statewide). Consequently, the burden placed on the player to provide and the retailer to collect tax reporting information for every prize won and paid would be immense. It stands to reason that many retailers would discontinue carrying Lottery products and many consumers would no longer play games if the tax exemption on prizes of $600 or less were eliminated, thereby drastically reducing sales and state revenues. [*Evaluated by the State Lottery*.]

1.134 FEDERAL INCOME TAX DEDUCTION

Oregon Statutes: 316.680 and 316.695
Sunset Date: None
Year Enacted: 1929; modified in 2000 (Measure 88); modified in 2001 (HB 2550); modified in 2002 (HB 4054)

	Corporation	Personal	Total
2001–03 Revenue Impact:	Not Applicable	$482,300,000	$482,300,000
2003–05 Revenue Impact:	Not Applicable	$597,700,000	$597,700,000

DESCRIPTION: Prior to 2002, taxpayers were allowed to deduct up to $3,000 of federal income taxes paid or accrued from Oregon personal taxable income (up to $1,500 for spouses filing their Oregon tax returns separately). In November 2000, voters passed Measure 88, which increased the limit from $3,000 to $5,000. The new limit was to be effective for tax years beginning on or after January 1, 2002. For tax years beginning on or after January 1, 2003, the $5,000 threshold was to be indexed to inflation. However, during the Third Special Session of 2002, the Legislature modified this subtraction by phasing in the limit between 2002 and 2007. For 2002, the limit is $3,250 ($1,625 for spouses filing their returns separately). For tax year 2003 through 2007, the limit is as follows: $3,500; $4,000; $4,500; $5,000; $5,500. The limit is half this amount for spouses filing their returns separately.

Under HR 1836, the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA), taxpayers received advanced refund checks in the summer of 2001 and are allowed an additional federal credit as a result of the new federal 10 percent tax bracket. Because federal income taxes are reduced, the federal income tax subtraction would be reduced, resulting in greater Oregon tax liability. The 2001 Legislature passed HB 2550, which allows taxpayers to ignore the advanced refund check and credit when computing their federal tax subtraction for 2001.

PURPOSE: To provide tax relief to Oregonians who pay federal income taxes. The deduction is based on the supposition that federal income taxes are involuntary payments that reduce the ability to pay Oregon taxes.

WHO BENEFITS: Each year since 1990, approximately 75 percent of Oregon taxpayers have claimed a subtraction for federal income taxes paid. The average amount of the subtraction in 2000 was $2,200. The percentage of Oregon taxpayers claiming the maximum amount of $3,000 ($1,500 if married filing separately) has risen slightly from 27.7 percent in 1990 to 36 percent in 2000.

Income Group (Quintiles)	Taxpayers		Mean Subtraction
	Number	Percent	
Below $10,000	89,079	8.0%	$275
$10,000 - $22,000	197,933	17.8%	$1,020
$22,000 - $37,000	258,506	23.2%	$2,156
$37,000 - $63,000	281,003	25.3%	$2,771
Above $63,000	286,353	25.7%	$2,978
Total	1,112,874	100.0%	$2,170

EVALUATION: This provision achieves its purpose. Because the deduction is limited, it reduces Oregon taxes proportionally more for lower income taxpayers. [*Evaluated by the Department of Revenue*.]

1.135 MILITARY ACTIVE DUTY PAY

Oregon Statutes: 316.680 and 316.789
Sunset Date: None
Year Enacted: 1969

	Corporation	Personal	Total
2001–03 Revenue Impact:	Not Applicable	$7,500,000	$7,500,000
2003–05 Revenue Impact:	Not Applicable	$8,300,000	$8,300,000

DESCRIPTION: Taxpayers may subtract all active duty pay from Oregon personal taxable income in the year of entry or discharge from military service. In other years, taxpayers may subtract up to $3,000 of active duty pay. In addition, all active duty military pay earned outside Oregon from August 1, 1990, to the end of "combatant activities" in the Persian Gulf can be subtracted from taxable income. As of July, 2002, the president had not declared an end to combatant activities in the Persian Gulf.

PURPOSE: To provide additional compensation for military personnel for service to their country.

WHO BENEFITS: Roughly 6,800 Oregon taxpayers claimed an average subtraction of $5,100 in 1998. One group that claims this subtraction is Oregon National Guard members who receive active duty pay while attending military schools to fulfill education requirements for retention and/or promotion. This subtraction also benefits Active Guard Reserve members.

EVALUATION: This tax expenditure achieves its purpose and is a valuable benefit to members of the Oregon National Guard, both Army and Air, as well as other military personnel. Although the subtraction per tax return is not a great deal of money, it is the only incentive the state of Oregon offers its citizen soldiers that is comparable to those offered in other states. When talking with prospective recruits or soldiers contemplating re-enlistment, the subject of state incentives frequently arises. There is merit in offering benefits that are comparable to those of other states; examples of these benefits include free tuition to state colleges and universities, re-enlistment bonuses, free automobile licenses, free driver's licenses, and free hunting and fishing licenses. These state benefits are an inexpensive way to recognize the contributions Guard members make to their communities. They help the state recruit and retain quality soldiers and airmen and should be maintained by the state of Oregon. [*Evaluated by the Military Department*.]

1.136 INTEREST AND DIVIDENDS ON U.S. OBLIGATIONS

Oregon Statute: 316.680
Sunset Date: None
Year Enacted: 1970

	Corporation	Personal	Total
2001–03 Revenue Impact:	Not Applicable	$44,900,000	$44,900,000
2003–05 Revenue Impact:	Not Applicable	$46,700,000	$46,700,000

DESCRIPTION: Interest and dividends earned on the direct obligations of the U.S. government are subtracted from federal personal taxable income in arriving at Oregon personal taxable income. For example, the dividends or interest earned on U.S. Treasury bills, notes, bonds, and savings bonds are not taxable by state and local governments. Excluded from this provision are the debt instruments of quasi-governmental issuers like GNMA and FNMA, because their bonds are not direct obligations of the U.S. government.

PURPOSE: To comply with federal law. Federal law prohibits states from taxing interest and dividends on U.S. government obligations.

WHO BENEFITS: Because financial markets valuations compensate for the tax status of the interest and dividends on financial instruments, the beneficiary is the U.S. government, which can borrow at lower rates than would be the case if these instruments were taxable. Approximately 5.7 percent of Oregon taxpayers (approximately 108,500) claimed this subtraction for interest and dividends from U.S. government obligations in 2000. The pre-tax average income from these investments was about $2,500.

Income Group (Quintiles)	**Taxpayers**		**Mean Subtraction**
	Number	**Percent**	
Below $10,000	11,845	10.9%	$795
$10,000 - $22,000	14,283	13.2%	$1,479
$22,000 - $37,000	15,363	14.2%	$1,961
$37,000 - $63,000	22,709	20.9%	$2,303
Above $63,000	44,339	40.9%	$4,344
Total	108,539	100.0%	$2,815

EVALUATION: Not evaluated.

1.137 CHILD DEVELOPMENT PROGRAM CONTRIBUTIONS

Oregon Statute: 315.234
Sunset Date: 12-31-01
Year Enacted: 1991

	Corporation	Personal	Total
2001–03 Revenue Impact:	Less than $50,000	Less than $50,000	Less than $50,000
2003–05 Revenue Impact:	$0	$0	$0

DESCRIPTION: A credit against corporation or personal income taxes was allowed for contributions made to school district child development or student-parent programs approved by the state Department of Education. The contributions must have been made on or before December 31, 2001. Child development programs consist of both an education and day care component; student-parent programs provide day care and education to the children of students while providing education for the student-parents. There are limits of 20 child development programs and 20 student-parent programs for the state. The credit equaled 50 percent of the contribution, but could not exceed $5,000 for each program location. The taxpayer was required to reduce the amount of any deduction taken for charitable contributions by the amount of any credit received. The credit was non-refundable and could not be carried forward to future tax years.

The revenue impact amounts go to zero in the 2003–05 biennium as a result of the sunset of the program.

PURPOSE: To help fund school district child development and student-parent programs.

WHO BENEFITS: Taxpayers who made contributions to child development or student-parent programs as well as the school districts. There were 10 school districts that had approved programs and received contributions between January 1998 and June 2000.

EVALUATION: This tax expenditure achieves its purpose with respect to existing programs. It has resulted in improved facilities, equipment, and education materials donated by taxpayers. While there would likely still be some donations without the tax credit, it has resulted in significantly more donations to these programs. The tax credit enhances the element of taxpayer involvement which, in turn, raises awareness of the unique needs of the participants and promotes community support for them.

On the other hand, this tax expenditure is not an effective method for starting up a program or supporting basic program services. Starting a program via fundraising contains inherent problems. For example, people are less likely to make contributions to a nascent program while those donations that are made are generally insufficient to meet the initial, capital investments. The program could be improved by replacing the limitation of only 20 programs in each category (student-parent or child development) with a set of criteria that must be met for eligibility. The competitive process that currently exists prevents some school districts from attempting to initiate potentially successful programs. [*Evaluated by the Department of Education*.]

1.138 YOUTH APPRENTICESHIP SPONSORSHIP

Oregon Statute: 315.254
Sunset Date: This program changed structure in 1993 from a credit to a reimbursement.
Year Enacted: 1991

	Corporation	Personal	Total
2001–03 Revenue Impact:	$0	$0	$0
2003–05 Revenue Impact:	$0	$0	$0

DESCRIPTION: Originally, a maximum $2,500 per year business tax credit against corporation and personal income tax was allowed for employers who sponsored students 16 years of age or older participating in the Youth Apprenticeship program. In 1993, the apprenticeship program changed from a tax credit to a partial cost reimbursement structure. With the change, the credit was limited to the amount of first-year wages paid to students that began participation in the program prior to November 4, 1993. Unused credits could be carried forward for two years.

PURPOSE: To provide occupational skill training for students.

WHO BENEFITS: This credit can no longer be used by any taxpayers because current law limited credits to only those employers with apprentice participation prior to November 4, 1993, and only for the first year of wages for those participants.

EVALUATION: This tax expenditure has not achieved its purpose because the program has never been well utilized. While it was moderately successful for some eligible students, the “registered youth apprenticeships” were never developed in significant numbers. Consequently, the number of students and employers who could participate in this program was severely limited. A significant obstacle to success was the inability to guarantee movement from youth apprenticeships to adult apprenticeships. This program was eliminated after the 1993–95 biennium. If it had been continued as a tax credit it may well have had a noticeable impact. [*Evaluated by the Department of Education*.]

1.139 CONTRIBUTIONS OF COMPUTER EQUIPMENT

Oregon Statute: 317.151
Sunset Date: 12-31-03
Year Enacted: 1985

	Corporation	Personal	Total
2001–03 Revenue Impact:	$100,000	Not Applicable	$100,000
2003–05 Revenue Impact:	$100,000	Not Applicable	$100,000

DESCRIPTION: A credit against corporation income taxes is allowed for contributions of computers and scientific equipment or a research donation to an institution of higher education, a post-secondary school, or a public school (grades K-12) located in Oregon. For the contribution to qualify for the credit, it must be contributed prior to January 1, 2004. The amount of the credit is equal to 10 percent of the fair market value of the equipment donated. Donations of money under a contract for scientific or engineering research or donations of a contract for maintenance of computer or scientific equipment also qualify for the credit. The credit is not refundable but unused credit amounts due to insufficient tax liability may be used in later years, for up to five years. This credit is in lieu of any deduction based on the contribution. If a contract is agreed upon prior to January 1, 2004, but the donation is given after that date, the credit is still allowed.

PURPOSE: To encourage firms to donate computers and scientific equipment to educational institutions.

WHO BENEFITS: Firms that make donations of computer or scientific equipment to educational institutions located in Oregon. The students at the educational institutions that receive the donations also benefit.

EVALUATION: This tax expenditure achieves its purpose and is becoming increasingly important for institutions of higher education. Advances in technology are occurring at an increasing rate. As a result, there is a constant need for computer labs to be supplied with improved research and instructional equipment. The cost to higher education of keeping pace with the latest technology is at times prohibitive. This tax credit provides an economic incentive for computer and scientific instrument manufacturers to donate equipment to educational institutions.

This is a fiscally effective method of achieving the goal of this provision. This tax incentive appears to be much less costly than when educational organizations have to purchase such equipment outright. [*Evaluated by the Oregon University System*.]

1.140 EMPLOYER PROVIDED SCHOLARSHIPS

Oregon Statute: 315.237
Sunset Date: None
Year Enacted: 2001 (HB 2521)

	Corporation	Personal	Total
2001–03 Revenue Impact:	Less than $50,000	Less than $50,000	Less than $50,000
2003–05 Revenue Impact:	$100,000	$100,000	$200,000

DESCRIPTION: Qualifying employers may claim a credit against their income tax for 50 percent of the amount of scholarships funded for their employees or their employees' dependents, with a maximum credit of $50,000 per tax year. If the credit exceeds the employer's tax liability, the excess may be carried forward up to five years. To qualify, employers must have between four and 250 employees and have their scholarship program and credit amount certified by the Oregon Student Assistance Commission. There is a $1 million cap on the total amount of credits that can be certified by the commission per calendar year, and the total lifetime amount of credits an employer may claim is limited to $1 million. The credit is available beginning in the 2002 tax year.

PURPOSE: To encourage businesses to fund a greater share of the education costs of their employees using a program they can tailor to their specific needs.

WHO BENEFITS: Employers benefit directly through reduced taxes. Students receiving scholarships benefit as well to the extent that additional scholarship money becomes available. The Legislative Revenue Office anticipated that approximately 6 to 10 new employer scholarship programs would become available each year through the first six years, benefiting on average 10 employees per employer. As of October 2002, two employer programs had been approved by the Student Assistance Commission. Several other employers have requested information but have not been certified yet.

EVALUATION: It is too early to determine if this tax expenditure achieves its purpose. [*Evaluated by the Oregon University System.*]

1.141 INDIVIDUAL DEVELOPMENT ACCOUNTS (CREDIT)

Oregon Statute: 315.271
Sunset Date: None
Year Enacted: 1999, modified in 2001 (HB 3391)

	Corporation	Personal	Total
2001–03 Revenue Impact:	$200,000	$200,000	$400,000
2003–05 Revenue Impact:	$300,000	$500,000	$800,000

DESCRIPTION: Individuals or businesses donating funds to fiduciary organizations for individual development accounts (IDAs) are allowed an income tax credit equal to the lesser of $75,000 or 75 percent of the amount donated. Contributions are applied toward matching IDA account holder savings and also toward program-related expenses of the fiduciary organization. Prior to January 1, 2002, the contribution limit was $25,000 or 25 percent. Should the total credit exceed the tax liability of the taxpayer, the excess credit may be applied against taxes in the following three tax years. The Housing and Community Services Department currently maintains a limit on the total of all contributions made each year.

A companion expenditure, Individual Development Accounts (Exclusion and Subtraction) (1.115) provides an *exclusion* and *subtraction* from taxable income for individual IDA account holders.

PURPOSE: To help low-income Oregonians obtain the assets needed to become economically self-reliant by instituting an asset-based antipoverty strategy that promotes personal financial management, investment, and the accumulation of key assets.

WHO BENEFITS: Individuals or businesses making contributions to a fiduciary organization to support IDAs directly benefit from this credit. The tax credit provides an incentive to the contributing businesses to continue providing enough matching funds for the program. Using a combination of private and federal funds, more than 300 IDAs have been opened in Oregon during the past five years. The account holders of these IDAs indirectly benefit from the credit by being able to make use of the matching funds when they are distributed on their behalf.

EVALUATION: About $15,000 in 25 percent credits were granted during 2001. In 2002, the amount of granted 75 percent credits is anticipated to approach $500,000. The contributions generated by the credits will help an estimated 200 Oregon households purchase their first home, obtain needed post-secondary education, or start a small business. [*Evaluated by Housing and Community Services Department*.]

1.142 EARNED INCOME CREDIT

Oregon Statute: 315.266
Sunset Date: None
Year Enacted: 1997

	Corporation	Personal	Total
2001–03 Revenue Impact:	Not Applicable	$16,400,000	$16,400,000
2003–05 Revenue Impact:	Not Applicable	$17,200,000	$17,200,000

DESCRIPTION: A personal income tax credit is allowed for families that are eligible for the federal earned income credit. The state credit is equal to five percent of the federal earned income credit but is nonrefundable. No carryover is allowed for unused amounts that exceed tax liability.

The amount of the federal credit allowed declines as the amount of total earned income, both taxable and nontaxable, increases. For taxpayers without a qualifying child, some credit is allowed for total earned income up to $10,710 in 2001. For taxpayers with one qualifying child, some credit is allowed for total earned income up to $28,281 in 2001. For taxpayers with two or more qualifying children, some credit is allowed for total earned income up to $32,121 in 2001.

PURPOSE: To increase after-tax incomes of low-income working families and individuals, to offset the burden of Social Security taxes, and to provide an incentive to work for those with little or no earned income.

WHO BENEFITS: In 1998, about 156,000 full-year resident taxpayers claimed an average credit of $64. In 2000, the number of claimants declined to 148,000 while the average claim increased to $66. Because many of the families claiming the credit do not have sufficient tax liability to use the full amount of the credit, the average tax benefits for 1998 and 2000 were $45 and $46, respectively.

Income Group (Quintiles)	Taxpayers		Mean Credit
	Number	Percent	
Below $10,000	52,399	35.4%	$35
$10,000 - $22,000	62,472	42.2%	$105
$22,000 - $37,000	33,235	22.4%	$41
$37,000 - $63,000	0	0.0%	N/A
Above $63,000	0	0.0%	N/A
Total	148,106	100.0%	$66

EVALUATION: This tax credit allows low-income families to retain needed income to meet needs that otherwise may go unmet or cause them to return to public assistance. Many of these at-risk families have income below the income level where they must pay taxes, and therefore do not benefit from this credit. By providing this credit, families with income exceeding the income level where taxation begins will retain more resources to better ensure their continued self-sufficiency.

This is a fiscally effective means of assisting low-income families to maintain their self-sufficiency. It costs less to administer the credit than a means test program designed to assist families at this income level. [*Evaluated by the Children, Adult, and Families Services Cluster*.]

1.143 QUALIFIED ADOPTION EXPENSE

Oregon Statute: 315.274
Sunset Date: 12-31-05
Year Enacted: 1999

	Corporation	Personal	Total
2001–03 Revenue Impact:	Not Applicable	$900,000	$900,000
2003–05 Revenue Impact:	Not Applicable	$900,000	$900,000

DESCRIPTION: A credit against personal income taxes is allowed for qualified expenses incurred in adopting a child. The credit cannot be claimed for the portion of adoption expenses reimbursed as federal income tax credit under IRC Sec. 23. The maximum credit is $1,500 phasing out for taxpayers between $150,000 and $190,000 adjusted gross income. Taxpayers are allowed to carry forward unused credits for up to four additional years. It is effective for tax years beginning on or after January 1, 2000, and before January 1, 2006.

PURPOSE: To reduce the financial cost of adoption, which may act as a barrier for some taxpayers.

WHO BENEFITS: Persons with incomes below $115,000 who adopt children other than those from the public child welfare foster care system benefit from this tax credit. This includes those who adopt children from other countries and those who adopt from private and independent sources, as well as those who adopt their stepchildren or relative children, other than those who are in the public foster care system.

Persons who adopt children from the public child welfare system are unlikely to benefit from this credit for two reasons. First, adoption application, training, home study, and placement of a child, if done directly through Oregon's Children, Adults, and Families Services Cluster (CAF), are at no cost to the adopting parents. If the adopting parents choose to use the services of a private adoption agency to assist them in adopting a child from CAF, the costs are minimal and fully reimbursable to the adoptive family through Adoption Assistance at the time of finalization. Second, whether the adoption of a foster child is done directly through CAF or indirectly with the services of a private agency, all associated legal costs are covered by Adoption Assistance.

EVALUATION: This tax credit, created in 1999 by HB 3157, is contrary to the federal Adoption and Safe Families Act of 1997, codified in Oregon in SB 408 (1999). These pieces of legislation, along with Oregon SB 689 (1997) have as their primary goal the movement of children from temporary foster care in the public child welfare system to permanent (adoptive) homes. This tax credit does not serve as an incentive to those adopting children from CAF foster care. Moreover, it could effectively reduce the state funds that are available to support those services that assist in caring for children in foster care and moving them to permanency. Over the past five years, adoption petitions on behalf of approximately 2,200 children were filed each year in the state of Oregon. In state fiscal year 2000, of the 2,215 adoption petitions, 799 were filed on behalf of children from foster care. If the full Oregon tax credit ($1,500) were claimed for each of the approximately 1,400 non-foster care children adopted in Oregon in each of the six years before the credit sunsets on December 31, 2005, there would be a revenue loss of $2.1 million each year, for a total potential loss of $12.6 million.

In addition to the potential fiscal impact, the provision of financial incentives in the form of a state tax credit to families and individuals to adopt children from foreign, independent, and private sources could effectively reduce the number of potential adoptive families who are available to adopt children from the public child welfare foster care system. This works against the federal and Oregon adoption reform goals of increasing the number of children who move from temporary foster care to permanent adoptive homes and decreasing the length of time to achieve permanency.

An additional concern has to do with the coordination of state and federal benefits. Although ORS 315.274 is clear that the Oregon tax credit for adoption cannot be claimed for the portion of adoption expenses reimbursed as federal income tax credit under IRC Sec. 23, there is a lack of clarity regarding which tax credit should be used first. Moreover, there is no efficient way to monitor tax credit claims for adoption expenses that have been reimbursed to the adoptive family through Adoption Assistance. Adoptions Assistance benefits are available under certain circumstances that are clearly prescribed in Oregon Administrative Rule to those adopting children from sources other than the public child welfare foster care system. [*Evaluated by the Children, Adult, and Families Services Cluster*.]

1.144 BONE MARROW TRANSPLANT EXPENSE

Oregon Statute: 315.604
Sunset Date: 12-31-01
Year Enacted: 1991

	Corporation	Personal	Total
2001–03 Revenue Impact:	Less than $50,000	Less than $50,000	Less than $50,000
2003–05 Revenue Impact:	Less than $50,000	Less than $50,000	Less than $50,000

DESCRIPTION: A tax credit is allowed against corporation or personal income taxes to an employer for expenses related to the development and operation of an employee bone marrow donation program. Eligible expenses include the cost of employee HLA typing, costs of developing the program, related employee education costs, and any wages paid during bone marrow typing or donation. These costs must actually be paid or incurred by the employer and must be for employees working at least 20 hours per week who are not temporary or seasonal employees.

The credit equals 25 percent of eligible expenses. The employer cannot deduct as a charitable contribution any expenses for which the credit is claimed. The credit is non-refundable. Any credit unclaimed in a particular year due to insufficient tax liability may be used in later years, for up to five years.

PURPOSE: To promote donations of bone marrow.

WHO BENEFITS: Employers who incur expenses related to the development and operation of an employee bone marrow donation program. In 1999, there were 11 for-profit companies paying for donor tests; that number fell to five in 2000. Patients in need of bone marrow transplants are also intended beneficiaries of this policy through increased availability of transplant tissue.

EVALUATION: The exceedingly small revenue impact of this provision raises questions about its effectiveness in achieving the policy objective: donation of bone marrow tissue for medically necessary procedures. While state statute promotes bone marrow donation through general public education, emphasizing the needs of minority populations, and encouraging state employees to donate (ORS 431.270–431.280), it appears reasonable to review the role this provision plays in aggregate bone marrow donation in Oregon, alternative approaches that support the policy objective, and the advisability of continuing this tax credit. [*Evaluated by Oregon Health Plan Policy & Research*.]

1.145 RURAL MEDICAL PRACTICE

Oregon Statute: 316.143
Sunset Date: None
Year Enacted: 1989, modified in 2001 (HB 2206)

	Corporation	Personal	Total
2001–03 Revenue Impact:	Not Applicable	$9,100,000	$9,100,000
2003–05 Revenue Impact:	Not Applicable	$9,900,000	$9,900,000

DESCRIPTION: An annual credit of up to $5,000 against personal income taxes is allowed to certain rural medical providers including physicians, physician assistants, nurse practitioners, certified registered nurse anesthetists, podiatrists, dentists, and optometrists. The requirements for eligibility vary by type of provider. At least 60 percent of the provider's practice, in terms of time, must be spent in a qualifying rural area to receive the credit. "Rural" means any area ten or more miles from a population center of 30,000 or more. Currently, there are six such population centers: the Portland area, Salem, Eugene/Springfield, Medford, Bend and Corvallis/Albany. In addition, physicians on staff of a hospital in a metropolitan statistical area (MSA) are not eligible, with the exception of Florence in Lane County.

Originally, this credit was scheduled to sunset on December 31, 2001, and taxpayers could only claim this credit for up to ten years. The 1999 Legislature, however, eliminated the sunset and removed the ten-year time limit. Beginning in 2002, the eligibility for the credit includes medical staff at Type B hospitals in a MSA if the county has a population of less than 75,000.

PURPOSE: To encourage the establishment and continuation of medical practices in under-served rural areas.

WHO BENEFITS: For the 1999 tax year, 735 physicians, 234 nurse practitioners, 66 physician assistants, 47 nurse anesthetists, 49 dentists, 15 optometrists, and nine podiatrists qualified for the credit, for a total of 1,155 practitioners. The average rural medical tax credit recipient practices in a town with a population of 2,103. In total, approximately 486,000 Oregonians are served by the participants in this program. The ultimate beneficiaries of this program are rural Oregonians who might otherwise have no health care available to them. In 2000, just over 900 taxpayers claimed an average credit of roughly $4,650.

EVALUATION: This tax credit appears to achieve its purpose by attracting new practitioners to rural communities. A year-by-year analysis of the Office of Rural Health's tax credit data base shows a net gain of 450 practitioners in rural areas eligible for the tax credit since 1990.

The tax credit has been most successful in attracting new nurse practitioners to rural areas, and their figures have grown from 61 in 1990 to 234 for tax year 1999, a net gain of nearly 300 percent. Physicians are not far behind, with a net increase of 188 new doctors, or almost one-third, since 1990. The program has attracted 29 additional physician assistants and netted two new CRNAs. Dental participation has grown from 26 in the first year to 49 in 1999, and podiatrists have increased from seven to nine.

Licensure data from the Oregon Board of Medical Examiners (BME) confirms that a trend first witnessed in 1995 appears to be stable – unprecedented growth in the physician population is occurring in non-metropolitan areas. Between 1990 and 2000, physician growth in non-metropolitan areas of the state (31.9 percent) has significantly exceeded growth in metro areas (18.7 percent).

To determine if the tax credit played a role in this desired outcome, the Office of Rural Health periodically surveys rural practitioners, most recently in 1998–99. Approximately 80 percent of recipients responded, and only 45 percent indicated that they would stay in their rural practices without the tax credit. ORH additionally sought to determine if the original function of the credit, i.e., to make up for lower earnings in rural communities, is still valid. The survey found that Oregon's rural physicians make approximately $117,500 annually, compared to $199,000 for all U.S. physicians.

The rural practitioner tax credit certainly appears to be meeting its stated purpose by directly meeting the economic needs of the practitioners for whom it was intended. As expected, more rural practitioners are locating their practices in rural Oregon and remaining there. Rural communities are the ultimate beneficiaries of this program: a study conducted by Oklahoma State University (Doeksen and Miller, Journal of the Oklahoma State Medical Association, September 1988, pp. 568-573) estimates that each rural physician returns $343,706 worth of annual income to the local economy and creates 17.8 local jobs. For Oregon, the 224 additional physicians since 1990 translates into $76,990,144 returned to local economies and almost 40,000 new jobs.

The program was devised to operate with a minimum of administrative burden and appears to be an efficient means of accomplishing its goal. A 1996 audit by the Secretary of State's office concluded that the program is fulfilling the purpose for which it was created in an efficient and exemplary manner. Administrative costs are negligible and are covered by charging each applicant a $25 processing fee.

Without a continuing intervention like the rural practitioner tax credit, a decline in rural practitioners similar to that experienced in the 1980s would inevitably repeat itself. The advancing age of Oregon's rural physicians makes this program as important today as the day it was initially passed by the Legislature. [*Evaluated by the Office of Rural Health*.]

1.146 COSTS IN LIEU OF NURSING HOME CARE

Oregon Statutes: 316.147 to 316.149
Sunset Date: None
Year Enacted: 1979

	Corporation	Personal	Total
2001–03 Revenue Impact:	Not Applicable	Less than $50,000	Less than $50,000
2003–05 Revenue Impact:	Not Applicable	Less than $50,000	Less than $50,000

DESCRIPTION: A tax credit is allowed against personal income taxes for expenses incurred for the care of an individual who otherwise would be placed in a nursing home. The amount of the credit is $250 or eight percent of expenses paid, whichever is less. Taxpayers claiming the credit cannot have household income in excess of $17,500. The person receiving the assistance must: 1) have household income of $7,500 or less; 2) be eligible for home care services under Oregon Project Independence; 3) be certified by the Department of Human Services; 4) receive no assistance from Oregon Medical Assistance; and 5) be at least 60 years of age.

PURPOSE**:** To provide additional tax relief for low-income taxpayers who incur expenses caring for individuals who would otherwise be placed in a nursing home.

WHO BENEFITS: Taxpayers who care for elderly citizens in their homes.

EVALUATION: This tax expenditure has not achieved its purpose. This program does not create an adequate incentive for people to take advantage of the tax credit as evidenced by the number of beneficiaries in 1995. [*Evaluated by the Seniors and People with Disabilities Cluster*.]

1.147 LONG-TERM CARE INSURANCE

Oregon Statute: 315.610
Sunset Date: None
Year Enacted: 1999

	Corporation	Personal	Total
2001–03 Revenue Impact:	$100,000	Less than $50,000	$100,000
2003–05 Revenue Impact:	$100,000	Less than $50,000	$100,000

DESCRIPTION: A non-refundable credit based upon premiums paid for long-term care insurance as defined in ORS 743.652 is allowed against personal and corporate income tax. The credit is available for taxpayers purchasing long-term care insurance premiums for coverage of the taxpayer, dependents, and/or parents of the taxpayer. The credit is available to employers who provide long-term care insurance on behalf of their Oregon employees. For non-business filers, the maximum income tax credit is 15 percent of the total amount of long-term care insurance premiums paid by the taxpayer, not to exceed $500. For business filers, the maximum income tax credit is 15 percent of the total amount of long-term care insurance premiums provided by the taxpayer, not to exceed $500 per employee. The credit is allowed only for new policies purchased on or after January 1, 2000. If the amount paid for these premiums is taken as a deduction on the federal return, then it must be added to income on the Oregon return in order to take the credit.

PURPOSE: To encourage younger individuals to plan for their long-term care needs.

WHO BENEFITS: Taxpayers who purchase long-term care insurance.

EVALUATION: Because this is a new credit and applies to new policies issued after January 1, 2000, it is too early to tell if this expenditure achieves its purpose. [*Evaluated by the Seniors and People with Disabilities Cluster*.]

1.148 DISABLED CHILD

Oregon Statute: 316.099
Sunset Date: None
Year Enacted: 1985

	Corporation	Personal	Total
2001–03 Revenue Impact:	Not Applicable	$3,000,000	$3,000,000
2003–05 Revenue Impact:	Not Applicable	$3,400,000	$3,400,000

DESCRIPTION: Every non-dependent taxpayer in Oregon is allowed one personal exemption credit for himself or herself, one for a spouse, and one for each dependent. An additional personal exemption credit is allowed for each dependent child who is disabled. “Disabled child” is defined as a child aged 17 or younger who is eligible for early intervention services, or who is diagnosed for special education purposes as being autistic, mentally retarded, multi-disabled, visually impaired, hearing impaired, deaf-blind, orthopedically impaired, other health impaired, or as having serious emotional disturbance or traumatic brain injury. The State Board of Education is charged with adopting rules further defining “disabled child.”

The amount of the personal exemption credit (and hence the disabled child credit) is indexed to inflation, and equals $145 in 2002. The credit is non-refundable.

PURPOSE: To provide tax relief to the families of severely disabled children.

WHO BENEFITS In 2000, about 9,400 Oregon taxpayers claimed disabled child credits. Because the credit is non-refundable, taxpayers may only use the credit for amounts up to their tax liability. The average credit of $141, which is above the 2000 allowed credit of $139, indicates that some taxpayers claimed more than one disabled child credit.

Income Group (Quintiles)	Taxpayers		Mean Credit
	Number	Percent	
Below $10,000	608	6.4%	$37
$10,000 - $22,000	1,370	14.5%	$123
$22,000 - $37,000	2,104	22.3%	$151
$37,000 - $63,000	2,848	30.2%	$155
Above $63,000	2,503	26.5%	$151
Total	9,433	100.0%	$141

EVALUATION: This tax expenditure achieves its purpose and is of greatest assistance to those people who are at the margin of needing state assistance. It allows for greater disposable income to meet the more costly needs of children with disabilities. This tax expenditure is well-targeted and provides the recipients with valuable financial assistance that alleviates or prevents the reliance on direct state services. As a result, this tax credit saves the state more than it costs. One concern is that the size of this credit, which is for all Oregon residents, is connected to consumer prices in Portland. Access to health care, which can be particularly difficult in rural areas, can represent significant costs. Basing changes on prices in Portland may therefore understate the price changes in other parts of the state. [*Evaluated by the Seniors and People with Disabilities Cluster*.]

1.149 ELDERLY OR PERMANENTLY DISABLED

Oregon Statute: 316.087
Sunset Date: None
Year Enacted: 1969

	Corporation	Personal	Total
2001–03 Revenue Impact:	Not Applicable	$100,000	$100,000
2003–05 Revenue Impact:	Not Applicable	$100,000	$100,000

DESCRIPTION: Taxpayers are allowed a credit against personal income taxes of up to 40 percent of the federal elderly or disabled credit. Taxpayers claiming the Oregon Retirement Income Credit (1.191), however, are ineligible to claim this Oregon credit.

The federal credit is available to individuals who are 65 or older, or who have retired on disability and are permanently and totally disabled. The federal credit equals 15 percent of: $5,000 in the case of a single individual or on a joint return where only one spouse is qualified; $7,500 on joint returns where both spouses are qualified; or $3,750 for married persons filing separately. For taxpayers under 65, the base cannot exceed the taxpayer's disability income. For all taxpayers, the base amount is reduced by one-half of the excess of income over $7,500 for single filers; $10,000 for joint filers; or $5,000 for separate filers. The base amount is also reduced by any federally non-taxed Social Security benefits or veteran's benefits. The credit is non-refundable.

PURPOSE: To provide additional tax relief for lower income seniors and disabled persons with little tax-exempt retirement or disability income.

WHO BENEFITS: The number of Oregon taxpayers claiming this credit in 1990 was about 2,700, with an average credit of $75. In 2000, the number of claimants was approximately 700 while the average credit was $103.

Income Group (Quintiles)	Taxpayers		Mean Credit
	Number	Percent	
Below $10,000	251	34.7%	$88
$10,000 - $22,000	451	62.4%	$112
$22,000 - $37,000	21	2.9%	$81
$37,000 - $63,000	0	0.0%	N/A
Above $63,000	0	0.0%	N/A
Total	723	100.0%	$103

EVALUATION: This tax expenditure achieves its purpose and, coupled with other tax benefits, allows for greater disposable income to meet the often more costly needs of the eligible individuals. This credit provides the targeted individuals with the additional financial capacity that may allow them to maintain their independence and not rely on direct state services. On the other hand, there is a concern that either the credit is too restrictive or that the complexity of determining eligibility is preventing some individuals from claiming the credit. [*Evaluated by the Seniors and People with Disabilities Cluster*.]

1.150 LOSS OF LIMBS

Oregon Statute: 316.079
Sunset Date: None
Year Enacted: 1973

	Corporation	Personal	Total
2001–03 Revenue Impact:	Not Applicable	Less than $50,000	Less than $50,000
2003–05 Revenue Impact:	Not Applicable	Less than $50,000	Less than $50,000

DESCRIPTION: A personal income tax credit of $50 is allowed for taxpayers with permanent and complete loss of function of at least two limbs. If both taxpayers on a joint return meet the criteria, the credit is $100. The credit is non-refundable. All taxpayers eligible for this credit are also eligible for the Severe Disability Credit (1.151).

PURPOSE: To provide additional tax relief to taxpayers disabled by the loss of the use of two limbs.

WHO BENEFITS: Taxpayers who have suffered the loss of the use of at least two limbs. In 2000, approximately 130 taxpayers claimed this credit.

EVALUATION: This tax expenditure achieves its purpose. As with similar tax breaks, this credit is well targeted and helps meet the often more costly needs of the eligible individuals. It provides additional financial assistance that carries with it the potential for individuals to maintain their self-reliance and not turn to state-funded direct service programs. While a tax credit is clearly beneficial, there is a concern that those who qualify for this credit may not earn sufficient income to fully utilize it. [*Evaluated by the Seniors and People with Disabilities Cluster*.]

1.151 SEVERE DISABILITY

Oregon Statute: 316.758, 316.765
Sunset Date: None
Year Enacted: 1985

	Corporation	Personal	Total
2001–03 Revenue Impact:	Not Applicable	$4,700,000	$4,700,000
2003–05 Revenue Impact:	Not Applicable	$6,000,000	$6,000,000

DESCRIPTION: Every non-dependent taxpayer in Oregon is allowed one personal exemption credit for himself or herself, one for a spouse, and one for each dependent. An additional personal exemption credit is allowed for taxpayers with severe disabilities. Two additional personal exemptions may be claimed on a joint return if both spouses qualify. The amount of the personal exemption credit (and hence the severe disability credit) is indexed each year to account for inflation. The credit was $145 in 2002.

Severe disability is defined as: a) the loss of use of one or more lower extremities; b) the loss of use of both hands; c) permanent blindness; or d) a physical or mental condition that limits the abilities of the person to earn a living, maintain a household, or provide personal transportation without employing special orthopedic or medical equipment or outside help. The credit is non-refundable.

PURPOSE: To provide additional tax relief to severely disabled taxpayers and their spouses.

WHO BENEFITS: The number of taxpayers claiming this credit increased from approximately 7,800 in 1990 to just over 18,000 in 2000. Because the credit is non-refundable, taxpayers may only use the credit for amounts up to their tax liability. The average credit of $127, which is below the 2000 allowed credit of $139, indicates that some taxpayers did not benefit from the full credit amount.

Income Group (Quintiles)	**Taxpayers**		**Mean Credit**
	Number	**Percent**	
Below $10,000	3,042	16.8%	$51
$10,000 - $22,000	4,649	25.7%	$106
$22,000 - $37,000	3,923	21.7%	$123
$37,000 - $63,000	3,575	19.8%	$131
Above $63,000	2,908	16.1%	$138
Total	18,097	100.0%	$110

EVALUATION: This tax expenditure appears to achieve its purpose. It puts additional money in the hands of the eligible individuals. While a tax credit is clearly beneficial, there is a concern that those who qualify for this credit may not earn sufficient income to fully utilize it. Creating an income cap may provide an equitable way for the benefits to be enhanced for very low-income people. [*Evaluated by the Seniors and People with Disabilities Cluster*.]

1.152 OREGON CAPITAL CORPORATION INVESTMENTS

Oregon Statute: 315.504
Sunset Date: None
Year Enacted: 1987

	Corporation	Personal	Total
2001–03 Revenue Impact:	$0	$0	$0
2003–05 Revenue Impact:	$0	$0	$0

DESCRIPTION: A credit against corporation or personal income taxes is allowed for cash investment in the capitalization of the Oregon Capital Corporation. The credit is 20 percent of the amount of cash investment. To qualify for the credit, the Oregon Capital Corporation must have been certified by the Division of Finance and Securities. The Oregon Capital Corporation never came into existence because the qualifications were never met. In particular, the Corporation had to have at least $40 million in funds by January 1, 1989, which was not achieved. Because the qualifications were never met, this expenditure has no effect, and the credit has never been allowed.

PURPOSE: To encourage investment in the Oregon Capital Corporation, which was in turn, intended to provide funding for capital investments in Oregon businesses (ORS 284.755) in order to promote economic growth in Oregon.

WHO BENEFITS: Because the corporation never came into existence, there have been no beneficiaries.

EVALUATION: Not evaluated.

1.153 QUALIFIED RESEARCH ACTIVITIES

Oregon Statute: 317.152
Sunset Date: 12-31-07
Year Enacted: 1989, modified in 2001 (HB 2729)

	Corporation	Personal	Total
2001–03 Revenue Impact:	$14,100,000	Not Applicable	$14,100,000
2003–05 Revenue Impact:	$7,700,000	Not Applicable	$7,700,000

DESCRIPTION: If qualified research activities in Oregon exceed a base amount, then Oregon corporations may take a credit equal to 5 percent of the amount over the base amount. The base amount and the determination of the excess parallel the calculations in a similar federal research credit (IRC §41) with the following restrictions: a) only qualified research expenses and basic research payments in Oregon are considered, and b) qualified expenses and payments are limited to the fields of advanced computing, advanced materials, biotechnology, electronic device technology, environmental technology, or straw utilization.

The base amount is calculated so that the credit rewards increases in qualified research activities. The base amount is either: a) the percentage that qualified research activities were of gross receipts in the 1984–88 period or b) for companies that were not conducting research for at least three of those years, the base amount equals 3 percent of the average of gross receipts over the last four years. Qualified research activities include "research expenses" either in-house or by contract, and "basic research payments" to colleges, universities, and certain other nonprofit organizations. The amounts have to be paid or incurred by the sunset date.

The credit is limited to $500,000 and is non-refundable. Beginning in 1993, credits that cannot be used because of insufficient tax liability in the current year can be used in later years, for up to five years.

Taxpayers have the option of claiming this credit or the credit described in Qualified Research Activities (Alternative) (1.154). Some companies may not qualify for the credit under ORS 317.154 because they do not have the necessary spending on research activities. This alternative still allows them to qualify for the credit if such activities exceed a base dollar amount, even if they do not conduct a large proportion of their research activities in Oregon relative to the proportion of their sales in Oregon.

The sunset was extended to December 31, 2007, by the 2001 Legislature.

PURPOSE: To promote and increase research activities in Oregon in the fields of advanced computing, advanced materials, biotechnology, electronic device technology, environmental technology, and straw utilization.

WHO BENEFITS: Beneficiaries include the companies taking the credit and indirectly, their suppliers, customers, and employees. The revenue impact reported here also includes any credits received under ORS 317.154. For tax year 2000, about 90 taxpayers benefited from these credits. These taxpayers reduced their tax liability by $100,000 on average. There were additional taxpayers claiming this credit who were unable to use it due to insufficient tax liability.

EVALUATION: This expenditure appears to achieve its purpose. Based on the revenue impacts above, the qualified research activities would amount to roughly $130 million per year over the base amount. Some of this spending is likely attributable to this provision. The benefits can be identified as follows:

- The credit may convince companies to relocate to Oregon.
- The credit encourages existing companies to put more efforts into research and development. Product introduction cycles for products such as personal computers and high definition television and telecommunication products are getting shorter and shorter. They demand R&D commitments.
- The credit encourages small companies to explore new niche technology opportunities and enhances their ability to attract joint R&D capital.
- The credit encourages companies to utilize existing state research institutes to assist with R&D activities.

This last point is an issue in Oregon. Recent data indicate that corporate R&D funding to state research institutes is low compared with other states. This could be an indication that state research facilities are not well equipped to assist or are not responsive to industry needs, or that corporations fail to engage Oregon's state research facilities for some other reason.

This expenditure is more efficient than a direct spending program because it allows individual companies to determine if R&D activities are efficient under the current tax structure. The expenditure does favor one group of industries over another, but these do appear to be the industries most likely to use the credit. [*Evaluated by the Economic and Community Development Department*.]

1.154 QUALIFIED RESEARCH ACTIVITIES (ALTERNATIVE)

Oregon Statute: 317.154
Sunset Date: 12-31-07
Year Enacted: 1989, modified in 2001 (HB 2729)

	Corporation	Personal	Total
2001–03 Revenue Impact:	Included in 1.153	Not Applicable	Included in 1.153
2003–05 Revenue Impact:	Included in 1.153	Not Applicable	Included in 1.153

DESCRIPTION: A credit against corporation income taxes is allowed for qualified research expenses in Oregon that exceed 10 percent of Oregon sales. The credit is limited to 5 percent of the excess amount. The expenses that qualify for the credit are the same as those that qualify under Qualified Research Activities (1.153), except that basic research payments are not included.

The credit is limited to the lesser of: a) $500,000, or b) $10,000 multiplied by the number of percentage points that the qualified research expenses exceed ten percent of Oregon sales. The credit is non-refundable. Beginning in 1995, credits that cannot be used because of insufficient tax liability in the current year can be used in later years, for up to five years.

Taxpayers have the option of claiming this credit or the credit described in Qualified Research Activities (1.153). Some companies may not qualify for the credit under ORS 317.152 because they do not have the necessary increase in research activities. This alternative still allows them to qualify for the credit if they conduct a large proportion of their research activities in Oregon relative to the proportion of their sales in Oregon.

The sunset was extended to December 31, 2007, in 2001.

PURPOSE: To promote research activities in Oregon in the fields of advanced computing, advanced materials, biotechnology, electronic device technology, environmental technology, and straw utilization. Also, to continue a research credit in Oregon even if the federal credit is allowed to sunset.

WHO BENEFITS: It is not known whether anyone uses this alternative credit.

EVALUATION: See evaluation under Qualified Research Activities (1.153). [*Evaluated by the Economic and Community Development Department*.]

1.155 LONG-TERM RURAL ENTERPRISE ZONES (INCOME TAX)

Oregon Statute: Note following ORS 285B.689 (OR Laws 1997, Ch. 835, Sec. 40)
Sunset Date: 12-31-04
Year Enacted: 1997, modified in 2001 (HB 2103)

	Corporation	Personal	Total
2001–03 Revenue Impact:	Less than $50,000	Less than $50,000	Less than $50,000
2003–05 Revenue Impact:	Less than $50,000	Less than $50,000	Less than $50,000

DESCRIPTION: Corporations that make certain large investments in a non-urban enterprise zone are eligible for a credit on the corporate income tax, if approved by the governor. The investment must be locally approved for the related tax expenditure for property tax (Long -Term Rural Enterprise Zone (Property Tax) (2.013)). To be eligible for the property tax exemption, the investment must be located in a county with chronic unemployment. Depending on the location in the state, the investment also must exceed a certain minimum amount ranging from $1 million to $25 million; the firm must hire at least 10, 35, 50, or 75 full-time employees within three to five years; and the average worker compensation must be at least 50 percent above the county average wage. Prior to the modification contained in HB 2103 in the 2001 session the minimum investment was $50 million.

The corporate income tax credit is equal to 62.5 percent of the taxpayer's payroll and employee benefit costs at the facility. The credit applies only to liabilities above a certain minimum amount, depending on in-state location, with an overall threshold of $1 million. The credits range in duration from five to 15 years, as determined by the governor. The credits can be carried forward up to five years after the 15-year period expires. The taxpayer is exempt from corporate income taxes relating to the facility until the tax year after the facility is placed in service. Thirty percent of any taxes paid by the taxpayer receiving the credit are distributed to the local property-taxing district, and the city or county sponsor of the Enterprise Zone receives the rest.

Approval from the Governor's Office is required for this, but is not required for the accompanying Property Tax exemption, Long-Term Rural Enterprise Zone (Property Tax) (2.013). For both of these exemptions, applications are handled by the Economic and Community Development Department.

Only one company has been certified as of July 2002.

PURPOSE: To encourage investment in non-urban areas of chronic unemployment or low income. This incentive is still in an experimental stage.

WHO BENEFITS: This provision is intended to benefit non-urban enterprise zones and their surrounding residents in counties with chronic unemployment or low income. In addition to the residents receiving benefits, other beneficiaries include the participating companies, their suppliers, customers, and employees.

EVALUATION: At this time, no company has used this provision, although the Governor has approved one project. It is possible, and perhaps likely, that if Oregon did not have this provision, these projects would be relocated to another state. Therefore, this provision appears to be having the intended effect on investment in Oregon.

Although not necessary for the current investment, changes by SB 245 (1999) made these long-term rural tax incentives conceivable as something that might be used to induce much-needed private investment in Central and Eastern Oregon enterprise zones. Before these changes, the likelihood of them having an effect was very small in those locations and elsewhere.

To allow these changes to have greater opportunity to work, the Economic and Community Development Department recently instituted modified administrative rules. There is currently insufficient experience for evaluation. [*Evaluated by the Economic and Community Development Department.*]

1.156 RESERVATION ENTERPRISE ZONES (INCOME TAX)

Oregon Statutes: 285B.773
Sunset Date: None
Year Enacted: 2001 (HB 2332)

	Corporation	Personal	Total
2001-03 Revenue Impact:	Less than $50,000	Less than $50,000	Less than $50,000
2003-05 Revenue Impact:	Less than $50,000	Less than $50,000	Less than $50,000

DESCRIPTION: Qualified taxpayers doing business in a reservation enterprise zone may claim an income tax credit for the amount of tribal tax paid. The credit must be used in the same year that taxes are paid and may not be carried forward to another year.

A reservation enterprise zone is the trust land of an Indian tribe that must meet the same conditions as a non-urban enterprise zone. In addition the enterprise zone must meet certain additional conditions:

- The Indian tribe must be a federally recognized tribe;
- The reservation of the tribe must be entirely within Oregon;
- The land for the zone designation must be land held in trust by the United States for the benefit of the Indian tribe;
- As of January 1, 2002 the population density of the reservation must not exceed 15 people per square mile;
- At least 50 percent of the households within the reservation must have incomes below 80 percent of the median income for Oregon; and
- The unemployment rate on the reservation must be at least two percentage points greater than the unemployment rate for the state of Oregon.

Non-Indian property on reservation enterprise zones is still subject to property taxes owed to the appropriate taxing districts.

PURPOSE: To encourage “growth, development and expansion of employment and business opportunities within reservation boundaries.” (ORS 285B.767).

WHO BENEFITS: Businesses operating in reservation enterprise zones. Residents of reservations who benefit from enhanced development opportunities. Currently one reservation enterprise zone has been approved in Umatilla County and an application is pending for an enterprise zone in Warm Springs. As of May 2002 no tribe levies tribal taxes on non-Indian businesses—hence the estimated revenue impact is minimal.

EVALUATION: A new program, and as of now there is insufficient activity to evaluate. *[Evaluated by the Department of Economic Development.]*

1.157 SMALL CITY BUSINESS DEVELOPMENT

Oregon Statutes: 316.778
Sunset Date: None
Year Enacted: 2001 (HB 3770)

	Corporation	Personal	Total
2001-03 Revenue Impact:	Less than $50,000	Less than $50,000	Less than $50,000
2003-05 Revenue Impact:	Less than $50,000	Less than $50,000	Less than $50,000

DESCRIPTION: This provision exempts from Oregon income tax the portion of business income attributable to qualified new facilities. Qualified new facilities must be built in a qualified location.

"Qualified location" means any area within the boundaries of a city of 10,000 or fewer residents that is located in a county with an unemployment rate in the highest quartile and per capita personal income in the lowest quartile in the state.

The Economic and Community Development Department must annually certify the facility for the business to receive the exemption. If the firm does not qualify in a particular year they are disqualified from the program for that year and all subsequent years. The business may apply for the exemption for up to 10 consecutive years after the facility is put into service.

The following conditions must be met to qualify as a certified facility:

- The facility must be located in a qualified location;
- The proposed facility must be intended to operate for at least 10 years;
- The business firm will hire at least 10 full-time year round employees at a wage at least 50 percent higher than the per capita income for the county or at the per capita wage for the county and provide health insurance;
- The operation at the facility must constitute a new business that the firm does not operate at another location in the state; and
- The operations of the firm must not compete with an existing business in the city or county where the facility is located.

As of April 2001 four Oregon counties would be eligible for this exemption: Lake, Sherman, Wallowa, and Wheeler counties.

PURPOSE: To encourage business development in low-income areas with high unemployment rates.

WHO BENEFITS: Businesses and low-income area population.

EVALUATION: New program, insufficient information with which to conduct an evaluation. [*Evaluated by the Economic Development Department*.]

1. 158 ELECTRONIC COMMERCE ENTERPRISE ZONES (INCOME TAX)

Oregon Statutes: 315.507
Sunset Date: The tax law provision has no sunset date but the enterprise zone law sunsets 6-30-09.
Year Enacted: 2001 (SB 229)

	Corporation	Personal	Total
2001-03 Revenue Impact:	$600,000	Less than $50,000	$600,000
2003-05 Revenue Impact:	$5,300,000	Less than $50,000	$5,300,000

DESCRIPTION: Qualified business firms may claim an income tax credit for investment in electronic commerce operations under certain circumstances. The business must make the investment in a qualified electronic commerce enterprise zone or in a city designated as an electronic commerce city (see ORS 285B.672 and 285B.673). In order to qualify as an electronic commerce enterprise zone, the zone must already be designated as an enterprise zone. (See tax expenditure 2.012 Enterprise Zone Businesses.)

The credit is equal to 25 percent of the investments made by the firm during the tax year in electronic commerce operations within the designated area. The maximum credit is $2 million. The credit is not refundable. A firm may carry the credit forward for up to five years.

Qualified firms in Electronic Commerce Enterprise Zones must also receive a property tax exemption. See tax expenditure Electronic Commerce Enterprise Zone (Property Tax) (2.026).

PURPOSE: To encourage development of electronic commerce in specified zones and cities.

WHO BENEFITS: Businesses operating in electronic commerce zones and cities.

EVALUATION: In the first three months since this program became available, three direct investments have been made as a direct result of the benefit. Combined projected job creation for these projects is in excess of 500 jobs. *[Evaluated by the Department of Economic Development.]*

1.159 INVESTMENT IN TELECOMMUNICATIONS INFRASTRUCTURE

Oregon Statutes: 315.511
Sunset Date: 12-31-05
Year Enacted: 2001 (SB 229)

	Corporation	Personal	Total
2001-03 Revenue Impact:	Less than $50,000	Less than $50,000	Less than $50,000
2003-05 Revenue Impact:	$4,000,000	Less than $50,000	$4,000,000

DESCRIPTION: Qualified taxpayers may claim an income tax credit for investment in advanced telecommunications facilities. Advanced telecommunications facilities must meet guidelines specified in statute (see ORS 285B.488 and ORS 285B.486).

A certified facility must meet the following conditions:

- The facility must be located in an area where most customers do not have access to minimum bandwith service;
- The facility must improve access for customers in unserved or underserved areas;
- The total certified costs must not exceed $10 million; and
- The facility must be certified by the Economic and Community Development Department.

The Economic and Community Development Department must issue the credit certification between January 1, 2002, and December 31, 2005.

The credit is equal to 20 percent of the costs. The credit may not be carried forward to another tax year.

PURPOSE: To encourage development of telecommunications infrastructure to serve individuals and businesses in Oregon that do not currently have access to advanced telecommunications facilities.

WHO BENEFITS: Taxpayers investing in telecommunications infrastructure. Individuals and businesses served by the enhanced telecommunications facilities.

EVALUATION: This program is new and no applications have been received the this point by the department for certification.[*Evaluated by the Department of Economic Development*.]

1.160 CHILD AND DEPENDENT CARE

Oregon Statute: 316.078
Sunset Date: None
Year Enacted: 1975

	Corporation	Personal	Total
2001–03 Revenue Impact:	Not Applicable	$10,200,000	$10,200,000
2003–05 Revenue Impact:	Not Applicable	$9,800,000	$9,800,000

DESCRIPTION: A personal income tax credit for employment-related dependent care expenses is allowed to taxpayers who qualify for the federal child and dependent care credit. The Oregon credit amount is a percentage of eligible expenses. The percentage amount declines from 30 percent for taxpayers with income less than $5,000 to zero percent for taxpayers with income above $45,000. The credit is non-refundable, but unused credit amounts due to insufficient tax liability may be used in later years, for up to five years.

Eligible employment-related expenses are those necessary for the taxpayer to be gainfully employed and include expenses for household services and for the care of dependents. Qualifying individuals are children under 13, other dependents who are physically or mentally incapable of caring for themselves, or the taxpayer's spouse if incapable of caring for oneself. The eligible expenses are limited in a given year to $2,400 when there is only one qualifying individual in the household and to $4,800 when there are two or more qualifying individuals. In both cases this limit is reduced by any non-taxable payments received from an employer under a dependent care assistance program. Eligible expenses are limited to the individual's earned income (for unmarried individuals) or to the lower of either spouse's earned income (for married individuals).

PURPOSE: To provide tax relief to working taxpayers who must incur dependent care expenses to stay in the workforce.

WHO BENEFITS: Taxpayers with employment-related dependent care expenses who have an income of less than $45,000 and sufficient tax liability to be able to claim the credit. The number of Oregon resident taxpayers who benefit from this credit has declined from about 66,000 in 1990 to 47,800 taxpayers in 2000. The average benefit increased slightly from $126 in 1990 to $142 in 1996. In 1997, two new credits–the Earned Income Credit (1.142) and the Working Family Child Care Credit (1.161)–became available and had a significant impact on the usage of this credit. With the reduced tax liability as a result of these credits, some taxpayers were unable to use the full amount of this credit. The average benefit fell to $105 in 1997 and $101 in 2000.

Income Group (Quintiles)	Taxpayers		Mean Credit
	Number	Percent	
Below $10,000	658	1.4%	$78
$10,000 - $22,000	8,394	17.6%	$210
$22,000 - $37,000	13,794	28.9%	$168
$37,000 - $63,000	19,592	41.0%	$103
Above $63,000	5,320	11.1%	$89
Total	47,758	100.0%	$139

EVALUATION: This tax expenditure achieves its purpose and meets a need when other forms of non-taxable care are not available through the employer. It contributes to the taxpayer's ability to remain gainfully employed and, to an extent, competitive with other members of the workforce. [*Evaluated by the Employment Department*.]

1.161 WORKING FAMILY CHILD CARE

Oregon Statute: 315.262
Sunset Date: None
Year Enacted: 1997, modified in 2001 (HB 2716)

	Corporation	Personal	Total
2001–03 Revenue Impact:	Not Applicable	$13,500,000	$13,500,000
2003–05 Revenue Impact:	Not Applicable	$31,100,000	$31,100,000

DESCRIPTION: A personal income tax credit is allowed for child care expenses for low-income families who have a minimum amount of earned income for the year. The amount is indexed to inflation and was $6,500 for 2002. The credit is calculated as a declining percentage of qualified child care expenses and is nonrefundable through 2002. No carryover is allowed for amounts that exceed tax liability.

Prior to 2001, taxpayers under 150 percent of the federal poverty level were allowed a credit equal to 40 percent of expenses, which is the maximum credit. The credit phased out for taxpayers over 200 percent of the federal poverty level. Beginning in tax year 2001, taxpayers under 200 percent of the federal poverty level are allowed a credit equal to 40 percent of expenses (the maximum credit). The credit phases out for taxpayers over 250 percent of the federal poverty level.

The 2001 Legislature changed this credit to a refundable credit, beginning in 2003. To the extent that this credit exceeds a taxpayer's liability (reduced by any non-refundable credits), the taxpayer is entitled to a refund of the difference. The Legislature also established that to be eligible, the earned income of a taxpayer may not exceed 1,040 hours times the minimum wage.

PURPOSE: To provide tax relief to low-income working taxpayers who must incur dependent care expenses to stay in the workforce.

WHO BENEFITS: Low-income working taxpayers with employment-related dependent care expenses whose income is less than 250 percent of the federal poverty level and who have sufficient tax liability to be able to claim the credit. However, many taxpayers who are eligible for the tax credit do not have sufficient tax liability to use their full amount. Parents who are in training or school receive assistance to pay for child care while they get training to enhance their skills.

The average credit claimed by roughly 16,500 taxpayers in 1997 was $332. In 2000, 18,200 taxpayers claimed an average credit of $388. However, many of these taxpayers did not have sufficient tax liability to benefit from the full amount of the credit. On average, only 62 percent of the credit could be used in 2000.

Income Group (Quintiles)	Taxpayers		Mean Credit
	Number	Percent	
Below $10,000	1,170	6.4%	$133
$10,000 - $22,000	9,941	54.7%	$367
$22,000 - $37,000	6,411	35.3%	$461
$37,000 - $63,000	639	3.5%	$461
Above $63,000	0	0.0%	N/A
Total	18,161	100.0%	$388

EVALUATION: This tax credit is effective because it assists low-income families with their child care expenses, which provides encouragement to stay in the workforce. [*Evaluated by the Employment Department*.]

1.162 DEPENDENT CARE ASSISTANCE

Oregon Statute: 315.204
Sunset Date: 12-31-06
Year Enacted: 1987, modified in 2001 (HB 2676)

	Corporation	Personal	Total
2001–03 Revenue Impact:	$1,100,000	Not Available	$1,100,000
2003–05 Revenue Impact:	$700,000	Not Available	$700,000

DESCRIPTION: Employers providing dependent care assistance or dependent care information and referral services to their employees are allowed a credit to either personal or corporation income tax. The credit equals 50 percent of the total costs the employer paid for dependent care (but no more than $2,500 per employee) and 50 percent of the cost of providing information and referral services. The employer may not take the credit if the provision of dependent care services is part of salary reduction plan. Credits unclaimed due to insufficient tax liability may be used in later years, for up to five years. Note that the revenue impact figures include the impact of the dependent care facilities credit listed in Dependent Care Facilities (1.163).

Employers must submit an application for certification to the Child Care Division of the Employment Department each year they wish to receive this credit.

PURPOSE: To encourage employers to provide dependent care services and referrals to their employees.

WHO BENEFITS: Employers who provide child care facilities for their employees receive both the financial benefit of the tax credit and the additional benefit of more productive employees. Since 1990 the number of corporations that have claimed either the Dependent Care Assistance (1.162) or the Dependent Care Facilities (1.163) credit has ranged from 14 to 26. In 1998, 18 corporations claimed one of these credits. The average credit has steadily increased from $9,000 in 1990 to $140,000 in 1998.

EVALUATION: This tax credit is effective because it encourages employers to help their employees address the difficulties of balancing work with their needs for dependent care. [*Evaluated by the Employment Department*.]

1.163 DEPENDENT CARE FACILITIES

Oregon Statute: 315.208
Sunset Date: 12-31-01
Year Enacted: 1987

	Corporation	Personal	Total
2001–03 Revenue Impact:	Included in 1.162	Included in 1.162	Included in 1.162
2003–05 Revenue Impact:	Included in 1.162	Included in 1.162	Included in 1.162

DESCRIPTION: Employers providing dependent care facilities for their employees are allowed a credit to either personal or corporation income tax. The credit equals the least of: 1) 50 percent of the cost of the acquisition, construction, reconstruction, renovation, or other improvement; 2) an amount equal to $2,500 multiplied by the number of full-time equivalent employees; or 3) $100,000. The facility must be certified by the Child Care Division of the Employment Department.

One-tenth of the credit is claimed in each of ten consecutive years beginning with the year the facility is completed. The credit is discontinued before the ten-year period is completed if facility use is discontinued. Credits unclaimed due to insufficient tax liability may be used in later years, for up to five years.

PURPOSE: To encourage employers to provide child care facilities near the place of employment.

WHO BENEFITS: Employers who provide child care facilities for their employees receive both the financial benefit of the tax credit and the additional benefit of more productive employees. Since 1990 the number of corporations that have claimed either the Dependent Care Assistance (1.162) or the Dependent Care Facilities (1.163) credit has ranged from 14 to 25. In 2000, 16 corporations claimed one of these credits. Throughout the 1990s, the average credit ranged from $9,000 to $34,000. In 2000, however, the average credit was $96,000.

EVALUATION: This tax credit expired on December 31, 2001. [*Evaluated by the Employment Department*.]

1.164 FIRST BREAK PROGRAM

Oregon Statute: 315.259
Sunset Date: 12-31-04
Year Enacted: 1995

	Corporation	Personal	Total
2001–03 Revenue Impact:	Less than $50,000	$100,000	$100,000
2003–05 Revenue Impact:	Less than $50,000	$100,000	$100,000

DESCRIPTION: A credit against corporation or personal income taxes is allowed for wages paid to a "qualified youth" hired by the taxpayer. A qualified youth is an individual who is 14 to 23 years old and has been identified to participate in the First Break Program by a community-based organization according to rules adopted by the Employment Department. Community-based organizations include all local commissions for children and families, schools or class groups offering alternative education programs, the federal Job Corps, school districts, and the Youth Employment and Empowerment Coalition. The credit amount is equal to 50 percent of the wages paid to the qualifying youth or $1,000, whichever is less. Statute limits the total number of certificates issued to 1,500 (there is one certificate per youth).

PURPOSE: To encourage the provision of employment opportunities for qualified youths as defined by rule.

WHO BENEFITS: Employers who provide employment to qualified youths and the youths who face barriers to entering the job market.

EVALUATION: As of July 2002, 2.2 percent (33) of the 1,500 certifications allotted for the First Break Program were issued to qualified youth by community-based organizations (CBOs). Of the 33 certificates used, 27 were issued since June 2000. At this pace the CBOs are unlikely to use more than 10 percent (150) of the certificates before January 2005. Infrequent use of the First Break Program brings into question its effectiveness for discouraging gang involvement and promoting job-skill and educational development of youth.

On the other hand, if performance is measured by the number of available certificates and by the number of participating CBOS, then First Break has plenty of room for growth. [*Evaluated by the Employment Department*.]

1.165 CHILD CARE DIVISION CONTRIBUTIONS

Oregon Statute: 315.213
Sunset Date: 12-31-06
Year Enacted: 2001 (HB 2676)

	Corporation	Personal	Total
2001-03 Revenue Impact	$500,000	Less than $50,000	$500,000
2003-05 Revenue Impact	$1,000,000	Less than $50,000	$1,000,000

DESCRIPTION: A credit against corporation or personal income taxes is allowed for certified contributions made to the Child Care Division (CCD) of the Oregon Employment

Department or a selected community agency. The CCD is responsible for establishing a program that issues tax credit certificates to taxpayers who wish to utilize this credit. The total value of tax credit certificates may not exceed $500,000 per calendar year. Any credits that are not used due to insufficient tax liability may be used in later years, for up to four years.

The CCD and selected community agencies distribute the money according to rules established by the advisory committee. A selected community agency is a nonprofit agency that provides services related to child care, children and families, community development, or similar services and are eligible to receive contributions that may qualify as deduction under Section 170 of the IRC.

PURPOSE: To provide a funding pool for child care that will: 1) reduce parent cost; 2) increase revenue for center- and home-based child care businesses; and 3) improve the quality of care for the children of low- and moderate-income families throughout Oregon.

WHO BENEFITS: Taxpayers who choose to use this method to reduce their tax liability, parents and child care providers who participate in the program once it is established, and, ultimately, the child care system in the state of Oregon.

EVALUATION: The effectiveness of this tax credit has not been evaluated because it is new and not yet fully implemented. [*Evaluated by the Employment Department*.]

1.166 FARM WORKER HOUSING CONSTRUCTION

Oregon Statute: 315.164
Sunset Date: None
Year Enacted: 1989, modified in 2001 (HB 3173)

	Corporation	Personal	Total
2001–03 Revenue Impact:	$500,000	$200,000	$700,000
2003–05 Revenue Impact:	$1,200,000	$400,000	$1,600,000

DESCRIPTION: A credit against corporation or personal income taxes is allowed for owners or operators of farm worker housing that construct or rehabilitate such housing. The credit amount increased from 30 percent to 50 percent of the eligible construction costs for housing projects completed after January 1, 2002. Other changes that apply to housing completed after January 1, 2002, included:

- Removing the sunset date of December 31, 2001;
- Allowing the owner or operator to transfer up to 80 percent of the credit to contributors who helped finance or construct the housing;
- Limiting the amount of the credit that may be claimed in any year to 20 percent of the total possible credit;
- Extending the time period over which the credit may be claimed from five to 10 years; and
- Increasing the limit on total annual construction costs certified to $7.5 million (from $3.3 million).

Contributors financing farm worker housing may continue to claim the credit even if the owner or operator becomes disqualified so long as they had certified that the housing met health and safety requirements upon completion and initial occupancy. The housing must be located in Oregon.

The housing must meet certain qualifications for the taxpayer to be eligible for the credit. Rehabilitation projects must restore housing to a condition where it meets building code requirements. In the case where the taxpayer is the operator of the farm worker housing, the housing must be inspected by the Department of Consumer and Business Services prior to occupancy. Housing on farms must also be registered, if required, as a camp with the Bureau of Labor and Industries, and must be operated by someone who is endorsed as a farm worker camp operator. The credit is forfeited if the taxpayer is the owner and the housing fails to continue to meet health and safety standards during its occupation.

Credits exceeding the taxpayer's tax liability may be applied against future taxes in up to nine later tax years, with the oldest credits being applied first in each year.

PURPOSE: To promote construction and rehabilitation of safe and healthful housing for farm workers. There is currently a shortage of such housing.

WHO BENEFITS: Taxpayers who construct or rehabilitate housing for farm workers or contribute finances toward such projects. Since 1992 the credit has been used to provide safe, affordable housing for more than 1,500 farm workers and family members, who are the indirect beneficiaries of the credit.

EVALUATION: This expenditure achieves its purpose. It has been only in recent years that progress has been made in developing adequate housing for Oregon's farm worker population. This progress is due in large part to the availability of the farm worker tax credits. If the tax expenditure were eliminated, financing of offsite farm worker housing would be impeded and a primary incentive to improve or construct onsite housing would be eliminated. Major supporters of better farm worker housing include migrant health clinics, who see the effects of unsanitary conditions.

There is a direct tie between the provision of farm worker housing and the health of Oregon's agricultural industry. This industry must compete on a regional, national and even international basis for its labor force. It can be argued that to remain competitive in this market, Oregon must continue its efforts to improve the supply of decent and affordable housing for its farm labor force. Because agriculture is a major Oregon's industry, with gross sales totaling $3 billion annually, and because crops dependent on the labor of farm workers account for over one-third of this amount, the impact on Oregon's economy is significant. There are an estimated 150,000 farm workers and family members in Oregon, either migrant or year-round workers. Adequate on-farm housing is sufficient to house less than 10 percent of the farm workers and families in the state. Most of the remaining 90 percent of the population live in rural communities throughout the state, with two-thirds of their housing being unsafe, unsanitary, and overcrowded. (Oregon Farm Labor Housing Survey, Oregon Housing Agency, 1991). In a survey of its farm worker patients, Salud Medical Clinic in Woodburn found that ten percent have no housing at all, living in orchards, cars or along river banks.

There are several direct spending programs, both at the state level and at the national level, that are used to develop affordable housing. This tax credit integrates well with these programs, since a chief factor in the award of funds under the other programs is the ability to match those funds. The availability of the farm worker tax credit allows Oregon to compete particularly well for federal dollars. Of significance are the rural development

514 and 516 programs designated for farm worker housing. Before the advent of the farm worker tax credit, Oregon's usage of US Department of Agriculture labor housing fund was almost nonexistent. [*Evaluated by the Housing and Community Services Department*.]

1.167 FARM WORKER HOUSING LENDER'S CREDIT

Oregon Statute: 317.147
Sunset Date: None
Year Enacted: 1989, modified in 2001 (HB 3173)

	Corporation	Personal	Total
2001–03 Revenue Impact:	$900,000	Not Applicable	$900,000
2003–05 Revenue Impact:	$1,200,000	Not Applicable	$1,200,000

DESCRIPTION: A credit against corporation income taxes is allowed for lending institutions financing construction or rehabilitation of farm worker housing projects. The credit equals 50 percent of the interest received on loans made on or after January 1, 1990, to finance the direct costs associated with constructing or rehabilitating farm worker housing. The lender must receive certification from the borrower that upon completion the project will comply with all health and safety standards. The housing must be located in Oregon and the interest rate on the loan cannot be above 13½ percent. The credit may be claimed over the term of the loan or for 10 years, whichever is less.

The credit is non-refundable. Credits that cannot be used because of insufficient tax liability in the current year cannot be carried forward to later years.

The 2001 legislation (HB 3173) made changes to the program that only apply to housing projects completed after December 31, 2001. The legislation expanded the credit to include nonprofit organizations that make loans for farmworker housing projects. These nonprofit organizations may sell or otherwise transfer the credit to other business taxpayers for application of the credit against the recipient's taxes. The legislation also increased the credit from 30 to 50 percent of the interest received.

PURPOSE: To promote construction and rehabilitation of safe and healthful housing for farm workers. There is currently a shortage of such housing.

WHO BENEFITS: Beneficiaries include lending institutions that make loans for farm worker housing projects. To the extent that the credit program results in loans made at less-than-market interest rates, the borrower captures some of the benefit. The farm workers and their families who are provided with safe, affordable housing are the indirect beneficiaries of the credit. The amount of credits claimed varies widely from year to year. For tax year 2000 about six taxpayers benefited from this credits. These taxpayers reduced their tax liability by $77,000 on average.

EVALUATION: This expenditure achieves its purpose. Lenders historically did not make loans for farm worker housing. The credit has provided an incentive to get lenders to make these loans, at the same time furthering a partnership between these taxpayers and the agricultural industry. The tax credit is typically passed along to the borrower in the form of a lower interest rate, thereby making possible a project that would otherwise not be cost-effective.

Prior to the passage of the credits, even if lenders were willing to make such loans, conventional interest rates were generally too high to make such housing cost-effective. If the tax expenditure were eliminated, there would likely be a reduction in farm worker housing units built each year.

While more lenders are making loans for farm worker housing, these have been primarily larger lenders who can invest the time and money to investigate this relatively new program. Smaller lenders are potential recipients who may need to be educated about the benefits of the credit.

There are several direct spending programs, both at the state level and at the national level, that are used to develop affordable housing. This tax credit integrates well with these programs, since none of these direct spending programs alone provides enough spending programs to be leveraged with a conventional loan subsidized by the lender's tax credit.

While portions of the tax credit statute could be clarified (i.e., what constitutes "farm work"; are occupations like "aquaculture" included), the credit is now being efficiently used. Farm worker advocates suggest that the credit should be increased to its previous level of 50 percent of interest earned.

However, it is not clear whether lenders are willing to reduce interest rates for the credit, how much this program is being used, and whether such housing would not be built anyway using LIHTC and HOME funds or Rural Development Funds. [*Evaluated by the Housing and Community Services Department*.]

1.168 INVOLUNTARY MOBILE HOME MOVES

Oregon Statute: 316.153
Sunset Date: 12-31-01
Year Enacted: 1991

	Corporation	Personal	Total
2001–03 Revenue Impact:	Not Applicable	Less Than $50,000	Less Than $50,000
2003–05 Revenue Impact:	Not Applicable	Less Than $50,000	Less Than $50,000

DESCRIPTION: A credit against personal income tax is allowed for certain owners of mobile homes who were forced to move due to the closure of their mobile home park. To qualify for the credit, the taxpayer had to move the home on or before December 31, 2001. Their federal adjusted gross income had to be $30,000 or less in the year of the move, and the mobile home must have had a fair market value of $50,000 or less.

The credit equals the lesser of $1,500 or the actual relocation costs net of any reimbursement paid by the landlord. The credit is taken in three equal amounts for the three consecutive tax years beginning with the year of the move. (That is, the maximum credit is $500 per year for three years.) A taxpayer could claim the credit for only *one* involuntary move. The credit is non-refundable. Any credit that cannot be claimed because of insufficient tax liability may be carried forward up to five years.

PURPOSE: To provide tax relief to mobile home residents who are forced to relocate because of the closure of their mobile home park.

WHO BENEFITS: Mobile home owners with federal adjusted gross income of $30,000 or less who must move their mobile homes as a result of the mobile home park closure or partial closure. The Oregon Mobile Home Association estimates that one to two mobile home parks close down each year.

EVALUATION: It is not clear whether this tax expenditure is effective. In theory, this program reduces the tax burden on mobile home residents who are being required to relocate and will incur significant costs. Other taxpayers who relocate in conjunction with a new job or business can deduct qualified moving expenses (Moving Expenses (1.081)). Although the circumstances are different for mobile home residents who are forced to move, this credit provides a similar tax break. [*Evaluated by the Housing and Community Services Department.*]

1.169 OREGON AFFORDABLE HOUSING CREDIT

Oregon Statute: 317.097
Sunset Date: 12-31-09
Year Enacted: 1989

	Corporation	Personal	Total
2001–03 Revenue Impact:	$8,000,000	Not Applicable	$8,000,000
2003–05 Revenue Impact:	$9,600,000	Not Applicable	$9,600,000

DESCRIPTION: This provision allows a credit against corporation income taxes for lending institutions that make loans at below-market interest rates for the construction, development, or rehabilitation of low-income housing. The amount of the credit is the difference between the finance charge on the loan and the finance charge at the time the loan was made that would have been charged had a similar loan been made at market interest rates. The credit cannot exceed 4 percent of the unpaid balance of the loan during the tax year for which the credit is claimed. Any credit that cannot be used because of insufficient tax liability in the current year can be used in later years, for up to five years.

To qualify for the credit, loans must be made before January 1, 2010. Loans may be certified to receive credits for up to 20 years. The cap on credits granted for new and existing loans went up to $6 million per tax year beginning January 1, 2002, an increase from the $5 million cap prior to that date.

PURPOSE: To promote the construction and rehabilitation of low-income housing.

WHO BENEFITS: The amount of credits claimed has grown steadily since 1990 when only two taxpayers used the program, claiming under $34,000 in credits. In 2000, about 20 corporation income taxpayers benefited from this credit. These taxpayers had reduced tax liability of $3.4 million, or $170,000 on average. There were additional taxpayers claiming this credit who were unable to use it due to insufficient tax liability. The program requires all interest savings to be directly credited as rent reductions. To the extent that the low interest rate reduces the rent paid by low-income households, the households also benefit. An indirect benefit is the community goodwill derived from lender participation in the program and the interest savings can be counted in calculations for HUD HOME Investment Partnership funds.

EVALUATION: This expenditure achieves its purpose. Without the credit program, rents in Oregon Affordable Housing Tax Credit projects would be 15–25 percent higher, which would decrease the number of units available for low- and very low-income persons. Without this incentive, these low-income housing projects would not be financially feasible.

The credit is used with many other direct spending programs such as grants. The credit is applied to the permanent financing after all direct spending programs have been incorporated into the overall project financing. By using the credit in this manner, the maximum benefit is passed on to the tenants for a "bottom line" benefit. A direct spending program would likely be more costly. [*Evaluated by the Housing and Community Services Department*.]

1.170 CROP GLEANING

Oregon Statute: 315.156
Sunset Date: None
Year Enacted: 1977, modified in 2001 (HB 2718)

	Corporation	Personal	Total
2001–03 Revenue Impact:	Less than $50,000	Less than $50,000	Less than $50,000
2003–05 Revenue Impact:	Less than $50,000	Less than $50,000	Less than $50,000

DESCRIPTION: Taxpayers may take a credit against personal or corporation income taxes for "crop" donations to gleaning cooperatives, food banks, or qualifying charitable organizations located in Oregon. The law changed in 2001 to expand the program for tax years beginning January 1, 2002, to include donations to food banks or other charitable organizations that distribute food at no charge to children or homeless, unemployed, elderly or low-income individuals. The definition of "crop" was expanded to include plants or orchard stock that produce food for human consumption and livestock animals that may be processed into food for humans. Both harvest donations (gleaning) and post-harvest donations may qualify.

The credit equals 10 percent of the wholesale market price of the crop. Credits that cannot be used because of insufficient tax can be used in later years, for up to three years.

PURPOSE: To encourage donations of food crops to gleaning cooperatives so that the crops do not go to waste.

WHO BENEFITS: Farmers who donate crops to gleaning cooperatives, food banks, or charitable food distribution organizations. The benefit goes primarily to smaller, non-corporate farms. Charitable food distributors also benefit by receiving donations of food products.

EVALUATION: This expenditure achieves its purpose. It provides an effective incentive for farmers to donate crops to gleaning cooperatives. Without the incentive a few donations would still occur, but not at the same level as with the incentive. Increasing the credit would likely encourage more donations. [*Evaluated by the Department of Agriculture*.]

1.171 ALTERNATIVES TO FIELD BURNING

Oregon Statute: 468.150
Sunset Date: 12-31-07
Year Enacted: 1975, modified in 2001(SB 764)

	Corporation	Personal	Total
2001–03 Revenue Impact:	Included in 1.175	Included in 1.175	Included in 1.175
2003–05 Revenue Impact:	Included in 1.175	Included in 1.175	Included in 1.175

DESCRIPTION: This provision was added as an expansion to the Pollution Control Credit (1.175) in 1975. It allows a credit against corporation or personal income taxes for up to 50 percent of acquisition or construction costs for equipment and facilities as alternatives to grass seed and cereal grain straw open field burning. The 2001 legislation rearranged the credits as follows:

- Projects started prior to January 1, 2001, and completed before January 1, 2004, qualify for the 50 percent credit.
- All other projects are categorized into upper tier (35 percent credit) or lower tier (25 percent or less credit) categories depending on whether they meet certain qualifications.
- The sunset date was extended from 2001 to 2007.

The credit is taken in equal amounts over the life of the facility. The credit is allowed only for the fraction of use as an alternative to field burning, and the applicant must demonstrate a reduction in acreage burned. The revenue impact of this provision is included in that for the pollution control credit.

Note that the Mobile Field Incinerators expenditure (2.047) provides a property tax exemption that applies to some of the same equipment as this credit does.

PURPOSE: To encourage reduction in the practice of open field burning while developing and utilizing alternative methods of field sanitation and alternative methods of using and marketing grass seed and cereal grain straw.

WHO BENEFITS: This provision reduces the substantial costs for growers investing in equipment, facilities, and land for gathering, densifying, processing, handling, storing, transporting, and incorporating grass straw or straw-based products that result in reduction of open field burning, propane flamers, or mobile field sanitizers that reduce air quality impacts, and drainage tile installations which result in a reduction of grass seed acreage under production.

EVALUATION: This expenditure appears to achieve its purpose. The key question is whether the credit caused a decrease in open field burning, propane flaming, and stack burning, or whether the reduction was simply compliance with the statutory phasedown enacted in 1991. During the phasedown period of 1991–95, growers open field burned just 55 percent of the allowable acreage, compared to 80 percent prior to 1991. This suggests the incentive provided by the expenditure resulted in less open field burning.

Some in the industry have argued, however, that credit programs are not the most effective way of stimulating investment in alternatives to field burning because many farms have little or no tax liability for the credit to offset. Some have stated that no-interest or low-interest loans would stimulate more of the target group to invest in alternatives.

Even though the industry is facing a crucial period in the phasedown schedule, continued reductions in field burning, increased acreage in production, high yields, and the results of recent research all indicate that the alternatives to field burning are satisfactory. The key to maintaining the phasedown limitation of 40,000 acres is: 1) the continued development and maintenance of the infrastructure to process and store straw for the domestic and international feed markets, and 2) the continued availability and improvement in equipment that enables seed growers to chop and manage full straw loads left on the field. [*Evaluated by the Department of Agriculture*.]

1.172 FARM MACHINERY AND EQUIPMENT (INCOME)

Oregon Statutes: 315.119 and 315.123
Sunset Date: 12-31-07
Year Enacted: 2001 (HB 2033)

	Corporation	Personal	Total
2001-03 Revenue Impact	$200,000	$200,000	$400,000
2003-05 Revenue Impact	$700,000	$700,000	$1,400,000

DESCRIPTION: Establishes an income tax or a corporate income tax credit for property taxes paid on machinery and equipment and personal property used in farm processing. The credit only applies in conjunction with property used for processing of wholesale farm crops or livestock after harvest has occurred, but before sale of the modified or altered products. The machinery and equipment must be located on land that is specially assessed for farm use or contiguous to land which is specially assessed for farm use and owned and controlled by the farm operator. The amount of the tax credit is calculated as the lesser of the effective property tax rate multiplied by the adjusted basis (for income tax purposes) of the qualified machinery and equipment or $30,000. This tax credit can be carried forward for five years. A tax credit is not allowed if the machinery and equipment is fully depreciated for tax purposes.

The credit is available for tax years beginning on or after January 1, 2002. However, the program does not extend beyond the 2007 tax year except for the application of unused credits to taxes in later years.

This credit does not apply to the property used in farming because it is exempted from property tax as described in Farm Machinery and Equipment (Property) (2.046).

PURPOSE: To encourage the continued operation and expansion of value added on-farm food processing.

WHO BENEFITS: Farm operators with farm processing machinery and equipment on, or contiguous to, specially assessed farmland.

EVALUATION: Small- and medium-sized food processors face market disadvantages. After thousands of mergers and acquisitions in the food procesing and retail sectors over the past five years, as few as six large food companies now control nearly 50 percent of retail food sales in the U.S. These companies only source from very large growers and processors. Oregon companies do not have the size to compete in these markets. Tax rates on processing equipment that reflect today's economic realities will help stabilize and develop Oregon's food processing value-added sector, adding vitality to rural and urban communities. *[Evaluated by the Department of Agriculture]*

1.173 RIPARIAN LANDS REMOVED FROM FARM PRODUCTION

Oregon Statutes: 315.113
Sunset Date: None
Year Enacted: 2001 (HB 3105)

	Corporation	Personal	Total
2001-03 Revenue Impact	$0	$0	$0
2003-05 Revenue Impact	Less than $50,000	Less than $50,000	Less than $50,000

DESCRIPTION: This expenditure creates an income tax credit for certain riparian farmland that is voluntarily taken out of agricultural production for conservation purposes. The credit applies only to land that was formerly in agricultural production and within 35 feet of the bank of a natural watercourse. The credit is equal to 75 percent of the value of the crops foregone, excluding the raising of livestock. The credit has a five-year carry forward. The credit is available beginning with the 2004 tax year

PURPOSE: The purpose is to encourage taxpayers that have riparian land in farm production to voluntarily remove the riparian land from farm production and employ conservation practices applicable to the riparian land that minimize contributions to undesirable water quality, habitat degradation and stream bank erosion.

WHO BENEFITS: The general public benefits by increased water quality and the associated increase in fish and other wildlife populations. The producer is partially "made whole" for the loss of production value of the land taken out of production if he has taxable income against which to take a tax credit.

EVALUATION: This credit does not become available until 2004; the extent to which producers will utilize this incentive is difficult to estimate. *[Evaluated by the Department of Agriculture]*

1.174 POLLUTION PREVENTION

Oregon Statute: 315.311
Sunset Date: 12-31-99
Year Enacted: 1995

	Corporation	Personal	Total
2001–03 Revenue Impact:	Less than $50,000	$100,000	$100,000
2003–05 Revenue Impact:	Less than $50,000	$100,000	$100,000

DESCRIPTION: This provision, referred to in statute as the Emission-Reducing Production Technology Credit, allows a tax credit against corporation or personal income taxes for investments in technologies and processes that prevent emissions of perchloroethylene, chromium, and halogenated solvents. The taxpayer must have the investment certified by the Department of Environmental Quality (DEQ). The application for credit certification should be made within one year of completion of the installation. The sunset date for installation was December 31, 1999. The credit amount is equal to 10 percent per year for five years of the costs of the technologies or processes as certified by DEQ. The credit is not refundable, and unused credit amounts can be carried forward for three years. No reduction in depreciable basis is required.

PURPOSE: A pilot program designed to test the effectiveness of a tax credit that "encourages businesses to utilize technologies and processes that prevent the creation of pollutants." (ORS 468A.095)

WHO BENEFITS: Taxpayers investing in technologies or processes that prevent emissions of the specified pollutants. The maximum amount available for tax relief through the pilot was $5.2 million. A total of 35 pollution prevention investments were certified to 32 taxpayers for tax credits total $739,932. Much of the benefit goes to the dry-cleaning industry, which is a large user of perchloroethylene. For discussion of additional tax expenditures related to the dry-cleaning industry, see Chapter 13.

EVALUATION: This expenditure is effective in achieving its purpose. It could be improved by expanding the awareness of the program, thereby reaching the potential credit recipients who have installed eligible technologies. [*Evaluated by the Department of Environmental Quality*.]

1.175 POLLUTION CONTROL

Oregon Statute: 315.304
Sunset Date: 12-31-07
Year Enacted: 1967, modified in 2001 (SB 764)

	Corporation	Personal	Total
2001–03 Revenue Impact:	$19,400,000	$8,800,000	$28,200,000
2003–05 Revenue Impact:	$15,700,000	$7,100,000	$22,800,000

DESCRIPTION: The pollution control credit allows a credit against corporation or personal income taxes equal to up to 50 percent (depending on the type of project and installation date) of the cost of pollution control facilities. The taxpayer must have the investment certified by the Department of Environmental Quality (DEQ). The application for credit certification should be made within one year of completion of the facility. The sunset date for construction is December 31, 2007. Both the facilities themselves and the allowable costs are certified by the DEQ. Facilities are certified for the credit under one of the following categorizations:

- Air pollution control,
- Water pollution control,
- Noise pollution control,
- Material recovery of solid waste, hazardous waste, or used oil control,
- Hazardous waste pollution control, or
- Nonpoint source pollution control.

To qualify, the principal purpose of the facility must be to meet government pollution control standards, or the sole purpose must be to prevent, control, or reduce a significant quantity of pollution. Facilities can include structures, land, machinery, or reconstruction and improvements to land or existing structures. Certain items are specifically excluded by statute, including asbestos abatement, septic tanks, and human waste facilities, office buildings, parking lots, landscaping and automobiles.

The qualified taxpayer may include the lessee, lessor, or contract purchaser of a pulp, paper, or paperboard facility. Prior to modification of the law in 1999, only credits for recycling and material recovery facilities could be passed onto a non-owner operator. The credit is available to either the owner or lessee of the facility, but not to both.

The amount of credit is up to half of the certified cost of the facility multiplied by the certified percentage allocable to pollution control, divided by the number of years of the facility's useful life. The maximum useful life for calculating the credit is 10 years.

Projects started before January 1, 2001, and completed before January 1, 2004, are eligible for credits of 50 percent of the cost. Projects after these dates are eligible for a credit of up to 35 percent of the cost of projects that meet high levels of environmental compliance. Pollution control projects not meeting these conditions are eligible for phase-out credits equal to 25 percent, 15 percent, or 0 percent dependent on when the project commenced.

The credit is non-refundable. Any credit unclaimed in a particular year because of insufficient tax liability may be used in later years, for up to three years.

The Pollution Control Facilities Exemption (2.058) on the property tax is a companion to this pollution control credit on the income tax. Nonprofit corporations and cooperatives qualify for a 20-year property tax exemption on the facility.

PURPOSE: "...to assist in the prevention, control and reduction of air, water and noise pollution and solid waste, hazardous wastes and used oil in this state by providing tax relief with respect to Oregon facilities constructed to accomplish such prevention, control and reduction." (ORS 468.160)

WHO BENEFITS: Businesses that invest in pollution control equipment and facilities benefit from this credit. Most of the benefit goes to large corporations in manufacturing industries, including paper and allied products, wood processing, food processing, and electronics. For tax year 2000 about 100 corporate tax payers benefited from this credit. These corporate taxpayers reduced their tax liability by $101,000 on average. There were additional taxpayers claming this credit who were unable to use it due to insufficient tax liability. Additional taxpayers paying personal income taxes benefited from this provision.

EVALUATION: The expenditure has been only partially successful in achieving its purpose as an incentive to promote the installation of some pollution control equipment that otherwise would *not* have been installed. Only 25 percent of all tax credits approved since 1995 were for this type of facility.

Most expenditures provided a reward to taxpayers for activities that they are required to do anyway. Seventy-five percent of approved tax credits were for principal purpose facilities. This tax expenditure would be far more effective it were only allowed for investments in pollution control that would not otherwise be made.

Another benefit of this program is to improve the relationship between business entities and regulatory entities. This benefit could be accomplished by enhanced compliance with regulatory requirements and the agency counseling small businesses in the benefits of pollution control. While this part of the program is very valuable, it is difficult to determine if that goal is being achieved.

Since the program's inception, over 4,000 facilities have received pollution control tax credit certificates totaling about $650 million. [*Evaluated by the Department of Environmental Quality*.]

1.176 RECLAIMED PLASTICS

Oregon Statute: 315.324
Sunset Date: 12-31-01
Year Enacted: 1985

	Corporation	Personal	Total
2001–03 Revenue Impact:	Less than $50,000	$100,000	$100,000
2003–05 Revenue Impact:	Less than $50,000	$100,000	$100,000

DESCRIPTION: A credit against corporation or personal income taxes is allowed for 50 percent of an investment in personal property or equipment that is either: a) used to manufacture products from reclaimed plastics, or b) necessary to collect, transport, or process reclaimed plastic. The taxpayer must apply to the Department of Environmental Quality and have the investment certified to qualify for the credit. The Environmental Quality Commission may grant preliminary certification to no more than $1.5 million in total investments each year.

The property or equipment must have been acquired or constructed prior to December 31, 2001.

The credit is available to either the owner of the business or to a lessee who conducts the business, but not to both. If claimed by more than one taxpayer, the aggregate certified investment cost, as allocated, may not exceed the total certified cost of the investment. The credit is equal to 10 percent of the cost of the investment in each of the five years beginning with the year the investment is certified. Thus the total credit equals 50 percent of the cost of the investment. The credit is non-refundable. Any credit unclaimed in a particular year because of insufficient tax liability may be used in later years, for up to five years.

PURPOSE: "...to assist in the prevention, control and reduction of solid waste in this state by providing tax relief to Oregon businesses that make investments in order to collect, transport or process reclaimed plastic or manufacture a reclaimed plastic product." (ORS 468.456)

The tax credit is designed to promote investments in plastic recycling by reducing the cost of making those investments.

WHO BENEFITS: In tax year 2000, nine corporations claimed a total of less than $50,000 for the credit. The direct beneficiaries of the reclaimed plastic tax credit are businesses that collect or process recyclable plastic, manufacture a product from reclaimed plastic, or own and lease equipment to plastic recyclers. The benefits from this tax credit also flow through to other persons and companies in the plastic recycling chain. These benefits include reduced charges for recycling service or reduced cost of reclaimed plastic stock and products. In addition, the public benefits from the recovery of waste plastic.

EVALUATION: This expenditure is achieving its purpose. The level of waste plastic collection and processing is greater because of the tax credit. It has a major influence on the development of new recycling facilities, and it has influenced advances in plastic recycling that would not have taken place without the incentive provided by the tax credit. [*Evaluated by the Department of Environmental Quality*.]

1.177 SEWER CONNECTION

Oregon Statute: 316.095
Sunset Date: 6-30-95
Year Enacted: 1987

	Corporation	Personal	Total
2001–03 Revenue Impact:	Not Applicable	$100,000	$100,000
2003–05 Revenue Impact:	Not Applicable	$100,000	$100,000

DESCRIPTION: A credit is allowed against personal income tax to certain homeowners who connected their homes to a sewer system. Because this credit sunset in 1995, all current credit claims are for sewer connections that were made prior to July 1995. The credit equals $160 per year for five consecutive years. The credit is non-refundable. Any credit that cannot be claimed because of insufficient tax liability may be used in later years, for up to eight years.

To qualify for the credit, the connection must be made after January 1, 1985, and must be required by either: a) an order or rule issued or adopted by the Environmental Quality Commission (EQC) before July 1, 1989; b) an intergovernmental agreement between the EQC and a local government entered into before July 1, 1989; or c) a health hazard annexation ordered by the Assistant Director for Health after January 1, 1988 and before July 1, 1995. Because all connections have already been made, the total number of credits claimed in a particular year will decline as homeowners' five-year credit periods are completed. Because no new projects can be approved after July 1, 1995, connections qualifying for the credit will eventually cease and total credits will fall to zero.

PURPOSE: To compensate homeowners for the costs of connecting to sewer systems when connection is required by the Environmental Quality Commission. The Environment Quality Commission requires connections to protect the health of the public.

WHO BENEFITS: Homeowners who connect their homes to a sewer system under order or rule of the Environmental Quality Commission. Most of these connections have been in east Multnomah County.

EVALUATION: Not evaluated.

1.178 FISH HABITAT IMPROVEMENT

Oregon Statute: 315.134
Sunset Date: 1-1-1998
Year Enacted: 1981

	Corporation	Personal	Total
2001–03 Revenue Impact:	Less than $50,000	Less than $50,000	Less than $50,000
2003–05 Revenue Impact:	$0	$0	$0

DESCRIPTION: A credit against personal or corporation income taxes is allowed to taxpayers who undertook projects that improve fish habitat. The credit equals 25 percent of the cost of the fish habitat improvement project. Projects required under existing state or federal law were ineligible. The project must have been certified by the State Department of Fish and Wildlife both before and after completion. Credit was taken when the project was certified as completed. Credits that could not be claimed because of insufficient tax liability can be used in later years, for up to five years.

The credit was allowed to sunset as of January 1, 1998, the last date for submitting applications for preliminary certification, so the tax expenditure shown above represents only prior-year credits carried forward. Based on when final certifications of projects were made, the last tax year for carry forwards of credits is 2002.

A maximum of $100,000 in projects are eligible for preliminary certification each year. According to the Department of Fish and Wildlife, projects are infrequent and total less than $5,000 in a typical year.

PURPOSE: "To maintain, preserve, conserve and rehabilitate riparian lands to assure the protection of the soil, water, fish and wildlife resources of the state for the economic and social well-being of the state and its citizens" (SB 397, 1981 Session).

WHO BENEFITS: Taxpayers who invested in fish habitat improvement projects. Relatively few projects have been undertaken, primarily by wood products companies and individual landowners. The general public also benefits, particularly individuals connected with recreational or commercial fishing, if the projects result in improved fish habitat and increased fish populations.

EVALUATION: Although the credit had been used infrequently, it appears to be effective in promoting projects that improve fish habitat. The previous annual limit ($100,000) on certifiable costs was reached in applications for calendar year 1996. However, after the Legislature failed to remove the sunset clause, applications for calendar year 1997 had an aggregate cost of only $65,000. The number of applications declined from 12 in 1996 to seven in

1997, with six of the seven 1997 applications coming from entities that had not previously applied.

There are several possible reasons why the credit was not used extensively. First, the whole salmon restoration process was not moving forward with the momentum it now has. Second, many landowners were probably not aware of the credit. Third, some landowners may have undertaken habitat improvement projects in association with nonprofit organizations and treated expenditures and donations as charitable contributions. We think this may have happened with companies that participated in restoration projects since 1994 under the North Coast Salmonid Project (Oregon Wildlife Heritage Foundation). Unfortunately, there are no data to describe the relative importance of these explanations. [*Evaluated by the Department of Fish and Wildlife*.]

1.179 FISH SCREENING DEVICES

Oregon Statute: 315.138
Sunset Date: None
Year Enacted: 1989

	Corporation	Personal	Total
2001–03 Revenue Impact:	Less than $50,000	Less than $50,000	Less than $50,000
2003–05 Revenue Impact:	Less than $50,000	Less than $50,000	Less than $50,000

DESCRIPTION: A credit against personal and corporation income tax is allowed for installing a fish screening device, by-pass device, or fishway when required to do so by law (except where the device is part of a federally regulated hydroelectric project). These projects are primarily on agricultural land to keep fish from entering irrigation canals. Devices that are financed by the Water Development Fund are ineligible for the credit. The credit for each device installed equals the lesser of half of the taxpayer's net certified installation costs, or $5,000.

The device must be certified by the State Department of Fish and Wildlife to be eligible for the credit. There is a preliminary certification prior to installation and a final certification upon final completion. The credit is claimed in the year of final certification. The credit is non-refundable. Credits unclaimed because of insufficient tax liability can be used in later years, for up to five years.

PURPOSE: Fish screening devices and by-passes prevent fish from entering irrigation diversions and allow fish to swim around dams and other obstructions. In many cases the Oregon Department of Fish and Wildlife may require these devices to be installed. The credit recognizes that taxpayers in general benefit from the installation of fish screening devices and by-pass devices.

WHO BENEFITS: Taxpayers who install fish screening devices. The general public also benefits, particularly individuals connected with recreational or commercial fishing, if the projects result in improved fish habitat and increased fish populations.

For the 1999–01 biennium, 166 screens were certified, with a potential tax credit of $44,867. Of the biennium total, 132 screens with a potential credit of $25,768 were from screen projects funded through the Oregon Watershed Enhancement Board (OWEB) under a new program that continues into the 2001–03 biennium. The other 34 screens were funded through a statewide program, and three of these qualified for the maximum credit of $5,000 per screen. For the first half of the 2001–03 biennium, 48 screens have been certified with a potential tax credit of $9,187. All screens for 2001–03 are funded through OWEB.

EVALUATION: This expenditure appears to be effective in achieving its purpose. The use of the credit has been increasing because the amount of fish screening is increasing as the law requiring the installation of screens on irrigation diversions gains acceptance among irrigators. It seems unlikely the current level of screening activity would be going on without the legislation that created the program in its latest form. Additional funding for the overall screening program through OWEB increased the number of screens installed during the 1999–01 biennium. Continuation of this screens funding via OWEB is expected to continue the program at a pace faster than that observed prior to the 1999–01 biennium. [*Evaluated by the Department of Fish and Wildlife*.]

1.180 ALTERNATIVE ENERGY DEVICES (RESIDENTIAL)

Oregon Statute: 316.116, 317.115
Sunset Date: None
Year Enacted: 1977, modified in 2001 (SB 520)

	Corporation	Personal	Total
2001–03 Revenue Impact:	Less than $50,000	$7,600,000	$7,600,000
2003–05 Revenue Impact:	Less than $50,000	$8,200,000	$8,200,000

DESCRIPTION: A credit against personal income taxes is allowed to taxpayers who install certain alternative energy devices in their residence. Examples of qualifying devices include solar devices; groundwater heat pumps; ground loop systems; a renewable energy system that heats or cools space, generates electricity, heats water, or is used for swimming pool, spa, or hot tub heating. Taxpayers may also receive a credit for the purchase of energy-efficient appliances and alternative fuel devices. Homeowners or renters may receive a tax credit for eligible system. A builder who owns a home built for speculative sale may claim a tax credit for an alternative-fuel fueling/charging system.

The credit for solar, geothermal, wind, and fuel cell systems equals 60 cents multiplied by the first-year energy savings in kilowatt-hours, up to $1,500 per dwelling served. For swimming pool, spa, or hot tub heating, the credit equals 15 cents multiplied by the first-year energy savings in kilowatt-hours, up to 50 percent of the device cost, not to exceed $1,500. The appliance credit is 40 cents per kilowatt-hour saved or 25 percent of the appliance cost, whichever is less, not to exceed $1,000 total for all appliances. For alternative fuel devices, the maximum credit is 25 percent of the cost, not to exceed $750.

Corporations that construct or install a fueling station necessary to operate an alternative fuel vehicle are also eligible for a credit equal to 25 percent of the cost of the fueling station, not to exceed $750.

The taxpayer must have the device certified by the Office of Energy or, for certain devices, a contractor certified by the Office of Energy may provide the certification. Any credit unclaimed in a particular year because of insufficient tax liability may be used in later years, for up to five years.

The 1997 Legislature added energy-efficient appliances and alternative-fuel vehicles/fueling systems to the list of qualifying devices, effective January 1, 1998.

The 1999 Legislature added wind systems, fuel cell systems, and a "pass-through" tax credit payment through dealers and lenders for alternative-fuel vehicles, effective January 1, 2000.

The 2001 Legislature expanded the pass-through provision to apply to any energy equipment that qualifies for this credit, eliminated the requirement that the alternative energy devices provide at least 10 percent of the total dwelling energy requirement, and eliminated the former December 31, 2001, sunset date.

PURPOSE: The credit is designed to promote the use of renewable energy resources for home heating and electric generation and to encourage the purchase of highly efficient appliances and alternative-fuel vehicles.

WHO BENEFITS: Oregon residents who purchase renewable energy systems, energy-saving appliances, and alternative-fuel vehicles. Because the program reduces the demand for energy, it helps keep energy bills lower.

EVALUATION: This credit has been successful in achieving its purpose. Through 2001, more than 21,000 renewable energy systems and almost 66,000 highly efficient appliances have been installed in Oregon—primarily as a result of the tax credit. Energy cost savings to Oregon households from the program are nearly $5 million per year. The use of the credit has increased since 1998, with the Legislature's addition of energy-efficient appliances to the program.

Changes in the 2001 legislation appear to be having a positive impact on installation of renewable systems. Influence in the marketplace is another indicator of the credit's effectiveness. Appliance dealers report substantial increases in energy-efficient appliance sales tied to the tax credit.

The credit is based on the efficiency of the system rather than system cost. This feature encourages the development of more efficient systems. The only alternatives to the credit are incentives offered by a few utilities. Ending the credit would discourage investment in renewable resources and highly efficient appliances. [*Evaluated by the Office of Energy*.]

1.181 BUSINESS ENERGY FACILITIES

Oregon Statute: 315.354
Sunset Date: None
Year Enacted: 1979, modified in 2001 (SB 521 and HB 2272)

	Corporation	Personal	Total
2001–03 Revenue Impact:	$10,800,000	$3,600,000	$14,400,000
2003–05 Revenue Impact:	$15,000,000	$4,700,000	$19,700,000

DESCRIPTION: A credit against corporation or personal income taxes is allowed for investments made by businesses to use renewable energy resources, to conserve energy, for recycling projects if the recycling projects are not otherwise required, or to use less-polluting transportation fuels.

The credit equals 35 percent of the certified cost of the approved project and is taken over five years: 10 percent in the first two years and 5 percent each year thereafter. Any credit unclaimed in a particular year because of insufficient tax liability may be used in later years, for up to eight years.

Renewable resource facilities must produce energy or reduce energy consumption by using solar, wind, hydro, geothermal, or biomass sources. Energy conservation projects must reduce energy consumption by at least 10 percent.

The program was crafted to ensure the credit stimulates investments in energy-efficiency projects rather than rewarding businesses for what they would have done without the credit. Eligible projects must have paybacks of more than one year. Credits are awarded only to projects or portions that significantly exceed standard practice. Projects that are required by state or federal law are not eligible.

The 2001 amendments to this expenditure affect it in several ways. For example, the credit may be claimed entirely in the first year if the eligible costs are less than $20,000. The list of eligible users of the credit was expanded to include both utilities and customers of consumer-owned and other public utilities. Car-sharing expenses and sustainable building practices now qualify for the credit. These new provisions apply to tax years beginning on or after January 1, 2001.

PURPOSE: " . . . to encourage the conservation of electricity, petroleum and natural gas by providing tax relief for Oregon facilities that conserve energy resources or meet energy requirements through the use of renewable resources." (ORS 469.190)

WHO BENEFITS: Businesses investing in facilities that produce energy, reduce the consumption of energy, recycle, or use less-polluting transportation fuels. For tax year 2000 about 95 corporate taxpayers benefited from this credit. These taxpayers reduced their tax liability by $26,000 on average. There were additional taxpayers claiming this credit who were unable to use it due to insufficient tax liability. Additional taxpayers paying personal income taxes benefited from this provision. A variety of businesses, including manufacturers, food processors, lumber companies, farmers and ranchers, service industries, retailers, and rental housing owners participate in the program. At least three-quarters of the projects have been undertaken by small businesses. Some 48,000 rental units have been weatherized through the program, reducing renters' utility costs or rent and making their housing more comfortable.

EVALUATION: This credit has been very effective in achieving its purpose. To date, more than 6,000 tax credits have been awarded to manufacturers and commercial businesses for their investments in such measures as apartment building weatherization, irrigation efficiency, renewable resource systems, energy-efficient plant modernization, waste heat recovery, alternative-fuel vehicles and recycling. Businesses generally require short payback periods for their investments, but the credit has proven successful in making energy investments attractive.

By reducing operating costs, the credit boosts the productivity and competitiveness of Oregon businesses. All told, the credit has cut the energy costs of Oregon businesses by more than $143 million a year. [*Evaluated by the Office of Energy*.]

1.182 ENERGY CONSERVATION LENDER'S CREDIT

Oregon Statute: 317.112
Sunset Date: None
Year Enacted: 1981, modified in 2001 (SB0520)

	Corporation	Personal	Total
2001–03 Revenue Impact:	Less than $50,000	Not Applicable	Less than $50,000
2003–05 Revenue Impact:	Less than $50,000	Not Applicable	Less than $50,000

DESCRIPTION: Commercial lending institutions are allowed a credit against corporation income taxes for financing energy conservation measures for oil- or propane-heated dwellings. The institutions must charge no more than a 6.5 percent interest rate on the loan. The credit equals the difference between the interest that would be earned if the loan was made at the usual rate of interest (or alternatively at an upper limit rate established by the state Office of Energy) and the interest earned at the 6.5 percent rate.

The loan amount cannot exceed $5,000 per dwelling (or $2,000 per dwelling for nonprofit homes for the elderly) and the term cannot exceed 10 years. The loan must be used by the dwelling owner for energy conservation measures, including weather-stripping, caulking, insulation, energy-efficient replacement or storm windows and doors, and efficient oil furnaces. The owner must get an energy audit before getting the loan. The credit is non-refundable. Any credit unclaimed in a particular year because of insufficient tax liability may be carried forward up to 15 years. The 2001 legislation eliminates the former sunset date of December 21, 2001.

PURPOSE: To promote energy conservation in the more than 100,000 oil- and propane-heated homes by encouraging lending institutions to make loans for the financing of energy-saving projects.

WHO BENEFITS: Homeowners and owners of rental housing qualifying for energy conservation loans. Lenders may capture some of the benefit if the credit allows them to make profitable loans that they otherwise could not have made. Currently seven lending institutions are making energy conservation loans, but the bulk of the loans are made by two of them.

EVALUATION: The lender's credit is part of a package of incentives offered by the State Home Oil Weatherization (SHOW) Program for energy conservation measures in oil- and propane-heated homes. Improving the efficiency of oil- and propane-heated homes helps achieve the Oregon benchmarks for affordable housing and better air quality.

Since 1982, over 4,400 SHOW loans have been made for energy conservation measures. Oregon households that have participated in the program save almost two million gallons of oil and cut household energy bills by about $2.3 million per year. Administrative costs are kept low because the loan is offered through participating banks. The volume of this credit is expected to remain low as the number of oil-heated homes continues to decline. [*Evaluated by the Office of Energy*.]

1.183 GEOTHERMAL HEATING SYSTEM CONNECTION

Oregon Statute: 316.086
Sunset Date: 12-31-95
Year Enacted: 1979

	Corporation	Personal	Total
2001–03 Revenue Impact:	Not Applicable	Less than $50,000	Less than $50,000
2003–05 Revenue Impact:	Not Applicable	$0	$0

DESCRIPTION: A credit is allowed against personal income taxes equal to 25 percent of the cost of connecting a principal residence to a geothermal heating system run by a geothermal heating district. The credit may not exceed $1,000. The credit is non-refundable. Any credit unclaimed in a particular year because of insufficient tax liability may be used in later years, for up to five years. The credit was allowed to sunset on December 31, 1995, so the tax expenditure shown above represents only prior-year credits carried forward. The year 2000 is the final year these carryforwards can be used (which impacts revenues only in FY01).

Eligible costs include those associated with acquiring and installing connecting pipes, fixtures, and equipment necessary to allow a dwelling to use the services of a geothermal heating district. The dwelling can be either owner-occupied or operated as a rental.

PURPOSE: To promote the use of geothermal energy as an alternative to non-renewable energy sources. The Alternative Energy Devices (Residential) credit (1.180) applies to geothermal energy devices, but not to connections to a geothermal district.

WHO BENEFITS: Taxpayers connecting their homes to a geothermal heating system run by a geothermal heating district. The city of Klamath Falls runs the only existing geothermal heating district. There are approximately ten residential properties connected to this system. Some of these properties have more than one dwelling.

EVALUATION: This credit has been replaced with the Business Energy Tax Credit and the Residential Energy Tax Credit. [*Evaluated by the Office of Energy*.]

1.184 REFORESTATION

Oregon Statute: 315.104
Sunset Date: 12-31-11
Year Enacted: 1979, modified in 2001 (HB 2161)

	Corporation	Personal	Total
2001–03 Revenue Impact:	$300,000	$200,000	$500,000
2003–05 Revenue Impact:	$800,000	$500,000	$1,300,000

DESCRIPTION A credit is allowed against personal or corporation income tax equal to 50 percent of the qualified cost of reforesting under-productive commercial forest land. To qualify, the taxpayer must have the state Department of Forestry preliminarily certify the project after planting is completed. The taxpayer can claim 25 percent of the qualified costs in the year the trees are planted. After two growing seasons, the Department of Forestry must certify that the plantings are established. The taxpayer may then claim the remaining 25 percent of the initial cost, plus 50 percent of qualified maintenance costs over the two-year period. If the project is not established after two years, the remaining second half of the credit cannot be claimed. If the project is not established because of reasons within the taxpayer's control, the credit previously claimed on preliminary certification must be returned.

The taxpayer must own at least five acres of commercial Oregon forest land and the taxpayer's portion of project cost must be at least $500 for the project to qualify for the credit. Qualified costs include costs actually incurred for site preparation, tree planting, and other necessary silviculture treatments (such as moisture, erosion and animal damage control). Qualified costs exclude costs associated with reforestation projects required under the Forest Practices Act, any portion of cost paid through federal or state cost-sharing programs, and costs for growing Christmas trees, ornamental trees, or shrubs. Generally, costs associated with short rotation hardwoods (such as cottonwoods) are not eligible. Taxpayers owning no more than 2,000 acres of forest land in western Oregon (and no more than 5,000 acres in eastern Oregon) may, however, elect to claim the credit for planting these short rotation crops, but they must then pay the timber privilege tax at the time of harvest.

The credit is non-refundable. Any credit unclaimed in a particular year because of insufficient tax liability may be used in later years, for up to three years. This applies to the credits allowed on both preliminary and final certification.

The 2001 legislation increased the amount of the credit from 30 percent to 50 percent. The credits only apply to claims established after January 1, 2001, but before December 31, 2011. The legislation also expands the exclusion of qualifying costs from federal and state cost share to other financial assistance or incentive programs.

PURPOSE: To increase the public benefits that come from forested lands by promoting reforestation of commercial forest lands that do not currently have commercial trees growing on them, such as brush lands and marginal pasture lands. These lands are typically mixed in with or adjacent to land that currently is being used to grow timber.

WHO BENEFITS: Taxpayers who make expenditures to reforest under-productive commercial forest lands. About half of the beneficiaries are small, non-industrial timber growers, and half are larger industrial (mostly corporate) owners. The bulk of the credit, however, goes to the large industrial timber growers because they reforest much more of this type of forest land than do individual growers. The public also benefits from changing underproducing lands into productive forests for the many social, economic, and environmental benefits that forests have to offer.

EVALUATION: This expenditure is achieving its purpose with progress increasing significantly since the forest industry became eligible for the program. About 3,500 acres of brush and under stocked forest lands have been converted since the credit was increased from 10 to 30 percent in 1987. Forested lands produce far more and far better public benefits (fish and wildlife habitat and carbon sequestration through the tree's use of carbon dioxide to produce wood volume are two notable benefits) than do brush lands. The cost per acre for this conversion to the state averages about $50/acre with projected tax returns from these lands at over $400/acre on land that is converted to full stocking over a 50-year period. Considering positive effects to the environment and increase in future tax revenues, this has a good return on investment. [*Evaluated by the Forestry Department*.]

1.185 FIRE INSURANCE CREDIT

Oregon Statute: 317.122(1)
Sunset Date: None
Year Enacted: 1969

	Corporation	Personal	Total
2001–03 Revenue Impact:	$3,400,000	Not Applicable	$3,400,000
2003–05 Revenue Impact:	$3,600,000	Not Applicable	$3,600,000

DESCRIPTION Property and casualty insurers who write fire insurance policies pay both the corporation income tax and the fire insurance gross premiums tax (Fire Marshal Tax). These insurers are then allowed a credit against the corporation income tax for the fire insurance premium taxes paid under ORS 731.820.

Prior to January 1, 1997, this expenditure pertained only to domestic insurers. Foreign insurers did not have an equivalent credit for the gross premium tax. With the repeal of the gross premium tax, all insurers are eligible to claim a credit against the corporation income tax for their fire insurance taxes paid.

PURPOSE: To reduce the burden of taxes on property and casualty insurers who write fire insurance policies in Oregon.

WHO BENEFITS: For tax year 2000 about 215 corporate taxpayers benefited from this credit. These taxpayers reduced their tax liability by $8,000 on average. There were additional taxpayers claiming this credit who were unable to use it due to insufficient tax liability.

EVALUATION: Fire insurance premium taxes are used to fund the Office of State Fire Marshal (see the summary of insurance taxes at the beginning of Chapter 5). This credit has the effect of shifting part of that funding from the insurance industry to the state General Fund. If the credit were repealed, then the cost of fire insurance to policyholders might increase. [*Evaluated by the Department of Consumer and Business Services*.]

1.186 WORKERS' COMPENSATION ASSESSMENTS (INCOME TAX)

Oregon Statute: 317.122(2)
Sunset Date: None
Year Enacted: 1995

	Corporation	Personal	Total
2001–03 Revenue Impact:	$5,900,000	Not Applicable	$5,900,000
2003–05 Revenue Impact:	$6,100,000	Not Applicable	$6,100,000

DESCRIPTION Workers' compensation insurers pay both the corporation income tax and an assessment that provides funding to administer the Oregon workers' compensation system. These insurers are then entitled to a credit against corporation income taxes for assessments paid on workers' compensation premiums under ORS 656.612.

This expenditure became effective January 1, 1997. Prior to that date, foreign insurers claimed this credit against the gross premium tax as reported in Workers' Compensation Assessments (Gross Premium) (5.004).

PURPOSE: To reduce the burden of taxes and assessments on workers' compensation insurers, who already pay an assessment at a rate higher than the corporation income tax.

WHO BENEFITS: For tax year 2000 about 65 corporate taxpayers benefited from this credit. These taxpayers reduced their tax liability by $44,000 on average. There were additional taxpayers claiming this credit who were unable to use it due to insufficient tax liability. Additional taxpayers paying personal income taxes benefited from this provision.

EVALUATION: This expenditure was effective as a credit against the gross premium tax and is expected to remain effective under the corporation income tax. The workers' compensation assessment provides funds used to administer the entire Oregon Workers' Compensation system. This includes occupational safety and health issues handled by OR-OSHA. OR-OSHA has worked very successfully to reduce accident rates to Oregon workers and thereby reduce costs to employers and harm to workers. Funds are also used to regulate the insurance industry to ensure fair rates are charged employers and benefits are paid timely and accurately to injured workers. The system also includes mechanisms to ensure timely resolution of disputes to guarantee injured workers receive benefits for legitimate injuries in an expedient manner.

Two Oregon Benchmarks are directly impacted by the activities carried out as a result of this credit. Small Business Startups per 1,000 population are impacted by maintaining a safe and healthy work environment and by maintaining a reasonably priced workers' compensation system. Next, Oregon's ranking among states in workers' compensation costs has improved from 8th in 1990 to 34th in 2000. Both benchmarks have been positively impacted as a result of this credit.

This credit has the effect of a partial funding of administrative program costs by the General Fund. If the credit were repealed, the cost of the workers' compensation insurance to policyholders might increase. [*Evaluated by the Department of Consumer and Business Services*.]

1.187 OREGON IGA ASSESSMENTS (INCOME TAX)

Oregon Statute: 734.575
Sunset Date: None
Year Enacted: 1977

	Corporation	Personal	Total
2001–03 Revenue Impact:	$4,700,000	Not Applicable	$4,700,000
2003–05 Revenue Impact:	$5,700,000	Not Applicable	$5,700,000

DESCRIPTION: Property and casualty insurers pay both the corporation income tax and an assessment to a guaranty association that is used to cover the cost of claims against insurers who have gone out of business. These insurers are then entitled to a credit against the corporation income taxes for assessments paid to Oregon Insurance Guaranty Association (OIGA) at the rate of 20 percent per year for each of the five years following the year in which the assessment was paid.

Prior to January 1, 1997, this expenditure pertained only to domestic insurers, while foreign insurers had an equivalent credit against gross premium tax. With the repeal of the gross premium tax, all insurers are eligible to claim a credit against the corporation income tax for assessments paid to OIGA. The expenditure relating to gross premium tax is reported in Oregon IGA Assessments (Gross Premium) (5.005).

The revenue impact includes the estimated impact of recent 2001 and 2002 OIGA assessments.

PURPOSE: This provision allows the cost of claims against insolvent insurers, initially paid by fellow insurance companies, to be absorbed by the General Fund.

WHO BENEFITS: For tax year 2000 about 10 corporate taxpayers benefited from this credit. These taxpayers reduced their tax liability by $200 on average. There were additional taxpayers claiming this credit who were unable to use it due to insufficient tax liability.

EVALUATION: This expenditure achieves its purpose. This type of credit is common throughout the United States. It allows insurers to recover the costs of the assessment they pay to the guaranty association, which in turn is used to cover the cost of claims against insolvent insurers. Although the credit is not a prerequisite for the existence of the guaranty association, the credit does, in effect, transfer the cost of claims against insolvent insurers from the insurance industry to the state General Fund. By allowing the assessments to be claimed as credits over five years, the cost to the General Fund is spread out over five years. In effect, this gives the General Fund a five-year interest-free loan equal to the total assessment levied. Without this credit, General Fund revenue would be subject to more erratic fluctuations as insurer insolvencies call for funds to pay claims. [*Evaluated by the Department of Consumer and Business Services*.]

1.188 OREGON LIFE AND HEALTH IGA ASSESSMENTS (INCOME TAX)

Oregon Statute: 734.835
Sunset Date: None
Year Enacted: 1975

	Corporation	Personal	Total
2001–03 Revenue Impact:	$7,000,000	Not Applicable	$7,000,000
2003–05 Revenue Impact:	$7,000,000	Not Applicable	$7,000,000

DESCRIPTION: Life insurance companies pay both the corporation income tax and an assessment to a guaranty association that is used to cover the cost of claims against insurers who have gone out of business. These insurers are then entitled to a credit against the corporation income taxes for assessments paid to Oregon Life and Health Insurance Guaranty Association (OLHIGA) at the rate of 20 percent per year for each of the five years following the year in which the assessment was paid.

Prior to January 1, 1997, this expenditure pertained only to domestic insurers, while foreign insurers had an equivalent credit against gross premium tax. With the repeal of the gross premium tax, all insurers are eligible to claim a credit against the corporation income tax for assessments paid to OLHIGA. The expenditure relating to gross premium tax is reported in Oregon Life and Health IGA Assessments (5.006). The revenue impacts reported here account for the phase out of the gross premium tax.

PURPOSE: This provision allows the cost of claims against insolvent insurers, initially paid by fellow insurance companies, to be absorbed by the General Fund.

WHO BENEFITS: For tax year 2000 about 250 corporate taxpayers benefited from this credit. These taxpayers reduced their tax liability by $14,000 on average. There were additional taxpayers claiming this credit who were unable to use it due to insufficient tax liability.

EVALUATION: This expenditure achieves its purpose. This type of credit is common throughout the United States. It allows insurers to recover the costs of the assessment they pay to the guaranty association, which in turn is used to cover the cost of claims against insolvent insurers. Although the credit is not a prerequisite for the existence of the guaranty association, the credit does, in effect, transfer the cost of claims against insolvent insurers from the insurance industry to the state General Fund. By allowing the assessments to be claimed as credits over five years, the cost to the General Fund is spread out over five years. In effect, this gives the General Fund a five-year interest-free loan equal to the total assessment levied. Without this credit, General Fund revenue would be subject to more erratic fluctuations as insurer insolvencies call for funds to pay claims. [*Evaluated by the Department of Consumer and Business Services*.]

1.189 POLITICAL CONTRIBUTIONS

Oregon Statute: 316.102
Sunset Date: None
Year Enacted: 1969

	Corporation	Personal	Total
2001–03 Revenue Impact:	Not Applicable	$8,800,000	$8,800,000
2003–05 Revenue Impact:	Not Applicable	$8,800,000	$8,800,000

DESCRIPTION: A credit may be claimed against personal income taxes for the amount of qualified political contributions, not to exceed $50 (or $100 on a joint return). Qualified political contributions include voluntary cash contributions to a major or minor political party, to candidates for office in an election in the state (includes federal candidates), or to political action committees (PACs) in the state. The credit is non-refundable. Credits that cannot be used because of insufficient tax liability in the current year may not be carried forward to later years. The credit was modified in 1999 (SB 369) by expanding the candidates and contributions eligible for the credit.

PURPOSE: To increase public participation in the political process.

WHO BENEFITS: Taxpayers who make cash contributions to political candidates or political action committees. The number of full-year resident taxpayers who claim this credit fluctuates from year to year. The number of taxpayers claiming the credit expanded dramatically in 1999 because of the law’s expansion.

In 1999, about 55,700 Oregon full-year residents claimed this credit. In 2000, about 73,400 Oregon full-year residents claimed this credit. The average credit claimed held steady at about $70 in both 1999 and 2000; a total of $3.79 million was claimed in 1999 and $4.97 million in 2000.

Income Group (Quintiles)	Taxpayers		Mean Credit
	Number	Percent	
Below $10,000	1,246	1.7%	$36
$10,000 - $22,000	4,337	5.9%	$50
$22,000 - $37,000	8,196	11.2%	$57
$37,000 - $63,000	18,384	25.0%	$63
Above $63,000	41,242	56.2%	$76
Total	73,405	100.0%	$69

EVALUATION: It is difficult to determine whether this expenditure has been effective in achieving its purpose. The credit amount is relatively small at $100 on a joint return. The data provided by the Department of Revenue does indicate an increase in the percentage of Oregon full-year residents claiming the credit growing from 4.9 percent in 1990 to 5.0 percent in 1996. However, the increase in political contributions could also be attributed to the increased number of ballot measures, the increased interest in the content of the ballot measures, such as property tax relief, public employee's retirement, etc., and closely contested political races.

In 1996 and 1998, state law limited the candidates and committees whose contributors were eligible for the credit. These limitations were repealed in 1999 as a result of SB 369. Therefore, it is expected that claimants will increase in numbers. The 2001–03 expenditure estimate included the estimated $1 million impact of the limitation repeal.

We are unable to determine if a tax expenditure is the most fiscally effective means of increasing public participation in the political process other than to say the tax credit is relatively low compared to the amount of contributions an individual could make.

1.190 PERSONAL EXEMPTION CREDIT

Oregon Statute: 316.085
Sunset Date: None
Year Enacted: 1985

	Corporation	Personal	Total
2001–03 Revenue Impact:	Not Applicable	$810,400,000	$810,400,000
2003–05 Revenue Impact:	Not Applicable	$874,900,000	$874,900,000

DESCRIPTION: Every taxpayer in Oregon receives a minimum of one personal exemption credit on Oregon's personal income tax. In addition to this credit, taxpayers receive an additional credit for each dependent. On joint returns, each spouse receives a credit. Individuals who can be claimed as a dependent on another's return cannot claim a credit on their own return. The amount of the credit was $145 in 2002; it is indexed to inflation.

PURPOSE: To provide a minimum level of tax-free income for all Oregonians.

WHO BENEFITS: All personal income taxpayers in Oregon, except those who are claimed on another taxpayer's return. The benefit rises with increases in family size. The number of personal exemptions increased from about 2,680,000 in 1990 to 3,226,000 in 2000. The credit per exemption, indexed for inflation, increased from $98 to $139 in that same period. The credit is non-refundable and cannot be carried forward, so taxpayers whose tax liability is less than their exemption do not receive the full benefit of the credit. About 9 percent of the credit went unused in 2000 due to insufficient tax liabilities. The total amount of Oregon exemption credits increased from $227 million in 1990 to $386 million in 2000.

Income Group (Quintiles)	Taxpayers		Mean Credit
	Number	Percent	
Below $10,000	187,000	14.2%	$100
$10,000 - $22,000	274,978	20.8%	$216
$22,000 - $37,000	285,091	21.6%	$263
$37,000 - $63,000	286,567	21.7%	$332
Above $63,000	286,804	21.7%	$382
Total	1,320,440	100.0%	$271

EVALUATION: The credit achieves its purpose of providing a level of tax-free income for all Oregonians, and because the credit is granted for each taxpayer and dependent, the credit increases with family size. Because this tax relief is in the form of a credit rather than a deduction, it provides more tax relief, relative to incomes, to lower income taxpayers, increasing the progressivity of Oregon's income tax. [*Evaluated by the Department of Revenue*.]

1.191 RETIREMENT INCOME

Oregon Statute: 316.157
Sunset Date: None
Year Enacted: 1991

	Corporation	Personal	Total
2001–03 Revenue Impact:	Not Applicable	$2,900,000	$2,900,000
2003–05 Revenue Impact:	Not Applicable	$2,100,000	$2,100,000

DESCRIPTION: Certain taxpayers who are 62 or older are allowed a credit against personal income taxes equal to nine percent of their net pension income. To qualify for the credit, the taxpayer must have household income of $22,500 or less ($45,000 or less if married filing jointly) and no more than $7,500 ($15,000 if married filing jointly) in Social Security and/or Tier 1 Railroad Retirement Board benefits.

Net pension income includes all retirement income included in federal taxable income. This includes private, state, local, and federal government pensions (all in excess of returns of contributions); and distributions from deferred compensation plans, IRAs, SEPs, and Keoghs. It does not include Social Security benefits, which are not taxed by Oregon. Net pension income qualifying for the credit is limited. For joint filers the limit equals $15,000 minus the Social Security benefits received minus household income (not considering Social Security benefits) over $30,000. For taxpayers who do not file a joint return, the limit is $7,500 minus Social Security benefits minus household income (not considering Social Security benefits) over $15,000.

Prior to 1989, Oregon allowed deductions for some types of public retirement income, rather than a credit. Oregon state and local public pensions were exempt from tax, and some federal pensioners could deduct up to $5,000. No deduction was allowed for other retirement income, including all private pensions. In 1989, the U.S. Supreme Court ruled in *Davis vs. Michigan* that this type of deduction was illegal since it discriminated against federal government retirees (compared to state and local government retirees). In 1991 the Legislature eliminated all deductions for government retirement income and introduced this credit to offset some of the increased resulting tax liability and to achieve equity among retirement income recipients.

The revenue impacts reported here include the effect of exempting federal pension income beginning with tax year 1998 (Federal Pension Income (1.132)). Because federal pensioners will no longer be paying Oregon taxes on federal pension income, they will also be using this retirement credit much less.

PURPOSE: To retain some preferential treatment of retirement income without discriminating among the sources of that income.

WHO BENEFITS: The number of taxpayers claiming the credit declined from about 52,800 in 1991 to 26,700 in 1997. The average credit claimed in 1997 was $285. When federal pension income became exempt from taxation in 1998, the use of this credit declined substantially. In 1998, roughly 16,900 taxpayers claimed an average credit of $280. In 2000 the number of taxpayers and average credit declined further to approximately 11,500 and $190, respectively.

Income Group (Quintiles)	Taxpayers		Mean Credit
	Number	Percent	
Below $10,000	1,696	14.7%	$80
$10,000 - $22,000	5,110	44.4%	$170
$22,000 - $37,000	4,068	35.4%	$269
$37,000 - $63,000	629	5.5%	$197
Above $63,000	0	0.0%	N/A
Total	11,503	100.0%	$193

EVALUATION: This tax expenditure appears to achieve its purpose. It provides added financial security to those eligible and contributes to their ability to remain self-sufficient. By encouraging financial independence, this provision reduces demand for other state-funded services and saves the state money. This tax expenditure will become increasingly important as the population distribution changes. Current forecasts indicate that current retirement savings are not nearly sufficient to support future retirees in their accustomed lifestyles. Because this tax provision is relatively new, it should be monitored to determine if the established threshold level should be modified in the future. [*Evaluated by the Seniors and People with Disabilities Cluster*.]

1.192 TRUST FOR CULTURAL DEVELOPMENT

Oregon Statutes: 315.675
Sunset Date: 12-31-12
Year Enacted: 2001 (HB 2923)

	Corporation	Personal	Total
2001-03 Revenue Impact:	$300,000	$1,900,000	$2,200,000
2003-05 Revenue Impact:	$2,400,000	$15,500,000	$17,900,000

DESCRIPTION: Allows an income tax credit for contributions made to the Trust for Cultural Development Account. The contribution must be matched by a contribution to an Oregon cultural organization. The taxpayer may still deduct any amount allowed for a charitable contribution. The credit is limited to a maximum of $1,000 ($500 for a single filer) for personal income tax filers and $2,500 for corporations. The Secretary of State oversees the Cultural Development Board which oversees the Trust for Cultural Development Account.

The credit is available for tax years beginning in 2002 but only for donations made to the account after December 1, 2002. The credit may not be carried forward to another tax year.

The Trust for Cultural Development invests in Oregon cultural development by funding county and tribal coalitions, providing grants to cultural organizations, and funding statewide cultural agencies.

PURPOSE: To encourage donations to cultural organizations that include “theatres, performing arts centers and programs, historic buildings, museums and their exhibits, public art, historic trails, pioneer cemeteries, archeological sites, architecture, Native American culture and traditions, [and] libraries and parks.”

WHO BENEFITS: Oregon cultural organizations.

EVALUATION: The Oregon Cultural Trust has no data at this time with which to evaluate this tax expenditure since the measure takes effect in December 2002. [*Evaluated by the Secretary of State*.]