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 2005-07 biennium, this revenue is estimated to be $11.1 billion, or 88 percent of General Fund revenues, and $12.2 billion for 2007-09 (prior to any kicker[1]). 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* can be found at http://www.oregon.gov/DOR/STATS/index.shtml.

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 investment and business income. Monetary income includes wages, salaries, interest, dividends, public assistance payments, and all other monetary income. Examples of nonmonetary income include the value of health benefits provided by employers, the value of gifts received by the individual, 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 important implications for Oregon's tax. Using the same definition of income helps simplify the Oregon tax return, reducing the number of calculations taxpayers need to make. The connection to the federal definition of taxable income also makes the tax easier for the state of Oregon to administer.

Oregon has some deviations from federal taxable income. Income taxed federally but not by Oregon is subtracted from federal Adjusted Gross Income (AGI) when computing Oregon tax (termed subtractions). There are also additions to federal income – income Oregon taxes but is not taxed federally.

Tying to the federal definition of taxable income 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 96 of these special federal provisions—exclusions, deductions, and adjustments—that flow through to Oregon's personal income tax.

In addition to the tax expenditures resulting from exclusions, deductions, and adjustments in the federal tax code, there are about 23 subtractions and 47 credits in Oregon law that further reduce individuals' taxable income. The subtractions and credits provide special or specific tax benefits to people, and are thus considered tax expenditures.

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. 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.

[1] Oregon law requires the state to refund excess revenue to individual taxpayers whenever general fund revenues from all sources other than corporate income tax exceed the forecast for the biennial budget period by two percent or more.

The corporation income tax is the second largest source of revenue for the state General Fund. For the 2005-07 biennium, this revenue is estimated to be $738 million, or 5.9 percent of General Fund revenues, and $778 million for 2007-09 (prior to any kicker[2]).The Department of Revenue publishes an annual report that provides detailed statistics on the corporation income tax. The most recent version of *Oregon Corporate Excise and Income Tax* can be found at http://www.oregon.gov/DOR/STATS/index.shtml.

As with the personal income tax, the "normal" tax base for the corporate income tax includes income from all sources, both monetary and nonmonetary. A key difference between the corporate income tax and the personal income tax is that the corporate income tax is meant to apply to net income, so corporations deduct 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. Of particular note, when the 2005 Oregon Legislature passed the continuing connection to federal taxable income with Senate Bill 31A, two new federal provisions were excluded from that connection. Oregon did not tie to the federal Qualified Production Activities Income (QPAI) deduction, and beginning in January of 2008 Oregon will not be tied to the federal exclusion for Medicare subsidy income.

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 2007–09 biennium, the connection to the federal definition of taxable income is forecast to reduce Oregon corporation income tax revenue by roughly $248 million. There are seven Oregon-specific subtractions that can further reduce the taxable income of corporations, and reduce tax revenues by about $1 million. 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 to offset the corporation income tax. None is refundable, but most allow unused credit amounts to be carried forward and used in later years. In 2007–09, these credits are expected to reduce corporation tax revenue by roughly $71 million.

[2] Oregon law requires the state to refund excess revenue to corporate taxpayers whenever general fund revenues from the corporate income tax exceed the forecast for the biennial budget period by two percent or more.

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
2005–07 Revenue Impact:	Not Applicable	$11,600,000	$11,600,000
2007–09 Revenue Impact:	Not Applicable	$13,200,000	$13,200,000

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 colleges, universities, or other educational institutions.

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

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 cost of attendance has become increasingly important as tuition rates have exceeded the rate of inflation in recent years; although tuition increases in Oregon were limited to the increase in median family income in the current biennium. *[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
2005–07 Revenue Impact:	Not Applicable	$200,000	$200,000
2007–09 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 in the same year in which they are redeemed. Qualified higher education expenses include tuition and fees, but not room and board expenses. For 2006, a full exclusion was allowed if income is less than $63,100 if single and $94,700 if married. The exclusion phases out through incomes of $78,100 (single) and $124,700 (married) at which point no exclusion is 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
2005–07 Revenue Impact:	Not Applicable	$800,000	$800,000
2007–09 Revenue Impact:	Not Applicable	$1,000,000	$1,000,000

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. 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.

There is a $2,000 limit on annual contributions for a single beneficiary under 18. Contributions may also be made on behalf of special needs beneficiaries older than age 18. The contribution limit 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 contribute, regardless of their income. Contributions may be made to both an educations savings account and a Qualified Tuition Program (Federal) (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)
Federal Law Sunset Date: None
Year Enacted: 1996

	Corporation	Personal	Total
2005–07 Revenue Impact:	Not Applicable	$5,500,000	$5,500,000
2007–09 Revenue Impact:	Not Applicable	$7,000,000	$7,000,000

DESCRIPTION: Individuals may establish tax-deferred and tax-exempt college savings plans through state sponsored savings plans or 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. Qualifying distributions from savings or prepaid tuition plans are excluded from tax. This exemption can be taken without itemizing (known as an adjustment or above-the-line deduction).

Nonqualifying distributions are subject to a penalty, and the earnings share of the nonqualifying 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 529 College Savings Network (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 529 College Savings Network (1.113).

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.]*

1.005 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
2005–07 Revenue Impact:	Not Applicable	$16,400,000	$16,400,000
2007–09 Revenue Impact:	Not Applicable	$18,300,000	$18,300,000

DESCRIPTION: Public assistance benefits in the form of cash payments or goods and services, whether provided 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).

Oregon law [ORS 316.680(1)(e)] also specifically excludes supplemental payments made under the JOBS Plus program. A separate tax expenditure is not listed for that program since it falls under this expenditure as TANF benefits.

PURPOSE: To reduce taxation 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 Department of Human Services.]*

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
2005–07 Revenue Impact:	Not Applicable	$4,500,000	$4,500,000
2007–09 Revenue Impact:	Not Applicable	$5,200,000	$5,200,000

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 for children.

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 Department of Human Services.]*

1.007 EMPLOYEE ADOPTION BENEFITS

Internal Revenue Code Section: 137
Oregon Statute: 316.048 (Connection to federal personal taxable income)
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1996

	Corporation	Personal	Total
2005–07 Revenue Impact:	Not Applicable	$3,400,000	$3,400,000
2007–09 Revenue Impact:	Not Applicable	$4,200,000	$4,200,000

DESCRIPTION: Benefits received under employer-sponsored adoption assistance programs are excluded from personal taxable income. The maximum exclusion in 2006 was $10,960 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. In 2006, the exclusion

was phased out at modified adjusted gross incomes between $164,410 and $204,410. The exclusion limit and phase-outs are 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. Because 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 to 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 (ASFA) 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 1,000 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 Department of Human Services.]*

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
2005–07 Revenue Impact:	Not Applicable	$236,200,000	$236,200,000
2007–09 Revenue Impact:	Not Applicable	$286,300,000	$286,300,000

DESCRIPTION: Employer-paid benefits under cafeteria plans that offer employees 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 to encourage employees to use the 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 the Oregon Health Plan Policy and 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
2005–07 Revenue Impact:	Not Applicable	$770,000,000	$770,000,000
2007–09 Revenue Impact:	Not Applicable	$910,300,000	$910,300,000

DESCRIPTION: Employer payments for health insurance and other employee medical expenses are not included in the employee's personal taxable income. Federal law does require that the imputed value of health and other fringe benefits of a domestic partner be included in AGI when co-habitating couples are not married.

PURPOSE: To encourage employers 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.

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. *[Evaluated by the Oregon Health Plan Policy and Research.]*

1.010 COMPENSATORY DAMAGES

Internal Revenue Code Section: 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
2005–07 Revenue Impact:	Not Applicable	$10,900,000	$10,900,000
2007–09 Revenue Impact:	Not Applicable	$11,400,000	$11,400,000

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 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 the Oregon Health Plan Policy and Research.]*

1.011 PRESCRIPTION DRUG INSURANCE (PART D)

Internal Revenue Code Section: 139A
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: 2003

	Corporation	Personal	Total
2005–07 Revenue Impact:	$3,500,000	$30,500,000	$34,000,000
2007–09 Revenue Impact:	$1,500,000	$10,900,000	$12,400,000

DESCRIPTION: Medicare added a new provision, part D, to cover prescription drug benefits. These benefits are paid as subsidies to beneficiaries and excluded from income calculations on individual tax returns. Subsidies are also paid to public and private employers providing actuarially equivalent care, and excluded from corporate income calculations.

Oregon has only reconnected to the federal tax code on prescription drug insurance through December 31, 2007.

PURPOSE: To reduce the effective cost of prescription drugs for Medicare recipients and to offer incentives for employers to provide equivalent insurance benefits.

WHO BENEFITS: People on Medicare or working for businesses providing equivalent benefits. Companies that provide these benefits for their employees.

EVALUATION: Not evaluated.

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
2005–07 Revenue Impact:	Not Applicable	$157,500,000	$157,500,000
2007–09 Revenue Impact:	Not Applicable	$190,200,000	$190,200,000

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.

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

WHO BENEFITS: In 2005, there were 526,000 Oregonians enrolled in 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 Department of Human Services.]*

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
2005–07 Revenue Impact:	Not Applicable	$208,200,000	$208,200,000
2007–09 Revenue Impact:	Not Applicable	$130,000,000	$130,000,000

DESCRIPTION: For those who elect to pay the required monthly premiums ($93.50 in 2007), 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 are limited to the percentage increase in the Social Security cost of living allowance.

PURPOSE: To ensure the consistent treatment with nontaxed Social Security benefits.

WHO BENEFITS: In 2005, there were 500,000 Oregonians enrolled in 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 nontaxed 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 Department of Human Services.]*

1.014 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
2005–07 Revenue Impact:	Not Applicable	$803,900,000	$803,900,000
2007–09 Revenue Impact:	Not Applicable	$884,000,000	$884,000,000

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 2006 is $15,000. 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; 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.

WHO BENEFITS: Employees receiving employer-paid pension 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. 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 earnings 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 Department of Human Services.]*

1.015 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
2005–07 Revenue Impact:	Not Applicable	Less than $50,000	Less than $50,000
2007–09 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: Oregon taxpayers receiving Black Lung benefits.

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

1.016 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
2005–07 Revenue Impact:	Not Applicable	$313,100,000	$313,100,000
2007–09 Revenue Impact:	Not Applicable	$338,500,000	$338,500,000

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) (1.118).

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: Roughly 160,000 Oregon resident taxpayers received some nontaxable Social Security and Railroad Retirement Board benefits in 2004.

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 Department of Human Services.]*

1.017 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
2005–07 Revenue Impact:	Not Applicable	$29,100,000	$29,100,000
2007–09 Revenue Impact:	Not Applicable	$32,200,000	$32,200,000

DESCRIPTION: 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. (This income level will be indexed to inflation beginning in 2008.) 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 help compensate U.S. citizens working abroad for higher living costs overseas and taxes paid to the foreign country of residence. U.S. citizens working abroad may play a role in promoting the sale of U.S. exports.

WHO BENEFITS: U.S. citizens 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.

Oregon remains relatively dependent on international trade, and its economy may benefit significantly from a tax climate that remains relatively attractive to individuals and corporations that do or can engage in international commerce. *[Evaluated by the Economic and Community Development Department].*

1.018 MAGAZINE, PAPERBACK, AND RECORD RETURNS

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

	Corporation	Personal	Total
2005–07 Revenue Impact:	100,000	Less than $50,000	$100,000
2007–09Revenue Impact:	100,000	Less than $50,000	$100,000

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. This tax expenditure grants an exemption to publishers and distributors of magazines, paperbacks, and records. (Records include discs, tapes, and similar objects 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 returned shortly after the close of the tax year. Specifically, magazines must be returned within two months and 15 days after the end of the tax year. Paperbacks and records must be returned within four months and 15 days. This allows publishers and distributors to sell more copies to wholesalers and retailers than they expect will be sold to consumers.

PURPOSE: To encourage the purchase and sale of printed magazines, paperbacks and recordings. To allow businesses that sell magazines, paperbacks and recordings to fairly account for circumstances falling outside the standard computation of sales and income in the tax code.

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.]*

1.019 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 income)
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1916

	Corporation	Personal	Total
2005–07 Revenue Impact:	$100,000	$6,000,000	$6,100,000
2007–09 Revenue Impact:	$100,000	$6,300,000	$6,400,000

DESCRIPTION: This tax expenditure allows employee-owned service businesses and other small businesses with average annual gross receipts of less than $10 million for the last three years to choose the cash method of accounting instead of the accrual method. Using the cash method of accounting for tax purposes effectively defers corporation and personal income tax by allowing qualified businesses to record income when it is received rather than when it is earned. Cash Accounting for Agriculture (1.086) is a similar tax expenditure for small farms.

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

WHO BENEFITS: Small businesses benefit directly from this expenditure.

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.]*

1.020 REGIONAL ECONOMIC DEVELOPMENT INCENTIVES

Internal Revenue Code Sections: 38(b), 39(d), 45A, 168(j), 280C(a), and 1391–1397D
Oregon Statutes: 316.048 and 317.013 (Connections to federal personal and corporation taxable income)
Federal Law Sunset Date: 12-31-09
Year Enacted in Federal Law: 1993

	Corporation	Personal	Total
2005–07 Revenue Impact:	Less than $50,000	Less than $50,000	Less than $50,000
2007–09 Revenue Impact:	$0	$0	$0

DESCRIPTION: Federal law allows for the designation of up to 40 empowerment zones, 95 enterprise communities, and 40 renewal communities in the U.S. to receive special tax benefits.

The major benefit of designation is access to tax-exempt bond financing. Qualified public schools in enterprise communities and empowerment zones also have access to qualified zone academy bonds for school modernization. Empowerment zone and renewal community businesses receive additional tax incentives in the form of wage credits and an additional $35,000 in capital equipment expensing.

Designated areas must satisfy eligibility criteria including poverty rates, population, and geographic size limits. Designated areas are eligible for benefits through December 31, 2009.

Oregon currently has no areas that qualify for this tax expenditure. The 10-year designation of the two Oregon federal Enterprise Communities in Josephine County and Portland ended on December 31, 2004. To date, there has been no Oregon area designated as a federal Empowerment Zone or Renewal Community.

PURPOSE: To revitalize economically distressed areas through expanded business and employment opportunities.

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

EVALUATION: Indeterminate; insufficient usage and data to analyze effectiveness in Oregon. *[Evaluated by the Economic and Community Development Department.]*

1.021 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
2005–07 Revenue Impact:	$18,800,000	Not Applicable	$18,800,000
2007–09 Revenue Impact:	$28,900,000	Not Applicable	$28,900,000

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 U.S. firms can delay paying U.S. taxes by keeping income in the hands of foreign subsidiaries, it provides a tax benefit for firms that invest in countries with low tax rates.

The American Jobs Creation Act of 2004 contained a dividend exemption for controlled foreign corporations that expired on December 31, 2005. The amount of foreign income repatriated during the exemption period will significantly reduce the impact of this exemption in the 2005-07 biennium.

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. Oregon remains relatively dependent on international trade, and its economy may benefit significantly from a tax climate

that remains relatively attractive to individuals and corporations that do or can engage in international commerce.

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.]*

1.022 EXTRATERRITORIAL INCOME EXCLUSION

Internal Revenue Code Sections: 114; 941-2
Oregon Statute: 317.013 (Connection to federal corporation taxable income)
Federal Law Sunset Date: None (Repealed by federal HB 4520 in 2004.)
Year Enacted in Federal Law: 2000

	Corporation	Personal	Total
2005–07 Revenue Impact:	$13,400,000	Not Applicable	$13,400,000
2007–09 Revenue Impact:	$1,400,000	Not Applicable	$1,400,000

DESCRIPTION: This tax provision allows taxpayers to exclude between 15 to 30 percent of their qualified foreign trade income from taxation. The calculation rule used by the taxpayer determines the size of the exemption.

Qualified foreign trade income is defined as a specified portion of income from the sale of certain goods abroad. The goods sold abroad must have no more than 50 percent of their value coming from foreign goods or from labor performed outside of the U.S.

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. In October 2004, the ETI federal law was repealed, but soon after was replaced by a similar deduction for 2005: the Qualified Production Activities Income (QPAI). The phase-out of ETI that was part of the repeal has also been declared illegal, but Congress has yet to repeal those provisions.

While it is uncertain whether QPAI will face the same fate as its predecessors, any alteration to the QPAI deduction will not affect the revenue estimates for this tax expenditure because Oregon is not tied to this provision in its current definition of federal taxable 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.]*

1.023 CANCELLATION OF DEBT FOR NON-FARMERS

Internal Revenue Code Sections: 108(a)(1)(D)
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: Pre-1955

	Corporation	Personal	Total
2005–07 Revenue Impact:	Less than $50,000	Less than $50,000	Less than $50,000
2007–09 Revenue Impact:	Less than $50,000	Less than $50,000	Less than $50,000

DESCRIPTION: In general, when a "discharge of indebtedness" occurs, the forgiven debt is considered income to the taxpayer. An exception is allowed for the discharge of qualified real property business indebtedness. This qualified indebtedness must be connected with real property used in a trade or business. A similar tax expenditure exists for farmers [Cancellation of Debt for Farmers (1.038)].

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

WHO BENEFITS: Taxpayers who have had debt discharged.

EVALUATION: Very limited use of this provision 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.]*

1.024 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 income)
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1964

	Corporation	Personal	Total
2005–07 Revenue Impact:	$100,000	$2,900,000	$3,000,000
2007–09 Revenue Impact:	$100,000	$3,000,000	$3,100,000

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 this general rule. 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. An interest rate of greater than 9 percent may not be assigned to debt instruments given in exchange for real property for amounts less an inflation-adjusted maximum (currently about $3 million). This tax expenditure is the revenue loss caused by these exceptions.

A common example of this exemption is a low-interest, no-interest or "gift" loan involved in the sale of property between family members.

PURPOSE: To reduce the tax burden on the sales of homes, small businesses, and farms and allow buyers to structure the purchase of property that would otherwise be unaffordable with financial market rates and conditions.

WHO BENEFITS: Sellers of residences, small businesses, and farms who would have to pay tax on interest they do not charge and otherwise will not receive.

EVALUATION: Not evaluated.

1.025 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
2005–07 Revenue Impact:	Not Applicable	$21,100,000	$21,100,000
2007–09 Revenue Impact:	Not Applicable	$22,000,000	$22,000,000

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.

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.

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.]*

1.026 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
2005–07 Revenue Impact:	Not Applicable	$22,200,000	$22,200,000
2007–09 Revenue Impact:	Not Applicable	$24,500,000	$24,500,000

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.

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.

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 (1.025), 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.]*

1.027 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
2005–07 Revenue Impact:	Not Applicable	$22,400,000	$22,400,000
2007–09 Revenue Impact:	Not Applicable	$22,300,000	$22,300,000

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.

WHO BENEFITS: The majority of the benefit goes to employees making contributions to tax-free dependent care accounts set up by their employers. The remainder of the benefit goes to employees receiving employer-paid dependent care benefits.

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 nontaxable 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.]*

1.028 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
2005–07 Revenue Impact:	Not Applicable	$55,300,000	$55,300,000
2007–09 Revenue Impact:	Not Applicable	$58,900,000	$58,900,000

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.

Federal law requires that the imputed value of health and other fringe benefits of a domestic partner be included in AGI when co-habitating couples are not married.

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.

WHO BENEFITS: Employees receiving fringe benefits.

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.]*

1.029 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
2005–07 Revenue Impact:	Not Applicable	$7,500,000	$7,500,000
2007–09 Revenue Impact:	Not Applicable	$7,800,000	$7,800,000

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.

WHO BENEFITS: Employees and their employers in occupations or sectors where the provision of meals 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.]*

1.030 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 income)
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1974

	Corporation	Personal	Total
2005–07 Revenue Impact:	$4,100,000	$2,500,000	$6,600,000
2007–09 Revenue Impact:	$4,600,000	$2,500,000	$7,100,000

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.

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.]*

1.031 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
2005–07 Revenue Impact:	Not Applicable	$1,300,000	$1,300,000
2007–09 Revenue Impact:	Not Applicable	$1,500,000	$1,500,000

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.

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.]*

1.032 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
2005–07 Revenue Impact:	Not Applicable	$7,000,000	$7,000,000
2007–09 Revenue Impact:	Not Applicable	$7,500,000	$7,500,000

DESCRIPTION: Employer-provided graduate and undergraduate assistance benefits, up to $5,250 annually, are excluded from the personal taxable income of the recipient if they are part of an educational assistance program. Characteristics of the program must include the following:

- The program must not discriminate in favor of highly compensated employees.
- Assistance provided to employees owning more than 5 percent of the business may not exceed more than 5 percent of the benefits.
- 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.

PURPOSE: To promote the provision of educational benefits by employers.

WHO BENEFITS: Employees receiving employer provided educational assistance. Employers 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.]*

1.033 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
2005–07 Revenue Impact:	Not Applicable	$3,000,000	$3,000,000
2007–09 Revenue Impact:	Not Applicable	$2,500,000	$2,500,000

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. The value of this tax expenditure is that the tax is deferred until 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 (1.030), 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.]*

1.034 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
2005–07 Revenue Impact:	Not Applicable	$331,900,000	$331,900,000
2007–09 Revenue Impact:	Not Applicable	$352,700,000	$352,700,000

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."

This provision replaced a commonly used exclusion, 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 houses." *[Evaluated by the Housing and Community Services Department.]*

1.035 VETERANS' BENEFITS AND SERVICES

U.S. Code Title 38, 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
2005–07 Revenue Impact:	Not Applicable	$42,200,000	$42,200,000
2007–09 Revenue Impact:	Not Applicable	$45,800,000	$45,800,000

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 in The Dalles. In 2005, 143 veterans resided in this facility.

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 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.]*

1.036 MILITARY AND DEPENDENTS CHAMPUS/TRICARE INSURANCE

Internal Revenue Code Section: 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
2005–07 Revenue Impact:	Not Applicable	$20,100,000	$20,100,000
2007–09 Revenue Impact:	Not Applicable	$22,900,000	$22,900,000

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 (DOD) has implemented 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. 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.

PURPOSE: To abide by a court ruling. 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 nontaxable expenses authorized by the executive branch. This 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 nontaxable 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.]*

1.037 AGRICULTURE COST-SHARING PAYMENTS

Internal Revenue Code Section: 126
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: 1978

	Corporation	Personal	Total
2005–07 Revenue Impact:	$100,000	$100,000	$200,000
2007–09 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: Recipients of federal or state cost-sharing payments for environmental improvements to land.

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 that has developed over a long period of time. Others relate to improving land that 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. *[Evaluated by the Department of Agriculture.]*

1.038 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
2005–07 Revenue Impact:	Not Applicable	$1,100,000	$1,100,000
2007–09 Revenue Impact:	Not Applicable	$1,100,000	$1,100,000

DESCRIPTION: In general, when a "discharge of indebtedness" occurs the forgiven debt is considered income to the taxpayer. An exception is allowed for the discharge of qualified debt. To qualify, farm debt must be a direct result of farm operations, and at least half of the taxpayer's gross receipts from the previous three years must be from farming. The lender canceling the debt must also meet several qualifications. For instance, the lender cannot be related to the farmer.

PURPOSE: To reduce the tax burden on farmers who have a debt discharged 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.]*

1.039 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
2005–07 Revenue Impact:	Included in 1.128	Included in 1.128	Included in 1.128
2007–09 Revenue Impact:	Included in 1.128	Included in 1.128	Included in 1.128

DESCRIPTION: Residential energy customers can exclude from personal taxable income subsidies provided by utilities for the purchase or installation of an energy conservation device.

PURPOSE: To encourage residential customers of public utilities to participate in conservation programs, sponsored by the utility. This would enhance energy efficiency of dwelling units and encourage energy conservation in residential buildings.

WHO BENEFITS: Homeowners who participate in conservation programs and install energy-saving devices.

EVALUATION: See the evaluation of Energy Conservation Subsidies (Oregon) (1.128). *[Evaluated by the Oregon Department of Energy.]*

1.040 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
2005–07 Revenue Impact:	Not Applicable	$28,500,000	$28,500,000
2007–09 Revenue Impact:	Not Applicable	$29,900,000	$29,900,000

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. For tax year 2006, the maximum exclusion for parking is $205 per month and the maximum exclusion for transit and commuter transportation is $105 per month. The maximum exclusion amounts are adjusted for inflation in $5 increments.

PURPOSE: To codify the established practice of not treating parking benefits as taxable income. The ceiling was established for parking benefits in 1992 in order to limit the 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).

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. Because 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.]*

1.041 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 income)
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1913

	Corporation	Personal	Total
2005–07 Revenue Impact:	$11,000,000	$194,200,000	$205,200,000
2007–09 Revenue Impact:	$11,600,000	$204,400,000	$216,000,000

DESCRIPTION: The investment income of life insurance contracts typically 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. Yet this investment income may be taxed as corporation or personal income if it accumulates much faster than is needed to fund the promised benefits.

The investment income from annuity policies is free from taxation as it accumulates, but may be taxed as corporation or personal income when paid.

PURPOSE: To defer or reduce the tax burden on the investment income of life insurance contracts and annuity policies.

WHO BENEFITS: Policyholders who purchase life insurance and annuities (mostly middle-income taxpayers) 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.]*

1.042 WORKERS' COMPENSATION BENEFITS (NONMEDICAL)

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
2005–07 Revenue Impact:	Not Applicable	$22,600,000	$22,600,000
2007–09 Revenue Impact:	Not Applicable	$22,500,000	$22,500,000

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. The revenue impact estimates shown above are for workers' compensation non-medical benefits only. These benefits may include cash earnings-replacement payments, special payments for physical impairment, and coverage for certain injury or death-related expenses (e.g., burial costs). The effect of workers' compensation medical benefits is covered in Workers' Compensation Benefits (Medical) (1.043).

PURPOSE: To help compensate for the economic hardship imposed by work-related injury, sickness, or death and to be consistent with the tax treatment of court awarded Compensatory Damages (1.010).

WHO BENEFITS: Workers, or their families in cases of work-related death, receiving workers' compensation benefits.

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.]*

1.043 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
2005–07 Revenue Impact:	Not Applicable	$54,000,000	$54,000,000
2007–09 Revenue Impact:	Not Applicable	$63,200,000	$63,200,000

DESCRIPTION: Workers' compensation medical benefits are not included in personal taxable income. These benefits include payments for medical treatment of work-related illness or injury. The revenue impact estimates shown are for workers' compensation medical benefits only; worker's compensation non-medical benefits are covered in Workers' Compensation Benefits (Non-Medical) (1.042).

PURPOSE: To help compensate for the economic hardship imposed by work-related injury, sickness, or death and to be consistent with the tax treatment of court awarded Compensatory Damages (1.010).

WHO BENEFITS: Injured or ill workers that receive workers' compensation medical benefits.

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.]*

1.044 CREDIT UNION INCOME

Internal Revenue Code Section: 501(c)(14)
Section 122 Fed. Credit Act (RVSC Sec. 1768)
Oregon Statute: 317.080(1)
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1951

	Corporation	Personal	Total
2005–07 Revenue Impact:	$13,700,000	Not Applicable	$13,700,000
2007–09 Revenue Impact:	$15,100,000	Not Applicable	$15,100,000

DESCRIPTION: Credit unions are nonprofit 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. Credit unions may be more likely to provide services to low-income individuals at rates lower than other financial institutions. This provision makes the income of credit unions 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 the exemption. According to the Congressional Research Service, credit unions may retain the exemption because they are viewed as serving a unique niche in financial markets.

WHO BENEFITS: Members of credit unions, primarily by receiving services at lower rates than are available from other financial institutions. The exemption also allows credit unions to pay members higher dividends. As of December 2005, the exemption affects 88 credit unions in Oregon. These credit unions have $12 billion in total assets and include 1.223 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.]*

1.045 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
2005–07 Revenue Impact:	Less than $50,000	Not Applicable	Less than $50,000
2007–09 Revenue Impact:	Less than $50,000	Not Applicable	Less than $50,000

DESCRIPTION: Individuals who are liable for damages to compensate for causing 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 responsible party 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 [Compensatory Damages (1.010)].

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 Compensatory Damages payments (1.010).

WHO BENEFITS: The individual who is liable for damage payments benefits by paying a smaller total settlement, even though the tax benefit accrues to the annuity company.

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

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 Department of Consumer and Business Services.]*

1.046 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
2005–07 Revenue Impact:	$100,000	Not Applicable	$100,000
2007–09 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 water or sewage disposal facilities. Contributions that are an advance of funds and require repayment are also excluded from the utilities' income. Connection fees charged to customers for installing lines cannot be excluded from income unless the lines 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 benefit because the utilities are able to attract capital through contributions in aid of construction in addition to 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.]*

1.047 GAIN ON NONDEALER INSTALLMENT SALES

Internal Revenue Code Sections: 453 and 453A(b)
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: 1921

	Corporation	Personal	Total
2005–07 Revenue Impact:	$2,800,000	$3,800,000	$6,600,000
2007–09 Revenue Impact:	$3,100,000	$4,100,000	$7,200,000

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.

Interest must be paid to the government on the deferred taxes attributable to the portion of the installment sales that exceed $5 million. Transactions in which the sales price is less than $150,000 do not count toward the $5 million limit.

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 on an installment basis.

EVALUATION: 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.

A similar concept is addressed in Imputed Interest Rules (1.024), where small loans between family members or other parties to facilitate the transfer of title of a home, farm or business may charge a below-market interest rate (or no interest). Often, these types of transactions are made on an installment method.

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. *[Evaluated by the Department of Revenue.]*

1.048 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.)
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1921

	Corporation	Personal	Total
2005–07 Revenue Impact:	$8,500,000	$5,800,000	$14,300,000
2007–09 Revenue Impact:	$10,000,000	$6,400,000	$16,400,000

DESCRIPTION: Like-kind exchanges are exchanges of properties that are of the same general type but may be of very different quality and use, such as real estate. Gain 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. Following the passage of HB 2206 in 2001, 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.]

1.049 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
2005–07 Revenue Impact:	Not Applicable	$4,200,000	$4,200,000
2007–09 Revenue Impact:	Not Applicable	$5,000,000	$5,000,000

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.

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.]*

1.050 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
2005–07 Revenue Impact:	Not Applicable	$78,900,000	$78,900,000
2007–09 Revenue Impact:	Not Applicable	$77,700,000	$77,700,000

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 set by the federal government.

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 (1.121)].

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 2004, over 51,200 Oregon taxpayers received roughly $420.6 million in interest on Oregon state or local government debt obligations, or an average of $7,950 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.]*

1.051 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
2005–07 Revenue Impact:	Not Applicable	$676,500,000	$676,500,000
2007–09 Revenue Impact:	Not Applicable	$807,700,000	$807,700,000

DESCRIPTION: When property is transferred upon death, unrealized capital gains on the property 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.

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 force heirs to sell the assets to pay the taxes. *[Evaluated by the Department of Revenue.]*

1.052 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
2005–07 Revenue Impact:	Not Applicable	$200,000	$200,000
2007–09 Revenue Impact:	Not Applicable	$200,000	$200,000

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.

1.053 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
2005–07 Revenue Impact:	Not Applicable	$25,100,000	$25,100,000
2007–09 Revenue Impact:	Not Applicable	$27,000,000	$27,000,000

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.

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 nondiscriminatory manner and who would otherwise not purchase or could not afford such coverage. *[Evaluated by the Employment Department.]*

1.054 RENTAL ALLOWANCES FOR MINISTERS' HOMES

Internal Revenue Code Sections: 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
2005–07 Revenue Impact:	Not Applicable	$3,800,000	$3,800,000
2007–09 Revenue Impact:	Not Applicable	$4,100,000	$4,100,000

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 among ministers who receive a cash allowance and those who have their homes included in their compensation package.

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 available housing 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.]*

1.055 DISCHARGE OF CERTAIN STUDENT LOAN DEBT

Internal Revenue Code Sections: 108(f)
Oregon Statute: 316.048 (Connection to federal personal taxable income)
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1984

	Corporation	Personal	Total
2005–07 Revenue Impact:	Not Applicable	Less than $50,000	Less than $50,000
2007–09 Revenue Impact:	Not Applicable	Less than $50,000	Less than $50,000

DESCRIPTION: Income for tax purposes generally includes forgiveness of debt. However, the tax code excludes from income forgiveness of loans made by the federal government, state and local governments, public benefit corporations, and qualified educational institutions that are forgiven conditional on performing services in a specified occupation for a certain period of time. The code also excludes repayment of loans for graduates made under the National Health Service Corps (NHSC) repayment program for 2004 and after.

PURPOSE: To encourage individuals to work for federal, state or local government agencies and school districts where student loan forgiveness is offered as an incentive.

WHO BENEFITS: Individuals with student loans forgiven under the program. Also industries and professions that experience qualified applicant shortages.

EVALUATION: Not evaluated.

1.056 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
2005–07 Revenue Impact:	Not Applicable	$800,000	$800,000
2007–09 Revenue Impact:	Not Applicable	$800,000	$800,000

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.

If the percentage-of-disability method is used, the entire amount is excludable from taxable income. If the years-of-service method is used, only the portion that would have been paid under the percentage-of-disability method is excludable.

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.

Under the Victims of Terrorism Tax Relief Act of 2001, any civilian or member of the military whose disability is attributable to terrorism or military action anywhere in the world may exclude disability income from gross income.

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

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. It is not precisely known how many Oregonians 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.]*

1.057 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
2005–07 Revenue Impact:	Not Applicable	$22,900,000	$22,900,000
2007–09 Revenue Impact:	Not Applicable	$24,000,000	$24,000,000

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 codify the treatment of these benefits as not contributing to taxable income and to avoid the difficulty of monitoring and assigning values to them.

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. Because 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, because 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.]*

1.058 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
2005–07 Revenue Impact:	Not Applicable	$72,700,000	$72,700,000
2007–09 Revenue Impact:	Not Applicable	$87,100,000	$87,100,000

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.

1.059 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
2005–07 Revenue Impact:	Not Applicable	Less than $50,000	Less than $50,000
2007–09 Revenue Impact:	Not Applicable	Less than $50,000	Less than $50,000

DESCRIPTION: Payments received by an individual from Germany, Austria, and the Netherlands on account of Nazi persecution that caused damage to life, body, health, liberty, or to professional or economic advancement, are not considered taxable income. The exclusion also applies to the individual's heirs or estate.

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.

1.060 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
2005–07 Revenue Impact:	Not Applicable	Less than $50,000	Less than $50,000
2007–09 Revenue Impact:	Not Applicable	Less than $50,000	Less than $50,000

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: Not evaluated.

1.061 TEACHER CLASSROOM EXPENSES

Internal Revenue Code Section: 62(a)(2)(D)
Oregon Statute: 316.048 (Connection to federal personal taxable income)
Federal Law Sunset Date: 12-31-05
Year Enacted in Federal Law: 2002

	Corporation	Personal	Total
2005–07 Revenue Impact:	Not Applicable	$400,000	$400,000
2007–09 Revenue Impact:	Not Applicable	$0	$0

DESCRIPTION: Eligible teachers are allowed to deduct up to $250 per year for unreimbursed expenses incurred in connection with books, supplies, computer equipment, and supplementary materials used in the classroom for tax years 2002 through 2005. This deduction can be taken without itemizing (known as an adjustment or above the line deduction). Eligible teachers include kindergarten through grade 12 teachers, instructors, counselors, or principals in a school for at least 900 hours during a school year.

PURPOSE: To mitigate the expenses incurred by teachers who buy school supplies for students who can't afford them or to supplement those provided by the school.

WHO BENEFITS: In 2004, roughly 30,920 Oregon teachers deducted an average of $239 for these expenses.

Income Group (Quintiles)	Taxpayers		Mean Deduction
	Number	Percent	
Below $10,600	580	1.9%	$215
$10,600 - $22,700	1,554	5.0%	$206
$22,700 - $39,700	3,889	12.6%	$223
$39,700 - $67,700	9,957	32.2%	$229
Above $67,700	14,940	48.3%	$253
Total	30,920	100.0%	$239

EVALUATION: The tax expenditure appears to achieve its purpose of partially reimbursing teachers for expenditures of their own money that they make for the benefit of their students. The fact that nearly all Oregon teachers claim this deduction suggests, however, that Oregon school districts are not providing sufficient funding to classroom teachers for supplies and equipment. A more efficient and equitable way to assure that teachers have sufficient supplies for their classrooms would be for school districts to increase the funding available for such purchases. *[Evaluated by the Department of Education.]*

1.062 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
2005–07 Revenue Impact:	Not Applicable	$12,000,000	$12,000,000
2007–09 Revenue Impact:	Not Applicable	$13,500,000	$13,500,000

DESCRIPTION: A taxpayer may deduct interest on qualified higher education loans. The maximum deduction is $2,500. The deduction is not allowed for individuals who may be claimed as a dependent on another taxpayer's return. The maximum deduction amount is not indexed for inflation. The deduction can be taken without itemizing (known as an adjustment or above-the-line deduction).

A qualified education loan is indebtedness incurred solely 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.

For 2006 returns, the deduction is phased out for taxpayers with income between $50,000 and $65,000 (if single) or $105,000 and $135,000 (if married).

PURPOSE: To encourage higher education by reducing the costs.

WHO BENEFITS: In 2004, roughly 92,749 full-year resident taxpayers deducted from taxable income an average of $634 of interest paid on higher education loans. The table below shows the tax year 2004 usage of this deduction for each of the five income quintiles.

Income Group (Quintiles)	**Taxpayers**		**Mean Deduction**
	Number	**Percent**	
Below $10,600	6,540	7.1%	$465
$10,600 - $22,700	12,605	13.6%	$482
$22,700 - $39,700	20,846	22.5%	$625
$39,700 - $67,700	28,130	30.3%	$664
Above $67,700	24,628	26.6%	$729
Total	92,749	100.0%	$634

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.]*

1.063 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
2005–07 Revenue Impact:	Not Applicable	$5,000,000	$5,000,000
2007–09 Revenue Impact:	Not Applicable	$0	$0

DESCRIPTION: A 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. This deduction can be made even if the taxpayer does not itemize deductions. In tax years 2004 and 2005, the maximum deduction 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 ($130,000 to $160,000 for joint returns). 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 who pay qualified education expenses. In 2004, there were 55,427 Oregon returns that included this deduction. The average deduction was $2,229.

Income Group (Quintiles)	Taxpayers		Mean Deduction
	Number	Percent	
Below $10,600	11,115	20.1%	$2,733
$10,600 - $22,700	6,366	11.5%	$2,137
$22,700 - $39,700	5,859	10.6%	$1,855
$39,700 - $67,700	9,611	17.3%	$1,827
Above $67,700	22,476	40.6%	$2,276
Total	55,427	100.0%	$2,229

EVALUATION: This tax expenditure is a fiscally effective method of achieving its purpose, which is to reduce the cost of higher education. Declining public support for higher education has led to sharp increases in tuition, which have had a significant impact on lower and middle income families. *[Evaluated by the Oregon University System.]*

1.064 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
2005–07 Revenue Impact:	Not Applicable	$51,100,000	$51,100,000
2007–09 Revenue Impact:	Not Applicable	$60,000,000	$60,000,000

DESCRIPTION: Beginning in 2003, self-employed individuals may deduct amounts paid for health insurance. (Prior to 2003, only a percentage of these costs could be deducted.) The insurance must be for themselves, their spouses, or their dependents. The deduction can be taken without itemizing (known as an adjustment or an above-the-line deduction) and 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 2 percent of the corporation's stock.

Since 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 64,199 in 2004. The average adjustment amount has risen from $710 to $4,357 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 2004 usage of this adjustment for each of the five income quintile groups.

Income Group (Quintiles)	Taxpayers		Mean Deduction
	Number	Percent	
Below $10,600	7,842	12.2%	$3,051
$10,600 - $22,700	8,987	14.0%	$3,232
$22,700 - $39,700	10,780	16.8%	$3,599
$39,700 - $67,700	12,821	20.0%	$4,110
Above $67,700	23,769	37.0%	$5,692
Total	64,199	100.0%	$4,357

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 the Oregon Health Plan Policy and Research.]*

1.065 HEALTH SAVINGS ACCOUNTS

Internal Revenue Code Section: 223
Oregon Statute: 316.048 (Connection to federal personal taxable income)
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1996

	Corporation	Personal	Total
2005–07 Revenue Impact:	Not Applicable	$1,600,000	$1,600,000
2007–09 Revenue Impact:	Not Applicable	$5,100,000	$5,100,000

DESCRIPTION: Contributions to Health Savings Accounts (HSAs) by qualified individuals are deductible from federal gross income. Taxpayers do not have to itemize to claim the deduction. Savings in these accounts can be used by individuals to pay for medical expenses in a pre-tax manner. Congress adopted HSAs as a replacement (or expansion) of Medical Savings Accounts (MSAs), which were more restrictive.

The accounts are used to pay medical costs incurred until an insurance deductible amount is met. To qualify for 2006, individuals must have high deductible (at least $1,050 for individual coverage and $2,100 for families) health insurance with limited maximum out-of-pocket expenses. Contributions are limited to the lower of the amount of the insurance deductible, or $5,250 for individual coverage and $10,500 for a family . Unused HSA account balances can accrue over years without limit. Both the deductible amounts and maximum out-of-pocket expenses amount are adjusted annually for inflation.

Medical savings accounts still exist for the limited number of individuals who established them, but new ones cannot be created.

Contributions can also be made by employers on an employee's behalf. Such contributions are excluded from employment taxation.

PURPOSE: To slow the growth of health care costs by reducing reliance on insurance, to preserve freedom of choice in health care, and to help families and individuals finance future health care costs.

WHO BENEFITS: Taxpayers who make use of health savings plans. Taxpayers made little use of the MSAs, but with federal legislation adding HSAs, the usage is expected to increase.

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 the Oregon Health Plan Policy and Research.]*

1.066 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
2005–07 Revenue Impact:	Not Applicable	$93,100,000	$93,100,000
2007–09 Revenue Impact:	Not Applicable	$120,000,000	$120,000,000

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. The revenue impact consists of the tax benefits from the deductibility of traditional IRAs, the tax deferred earnings of traditional IRAs, and the tax-free earnings of Roth IRAs. This deduction can be taken without itemizing (known as an adjustment or above-the-line deduction).

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 to a Traditional IRA was 46,548 in 2004. The average adjustment was just over $3,000.

Income Group (Quintiles)	Taxpayers		Mean Deduction
	Number	Percent	
Below $10,600	1,799	3.9%	$2,339
$10,600 - $22,700	5,232	11.2%	$2,345
$22,700 - $39,700	10,395	22.3%	$2,813
$39,700 - $67,700	14,223	30.6%	$3,108
Above $67,700	14,899	32.0%	$3,601
Total	46,548	100.0%	$3,084

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 Department of Human Services.]*

1.067 SEP/SIMPLE 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
2005–07 Revenue Impact:	Not Applicable	$72,700,000	$72,700,000
2007–09 Revenue Impact:	Not Applicable	$82,800,000	$82,800,000

DESCRIPTION: Self-employed taxpayers who make contributions to their own retirement accounts may subtract those contributions from personal taxable income. This deduction can be taken without itemizing (known as an adjustment or above-the-line deduction). The maximum adjustment allowed is the lesser of 25 percent of income or $42,000. Taxes on earnings are deferred until distribution during retirement. Withdrawals from plans 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 SEP and SIMPLE plans was 16,835 in 2004. The average adjustment was approximately $14,189.

Income Group (Quintiles)	**Taxpayers**		**Mean Deduction**
	Number	**Percent**	
Below $10,600	315	1.9%	$7,828
$10,600 - $22,700	710	4.2%	$4,339
$22,700 - $39,700	1,474	8.8%	$5,855
$39,700 - $67,700	2,842	16.9%	$7,229
Above $67,700	11,494	68.3%	$17,761
Total	16,835	100.0%	$14,189

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 Department of Human Services.]*

1.068 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
2005–07 Revenue Impact:	Not Applicable	$3,400,000	$3,400,000
2007–09 Revenue Impact:	Not Applicable	$3,500,000	$3,500,000

DESCRIPTION: Taxpayers may take qualified moving expenses as an adjustment to personal taxable income. This deduction can be taken without itemizing (known as an adjustment or an above-the-line deduction). 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.

PURPOSE: To reduce employment related moving costs.

WHO BENEFITS: Employees incurring moving expenses related to a new job or business. The number of taxpayers (full-year filers and part-year filers moving into Oregon) claiming this adjustment in 2004 was up from 2002, increasing from approximately 14,300 to 16,800. The average moving expense claimed increased from $2,099 in 2002 to $2,364 in 2004.

Income Group (Quintiles)	Taxpayers		Mean Deduction
	Number	Percent	
Below $10,600	1,099	6.6%	$2,092
$10,600 - $22,700	2,781	16.6%	$1,584
$22,700 - $39,700	3,885	23.2%	$1,797
$39,700 - $67,700	4,518	26.9%	$2,324
Above $67,700	4,488	26.8%	$3,443
Total	16,771	100.0%	$2,364

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.]*

1.069 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
2005–07 Revenue Impact:	$6,600,000	$39,200,000	$45,800,000
2007–09 Revenue Impact:	$5,000,000	$44,800,000	$49,800,000

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 adjusted taxable 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 2004, roughly 560,000 individual Oregonians took a deduction for charitable contributions. The average tax savings was about $225. The total tax savings was $134.2 million. It is estimated that 14 percent went to educational institutions, 10 percent went to health related organizations, and 76 percent went to all other charitable organizations.

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.]*

1.070 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
2005–07 Revenue Impact:	$6,600,000	$27,200,000	$33,800,000
2007–09 Revenue Impact:	$6,100,000	$30,600,000	$36,700,000

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 2004, roughly 560,000 individual Oregonians took a deduction for charitable contributions. The average tax savings was about $225. The total tax savings was $134.2 million. It is estimated that 14 percent went to educational institutions, 10 percent went to health related organizations, and 76 percent went to all other charitable 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 the Oregon Health Plan Policy and Research.]*

1.071 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
2005–07 Revenue Impact:	Not Applicable	$217,100,000	$217,100,000
2007–09 Revenue Impact:	Not Applicable	$275,800,000	$275,800,000

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. (See also 1.117, Additional Medical Deduction for Elderly.)

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: Taxpayers who itemize deductions and have medical expenses in excess of 7.5 percent of their adjusted gross income.

EVALUATION: This tax expenditure achieves its purpose. The 7.5 percent threshold limits this deduction to those with unreimbursed medical expenses that are large 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 the Oregon Health Plan Policy and Research.]*

1.072 REMOVAL OF ARCHITECTURAL BARRIERS

Internal Revenue Code Section: 190
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: 1976

	Corporation	Personal	Total
2005–07 Revenue Impact:	Less than $50,000	Less than $50,000	Less than $50,000
2007–09 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 reduce physical barriers for both employees and customers who are handicapped or age 65 and over.

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 Department of Human Services.]*

1.073 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 income)
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1954

	Corporation	Personal	Total
2005–07 Revenue Impact:	$2,600,000	$4,200,000	$6,800,000
2007–09 Revenue Impact:	$3,900,000	$6,000,000	$9,900,000

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 permits the use of accelerated depreciation methods, which allow for faster write-offs than the straight-line method. The revenue impact of this tax expenditure represents the additional tax that would have been paid if straight-line depreciation had been used. Note: The tax expenditure associated with rental housing is covered separately in Accelerated Depreciation of Rental Housing (1.083).

PURPOSE: To promote investment in 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.]*

1.074 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 income)
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1954

	Corporation	Personal	Total
2005–07 Revenue Impact:	$41,100,000	-$6,000,000	$35,100,000
2007–09 Revenue Impact:	$83,800,000	$20,600,000	$104,400,000

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 permits the use of accelerated depreciation methods, which allow for faster write-offs than the straight-line method. The tax expenditure is the additional tax that would have been paid if straight-line depreciation had been used.

Accelerated depreciation of any type of capital does not change the cumulative amount of depreciation over all years, so in the latter years of the capital life-cycle this expenditure may have a negative value.

The revenue impact includes the expiration of the 15-year straight-line cost recovery rule for qualified leasehold improvement and restaurant property placed into service after December 31, 2005.

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.]*

1.075 DEFERRAL OF CERTAIN FINANCING INCOME OF FOREIGN CORPORATIONS

Internal Revenue Code Section: 954 (h)
Oregon Statutes: 317.013 (Connection to federal corporate taxable income)
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1997

	Corporation	Personal	Total
2005–07 Revenue Impact:	$5,800,000	Not Applicable	$5,800,000
2007–09 Revenue Impact:	$5,900,000	Not Applicable	$5,900,000

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. Although U.S. tax laws generally exclude income from passive activities from this deferral, this tax expenditure expands the deferral principle to financial corporations. Companies that conduct active financial operations overseas may defer taxes on income earned abroad until that income is repatriated to the U.S. The Tax Increase Prevention and Reconciliation Act extended these exemptions through tax year 2008.

PURPOSE: To give financial and manufacturing businesses operating abroad similar tax benefits.

WHO BENEFITS: U.S. firms conducting financial business abroad. These firms 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 taxable income)
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1954

	Corporation	Personal	Total
2005–07 Revenue Impact:	$12,700,000	Not Applicable	$12,700,000
2007–09 Revenue Impact:	$17,600,000	Not Applicable	$17,600,000

DESCRIPTION: To be consistent with the treatment of other investments with multi-year benefits, research and development (R&D) expenditures would need to be depreciated over their useful life. Instead, this provision allows research and development expenditures to be fully expensed in the first year for purposes of computing corporation and personal taxable income. Legislation in 2005 expanded the types of research expenses that qualify for this provision.

PURPOSE: To encourage investment in research and development and to avoid the difficulty of determining the length of useful life of any assets created through the research and development process.

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 (1.151)), 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 effort into research and development. Product introduction cycles for products such as personal computers and high definition television and telecommunication products are getting 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 industry 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 taxable income)
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1959

	Corporation	Personal	Total
2005–07 Revenue Impact:	$2,600,000	$19,700,000	$22,300,000
2007–09 Revenue Impact:	-$1,400,000	-$5,800,000	-$7,200,000

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 $100,000 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 $400,000 of property during the year. This limitation ensures that smaller businesses receive most of the benefit from this expenditure.

Accelerated depreciation of any type of property does not change the cumulative amount of depreciation over all years, so in the latter years of the capital life-cycle this expenditure may have a negative value.

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

WHO BENEFITS: Businesses with qualified property purchases.

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 taxable income)
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1980

	Corporation	Personal	Total
2005–07 Revenue Impact:	$100,000	$5,200,000	$5,300,000
2007–09 Revenue Impact:	$100,000	$6,000,000	$6,100,000

DESCRIPTION: This provision allows a taxpayer to deduct from personal or corporation taxable income eligible start-up expenditures over a minimum of 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 clarify the tax treatment of start-up expenditures.

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 to benefit from 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: 317.319
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1936

	Corporation	Personal	Total
2005–07 Revenue Impact:	$1,700,000	Not Applicable	$1,700,000
2007–09 Revenue Impact:	$1,700,000	Not Applicable	$1,700,000

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 deposits. Such deposits are deductible from corporate taxable income, and income tax on the earnings of the deposits in the fund is deferred. When the deposits and earnings are withdrawn from the 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. shipping companies.

EVALUATION: The estimated revenue impacts above imply that 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 stimulating 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
2005–07 Revenue Impact:	Not Applicable	$400,000	$400,000
2007–09 Revenue Impact:	Not Applicable	$400,000	$400,000

DESCRIPTION: Taxpayers may deduct as an ordinary loss (rather than a capital loss) a loss on the sale or exchange 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 certain 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 RENEWAL COMMUNITY TAX INCENTIVES

Internal Revenue Code Section: 45(d)
Oregon Statute: 316.048 and 317.013 (Connections to federal personal and corporation taxable incomes)
Federal Law Sunset Date: 12-31-07
Year Enacted in Federal Law: 2000

	Corporation	Personal	Total
2005–07 Revenue Impact:	$800,000	$2,300,000	$3,100,000
2007–09 Revenue Impact:	$900,000	$3,000,000	$3,900,000

DESCRIPTION: The New Markets Tax Credit (NMTC) is available for an investor who invests in community development entities (CDEs). The nonrefundable credit is equal to 5 percent of the initial investment in the year it is made and the two subsequent anniversary dates. On the third through the sixth anniversary dates, the investor is allowed a 6 percent credit.

The U.S. Department of the Treasury has awarded NMTCs to for-profit CDEs on a competitive basis. CDEs provide financing and financial services to businesses in

low-income areas. Some conventional financial institutions already serving such areas can automatically qualify as a CDE.

Four renewal community (RC) tax incentives target businesses. They are: (1) Gains from the sale of assets designated as RC businesses are taxed at zero percent, (2) a qualified RC business is eligible for a federal tax credit worth 15 percent of the first $10,000 of wages for each qualified employee it hires, (3) each state can allocate up to $12 million for "commercial revitalization expenditures" for businesses in an RC, and (4) RC businesses can claim up to $35,000 in IRS section 179 expensing for qualified RC property.

PURPOSE: To encourage investment and hiring in economically disadvantaged areas.

WHO BENEFITS: Any individual making an investment in a CDE and corporations located in renewal communities that can claim any of the corporate incentives.

EVALUATION: Insufficient data for analysis. Some Oregon-based CDEs have received NMTCs to use in raising equity funds. *[Evaluated by the Economic and Community Development Department.]*

1.082 DEDUCTION OF CERTAIN FILM AND TELEVISION PRODUCTION COSTS

Internal Revenue Code Section: 181
Oregon Statute: 317.013 (Connection to federal corporation taxable income)
Federal Law Sunset Date: 12-31-08
Year Enacted in Federal Law: 2004

	Corporation	Personal	Total
2005–07 Revenue Impact:	$200,000	Not Applicable	$200,000
2007–09 Revenue Impact:	$100,000	Not Applicable	$100,000

DESCRIPTION: The cost of producing films and television programs must be depreciated over a period of time using the income forecast method (which allows deductions based on the pattern of expected earnings). This Federal tax provision allows production costs to be deducted when incurred. Eligible productions are restricted to those with a cost of $15 million or less ($20 million if produced in certain designated low income areas) and in which at least 75 percent of the compensation is for services performed in the United States. Only the first 44 episodes of a television series qualify, and sexually explicit productions are not eligible.

PURPOSE: To encourage film production in the United States.

WHO BENEFITS: Any film or television production company that pays U.S. and Oregon corporate taxes. The size of the benefit will depend on the lag time between production and earning income; the longer the lag time, the greater the benefit of immediate depreciation.

EVALUATION: Not evaluated.

1.083 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 income)
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1954

	Corporation	Personal	Total
2005–07 Revenue Impact:	$1,900,000	$31,400,000	$33,300,000
2007–09 Revenue Impact:	$2,800,000	$41,800,000	$44,600,000

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. 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 for 27.5 years instead of the total anticipated life of the property. This tax expenditure measures the revenue loss due to deductions in excess of those allowed under the 40-year straight-line depreciation allowed under the Alterative Minimum Tax. 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 a 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.]*

1.084 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
2005–07 Revenue Impact:	Not Applicable	$246,700,000	$246,700,000
2007–09 Revenue Impact:	Not Applicable	$259,500,000	$259,500,000

DESCRIPTION: Property taxes on nonbusiness 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.

WHO BENEFITS: In 2004, approximately 634,000 filers saved a total of $123.3 million in Oregon tax because of this itemized deduction. The average tax savings was $195.

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.]*

1.085 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
2005–07 Revenue Impact:	Not Applicable	$848,800,000	$848,800,000
2007–09 Revenue Impact:	Not Applicable	$972,500,000	$972,500,000

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 ($500,000 if married and filing separately) for the purchase of the residence and on loans up to $100,000 ($50,000 if married filing separately) for home equity loans

PURPOSE: To promote home ownership by lowering the cost of mortgages.

WHO BENEFITS: In 2004, about 591,000 Oregon taxpayers lowered their taxes by about $390.8 million using this itemized deduction for home mortgage interest. The average tax savings was about $661.

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 for increasing home ownership. *[Evaluated by the Housing and Community Services Department.]*

1.086 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 income)
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1916

	Corporation	Personal	Total
2005–07 Revenue Impact:	$600,000	$6,500,000	$7,100,000
2007–09 Revenue Impact:	$600,000	$6,600,000	$7,200,000

DESCRIPTION: For income tax purposes, cash accounting typically results in a deferral of taxes relative to the accrual method, which is considered the standard. 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 who use cash accounting and are able to accelerate deductions relative to accrual accounting.

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.]*

1.087 SOIL AND WATER CONSERVATION EXPENDITURES

Internal Revenue Code Section: 175
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: 1954

	Corporation	Personal	Total
2005–07 Revenue Impact:	$100,000	$200,000	$300,000
2007–09 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 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 in2004 as a pilot project in Malheur County. *[Evaluated by the Department of Agriculture.]*

1.088 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 income)
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1960

	Corporation	Personal	Total
2005–07 Revenue Impact:	$100,000	$1,700,000	$1,800,000
2007–09 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 Soil and Water Conservation Expenditures (1.087) 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.]*

1.089 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 income)
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1916

	Corporation	Personal	Total
2005–07 Revenue Impact:	$100,000	$500,000	$600,000
2007–09 Revenue Impact:	$100,000	$400,000	$500,000

DESCRIPTION: Costs incurred in the raising of dairy and breeding cattle can be expensed rather than depreciated in calculating taxable income. Generally, 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. This expenditure 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 simplify record keeping for farmers and ranchers.

WHO BENEFITS: Farmers who raise dairy or 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 works 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.]*

1.090 SALE OF STOCK TO FARMERS' COOPERATIVES

Internal Revenue Code Section: 1042(g)
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: 1998

	Corporation	Personal	Total
2005–07 Revenue Impact:	Less than $50,000	Less than $50,000	Less than $50,000
2007–09 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 purchase of food processing facilities by farm cooperatives.

WHO BENEFITS: Both the buyer and the seller of qualified food processing facilities.

EVALUATION: It is questionable 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 because the entities that liquidated properties appear to have invested the proceeds outside of Oregon. *[Evaluated by the Department of Agriculture.]*

1.091 CLEAN-FUEL VEHICLES AND REFUELING PROPERTY

Internal Revenue Code Sections: 179A
Oregon Statute: 316.048 and 317.013 (Connections to federal personal and corporation taxable income)
Federal Law Sunset Date: 12-31-05
Year Enacted in Federal Law: 1993

	Corporation	Personal	Total
2005–07 Revenue Impact:	$100,000	$200,000	$300,000
2007–09 Revenue Impact:	$0	$0	$0

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 for personal use.

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 2006. Beginning with 2006, the deduction was replaced by a federal income tax credit.

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

1.092 SMALL REFINER EXPENSING OF SULFUR COMPLIANT EQUIPMENT

Internal Revenue Code Section: 179B
Oregon Statute: 317.013 (Connection to federal corporate taxable income)
Federal Law Sunset Date: None
Year Enacted in Federal Law: 2004

	Corporation	Personal	Total
2005–07 Revenue Impact:	Less than $50,000	Not Applicable	Less than $50,000
2007–09 Revenue Impact:	Less than $50,000	Not Applicable	Less than $50,000

DESCRIPTION: A small refiner of diesel fuel is able to expense seventy-five percent of the capital costs incurred in producing low-sulfur diesel fuel that complies with the Environmental Protection Agency (EPA) sulfur regulations. The full incentive is available to refiners with capacity below 155,000 barrels per day and is pro-rated for refining capacities between 155,000 and 205,000 barrels per day.

In addition to the capacity requirements, small refiners can have no more than 1,500 employees. This provision applies to tax years beginning on or after January 1, 2003.

PURPOSE: To reduce small refiners' costs of complying with EPA regulations under the Highway Diesel Fuel Sulfur Control Requirements that took effect in 2006.

WHO BENEFITS: It is not known if any Oregon taxpayers benefit from this provision.

EVALUATION: Sulfur removal from fuel occurs at the refinery level rather than at any subsequent point in the petroleum distribution and marketing system. There are no refineries in Oregon. *[Evaluated by the Department of Environmental Quality.]*

1.093 INTANGIBLE DEVELOPMENT COSTS FOR FUELS

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

	Corporation	Personal	Total
2005–07 Revenue Impact:	Less than $50,000	Less than $50,000	Less than $50,000
2007–09 Revenue Impact:	Less than $50,000	Less than $50,000	Less than $50,000

DESCRIPTION: Intangible drilling and development costs 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.

1.094 DEPLETION COSTS FOR FUELS

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

	Corporation	Personal	Total
2005–07 Revenue Impact:	Less than $50,000	Less than $50,000	Less than $50,000
2007–09 Revenue Impact:	Less than $50,000	Less than $50,000	Less than $50,000

DESCRIPTION: Firms that extract natural resources used for fuels are allowed 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. Although cost depletion is considered the standard method for tax purposes, this provision allows the use of percentage depletion. 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

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.

1.095 TERTIARY INJECTANTS

Internal Revenue Code Section: 193
Oregon Statutes: 316.695 and 317.013 (Connections to federal personal and corporation deductions)
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1980

	Corporation	Personal	Total
2005–07 Revenue Impact:	Less than $50,000	Less than $50,000	Less than $50,000
2007–09 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.

1.096 DEFERRAL OF CAPITAL GAINS FROM FERC RESTRUCTURING REQUIREMENTS

Internal Revenue Code Section: 451
Oregon Statute: 317.013 (Connection to federal corporate taxable income)
Federal Sunset Date: None
Year Enacted in Federal Law: 2004

	Corporation	Personal	Total
2005–07 Revenue Impact:	$2,200,000	Not Applicable	$2,200,000
2007–09 Revenue Impact:	- $200,000	Not Applicable	- $200,000

DESCRIPTION: Under restructuring, certain jurisdictions and Federal Energy Regulatory Commission (FERC) are considering rules that would require the separate ownership of generation and distribution and transmission assets. However, some investor-owned utilities own and operate a large portion of transmission infrastructure. This tax provision encourages the sale of transmission assets to independent system operators or regional transmission organizations, who would own and operate the transmission lines. Taxpayers may recognize any capital gain from the sale of qualifying electricity transmission property evenly over eight year beginning with the year of the sale. The sale proceeds must be reinvested in other electricity assets within four years. It is a deferral, rather than complete forgiveness, of tax liability and serves as a delay in tax payments (hence the negative sign for 07-09).

PURPOSE: To defer tax liability as compensation for the forced sale of assets while restructuring the electric utility industry.

WHO BENEFITS: Corporations selling electricity property to comply with FERC requirements.

EVALUATION: Not evaluated.

1.097 EXPENSING 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 income)
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1986

	Corporation	Personal	Total
2005–07 Revenue Impact:	$1,800,000	$300,000	$2,100,000
2007–09 Revenue Impact:	$1,800,000	$300,000	$2,100,000

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.

PURPOSE: To provide tax relief to the timber growers in recognition of the long growing periods for timber during which no revenue is produced.

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 noncorporate 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.

Increasingly in Oregon, private forestland ownership is dominated by timber management investment organizations and real estate investment trusts, which are subject to lower federal taxation. *[Evaluated by the State Forestry Department]*

1.098 EXPENSING AND AMORTIZATION OF REFORESTATION COSTS

Internal Revenue Code Section: 194
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: 1980

	Corporation	Personal	Total
2005–07 Revenue Impact:	$100,000	$1,600,000	$1,700,000
2007–09 Revenue Impact:	$100,000	$1,600,000	$1,700,000

DESCRIPTION: Qualified reforestation costs incurred after October 31, 2004 can be expensed up to $10,000 ($5,000 is married filing separately) annually with the remainder amortized (deducted) over seven years. Costs that qualify for amortization are those for site preparation, seed or seedlings, labor and tools. The limitation on expensing is on a per qualifying property basis. (See also 1.185, Reforestation tax credit)

Without this provision, reforestation costs would be capitalized into the property's cost basis.

Costs incurred prior to October 31, 2004 can be amortized up to $10,000 annually for seven years (expensing was not allowed).

Reforestation costs do not include any costs for which the taxpayer has been reimbursed under any governmental reforestation cost-sharing program unless the amounts reimbursed have been included in the gross income of the taxpayer.

PURPOSE: To lower the annual after-tax cost of reforestation. Because there is a $10,000 annual expense limit, this expenditure proportionally helps smaller owners more.

WHO BENEFITS: Taxpayers who are reforesting forest lands.

EVALUATION: Tax expenditure is successfully encouraging reforestation. By providing for expensing of up to $10,000 of eligible reforestation costs, and deducting the remainder of costs over an 8 year period owners are able to recover quicker from out of pocket costs for reforestation. *[Evaluated by the State Forestry Department.]*

1.099 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 income)
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1951

	Corporation	Personal	Total
2005–07 Revenue Impact:	$400,000	$200,000	$600,000
2007–09 Revenue Impact:	$400,000	$200,000	$600,000

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.

WHO BENEFITS: Mining companies.

EVALUATION: This provision effectively allows mining companies to get a quicker return on their investment through tax deductions, which 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 exploration.

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.

We believe that taken on the whole this program is generally doing what it was intended to do. *[Evaluated by the Department of Geology and Mineral Industries.]*

1.100 DEPLETION COSTS FOR NONFUEL MINERALS

Internal Revenue Code Sections: 611, 612, 613, and 291
Oregon Statute: 316.048 (Connection to federal personal taxable income), and 317.374
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1913

	Corporation	Personal	Total
2005–07 Revenue Impact:	$400,000	$800,000	$1,200,000
2007–09 Revenue Impact:	$400,000	$800,000	$1,200,000

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. Although cost depletion is considered the standard method for tax purposes, this provision allows the use of percentage depletion. 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.

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.]*

1.101 MINING RECLAMATION RESERVES

Internal Revenue Code Section: 468
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: 1984

	Corporation	Personal	Total
2005–07 Revenue Impact:	$100,000	$200,000	$300,000
2007–09 Revenue Impact:	$100,000	$200,000	$300,000

DESCRIPTION: Current-value equivalents of reclamation and closing costs for mining and solid waste disposal sites are deductible from corporation and personal taxable income at the beginning of the project, even though these costs are typically incurred at the end of a project. In other words, this provision allows for the deduction of these expenses before they occur.

PURPOSE: To encourage mine and solid waste disposal site reclamation activities and to compensate companies for the cost of reclamation.

WHO BENEFITS: Mining and solid waste disposal companies with reclamation costs.

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.]*

1.102 LIFE INSURANCE COMPANY RESERVES

Internal Revenue Code Sections: 803(a)(2), 805(a)(2), and 807
Oregon Statute: 317.655(2)(f) and (g)
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1984

	Corporation	Personal	Total
2005–07 Revenue Impact:	$8,500,000	Not Applicable	$8,500,000
2007–09 Revenue Impact:	$9,000,000	Not Applicable	$9,000,000

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. In the insurance industry, it is common practice to use some form of reserve accounting in estimating net income, and these methods were adopted into the tax code when life insurance companies first became taxable in 1909.

WHO BENEFITS: The nature of the life insurance industry suggests that a reduction in its corporate taxes would go primarily to policyholders. Therefore, beneficiaries of this tax expenditure are probably not the owners of capital in general, but rather those who invest in life insurance products.

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.]*

1.103 ADDITION TO BAD DEBT RESERVES OF SMALL FINANCIAL INSTITUTIONS

Internal Revenue Code Sections: 585 (b) and 593 (b)
Oregon Statute: 317.310
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1947

	Corporation	Personal	Total
2005–07 Revenue Impact:	Less than $50,000	Not Applicable	Less than $50,000
2007–09 Revenue Impact:	Less than $50,000	Not Applicable	Less than $50,000

DESCRIPTION: Financial institutions with an average adjusted asset basis of up to $500 million are allowed to have a reasonable *addition* to the reserves for bad debts. The amount should not exceed the value determined under the experience method. This method states that the amount of bad debt reserves should be increased to:

1) The *greater* of the amount that would have the same ratio to loans outstanding as total bad debts (adjusted for recoveries), sustained during the recent taxable year and five (or fewer) preceding taxable years, to total loans outstanding at the end of the tax year *or* the amount that would have the same ratio to loans outstanding as sum of total loans outstanding at the close of six or fewer taxable years.

or

2) The *lower* of the balance of the reserves for the base year (last taxable year before the experience method was adopted) *or* the amount that would bring the ratio of reserve to total loan outstanding in the tax year to the same value as the ratio of reserve to total loan outstanding in the base year.

Oregon Statute specifically mentions that the amount of additions should bear a reasonable relationship to the actual current loss experience and may be based on a 5, 10, 15 or 20-year moving average.

PURPOSE: To provide tax relief to financial institutions.

WHO BENEFITS: Small financial 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, financial institutions 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.]*

1.104 PROPERTY AND CASUALTY INSURANCE COMPANY RESERVES

Internal Revenue Code Sections: 832(b)(5) and 846
Oregon Statute: 317.655(2)(f) and (g)
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1986

	Corporation	Personal	Total
2005–07 Revenue Impact:	$13,900,000	Not Applicable	$13,900,000
2007–09 Revenue Impact:	$15,600,000	Not Applicable	$15,600,000

DESCRIPTION: In calculating corporate taxable income, most businesses cannot deduct expenses until the company becomes liable for paying them. This provision allows property and casualty insurance companies to deduct the discounted value of estimated losses they expect to pay in the future, including claims in dispute. This allows them to defer tax liability by deducting future expenses from current income.

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: Property and casualty insurance companies. Due to high competition in this market, the benefit of this deduction could be also passed on to the purchasers of insurance (other businesses, homeowners, and private property owners) 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 because the General Fund offsets

excise taxes for guaranty fund assessments on surviving companies. *[Evaluated by the Department of Consumer and Business Services.]*

1.105 MAGAZINE CIRCULATION EXPENDITURES

Internal Revenue Code Section: 173
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: 1950

	Corporation	Personal	Total
2005–07 Revenue Impact:	$100,000	$200,000	$300,000
2007–09 Revenue Impact:	$100,000	$200,000	$300,000

DESCRIPTION: This provision allows publishers of periodicals to deduct expenditures to establish, maintain, or increase circulation in the year that the expenditures are made. The revenue impact of this 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.

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.]*

1.106 NET OPERATING LOSS LIMITATION

Internal Revenue Code Section: 382
Oregon Statute: 317.478 and 317.479
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1954

	Corporation	Personal	Total
2005–07 Revenue Impact:	$2,600,000	Not Applicable	$2,600,000
2007–09 Revenue Impact:	$2,600,000	Not Applicable	$2,600,000

DESCRIPTION: Under federal tax law, when one corporation acquires another, the acquiring corporation inherits the tax situation of the acquired corporation, including any net operating loss carryovers. Limitations are imposed, however, so that the acquiring corporation cannot write off losses faster than the acquired corporation would have. Under this provision, the limitations do not apply when the acquired corporation is in bankruptcy.

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 pre-acquisition net operating loss carry-forwards was borne by creditors who became shareholders. *[Evaluated by the Department of Revenue.]*

1.107 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
2005–07 Revenue Impact:	$1,300,000	$200,000	$1,500,000
2007–09 Revenue Impact:	$1,700,000	$200,000	$1,900,000

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. Under this method, income and costs pertaining to the contract are reported when the contract is completed; however, some 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.

This provision is restricted to apply mostly to long-term home construction contracts. Other real estate construction contracts may 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 simplify tax administration when the ultimate profitability of a contract is currently unknown.

WHO BENEFITS: Residential construction contractors are the main beneficiaries.

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 that 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.

Because 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.]*

1.108 CASUALTY AND THEFT LOSSES

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

	Corporation	Personal	Total
2005–07 Revenue Impact:	Not Applicable	$2,100,000	$2,100,000
2007–09 Revenue Impact:	Not Applicable	$2,100,000	$2,100,000

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 1,200 taxpayers claimed $11.1 million in casualty and theft losses that were not covered by insurance in 2002. The average deduction was $8,900.

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.]*

1.109 OVERNIGHT-TRAVEL EXPENSES OF NATIONAL GUARD AND RESERVE MEMBERS

Internal Revenue Code Section: 134
Oregon Statute: 316.048 (Connection to federal personal taxable income)
Sunset Date: None
Year Enacted in Federal Law: 2003

	Corporation	Personal	Total
2005–07 Revenue Impact:	Not Applicable	700,000	700,000
2007–09 Revenue Impact:	Not Applicable	800,000	800,000

DESCRIPTION: A deduction from federal gross income is allowed for all un-reimbursed overnight travel, meals, and lodging expenses of National Guard and Reserve members. To

qualify, they must have traveled more than 100 miles away from home and stayed overnight as part of an activity while on official duty. The deduction applies to all amounts paid or incurred in tax years beginning after December 31, 2002. No deduction is permitted for commuting expenses to and from drill meetings and the amount of expenses may not exceed the general Federal Government per diem rate applicable to that locale.

PURPOSE: To reimburse Oregon National Guard and Reserve members for expenses incurred in the line of duty.

WHO BENEFITS: Members of the Oregon National Guard and Reserve.

EVALUATION: This tax expenditure achieves its purpose, which is to alleviate financial burdens associated with being a member of the Oregon National Guard or Reserve forces. Members of the reserve components of the Armed Forces do not reside at military bases and therefore, must travel to their duty stations, which are sometimes over 100 miles from home. National Guard members perform drill one weekend each month, and any hotel charges incurred are not reimbursed by the federal government. *[Evaluated by the Military Department.]*

1.110 LOCAL INCOME 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
2005–07 Revenue Impact:	Not Applicable	$7,700,000	$7,700,000
2007–09 Revenue Impact:	Not Applicable	Less than $50,000	Less than $50,000

DESCRIPTION: Income taxes paid to cities and other local governments are deductible from personal taxable income for taxpayers who itemize deductions for state income tax.

The Multnomah County Personal Income Tax was in place for tax years 2003, 2004, and 2005. It is the only local income tax in place during the 2005-07 biennium.

The Lane County Commission has referred a measure to the November 2006 ballot that would allow voters to approve implementation of a local income tax in that county. If that tax is approved, the revenue impact of this tax expenditure would increase in the 2007-09 biennium.

PURPOSE: To avoid taxing income that is obligated to another government.

WHO BENEFITS: Residents of Multnomah County who itemize deductions.

EVALUATION: Not evaluated.

1.111 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
2005–07 Revenue Impact:	$13,100,000	$213,900,000	$227,000,000
2007–09 Revenue Impact:	$12,100,000	$242,500,000	$254,600,000

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 2004, roughly 560,000 individual Oregonians took a deduction for charitable contributions. The average tax savings was about $225. The total tax savings was $134.2 million. It is estimated that 14 percent went to educational institutions, 10 percent went to health related organizations, and 76 percent went to all other charitable organizations.

EVALUATION: Not evaluated.

1.112 LAND DONATED TO SCHOOLS

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

	Corporation	Personal	Total
2005–07 Revenue Impact:	Less than $50,000	Less than $50,000	Less than $50,000
2007–09 Revenue Impact:	Less than $50,000	Less than $50,000	Less than $50,000

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 nonprofit private school, or a public or nonprofit 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 maximum subtraction in a given tax year is 50 percent of the taxpayer's taxable income in that year. When the land is sold, the maximum subtraction is 25 percent of the taxpayer's taxable income. 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. 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. The federal deduction is described in Charitable Contributions: Education (1.069).

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. Use of this provision is rare, and the value of benefits has been low.

EVALUATION: The data collected by the Department of Education does not distinguish between the donation of land and the donation of other assets to school districts. The Department does not, therefore, have sufficient information to evaluate the effectiveness of this tax expenditure. *[Evaluated by the Department of Education.]*

1.113 OREGON 529 COLLEGE SAVINGS NETWORK

Oregon Statute: 316.699
Sunset Date: None
Year Enacted: 1999, Modified in 2003 (HB 2664)

	Corporation	Personal	Total
2005–07 Revenue Impact:	Not Applicable	$6,600,000	$6,600,000
2007–09 Revenue Impact:	Not Applicable	$7,400,000	$7,400,000

DESCRIPTION: A subtraction is allowed from individual taxable income of up to $2,000 per year for contributions made to Oregon 529 College Savings Network accounts. The proceeds of these accounts are meant to be used to pay education-related expenses for 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 529 College Savings Board.

Contributions over the annual limit may be carried forward for up to four years. The revenue impact above includes only the impacts of the state-allowed subtraction for contributions and the state limit on the amount of nonqualifying distributions that would be added back to taxable income. The revenue impact and description of federal tax benefits applicable to Oregon 529 College Savings Network accounts are detailed in Qualified Tuition Programs (Federal) (1.004).

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

WHO BENEFITS: Oregon personal income taxpayers that contribute to Oregon 529 College Savings Network accounts. In 2005, over 17,000 returns used this subtraction, saving an average of about $144 in tax.

EVALUATION: This tax expenditure is a fiscally effective method of achieving its purpose, which is to increase the ability of families and individuals to save for higher education. The program facilitates spreading the cost of higher education over a longer payment period that may extend prior to the student's enrollment. *[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
2005–07 Revenue Impact:	Not Applicable	$400,000	$400,000
2007–09 Revenue Impact:	Not Applicable	$400,000	$400,000

DESCRIPTION: A subtraction from taxable income is allowed for students that receive income from scholarships and fellowships that are used to pay for housing expenses. This provision extends the federal exclusion, Scholarship and Fellowship Income (1.001), for income received from scholarships and fellowships that is used for tuition and course-related expenses only. 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. 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.

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

WHO BENEFITS: Individuals receiving scholarship or fellowship income to pay for housing expenses. In 2005, more than 800 returns used this subtraction to save an average of $194 in tax.

EVALUATION: This tax expenditure is a fiscally effective method of achieving its purpose, which is to reduce the cost of higher education. It makes more funding available to these students, allowing them to complete their education with less debt or need to extend the time in school. The economic and societal returns on the investment are very high. *[Evaluated by the Oregon University System.]*

1.115 PHYSICIANS IN "MEDICALLY DISADVANTAGED" AREAS

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

	Corporation	Personal	Total
2005–07 Revenue Impact:	Not Applicable	$0	$0
2007–09 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: This provision apparently achieved its purpose when passed (there was an impressive growth in rural practitioners during the 1970s), but few, if any, physicians currently in practice seem to be aware of it. Because this provision applies to a select number of physicians (those licensed in an eight-year period between 1974 and 1982), this program should be updated by amendment during the next legislative session. The impending shortage in physicians statewide will have a disproportionately adverse effect on rural physician supply, so modifying the archaic law by making it effective from 2007–2015 would be a sensible strategy. It would also be wise to clarify which medically underserved designation is to be used. The Office of Rural Health was once in DHR, but has since moved to Oregon Health & Science University, and maintains an annually updated "areas of unmet health care need" designation. Other designations, used for federally funded programs, use several different federal

designations, some more suitable for Oregon than others. *[Evaluated by the Office of Rural Health.]*

1.116 ADDITIONAL DEDUCTION FOR ELDERLY OR BLIND

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

	Corporation	Personal	Total
2005–07 Revenue Impact:	Not Applicable	$6,100,000	$6,100,000
2007–09 Revenue Impact:	Not Applicable	$3,800,000	$3,800,000

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. For example, the additional deduction amount is $2,400 if a taxpayer is age 65 or over and blind. For all other filers, the additional 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: In 2004, approximately 85,000 individuals benefited from the additional deduction. The number of claims has been decreasing each year, down from 179,000 in 1990. This is due in part to more individuals itemizing deductions (thus they cannot use the standard deduction). Most claims are for elderly individuals as opposed to blind individuals.

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 Department of Human Services.]*

1.117 ADDITIONAL MEDICAL DEDUCTION FOR ELDERLY

Oregon Statute: 316.695(1)(d)(B)
Sunset Date: None
Year Enacted: 1991

	Corporation	Personal	Total
2005–07 Revenue Impact:	Not Applicable	$84,300,000	$84,300,000
2007–09 Revenue Impact:	Not Applicable	$96,000,000	$96,000,000

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 (1.071)]. This tax expenditure extends that nontaxable

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 nearly 182,600 in 2004. The average additional medical deduction amount has risen from roughly $1,800 in 1991 to $2,800 in 2004. The table below shows the tax year 2004 usage of this subtraction for each of the five income quintiles.

Income Group (Quintiles)	Taxpayers		Mean Subtraction
	Number	Percent	
Below $10,600	21,165	11.6%	$510
$10,600 - $22,700	43,329	23.7%	$1,197
$22,700 - $39,700	35,866	19.6%	$2,144
$39,700 - $67,700	38,862	21.3%	$3,391
Above $67,700	43,333	23.7%	$5,603
Total	182,555	100.0%	$2,816

EVALUATION: This tax expenditure achieves its purpose and has similar benefits to the Additional Deduction for Elderly or Blind (1.116) 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 Department of Human Services.]*

1.118 SOCIAL SECURITY BENEFITS (OREGON)

Oregon Statute: 316.054
Sunset Date: None
Year Enacted: 1985

	Corporation	Personal	Total
2005–07 Revenue Impact:	Not Applicable	$263,000,000	$263,000,000
2007–09 Revenue Impact:	Not Applicable	$299,500,000	$299,500,000

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 (roughly 50 percent). 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) (1.016).

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 149,155 in 2004. The average subtraction grew from $3,800 in 1990 to $9,235 in 2004.

Income Group (Quintiles)	Taxpayers		Mean Subtraction
	Number	Percent	
Below $10,600	578	.4%	$4,263
$10,600 - $22,700	9,187	6.2%	$1,389
$22,700 - $39,700	43,849	29.4%	$3,494
$39,700 - $67,700	47,929	32.1%	$9,943
Above $67,700	47,612	31.9%	$15,385
Total	149,155	100.0%	$9,235

EVALUATION: This tax expenditure achieves its purpose; however, the issue continues to be the focus of significant national discussion and debate. While this tax subtraction 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 Department of Human Services.]*

1.119 DOMESTIC PARTNER BENEFITS

Oregon Administrative Rule: 150-316-007-(B)
Sunset Date: None
Year Enacted: 1999

	Corporation	Personal	Total
2005–07 Revenue Impact:	Not Applicable	$500,000	$500,000
2007–09 Revenue Impact:	Not Applicable	$600,000	$600,000

DESCRIPTION: The value of certain employment-related fringe benefits received by the qualifying domestic partner of an employee can be subtracted from the partner's AGI. Benefits include employer provided health insurance which covers both the employee and the

partner of the employee. The amount that is subtracted is the amount taxed at the federal level; it is the imputed value of the benefits. To qualify, the domestic partners must be the same sex and live together in a manner similar to married couples.

This tax expenditure is implemented by case law (Tanner v. OHSU, 1998) and was adopted in rule late in 1999, applying to all open tax years. The rule was the result of an attorney general opinion (No. 8268) concerning the Tanner case. Ultimately, this tax expenditure exists as a result of Article I, section 20 of the Oregon Constitution (equality of privileges).

The employment-related fringe benefits that extend from an employee to a spouse are not included in federal taxable income, and thus not taxed by Oregon (see 1.009, Employer Paid Medical Benefits). Since qualifying domestic partners do not have the option of marriage, but live similarly to married couples, this rule is in place to extend them the same tax benefit for employment-related fringe benefits as couples receive.

PURPOSE: To comply with the Oregon Constitution and case law.

WHO BENEFITS: The same-sex domestic partners of individuals with employer-paid fringe benefits. Fewer than 1,000 returns claimed this for 2005. The average tax difference was around $300.

EVALUATION: This expenditure achieves its purpose of compliance with the Oregon Constitution and case law. *[Evaluated by the Department of Revenue.]*

1.120 DONATIONS OF ART BY THE ARTIST

Oregon Statute: 316.838
Sunset Date: None
Year Enacted: 1979

	Corporation	Personal	Total
2005–07 Revenue Impact:	Not Applicable	$100,000	$100,000
2007–09 Revenue Impact:	Not Applicable	$100,000	$100,000

DESCRIPTION: Under Chapter 170 of the Federal Internal Revenue Code, artists can deduct the costs of materials used to produce artworks donated as charitable contributions. 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, even if not warranted by the art. *[Evaluated by the Economic and Community Development Department.]*

1.121 MUNICIPAL BOND INTEREST

Oregon Statute: 316.056
Sunset Date: None
Year Enacted: 1987

	Corporation	Personal	Total
2005–07 Revenue Impact:	Not Applicable	$1,900,000	$1,900,000
2007–09 Revenue Impact:	Not Applicable	$2,200,000	$2,200,000

DESCRIPTION: Interest or dividends from all federally taxable bonds issued by Oregon state and local governments 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.

One specific type of federally taxable bond issue that this provision applies to is nonqualified private activity bonds, which are bonds primarily issued by local governments and used to finance private developments. With nonqualified private activity bonds, a substantial portion of the bond benefits accrue to individuals or businesses rather than to the general public. Interest on these nonqualified private activity bonds is taxed at the federal level, but this provision 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 both the federal level and in Oregon because of our connection to federal code [Interest on Oregon State and Local Debt (1.050)].

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 these bonds benefit from the tax-free income. The state of Oregon and local governments also benefit because this provision reduces the costs of borrowing.

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 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.]*

1.122 SMALL CITY BUSINESS DEVELOPMENT

Oregon Statutes: 316.778 and 317.391
Sunset Date: None
Year Enacted: 2001, Modified in 2005 (HB 3350)

	Corporation	Personal	Total
2005-07 Revenue Impact:	Less than $50,000	Less than $50,000	Less than $50,000
2007-09 Revenue Impact:	$300,000	$100,000	$400,000

DESCRIPTION: This provision exempts from Oregon income taxation the portion of business income attributable to an approved facility in a qualified location. Qualified locations are inside any county with an unemployment rate in the top third or per capita personal income in the bottom third in the state, for any of the most recent three years for which data is available at the time of certification. In addition, facilities must be within the urban growth boundary of a city of 15,000 or fewer residents, or on industrially zoned land (included in a larger city or unincorporated area). Qualified locations can be found in twenty Oregon counties as of July, 2005.

The Economic and Community Development Department must annually certify facilities claiming this exemption. To qualify, (1) a facility must be intended to operate for at least 10 years; (2) the business firm will hire at least five 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 (wage and benefit restrictions will not apply for tax years 2006-2010); (3) the operation at the facility must constitute a new business that the firm does not operate at another location in the state, and (4) the operations of the firm must not compete with an existing business in the city or county where the facility is located.

If a firm does not qualify in a particular year, it is 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.

PURPOSE: To encourage business development in low-income areas with high unemployment rates.

WHO BENEFITS: Businesses investing in new facilities in areas with low income or high unemployment rates.

EVALUATION: The program remains rather new. There has yet to be a business that has received annual certification and claimed the exemption. Recent legislation that opened it up

to more counties is having an impact, in that a steady stream of preliminary certifications is being issued, with 11 approved as of October 2006. A much wider base of usability, coupled with a rising number of examples of it actually being used, allows for more effective allocation and application of resources to market the program. In conclusion, this taxable income exemption appears to be presently serving its purpose of spurring and supporting economic success in the more lagging parts of the state. *[Evaluated by the Economic and Community Development Department.]*

1.123 INDIVIDUAL DEVELOPMENT ACCOUNTS (EXCLUSION AND SUBTRACTION)

Oregon Statute: 316.848
Sunset Date: None
Year Enacted: 1999

	Corporation	Personal	Total
2005–07 Revenue Impact:	Not Applicable	Less than $50,000	Less than $50,000
2007–09 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 Oregon IDA initiative 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.

Remainders in accounts after asset purchase may be rolled over into qualified tuition savings program accounts. See Oregon 529 College Savings Network (1.113) for more on these accounts.

There are two other tax expenditures closely related to this program. The Individual Development Account Contribution (Credit) (1.168) provides a credit for individuals or businesses that make contributions to fiduciary organizations to support IDA programs. The Individual Development Account Withdrawal (Credit) (1.169) provides a credit for IDA withdrawals that are used to fund closing costs associated with the purchase of a primary residence.

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 2006, about 380 participants will be engaged in the strategy.

EVALUATION: The $250,000 exemption was not utilized during the 1999–01 biennium and is not likely to be fully utilized during any subsequent biennium in the near future for several reasons. Participants in Oregon's IDA initiative typically save between $25-50/month, which means their savings account balances remain small through the life of their participation. Participants' savings are deposited in regular savings accounts, which historically bear very low (2-4%) interest, so their earnings are also pretty small. Finally, 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. For these reasons, the $250,000 exemption is more a placeholder than a realistic estimate of impact on revenues. Maybe at some point in the future, when the initiative engages several thousand participants a year, this exemption may prove realistic. *[Evaluated by the Housing and Community Services Department.]*

1.124 OUT-OF-STATE FINANCIAL INSTITUTION

Oregon Statute: 317.057
Sunset Date: None
Year Enacted: 1999

	Corporation	Personal	Total
2005–07 Revenue Impact:	Less than $50,000	Not Applicable	Less than $50,000
2007–09 Revenue Impact:	Less than $50,000	Not Applicable	Less than $50,000

DESCRIPTION: This exclusion specifies that certain out-of-state financial institutions may engage in limited 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 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 were registered with DCBS as of July 2006.

EVALUATION: Homeownership has a significant economic benefit to Oregonians. Home sales can generate capital gains tax revenue and lead to the development and construction of new homes. *[Evaluated by the Department of Housing and Community Services.]*

1.125 GAINS FROM MANUFACTURED DWELLING PARK SALE

Oregon Statute: 316.153
Sunset Date: 12-31-07
Year Enacted: 2005 (HB 2389C)

	Corporation	Personal	Total
2005–07 Revenue Impact:	Less than $50,000	Less than $50,000	Less than $50,000
2007–09 Revenue Impact:	Less than $50,000	Less than $50,000	Less than $50,000

DESCRIPTION: For tax years beginning January 1, 2006 through December 31, 2007, individuals or corporations that sell a manufactured dwelling park may subtract the capital gains from their Oregon taxable income if the sale was made to one of the following:

- a tenants' association,
- a facility purchase association,
- a tenants' association supported nonprofit organization,
- a community development corporation, or
- a housing authority.

PURPOSE: To encourage sales of manufactured dwelling parks to one of the listed organizations as an alternative to closure.

WHO BENEFITS: Owners of manufactured dwelling parks that sell to one of the listed organizations and have a capital gain as a result of the sale.

EVALUATION: Insufficient information to evaluate this new tax expenditure at this time. *[Evaluated by the Housing and Community Services Department.]*

1.126 SERVICE IN VIETNAM ON MISSING STATUS

Oregon Statute: 316.074
Sunset Date: None
Year Enacted: 1973

	Corporation	Personal	Total
2005–07 Revenue Impact:	Not Applicable	$0	$0
2007–09 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 UNDERGROUND STORAGE TANK GRANTS

Oregon Statutes: 316.834 and 317.383
Sunset Date: None (Eligibility for the grant program ended December 31, 1999.)
Year Enacted: 1991

	Corporation	Personal	Total
2005–07 Revenue Impact:	$0	$0	$0
2007–09 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 who received 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 had to 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 was very effective in achieving its purpose. The tax benefit received by the grantee preserved the benefit of the grant program by the amount of the tax savings. Grantees were required to pay at least 25 percent of the project costs and would have been 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.]*

1.128 ENERGY CONSERVATION SUBSIDIES (OREGON)

Oregon Statutes: 316.744 and 317.386
Sunset Date: None
Year Enacted: 1981

	Corporation	Personal	Total
2005–07 Revenue Impact:	Less than $50,000	$200,000	$200,000
2007–09 Revenue Impact:	Less than $50,000	$100,000	$100,000

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. Federal law exempts these payments for residential energy customers only [1.039 Energy Conservation Subsidies (Federal)]. 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. The estimate includes the federal exclusion, outlined in 1.039.

PURPOSE: To promote energy conservation by encouraging residents to participate in conservation programs sponsored by utilities, and 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.

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. Conservation dollars previously expended by investor-owned utilities are now being spent by the nonprofit Energy Trust of Oregon. The expenditure is not subject to this exemption.
[Evaluated by the Oregon Department of Energy.]

1.129 WET MARINE AND TRANSPORTATION POLICIES

Oregon Statute: 317.080(8)
Sunset Date: None
Year Enacted: 1995

	Corporation	Personal	Total
2005–07 Revenue Impact:	$500,000	Not Applicable	$500,000
2007–09 Revenue Impact:	$600,000	Not Applicable	$600,000

DESCRIPTION: Ocean marine insurers are exempt from the corporation income tax and the retaliatory premium 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 are estimated as follows, by year:

2003: $22.4 million
2004: $23.3 million
2005: $25.8 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.

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: Five percent tax is imposed on the average annual underwriting profit from writing wet marine insurance policies.

EVALUATION: Ocean marine insurers have been taxed only on their underwriting profit since at least 1928. Wet marine and transportation is subject to federal law and treaty, so it is necessary that there be some uniformity with other states and countries. Taxing ocean marine insurers based on underwriting profit rather than gross premium helps to achieve this purpose. This method of taxation ultimately benefits the smaller ports and interstate transportation carriers by reducing their cost of providing services.

This form of expenditure is the most effective way to provide this benefit. Otherwise Oregon would have a unique and more burdensome tax structure when compared to the rest of the world.

For calendar year 2005, ocean marine insurers paid about $56,000 of in-lieu tax based on underwriting profits from writing wet marine and transportation insurance. *[Evaluated by the Department of Consumer and Business Services.]*

1.130 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

	Corporation	Personal	Total
2005–07 Revenue Impact:	Not Applicable	Less than $50,000	Less than $50,000
2007–09 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-source income. Prior to 2001, Oregon law followed federal law, which only exempted the income earned by 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 earned by 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 simplify tax compliance.

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 ships in state-border waters. *[Evaluated by the Department of Revenue.]*

1.131 OREGON STATE LOTTERY PRIZES

Oregon Statute: 461.560
Sunset Date: None
Year Enacted: 1985

	Corporation	Personal	Total
2005–07 Revenue Impact:	Not Applicable	$2,400,000	$2,400,000
2007–09 Revenue Impact:	Not Applicable	$3,000,000	$3,000,000

DESCRIPTION: Oregon State Lottery (Lottery) prizes up to $600 are exempt from Oregon personal income tax. Originally, all prizes awarded by the Lottery were exempt from tax. In 1997, the Oregon legislature changed the law so that only prizes up to and including $600 are exempt. The 2001 Legislature further reduced the exemption by extending the taxation of lottery winnings to nonresidents who purchased Lottery tickets in Oregon. Currently, all prizes greater than $600 are taxable. The $600 limit applies to a single play of a single game.

Federal and state taxation of gambling winnings applies only to annual net winnings.

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 to 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: Fewer than 1,000 taxpayers claim this subtraction. Oregon Lottery players who win prizes 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 and expense of collecting and reporting tax information from each player who redeems a prize. The state also benefits because taxation of prizes of $600 or less would be a disincentive to play or sell these games, thereby reducing overall state revenues.

EVALUATION: This tax expenditure achieves its purpose and helps support the statutory purpose of the Lottery: to generate profits for the public purpose without imposing additional or increased taxes. Eliminating this tax expenditure would be a disincentive to players and would place an undue burden on Lottery retailers. Approximately 76 percent of all traditional game Lottery prizes won and 100 percent of all Video Lottery game prizes won are $600 or less and are payable at Lottery retailers (approx 3,700 statewide). Consequently, the burden placed upon 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 significantly reducing sales and profits for the public purpose. *[Evaluated by the Oregon Lottery.]*

1.132 INCOME EARNED IN "INDIAN COUNTRY"

U.S. Code Title 4 Section 109
Oregon Statute: 316.777
Sunset Date: None
Year Enacted: 1977

	Corporation	Personal	Total
2005–07 Revenue Impact:	Not Applicable	$3,600,000	$3,600,000
2007–09 Revenue Impact:	Not Applicable	$3,800,000	$3,800,000

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 and the income must be earned in "Indian country" 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". In 2005, roughly 1,200 taxpayers claimed this subtraction.

EVALUATION: This expenditure achieves its purpose of compliance with federal law. *[Evaluated by the Department of Revenue.]*

1.133 FEDERAL PENSION INCOME

Oregon Statute: 316.680(1)(f)
Sunset Date: None
Year Enacted: 1998

	Corporation	Personal	Total
2005–07 Revenue Impact:	Not Applicable	$130,300,000	$130,300,000
2007–09 Revenue Impact:	Not Applicable	$137,000,000	$137,000,000

DESCRIPTION: Federal pension income attributable to federal employment prior to October 1, 1991 is exempt from the Oregon personal income tax. The subtraction is apportioned based on the number of months of federal employment prior to October 1991 versus the months after October 1991.

This tax expenditure is the result of a series of legislative actions and court cases through the 1990's which attempted to define a consistent tax policy toward government pension income.

PURPOSE: To comply with a court ruling.

WHO BENEFITS: In 2004, approximately 39,000 taxpayers claimed an average subtraction of about $20,500.

Income Group (Quintiles)	Taxpayers		Mean Subtraction
	Number	Percent	
Below $10,600	1,540	3.9%	$7,329
$10,600 - $22,700	7,765	19.8%	$12,929
$22,700 - $39,700	9,636	24.6%	$19,052
$39,700 - $67,700	10,887	27.8%	$24,044
Above $67,700	9,338	23.8%	$26,521
Total	39,166	100.0%	$20,546

EVALUATION: This expenditure achieves its purpose of compliance with a court ruling. *[Evaluated by the Department of Revenue.]*

1.134 FEDERAL INCOME TAX DEDUCTION

Oregon Statutes: 316.680 and 316.695
Sunset Date: None
Year Enacted: 1929

	Corporation	Personal	Total
2005–07 Revenue Impact:	Not Applicable	$632,400,000	$632,400,000
2007–09 Revenue Impact:	Not Applicable	$747,200,000	$747,200,000

DESCRIPTION: Taxpayers are allowed a limited deduction of federal income taxes paid or accrued. The deduction limit is $5,500 for 2006 (indexed to inflation). For spouses filing their returns separately, the limit is half of the amount.

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: In 2004, approximately 70 percent of Oregon resident taxpayers claimed a subtraction for federal income taxes paid. The average amount of the subtraction in 2004 was $2,529.

Income Group (Quintiles)	Taxpayers		Mean Subtraction
	Number	Percent	
Below $10,600	63,053	6.2%	$180
$10,600 - $22,700	170,640	16.7%	$772
$22,700 - $39,700	226,944	22.3%	$2,021
$39,700 - $67,700	268,427	26.3%	$3,170
Above $67,700	289,949	28.5%	$3,879
Total	1,019,013	100.0%	$2,529

EVALUATION: This provision achieves its purpose. *[Evaluated by the Department of Revenue.]*

1.135 MILITARY ACTIVE DUTY PAY

Oregon Statutes: 316.680, 316.789, and 316.791
Sunset Date: None
Year Enacted: 1969, Modified in 2005 (HB 2933B)

	Corporation	Personal	Total
2005–07 Revenue Impact:	Not Applicable	$28,500,000	$28,500,000
2007–09 Revenue Impact:	Not Applicable	$35,200,000	$35,200,000

DESCRIPTION: Typically, taxpayers may subtract all active duty pay from Oregon 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 1991, this expenditure was modified so that 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 August 2006, the president has not declared an end to combatant activities in the Persian Gulf.

In 2005, additional language was added to statute to allow taxpayers to subtract active duty pay earned inside Oregon from taxable income.

Oregon National Guard and Reserve members who receive active duty pay while attending military schools to fulfill education requirements for retention and/or promotion may also claim this exemption.

PURPOSE: To provide additional compensation for military personnel for service to their country.

WHO BENEFITS: Over 11,300 Oregon taxpayers claimed this deduction in tax year 2005.

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 one of few incentives 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 which 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
2005–07 Revenue Impact:	Not Applicable	$27,900,000	$27,900,000
2007–09 Revenue Impact:	Not Applicable	$34,300,000	$34,300,000

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 the Government National Mortgage Association (GNMA) and the Federal National Mortgage Association (FNMA). Bonds issued by quasi-governmental issuers are not direct obligations of the U.S. government.

PURPOSE: To comply with federal law prohibiting states from taxing interest and dividends on U.S. government obligations.

WHO BENEFITS: Because financial market valuations compensate for the tax status of the interest and dividends on financial instruments, one beneficiary is the U.S. government, which can borrow at lower rates than would be the case if these instruments were taxable. The other direct beneficiaries are taxpayers who purchase U.S. government bonds. In 2004, 71,714 Oregon taxpayers claimed this subtraction for interest and dividends from U.S. government obligations. The pre-tax average income from these investments was $2,029.

Income Group (Quintiles)	Taxpayers		Mean Subtraction
	Number	Percent	
Below $10,600	9,491	13.2%	$914
$10,600 - $22,700	10,339	14.4%	$1,340
$22,700 - $39,700	10,802	15.1%	$1,605
$39,700 - $67,700	14,999	20.9%	$1,902
Above $67,700	26,110	36.4%	$2,955
Total	71,741	100.0%	$2,029

EVALUATION: This expenditure achieves its purpose of compliance with federal law. *[Evaluated by the Department of Revenue.]*

1.137 YOUTH APPRENTICESHIP SPONSORSHIP

Oregon Statute: 315.254
Sunset Date: None (Eligibility for the program ended in 1993.)
Year Enacted: 1991

	Corporation	Personal	Total
2005–07 Revenue Impact:	$0	$0	$0
2007–09 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 who 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.]*

1.138 CONTRIBUTIONS OF COMPUTER EQUIPMENT

Oregon Statute: 317.151
Sunset Date: 12-31-09
Year Enacted: 1985

	Corporation	Personal	Total
2005–07 Revenue Impact:	Less than $50,000	Not Applicable	Less than $50,000
2007–09 Revenue Impact:	Less than $50,000	Not Applicable	Less than $50,000

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, 2010. 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.

This credit is in lieu of any deduction based on the contribution. If a contract is agreed upon before January 1, 2010, but the donation is given after that date, the credit is still allowed. 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.

PURPOSE: To encourage firms to donate computers and scientific equipment to educational institutions.

WHO BENEFITS: The use of this credit varies greatly from year to year, but in most years very few corporations benefit from this credit.

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.]*

1.139 EMPLOYER PROVIDED SCHOLARSHIPS

Oregon Statute: 315.237
Sunset Date: None
Year Enacted: 2001

	Corporation	Personal	Total
2005–07 Revenue Impact:	Less than $50,000	Less than $50,000	Less than $50,000
2007–09 Revenue Impact:	Less than $50,000	Less than $50,000	Less than $50,000

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.

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. As of August 2006, the Student Assistance Commission had approved fewer than five employer programs.

EVALUATION: While this tax expenditure is not widely used, it has attracted funding from some businesses to assist students in the funding of their education, thus it achieves its purpose. *[Evaluated by the Oregon University System.]*

1.140 EARNED INCOME CREDIT

Oregon Statute: 315.266
Sunset Date: None
Year Enacted: 1997, Modified in 2005 (SB 31A)

	Corporation	Personal	Total
2005–07 Revenue Impact:	Not Applicable	$28,400,000	$28,400,000
2007–09 Revenue Impact:	Not Applicable	$39,700,000	$39,700,000

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 (six percent starting in 2008) of the federal earned income credit.

This is a refundable credit (starting with tax year 2006). To the extent that the credit exceeds a taxpayer's liability (reduced by any nonrefundable credits), the taxpayer is entitled to a refund of the excess.

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 2000, about 148,100 full-year resident taxpayers claimed an average credit of $66. In 2004, the number of claimants increased to 175,651 while the average claim increased to $70. Following its becoming refundable in 2006, the benefit to low income taxpayers who have little or no tax liability will increase. Therefore the distribution shown below (for tax year 2004) may change significantly.

Income Group (Quintiles)	Taxpayers		Mean Credit
	Number	Percent	
Below $10,600	60,661	34.5%	$31
$10,600 - $22,700	68,507	39.0%	$116
$22,700 - $39,700	46,483	26.5%	$53
$39,700 - $67,700	0	0.0%	NA
Above $67,700	0	0.0%	NA
Total	175,651	100.0%	$70

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 so 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 Department of Human Services.]*

1.141 QUALIFIED ADOPTION EXPENSE

Oregon Statute: 315.274
Sunset Date: 12-31-05
Year Enacted: 1999

	Corporation	Personal	Total
2005–07 Revenue Impact:	Not Applicable	$400,000	$400,000
2007–09 Revenue Impact:	Not Applicable	Less than $50,000	Less than $50,000

DESCRIPTION: A credit against personal income taxes was allowed for qualified expenses incurred in adopting a child. The credit could not be claimed for the portion of adoption expenses reimbursed through the federal income tax credit under IRC Sec. 23. Taxpayers are allowed to carry forward unused credits for up to four additional years.

PURPOSE: To reduce the financial cost of adoption, which may act as a barrier for some taxpayers.

WHO BENEFITS: Persons who incur adoption expenses (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. This credit does not benefit taxpayers with high income (phasing out at roughly $160,000).

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.

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.

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. This amount changed from $6,000 to $10,000 and became effective in 2003. 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. If a person adopts a child from a public child welfare agency in the United States, the person does not have to show receipts in order to get the tax exemption. *[Evaluated by the Department of Human Services.]*

1.142 RURAL MEDICAL PRACTICE

Oregon Statute: 315.613, 315.616, and 315.619
Sunset Date: None
Year Enacted: 1989

	Corporation	Personal	Total
2005–07 Revenue Impact:	Not Applicable	$11,300,000	$11,300,000
2007–09 Revenue Impact:	Not Applicable	$11,100,000	$11,100,000

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 at least ten miles from a major 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 and Dallas in Polk County.

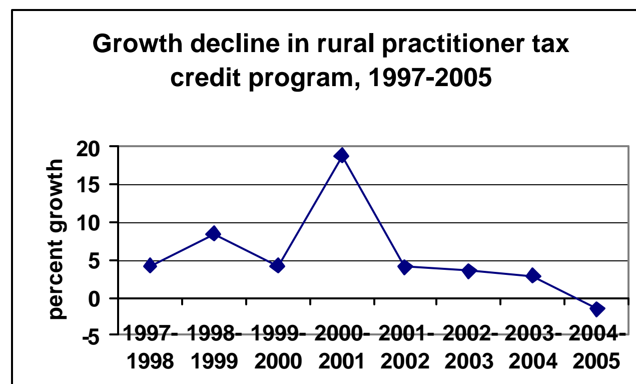
PURPOSE: To encourage the establishment and continuation of medical practices in under-served rural areas.

WHO BENEFITS: For the 2005 tax year, 1136 physicians, 315 nurse practitioners, 114 physician assistants, 66 nurse anesthetists, 53 dentists, 19 optometrists, and 19 podiatrists qualified for the credit, for a total of 1,722 practitioners. In total, the participants of this program serve approximately 800,000 Oregonians. The ultimate beneficiaries of this program are rural Oregonians who might otherwise have no health care available to them.

EVALUATION: This tax credit appears to have originally achieved its purpose by attracting new practitioners to rural communities and retaining existing practitioners. A year-by-year analysis of the Office of Rural Health's tax credit data base shows an impressive net gain of 1,193 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 60 in 1990 to 315 for tax year 2005. In estimating the impact of this growth, however, one must take into account the increase in nurse practitioner training programs statewide during the same time period.

Initially, Oregon experienced a remarkable gain in rural physicians, but that growth is slowing. Overall, growth in rural practitioners claiming the credit has begun to slow, as follows:



Reasons for the decline may include (1) a general shortage in health care workforce statewide; (2) a reversal in the trend that witnessed disproportionate workforce growth in rural areas vs. urban areas during the past few years (growth is now greater in urban areas); (3) aging of the overall workforce (the greatest concentration of physicians is now in the 51-60 age group — much higher than the rest of the population); and (4) perhaps most significantly, the tax credit has not increased for 15 years, while the medical consumer price index has risen 54 percent between January 1994 and June 2004, a measure of physician office overhead.

The decline in participation does not in any way indicate that adequate numbers of health care practitioners have been recruited to serve the needs of rural Oregonians. In 2003, the Portland metro area had 302 physicians per 100,000 population. In Eastern Oregon, the measure was 153 per 100,000, and in rural NW Oregon, the number was only 107.

The health care workforce is a critical economic engine for rural communities, which 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 intervention, a decline in rural practitioners similar to that experienced in the 1980s will inevitably repeat itself. In order to prevent a crisis in the availability of health care to rural Oregonians, the state should consider increasing the tax credit, e.g., indexing it to the medical consumer price index. *[Evaluated by the Office of Rural Health.]*

1.143 VOLUNTEER RURAL EMERGENCY MEDICAL TECHNICIANS

Oregon Statute: 315.622
Sunset Date: 12-31-10
Year Enacted: 2005 (SB 31A)

	Corporation	Personal	Total
2005–07 Revenue Impact:	Not Applicable	$400,000	$400,000
2007–09 Revenue Impact:	Not Applicable	$600,000	$600,000

DESCRIPTION: An annual, nonrefundable credit of up to $250 against personal income taxes is allowed to certain rural emergency medical technicians certified by the Office of Rural Health. At least 20 percent of the services provided by the emergency medical technician (EMT) must be in a qualifying rural area to receive the credit. Rural means any area at least 25 miles from a city with a population of 30,000 or more. There are about 15 cities in Oregon with a population that exceeds 30,000.

PURPOSE: To encourage provision of emergency medical technical services in rural areas.

WHO BENEFITS: Certified emergency medical technicians that volunteer at least 20 percent of their services in rural areas. Residents of rural areas who receive better access to emergency medical care.

EVALUATION: The Oregon Department of Revenue determined that this program would become effective 1/1/06. Therefore, no credits have been processed to date. Applications for this credit will be mailed to Oregon EMTs in December 2006. *[Evaluated by the Office of Rural Health.]*

1.144 COSTS IN LIEU OF NURSING HOME CARE

Oregon Statutes: 316.147 to 316.149
Sunset Date: None
Year Enacted: 1979

	Corporation	Personal	Total
2005–07 Revenue Impact:	Not Applicable	Less than $50,000	Less than $50,000
2007–09 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 8 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. Fewer than 20 taxpayers used this credit in 2005.

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. *[Evaluated by the Department of Human Services.]*

1.145 LONG-TERM CARE INSURANCE

Oregon Statute: 315.610
Sunset Date: None
Year Enacted: 1999

	Corporation	Personal	Total
2005–07 Revenue Impact:	Less than $50,000	$11,300,000	$11,300,000
2007–09 Revenue Impact:	Less than $50,000	$12,600,000	$12,600,000

DESCRIPTION: A 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 nonbusiness 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 or the tax liability of the taxpayer. 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 to take the credit.

PURPOSE: To encourage younger individuals to prepare for potential long-term care needs.

WHO BENEFITS: Taxpayers who purchase long-term care insurance. Typically, fewer than 10 corporations claim this credit. Roughly 25,000 individuals claimed it in 2005.

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 Department of Human Services.]*

1.146 DISABLED CHILD

Oregon Statute: 316.099
Sunset Date: None
Year Enacted: 1985

	Corporation	Personal	Total
2005–07 Revenue Impact:	Not Applicable	$3,700,000	$3,700,000
2007–09 Revenue Impact:	Not Applicable	$4,100,000	$4,100,000

DESCRIPTION: An additional personal exemption credit is allowed for each dependent child who is disabled. (Every nondependent taxpayer in Oregon is allowed one personal exemption credit for himself or herself, one for a spouse, and one for each dependent; this credit is in addition to those.) “Disabled child” is defined as your dependent child 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 responsible for adopting rules further defining “disabled child.”

The amount of the personal exemption credit (and hence the disabled child credit) is $159 in 2006 (indexed to inflation).

PURPOSE: To provide tax relief to the families of disabled children.

WHO BENEFITS In 2004, about 14,000 Oregon taxpayers claimed disabled child credits with an average tax benefit of about $120. Use of this credit has been increasing at a rate of about 9 percent annually.

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 Department of Human Services.]*

1.147 ELDERLY OR PERMANENTLY DISABLED

Oregon Statute: 316.087
Sunset Date: None
Year Enacted: 1969

	Corporation	Personal	Total
2005–07 Revenue Impact:	Not Applicable	Less than $50,000	Less than $50,000
2007–09 Revenue Impact:	Not Applicable	Less than $50,000	Less than $50,000

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 Retirement Income credit (1.194), 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 nontaxed Social Security benefits or veterans' benefits.

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 2004, the number of claimants was approximately 322, and the average credit was $53.

Income Group (Quintiles)	Taxpayers		Mean Credit
	Number	Percent	
Below $10,600	65	20.2%	$23
$10,600 - $22,700	250	77.6%	$61
$22,700 - $39,700	7	2.2%	$39
$39,700 - $67,700	0	0.0%	NA
Above $67,700	0	0.0%	NA
Total	322	100.0%	$53

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 Department of Human Services.]*

1.148 LOSS OF LIMBS

Oregon Statute: 316.079
Sunset Date: None
Year Enacted: 1973

	Corporation	Personal	Total
2005–07 Revenue Impact:	Not Applicable	Less than $50,000	Less than $50,000
2007–09 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. All taxpayers eligible for this credit are also eligible for the Severe Disability credit (1.149).

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 2005, fewer than 500 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 Department of Human Services.]*

1.149 SEVERE DISABILITY

Oregon Statute: 316.758 and 316.765
Sunset Date: None
Year Enacted: 1985

	Corporation	Personal	Total
2005–07 Revenue Impact:	Not Applicable	$5,300,000	$5,300,000
2007–09 Revenue Impact:	Not Applicable	$5,800,000	$5,800,000

DESCRIPTION: Every nondependent 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 is $159 in 2006.

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.

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 22,800 in 2004.

Income Group (Quintiles)	Taxpayers		Mean Credit
	Number	Percent	
Below $10,600	4,471	19.6%	$43
$10,600 - $22,700	5,611	24.6%	$103
$22,700 - $39,700	4,797	21.0%	$130
$39,700 - $67,700	4,545	19.9%	$140
Above $67,700	3,377	14.8%	$149
Total	22,801	100.0%	$111

EVALUATION: This tax expenditure appears to achieve its purpose. It increases disposable income for 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 Department of Human Services.]

1.150 FILM PRODUCTION DEVELOPMENT CONTRIBUTIONS

Oregon Statute: 315.514
Sunset Date: None
Year Enacted: 2003 (HB 2747)

	Corporation	Personal	Total
2005–07 Revenue Impact:	$200,000	$1,300,000	$1,500,000
2007–09 Revenue Impact:	$200,000	$1,500,000	$1,700,000

DESCRIPTION: A credit against corporation or personal income taxes is available to taxpayers for certified film production development contributions to the Oregon Production Investment Fund.

The Oregon Film and Video Office must adopt rules to determine the amount of tax credit to be certified. The tax credit amount should be such that any contribution to the Fund equals at least 90 percent of the tax credit received. In addition, the rules adopted should achieve the following goals: (1) generate contributions for which $1 million in tax credits are certified each fiscal year, (2) maximize the income and excise tax revenues available to Oregon for state operations, and (3) provide the necessary financial incentives for taxpayers to make contributions to the Oregon Production Investment Fund.

To receive this credit, a taxpayer must apply for tax credit certification to the Oregon Film and Video Office. Payment of the contribution is required at the time of application. If the amount of contributio n is allowed as a deduction for federal tax

purposes, the contribution amount is added to federal taxable income for Oregon tax purposes.

This credit applies to tax credit certifications issued on or after July 1, 2005. This tax credit is nonrefundable. Any unused tax credit may be carried forward for up to three years. If the tax credit is claimed by a nonresident or part-year resident taxpayer, the amount is allowed without proration. A taxpayer who has received a tax credit certificate may sell the certificate to another taxpayer provided that notice of sale is filed with the Department of Revenue.

PURPOSE: To generate funds to be used to encourage film production in Oregon.

WHO BENEFITS: Taxpayers that contribute to the Oregon Production Investment Fund benefit because of their decreased tax liability. Television and film production companies benefit as well because the Oregon Production Investment Fund is used to reimburse a portion of their actual expenses incurred in Oregon related to the production of a film or television series.

EVALUATION: This tax expenditure achieves its purpose of encouraging film production in the state and generating associated spending and employment.

In 2005-06 four films were made in Oregon with the assistance of the Oregon Production Investment Fund (OPIF). Production of these films resulted in $12.2 million of direct expenditures in Oregon and a total impact on the state economy of $24.3 million in output and 279 full-time jobs.

As a result of the $24.3 million economic impact attributable to these four films, an estimated $762,573 flowed back into the Oregon General Fund via additional tax revenue. Thus the **net** cost of the $1,000,000 OPIF tax credit for 2005, once this additional tax revenue is taken into account, is $237,427.

Based on this net cost, the ROI for the 2005 OPIF program was 102:1.

The OPIF film incentive has also been integral in boosting overall production within the state. In 2004, prior to the implementation of OPIF, the Oregon Film & Video Office received 446 inquiries from film productions. In 2005, after the implementation of OPIF, the Film Office received 655 inquiries – a greater than 46% increase. Direct revenues from film productions increased 71% - from $13M in 2004 to $22.2M in 2005. *[Evaluated by the Oregon Film and Video Office.]*

1.151 QUALIFIED RESEARCH ACTIVITIES

Oregon Statute: 317.152
Sunset Date: 12-31-12
Year Enacted: 1989, Modified in 2005 (SB 31A)

	Corporation	Personal	Total
2005–07 Revenue Impact:	$11,300,000	Not Applicable	$11,300,000
2007–09 Revenue Impact:	$16,500,000	Not Applicable	$16,500,000

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) except that only qualified research expenses and basic research payments in Oregon are considered.

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 did not conduct research for at least three years in 1984-88, the base amount equals three 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 $2,000,000 per taxpayer and is nonrefundable. 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) (1.152). The revenue impact reported here includes any credits received under both tax expenditures.

PURPOSE: To promote and increase research activities in Oregon

WHO BENEFITS: Companies taking the credit benefit. For tax year 2004, about 74 taxpayers benefited from these credits. These taxpayers reduced their tax liability by $37,400 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. The estimated revenue impacts above equate to about $65 million per year of increased research activity in Oregon over the four-year period. Some of this spending in Oregon is likely attributable to this provision's existence. Moreover, this type of tax credit is common and often more generous in other states that tax corporate income.

The benefits of this incentive can be identified as follows:

- The credit may convince companies to relocate to Oregon.
- The credit encourages existing companies to put more effort into research and development (R&D). Product introduction cycles for products, such as personal computers, high-definition screens and telecommunication products are ever increasingly short. 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 in Oregon over another—*i.e.*, sectors substantially and formally oriented to R&D efforts—but these

are industries that Oregon public policies are designed to attract and foster, and they will use the federal tax credit, anyway.

Furthermore, the Governor and the Legislature have identified "innovation" as a critical strategic priority for Oregon's economy. *[Evaluated by the Economic and Community Development Department.]*

1.152 QUALIFIED RESEARCH ACTIVITIES (ALTERNATIVE)

Oregon Statute: 317.154
Sunset Date: 12-31-12
Year Enacted: 1989, Modified in 2003 (HB 3183)

	Corporation	Personal	Total
2005–07 Revenue Impact:	Included in 1.151	Not Applicable	Included in 1.151
2007–09 Revenue Impact:	Included in 1.151	Not Applicable	Included in 1.151

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 (1.151), except that basic research payments are not included.

The credit is limited to the lesser of: a) $2,000,000 or b) $10,000 multiplied by the number of percentage points that the qualified research expenses exceed 10 percent of Oregon sales. The credit is nonrefundable. 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 (1.151). Some companies may not qualify for the standard credit 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.

PURPOSE: To promote research activities in Oregon.

WHO BENEFITS: It is not known whether anyone uses this alternative credit.

EVALUATION: See evaluation for Qualified Research Activities (1.151). *[Evaluated by the Economic and Community Development Department.]*

1.153 LONG-TERM NONURBAN ENTERPRISE ZONE (INCOME TAX)

Oregon Statute: 317.124
Sunset Date: 6-30-09
Year Enacted: 1997, Modified in 2005 (HB 2234)

	Corporation	Personal	Total
2005–07 Revenue Impact:	Less than $50,000	Less than $50,000	Less than $50,000
2007–09 Revenue Impact:	Less than $50,000	Less than $50,000	Less than $50,000

DESCRIPTION: Corporations that make certain large investments in a nonurban 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—see Long-Term Nonurban Enterprise Zone (Property Tax) (2.011). To be eligible for the property tax exemption, the investment must be located in a county with chronic unemployment or low income. 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 annual worker compensation must be at least 50 percent above the county average wage.

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 against liabilities above a minimum amount of $1 million or less depending on the facility's location and workforce size. The credit may be used only to offset the tax liability relating to the facility and cannot lower the taxable income of the company below the minimum amount determined by ORS 317.124, subsection 7. The credits may be received over a period of five to 15 years, as determined by the governor, beginning by the third year after the facility is placed in service. Each credit can be carried forward up to five years.

Thirty percent of the tax credit threshold amount plus thirty percent of any remaining qualified tax liability after allowance of the credit is paid into the long-term enterprise zone fund. The amount paid into the fund is distributed to the local property-taxing district, not to exceed property tax forgone, and the city or county sponsor of the enterprise zone receives the rest.

Approval from the Governor's Office is required for this credit. It is not required for the related Property Tax exemption—see Long-Term Nonurban Enterprise Zone (Property Tax) (2.011).

PURPOSE: To encourage investment in nonurban areas of chronic unemployment or low income.

WHO BENEFITS: This provision is intended to benefit nonurban enterprise zones and their surrounding residents in counties with chronic unemployment or low income.

EVALUATION: Other companies are increasingly inquiring about the program in 2006 and the credit appears to be a major source of inducement for undertaking special investments in special places, which is the intended effect—see Long-Term Rural Enterprise Zone (Property Tax) (2.011).

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 throughout rural Oregon. Before these changes, the likelihood of them having an effect was small in those locations and elsewhere.

There is currently insufficient data for further analysis. Nevertheless, other legislative adjustments since 1999, greater marketing since 2003, and a stronger economy since 2004 have continued to raise the profile and usability of this incentive. *[Evaluated by the Economic and Community Development Department.]*

1.154 RESERVATION ENTERPRISE ZONE (INCOME TAX)

Oregon Statute: 285C.309
Sunset Date: None
Year Enacted: 2001, Modified in 2005 (HB 3143)

	Corporation	Personal	Total
2005-07 Revenue Impact:	Less than $50,000	Less than $50,000	Less than $50,000
2007-09 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 may be designated on trust land of an Indian tribe that meets certain conditions:

- the Indian tribe is a federally recognized tribe,
- the reservation of the tribe is entirely within Oregon,
- the land is inside the boundaries of the reservation,
- 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.

Except for the above special tribal tax credit, reservation enterprise zones are otherwise equivalent to a regular non-urban enterprise zone [See Long-Term Rural Enterprise Zone (Income Tax) (1.153)]. Changes to statutes in 2005 allow more Oregon tribes to designate a reservation enterprise zone.

PURPOSE: To encourage “growth, development and expansion of employment and business opportunities within reservation boundaries.” (ORS 285C.303).

WHO BENEFITS: Businesses operating in reservation enterprise zones. Residents of reservations who benefit from enhanced development opportunities. Currently one reservation enterprise zone has been designated by the Confederated Tribes of the Umatilla Indian Reservation.

EVALUATION: Insufficient data for analysis, as the credit remains unused. *[Evaluated by the Economic and Community Development Department.]*

1.155 ELECTRONIC COMMERCE ENTERPRISE ZONE (INCOME TAX)

Oregon Statute: 315.507
Sunset Date: None (Enterprise zone law sunsets 6-30-09.)
Year Enacted: 2001

	Corporation	Personal	Total
2005-07 Revenue Impact:	$2,900,000	Less than $50,000	$2,900,000
2007-09 Revenue Impact:	$3,000,000	Less than $50,000	$3,000,000

DESCRIPTION: Qualified business firms may claim an income tax credit for investment in electronic commerce operations under certain circumstances. Such a firm must be engaged or preparing to engage in electronic commerce within an electronic commerce zone or in a city designated as an electronic commerce city (see ORS 285C.095 and 285C.100).

The Director of the Economic and Community Development Department designates electronic commerce enterprise zones and enterprise cities. In order for an area to be designated as an electronic commerce enterprise zone, it must already be a designated enterprise zone. See tax expenditure Enterprise Zone Businesses (2.010).

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.

The taxpayer must also qualify for the enterprise zone exemption from property taxes. See tax expenditure Electronic Commerce Enterprise Zone (Property Tax) (2.013).

PURPOSE: To encourage development of electronic commerce in specified zones and cities.

WHO BENEFITS: E-commerce businesses operating in electronic commerce zones and cities. For tax year 2004, fewer than five corporations benefited from this credit for a total reduction in tax liability of about $1.4 million.

EVALUATION: Since 2002, when four enterprise zones received this special designation, the tax credit has generated notable interest from eligible business firms, and it has been a critical, final element in influencing a number of major investments.

As shown with respect to the property tax exemption—see Electronic Commerce Enterprise Zone (Property Tax) (2.013)—activity in using this program among the four originally designated enterprise zones has varied tremendously. In any event, the tax credit appears to be fulfilling its purpose in the context of other marketing factors—not only by inducing the *E-Commerce* sector to grow in Oregon, but also by spurring additional enterprise zone investments and job creation.

At this time sufficient data is not readily available to assess actual claims and the use of the tax credit itself, but qualified business firms are beginning to realize corporate excise tax savings. *[Evaluated by the Economic and Community Development Department.]*

1.156 WATER TRANSIT VESSEL MANUFACTURING

Oregon Statute: 315.517
Sunset Date: 12-31-12
Year Enacted: 2005 (SB 896B)

	Corporation	Personal	Total
2005–07 Revenue Impact:	Less than $50,000	Less than $50,000	Less than $50,000
2007–09 Revenue Impact:	Less than $50,000	Less than $50,000	Less than $50,000

DESCRIPTION: Companies engaged in the manufacture of water transit vessels licensed by the U.S. Coast Guard to carry at least 50 passengers can take a nonrefundable corporate tax credit of the lesser of $5000, 15 percent of the wages paid to new employees hired during the tax year, or the tax liability for the tax year. To qualify, a new employee cannot have previously worked at the company. The tax credit cannot be carried over to future years, but can be taken in multiple years until the sunset date.

PURPOSE: To encourage new hiring in the Oregon ferry-building industry.

WHO BENEFITS: Companies manufacturing ferries and other passenger vessels that hire at least one new employee in any tax year between January 1, 2006 and December 31, 2012.

EVALUATION: Insufficient data for analysis. *[Evaluated by the Economic and Community Development Department.]*

1.157 PUBLIC UNIVERSITY VENTURE DEVELOPMENT FUND

Oregon Statute: 315.521
Sunset Date: None
Year Enacted: 2005 (SB 853B)

	Corporation	Personal	Total
2005–07 Revenue Impact:	Less than $50,000	Less than $50,000	Less than $50,000
2007–09 Revenue Impact:	$200,000	$200,000	$400,000

DESCRIPTION: Oregon universities are able to establish "university venture development funds" in order to provide capital for affiliate research and development of commercially viable products and services. Persons and corporations that donate to these funds can receive a nonrefundable credit of 60 percent of the amount against their personal or corporate taxes. Credit is limited to a total of $50,000 per taxpayer and must be spread out over three years so that the annual credit does not exceed 20 percent of the contribution amount.

Total contributions to the venture development fund are capped at $14 million, $10 million for the Oregon University System and $4 million for the Oregon Health and Science University, so the theoretical maximum amount of tax credits is $8.4 million. The Development Fund will transfer 20 percent of income received from funded activities back to the state until the total amount of tax credits taken is reimbursed.

PURPOSE: To encourage private investment and entrepreneurship in products and services developed through research at Oregon universities.

WHO BENEFITS: Individuals and corporations that make donations to the funds.

EVALUATION: Insufficient data for analysis. *[Evaluated by the Economic and Community Development Department.]*

1.158 CHILD AND DEPENDENT CARE

Oregon Statute: 316.078
Sunset Date: None
Year Enacted: 1975

	Corporation	Personal	Total
2005–07 Revenue Impact:	Not Applicable	$16,800,000	$16,800,000
2007–09 Revenue Impact:	Not Applicable	$15,600,000	$15,600,000

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 nonrefundable, but unused credit amounts due to insufficient tax liability may be carried forward 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 himself or herself. 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 nontaxable 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). An income is imputed for taxpayers who are students.

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 claiming this credit increased slightly from about 46,800 in 2002 to 47,600 in 2004. The average credit was $187 in 2004.

Income Group (Quintiles)	Taxpayers		Mean Credit
	Number	Percent	
Below $10,600	2,020	4.2%	$105
$10,600 - $22,700	9,309	19.5%	$325
$22,700 - $39,700	13,985	29.4%	$224
$39,700 - $67,700	18,449	38.7%	$117
Above $67,700	3,875	8.1%	$99
Total	47,638	100.0%	$187

EVALUATION: This tax expenditure achieves its purpose and meets a need when other forms of nontaxable 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.]*

1.159 WORKING FAMILY CHILD CARE

Oregon Statute: 315.262
Sunset Date: None
Year Enacted: 1997, Modified in 2005 (HB 2451, SB 31A)

	Corporation	Personal	Total
2005–07 Revenue Impact:	Not Applicable	$47,500,000	$47,500,000
2007–09 Revenue Impact:	Not Applicable	$50,600,000	$50,600,000

DESCRIPTION: A personal income tax credit is allowed for child care expenses for low-income families who have a minimum amount of Oregon-source earned income for the year. There is a limit on the amount of unearned income they are allowed to maintain their eligibility. Both amounts are indexed to inflation. For 2006, the minimum earned income is $7,100; the maximum unearned income is $2,800. The credit is calculated as a declining percentage of qualified child care expenses. The credit phases out for taxpayers between 200 percent and 250 percent of the federal poverty level.

This is a refundable credit. To the extent that the credit exceeds a taxpayer's liability (reduced by any nonrefundable credits), the taxpayer is entitled to a refund of the excess.

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. In 2004, 26,624 taxpayers claimed an average credit of $805.

Since this is a refundable credit, the full amount of credits claimed can be used, even if the taxpayer has little or no tax liability.

Income Group (Quintiles)	Taxpayers		Mean Credit
	Number	Percent	
Below $10,600	1,831	6.9%	$585
$10,600 - $22,700	9,722	36.5%	$811
$22,700 - $39,700	11,479	43.1%	$878
$39,700 - $67,700	3,566	13.4%	$670
Above $67,700	26	.1%	$512
Total	26,624	100.0%	$805

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.]*

1.160 DEPENDENT CARE ASSISTANCE

Oregon Statute: 315.204
Sunset Date: 12-31-16
Year Enacted: 1987, Modified in 2005 (HB 2951)

	Corporation	Personal	Total
2005–07 Revenue Impact:	$1,500,000	$400,000	$1,900,000
2007–09 Revenue Impact:	$1,500,000	$400,000	$1,900,000

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 the 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 (1.161).

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. In 2004, 17 corporations claimed either the Dependent Care Assistance (1.160) or the Dependent Care Facilities (1.161) credit. The average credit claimed was $124,000. Twelve corporations reduced their tax liability using this credit by an average of about $19,600. Fewer than 50 individuals claimed this credit in 2005.

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.]*

1.161 DEPENDENT CARE FACILITIES

Oregon Statute: 315.208
Sunset Date: 12-31-01
Year Enacted: 1987

	Corporation	Personal	Total
2005–07 Revenue Impact:	Included in 1.160	Included in 1.160	Included in 1.160
2007–09 Revenue Impact:	Included in 1.160	Included in 1.160	Included in 1.160

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 that are not used due to insufficient tax liability may be carried forward for up to five years.

PURPOSE: To encourage employers to provide child care facilities near the place of employment.

WHO BENEFITS: Use of this credit is limited to unused credit amounts carried forward from past years. Potential use is summarized in Dependent Care Assistance (1.160).

EVALUATION: This tax credit expired on December 31, 2001. *[Evaluated by the Employment Department.]*

1.162 FIRST BREAK PROGRAM

Oregon Statute: 315.259
Sunset Date: 12-31-04
Year Enacted: 1995

	Corporation	Personal	Total
2005–07 Revenue Impact:	Less than $50,000	Less than $50,000	Less than $50,000
2007–09 Revenue Impact:	Less than $50,000	Less than $50,000	Less than $50,000

DESCRIPTION: A credit against corporation or personal income taxes is allowed for wages paid to a qualified youth hired by the taxpayer in the First Break Program. No credit amounts can be certified anymore, but credits can still be carried forward from previous years through 2009.

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. Very few taxpayers used this credit in 2005.

EVALUATION: This tax credit expired on December 31, 2004. *[Evaluated by the Employment Department.]*

1.163 CHILD CARE DIVISION CONTRIBUTIONS

Oregon Statute: 315.213
Sunset Date: 12-31-08
Year Enacted: 2001, Modified in 2003 (HB 3184)

	Corporation	Personal	Total
2005-07 Revenue Impact	$100,000	$300,000	$400,000
2007-09 Revenue Impact	$100,000	$300,000	$400,000

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. 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.

If a deduction is taken for federal tax purposes, the deducted amount is added to Oregon taxable income.

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 is eligible to receive contributions that may qualify as deduction under Section 170 of the Internal Revenue Code.

PURPOSE: To provide a funding pool for child care that will: 1) reduce costs to parents, 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: Fewer than 100 personal income taxpayers and some corporations benefit.

EVALUATION: This tax credit is effective because the funds increase childcare provider wages and professional development, decrease parent cost to less then 10 percent of family income and improves the quality of care children receive. In addition to receiving tax credits, contributors help Oregon by encouraging small business development, supporting the child care workforce, helping to create safe environments for learning and assisting children to enter school ready to succeed. *[Evaluated by the Employment Department.]*

1.164 FARM WORKER HOUSING CONSTRUCTION

Oregon Statute: 315.164
Sunset Date: None
Year Enacted: 1989

	Corporation	Personal	Total
2005–07 Revenue Impact:	$700,000	$200,000	$900,000
2007–09 Revenue Impact:	$1,000,000	$200,000	$1,200,000

DESCRIPTION: A credit against corporation or personal income taxes is allowed for construction, rehabilitation, or acquisition of farm worker housing in Oregon. The credit is 50 percent of the eligible construction costs for housing projects. A maximum of $7.25 million in eligible costs can be approved for credit eligibility in a single calendar year.

The housing must meet certain qualifications for the taxpayer to be eligible for the credit. Rehabilitation projects must restore housing to a condition that meets building code requirements. If 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.

For tax years beginning in 2005, a taxpayer eligible to claim the credit may transfer the entire amount of the credit to another taxpayer that contributed to the project. For prior tax years, eighty percent of the credit is transferable.

The maximum amount of credit claimed by a taxpayer for any one tax year cannot exceed 20 percent of the total allowable credit. Credits exceeding the taxpayer's tax liability may be applied against future taxes in up to nine later tax years.

To claim the credit, taxpayers are required to obtain a letter of credit approval from the Housing and Community Services Department.

PURPOSE: To promote construction and rehabilitation of safe and healthful housing for farm workers.

WHO BENEFITS: Fewer than ten corporations and 50 individuals benefit from this credit each year. Since 1992 the credit has been used to provide safe, affordable housing for more than 3,000 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 community based 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 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 industry, with gross sales totaling $4.3 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 USDA 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.]*

1.165 FARM WORKER HOUSING LENDER'S CREDIT

Oregon Statute: 317.147
Sunset Date: None
Year Enacted: 1989

	Corporation	Personal	Total
2005–07 Revenue Impact:	$700,000	Not Applicable	$700,000
2007–09 Revenue Impact:	$700,000	Not Applicable	$700,000

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 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.

A lending institution that is not subject to taxation can sell or transfer the credits to a corporation that is subject to taxation. Credits that cannot be used because of insufficient tax liability in the current year cannot be carried forward to later years.

PURPOSE: To promote construction and rehabilitation of safe and healthful housing for farm workers.

WHO BENEFITS: 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 amount of credits

claimed varies widely from year to year. For tax year 2004, about five taxpayers benefited from this credit. These taxpayers reduced their tax liability by an average of about $95,000.

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 and 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.]

1.166 INVOLUNTARY MANUFACTURED DWELLING MOVES

Oregon Statute: 316.153
Sunset Date: 12-31-07
Year Enacted: 1991, Modified in 2005 (HB 2389C)

	Corporation	Personal	Total
2005–07 Revenue Impact:	Not Applicable	$300,000	$300,000
2007–09 Revenue Impact:	Not Applicable	$400,000	$400,000

DESCRIPTION: A credit against personal income tax is allowed for certain owners of mobile homes who are forced to move due to the closure of their mobile home park. To qualify for the credit, the taxpayer must move the home between January 1, 2006 and December 31, 2007.

The credit is available to taxpayers with household income of $60,000 or less in the year of the move, and the mobile home must have a fair market value of $110,000 or less. A taxpayer can claim this credit for only one involuntary move. The credit equals the lesser of $10,000 or the actual relocation costs net of any reimbursement paid by the landlord.

For taxpayers with income above 200 percent of the federal poverty level, the credit is taken in three equal amounts for the three consecutive tax years beginning with the year of the move. Any nonrefundable portion of this credit that cannot be claimed because of insufficient tax liability may be carried forward up to five years. For taxpayers with income up to 200 percent of the federal poverty level, the credit is refundable and is taken for the year of the move.

The original credit provided for under this statute had sunset as of December 31, 2001. HB 2389 (2005) essentially created a new credit. It increased the amount of the credit and loosened eligibility requirements.

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: Manufactured dwelling owners with household income of $60,000 or less who must move their mobile homes as a result of the mobile home park closure or partial closure. Between 2001 and 2005, about 50 mobile home parks in Oregon were closed.

EVALUATION: The intent of this tax credit is to reduce the tax burden on qualified mobile home owners who will incur significant expense to relocate due to the closure of their park. Other taxpayers who relocate in conjunction with a new job or business can deduct qualified moving expenses [Moving Expenses (1.068)]. Although the circumstances are different for mobile home owners who are forced to move, this credit provides a similar tax break. It is not possible to assess the impact of 316.153 because the first credits will not be claimed until home owners file their 2006 tax returns. *[Evaluated by the Housing and Community Services Department.]*

1.167 OREGON AFFORDABLE HOUSING CREDIT

Oregon Statute: 317.097
Sunset Date: 12-31-19
Year Enacted: 1989, Modified in 2005 (SB 996B)

	Corporation	Personal	Total
2005–07 Revenue Impact:	$5,800,000	Not Applicable	$5,800,000
2007–09 Revenue Impact:	$9,000,000	Not Applicable	$9,000,000

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, 2020. Loans may be certified to receive credits for up to 20 years. The cap on credits granted for new and existing loans went from $5 million to $11 million per tax year beginning January 1, 2005.

PURPOSE: To promote the construction and rehabilitation of low-income housing units with affordable rent.

WHO BENEFITS: In 2004, 28 corporation income taxpayers benefited from this credit. These taxpayers had reduced tax liability of $3.2 million, or $114,500 on average. 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. In 2003, the average rental saving benefit was $50 per month for 6,600 units.

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.]*

1.168 INDIVIDUAL DEVELOPMENT ACCOUNT CONTRIBUTION (CREDIT)

Oregon Statute: 315.271
Sunset Date: None
Year Enacted: 1999

	Corporation	Personal	Total
2005–07 Revenue Impact:	Less than $50,000	$1,600,000	$1,600,000
2007–09 Revenue Impact:	Less than $50,000	$1,800,000	$1,800,000

DESCRIPTION: Individuals or businesses donating to the state selected nonprofit (currently the Neighborhood Partnership Fund) 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. 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.

There are two other tax expenditures closely related to this program. The Individual Development Accounts (Exclusion and Subtraction) (1.123) provides that contributions to and earnings from IDAs are not taxed by Oregon if used for approved purposes. The Individual Development Account Withdrawal (Credit) (1.169) provides a credit for IDA withdrawals that are used to fund closing costs associated with the purchase of a primary residence.

PURPOSE: Fund an asset-based antipoverty strategy for low-income Oregonians that promotes personal financial management, investment, and savings for key assets. These assets include first-home purchase, starting a business, and obtaining further post-secondary education.

WHO BENEFITS: Individuals or businesses making contributions to the Neighborhood Partnership Fund to support IDAs directly benefit from this credit. The tax credit provides an incentive to the contributing businesses or individual to continue providing matching funds for the program. Using a combination of state, private and federal funds, more than 500 Oregonians have participated during the first three pilot years of the Oregon IDA initiative. The account holders of these IDAs indirectly benefit from the credit by being able to make use of the matching funds upon fulfillment of all program requirements and purchase of their planned asset.

EVALUATION: Only $15,000 in 25 percent credits were granted during 2001. In 2002, 2003, and 2004, the amount of 75 percent credits successfully marketed was about $500,000 per year. In 2005, about $1 million in credits were granted. These contributions will engage an estimated 380 households during the 2006 program year. Upon successful completion of all program requirements over the next 1-5 years, the participants will have funds to match their savings to purchase their first home, obtain needed post-secondary education, or start a small business. *[Evaluated by Housing and Community Services Department.]*

1.169 INDIVIDUAL DEVELOPMENT ACCOUNT WITHDRAWAL (CREDIT)

Oregon Statute: 315.272
Sunset Date: None
Year Enacted: 2005 (HB 3358)

	Corporation	Personal	Total
2005–07 Revenue Impact:	Not Applicable	Less than $50,000	Less than $50,000
2007–09 Revenue Impact:	Not Applicable	$100,000	$100,000

DESCRIPTION: An Oregon income tax credit is available for withdrawals from individual development accounts (IDAs) that are used to fund closing costs associated with the purchase of a primary residence. The amount of the credit is the lower of: the amount of money withdrawn from the IDA for the purchase of a first home; the amount of the usual and reasonable closing costs of the first home; or $2,000. The credit cannot exceed the taxpayer' tax liability.

There are two other tax expenditures closely related to this program. The Individual Development Accounts (Exclusion and Subtraction) (1.123) provides that contributions to and earnings from IDAs are not taxed by Oregon if used for approved purposes. The Individual Development Account Contribution (Credit)

(1.168) provides a credit for individuals or businesses that make contributions to fiduciary organizations to support IDA programs.

PURPOSE: To assist low-income Oregonians to achieve homeownership, by allowing low income families to recover some of the closing costs of purchasing a first home.

WHO BENEFITS: Lower income Oregon households benefit from the existence of these accounts. Since 2004, more than 500 accounts have been established using a variety of state, private, and federal grant funds.

EVALUATION: As this is a new credit in 2006, no data exists on the effectiveness. Participants will be able to claim the credit on their 2006 tax forms, thus the first opportunity to determine utilization levels will be in 2007. Also, since the Oregon IDA initiative is just beginning to ramp up, the number of participants graduating and purchasing their first home will be small. Thus, the first meaningful evaluation of this credit may be accomplished in about 3-4 years. *[Evaluated by the Housing and Community Services Department.]*

1.170 OREGON CAPITAL CORPORATION INVESTMENTS

Oregon Statute: 315.504
Sunset Date: None
Year Enacted: 1987

	Corporation	Personal	Total
2005–07 Revenue Impact:	$0	$0	$0
2007–09 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 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.

1.171 CROP GLEANING

Oregon Statute: 315.156
Sunset Date: None
Year Enacted: 1977

	Corporation	Personal	Total
2005–07 Revenue Impact:	Less than $50,000	$100,000	$100,000
2007–09 Revenue Impact:	Less than $50,000	$100,000	$100,000

DESCRIPTION: A credit is allowed against personal or corporation income taxes for crop donations to gleaning cooperatives, food banks, or qualifying charitable organizations located in Oregon. The credit includes 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" includes 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 is 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, food banks, or other charitable organizations engaged in the distribution of food without charge.

WHO BENEFITS: Farmers who donate crops to gleaning cooperatives, food banks, or charitable food distribution organizations. The tax benefit goes primarily to smaller, noncorporate farms. For tax year 2005, approximately 50 personal income tax payers saved about $40,000 in tax using this credit.

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.]*

1.172 ALTERNATIVES TO FIELD BURNING

Oregon Statute: 468.150
Sunset Date: 12-31-07
Year Enacted: 1975

	Corporation	Personal	Total
2005–07 Revenue Impact:	$300,000	$100,000	$400,000
2007–09 Revenue Impact:	$300,000	$100,000	$400,000

DESCRIPTION: A credit is allowed against corporation or personal income taxes for up to 35 percent of acquisition or construction costs for equipment and facilities as alternatives to grass seed and cereal grain straw open field burning. This provision was added as an expansion to the Pollution Control credit (1.176) in 1975, and is scheduled to sunset at the end of 2007.

Voluntary projects, projects that cost less than $200,000, projects located in an enterprise zone or economically distressed area, or projects that meet high levels of environmental compliance are eligible for a credit of up to 35 percent of the certified cost of the facility.

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 (1.172).

Note that the Mobile Field Incinerators expenditure (2.033) 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 grass seed and cereal grain straw.

WHO BENEFITS: 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 that 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 adjusting to the current phasedown schedule, increased acreage in production, stable yields, and the results of recent research all indicate that the alternatives to field burning are helping to address production challenges. 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 future potential use as feedstocks for biofuels, and 2) the continued availability and improvement in equipment that enables seed growers to chop and manage full straw loads left on the field, and research into no-till farming techniques. *[Evaluated by the Department of Agriculture.]*

1.173 FARM MACHINERY AND EQUIPMENT (INCOME TAX)

Oregon Statutes: 315.119
Sunset Date: 12-31-07
Year Enacted: 2001

	Corporation	Personal	Total
2005-07 Revenue Impact	Less than $50,000	Less than $50,000	Less than $50,000
2007-09 Revenue Impact	Less than $50,000	Less than $50,000	Less than $50,000

DESCRIPTION: A credit is allowed against personal or corporate income taxes 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 that is specially assessed for farm use and is owned and controlled by the farm operator. The amount of the tax credit is calculated as the lesser of the 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.

This credit does not apply to property that is exempt from taxation. Of particular note, this credit does not affect property used in farming or new property used in food processing because that property is exempted by Farm Machinery and Equipment (Property) (2.032) and Food Processing Equipment (2.031).

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. Very few individuals or corporations benefit from this tax credit.

EVALUATION: Small- and medium-sized food processors face market disadvantages. After thousands of mergers and acquisitions in the food processing 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.]*

1.174 RIPARIAN LANDS REMOVED FROM FARM PRODUCTION

Oregon Statutes: 315.113
Sunset Date: None
Year Enacted: 2001

	Corporation	Personal	Total
2005-07 Revenue Impact	Less than $50,000	Less than $50,000	Less than $50,000
2007-09 Revenue Impact	Less than $50,000	$100,000	$100,000

DESCRIPTION: This expenditure creates an income tax credit for riparian farmland that is voluntarily taken out of agricultural production for conservation purposes. The statute defines riparian land as 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 for each year crops are not raised on the eligible land. The credit has a five-year carry forward. The credit is available beginning with the 2004 tax year.

PURPOSE: "The purpose of [this tax credit] 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." (ORS 315.111)

WHO BENEFITS: Taxpayers who voluntarily take riparian farmland out of production. In 2005, twelve personal income tax payers saved an average of $2,050 in Oregon tax using this credit.

EVALUATION: This credit did not become available until 2004; the extent to which producers will utilize this incentive is difficult to estimate. *[Evaluated by the Department of Agriculture.]*

1.175 POLLUTION PREVENTION

Oregon Statute: 315.311
Sunset Date: 12-31-99
Year Enacted: 1995

	Corporation	Personal	Total
2005–07 Revenue Impact:	Less than $50,000	Less than $50,000	Less than $50,000
2007–09 Revenue Impact:	Less than $50,000	Less than $50,000	Less than $50,000

DESCRIPTION: This provision, referred to in statute as the Emission-Reducing Production Technology Credit, allowed 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 Department of Environmental Quality (DEQ) certified all qualifying investments prior to the sunset date for installation on December 31, 1999. The credit amount was equal to 10 percent per year for five years of the costs of the technologies or processes as certified by DEQ. The credit was not refundable, and taxpayers could carry forward unused credit amounts for three years. No reduction in depreciable basis was required.

PURPOSE: To "encourage 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. The DEQ certified 35 pollution prevention investments to 32 taxpayers for tax credits totaling $739,932. Much of the benefit went to the dry-cleaning industry, which is a large user of perchloroethylene.

EVALUATION: This expenditure was effective in achieving its purpose. Expanded technical assistance might have increased the number of potential credit recipients who installed eligible technologies. *[Evaluated by the Department of Environmental Quality.]*

1.176 POLLUTION CONTROL

Oregon Statute: 315.304
Sunset Date: 12-31-07
Year Enacted: 1967

	Corporation	Personal	Total
2005–07 Revenue Impact:	$15,900,000	$3,600,000	$19,500,000
2007–09 Revenue Impact:	$14,700,000	$3,600,000	$18,300,000

DESCRIPTION: The pollution control credit allows a credit against corporation or personal income taxes equal to up to 35 percent of the certified cost of pollution control facilities (depending on the type of project and installation date). The taxpayer must have the investment certified through the Department of Environmental Quality (DEQ). Taxpayers should submit the application for credit certification within one year of completion of the facility. The sunset date for construction completion is December 31, 2007. DEQ certifies both the facilities and the allowable costs 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 pollution control requirements, or the sole purpose must be to prevent, control, or reduce a significant quantity of pollution. Projects can include the purchase of or reconstruction and improvements to structures, land, machinery, or equipment. The statute specifically excludes certain items including asbestos abatement, septic tanks, human waste facilities, office buildings, parking lots, landscaping and automobiles.

The qualified taxpayer may include the owner, lessee, lessor, or contract purchaser, depending on the categorization of the facility.

The annual amount of credit is up to 35 percent 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.

Voluntary projects, projects that cost less than $200,000, projects located in an enterprise zone or economically distressed area, or projects constructed at a site where the taxpayer holds an environmental certification or permit are eligible for a credit of up to 35 percent of the certified cost of the facility.

Facilities were eligible for a 50 percent credit if certified under ORS 468.155 to 468.190 (1999 Edition) or construction or installation started before January 1, 2001 and ended before January 1, 2004.

The credit is nonrefundable. A taxpayer may use any credit unclaimed in a particular year because of insufficient tax liability in later years, for up to three years.

The property tax Pollution Control Facilities exemption (2.101) is a companion to this income tax pollution control credit. 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 the calendar years 2004 and 2005, DEQ issued 65 certificates for $26.6 million in credits to corporate taxpayers and 375 certificates for $6.2 million in credits to taxpayers allowed to use the credit on their personal income taxes. For tax year 2004, there about 100 corporate taxpayers that claimed this credit. The total claimed was over $20 million, but the total tax reduction for those taxpayers was about $11 million. Corporate usage of this credit may decline with changes in how corporations apportion their income to Oregon.

EVALUATION: The expenditure compensates taxpayers for achieving regulatory compliance. It is successful at meeting this purpose though the percentage of credits issued to this category has dropped from 62 percent over the past 20 years to 21 percent for the calendar years 2004 and 2005 when DEQ issued $6.9 million in credits to taxpayers for achieving regulatory compliance.

The expenditure provides an incentive for taxpayers to invest in pollution controls voluntarily. It is successful in achieving this purpose especially when it is a leading-edge investment or the investment supports an emerging environmental practice. In the 2004 and 2005 calendar years, DEQ issued $25.8 million in credits to taxpayers that voluntarily installed eligible facilities.

This tax expenditure would be more effective in achieving the legislative findings and declarations in ORS 468.153 if the eligibility criteria aligned with the findings and declarations.

The benefit of the program is to improve the relationship between business and regulatory entities. Regulators could enhance the benefit of this tax credit if used when working with small businesses to achieve environmental goals. *[Evaluated by the Department of Environmental Quality.]*

1.177 RECLAIMED PLASTICS

Oregon Statute: 315.324
Sunset Date: 12-31-01
Year Enacted: 1985

	Corporation	Personal	Total
2005–07 Revenue Impact:	Less than $50,000	Less than $50,000	Less than $50,000
2007–09 Revenue Impact:	Less than $50,000	Less than $50,000	Less than $50,000

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 property or equipment must have been acquired or constructed prior to December 31, 2001. The Department of Environmental Quality certified up to $1.5 million in total investments each year.

The credit was available to either the owner of the business or to a lessee who conducted the business, but not to both. If claimed by more than one taxpayer, the aggregate certified investment cost 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 was 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)

WHO BENEFITS: In tax year 2004, fewer than five corporations reduced their tax liability by a total of less than $35,000 for this 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.

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.]*

1.178 DIESEL TRUCK ENGINES

Oregon Statute: Note following ORS 315.356
Sunset Date: 12-31-07
Year Enacted: 2003

	Corporation	Personal	Total
2005–07 Revenue Impact:	$100,000	$200,000	$300,000
2007–09 Revenue Impact:	$100,000	$200,000	$300,000

DESCRIPTION: A credit is allowed against personal or corporate income taxes of $400 to $925 for purchases of qualifying diesel truck engines. Owners of smaller truck fleets are eligible for the larger per engine credit. Taxpayers apply to the Oregon Department of Environmental Quality (DEQ) for credit certification. To be eligible for the credit, the following specifications must be met:

The taxpayer:

- owns the truck, and
- purchased the qualifying engine in Oregon between 2004 and 2007.

The truck:

- has a combined weight of more than 26,000 pounds, and
- is registered in Oregon.

The diesel engine:

- is certified by the federal Environmental Protection Agency as emitting oxides of nitrogen at the rate of 2.5 grams per brake horsepower-hour or less, and
- model year is between 2003 and 2007.

DEQ approves eligible engines for the credit. The credit is nonrefundable. Any credit unclaimed in a particular year because of insufficient tax liability may be used in later years, for up to four years.

DEQ may issue credits up to $80,000 to a single taxpayer and $3 million to all taxpayers in any one calendar year.

PURPOSE: To encourage faster turnover of older heavy-duty diesel trucks with newer, less polluting engines.

WHO BENEFITS: Businesses or individuals who own trucks with qualifying diesel engines benefit from this credit. For 2004, DEQ certified about $220,000 in credits and for 2005 about $260,000 in credits.

EVALUATION: This new expenditure has had less participation than estimated. The majority of new truck owners that have applied for this credit would have purchased the truck with or without the credit. *[Evaluated by the Department of Environmental Quality.]*

1.179 FISH SCREENING DEVICES

Oregon Statute: 315.138
Sunset Date: None
Year Enacted: 1989

	Corporation	Personal	Total
2005–07 Revenue Impact:	Less than $50,000	Less than $50,000	Less than $50,000
2007–09 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 2003-05 biennium, 128 screens and 7 fishways were certified, with a potential tax credit of $94,872.17. All 135 screen and fishway projects were funded through State Lottery Measure 66 funding. For the first half of the 2005–07 biennium, 52 screens and 4 fishways have been certified with a potential tax credit of $22,082.91.

EVALUATION: This expenditure appears to be effective in achieving its purpose. The use of the credit has been increasing as the law requiring the installation of screens at irrigation diversions and fishways at artificial obstructions gains acceptance among irrigators and other water users. It seems unlikely the current level of screening and fish passage activity would have been attained without the legislation that created the program in its latest form. Additional funding for the fish screening and passage program through Measure 66 funding has increased the number of screens and fish passage projects installed during the 2003–05 biennium. Continuation of screen program funding is expected to maintain or increase the pace of program activities as compared to the 2003–05 biennium. *[Evaluated by the Department of Fish and Wildlife.]*

1.180 ALTERNATIVE ENERGY DEVICES (RESIDENTIAL)

Oregon Statute: 316.116
Sunset Date: 12-31-2015
Year Enacted: 1977, Modified in 2005 (SB 31A)

	Corporation	Personal	Total
2005–07 Revenue Impact:	Not Applicable	$13,900,000	$13,900,000
2007–09 Revenue Impact:	Not Applicable	$16,000,000	$16,000,000

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 vehicles. Homeowners or renters may receive a tax credit for eligible systems. A builder who owns a home built for speculative sale may claim a tax credit for an alternative-fuel fueling/charging system.

The amount of credit depends on the device and is a function of its energy- saving capability. Effective January 1, 2006, residents who install photovoltaic systems are eligible for a $6,000 tax credit to be taken over a four-year period ($1,500 maximum a year).

Systems and devices must meet the Oregon Department of Energy (ODOE) requirements to qualify for a tax credit. For solar, geothermal, heat pump, air conditioning and duct systems, the taxpayer must use a technician certified by the ODOE. The Oregon credit is in addition to any federal tax credit that the taxpayer might receive for an alternative energy device. 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 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.

EVALUATION: This credit has been successful in achieving its purpose. In 2005, more than 31,000 highly efficient appliances were installed in Oregon. About 1000 alternative fuel vehicles were certified for the credit in the same year. These two categories constitute more than a half of the total credits claimed under this program. The use of the credit has increased since 1998, with the Legislature's addition of energy-efficient appliances to the program. It is too soon to evaluate what effect the 2005 legislative amendment concerning photovoltaic systems will have.

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 utilities and the Energy Trust of Oregon.

Ending the credit would discourage investment in renewable resources and highly efficient appliances. *[Evaluated by the Oregon Department of Energy.]*

1.181 ALTERNATIVE FUEL STATIONS

Oregon Statute: 317.115
Sunset Date: None
Year Enacted: 2001

	Corporation	Personal	Total
2005–07 Revenue Impact:	Less than $50,000	Less than $50,000	Less than $50,000
2007–09 Revenue Impact:	Less than $50,000	Less than $50,000	Less than $50,000

DESCRIPTION: A credit against corporate income tax and personal income tax is allowed for construction or installation of a fueling station in a dwelling, necessary to operate an alternative fuel vehicle. The credit equals 25 percent of the cost of the fueling station, not to exceed $750.

The taxpayer must have the device certified by the Oregon Department of Energy (ODOE) or, for certain devices, a contractor certified by ODOE may provide the certification. Any credit unclaimed in a particular year because of insufficient tax liability may be carried forward for up to five years.

PURPOSE: To promote the use of alternative fuel vehicles.

WHO BENEFITS: Oregon residents who own alternative fuel vehicles benefit from having a fueling station located in their home. Homebuilders who install or construct alternative fueling stations in dwellings benefit from the increased value of the home to potential buyers.

EVALUATION: The expenditure has not achieved its purpose. To date, ODOE has received no applications from homebuilders for this credit. From the start of the program through year end 2005, ODOE has issued business energy tax credits for 30 alternative fuel stations - all of them larger stations not installed in dwellings and serving multiple vehicles. During the same period, ODOE issued only 6 residential energy tax credits for alternative vehicle fueling or charging systems. Of those, only a couple were for fueling stations installed in dwellings; most were for on-board systems in vehicles.

For unknown reasons, homebuilders are not using this tax credit. It may be a result of the sharp increase in sales of hybrid vehicles. The vast majority of residential energy tax credits issued for vehicles are for hybrids that use a combination of gasoline and electricity. As hybrids have gained in popularity over the past few years, consumer interest in older style alternative fuel vehicles has waned, with the result that currently there isn't much of a market for alternative fuel stations built into dwellings.

However, technology changes quickly and new technologies are emerging that could affect the situation. An example would be if better storage batteries were developed. This might lead to hybrid vehicles having removable batteries that can be recharged on an in-home photovoltaic system. Such a development might spur consumer interest in having an electric charging station in the home. Given the possibility of rapid changes in the marketplace, this credit may be used in the future.*[Evaluated by the Department of Energy].*

1.182 BUSINESS ENERGY FACILITIES

Oregon Statute: 315.354
Sunset Date: None
Year Enacted: 1979

	Corporation	Personal	Total
2005–07 Revenue Impact:	$12,700,000	$7,000,000	$19,700,000
2007–09 Revenue Impact:	$15,200,000	$7,800,000	$23,000,000

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. Car-sharing expenses, research development and demonstration projects (RD&D) and sustainable building practices qualify for the credit.

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. However, the credit may be claimed entirely in the first year if the eligible costs are $20,000 or less. Any credit not used in a particular year because of insufficient tax liability may be carried forward 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 and lighting projects must reduce it by a minimum of 25 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.

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. 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 50,000 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 effective in achieving its purpose. To date, more than 11,000 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. Nonprofit and public entities have benefited from 2001 legislative provisions enabling them to take advantage of the tax credit by finding a business partner with a tax liability. For-profit businesses can also choose to transfer their tax credit eligibility.

By reducing operating costs, the credit boosts the productivity and competitiveness of Oregon businesses. In 2005, the energy cost savings to Oregon businesses from the tax credit program exceeded $312 million. *[Evaluated by the Oregon Department of Energy.]*

1.183 ENERGY CONSERVATION LENDER'S CREDIT

Oregon Statute: 317.112
Sunset Date: None
Year Enacted: 1981

	Corporation	Personal	Total
2005–07 Revenue Impact:	Less than $50,000	Not Applicable	Less than $50,000
2007–09 Revenue Impact:	Less than $50,000	Not Applicable	Less than $50,000

DESCRIPTION: Commercial lending institutions are allowed a credit against corporate income taxes for financing energy conservation measures of residential fuel oil customers or wood-heating residents. 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 Department of Energy) and the interest earned at the 6.5 percent rate.

The loan amount cannot exceed $5,000 for a single dwelling unit or $2,000 for a single dwelling unit if it is owned by a corporation, and the term cannot exceed 10 years. The loan must be used by the dwelling owner to finance energy conservation measures that are recommended as cost-effective in the energy audit, which must be completed before getting the loan. The credit is nonrefundable. Any credits not used because of insufficient tax liability may be carried forward up to 15 succeeding years.

PURPOSE: To promote energy conservation in the more than 110,000 oil- and wood-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. Because the loan rate is not currently competitive with market rates, it is unlikely anyone is utilizing this credit.

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 wood-heated homes. Improving the efficiency of oil- and wood-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. As of year-end 2005, Oregon households that have participated in the program saved almost two million gallons of oil and cut household energy bills by about $4 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. No loans have been made under this program since 2002. *[Evaluated by the Oregon Department of Energy.]*

1.184 WEATHERIZATION LENDER'S CREDIT

Oregon Statute: 317.111
Sunset Date: 11-01-81
Year Enacted: 1977

	Corporation	Personal	Total
2005–07 Revenue Impact:	Less than $50,000	Not Applicable	Less than $50,000
2007–09 Revenue Impact:	Less than $50,000	Not Applicable	Less than $50,000

DESCRIPTION: Provides a credit against corporation income taxes for lending institutions that make below-market rate loans for financing weatherization projects. The credit is equal to the difference between the amount of interest charged at a rate of 6.5 percent and the amount that would have been charged at the lesser of 12 percent or the average percent the lending institution charged for home improvement loans. Unused credit amounts could be carried forward for 15 years.

PURPOSE: To promote energy conservation by encouraging lending institutions to make loans for projects to weatherize homes.

WHO BENEFITS: Lending institutions that made weatherization loans between 1977 and 1981.

EVALUATION: This credit expired in 1981. Because no new loans qualify after 1981, this expenditure results only from the carry-forward provisions. So there should be few, if any, remaining program expenditures. *[Evaluated by the Oregon Department of Energy.]*

1.185 REFORESTATION

Oregon Statute: 315.104
Sunset Date: 12-31-11
Year Enacted: 1979

	Corporation	Personal	Total
2005–07 Revenue Impact:	Less than $50,000	$400,000	$400,000
2007–09 Revenue Impact:	Less than $50,000	$500,000	$500,000

DESCRIPTION A credit is allowed against personal or corporation income tax equal to 50 percent of the qualified cost of reforesting under-productive commercial forestland. To qualify, the taxpayer must pay a nonrefundable application fee (currently $300) for the initial application. The taxpayer must then 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 forestland, 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 the application fee and costs associated with reforestation projects required under the Forest Practices Act, any portion of costs paid through federal or state cost-sharing programs, and costs for growing Christmas trees, ornamental trees, or shrubs. Costs associated with short rotation hardwoods (such as cottonwoods) are not eligible.

Any credit unclaimed in a particular year because of insufficient tax liability may be carried forward for up to three years. This applies to the credits allowed on both preliminary and final certification.

The application fee, initiated in 2006, provides nominal administrative funding for the program. Full administrative funding was previously provided by the privilege tax until that tax was eliminated in 2005.

PURPOSE: To increase the public benefits that come from forested lands by promoting reforestation of commercial forestlands that do not currently have commercial trees growing on them, such as brush lands, burned areas with no commercial timber salvage value, 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 forestlands. Use of the credit is concentrated among personal income tax filers with just over 100 claims in 2005. There is very little corporate usage of the credit.

EVALUATION: This expenditure continues to achieve its purpose. From 1987 to 2005, the credit has resulted in the rehabilitation of approximately 56,000 acres of under producing forestland.

In 2001, the credit was increased from 30% to 50% . Since then approximately 7,000 acres of under producing forestland have been rehabilitated with the credit. Forested lands produce far more and far better public benefits (fish and wildlife habitat and carbon sequestration through the trees' use of carbon dioxide to produce wood volume are two notable benefits) than do brush lands. The cost to the state for this conversion to a fully stocked stand averages about $366/acre with projected tax returns from these lands of about $20/acre/year, or a total of $1,000/acre, on a 50-year harvest rotation. Considering the positive effects to the environment and increase in future tax revenues, this has a good return on investment.

There is concern that the application fee may discourage non-industrial owners from using the tax credit, thereby reducing the number of applications. At some point, fewer applications require an increase in the application fee. It is too early to determine if such a trend will materialize. However, if that trend did occur, it could begin a downward spiral of reduced non-industrial owner participation and increased application fees. Such a trend would defeat the purpose and benefits of the program. *[Evaluated by the State Forestry Department.]*

1.186 SEWER CONNECTION

Oregon Statute: 316.095
Sunset Date: 6-30-95
Year Enacted: 1987

	Corporation	Personal	Total
2005–07 Revenue Impact:	Not Applicable	Less than $50,000	Less than $50,000
2007–09 Revenue Impact:	Not Applicable	Less than $50,000	Less than $50,000

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 nonrefundable. 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 (falling to zero after tax year 2007).

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. Less than twenty taxpayers were still claiming a carry forward for this credit in tax year 2005.

EVALUATION: Not evaluated.

1.187 MILE-BASED OR TIME-BASED MOTOR VEHICLE INSURANCE

Oregon Statute: Note following ORS 317.122
Sunset Date: 12-31-09
Year Enacted: 2003 (HB 2043)

	Corporation	Personal	Total
2005–07 Revenue Impact:	Less than $50,000	Not Applicable	Less than $50,000
2007–09 Revenue Impact:	Less than $50,000	Not Applicable	Less than $50,000

DESCRIPTION: Firms that provide mile-based or time-based rating plans for motor vehicle insurance may receive a corporate income tax credit, provided that the policies are at least 70 percent mile- or time-based. The credit equals $100 for each vehicle insured under such a policy, and may not exceed $300 per policy. The credit may not be claimed for a policy for which a credit was allowed the previous tax year. The total amount

of the credit in a tax year may not exceed the tax liability of the taxpayer and may not be carried forward to another tax year. This credit will be disallowed once the total of these credits claimed by all taxpayers exceeds $1 million for all tax years beginning January 1, 2005, and before January 1, 2010.

PURPOSE: To encourage firms to offer motor vehicle insurance policies that reward individuals for limiting the amount they drive.

WHO BENEFITS: Firms offering these policies benefit because of the tax credit. Policy holders who limit the amount they drive may also benefit if the tax credit leads firms to offer lower priced policies to drivers that limit the use of their motor vehicle.

EVALUATION: The key questions in evaluating this expenditure is whether the credit causes a decrease in the number of miles driven and if policyholders receive lower priced policies when they limit the use of their motor vehicles.

As of August 2006, no rate or form filings related to this type of plan have been submitted by insurers, so data is not available to determine if this expenditure achieves its purpose. *[Evaluated by the Department of Consumer and Business Services.]*

1.188 FIRE INSURANCE

Oregon Statute: 317.122 (1)
Sunset Date: None
Year Enacted: 1969

	Corporation	Personal	Total
2005–07 Revenue Impact:	$5,300,000	Not Applicable	$5,300,000
2007–09 Revenue Impact:	$6,600,000	Not Applicable	$6,600,000

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.

PURPOSE: To shift part of the funding of the Office of the State Fire Marshal from the insurance industry to the state General Fund.

WHO BENEFITS: For tax year 2004, about 260 corporate taxpayers benefited from this credit. These taxpayers reduced their tax liability by $9,000 on average.

EVALUATION: Fire insurance premium taxes are used to fund the Office of State Fire Marshal. 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.]*

1.189 WORKERS' COMPENSATION ASSESSMENTS

Oregon Statute: 317.122(2)
Sunset Date: None
Year Enacted: 1995

	Corporation	Personal	Total
2005–07 Revenue Impact:	$2,200,000	Not Applicable	$2,200,000
2007–09 Revenue Impact:	$1,600,000	Not Applicable	$1,600,000

DESCRIPTION Workers' compensation insurers pay both the corporation income tax and a workers' compensation assessment that provides funding to administer the Oregon Workers' Compensation system. These insurers are then entitled to a credit against corporation income taxes equal to the lesser of assessments paid on workers' compensation premiums under ORS 656.612 or the total profit attributable to the workers' compensation line of business.

PURPOSE: To shift part of the funding of the Oregon Workers' Compensation system from the insurance industry to the state General Fund.

WHO BENEFITS: For tax year 2004, 63 corporate taxpayers benefited from this credit. These taxpayers reduced their tax liability by $19,000 on average.

EVALUATION: This expenditure was effective when it was a credit against the gross premium tax and is expected to remain effective under the corporation excise 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 worker injuries and illnesses 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 42nd in 2004. 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.]*

1.190 OREGON LIFE AND HEALTH IGA ASSESSMENTS

Oregon Statute: 734.835
Sunset Date: None
Year Enacted: 1975

	Corporation	Personal	Total
2005–07 Revenue Impact:	$100,000	Not Applicable	$100,000
2007–09 Revenue Impact:	$100,000	Not Applicable	$100,000

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.

PURPOSE: To shift part of the cost of claims against insolvent insurers from the insurance industry to the state General Fund.

WHO BENEFITS: For tax year 2004, about 100 corporate taxpayers benefited from this credit. These taxpayers reduced their tax liability by $650 on average.

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.]*

1.191 POLITICAL CONTRIBUTIONS

Oregon Statute: 316.102
Sunset Date: None
Year Enacted: 1969

	Corporation	Personal	Total
2005–07 Revenue Impact:	Not Applicable	$11,600,000	$11,600,000
2007–09 Revenue Impact:	Not Applicable	$11,900,000	$11,900,000

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 cash contributions to a major or minor political party; to candidates for state, federal or local elective office; or to political action committees in the state. The credit is nonrefundable. Credits that cannot be used

because of insufficient tax liability in the current year may not be carried forward to later years.

PURPOSE: To increase public participation in the political process.

WHO BENEFITS: Taxpayers who make cash contributions to political candidates or political action committees. In tax year 2004, almost 100,000 Oregon full-year residents claimed this credit. A total of $6.62 million was claimed in 2004; the average credit claimed was $66.

Income Group (Quintiles)	Taxpayers		Mean Credit
	Number	Percent	
Below $10,600	2,089	2.1%	$33
$10,600 - $22,700	6,824	6.9%	$47
$22,700 - $39,700	12,638	12.7%	$56
$39,700 - $67,700	25,979	26.1%	$63
Above $67,700	51,983	52.2%	$77
Total	99,513	100.0%	$66

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 and to 5.3 percent in 2002. 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 employees' 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 the increase in numbers may be the result of the expansion.

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. *[Evaluated by the Secretary of State.]*

1.192 PERSONAL EXEMPTION

Oregon Statute: 316.085
Sunset Date: None
Year Enacted: 1985

	Corporation	Personal	Total
2005–07 Revenue Impact:	Not Applicable	$878,200,000	$878,200,000
2007–09 Revenue Impact:	Not Applicable	$924,100,000	$924,100,000

DESCRIPTION: Oregon personal income taxpayers receive a personal exemption credit for each taxpayer and dependent represented on the return (although 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 is $159 in 2006 (indexed to inflation).

PURPOSE: To provide a minimum level of tax-free income for all Oregon personal income taxpayers.

WHO BENEFITS: Oregon personal income taxpayers, except those who are claimed on another taxpayer's return. The number of personal exemptions increased from about 2.7 million in 1990 to 3.4 million in 2004.

Income Group (Quintiles)	Taxpayers		Mean Credit
	Number	Percent	
Below $10,600	207,407	15.2%	$95
$10,600 - $22,700	282,064	20.7%	$228
$22,700 - $39,700	290,832	21.3%	$290
$39,700 - $67,700	292,048	21.4%	$354
Above $67,700	292,222	21.4%	$415
Total	1,364,573	100.0%	$288

EVALUATION: The credit achieves its purpose of providing a level of tax-free income for personal income taxpayers, 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.]*

1.193 OREGON CULTURAL TRUST

Oregon Statutes: 315.675
Sunset Date: 12-31-12
Year Enacted: 2001

	Corporation	Personal	Total
2005-07 Revenue Impact:	Less than $50,000	$3,300,000	$3,300,000
2007-09 Revenue Impact:	Less than $50,000	$3,700,000	$3,700,000

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 credit is limited to a maximum of $500 for a single filer, $1,000 for joint filers, and $2,500 for corporations. The credit may not be carried forward to another tax year. The Oregon Cultural Trust Board oversees the Trust for Cultural Development Account.

The Oregon Cultural Trust invests in Oregon cultural development by funding county and tribal coalitions, providing grants to cultural organizations, and funding statewide cultural agencies.

PURPOSE: To create incentives for increased cultural development in Oregon and to encourage direct donations to Oregon-based nonprofit entities organized primarily for the purpose of producing, promoting or presenting the arts, heritage and humanities to the public, or for identifying, documenting, interpreting and/or preserving cultural resources which would include theatres, performing arts centers and programs, historic buildings, museums and their exhibits, public art, historic trails, historic cemeteries, archeological sites, architecture, Native American and other ethnic traditions, libraries and parks.

WHO BENEFITS: In 2005, about 3,400 Oregon taxpayers qualified for this credit. Nearly all credits were issued to personal income taxpayers. Oregon cultural organizations and the public also benefit from the Oregon Cultural Trust's efforts to develop, exhibit, and preserve cultural resources.

EVALUATION: This tax incentive appears to achieve its purpose. It successfully funds cultural institutions, projects, and activities, for which public support is commonplace in the U.S. and elsewhere. The tax program accomplishes this with a great many small tax credits, such that it is the interested individual citizen/taxpayer, who decides whether to fund these objectives based on that person's own evaluation and interests. More than 3,400 Oregonians contributed to the Cultural Trust in the 2005 tax year. Also, this tax credit balances between individual preferences for funding and the more centralized, larger investment capacity embodied by the Oregon Cultural Trust. *[Evaluated by the Economic and Community Development Department/Oregon Arts Commission.]*

1.194 RETIREMENT INCOME

Oregon Statute: 316.157
Sunset Date: None
Year Enacted: 1991

	Corporation	Personal	Total
2005–07 Revenue Impact:	Not Applicable	$2,000,000	$2,000,000
2007–09 Revenue Impact:	Not Applicable	$1,600,000	$1,600,000

DESCRIPTION: Certain taxpayers who are 62 or older are allowed a credit against personal income taxes equal to 9 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. Taxpayers claiming the Elderly or Permanently Disabled credit (1.147), however, are ineligible to claim this credit.

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.

PURPOSE: To exempt some retirement income without discriminating among the sources of that income.

WHO BENEFITS: The number of taxpayers claiming the credit has declined significantly over the years. Approximately 53,000 taxpayers used it in 1991, dropping to approximately 7,500 in 2004. When federal pension income became exempt from taxation in 1998, the use of this credit declined substantially.

Income Group (Quintiles)	Taxpayers		Mean Credit
	Number	Percent	
Below $10,600	1,357	18.0%	$86
$10,600 - $22,700	3,197	42.5%	$178
$22,700 - $39,700	2,697	35.8%	$276
$39,700 - $67,700	279	3.7%	$151
Above $67,700	0	0.0%	N/A
Total	7,530	100.0%	$195

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 Department of Human Services.]*

1.195 EXPATRIATE RESIDENTIAL STATUS

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

	Corporation	Personal	Total
2005–07 Revenue Impact:	Not Applicable	$1,800,000	$1,800,000
2007–09 Revenue Impact:	Not Applicable	$1,900,000	$1,900,000

DESCRIPTION: Prior to 1999, certain taxpayers who worked in foreign countries were taxed on income from all sources because they considered Oregon their permanent home and planned to return. 1999 legislation changed this by allowing these individuals to file as nonresidents in the year they depart or return to Oregon to live. For example, someone who leaves or returns to Oregon in the middle of a year may now file as a part-year resident, and therefore is liable for Oregon income tax only on the income earned in the state.

PURPOSE: To provide 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.

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 these companies, leading to easier recruitment and retention of hard-to-attract, globally minded individuals.

Oregon remains relatively dependent on international trade, and its economy may benefit significantly from a tax climate that remains relatively attractive to individuals and corporations that do or can engage in international commerce. *[Evaluated by the Economic and Community Development Department.]*

1.196 PUBLIC WAREHOUSE SALES THROWBACK EXEMPTION

Oregon Statute: 314.665
Sunset Date: None
Year Enacted: 2005 (SB 31A)

	Corporation	Personal	Total
2005–07 Revenue Impact:	Less than $50,000	Not Applicable	Less than $50,000
2007–09 Revenue Impact:	Less than $50,000	Not Applicable	Less than $50,000

DESCRIPTION: Oregon taxes corporations based on the percentage of their sales within the state. Sales outside the state that originate in Oregon can be taxed in Oregon, or "thrown back", if the sales are to the federal government or are made in another state where the company does not have a taxable presence, or "nexus". Under current law,

corporate sales that are thrown back from other states are voluntarily reported to the Department of Revenue on the Oregon corporate income tax return form.

This measure exempts certain corporations from throwing back sales. To qualify for the exemption, the corporation's sole activity in Oregon must be the storage of goods in a public warehouse or storing goods in a public warehouse and the presence of employees within the state solely for the purposes of soliciting sales.

The Department of Revenue determines if a corporation's activities fit the definition of a public warehouse above and are not used solely for corporate tax avoidance purposes.

PURPOSE: To encourage development and expansion of public warehouses in Oregon.

WHO BENEFITS: Corporations that utilize public warehouses in Oregon.

EVALUATION: Insufficient data to analyze direct utilization of this new expenditure. Nevertheless, as Oregon has transitioned to a single sales factor for interstate apportionment of corporate taxable income, Oregon-based distributors have suffered a loss of competitiveness. An out-of-state producer with little or no nexus in other states, to which its goods are distributed, would face an increasing Oregon tax liability if using an Oregon-based distributor or warehouse. Under such circumstances, without this provision, its sales in those other states would be thrown-back to Oregon as the place of origin in apportioning its domestic, pre-tax profits to Oregon. This is an effective expenditure, in that these out-of-state corporations would likely just avoid using Oregon-based warehousing or distribution, in effect costing the state even a greater amount of tax revenue. This exemption allows such warehouses and distributors to retain and grow their business services for smaller corporations that might operate out of Washington or another state. *[Evaluated by the Economic and Community Development Department]*

1.197 INCOME AVERAGING FOR FARMERS

Oregon Statutes: 314.297
Sunset Date: None
Year Enacted: 2001

	Corporation	Personal	Total
2005-07 Revenue Impact	Not Applicable	$300,000	$300,000
2007-09 Revenue Impact	Not Applicable	$400,000	$400,000

DESCRIPTION: Personal income taxpayers are permitted to use the federal farm income averaging method to compute Oregon personal income taxes on farm income. This method allows taxpayers to calculate their current year income tax by averaging their income from farming over a three-year period.

Taxpayers may designate all or a portion of their current year income from farming as elected farm income and pay tax on that income as if it had been earned over the three prior tax years. The elected farm income can include gain on the sale of farm assets, with the exception of gain on the sale of land.

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

WHO BENEFITS: Taxpayers whose main source of income is agricultural production. For 2004, approximately 40 individuals saved at least $500 on their Oregon tax using this provision. Many other individuals used this provision but saved less than $500.

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.]*

1.198 CAPITAL GAINS FROM FARM PROPERTY

Oregon Statutes: 318.020 and 317.063
Sunset Date: None
Year Enacted: 2001

	Corporation	Personal	Total
2005-07 Revenue Impact	Less than $50,000	$1,000,000	$1,000,000
2007-09 Revenue Impact	Less than $50,000	$1,100,000	$1,100,000

DESCRIPTION: Oregon long-term personal and corporate income tax rates are reduced to 5 percent on liquidated assets, including land, that were previously used in qualified farming activities. Qualified sales must constitute a substantially complete termination of a farming business.

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

WHO BENEFITS: Property owners who terminate a farming business benefit by realizing more of their capitalized equity. For 2004, approximately 120 individuals saved at least $500 on their Oregon tax using this provision. Many other individuals used this provision but saved less than $500. About 10 corporations a year claim qualifying capital gains, but most are unable to benefit.

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 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 achieve the purpose of an orderly transfer of ownership with a better secured retirement for older farmers. *[Evaluated by the Department of Agriculture.]*

1.199 APPORTIONMENT FOR CERTAIN FOREST PRODUCT COMPANIES

Oregon Statute: 314.650(2)
Sunset Date: None
Year Enacted: 2003

	Corporation	Personal	Total
2005–07 Revenue Impact:	Not Available	Not Applicable	Not Available
2007–09 Revenue Impact:	Not Available	Not Applicable	Not Available

DESCRIPTION: Certain forest products companies apportion their business income to Oregon using a double-weighted sales factor instead of using a single sales factor. This provision applies to any corporate taxpayer in the forest products industry that owns and manages between 300,000 and 400,000 acres in Oregon, and that processes at least 20 percent of the its total wood chip supply for papermaking from sawmill residue generated within Oregon.

This provision provides a deviation from the normal tax structure. Corporate taxes imposed by states are typically applied to apportioned income. Until 2005, corporations apportioned their income to Oregon using three factors: property, payroll and sales. For instance, the property factor is the corporation's Oregon property as a percent of all of its property. Beginning July 1, 2005, most corporations apportion their income to Oregon using just the sales factor.

Changes in the apportionment formula are generally considered a change in the definition of the normal tax structure. The exception to the usual formula granted to certain forest product companies is included because it is applicable to a very specific subset of taxpayers.

PURPOSE: To lower taxes for narrowly defined forest product companies by requiring them to use the double-weighted sales factor formula to apportion income to Oregon.

WHO BENEFITS: Forest products firms that will apportion a lower percent of their income to Oregon under the double-weighted formula than they would under the formulas with larger sales factors. At the time this provision was passed by the Oregon Legislature, only one corporation was believed to qualify.

EVALUATION: Not evaluated.

1.200 APPORTIONMENT FOR UTILITIES AND TELECOMMUNICATION COMPANIES

Oregon Statute: 314.280
Sunset Date: None
Year Enacted: 2001

	Corporation	Personal	Total
2005–07 Revenue Impact:	$500,000	Not Applicable	$500,000
2007–09 Revenue Impact:	$600,000	Not Applicable	$600,000

DESCRIPTION: Corporate taxpayers primarily engaged in the business of utilities or telecommunications may opt to apportion their business income to Oregon using a

double-weighted sales factor instead of the apportionment formula in place at that time.

Changes in the apportionment formula are generally considered a change in the definition of the normal tax structure. The exception to the usual formula granted to utilities and telecommunication companies is included because it is optional, and affected companies will choose the option based on lowest cost.

Utilities and telecommunications firms may elect to use this alternative apportionment formula according to rule established by the Department of Revenue. This election remains in place until revoked by the taxpayer according to rule established by the Department of Revenue. The revocation applies to the tax year following the year in which the election is made and to all subsequent tax years. Because these corporate taxpayers use the method that results in the lowest tax liability, tax revenue from these corporations will be lower than it would be if either apportionment formula applied to all corporations.

PURPOSE: "…to allocate to the State of Oregon on a fair and equitable basis a proportion of such income earned from sources both within and without the state." (ORS 314.280)

WHO BENEFITS: Utility and telecommunication firms benefit by being able to choose between double-weighted sales and the current apportionment formula.

EVALUATION: The state has deemed that allowing utilities and telecommunications companies to use the alternative apportionment formula provides a "fair and equitable" allocation of a corporate taxpayer's business income to Oregon. Firms that choose the alternative formula lower their Oregon tax liability. The Commission sets rates for utilities including electric and natural gas; for those utilities, the benefits of the reduced tax liability would be passed on to customers as a lower cost of providing service. Most telecommunications companies are no longer under rate of return regulation, so their customers would not be affected if their provider elected to use the alternative apportionment. *[Evaluated by the Public Utilities Commission.]*

1.201 TITLE 10 ACTIVE DUTY DEATH

Oregon Statute: 314.088
Sunset Date: None
Year Enacted: 2005 (HB 2933C)

	Corporation	Personal	Total
2005–07 Revenue Impact:	Not Applicable	Less than $50,000	Less than $50,000
2007–09 Revenue Impact:	Not Applicable	Less than $50,000	Less than $50,000

DESCRIPTION: Members of the Armed Forces, military reserves, or other state militia service who die while performing military duties are absolved from all income tax liability (tax, penalty and interest). To qualify, members must have been under Title 10 service (activated under Presidential order) for 90 or more days at the time of death, and the death must occur on or after September 11, 2001.

PURPOSE: To provide a financial benefit to the families of qualifying military personal who die during service to the country.

WHO BENEFITS: Families or estates of qualifying military personnel.

EVALUATION: This tax expenditure achieves its purpose, which is to relieve the financial burdens of families affected by the death of their loved ones in the military. It is also the most fiscally effective means of achieving this purpose. The extremely high demands placed on our service members since September 11, 2001 have merited this type of benefit to assist their families wherever possible. It represents a small token of appreciation for the service our soldiers and airmen have provided for our country. *[Evaluated by the Military Department.]*

1.202 SINGLE SALES FACTOR CORPORATE APPORTIONMENT

Oregon Statute: 314.650
Sunset Date: None
Year Enacted: 2003, Modified in 2005 (SB 31A)

	Corporation	Personal	Total
2005–07 Revenue Impact:	$77,600,000	Not Applicable	$77,600,000
2007–09 Revenue Impact:	$65,600,000	Not Applicable	$65,600,000

DESCRIPTION: Many corporations subject to Oregon's corporate income tax also do business in other states. For these corporations, Oregon law defines the process for estimating the income attributable to Oregon.. For tax years beginning on or after July 1, 2005 most corporations will apportion their income to Oregon using just the sales factor. This will require corporations to multiply their business income by the percent of their total sales that are in Oregon to estimate their income attributable to Oregon. This formula is known as the single sales factor formula.

The following table shows the standard apportionment formulas in Oregon's recent history:

	Property	Payroll	Sales
Double-weighted sales (Standard formula 1991 to 2003)	25%	25%	50%
Super-weighted sales (Standard formula beginning 2003)	10%	10%	80%
Single sales factor (Standard formula beginning 2005)	0%	0%	100%

There is disagreement about whether a change in the apportionment formula is a tax expenditure. ORS 291.201 defines a tax expenditure as, "any law…that exempts, in whole or in part, certain persons, income, goods, services or property from the impact of established taxes." The apportionment formula defines the structure of established taxes, whereas all other items included in this report represent a specific deviation from established taxes.

The U.S. Supreme Court has said that neither the single sales factor nor the equally weighted three-factor formula is the natural method of apportioning income. The court has upheld the use of either formula to approximate the income earned within a specific state. Using a formula to apportion corporate income is "a rough approximation of a corporation's income that is reasonably related to the activities conducted within the taxing State." [*Moorman Mfg. Co. v. Bair, 437 U.S. 267 (1978)*]

The revenue impact assumes that using the double-weighted sales factor formula is the established tax for Oregon, and that using the single sales factor is a deviation. See Tax Expenditures 1.199 and 1.200 for tax expenditures resulting from deviating from the single sales factor.

PURPOSE: "…to allocate to the State of Oregon on a fair and equitable basis a proportion of such income earned from sources both within and without the state." (ORS 314.280)

WHO BENEFITS: The beneficiaries are corporate taxpayers that apportion their business income to Oregon using the single sales factor apportionment formula and have a high proportion of property and/or payroll in Oregon relative to their proportion of sales in Oregon. About 1,400 taxpayers per year would have reduced taxes averaging about $37,300 each if this provision was in place for tax years 2001 to 2003.

Most Oregon corporate taxpayers that do not pay the minimum tax pay higher taxes using single sales factor apportionment. About 2,300 taxpayers per year would have increased taxes averaging about $11,700 each if this provision was in place for tax years 2001 to 2003.

EVALUATION: Not evaluated.