1.108 CHILD DEVELOPMENT PROGRAM CONTRIBUTIONS

Oregon Statute: 315.234
Sunset Date: 12-31-01
Year Enacted: 1991

	Corporation	Personal	Total
1997–99 Revenue Impact:	Less than $50,000	Less than $50,000	Less than $50,000
1999–01 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 contributions made to school district child development or student-parent programs approved by the state Department of Education. Child development programs consist of both an education and day care component; student-parent programs provide day care and education to the children of students while providing education for the student-parents. There are limits of 20 child development programs and 20 student-parent programs for the state. The credit equals 50 percent of the contribution, but may not exceed $5,000 for each program location. The taxpayer must reduce the amount of any deduction taken for charitable contributions by the amount of any credit received. The credit is non-refundable.

PURPOSE: To help fund school district child development and student-parent programs.

WHO BENEFITS: Taxpayers who make contributions to child development or student-parent programs as well as the school districts. There are 19 approved programs that serve children ages zero to five, the majority of whom are from low income families.

EVALUATION: This tax expenditure achieves its purpose with respect to existing programs. It has resulted in improved facilities, equipment and education materials donated by taxpayers. While there would likely still be some donations without the tax credit, it has resulted in significantly more donations to these programs. The tax credit enhances the element of taxpayer involvement which, in turn, raises awareness of the unique needs of the participants and promotes community support for them.

On the other hand, this tax expenditure is not an effective method for starting up a program or supporting basic program services. Starting a program via fund raising contains inherent problems. For example, people are less likely to make contributions to a nascent program while those donations that are made are generally insufficient to meet the initial, capital investments. The program could be improved by replacing the limitation of only 20 programs in each category (student-parent or child development) with a set of criteria that must be met for eligibility. The competitive process that currently exists prevents some school districts from attempting to initiate potentially successful programs. [*Evaluated by the Department of Education.*]

1.109 YOUTH APPRENTICESHIP SPONSORSHIP

Oregon Statute: 315.254
Sunset Date: This program changed structure in 1993 from a credit to direct wage reimbursement
Year Enacted: 1991

	Corporation	Personal	Total
1997–99 Revenue Impact:	$0	$0	$0
1999–01 Revenue Impact:	$0	$0	$0

DESCRIPTION: Originally, a 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. The amount of the credit was equal to the wages paid to the student up to $2,500 for any one tax year. In 1993, the program changed from a tax credit to a partial wage reimbursement structure. Consequently, businesses no longer use this credit.

PURPOSE: To provide occupational skill training for students.

WHO BENEFITS: This credit is not currently utilized.

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.*]

1.110 CONTRIBUTIONS OF COMPUTER EQUIPMENT

Oregon Statute: 317.151
Sunset Date: 1-1-04
Year Enacted: 1985

	Corporation	Personal	Total
1997–99 Revenue Impact:	$200,000	Not Applicable	$200,000
1999–01 Revenue Impact:	$200,000	Not Applicable	$200,000

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 or a post-secondary school located in Oregon. Beginning in 1998, recipients may include pre-kindergarten through high schools. The amount of the credit is equal to 10 percent of the fair market value of the equipment donated. Donations of money under a contract for scientific or engineering research or donations of a contract for maintenance of computer or scientific equipment also qualify for the credit. The credit is not refundable but unused credit amounts due to insufficient tax liability may be used in later years, for up to five years. This credit is in lieu of any deduction based on the contribution. If a contract is agreed upon prior to January 1, 2004, but the donation is given after that date, the credit is still allowed.

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

WHO BENEFITS: Firms that make donations of computer or scientific equipment to educational institutions located in Oregon. The students at the educational institutions that receive the donations also benefit.

EVALUATION: This tax expenditure achieves its purpose and is becoming increasingly important for institutions of higher education. Advances in technology are occurring at an increasing rate. As a result, there is a constant need for computer labs to be supplied with improved research and instructional equipment. The cost to higher education of keeping pace with the latest technology is at times prohibitive. This tax credit provides an economic incentive for computer and scientific instrument manufacturers to donate equipment to educational institutions.

This is a fiscally effective method of achieving the goal of this provision. This tax incentive appears to be much less costly than when educational organizations have to purchase such equipment outright. [*Evaluated by the System of Higher Education.*]

1.111 EARNED INCOME CREDIT

Oregon Statute: 315.266
Sunset Date: None
Year Enacted: 1997

	Corporation	Personal	Total
1997–99 Revenue Impact:	Not Applicable	$15,200,000	$15,200,000
1999–01 Revenue Impact:	Not Applicable	$17,100,000	$17,100,000

DESCRIPTION: A personal income tax credit is allowed families that are eligible for the federal earned income credit. The state credit is equal to five percent of the federal earned income credit and is nonrefundable. No carryover is allowed for amounts that exceed tax liability. The federal earned income credit phases out for taxpayers earning over about $30,000. The Oregon credit became effective tax year 1997.

PURPOSE: To increase after-tax incomes of lower income working families and individuals, particularly those with children. Also to provide an incentive to work for those with little or no earned income.

WHO BENEFITS: Families currently or formerly at risk of receiving public assistance with income above the level where taxation begins would benefit from the earned income credit. In 1997, about 179,000 taxpayers claimed the credit. Because many of the families claiming the credit do not have sufficient tax liability to use the full amount of the credit, on average only 55 percent of the credit was taken in 1997.

EVALUATION: This tax credit allows low income families to retain needed income to meet needs that otherwise may go unmet or cause them to return to public assistance. Many of these at risk families have income below the income level where they must pay taxes, and therefore do not benefit from this credit. By providing this credit, families with income exceeding the income level where taxation begins will retain more resources to better ensure their continued self-sufficiency.

This is a fiscally effective means of assisting low-income families to maintain their self-sufficiency. It costs less to administer the credit than a means test program designed to assist families at this income level. [*Evaluated by the Adult and Family Services Division.*]

1.112 BONE MARROW TRANSPLANT EXPENSE

Oregon Statute: 315.604
Sunset Date: 12-31-01
Year Enacted: 1991

	Corporation	Personal	Total
1997–99 Revenue Impact:	Less Than $50,000	Less Than $50,000	Less Than $50,000
1999–01 Revenue Impact:	Less Than $50,000	Less Than $50,000	Less Than $50,000

DESCRIPTION: A tax credit is allowed against corporation or personal income taxes to an employer for expenses related to the development and operation of an employee bone marrow donation program. Eligible expenses include the cost of employee HLA typing, costs of developing the program, related employee education costs, and any wages paid during bone marrow typing or donation. These costs must actually be paid or incurred by the employer, and must be for employees working at least 20 hours per week who are not temporary or seasonal employees.

The credit equals 25 percent of eligible expenses. The employer cannot deduct as a charitable contribution any expenses for which the credit is claimed. The credit is non-refundable. Any credit unclaimed in a particular year due to insufficient tax liability may be used in later years, for up to five years.

PURPOSE: To promote donations of bone marrow.

WHO BENEFITS: Employers who incur expenses related to the development and operation of an employee bone marrow donation program. Patients in need of bone marrow transplants are also intended beneficiaries of this policy through increased availability of transplant tissue.

EVALUATION: The exceedingly small revenue impact of this provision raises questions about its effectiveness in achieving the policy objective: donation of bone marrow tissue for medically necessary procedures. While state statute promotes bone marrow donation through general public education, emphasizing the needs of minority populations and encouraging state employees to donate (ORS 431.270–431.280), it appears reasonable to review the role this provision plays in aggregate bone marrow donation in Oregon, alternative approaches that support the policy objective, and the advisability of continuing this tax credit. [*Evaluated by Oregon Health Plan Policy & Research.*]

1.113 RURAL MEDICAL PRACTICE

Oregon Statute: 316.143
Sunset Date: 12-31-01
Year Enacted: 1989

	Corporation	Personal	Total
1997–99 Revenue Impact:	Not Applicable	$9,400,000	$9,400,000
1999–01 Revenue Impact:	Not Applicable	$9,900,000	$9,900,000

DESCRIPTION: An annual credit for $5,000 against personal income taxes is allowed for up to ten years to certain rural medical providers. Eligible providers include 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% of the provider's practice, in terms of time, must be spent in the rural area to qualify for the credit. "Rural" means any area ten or more miles from a population center of 30,000 or more. Currently, there are five such population centers: the Portland area, Salem, Eugene-Springfield, Medford, or Corvallis-Albany. Annual certification by the Office of Rural Health is necessary to claim the credit.

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

WHO BENEFITS: For the 1997 tax year, 666 physicians, 199 nurse practitioners, 60 physician assistants, 48 nurse anesthetists, 47 dentists, eight podiatrists, and five optometrists qualified for the credit, for a total of 1,033 practitioners. The average rural medical tax credit recipient practices in a town with a population of 2,130. These practitioners serve approximately 486,000 Oregonians. The people in the rural communities are the ultimate beneficiaries of this program.

EVALUATION: This tax expenditure achieves its purpose by directly meeting the economic needs of the practitioners for whom it was intended. A retention survey by the Office of Rural Health in 1994 indicated that four of the top five concerns of rural practitioners were economic issues, e.g., lower income than their urban counterparts and rising office overhead. The key question in determining the success of this tax credit is whether new practitioners have been attracted to Oregon's rural communities. In fact, Oregon shows a net gain of 370 practitioners in rural areas since 1990. It has been most successful in attracting nurse practitioners, their number growing from 61 in 1990 to 199 in 1997. Physicians are not far behind, with a net increase of 159 doctors since 1990, or almost 30 percent. The program has attracted 25 additional physician assistants and netted six new certified registered nurse anesthetists. Since 1995, nine new dentists and one additional podiatrist are taking advantage of this benefit.

Retention of rural physicians was an additional factor in passing this legislation. Despite the retirement or death of more than 25 percent of the original 416 participating physicians, 258 are still practicing in their rural communities. Recent licensure data from the Oregon Board of Medical Examiners (BME) confirm the success of this program.

Trends first observed in 1996 have been borne out by the 1998 data. Policymakers were alarmed by the 22.2 percent loss of physicians in small (<15,000 population) eastern Oregon counties between 1986 and 1988. Not only have those physicians been replaced, but 1998 figures show a 45.3 percent gain in physician numbers in these counties since 1990.

This tax expenditure is a fiscally effective method of achieving its purpose because it operates with minimal administrative burden. 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 currently covered by charging each applicant a $25 processing fee. A direct payment alternative might be both cumbersome and more costly because the benefit is currently limited to the first $5,000 of taxpayer liability but cannot exceed that liability. Consequently, many recipients may not receive the full $5,000 credit. The Office of Rural Health is currently surveying its tax credit recipients to determine the exact proportion who claim the full credit, as well as other evaluative measures.

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 is associated with the creation of 17.8 local jobs. For Oregon, the 159 additional doctors since 1990 translates into approximately $54.6 million returned to local economies and over 2,830 jobs created. [*Evaluated by the Office of Rural Health.*]

1.114 COSTS IN LIEU OF NURSING HOME CARE

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

	Corporation	Personal	Total
1997–99 Revenue Impact:	Not Applicable	Less than $50,000	Less than $50,000
1999–01 Revenue Impact:	Not Applicable	Less than $50,000	Less than $50,000

DESCRIPTION: A tax credit is allowed against personal income taxes for expenses incurred for the care of an individual who otherwise would be placed in a nursing home. The amount of the credit is $250 or eight percent of expenses paid, whichever is less. Taxpayers claiming the credit cannot have household income in excess of $17,500. The person receiving the assistance must: 1) have household income of $7,500 or less; 2) be eligible for home care services under Oregon Project Independence; 3) be certified by the Department of Human Resources; 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: There were only two claimants in 1995.

EVALUATION: This tax expenditure has not achieved its purpose. This program does not create an adequate incentive for people to take advantage of the tax credit as evidenced by the number of beneficiaries in 1995. [*Evaluated by the Senior and Disabled Services Division.*]

1.115 DISABLED CHILD

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

	Corporation	Personal	Total
1997–99 Revenue Impact:	Not Applicable	$2,000,000	$2,000,000
1999–01 Revenue Impact:	Not Applicable	$2,300,000	$2,300,000

DESCRIPTION: Every taxpayer in Oregon receives one personal exemption credit for himself or herself, one for a spouse, and one for each dependent. An additional personal exemption credit is allowed for each dependent child who is disabled. "Disabled child" is defined as a child up to age 18 who is eligible for early intervention services, or who is diagnosed for special education purposes as being autistic, mentally retarded, multi-disabled, visually impaired, hearing impaired, deaf-blind, orthopedically impaired, other health impaired, or as having serious emotional disturbance or traumatic brain injury. The State Board of Education is charged with adopting rules further defining disabled child.

The amount of the personal exemption credit (and hence the disabled child credit) is indexed each year to changes in the Portland Consumer Price Index, and equaled $128 in 1997 and $132 in 1998. The credit is non-refundable.

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

WHO BENEFITS In 1997, about 8,600 Oregon taxpayers claimed disabled child credits, with an average credit of $126. Because the credit is non-refundable, taxpayers may only use the credit for amounts up to their tax liability. The average credit of $126, which is below the 1997 allowed credit of $128, indicates that some taxpayers did not benefit from the full credit amount.

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 Senior and Disabled Services Division.*]

1.116 ELDERLY OR PERMANENTLY DISABLED

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

	Corporation	Personal	Total
1997–99 Revenue Impact:	Not Applicable	$200,000	$200,000
1999–01 Revenue Impact:	Not Applicable	$200,000	$200,000

DESCRIPTION: A credit against personal income taxes of up to 40 percent of the federal elderly or permanently disabled credit is allowed to the taxpayer. Taxpayers claiming a retirement income credit, however, are ineligible to claim the elderly or permanently disabled 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 veteran's benefits. The credit is non-refundable.

PURPOSE: To provide additional tax relief for lower income seniors and disabled persons with little tax-exempt retirement or disability income.

WHO BENEFITS: The number of Oregon taxpayers claiming this credit in 1990 was about 2,700, with an average credit of $75. In 1997, the number of claimants was approximately 1,500 while the average credit was $105.

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 Senior and Disabled Services Division.*]

1.117 LOSS OF LIMBS

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

	Corporation	Personal	Total
1997–99 Revenue Impact:	Not Applicable	Less than $50,000	Less than $50,000
1999–01 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 (up to $100 on a joint return). The credit is non-refundable. All taxpayers eligible for this credit are also eligible for Severe Disability (1.118).

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 1996, approximately 300 taxpayers claimed this credit.

EVALUATION: This tax expenditure achieves its purpose. As with other, 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 Senior and Disabled Services Division.*]

1.118 SEVERE DISABILITY

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

	Corporation	Personal	Total
1997–99 Revenue Impact:	Not Applicable	$3,500,000	$3,500,000
1999–01 Revenue Impact:	Not Applicable	$4,200,000	$4,200,000

DESCRIPTION: Every taxpayer in Oregon receives 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 equaled $128 in 1997 and $132 in 1998.

Severe disability is defined as either: a) the loss of use of one or more lower extremities; b) the loss of use of both hands; or c) as having a physical or mental condition that limits the abilities of the person to earn a living, maintain a household or provide personal transportation without employing special orthopedic or medical equipment or outside help. The credit is non-refundable.

PURPOSE: To provide additional tax relief to severely disabled taxpayers and their spouses.

WHO BENEFITS: Both the number of taxpayers claiming this credit and the average amount claimed increased steadily from 1990 to 1997. In 1990, there were approximately 7,800 claimants with an average credit of $75. In 1997 nearly 16,000 taxpayers claimed an average credit of $125. Because the credit is non-refundable, taxpayers may only use the credit for amounts up to their tax liability. The average credit of $125, which is below the 1997 allowed credit of $128, indicates that some taxpayers did not benefit from the full credit amount.

EVALUATION: This tax expenditure appears to achieve its purpose. It puts additional money in the hands of the eligible individuals. While a tax credit is clearly beneficial, there is a concern that those who qualify for this credit may not earn sufficient income to fully utilize it. Creating an income cap may provide an equitable way for the benefits to be enhanced to very low income people. [*Evaluated by the Senior and Disabled Services Division.*]

1.119 OREGON CAPITAL CORPORATION INVESTMENTS

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

	Corporation	Personal	Total
1997–99 Revenue Impact:	$0	$0	$0
1999–01 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. Since the qualifications were never met, this expenditure has no effect.

PURPOSE: To encourage investment in the Oregon Capital Corporation, which was in turn, intended to provide funding for capital investments in Oregon businesses (ORS 284.755) in order to promote economic growth in Oregon.

WHO BENEFITS: The Oregon Capital Corporation never came into existence. 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.

EVALUATION: Not Evaluated

1.120 QUALIFIED RESEARCH ACTIVITIES

Oregon Statute: 317.152
Sunset Date: 12-31-01
Year Enacted: 1989

	Corporation	Personal	Total
1997–99 Revenue Impact:	$16,800,000	Not Applicable	$16,800,000
1999–01 Revenue Impact:	$17,800,000	Not Applicable	$17,800,000

DESCRIPTION: A credit against corporation income taxes is allowed equal to five percent of the amount that qualified research activities in Oregon exceed a base amount. The base amount and the determination of the excess parallel the calculations in a similar federal research credit (IRC §41) with the following restrictions: a) only qualified research expenses and basic research payments in Oregon are considered, and b) qualified expenses and payments are limited to the fields of advanced computing, advanced materials, biotechnology, electronic device technology, and environmental technology.

The base amount is calculated so that the credit rewards increases in qualified research activities. The base amount is either the percent that qualified research activities were of gross receipts in the 1984–88 period, or for companies that weren't conducting research for at least three of those years, 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 credit is limited to $500,000 and is non-refundable. Beginning in 1993, credits that cannot be used because of insufficient tax liability in the current year can be used in later years, for up to five years.

Taxpayers have the option of claiming this credit or the credit under ORS 317.154, (1.121 Qualified Research Activities (Alternative)).

PURPOSE: To promote and increase research activities in Oregon in the fields of advanced computing, advanced materials, biotechnology, electronic device technology, and environmental technology.

WHO BENEFITS: Beneficiaries include the companies taking the credit and indirectly, their suppliers, customers, and employees. The revenue impact reported here also includes any credits under ORS 317.154. In 1996 there were about 80 taxpayers claiming a total of $8 million in credit.

EVALUATION: This expenditure appears to achieve its purpose. Based on the revenue impacts above, the qualified research activities would amount to roughly $130 million per year over the base amount. Some of this spending is likely attributable to this provision. The following benefits can be identified as follows:

- Research and development (R&D) tax benefits might convince companies to relocate to Oregon.
- Encourages existing companies to put more efforts into research and development. Product introduction cycles for products such as personal computers and high definition television and telecommunication products are getting shorter and shorter. They demand R&D commitments.

- Encourages small companies to explore new niche technology opportunities, and enhances their ability to attract joint R&D capital.
- Encourages companies to utilize existing state research institutes to assist with R&D activities.

This last point is an issue in Oregon. Recent data indicate that corporate R&D dollars to state research institutes are very small compared to 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 research facilities for some other reason.

This expenditure is more efficient than a direct spending program because it allows individual companies to determine if R&D activities are efficient under the current tax structure. The expenditure does favor one group of industries over another, but these do appear to be the industries most likely to use the credit. [*Evaluated by the Economic Development Department.*]

1.121 QUALIFIED RESEARCH ACTIVITIES (ALTERNATIVE)

Oregon Statute: 317.154
Sunset Date: 12-31-01
Year Enacted: 1989

	Corporation	Personal	Total
1997–99 Revenue Impact:	Included in 1.120	Not Applicable	Included in 1.120
1999–01 Revenue Impact:	Included in 1.120	Not Applicable	Included in 1.120

DESCRIPTION: A credit against corporation income taxes is allowed for qualified research expenses in Oregon that exceed ten percent of Oregon sales. The credit is limited to five percent of the amount that qualified expenses exceed ten percent of Oregon sales. The expenses that qualify for the credit are the same as those that qualify under ORS 317.152, except that basic research payments are not included.

The credit is limited to the lesser of: a) $500,000, or b) $10,000 times the number of percentage points that the qualified research expenses exceed ten percent of Oregon sales. The credit is non-refundable. Beginning in 1995, credits that cannot be used because of insufficient tax liability in the current year can be used in later years, for up to five years.

Taxpayers have the option of claiming this credit or the credit under ORS 317.152 (1.120 Qualified Research Activities). Some companies may not qualify for the credit under ORS 317.152 because they do not have the necessary increase in research activities. This alternative still allows them to qualify for the credit if they conduct a large proportion of their research activities in Oregon relative to the proportion of their sales in Oregon.

PURPOSE: To promote research activities in Oregon in the fields of advanced computing, advanced materials, biotechnology, electronic device technology, and environmental technology. Also, to continue a research credit in Oregon even if the federal credit is allowed to sunset.

WHO BENEFITS: The revenue impact of the credit is included in Qualified Research Activities (1.120). It is not known whether anyone uses this alternative credit.

EVALUATION: See evaluation under Qualified Research Activities (1.120). [*Evaluated by the Economic Development Department.*]

1.122 INVESTMENT IN RURAL ENTERPRISE ZONE (INCOME TAX)

Oregon Statute: Note following ORS 285B.689 (OR Laws 1997, Ch. 835, Sec. 40)
Sunset Date: 12-31-02
Year Enacted: 1997

	Corporation	Personal	Total
1997–99 Revenue Impact:	$0	Not Applicable	$0
1999–01 Revenue Impact:	Not Available	Not Applicable	Not Available

DESCRIPTION: Corporations who make certain large investments in a non-urban enterprise zone are eligible for a credit on the corporate income tax, if approved by the Governor. The investment must be approved for the related tax expenditure for property tax (2.010 Investment in Rural Enterprise Zone (Property Tax)). To be eligible for the property tax exemption, the investment must be located in a county with chronic unemployment, the investment must exceed $50 million, the firm must hire at least 100 full-time employees within five years, and the average wage must be at least 50 percent above the county average.

The corporate income tax credit is equal to 62.5 percent of the taxpayer's payroll and employee benefit costs at the facility. The credit applies only to liabilities above $1 million, and is allowed for 15 years. The credits can be carried forward up to 5 years after the 15-year period expires. The taxpayer is exempt from corporate income taxes relating to the facility until the tax year after the facility is placed in service. Thirty percent of any taxes paid by the taxpayer receiving the credit is distributed to the local city or county sponsor.

The revenue estimate is very uncertain at this point. First, it is not clear whether any company will choose to use this expenditure in the near future. Second, the time period required to implement this type of large investment is long enough that any revenue impact would probably not apply until the 2001–03 biennium.

PURPOSE: To encourage investment in non-urban areas of chronic unemployment.

WHO BENEFITS: This provision is intended to benefit non-urban enterprise zones and their surrounding residents in counties with chronic unemployment. In addition to the residents receiving benefits, other beneficiaries include the participating companies, their suppliers, customers, and employees.

EVALUATION: At this time, no company has used this provision. However, at least two companies are working on business development plans that involve the use of this provision. It is possible, and perhaps likely that if Oregon did not have this provision, one or both of these projects would be relocated to another state or other less distressed location within Oregon that better matches the company's siting preferences. Therefore, this provision appears to be having the intended effect on investment in Oregon.

Some issues to consider with this credit include the possibility that it may encourage competition among states. It may also be perceived as creating an inequity in the tax system or of shifting the tax burden from one group of taxpayers to another. [*Evaluated by the Economic Development Department.*]

1.123 CHILD AND DEPENDENT CARE

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

	Corporation	Personal	Total
1997–99 Revenue Impact:	Not Applicable	$11,900,000	$11,900,000
1999–01 Revenue Impact:	Not Applicable	$11,900,000	$11,900,000

DESCRIPTION: A personal income tax credit is allowed to certain taxpayers for employment-related dependent care expenses. This credit parallels a similar federal credit in the calculation of the base amount of eligible employment-related expenses. The Oregon credit amount (which is a percentage of these eligible expenses) differs, however, from the amount allowed under the federal credit.

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 either children under 13, other dependents who are physically or mentally incapable of caring for themselves, or the taxpayer's spouse if incapable of caring for oneself. The eligible expenses are limited in a given year to $2,400 when there is only one qualifying individual in the household, and to $4,800 when there are two or more qualifying individuals. In both cases this limit is reduced by any non-taxable payments received from an employer under a dependent care assistance program. Eligible expenses are limited to the individual's earned income (for unmarried individuals), or to the lower of either spouse's earned income (for married individuals).

The credit equals a percentage of eligible employment-related dependent care expenses. The percentage amount declines from 30 percent for taxpayers with income less than $5,000 to zero percent for taxpayers with income above $45,000. The credit is non-refundable but unused credit amounts due to insufficient tax liability may be used in later years, for up to five years.

PURPOSE: To provide tax relief to working taxpayers who must incur dependent care expenses to stay in the work force.

WHO BENEFITS: The number of Oregon resident taxpayers who benefit from this credit has declined from about 66,000 in 1990 to 59,000 taxpayers in 1996. The average benefit has increased slightly each year, from $126 in 1990 to $142 in 1996. In 1997, however, the number of claimants fell to about 57,000 and the average benefit fell to $104. This is a result of the two new credits that started in 1997, the Earned Income Credit (1.111) and the Working Family Child Care (1.124). With the reduced tax liability as a result of these new credits, some taxpayers were unable to use the full amount of their Child and Dependent Care credit.

EVALUATION: This tax expenditure achieves its purpose and meets a need when other forms of non-taxable care are not available through the employer. It contributes to the taxpayer's ability to remain gainfully employed and, to an extent, competitive with other mem-

bers of the workforce. It promotes productivity and a high quality workforce by lessening the burden associated with obtaining dependent care. It also provides an economic boost for families with children and dependents. [*Evaluated by the Employment Department.*]

1.124 WORKING FAMILY CHILD CARE

Oregon Statute: 315.262
Sunset Date: None
Year Enacted: 1997

	Corporation	Personal	Total
1997–99 Revenue Impact:	Not Applicable	$6,900,000	$6,900,000
1999–01 Revenue Impact:	Not Applicable	$7,000,000	$7,000,000

DESCRIPTION: A personal income tax credit is allowed for child care expenses for low income families who have at least $6,000 of earned income for the year. The credit is calculated as a declining percentage of qualified child care expenses, and is nonrefundable. Taxpayers under 150 percent of federal poverty level are allowed 40 percent of expenses, the maximum credit. The credit phases out for taxpayers over 200 percent of federal poverty level. No carryover is allowed for amounts that exceed tax liability. The credit became effective for tax year 1997.

PURPOSE: To provide tax relief to low income working taxpayers who must incur dependent care expenses to stay in the work force.

WHO BENEFITS: The average credit claimed by roughly 17,000 taxpayers in 1997 was $558. This credit has exceeded the estimated amount that would be claimed by taxpayers. The revenue impact was predicted to be $14 million for the biennium but the first year taxpayers claimed over $9 million for this credit. However, many of the families do not have sufficient tax liability to benefit from the full amount of the credit. On average, only 36 percent of the credit could be used. The average benefit in 1997 was just over $200 per taxpayer.

EVALUATION: This credit has been very successful in its first year in assisting low income families with their child care expenses. Low-income working parents who pay for child care receive financial assistance to ensure that they can join and stay in the workforce. Employers who hire these working parents may benefit from a more dependable workforce. Parents who are in training or in school receive assistance to pay for child care while they get training to enhance their skills and help them up the wage continuum. The credit could be more successful if it were refundable. [*Evaluated by Employment Department.*]

1.125 DEPENDENT CARE ASSISTANCE

Oregon Statute: 315.204
Sunset Date: 12-31-01
Year Enacted: 1987

	Corporation	Personal	Total
1997–99 Revenue Impact:	$3,300,000	Not Available	$3,300,000
1999–01 Revenue Impact:	$3,500,000	Not Available	$3,500,000

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 costs the employer paid for dependent care (but no more than $2,500 per employee) and 50 percent of the cost of providing information and referral services. The employer may not take the credit if the provision of dependent care services is part of salary reduction plan. Credits unclaimed due to insufficient tax liability may be used in later years, for up to five years. Note that the revenue impact figures include the impact of the dependent care facilities credit listed in Dependent Care Facilities (1.126).

PURPOSE: To encourage employers to provide dependent care services and referrals to their employees.

WHO BENEFITS: In 1990, there were 14 corporations that claimed either the Dependent Care Assistance (1.125) or the Dependent Care Facilities (1.126) credits; by 1996 that number had increased to 24. The average credit increased from $9,000 to $67,000 over the same time period.

EVALUATION: This tax expenditure achieves its purpose and is an incentive to involve employers in addressing the issue of dependent care-which includes children, the elderly, and those with special needs. Employers have potential gains from relieving employees' anxiety associated with ensuring that dependents receive proper daycare. This tax expenditure promotes an environment where dependent care is not strictly an employee's "problem" but a necessary component of maintaining a high-quality, productive workforce. It also provides a vehicle for employers to attract quality employees on a competitive basis with other states. [*Evaluated by the Employment Department.*]

1.126 DEPENDENT CARE FACILITIES

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

	Corporation	Personal	Total
1997–99 Revenue Impact:			Included in 1.125
1999–01 Revenue Impact:			Included in 1.125

DESCRIPTION: Employers providing dependent care facilities for their employees are allowed a credit to either personal or corporation income tax. The credit equals the lessor of: 1) 50 percent of the facility cost, or 2) an amount equal to $2,500 times the number of full-time equivalent employees. The facility must be certified by the Child Care Division of the Employment Department.

One-tenth of the credit is claimed in each of ten consecutive years beginning with the year the facility is completed. The credit is discontinued before the ten-year period is completed if facility use is discontinued. Credits unclaimed due to insufficient tax liability may be used in later years, for up to five years.

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

WHO BENEFITS: In 1990, there were 14 corporations that claimed either the Dependent Care Assistance (1.125) or the Dependent Care Facilities (1.126) credits; by 1996 that number had increased to 24. The average credit increased from $9,000 to $67,000 over the same time period.

EVALUATION: This tax expenditure achieves its purpose and is an expansion of Dependent Care Assistance (1.125). It is another method of involving employers in the issue of daycare by encouraging them to provide a child care facility for their employees. The quality of the facility must be maintained at a level to be certified by the Child Care Division. In addition to the benefits cited in Dependent Care Assistance (1.125), there are distinct advantages to having daycare facilities near the place of employment. For example, parents are able to visit their children during breaks which helps relieve the anxiety associated with placing them in daycare. [*Evaluated by the Employment Department.*]

1.127 FIRST BREAK PROGRAM

Oregon Statute: 315.259
Sunset Date: 12-31-00
Year Enacted: 1995

	Corporation	Personal	Total
1997–99 Revenue Impact:	Not Available	Not Available	Less than $50,000
1999–01 Revenue Impact:	Not Available	Not Available	Less than $50,000 *

* Revenue impact takes into account the sunset.

DESCRIPTION: A credit against corporation or personal income taxes is allowed for wages paid to a “qualified youth” hired by the taxpayer. A qualified youth is an individual who is 14 to 17 years old and has been identified to participate in the First Break Program by a community-based organization because the individual is “gang-involved” or “gang-affected,” or who is at risk of becoming gang-involved or gang-affected according to rules adopted by the Employment Department. The credit amount is equal to 50 percent of the wages paid to the qualifying youth or $1,000, whichever is less. An employer can claim an additional credit of 50 percent of wages paid or $1,000, whichever is less, if the employee is employed continuously for at least 18 months and the employer incurred at least $400 in expenses providing training to the employee. Statute limits the total number of certificates issued to 1,500. The first year credits can be claimed is calendar year 1998.

PURPOSE: To encourage the provision of employment and training opportunities for youths who are involved in gangs or affected by gang activity.

WHO BENEFITS: Employers who provide employment and training to youth who are involved in gangs or affected by gang activity. As of October 1998, zero certificates had been issued and only three community-based organizations were recruiting employers for the program.

EVALUATION: It is too soon to determine if this expenditure achieves its purpose; it is for tax years beginning on or after January 1, 1998. According to HB 2256 (1995) Section 4, the Employment Department will analyze the program's effectiveness in discouraging gang involvement by youth and in promoting job-skill and educational development of youth. The reports shall also include an analysis of the tax and revenue implications of the program. The Department shall present the reports to those committees of the 1999 and 2001 Legislative Assemblies to which revenue matters are assigned. [*Evaluated by the Employment Department.*]

1.128 FARM WORKER HOUSING CONSTRUCTION

Oregon Statute: 315.164
Sunset Date: 12-31-01
Year Enacted: 1989

	Corporation	Personal	Total
1997–99 Revenue Impact:	$1,800,000	$200,000	$2,000,000
1999–01 Revenue Impact:	$1,800,000	$200,000	$2,000,000

DESCRIPTION: A credit against corporation or personal income taxes is allowed for constructing or rehabilitating housing for farm workers. For projects begun on or after January 1, 1990 and completed before January 1, 1996, the credit equals 50 percent of the eligible costs (construction, finance, excavation and permit costs, but not land costs) actually paid or incurred by the taxpayer. The credit is taken in five equal installments for five consecutive years beginning when the project is completed. A number of changes apply for projects completed January 1, 1996 and after: 1) the taxpayer must obtain a letter of credit approval from the Department of Consumer and Business Services; 2) the credit is reduced to 30 percent of eligible costs; and 3) the total of all eligible costs approved each year cannot exceed $3.3 million.

The taxpayer need not be the owner or operator of the housing at the time it is used. The credit is also available to individuals or businesses who build or rehabilitate the housing and then sell it before it becomes operational. The housing must be located in Oregon.

The housing must meet certain qualifications for the taxpayer to be eligible for the credit. Rehabilitation projects must restore housing to a condition where it meets building code requirements. In the case where the taxpayer will not own the property while it is occupied, the project must comply with all safety and health laws. In the case where the taxpayer is the operator of the housing, the housing must be inspected by the Department of Consumer and Business Services prior to occupancy. The housing must also be registered, if required, as a camp with the Bureau of Labor and Industries, and must be operated by someone farm worker 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.

The credit is non-refundable. 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.

PURPOSE: To promote construction and rehabilitation of safe and healthful housing for farm workers. There is currently a shortage of such housing.

WHO BENEFITS: Taxpayers who construct or rehabilitate housing for farm workers, which may include growers, investors, builders, developers and others. In 1996 there were 14 corporation

income tax claimants for a total credit of $1,300,000. The amount of credits claimed has grown steadily since 1990, when three taxpayers claimed only $3,000 of credits.

Since 1992 the credit has been used to provide safe, affordable housing for more than 1500 farm workers and family members, who are the indirect beneficiaries of the credit. Other indirect benefits are the creation of partnerships between corporate entities sponsoring the housing and the agriculture industry, and the credits can be counted as leverage in the use of HUD Home Investment Partnership Funds when combined in the development financing.

EVALUATION: This expenditure achieves its purpose. It has been only in recent years that progress has been made in developing adequate housing for Oregon's farm worker population. This progress is due in large part to the availability of the farm worker tax credits. If the tax expenditure were eliminated, financing of offsite farm worker housing would be impeded and a primary incentive to improve or construct onsite housing would be eliminated. Major supporters of better farm worker housing include migrant health clinics, who see the effects of unsanitary conditions.

There is a direct tie between the provision of farm worker housing and the health of Oregon's agricultural industry. This industry must compete on a regional, national and even international basis for its labor force. It can be argued that to remain competitive in this market, Oregon must continue its efforts to improve the supply of decent and affordable housing for its farm labor force. Because agriculture is Oregon's largest industry, with gross sales totaling $3 billion annually, and because crops dependent on the labor of farm workers account for over one-third of this amount, the impact on Oregon's economy is significant. There are an estimated 150,000 farm workers and family members in Oregon, either migrant or year-round workers. Adequate on-farm housing is sufficient to house less than 10 percent of the farm workers and families in the state. Most of the remaining 90 percent of the population live in rural communities throughout the state, with two-thirds of their housing being unsafe, unsanitary and overcrowded. (Oregon Farm Labor Housing Survey, Oregon Housing Agency, 1991). In a survey of its farm worker patients, Salud Medical Clinic in Woodburn found that ten percent have no housing at all, living in orchards, cars or along river banks.

There are several direct spending programs, both at the state level and at the national level, which are used to develop affordable housing. This tax credit integrates well with these programs, since a chief factor in the award of funds under the other programs is the ability to match those funds. The availability of the farm worker tax credit allows Oregon to compete particularly well for federal dollars. Of significance are the rural development 514 and 516 programs designated for farm worker housing. Before the advent of the farm worker tax credit, Oregon's usage of US Department of Agriculture labor housing fund was almost nonexistent.

However, the 1995 legislative change that imposed a cap on the amount of credits caused demand to be greater than the supply of credits. The first come, first served statutory change needs to be eliminated in favor of an evaluation assigning credits to the most effective projects ready to proceed. *[Evaluated by the Housing and Community Services Department.]*

1.129 FARM WORKER HOUSING LENDER'S CREDIT

Oregon Statute: 317.147
Sunset Date: 12-31-01
Year Enacted: 1989

	Corporation	Personal	Total
1997–99 Revenue Impact:	$100,000	Not Applicable	$100,000
1999–01 Revenue Impact:	$100,000	Not Applicable	$100,000

DESCRIPTION: A credit against corporation income taxes is allowed for commercial lending institutions financing construction or rehabilitation of farm worker housing projects. The credit equals 50 percent of the interest received on loans made to finance only 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 13_ percent. The credit may be claimed over the term of the loan or for ten years, whichever is less.

The credit is non-refundable. Credits that cannot be used because of insufficient tax liability in the current year are lost. They cannot be carried forward to later years.

PURPOSE: To promote construction and rehabilitation of safe and healthful housing for farm workers. There is currently a shortage of such housing.

WHO BENEFITS: Lending institutions that make loans for farm worker housing projects. To the extent that the credit program results in loans made at less-than-market interest rates, the borrower captures some of the benefit. The amount of credits claimed varies widely from year to year. In 1994, three taxpayers claimed $6,000 in credits, while $259,000 in credits was claimed by eight taxpayers in 1995. In 1996 the amount of credit fell to $51,000 claimed by six taxpayers.

The farm workers and their families who are provided with safe, affordable housing are the indirect beneficiaries of the credit

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 which would otherwise not be cost effective.

Prior to the passage of the credits, even if lenders were willing to make such loans, conventional interest rates were generally too high to make such housing cost-effective. If the tax expenditure were eliminated, there would likely be a reduction in farm worker housing units built each year.

While more lenders are making loans for farm worker housing, these have been primarily larger lenders who can invest the time and money to investigate this relatively new program. Smaller lenders are potential recipients who may need to be educated about the benefits of the credit.

There are several direct spending programs, both at the state level and at the national level, which are used to develop affordable housing. This tax credit integrates well with these programs, since none of these direct spending programs alone provide

enough spending programs to be leveraged with a conventional loan subsidized by the lender's tax credit allows these direct 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" and are occupations like "aquiculture" 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 accessed and the housing, whether using LIHTC and HOME funds or Rural Development Funds would not be built anyway. *[Evaluated by the Housing and Community Services Department.]*

1.130 INVOLUNTARY MOBILE HOME MOVES

Oregon Statute: 316.153
Sunset Date: 12-31-01
Year Enacted: 1991

	Corporation	Personal	Total
1997–99 Revenue Impact:	Not Applicable	Not Available	Not Available
1999–01 Revenue Impact:	Not Applicable	Not Available	Not Available

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 have a federal adjusted gross income under $30,000 in the year of the move, and the mobile home must have a fair market value of less than $50,000.

The credit equals the lesser of $1,500 or the actual relocation costs net of any reimbursement paid by the landlord. The credit is taken in three equal amounts for the three consecutive tax years beginning with the year of the move. (That is, the maximum credit is $500 per year for three years.) A taxpayer may claim the credit for only one involuntary move. The credit is non-refundable. Any credit that cannot be claimed because of insufficient tax liability may be carried forward up to five years.

PURPOSE: To provide tax relief to mobile home residents who are forced to relocate because of the closure of their mobile home park. These moves sometimes cost up to $5,000.

WHO BENEFITS: Mobile home owners who must involuntarily move their mobile homes.

EVALUATION: It is not clear whether this tax expenditure is effective. In theory, this program reduces the tax burden on mobile home residents who are being required to relocate and will incur significant costs. Other taxpayers who relocate in conjunction with a new job or business can deduct qualified moving expenses (1.067 Moving Expenses). Although the circumstances are different for mobile home residents who are forced to move, this credit provides a similar tax break. [*Evaluated by the Housing and Community Services Department.*]

1.131 LOW INCOME HOUSING LENDER'S CREDIT

Oregon Statute: 317.097
Sunset Date: 1-1-00
Year Enacted: 1989

	Corporation	Personal	Total
1997–99 Revenue Impact:	$4,200,000	Not Applicable	$4,200,000
1999–01 Revenue Impact:	$4,800,000	Not Applicable	$4,800,000 *

* Revenue impact takes into account the sunset.

DESCRIPTION: This provision, also referred to as the Oregon Affordable Housing Credit, 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 that would have been charged had a similar loan been made at market interest rates. The credit cannot exceed four 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. The total amount of outstanding loans that may be certified by the Housing and Community Services Department must not exceed $100 million. This cap was increased by the 1997 Legislature, and is effective for tax year 1998.

The revenue impact reported for 1999–01 takes into account the sunset scheduled for 1-1-00. The revenue impact for 1999–01 would be $4,900,000 if the sunset were extended.

PURPOSE: To promote the construction and rehabilitation of low-income housing.

WHO BENEFITS: In 1996, 15 corporation income taxpayers claimed approximately $1.5 million in credits, and 14 taxpayers claimed $2.0 million in credits in 1997. The amount of credits claimed has grown steadily since 1990 when two taxpayers claimed only $34,000 of credits. The program requires all savings in interest to be directly credited as rent reductions. To the extent that the low interest rate reduces the rent paid by low income households, the households also benefit. An indirect benefit is the community good will derived from lender participation in the program and the interest savings can be counted as match when utilizing HUD HOME Investment Partnership funds.

EVALUATION: This expenditure achieves its purpose. Without the credit program, rents 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.]*

1.132 CROP GLEANING

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

	Corporation	Personal	Total
1997–99 Revenue Impact:	Less than $50,000	$50,000	$50,000
1999–01 Revenue Impact:	Less than $50,000	$50,000	$50,000

DESCRIPTION: Taxpayers may take a credit against personal or corporation income taxes for crop donations to gleaning cooperatives. The credit equals 10 percent of the wholesale market price of the crop. Credits that cannot be used because of insufficient tax can be used in later years, for up to three years.

PURPOSE: To encourage donations of food crops to gleaning cooperatives so that the crops do not go to waste.

WHO BENEFITS: Farmers who donate crops to gleaning cooperatives. The benefit goes primarily to smaller, non-corporate farms. The gleaning cooperatives also benefit by receiving produce that would otherwise go unharvested.

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.*]

1.133 ALTERNATIVES TO FIELD BURNING

Oregon Statute: 468.150
Sunset Date: 12-31-01
Year Enacted: 1975

	Corporation	Personal	Total
1997–99 Revenue Impact:			Included in 1.135
1999–01 Revenue Impact:			Included in 1.135

DESCRIPTION: This provision was added to the Pollution Control Facilities Credit in 1975. It allows a credit against corporation or personal income taxes for up to fifty percent of acquisition or construction costs for equipment and facilities as alternatives to grass seed and cereal grain straw open field burning. 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 (1.135).

PURPOSE: To encourage reduction in the practice of open field burning while developing and utilizing alternative methods of field sanitation and alternative methods of using and marketing grass seed and cereal grain straw.

WHO BENEFITS: This provision reduces the substantial costs for growers investing in equipment, facilities, and land for gathering, densifying, processing, handling, storing, transporting, and incorporating grass straw or straw-based products which result in reduction of open field burning; propane flamers or mobile field sanitizers that reduce air quality impacts; and drainage tile installations which result in a reduction of grass seed acreage under production.

EVALUATION: This expenditure appears to achieve its purpose. The key question is whether the credit caused a decrease in open field burning, propane flaming, and stack burning, or whether the reduction was simply compliance with the statutory phasedown enacted in 1991. During the phasedown period of 1991–95, growers open field burned just 55 percent of the allowable acreage, compared to 80 percent prior to 1991. This suggests the incentive provided by the expenditure resulted in less open field burning.

Some in the industry have argued, however, that credit programs are not the most effective way of stimulating investment in alternatives to field burning because many farms have little or no tax liability for the credit to offset. Some have stated that no-interest or low-interest loans would stimulate more of the target group to invest in alternatives.

Even though the industry is facing a crucial period in the phasedown schedule, continued reductions in field burning, increased acreage in production, high yields, and the results of recent research all indicate that the alternatives to field burning are satisfactory. The key to maintaining the phasedown limitation of 40,000 acres is the continued development of the infrastructure to process straw to the potential markets of pulp and paper and structural boards. [*Evaluated by the Department of Agriculture.*]

1.134 POLLUTION PREVENTION

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

	Corporation	Personal	Total
1997–99 Revenue Impact:	Not Available	Not Available	$900,000
1999–01 Revenue Impact:	Not Available	Not Available	$600,000 *

* Revenue impact takes into account the sunset.

DESCRIPTION: This provision, referred to in statute as the Emission-Reducing Production Technology Credit, allows a tax credit against corporation or personal income taxes for investments in technologies and processes that prevent emissions of perchloroethylene, chromium, and halogenated solvents. The credit amount is equal to 10 percent of the costs of the technologies or processes as certified by the Environmental Quality Commission. The credit is not refundable, and unused credit amounts can be carried forward for three years. No reduction in depreciable basis is required.

The revenue impact reported for 1999–01 takes into account the sunset scheduled for 12-31-99. The revenue impact for 1999–01 would be $1,000,000 if the sunset were extended.

PURPOSE: "The Legislative Assembly find that it is desirable to determine whether a tax credit program that encourages businesses to utilize technologies and processes that prevent the creation of pollutants should be offered." (Chapter 746, Oregon Laws 1995, Section 29)

WHO BENEFITS: Taxpayers investing in technologies or processes that prevent emissions of the specified pollutants. Much of the benefit goes to the dry-cleaning industry, which is a large user of perchloroethylene. For discussion of additional tax expenditures related to the dry-cleaning industry, see Chapter 13.

EVALUATION: This expenditure is effective in achieving its purpose. It could be improved by expanding the awareness of the program, thereby reaching the potential credit recipients who are not taking advantage of the credit. It could also be improved by expanding the list of eligible technologies or processes that prevent the creation of pollutants. The maximum amount available for tax relief through the pilot is $2,600,000. As of June 30, 1998, 21 Oregon businesses had received certification for pollution prevention tax credits totaling $460,000. [*Evaluated by the Department of Environmental Quality.*]

1.135 POLLUTION CONTROL

Oregon Statute: 315.304
Sunset Date: 12-31-03
Year Enacted: 1967

	Corporation	Personal	Total
1997–99 Revenue Impact:	$18,100,000	$1,500,000	$19,600,000
1999–01 Revenue Impact:	$17,000,000	$1,400,000	$18,400,000

DESCRIPTION: Allows a credit against corporation or personal income taxes equal to 50 percent of the cost of pollution control facilities. The taxpayer must have the investment certified by the Department of Environmental Quality. The application must be made within two years of completion of the facility. Both the facilities themselves and the allowable costs are certified by the Environmental Quality Commission. Facilities are certified for the credit under one of the following categorizations:

- Air or water pollution control,
- Noise pollution control,
- Solid waste, hazardous waste, or used oil control.

To qualify, the principal purpose of the facility must be to meet government pollution control standards, or the sole purpose must be to prevent, control or reduce a significant quantity of pollution. Facilities can include structures, land, machinery, or reconstruction and improvements to land or existing structures. Certain items are specifically excluded by statute, including asbestos abatement, septic tanks and human waste facilities, office buildings, parking lots, landscaping and automobiles.

The credit is available to either the owner or lessee of the facility, but not to both. The amount of credit is one half of the certified cost of the facility multiplied by the

certified percentage allocable to pollution control, divided by the number of years of the facility's useful life (where the maximum useful life for calculating the credit is ten years).

The credit is non-refundable. Any credit unclaimed in a particular year because of insufficient tax liability may be used in later years, for up to three years.

Nonprofit corporations and cooperatives qualify for a 20-year property tax exemption on the facility in lieu of the income tax credit. (See 2.048 Pollution Control Facilities).

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. Most of the benefit goes to large corporations in manufacturing industries, including wood processing, steel and other metals processing, electronics, and food processing. Tax return data suggest that many corporations that qualify for the credit cannot fully use it because they have little or no tax liability to offset. In 1995, 149 corporations claimed the credit averaging about $79,000 per taxpayer.

EVALUATION: The expenditure has been partially successful in achieving its purpose as an incentive to promote the installation of some pollution control equipment that otherwise would not have been installed. Twenty-five percent of all tax credits approved since 1995 were for this type of facility.

The expenditure also provided a reward to many taxpayers for activities that they are required to do anyway. Seventy-five percent of approved tax credits were for principal purpose facilities.

Another benefit of this program is to improve the relationship between business entities and regulatory entities. This benefit could be accomplished by enhanced compliance with regulatory requirements and the agency counseling small businesses in the benefits of pollution control. While this part of the program is very valuable, it is difficult to determine if that goal is being achieved.

Since the program's inception, over 3500 facilities have received pollution control tax credit certificates totaling about $500 million. [*Evaluated by the Department of Environmental Quality.*]

1.136 RECLAIMED PLASTICS

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

	Corporation	Personal	Total
1997–99 Revenue Impact:	$150,000	$50,000	$200,000
1999–01 Revenue Impact:	$250,000	$50,000	$300,000

DESCRIPTION: Allows a credit against corporation or personal income taxes equal to 50 percent of an investment in personal property or equipment that is either: a) used to manufacture products from reclaimed plastics, or b) necessary to collect, transport, or process reclaimed plastic. The taxpayer must apply to the Environmental Quality Commission and have the investment certified to qualify for the credit. The process involves obtaining both a preliminary certification before making the investment (though the Environmental Quality Commission may waive this requirement), and a final certification upon project completion. The Environmental Quality Commission may grant preliminary certification to no more than $1.5 million in total investments each year.

The credit is available to either the owner of the business or to a lessee who conducts the business, but not to both. If claimed by more than one taxpayer, the aggregate certified investment costs as allocated may not exceed the total certified cost of the investment. The credit is equal to 10 percent of the cost of the investment in each of the five years beginning with the year the investment is certified. Thus the total credit equals 50 percent of the cost of the investment. The credit is non-refundable. Any credit unclaimed in a particular year because of insufficient tax liability may be used in later years, for up to five years.

PURPOSE: ". . . to assist in the prevention, control and reduction of solid waste in this state." ORS 468.456

The tax credit is designed to promote investments in plastic recycling by reducing the cost of making those investments.

WHO BENEFITS: The direct recipients of the reclaimed plastic tax credit are businesses that collect or process recyclable plastic, manufacture a product from reclaimed plastic, or own and lease equipment to plastic recyclers. The benefits from this tax credit also flow through to other persons and companies in the plastic recycling chain. These benefits include reduced charges for recycling service or reduced cost of reclaimed plastic feedstock and products. In addition, the public benefits from the recovery of waste plastic.

EVALUATION: This expenditure is achieving its purpose. The level of waste plastic collection and processing is greater because of the tax credit. It has a major influence on the development of new recycling facilities, and it has influenced advances in plastic recycling that would not have taken place without the incentive provided by the tax credit.

The credit could be improved by promoting the program better to the plastics industry, emphasizing benefits to reclaimed plastic product manufacturers. *[Evaluated by the Department of Environmental Quality.]*

1.137 SEWER CONNECTION

Oregon Statute: 316.095
Sunset Date: 7-1-95
Year Enacted: 1987

	Corporation	Personal	Total
1997–99 Revenue Impact:	Not Applicable	$6,000,000	$6,000,000
1999–01 Revenue Impact:	Not Applicable	$3,000,000	$3,000,000

DESCRIPTION: Allows a credit against personal income tax to certain homeowners who connect their homes to a sewer system. The credit equals $160 per year for five consecutive years. The credit is non-refundable. Any credit that cannot be claimed because of insufficient tax liability may be used in later years, for up to eight years. Because this credit sunset in 1995, all current credit claims are for sewer connections that were made prior to 1995.

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 a number of approved projects have not yet been completed, connections qualifying for the credit are expected to continue into the 1997–99 biennium. But because the bulk of connections have already been made, the total number of credits claimed in a particular year will decline as homeowners' five-year credit periods are completed. Because no new projects can be approved after July 1, 1995, connections qualifying for the credit will eventually cease and total credits will fall to zero.

PURPOSE: To compensate homeowners for the costs of connecting to sewer systems when connection is required by the Environmental Quality Commission. The Environment Quality Commission requires connections to protect the health of the public.

WHO BENEFITS: Homeowners who connect their homes to a sewer system under order or rule of the Environmental Quality Commission. Most of these connections have been in east Multnomah County.

EVALUATION: Not Evaluated

1.138 FISH GLEANING (SEAFOOD) CREDIT

Oregon Statute: 315.148
Sunset Date: 12-31-93
Year Enacted: 1985

	Corporation	Personal	Total
1997–99 Revenue Impact:	$0	$0	$0
1999–01 Revenue Impact:	$0	$0	$0

DESCRIPTION: Provides a credit against personal or corporation income taxes to commercial fishermen and to fish processors for contributions of certain fish to gleaning cooperatives or recipient members of Oregon Food Share. Credit equals five percent of fair market value to the fisherman, and five percent of fair market to the fish processor.

Credits that cannot be used because of insufficient tax liability can be used in later years, for up to five years. The credit was allowed to sunset in 1993, so the tax expenditure shown above represents only prior-year credits carried forward. The year 1998 is the final year these carryforwards can be used.

PURPOSE: To encourage contribution of weigh-backs (food fish taken by commercial fishermen that are not marketable) to the Oregon Food Share and to gleaning cooperatives so that the fish are not wasted.

WHO BENEFITS: Fishermen and fish processors who donate weigh-backs to the Oregon Food Share or to gleaning cooperatives. The credit was little, if ever used.

EVALUATION: The legislature chose to allow the credit to sunset in 1993 after nobody expressed interest in using it. [*Evaluated by the Department of Fish and Wildlife.*]

1.139 FISH HABITAT IMPROVEMENT

Oregon Statute: 315.134
Sunset Date: 1-1-98
Year Enacted: 1981

	Corporation	Personal	Total
1997–99 Revenue Impact:	Less than $50,000	Less than $50,000	Less than $50,000
1999–01 Revenue Impact:	Less than $50,000	Less than $50,000	Less than $50,000

DESCRIPTION: Provides a credit against personal or corporation income taxes to taxpayers who undertake projects that improve fish habitat. The credit equals 25 percent of the cost of the fish habitat improvement project. Projects required under existing state or federal law are ineligible. The project must be certified by the State Department of Fish and Wildlife both before and after completion. Credit is taken when project is certified as completed. Credits that cannot be claimed because of insufficient tax liability can be used in later years, for up to five years.

A maximum of $100,000 in projects are eligible for preliminary certification each year. According to the Department of Fish and Wildlife, projects are infrequent and total less than $5,000 in a typical year.

The credit was allowed to sunset as of January 1, 1998, so the tax expenditure shown above represents only prior-year credits carried forward. The year 2002 is the final year these carryforwards can be used.

PURPOSE: "To maintain, preserve, conserve and rehabilitate riparian lands to assure the protection of the soil, water, fish and wildlife resources of the state for the economic and social well-being of the state and its citizens." [SB 397, 1981 Session]

WHO BENEFITS: Taxpayers who invest in fish habitat improvement projects. Relatively few projects have been undertaken, primarily by wood products companies and individual landowners. The general public also benefits, particularly individuals connected with recreational or commercial fishing, if the projects result in improved fish habitat and increased fish populations.

EVALUATION: Although the credit had been used infrequently, it appears to be effective in promoting projects that improve fish habitat. The previous annual limit ($100,000) on certifiable costs was reached in applications for calendar year 1996. However, after the legislature failed to remove the sunset clause, applications for calendar year 1997 had an aggregate cost of only $65,000. The number of applications declined from 12 in 1996 to seven in 1997, with six of the seven 1997 applications coming from entities that had not previously applied.

Since this expenditure has sunset, the Oregon Department of Fish and Wildlife has submitted a legislative concept to extend the sunset clause, and increase the limit on certifiable costs.

There are several possible reasons why the credit was not used extensively in the past. First, the whole salmon restoration process was not moving forward with the momentum it now has. Second, many landowners were probably not aware of the credit. Third, some landowners may have undertaken habitat improvement projects in association with nonprofit organizations, and treated expenditures and donations as charitable contributions. We think this may have happened with companies that participated in restoration projects since 1994 under the North Coast Salmonid Project (Oregon Wildlife Heritage Foundation). Unfortunately, there are no data to describe the relative importance of these explanations. The Oregon Department of Fish and Wildlife still believes that interest in using the credit will increase if our legislative concept is enacted, and if the governor's Oregon Plan (for salmon restoration) continues to receive the kind of priority it presently appears to have. [*Evaluated by the Department of Fish and Wildlife.*]

1.140 FISH SCREENING DEVICES

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

	Corporation	Personal	Total
1997–99 Revenue Impact:	Less than $50,000	$50,000	$50,000
1999–01 Revenue Impact:	Less than $50,000	$50,000	$50,000

DESCRIPTION: Allows a credit against personal and corporation income tax 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 which 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. In the 1995–97 biennium the Department of Fish and Wildlife certified 141 screens with potential tax credit of $47,785. (There were an additional 33 screens installed using "watershed health" funding that were not eligible for this credit.) For the first half of the 1997–99 biennium, some 60 screens have been certified. The tax credits associated with these screens amount to $27,084 in aggregate.

EVALUATION: This expenditure appears to be effective in achieving its purpose. The use of the credit has been increasing because the amount of fish screening is increasing as the law requiring the installation of screens on irrigation diversions gains acceptance among irrigators. It seems unlikely the current level of screening activity would be going on without the legislation that created the program in its latest form. A direct spending program might be able to achieve similar results, but likely at higher costs. [*Evaluated by the Department of Fish and Wildlife.*]

1.141 ALTERNATIVE ENERGY DEVICES (RESIDENTIAL)

Oregon Statute: 316.116
Sunset Date: 12-31-01
Year Enacted: 1977

	Corporation	Personal	Total
1997–99 Revenue Impact:	Not Applicable	$1,500,000	$1,500,000
1999–01 Revenue Impact:	Not Applicable	$6,000,000	$6,000,000

DESCRIPTION: A credit against personal income taxes is allowed to taxpayers who install certain alternative energy devices. Prior to January 1, 1996, the devices could be either solar, wind, hydro, or geothermal devices, or groundwater heat pumps. Starting January 1, 1996 the credit is limited to solar devices, groundwater heat pumps, and ground loop systems. The devices may be used for: i) space heating or cooling, ii) electric energy generation, iii) domestic water heating, or iv) swimming pool, spa, or hot tub heating. In 1997 the legislature added energy efficient appliances to the list of qualifying devices. In all cases the device must be used in a principal or second residence. Devices for space heating must meet at least 15 percent of the building space heating load. Electric energy generating devices must supply at least 50 percent of the building electrical load. Starting January 1, 1998, premium-efficient appliances, premium-efficient duct systems, and alternative fuel vehicles and fueling stations became eligible for the credit.

Effective January 1, 1998, the credit for solar and geothermal systems equals 60 cents multiplied by the first-year energy savings in kilowatt-hours, up to a maximum of $1,500 per dwelling served. For swimming pool, spa, or hot tub heating, the credit equals 15 cents multiplied by the first-year energy savings in kilowatt-hours, up to 50 percent of the device cost but not more than $1,500 in total.

In 1998 the credit for premium-efficient appliances equals 48 cents multiplied by the first-year energy savings in kilowatt-hours, not to exceed $1,200 or 25 percent of

the cost of the appliance. In 1999 and after, the appliance credit is reduced to 40 cents per kilowatt-hour saved, not to exceed $1,000 or 25 percent of the appliance cost.

For alternative fuel devices, the maximum credit is 25 percent of the cost not to exceed $750.

Except for alternative fuel vehicles, the taxpayer must be the owner or the contract buyer of the dwelling where the device is installed. The taxpayer must pay for all or part of the qualifying device. Renters may claim the credit only for a qualifying solar device, geothermal device or alternative-fuel fueling/charging system. A builder who owns a home built for speculative sale may claim a tax credit for an alternative-fuel fueling/charging system. The taxpayer must have the device certified by the Office of Energy or, for solar water heating, geothermal, or duct systems, a contractor certified by the Office of Energy may provide the certification. 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: This credit was established during the energy crisis of the 1970s. The credit is designed to promote the use of renewable energy resources by lowering their effective cost for residential use. A related purpose is to promote the renewable resource industry so that advances in technology can be brought to market.

WHO BENEFITS: Until 1998, nearly all of the devices installed by homeowners had been passive solar collectors used for space and water heating. In 1998, more than 10,000 credits are expected to be approved for premium-efficient appliances.

EVALUATION: This credit has been successful in achieving both of its purposes. Since 1978, more than 21,000 renewable energy systems have been installed in Oregon—primarily as a result of the tax credit. Energy cost savings to Oregon households from the program have exceeded one million dollars per year. Eighteen solar and twenty geothermal contractors have been certified by the Office of Energy which administers the program. Starting in 1998, with the addition of energy efficient appliances added to the list of qualifying devices, the use of the credit is expected to increase dramatically.

One indicator of the credit's effectiveness is past experience. For example, when a federal tax credit expired and the state credit phased down to $500, the number of solar heating systems installed in Oregon plummeted. Influence in the marketplace is another indicator. Appliance dealers report substantial increases in energy-efficient appliance sales tied to the tax credit.

The credit is based on the efficiency of the system rather than system cost. This feature encourages the development of more efficient systems. The only alternatives to the credit are incentives offered by a few utilities. Ending the credit would discourage investment in renewable resources and could seriously harm Oregon's solar and geothermal industry. [*Evaluated by the Office of Energy.*]

1.142 BUSINESS ENERGY FACILITIES

Oregon Statute: 315.354
Sunset Date: 12-31-01
Year Enacted: 1979

	Corporation	Personal	Total
1997–99 Revenue Impact:	$15,500,000	$2,500,000	$18,000,000
1999–01 Revenue Impact:	$5,400,000	$1,000,000	$6,400,000

DESCRIPTION: Allows a credit against corporation or personal income taxes for investments made by businesses either: a) to produce energy from renewable resources, b) to conserve energy, c) for recycling projects if the recycling projects are not otherwise required, d) to convert a fleet vehicle to run on alternative fuel, or d) for transportation demand reduction projects such as telecommuting and transit pass programs. Renewable resource facilities must produce energy or reduce energy consumption by using solar, wind, hydro, geothermal, industrial waste, or biomass sources. Energy conservation measures must reduce energy consumption by 10 percent or more, and may be used for space heating, lighting, or industrial process. Recycling measures do not need to save energy.

The credit equals a total of 35 percent of the certified cost of the facility, and is taken over a five-year period. The credit is 10 percent of certified cost for each of the first two years after final certification, and then five percent of certified cost for each of the next three years. The credit is non-refundable. Any credit unclaimed in a particular year because of insufficient tax liability may be used in later years, for up to three years.

The 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. They are awarded only to projects or portions that significantly exceed standard practice. Projects that are required by state or federal law are not eligible. Because the credit is taken over five years, credit claims would continue for up at least five years if the credit were allowed to sunset.

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)

The ultimate goal of the tax credit program, along with other energy efficiency programs, is to protect Oregon's environment by lessening the need for new power plants and reducing the use of fossil fuels. An important additional benefit is the reduction in energy costs for Oregon households and businesses.

WHO BENEFITS: Businesses investing in measures that produce energy, reduce the consumption of energy, or recycle. 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. In 1995 this credit was claimed by 223 corporation income taxpayers for an average of $28,000 per taxpayer.

EVALUATION: Three adjustments affect the revenue impact: residual commitments from previous years, lag factor from when the project is approved to when the tax credit is claimed, and a significant attrition rate from approval to actual credits taken. Based on the average of these effects over the last five years, the estimated impact of **new projects** for the 1999–01 biennium is $1,909,000.

This credit has been very effective in achieving its purpose. To date, more than 5,000 tax credits have been awarded to manufacturers and commercial businesses for their investments in conservation measures, renewable resources, energy-efficient plant modernization, waste heat recovery systems, and recycling projects. Businesses generally require short payback periods for their investments, but the credit has proven successful in making energy investments attractive. At least part of its popularity is due to the process that is streamlined and responsive to customer needs.

By reducing operating costs, the credit boosts the productivity and competitiveness of Oregon businesses. All told, the credit has cut the energy costs of businesses investing in energy projects by more than $90 million a year. As more and more firms adopt the innovations encouraged by the credit, the productivity gains endure over the long term. [*Evaluated by the Office of Energy.*]

1.143 ENERGY CONSERVATION LENDER'S CREDIT

Oregon Statute: 317.112
Sunset Date: 12-31-01
Year Enacted: 1981

	Corporation	Personal	Total
1997–99 Revenue Impact:	$100,000	Not Applicable	$100,000
1999–01 Revenue Impact:	Less than $50,000	Not Applicable	Less than $50,000

DESCRIPTION: A credit is allowed against corporation income taxes to commercial lending institutions financing energy conservation measures for wood or oil heated dwellings. The institutions must charge no more than a 6.5 percent interest rate on the loan. The credit equals the difference between the interest that would be earned if the loan was made at the usual rate of interest (or alternatively at an upper limit rate established by the state Office of Energy) and the interest actually earned at the 6.5 percent rate.

The loan amount cannot exceed $5,000 per dwelling (or $2,000 per dwelling for nonprofit homes for the elderly) and the term cannot exceed ten years. The loan must be used by the dwelling owner for energy conservation measures, including: weather-stripping, caulking, insulation, storm windows and doors, double glazed windows, and efficient oil furnaces. The owner must get an energy audit before getting the loan. The credit is non-refundable. Any credit unclaimed in a particular year because of insufficient tax liability may be carried forward up to fifteen years.

PURPOSE: To promote energy conservation in 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 credit goes to lending in-

stitutions, not to homeowners, tax data do not tell us the characteristics of the homeowners who receive the benefits of this provision. Currently six lending institutions are making energy conservation loans, but the bulk of the loans are made by just two of them.

EVALUATION: This credit has been very effective at achieving its purpose. The lender's credit is a key 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. Without this loan, households that heat with oil or wood would have no access to subsidized low-interest financing for energy saving measures. Households that heat with electricity and natural gas have access to subsidized low-interest financing through their utilities. Improving the efficiency of oil and wood heat homes helps achieve the Oregon Benchmarks for affordable housing and better air quality. (A number of Oregon communities have violated federal air quality standards because of wood smoke.)

Since 1982, nearly 4,400 SHOW loans have been made for energy conservation measures. Oregon households save about one million gallons of oil each year and cut household energy bills by more than $700,000 per year. The loan acts as an incentive rather than a reward. Customer surveys have shown that financing is critical for more costly home energy improvements such as storm windows or furnaces. Administrative costs are kept low because the loan is offered through participating banks. The program also operates more efficiently through a streamlined "loan-by-phone" application process.

The number of credits is expected to decline in the coming years because businesses and homeowners can borrow money at market rates that are similar to the rates they would get under this program at this time, and because the number of homes heated by oil and wood has declined significantly in recent years. [*Evaluated by the Office of Energy.*]

1.144 GEOTHERMAL HEATING SYSTEM CONNECTION

Oregon Statute: 316.086
Sunset Date: 1-1-96
Year Enacted: 1979

	Corporation	Personal	Total
1997–99 Revenue Impact:	Not Applicable	Less than $50,000	Less than $50,000
1999–01 Revenue Impact:	Not Applicable	Less than $50,000	Less than $50,000

DESCRIPTION: A credit is allowed against personal income taxes equal to 25 percent of the cost of connecting a principal residence to a geothermal heating system run by a geothermal heating district. The credit may not exceed $1,000. The credit is non-refundable. Any credit unclaimed in a particular year because of insufficient tax liability may be used in later years, for up to five years. The credit was allowed to sunset on January 1, 1996, so the tax expenditure shown above represents only prior-year credits carried forward. The year 2000 is the final year these carryforwards can be used.

Eligible costs include those associated with acquiring and installing connecting pipes, fixtures, and equipment necessary to allow a dwelling to use the services of a geothermal heating district. The dwelling can be either owner-occupied or operated as a rental.

PURPOSE: To promote the use of geothermal energy as an alternative to non-renewable energy sources. The Alternative Energy Devices credit (1.141) applies to geothermal energy devices, but not to connections to a geothermal district.

WHO BENEFITS: Taxpayers connecting their homes to a geothermal heating system run by a geothermal heating district. The city of Klamath Falls runs the only existing geothermal heating district. There are approximately ten residential properties connected to this system. Some of these properties have more than one dwelling.

EVALUATION: This credit has not been very successful at achieving its purpose. If this type of tax credit were re-instituted, it would likely spur no new connections to the Klamath Falls geothermal heating district. The opportunities for further connections are limited. Further, the costs of developing additional geothermal energy resources make them uneconomic at this time, so a credit for connecting to geothermal sources is likely to be unused. [*Evaluated by the Office of Energy.*]

1.145 REFORESTATION

Oregon Statute: 315.104
Sunset Date: 12-31-01
Year Enacted: 1979

	Corporation	Personal	Total
1997–99 Revenue Impact:	$600,000	$100,000	$700,000
1999–01 Revenue Impact:	$600,000	$100,000	$700,000

DESCRIPTION A credit is allowed against personal or corporation income tax equal to 30 percent of the qualified cost of reforesting under-productive commercial forest land. To qualify, the taxpayer must have the state Department of Forestry preliminarily certify the project after planting is completed. The taxpayer can claim 15 percent of the qualified costs in the year of preliminary certification. After two growing seasons, the Department of Forestry must certify that the plantings are established. The taxpayer may then claim the remaining 15 percent of the initial cost, plus 30 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, and if the project is not established because of reasons within the taxpayer's control, the credit previously claimed on preliminary certification must be returned.

The taxpayer must own at least five acres of commercial Oregon forest land and the taxpayer's portion of project cost must be at least $500 for the project to qualify for the credit. Qualified costs include costs actually incurred for site preparation, tree planting and other necessary silviculture treatments (such as moisture, erosion and animal damage control). Qualified costs exclude costs associated with reforestation projects required under the Forest Practices Act, any portion of cost paid through federal or state cost sharing programs, and costs for growing Christmas trees, ornamental trees, or shrubs. Generally, costs associated with short rotation hardwoods (such as cottonwoods) are not eligible. Taxpayers owning no more than 2,000 acres of forest land in western Oregon (and no more than 5,000 acres in eastern Oregon) may, however, elect to claim the credit, but they must then pay the timber privilege tax at the time of harvest.

The credit is non-refundable. Any credit unclaimed in a particular year because of insufficient tax liability may be used in later years, for up to three years. This applies to the credits allowed on both preliminary and final certification.

PURPOSE: To increase the public benefits that come from forested lands by promoting reforestation of commercial forest lands that do not currently have commercial trees growing on them, such as brush lands and marginal pasture lands. These lands are typically mixed in with or adjacent to land that currently is being used to grow timber.

WHO BENEFITS: Taxpayers who make expenditures to reforest under-productive commercial forest lands. About half of the beneficiaries are small, non-industrial timber growers, and half are larger industrial (mostly corporate) owners. The bulk of the credit, however, goes to the large industrial timber growers because they reforest much more of this type of forest land than do individual growers.

EVALUATION: This expenditure is achieving its purpose, but slowly. About 3500 acres of brush and understocked forest lands have been converted since the credit was increased to 30 percent in 1987. Forested lands produce far more and far better public benefits (fish and wildlife habitat and carbon sequestration through the tree's use of carbon dioxide to produce wood volume are two notable benefits) than do brushlands. The cost per acre for this conversion to the state averages about $50/acre with projected tax returns from these lands at over $400/acre on land that is converted to full stocking over a 50 year period. Considering positive effects to the environment and increase in future tax revenues this has a good return on investment. [*Evaluated by the Forestry Department.*]

1.146 FIRE INSURANCE CREDIT

Oregon Statute: 317.122(1)
Sunset Date: None
Year Enacted: 1969

	Corporation	Personal	Total
1997–99 Revenue Impact:	$1,600,000	Not Applicable	$1,600,000
1999–01 Revenue Impact:	$1,600,000	Not Applicable	$1,600,000

DESCRIPTION Property and casualty insurers who write fire insurance policies pay both the corporation excise tax and the fire insurance tax that provides funding to the Office of State Fire Marshal. These insurers are then allowed a credit against the corporation excise tax for the fire insurance premium taxes paid under ORS 731.820.

Prior to 1/1/97 this expenditure pertained only to domestic insurers. Foreign insurers did not have an equivalent credit for the gross premium tax. With the repeal of the gross premium tax, all insurers are eligible to claim a credit against the corporation excise tax for their fire insurance taxes paid.

PURPOSE: To reduce the burden of taxes on property and casualty insurers who write fire insurance policies in Oregon.

WHO BENEFITS: Property and casualty insurers and their policyholders.

EVALUATION: Fire insurance premium taxes are used to fund the Office of State Fire Marshal (see the summary of insurance taxes at the beginning of Chapter 5). This credit has the effect of shifting part of that funding from the insurance industry to the state General Fund. If the credit were repealed, then the cost of fire insurance to policyholders might increase. [*Evaluated by the Department of Consumer and Business Services.*]

1.147 ASSESSMENTS ON WORKERS' COMPENSATION

Oregon Statute: 317.122(2)
Sunset Date: None
Year Enacted: 1995

	Corporation	Personal	Total
1997–99 Revenue Impact:	$1,200,000	Not Applicable	$1,200,000
1999–01 Revenue Impact:	$1,100,000	Not Applicable	$1,100,000

DESCRIPTION Workers' compensation insurers pay both the corporation excise tax and an assessment that provides funding to administer the Oregon Workers' compensation system. These insurers are then entitled to a credit against corporation excise taxes for assessments paid on workers' compensation premiums under ORS 656.612.

This expenditure became effective January 1, 1997. Prior to that date, foreign insurers claimed this credit against the gross premium tax as reported in 5.004 Assessments on Workers' Compensation. The revenue impacts reported here account for the phase-out of the gross premium tax.

PURPOSE: To reduce the burden of taxes and assessments on workers' compensation insurers, who already pay an assessment at a rate higher than the corporation excise tax.

WHO BENEFITS: Workers' compensation insurers and employers and employees.

EVALUATION: This expenditure has been effective as 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 assure fair rates are charged employers and benefits are paid timely and accurately to injured workers. The system also includes mechanisms to assure timely resolution of disputes to guarantee injured workers receive benefits for legitimate injuries in an expedient manner.

Two Oregon Benchmarks are directly impacted by the activities carried out as a result of this credit, 213 and 225. 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. Oregon's ranking among states in workers' compensation costs has improved from 8th in 1990 to 34th in 1996. 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 then the cost of the workers' compensation insurance to policyholders might increase. [*Evaluated by the Department of Consumer and Business Services.*]

1.148 ASSESSMENTS PAID TO OREGON IGA: GENERAL

Oregon Statute: 734.575
Sunset Date: None
Year Enacted: 1977

	Corporation	Personal	Total
1997–99 Revenue Impact:	$700,000	Not Applicable	$700,000
1999–01 Revenue Impact:	$300,000	Not Applicable	$300,000

DESCRIPTION: Property and casualty insurers pay both the corporation excise 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 excise taxes for assessments paid to Oregon Insurance Guaranty Association (OIGA) at the rate of 20 percent per year for each of the five years following the year in which the assessment was paid.

Prior to 1/1/97 this expenditure pertained only to domestic insurers, while foreign insurers had an equivalent credit against gross premium tax. With the repeal of the gross premium tax, all insurers are eligible to claim a credit against the corporation excise tax for assessments paid to OIGA. The expenditure relating to gross premium tax is reported in 5.005 Assessments Paid to Oregon IGA: General. The revenue impacts reported here account for the phase-out of the gross premium tax.

PURPOSE: This provision allows the cost of claims against insolvent insurers, initially paid by fellow insurance companies, to be absorbed by the General Fund.

WHO BENEFITS: Property and casualty insurers and their policyholders.

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.*]

1.149 ASSESSMENTS PAID TO OREGON LIFE AND HEALTH IGA

Oregon Statute: 734.835
Sunset Date: None
Year Enacted: 1975

	Corporation	Personal	Total
1997–99 Revenue Impact:	$15,000,000	Not Applicable	$15,000,000
1999–01 Revenue Impact:	$11,200,000	Not Applicable	$11,200,000

DESCRIPTION: Life insurance companies pay both the corporation excise 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 excise taxes for assessments paid to Oregon Life and Health Insurance Guaranty Association (OLHIGA) at the rate of 20 percent per year for each of the five years following the year in which the assessment was paid.

Prior to 1/1/97 this expenditure pertained only to domestic insurers, while foreign insurers had an equivalent credit against gross premium tax. With the repeal of the gross premium tax, all insurers are eligible to claim a credit against the corporation excise tax for assessments paid to OLHIGA. The expenditure relating to gross premium tax is reported in 5.006 Assessments Paid to Oregon Life and Health IGA. The revenue impacts reported here account for the phase-out of the gross premium tax.

PURPOSE: This provision allows the cost of claims against insolvent insurers, initially paid by fellow insurance companies, to be absorbed by the General Fund.

WHO BENEFITS: Life insurance companies and their policyholders.

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.*]

1.150 POLITICAL CONTRIBUTIONS

Oregon Statute: 316.102
Sunset Date: None
Year Enacted: 1969

	Corporation	Personal	Total
1997–99 Revenue Impact:	Not Applicable	$8,100,000	$8,100,000
1999–01 Revenue Impact:	Not Applicable	$8,300,000	$8,300,000

DESCRIPTION: A credit may be claimed against personal income taxes for the amount of qualified political contributions, not to exceed $50 (or $100 on a joint return). Qualified political contributions include voluntary cash contributions to a major or minor political party, to candidates for office in an election in the state (includes federal candidates), or to political action committees (PACs) operating exclusively for promoting or opposing ballot measures in an election in the state. For certain state office candidates, the credit can only be taken for contributions to those candidates who have voluntarily limited their campaign expenditures to comply with the campaign spending reform passed in the 1994 Ballot Measure 9. The credit is non-refundable. Credits that cannot be used because of insufficient tax liability in the current year cannot be used in 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. The number of full-year resident taxpayers who claim this credit fluctuates from year to year, increasing in even-numbered years and declining in odd-numbered years. In 1996, about 68,000 Oregon full-year residents claimed the credit, down from 76,000 in 1994. The percentage of residents claiming the credit increased from 4.9 percent in 1990 to 5.9 percent in 1994, but then declined to 5.0 percent in 1996. The credit tends to be used more by higher income taxpayers. In 1996, 74 percent of the total value of the credit was claimed by taxpayers with incomes greater than $40,000.

EVALUATION: It is difficult to determine whether this expenditure has been effective in achieving its purpose. The credit amount is relatively small at $100 on a joint return. The data provided by the Department of Revenue does indicate an increase in the percentage of Oregon full-year residents claiming the credit growing from 4.9 percent in 1990 to 5.0 percent in 1996. However, the increase in political contributions could also be attributed to the increased number of ballot measures, the increased interest in the content of the ballot measures, such as property tax relief, public employee's retirement, etc., and closely contested political races.

Because the tax credit is allowed only for contributions to candidates who have voluntarily limited their campaign expenditures, candidates have a statutory incentive for submitting to the limits. Tax credit eligibility is the only concrete incentive candidates have to limit their campaign expenditures.

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.*]

1.151 PERSONAL EXEMPTION

Oregon Statute: 316.085
Sunset Date: None
Year Enacted: 1985

	Corporation	Personal	Total
1997–99 Revenue Impact:	Not Applicable	$716,900,000	$716,900,000
1999–01 Revenue Impact:	Not Applicable	$775,400,000	$775,400,000

DESCRIPTION: Every taxpayer in Oregon receives a minimum of one personal exemption credit on Oregon's personal income tax. In addition to a credit for him or herself, taxpayers get an additional credit for each dependent. On joint returns, each spouse receives a credit. Individuals who can be claimed as a dependent on another's return cannot claim a credit on their own return. The amount of the credit was $128 in 1997 and $132 in 1998; it is indexed to inflation.

PURPOSE: To provide a minimum level of tax-free income for all Oregonians.

WHO BENEFITS: All personal income taxpayers in Oregon, except those who are claimed on another taxpayer's return. The benefit rises with increases in family size. The number of personal exemptions increased from about 2,680,000 in 1990 to 3,000,000 in 1997. The credit per exemption, indexed for inflation, increased from $98 to $128 in that same period. The credit is non-refundable and cannot be carried forward, so taxpayers whose tax liability is less than their exemption do not receive the full benefit of the credit. About 14 percent of the credit goes unused each year due to insufficient tax liabilities. The total Oregon exemption credit increased from $227 million in 1990 to $331 million in 1996.

EVALUATION: The credit achieves its purpose of providing a level of tax-free income for all Oregonians, and because the credit is granted for each taxpayer and dependent, the credit increases with family size. Because this tax relief is in the form of a credit rather than a deduction, it provides more tax relief, relative to incomes, to lower income taxpayers, increasing the progressivity of Oregon's income tax. [*Evaluated by the Department of Revenue.*]

1.152 RETIREMENT INCOME

Oregon Statute: 316.157
Sunset Date: None
Year Enacted: 1991

	Corporation	Personal	Total
1997–99 Revenue Impact:	Not Applicable	$10,500,000	$10,500,000
1999–01 Revenue Impact:	Not Applicable	$5,600,000	$5,600,000

DESCRIPTION: Taxpayers who are 61 or older are allowed a credit against personal income taxes equal to nine percent of their net pension income. The minimum age requirement increases to 62 for 1999 and thereafter.

Net pension income includes all retirement income included in federal taxable income. This includes private, state and local government, 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 bene-

fits, which are not taxed by Oregon. Net pension income qualifying for the credit is limited. For joint filers the limit equals $15,000 minus the social security benefits received minus household income (not considering social security benefits) over $30,000. For taxpayers who do not file a joint return, the limit is $7,500 minus social security benefits minus household income (not considering social security benefits) over $15,000.

Prior to 1989, Oregon allowed deductions for some types of public retirement income, rather than a credit. Oregon state and local public pensions were exempt from tax, and some federal pensioners could deduct up to $5,000. No deduction was allowed for other retirement income, including all private pensions. In 1989, the U.S. Supreme Court ruled in *Davis vs. Michigan* that this type of deduction was illegal since it discriminated against federal government retirees (compared to state and local government retirees). In 1991 the Legislature eliminated all deductions for government retirement income and introduced this credit to offset some of the increased resulting tax liability and to achieve equity among retirement income recipients.

The revenue impacts reported here include the effect of exempting federal pension income beginning with tax year 1998 (1.103 Federal Pension Income). Because federal pensioners will no longer be paying Oregon taxes on federal pension income, they will also be using this retirement credit much less.

PURPOSE: To retain some preferential treatment of retirement income without discriminating among the sources of that income.

WHO BENEFITS: The number of taxpayers claiming the credit has declined from about 53,000 in 1991 to 27,000 in 1997. The average credit claimed in 1997 was $285.

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 Senior and Disabled Services Division.*]