

An Analysis of Tax Expenditures in Oregon

DRAFT

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Advocacy Committee
Senior Services and Disability Services Advisory Councils

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Table Of Contents

Introduction	3
Literature Review	5
Method of Analysis	7
Findings - System Issues	9
Conclusions / Recommendations	11
Summary - Review of Specific Tax Expenditures	14
Tax Expenditures No Longer in Use	15
Tax Expenditures that Benefit Specific Groups	19
Tax Expenditure that is Not Reaching Its Goal	24
Bibliography	25
Appendices	26

Introduction

Tax expenditures, where a government allocates funds to individuals and corporations for certain actions, have been gaining in popularity in recent years. While these expenditures are less likely to be debated in the public arena than budget expenditures, they have important implications for all Oregonians and, especially, for state and local governments. According to the Oregon's 2005-07 Tax Expenditure Report prepared by the Departments of Revenue and Administrative Services, tax expenditures "...represent revenue loss to the state and local governments and higher tax rates for taxpayers." Income tax expenditures reduce state General Fund revenue; property tax expenditures reduce revenue to local governments, including schools, and may shift tax liability to other tax payers. These reductions impact the extent of revenue available to legislative bodies (e.g., the State Legislature, city councils, school boards) for the funding of vital programs and services, including services for senior citizens and people with disabilities.

This report addresses the issue of tax expenditures in Oregon. According to Oregon's Budget Accountability Act (1995), a tax expenditure is "...any law of the Federal Government or of this state that exempts, in whole or in part, certain persons, income, goods, services, or property from the impact of established taxes, including, but not limited to tax deductions, tax exclusions, tax subtractions, tax exemptions, tax deferrals, preferential tax rates, and tax credits." Tax expenditures operate as a "negative tax." They are "expenditures" in the sense that they amount to a direct cash benefit from government to an entity excused from paying the tax. At the beginning of the 2005 legislative session, 352 tax expenditures were authorized by Oregon law (see Appendix 1). Beneficiaries of tax expenditures include both individual and corporate taxpayers.

The objectives of Oregon's tax expenditure system are as follows: (1) to provide financial assistance to certain groups of taxpayers, (2) to provide economic incentives that encourage specific taxpayer behavior, and (3) to simplify or reduce the costs of tax administration. Oregon's 2005-07 Tax Expenditure Report notes that the first two of these objectives could be implemented with direct expenditures rather than tax expenditures.

According to the 2005-2007 Tax Expenditure Report, biennial tax expenditures will result in the "spending" of \$27 billion through Oregon's tax code. Since the code's total tax-collecting capacity for the same time period is \$48 billion, this

means that 56% of the taxes that could be collected are not collected. Looking at this statistic from another perspective, over one-half of all state and local government programs could be funded with the money that is now lost through tax expenditures.

In addition, it should be noted that there are no spending limits on these expenditures. Thus, as more people qualify for a specific expenditure, its cost increases without limit. Thus it is important to scrutinize carefully whether each tax expenditure advances the public good. However, the 2005-07 Tax Expenditure Report cautions against automatically assuming a direct correlation between the “cost” of a given expenditure and the public savings that can be achieved from its repeal. This is because:

- The estimated revenue impact of a specific item does not factor in taxpayers’ behavioral changes that may occur if the tax expenditure is eliminated.
- The cost of each item is estimated independently. Since a tax expenditure beneficiary may qualify for a tax reduction under more than one law, the repeal of a given expenditure may cause the beneficiary to shift to a different but similar program.
- For administrative reasons, government may not be able to collect the full liability for some tax expenditures.

There are two main components to the revenue-generating system in Oregon, the property tax and the state income tax. The property tax is used mostly for local governments and school districts. The state relies heavily on the income tax for its revenue. Income tax receipts account for 90% of its general fund revenue. By relying so heavily on this source, Oregon’s revenue-generating system is very susceptible to fluctuations in the health of the state’s economy. When the economy is booming, the state has money to spend. However, when the economy is doing poorly, it can be very difficult for the state to both sustain its programs and meet its obligations for the funding of local public education.

In the Oregon Constitution, Legislative Department Section 25 states that three-fifths of all members elected to each chamber shall be necessary to pass bills for raising revenue. Since the repeal of a tax expenditure would, in effect, raise revenue, it requires a super majority vote in each chamber to do so. This provision was first introduced as House Joint Resolution 14 (1995). It was adopted by the people through the passage of Ballot Measure 25 (May 21, 1996), gaining 55% of the votes cast.

Literature Review

Tax expenditures, although different from government spending, have the same impact. With a tax expenditure, the state allocates funds to individuals and corporations for certain actions. Politicians may favor tax exemptions because they can be packaged as tax cuts, rather than as the cause of increased government spending from other sources to offset the loss of revenue.

“Special income tax provisions are referred to as tax expenditures because they are considered to be analogous to direct outlay programs Tax expenditures are most similar to those direct spending programs which have no spending limits, and which are available as entitlements.” (McIntyre 1). Tax expenditures at the federal level are often enacted for the benefit of individuals and corporations with significant lobbying power. (This may be true at the state level, as well.) And, even when rich and poor both benefit, their levels of savings vary. Using the home mortgage deduction as an example, a tax payer in the highest federal tax bracket receives a deduction of \$396 per \$1,000 of mortgage interest paid, while a tax payer in the lowest federal tax bracket enjoys no more than \$150 in savings (assuming federal tax brackets of 39.6% and 15% respectively).

The Oregon Legislature passed HB 2186 in 2003. This law was introduced to re-connect the state’s definitions of taxable income to those at the federal level, which had changed due to revisions of the U.S. tax code enacted by the U. S. Congress. Continuing this connection to federal definitions was important because it simplifies the administration of Oregon’s income tax system, allowing individuals and corporations to better understand how to fill out their tax returns. However, the cost of maintaining the connection between the two systems is not small. Based on data contained in Oregon’s 2005-07 Tax Expenditure Report, tying the state’s definitions to the federal definitions reduces state income tax collections by approximately \$6.4 billion this biennium (\$6.1 billion for individual tax payers and \$294 million for corporate tax payers). This connection also accounts for a large number of the current tax expenditures authorized by Oregon law. While the size of these tax expenditures is large, it should be noted that the impact of disconnecting from the federal definitions would also be significant. The cost of administering Oregon’s income tax system would increase, and compliance by taxpayers would likely drop. (Tax Expenditure 2005-2007)

Oregon’s tax expenditure system also allows for state subtractions. Generally, subtractions are income items the federal government taxes but Oregon does not. As a result, subtractions reduce the income taxed by Oregon. Examples include:

Oregon income tax refund included in federal income, and interest from the U.S. government. In the 2005-07 biennium, they will “cost” \$1.3 billion. (Tax Expenditure 2005-2007)

In addition to income tax expenditures, Oregon law also allows for expenditures based on property taxes. A property tax expenditure occurs when a specific property is removed from the assessment roll and, thus, is excluded from taxation. In fact, there are three types of property tax expenditures: full exemption, partial exemption, and special assessments. These tax expenditures not only cause revenue loss to local governments and schools, they may also increase other tax payers property taxes through a phenomenon known as “shift.” Prior to the passage of Ballot Measure 5 (1990), if property value was removed from the assessment roll, the result was a higher tax rate applied to all remaining property. Measures 5 and 50 reduced the impact of shifting, but did not eliminate it. Under today’s Measure 50 system, “shifts occur because most bond and local option taxes are passed by voters as fixed dollar amounts, which must be paid by owners of all taxable property. The removal of value leads to a higher tax rate, shifting taxes to other properties.” (Tax Expenditures 2005-2007)

The political climate in Oregon is not conducive to increasing taxes. In fact, the public tends to support reductions in taxes and has shown this in many ways. Voters have defeated state and local sales tax measures 33 times in the last 73 years (Thompson 2004). Starting with the passage of Measure 5 in 1990, voters have enacted ballot measures (5, 47 and 50) designed to roll back and constrain property taxes. Finally, in the past decade they have defeated temporary tax measures drafted to generate state revenue to sustain essential state services and K-12 education during economic downturns. Measures 28 and 30 are recent examples of this phenomenon.

Method for Analysis

For the past several biennia, the Governor and Legislature have had to reduce spending in order to balance the state's budget. Recognizing that revenue raising is extremely difficult, members of LCOG's Senior and Disability Services Advocacy Committee called for an assessment of tax expenditures. If a tax expenditure does not serve the public interest, repealing it may provide more money to fund vital services, including those for senior citizens and people with disabilities.

Prior to reviewing specific tax expenditures, members of the Advocacy Committee developed a set of criteria to guide this review. These criteria recognize that many tax expenditures are beneficial. As a result, the Committee focused on tax expenditures that are narrowly drawn or of questionable benefit to a large number of Oregonians. The adopted criteria are listed below and also contained in Appendix 2.

Criteria for Evaluating Individual Tax Expenditures

1. Tax Expenditures of Questionable Broad-Based Benefit:
 - a. Tax expenditures that benefit small groups of individuals.
 - b. Tax expenditures that benefit wealthy individuals, but provide little benefit to other Oregonians.
 - c. Tax expenditures that benefit small and/or specific industries.
2. Tax Expenditures to Retain:
 - a. Tax expenditures enacted to comply with federal law.
 - b. Tax expenditures that benefit broad groups of Oregonians.
 - c. Tax expenditures that benefit the general citizenry, including those that benefit the public education, social services, and health care systems.
 - d. Tax expenditures that benefit Oregon's agricultural and timber industries.

The State of Oregon 2005-2007 Tax Expenditure Report, a 376 page book produced for the Governor by the Departments of Revenue and Administrative Services, was the primary data source for this study. Once the evaluation criteria were in hand, each tax expenditure in the report was reviewed to determine: (1) its provisions, purpose, beneficiaries, and revenue impact; and (2) the evaluation of the expenditure performed by the department of state government charged with this

task. Based on the application of the criteria by a University of Oregon Public Administration graduate student, a preliminary list of questionable tax expenditures was developed. He excluded from the list all tax expenditures enacted to comply with federal law, as well as those tax expenditures that benefit (1) large numbers of Oregonians, (2) public education and human services, and (3) the state's agricultural and timber industries. The remaining list was reviewed, revised, and adopted by an ad hoc subcommittee of the Advocacy Committee. The selected tax expenditures are described in the "Summary – Review of Specific Tax Expenditures" section of this report.

Following the completion of the item-by-item review described above, members of the subcommittee used the knowledge gained during this process to formulate recommendations for improvements to Oregon's tax expenditure system, as well. Their recommendations in this regard are set forth in the "Findings – Systems Issues" section of this report.

Findings – System Issues

Oregon tax payers expect state and local governments to be highly accountable for the collection, investment, and spending of public resources. At the state level, direct expenditures are scrutinized, not only during the budget development process by the Legislature, but during and after implementation by state and local auditors. In contrast, very little oversight is provided for tax expenditures. ORS 291.202(1)(b) obligates the Governor to prepare a tax expenditure report every other year. In this report, the Governor is to:

- List each tax expenditure;
- Identify the statutory authority for each tax expenditure;
- Describe the purpose for each tax expenditure;
- Estimate the amount of revenue loss caused by each tax expenditure for the coming biennium;
- List the actual amount of revenue loss in the preceding biennium for each tax expenditure or provide an estimate if the actual amount cannot be determined;
- Determine whether each tax expenditure is the most fiscally effective means of achieving the purpose of the tax expenditure;
- Determine whether each tax expenditure has successfully achieved the purpose for which it was enacted and currently serves, including an analysis of the persons that are benefited by the expenditure; and
- Categorize each tax expenditure according to the programs or functions each supports.

This paper is based on a careful study of Oregon’s 2005-2007 Tax Expenditure Report. Each of the 352 tax expenditure items was reviewed in depth. While most of the information called for in ORS 291.202(1)(b) is present, evaluative information is sketchy, at best, and analyses concerning “...whether each tax expenditure is the most fiscally effective means of achieving (its) purpose...” are generally missing. Further, it has been observed that the tax expenditure report and the individual items therein receive far less scrutiny from the Legislature than the direct expenditure budget. And, it appears that neither the legislative nor executive branches of state government requires the collection or reporting of data to assist with the cost and benefit analyses contemplated in ORS 291. Considering that tax expenditures amount to approximately 56% of spending through Oregon’s tax system, the lack of accountability and oversight for these expenditures is a concern.

On a related topic, ORS 291.214 requires the Governor, in the biennial tax expenditure report, to identify each tax expenditure that is scheduled to sunset during the next biennium. Further, pursuant to ORS 291.216, he or she is obligated to make recommendations concerning these items. In the 2005-2007 Tax Expenditure Report, eight tax expenditures are identified as having sunset dates during the biennium. Without analysis or explanation, all are recommended for extension by the Governor. This fact underscores the point made above – that there is little accountability or oversight for these expenditures.

Concerning the question of sunset dates for individual tax expenditures, this study found that only 52, or 15% of the 352 authorized expenditures, contain sunset dates. The others are authorized indefinitely. In addition, it was found that a number of tax expenditures remain in the tax code, even though the programs they support are no longer in existence. Examples include several identified later in this report under “Summary- Review of Specific Tax Expenditures” (e.g., #s 1.120, 1.124, 1.134, 1.148, and 1.173).

Conclusions / Recommendations

Oregon governments, state and local, have been dealing with severe budget problems for the past several years. The economic downturn prompted by the bursting of the so-called “tech bubble” left governments at all levels short of revenues needed to fund vital services. At the state level, after voters rejected two temporary revenue-raising measures, deep cuts in funding for education, public safety, and human services were implemented. Given politicians’ and voters’ reluctance to approve new taxes, more trimming of public budgets lie ahead unless new, non-tax based sources of revenue can be found. Since state and local government budgets are composed of two types of spending – direct expenditures and tax expenditures – it seems reasonable to ask whether tax expenditures can be reduced in order to free up resources for direct expenditures. This study examines this question, using the tax expenditures in place at the beginning of the 2005 legislative session as the data for analysis.

A summary of the key findings of this study follows:

- At the beginning of the 2005-2007 legislative session, Oregon law authorized 352 tax expenditure programs.
- It will cost about \$27 billion and consume 56% of the revenue-generating capacity of Oregon’s tax system to sustain these tax expenditures during the 2005-2007 biennium.
- Regarding the three objectives of Oregon’s tax expenditure system, two can be accomplished by direct expenditures. One hundred and nine (109) tax expenditures address the third objective – simplifying the collection of taxes by tying Oregon’s definition of income to the federal tax code.
- The application of the review criteria developed for use in this study resulted in the identification of 42 tax expenditures of questionable broad-based benefit, including 14 that are no longer in use, 12 that benefit small, specific groups, and one that is not reaching its goal.
- The 2005-2007 Tax Expenditure Report developed by the Governor to comply with the provisions of ORS 291 is deficient in two respects: fiscal effectiveness analyses for individual tax expenditures are often missing, and meaningful evaluative information on specific items is lacking, as well.
- Oversight and accountability for tax expenditures is limited in comparison to the scrutiny provided to direct expenditures.
- Only 15% of the authorized expenditures contain sunset dates and the process for the renewal of those scheduled to sunset is perfunctory, at best.

Taken together, these findings suggest that Oregon's tax expenditure system deserves far more attention by the Governor, legislators, local elected officials, the media, and the public than it receives. Two phrases characterize the operation of this system: 1) it is hidden from public view, and 2) it operates on auto-pilot. Recognizing that this system will consume approximately \$27 billion in the current biennium, should it operate in this manner? The Advocacy Committee of the Senior and Disability Services Advisory Councils feels that it should not continue to do so. For this reason, the recommendations set forth below are offered to LCOG, to members of the State Legislature, and to Oregon voters.

Recommendations:

- 1. Repeal the 42 tax expenditures listed in the following section of this report, Summary – Review of Specific Tax Exemptions.** While the savings associated with repeal are modest – no more than \$9.03 million for the state treasury and no more than \$14.04 million for schools and local governments – it demonstrates that the Legislature is serious about reforming Oregon's tax expenditure system.
- 2. Place a sunset date in each tax expenditure to ensure that it is reviewed periodically by the executive and legislative branches of state government.** Requiring all tax expenditures to sunset will take the system off of auto-pilot, especially if the Governor and Legislature ask for, receive, and review rigorous evaluation information, rather than the superficial information contained in the current tax expenditure report.
- 3. Require the Governor and the Legislature to subject tax expenditures to the same level of scrutiny as is applied to direct expenses in the state budget.** Increasing the scrutiny applied to tax expenditures by the executive and legislative branches could have several benefits, as follows: a) ill-conceived tax expenditure proposals could be turned down before enactment into law; b) poorly designed tax expenditures could be eliminated more quickly than under the current system, returning scarce resources to public treasuries for other purposes; and c) the public's confidence in the ability of government to spend tax dollars wisely could be enhanced.
- 4. Request that the Governor and Legislature convene a public dialogue among elected officials, community and business leaders, and the general public regarding the use of tax expenditures to meet societal needs.** The criteria used in this study for the identification of tax expenditures to target for repeal are subjective and, intentionally, conservative. As a result, relatively few tax expenditures are targeted for

repeal. However, it would be instructive to expand the discussion of these criteria to give policy makers a better sense of the priorities of the public regarding the use of tax resources. For example, would the majority of Oregonians prefer to see public resources spent on economic development activities (the stated purpose of a number of tax expenditures) or K-12 public education? In an era of scarcity, it would helpful to know the answer to this and many similar questions.

Summary – Review of Specific Tax Expenditures

The individual tax expenditures that have been identified through this study as having questionable value are listed and described below. Each item is identified by its tax expenditure number and title, followed by a brief description and, if known, its impact on public treasuries. In the Introduction, it was noted that the state's 2005-2007 Tax Expenditure Report contains 352 items. The application of the review criteria described in the methodology section of this report resulted in the identification of 42 questionable tax expenditures. It is recommended that the criteria used in this report be viewed as a starting point for further discussion regarding the use of tax expenditures to meet societal needs. Participants in this discussion should represent a broad range of interests and involve elected officials, community and business leaders, and the general public.

Regarding the 310 tax expenditures identified for retention by this analysis, 35% (109 items) were retained because they connect Oregon's income tax system to the federal income tax code. The other 201 tax expenditure programs were retained because they were deemed to be of benefit to: large numbers of Oregonians, the state's public education or human services systems, or Oregon's agricultural and timber industries.

For ease of presentation, the 42 tax expenditures identified as having questionable net public benefit are grouped into three categories, as follows:

- “Tax expenditures no longer in use”: These are expenditures that are authorized by state law but, for one reason or another, are no longer being used by individuals and/or corporate taxpayers. The Advocacy Committee feels that it is important to remove them in order to decrease the likelihood that they will be re-used in the future. With the requirement of a three-fifths (super) majority vote of the Legislature to repeal a tax expenditure, it is advisable to remove them now when the chance of political opposition is small.
- “Narrowly drawn tax expenditures that benefit very few individuals or groups”: The tax expenditures in this group benefit relatively few individuals or corporations. And, for those that pertain to property taxation, they cause other tax payers' rates and taxes to increase. While the goals of these tax expenditures may be laudable, the Advocacy Committee feels that they should be repealed for two reasons: (1) they are not as worthy of continuing support as is the maintenance of vital state services and public education; and (2) for those that reduce property taxes, they transfer property tax burden for other tax payers. Repeal of these items, however, may be

difficult since they are supported by special interests with the ability to mount political pressure for their retention.

- “Tax expenditure that is not reaching its goal”: There is only one item in this group as determined by the state agency (Dept. of Environmental Quality) assigned to evaluate its performance. Since it is little used, the Legislature may not face stiff opposition to its repeal.

Tax Expenditures No Longer In Use

1.114 Physicians in "Medically Disadvantaged" Areas

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

Description and Impact: Certain physicians who practice medicine in “medically disadvantaged” areas may subtract from personal taxable income an amount equal to the annual expense of attending medical school. This subtraction applies to people licensed between January 1, 1974, and January 1, 1982, to practice medicine in Oregon. The amount subtracted cannot exceed \$10,000 and can be taken for up to four tax years. “Medically disadvantaged” area means any area of the state designated by the Department of Human Services to be in need of primary health care providers. There are currently no physicians taking advantage of this expenditure.

1.120 Capital Gains from Oregon Reinvestment

Purpose: To promote investment in Oregon companies and to prevent the movement of capital out of Oregon to avoid Oregon income tax on capital gains.

Description and Impact: Under this expenditure personal income tax on certain capital gains could be deferred if the gain was reinvested under qualified conditions. This provision required that reinvestments of such gain were made by December 31, 1999. This program had limited impact on reinvestment in Oregon due to several flaws. The sunset date has passed; this expenditure is no longer used.

1.124 Underground Storage Tank Grants

Purpose: To promote fuel availability in rural areas by partially funding the upgrade and cleanup of underground storage tanks by businesses with limited financial resources and in public ports and airports.

Description and Impact: Underground storage tank essential services grants made by the Department of Environmental Quality are subtracted from federal taxable income. The original grant program sunset June 30, 1997, but the 1997 Legislature

extended it to December 31, 1999, and made \$2.8 million more in lottery and general funds available for grants. The programs concluded with minor wrap-up work in the 1999–2001 biennium. The grant program sunset in 1999 and is no longer used.

1.134 Youth Apprenticeship Sponsorship

Purpose: To provide occupational skill training for students.

Description and Impact: Originally, a maximum \$2,500 per year business tax credit against corporation and personal income tax was allowed for employers who sponsored students 16 years of age or older participating in the Youth Apprenticeship program. In 1993, the apprenticeship program changed from a tax credit to a partial cost reimbursement structure. With the change, the credit was limited to the amount of first-year wages paid to students who began participation in the program prior to November 4, 1993. Unused credits could be carried forward for two years. 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. This program was eliminated after the 1993-1995 biennium.

1.148 Oregon Capital Corporation Investments

Purpose: To encourage investment in the Oregon Capital Corporation, which was intended to provide funding for capital investments in Oregon businesses in order to promote economic growth.

Description and Impact: A credit against corporation or personal income taxes is allowed for cash investment in the capitalization of the Oregon Capital Corporation. The credit is 20 percent of the amount of cash investment. To qualify for the credit, the Oregon Capital Corporation must have been certified by the Division of Finance and Securities. The Oregon Capital Corporation never came into existence because the qualifications were never met. In particular, the Corporation had to have at least \$40 million in funds by January 1, 1989, which was not achieved. Because the qualifications were never met, this expenditure has no effect, and the credit has never been allowed.

1.173 Sewer Connection

Purpose: To compensate homeowners for the costs of connecting to sewer system when connection is required by the Environmental Quality Commission.

Description and Impact: A credit is allowed against personal income tax to certain homeowners who connected their homes to a sewer system. Because this credit

sunset in 1995, all current credit claims are for sewer connections that were made prior to July 1, 1995. The credit equals \$160 per year for five consecutive years. The credit is nonrefundable. Any credit that cannot be claimed because of insufficient tax liability may be used in later years, for up to eight years. This program sunset on June 30, 1995 and all residual liabilities associated with it should be exhausted by the end of the current biennium.

2.021 Ship Repair Facility Materials

Purpose: To help Oregon shipyards compete with shipyards in other states.

Description and Impact: Materials and parts held by shipyards and ship repair facilities as of January 1 are exempt from property tax if by April 1 the parts and materials are physically attached or become part of watercraft undergoing major remodeling, renovation, conversion, or repair. The parts and materials are initially assessed, but assessors must cancel the assessment if documentary proof of qualification for exemption is provided prior to April 1. This expenditure is not being used currently, since ship manufacturing and repair companies can also exempt these inventories under two other tax expenditure programs (2.015, Inventory Exemption, and 2.118, Watercraft Locally Assessed).

2.022 Aircraft Being Repaired

Purpose: To promote the aircraft repair industry in Oregon.

Description and Impact: Aircraft owned by an air transportation company are exempt from property tax during the time the aircraft are undergoing “major work.” Major work includes scheduled maintenance, repairs, renovation, and conversion in which the total labor expended for the work exceeds 10 hours. This exemption was created at least partly to encourage the location of a major aircraft repair facility in Oregon. The prospective facility was to be managed by a firm named Pamcorp. However, despite the fact that buildings were built to house this activity, Pamcorp did not succeed in operating the facility and is no longer in business. Horizon Air may start to use this expenditure, but it still only benefits one corporation and should be removed.

2.023 Railroad Cars Being Repaired

Purpose: To promote the railroad car repair industry in Oregon.

Description and Impact: Railroad cars owned by private car companies and undergoing “major work” are exempt from property taxation. “Major work” includes remodeling, renovation, conversion, or repairs if the total labor exceeds 10 hours. A railroad car is exempt from the time it awaits transportation to a repair facility to the time it is returned from a repair facility. Documentary proof of

qualification for exemption must be furnished to the Department of Revenue. Private railroad car companies are the potential beneficiaries, although no such company is using this provision at the moment.

2.082 Convention Facilities

Purpose: To ensure the property of these corporations is not taxed.

Description and Impact: Any real or personal property acquired, owned, leased, controlled, used, or occupied by a sports and convention facilities commission is exempt from property taxes. The commission must be created by a ballot measure and established as a municipal corporation. There are no known beneficiaries of this statute.

3.001 Forest Products – Gasoline

Purpose: In most cases, the fuel and weight-mile taxes pay for the general use of the transportation system where tracking user damage to identifiable areas is difficult. In this case, however, the section of roadway over which heavy loads are moved is easily identified, and cost to the user can be more directly allocated to a specific section of roadway.

Description and Impact: A refund is allowed for tax paid on gasoline when used for the removal of forest products on certain public roads or for construction or maintenance of the roads used for such forest products removal. Only roads that are not state highways or city streets, or are county roads approved by the county may be considered when calculating the fuel tax eligible for refund. An agreement with the State Board of Forestry, the state forester, the county, or an agency of the United States must authorize the use of the road. To qualify for refunds of tax on fuels used for county road use, the user is required to have the same authorization to use the road as above and, in addition, is required to pay for construction or maintenance of the county road. This provision has not been used in about 30 years.

3.002 Forest Products -- Other than Gasoline

Purpose: In most cases, the fuel and weight-mile taxes pay for the general use of the transportation system where tracking user damage to identifiable areas is difficult. In this case, however, the section of roadway over which heavy loads are moved is easily identified, and cost to the user can be more directly allocated to a specific section of roadway.

Description and Impact: A refund is allowed for tax paid on fuels other than gasoline when used for the removal of forest products on certain public roads or for construction or maintenance of the roads used for such forest products removal.

Only roads that are not State highways or city streets, or are county roads approved by the county may be considered when calculating the fuel tax eligible for refund. An agreement with the State Board of Forestry, the State forester, the county, or an agency of the United States must authorize the use of the road. To qualify for refunds of tax on fuels used for county road use, the user is required to have the same authorization to use the road as above and in addition is required to pay for construction or maintenance of the county road. This provision has not been used in about 30 years.

4.002 Forest Products on County Roads

Purpose: In most cases, the fuels and weight-mile taxes pay for the general use of the transportation system where tracking user damage to identifiable areas is difficult. In this case, however, the section of roadway over which heavy loads are moved is easily identified, and cost to the user can be more directly allocated to a specific section of roadway.

Description and Impact: Under certain conditions, vehicles used for the removal of forest products on a public road are exempt from the payment of weight-mile taxes. An agreement with the State Board of Forestry, the state forester, or an agency of the United States must authorize the use of the road and require the user to pay for or perform the construction or maintenance of the county road. In some cases, construction of specific roadway is necessary for the removal of forest products. This provision allows counties to contract with the users of a roadway for the maintenance and improvement of the specific section of roadway used. This provision has not been used in about 30 years.

14.002 State and Local Interests

Purpose: To adhere to the principle that governments typically do not tax themselves.

Description and Impact: Any royalty or other interest in oil or gas owned by the state or local government is exempt from the oil and gas severance tax. Oregon state and local governments currently do not have any oil or gas interests in the state, so this exemption has no effect.

Tax Expenditures that Benefit Specific Groups

1.119 Donations of Art by the Artist

Purpose: To encourage the donation of artists' works to charitable organizations.

Description and Impact: Under Chapter 170 of the Federal Internal Revenue Code, artists can deduct the costs of materials used to produce artworks donated as

charitable contributions. This tax provision allows artists liable for Oregon personal income taxes to subtract from taxable income the fair market value of the art, not just the costs of materials. The calculation of “fair market value” of a donated work of art may be highly subjective and difficult to substantiate because of a very limited number of comparable sales. This raises the likelihood of inflated values being placed on donated works of art for the purpose of obtaining larger income tax subtractions. The introduction of subjective values into tax subtractions presents difficulties for tax auditors. It is estimated that the impact of this tax expenditure on the state treasury is less than \$50,000 for the current biennium.

1.130 Oregon State Lottery Prizes

Purpose: To enable ease of play and prize redemption for Lottery game participants and to support ease of selling and prize payment for Lottery game retailers.

Description and Impact: Originally, all prizes awarded by the State Lottery were exempt from the Oregon personal income tax. In 1997, the Legislature changed the law so that only prizes up to and including \$600 are exempt. The 2001 Legislature further reduced the exemption by extending the taxation of lottery winnings to nonresidents who purchased State Lottery tickets in Oregon. Currently, all prizes greater than \$600 are taxable. It is estimated that this tax expenditure will cost the state \$2,300,000 during the 2005-2007 biennium. Repealing it would place all Lottery purchasers, regardless of place of residency, on the same footing.

1.146 Film Production Development Contributions

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

Description and Impact: A credit against corporation or personal income taxes is available to taxpayers for certified film production development contributions to the Oregon Production Investment Fund. To receive this credit, a taxpayer must apply for tax credit certification to the Oregon Film and Video Office. Payment of the contribution is required at the time of application. Taxpayers that contribute benefit because of their decreased tax liability. Television and film production companies benefit as well because the Oregon Production Investment Fund is used to reimburse a portion of their actual expenses incurred in Oregon related to the production of a film or television series. It is estimated that the revenue impact of this provision is \$2,000,000 for the 2005-2007 biennium (\$1.6 million for corporations and \$.4 million for individuals).

1.190 Expatriate Residential Status

Purpose: To provide tax relief to individuals who are absent from the state and earn income abroad for a substantial part of the year, even if they have a permanent place of abode in Oregon.

Description and Impact: Because they considered Oregon as their permanent home and planned to return, certain taxpayers who worked in foreign countries were taxed on income from all sources. 1999 legislation changed this by allowing these individuals to file as nonresidents in the year they depart or return to Oregon to live. For example, someone who leaves or returns to Oregon in the middle of a year may now file as a part-year resident, and therefore is liable for Oregon income tax only on the income earned in the state. While individual taxpayers are the beneficiaries, this tax expenditure assists companies with substantial overseas operations by making their overseas assignments more attractive to Oregon residents. The impact of this item on the 2005-2007 budget is estimated to be \$1,600,000.

2.025 Federal Land Under Summer Homes

Purpose: To avoid the difficulty of valuing the property with its restrictions.

Description and Impact: In general, when public property is held under contract of sale or is leased to a private individual or business, it is considered taxable.

However, the land under summer homes that is owned by the U. S. Forest Service or Bureau of Land Management and used by permit or lease is exempt from property tax. The summer home, other buildings or structures, and improvements to the land (water or septic systems, electric service, and landscaping) are all taxable to the lessee. This expenditure covers 1,687 home sites in 15 counties. The owners of these summer homes enjoy \$1 million in tax savings, but other taxpayers cover \$200,000 of this amount due to cost shifts.

2.039 Oyster Growing on State Land

Purpose: To encourage oyster production and to avoid the difficulty of valuing the property with its restrictions.

Description and Impact: In general, when public property is held under contract of sale or is leased to a private individual or business, it is considered taxable.

However, state land being used for the private cultivation of oysters is exempt from local property taxation. Annual cultivation fees and use taxes are in lieu of property taxes and lease fees. The cultivation fee is \$4 per acre, and the use tax is \$0.10 per gallon if the oysters are sold shucked or \$0.10 per bushel if they are sold in the shell. The value of oyster production on these lands was an estimated \$1.2 million in 2003. The total acreage of submerged state estuary land has been rather

stable for the past five years. A slight increase of nearly 50 acres has occurred, all in Netarts Bay. Production of shucked oysters harvested was about 34,000 gallons in 2003, up over 14% from the previous year. While this expenditure helps small oyster farmers, the main beneficiaries are large corporate oyster companies. The benefit to oyster producers from this item is approximately \$50,000 per biennium, but other property tax payers cover \$10,000 of this amount due to cost shifts. Thus, the cost for this tax expenditure to local treasuries is about \$40,000 for the 2005-2007 biennium.

2.052 Inactive Mineral Interests

Purpose: To eliminate the administrative burden of assessing these accounts.

Description and Impact: Mineral interests owned separately from surface interests are exempt from local property tax if the property is not being mined. This expenditure was introduced to remove administrative costs for county assessors. However, the owners of these mineral interests benefit, as well. While the estimated impact of this tax expenditure is \$100,000 for the 2005-2007 biennium, its elimination would recover only one-half of that amount, since it causes a \$50,000 tax shift to other property tax payers.

2.057 Property Used as Golf Course and Effluent

Purpose: To allow for property tax exemptions for wastewater or sewage treatment plants that also include golf course land leased from a municipality.

Description and Impact: This property tax exemption is for a nonprofit corporation that leases land from a municipality and uses the land both as a golf course and for the discharge of wastewater or sewage effluent. This exemption originally applied only to land, but the 2003 Legislature extended the exemption to include buildings or other improvements. It allows any unpaid property taxes and interest due be waived beginning on or after July 1, 1998. An application must be filed with the county assessor for this tax exemption on or before July 1, 2002. Refunds will be made for any property taxes and interest paid for tax years 1998–99 through 2001–02. Refunds without interest will be made for any property taxes paid prior to July 1, 2004. Only one property is known to qualify for this expenditure, with a cost of approximately \$50,000 per biennium.

2.068 FCC Licenses

Purpose: To remove this form of intangible property from property taxation. (Prior to 2001, this property was taxed along with other types of utility-owned intangible property.)

Description and Impact: The value of FCC licenses held by utility companies is exempt from property taxation and may not be included in the value of real or tangible personal property. Wireless telecommunication utilities are the main beneficiaries of the exemption. FCC licenses held by non-utility companies are exempt under Intangible Personal Property (2.065). The impact of this tax expenditure is \$6,100,000 for the 2005-2007 biennium, although the net impact of its elimination is only \$5 million, since \$1.1 million of its cost is shifted to other tax payers.

2.081 City-Owned Sports Facility

Purpose: To clarify that Portland-owned sports facilities are exempt from taxation, even if leased to a taxable entity.

Description and Impact: In general, when public property is held under contract of sale or is leased to a private individual or business, it is considered taxable. However, this provision exempts any sports facilities owned by a city with a population of at least 500,000 from taxation, even if leased to or operated by a taxpaying entity. The only facility affected by this law is PGE Park in Portland. Removing this expenditure would recover \$1,600,000 in tax relief provided to the operator of PGE Park, and reduce the property tax burden for other Portland property tax payers by \$300,000 per biennium.

2.108 Aircraft

Purpose: To avoid administrative problems of assessing the value of mobile property.

Description and Impact: Generally, aircraft are exempt from property taxation but pay registration fees to the Department of Aviation. Aircraft owned by commercial airlines that weigh less than 75,000 pounds are 40 percent exempt. Transportation company aircraft weighing 75,000 pounds or more are fully taxable and are centrally assessed by the Department of Revenue in proportion to the company's business in Oregon. Aircraft owners pay user fees in lieu of property taxes. The impact of this expenditure for the 2005-2007 biennium is as follows: aircraft owners save \$8.4 million in property taxes, while the property tax burden for other tax payers is increased by \$1.6 million. Therefore, the net loss in property tax revenue for the 2005-2007 biennium is \$6.8 million.

14.001 First \$3,000 in Gross Sales Value

Purpose: To encourage development of oil and gas reserves.

Description and Impact: An exemption from the tax levied on oil or gas severance is granted for the first \$3,000 in gross sales value of the gross production each

calendar quarter from each well. There currently are two producers of natural gas in Oregon with a total of 35 wells in Columbia County. There are no producing oil wells in Oregon. The impact of this tax expenditure is less than \$50,000 for the 2005-2007 biennium.

Tax Expenditure that Is Not Reaching Its Goal

1.172 Diesel Truck Engines

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

Description and Impact: Corporations or individuals that purchase a diesel truck engine may apply to the Oregon Department of Environmental Quality (DEQ) for a tax credit ranging from \$400 to \$925 per engine. Owners of smaller truck fleets are eligible for the larger per engine credit. Several criteria must be met to qualify for the tax credit. This tax expenditure has had less participation than anticipated. Further, the Department of Environment Quality believes that the majority of new truck owners that have applied for this credit would have purchased the truck with or without the credit. The impact of this tax expenditure is estimated to be \$3 million for the 2005-2007 biennium.

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Appendix 1

Summary of Oregon Tax Programs with Tax Expenditures (Millions of Dollars)

Tax Program	# of Tax Expenditures	Est. Revenues 2005-2007	Est. Tax Expenditures 2005-2007
Income (personal and corporate)	195	\$10,461.7	\$8,792.8
Property	120	\$8,193.8	\$17,962.1
Gas and Use Fuel	5	\$832.3	\$13.2
Weight-Mile	7	\$455.0	\$13.5
Cigarette and Other Tobacco	5	\$498.1	\$2.9
Beer and Wine	2	\$27.0	\$2.0
Other State Taxes	18	\$342.3	\$4.2
Total All Taxes	352	\$20,810.3	\$26,790.7
<i>Percent All Taxes</i>	<i>100%</i>	<i>44%</i>	<i>56%</i>

Appendix 2

Criteria for Evaluating Individual Tax Expenditures

1. Tax Expenditures of Questionable Broad-Based Benefit:
 - a. Tax expenditures that benefit small groups of individuals.
 - b. Tax expenditures that benefit wealthy individuals, but provide little benefit to other Oregonians.
 - c. Tax expenditures that benefit small and/or specific industries.

2. Tax Expenditures to Retain:
 - a. Tax expenditures enacted to comply with federal law.
 - b. Tax expenditures that benefit broad groups of Oregonians.
 - c. Tax expenditures that benefit the general citizenry, including those that benefit the public education, social services, and health care systems.
 - d. Tax expenditures that benefit Oregon's agricultural and timber industries.