

1.088 JOBS PLUS PARTICIPANTS

Oregon Statute: 316.680(1)(f)

Sunset Date: None

Year Enacted: 1995

	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: The Jobs Plus program places individuals who receive food stamps, aid to families with dependent children, and other public assistance payments in jobs in the private or public sector. As part of the program, the amount of public assistance received by the individual is reduced. If the wages the participants earn in their jobs are less than the equivalent value of the public assistance they formerly received, the Department of Human Resources makes supplemental payments to the participants to bring their total compensation up to the level they received while on public assistance. These supplemental payments are not included in Oregon personal taxable income.

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

WHO BENEFITS: On average in 1998, the program involved roughly 1,100 employers and 1,300 clients per month statewide. In the vast majority of cases, the wages earned by the clients were greater than their compensation through public assistance. Consequently, few participants benefit from this tax expenditure.

EVALUATION: This tax expenditure achieved its purpose during the initial phase of the JOBS Plus program and appears to continue doing so as the program expands statewide. Families receiving public assistance benefits are living below the poverty level and, as a result, are incurring debts beyond their ability to pay or are deferring necessary expenses until they can find a family wage job and become self-sufficient. The supplemental amounts provided through this program are only intended to bring a family's income up to the total they were receiving from welfare and food stamps. As in the case with Public Assistance Benefits (1.004), it would be counterproductive to add these supplements to their taxable income, thereby reducing their ability to overcome the effects of poverty.

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

1.089 MEDICAL SAVINGS ACCOUNTS (OREGON)

Oregon Statute: 316.743

Sunset Date: None

Year Enacted: 1997

	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: This tax expenditure is an extension of the federal deduction for medical savings accounts (1.059 Medical Savings Accounts (Federal)) which is limited to 750,000 participants. This subtraction ensures that Oregonians who are unable to participate in the federal program will at least receive a tax break at the state level.

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

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

For those participating in the federal program, the contributions are not included in federal personal taxable income, and hence are not included in Oregon personal taxable income. The estimated tax benefit for federal participants is shown in Medical Savings Accounts (Federal) (1.059). For non-participants of the federal program, the contributions are taxed at the federal level. Therefore, they must be subtracted from federal personal taxable income when calculating Oregon personal taxable income. The provision became effective January 1, 1998.

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

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

EVALUATION: It is premature to evaluate the impact of medical savings accounts (MSAs) as either a medical cost containment strategy or an alternative to managed care strategies in the private sector. MSAs appear to be attractive to higher income individuals with favorable health status profiles since time is necessary to accumulate enough savings to cover non-catastrophic expenses associated with preventive and chronic health care services. This tax policy treats MSA's, a recent innovation in health care benefits, on an equitable basis with other models of health benefits available to employers and the self-employed.
[Evaluated by Oregon Health Plan Policy & Research.]

1.090 PHYSICIANS IN “MEDICALLY DISADVANTAGED” AREAS

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

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

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

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

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

EVALUATION: Not Evaluated

1.091 ADDITIONAL DEDUCTION FOR ELDERLY OR BLIND

Oregon Statute: 316.695 (8)
Sunset Date: None
Year Enacted: 1989

	Corporation	Personal	Total
1997–99 Revenue Impact:	Not Applicable	\$17,100,000	\$17,100,000
1999–01 Revenue Impact:	Not Applicable	\$16,000,000	\$16,000,000

DESCRIPTION: Oregon taxpayers who are age 65 or over or who are blind receive a larger standard deduction from personal taxable income based on their filing status. For taxpayers who are single or head of household, the additional amount is \$1,200. For all other filers, the amount is \$1,000. Taxpayers who itemize deductions do not qualify for the additional deduction amount.

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

WHO BENEFITS: The number of taxpayers who benefit from the additional deduction due to age has declined from 176,000 in 1990 to 128,000 in 1996. The number of Oregon taxpayers age 65 or over has increased from approximately 259,000 in 1990 to 289,000 in 1996. However, the percentage of these taxpayers who claim the standard deduction, and hence qualify for the additional deduction, has fallen from 68 percent in 1990 to 45 percent in 1996. Because more elderly taxpayers are itemizing deductions, fewer are able to make use of this subtraction.

The number of taxpayers who benefit from the additional deduction due to blindness has declined between 1990 and 1996 from over 3,000 to approximately 2,600. The number of blind Oregon taxpayers has remained stable at approximately 4,000. Of these, the percentage who claim the standard deduction, and hence qualify for the additional deduction, has fallen from 76 percent in 1990 to 58 percent in 1996. Because more blind taxpayers are itemizing deductions, fewer are able to make use of this subtraction.

EVALUATION: This tax expenditure achieves its purpose and is effective in promoting independence among its recipients. The deduction allows for greater disposable income for eligible individuals and helps build individual self-sufficiency. This money enables individuals to avoid needing other services offered by the state Department of Human Resources. It is most beneficial to those people who are on the margin between self-reliance and reliance on the state. *[Evaluated by the Senior and Disabled Services Division.]*

1.092 ADDITIONAL MEDICAL DEDUCTION FOR ELDERLY

Oregon Statute: 316.695 (1)(d)(B)

Sunset Date: None

Year Enacted: 1991

	Corporation	Personal	Total
1997-99 Revenue Impact:	Not Applicable	\$42,600,000	\$42,600,000
1999-01 Revenue Impact:	Not Applicable	\$45,800,000	\$45,800,000

DESCRIPTION: All taxpayers who itemize deductions may deduct from personal taxable income medical and dental expenses that exceed 7.5 percent of their adjusted gross income. Taxpayers who are at least 61 years of age at the close of the 1997 tax year may also deduct any amount of qualified medical or dental expenses that do not exceed 7.5 percent of adjusted gross income. Thus, these taxpayers may deduct the full amount of their medical and dental expenses from Oregon taxable income. The tax expenditure here measures only the amount below the federal 7.5 percent threshold; the amount above that threshold is included in Medical and Dental Expenses (1.057). The minimum age to qualify for this deduction is 61 for 1998, and 62 for 1999 and thereafter.

PURPOSE: To provide additional tax relief to older taxpayers with excessive medical and dental expenses.

WHO BENEFITS: The number of older Oregon taxpayers who benefit from the additional medical deduction has risen from approximately 91,000 in 1991 to approximately 131,000 in 1996. The average additional medical deduction amount has risen 20 percent from about \$1,800 in 1991 to \$2,100 in 1996.

EVALUATION: This tax expenditure achieves its purpose and has similar benefits to the Additional Deduction for Elderly or Blind (1.091) in that it supports self-sufficiency and independence. This tax expenditure creates more disposable income for the affected individuals. Elderly people are more likely to have a greater percentage of their income devoted to medical and dental care. This deduction is an important element of financial assistance for these individuals and helps them avoid reliance on other state services. *[Evaluated by the Senior and Disabled Services Division.]*

1.093 SOCIAL SECURITY BENEFITS (OREGON)

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

	Corporation	Personal	Total
1997–99 Revenue Impact:	Not Applicable	\$130,200,000	\$130,200,000
1999–01 Revenue Impact:	Not Applicable	\$143,500,000	\$143,500,000

DESCRIPTION: The Oregon Constitution (Article IX, Section 9) prohibits state and local governments from considering social security and railroad retirement benefits as income for the purpose of any tax, or from being used to compute any tax liability. Only a portion of these benefits is considered nontaxable at the federal level. Consequently, there are two tax expenditures. This tax expenditure pertains to those benefits that are exempt only in Oregon (i.e. they are taxable at the federal level). The tax expenditure pertaining to those benefits that are exempt at both the federal level and in Oregon is Social Security Benefits (Federal) (1.012).

PURPOSE: To maximize the amount of benefits provided from the Social Security Act.

WHO BENEFITS: The number of Oregon taxpayers who benefit from the subtraction has risen consistently from 62,100 in 1990 to 104,300 in 1996. The average subtraction grew from \$3,800 in 1990 to \$7,200 in 1996. When the maximum federally taxable percentage increased in 1994 from 50 to 85 percent, the average subtraction amount jumped by 50 percent to \$6,500. Approximately 21 percent of the taxpayers who took this subtraction in 1996 had income greater than \$70,000; together, they accounted for 36 percent of the total dollar subtraction.

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

1.094 DONATIONS OF ART BY THE ARTIST

Oregon Statute: 316.838

Sunset Date: None

Year Enacted: 1979

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

DESCRIPTION: Under Chapter 170 of the Federal Internal Revenue Code, artists can deduct charitable contributions of their work only to the extent of the costs of materials in producing the art. For Oregon personal income taxes, this tax provision allows artists to subtract from taxable income the fair market value of the art, not just the costs of materials.

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

WHO BENEFITS: Artists who donate their art to charitable organizations, the charitable organizations themselves, and the charitable organizations' patrons.

EVALUATION: It is not clear whether this tax expenditure has achieved its purpose. The calculation of market value of a donated work of art may be highly subjective and difficult to substantiate. This raises the likelihood of inflated values being placed on donated works of art for the purpose of obtaining larger income tax subtractions. The introduction of subjective values into tax subtractions presents difficulties for tax auditors. On the other hand, encouraging the donation of artwork to charitable organizations is a reasonable policy, and many donations of artists' work to galleries may not be made without this tax incentive. A solution to these opposing values may be a compromise such as a deduction that is calculated as a simple multiple of the cost of materials used in producing the art. This would compensate the artist for the cost of materials and at least a portion of the artist's time and effort, but would circumvent the reliance on a subjective "market value" for one-of-a-kind items that do not have a well established market value. A multiple cost-of-materials subtraction may have its own undesirable effects, such as encouraging the use of the most expensive materials available, whether or not warranted by the art. [*Evaluated by the Oregon Arts Commission.*]

1.095 CAPITAL GAINS FROM OREGON REINVESTMENT

Oregon Statute: 316.874

Sunset Date: 12-31-99

Year Enacted: 1995

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

* Revenue impact takes into account the sunset.

DESCRIPTION: Personal income tax on certain capital gains can be deferred. Deferrals are limited to gains on assets used in a trade or business of the taxpayer or gain from the sale of expansion shares of qualified Oregon businesses. In order to defer the gain, the taxpayer must reinvest sale proceeds in either a qualified Oregon business, a qualified investment fund, or in qualified business assets. Reinvestments in financial and certain professional service businesses, real estate, and investment type businesses are excluded.

The taxpayer has six months to make a qualified reinvestment of gain. The deferral period ends and tax payment is required if any of the following occurs:

- the business, investment fund, or asset ceases to qualify;
- the business discontinues operation;
- 50 percent or more of business capital assets are withdrawn; or
- the business is sold and the proceeds are not reinvested in another qualified reinvestment within six months.

The above provisions went into effect January 1, 1997. Taxes on capital gains realized on or after this date are eligible for deferral. Transitional provisions applied to tax year 1996. Reinvestment of sale proceeds must be made by December 31, 1999.

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 \$1,200,000 if the sunset were extended.

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.

WHO BENEFITS: Investors who sell business assets and reinvest the proceeds in an Oregon company are the direct beneficiaries. In each of the tax years 1996 and 1997, fewer than 50 taxpayers used this expenditure. In 1996 the amount of capital gains income deferred was about \$7.3 million. This fell to \$1.4 million in 1997. As capital gains are reinvested in qualified businesses, these businesses would be expected to grow and create employment opportunities for Oregon residents who become indirect beneficiaries.

EVALUATION: This program is still very new. In its first year, it was not used very much. A key to evaluation will be empirical evidence as to whether it changes investor behavior with regard to capital gains. Older business owners that have sold a business and incurred a capital gain don't necessarily want to reinvest in another business. In many cases, they may prefer to take the money, pay any capital gains tax liability, and retire. Other investors may not necessarily be deeply rooted in the state, and can easily move to Washington (or elsewhere) to avoid Oregon capital gains liability. After all, the Oregon law provides

a deferral and not a cancellation of tax liability for reinvestment. In addition, investor behavior may be driven more by future treatment of capital gains for federal tax purposes, since federal tax rates are much higher than Oregon rates. *[Evaluated by the Economic Development Department.]*

1.096 LOCAL PRIVATE ACTIVITY BOND INTEREST

Oregon Statute: 316.056

Sunset Date: None

Year Enacted: 1987

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

DESCRIPTION: There are two types of local private activity bonds: 1) qualified bonds which are exempt from federal income tax, and 2) non-qualified bonds which are taxed at the federal level. This expenditure pertains to non-qualified private activity bonds, which are bonds primarily issued by local governments and used to finance private developments where a substantial portion of the bond benefits accrue to individuals or businesses rather than to the general public. Interest on these non-qualified private activity bonds is taxed at the federal level, but Oregon allows that income to be subtracted from Oregon personal taxable income. (This should not be confused with qualified private activity bonds. The interest earned on those bonds is exempt at the federal level and hence in Oregon because of our connection to federal code—see 1.047 Interest on Oregon State and Local Debt.)

PURPOSE: To encourage the purchase of non-qualified private activity bonds by Oregon residents in order to promote private projects that have some public benefits.

WHO BENEFITS: The primary beneficiaries are the individuals or businesses financing projects, whose cost of borrowing is reduced. About \$227 million of these bonds are outstanding from 42 separate issues. However, none of these bonds have been issued in the last few years.

EVALUATION: It is uncertain whether this expenditure is effective. Very few non-qualified private activity bonds are issued in Oregon. Without the federal tax exemption, most projects do not find this source of funding attractive, and use conventional funding sources. In addition, private activity bonds are more likely to be privately placed with institutional investors rather than sold to individual investors that would benefit from a personal income tax subtraction.

Nearly every state provides an interest income exemption for bonds of in-state municipal issuers. This allows municipal issuers to benefit from lower-than-market interest rates. In addition, the subtraction encourages state residents to purchase bonds of in-state issuers which helps to create a market for the bonds and provide liquidity.

When private activity bonds are issued on the behalf of individuals or businesses, it is typically for projects which are expected to result in the creation or retention of jobs, which in turn increases income. For private activity bonds issued by the Economic Development Commission, a cost effectiveness analysis is undertaken to ensure that the public benefits of a project exceed the public costs. Projects must meet this cost effectiveness test to be eligible for the program. *[Evaluated by the Economic Development Department.]*

1.097 SERVICE IN VIETNAM ON MISSING STATUS

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

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

DESCRIPTION: This statute exempted personal income from all sources for individuals who were classified as missing during the Vietnam conflict. The exemption applied to income received during months when the individual was in a missing status.

PURPOSE: To provide tax relief to individuals (and their families) who were classified as missing during the Vietnam conflict.

WHO BENEFITS: No one qualifies for the exemption. There are no longer any Oregonians classified as missing as a result of the Vietnam conflict.

EVALUATION: This exemption has no effect, since there are no Oregonians classified as missing in action due to the Vietnam War. With few exceptions, all missing have been declared dead by the U.S. Government. *[Evaluated by the Department of Veterans' Affairs.]*

1.098 OIL HEAT TANK CLEANUP COSTS

Oregon Statute: 316.746
Sunset Date: None
Year Enacted: 1991

	Corporation	Personal	Total
1997–99 Revenue Impact:	Not Applicable	\$100,000	\$100,000
1999–01 Revenue Impact:	Not Applicable	\$0	\$0

DESCRIPTION: Payments by the Oil Heat Commission to reimburse persons who incur costs for environmental cleanup of heating oil tank releases are not included in Oregon personal taxable income.

The 1997 legislature created a new program, under the direction of the Department of Environmental Quality, designed to help homeowners to “decommission” their heating oil tanks. Most of the funding formerly used for the Oil Heat Commission program to help homeowners clean up heating oil releases, which came from fees paid by heating oil distributors, will be used for the new program. Unlike payments under the Oil Heat Commission program, payments to homeowners under the new program are not excluded from the personal taxable income of the recipients.

Currently neither program is making payments to homeowners because the Oil Heat Commission is not collecting the fee from heating oil distributors. The seven-member Commission currently has just three members, so the commission is not functioning.

PURPOSE: To avoid an unintended tax liability for grants to cleanup residential heating oil tank releases. Requiring homeowners to pay income tax on these grants, which are fully spent on the environmental cleanup effort, would create an undue economic hardship.

WHO BENEFITS: Persons who incur costs for environmental cleanup of heating oil tank releases that are reimbursed by grants financed by the Oregon oil heat industry. The grants are targeted specifically to homeowners. Roughly 60 percent of the benefits go to homeowners over the age of 55, and the benefits are concentrated at low and middle income levels, with over 40 percent of recipients having household incomes of less than \$35,000. The tax exemption, by helping promote the environmental cleanup efforts, also benefits the general public by improving environmental quality.

EVALUATION: In the past, this expenditure effectively achieved its purpose. Through legislation adopted in 1989, the Oregon oil heat industry contributed about \$1 million annually to finance the environmental cleanup of heating oil tank releases. Under Oregon law, property owners would otherwise be liable for all costs of cleaning up the release to meet standards adopted by the Department of Environmental Quality. While the costs now average \$5,100 per release, the costs have ranged to more than \$100,000 if groundwater is affected. These costs would impose a severe economic hardship on the people who live in these homes, most of whom are aged 55 or older.

Given the current lack of funds to finance clean-up grants, this expenditure has no effect.
[Evaluated in 1996 by the Oil Heat Commission.]

1.099 UNDERGROUND STORAGE TANK CLEANUP GRANTS

Oregon Statutes: 316.834 and 317.383

Sunset Date: The tax law provision has no sunset date, but the grant program sunsets 12/31/99.

Year Enacted: 1991

	Corporation	Personal	Total
1997-99 Revenue Impact:	Less than \$50,000	\$150,000	\$150,000
1999-01 Revenue Impact:	Less than \$50,000	Less than \$50,000	Less than \$50,000

DESCRIPTION: Underground storage tank pollution prevention or essential services grants made by the Department of Environmental Quality are subtracted from federal taxable income in arriving at Oregon corporation and personal taxable income. The original grant program sunset June 30, 1997, but the 1997 legislature extended it to December 31, 1999 and made \$2 million available for grants.

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

WHO BENEFITS: Taxpayers receiving grants from the Department of Environmental Quality. A typical grant project is an owner-operated gas station with one or two employees, combined with a repair shop, grocery store, cafe, motel and/or post office, located in a remote area, willing to pump gas 24 hours a day, seven days per week. These stations are often the only source of fuel for US Forest Service and other emergency vehicles in the area.

Taxpayers must show financial need and be located in rural areas, so most of the benefits go to marginally profitable independent gas stations. The program also benefits the people of Oregon by helping to maintain and ensure the existence of a transportation infrastructure throughout the state.

EVALUATION: This expenditure has been very effective in achieving its purpose. The tax benefit received by the grantee preserves the benefit of the grant program by the amount of the tax savings. Grantees are required to pay at least 25 percent of project costs and would be less able to do so if the grant were counted as income subject to taxation.

To date, nearly halfway through its third biennium, the program has funded 96 projects and is expected to fund a total of 124 by June 1999.

Without the program, most of the 124 would have had to shut down in 1998 pursuant to state and federal law, according to their owners. The Department estimates there are approximately 50 more rural and remote gas stations that could benefit from a grant if future funds become available. Without additional funding, most of these will have to close by 1998.

As of June 1998, 84 percent of the \$6.5 million total funds received has gone directly into projects. Only \$1.01 million, or 15.6 percent, has been spent by the Department to administer the program. Of completed projects to date, 100 percent have resulted in an upgraded, operating gas station that complies with 1998 federal and State laws to ensure future motor fuel availability, which translates into a 100 percent success rate in achieving the program goal. *[Evaluated by the Department of Environmental Quality.]*

1.100 CASH PAYMENTS FOR ENERGY CONSERVATION

Oregon Statutes: 316.744 and 317.386

Sunset Date: None

Year Enacted: 1981

	Corporation	Personal	Total
1997-99 Revenue Impact:	Less than \$50,000	\$3,600,000	\$3,600,000
1999-01 Revenue Impact:	Less than \$50,000	\$160,000	\$160,000

DESCRIPTION: Cash payments made by electric and gas utilities to homeowners or owners of rental housing for purposes of energy conservation are not included in the taxable income of the property owner.

PURPOSE: To promote energy conservation by encouraging customers to install energy-conserving devices.

WHO BENEFITS: Homeowners and owners of rental housing who receive cash payments from utilities as part of energy conservation programs. Because these programs reduce the demand for energy, they help keep energy prices lower, benefiting all energy consumers.

EVALUATION: This expenditure is achieving its purpose of protecting the full value of the energy conservation incentives the utilities give to homeowners and owners of rental housing. Taxing cash rebates or grants would reduce the value of the incentive and likely decrease participation in conservation programs. Household investment in conservation measures lowers home energy costs and helps meet Oregon’s Benchmark for affordable housing.

The revenue impact of this provision has declined dramatically in recent years because utilities have reduced their conservation programs. *[Evaluated by the Office of Energy.]*

1.101 WET MARINE AND TRANSPORTATION POLICIES

Oregon Statute: 317.080(6)

Sunset Date: None

Year Enacted: 1995

	Corporation	Personal	Total
1997–99 Revenue Impact:	\$100,000	Not Applicable	\$100,000
1999–01 Revenue Impact:	\$400,000	Not Applicable	\$400,000

DESCRIPTION: Ocean marine insurers are exempt from the corporation excise tax, but only with respect to the income derived from writing wet marine and transportation insurance. These insurers instead pay a tax based on underwriting profits under ORS 731.824.

As described in ORS 731.194, wet marine and transportation insurance covers: (1) the insurance of ships and freight; (2) the insurance of personal property in transport between countries or transported by coast or inland waterways; and, (3) the insurance of railroads and aircraft along with their freight while engaged in interstate transport or commerce.

This expenditure became effective January 1, 1997. Prior to that date, these insurers were exempt from the gross premium tax as reported in Wet Marine and Transportation Policies (5.002). The revenue impacts account for the phase-out of the gross premium tax.

PURPOSE: To reduce the burden of taxes on ocean marine insurers, who instead pay a tax based on underwriting profits.

WHO BENEFITS: Insurers who sell ocean marine policies and their policyholders.

IN LIEU: Ocean marine insurers currently pay taxes of about \$20,000 per year based on underwriting profits from writing wet marine and transportation insurance. This in lieu tax will continue, even after January 1, 1997.

EVALUATION: Not Evaluated

1.102 INCOME EARNED IN “INDIAN COUNTRY”

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

	Corporation	Personal	Total
1997–99 Revenue Impact:	Not Applicable	\$2,400,000	\$2,400,000
1999–01 Revenue Impact:	Not Applicable	\$2,700,000	\$2,700,000

DESCRIPTION: Income earned in “Indian country” in Oregon by members of federally-recognized Indian tribes is exempt from taxation under Oregon’s personal income tax. The taxpayer must reside in “Indian country” in Oregon to qualify for the exemption.

PURPOSE: To reflect provisions in federal law restricting the ability of states to tax tribal members.

WHO BENEFITS: Tribal members who earn income in “Indian country.” Approximately 700 Oregon residents benefit each year. The average subtraction in 1996 was about \$1,500.

EVALUATION: Not Evaluated

1.103 FEDERAL PENSION INCOME

Oregon Statute: Oregon Supreme Court decision (*Vogl v. Dept. of Revenue*)
Sunset Date: None
Year Enacted: 1998

	Corporation	Personal	Total
1997–99 Revenue Impact:	Not Applicable	\$306,000,000	\$306,000,000 *
1999–01 Revenue Impact:	Not Applicable	\$101,000,000	\$101,000,000

* Revenue impact includes refunds paid to taxpayers for tax years 1991 through 1997.

DESCRIPTION: In June 1998 the Oregon Supreme Court ruled that Oregon was illegally taxing federal pension income (*Vogl v. Dept. of Revenue*). Personal income taxes paid to Oregon on federal pension income for tax years 1991 through 1997 will be refunded to taxpayers during the 1997–99 biennium. (Under current law, refunds can only be paid for tax years 1991 through 1994 if protective claims have been filed.) Beginning in tax year 1998, federal pension income will be subtracted from federal taxable income in arriving at Oregon taxable income.

This court decision is the latest in a series of court decisions and legislative responses that goes back to 1989 when the U.S. Supreme Court ruled that federal pension income could not be taxed differently from state and local pension income (*Davis v. Michigan Dept. of Treasury*). In response, the 1991 legislature passed a bill that allowed taxation of all pension income, but instituted a credit of up to 9 percent of the pension income (1.152 Retirement Income). But in 1992 the Oregon Supreme Court ruled that taxing PERS state and local pensions was a breach of past contract. The 1995 legislature addressed that issue by increasing PERS pension benefits to certain members to compensate for having the pension taxed. In response, the Oregon Supreme Court ruled that this system of taxing still constitutes illegal tax discrimination between PERS retirees and federal retirees.

PURPOSE: To comply with court ruling.

WHO BENEFITS: Oregon taxpayers who received federal pension income. Approximately 25,000 taxpayers filed protective claims for the tax years 1991–94 and are eligible for refund of taxes paid on federal retirement income. There are approximately 45,000 taxpayers with federal retirement income that will be eligible for refunds for taxes paid on that income for tax years 1995 through 1997.

EVALUATION: Not Evaluated.

1.104 OREGON STATE LOTTERY PRIZES

Oregon Statute: 461.560

Sunset Date: None

Year Enacted: 1985

	Corporation	Personal	Total
1997–99 Revenue Impact:	Not Applicable	\$43,400,000	\$43,400,000
1999–01 Revenue Impact:	Not Applicable	\$43,100,000	\$43,100,000

DESCRIPTION: Originally, all prizes awarded by the State Lottery were exempt from the Oregon personal income tax. In 1997, the state legislature changed the law so that only prizes up to and including \$600 are exempt. Currently, prizes greater than \$600 are taxable.

PURPOSE: The Oregon personal income tax exemption on State Lottery prizes up to and including \$600 enables ease of play and prize redemption for Lottery game participants, and supports ease of selling and prize payment for Lottery game retailers. This \$600 threshold conforms with IRS tax reporting requirements for lottery prize claims. The tax exemption also recognizes that individuals who choose to play the Lottery are contributing to state revenues whenever they purchase a non-winning ticket and, therefore, should not be taxed when they win a prize of \$600 or less.

WHO BENEFITS: Oregon Lottery players who win a prize of \$600 or less are the most direct beneficiaries. However, since Lottery prizes up to and including \$600 can be redeemed at Lottery retailer locations, retailers also benefit by avoiding the labor/expense that would be needed to collect tax reporting information from each and every player who redeems a prize. Conversely, taxation of prizes of \$600 or less would be a disincentive to play or sell these games, thereby severely reducing sales and state revenues.

EVALUATION: This tax expenditure achieves its purpose and helps support the statutory purpose of the Lottery: to generate revenue for the public purpose without the imposition of additional or increased taxes. Eliminating this tax expenditure would be a major disincentive to players and would place a huge burden on Lottery retailers. Approximately 85 percent of all traditional game Lottery prizes won and 100 percent of all Video Lottery game prizes won are \$600 or less, and payable at Lottery retailers (3,300 statewide). Consequently, the burden placed on the player to provide and the retailer to collect tax reporting information for every prize won and paid would be immense. It stands to reason that many retailers would discontinue carrying Lottery products and many consumers would no longer play games if the tax exemption on prizes of \$600 or less were eliminated, thereby drastically reducing sales and state revenues. [*Evaluated by the State Lottery.*]

1.105 FEDERAL INCOME TAX DEDUCTION

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

	Corporation	Personal	Total
1997–99 Revenue Impact:	Not Applicable	\$430,900,000	\$430,900,000
1999–01 Revenue Impact:	Not Applicable	\$475,500,000	\$475,500,000

DESCRIPTION: Federal income taxes paid or accrued, up to a maximum of \$3,000, may be deducted from Oregon personal taxable income.

PURPOSE: To provide tax relief to Oregonians who pay federal income taxes. The deduction is based on the supposition that federal income taxes are involuntary payments that reduce the ability to pay Oregon taxes.

WHO BENEFITS: Oregon income taxpayers who also pay federal income taxes. Each year since 1990, approximately 75 percent of Oregon taxpayers have claimed a subtraction for federal income taxes paid. The average amount of the subtraction in 1996 was \$2,015. The percentage of Oregon taxpayers claiming the maximum amount of \$3,000 has risen slightly from 27.7 percent in 1990 to 33 percent in 1996.

EVALUATION: This provision achieves its purpose. Because the deduction cannot exceed \$3,000, it reduces Oregon taxes proportionally more for lower income taxpayers. [*Evaluated by the Department of Revenue.*]

1.106 MILITARY ACTIVE DUTY PAY

Oregon Statutes: 316.680 and 316.789
Sunset Date: None
Year Enacted: 1969

	Corporation	Personal	Total
1997–99 Revenue Impact:	Not Applicable	\$4,100,000	\$4,100,000
1999–01 Revenue Impact:	Not Applicable	\$4,200,000	\$4,200,000

DESCRIPTION: In the year of entry or discharge from military service, taxpayers may subtract all active duty pay from Oregon personal taxable income. In other years, taxpayers may subtract up to \$3,000 of active duty pay. In addition, all active duty military pay earned outside Oregon from August 1, 1990 to the end of “combatant activities” in the Persian Gulf can be subtracted from taxable income. The President has not yet declared an end to combatant activities in the Persian Gulf.

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

WHO BENEFITS: Between 1980 and 1990, the number of taxpayers claiming this subtraction ranged from 11,600 to approximately 13,200. The average subtraction was approximately \$1,700. One group who claims this subtraction is Oregon National Guard members who receive active duty pay while attending military schools to fulfill education requirements for retention and/or promotion. This subtraction also benefits Active Guard Reserve members.

EVALUATION: This tax expenditure achieves its purpose and is a valuable benefit to members of the Oregon National Guard, both Army and Air, as well as other military personnel. Although the exclusion per tax return is not a great deal of money (\$1,700), it is the only incentive the state of Oregon offers its citizen soldiers that is comparable to those offered in other states. When talking with prospective recruits or soldiers contemplating re-enlistment, the subject of state incentives frequently arises. There is merit in offering benefits that are comparable to those of other states; examples of these benefits include free tuition to state colleges and universities, re-enlistment bonuses, free automobile tags, free driver's licenses, and free hunting and fishing licenses. These state benefits are an inexpensive way to recognize the contributions Guard members make to their communities. They help the state recruit and retain quality soldiers and airmen and should be maintained by the state of Oregon. [*Evaluated by the Military Department.*]

1.107 INTEREST AND DIVIDENDS ON U.S. OBLIGATIONS

Oregon Statute: 316.680

Sunset Date: None

Year Enacted: 1970

	Corporation	Personal	Total
1997-99 Revenue Impact:	Not Applicable	\$50,000,000	\$50,000,000
1999-01 Revenue Impact:	Not Applicable	\$55,100,000	\$55,100,000

DESCRIPTION: Interest and dividends earned on obligations of the United States Government (for example, interest on Series EE savings bonds) are subtracted from federal personal taxable income in arriving at Oregon personal taxable income.

PURPOSE: Federal law prohibits states from taxing interest and dividends on U.S. Government obligations.

WHO BENEFITS: Because financial markets compensate for the tax status of the interest and dividends on financial instruments, the beneficiary is the U.S. Government, which can borrow at lower rates than would be the case if these instruments were taxable. Approximately 6.7 percent of full-year Oregon resident taxpayers (approximately 97,000) claimed this subtraction for interest and dividends from U. S. Government obligations in 1996. The average income from these investments was about \$3,000.

EVALUATION: Not Evaluated