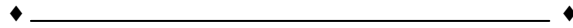


State of Oregon

2005–2007



Tax Expenditure Report

Budget and Management Division
Department of Administrative Services

Research Section
Department of Revenue

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GOVERNOR'S MESSAGE

To the Citizens of Oregon:

I am pleased to submit the 2005-07 version of the biennial Tax Expenditure Report. This document is an important tool in understanding how government supports the achievement of education, social, economic and environmental policies through the use of Oregon's tax structure.

This report is a valuable companion to my biennial Governor's Balanced Budget and contains extensive information that can help policymakers understand the broad scope of spending by Oregon's public sector. We should ensure that the tax expenditures outlined in this report make as much sense for Oregon today as they did when first enacted, particularly in these fiscally tight times and in light of the recent congressional passage of a major corporate tax overhaul package.

Because tax expenditures amount to approximately 50% of spending through our tax system, it is important that they receive a thorough examination during the 2005 Oregon Legislative session. In so doing, we can ensure that they are being used effectively to reach our desired goals. Full disclosure of how well the system is working is something all Oregon citizens deserve. This report provides a factual contribution to a healthy debate regarding our public finance system.

Sincerely,



THEODORE R. KULONGOSKI
Governor

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INTRODUCTION

The 1995 Budget Accountability Act (the Act) requires the governor, with the assistance of the Department of Revenue and the Department of Administrative Services, to produce a tax expenditure report every biennium, along with the Governor's Recommended Budget. The report was first prepared in 1996 for the 1997–99 biennium. This report covers expenditures for the 2005–07 biennium.

Tax Expenditure Defined

The Act defines a tax expenditure as

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.

The term “tax expenditure” derives from the parallel between these tax provisions and direct government expenditures. For example, a program to encourage businesses to purchase pollution abatement equipment could be structured with an incentive in the form of a tax credit or a direct payment by the state to businesses. Tax expenditures can be viewed as: (1) providing financial assistance to certain groups of taxpayers, (2) providing economic incentives that encourage specific taxpayer behavior, or (3) simplifying or reducing the costs of tax administration. While the third of these policy objectives eliminates inefficiencies within the tax code, the first two *could* be implemented with direct expenditures rather than tax expenditures.

This report describes 352 tax expenditures contained within 15 Oregon tax programs. Because tax expenditures impart special treatment to groups of taxpayers, it is necessary to begin with a clear definition of the “normal” tax base from which that special treatment departs. Because there may be different opinions about the normal base for each tax, a description of the tax base for each of the 15 tax programs begins each chapter.

In some tax programs, an alternative tax is imposed for recipients of a tax expenditure. In the interest of being comprehensive, this report includes all provisions involving tax relief from a specific tax, even if those taxpayers are subject to an alternative tax. The alternative taxes paid are reported as “In Lieu” payments in the descriptive information for each tax expenditure.

Purpose of the Tax Expenditure Report

The Act declares the necessity of

a review of the fairness and efficiency of all tax deductions, tax exclusions, tax subtractions, tax exemptions, tax deferrals, preferential tax rates, and tax credits. These types of tax expenditures are similar to direct government expenditures because they provide special benefits to favored individuals or businesses, and thus result in higher tax rates for all individuals.....It is in the best interest of this state to have prepared a biennial report of tax expenditures that will allow the public and policy makers to identify and analyze tax expenditures and to periodically make criteria-based decisions on whether the expenditures should be continued. The tax expenditure report will allow tax expenditures to be debated in conjunction with on-line budgets and will result in the elimination of inefficient and inappropriate tax expenditures, resulting in greater accountability by state government and a lowering of the tax burden on all taxpayers.

The Act specifies that the report include the following information: a list of the expenditures; the statutory authority for each; the purpose for which each was enacted; estimates of the revenue loss for the coming biennium; the revenue loss for the preceding biennium; a determination of whether each tax expenditure is the most fiscally effective means of achieving its purpose; and a determination of whether each tax expenditure has achieved its purpose, including an analysis of the persons that benefit from the expenditure. Each tax expenditure is to be categorized according to the programs or functions that it supports. Finally, for those expenditures that will sunset next biennium, the report is to include the governor's opinion on whether the sunset should be allowed to take effect as scheduled or be revised to a different date.

How to Use This Report

Organization

This report has been designed to allow a quick overview of Oregon's current tax expenditures as well as a perusal of more extensive details. There are five main sections: the summary, the governor's recommendations on tax expenditures scheduled to sunset in the 2005–07 biennium, an index of all tax expenditures by tax program (Table 1), an index of all tax expenditures by program/function (Table 2), and detailed descriptions of each tax expenditure (Chapters 1–15).

The indexes in Tables 1 and 2 are good starting points to identify those expenditures for which more information is desired. Table 1 provides a list of all tax expenditures sorted by tax and numbered sequentially from 1.001 to 15.004. This numbering system can be used as an index to locate the full description of each tax expenditure in Chapters 1–15. Similarly, Table 2 lists all the tax expenditures, but groups them by program/function rather than tax. This categorization has been done so that all tax expenditures related to a particular program area can be viewed together.

The main body of this report, Chapters 1–15, is organized by tax program. Each chapter begins with a description of that chapter's tax and contains detailed descriptions of the tax expenditures associated with that tax program.

Appendices A to C include the full text of the Budget Accountability Act, a list of agencies that evaluated the tax expenditures, and a list of Oregon tax programs that do not contain tax expenditures. Appendix D lists the tax expenditures that are new, modified, or that have expired since this report was last published. Appendix E lists the corporation income tax expenditures and personal income tax expenditures separately along with their corresponding revenue impacts.

Program/Function Categories

Each tax expenditure has been assigned to one of 10 program/function categories. Wherever possible, an expenditure was categorized as one of the budget program areas used in the Governor's Balanced Budget: Education, Human Resources, Economic and Community Development, Natural Resources, Transportation, and Consumer and Business Services. Those that did not fit one of these program areas were assigned to one of four function categories: Tax Administration, Government, Social Policy, and Federal Law. Because some tax expenditures can fit neatly into more than one category, those who wish to sum the revenue impacts by program or function should be careful that they agree with these assignments or change them accordingly. The tax expenditures are listed by program/function in Table 2.

Evaluations

The evaluations of whether these tax expenditures achieve their purpose and if they are a fiscally effective means of doing so were conducted by personnel in 30 state agencies (see Appendix B). Agencies were asked to evaluate tax expenditures if the expenditure directly related to their program responsibility or if they had appropriate knowledge of the subject matter.

Revenue Impacts

The revenue impact of a tax expenditure is intended to measure what is being “spent” through the tax system with respect to that one provision, or alternatively the amount of relief or subsidy being provided through that provision. The dollar impact is NOT the amount of revenue that could be gained by repealing the tax expenditure. There are three main reasons for this:

- The estimates do not incorporate behavioral changes that may occur if a tax expenditure were eliminated.
- Each provision is estimated independently. A tax expenditure beneficiary may qualify for a tax reduction under more than one law.
- Government may not be able to collect the full liability for some tax expenditures for administrative reasons.

For these reasons, and because tax expenditures interact with each other and the rest of the tax system, caution should be used when summing the revenue impacts.

The tax expenditures reported here represent revenue loss to the state and local governments and higher tax rates for taxpayers. For example, income tax expenditures reduce state General Fund revenue while property tax expenditures reduce revenue to local governments and may increase property tax rates. The property tax is unique in that exempting property from property taxation may result in both a revenue loss to local governments and a shift of taxes to other taxpayers. A complete explanation of revenue loss and shift can be found at the beginning of Chapter 2. The introduction to Chapter 2 also contains a brief description of the changes to the property tax system brought about by Measure 50 in 1997. For all property tax expenditures, the detailed descriptions report the revenue loss and shift separately. In a departure from prior editions of this report, Tables 1 and 2 report only the loss amount. Prior reports included both the loss and shift amounts.

The revenue impact estimates are rounded to the nearest \$100,000. For tax expenditures below \$50,000, the revenue impact is indicated as “Less than \$50,000.”

Several data sources and methods were used to estimate the revenue impacts. For the income tax expenditures, the primary and secondary data sources were Oregon and federal tax returns, respectively. Estimates of federal tax expenditures made by the Joint Committee on Taxation of the U.S. Congress were used to develop estimates of those income tax provisions incorporated in Oregon law through connection to the Internal Revenue Code. For property tax expenditures, the primary data source was information gathered by county assessors. For all tax programs, data from various federal and state agencies were used where available.

Acknowledgments

Although the Department of Revenue coordinated the construction of this report, numerous Oregon state agencies provided important information and analysis regarding the objectives and effectiveness of individual tax expenditures. These agencies are listed in Appendix B. The original report prepared in 1996 relied heavily on the tax expenditure report prepared by the Legislative Revenue Office in 1994 for the House and Senate Committees on Revenue and School Finance. The 2002 (the next one is expected to be published in December 2004) Congressional Research Service publication, *Tax Expenditures: Compendium of Background Material on Individual Provisions*, is used extensively throughout this report to describe and evaluate the tax expenditures that result from Oregon’s connection to the federal income tax.

SUMMARY

This report describes 352 individual tax expenditures currently specified in Oregon law. Of those, 120 are related to local property taxes and 195 to Oregon’s personal and corporation income taxes. The remaining 37 are related to various other state tax programs.

One hundred nine of the 195 income tax expenditures result from Oregon’s connection to the federal income tax code. By adopting the federal definition of income, Oregon also adopts most of the exclusions and deductions from income that are part of the federal personal and corporation income taxes. As of the printing of this report, Oregon is generally tied to the federal definition of taxable income as of December 31, 2002 (there are a few exceptions). This means that Oregon has adopted the exclusions, adjustments, and deductions from income that were part of the federal personal and corporation income taxes as of that date. While the legislature will consider whether to tie to more current federal law during the 2005 session, most federal changes relating to the definition of taxable income that occurred in 2003 or 2004 will not be reflected in this report.

For the 2005–07 biennium, total tax expenditures will result in the “spending” of about \$27 billion through Oregon’s tax code. Over the same period the state of Oregon and local taxing districts will collect roughly \$21 billion in taxes for spending on various state and local programs. This indicates that governments in Oregon “spend” more through special provisions in the tax code than they do through direct outlays. However, it is important to note that there are a small number of extremely large tax expenditures that magnify the total revenue impact.

The table below shows estimates of tax expenditures by tax program for the 2003–05 and 2005–07 biennia.

The table also shows estimates of the total revenue to be raised in 2005–07 by each tax. The largest tax expenditures occur in the property tax program, where aggregate tax expenditures of almost \$18 billion are more than double the amount of estimated revenue. However, roughly \$14 billion of this amount is represented by the three largest property tax expenditures: the exemption of intangible personal property (\$10 billion), the exemption of federal property (\$3 billion), and the exemption for state and local property (\$1 billion).

SUMMARY OF OREGON TAX PROGRAMS WITH TAX EXPENDITURES				
(Millions of Dollars)				
Tax Program	Number of Tax Expenditures	Estimated Revenues 2005-07	Estimated Tax Expenditures	
			2003-05	2005-07
Income (Personal and Corporate)	195	\$10,461.7	\$7,978.2	\$8,792.8
Federal Exclusions	61		\$3,655.3	\$4,189.2
Federal Adjustments/Deductions	48		\$2,192.2	\$2,099.5
Oregon Subtractions	24		\$1,039.0	\$1,262.1
Oregon Credits and Other ¹	62		\$1,091.7	\$1,242.0
Property ²	120	\$8,193.8	\$16,406.1	\$17,962.1
Full Exemption	85		\$15,937.3	\$17,470.5
Partial Exemption	24		\$210.0	\$229.3
Special Assessment	11		\$258.9	\$262.4
Gas and Use Fuel	5	\$832.3	\$13.1	\$13.2
Weight-Mile	7	\$455.0	\$12.3	\$13.5
Cigarette & Other Tobacco	5	\$498.1	\$2.9	\$2.9
Beer and Wine	2	\$27.0	\$1.7	\$2.0
Other State Taxes	18	\$342.3	\$4.1	\$4.2
All Taxes	352	\$20,810.3	\$24,418.4	\$26,790.7

¹ There are 6 'Other' tax expenditures

² The estimates include only the loss amounts.

Income tax expenditures (personal and corporation) in 2005–07 will total almost \$9 billion, about \$2 billion less than expected income tax revenues over this period. Although not as extreme as the property tax program,

there are also several very large tax expenditures. The largest expenditures are for Oregon’s personal exemption credit (\$1 billion), employer paid medical benefits (\$1 billion), and the deduction of home mortgage interest (\$960 million).

Composition of Oregon’s Income Tax Expenditures

Of Oregon’s 195 income tax expenditures, some apply exclusively to individuals, some apply exclusively to corporations, and some may be claimed by both individuals and corporations. The table below provides the numbers of tax expenditures and their revenue impacts in each of these categories.

Income Tax Expenditures by Type of Taxpayer 2005-07 Revenue Impacts of Expenditures Received by Individuals, Corporations, or Both (Millions of Dollars)							
	Individuals Only		Corporations Only		Both		
	Number	Total	Number	Total	Number	Individuals Total	Corporations Total
Exclusions	43	\$3,861	7	\$90	11	\$218	\$20
Adjustments	8	\$255	0	----	0	----	----
Deductions	6	\$1,406	8	\$48	26	\$319	\$72
Subtractions	19	\$1,261	2	\$1	3	\$0	\$0
Credits	16	\$1,151	12	\$37	28	\$23	\$27
Other	2	\$2	2	\$1	2	\$0	\$0
Total	94	\$7,935	31	\$177	70	\$560	\$119

The remainder of this report provides more detailed descriptions and revenue impact estimates for each tax expenditure currently specified in Oregon law.

TAX EXPENDITURES SCHEDULED FOR SUNSET IN 2005–07

As part of the 1995 Budget Accountability Act, the governor is required to identify each tax expenditure that has a full or partial sunset occurring in the coming biennium and prepare a recommendation that indicates whether the full or partial sunset should be allowed to take effect. Below are those tax expenditures and the governor's recommendations.

TAX EXPENDITURE	TYPE	OREGON STATUTE	SUNSET	2005-07 REVENUE IMPACT (\$000)	GOVERNOR'S RECOMMENDATION
1.138 Qualified Adoption Expense	Income Tax Credit	315.274	12/31/2005	400	Extend Sunset
1.151 Long-term Nonurban Enterprise Zone (Income Tax)	Income Tax Credit	317.124	12/31/2006	Not available*	Extend Sunset
1.154 Investment in Telecommunications Infrastructure	Income Tax Credit	315.511	12/31/2005	Less than 50	Extend Sunset
1.157 Dependent Care Assistance	Income Tax Credit	315.204	12/31/2006	2,000	Extend Sunset
2.011 Long-Term Nonurban Enterprise Zone (Property Tax)	Full Property Tax Exemption	285C.406	12/31/2006	2,200	Extend Sunset
2.012 Centrally Assessed Electricity Generating Facility in an Enterprise Zone	Full Property Tax Exemption	Note: 285C.175	01/01/2006	0	Extend Sunset
2.093 Multi-Family Rental Housing in City Core	Partial Property Tax Exemption	307.630	01/01/2006	8,400	Extend Sunset
2.094 Low-Income Multi-Unit Housing	Partial Property Tax Exemption	307.630	01/01/2006	Incl. in 2.093	Extend Sunset

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

TABLE 1: INDEX OF TAX EXPENDITURES BY TAX PROGRAM

Tax Expenditure	Program or Function	Year Enacted	Oregon Statute	Revenue Impact (\$ Thousands)		
				2003–05	2005–07	
INCOME TAX (Personal and Corporation)						
<i>Federal Exclusions</i>						
1.001	Scholarship and Fellowship Income	Education	1954	316.048	11,500	12,300
1.002	Interest on Education Savings Bonds	Education	1988	316.048	200	200
1.003	Earnings on Education Savings Accounts	Education	1997	316.048	2,400	3,000
1.004	Qualified Tuition Programs (Federal)	Education	1996	316.048	3,800	5,500
1.005	Public Assistance Benefits	Human Services	Pre-1955	316.048	15,600	17,100
1.006	Certain Foster Care Payments	Human Services	1982	316.048	4,700	5,600
1.007	Employee Adoption Benefits	Human Services	1996	316.048	Less than 50	Less than 50
1.008	Cafeteria Plan Benefits	Human Services	1974	316.048	137,100	161,400
1.009	Employer Paid Medical Benefits	Human Services	1918	316.048	796,800	1,010,000
1.010	Compensatory Damages	Human Services	Pre-1955	316.048	10,600	11,000
1.011	Pension Contributions and Earnings	Human Services	1921	316.048	723,000	805,500
1.012	Hospital Insurance (Part A)	Human Services	1965	316.048	147,800	179,900
1.013	Supplementary Medical Insurance (Part B)	Human Services	1970	316.048	95,900	119,600
1.014	Special Benefits for Disabled Coal Miners	Human Services	1969	316.048	Less than 50	Less than 50
1.015	Social Security Benefits (Federal)	Human Services	1938	316.048	254,800	278,000
1.016	Income Earned Abroad by U.S. Citizens	Economic/Community	1926	316.048	25,900	29,400
1.017	Inventory Property Sales Source-Rule Exception	Economic/Community	1921	317.013	24,200	27,000
1.018	Magazine, Paperback, and Record Returns	Economic/Community	1978	316.048/317.013	100	100
1.019	Cash Accounting, Other than Agriculture	Economic/Community	1916	316.048/317.013	5,000	6,100
1.020	Regional Economic Development Incentives	Economic/Community	1993	316.048/317.013	100	0
1.021	Income of Controlled Foreign Corporations	Economic/Community	1909	317.013	20,500	22,400
1.022	Extraterritorial Income Exclusion	Economic/Community	2000	317.013	23,400	26,300
1.023	Cancellation of Debt for Non-Farmers	Economic/Community	Pre-1955	316.048/317.013	Less than 50	Less than 50
1.024	Employer Paid Group Life Insurance Premiums	Economic/Community	1920	316.048	19,700	21,400
1.025	Employer Paid Accident and Disability Insurance	Economic/Community	1954	316.048	19,700	22,100
1.026	Employer Provided Dependent Care	Economic/Community	1981	316.048	6,800	7,600
1.027	Miscellaneous Fringe Benefits	Economic/Community	1984	316.048	47,500	49,400
1.028	Employee Meals and Lodging (Non-Military)	Economic/Community	1918	316.048	7,300	7,300
1.029	Employee Stock Ownership Plans	Economic/Community	1974	316.048/317.013	6,300	6,700
1.030	Employee Awards	Economic/Community	1986	316.048	1,000	1,200
1.031	Employer Provided Education Benefits	Economic/Community	1997	316.048	6,400	7,200
1.032	Spread on Acquisition of Stock	Economic/Community	1981	316.048	3,200	3,100
1.033	Capital Gains on Home Sales	Economic/Community	1997	316.048	178,100	188,900
1.034	Veteran's Benefits and Services	Economic/Community	1917	316.048	33,900	36,800
1.035	Military and Dependents CHAMPUS/TRICARE Insurance	Economic/Community	1925	316.048	17,200	17,800
1.036	Agriculture Cost-Sharing Payments	Natural Resources	1978	316.048/317.013	200	200
1.037	Cancellation of Debt for Farmers	Natural Resources	1986	316.048	1,000	1,100
1.038	Energy Conservation Subsidies (Federal)	Natural Resources	1992	316.048	Incl. in 1.125	Incl. in 1.125
1.039	Employer Paid Transportation Benefits	Transportation	1992	316.048	25,400	25,700
1.040	Contributions in Aid of Construction for Utilities	Consumer and Business Services	1996	317.013	100	100
1.041	Life Insurance Investment Income	Consumer and Business Services	1913	316.048/317.013	194,700	206,500
1.042	Workers' Compensation Benefits (Non-Medical)	Consumer and Business Services	1918	316.048	40,000	41,500
1.043	Workers' Compensation Benefits (Medical)	Consumer and Business Services	1918	316.048	30,600	33,100

Table 1: Index of Tax Expenditures by Tax Program (cont.)

Tax Expenditure	Program or Function	Year Enacted	Oregon Statute	Revenue Impact (\$ Thousands)	
				2003–05	2005–07
1.044 Credit Union Income	Consumer and Business Services	1951	317.080(1)	5,300	5,900
1.045 Life Insurance Company Reserves	Consumer and Business Services	1984	317.655(2)(f,g)	7,400	8,600
1.046 Structured Settlement Accounts	Consumer and Business Services	1982	317.013	Less than 50	Less than 50
1.047 Small Property Insurance Companies	Consumer and Business Services	1986	317.013	Less than 50	Less than 50
1.048 Imputed Interest Rules	Tax Administration	1964	316.048/317.013	2,400	2,400
1.049 Gain on Nondealer Installment Sales	Tax Administration	1921	316.048/317.013	5,900	6,600
1.050 Gain on Like-Kind Exchanges	Tax Administration	1921	316.048/317.013	8,800	9,500
1.051 Allowances for Federal Employees Abroad	Government	1943	316.048	3,200	3,900
1.052 Interest on Oregon State and Local Debt	Government	1913	316.048	72,900	71,400
1.053 Capital Gains on Inherited Property	Social Policy	1921	316.048	498,400	560,000
1.054 Capital Gains on Gifts	Social Policy	1921	316.048	59,600	68,400
1.055 Gain on Involuntary Conversions in Disaster Areas	Social Policy	1996	316.048	200	200
1.056 Voluntary Employees' Beneficiary Associations	Social Policy	1928	316.048	23,400	27,200
1.057 Rental Allowances for Ministers' Homes	Social Policy	1921	316.048	3,300	3,800
1.058 Military Disability Benefits	Social Policy	1942	316.048	800	800
1.059 Benefits and Allowances of Armed Forces Personnel	Social Policy	1925	316.048	21,200	22,400
1.060 Restitution Payments for Holocaust Survivors	Social Policy	2001	316.048	Less than 50	Less than 50
1.061 Survivor Annuities	Social Policy	1997	316.048	Less than 50	Less than 50
<i>Federal Adjustments</i>					
1.062 Interest on Student Loans	Education	1997	316.048	11,400	13,200
1.063 Qualified Higher Education Expenses	Education	2001	316.048	14,400	4,700
1.064 Teacher Classroom Expenses	Education	2002	316.048	Less than 50	0
1.065 Self-Employment Health Insurance	Human Services	1986	316.048	41,500	46,400
1.066 Medical Savings Accounts (Federal)	Human Services	1996	316.048	600	600
1.067 IRA Contributions and Earnings	Human Services	1974	316.048	106,700	134,000
1.068 Keogh Plan Contributions and Earnings	Human Services	1962	316.048	47,300	52,800
1.069 Moving Expenses	Economic/Community	1964	316.048	2,900	2,900
<i>Federal Deductions</i>					
1.070 Charitable Contributions: Education	Education	1917	316.695/317.013	43,700	46,000
1.071 Charitable Contributions: Health	Human Services	1917	316.695/317.013	31,400	33,300
1.072 Medical and Dental Expenses	Human Services	1942	316.695	126,200	141,300
1.073 Removal of Architectural Barriers	Human Services	1976	316.048/317.013	100	100
1.074 Accelerated Depreciation of Buildings	Economic/Community	1954	316.048/317.013	18,300	7,000
1.075 Accelerated Depreciation of Equipment	Economic/Community	1954	316.048/317.013	256,900	26,000
1.076 Accelerated Depreciation of Rental Housing	Economic/Community	1954	316.048/317.013	24,800	31,500
1.077 Deferral of Certain Financing Income of Foreign Corporations	Economic/Community	1997	317.013	7,800	9,100
1.078 Research and Development Costs	Economic/Community	1954	316.048/317.013	18,400	26,900
1.079 Section 179 Expensing Allowances	Economic/Community	1959	316.048/317.013	20,600	6,000
1.080 Amortization of Business Start-Up Costs	Economic/Community	1980	316.048/317.013	4,500	4,700
1.081 Construction Funds of Shipping Companies	Economic/Community	1936	317.319	1,700	1,700
1.082 Ordinary Treatment of Losses from Small Business Corporation Stock	Economic/Community	1958	316.048	300	300
1.083 Property Taxes	Economic/Community	1913	316.695	256,500	296,100
1.084 Home Mortgage Interest	Economic/Community	1913	316.695	905,100	958,600
1.085 Cash Accounting for Agriculture	Natural Resources	1916	316.048/317.013	3,400	3,400
1.086 Soil and Water Conservation Expenditures	Natural Resources	1954	316.048/317.013	300	300

Table 1: Index of Tax Expenditures by Tax Program (cont.)

Tax Expenditure	Program or Function	Year Enacted	Oregon Statute	Revenue Impact (\$ Thousands)	
				2003–05	2005–07
1.087 Fertilizer and Soil Conditioner Costs	Natural Resources	1960	316.048/317.013	1,200	1,200
1.088 Costs of Raising Dairy and Breeding Cattle	Natural Resources	1916	316.048/317.013	600	300
1.089 Sale of Stock to Farmers' Cooperatives	Natural Resources	1998	316.048/317.013	Less than 50	Less than 50
1.090 Redevelopment Costs in Contaminated Areas	Natural Resources	1997	316.048/317.013	200	0
1.091 Clean-Fuel Vehicles and Refueling Property	Natural Resources	1993	316.048/317.013	1,300	900
1.092 Intangible Development Costs for Fuels	Natural Resources	1978	316.695/317.013	Less than 50	Less than 50
1.093 Depletion Costs for Fuels	Natural Resources	1962	316.695/317.013	Less than 50	Less than 50
1.094 Tertiary Injectants	Natural Resources	1980	316.695/317.013	100	100
1.095 Multi-Period Timber Growing Costs	Natural Resources	1986	316.048/317.013	6,300	6,300
1.096 Amortization of Reforestation Expenditures	Natural Resources	1980	316.048/317.013	200	200
1.097 Development Costs for Nonfuel Minerals	Natural Resources	1951	316.048/317.013	300	300
1.098 Depletion Costs for Nonfuel Minerals	Natural Resources	1913	316.048/317.374	1,200	1,200
1.099 Mining Reclamation Reserves	Natural Resources	1984	316.048/317.013	300	300
1.100 Bad Debt Reserves of Financial Institutions	Consumer and Business Services	1947	317.310	Less than 50	Less than 50
1.101 Small Life Insurance Companies	Consumer and Business Services	1984	317.013	400	400
1.102 Unpaid Loss Reserves	Consumer and Business Services	1986	317.655(2)(f,g)	7,400	7,100
1.103 Blue Cross/Blue Shield and Other Nonprofits	Consumer and Business Services	1986	317.013	Not available	Not available
1.104 Magazine Circulation Expenditures	Tax Administration	1950	316.048/317.013	300	300
1.105 Net Operating Loss Limitation	Tax Administration	1954	317.478/317.479	2,800	2,700
1.106 Completed Contract Rules	Tax Administration	1986	316.048/317.013	1,100	1,100
1.107 Casualty and Theft Losses	Social Policy	1913	316.695	2,000	2,000
1.108 Local Income Taxes	Social Policy	1913	316.695	13,700	7,700
1.109 Charitable Contributions: Other	Social Policy	1917	316.695/317.013	208,000	220,500

Oregon Subtractions

1.110 Land Donated to Schools	Education	1999	316.852/317.488	Less than 50	Less than 50
1.111 Oregon 529 College Savings Network	Education	1999	316.680(1)(i)	9,800	13,400
1.112 Scholarship Awards Used for Housing Expenses	Education	1999	316.846	Less than 50	Less than 50
1.113 JOBS Plus Participants	Human Services	1995	316.680(1)(e)	Less than 50	Less than 50
1.114 Physicians in "Medically Disadvantaged" Areas	Human Services	1973	316.076	0	0
1.115 Additional Deduction for Elderly or Blind	Human Services	1989	316.695(7)	9,000	6,900
1.116 Additional Medical Deduction for Elderly	Human Services	1991	316.695 (1)(d)(B)	66,800	77,000
1.117 Social Security Benefits (Oregon)	Human Services	1985	316.054	213,100	229,400
1.118 Individual Development Accounts (Exclusion and Subtraction)	Economic/Community	1999	316.848	Less than 50	Less than 50
1.119 Donations of Art by the Artist	Economic/Community	1979	316.838	Less than 50	Less than 50
1.120 Capital Gains from Oregon Reinvestment	Economic/Community	1995	316.874	0	0
1.121 Municipal Bond Interest	Economic/Community	1987	316.056	26,500	26,500
1.122 Out-of-State Financial Institution	Economic/Community	1999	317.057	Not available	Not available
1.123 Service in Vietnam on Missing Status	Economic/Community	1973	316.074	0	0
1.124 Underground Storage Tank Grants	Natural Resources	1991	316.834/317.383	0	0
1.125 Energy Conservation Subsidies (Oregon)	Natural Resources	1981	316.744/317.386	200	200
1.126 Wet Marine and Transportation Policies	Consumer and Business Services	1995	317.080(8)	400	500
1.127 Income Earned in Border River Areas	Tax Administration	2001	316.127	Less than 50	Less than 50
1.128 Income Earned in "Indian Country"	Government	1977	316.777	2,300	2,300
1.129 Federal Pension Income	Government	1998	316.680(1)(f)	127,900	142,500
1.130 Oregon State Lottery Prizes	Government	1985	461.560	2,100	2,300
1.131 Federal Income Tax Deduction	Social Policy	1929	316.680/316.695	534,800	711,800
1.132 Military Active Duty Pay	Social Policy	1969	316.680/316.789	7,600	8,400
1.133 Interest and Dividends on U.S. Obligations	Federal Law	1970	316.680	38,500	40,900

Table 1: Index of Tax Expenditures by Tax Program (cont.)

Tax Expenditure	Program or Function	Year Enacted	Oregon Statute	Revenue Impact (\$ Thousands)	
				2003–05	2005–07
<i>Oregon Credits</i>					
1.134 Youth Apprenticeship Sponsorship	Education	1991	315.254	0	0
1.135 Contributions of Computer Equipment	Education	1985	317.151	200	200
1.136 Employer Provided Scholarships	Education	2001	315.237	Less than 50	Less than 50
1.137 Earned Income Credit	Human Services	1997	315.266	18,500	19,300
1.138 Qualified Adoption Expense	Human Services	1999	315.274	1,400	400
1.139 Rural Medical Practice	Human Services	1989	316.143	13,700	14,800
1.140 Costs in lieu of Nursing Home Care	Human Services	1979	316.147-316.149	Less than 50	Less than 50
1.141 Long-Term Care Insurance	Human Services	1999	315.610	100	200
1.142 Disabled Child	Human Services	1985	316.099	3,100	3,500
1.143 Elderly or Permanently Disabled	Human Services	1969	316.087	100	Less than 50
1.144 Loss of Limbs	Human Services	1973	316.079	Less than 50	Less than 50
1.145 Severe Disability	Human Services	1985	316.758/316.765	4,600	5,000
1.146 Film Production Development Contributions	Economic/Community	2003	315.514	0	2,000
1.147 Individual Development Accounts (Credit)	Economic/Community	1999	315.271	900	900
1.148 Oregon Capital Corporation Investments	Economic/Community	1987	315.504	0	0
1.149 Qualified Research Activities	Economic/Community	1989	317.152	5,100	21,600
1.150 Qualified Research Activities (Alternative)	Economic/Community	1989	317.154	Incl. in 1.149	Incl. in 1.149
1.151 Long-term Nonurban Enterprise Zone (Income Tax)	Economic/Community	1997	317.124	Not available	Not available
1.152 Reservation Enterprise Zone (Income Tax)	Economic/Community	2001	285C.309	Less than 50	Less than 50
1.153 Electronic Commerce Enterprise Zone (Income Tax)	Economic/Community	2001	315.507	Not available	Not available
1.154 Investment in Telecommunications Infrastructure	Economic/Community	2001	315.511	Less than 50	Less than 50
1.155 Child and Dependent Care	Economic/Community	1975	316.078	15,400	16,400
1.156 Working Family Child Care	Economic/Community	1997	315.262	44,700	46,500
1.157 Dependent Care Assistance	Economic/Community	1987	315.204	2,000	2,000
1.158 Dependent Care Facilities	Economic/Community	1987	315.208	Incl. in 1.157	Incl. in 1.157
1.159 First Break Program	Economic/Community	1995	315.259	100	Less than 50
1.160 Child Care Division Contributions	Economic/Community	2001	315.213	500	1000
1.161 Farm Worker Housing Construction	Economic/Community	1989	315.164	300	300
1.162 Farm Worker Housing Lender's Credit	Economic/Community	1989	317.147	700	800
1.163 Involuntary Mobile Home Moves	Economic/Community	1991	316.153	Less than 50	Less than 50
1.164 Oregon Affordable Housing Credit	Economic/Community	1989	317.097	7,700	8,100
1.165 Crop Gleaning	Natural Resources	1977	315.156	Less than 50	Less than 50
1.166 Alternatives to Field Burning	Natural Resources	1975	468.150	Incl. in 1.170	Incl. in 1.170
1.167 Farm Machinery and Equipment (Income)	Natural Resources	2001	315.119/315.123	400	400
1.168 Riparian Lands Removed from Farm Production	Natural Resources	2001	315.113	Less than 50	Less than 50
1.169 Pollution Prevention	Natural Resources	1995	315.311	100	100
1.170 Pollution Control	Natural Resources	1967	315.304	25,200	24,800
1.171 Reclaimed Plastics	Natural Resources	1985	315.324	200	Less than 50
1.172 Diesel Truck Engines	Natural Resources	2003	Note: 315.356	0	3,000
1.173 Sewer Connection	Natural Resources	1987	316.095	100	Less than 50
1.174 Fish Screening Devices	Natural Resources	1989	315.138	Less than 50	Less than 50
1.175 Alternative Energy Devices (Residential)	Natural Resources	1977	316.116	12,200	13,600
1.176 Alternative Fuel Stations	Natural Resources	2001	317.115	Less than 50	Less than 50
1.177 Business Energy Facilities	Natural Resources	1979	315.354	12,600	12,900
1.178 Energy Conservation Lender's Credit	Natural Resources	1981	317.112	Less than 50	Less than 50
1.179 Weatherization Lender's Credit	Natural Resources	1977	317.111	Less than 50	Less than 50
1.180 Reforestation	Natural Resources	1979	315.104	Less than 50	Less than 50
1.181 Mile-Based or Time-Based Motor Vehicle Insurance	Consumer and Business Services	2003	Note: 317.122	0	400
1.182 Fire Insurance	Consumer and Business Services	1969	317.122(1)	2,300	2,600

Table 1: Index of Tax Expenditures by Tax Program (cont.)

Tax Expenditure	Program or Function	Year Enacted	Oregon Statute	Revenue Impact (\$ Thousands)	
				2003-05	2005-07
1.183 Workers' Compensation Assessments	Consumer and Business Services	1995	317.122(2)	3,000	3,000
1.184 Oregon IGA Assessments	Consumer and Business Services	1977	734.575	400	200
1.185 Oregon Life and Health IGA Assessments	Consumer and Business Services	1975	734.835	400	400
1.186 Political Contributions	Government	1969	316.102	9,700	10,000
1.187 Personal Exemption	Social Policy	1985	316.085	897,600	1,019,100
1.188 Retirement Income	Social Policy	1991	316.157	2,500	2,000
1.189 Oregon Cultural Trust	Social Policy	2001	315.675	3,200	3,200

Other

1.190 Expatriate Residential Status	Economic/Community	1999	316.027	1,600	1,600
1.191 Small City Business Development	Economic/Community	2001	316.778/317.391	Less than 50	Less than 50
1.192 Income Averaging for Farmers	Natural Resources	2001	314.297	100	100
1.193 Capital Gains from Farm Property	Natural Resources	2001	318.020/317.063	200	200
1.194 Apportionment for Certain Forest Product Companies	Natural Resources	2003	314.650(2)	0	Not available
1.195 Apportionment for Utility and Telecommunication Companies	Consumer and Business Services	2001	314.280	800	1,400

PROPERTY TAX

Full

2.001 Academies, Day Care and Student Housing	Education	1957	307.145	14,700	15,900
2.002 Student Housing Furnishings	Education	1957	307.195	100	100
2.003 Leased Student Housing Publicly Owned	Education	1947	307.110(3)(a)	9,900	10,400
2.004 Higher Education Parking Space	Education	1989	307.095(3)	4,100	4,200
2.005 Private Libraries for Public Use	Education	1854	307.160	Less than 50	Less than 50
2.006 Leased Health Care Property	Human Services	1999	307.110(3)(h)	Less than 50	Less than 50
2.007 Senior Services Centers	Human Services	1993	307.147	100	100
2.008 Commercial Buildings Under Construction	Economic/Community	1959	307.340	2,600	1,500
2.009 Construction-in-Process in an Enterprise Zone	Economic/Community	2003	285C.170	17,100	18,100
2.010 Enterprise Zone Businesses	Economic/Community	1985	285C.175	19,900	22,500
2.011 Long-Term Nonurban Enterprise Zone (Property Tax)	Economic/Community	1997	285C.406	1,600	2,200
2.012 Centrally Assessed Electricity Generating Facility in an Enterprise Zone	Economic/Community	2003	Note: 285C.175	200	0
2.013 Electronic Commerce Enterprise Zone (Property Tax)	Economic/Community	2001	285C.185	300	300
2.014 Rural Renewable Energy Development Zone	Economic/Community	2003	285C.362	0	200
2.015 Inventory	Economic/Community	1969	307.400	507,000	528,800
2.016 Business Personal Property Cancellation	Economic/Community	1979	308.250(2)	5,300	5,600
2.017 Cargo Containers	Economic/Community	1979	307.835	700	600
2.018 Leased Docks and Airports	Economic/Community	1947	307.120	8,100	9,000
2.019 Leased Publicly Owned Shipyard Property	Economic/Community	1995	307.111	3,000	3,300
2.020 Fairground Leased Storage Space	Economic/Community	1987	307.110(3)(d)(e)	Less than 50	Less than 50
2.021 Ship Repair Facility Materials	Economic/Community	1957	308.256(7)	0	0
2.022 Aircraft Being Repaired	Economic/Community	1995	308.559	0	0
2.023 Railroad Cars Being Repaired	Economic/Community	1973	308.665	0	0
2.024 Federal Land Under Recreation Facility	Economic/Community	1975	307.182	1,200	1,300
2.025 Federal Land Under Summer Homes	Economic/Community	1975	307.183/307.184	900	1,000
2.026 Defense Contractor With Federal Property	Economic/Community	1965	307.065	0	0
2.027 Industry Apprenticeship/Training Trust	Economic/Community	1983	307.580	400	400

Table 1: Index of Tax Expenditures by Tax Program (cont.)

Tax Expenditure	Program or Function	Year Enacted	Oregon Statute	Revenue Impact (\$ Thousands)		
				2003–05	2005–07	
2.028	Housing Authority Rental Units	Economic/Community	1937	307.092	15,900	17,700
2.029	Nonprofit Elderly Housing State Funded	Economic/Community	1977	307.242	0	0
2.030	Farm Labor Housing and Day Care Centers	Economic/Community	1973	307.485	400	500
2.031	Farm Machinery and Equipment (Property)	Natural Resources	1973	307.394	51,500	55,100
2.032	Mobile Field Incinerators	Natural Resources	1971	307.390	Less than 50	Less than 50
2.033	Crops, Plants, and Fruit Trees	Natural Resources	1957	307.320	17,500	17,900
2.034	Agricultural Products Held by Farmer	Natural Resources	1965	307.325	100	100
2.035	Nursery Stock	Natural Resources	1971	307.315	4,700	5,500
2.036	Leased Public Farming and Grazing Land	Natural Resources	1971	307.110(3)(b)	Incl. in 2.069	Incl. in 2.069
2.037	Leased Federal Grazing Land	Natural Resources	1961	307.060	Incl. in 2.083	Incl. in 2.083
2.038	Leased State Land Board Land	Natural Resources	1982	307.168	400	400
2.039	Oyster Growing on State Land	Natural Resources	1969	622.290	Less than 50	Less than 50
2.040	Center Pivot Irrigation Equipment	Natural Resources	1973	307.398	Incl. in 2.031	Incl. in 2.031
2.041	Other Farm/Aquaculture/Egg Equipment	Natural Resources	1973	307.397	Incl. in 2.031	Incl. in 2.031
2.042	Field Burning Smoke Management Equipment	Natural Resources	1973	307.391	Less than 50	Less than 50
2.043	Nonprofit Sewage Treatment Facilities	Natural Resources	1997	307.118	Less than 50	Less than 50
2.044	Riparian Habitat Land	Natural Resources	1981	308A.362	100	100
2.045	Environmentally Sensitive Logging Equipment	Natural Resources	1999	307.827/307.831	2,100	2,200
2.046	Federal Standing Timber Under Contract	Natural Resources	1965	307.050	4,500	4,400
2.047	State and Local Standing Timber Under Contract	Natural Resources	1965	307.100	1,900	1,900
2.048	Western Private Standing Timber	Natural Resources	1977	321.272	375,200	369,500
2.049	Eastern Private Standing Timber	Natural Resources	1961	321.829	40,200	39,000
2.050	Private Farm and Logging Roads	Natural Resources	1963	308.236	31,200	33,400
2.051	Forest Fire Protection Association	Natural Resources	1957	307.125	200	300
2.052	Inactive Mineral Interests	Natural Resources	1997	308.115	100	100
2.053	Mining Claims on Federal Land	Natural Resources	1889	307.080	Not available	Not available
2.054	Crab Pots	Natural Resources	1969	508.270	300	300
2.055	Small Watercraft	Natural Resources	1959	830.790(2)	27,600	27,600
2.056	Nonprofit Public Park Use Land	Natural Resources	1971	307.115	200	200
2.057	Property Used as Golf Course and Effluent	Natural Resources	2001	Note: 307.118	Less than 50	Less than 50
2.058	Railroad Right of Way Used for Alternative Transport	Transportation	1977	307.205	0	0
2.059	Motor Vehicles and Trailers	Transportation	1919	803.585	529,800	563,100
2.060	ODOT Land Under Use Permit	Transportation	1981	307.110(3)(c)	Less than 50	Less than 50
2.061	Nonprofit Electrical Distribution Associations	Consumer and Business Services	1943	308.805	8,000	8,600
2.062	Nonprofit Water Associations	Consumer and Business Services	1937	307.210	200	200
2.063	Nonprofit Telephone Associations	Consumer and Business Services	1941	307.220	0	0
2.064	Private Service Telephone Equipment	Consumer and Business Services	1941	307.230	Less than 50	Less than 50
2.065	Intangible Personal Property	Tax Administration	1935	307.030	9,058,000	10,020,900
2.066	Personal Property for Personal Use	Tax Administration	1854	307.190	613,500	666,100
2.067	Beverage Containers Requiring Deposit	Tax Administration	1983	307.402	100	100
2.068	FCC Licenses	Tax Administration	2001	307.126	5,500	6,100
2.069	State and Local Property	Government	1854	307.090	883,800	989,100
2.070	Beach Lands	Government	1969	307.450	NA	NA
2.071	Public Ways	Government	1895	307.200	408,400	437,300
2.072	Tribal Land Being Placed in U.S. Trust	Government	1993	307.181	Less than 50	Less than 50
2.073	Exempt Lease from Taxable Owner	Social Policy	1977	307.112	Incl. elsewhere	Incl. elsewhere
2.074	Exempt Lease from Exempt Owner	Social Policy	1973	307.166	Incl. elsewhere	Incl. elsewhere
2.075	Charitable, Literary, and Scientific Organizations	Social Policy	1854	307.130	75,100	79,700
2.076	Volunteer Fire Department Property	Social Policy	1999	307.130	Less than 50	Less than 50

Table 1: Index of Tax Expenditures by Tax Program (cont.)

Tax Expenditure	Program or Function	Year Enacted	Oregon Statute	Revenue Impact (\$ Thousands)	
				2003-05	2005-07
2.077 Fraternal Organizations	Social Policy	1961	307.136	8,000	8,700
2.078 Religious Organizations	Social Policy	1854	307.140	79,500	86,000
2.079 Cemeteries, Burial Grounds, and Mausoleums	Social Policy	1854	307.150	5,400	5,900
2.080 Transfer of Land from Cemetery to School	Social Policy	2001	307.157	200	200
2.081 City-Owned Sports Facilities	Social Policy	2001	307.171	1,500	1,600
2.082 Convention Facilities	Social Policy	1985	263.290	0	0
2.083 Federal Property	Federal Law	1848	307.040	3,088,800	3,395,000
2.084 Indian Property on Reservation	Federal Law	1854	307.180	Not available	Not available
2.085 Amtrak Passenger Railroad	Federal Law	1983	308.515	200	300
<i>Partial</i>					
2.086 Fraternities, Sororities, and Cooperatives	Education	1973	307.460	400	400
2.087 Rural Health Care Facilities	Human Services	2001	307.804	Less than 50	Less than 50
2.088 Long-Term Care Facilities	Human Services	1999	307.808	100	100
2.089 Strategic Investment Program (SIP)	Economic/Community	1993	307.123	145,900	159,100
2.090 Vertical Housing Development Zone	Economic/Community	2001	285C.450	300	300
2.091 New Houses in Distressed Area	Economic/Community	1989	458.020	4,800	4,700
2.092 Rehabilitated Housing	Economic/Community	1975	308.459	800	800
2.093 Multi-Family Rental Housing in City Core	Economic/Community	1975	307.630	6,700	8,400
2.094 Low-Income Multi-Unit Housing	Economic/Community	1999	307.630	Incl. in 2.093	Incl. in 2.093
2.095 New Housing for Low-Income Rental	Economic/Community	1989	307.517/307.518	1,100	1,200
2.096 Nonprofit Low-Income Rental Housing	Economic/Community	1985	307.541	8,600	10,200
2.097 War Veterans and Their Spouses	Economic/Community	1921	307.250	12,900	13,700
2.098 War Veterans in Nonprofit Elderly Housing	Economic/Community	1969	307.370	200	200
2.099 Agricultural Commodity Cleaning Property	Natural Resources	1999	307.120	100	100
2.100 Pollution Control Facilities	Natural Resources	1967	307.405	Less than 50	Less than 50
2.101 Ethanol Production Facility	Natural Resources	1993	307.701	Less than 50	Less than 50
2.102 Alternative Energy Systems	Natural Resources	1975	307.175	3,300	3,500
2.103 Watercraft Centrally Assessed	Natural Resources	1925	308.515	Not available	Not available
2.104 Historic Property	Natural Resources	1975	358.505	16,500	17,700
2.105 Railroad Right of Way in Water District	Transportation	1943	264.110	Less than 50	Less than 50
2.106 Railroad Right of Way in Highway Lighting District	Transportation	1947	372.190	Not available	Not available
2.107 Railroad Right of Way in Rural Fire District	Transportation	1969	478.010(2)(d)	600	700
2.108 Aircraft	Transportation	1987	308.558/308.565	7,700	8,400
2.109 Destroyed or Damaged Property	Social Policy	1971	308.425	Less than 50	Less than 50
<i>Special</i>					
2.110 Nonprofit Housing for the Elderly	Economic/Community	1969	308.490	Less than 50	Less than 50
2.111 Multi-Unit Rental Housing	Economic/Community	2001	308.704	4,600	5,100
2.112 Farm Land	Natural Resources	1967	308A.050	177,500	181,000
2.113 Farm Homesites	Natural Resources	1987	308A.253	6,000	6,200
2.114 Forest Homesites	Natural Resources	1989	308A.256	3,300	3,600
2.115 Western Private Forestland	Natural Resources	1977	321.354	57,900	55,300
2.116 Eastern Private Forestland	Natural Resources	1971	321.833	4,200	4,600
2.117 Small Tract Forestland Option	Natural Resources	2003	321.722	1,100	2,300
2.118 Watercraft Locally Assessed	Natural Resources	1925	308.256	2,400	2,500
2.119 Wildlife Habitat	Natural Resources	1993	308A.400	300	300
2.120 Open Space Land	Natural Resources	1971	308A.300	1,600	1,600

GAS, USE, JET AND AVIATION FUEL TAXES

3.001 Forest Products -- Gasoline	Natural Resources	1945	319.320(1)(b,d)	0	0
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Table 1: Index of Tax Expenditures by Tax Program (cont.)

Tax Expenditure	Program or Function	Year Enacted	Oregon Statute	Revenue Impact (\$ Thousands)	
				2003-05	2005-07
3.002 Forest Products -- Other than Gasoline	Natural Resources	1965	319.831(1)(c,g)	0	0
3.003 Fuel for Aircraft Departing U.S.	Tax Administration	1959	319.330(2)	Less than 50	Less than 50
3.004 Public Services	Government	1961	319.831(1)(e-f, h-k)	10,500	10,500
3.005 Public Transportation	Government	1969	267.200/267.570(2)	2,600	2,700
WEIGHT-MILE TAX					
4.001 Farming Operations	Natural Resources	1983	825.017(4,18)/825.024	2,800	3,000
4.002 Forest Products on County Roads	Natural Resources	1977	825.017(8)	0	0
4.003 Elementary and Secondary Schools	Government	Pre-1953	825.017(1)	1,600	1,800
4.004 Government Owned or Operated Vehicles	Government	Pre-1953	825.017(11,13)	4,700	5,200
4.005 Public Mass Transit Vehicles	Government	1977	825.017(12)	3,200	3,500
4.006 Fire Protection	Government	1977	825.017(23)	Less than 50	Less than 50
4.007 Charitable Organizations	Social Policy	1977	825.017(15)	Less than 50	Less than 50
CIGARETTE TAX					
5.001 Small Quantity by Consumers	Tax Administration	1965	323.060	Less than 50	Less than 50
5.002 Federal and Veteran Institutions	Federal Law	1965	323.055	Not available	Not available
5.003 Reservation Cigarette Sales	Federal Law	1979	323.401	2,900	2,900
OTHER TOBACCO PRODUCTS TAX					
6.001 Federal Installations	Federal Law	1985	323.515	Not available	Not available
6.002 Reservation Tobacco Sales	Federal Law	1985	323.615	Less than 50	Less than 50
BEER AND WINE TAX					
7.001 Small Wineries	Economic/Community	1977	473.050(5)	1,700	2,000
7.002 Wine Marketing Activities	Economic/Community	2001	473.047	0	0
TELEPHONE EXCHANGE ACCESS (911) TAX					
8.001 State and Local Subscribers	Government	1981	401.794	3,000	3,100
8.002 Federal Subscribers	Federal Law	1981	401.794	500	500
8.003 Indian Reservation Subscribers	Federal Law	1981	401.794	100	100
FOREST PRODUCTS HARVEST TAX					
9.001 First 25,000 Board Feet	Natural Resources	1953	321.015(5)	400	400
ELECTRIC COOPERATIVE TAX					
10.001 Revenue from Government Leased Lines	Natural Resources	1969	308.805	100	100
HAZARDOUS SUBSTANCES FEE					
11.001 State and Local Government Property	Government	1989	453.402(4)(e)	Not available	Not available
11.002 Substance Prohibited from Tax by Federal Law	Federal Law	1989	453.402(4)(d)	Not available	Not available
DRY CLEANING FEE/TAX					
12.001 Uniform Service or Linen Supply Facility	Economic/Community	1995	465.200(6)(b)	Less than 50	Less than 50
12.002 Prisons	Government	1995	465.200(6)(c)	0	0

Table 1: Index of Tax Expenditures by Tax Program (cont.)

Tax Expenditure	Program or Function	Year Enacted	Oregon Statute	Revenue Impact (\$ Thousands)	
				2003–05	2005–07
12.003 Facility on U.S. Military Base	Federal Law	1995	465.200(6)(a)	0	0
PETROLEUM LOAD FEE					
13.001 Product Prohibited from Tax by Federal Law	Federal Law	1989	465.111	Not available	Not available
OIL AND GAS SEVERANCE TAX					
14.001 First \$3,000 in Gross Sales Value	Natural Resources	1981	324.080	Less than 50	Less than 50
14.002 State and Local Interests	Government	1981	324.090(1)	0	0
14.003 Credit for Property Taxes Paid	Natural Resources	1981	324.090(2)	Less than 50	Less than 50
MEDICAL PROVIDER TAXES					
15.001 Type A and B Hospitals	Human Services	2003	Note: 409.750	Less than 50	Less than 50
15.002 Veterans Affairs and Pediatric Specialty Hospitals	Human Services	2003	Note: 409.750	Less than 50	Less than 50
15.003 Oregon Veterans' Home	Human Services	2003	Note: 409.750	Less than 50	Less than 50
15.004 Nursing Facilities	Human Services	2003	Note: 409.750	Less than 50	Less than 50

TABLE 2: INDEX OF TAX EXPENDITURES BY PROGRAM/FUNCTION

Tax Expenditure	Type	Year Enacted	Oregon Statute	Revenue Impact (\$ Thousands)		
				2003–05	2005–07	
EDUCATION						
<i>Income Tax (Personal and Corporation)</i>						
1.001	Scholarship and Fellowship Income	Exclusion	1954	316.048	11,500	12,300
1.002	Interest on Education Savings Bonds	Exclusion	1988	316.048	200	200
1.003	Earnings on Education Savings Accounts	Exclusion	1997	316.048	2,400	3,000
1.004	Qualified Tuition Programs (Federal)	Exclusion	1996	316.048	3,800	5,500
1.062	Interest on Student Loans	Adjustment	1997	316.048	11,400	13,200
1.063	Qualified Higher Education Expenses	Adjustment	2001	316.048	14,400	4,700
1.064	Teacher Classroom Expenses	Adjustment	2002	316.048	Less than 50	0
1.070	Charitable Contributions: Education	Deduction	1917	316.695/317.013	43,700	46,000
1.110	Land Donated to Schools	Subtraction	1999	316.852/317.488	Less than 50	Less than 50
1.111	Oregon 529 College Savings Network	Subtraction	1999	316.680(1)(i)	9,800	13,400
1.112	Scholarship Awards Used for Housing Expenses	Subtraction	1999	316.846	Less than 50	Less than 50
1.134	Youth Apprenticeship Sponsorship	Credit	1991	315.254	0	0
1.135	Contributions of Computer Equipment	Credit	1985	317.151	200	200
1.136	Employer Provided Scholarships	Credit	2001	315.237	Less than 50	Less than 50
<i>Property Tax</i>						
2.001	Academies, Day Care, and Student Housing	Full	1957	307.145	14,700	15,900
2.002	Student Housing Furnishings	Full	1957	307.195	100	100
2.003	Leased Student Housing Publicly Owned	Full	1947	307.110(3)(a)	9,900	10,400
2.004	Higher Education Parking Space	Full	1989	307.095(3)	4,100	4,200
2.005	Private Libraries for Public Use	Full	1854	307.160	Less than 50	Less than 50
2.086	Fraternities, Sororities, and Cooperatives	Partial	1973	307.460	400	400
HUMAN SERVICES						
<i>Income Tax (Personal and Corporation)</i>						
1.005	Public Assistance Benefits	Exclusion	Pre-1955	316.048	15,600	17,100
1.006	Certain Foster Care Payments	Exclusion	1982	316.048	4,700	5,600
1.007	Employee Adoption Benefits	Exclusion	1996	316.048	Less than 50	Less than 50
1.008	Cafeteria Plan Benefits	Exclusion	1974	316.048	137,100	161,400
1.009	Employer Paid Medical Benefits	Exclusion	1918	316.048	796,800	1,010,000
1.010	Compensatory Damages	Exclusion	Pre-1955	316.048	10,600	11,000
1.011	Pension Contributions and Earnings	Exclusion	1921	316.048	723,000	805,500
1.012	Hospital Insurance (Part A)	Exclusion	1965	316.048	147,800	179,900
1.013	Supplementary Medical Insurance (Part B)	Exclusion	1970	316.048	95,900	119,600
1.014	Special Benefits for Disabled Coal Miners	Exclusion	1969	316.048	Less than 50	Less than 50
1.015	Social Security Benefits (Federal)	Exclusion	1938	316.048	254,800	278,000
1.065	Self-Employment Health Insurance	Adjustment	1986	316.048	41,500	46,400
1.066	Medical Savings Accounts (Federal)	Adjustment	1996	316.048	600	600
1.067	IRA Contributions and Earnings	Adjustment	1974	316.048	106,700	134,000
1.068	Keogh Plan Contributions and Earnings	Adjustment	1962	316.048	47,300	52,800
1.071	Charitable Contributions: Health	Deduction	1917	316.695/317.013	31,400	33,300
1.072	Medical and Dental Expenses	Deduction	1942	316.695	126,200	141,300
1.073	Removal of Architectural Barriers	Deduction	1976	316.048/317.013	100	100
1.113	JOBS Plus Participants	Subtraction	1995	316.680(1)(e)	Less than 50	Less than 50
1.114	Physicians in "Medically Disadvantaged" Areas	Subtraction	1973	316.076	0	0

Table 2: Index of Tax Expenditures by Program/Function (cont.)

Tax Expenditure	Program or Function	Year Enacted	Oregon Statute	Revenue Impact (\$ Thousands)		
				2003-05	2005-07	
1.115	Additional Deduction for Elderly or Blind	Subtraction	1989	316.695(7)	9,000	6,900
1.116	Additional Medical Deduction for Elderly	Subtraction	1991	316.695 (1)(d)(B)	66,800	77,000
1.117	Social Security Benefits (Oregon)	Subtraction	1985	316.054	213,100	229,400
1.137	Earned Income Credit	Credit	1997	315.266	18,500	19,300
1.138	Qualified Adoption Expense	Credit	1999	315.274	1,400	400
1.139	Rural Medical Practice	Credit	1989	316.143	13,700	14,800
1.140	Costs in lieu of Nursing Home Care	Credit	1979	316.147-316.149	Less than 50	Less than 50
1.141	Long-Term Care Insurance	Credit	1999	315.610	100	200
1.142	Disabled Child	Credit	1985	316.099	3,100	3,500
1.143	Elderly or Permanently Disabled	Credit	1969	316.087	100	Less than 50
1.144	Loss of Limbs	Credit	1973	316.079	Less than 50	Less than 50
1.145	Severe Disability	Credit	1985	316.758/316.765	4,600	5,000

Property Tax

2.006	Leased Health Care Property	Full	1999	307.110(3)(h)	Less than 50	Less than 50
2.007	Senior Services Centers	Full	1993	307.147	100	100
2.087	Rural Health Care Facilities	Partial	2001	307.804	Less than 50	Less than 50
2.088	Long-Term Care Facilities	Partial	1999	307.808	100	100

Medical Provider Taxes

15.001	Type A and B Hospitals	Exclusion	2003	Note: 409.750	Less than 50	Less than 50
15.002	Veterans Affairs and Pediatric Specialty Hospitals	Exclusion	2003	Note: 409.750	Less than 50	Less than 50
15.003	Oregon Veterans' Home	Exclusion	2003	Note: 409.750	Less than 50	Less than 50
15.004	Nursing Facilities	Exclusion	2003	Note: 409.750	Less than 50	Less than 50

ECONOMIC AND COMMUNITY DEVELOPMENT

Income Tax (Personal and Corporation)

1.016	Income Earned Abroad by U.S. Citizens	Exclusion	1926	316.048	25,900	29,400
1.017	Inventory Property Sales Source-Rule Exception	Exclusion	1921	317.013	24,200	27,000
1.018	Magazine, Paperback, and Record Returns	Exclusion	1978	316.048/317.013	100	100
1.019	Cash Accounting, Other than Agriculture	Exclusion	1916	316.048/317.013	5,000	6,100
1.020	Regional Economic Development Incentives	Exclusion	1993	316.048/317.013	100	0
1.021	Income of Controlled Foreign Corporations	Exclusion	1909	317.013	20,500	22,400
1.022	Extraterritorial Income Exclusion	Exclusion	2000	317.013	23,400	26,300
1.023	Cancellation of Debt for Non-Farmers	Exclusion	Pre-1955	316.048/317.013	Less than 50	Less than 50
1.024	Employer Paid Group Life Insurance Premiums	Exclusion	1920	316.048	19,700	21,400
1.025	Employer Paid Accident and Disability Insurance	Exclusion	1954	316.048	19,700	22,100
1.026	Employer Provided Dependent Care	Exclusion	1981	316.048	6,800	7,600
1.027	Miscellaneous Fringe Benefits	Exclusion	1984	316.048	47,500	49,400
1.028	Employee Meals and Lodging (Non-Military)	Exclusion	1918	316.048	7,300	7,300
1.029	Employee Stock Ownership Plans	Exclusion	1974	316.048/317.013	6,300	6,700
1.030	Employee Awards	Exclusion	1986	316.048	1,000	1,200
1.031	Employer Provided Education Benefits	Exclusion	1997	316.048	6,400	7,200
1.032	Spread on Acquisition of Stock	Exclusion	1981	316.048	3,200	3,100
1.033	Capital Gains on Home Sales	Exclusion	1997	316.048	178,100	188,900
1.034	Veteran's Benefits and Services	Exclusion	1917	316.048	33,900	36,800
1.035	Military and Dependents CHAMPUS/TRICARE Insurance	Exclusion	1925	316.048	17,200	17,800
1.069	Moving Expenses	Adjustment	1964	316.048	2,900	2,900
1.074	Accelerated Depreciation of Buildings	Deduction	1954	316.048/317.013	18,300	7,000

Table 2: Index of Tax Expenditures by Program/Function (cont.)

Tax Expenditure	Type	Year Enacted	Oregon Statute	Revenue Impact (\$ Thousands)	
				2003–05	2005–07
1.075 Accelerated Depreciation of Equipment	Deduction	1954	316.048/317.013	256,900	26,000
1.076 Accelerated Depreciation of Rental Housing	Deduction	1954	316.048/317.013	24,800	31,500
1.077 Deferral of Certain Financing Income of Foreign Corporations	Deduction	1997	317.013	7,800	9,100
1.078 Research and Development Costs	Deduction	1954	316.048/317.013	18,400	26,900
1.079 Section 179 Expensing Allowances	Deduction	1959	316.048/317.013	20,600	6,000
1.080 Amortization of Business Start-Up Costs	Deduction	1980	316.048/317.013	4,500	4,700
1.081 Construction Funds of Shipping Companies	Deduction	1936	317.319	1,700	1,700
1.082 Ordinary Treatment of Losses from Small Business Corporation Stock	Deduction	1958	316.048	300	300
1.083 Property Taxes	Deduction	1913	316.695	256,500	296,100
1.084 Home Mortgage Interest	Deduction	1913	316.695	905,100	958,600
1.118 Individual Development Accounts (Exclusion and Subtraction)	Subtraction	1999	316.848	Less than 50	Less than 50
1.119 Donations of Art by the Artist	Subtraction	1979	316.838	Less than 50	Less than 50
1.120 Capital Gains from Oregon Reinvestment	Subtraction	1995	316.874	0	0
1.121 Municipal Bond Interest	Subtraction	1987	316.056	26,500	26,500
1.122 Out-of-State Financial Institution	Subtraction	1999	317.057	Not available	Not available
1.123 Service in Vietnam on Missing Status	Subtraction	1973	316.074	0	0
1.146 Film Production Development Contributions	Credit	2003	315.514	0	2,000
1.147 Individual Development Accounts (Credit)	Credit	1999	315.271	900	900
1.148 Oregon Capital Corporation Investments	Credit	1987	315.504	0	0
1.149 Qualified Research Activities	Credit	1989	317.152	5,100	21,600
1.150 Qualified Research Activities (Alternative)	Credit	1989	317.154	Incl. in 1.149	Incl. in 1.149
1.151 Long-term Nonurban Enterprise Zone (Income Tax)	Credit	1997	317.124	Not available	Not available
1.152 Reservation Enterprise Zone (Income Tax)	Credit	2001	285C.309	Less than 50	Less than 50
1.153 Electronic Commerce Enterprise Zone (Income Tax)	Credit	2001	315.507	Not available	Not available
1.154 Investment in Telecommunications Infrastructure	Credit	2001	315.511	Less than 50	Less than 50
1.155 Child and Dependent Care	Credit	1975	316.078	15,400	16,400
1.156 Working Family Child Care	Credit	1997	315.262	44,700	46,500
1.157 Dependent Care Assistance	Credit	1987	315.204	2,000	2,000
1.158 Dependent Care Facilities	Credit	1987	315.208	Incl. in 1.157	Incl. in 1.157
1.159 First Break Program	Credit	1995	315.259	100	Less than 50
1.160 Child Care Division Contributions	Credit	2001	315.213	500	1,000
1.161 Farm Worker Housing Construction	Credit	1989	315.164	300	300
1.162 Farm Worker Housing Lender's Credit	Credit	1989	317.147	700	800
1.163 Involuntary Mobile Home Moves	Credit	1991	316.153	Less than 50	Less than 50
1.164 Oregon Affordable Housing Credit	Credit	1989	317.097	7,700	8,100
1.190 Expatriate Residential Status	Other	1999	316.027	1,600	1,600
1.191 Small City Business Development	Other	2001	316.778/317.391	Less than 50	Less than 50

Property Tax

2.008 Commercial Buildings Under Construction	Full	1959	307.340	2,600	1,500
2.009 Construction-in-Process in an Enterprise Zone	Full	2003	285C.170	17,100	18,100
2.010 Enterprise Zone Businesses	Full	1985	285C.175	19,900	22,500
2.011 Long-Term Nonurban Enterprise Zone (Property Tax)	Full	1997	285C.406	1,600	2,200
2.012 Centrally Assessed Electricity Generating Facility in an Enterprise Zone	Full	2003	Note: 285C.175	200	0
2.013 Electronic Commerce Enterprise Zone (Property Tax)	Full	2001	285C.185	300	300
2.014 Rural Renewable Energy Development Zone	Full	2003	285C.362	0	200
2.015 Inventory	Full	1969	307.400	507,000	528,800
2.016 Business Personal Property Cancellation	Full	1979	308.250(2)	5,300	5,600
2.017 Cargo Containers	Full	1979	307.835	700	600
2.018 Leased Docks and Airports	Full	1947	307.120	8,100	9,000

Table 2: Index of Tax Expenditures by Program/Function (cont.)

Tax Expenditure	Program or Function	Year Enacted	Oregon Statute	Revenue Impact (\$ Thousands)		
				2003–05	2005–07	
2.019	Leased Publicly Owned Shipyard Property	Full	1995	307.111	3,000	3,300
2.020	Fairground Leased Storage Space	Full	1987	307.110(3)(d)(e)	Less than 50	Less than 50
2.021	Ship Repair Facility Materials	Full	1957	308.256(7)	0	0
2.022	Aircraft Being Repaired	Full	1995	308.559	0	0
2.023	Railroad Cars Being Repaired	Full	1973	308.665	0	0
2.024	Federal Land Under Recreation Facility	Full	1975	307.182	1,200	1,300
2.025	Federal Land Under Summer Homes	Full	1975	307.183/307.184	900	1,000
2.026	Defense Contractor With Federal Property	Full	1965	307.065	0	0
2.027	Industry Apprenticeship/Training Trust	Full	1983	307.580	400	400
2.028	Housing Authority Rental Units	Full	1937	307.092	15,900	17,700
2.029	Nonprofit Elderly Housing State Funded	Full	1977	307.242	0	0
2.030	Farm Labor Housing and Day Care Centers	Full	1973	307.485	400	500
2.089	Strategic Investment Program (SIP)	Partial	1993	307.123	145,900	159,100
2.090	Vertical Housing Development Zone	Partial	2001	285C.450	300	300
2.091	New Houses in Distressed Area	Partial	1989	458.020	4,800	4,700
2.092	Rehabilitated Housing	Partial	1975	308.459	800	800
2.093	Multi-Family Rental Housing in City Core	Partial	1975	307.630	6,700	8,400
2.094	Low-Income Multi-Unit Housing	Partial	1999	307.630	Incl. in 2.093	Incl. in 2.093
2.095	New Housing for Low-Income Rental	Partial	1989	307.517/307.518	1,100	1,200
2.096	Nonprofit Low-Income Rental Housing	Partial	1985	307.541	8,600	10,200
2.097	War Veterans and Their Spouses	Partial	1921	307.250	12,900	13,700
2.098	War Veterans in Nonprofit Elderly Housing	Partial	1969	307.370	200	200
2.110	Nonprofit Housing for the Elderly	Special	1969	308.490	Less than 50	Less than 50
2.111	Multi-Unit Rental Housing	Special	2001	308.704	4,600	5,100

Beer and Wine Tax

7.001	Small Wineries	Exclusion	1977	473.050(5)	1,700	2,000
7.002	Wine Marketing Activities	Exclusion	2001	473.047	0	0

Dry Cleaning Fee/Tax

12.001	Uniform Service or Linen Supply Facility	Exclusion	1995	465.200(6)(b)	Less than 50	Less than 50
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NATURAL RESOURCES

Income Tax (Personal and Corporation)

1.036	Agriculture Cost-Sharing Payments	Exclusion	1978	316.048/317.013	200	200
1.037	Cancellation of Debt for Farmers	Exclusion	1986	316.048	1,000	1,100
1.038	Energy Conservation Subsidies (Federal)	Exclusion	1992	316.048	Incl. in 1.125	Incl. in 1.125
1.085	Cash Accounting for Agriculture	Deduction	1916	316.048/317.013	3,400	3,400
1.086	Soil and Water Conservation Expenditures	Deduction	1954	316.048/317.013	300	300
1.087	Fertilizer and Soil Conditioner Costs	Deduction	1960	316.048/317.013	1,200	1,200
1.088	Costs of Raising Dairy and Breeding Cattle	Deduction	1916	316.048/317.013	600	300
1.089	Sale of Stock to Farmers' Cooperatives	Deduction	1998	316.048/317.013	Less than 50	Less than 50
1.090	Redevelopment Costs in Contaminated Areas	Deduction	1997	316.048/317.013	200	0
1.091	Clean-Fuel Vehicles and Refueling Property	Deduction	1993	316.048/317.013	1,300	900
1.092	Intangible Development Costs for Fuels	Deduction	1978	316.695/317.013	Less than 50	Less than 50
1.093	Depletion Costs for Fuels	Deduction	1962	316.695/317.013	Less than 50	Less than 50
1.094	Tertiary Injectants	Deduction	1980	316.695/317.013	100	100
1.095	Multi-Period Timber Growing Costs	Deduction	1986	316.048/317.013	6,300	6,300
1.096	Amortization of Reforestation Expenditures	Deduction	1980	316.048/317.013	200	200
1.097	Development Costs for Nonfuel Minerals	Deduction	1951	316.048/317.013	300	300
1.098	Depletion Costs for Nonfuel Minerals	Deduction	1913	316.048/317.374	1,200	1,200
1.099	Mining Reclamation Reserves	Deduction	1984	316.048/317.013	300	300

Table 2: Index of Tax Expenditures by Program/Function (cont.)

Tax Expenditure	Type	Year Enacted	Oregon Statute	Revenue Impact (\$ Thousands)		
				2003–05	2005–07	
1.124	Underground Storage Tank Grants	Subtraction	1991	316.834/317.383	0	0
1.125	Energy Conservation Subsidies (Oregon)	Subtraction	1981	316.744/317.386	200	200
1.165	Crop Gleaning	Credit	1977	315.156	Less than 50	Less than 50
1.166	Alternatives to Field Burning	Credit	1975	468.150	Incl. in 1.170	Incl. in 1.170
1.167	Farm Machinery and Equipment (Income)	Credit	2001	315.119/315.123	400	400
1.168	Riparian Lands Removed from Farm Production	Credit	2001	315.113	Less than 50	Less than 50
1.169	Pollution Prevention	Credit	1995	315.311	100	100
1.170	Pollution Control	Credit	1967	315.304	25,200	24,800
1.171	Reclaimed Plastics	Credit	1985	315.324	200	Less than 50
1.172	Diesel Truck Engines	Credit	2003	Note: 315.356	0	3,000
1.173	Sewer Connection	Credit	1987	316.095	100	Less than 50
1.174	Fish Screening Devices	Credit	1989	315.138	Less than 50	Less than 50
1.175	Alternative Energy Devices (Residential)	Credit	1977	316.116	12,200	13,600
1.176	Alternative Fuel Stations	Credit	2001	317.115	Less than 50	Less than 50
1.177	Business Energy Facilities	Credit	1979	315.354	12,600	12,900
1.178	Energy Conservation Lender's Credit	Credit	1981	317.112	Less than 50	Less than 50
1.179	Weatherization Lender's Credit	Credit	1977	317.111	Less than 50	Less than 50
1.180	Reforestation	Credit	1979	315.104	Less than 50	Less than 50
1.192	Income Averaging for Farmers	Other	2001	314.297	100	100
1.193	Capital Gains from Farm Property	Other	2001	318.020/317.063	200	200
1.194	Apportionment for Certain Forest Product Companies	Other	2003	314.650(2)	0	Not available

Property Tax

2.031	Farm Machinery and Equipment (Property)	Full	1973	307.394	51,500	55,100
2.032	Mobile Field Incinerators	Full	1971	307.390	Less than 50	Less than 50
2.033	Crops, Plants, and Fruit Trees	Full	1957	307.320	17,500	17,900
2.034	Agricultural Products Held by Farmer	Full	1965	307.325	100	100
2.035	Nursery Stock	Full	1971	307.315	4,700	5,500
2.036	Leased Public Farming and Grazing Land	Full	1971	307.110(3)(b)	Incl. in 2.069	Incl. in 2.069
2.037	Leased Federal Grazing Land	Full	1961	307.060	Incl. in 2.083	Incl. in 2.083
2.038	Leased State Land Board Land	Full	1982	307.168	400	400
2.039	Oyster Growing on State Land	Full	1969	622.290	Less than 50	Less than 50
2.040	Center Pivot Irrigation Equipment	Full	1973	307.398	Incl. in 2.031	Incl. in 2.031
2.041	Other Farm/Aquaculture/Egg Equipment	Full	1973	307.397	Incl. in 2.031	Incl. in 2.031
2.042	Field Burning Smoke Management Equipment	Full	1973	307.391	Less than 50	Less than 50
2.043	Nonprofit Sewage Treatment Facilities	Full	1997	307.118	Less than 50	Less than 50
2.044	Riparian Habitat Land	Full	1981	308A.362	100	100
2.045	Environmentally Sensitive Logging Equipment	Full	1999	307.827/307.831	2,100	2,200
2.046	Federal Standing Timber Under Contract	Full	1965	307.050	4,500	4,400
2.047	State and Local Standing Timber Under Contract	Full	1965	307.100	1,900	1,900
2.048	Western Private Standing Timber	Full	1977	321.272	375,200	369,500
2.049	Eastern Private Standing Timber	Full	1961	321.829	40,200	39,000
2.050	Private Farm and Logging Roads	Full	1963	308.236	31,200	33,400
2.051	Forest Fire Protection Association	Full	1957	307.125	200	300
2.052	Inactive Mineral Interests	Full	1997	308.115	100	100
2.053	Mining Claims on Federal Land	Full	1889	307.080	Not available	Not available
2.054	Crab Pots	Full	1969	508.270	300	300
2.055	Small Watercraft	Full	1959	830.790(2)	27,600	27,600
2.056	Nonprofit Public Park Use Land	Full	1971	307.115	200	200
2.057	Property Used as Golf Course and Effluent	Full	2001	Note: 307.118	Less than 50	Less than 50
2.099	Agricultural Commodity Cleaning Property	Partial	1999	307.120	100	100
2.100	Pollution Control Facilities	Partial	1967	307.405	Less than 50	Less than 50
2.101	Ethanol Production Facility	Partial	1993	307.701	Less than 50	Less than 50
2.102	Alternative Energy Systems	Partial	1975	307.175	3,300	3,500

Table 2: Index of Tax Expenditures by Program/Function (cont.)

Tax Expenditure	Program or Function	Year Enacted	Oregon Statute	Revenue Impact (\$ Thousands)		
				2003–05	2005–07	
2.103	Watercraft Centrally Assessed	Partial	1925	308.515	Not available	Not available
2.104	Historic Property	Partial	1975	358.505	16,500	17,700
2.112	Farm Land	Special	1967	308A.050	177,500	181,000
2.113	Farm Homesites	Special	1987	308A.253	6,000	6,200
2.114	Forest Homesites	Special	1989	308A.256	3,300	3,600
2.115	Western Private Forestland	Special	1977	321.354	57,900	55,300
2.116	Eastern Private Forestland	Special	1971	321.833	4,200	4,600
2.117	Small Tract Forestland Option	Special	2003	321.722	1,100	2,300
2.118	Watercraft Locally Assessed	Special	1925	308.256	2,400	2,500
2.119	Wildlife Habitat	Special	1993	308A.400	300	300
2.120	Open Space Land	Special	1971	308A.300	1,600	1,600
<i>Gas, Use, Jet and Aviation Fuel Taxes</i>						
3.001	Forest Products -- Gasoline	Exclusion	1945	319.320(1)(b,d)	0	0
3.002	Forest Products -- Other than Gasoline	Exclusion	1965	319.831(1)(c,g)	0	0
<i>Weight-Mile Tax</i>						
4.001	Farming Operations	Exclusion	1983	825.017(4,18)/825.024	2,800	3,000
4.002	Forest Products on County Roads	Exclusion	1977	825.017(8)	0	0
<i>Forest Products Harvest Tax</i>						
9.001	First 25,000 Board Feet	Exclusion	1953	321.015(5)	400	400
<i>Electric Cooperative Tax</i>						
10.001	Revenue from Government Leased Lines	Exclusion	1969	308.805	100	100
<i>Oil and Gas Severance Tax</i>						
14.001	First \$3,000 in Gross Sales Value	Exclusion	1981	324.08	Less than 50	Less than 50
14.003	Credit for Property Taxes Paid	Credit	1981	324.090(2)	Less than 50	Less than 50
TRANSPORTATION						
<i>Income Tax (Personal and Corporation)</i>						
1.039	Employer Paid Transportation Benefits	Exclusion	1992	316.048	25,400	25,700
<i>Property Tax</i>						
2.058	Railroad Right of Way Used for Alternative Transport	Full	1977	307.205	0	0
2.059	Motor Vehicles and Trailers	Full	1919	803.585	529,800	563,100
2.060	ODOT Land Under Use Permit	Full	1981	307.110(3)(c)	Less than 50	Less than 50
2.105	Railroad Right of Way in Water District	Partial	1943	264.110	Less than 50	Less than 50
2.106	Railroad Right of Way in Highway Lighting District	Partial	1947	372.190	Not available	Not available
2.107	Railroad Right of Way in Rural Fire District	Partial	1969	478.010(2)(d)	600	700
2.108	Aircraft	Partial	1987	308.558/308.565	7,700	8,400

Table 2: Index of Tax Expenditures by Program/Function (cont.)

Tax Expenditure	Type	Year Enacted	Oregon Statute	Revenue Impact (\$ Thousands)		
				2003–05	2005–07	
CONSUMER AND BUSINESS SERVICES						
<i>Income Tax (Personal and Corporation)</i>						
1.040	Contributions in Aid of Construction for Utilities	Exclusion	1996	317.013	100	100
1.041	Life Insurance Investment Income	Exclusion	1913	316.048/317.013	194,700	206,500
1.042	Workers' Compensation Benefits (Non-Medical)	Exclusion	1918	316.048	40,000	41,500
1.043	Workers' Compensation Benefits (Medical)	Exclusion	1918	316.048	30,600	33,100
1.044	Credit Union Income	Exclusion	1951	317.080(1)	5,300	5,900
1.045	Life Insurance Company Reserves	Exclusion	1984	317.655(2)(f,g)	7,400	8,600
1.046	Structured Settlement Accounts	Exclusion	1982	317.013	Less than 50	Less than 50
1.047	Small Property Insurance Companies	Exclusion	1986	317.013	Less than 50	Less than 50
1.100	Bad Debt Reserves of Financial Institutions	Deduction	1947	317.310	Less than 50	Less than 50
1.101	Small Life Insurance Companies	Deduction	1984	317.013	400	400
1.102	Unpaid Loss Reserves	Deduction	1986	317.655(2)(f,g)	7,400	7,100
1.103	Blue Cross/Blue Shield and Other Nonprofits	Deduction	1986	317.013	Not available	Not available
1.126	Wet Marine and Transportation Policies	Subtraction	1995	317.080(8)	400	500
1.181	Mile-Based or Time-Based Motor Vehicle Insurance	Credit	2003	Note: 317.122	0	400
1.182	Fire Insurance	Credit	1969	317.122(1)	2,300	2,600
1.183	Workers' Compensation Assessments	Credit	1995	317.122(2)	3,000	3,000
1.184	Oregon IGA Assessments	Credit	1977	734.575	400	200
1.185	Oregon Life and Health IGA Assessments	Credit	1975	734.835	400	400
1.195	Apportionment for Utility and Telecommunication Companies	Other	2001	314.28	800	1,400
<i>Property Tax</i>						
2.061	Nonprofit Electrical Distribution Associations	Full	1943	308.805	8,000	8,600
2.062	Nonprofit Water Associations	Full	1937	307.210	200	200
2.063	Nonprofit Telephone Associations	Full	1941	307.220	0	0
2.064	Private Service Telephone Equipment	Full	1941	307.230	Less than 50	Less than 50
TAX ADMINISTRATION						
<i>Income Tax (Personal and Corporation)</i>						
1.048	Imputed Interest Rules	Exclusion	1964	316.048/317.013	2,400	2,400
1.049	Gain on Nondealer Installment Sales	Exclusion	1921	316.048/317.013	5,900	6,600
1.050	Gain on Like-Kind Exchanges	Exclusion	1921	316.048/317.013	8,800	9,500
1.104	Magazine Circulation Expenditures	Deduction	1950	316.048/317.013	300	300
1.105	Net Operating Loss Limitation	Deduction	1954	317.478/317.479	2,800	2,700
1.106	Completed Contract Rules	Deduction	1986	316.048/317.013	1,100	1,100
1.127	Income Earned in Border River Areas	Subtraction	2001	316.127	Less than 50	Less than 50
<i>Property Tax</i>						
2.065	Intangible Personal Property	Full	1935	307.030	9,058,000	10,020,900
2.066	Personal Property for Personal Use	Full	1854	307.190	613,500	666,100
2.067	Beverage Containers Requiring Deposit	Full	1983	307.402	100	100
2.068	FCC Licenses	Full	2001	307.126	5,500	6,100
<i>Gas, Use, Jet and Aviation Fuel Taxes</i>						
3.003	Fuel for Aircraft Departing U.S.	Exclusion	1959	319.330(2)	Less than 50	Less than 50

Table 2: Index of Tax Expenditures by Program/Function (cont.)

Tax Expenditure	Program or Function	Year Enacted	Oregon Statute	Revenue Impact (\$ Thousands)		
				2003-05	2005-07	
<i>Cigarette Tax</i>						
5.001	Small Quantity by Consumers	Exclusion	1965	323.06	Less than 50	Less than 50
GOVERNMENT						
<i>Income Tax (Personal and Corporation)</i>						
1.051	Allowances for Federal Employees Abroad	Exclusion	1943	316.048	3,200	3,900
1.052	Interest on Oregon State and Local Debt	Exclusion	1913	316.048	72,900	71,400
1.128	Income Earned in "Indian Country"	Subtraction	1977	316.777	2,300	2,300
1.129	Federal Pension Income	Subtraction	1998	316.680(1)(f)	127,900	142,500
1.130	Oregon State Lottery Prizes	Subtraction	1985	461.560	2,100	2,300
1.186	Political Contributions	Credit	1969	316.102	9,700	10,000
<i>Property Tax</i>						
2.069	State and Local Property	Full	1854	307.090	883,800	989,100
2.070	Beach Lands	Full	1969	307.450	Not available	Not available
2.071	Public Ways	Full	1895	307.200	408,400	437,300
2.072	Tribal Land Being Placed in U.S. Trust	Full	1993	307.181	Less than 50	Less than 50
<i>Gas, Use, Jet and Aviation Fuel Taxes</i>						
3.004	Public Services	Exclusion	1961	319.831(1)(e-f, h-k)	10,500	10,500
3.005	Public Transportation	Exclusion	1969	267.200/267.570(2)	2,600	2,700
<i>Weight-Mile Tax</i>						
4.003	Elementary and Secondary Schools	Exclusion	Pre-1953	825.017(1)	1,600	1,800
4.004	Government Owned or Operated Vehicles	Exclusion	Pre-1953	825.017(11,13)	4,700	5,200
4.005	Public Mass Transit Vehicles	Exclusion	1977	825.017(12)	3,200	3,500
4.006	Fire Protection	Exclusion	1977	825.017(23)	Less than 50	Less than 50
<i>Telephone Exchange Access (911) Tax</i>						
8.001	State and Local Subscribers	Exclusion	1981	401.794	3,000	3,100
<i>Hazardous Substances Fee</i>						
11.001	State and Local Government Property	Exclusion	1989	453.402(4)(e)	Not available	Not available
<i>Dry Cleaning Fee/Tax</i>						
12.002	Prisons	Exclusion	1995	465.200(6)(c)	0	0
<i>Oil and Gas Severance Tax</i>						
14.002	State and Local Interests	Exclusion	1981	324.090(1)	0	0

Table 2: Index of Tax Expenditures by Program/Function (cont.)

Tax Expenditure	Type	Year Enacted	Oregon Statute	Revenue Impact (\$ Thousands)		
				2003–05	2005–07	
SOCIAL POLICY						
<i>Income Tax (Personal and Corporation)</i>						
1.053	Capital Gains on Inherited Property	Exclusion	1921	316.048	498,400	560,000
1.054	Capital Gains on Gifts	Exclusion	1921	316.048	59,600	68,400
1.055	Gain on Involuntary Conversions in Disaster Areas	Exclusion	1996	316.048	200	200
1.056	Voluntary Employees' Beneficiary Associations	Exclusion	1928	316.048	23,400	27,200
1.057	Rental Allowances for Ministers' Homes	Exclusion	1921	316.048	3,300	3,800
1.058	Military Disability Benefits	Exclusion	1942	316.048	800	800
1.059	Benefits and Allowances of Armed Forces Personnel	Exclusion	1925	316.048	21,200	22,400
1.060	Restitution Payments for Holocaust Survivors	Exclusion	2001	316.048	Less than 50	Less than 50
1.061	Survivor Annuities	Exclusion	1997	316.048	Less than 50	Less than 50
1.107	Casualty and Theft Losses	Deduction	1913	316.695	2,000	2,000
1.108	Local Income Taxes	Deduction	1913	316.695	13,700	7,700
1.109	Charitable Contributions: Other	Deduction	1917	316.695/317.013	208,000	220,500
1.131	Federal Income Tax Deduction	Subtraction	1929	316.680/316.695	534,800	711,800
1.132	Military Active Duty Pay	Subtraction	1969	316.680/316.789	7,600	8,400
1.187	Personal Exemption	Credit	1985	316.085	897,600	1,019,100
1.188	Retirement Income	Credit	1991	316.157	2,500	2,000
1.189	Oregon Cultural Trust	Credit	2001	315.675	3,200	3,200
<i>Property Tax</i>						
2.073	Exempt Lease from Taxable Owner	Full	1977	307.112	Incl. elsewhere	Incl. elsewhere
2.074	Exempt Lease from Exempt Owner	Full	1973	307.166	Incl. elsewhere	Incl. elsewhere
2.075	Charitable, Literary, and Scientific Organizations	Full	1854	307.130	75,100	79,700
2.076	Volunteer Fire Department Property	Full	1999	307.130	Less than 50	Less than 50
2.077	Fraternal Organizations	Full	1961	307.136	8,000	8,700
2.078	Religious Organizations	Full	1854	307.140	79,500	86,000
2.079	Cemeteries, Burial Grounds, and Mausoleums	Full	1854	307.150	5,400	5,900
2.080	Transfer of Land from Cemetery to School	Full	2001	307.157	200	200
2.081	City-Owned Sports Facility	Full	2001	307.171	1,500	1,600
2.082	Convention Facilities	Full	1985	263.29	0	0
2.109	Destroyed or Damaged Property	Partial	1971	308.425	Less than 50	Less than 50
<i>Weight-Mile Tax</i>						
4.007	Charitable Organizations	Exclusion	1977	825.017(15)	Less than 50	Less than 50
FEDERAL LAW						
<i>Income Tax (Personal and Corporation)</i>						
1.133	Interest and Dividends on U.S. Obligations	Subtraction	1970	316.680	38,500	40,900
<i>Property Tax</i>						
2.083	Federal Property	Full	1848	307.040	3,088,800	3,395,000
2.084	Indian Property on Reservation	Full	1854	307.180	Not available	Not available
2.085	Amtrak Passenger Railroad	Full	1983	308.515	200	300

Table 2: Index of Tax Expenditures by Program/Function (cont.)

Tax Expenditure	Program or Function	Year Enacted	Oregon Statute	Revenue Impact (\$ Thousands)		
				2003–05	2005–07	
<i>Cigarette Tax</i>						
5.002	Federal and Veteran Institutions	Exclusion	1965	323.055	Not available	Not available
5.003	Reservation Cigarette Sales	Credit	1979	323.401	2,900	2,900
<i>Other Tobacco Products Tax</i>						
6.001	Federal Installations	Exclusion	1985	323.515	Not available	Not available
6.002	Reservation Tobacco Sales	Exclusion	1985	323.615	Less than 50	Less than 50
<i>Telephone Exchange Access (911) Tax</i>						
8.002	Federal Subscribers	Exclusion	1981	401.794	500	500
8.003	Indian Reservation Subscribers	Exclusion	1981	401.794	100	100
<i>Hazardous Substances Fee</i>						
11.002	Substance Prohibited from Tax by Federal Law	Exclusion	1989	453.402(4)(d)	Not available	Not available
<i>Dry Cleaning Fee/Tax</i>						
12.003	Facility on U.S. Military Base	Exclusion	1995	465.200(6)(a)	0	0
<i>Petroleum Load Fee</i>						
13.001	Product Prohibited from Tax by Federal Law	Exclusion	1989	465.111	Not available	Not available

CHAPTER 1. INCOME TAX (PERSONAL AND CORPORATION)

Personal Income Tax

The personal income tax, sometimes called the “individual” income tax, is the state of Oregon’s largest source of revenue. For the 2003-05 biennium, this revenue is estimated to be \$8.8 billion. For the 2005–07 biennium \$10 billion, or 90 percent, of General Fund revenues are expected to come from this source. The Department of Revenue also publishes an annual report that provides detailed statistics on the personal income tax. The most recent edition of *Oregon Personal Income Tax Annual Statistics* is for tax year 2002.

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

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

The other important effect of connecting to the federal definition of taxable income is that doing so implicitly adopts many of the tax expenditures that exist in the federal tax code. Any special provisions allowed by the federal government that reduce taxable income will flow through to Oregon’s tax and result in lower Oregon tax collections. There currently are 94 of these special federal provisions—exclusions, deductions, and adjustments—that flow through to Oregon’s personal income tax. Because federal tax credits are applied after the calculation of federal taxable income, federal credits do not flow through to Oregon’s tax.

For the 2005–07 biennium, the connection to the federal definition of taxable income is expected to reduce Oregon personal income tax revenue by approximately \$6.1 billion. While Oregon could “disconnect” completely from the federal tax code (or parts of it) to collect some of that potential revenue, doing so would increase compliance costs for taxpayers and administrative costs for the state of Oregon. In 2003, the Legislature passed, and the Governor signed into law, HB 2186 which connects Oregon to the federal definition of taxable income as of December 31, 2002, with some exceptions. The 2005 Legislature is expected to address the issue of re-connecting to federal law.

In addition to the tax expenditures resulting from exclusions, deductions, and adjustments in the federal tax code, there are 22 subtractions in Oregon law that further reduces taxable income. In 2005–07 these subtractions are projected to reduce tax revenue by about \$1.3 billion.

Income Tax

Once taxable income is calculated, tax liabilities (prior to credits) are calculated by applying the tax rates. Oregon's personal income tax has three rate brackets: 5, 7, and 9 percent. Since 1993, the brackets have been indexed to inflation. The table below contains the tax brackets for 2005.

2005 Personal Income Tax Brackets			
<i>Single and Separate Returns</i>		<i>Joint and Head of Household Returns</i>	
<u>Taxable Income</u>	<u>Tax before Credits</u>	<u>Taxable Income</u>	<u>Tax before Credits</u>
Not over \$2,650	5% of taxable income	Not over \$5,300	5% of taxable income
\$2,650 to \$6,650	\$133 + 7% of income over \$2,650	\$5,300 to \$13,300	\$265 + 7% of income over \$5,300
Over \$6,650	\$413 + 9% of income over \$6,650	Over \$13,300	\$825 + 9% of income over \$13,300

Oregon's personal income tax contains 44 credits that are considered tax expenditures. The personal exemption credit is available to nearly all taxpayers and increases each year based on inflation. For 2005 the credit is \$154. The other 43 credits are designed to provide tax relief for specific groups of taxpayers. Aside from the Oregon Working Family Credit, none of the credits is "refundable", meaning that taxpayers can use the credit only up to the amount of their tax liabilities. If the credit is larger than the tax liability, the share of the credit that exceeds the tax liability goes unused or, for some credits, can be used in later years. In 2005–07, credits are expected to reduce Oregon personal income tax revenue by \$1.2 billion.

Corporation Excise and Income Taxes

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

The corporation income tax is the second largest source of revenue for the state General Fund. For the 2003–05 biennium, revenue is estimated to be \$608 million. For the 2005–07 biennium, corporation income taxes are expected to be \$450 million, or 4.1 percent of General Fund revenues. The Department of Revenue also publishes an annual report that provides detailed statistics on the corporation income tax. The 2003 edition is the most recent version of *Oregon Corporate Excise and Income Tax*. It contains statistics for tax year 2001 returns and fiscal year 2003 receipts.

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

Oregon uses federal taxable income with some modifications as its tax base. As with the personal income tax, connecting to the federal tax code reduces compliance costs for taxpayers, makes administration of the tax easier for the state of Oregon, and implicitly adopts many of the tax expenditures that exist in the federal tax code. For the 2005–07 biennium, the connection to the federal definition of taxable income is forecasted to reduce Oregon corporation income tax revenue by roughly \$230 million. There are only two Oregon-specific subtractions that can further reduce the taxable income of corporations, and they have a negligible effect in reducing corporate taxes. After Oregon taxable income is calculated, the tax rate of 6.6 percent is applied to arrive at the tax liability prior to credits.

There are 40 credits available on the corporation income tax. None is refundable, but most allow unused credit amounts to be carried forward and used in later years. In 2005–07, these credits are expected to reduce corporation tax revenue by roughly \$64 million.

1.001 SCHOLARSHIP AND FELLOWSHIP INCOME

Internal Revenue Code Section: 117

Oregon Statute: 316.048 (Connection to federal personal taxable income)

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1954

	Corporation	Personal	Total
2003–05 Revenue Impact:	Not Applicable	\$11,500,000	\$11,500,000
2005–07 Revenue Impact:	Not Applicable	\$12,300,000	\$12,300,000

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

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

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

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

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

1.002 INTEREST ON EDUCATION SAVINGS BONDS

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

	Corporation	Personal	Total
2003–05 Revenue Impact:	Not Applicable	\$200,000	\$200,000
2005–07 Revenue Impact:	Not Applicable	\$200,000	\$200,000

DESCRIPTION: The interest earned on U.S. Series EE savings bonds purchased and owned to finance higher education for the taxpayer, his or her spouse, or dependents is excluded from personal taxable income. The bonds must be purchased and owned by people age 24 or over and must have been issued after 1989. They must be used for qualified higher education expenses in the same year in which they are redeemed. Qualified higher education expenses include tuition and fees, but not room and board expenses. For 2003, a full exclusion is allowed if income is less than \$58,500 if single and \$87,750 if married. The exclusion phased out through incomes of \$73,500 (single) and \$117,750 (married) at which point no exclusion is allowed.

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

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

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

1.003 EARNINGS ON EDUCATION SAVINGS ACCOUNTS

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

	Corporation	Personal	Total
2003–05 Revenue Impact:	Not Applicable	\$2,400,000	\$2,400,000
2005–07 Revenue Impact:	Not Applicable	\$3,000,000	\$3,000,000

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

beneficiary to an education savings account of another beneficiary are allowed provided that the new beneficiary is a family member of the old beneficiary, and the distribution is deposited in the new account within 60 days.

There is a \$2,000 limit on annual contributions for a single beneficiary under 18. Contributions may also be made on behalf of special needs beneficiaries older than age 18. The contribution limit phases out for taxpayers with modified adjusted gross incomes between \$95,000 and \$110,000 (single), and \$190,000 and \$220,000 (married). Corporations and other entities are allowed to contribute, regardless of their income. Contributions may be made to both an education savings account and a Qualified Tuition Program (Federal) (1.004) for the same beneficiary without penalty.

- PURPOSE:** To help students afford the rising costs of higher education.
- WHO BENEFITS:** Families or individuals who assume responsibility for paying tuition for themselves or beneficiaries such as children or grandchildren.
- EVALUATION:** It is a fiscally effective method of achieving its purpose. The program helps reduce the cost of higher education. Furthermore, the program facilitates the spreading of the cost of higher education over a longer payment period that may extend prior to the student's time in school. *[Evaluated by the Oregon University System.]*

1.004 QUALIFIED TUITION PROGRAMS (FEDERAL)

Internal Revenue Code Section: 529

Oregon Statute: 316.048 (Connection to federal personal taxable income)

Federal Law Sunset Date: None

Year Enacted: 1996

	Corporation	Personal	Total
2003–05 Revenue Impact:	Not Applicable	\$3,800,000	\$3,800,000
2005–07 Revenue Impact:	Not Applicable	\$5,500,000	\$5,500,000

DESCRIPTION: Individuals may establish tax-deferred and tax-exempt college savings plans through state sponsored savings plans or prepaid tuition accounts through qualifying educational institutions. These accounts are set up for the purpose of paying education related expenses or tuition on behalf of a designated beneficiary. Total contributions to these accounts are allowed up to the amount necessary to cover the qualified higher education expenses of the beneficiary. Under federal law, contributions to these accounts are not tax deductible. Qualifying distributions from savings or prepaid tuition plans are excluded from tax. This exemption can be taken without itemizing (known as an adjustment or above-the-line deduction).

Nonqualifying distributions are subject to a penalty, and the earnings share of the nonqualifying distribution is subject to income taxation.

The revenue impacts for this expenditure do not include the value of the subtraction Oregon allows for contributions. That is included in the tax expenditure for Oregon 529 College Savings Network (1.111).

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

Income Tax
Federal Exclusions

WHO BENEFITS: Students and families of students are able to defer and eventually avoid tax on earnings of these accounts and therefore may accumulate savings more quickly for future higher education expenses. Participants in the Oregon administered plan are described in Oregon 529 College Savings Network (1.111).

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

1.005 PUBLIC ASSISTANCE BENEFITS

Revenue Rulings, Internal Revenue Code Section 61 (defines gross income)

Oregon Statute: 316.048 (Connection to federal personal taxable income)

Federal Law Sunset Date: None

Year Enacted in Federal Law: Pre-1955

	Corporation	Personal	Total
2003–05 Revenue Impact:	Not Applicable	\$15,600,000	\$15,600,000
2005–07 Revenue Impact:	Not Applicable	\$17,100,000	\$17,100,000

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

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

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

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

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

1.006 CERTAIN FOSTER CARE PAYMENTS

Internal Revenue Code Section: 131

Oregon Statute: 316.048 (Connection to federal personal taxable income)

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1982

	Corporation	Personal	Total
2003–05 Revenue Impact:	Not Applicable	\$4,700,000	\$4,700,000
2005–07 Revenue Impact:	Not Applicable	\$5,600,000	\$5,600,000

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

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

WHO BENEFITS: Foster care providers for children.

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

1.007 EMPLOYEE ADOPTION BENEFITS

Internal Revenue Code Section: 137

Oregon Statute: 316.048 (Connection to federal personal taxable income)

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1996

	Corporation	Personal	Total
2003–05 Revenue Impact:	Not Applicable	Less than \$50,000	Less than \$50,000
2005–07 Revenue Impact:	Not Applicable	Less than \$50,000	Less than \$50,000

DESCRIPTION: Benefits received under employer-sponsored adoption assistance programs are excluded from personal taxable income. The maximum exclusion in 2003 was \$10,160 per child, including special needs children. Expenses may be incurred over several years. Employer-provided adoption assistance must be received under an established employer-sponsored adoption assistance program. In 2003, the exclusion

Income Tax
Federal Exclusions

was phased out at modified adjusted gross incomes between \$152,390 and \$192,390. The exclusion limit and phase-outs are indexed to inflation.

PURPOSE: To encourage and facilitate adoption.

WHO BENEFITS: Adoptive parents.

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

Nationally and within Oregon, considerable focus has been placed on achieving permanent homes for children who are waiting in foster care. This includes the federal Adoption and Safe Families Act of 1997, as well as Oregon SB 408 (1999; conforms Oregon statute to the ASFA) and the earlier SB 689 (1997). All three pieces of legislation have as their primary goal the movement of children from temporary foster care to permanent (adoptive) homes. In Oregon, where approximately 1000 foster children and 1,400 non-foster children are adopted each year, it is unlikely that the employer-sponsored adoption assistance program created by ORS 316.048 significantly decreases revenue. Likewise, it is unlikely that it provides any significant financial incentive to achieve the national and federal goals of achieving permanent homes for children who are waiting in foster care. *[Evaluated by the Children, Adults, and Families Services Cluster, Department of Human Services.]*

1.008 CAFETERIA PLAN BENEFITS

Internal Revenue Code Section: 125

Oregon Statute: 316.048 (Connection to federal personal taxable income)

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1974

	Corporation	Personal	Total
2003–05 Revenue Impact:	Not Applicable	\$137,100,000	\$137,100,000
2005–07 Revenue Impact:	Not Applicable	\$161,400,000	\$161,400,000

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

PURPOSE: To encourage employers to include a flexible benefits package as part of a compensation package and to encourage employees to use the qualified benefit options.

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

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

1.009 EMPLOYER PAID MEDICAL BENEFITS

Internal Revenue Code Sections: 105 and 106

Oregon Statute: 316.048 (Connection to federal personal taxable income) and OAR 150-316-007-(B)

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1918

	Corporation	Personal	Total
2003–05 Revenue Impact:	Not Applicable	\$796,800,000	\$796,800,000
2005–07 Revenue Impact:	Not Applicable	\$1,010,000,000	\$1,010,000,000

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

Federal law does require that the imputed value of health and other fringe benefits of a domestic partner be included in AGI when co-habiting couples are not married. As result of the Oregon Appellate Court decision in the Tanner case, this imputed value of benefits received by an employee’s domestic partner is subtracted from Oregon taxable income. The subtraction first applied to tax year 2000.

The revenue impact includes only the amount pertaining to the federal exclusion.

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

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

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

This tax expenditure benefits workers on a differential basis depending on industry and wage levels. Many of the fastest growing industries, such as retail trade, construction, and services, are less likely to offer coverage to employees. Workers

earning between 100–200 percent of the federal poverty level are less likely to be offered employer paid medical benefit coverage. *[Evaluated by Oregon Health Plan Policy and Research.]*

1.010 COMPENSATORY DAMAGES

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

	Corporation	Personal	Total
2003–05 Revenue Impact:	Not Applicable	\$10,600,000	\$10,600,000
2005–07 Revenue Impact:	Not Applicable	\$11,000,000	\$11,000,000

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

PURPOSE: To avoid reducing the value of these payments.

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

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

1.011 PENSION CONTRIBUTIONS AND EARNINGS

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

	Corporation	Personal	Total
2003–05 Revenue Impact:	Not Applicable	\$723,000,000	\$723,000,000
2005–07 Revenue Impact:	Not Applicable	\$805,500,000	\$805,500,000

DESCRIPTION: Employer contributions to pension plans are not included in the employee’s personal taxable income in the year of contribution. Certain amounts contributed by employees are excluded from income as well. The maximum regular contribution for 2004 is \$13,000; this limit increases by \$1,000 each year until it reaches \$15,000 in 2006. After 2006, the limit is indexed to inflation. Taxation on contributions and earnings are deferred until distribution, when withdrawals are included in taxable income. The estimated tax benefit is a net figure; the revenue foregone in a given year offset by the amount of tax paid on withdrawals in that year.

PURPOSE: To promote saving for retirement.

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

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

1.012 HOSPITAL INSURANCE (PART A)

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

	Corporation	Personal	Total
2003–05 Revenue Impact:	Not Applicable	\$147,800,000	\$147,800,000
2005–07 Revenue Impact:	Not Applicable	\$179,900,000	\$179,900,000

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

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

WHO BENEFITS: In 2002, there were 440,000 Oregonians enrolled in Parts A and B of Medicare.

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

1.013 SUPPLEMENTARY MEDICAL INSURANCE (PART B)

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

	Corporation	Personal	Total
2003–05 Revenue Impact:	Not Applicable	\$95,900,000	\$95,900,000
2005–07 Revenue Impact:	Not Applicable	\$119,600,000	\$119,600,000

DESCRIPTION: For those who elect to pay the required monthly premiums (\$66.60 in 2004), Part B of Medicare covers certain doctors’ services, outpatient services, and other medical services for people who are age 65 and over or who are disabled. The portion of the program’s costs that are paid with governmental general revenues are not included in the personal taxable income of recipients. Currently, these costs account for 75 percent of the program’s costs. Under current law, annual increases in the Part B premium is limited to the percentage increase in the Social Security cost of living allowance.

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

WHO BENEFITS: In 2002, there were 440,000 Oregonians enrolled in Parts A and B of Medicare.

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

1.014 SPECIAL BENEFITS FOR DISABLED COAL MINERS

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

	Corporation	Personal	Total
2003–05 Revenue Impact:	Not Applicable	Less than \$50,000	Less than \$50,000
2005–07 Revenue Impact:	Not Applicable	Less than \$50,000	Less than \$50,000

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

PURPOSE: To ensure consistent treatment with workers’ compensation.

WHO BENEFITS: In 2002, 54 Oregonians received Black Lung benefits.

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

1.015 SOCIAL SECURITY BENEFITS (FEDERAL)

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

	Corporation	Personal	Total
2003–05 Revenue Impact:	Not Applicable	\$254,800,000	\$254,800,000
2005–07 Revenue Impact:	Not Applicable	\$278,000,000	\$278,000,000

DESCRIPTION: Only a portion of Social Security and Railroad Retirement Board benefits are considered nontaxable at the federal level while the state of Oregon extends the tax exemption to the full amount of benefits. As a result, there are two tax expenditures pertaining to these benefits. This tax expenditure pertains to those benefits that are exempt at the federal level. The tax expenditure pertaining to the portion of benefits that are taxed at the federal level but are exempt in Oregon is Social Security Benefits (Oregon) (1.117).

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

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

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

WHO BENEFITS: Roughly 166,000 Oregon resident taxpayers received some nontaxable Social Security and Railroad Retirement Board benefits in 2002. The average exclusion was slightly under \$8,300.

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

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of persons aged 30–48 are not adequate to maintain these individuals at a living standard commensurate with their current living standards. Projections suggest that the rate of retirement savings must increase threefold from present standards in order to accomplish this future parity. The inability to achieve this parity will cause greater numbers of people to look to government service programs to assist them. The present population of those age 30–48 is substantial, and this program could have a dramatic impact when they reach the retirement age. *[Evaluated by the Seniors and People with Disabilities Cluster, Department of Human Services.]*

1.016 INCOME EARNED ABROAD BY U.S. CITIZENS

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

	Corporation	Personal	Total
2003–05 Revenue Impact:	Not Applicable	\$25,900,000	\$25,900,000
2005–07 Revenue Impact:	Not Applicable	\$29,400,000	\$29,400,000

DESCRIPTION: U.S. citizens (except U.S. federal employees) who live abroad may exclude from personal taxable income up to \$80,000 earned from employment overseas. (This income level will be indexed to inflation beginning in 2008.) A taxpayer must meet foreign residence tests in order to receive the exclusion. Taxpayers may also exclude a certain amount of employer-provided foreign housing expenses.

PURPOSE: To help compensate U.S. citizens working abroad for higher living costs overseas and taxes paid to the foreign country of residence. U.S. citizens working abroad may play a role in promoting the sale of U.S. exports.

WHO BENEFITS: U.S. citizens who live and work abroad.

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

1.017 INVENTORY PROPERTY SALES SOURCE- RULE EXCEPTION

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

	Corporation	Personal	Total
2003–05 Revenue Impact:	\$24,200,000	Not Applicable	\$24,200,000
2005–07 Revenue Impact:	\$27,000,000	Not Applicable	\$27,000,000

DESCRIPTION: This tax expenditure allows the income from inventory property sold by the foreign operation of a U.S. company to be sourced to the foreign operation. Because taxes

paid to other countries may be used to offset only the portion of U.S. taxes due on foreign-source income [see Income of Controlled Foreign Corporations (1.021)], this sourcing rule exemption allows a company to effectively exempt a larger portion of its export income from corporate taxable income.

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

1.018 MAGAZINE, PAPERBACK, AND RECORD RETURNS

Internal Revenue Code Section: 458

Oregon Statutes: 316.048 and 317.013 (Connections to federal personal and corporation taxable incomes)

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1978

	Corporation	Personal	Total
2003–05 Revenue Impact:	Less than \$50,000	\$100,000	\$100,000
2005–07 Revenue Impact:	Less than \$50,000	\$100,000	\$100,000

- DESCRIPTION:** Generally, if a buyer returns goods to the seller, the seller's income is reduced in the year in which the items are returned. This tax expenditure grants an exemption to publishers and distributors of magazines, paperbacks, and records. (Records include discs, tapes, and similar objects that contain pre-recorded sounds.) These publishers and distributors may elect to exclude from corporate or personal taxable income any goods sold during a tax year that are returned shortly after the close of the tax year. Specifically, magazines must be returned within two months and 15 days after the end of the tax year. Paperbacks and records must be returned within four months and 15 days. This allows publishers and distributors to sell more copies to wholesalers and retailers than they expect will be sold to consumers.
- PURPOSE:** To encourage the purchase of printed magazines, paperbacks and recordings. To promote the business of those involved in publishing and distributing those materials.
- WHO BENEFITS:** Publishers and distributors of magazines, paperbacks and records.
- EVALUATION:** This expenditure appears to achieve its purpose by promoting increased sales of materials. The removal of this provision might cause irritating back-orders of popular materials and reduce sales of published materials due to an insufficient number of copies to allow for conspicuous display. However, the provision probably also encourages the over-printing of copies and the resultant waste. *[Evaluated by the Economic and Community Development Department.]*

1.019 CASH ACCOUNTING, OTHER THAN AGRICULTURE

Internal Revenue Code Sections: 446 and 448

Oregon Statutes: 316.048 and 317.013 (Connections to federal personal and corporation taxable incomes)

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1916

	Corporation	Personal	Total
2003–05 Revenue Impact:	\$100,000	\$4,900,000	\$5,000,000
2005–07 Revenue Impact:	\$100,000	\$6,000,000	\$6,100,000

DESCRIPTION: This tax expenditure allows employee-owned service businesses and other small businesses with average annual gross receipts of less than \$10 million for the last three years to choose the cash method of accounting instead of the accrual method. Using the cash method of accounting for tax purposes effectively defers corporation and personal income tax by allowing qualified businesses to record income when it is received rather than when it is earned. Cash Accounting for Agriculture (1.085) is a similar tax expenditure for small farms.

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

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

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

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

1.020 REGIONAL ECONOMIC DEVELOPMENT INCENTIVES

Internal Revenue Code Sections: 38(b), 39(d), 45A, 168(j), 280C(a), and 1391–1397D

Oregon Statutes: 316.048 and 317.013 (Connections to federal personal and corporation taxable incomes)

Federal Law Sunset Date: December 31, 2009

Year Enacted in Federal Law: 1993

	Corporation	Personal	Total
2003–05 Revenue Impact:	Less than \$50,000	\$100,000	\$100,000
2005–07 Revenue Impact:	\$0	\$0	\$0

DESCRIPTION: Federal law allows for the designation of up to 40 empowerment zones, 95 enterprise communities, and 40 renewal communities in the U.S. to receive special tax benefits. The major benefit of designation is access to tax-exempt bond financing. Qualified

public schools in enterprise communities and empowerment zones also have access to qualified zone academy bonds for school modernization. Empowerment zone and renewal community businesses receive additional tax incentives in the form of wage credits and an additional \$35,000 in capital equipment expensing.

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

Oregon currently has no empowerment zones or renewal communities. It does have two enterprise communities, one rural and one urban (Josephine County and Portland). Both will expire at the end of 2004 because enterprise communities are only eligible for benefits for up to ten years.

- PURPOSE:** To revitalize economically distressed areas through expanded business and employment opportunities.
- WHO BENEFITS:** Businesses and employees within the designated areas and holders of bonds nationwide.
- EVALUATION:** Indeterminate; not enough usage to evaluate effectiveness. *[Evaluated by the Economic and Community Development Department.]*

1.021 INCOME OF CONTROLLED FOREIGN CORPORATIONS

Internal Revenue Code Sections: 11(d), 882, and 951–964

Oregon Statute: 317.013 (Connection to federal corporation taxable income)

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1909

	Corporation	Personal	Total
2003–05 Revenue Impact:	\$20,500,000	Not Applicable	\$20,500,000
2005–07 Revenue Impact:	\$22,400,000	Not Applicable	\$22,400,000

- DESCRIPTION:** When a U.S. firm earns income through a foreign subsidiary, the income is exempt from U.S. corporate taxes as long as it is in the hands of the foreign subsidiary. At the time the foreign income is repatriated, the U.S. parent corporation can credit foreign taxes paid by the subsidiary against U.S. taxes owed on the repatriated income. Because U.S. firms can delay paying U.S. taxes by keeping income in the hands of foreign subsidiaries, it provides a tax benefit for firms that invest in countries with low tax rates.
- PURPOSE:** To encourage the purchase and operation of foreign subsidiaries by U.S. firms, thereby increasing these firms' penetration into foreign markets and their global competitiveness.
- WHO BENEFITS:** U.S. multinational firms with foreign operations in low tax countries.
- EVALUATION:** This expenditure appears to achieve its purpose. Encouraging companies to purchase and operate foreign subsidiaries may result in a short-term reduction in employment in the United States as production is moved to the foreign country where production costs may be cheaper than in the U.S. However, this move is likely to make the parent company more competitive worldwide, so that its remaining operations and employment in the United States become more secure in the long-term. If a company were to maintain all its production facilities in the United States, it might not be able

to compete successfully with foreign-based companies and thus would not even employ the technical staff, marketers, corporate executives, and others that it currently employs in the United States.

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

1.022 EXTRATERRITORIAL INCOME EXCLUSION

Internal Revenue Code Sections: 114; 941-2

Oregon Statute: 317.013 (Connection to federal corporation taxable income)

Federal Law Sunset Date: None (Repealed by federal HB 4520 in 2004.)

Year Enacted in Federal Law: 2000

	Corporation	Personal	Total
2003–05 Revenue Impact:	\$23,400,000	Not Applicable	\$23,400,000
2005–07 Revenue Impact:	\$26,300,000	Not Applicable	\$26,300,000

- DESCRIPTION:** This tax provision allows taxpayers to exclude between 15 to 30 percent of their qualified foreign trade income from taxation. The calculation rule used by the taxpayer determines the size of the exemption.
- Qualified foreign trade income is defined as a specified portion of income from the sale of certain goods abroad. The goods sold abroad must have no more than 50 percent of their value coming from foreign goods or from labor performed outside of the U.S.
- The extraterritorial income (ETI) law was enacted in late 2000 to replace the foreign sales corporation (FSC) laws. In 2000 the World Trade Organization declared that the FSC structure was an illegal export subsidy under international trade agreements. In early 2002 the ETI provision was also declared an illegal export subsidy. In October 2004, the ETI federal law was repealed. The repeal of the federal law will not affect the revenue estimates for this tax expenditure because Oregon is not tied to the current definition of federal taxable income.
- PURPOSE:** To encourage foreign trade.
- WHO BENEFITS:** Taxpayers with extraterritorial income.
- EVALUATION:** The impetus for the FSC/ETI legislation is to encourage smaller and mid-size companies to become engaged in international trade. FSCs were sometimes operated as cooperatives with several being state sponsored because of the needed economies of scale that smaller firms needed to make them financially viable. FSCs and ETIs have continued to come under fire from international trade organizations as unfair trade practices. They are valuable assets for larger firms that have a considerable amount of export business/revenues and could be considered a competitiveness tool. For most companies however, there is limited benefit. *[Evaluated by the Economic and Community Development Department.]*

1.023 CANCELLATION OF DEBT FOR NON-FARMERS

Internal Revenue Code Sections: 108(a)(1)(D)

Oregon Statute: 316.048 and 317.013 (Connection to federal personal and corporation taxable incomes)

Federal Law Sunset Date: None

Year Enacted in Federal Law: Pre-1955

	Corporation	Personal	Total
2003–05 Revenue Impact:	Less than \$50,000	Less than \$50,000	Less than \$50,000
2005–07 Revenue Impact:	Less than \$50,000	Less than \$50,000	Less than \$50,000

DESCRIPTION: In general, when a “discharge of indebtedness” occurs the forgiven debt is considered income to the taxpayer. An exception is allowed for the discharge of qualified real property business indebtedness. This qualified indebtedness must be connected with real property used in a trade or business. A similar tax expenditure exists for farmers [Cancellation of Debt for Farmers (1.037)].

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

WHO BENEFITS: Taxpayers who have had debt discharged.

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

1.024 EMPLOYER PAID GROUP LIFE INSURANCE PREMIUMS

Internal Revenue Code Sections: 79, 105, and 106

Legal Opinion 1014, 1920-2 Cumulative Bulletin page 8

Oregon Statute: 316.048 (Connection to federal personal taxable income)

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1920

	Corporation	Personal	Total
2003–05 Revenue Impact:	Not Applicable	\$19,700,000	\$19,700,000
2005–07 Revenue Impact:	Not Applicable	\$21,400,000	\$21,400,000

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

PURPOSE: To encourage employers and employees to incorporate life insurance benefits into compensation packages.

WHO BENEFITS: Employees who do not have to purchase their own life insurance and the dependents of employees who would not otherwise be insured. Employers may benefit by paying lower wages than would be paid if these benefits were not offered.

EVALUATION: This tax expenditure achieves its purpose and is an effective way of providing employee security. It is an important component of the total benefits package in terms of attracting and retaining Oregon workers. In the increasingly competitive national labor market there is merit in retaining incentives that are available in other states. In addition, the tax expenditure is structured so that it does not discriminate in

favor of select employees. The life insurance itself provides heirs with a greater sense of stability and reduces the potential for future public assistance. *[Evaluated by the Employment Department.]*

1.025 EMPLOYER PAID ACCIDENT AND DISABILITY INSURANCE

Internal Revenue Code Sections: 79, 105, and 106

Oregon Statute: 316.048 (Connection to federal personal taxable income)

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1954

	Corporation	Personal	Total
2003–05 Revenue Impact:	Not Applicable	\$19,700,000	\$19,700,000
2005–07 Revenue Impact:	Not Applicable	\$22,100,000	\$22,100,000

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

PURPOSE: To encourage employers and employees to incorporate accident and disability insurance into compensation packages.

WHO BENEFITS: Employees who do not have to purchase their own accident and disability insurance and the dependents of employees who would not otherwise be insured. Employers may benefit by paying lower wages than would be paid if these benefits were not offered.

EVALUATION: This tax expenditure achieves its purpose and is an effective way of providing employee security. As is the case with Employer Paid Group Life Insurance Premiums (1.024), it is an important component of the total benefits package in terms of attracting and retaining Oregon workers. In the increasingly competitive national labor market there is merit in retaining incentives that are available in other states. In addition, the tax expenditure is structured so that it does not discriminate in favor of select employees. Accident, disability, and supplemental unemployment benefits allow an employee to maintain a standard of living through short-term transitions. *[Evaluated by the Employment Department.]*

1.026 EMPLOYER PROVIDED DEPENDENT CARE

Internal Revenue Code Section: 129

Oregon Statute: 316.048 (Connection to federal personal taxable income)

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1981

	Corporation	Personal	Total
2003–05 Revenue Impact:	Not Applicable	\$6,800,000	\$6,800,000
2005–07 Revenue Impact:	Not Applicable	\$7,600,000	\$7,600,000

DESCRIPTION: Employer payments for dependent care through a dependent care assistance program and employee contributions to a dependent care account are not included in the employee’s personal taxable income. The maximum exclusion is \$5,000 and may not exceed the lesser of the earned income of the employee or the earned income of

the employee's spouse, if married. To qualify, the employer assistance must be provided under a plan that meets certain conditions, such as eligibility requirements that do not discriminate in favor of certain employees.

PURPOSE: To promote the provision of dependent care benefits by employers and to reduce the costs of dependent care for employees.

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

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

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

1.027 MISCELLANEOUS FRINGE BENEFITS

Internal Revenue Code Sections: 132 and 117(d)

Oregon Statute: 316.048 (Connection to federal personal taxable income) and OAR 150-316-007-(B)

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1984

	Corporation	Personal	Total
2003–05 Revenue Impact:	Not Applicable	\$47,500,000	\$47,500,000
2005–07 Revenue Impact:	Not Applicable	\$49,400,000	\$49,400,000

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

Federal law requires that the imputed value of health and other fringe benefits of a domestic partner be included in AGI when co-habiting couples are not married. As result of the Oregon Supreme Court decision in the Tanner case, this imputed value of benefits received by an employee's domestic partner is subtracted from Oregon taxable income. The subtraction first applied to tax year 2000.

Income Tax
Federal Exclusions

The revenue impact includes only the amount pertaining to the federal exclusion.

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

WHO BENEFITS: Employees receiving fringe benefits.

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

1.028 EMPLOYEE MEALS AND LODGING (NON-MILITARY)

Internal Revenue Code Sections: 119 and 132(e)(2)

Oregon Statute: 316.048 (Connection to federal personal taxable income)

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1918

	Corporation	Personal	Total
2003–05 Revenue Impact:	Not Applicable	\$7,300,000	\$7,300,000
2005–07 Revenue Impact:	Not Applicable	\$7,300,000	\$7,300,000

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

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

PURPOSE: To eliminate record-keeping difficulties and to acknowledge that the fair market value of employer provided meals and lodging may be difficult to measure.

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

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

1.029 EMPLOYEE STOCK OWNERSHIP PLANS

Internal Revenue Code Sections: 133, 401(a)(28), 404(a)(9), 404(k), 415(c)(6), 1042, 4975(e)(7), 4978, and 4979A

Oregon Statute: 316.048 and 317.013 (Connections to federal personal and corporation taxable incomes)

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1974

	Corporation	Personal	Total
2003–05 Revenue Impact:	\$4,000,000	\$2,300,000	\$6,300,000
2005–07 Revenue Impact:	\$4,300,000	\$2,400,000	\$6,700,000

DESCRIPTION: An Employee Stock Ownership Plan (ESOP) is a defined-contribution plan that is required to primarily invest in the stock of the sponsoring employer. These plans contain several tax exemptions. Employer contributions may be deducted from corporation taxable income as a business expense. An employer may also deduct dividends paid on stock held by an ESOP if the dividends are paid to plan participants. Employees are not taxed on employer contributions or the earnings on invested funds until they are distributed.

A benefit is also available to certain lenders. Qualified lenders may exclude from taxable income 50 percent of the interest earned on an ESOP loan if the ESOP owns over 50 percent of the company's stock. Under certain circumstances, a stockholder may defer the recognition of the gain from the sale of stock to an ESOP. The estimated tax benefit is a net figure, i.e., the revenue foregone in a given year offset by the amount of tax paid on distributions in that year.

PURPOSE: To broaden employee stock ownership and provide employees with a source of retirement income.

WHO BENEFITS: Employers and employees of participating companies.

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

Income Tax
Federal Exclusions

1.030 EMPLOYEE AWARDS

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

	Corporation	Personal	Total
2003–05 Revenue Impact:	Not Applicable	\$1,000,000	\$1,000,000
2005–07 Revenue Impact:	Not Applicable	\$1,200,000	\$1,200,000

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

PURPOSE: To encourage longevity in employment and safety practices on the job.

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

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

1.031 EMPLOYER PROVIDED EDUCATION BENEFITS

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

	Corporation	Personal	Total
2003–05 Revenue Impact:	Not Applicable	\$6,400,000	\$6,400,000
2005–07 Revenue Impact:	Not Applicable	\$7,200,000	\$7,200,000

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

- The program must not discriminate in favor of highly compensated employees.
- Employees owning more than 5 percent of the business may not receive more than 5 percent of the benefits.
- Employees must have reasonable notification of the program’s availability and terms.

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

- PURPOSE:** To promote the provision of educational benefits by employers.
- WHO BENEFITS:** Employees receiving employer provided educational assistance. Employers benefit from a better educated and trained work force.
- EVALUATION:** This tax expenditure achieves its purpose and provides a benefit to both the employer and the employee. The exclusion promotes improved job skills for the employee and a better educated work force for the employer. In the increasingly competitive national labor market there is merit in retaining the incentives that are available in other states. *[Evaluated by the Employment Department.]*

1.032 SPREAD ON ACQUISITION OF STOCK

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

	Corporation	Personal	Total
2003–05 Revenue Impact:	Not Applicable	\$3,200,000	\$3,200,000
2005–07 Revenue Impact:	Not Applicable	\$3,100,000	\$3,100,000

- DESCRIPTION:** Employees who have been granted stock options under an Incentive Stock Option plan or an Employer Stock Purchase plan are allowed to exercise, or buy, those options within a specified time frame. Presumably, the value of the stock at the time it is exercised is greater than the option price. At the time the employee exercises his or her options, the stock is transferred from the company to the employee, but the difference in value between the exercise and options prices is not considered taxable income. The value of this tax expenditure is that the tax is deferred until the employee sells the stock.
- PURPOSE:** To defer tax liability until the income is realized by the taxpayer.
- WHO BENEFITS:** Taxpayers who receive stock options as a form of compensation.
- EVALUATION:** This tax expenditure achieves its purpose of allowing employees to exercise stock options without having to sell them immediately to pay taxes. This expenditure, in conjunction with the Employee Stock Ownership Plans (1.029) creates a sense of ownership among employees, promotes a means of accumulating retirement funds, and becomes an incentive in terms of recruiting and/or retaining Oregon workers. *[Evaluated by the Employment Department.]*

1.033 CAPITAL GAINS ON HOME SALES

Internal Revenue Code Section: 121

Oregon Statute: 316.048 (Connection to federal personal taxable income)

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1997

	Corporation	Personal	Total
2003–05 Revenue Impact:	Not Applicable	\$178,100,000	\$178,100,000
2005–07 Revenue Impact:	Not Applicable	\$188,900,000	\$188,900,000

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

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

WHO BENEFITS: Homeowners who sell their principal residences.

EVALUATION: This exclusion achieves its purpose of reducing the tax burden on individuals selling their principal residence. According to the Congressional Research Service, “Congress believed that taxing capital gains from the sale of principal residences imposed a “hardship,” because capital gains may reflect only a general rise in housing prices, in which case, the tax on the gain would reduce the...ability to replace the home they had sold.”

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

This provision replaced a commonly used exclusion, the one-time capital gains exclusion for taxpayers aged 55 or older. The 1997 law increases the amount eligible for exclusion from \$125,000 to \$250,000 (\$500,000 if married filing a joint return).

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

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

1.034 VETERANS' BENEFITS AND SERVICES

U.S. Code Title 38 Section 3101

Oregon Statute: 316.048 (Connection to federal personal taxable income)

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1917

	Corporation	Personal	Total
2003–05 Revenue Impact:	Not Applicable	\$33,900,000	\$33,900,000
2005–07 Revenue Impact:	Not Applicable	\$36,800,000	\$36,800,000

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

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

WHO BENEFITS: Veterans, their survivors, and dependents and their families receiving benefits from the VA. In addition to the on-going benefits described above, the Oregon Department of Veterans' Affairs manages a veterans' nursing care facility, the Oregon Veterans' Home, which opened in November 1997 in The Dalles. One hundred three veterans resided in this facility in 2003.

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

- Service-connected disability compensation helps to compensate veterans who have mental or physical disabilities as a result of their service. This compensation assists in raising the standard of living in Oregon, brings federal funds into the state, and, in many cases, keeps recipients off other social assistance programs.
- Veterans' pensions help to compensate war veterans for their service to state and nation. Without this income supplement, some of these recipients would most likely utilize other social services.
- Federal educational benefits assist returning veterans in furthering their education. This falls within many of the Oregon Benchmarks. The more citizens who are educated to their potential, the better off the state of Oregon.

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

1.035 MILITARY AND DEPENDENTS CHAMPUS/TRICARE INSURANCE

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

	Corporation	Personal	Total
2003–05 Revenue Impact:	Not Applicable	\$17,200,000	\$17,200,000
2005–07 Revenue Impact:	Not Applicable	\$17,800,000	\$17,800,000

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

The Department of Defense (DOD) is implementing a new program, entitled Tricare, in an effort to coordinate the efforts of armed services' medical facilities and civilian providers. Beneficiaries can receive care under one of three options: 1) Tricare prime, a DOD-managed HMO; 2) Tricare Extra, a preferred-provider organization; or 3) Tricare Standard, formerly known as CHAMPUS. Under the latter two options, beneficiaries are reimbursed for portions of the costs of health care received from civilian providers. Retirees and their dependents who are eligible for Medicare and participate in Medicare Part B will be allowed to retain their Tricare coverage, which includes pharmaceutical benefits.

PURPOSE: To abide by a court ruling. A 1925 court case, *Jones v. United States* [60 CT. CL. 552 (1925)], drew a distinction between the pay and allowances provided for military personnel. The court found that housing and other housing allowances were reimbursements similar to other nontaxable expenses authorized by the executive branch. This exclusion is consistent with the court's reasoning and extends it to military health benefits.

WHO BENEFITS: The families and dependents of military personnel.

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

1.036 AGRICULTURE COST-SHARING PAYMENTS

Internal Revenue Code Section: 126

Oregon Statute: 316.048 and 317.013 (Connections to federal personal and corporation taxable incomes)

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1978

	Corporation	Personal	Total
2003–05 Revenue Impact:	\$100,000	\$100,000	\$200,000
2005–07 Revenue Impact:	\$100,000	\$100,000	\$200,000

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

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

WHO BENEFITS: Recipients of federal or state cost-sharing payments for environmental improvements to land.

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

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

1.037 CANCELLATION OF DEBT FOR FARMERS

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

	Corporation	Personal	Total
2003–05 Revenue Impact:	Not Applicable	\$1,000,000	\$1,000,000
2005–07 Revenue Impact:	Not Applicable	\$1,100,000	\$1,100,000

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

PURPOSE: To reduce the tax burden on farmers who have a debt discharged and to avoid forcing farmers to sell their farmland in order to pay large tax liabilities on income arising from canceled debt.

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

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

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

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

1.038 ENERGY CONSERVATION SUBSIDIES (FEDERAL)

Internal Revenue Code Section: 136

Oregon Statute: 316.048 (Connection to federal personal taxable income)

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1992

	Corporation	Personal	Total
2003–05 Revenue Impact:	Not Applicable	Included in 1.125	Included in 1.125
2005–07 Revenue Impact:	Not Applicable	Included in 1.125	Included in 1.125

DESCRIPTION: Residential energy customers can exclude from personal taxable income subsidies provided by utilities for the purchase or installation of an energy conservation device. Oregon legislation excluding these subsidies from taxation was enacted in 1981, so these payments would be exempt from Oregon’s income tax even in the absence of the federal exclusion.

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

WHO BENEFITS: Homeowners who install conservation devices.

EVALUATION: See the evaluation of Energy Conservation Subsidies (Oregon) (1.125). *[Evaluated by the Department of Energy.]*

1.039 EMPLOYER PAID TRANSPORTATION BENEFITS

Internal Revenue Code Section: 132(f)

Oregon Statute: 316.048 (Connection to federal personal taxable income)

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1992

	Corporation	Personal	Total
2003–05 Revenue Impact:	Not Applicable	\$25,400,000	\$25,400,000
2005–07 Revenue Impact:	Not Applicable	\$25,700,000	\$25,700,000

DESCRIPTION: Employer payments for employee parking, transportation in a commuter highway vehicle, and transit passes are excludable from the personal taxable income of the employees. Parking facilities provided free of charge by the employer are also excludable from income. Employees are allowed to elect taxable cash compensation in lieu of qualified transportation fringe benefits. For tax year 2003, the maximum exclusion for parking was \$190 per month and the maximum exclusion for transit and commuter transportation was \$100 per month. The maximum exclusion amounts are indexed for inflation in \$5 increments.

PURPOSE: To codify the established practice of not treating parking benefits as taxable income. The ceiling was established for parking benefits in 1992 in order to limit the subsidy. The exclusions for mass transit and commuter transportation were introduced to encourage mass commuting.

WHO BENEFITS: The subsidy provides benefits to both employees (more are employed and they receive higher total compensation) and to their employers (who have lower wage costs).

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

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

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

1.040 CONTRIBUTIONS IN AID OF CONSTRUCTION FOR UTILITIES

Internal Revenue Code Section: 118(c),(d)

Oregon Statute: 317.013 (Connection to federal corporation taxable income)

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1996

	Corporation	Personal	Total
2003–05 Revenue Impact:	\$100,000	Not Applicable	\$100,000
2005–07 Revenue Impact:	\$100,000	Not Applicable	\$100,000

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

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

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

WHO BENEFITS: Oregon water or sewage disposal utilities benefit because the utilities are able to attract capital through contributions in aid of construction in addition to debt or equity financing sources.

EVALUATION: Prior to enactment, the federal corporation income tax liability on contributions in aid of construction was a serious drawback to utilities accepting contributions. For tax

purposes, the utility was responsible for paying taxes on contributions in aid of construction. For ratemaking purposes, however, the income tax on contributed capital was not allowed to be recovered from customers through regulated utility rates.

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

1.041 LIFE INSURANCE INVESTMENT INCOME

Internal Revenue Code Sections: 72, 101, 7702, and 7702A

Oregon Statutes: 316.048 and 317.013 (Connections to federal personal and corporation taxable incomes)

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1913

	Corporation	Personal	Total
2003–05 Revenue Impact:	\$6,200,000	\$188,500,000	\$194,700,000
2005–07 Revenue Impact:	\$6,600,000	\$199,900,000	\$206,500,000

DESCRIPTION: The investment income of life insurance contracts typically is not included in corporation or personal taxable income as it accrues or when it is received by beneficiaries upon the death of the insured. Yet this investment income may be taxed as corporation or personal income if it accumulates much faster than is needed to fund the promised benefits.

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

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

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

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

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

1.042 WORKERS' COMPENSATION BENEFITS (NONMEDICAL)

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

	Corporation	Personal	Total
2003–05 Revenue Impact:	Not Applicable	\$40,000,000	\$40,000,000
2005–07 Revenue Impact:	Not Applicable	\$41,500,000	\$41,500,000

DESCRIPTION: Nonmedical workers' compensation benefits to disabled workers and to their families in cases of work-related death, are not included in personal taxable income. The revenue impact estimates shown above are for workers' compensation nonmedical benefits only. These benefits may include cash earnings-replacement payments, special payments for physical impairment, and coverage for certain injury or death-related expenses (e.g., burial costs). The effect of workers' compensation medical benefits is covered in Workers' Compensation Benefits (Medical) (1.043).

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

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

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

1.043 WORKERS' COMPENSATION BENEFITS (MEDICAL)

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

	Corporation	Personal	Total
2003–05 Revenue Impact:	Not Applicable	\$30,600,000	\$30,600,000
2005–07 Revenue Impact:	Not Applicable	\$33,100,000	\$33,100,000

DESCRIPTION: Workers' compensation medical benefits are not included in personal taxable income. These benefits include payments for medical treatment of work-related illness or

injury. The revenue impact estimates shown are for workers' compensation medical benefits only; worker's compensation nonmedical benefits are covered in Workers' Compensation Benefits (NonMedical) (1.042).

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

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

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

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

1.044 CREDIT UNION INCOME

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

	Corporation	Personal	Total
2003-05 Revenue Impact:	\$5,300,000	Not Applicable	\$5,300,000
2005-07 Revenue Impact:	\$5,900,000	Not Applicable	\$5,900,000

DESCRIPTION: Credit unions are nonprofit cooperatives organized by people with a common bond that distinguishes them from the general public. Members pool their funds to make loans to one another. Credit unions may be more likely to provide services to low-income individuals at rates lower than other financial institutions. This provision makes the income of credit unions exempt from corporate income taxation.

PURPOSE: Prior to 1951, the income of mutual banks, savings and loans, and credit unions were not taxed. In 1951, the exemption from mutual banks and savings and loans was removed, but credit unions retained the exemption. According to the Congressional Research Service, credit unions may retain the exemption because they are viewed as serving a unique niche in financial markets.

WHO BENEFITS: Members of credit unions, primarily by receiving services at lower rates than are available from other financial institutions. As of December 2003, the exemption affects 101 credit unions in Oregon. These credit unions have \$10.5 billion in total assets and include over 1.3 million people as members.

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

1.045 LIFE INSURANCE COMPANY RESERVES

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

	Corporation	Personal	Total
2003–05 Revenue Impact:	\$7,400,000	Not Applicable	\$7,400,000
2005–07 Revenue Impact:	\$8,600,000	Not Applicable	\$8,600,000

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

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

WHO BENEFITS: Life insurance companies. Benefits may also be passed on to policyholders in the form of lower premiums.

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

1.046 STRUCTURED SETTLEMENT ACCOUNTS

Internal Revenue Code Sections: 104(A)(2) and 130

Oregon Statute: 317.013 (Connection to federal corporation taxable income)

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1982

	Corporation	Personal	Total
2003–05 Revenue Impact:	Less than \$50,000	Not Applicable	Less than \$50,000
2005–07 Revenue Impact:	Less than \$50,000	Not Applicable	Less than \$50,000

DESCRIPTION: Individuals who are liable for damages to compensate for causing personal injury or sickness can make a payment to a settlement company rather than making a lump sum payment to the injured party. The settlement company invests in an annuity and then makes periodic payments to the injured party. This allows the responsible party to pay a smaller total settlement. The interest on the annuity or bond is not included in the taxable income of the settlement company. Likewise, the periodic annuity payments, which contain both principal and interest components, are not included in personal taxable income for the injured party [see Compensatory Damages (1.010)].

PURPOSE: The purpose for exempting investment income from structured settlement accounts is not clear and may have been inadvertent. The intent of the federal legislation that exempts periodic payments for damages was to make the tax treatment consistent with that of lump sum Compensatory Damages payments (1.010). It may not have been recognized that the periodic payments included an investment income component. Because the legislation made the investment component tax-free also, the tax treatment of periodic payments is more favorable than that of lump sum payments.

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

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

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

1.047 SMALL PROPERTY INSURANCE COMPANIES

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

	Corporation	Personal	Total
2003–05 Revenue Impact:	Less than \$50,000	Not Applicable	Less than \$50,000
2005–07 Revenue Impact:	Less than \$50,000	Not Applicable	Less than \$50,000

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

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

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

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

This exemption for small companies is probably also fiscally effective. Because it involves minor revenue losses, the administrative cost involved in collecting taxes is likely to exceed the revenue loss. *[Evaluated by the Department of Consumer and Business Services.]*

1.048 IMPUTED INTEREST RULES

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

	Corporation	Personal	Total
2003–05 Revenue Impact:	\$100,000	\$2,300,000	\$2,400,000
2005–07 Revenue Impact:	\$100,000	\$2,300,000	\$2,400,000

DESCRIPTION: For debt instruments that do not bear a market rate of interest, the Internal Revenue Service assigns or “imputes” a market rate to them to estimate interest payments for tax purposes. The imputed interest must be included as income to the recipient and is deducted by the payer.

There are several exceptions to this general rule. Debt associated with the sale of property when the total sales price is no more than \$250,000, the sale of farms or small businesses by individuals when the sales price is no more than \$1 million, and the sale of a personal residence are not subject to the imputation rules. An interest rate of greater than 9 percent may not be assigned to debt instruments given in exchange for real property for amounts less an inflation-adjusted maximum (currently about \$3 million). This tax expenditure is the revenue loss caused by these exceptions.

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

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

EVALUATION: Not evaluated.

1.049 GAIN ON NONDEALER INSTALLMENT SALES

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

Oregon Statute: 316.048 and 317.013 (Connections to federal personal and corporation taxable incomes)

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1921

	Corporation	Personal	Total
2003–05 Revenue Impact:	\$2,600,000	\$3,300,000	\$5,900,000
2005–07 Revenue Impact:	\$2,800,000	\$3,800,000	\$6,600,000

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

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

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

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

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

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

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

1.050 GAIN ON LIKE-KIND EXCHANGES

Internal Revenue Code Section: 1031

Oregon Statute: 316.048 and 317.013 (Connections to federal personal and corporation taxable incomes.)

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1921

	Corporation	Personal	Total
2003–05 Revenue Impact:	\$5,400,000	\$3,400,000	\$8,800,000
2005–07 Revenue Impact:	\$5,700,000	\$3,800,000	\$9,500,000

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

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

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

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

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

1.051 ALLOWANCES FOR FEDERAL EMPLOYEES ABROAD

Internal Revenue Code Section: 912

Oregon Statute: 316.048 (Connection to federal personal taxable income)

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1943

	Corporation	Personal	Total
2003–05 Revenue Impact:	Not Applicable	\$3,200,000	\$3,200,000
2005–07 Revenue Impact:	Not Applicable	\$3,900,000	\$3,900,000

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

PURPOSE: To offset the extra living costs of working abroad and to encourage employees to accept these assignments.

WHO BENEFITS: Federal civilian employees working abroad.

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

1.052 INTEREST ON OREGON STATE AND LOCAL DEBT

Internal Revenue Code Sections: 103, 141, 142, 143, 144, 145, 146, and 501(c)(3)

Oregon Statutes: 316.048 (Connection to federal personal taxable income)

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1913

	Corporation	Personal	Total
2003–05 Revenue Impact:	Not Applicable	\$72,900,000	\$72,900,000
2005–07 Revenue Impact:	Not Applicable	\$71,400,000	\$71,400,000

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

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

Second, there are qualified “private activity” bonds where a portion of the bond benefits accrue to individuals or businesses rather than to the general public. These are specifically listed in code and include the following state and local government bonds: industrial development bonds for energy production facilities; sewage, water

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and hazardous waste facilities bonds; bonds for owner-occupied housing; bonds for rental housing; small-issue industrial development bonds; bonds for high-speed rail; bonds for private airports, docks, and mass-commuting facilities; student loan bonds; bonds for private nonprofit hospital facilities; and bonds for veterans' housing. Many of these bonds are subject to the state private activity bond annual volume cap set by the federal government.

Interest income on these qualified private activity bonds is exempt from federal income tax as well as Oregon income tax. There are other non-qualified private activity bonds. The interest earned on these bonds is taxable at the federal level but not at the state level [Municipal Bond Interest (1.121)].

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

PURPOSE:	To lower the cost of borrowing for Oregon state and local governments.
WHO BENEFITS:	In 2002, nearly 50,300 Oregon taxpayers received roughly \$402.8 million in interest on Oregon state or local government debt obligations, or an average of about \$8,000 per return. Investors holding such debt instruments may claim this income tax-free. However, financial markets compensate for the tax-free status of state and local government debt by reducing the rate of return on that debt. Therefore, the primary beneficiaries are the state of Oregon and local governments, whose cost of borrowing is reduced.
EVALUATION:	<p>This tax expenditure achieves its purpose. Borrowing costs for the state of Oregon and Oregon local governments are reduced because of the exemption from state income taxes on interest earned on bonds issued by these public bodies. The lower costs associated with lower bond interest rates benefits Oregon citizens by reducing the costs of public investment in, for example, infrastructure needs such as schools, roads, sewers, water systems, colleges, and correctional facilities among many other projects.</p> <p>Investors who are subject to an Oregon state income tax liability are willing to accept lower interest rates on Oregon state and Oregon local government bonds because the interest income they earn from these investments are excluded from state income taxes.</p> <p>The state income tax exclusion for interest on Oregon bonds helps create demand for these securities, which improves their marketability and attracts not only in-state investors, but also national institutional and other national investors who wish to purchase tax-exempt bonds that have a strong market demand and reputation.</p> <p>Even though most of these national investors are not subject to Oregon state income taxes, they are willing to pay higher prices and accept lower interest rates because of the good market performance of Oregon bonds. Oregonians benefit from these out-of-state purchases because Oregon governments can finance needed public activities at lower costs and state level income tax revenue flows are not affected. <i>[Evaluated by the Oregon State Treasury.]</i></p>

1.053 CAPITAL GAINS ON INHERITED PROPERTY

Internal Revenue Code Sections: 1001, 1002, 1014, 1023, 1040, 1221, and 1222

Oregon Statute: 316.048 (Connection to federal personal taxable income)

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1921

	Corporation	Personal	Total
2003–05 Revenue Impact:	Not Applicable	\$498,400,000	\$498,400,000
2005–07 Revenue Impact:	Not Applicable	\$560,000,000	\$560,000,000

DESCRIPTION: When property is transferred upon death, unrealized capital gains on the property are excluded from personal taxable income. The new basis for the heir is set to the market value on the date of the decedent's death.

PURPOSE: To provide tax relief to heirs who inherit property.

WHO BENEFITS: Heirs who inherit property.

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

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

1.054 CAPITAL GAINS ON GIFTS

Internal Revenue Code Sections: 1001, 1002, 1015, 1221, and 1222

Oregon Statute: 316.048 (Connection to federal personal taxable income)

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1921

	Corporation	Personal	Total
2003–05 Revenue Impact:	Not Applicable	\$59,600,000	\$59,600,000
2005–07 Revenue Impact:	Not Applicable	\$68,400,000	\$68,400,000

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

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

WHO BENEFITS: Donors and recipients of gifts.

EVALUATION: Not evaluated.

1.055 GAIN ON INVOLUNTARY CONVERSIONS IN DISASTER AREAS

Internal Revenue Code Section: 1033(h)

Oregon Statute: 316.048 (Connection to federal personal taxable income)

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1996

	Corporation	Personal	Total
2003–05 Revenue Impact:	Not Applicable	\$200,000	\$200,000
2005–07 Revenue Impact:	Not Applicable	\$200,000	\$200,000

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

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

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

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

EVALUATION: Not evaluated.

1.056 VOLUNTARY EMPLOYEES’ BENEFICIARY ASSOCIATIONS

Internal Revenue Code Sections: 419, 419A, and 501(c)(9)

Oregon Statute: 316.048 (Connection to federal personal taxable income)

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1928

	Corporation	Personal	Total
2003–05 Revenue Impact:	Not Applicable	\$23,400,000	\$23,400,000
2005–07 Revenue Impact:	Not Applicable	\$27,200,000	\$27,200,000

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

PURPOSE: To promote the provision of life, sickness, accident, and other insurance and fringe benefits.

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

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

1.057 RENTAL ALLOWANCES FOR MINISTERS' HOMES

Internal Revenue Code Sections: 107

Oregon Statute: 316.048 (Connection to federal personal taxable income)

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1921

	Corporation	Personal	Total
2003–05 Revenue Impact:	Not Applicable	\$3,300,000	\$3,300,000
2005–07 Revenue Impact:	Not Applicable	\$3,800,000	\$3,800,000

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

PURPOSE: To avoid the difficulty in putting a value on the provision of a church-provided rectory and to provide equal treatment among ministers who receive a cash allowance and those who have their homes included in their compensation package.

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

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

1.058 MILITARY DISABILITY BENEFITS

Internal Revenue Code Section: 104(a)(4)

Oregon Statute: 316.048 (Connection to federal personal taxable income)

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1942

	Corporation	Personal	Total
2003–05 Revenue Impact:	Not Applicable	\$800,000	\$800,000
2005–07 Revenue Impact:	Not Applicable	\$800,000	\$800,000

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

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

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

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

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

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

WHO BENEFITS: Veterans who are retired on disability and were members of the armed forces on or before September 24, 1975, benefit from this exclusion. It is not precisely known how many Oregonians receive this benefit.

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

1.059 BENEFITS AND ALLOWANCES OF ARMED FORCES PERSONNEL

Internal Revenue Code Sections: 112 and 134

Oregon Statute: 316.048 (Connection to federal personal taxable income)

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1925

	Corporation	Personal	Total
2003–05 Revenue Impact:	Not Applicable	\$21,200,000	\$21,200,000
2005–07 Revenue Impact:	Not Applicable	\$22,400,000	\$22,400,000

- DESCRIPTION:** Various in-kind benefits received by military personnel are not taxed. These benefits include medical and dental benefits, group term life insurance, professional education and dependent education, moving and storage, premiums for survivor and retirement protection plans, subsistence allowances, uniform allowances, housing allowances, overseas cost-of-living allowances, evacuation allowances, family separation allowances, travel for consecutive overseas tours, emergency assistance, family counseling and defense counsel, burial and death services, and travel of dependents to a burial site. Other benefits include combat-zone compensation and combat-related benefits.
- PURPOSE:** To codify the treatment of these benefits as not contributing to taxable income and to avoid the difficulty of monitoring and assigning values to them.
- WHO BENEFITS:** Oregonians serving in the U.S. military.
- EVALUATION:** This tax expenditure achieves its purpose and is a valuable benefit to Oregonians serving in the Armed Forces. Many of these allowances, such as overseas cost-of-living, emergency assistance, dependent education, and housing allowances, are provided to military personnel to offset the increased cost and complexity of living and working in a foreign country on behalf of the United States or of temporarily maintaining two households when family members are separated through assignment. It is more cost-effective for the government to centrally provide these benefits to all active-duty members of the Armed Forces than it would be to increase individual compensation sufficiently to allow for the additional personal expense and time. Because the provision of these benefits and allowances eliminates the necessity for personnel to seek out new housing, schools, and medical care each time relocation occurs, this approach benefits the military organization as much as it does the military personnel. Also, because these benefits and allowances are a truly intrinsic element of the military structure and are not taxed at the federal level or by other states, maintaining this tax expenditure prevents selectively detrimental financial hardship for Oregonians serving in the military and maintains parity between states. The state of Oregon should continue to treat these benefit payments the same way as the Internal Revenue Service. *[Evaluated by the Oregon Military Department.]*

Income Tax
Federal Exclusions

1.060 RESTITUTION PAYMENTS FOR HOLOCAUST SURVIVORS

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

	Corporation	Personal	Total
2003–05 Revenue Impact:	Not Applicable	Less than \$50,000	Less than \$50,000
2005–07 Revenue Impact:	Not Applicable	Less than \$50,000	Less than \$50,000

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

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

WHO BENEFITS: Holocaust survivors who receive restitution payments.

EVALUATION: Not evaluated.

1.061 SURVIVOR ANNUITIES

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

	Corporation	Personal	Total
2003–05 Revenue Impact:	Not Applicable	Less than \$50,000	Less than \$50,000
2005–07 Revenue Impact:	Not Applicable	Less than \$50,000	Less than \$50,000

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

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

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

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

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

1.062 INTEREST ON STUDENT LOANS

Internal Revenue Code Section: 221

Oregon Statute: 316.048 (Connection to federal personal taxable income)

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1997

	Corporation	Personal	Total
2003–05 Revenue Impact:	Not Applicable	\$11,400,000	\$11,400,000
2005–07 Revenue Impact:	Not Applicable	\$13,200,000	\$13,200,000

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

A qualified education loan is indebtedness incurred solely to pay for qualified higher education expenses, such as tuition, fees, and room and board. Interest on loans from relatives or qualified employer plans may not be deducted. The qualifying expenses must be reduced by amounts received from other tax-free education benefits.

For 2003 returns, the deduction was phased out for taxpayers with income between \$50,000 and \$65,000 (if single) or \$100,000 and \$130,000 (if married). The income phase-out ranges are indexed for inflation.

PURPOSE: To encourage higher education by reducing the costs.

WHO BENEFITS: In 2002, roughly 69,300 full-year resident taxpayers deducted from taxable income an average of \$774 of interest paid on higher education loans. The table below shows the tax year 2002 usage of this deduction for each of the five income quintiles.

Income Group (Quintiles)	Taxpayers		Mean Deduction
	Number	Percent	
Below \$10,400	3,722	5.4%	\$602
\$10,400 - \$21,900	8,724	12.6%	\$616
\$21,900 - \$37,900	15,617	22.5%	\$768
\$37,900 - \$63,700	22,592	32.6%	\$781
Above \$63,700	18,645	26.9%	\$880
Total	69,300	100.0%	\$774

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

1.063 QUALIFIED HIGHER EDUCATION EXPENSES

Internal Revenue Code Sections: 222

Oregon Statutes: 316.048 (Connection to federal personal taxable income)

Federal Law Sunset Date: 12-31-05

Year Enacted in Federal Law: 2001

	Corporation	Personal	Total
2003–05 Revenue Impact:	Not Applicable	\$14,400,000	\$14,400,000
2005–07 Revenue Impact:	Not Applicable	\$4,700,000	\$4,700,000

DESCRIPTION: A deduction is allowed for qualified higher education expenses paid by the taxpayer during tax years 2002 through 2005. Qualified expenses include tuition and fees paid as a condition of enrollment or attendance at a post-secondary educational institution. This deduction can be made even if the taxpayer does not itemize deductions. In tax years 2004 and 2005, the maximum deduction is \$4,000 per taxpayer with income not exceeding \$65,000 (\$130,000 on a joint return) or \$2,000 if the taxpayer's income is above \$65,000 but not exceeding \$80,000 (\$130,000 to \$160,000 for joint returns). If adjusted gross income exceeds the limits, then no deduction is allowed.

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

PURPOSE: To reduce the cost of higher education.

WHO BENEFITS: College students or their parents who pay qualified education expenses.

Income Group (Quintiles)	Taxpayers		Mean Deduction
	Number	Percent	
Below \$10,400	5,570	13.4%	\$2,098
\$10,400 - \$21,900	4,008	9.6%	\$1,573
\$21,900 - \$37,900	4,580	11.0%	\$1,365
\$37,900 - \$63,700	8,940	21.5%	\$1,401
Above \$63,700	18,480	44.4%	\$1,818
Total	41,578	100.0%	\$1,692

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

1.064 TEACHER CLASSROOM EXPENSES

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

	Corporation	Personal	Total
2003–05 Revenue Impact:	Not Applicable	Less than \$50,000	Less than \$50,000
2005–07 Revenue Impact:	Not Applicable	\$0	\$0

DESCRIPTION: Eligible teachers are allowed to deduct up to \$250 per year for unreimbursed expenses incurred in connection with books, supplies, computer equipment, and supplementary materials used in the classroom for tax years 2002 and 2003. This deduction can be taken without itemizing (known as an adjustment or above the line deduction). Eligible teachers include kindergarten through grade 12 teachers, instructors, counselors, or principals in a school for at least 900 hours during a school year. Because Oregon’s connection to federal taxable income is based on laws in place at the end of 2002, Oregon has not adopted the sunset extension for this deduction that was enacted in 2004.

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

WHO BENEFITS: In 2002, roughly 26,300 Oregon teachers deducted an average of \$237 for these expenses.

Income Group (Quintiles)	Taxpayers		Mean Deduction
	Number	Percent	
Below \$10,400	387	1.5%	\$204
\$10,400 - \$21,900	1,045	4.0%	\$206
\$21,900 - \$37,900	3,044	11.6%	\$217
\$37,900 - \$63,700	8,404	31.9%	\$226
Above \$63,700	13,433	51.1%	\$253
Total	26,313	100.0%	\$237

EVALUATION: Not evaluated.

1.065 SELF-EMPLOYMENT HEALTH INSURANCE

Internal Revenue Code Section: 162(1)

Oregon Statute: 316.048 (Connection to federal personal taxable income)

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1986

	Corporation	Personal	Total
2003–05 Revenue Impact:	Not Applicable	\$41,500,000	\$41,500,000
2005–07 Revenue Impact:	Not Applicable	\$46,400,000	\$46,400,000

DESCRIPTION: Beginning in 2003, self-employed individuals may deduct amounts paid for health insurance. (Prior to 2003, only a percentage of these costs could be deducted.) The insurance must be for themselves, their spouses, or their dependents. The deduction can be taken without itemizing (known as an adjustment or an above-the-line deduction) and is limited to the taxpayer's earned income. This adjustment is also available to working partners in a partnership and employees of an S corporation who own more than 2 percent of the corporation's stock.

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

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

WHO BENEFITS: The number of full-year residents who claimed this adjustment has steadily risen from 52,100 in 1995 to roughly 61,600 in 2002. The average adjustment amount has risen from \$710 to nearly \$2,670 over the same time period. Part of the reason the average adjustment amount has risen so dramatically is that the portion of health insurance premiums considered deductible has increased during this time period.

The table below shows the tax year 2002 usage of this adjustment for each of the five income quintile groups.

Income Group (Quintiles)	Taxpayers		Mean Deduction
	Number	Percent	
Below \$10,400	7,153	11.6%	\$1,893
\$10,400 - \$21,900	8,979	14.6%	\$2,010
\$21,900 - \$37,900	10,870	17.6%	\$2,259
\$37,900 - \$63,700	12,453	20.2%	\$2,547
Above \$63,700	22,138	35.9%	\$3,457
Total	61,593	100.0%	\$2,669

EVALUATION: Equity of treatment under the tax code between the self-employed and others engaged in the workforce is an important health policy issue. Maintaining and expanding the percentage of citizens who receive health insurance coverage through the workplace is vital for long-term stability of publicly sponsored health programs and access to necessary medical treatment. Accelerating the percentage of health

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insurance costs that the self-employed can deduct from personal taxable income, while reducing government revenues, will increase equity of treatment in a rapidly changing workforce and potentially reduce pressure for expanded public health coverage programs. *[Evaluated by Oregon Health Plan Policy and Research.]*

1.066 MEDICAL SAVINGS ACCOUNTS (FEDERAL)

Internal Revenue Code Section: 220

Oregon Statute: 316.048 (Connection to federal personal taxable income)

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1996

	Corporation	Personal	Total
2003–05 Revenue Impact:	Not Applicable	\$600,000	\$600,000
2005–07 Revenue Impact:	Not Applicable	\$600,000	\$600,000

DESCRIPTION: Individuals’ contributions to medical savings accounts are deductible from gross income up to an annual limit of 65 percent of the insurance deductible or earned income, whichever is less. This deduction can be taken without itemizing (known as an adjustment or an above-the-line deduction). 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. The revenue impact is only for the amount of the deduction.

Contributions are allowed if individuals are covered by a high-deductible health plan and no other insurance. For tax year 2002, plan deductibles must be at least \$1,650 (but not more than \$2,500) for coverage of one person and at least \$3,300 (but not more than \$4,950) for more than one. Individuals must also be self-employed or covered through plans offered by small employers. Eligibility to establish accounts will be restricted to 750,000 taxpayers nationally. Once restricted, participation will be generally limited to those individuals who previously had contributions to their accounts or who work for participating employers. Unqualified distributions are included in taxable income and a 15 percent penalty is added except in cases of disability, death, or attaining age 65. No new accounts are allowed after December 31, 2003, but existing accounts continue to be eligible for deductions with no sunset.

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

WHO BENEFITS: The number of full-year taxpayers who claimed this adjustment has increased from 540 in 1997 to 1,460 in 2002. Over the same period, the average adjustment has increased from \$1,000 to \$2,400. The table below shows the tax year 2002 usage of this adjustment for each of the five income quintiles.

Income Group (Quintiles)	Taxpayers		Mean Deduction
	Number	Percent	
Below \$10,400	77	5.3%	\$1,350
\$10,400 - \$21,900	137	9.4%	\$2,236
\$21,900 - \$37,900	246	16.8%	\$1,832
\$37,900 - \$63,700	353	24.2%	\$2,120
Above \$63,700	647	44.3%	\$2,945
Total	1,460	100.0%	\$2,407

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

1.067 IRA CONTRIBUTIONS AND EARNINGS

Internal Revenue Code Sections: 219 and 408

Oregon Statute: 316.048 (Connection to federal personal taxable income)

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1974

	Corporation	Personal	Total
2003–05 Revenue Impact:	Not Applicable	\$106,700,000	\$106,700,000
2005–07 Revenue Impact:	Not Applicable	\$134,000,000	\$134,000,000

DESCRIPTION: There are two types of Individual Retirement Accounts (IRAs) from which taxpayers may enjoy a tax benefit: Traditional and Roth. The Traditional IRA allows for tax deductible contributions, while the Roth IRA allows for tax-free withdrawals. The revenue impact consists of the tax benefits from the deductibility of traditional IRAs, the tax deferred earnings of traditional IRAs, and the tax-free earnings of Roth IRAs. This deduction can be taken without itemizing (known as an adjustment or above-the-line deduction).

Prior to 2002, a taxpayer could make a deductible contribution to a Traditional IRA of up to \$2,000 or the taxpayer's compensation, whichever was less, if neither the taxpayer nor the taxpayer's spouse was an active participant in an employer-sponsored retirement plan. The contribution limits for each kind of IRA are identical. For 2002 – 2004, the contribution limit is \$3,000; for 2005 – 2007 the limit is \$4,000; for 2008, the limit is \$5,000; and beginning in 2009, the amount is indexed to inflation.

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Federal Adjustments

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

For Roth IRAs, the contribution limit is phased out for taxpayers with incomes between \$150,000 and \$160,000 for joint returns (\$95,000 and \$110,000 for single returns). Qualified distributions from a Roth IRA are not taxed. Accounts must be held at least five years in order for distributions to qualify for the tax exemption. Individuals with income of \$100,000 or less may convert an IRA into a Roth IRA.

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

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

WHO BENEFITS: The number of full-year residents claiming an adjustment for contributions to a Traditional IRA was 43,700 in 2002. The average adjustment was just over \$2,900.

Income Group (Quintiles)	Taxpayers		Mean Deduction
	Number	Percent	
Below \$10,400	1,705	3.9%	\$2,181
\$10,400 - \$21,900	4,969	11.4%	\$2,318
\$21,900 - \$37,900	10,041	23.0%	\$2,654
\$37,900 - \$63,700	12,691	29.0%	\$2,803
Above \$63,700	14,289	32.7%	\$3,537
Total	43,695	100.0%	\$2,929

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

1.068 KEOGH PLAN CONTRIBUTIONS AND EARNINGS

Internal Revenue Code Sections: 401–407, 410–418E, and 457

Oregon Statute: 316.048 (Connection to federal personal taxable income)

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1962

	Corporation	Personal	Total
2003–05 Revenue Impact:	Not Applicable	\$47,300,000	\$47,300,000
2005–07 Revenue Impact:	Not Applicable	\$52,800,000	\$52,800,000

DESCRIPTION: Self-employed taxpayers who make contributions to their own retirement (Keogh) accounts may subtract those contributions from personal taxable income. This deduction can be taken without itemizing (known as an adjustment or above-the-line deduction). The maximum adjustment allowed is the lesser of 25 percent of income or \$40,000. Taxes on Keogh earnings are deferred until distribution during retirement. Withdrawals from Keoghs are included in personal taxable income.

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

WHO BENEFITS: The number of full-year residents making contributions to Keogh plans was 16,250 in 2002. The average adjustment was approximately \$12,000.

Income Group (Quintiles)	Taxpayers		Mean Deduction
	Number	Percent	
Below \$10,400	277	1.7%	\$3,307
\$10,400 - \$21,900	690	4.2%	\$3,580
\$21,900 - \$37,900	1,416	8.7%	\$4,577
\$37,900 - \$63,700	2,876	17.7%	\$6,050
Above \$63,700	10,991	67.6%	\$15,262
Total	16,250	100.0%	\$12,001

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

1.069 MOVING EXPENSES

Internal Revenue Code Sections: 1073–1078

Oregon Statute: 316.048 (Connection to federal personal taxable income)

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1964

	Corporation	Personal	Total
2003–05 Revenue Impact:	Not Applicable	\$2,900,000	\$2,900,000
2005–07 Revenue Impact:	Not Applicable	\$2,900,000	\$2,900,000

DESCRIPTION: Taxpayers may take qualified moving expenses as an adjustment to personal taxable income. This deduction can be taken without itemizing (known as an adjustment or an above-the-line deduction). The expenses include costs of moving household goods and traveling expenses while moving. The move must be in conjunction with a new job or business at least 50 miles farther away than one’s current job.

PURPOSE: To reduce employment related moving costs.

WHO BENEFITS: Employees incurring moving expenses related to a new job or business. The number of taxpayers (full-year filers and part-year filers moving into Oregon) claiming this adjustment in 2002 was down from 2000, decreasing from approximately 15,700 to 14,300. The average moving expense claimed increased from \$2,056 in 2000 to \$2,099 in 2002.

Income Group (Quintiles)	Taxpayers		Mean Deduction
	Number	Percent	
Below \$10,400	922	6.4%	\$1,776
\$10,400 - \$21,900	2,492	17.4%	\$1,441
\$21,900 - \$37,900	3,220	22.5%	\$1,637
\$37,900 - \$63,700	3,659	25.6%	\$1,949
Above \$63,700	4,014	28.1%	\$3,090
Total	14,307	100.0%	\$2,099

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

1.070 CHARITABLE CONTRIBUTIONS: EDUCATION

Internal Revenue Code Sections: 170 and 642(c)

Oregon Statutes: 316.695 and 317.013 (Connections to federal personal and corporation deductions)

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1917 (personal) and 1935 (corporation)

	Corporation	Personal	Total
2003–05 Revenue Impact:	\$7,500,000	\$36,200,000	\$43,700,000
2005–07 Revenue Impact:	\$7,800,000	\$38,200,000	\$46,000,000

DESCRIPTION: Contributions to educational organizations are allowed as itemized deductions from personal taxable income of amounts up to 50 percent of adjusted gross income. Corporations can deduct from corporate taxable income contributions up to 10 percent of adjusted taxable income. Taxpayers who donate property may deduct the current market value of the property up to 30 percent of adjusted gross income and do not need to pay tax on any capital gains realized on the property. Contributions in excess of the limits may be applied to up to five future tax years until the contributions are completely deducted. See Land Donated to Schools (1.110) for the related Oregon subtraction.

PURPOSE: To encourage donations to qualifying educational organizations.

WHO BENEFITS: In 2002 roughly 500,000 Oregonians took an average deduction of \$2,600 for charitable contributions; the total amount of deductions was \$1.3 billion. We estimate that \$184.6 million went to educational institutions, \$124.8 million went to health related organizations, and \$990.6 million went to all other charitable organizations.

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

1.071 CHARITABLE CONTRIBUTIONS: HEALTH

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

	Corporation	Personal	Total
2003–05 Revenue Impact:	\$6,500,000	\$24,900,000	\$31,400,000
2005–07 Revenue Impact:	\$6,800,000	\$26,500,000	\$33,300,000

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

PURPOSE: To encourage donations to designated health organizations.

WHO BENEFITS: In 2002 roughly 500,000 Oregonians took an average deduction of \$2,600 for charitable contributions; the total amount of deductions was \$1.3 billion. We estimate that \$184.6 million went to educational institutions, \$124.8 million went to health related organizations, and \$990.6 million went to all other charitable organizations.

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

1.072 MEDICAL AND DENTAL EXPENSES

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

	Corporation	Personal	Total
2003–05 Revenue Impact:	Not Applicable	\$126,200,000	\$126,200,000
2005–07 Revenue Impact:	Not Applicable	\$141,300,000	\$141,300,000

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

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

WHO BENEFITS: There were over 139,600 full-year resident taxpayers who took this deduction in 2002 with an average deduction of roughly \$5,600.

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

1.073 REMOVAL OF ARCHITECTURAL BARRIERS

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

	Corporation	Personal	Total
2003–05 Revenue Impact:	Less than \$50,000	Less than \$50,000	\$100,000
2005–07 Revenue Impact:	Less than \$50,000	Less than \$50,000	\$100,000

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

PURPOSE: To reduce physical barriers for both employees and customers who are handicapped or age 65 and over.

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

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

1.074 ACCELERATED DEPRECIATION OF BUILDINGS

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

	Corporation	Personal	Total
2003–05 Revenue Impact:	\$6,900,000	\$11,400,000	\$18,300,000
2005–07 Revenue Impact:	\$4,800,000	\$2,200,000	\$7,000,000

DESCRIPTION: In general, taxpayers may deduct from corporation and personal taxable income the depreciation of buildings based on a straight-line method where equal amounts are deducted in each period. This tax expenditure permits the use of accelerated depreciation methods, which allow for faster write-offs than the straight-line method. The revenue impact of this tax expenditure represents the additional tax that would have been paid if straight-line depreciation had been used. Note: The tax expenditure associated with rental housing is covered separately in Accelerated Depreciation of Rental Housing (1.076).

PURPOSE: To promote investment in buildings.

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

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

1.075 ACCELERATED DEPRECIATION OF EQUIPMENT

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

	Corporation	Personal	Total
2003–05 Revenue Impact:	\$171,600,000	\$85,300,000	\$256,900,000
2005–07 Revenue Impact:	\$28,300,000	-\$2,300,000	\$26,000,000

DESCRIPTION: In general, taxpayers may deduct from corporation and personal taxable income the depreciation of equipment based on a straight-line method where equal amounts are deducted in each period. This tax expenditure permits the use of accelerated depreciation methods, which allow for faster write-offs than the straight-line method. The tax expenditure is the additional tax that would have been paid if straight-line depreciation had been used.

The revenue impact includes the bonus depreciation provisions of both the Job Creation and Worker Assistance Act of 2002 and the Jobs and Growth Tax Relief

Act of 2003. The first of these bills allows a special first year bonus depreciation deduction equal to 50 percent of the adjusted basis for qualified property placed in service between September 10, 2001, and September 11, 2004. The remaining 70 percent of the property is depreciated according to prior standards. The second bill allows a special first year bonus depreciation deduction equal to 50 percent of the adjusted basis for qualified property acquired between May 5, 2003, and January 1, 2005. The remaining 50 percent of the property is depreciated according to prior standards.

PURPOSE: To promote investment in business equipment.

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

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

1.076 ACCELERATED DEPRECIATION OF RENTAL HOUSING

Internal Revenue Code Sections: 167 and 168

Oregon Statutes: 316.048 and 317.013 (Connections to federal personal and corporation taxable incomes)

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1954

	Corporation	Personal	Total
2003–05 Revenue Impact:	\$1,500,000	\$23,300,000	\$24,800,000
2005–07 Revenue Impact:	\$1,900,000	\$29,600,000	\$31,500,000

DESCRIPTION: In general, taxpayers may deduct from corporation and personal taxable income the depreciation of rental housing based on a straight-line method where equal amounts are deducted in each period. In general, for rental housing property placed in service since 1986, the depreciation life is 27.5 years, and the property is depreciated in equal amounts each year. In other words, the rental property follows a straight-line depreciation method for 27.5 years instead of the total anticipated life of the property. This tax expenditure measures the revenue loss due to deductions in excess of those allowed under the 40-year straight-line depreciation allowed under the Alternative Minimum Tax. Rental housing properties placed in service prior to 1986 continue depreciation according to the method they started with, which may allow the property to depreciate faster than under a straight-line method.

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

WHO BENEFITS: Owners of rental housing.

EVALUATION: This expenditure appears to achieve its purpose. As described by the Congressional Research Service, accelerated depreciation is intended as “a general stimulus to investment.” There are likely instances where the tax deferral represented by accelerated depreciation provides a critical incentive to developers and investors in making decisions regarding construction or purchase of rental property. However,

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rental housing is not the only item that receives some form of preferential tax treatment. It is difficult to ascertain the fiscal effectiveness of this expenditure.

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

1.077 DEFERRAL OF CERTAIN FINANCING INCOME OF FOREIGN CORPORATIONS

Internal Revenue Code Section: 954

Oregon Statutes: 317.013 (Connection to federal corporation deduction)

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1997

	Corporation	Personal	Total
2003–05 Revenue Impact:	\$7,800,000	Not Applicable	\$7,800,000
2005–07 Revenue Impact:	\$9,100,000	Not Applicable	\$9,100,000

DESCRIPTION: When a U.S. firm earns income through a foreign subsidiary, the income is exempt from U.S. corporate taxes as long as it is in the hands of the foreign subsidiary. Although U.S. tax laws generally exclude income from passive activities from this deferral, this tax expenditure expands the deferral principle to financial corporations. Companies that conduct active financial operations overseas may defer taxes on income earned abroad until that income is repatriated to the U.S.

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

WHO BENEFITS: U.S. firms conducting financial business abroad. These firms are not liable for Oregon corporate income tax until they actually repatriate taxable income back to the United States.

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

1.078 RESEARCH AND DEVELOPMENT COSTS

Internal Revenue Code Section: 174

Oregon Statutes: 316.048 and 317.013 (Connections to federal personal and corporation deductions)

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1954

	Corporation	Personal	Total
2003–05 Revenue Impact:	\$18,400,000	Not Applicable	\$18,400,000
2005–07 Revenue Impact:	\$26,900,000	Not Applicable	\$26,900,000

DESCRIPTION: To be consistent with the treatment of other investments with multi-year benefits, research and development (R&D) expenditures would need to be depreciated over

their useful life. Instead, this provision allows research and development expenditures to be fully expensed in the first year for purposes of computing corporation and personal taxable income.

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

WHO BENEFITS: Firms with certain research and experimental expenditures.

EVALUATION: This expenditure appears to achieve its purpose. In conjunction with the Oregon tax credit [Qualified Research Activities (1.149)], it benefits research-intensive companies such as those in the fast-expanding high-tech and biotechnology sectors. The following benefits can be identified:

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

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

1.079 SECTION 179 EXPENSING ALLOWANCES

Internal Revenue Code Section: 179

Oregon Statutes: 316.048 and 317.013 (Connections to federal personal and corporation deductions)

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1959

	Corporation	Personal	Total
2003–05 Revenue Impact:	\$2,400,000	\$18,200,000	\$20,600,000
2005–07 Revenue Impact:	\$800,000	\$5,200,000	\$6,000,000

DESCRIPTION: In general, the cost of business property must be deducted from personal and corporation income as it depreciates over its useful life. This expenditure allows a taxpayer to deduct, as an expense, up to \$100,000 of the cost of qualifying property in the year it is purchased. The amount that can be expensed is phased out if the taxpayer purchases more than \$400,000 of property during the year. This limitation ensures that smaller businesses receive most of the benefit from this expenditure.

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

WHO BENEFITS: Businesses with qualified property purchases.

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

1.080 AMORTIZATION OF BUSINESS START-UP COSTS

Internal Revenue Code Section: 195

Oregon Statutes: 316.048 and 317.013 (Connections to federal personal and corporation deductions)

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1980

	Corporation	Personal	Total
2003–05 Revenue Impact:	\$100,000	\$4,400,000	\$4,500,000
2005–07 Revenue Impact:	\$100,000	\$4,600,000	\$4,700,000

DESCRIPTION: This provision allows a taxpayer to deduct from personal or corporation taxable income eligible start-up expenditures over a minimum of five years. An expenditure must satisfy two requirements to qualify for this treatment. First, it must be paid in connection with creating or investigating a trade or business before the taxpayer begins an active business. Second, it must be an expenditure that would have been deductible for an active business.

PURPOSE: To encourage the formation of new businesses and to clarify the tax treatment of start-up expenditures.

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

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

1.081 CONSTRUCTION FUNDS OF SHIPPING COMPANIES

Internal Revenue Code Section: 7518

Oregon Statute: 317.319

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1936

	Corporation	Personal	Total
2003–05 Revenue Impact:	\$1,700,000	Not Applicable	\$1,700,000
2005–07 Revenue Impact:	\$1,700,000	Not Applicable	\$1,700,000

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

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

WHO BENEFITS: U.S. shipping companies.

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

1.082 ORDINARY TREATMENT OF LOSSES FROM SALES OF SMALL BUSINESS CORPORATION STOCK

Internal Revenue Code Sections: 1244

Oregon Statute: 316.048 (Connection to federal personal taxable income)

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1958

	Corporation	Personal	Total
2003–05 Revenue Impact:	Not Applicable	\$300,000	\$300,000
2005–07 Revenue Impact:	Not Applicable	\$300,000	\$300,000

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

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

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PURPOSE: To encourage investment in small businesses.

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

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

1.083 PROPERTY TAXES

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

	Corporation	Personal	Total
2003–05 Revenue Impact:	Not Applicable	\$256,500,000	\$256,500,000
2005–07 Revenue Impact:	Not Applicable	\$296,100,000	\$296,100,000

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

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

WHO BENEFITS: In 2002, 531,000 full-year resident taxpayers claimed \$1.24 billion in itemized deductions for the property taxes paid on their residences. The average deduction was about \$2,300.

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

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

1.084 HOME MORTGAGE INTEREST

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

	Corporation	Personal	Total
2003–05 Revenue Impact:	Not Applicable	\$905,100,000	\$905,100,000
2005–07 Revenue Impact:	Not Applicable	\$958,600,000	\$958,600,000

DESCRIPTION: Mortgage interest paid by owner-occupants on their primary and secondary residences is deductible from the personal taxable income for taxpayers who itemize deductions. Interest may be deducted on loans up to \$1,000,000 for the purchase of the residence (\$500,000 in the case of a married individual filing a separate return) and on loans up to \$100,000 (\$50,000 for married individuals filing separately) for home equity loans.

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

WHO BENEFITS: In 2002, about 590,000 Oregon taxpayers lowered their taxes by about \$405.5 million using this itemized deduction for home mortgage interest. The average tax savings was about \$688.

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

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

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

1.085 CASH ACCOUNTING FOR AGRICULTURE

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

	Corporation	Personal	Total
2003–05 Revenue Impact:	\$100,000	\$3,300,000	\$3,400,000
2005–07 Revenue Impact:	\$100,000	\$3,300,000	\$3,400,000

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

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

WHO BENEFITS: Small farmers who use cash accounting and are able to accelerate deductions relative to accrual accounting.

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

1.086 SOIL AND WATER CONSERVATION EXPENDITURES

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

	Corporation	Personal	Total
2003–05 Revenue Impact:	\$100,000	\$200,000	\$300,000
2005–07 Revenue Impact:	\$100,000	\$200,000	\$300,000

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

expenditure because deductions can be claimed before the income associated with the deductions is realized.

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

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

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

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

1.087 FERTILIZER AND SOIL CONDITIONER COSTS

Internal Revenue Code Section: 180 (Reg. S1.180-1 and S1.180-2)

Oregon Statute: 316.048 and 317.013 (Connections to federal personal and corporation taxable deductions)

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1960

	Corporation	Personal	Total
2003–05 Revenue Impact:	\$100,000	\$1,100,000	\$1,200,000
2005–07 Revenue Impact:	\$100,000	\$1,100,000	\$1,200,000

DESCRIPTION: For corporation and personal income tax purposes, certain investments in soil fertilization and conditioning projects that produce benefits over a number of years can be expensed rather than depreciated. The expensing of these costs represents a departure from typical practice and represents a tax expenditure because deductions can be claimed before the income associated with the deductions is realized. This tax expenditure is different from Soil and Water Conservation Expenditures (1.086) because these activities improve the soil for farming purposes. Soil and water conservation activities may result in retention or improvement of soil or water resources, but may not directly improve the soil quality.

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

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

EVALUATION: The expensing of costs related to fertilizing or soil conditioning provides an important tool for farmers to enable the cost-effective use of these activities.

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

1.088 COSTS OF RAISING DAIRY AND BREEDING CATTLE

Internal Revenue Code Section: 263A(d)(1)(A)(i)

Oregon Statute: 316.048 and 317.013 (Connections to federal personal and corporation taxable deductions)

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1916

	Corporation	Personal	Total
2003–05 Revenue Impact:	\$100,000	\$500,000	\$600,000
2005–07 Revenue Impact:	\$100,000	\$200,000	\$300,000

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

PURPOSE: To simplify record keeping for farmers and ranchers.

WHO BENEFITS: Farmers who raise dairy or breeding cattle.

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

1.089 SALE OF STOCK TO FARMERS' COOPERATIVES

Internal Revenue Code Section: 1042(g)

Oregon Statute: 316.048 and 317.013 (Connection to federal personal and corporation taxable incomes)

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1998

	Corporation	Personal	Total
2003–05 Revenue Impact:	Less than \$50,000	Less than \$50,000	Less than \$50,000
2005–07 Revenue Impact:	Less than \$50,000	Less than \$50,000	Less than \$50,000

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

PURPOSE: To encourage the purchase of food processing facilities by farm cooperatives.

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

EVALUATION: It is questionable whether this provision is serving its purpose. There have been several major food processing facility bankruptcies in the past few years, and whether this provision was useful in a bankruptcy setting is unclear because the entities that liquidated properties appear to have invested the proceeds outside of Oregon.
[Evaluated by the Department of Agriculture.]

1.090 REDEVELOPMENT COSTS IN CONTAMINATED AREAS

Internal Revenue Code Section: 198

Oregon Statute: 316.048 and 317.013 (Connection to federal personal and corporation taxable incomes)

Federal Law Sunset Date: 12-31-01

Year Enacted in Federal Law: 1997

	Corporation	Personal	Total
2003–05 Revenue Impact:	\$100,000	\$100,000	\$200,000
2005–07 Revenue Impact:	\$0	\$0	\$0

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

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

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

WHO BENEFITS: The brownfields’ tax incentive primarily benefited taxpayers who purchased property that had already been contaminated. It may also have allowed taxpayers responsible for the contamination to deduct remediation-related expenditures that would otherwise have been chargeable to a capital account.

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

1.091 CLEAN-FUEL VEHICLES AND REFUELING PROPERTY

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

	Corporation	Personal	Total
2003–05 Revenue Impact:	Less than \$50,000	\$1,300,000	\$1,300,000
2005–07 Revenue Impact:	Less than \$50,000	\$900,000	\$900,000

DESCRIPTION: Taxpayers are allowed a limited deduction for the cost of clean-fuel vehicles and refueling property. The deduction for clean-fuel refueling property may only be taken in connection with trade or business. The deduction for a clean-fuel vehicle may be taken even if the property is for personal use.

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

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

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

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

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

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

1.092 INTANGIBLE DEVELOPMENT COSTS FOR FUELS

Internal Revenue Code Section: 263(c), 616

Oregon Statute: 316.695 and 317.013 (Connection to federal personal and corporation taxable incomes)

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1978

	Corporation	Personal	Total
2003–05 Revenue Impact:	Less than \$50,000	Less than \$50,000	Less than \$50,000
2005–07 Revenue Impact:	Less than \$50,000	Less than \$50,000	Less than \$50,000

DESCRIPTION:	Intangible drilling and development cost incurred in oil, gas, and geothermal wells may be expensed.
PURPOSE:	To encourage development of petroleum, natural gas, and geothermal wells.
WHO BENEFITS:	The owners incurring the specified expenses for qualified activities.
EVALUATION:	Not evaluated.

1.093 DEPLETION COSTS FOR FUELS

Internal Revenue Code Section: 611-613; 613(A)

Oregon Statute: 316.695 (Connection to federal personal taxable income) and 317.013

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1962

	Corporation	Personal	Total
2003–05 Revenue Impact:	Less than \$50,000	Less than \$50,000	Less than \$50,000
2005–07 Revenue Impact:	Less than \$50,000	Less than \$50,000	Less than \$50,000

DESCRIPTION:	Firms that extract natural resources used for fuels are allowed a deduction from corporation or personal taxable income to recover their capital investment. There are two methods of calculating this deduction: cost depletion and percentage depletion. Although cost depletion is considered the standard method for tax purposes, this provision allows the use of percentage depletion. Because percentage depletion is based on the market value of the minerals recovered, it generally exceeds cost depletion, which is limited to the total capital investment
PURPOSE:	To permit correction of preliminary estimates of depletion costs and depreciation of improvements.
WHO BENEFITS:	Owners of natural resources incurring resource depletion and depreciation of improvements.
EVALUATION:	Not evaluated.

1.094 TERTIARY INJECTANTS

Internal Revenue Code Section: 193

Oregon Statute: 316.695 and 317.013 (Connection to federal personal and corporation taxable incomes)

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1980

	Corporation	Personal	Total
2003–05 Revenue Impact:	Less than \$50,000	Less than \$50,000	\$100,000
2005–07 Revenue Impact:	Less than \$50,000	Less than \$50,000	\$100,000

- DESCRIPTION:** A deduction for qualified tertiary injection expenses is allowed for enhanced recovery of natural petroleum deposits. Tertiary injectants are substances such as carbon dioxide injected into oil bearing geological formations to enhance oil recovery from declining reserves.
- PURPOSE:** To provide incentives to increase oil recovery from declining reserves.
- WHO BENEFITS:** Owners of nearly depleted oil wells, which require enhanced recovery methods to provide any remaining production.
- EVALUATION:** Not evaluated.

1.095 MULTI-PERIOD TIMBER GROWING COSTS

Internal Revenue Code Sections: 162, 263(d)(1)

Oregon Statute: 316.048 and 317.013 (Connections to federal personal and corporation taxable deductions)

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1986

	Corporation	Personal	Total
2003–05 Revenue Impact:	\$5,800,000	\$500,000	\$6,300,000
2005–07 Revenue Impact:	\$5,800,000	\$500,000	\$6,300,000

- DESCRIPTION:** Indirect expenses incurred in the growing of timber can be expensed rather than capitalized when computing corporation and personal taxable income. Expensing allows full deduction in the year the expenses are incurred, while capitalization requires the deduction to be taken over a number of years. In most other industries, these expenses must be capitalized.
- PURPOSE:** To provide tax relief to the timber growers in recognition of the long growing periods for timber during which no revenue is produced.
- WHO BENEFITS:** Taxpayers who have timber growing expenses that are not connected with a timber harvest or reforestation activity. According to the Congressional Research Service, nationally about 80 percent of the benefits accrue to corporations and 20 percent to noncorporate timber growers. In Oregon, the percentage benefiting corporations may be even greater because the proportion of Oregon private timberlands owned by corporations is larger than the national average.
- EVALUATION:** It is not clear if this expenditure is achieving its purpose. If the purpose is to extend tax benefits to all who grow timber for sale, the purpose has not been fully achieved because the expensing is unavailable to those who are not “materially participating” in the management of the timber stand involved. If the taxpayer is an “investor” these

expenses must be capitalized, thus effectively adding to the current tax burden. If the purpose extends only to those investing “sweat equity” in the land and to those entities for which the timber-growing is their sole business, then there is evidence that the purpose is being achieved.

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

1.096 AMORTIZATION OF REFORESTATION EXPENDITURES

Internal Revenue Code Section: 194

Oregon Statute: 316.048 and 317.013 (Connections to federal personal and corporation taxable incomes)

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1980

	Corporation	Personal	Total
2003–05 Revenue Impact:	\$100,000	\$100,000	\$200,000
2005–07 Revenue Impact:	\$100,000	\$100,000	\$200,000

DESCRIPTION:

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

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

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

1. It is held for the growing and cutting of timber the taxpayer will either use in, or sell for use in, the commercial production of timber products.
2. It consists of at least one acre planted with tree seedlings in the manner normally used in forestation or reforestation.

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

Each year, the taxpayer may choose to amortize up to \$10,000 (\$5,000 if married filing separately) of qualifying costs paid or incurred during the tax year. Taxpayers cannot carry over or carry back qualifying costs over the annual limit. The annual

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limit applies to qualifying costs for all the taxpayer’s qualified timber property. If the taxpayer’s qualifying costs are more than \$10,000 for more than one piece of timber property, the taxpayer can divide the annual limit among any of the properties in any manner he or she wishes.

- PURPOSE:** To lower the annual after-tax cost of reforestation. Because there is a \$10,000 annual cap, this expenditure proportionally helps smaller owners more.
- WHO BENEFITS:** Taxpayers who are reforesting forest lands.
- EVALUATION:** Not evaluated.

1.097 DEVELOPMENT COSTS FOR NONFUEL MINERALS

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

	Corporation	Personal	Total
2003–05 Revenue Impact:	\$100,000	\$200,000	\$300,000
2005–07 Revenue Impact:	\$100,000	\$200,000	\$300,000

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

PURPOSE: To encourage mining.

WHO BENEFITS: Mining companies.

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

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

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

1.098 DEPLETION COSTS FOR NONFUEL MINERALS

Internal Revenue Code Sections: 611, 612, 613, and 291

Oregon Statute: 316.048 (Connection to federal personal taxable deductions), 317.374

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1913

	Corporation	Personal	Total
2003–05 Revenue Impact:	\$400,000	\$800,000	\$1,200,000
2005–07 Revenue Impact:	\$400,000	\$800,000	\$1,200,000

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

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

WHO BENEFITS: Mining companies using the percentage depletion method.

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

1.099 MINING RECLAMATION RESERVES

Internal Revenue Code Section: 468

Oregon Statute: 316.048 and 317.013 (Connection to federal personal and corporation taxable income)

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1984

	Corporation	Personal	Total
2003–05 Revenue Impact:	\$100,000	\$200,000	\$300,000
2005–07 Revenue Impact:	\$100,000	\$200,000	\$300,000

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

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

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

EVALUATION: This provision has been effective at assisting mining operations because tax deductions can be taken for the life of the mining operation instead of at the end of

the project. It encourages reclamation throughout the length of the mining operation, which probably has the long-term value of benefiting mine site and surrounding land values during and after mining. It appears to be an effective way to encourage reclamation and help the environment. *[Evaluated by the Department of Geology and Mineral Industries.]*

1.100 BAD DEBT RESERVES OF FINANCIAL INSTITUTIONS

Internal Revenue Code Sections: 585, 593, and 596

Oregon Statute: 317.310

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1947

	Corporation	Personal	Total
2003–05 Revenue Impact:	Less than \$50,000	Not Applicable	Less than \$50,000
2005–07 Revenue Impact:	Less than \$50,000	Not Applicable	Less than \$50,000

DESCRIPTION: Small banks (those with an average adjusted asset basis of up to \$500 million) and savings and loans institutions can use a reserve method of accounting in calculating write-offs for bad debts. Under a reserve method, payments are made into a reserve account to cover bad debts expected to accrue in the future. These payments can be deducted from corporate taxable income. This approach differs from the technique used by large commercial banks, which can only write off bad debts at the time they become worthless. The effect of the reserve method is to allow future bad debts to be written off against current income. In effect, this defers taxes, lowering the effective tax rate on the financial institution.

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

WHO BENEFITS: Small banks and savings and loans institutions.

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

1.101 SMALL LIFE INSURANCE COMPANIES

Internal Revenue Code Section: 806

Oregon Statute: 317.013 (Connection to federal corporation taxable income)

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1984

	Corporation	Personal	Total
2003–05 Revenue Impact:	\$400,000	Not Applicable	\$400,000
2005–07 Revenue Impact:	\$400,000	Not Applicable	\$400,000

DESCRIPTION: Life insurance companies with less than \$500 million in assets and taxable income of less than \$15 million are allowed a special deduction on their corporate income taxes.

For taxable income less than \$3 million, companies can deduct 60 percent of their corporate taxable income. The deduction is reduced by 15 percentage points for each additional \$3 million of taxable income, with the deduction falling to zero when taxable income reaches \$15 million.

- PURPOSE:** To reduce the tax burden on small insurance companies in an industry dominated by very large companies.
- WHO BENEFITS:** Small life insurance companies with assets less than \$500 million and taxable income of less than \$15 million.
- EVALUATION:** This expenditure is generally effective in achieving its purpose. It may serve to help newer companies to become established and build up the reserves state law requires of insurance companies. Many of these newer companies are located in smaller communities where they become an integral part of the economic fiber. Without this tax law incentive to strengthen smaller life insurance companies, they could be taken over by the larger national companies.
- However, there is a concern that inequities are created by this expenditure, since taxes on business income are based on the size of the business rather than profitability. It distorts the efficient allocation of resources, since it offers a cost advantage based on size and not economic performance. Nor does this tax reduction serve any simplification purpose, since it requires an additional set of computations and some complex rules to keep it from being abused. *[Evaluated by the Department of Consumer and Business Services.]*

1.102 UNPAID LOSS RESERVES

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

	Corporation	Personal	Total
2003–05 Revenue Impact:	\$7,400,000	Not Applicable	\$7,400,000
2005–07 Revenue Impact:	\$7,100,000	Not Applicable	\$7,100,000

- DESCRIPTION:** In calculating corporate taxable income, most businesses cannot deduct expenses until the company becomes liable for paying them. This provision allows property and casualty insurance companies to deduct the discounted value of estimated losses they expect to pay in the future, including claims in dispute. This allows them to defer tax liability by deducting future expenses from current income.
- PURPOSE:** To make tax rules consistent with standard industry accounting practices. For most regulated industries, the tax code was written to be consistent with the accounting rules already used in those industries (in most cases dictated by state regulation). In the insurance industry it is common practice to use some form of reserve accounting in estimating net income, and those methods were adopted for tax purposes when property and casualty insurance companies first became taxable in 1909.
- WHO BENEFITS:** Property and casualty insurance companies.
- EVALUATION:** This expenditure achieves its purpose. The nature and purpose of insurance is to reduce financial uncertainty. Insurers must estimate the amounts of unpaid losses because of the same uncertainty. Were this not so, insurance would be unnecessary.

Historically, the liability estimates have been accurate or understated. Excessive estimates result in tax penalties and competitively ineffective pricing.

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

1.103 BLUE CROSS/BLUE SHIELD AND OTHER NONPROFITS

Internal Revenue Code Section: 833

Oregon Statute: 317.013 (Connection to federal corporation taxable income)

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1986

	Corporation	Personal	Total
2003–05 Revenue Impact:	Not Available*	Not Applicable	Not Available*
2005–07 Revenue Impact:	Not Available*	Not Applicable	Not Available*

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

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

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

WHO BENEFITS: Nonprofit health insurance companies.

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

1.104 MAGAZINE CIRCULATION EXPENDITURES

Internal Revenue Code Section: 173

Oregon Statute: 316.048 and 317.013 (Connections to federal personal and corporation taxable deductions)

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1950

	Corporation	Personal	Total
2003–05 Revenue Impact:	\$100,000	\$200,000	\$300,000
2005–07 Revenue Impact:	\$100,000	\$200,000	\$300,000

DESCRIPTION: This provision allows publishers of periodicals to deduct expenditures to establish, maintain, or increase circulation in the year that the expenditures are made. The revenue impact of this tax expenditure is the difference between the current deduction of costs and the recovery that would have been allowed if these expenses were capitalized and deducted over time.

PURPOSE: To reduce the cost of tax compliance.

WHO BENEFITS: Publishers of periodicals.

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

1.105 NET OPERATING LOSS LIMITATION

Internal Revenue Code Section: 382

Oregon Statute: 317.478 and 317.479

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1954

	Corporation	Personal	Total
2003–05 Revenue Impact:	\$2,800,000	Not Applicable	\$2,800,000
2005–07 Revenue Impact:	\$2,700,000	Not Applicable	\$2,700,000

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

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

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

EVALUATION: According to the Congressional Research Service, the rationale for the provision is reasonable, but the exception is not structured to be fully consistent with the rationale. There is no test to determine what portion, if any, of the preacquisition net

operating loss carryforwards was borne by creditors who became shareholders.
[Evaluated by the Department of Revenue.]

1.106 COMPLETED CONTRACT RULES

Internal Revenue Code Section: 460(e)

Oregon Statute: 316.048 and 317.013 (Connections to federal personal and corporation taxable income)

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1986

	Corporation	Personal	Total
2003–05 Revenue Impact:	\$900,000	\$200,000	\$1,100,000
2005–07 Revenue Impact:	\$900,000	\$200,000	\$1,100,000

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

This provision is restricted to apply mostly to long-term home construction contracts. Other real estate construction contracts may qualify if the average annual gross receipts of the contractor do not exceed \$10 million, and the contract is estimated to be completed within two years.

PURPOSE: To simplify tax administration when the ultimate profitability of a contract is currently unknown.

WHO BENEFITS: Residential construction contractors are the main beneficiaries.

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

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

1.107 CASUALTY AND THEFT LOSSES

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

	Corporation	Personal	Total
2003–05 Revenue Impact:	Not Applicable	\$2,000,000	\$2,000,000
2005–07 Revenue Impact:	Not Applicable	\$2,000,000	\$2,000,000

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

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

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

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

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

1.108 LOCAL INCOME TAXES

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

	Corporation	Personal	Total
2003–05 Revenue Impact:	Not Applicable	\$13,700,000	\$13,700,000
2005–07 Revenue Impact:	Not Applicable	\$7,700,000	\$7,700,000

DESCRIPTION: Income taxes paid to cities and other local governments are deductible from personal taxable income for taxpayers who itemize deductions. Currently, the only local income tax in Oregon is the Multnomah County Personal Income Tax. It was created

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when voters approved Ballot Measure 26-48 in May 2003 and is a three-year temporary tax that is intended to be a local answer to recent state budget cuts and a poor economy. The tax is 1.25 percent of Oregon taxable income of Multnomah County residents reduced by an exemption amount (\$5,000 for joint filers and \$2,500 for single filers).

- PURPOSE: To avoid taxing income that is obligated to another government.
 WHO BENEFITS: Residents of Multnomah County who itemize deductions.
 EVALUATION: Not evaluated.

1.109 CHARITABLE CONTRIBUTIONS: OTHER

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

	Corporation	Personal	Total
2003–05 Revenue Impact:	\$12,600,000	\$195,400,000	\$208,000,000
2005–07 Revenue Impact:	\$13,300,000	\$207,200,000	\$220,500,000

- DESCRIPTION: Contributions to charitable, religious, and certain other nonprofit organizations are allowed as itemized deductions from personal taxable income of amounts up to 50 percent of adjusted gross income. Corporations can deduct from corporate taxable income contributions up to 10 percent of pre-tax income. Taxpayers who donate property may deduct the current market value of the property and do not need to pay tax on any capital gains realized on the property.
- PURPOSE: To encourage donations to designated charitable organizations.
- WHO BENEFITS: In 2002 roughly 500,000 Oregonians took an average deduction of \$2,600 for charitable contributions; the total amount of deductions was \$1.3 billion. We estimate that \$184.6 million went to educational institutions, \$124.8 million went to health related organizations, and \$990.6 million went to all other charitable organizations.
- EVALUATION: Not evaluated.

1.110 LAND DONATED TO SCHOOLS

Oregon Statute: 316.852 and 317.488

Sunset Date: 12-31-07

Year Enacted: 1999

	Corporation	Personal	Total
2003–05 Revenue Impact:	Less than \$50,000	Less than \$50,000	Less than \$50,000
2005–07 Revenue Impact:	Less than \$50,000	Less than \$50,000	Less than \$50,000

DESCRIPTION: A subtraction is allowed from corporate and personal taxable income for land donated or sold at below-market price on or after January 1, 2000, and before January 1, 2008, to a public school district, a nonprofit private school, or a public or nonprofit private community college, college, or university. For a donation, the amount of the subtraction is the fair market value of the land. For a sale, the amount of the subtraction is the difference between the fair market value and the sale price of the land. The amount of the subtraction is limited depending on whether the transfer was a donation or sale. In the case of a donation, the maximum subtraction in a given tax year is 50 percent of the taxpayer's taxable income in that year. When the land is sold, the maximum subtraction is 25 percent of the taxpayer's taxable income. Unused amounts in excess of the limitations may be carried forward and subtracted from taxable income for up to 15 succeeding years.

Oregon law supplements federal law in that federal law specifies that the unadjusted fair market value of the donation may be deducted only up to 30 percent of income, but Oregon allows the subtraction up to 50 percent of income. Any amount taken as a charitable contribution deduction is to be added to income on the Oregon return so that the taxpayer does not receive a double deduction. The federal deduction is described in Charitable Contributions: Education (1.070).

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

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

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

1.111 OREGON 529 COLLEGE SAVINGS NETWORK

Oregon Statute: 316.680(1)(i)

Sunset Date: None

Year Enacted: 1999, Modified in 2003 (HB 2664)

	Corporation	Personal	Total
2003–05 Revenue Impact:	Not Applicable	\$9,800,000	\$9,800,000
2005–07 Revenue Impact:	Not Applicable	\$13,400,000	\$13,400,000

DESCRIPTION: Individuals may establish tax-deferred and tax-exempt college savings accounts through the Oregon 529 College Savings Network to pay education-related expenses for a designated beneficiary (possibly themselves). Total contributions to these accounts are allowed up to the amount necessary to cover the qualified higher education expenses of the beneficiary or limits specified by the Oregon 529 College Savings Board. This program meets the specifications of a state-administered federal Qualified Tuition Program (QTP) and thereby passes the federal exclusion of earnings income through to Oregon. The revenue impact and description of the federal tax benefits are detailed in Qualified Tuition Programs (Federal) (1.004).

In addition to the federal tax benefits, Oregon taxpayers may also subtract from federal taxable income up to \$2,000 per year (\$1,000 if married filing separately) for contributions made to these Oregon-administered accounts. Contributions above the limit may be carried forward for up to four years. Nonqualifying distributions are added into federal taxable income for Oregon purposes. The revenue impact above includes only the impacts of the state-allowed subtraction for contributions and the state limit on the amount of nonqualifying distributions that would be added back to taxable income.

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

WHO BENEFITS: Oregon residents are able to defer and eventually avoid tax on earnings of these accounts and therefore may accumulate savings more quickly for future higher education expenses. As of June 2004, nearly \$285 million had been invested in 50,000 accounts within the Oregon 529 College Savings Network. Most of the account owners are Oregon residents.

EVALUATION: This tax expenditure is a fiscally effective method of achieving its purpose, which is to increase the ability of families and individuals to save for higher education. The program facilitates spreading the cost of higher education over a longer payment period that may extend prior to the student’s enrollment. *[Evaluated by the Oregon University System.]*

1.112 SCHOLARSHIP AWARDS USED FOR HOUSING EXPENSES

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

	Corporation	Personal	Total
2003–05 Revenue Impact:	Not Applicable	Less than \$50,000	Less than \$50,000
2005–07 Revenue Impact:	Not Applicable	Less than \$50,000	Less than \$50,000

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

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

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

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

1.113 JOBS PLUS PARTICIPANTS

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

	Corporation	Personal	Total
2003–05 Revenue Impact:	Not Applicable	Less than \$50,000	Less than \$50,000
2005–07 Revenue Impact:	Not Applicable	Less than \$50,000	Less than \$50,000

DESCRIPTION: Participants in the JOBS Plus program are allowed a subtraction from personal taxable income for certain payments received from the program. The JOBS Plus program places individuals who receive public assistance payments in jobs in the private or public sector. As part of the program, the amount of public assistance received by the individual is reduced. If the wages the participants earn in their jobs are less than the equivalent value of the public assistance they formerly received, the Department of Human Services 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.

Income Tax
Oregon Subtractions

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

WHO BENEFITS: On average in 2002, the program involved roughly 64 employers and 115 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: Families receiving public assistance benefits are living below the poverty level and, as a result, are incurring debts beyond their ability to pay or are deferring necessary expenses until they can find a family wage job and become self-sufficient. The supplemental amounts provided through this program are only intended to bring a family’s income up to the total they were receiving from welfare and food stamps. As in the case with Public Assistance Benefits (1.005), it would be counterproductive to add these supplements to their taxable income, thereby reducing their ability to overcome the effects of poverty.

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

1.114 PHYSICIANS IN “MEDICALLY DISADVANTAGED” AREAS

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

	Corporation	Personal	Total
2003–05 Revenue Impact:	Not Applicable	\$0	\$0
2005–07 Revenue Impact:	Not Applicable	\$0	\$0

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

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

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

EVALUATION: This provision apparently achieved its purpose when passed (there was an impressive growth in rural practitioners during the 1970s), but few, if any, physicians currently in practice seem to be aware of it. Because this provision applies to a select number of physicians (those licensed in an eight-year period between 1974 and 1982), this program should be updated by amendment during the next legislative session. The impending shortage in physicians statewide will have a disproportionately adverse effect on rural physician supply, so modifying the archaic law by making it effective

from 2006–2014 would be a sensible strategy. *[Evaluated by the Office of Rural Health.]*

1.115 **ADDITIONAL DEDUCTION FOR ELDERLY OR BLIND**

Oregon Statute: 316.695(7)

Sunset Date: None

Year Enacted: 1989

	Corporation	Personal	Total
2003–05 Revenue Impact:	Not Applicable	\$9,000,000	\$9,000,000
2005–07 Revenue Impact:	Not Applicable	\$6,900,000	\$6,900,000

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

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

WHO BENEFITS: The number of individuals who benefit from the additional deduction due to age has declined from 176,000 in 1990 to 90,500 in 2002. The number of Oregon taxpayers age 65 or over has increased from approximately 259,000 in 1990 to 313,300 in 2002. However, the percentage of these taxpayers who claim the standard deduction and so qualify for this additional deduction has fallen from 68 percent in 1990 to 30 percent in 2002. Because more elderly taxpayers are itemizing deductions, fewer are able to make use of this subtraction.

The number of taxpayers who benefit from the additional deduction due to blindness has decreased between 1990 and 2002 from over 3,000 to just over 2,200. The number of blind Oregon taxpayers has risen from approximately 4,000 in 1990 to nearly 5,400 in 2002. Of these, the percentage who claim the standard deduction and so qualify for the additional deduction has fallen from 76 percent in 1990 to 40 percent in 2002. Because more blind taxpayers are itemizing deductions, fewer are able to make use of this subtraction.

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

1.116 ADDITIONAL MEDICAL DEDUCTION FOR ELDERLY

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

Sunset Date: None

Year Enacted: 1991

	Corporation	Personal	Total
2003–05 Revenue Impact:	Not Applicable	\$66,800,000	\$66,800,000
2005–07 Revenue Impact:	Not Applicable	\$77,000,000	\$77,000,000

DESCRIPTION: All taxpayers who itemize deductions may deduct from personal taxable income medical and dental expenses that exceed 7.5 percent of their adjusted gross income [Medical and Dental Expenses (1.072)]. This tax expenditure extends that nontaxable treatment to any amount of qualified medical or dental expenses that does not exceed the 7.5 percent of adjusted gross income. To be eligible for this deduction, taxpayers must be at least 62 years of age and itemize their Oregon deductions (but not necessarily their federal deductions). Thus, these taxpayers may deduct the full amount of their medical and dental expenses from Oregon taxable income.

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

WHO BENEFITS: The number of older Oregon taxpayers who benefit from the additional medical deduction has risen from approximately 91,000 in 1991 to nearly 167,000 in 2002. The average additional medical deduction amount has risen from roughly \$1,800 in 1991 to \$2,550 in 2002. The table below shows the tax year 2002 usage of this subtraction for each of the five income quintiles.

Income Group (Quintiles)	Taxpayers		Mean Subtraction
	Number	Percent	
Below \$10,400	19,909	11.9%	\$522
\$10,400 - \$21,900	41,759	25.0%	\$1,173
\$21,900 - \$37,900	33,402	20.0%	\$2,045
\$37,900 - \$63,700	33,879	20.3%	\$3,158
Above \$63,700	37,981	22.8%	\$5,009
Total	166,930	100.0%	\$2,546

EVALUATION: This tax expenditure achieves its purpose and has similar benefits to the Additional Deduction for Elderly or Blind (1.115) in that it supports self-sufficiency and independence. This tax expenditure creates more disposable income for the affected individuals. Elderly people are more likely to have a greater percentage of their income devoted to medical and dental care. This deduction is an important element of financial assistance for these individuals and helps them avoid reliance on other state services. *[Evaluated by the Seniors and People with Disabilities Cluster, Department of Human Services.]*

1.117 SOCIAL SECURITY BENEFITS (OREGON)

Oregon Statute: 316.054

Sunset Date: None

Year Enacted: 1985

	Corporation	Personal	Total
2003–05 Revenue Impact:	Not Applicable	\$213,100,000	\$213,100,000
2005–07 Revenue Impact:	Not Applicable	\$229,400,000	\$229,400,000

DESCRIPTION: The Oregon Constitution (Article IX, Section 9) prohibits state and local governments from considering Social Security and Railroad Retirement Board benefits as income for the purpose of any tax or from being used to compute any tax liability. Only a portion of these benefits is considered nontaxable at the federal level. Consequently, there are two tax expenditures. This tax expenditure pertains to those benefits that are exempt only in Oregon (i.e., they are taxable at the federal level). The tax expenditure pertaining to those benefits that are exempt at both the federal level and in Oregon is Social Security Benefits (Federal) (1.015).

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

WHO BENEFITS: The number of Oregon taxpayers who benefit from the subtraction has risen consistently from 62,100 in 1990 to 133,200 in 2002. The average subtraction grew from \$3,800 in 1990 to \$8,570 in 2002.

Income Group (Quintiles)	Taxpayers		Mean Subtraction
	Number	Percent	
Below \$10,400	485	0.4%	\$3,885
\$10,400 - \$21,900	6,680	5.0%	\$1,548
\$21,900 - \$37,900	40,353	30.3%	\$3,054
\$37,900 - \$63,700	43,156	32.4%	\$8,941
Above \$63,700	42,500	31.9%	\$14,592
Total	133,174	100.0%	\$8,571

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

1.118 INDIVIDUAL DEVELOPMENT ACCOUNTS (EXCLUSION AND SUBTRACTION)

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

	Corporation	Personal	Total
2003–05 Revenue Impact:	Not Applicable	Less than \$50,000	Less than \$50,000
2005–07 Revenue Impact:	Not Applicable	Less than \$50,000	Less than \$50,000

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

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

Remainders in accounts after asset purchase may be rolled over into qualified tuition savings program accounts. See Oregon 529 College Savings Network (1.111) for more on these accounts.

A companion expenditure, Individual Development Accounts (Credit) (1.147), provides a credit for individuals or businesses that make contributions to fiduciary organizations to support IDA programs.

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

WHO BENEFITS: Lower income Oregon households benefit from the existence of these accounts. In the past seven years, more than 500 accounts have been established using a variety of state, private, and federal grant funds. State tax credit funded support began in 2003.

EVALUATION: The \$250,000 exemption has not been utilized during any biennium since initiation of Oregon IDA program in 1999 and probably will have very limited utilization in the future for two reasons. First, all IDA program participants must be from low-income households and low-income participants rarely experience much tax liability due to their slight incomes. Second, the interest participants earn on their accounts tends to be pretty small. Accounts are held in standard savings accounts, that typically pay very low rates (currently probably in the 1-3% range). Typically, the low-income participants in this program are able to save \$25-50 per month. It usually takes from 1-3 years to save enough to purchase their designated asset. This means total

accumulated personal savings usually amounts to between \$300 and \$2000. Even assuming the high end of savings and interest rates, the participant's maximum potential interest earnings might be \$40-50. So even if participants' earnings were subject to full personal income tax liability of 9%, the maximum amount of revenue loss would be maybe \$4-5 per participant. At current funding levels, the program is able to serve about 150 participants per year, meaning the actual amount of revenues excluded is probably well under \$1000 for the entire program. Service levels would need to increase several hundred-fold, to at least 50,000 participants, and assume best case savings rates and interest earnings, to even come close to the total value of the statutory exemption. For these reasons, it is not likely that the savings interest exemption for IDA participants will ever be a major impact on state revenues. *[Evaluated by Oregon Housing and Community Services.]*

1.119 DONATIONS OF ART BY THE ARTIST

Oregon Statute: 316.838

Sunset Date: None

Year Enacted: 1979

	Corporation	Personal	Total
2003–05 Revenue Impact:	Not Applicable	Less than \$50,000	Less than \$50,000
2005–07 Revenue Impact:	Not Applicable	Less than \$50,000	Less than \$50,000

DESCRIPTION: Under Chapter 170 of the Federal Internal Revenue Code, artists can deduct the costs of materials used to produce artworks donated as charitable contributions. This tax provision allows artists liable for Oregon personal income taxes to subtract from taxable income the fair market value of the art, not just the costs of materials.

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

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

EVALUATION: It is not clear whether this tax expenditure has achieved its purpose. The calculation of "fair market value" of a donated work of art may be highly subjective and difficult to substantiate because of a very limited number of comparable sales. This raises the likelihood of inflated values being placed on donated works of art for the purpose of obtaining larger income tax subtractions. The introduction of subjective values into tax subtractions presents difficulties for tax auditors.

On the other hand, encouraging the donation of artwork to charitable organizations is a reasonable policy, and some donations of artists' work to galleries may not be made without this tax incentive. A solution to these opposing values may be a compromise such as a deduction that is calculated as a simple multiple of the cost of materials used in producing the art. This would compensate the artist for the cost of materials and at least a portion of the artist's time and effort, but would circumvent the reliance on a subjective "market value" for one-of-a-kind items that do not have a well-established market value. A multiple cost-of-materials subtraction may have its own undesirable effects, such as encouraging the use of the most expensive materials available, even if not warranted by the art. *[Evaluated by the Economic and Community Development Department.]*

1.120 CAPITAL GAINS FROM OREGON REINVESTMENT

Oregon Statute: 316.874

Sunset Date: 12-31-99

Year Enacted: 1995

	Corporation	Personal	Total
2003–05 Revenue Impact:	Not Applicable	\$0	\$0
2005–07 Revenue Impact:	Not Applicable	\$0	\$0

DESCRIPTION: Under this expenditure personal income tax on certain capital gains could be deferred if the gain was reinvested under qualified conditions. This provision required that reinvestments of such gain were made by December 31, 1999.

Deferrals were limited to gains on assets used in a trade or business of the taxpayer or gain from the sale of expansion shares of qualified Oregon businesses. In order to defer the gain, the taxpayer must have reinvested the sale proceeds in either a qualified Oregon business, a qualified investment fund, or in qualified business assets. Reinvestments in financial and certain professional service businesses, real estate, and investment type businesses were excluded.

The taxpayer had six months to make a qualified reinvestment of gain. The deferral period ended and tax payment was required if any of the following occurred:

- The business, investment fund, or asset ceased to qualify;
- The business discontinued operation;
- 50 percent or more of business capital assets were withdrawn; or
- The business was sold and the proceeds were not reinvested in another qualified reinvestment within six months.

This provision went into effect January 1, 1997. Taxes on capital gains realized on or after this date were eligible for deferral. Reinvestment of sale proceeds must have been made by December 31, 1999.

PURPOSE: To promote investment in Oregon companies and to prevent the movement of capital out of Oregon to avoid Oregon income tax on capital gains. As capital gains are reinvested in qualified businesses, these businesses would be expected to grow and create employment opportunities for Oregon residents.

WHO BENEFITS: Investors who sold business assets and reinvested the proceeds in an Oregon company were the direct beneficiaries. In each of the tax years 1996 and 1997, fewer than 50 taxpayers used this expenditure. In 1996 the amount of capital gains income deferred was about \$7.3 million. This amount fell to \$1.4 million in 1997.

EVALUATION: This program had limited impact on reinvestment in Oregon due to several flaws. Given Oregon's high marginal tax rates on personal income, the issue is paramount to investors in upstart companies in Oregon who need equity investors. *[Evaluated by the Economic and Community Development Department.]*

1.121 MUNICIPAL BOND INTEREST

Oregon Statute: 316.056

Sunset Date: None

Year Enacted: 1987

	Corporation	Personal	Total
2003–05 Revenue Impact:	Not Applicable	\$26,500,000	\$26,500,000
2005–07 Revenue Impact:	Not Applicable	\$26,500,000	\$26,500,000

DESCRIPTION: Interest or dividends from all federally taxable bonds issued by Oregon state and local governments may be subtracted from Oregon taxable income. The interest or dividends received from obligations of counties, cities, districts, ports, or other public or municipal corporations or political subdivisions of Oregon qualify.

One specific type of federally taxable bond issue that this provision applies to is nonqualified private activity bonds, which are bonds primarily issued by local governments and used to finance private developments. With nonqualified private activity bonds, a substantial portion of the bond benefits accrue to individuals or businesses rather than to the general public. Interest on these nonqualified private activity bonds is taxed at the federal level, but this provision allows that income to be subtracted from Oregon personal taxable income.

By way of contrast, interest earned on qualified private activity bonds is exempt at both the federal level and in Oregon because of our connection to federal code [Interest on Oregon State and Local Debt (1.052)].

PURPOSE: To encourage the purchase of federally taxable bonds by Oregon residents in order to promote projects that have some public benefits.

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

As of June 30, 2004, the total amount of outstanding federally taxable bonds issued by Oregon state and local governments was approximately \$6.6 billion.

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

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

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

1.122 OUT-OF-STATE FINANCIAL INSTITUTION

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

	Corporation	Personal	Total
2003–05 Revenue Impact:	Not Available	Not Applicable	Not Available
2005–07 Revenue Impact:	Not Available	Not Applicable	Not Available

DESCRIPTION: This exclusion specifies that certain out-of-state financial institutions may engage in mortgage activities in Oregon without being subject to certain tax and corporation laws. These out-of-state financial institutions are required to designate the director of the Department of Consumer and Business Services (DCBS) as attorney for purposes of service of process.

The 1997 Legislative Assembly revised the Oregon Bank Act, but in doing so, had inadvertently left out a couple provisions of law, which resulted in a change in the definition of which activities are taxable by Oregon. These provisions were added back into law through 1999 SB 26. As before 1997, the acquiring of an Oregon mortgage loan will not subject the out-of-state or foreign lender to Oregon taxation. However, if the financial institution forecloses a loan and then sells or otherwise disposes of the property, the income associated with that property will be taxed to the same extent an Oregon corporation would be taxed. In addition, as was the case under the pre-1997 law, a foreign entity may acquire mortgage loans without authorization to transact business under ORS Chapter 60 (Corporations). They will still be required to appoint the DCBS director as agent for service of process and pay a \$200 annual licensing fee.

PURPOSE: To reinstate the tax status of out-of-state financial institutions to the pre-1997 conditions.

WHO BENEFITS: Four out-of-state financial institutions were registered with DCBS as of 2002.

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

1.123 SERVICE IN VIETNAM ON MISSING STATUS

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

	Corporation	Personal	Total
2003–05 Revenue Impact:	Not Applicable	\$0	\$0
2005–07 Revenue Impact:	Not Applicable	\$0	\$0

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

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

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

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

1.124 UNDERGROUND STORAGE TANK GRANTS

Oregon Statutes: 316.834 and 317.383

Sunset Date: The tax law provision has no sunset date, but the grant program sunset December 31, 1999.

Year Enacted: 1991

	Corporation	Personal	Total
2003–05 Revenue Impact:	\$0	\$0	\$0
2005–07 Revenue Impact:	\$0	\$0	\$0

DESCRIPTION: Underground storage tank essential services grants made by the Department of Environmental Quality are subtracted from federal taxable income. The original grant program sunset June 30, 1997, but the 1997 Legislature extended it to December 31, 1999, and made \$2.8 million more in lottery and general funds available for grants. The programs concluded with minor wrap-up work in the 1999–2001 biennium.

PURPOSE: To promote fuel availability in rural areas by partially funding the upgrade and cleanup of underground storage tanks by businesses with limited financial resources and in public ports and airports. To maintain and ensure the existence of a transportation infrastructure throughout the state.

WHO BENEFITS: Tank owners who received grants from the Department of Environmental Quality. A typical grant project was an owner-operated gas station with one or two employees, combined with a repair shop, grocery store, cafe, motel and/or post-office, or a small port serving the public and commercial fishermen.

Tank owners had to show financial need and be located in rural areas, so most of the benefits went to independent gas stations with marginal profitability. Ports must be those defined in ORS 777.005 or 836.005.

EVALUATION: This expenditure was very effective in achieving its purpose. The tax benefit received by the grantee preserved the benefit of the grant program by the amount of the tax savings. Grantees were required to pay at least 25 percent of the project costs and would have been less able to do so if the grant were counted as income subject to taxation. The program funded 133 gas station projects and 9 public port and airport projects. Without the program, most of the 142 facilities would have had to shut down in 1998 pursuant to state and federal law, according to their owners.

Approximately 88 percent of the \$9.2 million received has gone directly into projects, with the other 12 percent being spent by the department to administer the program. Of the 142 projects, all but one have resulted in an upgraded, operating fueling facility that complies with federal and state laws to ensure future fuel availability. *[Evaluated by the Department of Environmental Quality.]*

1.125 ENERGY CONSERVATION SUBSIDIES (OREGON)

Oregon Statutes: 316.744 and 317.386

Sunset Date: None

Year Enacted: 1981

	Corporation	Personal	Total
2003–05 Revenue Impact:	Less than \$50,000	\$200,000	\$200,000
2005–07 Revenue Impact:	Less than \$50,000	\$200,000	\$200,000

DESCRIPTION: Income subsidies provided by utilities for the purchase or installation of an energy conservation device can be excluded from corporation and personal taxable income. Federal law exempts these payments for residential energy customers only [Energy Conservation Subsidies (Federal) (1.038)].

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.

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

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

1.126 WET MARINE AND TRANSPORTATION POLICIES

Oregon Statute: 317.080(8)

Sunset Date: None

Year Enacted: 1995

	Corporation	Personal	Total
2003–05 Revenue Impact:	\$400,000	Not Applicable	\$400,000
2005–07 Revenue Impact:	\$500,000	Not Applicable	\$500,000

DESCRIPTION: Ocean marine insurers are exempt from the corporation income tax and the retaliatory premium tax, but only with respect to the income derived from writing wet marine and transportation insurance. These insurers pay a tax based on underwriting profits for wet marine and transportation policies under ORS 731.824. Taxable *premiums* allocable to the wet marine and transportation policy component of ocean marine insurers are estimated as follows, by year:

2001: \$17.7 million
2002: \$20.3 million
2003: \$22.4 million

The revenue impacts are estimated based on a percentage profit margin of such taxable premiums, which are expected to be stable in both biennia.

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

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

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

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

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

For calendar year 2003, ocean marine insurers paid about \$65,000 of tax based on underwriting profits from writing wet marine and transportation insurance.

[Evaluated by the Department of Consumer and Business Services.]

1.127 INCOME EARNED IN BORDER RIVER AREAS

Federal Law: USC 46, Sect. 11108 (P.L. 106-489), USC 4 sect. 111 (P.L. 105-261)

Oregon Statute: 316.127

Sunset Date: None

Year Enacted: 2001

	Corporation	Personal	Total
2003–05 Revenue Impact:	Not Applicable	Less than \$50,000	Less than \$50,000
2005–07 Revenue Impact:	Not Applicable	Less than \$50,000	Less than \$50,000

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

PURPOSE: To simplify tax compliance.

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

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

1.128 INCOME EARNED IN “INDIAN COUNTRY”

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

	Corporation	Personal	Total
2003–05 Revenue Impact:	Not Applicable	\$2,300,000	\$2,300,000
2005–07 Revenue Impact:	Not Applicable	\$2,300,000	\$2,300,000

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. In 2002, roughly 1,700 Oregon residents claimed an average subtraction of \$10,300.

EVALUATION: Not evaluated.

1.129 FEDERAL PENSION INCOME

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

	Corporation	Personal	Total
2003–05 Revenue Impact:	Not Applicable	\$127,900,000	\$127,900,000
2005–07 Revenue Impact:	Not Applicable	\$142,500,000	\$142,500,000

DESCRIPTION: In June 1998 the Oregon Supreme Court ruled that Oregon was illegally taxing federal pension income (*Vogl v. Dept. of Revenue*). The Court ruled that personal income taxes paid to Oregon on federal pension income for tax years 1991 through 1997 were to be refunded to taxpayers during the 1997–99 biennium. Since tax year 1998, federal pension income attributable to service prior to October 1, 1991, is subtracted from federal taxable income to arrive at Oregon taxable income.

This court decision was the latest in a series of court decisions and legislative responses that go back to 1989 when the U.S. Supreme Court ruled that federal pension income could not be taxed differently from state and local pension income (*Davis v. Michigan Dept. of Treasury*). In response, the 1991 Legislature passed a bill that allowed taxation of all pension income, but instituted a credit of up to 9 percent of the pension income [Retirement Income (1.188)]. 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: In 2002, approximately 38,500 taxpayers claimed an average subtraction of about \$20,200.

Income Group (Quintiles)	Taxpayers		Mean Subtraction
	Number	Percent	
Below \$10,400	1,502	3.9%	\$6,939
\$10,400 - \$21,900	7,670	19.9%	\$12,466
\$21,900 - \$37,900	9,525	24.7%	\$18,661
\$37,900 - \$63,700	10,742	27.9%	\$23,555
Above \$63,700	9,060	23.5%	\$26,563
Total	38,499	100.0%	\$20,195

EVALUATION: Not evaluated.

1.130 OREGON STATE LOTTERY PRIZES

Oregon Statute: 461.560

Sunset Date: None

Year Enacted: 1985

	Corporation	Personal	Total
2003–05 Revenue Impact:	Not Applicable	\$2,100,000	\$2,100,000
2005–07 Revenue Impact:	Not Applicable	\$2,300,000	\$2,300,000

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

PURPOSE: To enable ease of play and prize redemption for Lottery game participants and to support ease of selling and prize payment for Lottery game retailers. This \$600 threshold conforms with IRS tax reporting requirements for lottery prize claims. The tax exemption also recognizes that individuals who choose to play the Lottery are contributing to state revenues whenever they purchase a nonwinning 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

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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: The net effect of eliminating this tax expenditure would be a very large net loss of revenue to the state. The dollar amounts listed above are general estimates based on current play and do not take into account the drastically reduced availability and play of the games, and the consequential reduction in Lottery sales.

This tax expenditure achieves its purpose and helps support the statutory purpose of the Lottery to maximize 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 and players. Approximately 79 percent of all traditional game Lottery prizes won and 100 percent of all Video Lottery prizes won are \$600 or less and are payable at Lottery retailers (3,400 statewide). The Video Lottery cash out slip does not take into account the dollars played and the Lottery issues no receipt for losses for players to claim against the winnings, thereby making it impossible for players to document losses for tax purposes. 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 if not impossible. It stands to reason that the majority, if not all, traditional Lottery retailers would discontinue carrying Lottery products, and many consumers would no longer play games if the tax exemption of prizes of \$600 or less were eliminated. Lottery sales would fall drastically and the Lottery would cease to be a major source of state revenue. *[Evaluated by the Oregon State Lottery.]*

1.131 FEDERAL INCOME TAX DEDUCTION

Oregon Statutes: 316.680 and 316.695

Sunset Date: None

Year Enacted: 1929

	Corporation	Personal	Total
2003–05 Revenue Impact:	Not Applicable	\$534,800,000	\$534,800,000
2005–07 Revenue Impact:	Not Applicable	\$711,800,000	\$711,800,000

DESCRIPTION: Taxpayers are allowed a limited deduction of federal income taxes paid or accrued. During the third Special Session of 2002, the Legislature modified this subtraction by phasing in an increased limit between 2002 and 2007. For tax year 2003 through 2007, the limit is as follows: \$3,500; \$4,000; \$4,500; \$5,000; \$5,500. For tax years after 2007, the limit is indexed to inflation. For spouses filing their returns separately, the limit is half of the amount listed here.

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

WHO BENEFITS: In 2002, approximately 73 percent of Oregon resident taxpayers claimed a subtraction for federal income taxes paid. The average amount of the subtraction in 2002 was \$2,194.

Income Group (Quintiles)	Taxpayers		Mean Subtraction
	Number	Percent	
Below \$10,400	64,653	6.2%	\$180
\$10,400 - \$21,900	177,823	17.1%	\$770
\$21,900 - \$37,900	237,622	22.9%	\$1,920
\$37,900 - \$63,700	273,246	26.3%	\$2,781
Above \$63,700	285,130	27.5%	\$3,204
Total	1,038,474	100.0%	\$2,194

EVALUATION: This provision achieves its purpose. Because the deduction is limited, it reduces Oregon taxes proportionally more for lower income taxpayers. *[Evaluated by the Department of Revenue.]*

1.132 MILITARY ACTIVE DUTY PAY

Oregon Statutes: 316.680 and 316.789

Sunset Date: None

Year Enacted: 1969

	Corporation	Personal	Total
2003–05 Revenue Impact:	Not Applicable	\$7,600,000	\$7,600,000
2005–07 Revenue Impact:	Not Applicable	\$8,400,000	\$8,400,000

DESCRIPTION: Taxpayers may subtract all active duty pay from Oregon personal taxable income in the year of entry or discharge from military service. In other years, taxpayers may subtract up to \$3,000 of active duty pay. In addition, all active duty military pay earned outside Oregon from August 1, 1990, to the end of combatant activities in the Persian Gulf can be subtracted from taxable income. As of August 2004, the president has not declared an end to combatant activities in the Persian Gulf.

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

WHO BENEFITS: Roughly 8,200 Oregon taxpayers claimed an average subtraction of \$6,875 in 2001. One group that claims this subtraction is Oregon National Guard members who receive active duty pay while attending military schools to fulfill education requirements for retention and/or promotion. This subtraction also benefits Active Guard Reserve members.

EVALUATION: This tax expenditure achieves its purpose and is a valuable benefit to members of the Oregon National Guard, both Army and Air, as well as other military personnel. Although the subtraction per tax return is not a great deal of money, it is the only incentive the state of Oregon offers its citizen soldiers that is comparable to those offered in other states. When talking with prospective recruits or soldiers contemplating re-enlistment, the subject of state incentives frequently arises. There is merit in offering benefits that are comparable to those of other states; examples of these benefits include free tuition to state colleges and universities, re-enlistment

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bonuses, free automobile licenses, free driver’s licenses, and free hunting and fishing licenses. These state benefits are an inexpensive way to recognize the contributions Guard members make to their communities. They help the state recruit and retain quality soldiers and airmen and should be maintained by the state of Oregon.

[Evaluated by the Oregon Military Department.]

1.133 INTEREST AND DIVIDENDS ON U.S. OBLIGATIONS

Oregon Statute: 316.680
Sunset Date: None
Year Enacted: 1970

	Corporation	Personal	Total
2003–05 Revenue Impact:	Not Applicable	\$38,500,000	\$38,500,000
2005–07 Revenue Impact:	Not Applicable	\$40,900,000	\$40,900,000

DESCRIPTION: Interest and dividends earned on the direct obligations of the U.S. government are subtracted from federal personal taxable income in arriving at Oregon personal taxable income. For example, the dividends or interest earned on U.S. Treasury bills, notes, bonds, and savings bonds are not taxable by state and local governments. Excluded from this provision are the debt instruments of quasi-governmental issuers like the Government National Mortgage Association (GNMA) and the Federal National Mortgage Association (FNMA). Bonds issued by quasi-governmental issuers are not direct obligations of the U.S. government.

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

WHO BENEFITS: Because financial market valuations compensate for the tax status of the interest and dividends on financial instruments, one beneficiary is the U.S. government, which can borrow at lower rates than would be the case if these instruments were taxable. The other direct beneficiaries are taxpayers who purchase U.S. government bonds. 83,267 Oregon taxpayers (5.7 percent) claimed this subtraction for interest and dividends from U.S. government obligations in 2002. The pre-tax average income from these investments was \$2,260.

Income Group (Quintiles)	Taxpayers		Mean Subtraction
	Number	Percent	
Below \$10,400	11,733	14.1%	\$988
\$10,400 - \$21,900	12,552	15.1%	\$1,428
\$21,900 - \$37,900	12,780	15.3%	\$1,760
\$37,900 - \$63,700	17,118	20.6%	\$2,044
Above \$63,700	29,084	34.9%	\$3,474
Total	83,267	100.0%	\$2,258

EVALUATION: Not evaluated.

1.134 YOUTH APPRENTICESHIP SPONSORSHIP

Oregon Statute: 315.254

Sunset Date: None (Eligibility for the program ended in 1993.)

Year Enacted: 1991

	Corporation	Personal	Total
2003–05 Revenue Impact:	\$0	\$0	\$0
2005–07 Revenue Impact:	\$0	\$0	\$0

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

PURPOSE: To provide occupational skill training for students.

WHO BENEFITS: This credit can no longer be used by any taxpayers because current law limited credits to only those employers with apprentice participation prior to November 4, 1993, and only for the first year of wages for those participants.

EVALUATION: This tax expenditure has not achieved its purpose because the program has never been well utilized. While it was moderately successful for some eligible students, the “registered youth apprenticeships” were never developed in significant numbers. Consequently, the number of students and employers who could participate in this program was severely limited. A significant obstacle to success was the inability to guarantee movement from youth apprenticeships to adult apprenticeships. This program was eliminated after the 1993–95 biennium. If it had been continued as a tax credit it may well have had a noticeable impact. *[Evaluated by the Department of Education.]*

1.135 CONTRIBUTIONS OF COMPUTER EQUIPMENT

Oregon Statute: 317.151

Sunset Date: 12-31-2009

Year Enacted: 1985, sunset extended in 2003 (SB 292)

	Corporation	Personal	Total
2003–05 Revenue Impact:	\$200,000	Not Applicable	\$200,000
2005–07 Revenue Impact:	\$200,000	Not Applicable	\$200,000

DESCRIPTION: A credit against corporation income taxes is allowed for contributions of computers and scientific equipment or a research donation to an institution of higher education, a post-secondary school, or a public school (grades K-12) located in Oregon. For the contribution to qualify for the credit, it must be contributed prior to January 1, 2010. The amount of the credit is equal to 10 percent of the fair market value of the equipment donated. Donations of money under a contract for scientific or engineering research or donations of a contract for maintenance of computer or scientific equipment also qualify for the credit. The credit is not refundable but

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unused credit amounts due to insufficient tax liability may be used in later years, for up to five years. This credit is in lieu of any deduction based on the contribution. If a contract is agreed upon before January 1, 2010, but the donation is given after that date, the credit is still allowed.

- PURPOSE:** To encourage firms to donate computers and scientific equipment to educational institutions.
- WHO BENEFITS:** Firms that make donations of computer or scientific equipment to educational institutions located in Oregon.
- EVALUATION:** This tax expenditure achieves its purpose and is becoming increasingly important for institutions of higher education. Advances in technology are occurring at an increasing rate. As a result, there is a constant need for computer labs to be supplied with improved research and instructional equipment. The cost to higher education of keeping pace with the latest technology is at times prohibitive. This tax credit provides an economic incentive for computer and scientific instrument manufacturers to donate equipment to educational institutions.
- This is a fiscally effective method of achieving the goal of this provision. This tax incentive appears to be much less costly than when educational organizations have to purchase such equipment outright. *[Evaluated by the Oregon University System.]*

1.136 EMPLOYER PROVIDED SCHOLARSHIPS

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

	Corporation	Personal	Total
2003–05 Revenue Impact:	Less than \$50,000	Less than \$50,000	Less than \$50,000
2005–07 Revenue Impact:	Less than \$50,000	Less than \$50,000	Less than \$50,000

- DESCRIPTION:** Qualifying employers may claim a credit against their income tax for 50 percent of the amount of scholarships funded for their employees or their employees’ dependents, with a maximum credit of \$50,000 per tax year. If the credit exceeds the employer’s tax liability, the excess may be carried forward up to five years. To qualify, employers must have between four and 250 employees and have their scholarship program and credit amount certified by the Oregon Student Assistance Commission. There is a \$1 million cap on the total amount of credits that can be certified by the commission per calendar year, and the total lifetime amount of credits an employer may claim is limited to \$1 million. The credit is available beginning in the 2002 tax year.
- PURPOSE:** To encourage businesses to fund a greater share of the education costs of their employees using a program they can tailor to their specific needs.
- WHO BENEFITS:** Employers benefit directly through reduced taxes. Students receiving scholarships benefit as well to the extent that additional scholarship money becomes available. As of August 2004, the Student Assistance Commission had approved fewer than five employer programs.
- EVALUATION:** It is too early to determine if this tax expenditure achieves its purpose. *[Evaluated by the Oregon University System.]*

1.137 EARNED INCOME CREDIT

Oregon Statute: 315.266

Sunset Date: None

Year Enacted: 1997

	Corporation	Personal	Total
2003–05 Revenue Impact:	Not Applicable	\$18,500,000	\$18,500,000
2005–07 Revenue Impact:	Not Applicable	\$19,300,000	\$19,300,000

DESCRIPTION: A personal income tax credit is allowed for families that are eligible for the federal earned income credit. The state credit is equal to five percent of the federal earned income credit but is nonrefundable. No carryover is allowed for unused amounts that exceed tax liability.

The amount of the federal credit allowed declines as the amount of total earned income, both taxable and nontaxable, increases. For 2003 single taxpayers without a qualifying child, the credit is phased out for incomes between \$6,250 and \$11,230 (\$7,250 to \$12,230 for joint filers). For single taxpayers with one qualifying child, the credit is phased out for incomes between \$13,750 and \$29,666 (\$14,750 to \$30,666 for joint filers). For taxpayers with two or more qualifying children, the credit is phased out for incomes between \$13,750 and \$33,692 (\$14,750 to \$34,692 for joint filers).

PURPOSE: To increase after-tax incomes of low-income working families and individuals, to offset the burden of Social Security taxes, and to provide an incentive to work for those with little or no earned income.

WHO BENEFITS: In 2000, about 148,100 full-year resident taxpayers claimed an average credit of \$66. In 2002, the number of claimants increased to 166,470 while the average claim increased to \$68. Because many of the families claiming the credit do not have sufficient tax liability to use the full amount of the credit, the average tax benefits for 2000 and 2002 were \$46 and \$49, respectively.

Income Group (Quintiles)	Taxpayers		Mean Credit
	Number	Percent	
Below \$10,400	54,205	32.6%	\$33
\$10,400 - \$21,900	65,736	39.5%	\$110
\$21,900 - \$37,900	46,531	28.0%	\$50
\$37,900 - \$63,700	0	0.0%	N/A
Above \$63,700	0	0.0%	N/A
Total	166,472	100.0%	\$68

EVALUATION: This tax credit allows low-income families to retain needed income to meet needs that otherwise may go unmet or cause them to return to public assistance. Many of these at-risk families have income below the income level where they must pay taxes and so do not benefit from this credit. By providing this credit, families with income

exceeding the income level where taxation begins will retain more resources to better ensure their continued self-sufficiency.

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

1.138 QUALIFIED ADOPTION EXPENSE

Oregon Statute: 315.274

Sunset Date: 12-31-05

Year Enacted: 1999

	Corporation	Personal	Total
2003–05 Revenue Impact:	Not Applicable	\$1,400,000	\$1,400,000
2005–07 Revenue Impact:	Not Applicable	\$400,000	\$400,000

DESCRIPTION: A credit against personal income taxes is allowed for qualified expenses incurred in adopting a child. The credit cannot be claimed for the portion of adoption expenses reimbursed as federal income tax credit under IRC Sec. 23. The maximum credit is \$1,500. In 2003 the credit phases out for taxpayers between \$152,390 and \$192,390 modified adjusted gross income. Taxpayers are allowed to carry forward unused credits for up to four additional years.

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

WHO BENEFITS: Persons with incomes below \$115,000 who adopt children other than those from the public child welfare foster care system benefit from this tax credit. This includes those who adopt children from other countries and those who adopt from private and independent sources, as well as those who adopt their stepchildren or relative children, other than those who are in the public foster care system.

EVALUATION: This tax credit, created in 1999 by HB 3157, is contrary to the federal Adoption and Safe Families Act of 1997, codified in Oregon in SB 408 (1999). These pieces of legislation, along with Oregon SB 689 (1997) have as their primary goal the movement of children from temporary foster care in the public child welfare system to permanent (adoptive) homes. This tax credit does not serve as an incentive to those adopting children from CAF foster care. Moreover, it could effectively reduce the state funds that are available to support those services that assist in caring for children in foster care and moving them to permanency. Over the past five years, adoption petitions on behalf of approximately 2,200 children were filed each year in the state of Oregon. In state fiscal year 2000, of the 2,215 adoption petitions, 799 were filed on behalf of children from foster care. If the full Oregon tax credit (\$1,500) were claimed for each of the approximately 1,400 non-foster care children adopted in Oregon in each of the six years before the credit sunsets on December 31, 2005, there would be a revenue loss of \$2.1 million each year, for a total potential loss of \$12.6 million.

In addition to the potential fiscal impact, the provision of financial incentives in the form of a state tax credit to families and individuals to adopt children from foreign, independent, and private sources could effectively reduce the number of potential adoptive families who are available to adopt children from the public child welfare

foster care system. This works against the federal and Oregon adoption reform goals of increasing the number of children who move from temporary foster care to permanent adoptive homes and decreasing the length of time to achieve permanency.

Persons who adopt children from the public child welfare system are unlikely to benefit from this credit for two reasons. First, adoption application, training, home study, and placement of a child, if done directly through Oregon’s Children, Adults, and Families Services Cluster (CAF), are at no cost to the adopting parents. If the adopting parents choose to use the services of a private adoption agency to assist them in adopting a child from CAF, the costs are minimal and fully reimbursable to the adoptive family through Adoption Assistance at the time of finalization. Second, whether the adoption of a foster child is done directly through CAF or indirectly with the services of a private agency, all associated legal costs are covered by Adoption Assistance.

An additional concern has to do with the coordination of state and federal benefits. Although ORS 315.274 is clear that the Oregon tax credit for adoption cannot be claimed for the portion of adoption expenses reimbursed as federal income tax credit under IRC Sec. 23, there is a lack of clarity regarding which tax credit should be used first. This amount changed from \$6,000 to \$10,000 and became effective in 2003. Moreover, there is no efficient way to monitor tax credit claims for adoption expenses that have been reimbursed to the adoptive family through Adoption Assistance. Adoptions Assistance benefits are available under certain circumstances that are clearly prescribed in Oregon Administrative Rule to those adopting children from sources other than the public child welfare foster care system. If a person adopts a child from a public child welfare agency in the United States, the person does not have to show receipts in order to get the tax exemption. *[Evaluated by the Children, Adult, and Families Services Cluster, Department of Human Services.]*

1.139 RURAL MEDICAL PRACTICE

Oregon Statute: 316.143
Sunset Date: None
Year Enacted: 1989

	Corporation	Personal	Total
2003–05 Revenue Impact:	Not Applicable	\$13,700,000	\$13,700,000
2005–07 Revenue Impact:	Not Applicable	\$14,800,000	\$14,800,000

DESCRIPTION: An annual credit of up to \$5,000 against personal income taxes is allowed to certain rural medical providers including physicians, physician assistants, nurse practitioners, certified registered nurse anesthetists, podiatrists, dentists, and optometrists. The requirements for eligibility vary by type of provider. At least 60 percent of the provider’s practice, in terms of time, must be spent in a qualifying rural area to receive the credit. Rural means any area at least ten miles from a major population center of 30,000 or more or located in a county with fewer than 75,000 residents. Currently, there are six such population centers: the Portland area, Salem, Eugene/Springfield, Medford, Bend, and Corvallis/Albany. In addition, physicians on staff of a hospital in a metropolitan statistical area (MSA) are not eligible, with the exception of Florence in Lane County and Dallas in Polk County.

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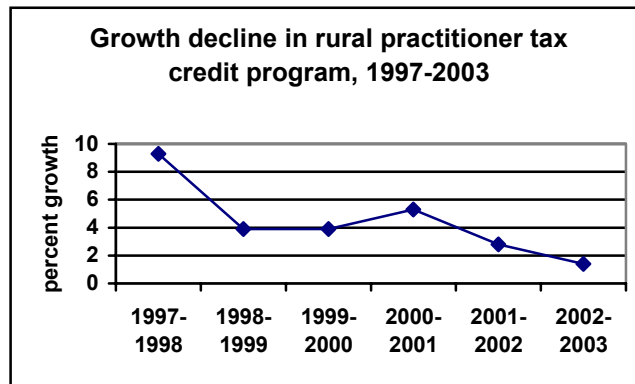
PURPOSE: To encourage the establishment and continuation of medical practices in under-served rural areas.

WHO BENEFITS: For the 2003 tax year, 1076 physicians, 299 nurse practitioners, 102 physician assistants, 66 nurse anesthetists, 51 dentists, 18 optometrists, and 18 podiatrists qualified for the credit, for a total of 1,630 practitioners. The typical rural medical tax credit recipient practices in a town with a population of just over 2,000. In total, the participants of this program serve approximately 500,000 Oregonians. The ultimate beneficiaries of this program are rural Oregonians who might otherwise have no health care available to them.

EVALUATION: This tax credit appears to have originally achieved its purpose by attracting new practitioners to rural communities and retaining existing practitioners. A year-by-year analysis of the Office of Rural Health’s tax credit data base shows an impressive net gain of 575 practitioners in rural areas eligible for the tax credit since 1990.

The tax credit has been most successful in attracting new nurse practitioners to rural areas, and their figures have grown from 61 in 1990 to 299 for tax year 2003. In estimating the impact of this growth, however, one must take into account the increase in nurse practitioner training programs statewide during the same time period.

Initially, Oregon experienced a remarkable gain in rural physicians, but that growth is slowing. In fact, the numbers of physicians declaring the tax credit actually decreased between 2002 and 2003. Overall, growth in rural practitioners claiming the credit has begun to slow, as follows:



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

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

The health care workforce is a critical economic engine for rural communities, which are the ultimate beneficiaries of this program. A study conducted by Oklahoma State University (Doeksen and Miller, Journal of the Oklahoma State Medical Association, September 1988, pp. 568-573) estimates that each rural physician returns \$343,706 worth of annual income to the local economy and creates 17.8 local jobs. For Oregon, the 224 additional physicians since 1990 translates into \$76,990,144 returned to local economies and almost 40,000 new jobs.

The program was devised to operate with a minimum of administrative burden and appears to be an efficient means of accomplishing its goal. A 1996 audit by the secretary of state's office concluded that the program is fulfilling the purpose for which it was created in an efficient and exemplary manner. Administrative costs are negligible and are covered by charging each applicant a \$25 processing fee.

Without intervention, a decline in rural practitioners similar to that experienced in the 1980s will inevitably repeat itself. In order to prevent a crisis in the availability of health care to rural Oregonians, the state should consider increasing the tax credit, e.g., indexing it to the medical consumer price index. *[Evaluated by the Office of Rural Health.]*

1.140 COSTS IN LIEU OF NURSING HOME CARE

Oregon Statutes: 316.147 to 316.149

Sunset Date: None

Year Enacted: 1979

	Corporation	Personal	Total
2003–05 Revenue Impact:	Not Applicable	Less than \$50,000	Less than \$50,000
2005–07 Revenue Impact:	Not Applicable	Less than \$50,000	Less than \$50,000

DESCRIPTION: A tax credit is allowed against personal income taxes for expenses incurred for the care of an individual who otherwise would be placed in a nursing home. The amount of the credit is \$250 or 8 percent of expenses paid, whichever is less. Taxpayers claiming the credit cannot have household income in excess of \$17,500. The person receiving the assistance must: 1) have household income of \$7,500 or less, 2) be eligible for home care services under Oregon Project Independence, 3) be certified by the Department of Human Services, 4) receive no assistance from Oregon Medical Assistance, and 5) be at least 60 years of age.

PURPOSE: To provide additional tax relief for low-income taxpayers who incur expenses caring for individuals who would otherwise be placed in a nursing home.

WHO BENEFITS: Taxpayers who care for elderly citizens in their homes.

EVALUATION: This tax expenditure has not achieved its purpose. This program does not create an adequate incentive for people to take advantage of the tax credit. *[Evaluated by the Seniors and People with Disabilities Cluster, Department of Human Services.]*

1.141 LONG-TERM CARE INSURANCE

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

	Corporation	Personal	Total
2003–05 Revenue Impact:	Less than \$50,000	\$100,000	\$100,000
2005–07 Revenue Impact:	Less than \$50,000	\$200,000	\$200,000

DESCRIPTION: A nonrefundable credit based upon premiums paid for long-term care insurance as defined in ORS 743.652 is allowed against personal and corporate income tax. The credit is available for taxpayers purchasing long-term care insurance premiums for coverage of the taxpayer, dependents, and/or parents of the taxpayer. The credit is available to employers who provide long-term care insurance on behalf of their Oregon employees. For nonbusiness filers, the maximum income tax credit is 15 percent of the total amount of long-term care insurance premiums paid by the taxpayer, not to exceed \$500. For business filers, the maximum income tax credit is 15 percent of the total amount of long-term care insurance premiums provided by the taxpayer, not to exceed \$500 per employee. If the amount paid for these premiums is taken as a deduction on the federal return, then it must be added to income on the Oregon return to take the credit.

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

WHO BENEFITS: Taxpayers who purchase long-term care insurance.

EVALUATION: Because this is a new credit and applies to new policies issued after January 1, 2000, it is too early to tell if this expenditure achieves its purpose. *[Evaluated by the Seniors and People with Disabilities Cluster, Department of Human Services.]*

1.142 DISABLED CHILD

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

	Corporation	Personal	Total
2003–05 Revenue Impact:	Not Applicable	\$3,100,000	\$3,100,000
2005–07 Revenue Impact:	Not Applicable	\$3,500,000	\$3,500,000

DESCRIPTION: Every nondependent taxpayer in Oregon is allowed one personal exemption credit for himself or herself, one for a spouse, and one for each dependent. An additional personal exemption credit is allowed for each dependent child who is disabled. “Disabled child” is defined as a child aged 17 or younger who is eligible for early intervention services, or who is diagnosed for special education purposes as being autistic, mentally retarded, multi-disabled, visually impaired, hearing impaired, deaf-blind, orthopedically impaired, other health impaired, or as having serious emotional disturbance or traumatic brain injury. The State Board of Education is responsible for adopting rules further defining “disabled child.”

The amount of the personal exemption credit (and hence the disabled child credit) is indexed to inflation, and equals \$154 in 2005. The credit is nonrefundable.

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

WHO BENEFITS In 2002, about 10,475 Oregon taxpayers claimed disabled child credits. Because the credit is nonrefundable, taxpayers may only use the credit for amounts up to their tax liability. The average credit was equal to the allowed credit of \$145.

Income Group (Quintiles)	Taxpayers		Mean Credit
	Number	Percent	
Below \$10,400	682	6.5%	\$35
\$10,400 - \$21,900	1,548	14.8%	\$120
\$21,900 - \$37,900	2,415	23.1%	\$154
\$37,900 - \$63,700	3,012	28.8%	\$161
Above \$63,700	2,818	26.9%	\$160
Total	10,475	100.0%	\$145

EVALUATION: This tax expenditure achieves its purpose and is of greatest assistance to those people who are at the margin of needing state assistance. It allows for greater disposable income to meet the more costly needs of children with disabilities. This tax expenditure is well-targeted and provides the recipients with valuable financial assistance that alleviates or prevents the reliance on direct state services. As a result, this tax credit saves the state more than it costs. One concern is that the size of this credit, which is for all Oregon residents, is connected to consumer prices in Portland. Access to health care, which can be particularly difficult in rural areas, can represent significant costs. Basing changes on prices in Portland may therefore understate the price changes in other parts of the state. *[Evaluated by the Seniors and People with Disabilities Cluster, Department of Human Services.]*

1.143 ELDERLY OR PERMANENTLY DISABLED

Oregon Statute: 316.087

Sunset Date: None

Year Enacted: 1969

	Corporation	Personal	Total
2003–05 Revenue Impact:	Not Applicable	\$100,000	\$100,000
2005–07 Revenue Impact:	Not Applicable	Less than \$50,000	Less than \$50,000

DESCRIPTION: Taxpayers are allowed a credit against personal income taxes of up to 40 percent of the federal elderly or disabled credit. Taxpayers claiming the Retirement Income credit (1.188), however, are ineligible to claim this Oregon credit.

The federal credit is available to individuals who are 65 or older, or who have retired on disability and are permanently and totally disabled. The federal credit equals 15 percent of: \$5,000 in the case of a single individual or on a joint return where only one spouse is qualified, \$7,500 on joint returns where both spouses are qualified, or \$3,750 for married persons filing separately. For taxpayers under 65, the base cannot exceed the taxpayer's disability income. For all taxpayers, the base amount is

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reduced by one-half of the excess of income over \$7,500 for single filers, \$10,000 for joint filers, or \$5,000 for separate filers. The base amount is also reduced by any federally nontaxed Social Security benefits or veterans' benefits. The credit is nonrefundable.

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

WHO BENEFITS: The number of Oregon taxpayers claiming this credit in 1990 was about 2,700, with an average credit of \$75. In 2002, the number of claimants was 471, and the average credit was \$78.

Income Group (Quintiles)	Taxpayers		Mean Credit
	Number	Percent	
Below \$10,400	97	20.6%	\$71
\$10,400 - \$21,900	363	77.1%	\$79
\$21,900 - \$37,900	11	2.3%	\$103
\$37,900 - \$63,700	0	0.0%	N/A
Above \$63,700	0	0.0%	N/A
Total	471	100.0%	\$78

EVALUATION: This tax expenditure achieves its purpose and, coupled with other tax benefits, allows for greater disposable income to meet the often more costly needs of the eligible individuals. This credit provides the targeted individuals with the additional financial capacity that may allow them to maintain their independence and not rely on direct state services. On the other hand, there is a concern that either the credit is too restrictive or that the complexity of determining eligibility is preventing some individuals from claiming the credit. *[Evaluated by the Seniors and People with Disabilities Cluster, Department of Human Services.]*

1.144 LOSS OF LIMBS

Oregon Statute: 316.079

Sunset Date: None

Year Enacted: 1973

	Corporation	Personal	Total
2003–05 Revenue Impact:	Not Applicable	Less than \$50,000	Less than \$50,000
2005–07 Revenue Impact:	Not Applicable	Less than \$50,000	Less than \$50,000

DESCRIPTION: A personal income tax credit of \$50 is allowed for taxpayers with permanent and complete loss of function of at least two limbs. If both taxpayers on a joint return meet the criteria, the credit is \$100. The credit is nonrefundable. All taxpayers eligible for this credit are also eligible for the Severe Disability credit (1.145).

PURPOSE: To provide additional tax relief to taxpayers disabled by the loss of the use of two limbs.

WHO BENEFITS: Taxpayers who have suffered the loss of the use of at least two limbs. In 2002, approximately 110 taxpayers claimed this credit.

EVALUATION: This tax expenditure achieves its purpose. As with similar tax breaks, this credit is well targeted and helps meet the often more costly needs of the eligible individuals. It provides additional financial assistance that carries with it the potential for individuals to maintain their self-reliance and not turn to state-funded direct service programs. While a tax credit is clearly beneficial, there is a concern that those who qualify for this credit may not earn sufficient income to fully utilize it. *[Evaluated by the Seniors and People with Disabilities Cluster, Department of Human Services.]*

1.145 SEVERE DISABILITY

Oregon Statute: 316.758 and 316.765

Sunset Date: None

Year Enacted: 1985

	Corporation	Personal	Total
2003–05 Revenue Impact:	Not Applicable	\$4,600,000	\$4,600,000
2005–07 Revenue Impact:	Not Applicable	\$5,000,000	\$5,000,000

DESCRIPTION: Every nondependent taxpayer in Oregon is allowed one personal exemption credit for himself or herself, one for a spouse, and one for each dependent. An additional personal exemption credit is allowed for taxpayers with severe disabilities. Two additional personal exemptions may be claimed on a joint return if both spouses qualify. The amount of the personal exemption credit (and hence the severe disability credit) is indexed each year to account for inflation. The credit is \$154 in 2005.

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

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

WHO BENEFITS: The number of taxpayers claiming this credit increased from approximately 7,800 in 1990 to just over 19,780 in 2002. Because the credit is nonrefundable, taxpayers may only use the credit for amounts up to their tax liability. The average credit of \$107, which is below the 2002 allowed credit of \$145, indicates that some taxpayers did not benefit from the full credit amount.

Income Group (Quintiles)	Taxpayers		Mean Credit
	Number	Percent	
Below \$10,400	3,734	18.9%	\$44
\$10,400 - \$21,900	5,108	25.8%	\$101
\$21,900 - \$37,900	4,158	21.0%	\$124
\$37,900 - \$63,700	3,877	19.6%	\$133
Above \$63,700	2,907	14.7%	\$142
Total	19,784	100.0%	\$107

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

1.146 FILM PRODUCTION DEVELOPMENT CONTRIBUTIONS

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

	Corporation	Personal	Total
2003–05 Revenue Impact:	\$0	\$0	\$0
2005–07 Revenue Impact:	\$1,600,000	\$400,000	\$2,000,000

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

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

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

This credit applies to tax credit certifications issued on or after July 1, 2005. This tax credit is nonrefundable. Any unused tax credit may be carried forward for up to three

years. If the tax credit is claimed by a nonresident or part-year resident taxpayer, the amount is allowed without proration. A taxpayer who has received a tax credit certificate may sell the certificate to another taxpayer provided that notice of sale is filed with the Department of Revenue.

- PURPOSE:** To generate funds to be used to encourage film production in Oregon.
- WHO BENEFITS:** Taxpayers that contribute to the Oregon Production Investment Fund benefit because of their decreased tax liability. Television and film production companies benefit as well because the Oregon Production Investment Fund is used to reimburse a portion of their actual expenses incurred in Oregon related to the production of a film or television series.
- EVALUATION:** This tax credit may be expected to fulfill its purpose of raising money, especially if tapping contributions from taxpayers mutually interested in film production in Oregon. *[Evaluated by the Economic and Community Development Department.]*

1.147 INDIVIDUAL DEVELOPMENT ACCOUNTS (CREDIT)

Oregon Statute: 315.271

Sunset Date: None

Year Enacted: 1999

	Corporation	Personal	Total
2003–05 Revenue Impact:	Less than \$50,000	\$900,000	\$900,000
2005–07 Revenue Impact:	Less than \$50,000	\$900,000	\$900,000

DESCRIPTION: Individuals or businesses donating funds to fiduciary organizations for individual development accounts (IDAs) are allowed an income tax credit equal to the lesser of \$75,000 or 75 percent of the amount donated. Contributions are applied toward matching IDA account holder savings and also toward program-related expenses of the fiduciary organization. If the credit exceeds the tax liability of the taxpayer, the excess credit may be carried forward for up to three tax years. The Housing and Community Services Department currently maintains a limit on the total of all contributions made each year.

A companion expenditure, Individual Development Accounts (Exclusion and Subtraction) (1.118) provides an *exclusion* and *subtraction* from taxable income for individual IDA account holders.

- PURPOSE:** To help low-income Oregonians obtain the assets needed to become economically self-reliant by instituting an asset-based antipoverty strategy that promotes personal financial management, investment, and the accumulation of key assets.
- WHO BENEFITS:** Individuals or businesses making contributions to a fiduciary organization to support IDAs directly benefit from this credit. The tax credit provides an incentive to the contributing businesses to continue providing matching funds for the program. Using a combination of private and federal funds, more than 500 IDAs have been opened in Oregon during the past seven years (as of 2004). The account holders of these IDAs benefit from the ability to make use of the matching funds when they are distributed on their behalf.
- EVALUATION:** About \$15,000 in 25 percent credits were granted during 2001. In 2002 and 2003, the amount of granted 75 percent credits reached the maximum of \$500,000. The contributions generated by the credits will help an estimated 200 Oregon households

purchase their first home, obtain needed post-secondary education, or start a small business. *[Evaluated by Oregon Housing and Community Services.]*

1.148 OREGON CAPITAL CORPORATION INVESTMENTS

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

	Corporation	Personal	Total
2003–05 Revenue Impact:	\$0	\$0	\$0
2005–07 Revenue Impact:	\$0	\$0	\$0

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

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

WHO BENEFITS: Because the corporation never came into existence, there have been no beneficiaries.

EVALUATION: Not evaluated.

1.149 QUALIFIED RESEARCH ACTIVITIES

Oregon Statute: 317.152
Sunset Date: 12-31-12
Year Enacted: 1989, Modified in 2003 (HB 3183)

	Corporation	Personal	Total
2003–05 Revenue Impact:	\$5,100,000	Not Applicable	\$5,100,000
2005–07 Revenue Impact:	\$21,600,000	Not Applicable	\$21,600,000

DESCRIPTION: If qualified research activities in Oregon exceed a base amount, then Oregon corporations may take a credit equal to 5 percent of the amount over the base amount. The base amount and the determination of the excess parallel the calculations in a similar federal research credit (IRC §41) except that only qualified research expenses and basic research payments in Oregon are considered.

The base amount is calculated so that the credit rewards increases in qualified research activities. The base amount is either: a) the percentage that qualified research activities were of gross receipts in the 1984–88 period or b) for companies that did not conduct research for at least three years in 1984-88, the base amount equals three percent of the average of gross receipts over the last four years. Qualified research activities include “research expenses” either in-house or by

contract and “basic research payments” to colleges, universities, and certain other nonprofit organizations. The amounts have to be paid or incurred by the sunset date.

The credit is limited to \$500,000 (rising to \$750,000 beginning in 2006) and is nonrefundable. Credits that cannot be used because of insufficient tax liability in the current year can be used in later years, for up to five years.

Taxpayers have the option of claiming this credit or the credit described in Qualified Research Activities (Alternative) (1.150). Some companies may not qualify for the credit under ORS 317.154 because they do not have the necessary spending on research activities. This alternative still allows them to qualify for the credit if such activities exceed a base dollar amount, even if they do not conduct a large proportion of their research activities in Oregon relative to the proportion of their sales in Oregon.

PURPOSE:	To promote and increase research activities in Oregon.
WHO BENEFITS:	Companies taking the credit benefit. The revenue impact reported here also includes any credits received under ORS 317.154. For tax year 2002, about 70 taxpayers benefited from these credits. These taxpayers reduced their tax liability by \$47,000 on average. There were additional taxpayers claiming this credit who were unable to use it due to insufficient tax liability.
EVALUATION:	<p>This expenditure appears to achieve its purpose. Based on the revenue impacts above, the qualified research activities would amount to roughly \$130 million per year over the base amount. Some of this spending is likely attributable to this provision. The benefits can be identified as follows:</p> <ul style="list-style-type: none">• The credit may convince companies to relocate to Oregon.• The credit encourages existing companies to put more effort into research and development (R&D). Product introduction cycles for products such as personal computers and high definition television and telecommunication products are getting shorter and shorter. They demand R&D commitments.• The credit encourages small companies to explore new niche technology opportunities and enhances their ability to attract joint R&D capital.• The credit encourages companies to utilize existing state research institutes to assist with R&D activities. <p>This last point is an issue in Oregon. Recent data indicate that corporate R&D funding to state research institutes is low compared with other states. This could be an indication that state research facilities are not well equipped to assist or are not responsive to industry needs, or that corporations fail to engage Oregon’s state research facilities for some other reason.</p> <p>This expenditure is more efficient than a direct spending program because it allows individual companies to determine if R&D activities are efficient under the current tax structure. The expenditure does favor one group of industries over another, but these do appear to be the industries most likely to use the credit. <i>[Evaluated by the Economic and Community Development Department.]</i></p>

1.150 QUALIFIED RESEARCH ACTIVITIES (ALTERNATIVE)

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

	Corporation	Personal	Total
2003–05 Revenue Impact:	Included in 1.149	Not Applicable	Included in 1.149
2005–07 Revenue Impact:	Included in 1.149	Not Applicable	Included in 1.149

DESCRIPTION: A credit against corporation income taxes is allowed for qualified research expenses in Oregon that exceed 10 percent of Oregon sales. The credit is limited to 5 percent of the excess amount. The expenses that qualify for the credit are the same as those that qualify under Qualified Research Activities (1.149), except that basic research payments are not included.

The credit is limited to the lesser of: a) \$500,000 (rising to \$750,000 in 2006) or b) \$10,000 multiplied by the number of percentage points that the qualified research expenses exceed 10 percent of Oregon sales. The credit is nonrefundable. Credits that cannot be used because of insufficient tax liability in the current year can be used in later years, for up to five years.

Taxpayers have the option of claiming this credit or the credit described in Qualified Research Activities (1.149). Some companies may not qualify for the credit under ORS 317.152 because they do not have the necessary increase in research activities. This alternative still allows them to qualify for the credit if they conduct a large proportion of their research activities in Oregon relative to the proportion of their sales in Oregon.

PURPOSE: To promote research activities in Oregon.

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

EVALUATION: See evaluation under Qualified Research Activities (1.149). *[Evaluated by the Economic and Community Development Department.]*

1.151 LONG-TERM NONURBAN ENTERPRISE ZONE (INCOME TAX)

Oregon Statute: 317.124
Sunset Date: 12-31-06
Year Enacted: 1997

	Corporation	Personal	Total
2003–05 Revenue Impact:	Not Available*	Not Available*	Not Available*
2005–07 Revenue Impact:	Not Available*	Not Available*	Not Available*

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

DESCRIPTION: Corporations that make certain large investments in a nonurban enterprise zone are eligible for a credit on the corporate income tax, if approved by the governor. The investment must be locally approved for the related tax expenditure for property tax—see Long-Term Nonurban Enterprise Zone (Property Tax) (2.011). To be eligible for the property tax exemption, the investment must be located in a county

with chronic unemployment or low income. Depending on the location in the state, the investment also must exceed a certain minimum amount ranging from \$1 million to \$25 million; the firm must hire at least 10, 35, 50, or 75 full-time employees within three to five years; and the average annual worker compensation must be at least 50 percent above the county average wage.

The corporate income tax credit is equal to 62.5 percent of the taxpayer's payroll and employee benefit costs at the facility. The credit applies only against liabilities above a minimum amount of \$1 million or less depending on the facility's location and workforce size. The credit may be used only to offset the tax liability relating to the facility. The credits may be received over a period of five to 15 years, as determined by the governor, beginning by the third year after the facility is placed in service. Each credit can be carried forward up to five years. Thirty percent of taxes paid by the taxpayer receiving the credit are distributed to the local property-taxing district, and the city or county sponsor of the Enterprise Zone receives the rest.

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

- PURPOSE:** To encourage investment in nonurban areas of chronic unemployment or low income.
- WHO BENEFITS:** This provision is intended to benefit nonurban enterprise zones and their surrounding residents in counties with chronic unemployment or low income.
- EVALUATION:** Very few projects have been approved by the governor. Other companies are increasingly inquiring about the program in 2004 and the credit appears to be a major source of inducement for undertaking special investments in special places, which is the intended effect—see Long-Term Nonurban Enterprise Zone (Property Tax) (2.011).
- Changes by SB 245 (1999) made these long-term rural tax incentives conceivable as something that might be used to induce much-needed private investment in Central and Eastern Oregon enterprise zones. Before these changes, the likelihood of them having an effect was very small in those locations and elsewhere. There is currently insufficient data for evaluation. *[Evaluated by the Economic and Community Development Department.]*

1.152 RESERVATION ENTERPRISE ZONE (INCOME TAX)

Oregon Statutes: 285C.309
Sunset Date: None
Year Enacted: 2001

	Corporation	Personal	Total
2003-05 Revenue Impact:	Less than \$50,000	Less than \$50,000	Less than \$50,000
2005-07 Revenue Impact:	Less than \$50,000	Less than \$50,000	Less than \$50,000

- DESCRIPTION:** Qualified taxpayers doing business in a reservation enterprise zone may claim an income tax credit for the amount of tribal tax paid. The credit must be used in the same year that taxes are paid and may not be carried forward to another year.
- A reservation enterprise zone may be designated on trust land of an Indian tribe that meets certain conditions:
- The Indian tribe must be a federally recognized tribe;

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- The reservation of the tribe must be entirely within Oregon;
- The land must be inside the boundaries of the reservation;
- The population density of the reservation must not exceed 15 people per square mile;
- At least 50 percent of the households within the reservation must have incomes below 80 percent of the median income for Oregon; and
- The unemployment rate on the reservation must be at least two percentage points greater than the unemployment rate for the state of Oregon.

Non-Indian property in reservation enterprise zones is still subject to property taxes owed to the appropriate taxing districts. A reservation enterprise is otherwise equivalent to a regular nonurban enterprise zone, except for this special tribal tax credit.

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

WHO BENEFITS: Businesses operating in reservation enterprise zones. Residents of reservations who benefit from enhanced development opportunities. Currently one reservation enterprise zone has been approved in Umatilla County, and an application is pending for an enterprise zone in Warm Springs. As of May 2002, no tribe effectively levied tribal taxes on non-Indian businesses, so the estimated revenue impact is minimal other than certain utility properties.

EVALUATION: New program. Insufficient data to evaluate. *[Evaluated by the Economic and Community Development Department.]*

1.153 ELECTRONIC COMMERCE ENTERPRISE ZONE (INCOME TAX)

Oregon Statutes: 315.507

Sunset Date: None (enterprise zone law sunsets 6-30-09)

Year Enacted: 2001

	Corporation	Personal	Total
2003-05 Revenue Impact:	Not Available*	Not Available*	Not Available*
2005-07 Revenue Impact:	Not Available*	Not Available*	Not Available*

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

DESCRIPTION: Qualified business firms may claim an income tax credit for investment in electronic commerce operations under certain circumstances. Such a firm must be engaged or preparing to engage in electronic commerce within an electronic commerce zone or in a city designated as an electronic commerce city (see ORS 285C.095 and 285C.100). In order to qualify as an electronic commerce enterprise zone, the zone must already be designated as an enterprise zone. [See tax expenditure Enterprise Zone Businesses (2.010).]

The credit is equal to 25 percent of the investments in capital assets made by the firm during the tax year in electronic commerce operations within the designated area.

The maximum credit is \$2 million. The credit is not refundable. A firm may carry the credit forward for up to five years.

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

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

WHO BENEFITS: E-commerce businesses operating in electronic commerce zones and cities.

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

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

At this time sufficient data is not available to assess actual claims and use of the tax credit itself. Undoubtedly, some of the qualified business firms should have begun to realize corporate excise tax savings by 2004. *[Evaluated by the Economic and Community Development Department.]*

1.154 INVESTMENT IN TELECOMMUNICATIONS INFRASTRUCTURE

Oregon Statutes: 315.511

Sunset Date: 12-31-05

Year Enacted: 2001

	Corporation	Personal	Total
2003-05 Revenue Impact:	Less than \$50,000	Less than \$50,000	Less than \$50,000
2005-07 Revenue Impact:	Less than \$50,000	Less than \$50,000	Less than \$50,000

DESCRIPTION: Qualified taxpayers may claim an income tax credit for investment in advanced telecommunications facilities. Advanced telecommunications facilities must meet guidelines specified in statute (see ORS 285C.530 and ORS 285C.533).

A certified facility must meet the following conditions:

- The facility must be located in an area where most customers do not have access to minimum bandwidth service;
- The facility must improve access for customers in unserved or underserved areas;
- The total certified costs must not exceed \$10 million; and
- The facility must be certified by the Economic and Community Development Department.

The Economic and Community Development Department must issue the credit certification between January 1, 2002, and December 31, 2005.

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The credit is equal to 20 percent of the costs. The credit may not be carried forward to another tax year.

PURPOSE: To encourage development of telecommunications infrastructure to serve individuals and businesses in Oregon that do not currently have access to advanced telecommunications facilities.

WHO BENEFITS: Taxpayers investing in telecommunications infrastructure.

EVALUATION: This program is new, and no eligible application for certification has been received by the department as of July 2004. *[Evaluated by the Economic and Community Development Department.]*

1.155 CHILD AND DEPENDENT CARE

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

	Corporation	Personal	Total
2003–05 Revenue Impact:	Not Applicable	\$15,400,000	\$15,400,000
2005–07 Revenue Impact:	Not Applicable	\$16,400,000	\$16,400,000

DESCRIPTION: A personal income tax credit for employment-related dependent care expenses is allowed to taxpayers who qualify for the federal child and dependent care credit. The Oregon credit amount is a percentage of eligible expenses. The percentage amount declines from 30 percent for taxpayers with income less than \$5,000 to zero percent for taxpayers with income above \$45,000. The credit is nonrefundable, but unused credit amounts due to insufficient tax liability may be carried forward for up to five years.

Eligible employment-related expenses are those necessary for the taxpayer to be gainfully employed and include expenses for household services and for the care of dependents. Qualifying individuals are children under 13, other dependents who are physically or mentally incapable of caring for themselves, or the taxpayer’s spouse if incapable of caring for himself or herself. The eligible expenses are limited in a given year to \$2,400 when there is only one qualifying individual in the household and to \$4,800 when there are two or more qualifying individuals. In both cases this limit is reduced by any nontaxable payments received from an employer under a dependent care assistance program. Eligible expenses are limited to the individual’s earned income (for unmarried individuals) or to the lower of either spouse’s earned income (for married individuals).

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

WHO BENEFITS: Taxpayers with employment-related dependent care expenses who have an income of less than \$45,000 and sufficient tax liability to be able to claim the credit. The number of Oregon resident taxpayers claiming this credit declined slightly from about 47,800 in 2000 to 46,800 in 2002. The average credit was \$139 in 2000 and 2002.

Income Group (Quintiles)	Taxpayers		Mean Credit
	Number	Percent	
Below \$10,400	1,043	2.2%	\$73
\$10,400 - \$21,900	7,911	16.9%	\$207
\$21,900 - \$37,900	13,597	29.1%	\$167
\$37,900 - \$63,700	18,510	39.6%	\$107
Above \$63,700	5,726	12.2%	\$90
Total	46,787	100.0%	\$139

EVALUATION: This tax expenditure achieves its purpose and meets a need when other forms of nontaxable care are not available through the employer. It contributes to the taxpayer's ability to remain gainfully employed and, to an extent, competitive with other members of the workforce. *[Evaluated by the Employment Department.]*

1.156 WORKING FAMILY CHILD CARE

Oregon Statute: 315.262

Sunset Date: None

Year Enacted: 1997

	Corporation	Personal	Total
2003–05 Revenue Impact:	Not Applicable	\$44,700,000	\$44,700,000
2005–07 Revenue Impact:	Not Applicable	\$46,500,000	\$46,500,000

DESCRIPTION: A personal income tax credit is allowed for child care expenses for low-income families who have a minimum amount of earned income for the year. Also, there is a limit on the amount of unearned income they are allowed and maintain their eligibility. Both amounts are indexed to inflation. For 2005, the minimum earned income is \$6,900; the maximum unearned income is \$2,700. The credit is calculated as a declining percentage of qualified child care expenses. The credit phases out for taxpayers between 200 percent and 250 percent of the federal poverty level.

The credit became refundable in 2003. To the extent that the credit exceeds a taxpayer's liability (reduced by any nonrefundable credits), the taxpayer is entitled to a refund of the difference.

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

WHO BENEFITS: Low-income working taxpayers with employment-related dependent care expenses whose income is less than 250 percent of the federal poverty level and who have sufficient tax liability to be able to claim the credit. The average credit claimed by roughly 18,200 resident taxpayers in 2000 was \$388. In 2002, 26,200 taxpayers claimed an average credit of \$533.

Income Group (Quintiles)	Taxpayers		Mean Credit
	Number	Percent	
Below \$10,400	1,004	3.8%	\$122
\$10,400 - \$21,900	8,999	34.4%	\$387
\$21,900 - \$37,900	11,979	45.8%	\$653
\$37,900 - \$63,700	4,141	15.8%	\$603
Above \$63,700	48	.2%	\$594
Total	26,171	100.0%	\$533

EVALUATION: This tax credit is effective because it assists low-income families with their child care expenses, which provides encouragement to stay in the workforce. *[Evaluated by the Employment Department.]*

1.157 DEPENDENT CARE ASSISTANCE

Oregon Statute: 315.204
Sunset Date: 12-31-06
Year Enacted: 1987

	Corporation	Personal	Total
2003–05 Revenue Impact:	\$1,900,000	\$100,000	\$2,000,000
2005–07 Revenue Impact:	\$1,900,000	\$100,000	\$2,000,000

DESCRIPTION: Employers providing dependent care assistance or dependent care information and referral services to their employees are allowed a credit to either personal or corporation income tax. The credit equals 50 percent of the total costs the employer paid for dependent care (but no more than \$2,500 per employee) and 50 percent of the cost of providing information and referral services. The employer may not take the credit if the provision of dependent care services is part of salary reduction plan. Credits unclaimed due to insufficient tax liability may be used in later years, for up to five years. Note that the revenue impact figures include the impact of the dependent care facilities credit listed in Dependent Care Facilities (1.158).

Employers must submit an application for certification to the Child Care Division of the Employment Department each year they wish to receive this credit.

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

WHO BENEFITS: Employers who provide child care facilities for their employees receive both the financial benefit of the tax credit and the additional benefit of more productive employees. In 2000, 18 corporations claimed either the Dependent Care Assistance (1.157) or the Dependent Care Facilities (1.158) credit. In 2002, 24 corporations claimed one of these credits. The average credit claimed in 2002 was \$96,600.

EVALUATION: This tax credit is effective because it encourages employers to help their employees address the difficulties of balancing work with their needs for dependent care. *[Evaluated by the Employment Department.]*

1.158 DEPENDENT CARE FACILITIES

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

	Corporation	Personal	Total
2003–05 Revenue Impact:	Included in 1.157	Included in 1.157	Included in 1.157
2005–07 Revenue Impact:	Included in 1.157	Included in 1.157	Included in 1.157

DESCRIPTION: Employers providing dependent care facilities for their employees are allowed a credit to either personal or corporation income tax. The credit equals the least of: 1) 50 percent of the cost of the acquisition, construction, reconstruction, renovation, or other improvement; 2) an amount equal to \$2,500 multiplied by the number of full-time equivalent employees; or 3) \$100,000. The facility must be certified by the Child Care Division of the Employment Department.

One-tenth of the credit is claimed in each of ten consecutive years beginning with the year the facility is completed. The credit is discontinued before the ten-year period is completed if facility use is discontinued. Credits that are not used due to insufficient tax liability may be carried forward for up to five years.

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

WHO BENEFITS: Employers who provide child care facilities for their employees receive both the financial benefit of the tax credit and the additional benefit of more productive employees. In 2000, 18 corporations claimed either the Dependent Care Assistance (1.157) or the Dependent Care Facilities (1.158) credit. In 2002, 24 corporations claimed one of these credits. The average credit claimed in 2002 was \$96,600.

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

1.159 FIRST BREAK PROGRAM

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

	Corporation	Personal	Total
2003–05 Revenue Impact:	Less than \$50,000	\$100,000	\$100,000
2005–07 Revenue Impact:	Less than \$50,000	Less than \$50,000	Less than \$50,000

DESCRIPTION: A credit against corporation or personal income taxes is allowed for wages paid to a “qualified youth” hired by the taxpayer. A qualified youth is an individual who is 14 to 23 years old and has been identified to participate in the First Break Program by a community-based organization according to rules adopted by the Employment Department. Community-based organizations include all local commissions for children and families, schools or class groups offering alternative education programs, the federal Job Corps, school districts, and the Youth Employment and

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Empowerment Coalition. The credit amount is equal to 50 percent of the wages paid to the qualifying youth or \$1,000, whichever is less. Credits that are not used due to insufficient tax liability may be carried forward for up to five years. Statute limits the total number of certificates issued to 1,500 (there is one certificate per youth).

- PURPOSE:** To encourage the provision of employment opportunities for qualified youths as defined by rule.
- WHO BENEFITS:** Employers who provide employment to qualified youths and the youths who face barriers to entering the job market.
- EVALUATION:** As of June 2004, 3 percent (45) of the 1,500 certifications allotted for the First Break Program were issued to qualified youth by community-based organizations (CBOs). Of the 45 certificates used, 12 were issued since June 2002. At this pace, about 1,450 certificates will remain unused when the program sunsets December 31, 2004. Infrequent use of the First Break Program brings into question its effectiveness for discouraging gang involvement and promoting job-skill and educational development of youth. *[Evaluated by the Employment Department.]*

1.160 CHILD CARE DIVISION CONTRIBUTIONS

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

	Corporation	Personal	Total
2003-05 Revenue Impact	\$100,000	\$400,000	\$500,000
2005-07 Revenue Impact	\$200,000	\$800,000	\$1,000,000

- DESCRIPTION:** A credit against corporation or personal income taxes is allowed for certified contributions made to the Child Care Division (CCD) of the Oregon Employment Department or a selected community agency. The CCD is responsible for establishing a program that issues tax credit certificates to taxpayers who wish to utilize this credit. The total value of tax credit certificates may not exceed \$500,000 per calendar year. Any credits that are not used due to insufficient tax liability may be used in later years, for up to four years.
- If a deduction is taken for federal tax purposes, the deducted amount is added to Oregon taxable income.
- The CCD and selected community agencies distribute the money according to rules established by the advisory committee. A selected community agency is a nonprofit agency that provides services related to child care, children and families, community development, or similar services and is eligible to receive contributions that may qualify as deduction under Section 170 of the Internal Revenue Code.
- The 2003 Legislature made several technical changes to this credit. For example, the Child Care Division is no longer responsible for establishing regions and determining the total amount of tax credit certificates within each region in the state. The Child Care Division is authorized to adopt rules and select a tax credit marketer (defined in the bill) to market the tax credits to taxpayers. Also, the sunset date was extended two years.

PURPOSE: To provide a funding pool for child care that will: 1) reduce parent cost, 2) increase revenue for center- and home-based child care businesses, and 3) improve the quality of care for the children of low- and moderate-income families throughout Oregon.

WHO BENEFITS: Taxpayers who choose to use this method to reduce their tax liability, parents and child care providers who participate in the program once it is established.

EVALUATION: The effectiveness of this tax credit has not been evaluated because it is new and not yet fully implemented. *[Evaluated by the Employment Department.]*

1.161 FARM WORKER HOUSING CONSTRUCTION

Oregon Statute: 315.164

Sunset Date: None

Year Enacted: 1989, Modified in 2003 (HB 2166)

	Corporation	Personal	Total
2003–05 Revenue Impact:	\$200,000	\$100,000	\$300,000
2005–07 Revenue Impact:	\$200,000	\$100,000	\$300,000

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

The housing must meet certain qualifications for the taxpayer to be eligible for the credit. Rehabilitation projects must restore housing to a condition that meets building code requirements. If the taxpayer is the operator of the farm worker housing, the housing must be inspected by the Department of Consumer and Business Services prior to occupancy. Housing on farms must also be registered, if required, as a camp with the Bureau of Labor and Industries and must be operated by someone who is endorsed as a farm worker camp operator. The credit is forfeited if the taxpayer is the owner, and the housing fails to continue to meet health and safety standards during its occupation.

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

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

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

PURPOSE: To promote construction and rehabilitation of safe and healthful housing for farm workers. A December 2000 legislative report concluded that there was a shortage of such housing in all parts of Oregon.

WHO BENEFITS: Taxpayers who construct or rehabilitate housing for farm workers or contribute finances toward such projects. In calendar years 2002 and 2003, the credit was used

to provide safe, affordable housing for more than 1,500 farm workers and family members.

EVALUATION:

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

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

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

1.162 FARM WORKER HOUSING LENDER’S CREDIT

Oregon Statute: 317.147

Sunset Date: None

Year Enacted: 1989, Modified in 2003 (HB 2166)

	Corporation	Personal	Total
2003–05 Revenue Impact:	\$700,000	Not Applicable	\$700,000
2005–07 Revenue Impact:	\$800,000	Not Applicable	\$800,000

DESCRIPTION:

A credit against corporation income taxes is allowed for lending institutions financing construction or rehabilitation of farm worker housing projects. The credit equals 50 percent of the interest received on loans to finance the direct costs associated with constructing or rehabilitating farm worker housing. The lender must

receive certification from the borrower that upon completion the project will comply with all health and safety standards. The housing must be located in Oregon and the interest rate on the loan cannot be above 13½ percent. The credit may be claimed over the term of the loan or for 10 years, whichever is less.

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

- PURPOSE:** To promote construction and rehabilitation of safe and healthful housing for farm workers. A December 2000 legislative report concluded that there was a shortage of such housing in all parts of Oregon.
- WHO BENEFITS:** Beneficiaries include lending institutions that make loans for farm worker housing projects. To the extent that the credit program results in loans made at less-than-market interest rates, the borrower captures some of the benefit. The amount of credits claimed varies widely from year to year. For tax year 2002, about five taxpayers benefited from this credit. These taxpayers reduced their tax liability by an average of about \$44,000.
- EVALUATION:** This expenditure achieves its purpose. Lenders historically did not make loans for farm worker housing. The credit has provided an incentive to get lenders to make these loans, at the same time furthering a partnership between these taxpayers and the agricultural industry. The tax credit is typically passed along to the borrower in the form of a lower interest rate, thereby making possible a project that would otherwise not be cost-effective.
- Prior to the passage of the credits, even if lenders were willing to make such loans, conventional interest rates were generally too high to make such housing cost-effective. If the tax expenditure were eliminated, there would likely be a reduction in farm worker housing units built each year.
- While more lenders are making loans for farm worker housing, these have been primarily larger lenders who can invest the time and money to investigate this relatively new program. Smaller lenders are potential recipients who may need to be educated about the benefits of the credit.
- There are several direct spending programs, both at the state and the national level, that are used to develop affordable housing. This tax credit integrates well with these programs, since none of these direct spending programs alone provides enough spending programs to be leveraged with a conventional loan subsidized by the lender's tax credit.
- While portions of the tax credit statute could be clarified (i.e., what constitutes "farm work"? Are occupations like "aquaculture" included?), the credit is now being efficiently used. Farm worker advocates suggest that the credit should be increased to its previous level of 50 percent of interest earned.
- However, it is not clear whether lenders are willing to reduce interest rates for the credit, how much this program is being used, and whether such housing would not be built anyway using LIHTC and HOME funds or Rural Development Funds.
[Evaluated by Oregon Housing and Community Services.]

1.163 INVOLUNTARY MOBILE HOME MOVES

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

	Corporation	Personal	Total
2003–05 Revenue Impact:	Not Applicable	Less than \$50,000	Less than \$50,000
2005–07 Revenue Impact:	Not Applicable	Less than \$50,000	Less than \$50,000

DESCRIPTION: A credit against personal income tax is allowed for certain owners of mobile homes who were forced to move due to the closure of their mobile home park. To qualify for the credit, the taxpayer had to move the home on or before December 31, 2001. The taxpayer’s federal adjusted gross income had to be \$30,000 or less in the year of the move, and the mobile home must have had a fair market value of \$50,000 or less.

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

PURPOSE: To provide tax relief to mobile home residents who are forced to relocate because of the closure of their mobile home park.

WHO BENEFITS: Mobile home owners with federal adjusted gross income of \$30,000 or less who must move their mobile homes as a result of the mobile home park closure or partial closure. It is estimated that an average of one to two Oregon mobile home parks close each year.

EVALUATION: It is not clear whether this tax expenditure is effective. In theory, this program reduces the tax burden on mobile home residents who are being required to relocate and will incur significant costs. Other taxpayers who relocate in conjunction with a new job or business can deduct qualified moving expenses [Moving Expenses (1.069)]. Although the circumstances are different for mobile home residents who are forced to move, this credit provides a similar tax break. *[Evaluated by Oregon Housing and Community Services.]*

1.164 OREGON AFFORDABLE HOUSING CREDIT

Oregon Statute: 317.097
Sunset Date: 12-31-09
Year Enacted: 1989

	Corporation	Personal	Total
2003–05 Revenue Impact:	\$7,700,000	Not Applicable	\$7,700,000
2005–07 Revenue Impact:	\$8,100,000	Not Applicable	\$8,100,000

DESCRIPTION: This provision allows a credit against corporation income taxes for lending institutions that make loans at below-market interest rates for the construction, development, or rehabilitation of low-income housing. The amount of the credit is the difference between the finance charge on the loan and the finance charge at the

time the loan was made that would have been charged had a similar loan been made at market interest rates. The credit cannot exceed 4 percent of the unpaid balance of the loan during the tax year for which the credit is claimed. Any credit that cannot be used because of insufficient tax liability in the current year can be used in later years, for up to five years.

To qualify for the credit, loans must be made before January 1, 2010. Loans may be certified to receive credits for up to 20 years. The cap on credits granted for new and existing loans went up to \$6 million per tax year beginning January 1, 2002, an increase from the \$5 million cap prior to that date.

- PURPOSE:** To promote the construction and rehabilitation of low-income housing units with affordable rent.
- WHO BENEFITS:** In 2002, about 24 corporation income taxpayers benefited from this credit. These taxpayers had reduced tax liability of \$3.7 million, or \$153,280 on average. The program requires all interest savings to be directly credited as rent reductions. To the extent that the low interest rate reduces the rent paid by low-income households, the households also benefit. In 2003, the average rental saving benefit was \$50 per month for 6,600 units.
- EVALUATION:** This expenditure achieves its purpose. Without the credit program, rents in Oregon Affordable Housing Tax Credit projects would be 15–25 percent higher, which would decrease the number of units available for low- and very low-income persons. Without this incentive, these low-income housing projects would not be financially feasible.
- The credit is used with many other direct spending programs such as grants. The credit is applied to the permanent financing after all direct spending programs have been incorporated into the overall project financing. By using the credit in this manner, the maximum benefit is passed on to the tenants for a “bottom line” benefit. A direct spending program would likely be more costly. *[Evaluated by Oregon Housing and Community Services.]*

1.165 CROP GLEANING

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

	Corporation	Personal	Total
2003–05 Revenue Impact:	Less than \$50,000	Less than \$50,000	Less than \$50,000
2005–07 Revenue Impact:	Less than \$50,000	Less than \$50,000	Less than \$50,000

- DESCRIPTION:** A credit is allowed against personal or corporation income taxes for “crop” donations to gleaning cooperatives, food banks, or qualifying charitable organizations located in Oregon. The credit includes donations to food banks or other charitable organizations that distribute food at no charge to children or homeless, unemployed, elderly, or low-income individuals. The definition of “crop” includes plants or orchard stock that produce food for human consumption and livestock animals that may be processed into food for humans. Both harvest donations (gleaning) and post-harvest donations may qualify.

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The credit is 10 percent of the wholesale market price of the crop. Credits that cannot be used because of insufficient tax can be used in later years, for up to three years.

- PURPOSE:** To encourage donations of food crops to gleaning cooperatives, food banks, or other charitable organizations engaged in the distribution of food without charge.
- WHO BENEFITS:** Farmers who donate crops to gleaning cooperatives, food banks, or charitable food distribution organizations. The tax benefit goes primarily to smaller, noncorporate farms.
- EVALUATION:** This expenditure achieves its purpose. It provides an effective incentive for farmers to donate crops to gleaning cooperatives. Without the incentive a few donations would still occur, but not at the same level as with the incentive. Increasing the credit would likely encourage more donations. *[Evaluated by the Department of Agriculture.]*

1.166 ALTERNATIVES TO FIELD BURNING

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

	Corporation	Personal	Total
2003–05 Revenue Impact:	Included in 1.170	Included in 1.170	Included in 1.170
2005–07 Revenue Impact:	Included in 1.170	Included in 1.170	Included in 1.170

- DESCRIPTION:** A credit is allowed against corporation or personal income taxes for up to 35 percent of acquisition or construction costs for equipment and facilities as alternatives to grass seed and cereal grain straw open field burning. This provision was added as an expansion to the Pollution Control credit (1.170) in 1975.
- Voluntary projects, projects that cost less than \$200,000, projects located in an enterprise zone or economically distressed area, or projects that meet high levels of environmental compliance are eligible for a credit of up to 35 percent of the certified cost of the facility. Projects not meeting these conditions are eligible for phase-out credits equal to 25 percent, 15 percent, or 0 percent, dependent on when the project commenced.
- The credit is taken in equal amounts over the life of the facility. The credit is allowed only for the fraction of use as an alternative to field burning, and the applicant must demonstrate a reduction in acreage burned. The revenue impact of this provision is included in that for the Pollution Control credit.
- Note that the Mobile Field Incinerators expenditure (2.032) provides a property tax exemption that applies to some of the same equipment as this credit does.
- PURPOSE:** To encourage reduction in the practice of open field burning while developing and utilizing alternative methods of field sanitation and alternative methods of using grass seed and cereal grain straw.
- WHO BENEFITS:** Growers investing in equipment, facilities, and land for gathering, densifying, processing, handling, storing, transporting, and incorporating grass straw or straw-based products that result in reduction of open field burning, propane flammers, or mobile field sanitizers that reduce air quality impacts, and drainage tile installations that result in a reduction of grass seed acreage under production.

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

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

Even though the industry is facing a crucial period in the phasedown schedule, continued reductions in field burning, increased acreage in production, high yields, and the results of recent research all indicate that the alternatives to field burning are satisfactory. The key to maintaining the phasedown limitation of 40,000 acres is: 1) the continued development and maintenance of the infrastructure to process and store straw for the domestic and international feed markets, and 2) the continued availability and improvement in equipment that enables seed growers to chop and manage full straw loads left on the field. *[Evaluated by the Department of Agriculture.]*

1.167 FARM MACHINERY AND EQUIPMENT (INCOME)

Oregon Statutes: 315.119 and 315.123

Sunset Date: 12-31-07

Year Enacted: 2001

	Corporation	Personal	Total
2003-05 Revenue Impact	\$100,000	\$300,000	\$400,000
2005-07 Revenue Impact	\$100,000	\$300,000	\$400,000

DESCRIPTION: A credit is allowed against personal or corporate income taxes for property taxes paid on machinery and equipment and personal property used in farm processing. The credit only applies in conjunction with property used for processing of wholesale farm crops or livestock after harvest has occurred, but before sale of the modified or altered products. The machinery and equipment must be located on land that is specially assessed for farm use or contiguous to land that is specially assessed for farm use and is owned and controlled by the farm operator. The amount of the tax credit is calculated as the lesser of the effective property tax rate multiplied by the adjusted basis (for income tax purposes) of the qualified machinery and equipment or \$30,000. This tax credit can be carried forward for five years. A tax credit is not allowed if the machinery and equipment is fully depreciated for tax purposes.

This credit does not apply to the property used in farming because it is exempted from property tax as described in Farm Machinery and Equipment (Property) (2.031).

PURPOSE: To encourage the continued operation and expansion of value added on-farm food processing.

WHO BENEFITS: Farm operators with farm processing machinery and equipment on or contiguous to specially assessed farmland.

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Oregon Credits

EVALUATION: Small- and medium-sized food processors face market disadvantages. After thousands of mergers and acquisitions in the food processing and retail sectors over the past five years, as few as six large food companies now control nearly 50 percent of retail food sales in the U.S. These companies only source from very large growers and processors. Oregon companies do not have the size to compete in these markets. Tax rates on processing equipment that reflect today’s economic realities will help stabilize and develop Oregon’s food processing value-added sector, adding vitality to rural and urban communities. *[Evaluated by the Department of Agriculture.]*

1.168 RIPARIAN LANDS REMOVED FROM FARM PRODUCTION

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

	Corporation	Personal	Total
2003-05 Revenue Impact	Less than \$50,000	Less than \$50,000	Less than \$50,000
2005-07 Revenue Impact	Less than \$50,000	Less than \$50,000	Less than \$50,000

DESCRIPTION: This expenditure creates an income tax credit for riparian farmland that is voluntarily taken out of agricultural production for conservation purposes. The statute defines riparian land as land that was formerly in agricultural production and within 35 feet of the bank of a natural watercourse. The credit is equal to 75 percent of the value of the crops foregone, excluding the raising of livestock. The credit has a five-year carry forward. The credit is available beginning with the 2004 tax year.

PURPOSE: “The purpose of [this tax credit] is to encourage taxpayers that have riparian land in farm production to voluntarily remove the riparian land from farm production and employ conservation practices applicable to the riparian land that minimize contributions to undesirable water quality, habitat degradation and stream bank erosion.” (ORS 315.111)

WHO BENEFITS: Taxpayers who voluntarily take riparian farmland out of production.

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

1.169 POLLUTION PREVENTION

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

	Corporation	Personal	Total
2003–05 Revenue Impact:	Less than \$50,000	\$100,000	\$100,000
2005–07 Revenue Impact:	Less than \$50,000	\$100,000	\$100,000

DESCRIPTION: This provision, referred to in statute as the Emission-Reducing Production Technology Credit, allowed a tax credit against corporation or personal income taxes for investments in technologies and processes that prevent emissions of

perchloroethylene, chromium, and halogenated solvents. The Department of Environmental Quality (DEQ) certified all qualifying investments prior to the sunset date for installation on December 31, 1999. The credit amount was equal to 10 percent per year for five years of the costs of the technologies or processes as certified by DEQ. The credit was not refundable, and taxpayers could carry forward unused credit amounts for three years. No reduction in depreciable basis was required.

- PURPOSE:** To “encourage businesses to utilize technologies and processes that prevent the creation of pollutants.” (ORS 468A.095)
- WHO BENEFITS:** Taxpayers investing in technologies or processes that prevent emissions of the specified pollutants. The maximum amount available for tax relief through the pilot was \$5.2 million. The DEQ certified 35 pollution prevention investments to 32 taxpayers for tax credits totaling \$739,932. Much of the benefit went to the dry-cleaning industry, which is a large user of perchloroethylene.
- EVALUATION:** This expenditure was effective in achieving its purpose. Expanded technical assistance might have increased the number of potential credit recipients who installed eligible technologies. *[Evaluated by the Department of Environmental Quality.]*

1.170 POLLUTION CONTROL

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

	Corporation	Personal	Total
2003–05 Revenue Impact:	\$16,300,000	\$8,900,000	\$25,200,000
2005–07 Revenue Impact:	\$16,000,000	\$8,800,000	\$24,800,000

DESCRIPTION: The pollution control credit allows a credit against corporation or personal income taxes equal to up to 35 percent of the certified cost of pollution control facilities (depending on the type of project and installation date). The taxpayer must have the investment certified by the Department of Environmental Quality (DEQ). Taxpayers should submit the application for credit certification within one year of completion of the facility. The sunset date for construction completion is December 31, 2007. DEQ certifies both the facilities and the allowable costs under one of the following categorizations:

- Air pollution control;
- Water pollution control;
- Noise pollution control;
- Material recovery of solid waste, hazardous waste, or used oil control;
- Hazardous waste pollution control; or
- Nonpoint source pollution control.

To qualify, the principal purpose of the facility must be to meet pollution control standards, or the sole purpose must be to prevent, control, or reduce a significant quantity of pollution. Projects can include the purchase of or reconstruction and

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improvements to structures, land, machinery, or equipment. The statute specifically excludes certain items including asbestos abatement, septic tanks, human waste facilities, office buildings, parking lots, landscaping and automobiles.

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

The amount of credit is up to 35 percent of the certified cost of the facility multiplied by the certified percentage allocable to pollution control, divided by the number of years of the facility's useful life. The maximum useful life for calculating the credit is 10 years.

Voluntary projects, projects that cost less than \$200,000, projects located in an enterprise zone or economically distressed area, or projects that meet high levels of environmental compliance are eligible for a credit of up to 35 percent of the certified cost of the facility. Pollution control projects not meeting these conditions are eligible for phase-out credits equal to 25 percent, 15 percent, or 0 percent, dependent on when the project commenced.

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

The property tax exemption for Pollution Control Facilities (2.100) is a companion to this income tax pollution control credit. Nonprofit corporations and cooperatives qualify for a 20-year property tax exemption on the facility.

PURPOSE:

"...to assist in the prevention, control and reduction of air, water and noise pollution and solid waste, hazardous wastes and used oil in this state by providing tax relief with respect to Oregon facilities constructed to accomplish such prevention, control and reduction." (ORS 468.160)

WHO BENEFITS:

Businesses that invest in pollution control equipment and facilities benefit from this credit. Most of the benefit goes to large corporations in manufacturing industries, including paper and allied products, wood processing, food processing, and electronics. For 2003, DEQ issued 104 certificates for \$22.7 million in credits to corporate taxpayers and 176 certificates for \$1.8 million in credits to taxpayers allowed to use the credit on their personal income taxes. For tax year 2002, there were 77 corporate taxpayers that claimed this credit and reduced their tax liability by an average of about \$91,000. There were additional taxpayers who were unable to redeem their credit due to insufficient tax liability.

EVALUATION:

The expenditure has been only partially successful in achieving its purpose as an incentive to promote the installation of some pollution control equipment that otherwise would *not* have been installed. Since 1995, DEQ issued 25 percent of all credits to taxpayers who voluntarily installed facilities. In 2003, this increased to 40%.

Most expenditures provided a reward to taxpayers for activities that they are required to do anyway. Seventy-three percent of approved tax credits since 1995 were for principal purpose facilities. This tax expenditure would be more effective in achieving the legislative findings and declarations in ORS 468.153 if this credit were only allowed for investments in pollution control beyond basic compliance with regulatory requirements.

A benefit of this program is to improve the relationship between business entities and regulatory entities. This benefit could be enhanced if more regulators were to use this tax credit when working with small businesses to achieve environmental goals.

While this part of the program is very valuable, it is difficult to determine if that goal is being achieved.

Since the program's inception, the DEQ issued over 5000 pollution control tax credit certificates totaling about \$706 million. *[Evaluated by the Department of Environmental Quality.]*

1.171 RECLAIMED PLASTICS

Oregon Statute: 315.324

Sunset Date: 12-31-01

Year Enacted: 1985

	Corporation	Personal	Total
2003–05 Revenue Impact:	Less than \$50,000	\$200,000	\$200,000
2005–07 Revenue Impact:	Less than \$50,000	Less than \$50,000	Less than \$50,000

DESCRIPTION: A credit against corporation or personal income taxes is allowed for 50 percent of an investment in personal property or equipment that is either: a) used to manufacture products from reclaimed plastics, or b) necessary to collect, transport, or process reclaimed plastic.

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

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

PURPOSE: "...to assist in the prevention, control and reduction of solid waste in this state by providing tax relief to Oregon businesses that make investments in order to collect, transport or process reclaimed plastic or manufacture a reclaimed plastic product." (ORS 468.456)

WHO BENEFITS: In tax year 2002, fewer than five corporations claimed a total of less than \$50,000 for the credit. The direct beneficiaries of the reclaimed plastic tax credit are businesses that collect or process recyclable plastic, manufacture a product from reclaimed plastic, or own and lease equipment to plastic recyclers.

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

1.172 DIESEL TRUCK ENGINES

Oregon Statute: Note following ORS 315.356

Sunset Date: 12-31-07

Year Enacted: 2003 (HB 2041)

	Corporation	Personal	Total
2003–05 Revenue Impact:	\$0	\$0	\$0
2005–07 Revenue Impact:	\$1,500,000	\$1,500,000	\$3,000,000

DESCRIPTION: 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. To be eligible for the credit, the following specifications must be met:

The taxpayer:

- Owns the truck; and
- Purchased the qualifying engine in Oregon in 2004, 2005, 2006 or 2007.

The truck:

- Has a combined weight of more than 26,000 pounds; and
- Is registered in Oregon.

The diesel engine:

- Is certified by the federal Environmental Protection Agency as emitting oxides of nitrogen at the rate of 2.5 grams per brake horsepower-hour or less; and
- Model year is 2003, 2004, 2005, 2006 or 2007.

DEQ approves eligible engines for the credit. The taxpayer may not take the credit until tax years beginning January 1, 2005, and may not use the credit in calculating estimated tax payments before July 1, 2005. The credit is nonrefundable. Any credit unclaimed in a particular year because of insufficient tax liability may be used in later years, for up to four years.

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

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

WHO BENEFITS: Businesses or individuals who own trucks with qualifying diesel engines benefit from this credit.

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

1.173 SEWER CONNECTION

Oregon Statute: 316.095
Sunset Date: 6-30-95
Year Enacted: 1987

	Corporation	Personal	Total
2003–05 Revenue Impact:	Not Applicable	\$100,000	\$100,000
2005–07 Revenue Impact:	Not Applicable	Less than \$50,000	Less than \$50,000

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

To qualify for the credit, the connection must be made after January 1, 1985, and must be required by either: a) an order or rule issued or adopted by the Environmental Quality Commission (EQC) before July 1, 1989; b) an intergovernmental agreement between the EQC and a local government entered into before July 1, 1989; or c) a health hazard annexation ordered by the Assistant Director for Health after January 1, 1988, and before July 1, 1995. Because all connections have already been made, the total number of credits claimed in a particular year will decline as homeowners' five-year credit periods are completed. Because no new projects can be approved after July 1, 1995, connections qualifying for the credit will eventually cease and total credits will fall to zero.

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

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

EVALUATION: Not evaluated.

1.174 FISH SCREENING DEVICES

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

	Corporation	Personal	Total
2003–05 Revenue Impact:	Less than \$50,000	Less than \$50,000	Less than \$50,000
2005–07 Revenue Impact:	Less than \$50,000	Less than \$50,000	Less than \$50,000

DESCRIPTION: A credit against personal and corporation income tax is allowed for installing a fish screening device, by-pass device, or fishway when required to do so by law (except where the device is part of a federally regulated hydroelectric project). These projects are primarily on agricultural land to keep fish from entering irrigation canals. Devices that are financed by the Water Development Fund are ineligible for the credit. The

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credit for each device installed equals the lesser of half of the taxpayer's net certified installation costs, or \$5,000.

The device must be certified by the State Department of Fish and Wildlife to be eligible for the credit. There is a preliminary certification prior to installation and a final certification upon final completion. The credit is claimed in the year of final certification. The credit is non-refundable. Credits unclaimed because of insufficient tax liability can be used in later years, for up to five years.

PURPOSE: Fish screening devices and by-passes prevent fish from entering irrigation diversions and allow fish to swim around dams and other obstructions. In many cases the Oregon Department of Fish and Wildlife may require these devices to be installed. The credit recognizes that taxpayers in general benefit from the installation of fish screening devices and by-pass devices.

WHO BENEFITS: Taxpayers who install fish screening devices. The general public also benefits, particularly individuals connected with recreational or commercial fishing, if the projects result in improved fish habitat and increased fish populations.

For the 2001-03 biennium, 201 screens were certified, with a potential tax credit of \$82,194. All 201 screen projections were funded through State Lottery Measure 66 funding. For the first half of the 2003-05 biennium, 18 screens have been certified with a potential tax credit of \$19,347.

EVALUATION: This expenditure appears to be effective in achieving its purpose. The use of the credit has been increasing because the amount of fish screening is increasing as the law requiring the installation of screens on irrigation diversions gains acceptance among irrigators. It seems unlikely the current level of screening activity would have been attained without the legislation that created the program in its latest form. Additional funding for the screening program through Measure 66 funding has increased the number of screens installed during the 2001-03 biennium. Continuation of screen program funding is expected to maintain or increase the pace of program activities as compared to the period prior to the 2001-03 biennium. *[Evaluated by the Department of Fish and Wildlife.]*

1.175 ALTERNATIVE ENERGY DEVICES (RESIDENTIAL)

Oregon Statute: 316.116

Sunset Date: None

Year Enacted: 1977

	Corporation	Personal	Total
2003-05 Revenue Impact:	Not Applicable	\$12,200,000	\$12,200,000
2005-07 Revenue Impact:	Not Applicable	\$13,600,000	\$13,600,000

DESCRIPTION: A credit against personal income taxes is allowed to taxpayers who install certain alternative energy devices in their residence. Examples of qualifying devices include solar devices; groundwater heat pumps; ground loop systems; a renewable energy system that heats or cools space, generates electricity, heats water, or is used for swimming pool, spa, or hot tub heating. Taxpayers may also receive a credit for the purchase of energy-efficient appliances and alternative fuel devices. Homeowners or renters may receive a tax credit for eligible systems. A builder who owns a home

built for speculative sale may claim a tax credit for an alternative-fuel fueling/charging system.

The credit for solar, geothermal, wind, and fuel cell systems equals 60 cents multiplied by the first-year energy savings in kilowatt-hours, up to \$1,500 per dwelling served. For swimming pool, spa, or hot tub heating, the credit equals 15 cents multiplied by the first-year energy savings in kilowatt-hours, up to 50 percent of the device cost, not to exceed \$1,500. The appliance credit is 40 cents per kilowatt-hour saved or 25 percent of the appliance cost, whichever is less, not to exceed \$1,000 total for all appliances.

For alternative fuel vehicles, the maximum credit is 25 percent of the cost, not to exceed \$750 for the vehicle and an additional \$750 for the charging station. (Taxpayers may receive a \$1,500 Oregon credit for a hybrid car.) The Oregon credit is in addition to any federal tax credit that the taxpayer might receive for an alternative fuel vehicle.

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

PURPOSE:	To promote the use of renewable energy resources for home heating and electric generation and to encourage the purchase of highly efficient appliances and alternative-fuel vehicles.
WHO BENEFITS:	Oregon residents who purchase renewable energy systems, energy-saving appliances, and alternative-fuel vehicles.
EVALUATION:	<p>This credit has been successful in achieving its purpose. Through 2003, more than 22,000 renewable energy systems and more than 134,000 highly efficient appliances have been installed in Oregon—primarily as a result of the tax credit. In 2003, energy cost savings to Oregon households from the program were nearly \$8 million. The use of the credit has increased since 1998, with the Legislature’s addition of energy-efficient appliances to the program.</p> <p>Changes in the 2001 legislation appear to be having a positive impact on installation of renewable systems. Influence in the marketplace is another indicator of the credit’s effectiveness. Appliance dealers report substantial increases in energy-efficient appliance sales tied to the tax credit.</p> <p>The credit is based on the efficiency of the system rather than system cost. This feature encourages the development of more efficient systems. The only alternatives to the credit are incentives offered by a few utilities. Ending the credit would discourage investment in renewable resources and highly efficient appliances.</p> <p><i>[Evaluated by the Department of Energy.]</i></p>

1.176 ALTERNATIVE FUEL STATIONS

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

	Corporation	Personal	Total
2003–05 Revenue Impact:	Less than \$50,000	Less than \$50,000	Less than \$50,000
2005–07 Revenue Impact:	Less than \$50,000	Less than \$50,000	Less than \$50,000

DESCRIPTION: A credit against corporation and personal income taxes is allowed for businesses that construct or install a fueling station necessary to operate an alternative fuel vehicle. The credit equals 25 percent of the cost of the fueling station, not to exceed \$750.

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

PURPOSE: To promote the use of alternative fuel vehicles.

WHO BENEFITS: Oregon residents who own or operate fueling stations that supply alternative fuels for vehicles.

EVALUATION: Not evaluated.

1.177 BUSINESS ENERGY FACILITIES

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

	Corporation	Personal	Total
2003–05 Revenue Impact:	\$6,100,000	\$6,500,000	\$12,600,000
2005–07 Revenue Impact:	\$5,600,000	\$7,300,000	\$12,900,000

DESCRIPTION: A credit against corporation or personal income taxes is allowed for investments made by businesses to use renewable energy resources, to conserve energy, for recycling projects if the recycling projects are not otherwise required, or to use less-polluting transportation fuels. Utilities, customers of consumer-owned and other public utilities, car-sharing expenses, and sustainable building practices qualify for the credit.

The credit equals 35 percent of the certified cost of the approved project and is taken over five years: 10 percent in the first two years and 5 percent each year thereafter. However, the credit may be claimed entirely in the first year if the eligible costs are less than \$20,000. Any credit not used in a particular year because of insufficient tax liability may be carried forward for up to eight years.

Renewable resource facilities must produce energy or reduce energy consumption by using solar, wind, hydro, geothermal, or biomass sources. Energy conservation projects must reduce energy consumption by at least 10 percent.

The program was crafted to ensure the credit stimulates investments in energy-efficiency projects rather than rewarding businesses for what they would have done without the credit. Eligible projects must have paybacks of more than one year. Credits are awarded only to projects or portions that significantly exceed standard practice. Projects that are required by state or federal law are not eligible.

PURPOSE: “. . . to encourage the conservation of electricity, petroleum and natural gas by providing tax relief for Oregon facilities that conserve energy resources or meet energy requirements through the use of renewable resources.” (ORS 469.190)

WHO BENEFITS: Businesses investing in facilities that produce energy, reduce the consumption of energy, recycle, or use less-polluting transportation fuels. For tax year 2002 about 133 corporate taxpayers benefited from this credit. These taxpayers reduced their tax liability by \$27,000 on average. There were additional taxpayers claiming this credit who were unable to use it due to insufficient tax liability. Additional taxpayers paying personal income taxes benefited from this provision. A variety of businesses, including manufacturers, food processors, lumber companies, farmers and ranchers, service industries, retailers, and rental housing owners participate in the program. About 70 percent of the projects have been undertaken by small businesses. Some 48,000 rental units have been weatherized through the program, reducing renters’ utility costs or rent and making their housing more comfortable.

EVALUATION: This credit has been effective in achieving its purpose. To date, more than 8,000 tax credits have been awarded to manufacturers and commercial businesses for their investments in such measures as apartment building weatherization, irrigation efficiency, renewable resource systems, energy-efficient plant modernization, waste heat recovery, alternative-fuel vehicles, and recycling. Businesses generally require short payback periods for their investments, but the credit has proven successful in making energy investments attractive. Nonprofit and public entities have benefited from 2001 legislative provisions enabling them to take advantage of the tax credit by finding a business partner with a tax liability.

By reducing operating costs, the credit boosts the productivity and competitiveness of Oregon businesses. In 2003, the energy cost savings to Oregon businesses from the tax credit program exceeded \$215 million. *[Evaluated by the Department of Energy.]*

1.178 ENERGY CONSERVATION LENDER’S CREDIT

Oregon Statute: 317.112

Sunset Date: None

Year Enacted: 1981

	Corporation	Personal	Total
2003–05 Revenue Impact:	Less than \$50,000	Not Applicable	Less than \$50,000
2005–07 Revenue Impact:	Less than \$50,000	Not Applicable	Less than \$50,000

DESCRIPTION: Commercial lending institutions are allowed a credit against corporation income taxes for financing energy conservation measures for oil- or propane-heated dwellings. The institutions must charge no more than a 6.5 percent interest rate on the loan. The credit equals the difference between the interest that would be earned if the loan was made at the usual rate of interest (or alternatively at an upper limit rate

established by the Department of Energy) and the interest earned at the 6.5 percent rate.

The loan amount cannot exceed \$5,000 per dwelling (or \$2,000 per dwelling for nonprofit homes for the elderly), and the term cannot exceed 10 years. The loan must be used by the dwelling owner for energy conservation measures, including weather-stripping, caulking, insulation, energy-efficient replacement or storm windows and doors, and efficient oil furnaces. The owner must get an energy audit before getting the loan. The credit is nonrefundable. Any credits not used because of insufficient tax liability may be carried forward up to 15 years.

PURPOSE: To promote energy conservation in the more than 100,000 oil- and propane-heated homes by encouraging lending institutions to make loans for the financing of energy-saving projects.

WHO BENEFITS: Homeowners and owners of rental housing qualifying for energy conservation loans. Lenders may capture some of the benefit if the credit allows them to make profitable loans that they otherwise could not have made. Because the loan rate is not currently competitive with market rates, it is unlikely anyone is utilizing this credit.

EVALUATION: The SHOW loan was part of a package of incentives for energy conservation measures in oil- and propane-heated homes. Improving the efficiency of oil- and propane-heated homes helps achieve the Oregon benchmarks for affordable housing and better air quality.

Since 1982, over 4,400 SHOW loans were made for energy conservation measures. As of year-end 2003, Oregon households that have participated in the program saved almost two million gallons of oil and cut household energy bills by about \$2 million per year. In recent years, participation in the program has dropped off to near zero because the 6.5 percent rate is no longer competitive with market rates. The lender's credit remains in statute for earlier loans and in interest rates should go up.

[Evaluated by the Department of Energy.]

1.179 WEATHERIZATION LENDER'S CREDIT

Oregon Statute: 317.111

Sunset Date: 11-1-81

Year Enacted: 1977

	Corporation	Personal	Total
2003–05 Revenue Impact:	Less than \$50,000	Not Applicable	Less than \$50,000
2005–07 Revenue Impact:	Less than \$50,000	Not Applicable	Less than \$50,000

DESCRIPTION: Provides a credit against corporation income taxes for lending institutions that make below-market rate loans for financing weatherization projects. The credit is equal to the difference between the amount of interest charged at a rate of 6.5 percent and the amount that would have been charged at the lesser of 12 percent or the average percent the lending institution charged for home improvement loans. Unused credit amounts could be carried forward for 15 years.

PURPOSE: To promote energy conservation by encouraging lending institutions to make loans for projects to weatherize homes.

WHO BENEFITS: Lending institutions that made weatherization loans between 1977 and 1981. Because no new loans qualify after 1981, this expenditure results only from the carry-forward provisions.

EVALUATION: This credit expired in 1981 so there should be few, if any, remaining program expenditures. *[Evaluated by the Department of Energy.]*

1.180 REFORESTATION

Oregon Statute: 315.104

Sunset Date: 12-31-11

Year Enacted: 1979

	Corporation	Personal	Total
2003–05 Revenue Impact:	Less than \$50,000	Less than \$50,000	Less than \$50,000
2005–07 Revenue Impact:	Less than \$50,000	Less than \$50,000	Less than \$50,000

DESCRIPTION A credit is allowed against personal or corporation income tax equal to 50 percent of the qualified cost of reforesting under-productive commercial forestland. To qualify, the taxpayer must have the state Department of Forestry preliminarily certify the project after planting is completed. The taxpayer can claim 25 percent of the qualified costs in the year the trees are planted. After two growing seasons, the Department of Forestry must certify that the plantings are established. The taxpayer may then claim the remaining 25 percent of the initial cost, plus 50 percent of qualified maintenance costs over the two-year period. If the project is not established after two years, the remaining second half of the credit cannot be claimed. If the project is not established because of reasons within the taxpayer's control, the credit previously claimed on preliminary certification must be returned.

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

The credit is nonrefundable. Any credit unclaimed in a particular year because of insufficient tax liability may be carried forward for up to three years. This applies to the credits allowed on both preliminary and final certification.

PURPOSE: To increase the public benefits that come from forested lands by promoting reforestation of commercial forestlands that do not currently have commercial trees growing on them, such as brush lands, burned areas with no commercial timber salvage value, and marginal pasture lands. These lands are typically mixed in with or adjacent to land that currently is being used to grow timber.

WHO BENEFITS: Taxpayers who make expenditures to reforest under-productive commercial forestlands. About half of the beneficiaries are small, non-industrial timber growers,

and half are larger industrial (mostly corporate) owners. The bulk of the credit, however, goes to the large industrial timber growers because they reforest much more of this type of forest land than do individual growers.

EVALUATION: This expenditure is achieving its purpose with progress increasing significantly since the forest industry became eligible for the program. About 44,700 acres of brush and under stocked forestlands have been converted since 1987. That includes 30 percent tax credit acres (1987-2003) and 50 percent credit acres (2002-2004). Forested lands produce far more and far better public benefits (fish and wildlife habitat and carbon sequestration through the trees' use of carbon dioxide to produce wood volume are two notable benefits) than do brush lands. The cost per acre for this conversion to the state averages about \$76/acre with projected tax returns from these lands at over \$400/acre on land that is converted to full stocking over a 50-year period. Considering positive effects to the environment and increase in future tax revenues, this has a good return on investment. *[Evaluated by the State Forestry Department.]*

1.181 MILE-BASED OR TIME-BASED MOTOR VEHICLE INSURANCE

Oregon Statute: Note following ORS 317.122

Sunset Date: 12-31-09

Year Enacted: 2003 (HB 2043)

	Corporation	Personal	Total
2003–05 Revenue Impact:	\$0	Not Applicable	\$0
2005–07 Revenue Impact:	\$400,000	Not Applicable	\$400,000

DESCRIPTION: Firms that provide mile-based or time-based rating plans for motor vehicle insurance may receive a corporate excise tax credit, provided that the policies are at least 70 percent mile- or time-based. The credit equals \$100 for each vehicle insured under such a policy, and may not exceed \$300 per policy. The credit may not be claimed for a policy for which a credit was allowed the previous tax year. The total amount of the credit in a tax year may not exceed the tax liability of the taxpayer and may not be carried forward to another tax year. This credit will be disallowed once the total of these credits claimed by all taxpayers exceeds \$1 million for all tax years beginning January 1, 2005, and before January 1, 2010.

PURPOSE: To encourage firms to offer motor vehicle insurance policies that reward individuals for limiting the amount they drive.

WHO BENEFITS: Firms offering these policies benefit because of the tax credit. Policy holders who limit the amount they drive may also benefit if the tax credit leads firms to offer lower priced policies to drivers that limit the use of their motor vehicle.

EVALUATION: The key questions in evaluating this expenditure is whether the credit causes a decrease in the number of miles driven and if policyholders receive lower priced policies when they limit the use of their motor vehicles.

Since no rate or form filings related to this type of plan have been submitted by insurers, data is not available to determine if this expenditure achieves its purpose. *[Evaluated by the Department of Consumer and Business Services.]*

1.182 FIRE INSURANCE

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

	Corporation	Personal	Total
2003–05 Revenue Impact:	\$2,300,000	Not Applicable	\$2,300,000
2005–07 Revenue Impact:	\$2,600,000	Not Applicable	\$2,600,000

DESCRIPTION Property and casualty insurers who write fire insurance policies pay both the corporation income tax and the fire insurance gross premiums tax (Fire Marshal Tax). These insurers are then allowed a credit against the corporation income tax for the fire insurance premium taxes paid under ORS 731.820.

PURPOSE: To shift part of the funding of the Office of the State Fire Marshal from the insurance industry to the state General Fund.

WHO BENEFITS: For tax year 2002, about 180 corporate taxpayers benefited from this credit. These taxpayers reduced their tax liability by \$6,000 on average.

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

1.183 WORKERS' COMPENSATION ASSESSMENTS

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

	Corporation	Personal	Total
2003–05 Revenue Impact:	\$3,000,000	Not Applicable	\$3,000,000
2005–07 Revenue Impact:	\$3,000,000	Not Applicable	\$3,000,000

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

PURPOSE: To shift part of the funding of the Oregon Workers' Compensation system from the insurance industry to the state General Fund.

WHO BENEFITS: For tax year 2002, about 60 corporate taxpayers benefited from this credit. These taxpayers reduced their tax liability by \$17,000 on average.

EVALUATION: This expenditure was effective when it was a credit against the gross premium tax and is expected to remain effective under the corporation income tax. The workers' compensation assessment provides funds used to administer the entire Oregon Workers' Compensation system. This includes occupational safety and health issues handled by OR-OSHA. OR-OSHA has worked very successfully to reduce accident

rates to Oregon workers and thereby reduce costs to employers and harm to workers. Funds are also used to regulate the insurance industry to ensure fair rates are charged employers and benefits are paid timely and accurately to injured workers. The system also includes mechanisms to ensure timely resolution of disputes to guarantee injured workers receive benefits for legitimate injuries in an expedient manner.

Two Oregon Benchmarks are directly impacted by the activities carried out as a result of this credit. Small Business Startups per 1,000 population are impacted by maintaining a safe and healthy work environment and by maintaining a reasonably priced workers' compensation system. Next, Oregon's ranking among states in workers' compensation costs has improved from 8th in 1990 to 35th in 2002. Both benchmarks have been positively impacted as a result of this credit.

This credit has the effect of a partial funding of administrative program costs by the General Fund. If the credit were repealed, the cost of the workers' compensation insurance to policyholders might increase. *[Evaluated by the Department of Consumer and Business Services.]*

1.184 OREGON IGA ASSESSMENTS

Oregon Statute: 734.575

Sunset Date: 12-31-02

Year Enacted: 1977, Modified in 2003 (HB 3051)

	Corporation	Personal	Total
2003–05 Revenue Impact:	\$400,000	Not Applicable	\$400,000
2005–07 Revenue Impact:	\$200,000	Not Applicable	\$200,000

DESCRIPTION: Property and casualty insurers pay both the corporation income tax and an assessment to a guaranty association that is used to cover the cost of claims against insurers who have gone out of business. These insurers are then entitled to a credit against the corporation income taxes for assessments paid to Oregon Insurance Guaranty Association (OIGA) at the rate of 20 percent per year for each of the five years following the year in which the assessment was paid. 2003 legislative changes eliminated this credit for assessments paid after January 1, 2003.

PURPOSE: To shift part of the cost of claims against insolvent insurers from the insurance industry to the state General Fund.

WHO BENEFITS: For tax year 2002, about 175 corporate taxpayers benefited from this credit. These taxpayers reduced their tax liability by \$5000 on average.

EVALUATION: This expenditure achieves its purpose. This type of credit is common throughout the United States. It allows insurers to recover the costs of the assessment they pay to the guaranty association, which in turn is used to cover the cost of claims against insolvent insurers. Although the credit is not a prerequisite for the existence of the guaranty association, the credit does, in effect, transfer the cost of claims against insolvent insurers from the insurance industry to the state General Fund. By allowing the assessments to be claimed as credits over five years, the cost to the General Fund is spread out over five years. In effect, this gives the General Fund a five-year interest-free loan equal to the total assessment levied. Without this credit, General Fund revenue would be subject to more erratic fluctuations as insurer insolvencies call for funds to pay claims. *[Evaluated by the Department of Consumer and Business Services.]*

1.185 OREGON LIFE AND HEALTH IGA ASSESSMENTS

Oregon Statute: 734.835

Sunset Date: None

Year Enacted: 1975

	Corporation	Personal	Total
2003–05 Revenue Impact:	\$400,000	Not Applicable	\$400,000
2005–07 Revenue Impact:	\$400,000	Not Applicable	\$400,000

DESCRIPTION: Life insurance companies pay both the corporation income tax and an assessment to a guaranty association that is used to cover the cost of claims against insurers who have gone out of business. These insurers are then entitled to a credit against the corporation income taxes for assessments paid to Oregon Life and Health Insurance Guaranty Association (OLHIGA) at the rate of 20 percent per year for each of the five years following the year in which the assessment was paid.

PURPOSE: To shift part of the cost of claims against insolvent insurers from the insurance industry to the state General Fund.

WHO BENEFITS: For tax year 2002, about 112 corporate taxpayers benefited from this credit. These taxpayers reduced their tax liability by \$2,000 on average.

EVALUATION: This expenditure achieves its purpose. This type of credit is common throughout the United States. It allows insurers to recover the costs of the assessment they pay to the guaranty association, which in turn is used to cover the cost of claims against insolvent insurers. Although the credit is not a prerequisite for the existence of the guaranty association, the credit does, in effect, transfer the cost of claims against insolvent insurers from the insurance industry to the state General Fund. By allowing the assessments to be claimed as credits over five years, the cost to the General Fund is spread out over five years. In effect, this gives the General Fund a five-year interest-free loan equal to the total assessment levied. Without this credit, General Fund revenue would be subject to more erratic fluctuations as insurer insolvencies call for funds to pay claims. *[Evaluated by the Department of Consumer and Business Services.]*

1.186 POLITICAL CONTRIBUTIONS

Oregon Statute: 316.102

Sunset Date: None

Year Enacted: 1969

	Corporation	Personal	Total
2003–05 Revenue Impact:	Not Applicable	\$9,700,000	\$9,700,000
2005–07 Revenue Impact:	Not Applicable	\$10,000,000	\$10,000,000

DESCRIPTION: A credit may be claimed against personal income taxes for the amount of qualified political contributions, not to exceed \$50 (or \$100 on a joint return). Qualified political contributions include cash contributions to a major or minor political party; to candidates for state, federal or local elective office; or to political action

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committees in the state. The credit is nonrefundable. Credits that cannot be used because of insufficient tax liability in the current year may not be carried forward to later years.

PURPOSE: To increase public participation in the political process.

WHO BENEFITS: Taxpayers who make cash contributions to political candidates or political action committees. In 2002, about 76,187 Oregon full-year residents claimed this credit. The average credit claimed was \$68 in 2002; a total of \$5.19 million was claimed in 2002.

Income Group (Quintiles)	Taxpayers		Mean Credit
	Number	Percent	
Below \$10,400	1,457	1.9%	\$34
\$10,400 - \$21,900	4,986	6.5%	\$48
\$21,900 - \$37,900	9,093	11.9%	\$58
\$37,900 - \$63,700	19,302	25.3%	\$63
Above \$63,700	41,349	54.3%	\$77
Total	76,187	100.0%	\$68

EVALUATION: It is difficult to determine whether this expenditure has been effective in achieving its purpose. The credit amount is relatively small at \$100 on a joint return. The data provided by the Department of Revenue does indicate an increase in the percentage of Oregon full-year residents claiming the credit growing from 4.9 percent in 1990 to 5.0 percent in 1996 and to 5.3 percent in 2002. However, the increase in political contributions could also be attributed to the increased number of ballot measures; the increased interest in the content of the ballot measures, such as property tax relief, public employees' retirement, etc.; and closely contested political races.

In 1996 and 1998, state law limited the candidates and committees whose contributors were eligible for the credit. These limitations were repealed in 1999 as a result of SB 369. Therefore the increase in numbers may be the result of the expansion.

We are unable to determine if a tax expenditure is the most fiscally effective means of increasing public participation in the political process other than to say the tax credit is relatively low compared to the amount of contributions an individual could make. *[Evaluated by the Oregon Secretary of State.]*

1.187 PERSONAL EXEMPTION

Oregon Statute: 316.085

Sunset Date: None

Year Enacted: 1985

	Corporation	Personal	Total
2003–05 Revenue Impact:	Not Applicable	\$897,600,000	\$897,600,000
2005–07 Revenue Impact:	Not Applicable	\$1,019,100,000	\$1,019,100,000

DESCRIPTION: Every taxpayer in Oregon receives a minimum of one personal exemption credit against Oregon’s personal income tax. In addition to this credit, taxpayers receive an additional credit for each dependent. On joint returns, each spouse receives a credit. Individuals who can be claimed as a dependent on another’s return cannot claim a credit on their own return. The amount of the credit, which is indexed to inflation, is \$154 in 2005.

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

WHO BENEFITS: All personal income taxpayers in Oregon, except those who are claimed on another taxpayer’s return. The number of personal exemptions increased from about 3,226,000 in 2000 to 3,238,000 in 2002. The credit per exemption increased from \$139 to \$145 in that same period. The number of personal exemptions claimed per return increases with family size. In 2002, the average amount of total personal exemption credits claimed per return was \$278.

Income Group (Quintiles)	Taxpayers		Mean Credit
	Number	Percent	
Below \$10,400	196,654	14.8%	\$95
\$10,400 - \$21,900	276,895	20.8%	\$218
\$21,900 - \$37,900	285,172	21.4%	\$273
\$37,900 - \$63,700	286,332	21.5%	\$342
Above \$63,700	286,469	21.5%	\$403
Total	1,331,522	100.0%	\$278

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

1.188 RETIREMENT INCOME

Oregon Statute: 316.157

Sunset Date: None

Year Enacted: 1991

	Corporation	Personal	Total
2003–05 Revenue Impact:	Not Applicable	\$2,500,000	\$2,500,000
2005–07 Revenue Impact:	Not Applicable	\$2,000,000	\$2,000,000

DESCRIPTION: Certain taxpayers who are 62 or older are allowed a credit against personal income taxes equal to 9 percent of their net pension income. To qualify for the credit, the taxpayer must have household income of \$22,500 or less (\$45,000 or less if married filing jointly) and no more than \$7,500 (\$15,000 if married filing jointly) in Social Security and/or Tier 1 Railroad Retirement Board benefits. Taxpayers claiming the Elderly or Permanently Disabled credit (1.143), however, are ineligible to claim this credit.

Net pension income includes all retirement income included in federal taxable income. This includes private, state, local, and federal government pensions (all in excess of returns of contributions) and distributions from deferred compensation plans, IRAs, SEPs, and Keoghs. It does not include Social Security benefits, which are not taxed by Oregon. Net pension income qualifying for the credit is limited. For joint filers the limit equals \$15,000 minus the Social Security benefits received minus household income (not considering Social Security benefits) over \$30,000. For taxpayers who do not file a joint return, the limit is \$7,500 minus Social Security benefits minus household income (not considering Social Security benefits) over \$15,000.

PURPOSE: To exempt some retirement income without discriminating among the sources of that income.

WHO BENEFITS: The number of taxpayers claiming the credit declined from about 52,800 in 1991 to 26,700 in 1997. The average credit claimed in 1997 was \$285. When federal pension income became exempt from taxation in 1998, the use of this credit declined substantially. In 1998, roughly 16,900 taxpayers claimed an average credit of \$280. In 2002 the number of taxpayers and average credit declined further to approximately 9,328 and \$185, respectively.

Income Group (Quintiles)	Taxpayers		Mean Credit
	Number	Percent	
Below \$10,400	1,486	15.9%	\$78
\$10,400 - \$21,900	3,995	42.8%	\$166
\$21,900 - \$37,900	3,359	36.0%	\$254
\$37,900 - \$63,700	488	5.2%	\$190
Above \$63,700	0	0.0%	N/A
Total	9,328	100.0%	\$185

EVALUATION: This tax expenditure appears to achieve its purpose. It provides added financial security to those eligible and contributes to their ability to remain self-sufficient. By encouraging financial independence, this provision reduces demand for other state-funded services and saves the state money. This tax expenditure will become increasingly important as the population distribution changes. Current forecasts indicate that current retirement savings are not nearly sufficient to support future retirees in their accustomed lifestyles. Because this tax provision is relatively new, it should be monitored to determine if the established threshold level should be modified in the future. *[Evaluated by the Seniors and People with Disabilities Cluster, Department of Human Services.]*

1.189 OREGON CULTURAL TRUST

Oregon Statutes: 315.675

Sunset Date: 12-31-12

Year Enacted: 2001

	Corporation	Personal	Total
2003-05 Revenue Impact:	\$200,000	\$3,000,000	\$3,200,000
2005-07 Revenue Impact:	\$200,000	\$3,000,000	\$3,200,000

DESCRIPTION: Allows an income tax credit for contributions made to the Trust for Cultural Development Account. The contribution must be matched by a contribution to an Oregon cultural organization. The credit is limited to a maximum of \$500 for a single filer, \$1,000 for joint filers, and \$2,500 for corporations. The credit may not be carried forward to another tax year. The secretary of state oversees the staff and chairs the Cultural Trust Board, which oversees the Trust for Cultural Development Account.

The Oregon Cultural Trust invests in Oregon cultural development by funding county and tribal coalitions, providing grants to cultural organizations, and funding statewide cultural agencies.

PURPOSE: To create incentives for increased cultural development in Oregon and to encourage direct donations to Oregon-based nonprofit entities organized primarily for the purpose of producing, promoting or presenting the arts, heritage and humanities to

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the public, or for identifying, documenting, interpreting and/or preserving cultural resources which would include theatres, performing arts centers and programs, historic buildings, museums and their exhibits, public art, historic trails, historic cemeteries, archeological sites, architecture, Native American and other ethnic traditions, libraries and parks.

WHO BENEFITS: In 2002, over 3,400 Oregon taxpayers qualified for this credit. Oregon cultural organizations and the public also benefit from the Oregon Cultural Trust's efforts to develop, exhibit, and preserve cultural resources.

EVALUATION: This tax incentive appears to achieve its purpose. It successfully funds cultural institutions, projects, and activities, for which public support is commonplace. The tax program accomplishes this with a great many small tax credits, such that it is the interested individual citizen/taxpayer who decides whether to fund these objectives based on that person's own evaluation and interests. More than 4,500 Oregonians contributed to the Cultural Trust in both the 2002 and 2003 tax years. Also, this tax credit balances between individual preferences for funding and the more centralized, larger investment capacity embodied by the Oregon Cultural Trust. *[Evaluated by the Economic and Community Development Department/Oregon Arts Commission.]*

1.190 EXPATRIATE RESIDENTIAL STATUS

Oregon Statute: 316.027

Sunset Date: None

Year Enacted: 1999

	Corporation	Personal	Total
2003–05 Revenue Impact:	Not Applicable	\$1,600,000	\$1,600,000
2005–07 Revenue Impact:	Not Applicable	\$1,600,000	\$1,600,000

DESCRIPTION: 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.

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

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

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

1.191 SMALL CITY BUSINESS DEVELOPMENT

Oregon Statutes: 316.778 and 317.391

Sunset Date: None

Year Enacted: 2001, Modified in 2003 (HB 2298)

	Corporation	Personal	Total
2003-05 Revenue Impact:	Less than \$50,000	Less than \$50,000	Less than \$50,000
2005-07 Revenue Impact:	Less than \$50,000	Less than \$50,000	Less than \$50,000

DESCRIPTION: This provision exempts from Oregon income tax the portion of business income attributable to qualified new facilities. Qualified new facilities must be built in a qualified location.

“Qualified location” means any area within the urban growth boundary of a city of 15,000 or fewer residents or on industrially zoned land. In addition, it must be located in a county with an unemployment rate in the highest quartile and per capita personal income in the lowest third in the state during either of the past two years.

The Economic and Community Development Department must annually certify the facility for the business to receive the exemption. If a firm does not qualify in a

particular year, it is disqualified from the program for that year and all subsequent years. The business may apply for the exemption for up to 10 consecutive years after the facility is put into service.

The following conditions must be met to qualify as a certified facility,

- The facility must be located in a qualified location,
- The proposed facility must be intended to operate for at least 10 years,
- The business firm will hire at least five full-time year round employees at a wage at least 50 percent higher than the per capita income for the county or at the per capita wage for the county and provide health insurance,
- The operation at the facility must constitute a new business that the firm does not operate at another location in the state, and
- The operations of the firm must not compete with an existing business in the city or county where the facility is located.

As of July 2004, seven Oregon counties are eligible for this exemption: Crook, Grant, Harney, Lake, Morrow, Sherman, and Wheeler.

- PURPOSE: To encourage business development in low-income areas with high unemployment rates.
- WHO BENEFITS: Businesses and individuals living in low-income/high joblessness areas.
- EVALUATION: New program. Insufficient data to evaluate. *[Evaluated by the Economic and Community Development Department.]*

1.192 INCOME AVERAGING FOR FARMERS

Oregon Statutes: 314.297
Sunset Date: None
Year Enacted: 2001

	Corporation	Personal	Total
2003-05 Revenue Impact	Not Applicable	\$100,000	\$100,000
2005-07 Revenue Impact	Not Applicable	\$100,000	\$100,000

DESCRIPTION: This permits personal income taxpayers to use the federal farm income averaging method to compute Oregon personal income taxes on farm income. This method allows taxpayers to calculate their current year income tax by averaging their income from farming over a three-year period.

Taxpayers may designate all or a portion of their current year income from farming as elected farm income and pay tax on that income as if it had been earned over the three prior tax years. The elected farm income can include gain on the sale of farm assets, with the exception of gain on the sale of land.

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

WHO BENEFITS: Taxpayers whose main source of income is agricultural production. Approximately 70 individuals take advantage of this tax expenditure.

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

1.193 CAPITAL GAINS FROM FARM PROPERTY

Oregon Statutes: 318.020 and 317.063

Sunset Date: None

Year Enacted: 2001

	Corporation	Personal	Total
2003-05 Revenue Impact	\$100,000	\$100,000	\$200,000
2005-07 Revenue Impact	\$100,000	\$100,000	\$200,000

DESCRIPTION: Reduces Oregon long-term personal and corporate income tax rates to 5 percent on liquidated assets, including land, that were previously used in qualified farming activities. Qualified sales must constitute a substantially complete termination of a farming business.

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

WHO BENEFITS: Property owners who terminate a farming business benefit by realizing more of their capitalized equity. There are 40 taxpayers who used this exemption in 2002.

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

1.194 APPORTIONMENT FOR CERTAIN FOREST PRODUCT COMPANIES

Oregon Statute: 314.650(2)
Sunset Date: None
Year Enacted: 2003 (HB 3183)

	Corporation	Personal	Total
2003–05 Revenue Impact:	\$0	Not Applicable	\$0
2005–07 Revenue Impact:	Not Available	Not Applicable	Not Available

DESCRIPTION: Beginning in July 2006, certain forest products companies will apportion their business income to Oregon using a double-weighted sales factor instead of the apportionment formula in place at that time. This provision applies to any corporate taxpayer in the forest products industry that owns and manages between 300,000 and 400,000 acres in Oregon, and that processes at least 20 percent of the its total wood chip supply for papermaking from sawmill residue generated within Oregon.

Changes in the apportionment formula are generally considered a change in the definition of the normal tax structure, and are therefore not included in this report as a tax expenditure. The exception to the usual formula granted to certain forest product companies is included because it is applicable to a very specific subset of taxpayers.

The table below shows how property, payroll, and sales contribute to the apportionment percentage under the standard apportionment formulas and under the double-weighted formula.

	Property	Payroll	Sales
Double-weighted sales (Certain Forest Product Companies, beginning 2006)	25%	25%	50%
Super-weighted sales (Standard formula beginning 2003)	10%	10%	80%
Super-weighted sales (2006)	5%	5%	90%
Single sales factor (2008)	0%	0%	100%

PURPOSE: To require certain forest products companies to apportion their income using the double-weighted sales formula.

WHO BENEFITS: Forest products firms that will apportion a lower percent of their income to Oregon under the double-weighted formula than they would under the formulas with larger sales factors. Few companies are expected to qualify.

EVALUATION: Not evaluated.

1.195 APPORTIONMENT FOR UTILITIES AND TELECOMMUNICATION COMPANIES

Oregon Statute: 314.280
Sunset Date: None
Year Enacted: 2001

	Corporation	Personal	Total
2003–05 Revenue Impact:	\$800,000	Not Applicable	\$800,000
2005–07 Revenue Impact:	\$1,400,000	Not Applicable	\$1,400,000

DESCRIPTION: Corporate taxpayers primarily engaged in the business of utilities or telecommunications may opt to apportion their business income to Oregon using a double-weighted sales factor instead of the apportionment formula in place at that time.

Changes in the apportionment formula are generally considered a change in the definition of the normal tax structure, and are therefore not included in this report as a tax expenditure. The exception to the usual formula granted to certain forest product companies is included because it is applicable to a very specific subset of taxpayers.

The table below shows how property, payroll, and sales contribute to the apportionment percentage under the standard apportionment formulas and under the optional double-weighted formula.

	Property	Payroll	Sales
Double-weighted sales (Optional for Utilities/Telecom Corps)	25%	25%	50%
Super-weighted sales (Standard formula beginning 2003)	10%	10%	80%
Super-weighted sales (2006)	5%	5%	90%
Single sales factor (2008)	0%	0%	100%

Utilities and telecommunications firms may elect to use this alternative apportionment formula according to rule established by the Department of Revenue. This election remains in place until revoked by the taxpayer according to rule established by the Department of Revenue. The revocation applies to the tax year following the year in which the election is made and to all subsequent tax years. Because these corporate taxpayers use the method that results in the lowest tax liability, tax revenue from these corporations will be lower than it would be if either apportionment formula applied to all corporations.

PURPOSE: "...to allocate to the State of Oregon on a fair and equitable basis a proportion of such income earned from sources both within and without the state." (ORS 314.280)

WHO BENEFITS: Utility and telecommunication firms benefit by being able to choose between double-weighted sales and the current apportionment formula.

EVALUATION: Not evaluated.

CHAPTER 2: PROPERTY TAX

The property tax is the second largest tax in Oregon, providing most of the revenue for nonschool local governments and roughly one quarter of the revenue for school districts. Total property taxes imposed, including taxes for urban renewal agencies, are forecasted to total \$7.4 billion in the 2003-05 biennium and \$8.2 billion in the 2005-07 biennium.

Oregon's property tax system underwent a major transformation in 1997-98 as the voter-approved Measure 50 was implemented. Measure 50 cut property taxes and made three fundamental changes to the structure of the property tax system: first, it replaced most tax levies with permanent tax rates; second, it rolled back the assessed value of every property in the state to 90 percent of its 1995-96 assessed value; and third, it limited the future growth in each property's assessed value to 3 percent per year.

For a more detailed description of Oregon's property tax system, see the Oregon Department of Revenue publication *Oregon Property Tax Statistics, Fiscal Year 2003-04*.

Property Tax Expenditures

The tax base for the property tax is considered to be all property in Oregon. Tax expenditures occur when certain property is removed from the assessment roll and thus excluded from taxation. There are three types of property tax expenditures: full exemption, partial exemption, and special assessment. A property tax expenditure may exempt a property's entire value from taxation, referred to as a full exemption, or may exempt only a portion of value. These partial exemptions exist in several different forms. For example, a program may exempt only improvement value, but the land value continues to be taxed. Other properties may be exempt from their city tax rate but pay all other property taxes. Partial exemptions also result when taxable value is frozen at a point in time, and all additions to value are exempt from taxation.

A final type of property tax expenditure is known as a special assessment. Specially assessed properties are valued using an assessment technique that results in a lower taxable value than would be the case if the usual assessment practice were used.

Revenue Loss and Shift

The revenue impact for property tax expenditures consists of two components: revenue loss and shift. Under Oregon's property tax system before Measure 5 passed in 1990, if property value was removed from the assessment roll because it was exempt, the result was a higher tax rate applied to all remaining property. There was no revenue loss to districts, and taxes were shifted completely to other properties. In contrast, under the tax rate limitations of Measure 5, exempting property from taxation resulted in revenue losses for local districts if tax rates were at the constitutional rate limits, because rates could not rise to compensate for the reduction in taxable value. If tax rates were below the rate limits, rates could rise to compensate for the lower taxable value, and taxes were shifted to other properties.

Under the Measure 50 system, exempting property from taxation can still result in both a loss and a shift, much like under the Measure 5 system. Losses occur because the permanent tax rates established by Measure 50 do not adjust in response to changes in taxable assessed value. Consequently, the granting of property tax exemptions leads to revenue losses for local governments and schools. 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. Because nearly 80 percent of all property taxes are from permanent rates, the revenue losses due to property tax exemptions are much larger than the shifts.

Property tax expenditures also interact with other parts of the public finance system. Because part of the property tax revenue lost to school districts is replaced by state funding to schools, property tax exemptions

Property Tax

have an indirect effect on the state General Fund. This replacement component is not included in the revenue impacts reported here. For all property tax expenditures, the detailed descriptions report both the revenue loss and shift separately, while Tables 1 and 2 report only the loss.

2.001 ACADEMIES, DAY CARE, AND STUDENT HOUSING

Oregon Statute: 307.145

Sunset Date: None

Year Enacted: 1957

2003–04 Assessed Value of Property Exempted: \$538.6 million

	Loss	Shift
2003–05 Revenue Impact:	\$14,700,000	\$2,700,000
2005–07 Revenue Impact:	\$15,900,000	\$2,900,000

- DESCRIPTION:** Property owned by a charitable or religious organization that is used for child care facilities, schools, academies, or student housing accommodations is exempt from property taxation, if not exempt under ORS 307.130 as literary or scientific [Charitable, Literary, and Scientific Organizations (2.075)]. Child care facilities must be certified by the Child Care Division of the Employment Department. To qualify, the property must be used exclusively for, or in immediate connection with, educational purposes. The organization must file an application with the county assessor to claim the exemption.
- PURPOSE:** To maintain similar tax treatment for certain school and child care properties to the treatment provided to other similar organizations (See Charitable, Literary, and Scientific Organizations (2.075) exemption).
- WHO BENEFITS:** Approximately 590 schools and day care properties in 16 counties were exempt in fiscal year 2003–04. Almost half of the accounts and 60 percent of the value of exempted property are in Multnomah county.
- EVALUATION:** This tax expenditure is partially used by organizations that qualify through the Oregon Pre-kindergarten program and achieves its purpose for at least those organizations. It reduces costs of the Oregon Pre-kindergarten program, which helps lay the groundwork for a child’s intellectual, emotional, social, and physical development; it helps children get a good start in life by supporting strong parenting, appropriate education, and adequate nutrition and health care. The Oregon Pre-kindergarten program serves children who are below the federal poverty level. Studies have shown that participation in a quality preschool program increases the chances of a child successfully completing school and holding a job while decreasing the chances of dropping out of school and needing public assistance. Money invested in our youth through this program means less money will be required later for more costly programs. It is a fiscally effective method of achieving its purpose. *[Evaluated by the Department of Education.]*

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Full Exemption

2.002 STUDENT HOUSING FURNISHINGS

Oregon Statute: 307.195
Sunset Date: None
Year Enacted: 1957

2003–04 Assessed Value of Property Exempted: \$2.7 million

	Loss	Shift
2003–05 Revenue Impact:	\$100,000	Less than \$50,000
2005–07 Revenue Impact:	\$100,000	Less than \$50,000

DESCRIPTION: Generally, household furnishings that are leased with a housing unit are considered taxable. However, all personal property, furniture, goods, and furnishings in a student housing cooperative, fraternity, or sorority are exempt from property taxation so long as the housing is not rented out for profit. This tax expenditure is an extension of Fraternities, Sororities, and Cooperatives exemption (2.086).

PURPOSE: To help keep college housing costs to a minimum.

WHO BENEFITS: About 80 accounts are exempt and are located primarily in Benton, Lane, Multnomah, and Yamhill counties.

EVALUATION: This tax expenditure achieves its purpose. As with real property taxes, the tax exemption on personal property for not-for-profit student housing is a valuable provision in minimizing housing costs for students. It is a fiscally effective means of achieving its purpose. *[Evaluated by the Oregon University System.]*

2.003 LEASED STUDENT HOUSING PUBLICLY OWNED

Oregon Statute: 307.110(3)(a)
Sunset Date: None
Year Enacted: 1947

2003–04 Assessed Value of Property Exempted: \$366.5 million

	Loss	Shift
2003–05 Revenue Impact:	\$9,900,000	\$1,800,000
2005–07 Revenue Impact:	\$10,400,000	\$1,900,000

DESCRIPTION: 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, all publicly owned property that is rented or leased to students attending a school or college, such as state-owned dormitory rooms, is exempt from property tax. This provision applies to all student housing, such as dormitories and student family housing, owned by the Oregon University System and leased by publicly owned schools to students. Dormitories owned by private colleges generally fall under the Charitable, Literary, or Scientific Organizations exemption (2.075).

PURPOSE: To help keep college housing costs to a minimum.

WHO BENEFITS: Approximately 10,000 students who lease dorm rooms or apartments from eight state colleges and universities.

EVALUATION: This tax expenditure achieves its purpose and is critical to minimizing the cost of student housing. Housing costs are one of the major expenses to students, particularly at a time when their income generation is limited and generally committed to education expenses. Exempting these properties from taxes is a tremendous contribution in facilitating access to higher education. This is probably the most fiscally effective means of addressing this particular issue. *[Evaluated by the Oregon University System.]*

2.004 HIGHER EDUCATION PARKING SPACE

Oregon Statute: 307.095(3)

Sunset Date: None

Year Enacted: 1989

2003–04 Assessed Value of Property Exempted: \$135.1 million

	Loss	Shift
2003–05 Revenue Impact:	\$4,100,000	\$700,000
2005–07 Revenue Impact:	\$4,200,000	\$700,000

DESCRIPTION: 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 property owned by the Oregon University System and rented to employees, students, or visitors for parking use is exempt from property tax. University spaces rented to the general public for a fee are taxable.

PURPOSE: To help keep college costs to a minimum.

WHO BENEFITS: All eight higher education campuses rent parking spaces to students, employees, and visitors. Some are paved lots and others are parking structures built with bond revenue. Most of the value is in Portland at Oregon Health and Sciences University and Portland State University.

EVALUATION: This tax expenditure achieves its purpose and is an additional element in providing access to higher education. Reducing the cost of parking for students, who generally have a severely limited income, is another means of providing financial assistance to students attending colleges and universities. Applying this exemption to all parking eliminates the administrative costs of separately tracking student and employee parking. *[Evaluated by the Oregon University System.]*

2.005 PRIVATE LIBRARIES FOR PUBLIC USE

Oregon Statute: 307.160

Sunset Date: None

Year Enacted: 1854

2003–04 Assessed Value of Property Exempted: Minimal

	Loss	Shift
2003–05 Revenue Impact:	Less than \$50,000	Less than \$50,000
2005–07 Revenue Impact:	Less than \$50,000	Less than \$50,000

DESCRIPTION: Private property used as a library open to the public is exempt from property taxation. The exemption includes the real property, books, and furnishings dedicated to library use. Privately owned libraries open to the general public use the exemption while publicly owned libraries are exempt under State and Local Property (2.069). The owner must file an application with the county assessor to claim the exemption (ORS 307.162).

PURPOSE: To broaden the application of the Charitable, Literary, and Scientific Organization exemption (2.075) to public or private libraries, treating them as places of learning similar to schools.

WHO BENEFITS: Six libraries use this exemption within Jackson, Lane, and Multnomah counties.

EVALUATION: ORS 307.160, in all but two cases, is no longer necessary to ensure that Oregonians have access to public library services. The statute is a vestige of a time, in the 19th century, when Oregon did not have a public library law that enabled local communities to establish tax-supported libraries. Today there are 128 such libraries serving most of the state and a number of other libraries, mostly organized as nonprofit corporations, that do not claim the exemption afforded under ORS 307.160.

The Oregon State Library Board of Trustees would make the following comments about libraries in the three counties that report tax expenditures under ORS 307.160:

Jackson County

Public library services are available to all Jackson County residents from the Jackson County Library, a department of Jackson County. This county library maintains libraries in 16 communities throughout Jackson County. There is no need for additional private libraries to provide public library services in the county, though the Rogue Valley Genealogical Society does provide family history research services not provided by the Jackson County Library. It may be that the Society could obtain a tax exemption under other provisions of Oregon law if ORS 307.160 was repealed.

Lane County

The Blue River Library, run by volunteers, has for many years served an isolated population in rural northeast Lane County that does not have any other public library services. Lane County does not have a county library. Lane County residents living outside of Eugene, Springfield, Junction City, Cottage Grove, Oakridge, and two library districts headquartered in Veneta and Florence do not have public library services. The Dexter Library is a new volunteer library that was established several years ago. It applied for, and received, an exemption under ORS 307.160 beginning in the 2002 tax year. The Lane Library League is currently working toward a plan that would bring public library services to all of Lane County, perhaps as soon as 2006. Until such a plan can be implemented, there will continue to be a need for the services provided by the Blue River Library and the Dexter Library, which probably depend on their tax exemption under ORS 307.160

Multnomah County

The Multnomah County Library, a department of Multnomah County, serves all of the residents of Multnomah County from its Central Library and 15 branch libraries throughout the county. The State Library has not gathered information about the Polish Library, but we assume that it serves a special clientele, possibly with Polish-language materials that are not readily available at the Multnomah County Library. It may be that the Association could obtain a tax exemption under other provisions of Oregon law if ORS 307.160 was repealed.

The conclusion of this county-by-county analysis is that once the plans of the Lane Library League can be implemented, and if the Polish Library and the Rogue Valley Genealogical Society were able to receive a tax exemption under some other provision of ORS 307, there may not be a need to continue the tax exemption for private libraries provided by ORS 307.160.

The most fiscally effective means of providing quality public library services to all Oregonians is through the establishment of tax-supported public libraries under the provisions of ORS 357. Over 200 communities in Oregon have chosen to establish tax-supported public libraries under ORS 357. As was stated above, ORS 307.160 is a vestige of the situation prior to the development of tax-supported public library enabling legislation, beginning in 1901. Within a few years, as explained in the conclusion above, the State Library Board of Trustees hopes to be able to recommend to the Governor that ORS 307.160 be repealed. *[Evaluated by the Oregon State Library.]*

2.006 LEASED HEALTH CARE PROPERTY

Oregon Statute: 307.110(3)(h)
Sunset Date: None
Year Enacted: 1999

2003–04 Assessed Value of Property Exempted: \$1.3 million

	Loss	Shift
2003–05 Revenue Impact:	Less than \$50,000	Less than \$50,000
2005–07 Revenue Impact:	Less than \$50,000	Less than \$50,000

DESCRIPTION: In general, when public property is held under contract of sale or is leased to a private individual or business, it is considered taxable. This tax expenditure exempts the property of a health district if the property has been leased or rented for purposes of providing facilities for health care practitioners. The health district must be in a frontier rural practice county, as defined by the Office of Rural Health.

PURPOSE: To clarify the tax treatment of property that a health district owns but leases or rents to other health care providers.

WHO BENEFITS: Residents of rural communities who have formed to support a health district.

EVALUATION: This modest benefit costs local governments less than \$50,000 per biennium and affects only seven Oregon counties. It allows very fragile rural hospitals that are located in “frontier” communities to use a portion of their property to provide office space for physicians, without incurring a tax liability on those properties. Provision of adequate and convenient office space is often a critical factor in the recruitment

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Full Exemption

and retention of rural physicians. Passage of this law has allowed Harney District Hospital to complete new office suites for its physicians and will play a significant role in allowing Wallowa Memorial Hospital in Enterprise to build a badly-needed new facility. *[Evaluated by the Office of Rural Health.]*

2.007 SENIOR SERVICES CENTERS

Oregon Statute: 307.147
Sunset Date: None
Year Enacted: 1993

2003–04 Assessed Value of Property Exempted: \$5.0 million

	Loss	Shift
2003–05 Revenue Impact:	\$100,000	Less than \$50,000
2005–07 Revenue Impact:	\$100,000	Less than \$50,000

- DESCRIPTION:** Property that is owned by a nonprofit organization and used for senior services and qualified activities is exempt from property tax. To qualify, the property must be open to people over age 50 and used for senior activities. Eligible activities include food service programs, exercise and health screening, estate planning, crafts workshops, and dances. If the property is used primarily for fund raising or as living quarters, then the exemption is not allowed. The nonprofit organization must file an application with the county assessor to claim the exemption.
- PURPOSE:** To expand upon the Charitable, Literary, and Scientific Organizations (2.075) exemption.
- WHO BENEFITS:** Roughly 20 properties located in Coos, Curry, Douglas, Lincoln, Linn, and Marion counties.
- EVALUATION:** There is insufficient information at this time to determine if this tax expenditure achieves its purpose. While it does exempt properties that do not meet the requirements of Charitable, Literary, and Scientific Organizations (2.075), one concern is the restriction placed on fund raising. This condition often translates into a choice for senior service centers between fund raising and this property tax exemption. It is not likely that many centers will opt for the exemption over the fund raising so questions of applicability and efficiency of this tax expenditure arise. *[Evaluated by the Seniors and People with Disabilities Cluster, Department of Human Services.]*

2.008 COMMERCIAL BUILDINGS UNDER CONSTRUCTION

Oregon Statute: 307.340

Sunset Date: None

Year Enacted: 1959

2003–04 Assessed Value of Property Exempted: \$111.2 million

	Loss	Shift
2003–05 Revenue Impact:	\$2,600,000	\$500,000
2005–07 Revenue Impact:	\$1,500,000	\$300,000

DESCRIPTION: Certain commercial and industrial buildings are exempt from property taxation while they are under construction. A new structure or addition is exempt from property taxation if, on the January 1 assessment date, it:

- Is under construction,
- Is not and has not been used or occupied,
- Is being built for the purpose of earning income,
- Is not to be occupied for at least one year after beginning construction if a nonmanufacturing facility, and
- Is not centrally assessed property.

The exemption cannot be claimed for more than two years. Machinery and equipment at the building site also qualifies if it is to be installed in the structure. The property is listed for assessment but the assessment is canceled if proof that the property meets the above requirements is furnished to the assessor by April 1 of the assessment year.

The declining revenue impact estimates reflect an expected shift toward the use of Construction-in-Process in an Enterprise Zone (2.009) instead of this exemption.

PURPOSE: To encourage investment in business by delaying property taxes until the facility can earn income.

WHO BENEFITS: Roughly 370 properties were exempt in 2003–04. The location and amount can fluctuate substantially from year to year as major construction projects take place. For example, the 2003-04 exempt value was approximately one-fifth of the 2002–03 value. Typically the majority of the exempt value is in the Portland metro area.

EVALUATION: This expenditure achieves its purpose by allowing new investments to delay paying property taxes until they are actually earning income. Economic consequences are also relevant. New construction and investments might be significantly deterred by the additional up-front cost of paying property taxes on partially finished but unproductive property.

This expenditure is also fiscally effective. Alternatives to this expenditure would be to refund such taxes through direct payments or credits on other taxes. The administrative burdens and complexity of these alternatives suggest that the current cancellation is the most fiscally effective means of achieving the purpose.

This program, however, seems to be greatly under-utilized, probably because it is not widely known and administrative technicalities have limited its accessibility.

[Evaluated by the Economic and Community Development Department.]

2.009 CONSTRUCTION-IN-PROCESS IN AN ENTERPRISE ZONE

Oregon Statute: 285C.170

Sunset Date: 6-30-09

Year Enacted: 2003 (HB 2299)

2003–04 Assessed Value of Property Exempted: \$629.3 million

	Loss	Shift
2003–05 Revenue Impact:	\$17,100,000	\$3,200,000
2005–07 Revenue Impact:	\$18,100,000	\$3,400,000

DESCRIPTION: Property undergoing construction, addition, modification, or installation is exempt from property taxation for up to two consecutive years provided that it meets the following requirements:

- The property is located in an enterprise zone;
- The property is owned or leased by a business firm with active authorization;
- The property will be qualified property upon completion, and there is no known reason to conclude that the property or firm will not satisfy the requirements for Enterprise Zone Businesses (2.010);
- The property has not been exempt under Commercial Buildings Under Construction (2.008);
- The property will not be centrally assessed;
- The property will not be operated as a hotel, motel, or destination resort.

This provision applies to tax years beginning on or after July 1, 2003.

PURPOSE: To provide an exemption virtually identical to Commercial Buildings Under Construction (2.008) that more automatically and fully dovetails into the regular enterprise zone exemption—see Enterprise Zone Businesses (2.010)—to avoid technical discrepancies amongst property/project types that are exempt and to simplify communication about total tax benefit for investing in an enterprise zone.

WHO BENEFITS: See Enterprise Zone Businesses (2.010).

EVALUATION: This program has already achieved its purpose in allowing for a more straightforward message about the new property to be exempted in an enterprise zone, before and after that property is placed in service. Most enterprise zone projects will – while under construction – fall under this exemption, which will cover slightly more property than might otherwise have been the case under Commercial Building Under Construction (2.008). *[Evaluated by the Economic and Community Development Department.]*

2.010 ENTERPRISE ZONE BUSINESSES

Oregon Statute: 285C.175

Sunset Date: 6-30-09

Year Enacted: 1985, Modified in 2003 (HB 2299)

2003–04 Assessed Value of Property Exempted: \$719.1 million

	Loss	Shift
2003–05 Revenue Impact:	\$19,900,000	\$3,700,000
2005–07 Revenue Impact:	\$22,500,000	\$4,200,000

DESCRIPTION: Qualified property owned or leased by a qualified business firm in an enterprise zone is exempt from property tax for three years. The exemption period may be increased to four or five years by a city or county zone sponsor if statutory employee compensation requirements and other specified sponsor conditions are met. The qualified property must be used to produce income. The value of the land is not exempt under the Enterprise Zone Business exemption.

Cities and counties apply for enterprise zones. The director of the Economic and Community Development Department approves zone designations in areas with qualifying levels of economic hardship and pursuant to competitive evaluation among applicants, as necessary. Zone designations cannot exceed 47, plus reservation enterprise zones and those based on similar federal designations. There are urban and nonurban zones. An enterprise zone designation terminates after 10 years. A firm may continue to qualify subsequent expansions up to 10 years after the zone terminates if certain criteria are met. The director of the Economic and Community Development Department designates new zones as and when existing zones are terminated.

A business firm is qualified if the firm meets all of the following conditions:

- Provides products or services (assembly, fabrication, storage, etc.) for other businesses/organizations;
- Owns or leases property within a zone that is part of the business operation;
- Increases employment by 10 percent or one employee, whichever is greater; and
- Does not substantially decrease employment outside the zone and does not decrease employment inside the zone in years two and three of the exemption period.

The following property of a qualified firm qualifies for the exemption:

- A new building costing \$50,000 or more;
- An existing building addition or modification costing \$50,000 or more;
- Real property, machinery, and equipment, costing \$50,000 or more;
- An item of personal property costing \$50,000 or greater;
- An item of personal property costing \$1,000 or more, if used in the production process for tangible goods or for electronic commerce in an E-commerce zone; and
- A building leased from a governmental body.

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Full Exemption

In each case, property must be newly acquired or newly transferred into a zone from outside the county.

As of July 2004, 32 enterprise zones (includes one reservation zone) also allow hotels, motels, and destination resorts to qualify. Retail operations located at the same site and owned or operated by the same firms as the hotel, motel, or resort also qualify as long as their primary function is to serve the hotel and motel guests.

Property is disqualified if it is moved outside the zone or the firm curtails operations or closes. When property is disqualified, all prior exempt taxes must be repaid.

PURPOSE:

To “stimulate employment, business and industrial growth” in areas “that need the particular attention of government to help attract private business investment ... by providing tax incentives in those areas” (ORS 285C.055).

WHO BENEFITS:

Owners, employees, customers, and suppliers of eligible business firms, and the communities in which they are located. Enterprise zone businesses include hotel/resorts, call centers, distribution centers, and other types of unconventional industries. Most are manufacturing facilities of one type or another, ranging from electronics to wood products to food processing. There are currently 49 enterprise zones spread throughout the state.

EVALUATION:

This expenditure achieves its purpose. The program has been associated with numerous job-creating investments by mostly in-state companies, as well as some companies attracted from out-of-state, that have benefited Oregon and its economy. The program stimulates the creation of 1,000 to 2,000 jobs each year. These jobs are located in economically depressed areas and have been effective in improving the quality of life of residents in these areas either directly, by providing a job, or indirectly, by paying needed local taxes for local government services. Other benefits to the economy include nonproperty taxes paid, lower unemployment, higher wages, as well as indirect stimulation such as construction work and orders for suppliers. Although a few zones have been unable to attract new investment, most have had notable activity.

Issues of equity arise with respect to those who directly benefit from a tax incentive program. Such inequity is justified by the overall benefits that accrue indirectly from economic development. In addition, these zones are relatively common, their benefits are the same throughout the state, and the typical zone covers all property within an area. These characteristics allow a wide spectrum of businesses to participate.

This expenditure is also fiscally effective. The administration is simple, inexpensive, and minimizes the possibility of abuse. Initially (in the 1980s), the program faced cumbersome statutory provisions, but those have been revised. The short time frame of the exemption, three to five years, keeps the cost of the program modest. One alternative to this property tax exemption would be an income tax credit, but that might be more difficult to administer, and some firms would be unable to benefit due to lack of tax liability.

A final issue is whether enterprise zone investments would have been made even without this tax incentive. Indisputably, some would have. However, a substantial number of zone investments would not have occurred at all, or would have been significantly delayed, smaller, or less likely to survive their first few years, without the exemption. In addition, this program directs the investment to the areas of the state that are most needy.

There were several recent changes to the structure of this tax expenditure. Revisions made by OR Laws 1999, Chapter 460 (HB 1127) increased the number of permitted

nonurban enterprise zones by 10. Oregon Laws 1999 Chapter 104 (SB 245) primarily affected this program by simplifying methods of determining business eligibility and extending that eligibility to appropriate facility types not seen in enterprise zones 10 years ago—for example, call centers and regional administrative facilities.

In 2003, only minor policy changes were enacted [OR Laws 2003, Chapter 662 (HB 2299)] but the statutory scheme was thoroughly redesigned.

Overall, enterprise zones have become less common in the larger urbanized areas of the Willamette Valley. New designations are increasing in smaller, remote communities that are interested in sponsoring such zones. These rural designations, however, will in no way replace the activity of certain terminated zones (e.g., Eugene). This may continue to contribute to a historical decline in enterprise zone jobs and tax abatements, but any exemptions in some of the more rural zones will be greatly welcomed.

With respect to recent/current activities, observations about the regular enterprise zone program—three to five-year exemption—may be broken-down as follows:

Private-sector Capital Investments—In the 2003-04 property tax year, there were 106 different exemptions, corresponding to 95 distinct investment projects. Businesses that were new to the enterprise zone comprised 28 of these projects.

Total investments approximated \$1.6 billion dollars, representing \$1.14 billion dollars in new tax-exempt property value, which equated to \$23.7 million in property tax savings for qualified business firms in 2003-04.

These property tax savings and the underlying investments vary by orders of magnitude. Tax savings range from \$43 to \$6,700,000, with an average of about \$224,000, but a median value of only \$14,000.

About two-thirds of the investments are under \$5 million, while much of the total exempt value is dominated by a dozen projects costing in excess of \$25 million each, including a few giant capital projects worth hundreds of million of dollars.

For about half of the exemption value, 2003 was the first year of the three to five-year exemption period. Much of this, however, was accounted for by a particularly sizeable energy project in Eastern Oregon. Only about 14 percent of the exempt property value was in its final year, and therefore taxable starting in 2004.

The *extended abatement* program (which with local agreement offers two additional years for five consecutive years of exemption), accounted for 26 exemptions out of 106, but 59 percent of the exempt value. As such, the average length for all exemptions was 4.2 years; if the abovementioned energy project is excluded, this number drops to 3.8 years.

In 2004, at least another 24 investments costing about \$100 million will commence enterprise zone exemptions. And in the next few years, proposed investments by authorized business firms will amount to hundreds of millions of dollars more.

Job Creation—New, full time employees slightly exceed 4,000, in terms of persons working for qualified business firms receiving 2003-04 exemptions from property taxes. (Existing – potentially retained – employment with these firms in the enterprise zone was twice as great)

Several hundred more new jobs are associated with the newly completed investments that begin exemptions in 2004-05.

By local resolution(s), a business firm may receive enterprise zone benefits without increasing employment or even with a net loss of jobs; in almost every case, though, the business firm's enterprise zone employment must rise by the greater of at least one job or 10 percent—and be annually maintained at that level during the tax abatement period. The average increase was 43 new employees for investments exempted in 2003-04.

For extended abatements of four or five years, new jobs totaled 1,353 in relation to the 2003-04 exemptions. To receive the extension, these new employees must enjoy average compensation that equals or exceeds 150 percent of the county average annual wage, which across applicable counties would mean a current standard of \$40,710 per year.

Property tax savings per new job averaged about \$24,600 for all exempted projects, and \$62,000 for extended abatements, over the total (average) length of the exemption period. These sorts of statewide figures remain highly problematic—for example, stripping away that one aforementioned energy project reduces these per-job ratios to \$18,000 and \$44,000.

Expansion of Property Tax Base—In addition to the direct job creation, as well as indirect or “multiplier” effects from business investments and hiring in the enterprise zones, there is a longer-run benefit to the public of increased property tax revenues.

Since the program's beginning, in excess of \$2.6 billion in taxable property value has been added to county assessment rolls at the conclusion of an enterprise zone exemption—\$1.8 billion within only the last four years, as especially large capital investments have completed their exemption periods.

Some of this property value might have been produced anyway, but by no means all. Also, while some of it will have been retired and removed from the state by now, other property would have been invested by the business that did not qualify for exemption, and other local property investments and values will have also risen as a result, too.

Current and future exemptions will continue to make hundreds of millions of dollars in assessed value available for long-run taxation.

Communities & Local Economies. As noted already, enterprise zones are found throughout the state. Compared to other states, Oregon's program stands out for its rural basis.

Enterprise zone projects and job creation are also well distributed statewide, with current preponderances in the Mid/south-Willamette Valley and the Southwest of the state; the former is attributable to the Salem Enterprise Zone's ongoing success, while the latter reflects the impact of the *E-Commerce* designation in the Medford Urban Enterprise Zone—see Electronic Commerce Enterprise Zone (Property Tax) (2.013).

Total capital investment tends to be much greater in the more urban environs and population centers of the Willamette Valley and the Northwest of Oregon.

Combining the 2003-04 exemptions and newly completed investments for 2004, 15 of the 49 enterprise zones have no activity. Some of these 15 zones have been active in the past, and/or they have proposed projects under construction. Others are rather newly designated, having existed only since the beginning of the recent economic slowdown.

For enterprise zones in smaller, more isolated localities, however, only a very few, modest projects may ever be seen. Part of this can be remedied with improved local effort, aggressive marketing and better preparation of industrial sites.

Nevertheless, while enterprise zones do help to better distribute economic activity and resource utilization, they cannot by themselves overcome the barriers and disadvantages faced by some rural locations.

Statewide Business Recruitment. Oregon's enterprise zones are one of, if not the state's premier tool for inducing increased business investment and for competing with places outside of Oregon for the location of major new business opportunities.

Oftentimes, the exemption from property taxes may be the only significant incentive that Oregon can make available. By policy, of course, enterprise zones are discrete areas of limited quantity (albeit up to 50 statewide). Yet, even when a company looks to locate or expand in an enterprise zone, Oregon may still not be able to compete against the advantages and offerings available elsewhere.

As noted already, many users of the enterprise zone program are making relatively small capital investments, for which the resulting property tax savings can have only a limited effect on the business decision.

As investment size grows, the present-value benefit of avoiding cash outlays for taxes on new plant and equipment during the first few years of a project's life becomes increasingly significant and is crucial for attracting and retaining capital investment and associated traded-sector jobs in Oregon. *[Evaluated by the Economic and Community Development Department.]*

2.011 LONG-TERM NONURBAN ENTERPRISE ZONE (PROPERTY TAX)

Oregon Statute: 285C.406

Sunset Date: 12-31-06

Year Enacted: 1997, Modified in 2003 (HB 2299 and SB 327)

2003–04 Assessed Value of Property Exempted: \$50.9 million

	Loss	Shift
2003–05 Revenue Impact:	\$1,600,000	\$300,000
2005–07 Revenue Impact:	\$2,200,000	\$500,000

DESCRIPTION:

The value of all property and improvements to certain large investments in a nonurban enterprise zone is exempt from property tax for seven to 15 years.

A business applies for certification with the city and/or county sponsoring the enterprise zone and with the county assessor in which the zone is located. The following conditions must be met for approval:

- The investment must exceed a minimum amount ranging from \$1 million to \$25 million, depending on the location in the state;
- The firm must hire from 10 to 100 full-time employees within five years;
- The annual average worker compensation must be at least 50 percent above the county average;
- The governing body of the county or city has adopted a resolution approving the tax exemption;
- The business has committed to meet the investment and hiring requirements;
- The business has a written agreement with the cities or county that sponsors the zone, which may include additional requirements, including contributions for local services or infrastructure; and
- The facility is located in a county with chronic unemployment or low income, as defined in statute.

If a certified business fails to meet the requirements of the program, all prior exempt taxes must be repaid.

Properties receiving the property tax exemption are also eligible to receive a corporate income tax credit [Long-Term Nonurban Enterprise Zone (Income Tax) (1.151)], if approved by the governor.

There are a few key differences between this expenditure and Enterprise Zone Businesses (2.010). First, there is a significant minimum investment requirement here, ranging from \$1 million to \$25 million. Second, this expenditure exempts qualified businesses from property tax for up to 15 years, whereas under Enterprise Zone Businesses the exemption period is for no more than five consecutive years. Third, this expenditure exempts all property (except for land and other preexisting property value), whereas under Enterprise Zone Businesses some personal property is not exempt. Finally, the location of the business must be in an eligible nonurban

enterprise zone; for Enterprise Zone Businesses, business can be located in any rural or urban enterprise zone.

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

WHO BENEFITS: Few companies have applied for this exemption. This provision is intended to benefit nonurban enterprise zones and the surrounding residents in counties with chronic unemployment or low income. Potential beneficiaries include the participating companies, their suppliers, customers, and employees.

EVALUATION: It is possible, and perhaps likely, that if Oregon did not have this provision, some investment in nonurban areas would have relocated to another state. Therefore, this provision appears to be having the intended effect on investment in Oregon.

Changes made by SB 245 passed in the 1999 legislative session made these long-term rural tax incentives conceivable as something that might be used to induce much-needed private investment in Central and Eastern Oregon enterprise zones. Before these changes, the likelihood of them having an effect was very small in those locations and elsewhere.

Recent interest from prospective applicants has increased notably in 2004, as the state has adopted a more aggressive marketing stance, and the general economic climate improves. *[Evaluated by the Economic and Community Development Department.]*

2.012 CENTRALLY ASSESSED ELECTRICITY GENERATING FACILITY IN AN ENTERPRISE ZONE

Oregon Statute: Note following 285C.175

Sunset Date: 1-1-06

Year Enacted: 2003 (HB 2671)

2003–04 Assessed Value of Property Exempted: \$14.9 million

	Loss	Shift
2003–05 Revenue Impact:	\$200,000	Less than \$50,000
2005–07 Revenue Impact:	\$0	\$0

DESCRIPTION: The property of centrally assessed electricity generating facilities that were not yet operational as of June 1, 2003 and are located within an enterprise zone are exempt from property taxes for the 2003-04 tax year.

For this exemption to be allowed, the company and enterprise zone sponsor must enter into an agreement that meets the following requirements:

- The company and sponsor must enter into the agreement between June 1, 2003, and November 27, 2003;
- The terms of the agreement must include a promise from the company to make a payment in lieu of property taxes equal to the amount of property taxes assessed against the property for the 2002–03 tax year;

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Full Exemption

- The agreement must set forth a distribution schedule under which the in-lieu payment is distributed to taxing districts. This distribution schedule must meet certain conditions specified in the statute.

PURPOSE: To provide for a special, locally sought, mutually beneficial arrangement for a facility in Morrow County, for which the commencement of operations and thus the beginning of the regular enterprise zone exemption was delayed by unfortunate, unforeseen circumstances. The facility is expected to begin a regular enterprise zone exemption with the 2004–05 tax year.

WHO BENEFITS: The facility, its employees, and the local community.

EVALUATION: Insufficient data for evaluation; unknown if timely agreement was, in fact, concluded. *[Evaluated by the Economic and Community Development Department.]*

2.013 ELECTRONIC COMMERCE ENTERPRISE ZONE (PROPERTY TAX)

Oregon Statutes: 285C.185

Sunset Date: None (enterprise zone law sunsets 6-30-09)

Year Enacted: 2001

2003-04 Assessed Value of Property Exempted: \$10 million

	Loss	Shift
2003-05 Revenue Impact:	\$300,000	\$100,000
2005-07 Revenue Impact:	\$300,000	\$100,000

DESCRIPTION: Qualified property owned or leased by a qualified business firm in an electronic commerce enterprise zone is exempt from property tax for three to five years. The electronic commerce zone is a specific type of enterprise zone, and this exemption does not vary significantly from what would be available in an ordinary enterprise zone. See tax expenditure Enterprise Zone Businesses (2.010).

“Electronic commerce” includes: engaging in commercial or retail transactions predominantly over the Internet or a computer network, utilizing the Internet as a platform for transacting business, or facilitating the use of the Internet.

Cities or counties wishing to establish an electronic commerce enterprise zone must apply to the Economic and Community Development Department. An area must first be designated as an existing enterprise zone before it can apply to become an electronic commerce zone. By statute, up to four electronic commerce zones and one electronic commerce city may be designated.

As of 2004 the four enterprise zones and electronic commerce city are as follows:

- Harney County/Burns/Hines;
- Medford Urban;
- N/NE Portland;
- Roberts Creek (Roseburg – Winston – Dillard);

- The city of North Plains (electronic commerce city), as defined by statute.

Taxpayers may also be eligible for an income tax credit for investment in electronic commerce enterprise zones – see tax expenditure Electronic Commerce Enterprise Zone (Income Tax) (1.153).

PURPOSE:

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

WHO BENEFITS:

Businesses operating in electronic commerce zones and cities. The only property effectively exempted that would not normally be exempt under the regular enterprise zone exemption is as follows:

- Property in the electronic commerce city, which is not an enterprise zone;
- Property of that rare electronic commerce business that would not otherwise be eligible (no example has occurred yet);
- Items of personal property used in electronic commerce that cost between \$1,000 and \$50,000; and
- Property in which investment is additionally induced by the tax credit.

EVALUATION:

Respective to the above four points about property that is likely to be exempt in an area designated for “electronic commerce,” but would not necessarily be so otherwise, number 4 (inducement effect of the tax credit) affords the best explanation for the activity seen so far in the electronic commerce enterprise zones.

The special income tax credit—see Electronic Commerce Enterprise Zone (Income Tax) (1.153)—provides not only an extra financial benefit, but it confers both tangible and intangible marketing strengths, by accentuating that the designated area is specially primed as a “hot spot” for *E-Commerce*.

The ability of a business, particularly a small start-up, to substantially gain from a credit against its income tax liability will always be problematic. The potential nevertheless exists, given the five-year carry-forward period. This suggests add-on incentives along with the regular enterprise zone exemption may make for potent combinations.

These marketing advantages have been markedly exploited in the Medford Urban Enterprise Zone, where other local attributes and personal capabilities have conspired to produce remarkable results. The Roberts Creek Enterprise Zone has also had *E-Commerce* activity, including a major, strategic project. Interest is also arising in the other two affected enterprise zones, where a Medford-like take-off could occur.

In the 2003-04 tax year, eight *E-Commerce* projects were receiving enterprise zone exemptions, totaling more than \$10 million in property value and associated with 748 new jobs. A few of these were starting extended abatements, with the attendant high employee-compensation requirement—see Enterprise Zone Businesses (2.010).

In 2004, four more *E-Commerce* investments of nearly \$5 million will begin exemptions; all four are existing businesses adding 35 new employees as of April 2004. Authorized business firms are currently undertaking several more proposed projects in three of the four *E-commerce* enterprise zones. [Evaluated by the *Economic and Community Development Department*.]

2.014 RURAL RENEWABLE ENERGY DEVELOPMENT ZONE

Oregon Statute: 285C.362

Sunset Date: None (enterprise zone law sunsets 6-30-09)

Year Enacted: 2003 (HB 2299)

2003–04 Assessed Value of Property Exempted: \$0

	Loss	Shift
2003–05 Revenue Impact:	\$0	\$0
2005–07 Revenue Impact:	\$200,000	Less than \$50,000

DESCRIPTION: Cities in rural counties, rural counties, and combinations of contiguous rural counties may apply to the director of the Economic and Community Development Department for designation as a rural renewable energy development zone. Each zone may authorize the exemption of up to \$100 million in real market value of qualified property.

To qualify, property must:

- Be used to generate electricity from renewable energy or support or maintain a renewable energy facility;
- Be owned or leased by a business firm that meets the qualifications of an enterprise zone authorized business firm;
- Be newly constructed or installed in the rural renewable energy development zone (RREDZ); and
- Meet other requirements for enterprise zone property.

This property tax exemption applies for one year, but may be extended by the zone sponsor for two additional years. Essentially indistinguishable from the standard enterprise zone exemption—see Enterprise Zone Businesses (2.010)—this special designation is intended to facilitate physically very expansive forms of renewable energy—i.e., “wind farms.” These could be served by a regular enterprise zone, but the zone’s boundary would need to be amended in a highly awkward and gerrymandered way. So, this program was created to offer a more straightforward approach.

PURPOSE: To encourage investment and new jobs in association with energy production in rural areas.

WHO BENEFITS: Firms involved in the production of electricity generated from renewable energy resources in rural communities.

EVALUATION: A new program, and as of now there is insufficient data to evaluate. Union and Sherman counties have inquired about designating a RREDZ, but as of August 2004, no designation has occurred. *[Evaluated by the Economic and Community Development Department.]*

2.015 INVENTORY

Oregon Statute: 307.400
Sunset Date: None
Year Enacted: 1969

2003-04 Assessed Value of Property Exempted: \$18.7 billion

	Loss	Shift
2003-05 Revenue Impact:	\$507,000,000	\$89,600,000
2005-07 Revenue Impact:	\$528,800,000	\$97,800,000

DESCRIPTION: Inventory is exempt from property taxation. In general, inventory is tangible personal property that is or will become part of the stock held for sale in the ordinary course of a taxpayer's business. This includes materials, supplies, containers, goods in process, finished goods, and the for-sale inventory of retail shopping outlets, but not machinery and equipment used to produce these goods.

PURPOSE: To eliminate the tax compliance burden of enumerating inventory and to eliminate behavior specifically aimed at reducing inventories on the date of assessment, especially when that behavior negatively affects the economy.

WHO BENEFITS: Manufacturing, wholesale, and retail trade businesses benefit from this exemption.

EVALUATION: This expenditure achieves its purpose. For most types of businesses (particularly manufacturers, wholesalers, and retailers), inventory represents the largest category of business assets. Therefore a property tax on inventory would tend to impact most businesses to a greater extent than existing ad valorem taxes on personal and real property.

Virtually every state provides some form of property tax exemption for inventory. From this perspective, the Oregon exemption allows the state's businesses to be on equal footing with competitors located in other states. The provision's elimination of the burden of enumerating inventory for tax purposes eliminates a potentially large and unnecessary cost to businesses, especially small businesses, and leaves businesses freer to plan their inventory based on sound business practices. *[Evaluated by the Economic and Community Development Department.]*

2.016 BUSINESS PERSONAL PROPERTY CANCELLATION

Oregon Statute: 308.250(2)
Sunset Date: None
Year Enacted: 1979

2003-04 Assessed Value of Property Exempted: \$194.0 million

	Loss	Shift
2003-05 Revenue Impact:	\$5,300,000	\$1,000,000
2005-07 Revenue Impact:	\$5,600,000	\$1,000,000

DESCRIPTION: If the total assessed value of the business personal property of a taxpayer is less than a specified maximum, the county assessor may cancel the property tax assessment for that year. To receive this cancellation of taxes, the taxpayer must file a return with

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Full Exemption

the county assessor. After receiving an initial cancellation of taxes on this property, the taxpayer may file an annual statement declaring that the value continues to be less than the threshold.

Each year the Department of Revenue determines the maximum assessed value of personal property for which the property tax assessment may be canceled. This maximum value is determined using the U.S. City Average Consumer Price Index and is rounded to the nearest \$500. The threshold is \$13,000 for the tax year beginning July 1, 2004.

PURPOSE: To reduce the filing burden for small businesses and to reduce administrative costs related to the processing and collections of small business personal property accounts.

WHO BENEFITS: Over 47,700 accounts were reported as being valued at less than \$13,000 in 2003–04.

EVALUATION: This cancellation is effective in reducing the filing burden for small business and is consistent with Oregon’s desire to encourage entrepreneurial activity in the state. The average tax reduction is exceedingly small and probably, by itself, does not make much difference to the operation of the small business. However, the reduced filing burden, in combination with the modest tax cancellation, may help encourage small businesses to form and remain in business.

The cancellation probably does not reduce administrative costs for county assessors’ offices, since the assessor must continue to track these accounts and revalue them each year with additions and deletions considered. *[Evaluated by the Economic and Community Development Department.]*

2.017 CARGO CONTAINERS

Oregon Statute: 307.835

Sunset Date: 6-30-10

Year Enacted: 1979, Sunset extended in 2003 (HB 2625)

2003–04 Assessed Value of Property Exempted: \$27.6 million

	Loss	Shift
2003–05 Revenue Impact:	\$700,000	\$100,000
2005–07 Revenue Impact:	\$600,000	\$100,000

DESCRIPTION: Cargo containers primarily used for cargo transportation on oceangoing ships are exempt from property tax. Cargo containers must be designed for more than one mode of transport, be strong enough for repeated use, and be fitted with handling devices. The exemption in effect applies only to containers used in domestic trade. A 1979 U.S. Supreme Court decision exempts containers used in foreign commerce under the Foreign Commerce provisions of the U.S. Constitution.

PURPOSE: For administrative simplicity and to help Oregon ports remain competitive with Washington and California, which exempt all cargo containers.

WHO BENEFITS: Owners of cargo containers that are transported by oceangoing ships.

EVALUATION: Because most of the containers covered by this exemption would also be exempt from Oregon property tax due to their use in foreign commerce, the effectiveness of this exemption cannot reasonably be based on an evaluation of the exemption’s

impact on cargo container traffic. However, this exemption may be effective in eliminating a tax bias against the domestic use of cargo containers. *[Evaluated by the Economic and Community Development Department.]*

2.018 LEASED DOCKS AND AIRPORTS

Oregon Statute: 307.120

Sunset Date: None

Year Enacted: 1947, Modified in 2003 (HB 2454)

2003–04 Assessed Value of Property Exempted: \$295.0 million

	Loss	Shift
2003–05 Revenue Impact:	\$8,100,000	\$1,500,000
2005–07 Revenue Impact:	\$9,000,000	\$1,700,000

DESCRIPTION: 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, public dock property that is used for berthing ships or barges, or handling, loading, and unloading cargo from ships is exempt from property tax. Dock property that is leased by a private entity and used for storage of cargo that is in transshipment is assessed an in-lieu of tax payment as long as there is no change to the cargo. Dock property that is leased or used for any other purpose is not exempt. Each year, the lessee must file an application with the county assessor to claim the exemption.

Port district or city-owned airport property that serves a population of fewer than 300,000 and is leased and used by private individuals remains exempt as long as rent proceeds are used for airport maintenance.

PURPOSE: To exempt public dock property that is leased or rented by private individuals for certain purposes, probably to be more competitive with other states.

WHO BENEFITS: The lessees of dock and airport properties benefit from this provision. Exempt properties are located in 10 counties.

IN LIEU: The in-lieu tax is one-quarter of 1 percent of the assessed value of the property and is distributed to the school districts.

EVALUATION: This exemption is likely to shift a portion of the local property tax burden from owners and users of dock and airport property to owners of other property. However, increased economic activity due to this exemption may more than compensate for this tax shift by raising the level of corporate income taxes paid in Oregon. *[Evaluated by the Economic and Community Development Department.]*

2.019 LEASED PUBLICLY OWNED SHIPYARD PROPERTY

Oregon Statute: 307.111
Sunset Date: 6-30-10
Year Enacted: 1995

2003–04 Assessed Value of Property Exempted: \$97.4 million

	Loss	Shift
2003–05 Revenue Impact:	\$3,000,000	\$500,000
2005–07 Revenue Impact:	\$3,300,000	\$600,000

DESCRIPTION: 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, publicly owned shipyard property leased by a sole contractor for ship repair, lay-up, conversion, or construction is exempt from property tax. The shipyard must be capable of dry-docking oceangoing vessels of 200,000 deadweight tons or more (this provision was intended to limit the exemption to the Port of Portland). Any shipyard property subleased by the sole contractor is excluded from the exemption. The property is also exempt from the in-lieu of property tax payment to school districts equal to one-quarter of 1 percent.

The revenue impact reported here is based on the value of the entire shipyard (less any subleased property) because the entire shipyard is exempt under this statute. Historically the value of the property occupied by the sole contractor has been only about 10 percent of the value of the entire shipyard.

PURPOSE: To promote the Port of Portland shipyard by making it more competitive with other shipyards for contracting ship repair and construction work.

WHO BENEFITS: The beneficiaries are lessees of Port of Portland shipyard property.

EVALUATION: This exemption appears to be effective. Using this exemption as a negotiating tool, the Port of Portland has successfully leased its shipyard property for the past two years despite strong competition from shipyard properties outside Oregon. Port officials believe that this exemption was an important factor in the success of this lease. *[Evaluated by the Economic and Community Development Department.]*

2.020 FAIRGROUND LEASED STORAGE SPACE

Oregon Statute: 307.110(3)(d)(e)
Sunset Date: None
Year Enacted: 1987

2003–04 Assessed Value of Property Exempted: Minimal

	Loss	Shift
2003–05 Revenue Impact:	Less than \$50,000	Less than \$50,000
2005–07 Revenue Impact:	Less than \$50,000	Less than \$50,000

DESCRIPTION: In general, when public property is held under contract of sale or is leased to a private individual or business, it is considered taxable. This tax expenditure provides an exception to that general rule. County or state fairground land or buildings utilized

for horse stalls or for storage of recreational vehicles or farm machinery and equipment are exempt from property tax.

- PURPOSE:** To promote fairs by allowing fair boards to earn more revenue throughout the off-season to support fairs. Boards can charge higher rent because the renter pays no property taxes.
- WHO BENEFITS:** Thirty-four counties in Oregon have fairgrounds and many of them may benefit from this exemption. The State Fair does not have any leased property that is exempt under this statute.
- EVALUATION:** Not evaluated.

2.021 SHIP REPAIR FACILITY MATERIALS

Oregon Statute: 308.256(7)
Sunset Date: None
Year Enacted: 1957

2003–04 Assessed Value of Property Exempted: \$0

	Loss	Shift
2003–05 Revenue Impact:	\$0	\$0
2005–07 Revenue Impact:	\$0	\$0

- DESCRIPTION:** 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.
- The value of watercraft under construction or undergoing major remodeling is also exempt, as described in Watercraft Locally Assessed (2.118).
- PURPOSE:** To help Oregon shipyards compete with shipyards in other states.
- WHO BENEFITS:** This exemption predates the full Inventory (2.015) exemption. Most, if not all, of the material exempted by this statute would probably be considered inventory. Assessors report no exempt value.
- EVALUATION:** Not evaluated.

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Full Exemption

2.022 AIRCRAFT BEING REPAIRED

Oregon Statute: 308.559
Sunset Date: None
Year Enacted: 1995

2003–04 Assessed Value of Property Exempted: \$0

	Loss	Shift
2003–05 Revenue Impact:	\$0	\$0
2005–07 Revenue Impact:	\$0	\$0

DESCRIPTION: 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.

The Oregon value of an airline company is normally determined by calculating the value of the entire company. The Oregon portion of that value is then determined based on an allocation formula that takes into account the number of Oregon departures, number of hours in Oregon, and the amount of Oregon cargo. This exemption reduces the number of hours an aircraft is in Oregon in the allocation formula, and thus reduces the Oregon property value for an airline doing aircraft repair in Oregon.

PURPOSE: To promote the aircraft repair industry in Oregon.

WHO BENEFITS: Airline companies that repair aircraft in Oregon are potential beneficiaries, although no such company is using this provision at the moment.

EVALUATION: 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. In this respect, the exemption has not yet succeeded in achieving its desired result. The exemption has been used by Horizon Air and may in the future more fully achieve its original desired result. *[Evaluated by the Economic and Community Development Department.]*

2.023 RAILROAD CARS BEING REPAIRED

Oregon Statute: 308.665
Sunset Date: None
Year Enacted: 1973

2003–04 Assessed Value of Property Exempted: \$0

	Loss	Shift
2003–05 Revenue Impact:	\$0	\$0
2005–07 Revenue Impact:	\$0	\$0

DESCRIPTION: 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.

- PURPOSE:** To promote the railroad car repair industry in Oregon.
- WHO BENEFITS:** Private railroad car companies are the potential beneficiaries, although no such company is using this provision at the moment.
- EVALUATION:** This expenditure may reduce the disadvantage to using Oregon sites for rail car repair compared to some other potential rail car repair sites in the United States where the rail cars being repaired may not be subject to property tax. This makes Oregon marginally more competitive with such areas. The expenditure would probably slightly increase the number of rail cars repaired in Oregon. *[Evaluated by the Economic and Community Development Department.]*

2.024 FEDERAL LAND UNDER RECREATION FACILITY

Oregon Statute: 307.182
Sunset Date: 6-30-12
Year Enacted: 1975

2003–04 Assessed Value of Property Exempted: \$60.0 million

	Loss	Shift
2003–05 Revenue Impact:	\$1,200,000	\$300,000
2005–07 Revenue Impact:	\$1,300,000	\$300,000

DESCRIPTION: In general, when public property is held under contract of sale or is leased to a private individual or business, it is considered taxable. This provision ensures that federal government land remains exempt from property tax when occupied and used by a commercial recreation facilities operator under a permit. Examples are ski resorts and lake marinas on federal land. Only the land is exempt. All real and personal property improvements are taxable to the taxpayer having possession of the property.

This exemption applies only to recreation facility land held under permit. Some recreation facility land is held under a lease and is taxable.

- PURPOSE:** To provide tax relief to compensate for the cost of permit fees. Twenty-five percent of the fees paid to the Forest Service is shared with counties.
- WHO BENEFITS:** The operators of recreational facilities that operate under permit on federal land benefit from this exemption.
- EVALUATION:** This expenditure achieves its purpose. Recreation areas that benefit from this legislation are on Forest Service land via a Special Use Permit. This permit, while long-term, is very restrictive and not at all like a typical private landlord-tenant arrangement. These restrictions make it very difficult to establish a value on the property. In addition, removal of the property tax exemption for recreation facilities on federal lands would subject these areas to some level of double taxation unless other adjustments were also made. *[Evaluated by the Economic and Community Development Department.]*

2.025 FEDERAL LAND UNDER SUMMER HOMES

Oregon Statutes: 307.183 and 307.184

Sunset Date: 6-30-2012

Year Enacted: 1975

2003–04 Assessed Value of Property Exempted: \$42.5 million

	Loss	Shift
2003–05 Revenue Impact:	\$900,000	\$200,000
2005–07 Revenue Impact:	\$1,000,000	\$200,000

DESCRIPTION: In general, when public property is held under contract of sale or is leased to a private individual or business, it is consider taxable. However, the *land* under summer homes that is owned by the 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.

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

WHO BENEFITS: In 2004 the Forest Service reported 1,687 homesite permits in Oregon, totaling 616 acres in 15 counties. Fees paid to the Forest Service for these permits totaled about \$1,502,000. One quarter of this amount, or about \$375,000, was shared with the counties.

EVALUATION: Not evaluated.

2.026 DEFENSE CONTRACTOR WITH FEDERAL PROPERTY

Oregon Statute: 307.065

Sunset Date: None

Year Enacted: 1965

2003–04 Assessed Value of Property Exempted: \$0

	Loss	Shift
2003–05 Revenue Impact:	\$0	\$0
2005–07 Revenue Impact:	\$0	\$0

DESCRIPTION: Property that is owned by the federal government and is in the possession of a private contractor upon an agreement with an Armed Forces agency is exempt from property tax. The property must be in use under a federal defense or space contract to assemble or manufacture a product.

PURPOSE: To clarify that this property is not taxable because of its federal ownership status and to help promote the defense industry in Oregon.

WHO BENEFITS: Defense and space contractors are potential beneficiaries, although no such company is using this provision at the moment

EVALUATION: This expenditure appears to be consistent with the treatment of other federal property, since this property is titled to the federal government even though in the possession

of a contractor. The exemption should provide some incentive for Oregon companies to pursue federal defense contracts. Given Oregon's minimal stature in receiving federal contracts, Oregon's companies could greatly increase their sales from such contracts without the concentration and dependency on federal contracts that has led to booms and busts in other parts of the country. *[Evaluated by the Economic and Community Development Department.]*

2.027 INDUSTRY APPRENTICESHIP/TRAINING TRUST

Oregon Statute: 307.580

Sunset Date: None

Year Enacted: 1983

2003–04 Assessed Value of Property Exempted: \$14.0 million

	Loss	Shift
2003–05 Revenue Impact:	\$400,000	\$100,000
2005–07 Revenue Impact:	\$400,000	\$100,000

DESCRIPTION: All real and personal property owned, being purchased, or leased by an industry apprenticeship or training trust is exempt from property taxation if the industry apprenticeship or training trust meets all of the following conditions:

- The trust is organized only for assisting or implementing training programs according to ORS Chapter 660, Apprentices and Trainees;
- The property is used exclusively and actively in training;
- The trust is exempt from federal income taxes; and
- The trust does not discriminate.

The organization must file an application with the county assessor to claim the exemption.

PURPOSE: To provide equity between training trusts and other private schools. (Trusts cannot qualify for an exemption under other statutes because they are not incorporated and are prevented from doing so by federal regulation.)

WHO BENEFITS: Training trusts exist in five counties.

EVALUATION: Not evaluated.

2.028 HOUSING AUTHORITY RENTAL UNITS

Oregon Statute: 307.092

Sunset Date: None

Year Enacted: 1937

2003–04 Assessed Value of Property Exempted: \$512.2 million

	Loss	Shift
2003–05 Revenue Impact:	\$15,900,000	\$2,700,000
2005–07 Revenue Impact:	\$17,700,000	\$3,000,000

- DESCRIPTION:** Property that is owned or leased by housing authorities is exempt from all state and local taxes and special assessments. Property held in a partnership with private partners is also exempt so long as the housing authority is the general partner or manager of the property, and the property is used for housing low-income persons. Housing authorities are public corporations at the city or county level created under ORS 456.055. They provide affordable housing services to low-income individuals and families.
- The housing authority must file an application with the county assessor to claim the exemption on property that it leases from an exempt owner. However, no application is required to claim the exemption if the housing authority owns the property or leases the property from a taxable owner.
- PURPOSE:** The exemption recognizes housing authority property as “public property used for essential public and governmental purposes” (ORS 307.092) and gives it the same exempt status as other public property. The exemption also facilitates authorities providing lower rents to low income renters.
- WHO BENEFITS:** In 2003–04, more than 1,100 units were rented to low- or very low-income people, including the elderly, disabled, and single parents and their children. HUD definition of very low income is those who earn 50 percent or less of median income. Low income is defined as those who earn 80 percent or less of median income.
- IN LIEU:** A housing authority can agree to make payments in lieu of tax payments for improvements, services, and facilities furnished by local governments, such as streets, lighting, water and sewer, but the payments cannot exceed estimated costs for these services.
- EVALUATION:** This expenditure achieves its purpose. Based on research, this statute was required in the beginning (in, or along with, the federal Housing Act of 1937. Oregon's first housing authority was chartered in 1938) by the federal government of the states that wanted to contract with the federal government for housing development dollars. Since then, the exemption has proven to be a critical component of housing authorities' ability to provide housing affordable to very low-income tenants. The exemption has been extensively used and heavily relied upon to allow housing authorities to provide more units of housing and units at more affordable rates to very low income tenants.
- The exemption achieves affordable rents in the following two ways. First, approximately 50 percent of housing authority tenants pay a rent of 30 percent of their income. That is the maximum they can pay under federal law in public housing—that is, federally subsidized, housing authority owned housing. The balance of their rent is paid by the federal government through the housing authority. Tenant rent cannot be increased if the cost of their housing unit is increased. The benefit of

the property tax exemption in these units is that the housing authorities can make more units available to a larger number of tenants than if there were no exemption.

Second, approximately 50 percent of the tenants live in housing owned by housing authorities but not subsidized by the old federal public housing subsidies. Instead, this housing has been financed through a mix of commercial loans and “off market” financing sources including federal low income housing tax credits, the Oregon Housing Fund, and the property tax exemption. In these housing developments, rent is not restricted to 30 percent of income. Even though the tenants are low income, their rents are directly related to construction and operating costs. The property tax exemption is a substantial part of making these units affordable to low-income households.

The people who benefit from this expenditure have average household incomes of approximately \$8,000 annually, and many have little or no income at all. Clearly, fewer of them would have affordable housing, and some no housing at all, without this exemption. This exemption successfully achieves its purpose. The process for providing the exemption is very straightforward and easily administered; upon demonstration of a housing authority’s qualifying relationship to a given piece of property, the exemption is granted. It is unlikely that local jurisdictions would prefer to collect taxes and use them in a direct spending program to achieve the low-income housing development that this exemption make possible. The exemption is also the most fiscally effective means of achieving its purpose. *[Evaluated by Oregon Housing and Community Services.]*

2.029 NONPROFIT ELDERLY HOUSING STATE FUNDED

Oregon Statute: 307.242

Sunset Date: None

Year Enacted: 1977

2003–04 Assessed Value of Property Exempted: \$70.3 million

	Total Paid by State
2003–05 Revenue Impact:	\$2,200,000
2005–07 Revenue Impact:	\$2,400,000

DESCRIPTION: Homes for the elderly built or acquired after January 1, 1977, by private nonprofit corporations (defined in ORS 307.375) that receive subsidies under certain federal and state housing programs are exempt from property taxation. Only the land and improvement value, not personal property, may be exempted. The corporation may not charge more than one month’s rent as a “move-in” fee or deposit, and rents must reflect the property tax savings. The occupants do not qualify for the veteran’s exemption or homestead tax relief. If the corporation receives a state subsidy, any property added after January 1, 1990, is not eligible for exemption.

Any taxes exempted under this provision are billed to the state Department of Revenue. Funds to pay these taxes are appropriated as part of the Elderly Rental Assistance program. If the Elderly Rental Assistance program appropriation is not sufficient to pay the liabilities in full, distributions to both the Elderly Rental Assistance program participants and the counties for nonprofit elderly housing property taxes exempted are prorated to the appropriation amount. In the event that this proration is necessary, it will result in a tax loss to the taxing districts. Because

Property Tax
Full Exemption

the state would normally anticipate paying the full amount of tax, there is no loss or shift to other taxpayers. The revenue impact reflects the amount of liability the exemption places against the Elderly Rental Assistance appropriation.

A claim must be filed with the county assessor. The assessor assesses the property as if no exemption existed. However, the taxes are paid by the state.

- PURPOSE:** To “assist private nonprofit corporations to provide permanent housing, recreational and social facilities, and care to elderly persons” (ORS 307.241).
- WHO BENEFITS:** The state paid 2003–04 property taxes of about \$1.2 million for 43 homes. Homes are in 17 counties with 11 in Multnomah County.
- EVALUATION:** Generally, this expenditure appears to achieve its purpose. The effect of the state-funded tax relief is to reduce housing project operating expenses, thereby reducing the rents to project occupants. Tenants otherwise would have to support the property taxes through the monthly rent they pay. The average monthly rent reduction is about \$40 per unit. This may have been significant figure when the program was conceived, but represents less than 10 percent of current comparable apartment (only) rent or approximately 2 percent of assisted living monthly costs.
- Because eligible project sponsorship or ownership is limited to nonprofit corporations, it is assumed the full benefit of the tax relief is passed on to the project tenants. This assumption cannot be confirmed as no mechanism is in place to monitor project operating budgets to ensure this result.
- It is also assumed that the elderly households that reside in eligible housing projects have limited incomes that warrant the benefit of this rent reduction. There is no review that confirms this assumption.
- The current annual application process is very time-consuming and involves a minimum of six separate steps each year. The administrative steps for county government include: 1) mail applications to each qualifying nonprofit, 2) verify information received from each applicant, 3) provide a copy of the information to the Department of Revenue, 4) notify applicant of approval/denial, 5) send tax statements and certification letter to the Department of Revenue for payment, and 6) notify applicant that the taxes have been paid. An alternative to the annual application could be a statement of compliance from the qualifying nonprofit, if verification is required.
- An alternate means to provide an equal benefit to the project residents would be a rent subsidy program. Administration of a rent subsidy program would be more administratively burdensome than the existing subsidy, however.
- A direct property tax exemption may be a more efficient means to provide a like benefit to the project tenants. However, local taxing districts (such as cities and schools) would not receive compensating income if a direct property tax exemption were implemented in lieu of the tax relief program. This revenue loss would be relatively small when considered in the context of the overall scope of exemptions and special assessments. *[Evaluated by Oregon Housing and Community Services.]*

2.030 FARM LABOR HOUSING AND DAY CARE CENTERS

Oregon Statute: 307.485

Sunset Date: None

Year Enacted: 1973

2003–04 Assessed Value of Property Exempted: \$20.6 million

	Loss	Shift
2003–05 Revenue Impact:	\$400,000	\$100,000
2005–07 Revenue Impact:	\$500,000	\$100,000

DESCRIPTION: Eligible camps for farm laborers and eligible day care centers operated in conjunction with those camps are exempt from property tax. An eligible camp is a place where housing, sleeping places, or camping grounds are owned and operated by a nonprofit corporation in compliance with applicable health codes. An eligible child care facility is certified by the Child Care Division of the Employment Department, and operated by a nonprofit corporation in conjunction with an eligible farm labor camp. Housing can be provided to agricultural workers not currently employed if employed when work is available. Housing can also be for workers' families. An eligible day care center must be owned or operated by a nonprofit corporation and operated in conjunction with an eligible farm labor camp.

In lieu of property taxes, owners of exempt farm labor housing must make tax payments to the county treasurer equal to 10 percent of yearly net rentals. A claim for exemption must be made each year with the county assessor. The assessor, in turn, forwards applications to the Department of Revenue, the State Fire Marshal, Children's Services Division, and the local health officer for approval. A health inspection of the housing must be made each year.

PURPOSE: To encourage provision of low-cost housing and day care for farm workers by nonprofit corporations.

WHO BENEFITS: Nonprofit owners and operators of farm labor housing and associated day care centers. In 2003–04 counties reported 43 exempt farm labor housing properties in six counties, most are located in either Umatilla or Washington county.

IN LIEU: Nonprofit corporations operating farm labor housing do not usually have a net income after depreciation is taken into account, and so generally make no in-lieu payment. When payments are made, they are usually small. Any funds collected are distributed to taxing districts where the exempt property is located.

EVALUATION: This expenditure achieves its purpose. Without the tax exemption, the associated day care facilities may not be built or rehabilitated at all. Assuming that the difference between (a) the amount of property taxes that would be owed without this statute and (b) the amount of the payment in lieu of taxes that in fact is paid under the statute is passed along to the residents, then the benefit of the tax expenditure is easily calculated by the amount of the reduced rent or day care cost.

While an administrative improvement would be to eliminate the requirement that an application be filed every year, it is probably the trigger mechanism needed for the annual health and safety inspections. *[Evaluated by Oregon Housing and Community Services.]*

Property Tax
Full Exemption

2.031 FARM MACHINERY AND EQUIPMENT (PROPERTY)

Oregon Statute: 307.394
Sunset Date: None
Year Enacted: 1973

2003–04 Assessed Value of Property Exempted: \$2.5 billion

	Loss	Shift
2003–05 Revenue Impact:	\$51,500,000	\$11,300,000
2005–07 Revenue Impact:	\$55,100,000	\$12,100,000

DESCRIPTION: Personal property machinery and equipment used in farm operations involving crops, livestock, poultry, fur-bearing animals, bees, dairying, animal husbandry, or other agricultural or horticultural products are exempt from local property taxation.

The revenue impacts of the exemptions for Center Pivot Irrigation Equipment (2.040) and Other Farm / Aquaculture / Egg Equipment (2.041) are included here.

PURPOSE: To improve the financial viability of farming and ease tax administration.

WHO BENEFITS: All farmers who own machinery and equipment receive benefits from this provision.

EVALUATION: This expenditure appears to be achieving its purpose. Agricultural machinery is extremely expensive, and farmers spend more on machinery per worker than any other industry. Profit margins are very tight and prices fluctuate dramatically from year to year. Placing a fixed tax on equipment that may or may not bring a return to the owner in any given year creates a financial burden on the producers.

Arguably, many small producers could not afford a tax on personal property, and the costs of filing personal property tax returns would be an additional burden. The current tax exemption appears a more appropriate treatment of this particular situation than direct spending. Producers would likely argue that it is working as is and should not be altered. *[Evaluated by the Department of Agriculture.]*

2.032 MOBILE FIELD INCINERATORS

Oregon Statute: 307.390
Sunset Date: None
Year Enacted: 1971

2003–04 Assessed Value of Property Exempted: Minimal

	Loss	Shift
2003–05 Revenue Impact:	Less than \$50,000	Less than \$50,000
2005–07 Revenue Impact:	Less than \$50,000	Less than \$50,000

DESCRIPTION: Mobile field incinerators owned by farmers and used exclusively for sanitizing grass seed fields by means other than open-field burning are exempt from property tax. Incinerators must be purchased within five years after they are certified by the Department of Environmental Quality. If these incinerators are used at the field site in preparing the soil for farm purposes, these would be exempted under Farm Machinery and Equipment (Property) (2.031).

The Alternatives to Field Burning tax expenditure (1.166) provides an Oregon pollution control income tax credit for up to 50 percent of the acquisition costs of

equipment and facilities used for alternatives to field burning of grass seed and cereal grain straw. New projects may qualify for only up to a 35 percent credit.

- PURPOSE:** To encourage pollution control by the use of mobile field incinerators in place of open field burning of grass straw.
- WHO BENEFITS:** Farmers with mobile field incinerators would receive the benefit. However, these incinerators are not commonly used.
- EVALUATION:** This expenditure is not achieving the purpose for which it was intended. The current technology of mobile field incinerators appears too expensive to be a viable alternative to other approaches used to sanitize grass seed fields. Barring a major technological advance that reduces its cost, the use of mobile field incinerators is likely to cease completely. *[Evaluated by the Department of Agriculture.]*

2.033 CROPS, PLANTS, AND FRUIT TREES

Oregon Statute: 307.320
Sunset Date: None
Year Enacted: 1957

2003-04 Assessed Value of Property Exempted: \$848.4 million

	Loss	Shift
2003-05 Revenue Impact:	\$17,500,000	\$3,900,000
2005-07 Revenue Impact:	\$17,900,000	\$3,900,000

- DESCRIPTION:** Deciduous trees, shrubs, plants, crops, cultured Christmas trees, and cultivated hardwood trees growing on agricultural land are exempt from local property taxation. When crops and plants are harvested and unsold as of the assessment date, they are treated as inventory subject to the exemption described in Inventory (2.015). Agricultural products held for use in farming operations are exempt as described in Agricultural Products Held by the Farmer (2.034).
- PURPOSE:** To improve the financial viability of agriculture by reducing the property tax burden and to ease administration by eliminating the filing of personal property tax returns for farmers.
- WHO BENEFITS:** Owners of deciduous trees, shrubs, plants, crops, cultured Christmas trees, and cultivated hardwood trees growing on agricultural land. Oregon has about 3 million acres of harvested cropland (excluding Christmas trees). About two thirds of that acreage is used for production of grains, hay, or forage.
- EVALUATION:** This exemption is accomplishing its purpose. Commodities of this nature represent standing crop inventory and may be, at any given time, unmarketable by industry standards. Given the vagaries of weather, etc., they may never reach marketability. It is our view that this expenditure is the most fiscally effective means of achieving its purpose. *[Evaluated by the Department of Agriculture.]*

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Full Exemption

2.034 AGRICULTURAL PRODUCTS HELD BY THE FARMER

Oregon Statute: 307.325
Sunset Date: None
Year Enacted: 1965

2003–04 Assessed Value of Property Exempted: \$4.1 million

	Loss	Shift
2003–05 Revenue Impact:	\$100,000	Less than \$50,000
2005–07 Revenue Impact:	\$100,000	Less than \$50,000

DESCRIPTION: Agricultural products in the possession of the farmer who produced them or acquired them for use in the farm operation are exempt from property tax. These products are grain; seed; hay; fruit; vegetables; nuts; hops; wool; fish; livestock; fur-bearing animals; bees; poultry; butter; cheese; evaporated, condensed or concentrated milk; mint; and bivalve mollusks.

Most products held by farmers are considered inventories because they are being held for ultimate sale and are exempt under the inventory exemption of the property tax. This provision exempts those products not covered by the inventory exemption because they are held for use on the farm rather than for ultimate sale. This is a relatively small number.

PURPOSE: To eliminate the burden of enumerating livestock and crop inventories and to improve the financial viability of farming.

WHO BENEFITS: Most of the exempt value for this expenditure is for cattle and calves. About 17,000 farms in Oregon raise some cattle. It also benefits farmers who primarily hold products produced for their own use. This includes those who raise hay and other feed for their own animals.

EVALUATION: This exemption is accomplishing its purpose. It reduces the tax burden on farming, and it makes the treatment of farm products consistent with inventories in other industries. Given the vagaries of the weather, some of these products may never reach maturity and harvest. In addition, it would be extremely difficult to place a value on standing crops because, at any given time, different crops will be at different stages of maturity. *[Evaluated by the Department of Agriculture.]*

2.035 NURSERY STOCK

Oregon Statute: 307.315
Sunset Date: None
Year Enacted: 1971

2003–04 Assessed Value of Property Exempted: \$218.6 million

	Loss	Shift
2003–05 Revenue Impact:	\$4,700,000	\$1,000,000
2005–07 Revenue Impact:	\$5,500,000	\$1,200,000

DESCRIPTION: Nursery stock in the hands of growers or wholesalers is exempt from local property taxation. The stock can be bare root, balled, in containers, or in or upon the ground.

Nursery stock includes ornamental plants, trees, and shrubs grown or kept for propagation or sale as defined in ORS 571.005(5).

- PURPOSE:** To improve the financial viability of the nursery industry by reducing the property tax burden.
- WHO BENEFITS:** Farms in Oregon growing some nursery crops number about 2,000. Most of these farms are in Western Oregon and are concentrated in the Willamette Valley.
- EVALUATION:** This tax expenditure is accomplishing its purpose. The exemption of nursery stock is consistent with the exemption provided for other farm commodities [Crops, Plants, and Fruit Trees (2.033)] and with the exemption of inventories in nonagricultural industries [Inventory (2.015)]. Any change, such as the elimination of this exemption, resulting in an increase in market price would reduce the competitiveness of Oregon-grown nursery stock in the national and international marketplaces. The current tax expenditure is the most effective means of achieving this purpose. *[Evaluated by the Department of Agriculture.]*

2.036 LEASED PUBLIC FARMING AND GRAZING LAND

Oregon Statute: 307.110(3)(b)
Sunset Date: None
Year Enacted: 1971

2003-04 Assessed Value of Property Exempted: Included in State and Local Property (2.069)

	Loss	Shift
2003–05 Revenue Impact:	Included in 2.069	Included in 2.069
2005–07 Revenue Impact:	Included in 2.069	Included in 2.069

- DESCRIPTION:** 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 or local government land leased or rented for agricultural or grazing use by persons who do not pay rent in cash or as a share of the crop is exempt from local property taxation. In some cases, the lessee performs a service in return for farming or grazing rights. For example, a farmer might use public land for agricultural purposes and in return agree to keep other state or locally owned land mowed (Chapter 431, 1971).
- PURPOSE:** To provide property tax relief to farmers and livestock owners, and to avoid the difficulty of valuing the property with its restrictions.
- WHO BENEFITS:** Farmers and ranchers who lease state and local land. The expenditure also benefits state and local governments, who in exchange receive land maintenance, which may be more valuable than the potential rent and other management issues associated with small, isolated parcels.
- EVALUATION:** This expenditure effectively achieves its purpose. It produces benefits to local communities through the increased economic activities associated with the livestock industry. The increased economic activities provide additional tax resources for Eastern Oregon counties, and the grazing leases provide revenue to the School Trust Fund.
- Without this expenditure, it is likely that costs would exceed benefits due to the substantial costs needed to administer the lands in comparison to the returns to the

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Full Exemption

state. Additionally, this exemption may avoid an issue of “double taxation” since part of the grazing lease income to the state is shared with local governments. *[Evaluated by the Department of Agriculture.]*

2.037 LEASED FEDERAL GRAZING LAND

Oregon Statute: 307.060
Sunset Date: None
Year Enacted: 1961

2003–04 Assessed Value of Property Exempted: Included in Federal Property (2.083).

	Loss	Shift
2003–05 Revenue Impact:	Included in 2.083	Included in 2.083
2005–07 Revenue Impact:	Included in 2.083	Included in 2.083

DESCRIPTION: 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, federal land leased primarily for agricultural purposes from a federal wildlife conservation agency or used primarily for livestock grazing is exempt from local property taxation. The Bureau of Land Management and the Forest Service establish grazing fees based on animal unit months (AUM) rather than acres. An animal unit month is defined as the amount of forage needed to sustain one cow for one month. Part of the fee income paid to the federal government is shared with local governments.

PURPOSE: To provide property tax relief to livestock owners and to avoid the difficulty of valuing the property with its restrictions.

WHO BENEFITS: Farmers and ranchers who lease federal land for grazing. For 2001, the Bureau of Land Management reported 1,105 permits or leases for 757,675 AUMs in Oregon.

EVALUATION: This expenditure appears to be achieving its purpose. It provides direct benefits to livestock owners; and without the expenditure the administrative costs of taxing the property and of managing it would likely exceed the benefits. *[Evaluated by the Department of Agriculture.]*

2.038 LEASED STATE LAND BOARD LAND

Oregon Statute: 307.168
Sunset Date: None
Year Enacted: 1982

2003–04 Assessed Value of Property Exempted: \$17.9 million

	Loss	Shift
2003–05 Revenue Impact:	\$400,000	\$100,000
2005–07 Revenue Impact:	\$400,000	\$100,000

DESCRIPTION: 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, land leased from the State

Land Board or Division of State Lands is exempt from local property taxation. Eligible land includes submerged, submersible, and grazing land but excludes mines, quarries or minerals, and buildings or improvements.

The State Land Board receives about \$3 million in gross lease revenue per year from grazing land and waterways for the Common School Fund.

PURPOSE: To provide property tax relief to livestock owners and to avoid the difficulty of valuing the property with its restrictions.

WHO BENEFITS: Lessees benefit through reduced taxes.

EVALUATION: This exemption is effective in achieving its purpose. As trustee of the Common School Fund, the state manages lands owned by the Fund in order to maximize revenue, consistent with long-term resource stewardship. Exempting leased Common School lands from taxation can help increase lease income, and therefore furthers the primary trust obligation. *[Evaluated by the Department of State Lands.]*

2.039 OYSTER GROWING ON STATE LAND

Oregon Statute: 622.290

Sunset Date: None

Year Enacted: 1969

2003–04 Assessed Value of Property Exempted: \$1.2 million

	Loss	Shift
2003–05 Revenue Impact:	Less than \$50,000	Less than \$50,000
2005–07 Revenue Impact:	Less than \$50,000	Less than \$50,000

DESCRIPTION: 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 cents per gallon if the oysters are sold shucked or \$0.10 cents 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.

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

WHO BENEFITS: Oyster growers who raise oysters on state-owned land. State land is leased for oyster growing in Coos, Douglas, Lincoln, and Tillamook counties. Commercial oyster-lease holders range from individuals with only a few acres under lease to large companies with several hundred to a thousand acres.

IN LIEU: The Department of Agriculture collected \$11,405 in fees in 2003. The in-lieu fees were for leasing 3,655 acres and producing 34,071 total gallons of oysters. The fees support the department’s oversight of the oyster leasing program.

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Full Exemption

EVALUATION: The tax expenditure seems to be effective in achieving its purpose. The expenditure is particularly helpful to growers who are just getting started in the business and to those with small lease holdings. It takes several grow-out years before oysters can be harvested. The tax expenditure helps make it possible for growers to make it through the unproductive years. *[Evaluated by the Department of Agriculture.]*

2.040 CENTER PIVOT IRRIGATION EQUIPMENT

Oregon Statute: 307.398
Sunset Date: None
Year Enacted: 1973

2003–04 Assessed Value of Property Exempted: Included in Farm Machinery and Equipment (2.031)

	Loss	Shift
2003–05 Revenue Impact:	Included in 2.031	Included in 2.031
2005–07 Revenue Impact:	Included in 2.031	Included in 2.031

DESCRIPTION: Center pivot irrigation equipment used in farm operations is exempt from property taxation. The revenue impact for this tax expenditure is contained in Farm Machinery and Equipment (Property) (2.031).

PURPOSE: To improve the financial viability of farming and ease tax administration.

WHO BENEFITS: All farmers who own center pivot irrigation equipment receive benefits from this provision.

EVALUATION: See evaluation for 2.031. *[Evaluated by the Department of Agriculture.]*

2.041 OTHER FARM / AQUACULTURE / EGG EQUIPMENT

Oregon Statute: 307.397
Sunset Date: None
Year Enacted: 1973

2003–04 Assessed Value of Property Exempted: Included in Farm Machinery and Equipment (2.031)

	Loss	Shift
2003–05 Revenue Impact:	Included in 2.031	Included in 2.031
2005–07 Revenue Impact:	Included in 2.031	Included in 2.031

DESCRIPTION: Certain machinery and equipment used in farm operations is exempt from ad valorem property taxation. Under this section of statute the following are exempt:

- frost control systems,
- trellises for hops and other agricultural purposes,
- hop harvesting equipment,
- in-water racks and other equipment for raising bivalve mollusks, and

- equipment used in production and preparation of eggs for market.

The revenue impact for this provision is included under Farm Machinery and Equipment (Property) (2.031).

PURPOSE: To improve the financial viability of farming and ease tax administration.
WHO BENEFITS: All farmers who own the specified equipment receive benefits from this provision.
EVALUATION: See evaluation for 2.031. *[Evaluated by the Department of Agriculture.]*

2.042 FIELD BURNING SMOKE MANAGEMENT EQUIPMENT

Oregon Statute: 307.391
 Sunset Date: None
 Year Enacted: 1973

2003–04 Assessed Value of Property Exempted: Minimal

	Loss	Shift
2003–05 Revenue Impact:	Less than \$50,000	Less than \$50,000
2005–07 Revenue Impact:	Less than \$50,000	Less than \$50,000

DESCRIPTION: Radio communications equipment, meteorological equipment, or other tangible personal property used in connection with the operation of the field burning smoke management program (administered by the Oregon Department of Agriculture) is exempt from ad valorem property taxation. The goal of the smoke management program is to offer maximum opportunities for open field burning, propane flaming, and stack burning with minimal smoke impacts on the public. The field burning equipment itself would be exempt under Farm Machinery and Equipment (2.031) as long as the burning was conducted for the purpose of soil maintenance for farming use.

PURPOSE: To reduce the cost of ownership of equipment used in conjunction with the field burning smoke management program.

WHO BENEFITS: All farmers who own the specified equipment receive benefits from this provision. Roughly 160 farmers burn fields; and at a minimum they are required to have a radio to receive burning information.

EVALUATION: See evaluation under 2.031. *[Evaluated by the Department of Agriculture.]*

Property Tax
Full Exemption

2.043 NONPROFIT SEWAGE TREATMENT FACILITIES

Oregon Statute: 307.118
Sunset Date: None
Year Enacted: 1997

2003–04 Assessed Value of Property Exempted: Minimal

	Loss	Shift
2003–05 Revenue Impact:	Less than \$50,000	Less than \$50,000
2005–07 Revenue Impact:	Less than \$50,000	Less than \$50,000

DESCRIPTION: An exemption from property taxes is allowed for wastewater treatment, sewage treatment, and related property owned by a nonprofit corporation engaged solely in wastewater treatment and sewage treatment facility applications. It applies to tax years beginning on or after July 1, 1996. The exemption refunds and abates any taxes paid for the 1996 and 1997 tax years, and provides an exemption for future tax years. The nonprofit corporation must have been in existence as of January 1, 1997, and the corporation and plant must have been in operation on July 1, 1997. The exemption was created for the Mapleton Commercial Area Owners' Association in Lane County, and it is unlikely any other facilities qualify for the exemption.

PURPOSE: To assist nonprofit sewage treatment facilities.

WHO BENEFITS: There appears to be one entity in the state qualified for this tax relief: the Mapleton Commercial Area Owners' Association. The beneficiaries of this legislation are the owners of the homes and businesses that are members of the Mapleton Commercial Area Owners' Association.

EVALUATION: This legislation provides an economic benefit for communities that elect to manage their wastewater treatment needs through formation of a nonprofit corporation. This form of organization is rare; the law covered one such organization when it was passed. Because the existing law does not cover other privately owned community sewer systems in the state, such as trailer and recreational vehicle parks, it has limited applicability to Oregon businesses. *[Evaluated by the Department of Environmental Quality.]*

2.044 RIPARIAN HABITAT LAND

Oregon Statute: 308A.362
Sunset Date: None
Year Enacted: 1981

2003-04 Assessed Value of Property Exempted: \$3.6 million

	Loss	Shift
2003–05 Revenue Impact:	\$100,000	Less than \$50,000
2005–07 Revenue Impact:	\$100,000	Less than \$50,000

DESCRIPTION: Land designated as riparian land by the State Department of Fish and Wildlife is exempt from property taxation. Riparian land is privately-owned stream beds and the land under adjacent vegetation that is influenced by water, but which does not extend more than 100 feet from the stream bank. Riparian lands zoned as forest or

agricultural and range lands in compliance with statewide planning goals and located outside urban growth boundaries may qualify. In addition, lands that were outside an urban growth boundary (UGB) and zoned as forest or agricultural (including range land) as of July 1, 1997, but are no longer outside an UGB or so zoned also may qualify. However, the landowner must apply for riparian designation within five years of the change. The Department of Fish and Wildlife can designate land as riparian habitat land if the owner has developed and implemented a plan for continued protection of the land using approved rehabilitation techniques. The department cannot approve more than 200 miles (increased from 100 miles in 1997) of private stream bank in any one county per year.

The exemption continues until withdrawn by the owner or use is incompatible with riparian use. Upon withdrawal or disqualification, an additional tax equal to the sum of the tax benefit for each year exempt (up to five years) is due.

The exempt value is based on farm use assessed value as the alternative to riparian exemption. When land is specially assessed as farm, forest, or open space before riparian designation, any additional tax for a change in designation to riparian is abated.

PURPOSE:	To “prevent the forced conversion of riparian environments to intensive uses as a result of economic pressures caused by the assessment....at values incompatible with their protection as riparian lands...” (ORS 308A.353).
WHO BENEFITS:	Owners of riparian land that has been designated by the Department of Fish and Wildlife. As of July 2004, the Department of Fish and Wildlife had enrolled 1,083 acres in the program along roughly 77 miles of streams. One hundred seventeen landowners participate.
EVALUATION:	This expenditure, as amended in Oregon Laws 1997, Chapter 811, Section 2, may be more effective than it was previously. However, the usage and data around this expenditure are not conclusive. With the 1997 statute changes and increased efforts to save Oregon salmon runs, the Riparian Habitat Land Exemption has become more widely used, but a number of features of the provision may limit its effectiveness. First, the land that qualifies for the exemption is already taxed at relatively low levels as farm or forest land, so the exemption provides a relatively small reduction in taxes. Second, the program limits the amount of new riparian land that can be certified annually prior to July 1, 2004, to no more than 200 miles of stream bank per county. Removing the latter restriction and modifying the provisions to allow for larger tax reductions could make the program more effective but at a higher cost. The 2001 legislative change to allow participation by cities could significantly increase participation in the program. This has not occurred however; as none of the cities and counties have adopted enabling ordinances. <i>[Evaluated by the Department of Fish and Wildlife.]</i>

2.045 ENVIRONMENTALLY SENSITIVE LOGGING EQUIPMENT

Oregon Statute: 307.827 and 307.831

Sunset Date: 6-30-12

Year Enacted: 1999, Sunset extended in 2003 (HB 2372)

2003–04 Assessed Value of Property Exempted: \$99.8 million

	Loss	Shift
2003–05 Revenue Impact:	\$2,100,000	\$500,000
2005–07 Revenue Impact:	\$2,200,000	\$500,000

DESCRIPTION: All skyline and swing yarders that are capable of full log suspension are exempt from property taxation. In addition, other environmentally sensitive logging equipment may be exempt for at least five years provided that it was originally manufactured not more than eight years before the assessment date for the tax year in which the exemption is claimed. Property exempt under this provision includes machinery and equipment that is:

- used in logging or forest management operations;
- specifically designed for activities related to water quality or fish and wildlife habitat protection in the forest; or
- an excavator used in logging road maintenance, reconstruction or improvements, including the closing or obliterating of existing forest roads.

PURPOSE: "...to facilitate the transition of older logging equipment to newer equipment designed and manufactured to be as environmentally sensitive as current technology can provide, consistent with the need to match the equipment to the specifics of the site being harvested" (ORS 307.824).

WHO BENEFITS: Loggers who switch to more environmentally friendly logging equipment. In 2003-04 there were 395 exemptions in 16 counties.

EVALUATION: The effectiveness of this exemption has not been evaluated because its and potential benefits to fish habitat are indirect. Yet log suspension in riparian zones, less ground and soil compaction and less sedimentation provide immediate improvements to aquatic habitat that fish depend on. The level of habitat improvement is expected to increase in proportion to the extent that the use of environmentally sensitive equipment replaces the use of less sensitive methods. *[Evaluated by the Department of Fish and Wildlife.]*

2.046 FEDERAL STANDING TIMBER UNDER CONTRACT

Oregon Statute: 307.050
Sunset Date: None
Year Enacted: 1965

2003–04 Assessed Value of Property Exempted: \$220 million

	Loss	Shift
2003–05 Revenue Impact:	\$4,500,000	\$1,000,000
2005–07 Revenue Impact:	\$4,400,000	\$1,000,000

DESCRIPTION: In general, when public property is held under contract of sale to a private individual or business, it is considered taxable. However, federal standing timber is exempt from property tax even if held under a contract of sale. The volume of federal timber under contract was roughly 940 million board feet in 2003.

PURPOSE: Taxing timber under contract would be contrary to the tax treatment of private standing timber in Oregon, which under current law is treated as a crop, not as real property.

WHO BENEFITS: Companies buying federal standing timber for harvest. This includes both large and small companies that either do not have private timber supplies or who supplement their own supplies with federal timber.

EVALUATION: This expenditure is effective in achieving its purpose. It makes the treatment of federal timber under contract consistent with that of other standing timber.
[Evaluated by the State Forestry Department.]

2.047 STATE AND LOCAL STANDING TIMBER UNDER CONTRACT

Oregon Statute: 307.100
Sunset Date: None
Year Enacted: 1965

2003-04 Assessed Value of Property Exempted: \$88 million

	Loss	Shift
2003–05 Revenue Impact:	\$1,900,000	\$400,000
2005–07 Revenue Impact:	\$1,900,000	\$400,000

DESCRIPTION: In general, when public property is held under contract of sale to a private individual or business, it is considered taxable. However, state or local government standing timber is exempt from property taxation even if held under a contract of sale. The volume of state timber under contract was about 352 million board feet in 2003. The volume of local timber under contract is unknown but is thought to be small.

PURPOSE: To treat timber under contract like other private standing timber in Oregon, which under current law is treated as a crop, not as real property.

WHO BENEFITS: The state of Oregon and the counties that own standing timber benefit. Receipts from Board of Forestry timber sales are distributed back to the counties and serve as an offset, reducing the need for more state General Funds to go to the counties for education. On Common School Lands, interest is distributed to counties from an account that grows as resources (mainly timber) are sold from these lands.

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Full Exemption

EVALUATION: This expenditure is effective in achieving its purpose. It makes the treatment of state and local timber under contract consistent with that of other standing timber.
[Evaluated by the State Forestry Department.]

2.048 WESTERN PRIVATE STANDING TIMBER

Oregon Statute: 321.272
Sunset Date: None
Year Enacted: 1977

2003–04 Assessed Value of Property Exempted: \$18.7 billion

	Loss	Shift
2003–05 Revenue Impact:	\$375,200,000	\$82,400,000
2005–07 Revenue Impact:	\$369,500,000	\$81,200,000

DESCRIPTION: Privately owned standing timber in Western Oregon is exempt from local property taxes.

PURPOSE: To improve the financial viability of timber production by eliminating the property tax burden.

WHO BENEFITS: Private timber owners benefit directly.

EVALUATION: Prior to 1977, both land and timber were taxed as property. In some cases this led to premature harvesting to lower property tax burden. To encourage holding timber to longer rotation ages, the property tax on the value of the timber was eliminated, but a yield tax on timber harvest was retained. In 1993, in recognition of the now crop nature of growing timber and the substantial investment it requires, the tax on the crop (privilege tax) was eliminated.

The act may be helpful in ameliorating the current decline in rotation age, but rate of return is driving much of harvest decisions. There are indications that timber harvests average approximately 50 years, and that the total private timber harvest, while declining very slightly since the late 1950s, has been essentially at sustainable levels through the past decade.

Information is lacking on the effectiveness of other methods of discouraging premature timber harvests. Regulatory methods would likely be exceedingly expensive to administer, and variable tax rates would require nearly confiscator levels for young timber in order to be effective. *[Evaluated by the State Forestry Department.]*

2.049 EASTERN PRIVATE STANDING TIMBER

Oregon Statute: 321.829

Sunset Date: None

Year Enacted: 1961

2003–04 Assessed Value of Property Exempted: \$2.0 billion

	Loss	Shift
2003–05 Revenue Impact:	\$40,200,000	\$8,800,000
2005–07 Revenue Impact:	\$39,000,000	\$8,600,000

DESCRIPTION: Privately owned standing timber in Eastern Oregon is exempt from local property taxation.

PURPOSE: To improve the financial viability of timber production by eliminating the property tax burden.

WHO BENEFITS: Private timber owners benefit directly.

EVALUATION: Prior to 1977 in Western Oregon and 1961 in Eastern Oregon, both land and timber were taxed as property. In some cases this led to premature harvesting to lower property tax burden. To encourage holding timber to longer rotation ages, the property tax on the value of the timber was eliminated, but a yield tax on timber harvests was retained. In 1993, in recognition of the now crop nature of growing timber and the substantial investment it requires, the tax on the crop (privilege tax) was eliminated. The act may be helpful in ameliorating the current decline in rotation age, but rate of return is driving much of harvest decisions. *[Evaluated by the State Forestry Department.]*

2.050 PRIVATE FARM AND LOGGING ROADS

Oregon Statute: 308.236

Sunset Date: None

Year Enacted: 1963

2003–04 Assessed Value of Property Exempted: \$1.5 billion

	Loss	Shift
2003–05 Revenue Impact:	\$31,200,000	\$6,800,000
2005–07 Revenue Impact:	\$33,400,000	\$7,300,000

DESCRIPTION: Farm, grazing, and logging roads on private land are exempt from local property taxation. Exempted property also includes the culverts, drains, fill, surfacing, and bridges associated with these roads. The land under the roads is taxable. The exemption does not apply to principal exterior timber access roads, which are two-lane improved roads that are continuously maintained and connect a timber conversion center or public highway to a principal forest area.

PURPOSE: The original purpose may have been to avoid the difficulty of putting a value on these roads, most of which are logging roads. Many logging roads are built specifically to allow timber to be harvested. Once the harvest is finished, the roads have little or no

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Full Exemption

value. Some logging roads, however, are used for forest management and fire suppression on an ongoing basis, so they maintain value long after they are built.

WHO BENEFITS: Owners of farm and timberland where roads have been built. Most of the value exempt under this provision is logging roads. Logging roads are expensive to build because they must accommodate heavy logging equipment and are usually built in hilly or mountainous terrain. Farm roads are generally on flat land and involve little cost to build.

EVALUATION: This expenditure is effective in avoiding the difficulty of putting a value on these roads. *[Evaluated by the State Forestry Department.]*

2.051 FOREST FIRE PROTECTION ASSOCIATION

Oregon Statute: 307.125
Sunset Date: None
Year Enacted: 1957

2003–04 Assessed Value of Property Exempted: \$9.1 million

	Loss	Shift
2003–05 Revenue Impact:	\$200,000	Less than \$50,000
2005–07 Revenue Impact:	\$300,000	Less than \$50,000

DESCRIPTION: All property of forest and vegetation protection groups is exempt from local property taxation if the property is used exclusively for fire suppression or forest protection. ORS Chapter 477 provides for the establishment of a variety of forest and vegetation protection groups. These groups include forest protection districts, cooperative agreements between the State Forester and Forest Protective Associations, and joint or separate agreements between state and federal agencies and local governments, corporations, landowner organizations, and similar groups.

PURPOSE: To treat these groups the same as publicly owned fire departments and to help keep the cost of protecting timber assets low.

WHO BENEFITS: The forest fire protection associations. Most of the property of fire protection associations has been deeded over to the Department of Forestry, and the associations work under contract with the department. Currently there are three fire protection associations operating in the state: one in Douglas County, one in Coos County, and one serving multiple counties in Eastern Oregon.

EVALUATION: This provision is effective in achieving its purpose. The costs of providing forest fire prevention and suppression varies among districts due to the fuel and weather conditions that prevail on the lands protected and the risks and hazards that exist. It appears that this tax treatment provides the equity desired, as the purely administrative costs do not appear to be different among the various districts, whether association or state-operated. Because the expenses of these associations are largely borne by the forest landowner, the associations would likely raise the assessments to landowners if this property were not exempt. *[Evaluated by the State Forestry Department.]*

2.052 INACTIVE MINERAL INTERESTS

Oregon Statute: 308.115
Sunset Date: None
Year Enacted: 1997

2003-04 Assessed Value of Property Exempted: \$6.8 million

	Loss	Shift
2003-05 Revenue Impact:	\$100,000	Less than \$50,000
2005-07 Revenue Impact:	\$100,000	Less than \$50,000

DESCRIPTION: Mineral interests owned separately from surface interests are exempt from local property tax if the property is not being mined.

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

WHO BENEFITS: Owners of mineral interests who are not actively mining those interests.

EVALUATION: This expenditure has been effective in reducing the administrative costs of county assessment offices. Initially, additional work was required to remove these accounts from the tax rolls, but once that work is completed no significant administration is needed for these accounts.

We expect administrative costs to low, with little change in total new exemptions.
[Evaluated by the Department of Geology and Mineral Industries.]

2.053 MINING CLAIMS ON FEDERAL LAND

Oregon Statute: 307.080
Sunset Date: None
Year Enacted: 1889

2003-04 Assessed Value of Property Exempted: Not Available

	Loss	Shift
2003-05 Revenue Impact:	Not Available	Not Available
2005-07 Revenue Impact:	Not Available	Not Available

DESCRIPTION: Unpatented mining claims on federal property are exempt from local property taxation. Any improvements or equipment on the claim are taxable. Unpatented mining claims are private claims to public land without the federal government having conveyed title.

PURPOSE: To maintain exempt status of property held by the federal government until title is transferred to a private owner.

WHO BENEFITS: About 17,000 mining claims exist on Bureau of Land Management land. Claims can overlap, so the total acreage is unknown. The value of mining claims is also unknown.

EVALUATION: The exemption of mining claims on federal land is inconsistent with the treatment of other taxable activity taking place on property owned by an exempt entity. In most other circumstances, such property would be taxed. The rationale for this exemption may be that mining claims are intangible in nature, and intangible property is

Property Tax
Full Exemption

typically exempt from local property taxation. *[Evaluated by the Department of Revenue.]*

2.054 CRAB POTS

Oregon Statute: 508.270
Sunset Date: None
Year Enacted: 1969

2003-04 Assessed Value of Property Exempted: \$10 million

	Loss	Shift
2003–05 Revenue Impact:	\$300,000	\$100,000
2005–07 Revenue Impact:	\$300,000	\$100,000

DESCRIPTION: Crab pots used by an owner with a commercial fishing license used with a commercially licensed boat are exempt from property tax. The value of the crab pots is entered on the tax roll, but the assessment is canceled if proof of the required licensing is furnished to the assessor by August 1 of the assessment year.

PURPOSE: To provide tax relief to crab fishing operations. The exemption makes the treatment of crab fishing operations more consistent with those of other types of fishing, where the fishing gear is considered an integral part of the fishing vessel and taxed at 4 percent of value.

WHO BENEFITS: About 160,000 commercial crab pots are used in the coastal counties. The number of pots may increase due to shifts in fishing effort by multi-purpose fishing boats in response to diminished opportunities in the groundfish fishery. Noncommercial crab pots are exempt as Personal Property for Personal Use (2.066).

EVALUATION: This expenditure has effectively achieved its purpose. It provides tax relief to crab fishing operations, and it makes the property tax treatment of crabbing operations consistent with that of other types of fishing. *[Evaluated by the Department of Fish and Wildlife.]*

2.055 SMALL WATERCRAFT

Oregon Statute: 830.790(2)
Sunset Date: None
Year Enacted: 1959

2003-04 Assessed Value of Property Exempted: \$1.0 billion

	Loss	Shift
2003–05 Revenue Impact:	\$27,600,000	\$5,100,000
2005–07 Revenue Impact:	\$27,600,000	\$5,100,000

DESCRIPTION: Certain boats requiring certificates from the State Marine Board are exempt from property taxation. Owners instead pay fees to the Marine Board. Floating homes and boat houses are taxable.

PURPOSE: To avoid administrative problems dealing with a very mobile property. It would be very difficult to ascertain the value of small boats, which can depreciate rapidly depending on make, model, use, and care.

WHO BENEFITS: In 2003, there were 197,591 boats registered in Oregon. Nearly 85 percent of these boats are less than 20 feet in length.

IN LIEU: Fees for registration will be about \$10.9 million in the 2003–05 biennium. Registration fees are based on a flat fee of \$3.00 per foot/two years. This fee schedule was approved by the 2003 Legislature. Boating programs are funded entirely by user fees.

EVALUATION: This exemption effectively achieves its purpose. This exemption is an extension of the personal property for personal use exemption, much the same as personal use motor vehicles, recreational vehicles, all terrain vehicles, and personal aircraft are exempt. The exemption avoids the administrative problems that are inherent in assessing property taxes on mobile personal property that tends to decrease in value over time. *[Evaluated by the State Marine Board.]*

2.056 NONPROFIT PUBLIC PARK USE LAND

Oregon Statute: 307.115

Sunset Date: None

Year Enacted: 1971

2003-04 Assessed Value of Property Exempted: \$7.2 million

	Loss	Shift
2003–05 Revenue Impact:	\$200,000	Less than \$50,000
2005–07 Revenue Impact:	\$200,000	Less than \$50,000

DESCRIPTION: Nonprofit corporation property used for public park or recreation purposes is exempt from property taxation if the following conditions are met:

- The purpose of the corporation is to acquire park or recreation property;
- The property is used for public park or public recreation purposes and cannot be used for the production of income;
- Any net earnings of the corporation must not benefit any private individual;
- Upon dissolution, any remaining assets must revert to the state or a local government; and
- The land use must accomplish one of the purposes listed in the statute. These purposes are the same as those in the open space law except that one additional purpose is provided—“promote the reservation of land for public parks, recreation, or wildlife refuge purposes.”

The nonprofit corporation must file an application with the county assessor to claim the exemption. The city or county governing body having jurisdiction will act on the application. This exemption is for 10 years and is renewable by re-application.

Property Tax
Full Exemption

PURPOSE: To encourage development of parks by private corporations as an alternative to publicly owned parks. Private development may be possible when public development is not.

WHO BENEFITS: In 2003–04 there were 33 privately owned parks that were exempt under this provision. Most of the benefit went to the property owners in Clackamas, Coos, Multnomah, and Union counties.

EVALUATION: This exemption appears to be effective in achieving its purpose. The exemption encourages the preservation of open space and park land. Little information exists that would allow an in-depth evaluation of these programs, but as a matter of public policy, this program contributes to the special quality of life in Oregon and helps meet the needs of our growing population for open spaces, greenways, natural settings, and recreational facilities. The program also supplements what the government can provide by encouraging land management decisions that contribute to the public good by non-government entities. *[Evaluated by the Oregon Parks and Recreation Department.]*

2.057 PROPERTY USED AS GOLF COURSE AND EFFLUENT

Oregon Statutes: Note after 307.118
Sunset Date: 7-1-21
Year Enacted: 2001, Modified in 2003 (HB 2283)

2003-04 Value of Property Exempted: \$1.1 million

	Loss	Shift
2003-05 Revenue Impact	Less than \$50,000	Less than \$50,000
2005-07 Revenue Impact	Less than \$50,000	Less than \$50,000

DESCRIPTION: 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.

PURPOSE: To allow for property tax exemptions for wastewater or sewage treatment plants that also include golf course land leased from a municipality. Formerly, the nonprofit corporation had to own the wastewater treatment facility.

WHO BENEFITS: Only one property is known to qualify for this exemption.

EVALUATION: Not evaluated.

2.058 RAILROAD RIGHT OF WAY USED FOR ALTERNATIVE TRANSPORT

Oregon Statute: 307.205
Sunset Date: None
Year Enacted: 1977

2003–04 Assessed Value of Property Exempted: \$0

	Loss	Shift
2003–05 Revenue Impact:	\$0	\$0
2005–07 Revenue Impact:	\$0	\$0

DESCRIPTION: Real property owned by a railroad is exempt from property tax if the property is temporarily and exclusively used for public alternative transportation. A claim must be filed with the county assessor by April 1.

PURPOSE: To encourage railroads to allow their unused right-of-way to be used for such things as public light rail systems or bicycle paths.

WHO BENEFITS: No railroad right of way is known to qualify. Formerly exempt routes have been sold or transferred to public ownership.

EVALUATION: Not evaluated.

2.059 MOTOR VEHICLES AND TRAILERS

Oregon Statute: 803.585
Sunset Date: None
Year Enacted: 1919

2003–04 Assessed Value of Property Exempted: \$19.5 billion

	Loss	Shift
2003–05 Revenue Impact:	\$529,800,000	\$98,000,000
2005–07 Revenue Impact:	\$563,100,000	\$104,200,000

DESCRIPTION: Most vehicles are exempt from property taxation. The exemption covers virtually all vehicles that transport people or goods over public roads including cars, trucks, buses, most travel trailers, campers, and motorcycles.

Travel trailers include park trailers less than 8½ feet wide. Although travel trailers are normally exempt from property taxation, an owner may have it assessed for property taxation if the trailer is used as a permanent home or for other than recreation (ORS 308.880). No registration is needed in this case.

Fixed-load vehicles that are not used primarily to transport people or property over public roads are generally taxable. ORS 801.285 lists five fixed-load vehicles that are exempt, including self-propelled mobile cranes.

Owners of exempt vehicles are required to pay registration fees in lieu of property taxes.

Property Tax
Full Exemption

PURPOSE: To base the tax on motor vehicles on their share of the cost of maintaining a transportation system.

WHO BENEFITS: In 2003 there were about 3.1 million registered cars and pickups and about 0.8 million other registered vehicles and trailers in Oregon.

IN LIEU: The two-year registration fee for cars and pickups is \$54; for motorcycles it is \$30. The four-year new car registration fee is simply double the two-year amount. The fee for large trucks and buses varies by registered weight. Other on- and off-road vehicles have different fees for various time periods. The in-lieu registration fees will be about \$165 million for cars and pickups and \$65 million for all other vehicles. Part of this revenue is distributed to local districts for road construction and maintenance.

EVALUATION: This expenditure achieves its purpose. The principle of assessing those who benefit from highway facilities and services for a fair share of the cost has a long history and is well supported by current methods of assessing user fees. Article IX, Section 3a of the Constitution further emphasizes this principle by dedicating all such revenues to be used exclusively for the construction and maintenance of highways. The user fee principle suggests that people should be taxed based on their use of highway services. Value related taxation would upset that user fee principle by taxing vehicles based on value, which might be unrelated to their use of highway services. *[Evaluated by the Oregon Department of Transportation.]*

2.060 ODOT LAND UNDER USE PERMIT

Oregon Statute: 307.110(3)(c)
Sunset Date: None
Year Enacted: 1981

2003–04 Assessed Value of Property Exempted: Minimal

	Loss	Shift
2003–05 Revenue Impact:	Less than \$50,000	Less than \$50,000
2005–07 Revenue Impact:	Less than \$50,000	Less than \$50,000

DESCRIPTION: 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, Oregon Department of Transportation (ODOT) real property used by a person under a land use permit is exempt from property taxation. The exemption applies to real property with use restrictions such that only an administrative processing fee can be charged. These are generally small parcels abutting highways used for pasture or landscaping. Other real property leased for more than an administrative fee (for parking or commercial displays, for example) is taxable.

PURPOSE: To lower the cost for taxpayers using ODOT property under a use permit, and to avoid the administrative difficulty of valuing this property.

WHO BENEFITS: ODOT has about 300 active permits that provide approximately \$11,700 in annual administrative fees. By permitting this use, ODOT saves maintenance and weed control costs.

EVALUATION: This provision is effective in achieving its purpose. It reduces costs to both ODOT and county governments. *[Evaluated by the Oregon Department of Transportation.]*

2.061 NONPROFIT ELECTRICAL DISTRIBUTION ASSOCIATIONS

Oregon Statute: 308.805

Sunset Date: None

Year Enacted: 1943

2003–04 Assessed Value of Property Exempted: \$386.6 million

	Loss	Shift
2003–05 Revenue Impact:	\$8,000,000	\$1,800,000
2005–07 Revenue Impact:	\$8,600,000	\$1,900,000

DESCRIPTION: The transmission and distribution lines of a mutual or cooperative electrical association are exempt from local property taxation if:

- The association is nonprofit, and
- The principle purpose of the association is to distribute electricity to its members (ORS 308.805 to 308.820).

The exemption for transmission and distribution lines includes all property that is energized or energizable and all property supporting or integrated with energized or energizable property. This includes but is not limited to: substations, poles, conductors, transformers, services, meters, street lights, easements, generators, communication equipment, lines leased to government agencies, tools, supplies, and office furniture and equipment.

Exempt associations must pay the lesser of (1) a tax in lieu of the property tax, at 4 percent on gross revenue minus power costs or (2) property tax at the Measure 5 limits plus a bond rate. Gross revenue includes all revenue from the operation of electric distribution systems except line lease payments from government agencies.

Proceeds from these payments are distributed to the counties in proportion to the system's wire miles in each county. Within each county, 66.7 percent goes to the county and 33.3 percent to the county school fund.

PURPOSE: To avoid the difficulty of assessing electrical lines and to encourage the distribution of electricity in areas not supplied by for-profit companies because of the distribution cost.

WHO BENEFITS: Nineteen cooperatives are exempt under this provision.

IN LIEU: In 2004–05, the fourr percent in-lieu tax on gross revenue will be less than property taxes for 17 of the 19 cooperatives. The total gross revenue tax paid by these cooperatives will be \$4.7 million.

EVALUATION: This provision appears to be effective in achieving its purpose, but an in-depth evaluation of the program is not possible because these cooperatives are not regulated. The Public Utility Commission does not have any financial or other information about these companies.

All 19 electric cooperatives in the state qualify for the exemption. Seventeen of these currently are charged the in-lieu tax. As a result, their distribution lines need not be assessed for property tax purposes, resulting in savings for the state. Imposing property taxes on these cooperatives would likely result in higher electricity rates for

Property Tax
Full Exemption

their customers. If that were to happen, it may be that for-profit private utilities could then offer electricity at rates lower than the cooperatives, but without more information it is not possible to evaluate that possibility. *[Evaluated by the Public Utility Commission.]*

2.062 NONPROFIT WATER ASSOCIATIONS

Oregon Statute: 307.210

Sunset Date: None

Year Enacted: 1937, Modified in 2003 (HB 2026)

2003-04 Assessed Value of Property Exempted: \$8.0 million

	Loss	Shift
2003–05 Revenue Impact:	\$200,000	Less than \$50,000
2005–07 Revenue Impact:	\$200,000	Less than \$50,000

- DESCRIPTION: Property of mutual or cooperative water associations is exempt from taxation if:
- The association is nonprofit;
 - The primary purpose of the association is to store, convey, and distribute water to its members for domestic use or irrigation;
 - No more than 15 percent of the members are commercial establishments using water for commercial purposes; and
 - No more than 25 percent of the total annual volume of water furnished by the association is used by commercial establishments for commercial purposes.

Property exempt under this provision includes land, improvements, fixtures, equipment, supplies, dams, and dikes.

An association seeking to claim this exemption must file an application with the county assessor. Associations do not need to reapply each year as long as the ownership and use of the property remain unchanged from the previous tax year.

PURPOSE: To encourage the distribution of water in areas not supplied by publicly-owned water systems.

WHO BENEFITS: Approximately 400 water associations are exempt.

EVALUATION: Not evaluated.

2.063 NONPROFIT TELEPHONE ASSOCIATIONS

Oregon Statute: 307.220

Sunset Date: None

Year Enacted: 1941

2003–04 Assessed Value of Property Exempted: \$0

	Loss	Shift
2003–05 Revenue Impact:	\$0	\$0
2005–07 Revenue Impact:	\$0	\$0

DESCRIPTION: Certain telephone system property of a mutual or cooperative telephone association is exempt from property taxation if:

- The association is nonprofit;
- The sole purpose of the association is the operation of a telephone system for the use of its members;
- The association does not own, lease, or have an interest in the switchboard exchange; and
- The system has a cash value of less than \$2,500.

Property exempt under this provision includes improvement, fixtures, equipment and supplies. Land and buildings are not exempt.

PURPOSE: To encourage telephone service in rural areas.

WHO BENEFITS: Members of nonprofit telephone associations, although no such group is using the provision at this time.

EVALUATION: This expenditure does not appear to be achieving its purpose. Because of technological advances in telephone communications, the equipment that qualifies for this exemption appears to be obsolete. According to information from the Department of Revenue, the number of taxpayers qualifying for the exemption has been declining steadily. All telephone associations reported paying property taxes in 1998–99; each had switching equipment exceeding \$300,000, and no system would have a cash value less than \$2,500. *[Evaluated by the Public Utility Commission.]*

2.064 PRIVATE SERVICE TELEPHONE EQUIPMENT

Oregon Statute: 307.230

Sunset Date: None

Year Enacted: 1941

2003–04 Assessed Value of Property Exempted: Minimal

	Loss	Shift
2003–05 Revenue Impact:	Less than \$50,000	Less than \$50,000
2005–07 Revenue Impact:	Less than \$50,000	Less than \$50,000

DESCRIPTION: Certain telephone property that serves only the system owner's property is exempt from property taxation if the individual is not engaged in public service operations,

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Full Exemption

and the system's value does not exceed \$1,500. Property exempt under this provision includes improvements, fixtures, equipment, and supplies used for the construction, maintenance, and operation of the telephone system.

- PURPOSE:** To reduce the administrative burden associated with assigning value to private service telephone equipment.
- WHO BENEFITS:** Owners of private service telephone equipment, although it is unknown whether any taxpayers are using the exemption at this time.
- EVALUATION:** This provision does not appear to be achieving its purpose. No specific information exists that would allow a thorough evaluation of this exemption. Given the recent advances in telephone technology, it seems unlikely that much, if any, of the type of equipment that qualifies for this exemption is still in use. *[Evaluated by the Public Utility Commission.]*

2.065 INTANGIBLE PERSONAL PROPERTY

Oregon Statute: 307.030
Sunset Date: None
Year Enacted: 1935

2003–04 Assessed Value of Property Exempted: \$331.6 billion

	Loss	Shift
2003–05 Revenue Impact:	\$9,058,000,000	\$1,675,500,000
2005–07 Revenue Impact:	\$10,020,900,000	\$1,853,600,000

- DESCRIPTION:** Certain intangible personal property is exempt from local property taxation. Intangible personal property includes:
- Financial property such as interest-bearing accounts, stocks, and bonds;
 - Business records in various media forms; and
 - Business intangibles like goodwill, patents, trademarks, and copyrights.
- Intangible personal property of centrally-assessed utilities such as communications, energy, railroads, and airlines are included in the taxable value of these companies because of the unitary method by which they are appraised. For these utilities, only the intangible value of FCC licenses is exempt [see FCC Licenses (2.068)].
- PURPOSE:** To reduce the administrative burden associated with identifying and assigning value to intangible personal property.
- WHO BENEFITS:** The exemption benefits virtually every household and business in Oregon.
- EVALUATION:** The experience of most states that impose taxes on intangible personal property is that the taxes are difficult to administer effectively and equitably. Taxes on intangibles are relatively easy to avoid for most intangible assets by simply locating them in a state that does not impose an intangibles tax. In addition, tax compliance tends to be low because many taxpayers are unaware of the tax and enforcement is difficult.

The exemption achieves its purpose of avoiding administrative costs, but it also is likely to create some economic inefficiencies by favoring the ownership of intangible property over tangible property.

The issue of taxation of the intangible property of centrally-assessed utilities received considerable attention during recent legislative sessions. With deregulation of the telecommunications and energy industries, these industries are concerned about paying taxes on intangible property that future competitors would not pay. A critical element of this discussion has centered on the definition of intangible property.
[Evaluated by the Department of Revenue.]

2.066 PERSONAL PROPERTY FOR PERSONAL USE

Oregon Statute: 307.190

Sunset Date: None

Year Enacted: 1854

2003–04 Assessed Value of Property Exempted: \$22.5 billion

	Loss	Shift
2003–05 Revenue Impact:	\$613,500,000	\$113,500,000
2005–07 Revenue Impact:	\$666,100,000	\$123,200,000

DESCRIPTION: Tangible personal property held by the owner for personal use is exempt from property tax. Examples of personal property for personal use are household goods, furniture, appliances, personal effects, clothing, recreational goods, and entertainment equipment.

The exemption does not apply to any property that is:

- Wholly or partially used in the ordinary course of a trade or business;
- Used for the production of income or solely for investment;
- Required to be licensed or registered; or
- A floating home, boathouse, or manufactured structure.

PURPOSE: To reduce the administrative burden associated with assigning value to various personal property items.

WHO BENEFITS: The exemption benefits all households.

EVALUATION: This exemption achieves its purpose of avoiding the administrative difficulties of valuing the personal property of individuals. However, the exemption also creates some inequities by treating personal property and real property differently and by treating the personal property of individuals and businesses differently (business personal property is taxed). In addition, it can slow economic growth by altering purchasing decisions. *[Evaluated by the Department of Revenue.]*

Property Tax
Full Exemption

2.067 BEVERAGE CONTAINERS REQUIRING DEPOSIT

Oregon Statute: 307.402
Sunset Date: None
Year Enacted: 1983

2003–04 Assessed Value of Property Exempted: \$4.8 million

	Loss	Shift
2003–05 Revenue Impact:	\$100,000	Less than \$50,000
2005–07 Revenue Impact:	\$100,000	Less than \$50,000

DESCRIPTION: All beverage containers that have a refund value (requiring a deposit) are exempt from property tax. These containers are not considered inventory if owned by the distributor. The containers are not “sold” with the contents but are intended to be returned for a refund. Deposit containers for carbonated soft drinks and beer may be glass, metal, or plastic. Market value varies by type of container and size. The estimate assumes inventory at bottlers, distributors, and retail stores to be about one month of sales.

PURPOSE: To avoid the difficulty of assigning a value to this property.

WHO BENEFITS: The beneficiaries of this exemption are bottlers, distributors, and retail stores that temporarily hold beverage containers requiring a deposit.

EVALUATION: It would be virtually impossible to effectively tax the value of these containers, which are constantly moving through the chain of manufacturing, distribution, consumption, and recycling. [*Evaluated by the Department of Revenue.*]

2.068 FCC LICENSES

Oregon Statute: 307.126
Sunset Date: None
Year Enacted: 2001

2003–04 Assessed Value of Property Exempted: \$197.3 million

	Loss	Shift
2003–05 Revenue Impact:	\$5,500,000	\$1,000,000
2005–07 Revenue Impact:	\$6,100,000	\$1,100,000

DESCRIPTION: 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.

PURPOSE: To remove this form of intangible property from property taxation. In the past, this value had been taxed along with other types of utility-owned intangible property.

WHO BENEFITS: Wireless telecommunication utilities are the main beneficiaries of the exemption. FCC licenses held by nonutility companies would be exempt under Intangible Personal Property (2.065).

EVALUATION: Not evaluated.

2.069 STATE AND LOCAL PROPERTY

Oregon Statute: 307.090

Sunset Date: None

Year Enacted: 1854

2003–04 Assessed Value of Property Exempted: \$32.2 billion

	Loss	Shift
2003–05 Revenue Impact:	\$883,800,000	\$163,500,000
2005–07 Revenue Impact:	\$989,100,000	\$183,000,000

DESCRIPTION: State and local government property is exempt from property taxation. State or local government property held under contract of sale or lease by a private party is taxable. For example, office buildings owned by the state of Oregon and used for public purposes are exempt, but space in those same buildings, if leased to a private company, is taxable.

Common School Fund land is exempt even if leased for private use. Article 8, Section 2 of the Oregon Constitution requires that all proceeds from certain lands granted to the state be dedicated to the Common School Fund. According to the attorney general, this means such lands are not taxable. The land involved includes some state forestland, farm land leased in Eastern Oregon, and submerged or submersible lands on the coast.

The Oregon Legislature exempted some leasehold interests that otherwise would be taxable state and local property. Refer to the following exemptions in this report:

- Leased Student Housing Publicly Owned (2.003),
- Higher Education Parking Space (2.004),
- Leased Docks and Airports (2.018),
- Leased Publicly Owned Shipyard Property (2.019),
- Fairground Leased Storage Space (2.020),
- Leased Public Farming and Grazing Land (2.036),
- Leased State Land Board Land (2.038),
- Oyster Growing on State Land (2.039),
- State and Local Standing Timber Under Contract (2.047), and
- ODOT Land Under Use Permit (2.060).

PURPOSE: To avoid state government paying property tax to local governments and local governments paying property tax to each other.

WHO BENEFITS: In 2003–04 there were about 44,100 properties located throughout all of the 36 counties.

IN-LIEU: The following types of property make in-lieu payments to local taxing districts:

- City Property Used to Produce Energy (ORS 307.090(2)),
- Fish and Wildlife Commission Lands (ORS 496.340),

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Full Exemption

- State Timber Land (ORS 530.110–530.115),
- Common School Fund Lands (ORS 327.410–327.420).

EVALUATION: The exemption of state and local government property from property taxes has achieved its purpose of avoiding the taxation of one government by another, but many economists have argued that this purpose may not be a sensible one. In arguing for this exemption, most governments point out that taxing government property is simply a transfer of funds between different government entities. This is not strictly correct. To the extent that governments consume services provided by other governments (police and fire protection, streets and sidewalks, the demand for park space, etc.), this exemption represents a subsidy that must be paid for by other taxpayers. The exemption also disrupts the role that taxes play as prices in the economy, leading to both inequities and reduced economic growth. *[Evaluated by the Department of Revenue.]*

2.070 BEACH LANDS

Oregon Statute: 307.450
Sunset Date: None
Year Enacted: 1969

2003–04 Assessed Value of Property Exempted: Not Available

	Loss	Shift
2003–05 Revenue Impact:	Not Available	Not Available
2005–07 Revenue Impact:	Not Available	Not Available

DESCRIPTION: Beach lands are exempt from property taxation. However, improvements are not exempt. Generally, beach lands are those along the Pacific Ocean between the extreme low tide and the vegetation line. While much of this land is publicly owned, some is privately owned, but in most cases it has severe restrictions on development (Oregon Laws Chapter 601, 1969). While this tax expenditure covers all beach land, regardless of ownership, the publicly owned portion of beach land would be exempt under State and Local Property (2.069), if this provision did not exist.

The state owns the beach land between ordinary high tide and extreme low tide. The “dry sand” land between ordinary high tide and the vegetation line (16 feet elevation) can be privately owned. Of the 362 mile coastline, 262 miles has dry sand beach. Dry sand beach of 116 miles is privately owned and 146 miles is publicly owned. The State Parks and Recreation Department administers the 76 state-owned miles.

PURPOSE: The exemption is part of 1969 legislation to preserve public access to ocean beaches and is intended to clarify that ocean beaches, even if privately owned, are exempt from property taxation.

WHO BENEFITS: Owners of beach front property and others who use Oregon beaches.

EVALUATION: Privately owned beach lands are typically portions of privately owned lots that include both beach and nonbeach land. The beach portion is not taxed, but it also has severe restrictions on development. It is likely, however, that undeveloped beach land contributes to the value of the nonbeach portions of ocean-front lots, so the value of the beach portion is, in effect, taxed indirectly. *[Evaluated by the Department of Revenue.]*

2.071 PUBLIC WAYS

Oregon Statute: 307.200

Sunset Date: None

Year Enacted: 1895

2003–04 Assessed Value of Property Exempted: \$15.1 billion

	Loss	Shift
2003–05 Revenue Impact:	\$408,400,000	\$75,500,000
2005–07 Revenue Impact:	\$437,300,000	\$80,900,000

DESCRIPTION: All dedicated streets, alleys, and county roads are exempt from property taxation if used for transportation. About 84,000 miles of such public highways, roads, and streets exist in the state. The value of the land itself varies widely, generally being of much higher value in urban areas than in rural areas. Most of the exempt value is, however, the value of the road surface itself, not the land under it.

PURPOSE: To clarify the exemptions for State and Local Property (2.069) and Federal Property (2.083).

WHO BENEFITS: It is not clear who benefits. Because these roads are owned by federal, state, and local governments, taxation would result in both higher costs and higher revenues for the government entities.

EVALUATION: The exemption of public ways is an extension of the general exemption of government-owned property and, therefore, is based on the same rationale: that governments should not tax other levels of government. While many economists argue that the failure of governments to tax other governments in exchange for services provided can slow economic growth, it is unlikely that the failure to tax the value of public ways has much effect. *[Evaluated by the Department of Revenue.]*

2.072 TRIBAL LAND BEING PLACED IN U.S. TRUST

Oregon Statute: 307.181

Sunset Date: 6-30-12

Year Enacted: 1993

2003-04 Assessed Value of Property Exempted: Minimal

	Loss	Shift
2003–05 Revenue Impact:	Less than \$50,000	Less than \$50,000
2005–07 Revenue Impact:	Less than \$50,000	Less than \$50,000

DESCRIPTION: Land acquired by an Indian tribe is exempt from property taxation if the land is within ancient tribal boundaries and is in the process of being placed in a U.S. trust. The exemption continues until the land is placed in trust, up to a maximum of five years.

Property Tax
Full Exemption

PURPOSE: The exemption allows land to be free of a property tax lien during the application time for placement in U.S. trust without cost to a tribe. The U.S. government requires the land be free of liens as a condition for the trust.

WHO BENEFITS: In 1994, a few properties were exempt in four counties. Some of these exempt properties will be placed in trust before the sunset.

EVALUATION: Not evaluated.

2.073 EXEMPT LEASE FROM TAXABLE OWNER

Oregon Statute: 307.112
Sunset Date: None
Year Enacted: 1977

2003–04 Assessed Value of Property Exempted: *

	Loss	Shift
2003–05 Revenue Impact:	*	*
2005–07 Revenue Impact:	*	*

* Included in various other categories of exempt property.

DESCRIPTION: Property that is leased to a qualified exempt organization or local government (other than the state of Oregon) from an otherwise taxable owner is exempt from local property taxation. Eligible organizations include fraternal, literary, benevolent, charitable, scientific, and religious organizations; senior centers; private schools; and day care centers. To qualify, (1) the property must be used for a qualifying purpose; (2) it must be expressly agreed in the lease or lease-purchase agreement that the rent has been established to reflect the exemption; and (3) the rent charged must be below market rent. The lessee must file an application with the county assessor to receive this exemption.

PURPOSE: To encourage leasing property to exempt organizations.

WHO BENEFITS: Exempt organizations and local governments.

EVALUATION: The evaluations for the various exemptions that are included in this category are presented separately elsewhere.

2.074 EXEMPT LEASE FROM EXEMPT OWNER

Oregon Statute: 307.166
Sunset Date: None
Year Enacted: 1973

2003–04 Assessed Value of Property Exempted: *

	Loss	Shift
2003–05 Revenue Impact:	*	*
2005–07 Revenue Impact:	*	*

* Included in various other categories of exempt property.

DESCRIPTION: Property that is leased or rented to a qualified exempt organization or public body from an owner who is also a qualified exempt organization or public body is exempt from property tax. To qualify, the property must be used for a qualifying purpose, and the rent charged must not exceed the cost of repairs and maintenance. The lessee must file an application with the county assessor to claim the exemption.

PURPOSE: To encourage leasing property to exempt organizations.

WHO BENEFITS: Exempt organizations, such as charities.

EVALUATION: The evaluations for the various exemptions that are included in this category are presented separately elsewhere.

2.075 CHARITABLE, LITERARY, AND SCIENTIFIC ORGANIZATIONS

Oregon Statute: 307.130
Sunset Date: None
Year Enacted: 1854

2003–04 Assessed Value of Property Exempted: \$2.8 billion

	Loss	Shift
2003–05 Revenue Impact:	\$75,100,000	\$13,900,000
2005–07 Revenue Impact:	\$79,700,000	\$14,700,000

DESCRIPTION: Property owned or being purchased by literary, benevolent, charitable organizations or scientific institutions is exempt from property taxation. To qualify, the organization or institution must:

- be a nonprofit corporation
- provide a charitable gift to the public without expectation of payment, and
- occupy and use the property in a manner that furthers the organization's charitable purpose.

Shelter workshops and retail stores selling donated or consigned goods to support a welfare program are exempt. Parking lots are exempt as long as there is no charge for at least 355 days each year. The organization or institution must file an application with the county assessor to claim the exemption (ORS 307.162).

Property Tax
Full Exemption

PURPOSE: To subsidize organizations providing property and services that serve a socially valuable function.

WHO BENEFITS: This exemption applies to many nonprofit organizations. Examples are some hospitals, social services, museums, youth and athletic groups, summer camps, and conservation groups. About 4,050 properties are exempt, but the number of organizations is unknown because the same organization may have property in more than one county.

EVALUATION: Not evaluated.

2.076 VOLUNTEER FIRE DEPARTMENT PROPERTY

Oregon Statute: 307.130
Sunset Date: None
Year Enacted: 1999

2003–04 Assessed Value of Property Exempted: Minimal

	Loss	Shift
2003–05 Revenue Impact:	Less than \$50,000	Less than \$50,000
2005–07 Revenue Impact:	Less than \$50,000	Less than \$50,000

DESCRIPTION: Real and personal property of volunteer fire departments is exempt from property taxation.

PURPOSE: To ensure that volunteer fire departments are treated similar to those properties that qualify for the Charitable, Literary and Scientific Organizations (2.075) exemption.

WHO BENEFITS: One volunteer fire department in Wasco county.

EVALUATION: Not evaluated.

2.077 FRATERNAL ORGANIZATIONS

Oregon Statute: 307.136
Sunset Date: None
Year Enacted: 1961

2003–04 Assessed Value of Property Exempted: \$294.5 million

	Loss	Shift
2003–05 Revenue Impact:	\$8,000,000	\$1,500,000
2005–07 Revenue Impact:	\$8,700,000	\$1,600,000

DESCRIPTION: Property used for fraternal lodge work, entertainment, or recreational purposes is exempt from property taxation. Fraternal organization property remains exempt even while being rented or leased to other persons so long as the rent does not exceed expenses for heat, lights, water, and janitorial services and supplies. Parking lots are exempt as long as there is no charge for at least 355 days each year. The fraternal organization must file an application with the county assessor to claim the exemption.

To qualify, a fraternal organization must:

- be organized as a nonprofit;
- be established under the lodge system with ritualistic form of work and representative form of government;
- support some benevolent or charitable activity;
- not distribute any income to its officers, members, or employees except for reasonable compensation for services; and
- not be a college fraternity or sorority.

PURPOSE: To subsidize organizations providing property and services that serve a socially valuable function.

WHO BENEFITS: About 1,300 properties are exempt. Qualifying organizations include the State Grange, American Legion, Veterans of Foreign Wars, Eagles, Elks, Masons, Moose, Odd Fellows, Knights of Pythias, and Knights of Columbus.

EVALUATION: Not evaluated.

2.078 RELIGIOUS ORGANIZATIONS

Oregon Statute: 307.140
Sunset Date: None
Year Enacted: 1854

2003–04 Assessed Value of Property Exempted: \$2.9 billion

	Loss	Shift
2003–05 Revenue Impact:	\$79,500,000	\$14,700,000
2005–07 Revenue Impact:	\$86,000,000	\$15,900,000

DESCRIPTION: Houses of public worship and other buildings or property used for administration, education, literary, benevolent, charitable, entertainment and recreational purposes, and cemeteries are exempt from property tax. Parking lots are exempt as long as there is no charge for at least 355 days each tax year.

The religious organization must file an application with the county assessor to claim the exemption (ORS 307.162).

PURPOSE: To recognize the social benefits of religious organizations.

WHO BENEFITS: Approximately 7,400 religious properties are exempt.

EVALUATION: Not evaluated.

Property Tax
Full Exemption

2.079 CEMETERIES, BURIAL GROUNDS, AND MAUSOLEUMS

Oregon Statute: 307.150
Sunset Date: None
Year Enacted: 1854

2003–04 Assessed Value of Property Exempted: \$199.0 million

	Loss	Shift
2003–05 Revenue Impact:	\$5,400,000	\$1,000,000
2005–07 Revenue Impact:	\$5,900,000	\$1,100,000

DESCRIPTION: Burial grounds, tombs, and rights of burial are exempt from property taxation. Also, land (not exceeding 30 acres) and buildings of crematory associations are exempt. Buildings to store maintenance equipment are included in the exemption. To qualify, a claim must be filed with the county assessor. Family burial grounds are exempt without application.

This statute exempts both nonprofit and for-profit cemetery and crematory associations, as well as family burial grounds. Cemeteries owned by cities, counties, or cemetery districts are exempt [see State and Local Property (2.069)]. Cemeteries owned and maintained by religious organizations are also exempt [see Religious Organizations (2.078)].

PURPOSE: The exemption was probably an implementation of traditional public policy to not tax cemeteries.

WHO BENEFITS: In 2003–04, roughly 1,000 properties were exempt. Over half of the exempt value is located in Multnomah County.

EVALUATION: Not evaluated.

2.080 TRANSFER OF LAND FROM CEMETERY TO SCHOOL

Oregon Statutes: 307.157
Sunset Date: 12-31-10
Year Enacted: 2001

2003-04 Assessed Value of Property Exempted: \$8.7 million

	Loss	Shift
2003-05 Revenue Impact	\$200,000	Less than \$50,000
2005-07 Revenue Impact	\$200,000	Less than \$50,000

DESCRIPTION: In general, if land that is exempt under a given statute ceases to be used for those purposes, it becomes taxable. Under this provision, however, land that ceases to be used for cemetery or crematory purposes [Cemeteries, Burial Grounds, and Mausoleums (2.079)] remains exempt as long as the land is owned or being purchased by an incorporated charitable institution in connection with educational purposes.

The “additional tax” [ORS 307.155(2)] that would have been due except for this provision is reduced by 10 percent for each 12-month period in which the land was owned by the charitable institution in connection with educational purposes.

To qualify for this special treatment, the property must be purchased on or after January 1, 2001, and before January 1, 2011. The exemption pertains to tax year beginning on or after July 1, 2001, and before July 1, 2021.

- PURPOSE: To eliminate the potential tax burden as property is transferred between two tax-exempt organizations.
- WHO BENEFITS: Owners of land that is transferred from a cemetery to a school.
- EVALUATION: Not evaluated.

2.081 CITY-OWNED SPORTS FACILITIES

Oregon Statutes: 307.171
Sunset Date: None
Year Enacted: 2001

2003-04 Assessed Value of Property Exempted: \$47.7 million

	Loss	Shift
2003-05 Revenue Impact	\$1,500,000	\$300,000
2005-07 Revenue Impact	\$1,600,000	\$300,000

- DESCRIPTION: 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 taxing entity.
- PURPOSE: To clarify that Portland-owned sports facilities are exempt, even if leased to a taxable entity.
- WHO BENEFITS: The only facility affected by this law is PGE Park in Portland.
- EVALUATION: Not evaluated

2.082 CONVENTION FACILITIES

Oregon Statutes: 263.290
Sunset Date: None
Year Enacted: 1985

2003-04 Assessed Value of Property Exempted: \$0

	Loss	Shift
2003-05 Revenue Impact	\$0	\$0
2005-07 Revenue Impact	\$0	\$0

- DESCRIPTION: 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.
- PURPOSE: To ensure the property of these corporations is not taxed.
- WHO BENEFITS: There are no known beneficiaries of this statute.

Property Tax
Full Exemption

EVALUATION: Not evaluated

2.083 FEDERAL PROPERTY

Oregon Statute: 307.040
Sunset Date: None
Year Enacted: 1848

2003-04 Assessed Value of Property Exempted: \$117.8 billion

	Loss	Shift
2003-05 Revenue Impact:	\$3,088,800,000	\$609,100,000
2005-07 Revenue Impact:	\$3,395,000,000	\$628,000,000

DESCRIPTION: Property of the United States and its agencies is exempt from property tax when taxation is prohibited by federal law. Federal property held under contract of sale or lease by a private party is generally taxable.

The Oregon Legislature exempted some leasehold interests that otherwise would be taxable federal land. Refer to the following exemptions in this report:

- Federal Land Under Recreation Facility (2.024),
- Federal Land Under Summer Homes (2.025),
- Leased Federal Grazing Land (2.037)
- Federal Standing Timber Under Contract (2.046), and
- Mining Claims on Federal Land (2.053).

PURPOSE: To comply with federal law.

WHO BENEFITS: The United States owns about 30 million acres in Oregon, or 48 percent of the land. The exempt value includes federal structures and equipment, land, and sawtimber. Most of the value is standing timber. In 2003-04 there were about 22,000 exemptions reported by Oregon counties.

IN LIEU: The federal government makes payments in lieu of property taxes to local governments for the following types of federal land:

- Federal Oregon and California Railroad (O & C) Lands,
- Federal Forest Land,
- Land subject to the Payments In-Lieu-Of Taxes Act of 1976,
- Coos Bay Wagon Road Lands,
- Public Land Resource Sales,
- BLM Grazing Lands, and
- U.S. Mineral Leases.

EVALUATION: Not evaluated.

2.084 INDIAN PROPERTY ON RESERVATION

Oregon Statute: 307.180
Sunset Date: None
Year Enacted: 1854

2003-04 Assessed Value of Property Exempted: Not Available

	Loss	Shift
2003-05 Revenue Impact:	Not Available	Not Available
2005-07 Revenue Impact:	Not Available	Not Available

DESCRIPTION: Property located on an Indian reservation is generally exempt from property tax. Exempt property must be real property of Indians residing upon reservations who have not severed their tribal relations or taken land in severalty or individual ownership (except lands held by them by purchase or inheritance). Lands owned or held by Indians in severalty on an Indian reservation and their personal property on the reservation are exempt only when provided by federal law.

PURPOSE: The exemption is to comply with the status of Indians under federal law before statehood.

WHO BENEFITS: Seven reservations are located in 12 counties. Reservation acreage is about 840,000 acres.

EVALUATION: Not evaluated.

2.085 AMTRAK PASSENGER RAILROAD

Oregon Statute: 308.515
Sunset Date: None
Year Enacted: 1983

2003-04 Assessed Value of Property Exempted: \$8.9 million

	Loss	Shift
2003-05 Revenue Impact:	\$200,000	Less than \$50,000
2005-07 Revenue Impact:	\$300,000	Less than \$50,000

DESCRIPTION: National Railroad Passenger Corporation (Amtrak) property is exempt from property tax as long as federal law prohibits the company from paying property taxes. Amtrak does not own land or structures in Oregon but leases or pays fees for use. The value of personal property (engines and cars) held by Amtrak in Oregon is uncertain. If taxed, this value would likely be computed using an allocation formula based on share of passenger miles traveled in Oregon.

PURPOSE: To comply with federal law.

WHO BENEFITS: Amtrak benefits by not paying property taxes.

EVALUATION: Not evaluated.

2.086 FRATERNITIES, SORORITIES, AND COOPERATIVES

Oregon Statute: 307.460
 Sunset Date: None
 Year Enacted: 1973

2003–04 Assessed Value of Property Exempted: \$32.5 Million

	Loss	Shift
2003–05 Revenue Impact:	\$400,000	\$100,000
2005–07 Revenue Impact:	\$400,000	\$100,000

DESCRIPTION: Certain property owned by a qualified nonprofit corporation, such as a fraternity, sorority, or cooperative housing organization, is exempt from property taxes imposed by schools, educational service districts, and community colleges. The property must be rented exclusively to students who attend an accredited educational institution and student occupancy must be nondiscriminatory. An application is required to claim the exemption. If an exempt property loses qualified status, the owner is required to notify the assessor. If notification is not provided and the property is disqualified, additional taxes equal to the tax benefit of the exemption for all exempted prior years plus interest and a 20 percent penalty on the tax amount shall be assessed. The Leased Student Housing Publicly Owned exemption (2.003) covers similar property owned by a public college.

PURPOSE: To help keep college housing costs to a minimum and provide equitable treatment with those students living on campus in publicly owned dormitories [Leased Student Housing Publicly Owned (2.003)].

WHO BENEFITS: About 80 accounts are exempt and are located primarily in Benton, Lane, Multnomah, and Yamhill counties.

EVALUATION: This tax expenditure achieves its purpose and contributes to containing the costs of higher education. Fraternities, sororities, and cooperatives are not-for-profit organizations. They are also important traditional components in the housing supply for colleges and universities. These organizations provide the second largest option for campus student housing (dormitories are the first). Consequently, this exemption is valuable in supporting higher education. It is a fiscally effective means of achieving its purpose. *[Evaluated by the Oregon University System.]*

2.087 RURAL HEALTH CARE FACILITIES

Oregon Statutes: 307.804
 Sunset Date: None
 Year Enacted: 2001

2003-04 Assessed Value of Property Exempted: \$1.8 million

	Loss	Shift
2003-05 Revenue Impact	Less than \$50,000	Less than \$50,000
2005-07 Revenue Impact	Less than \$50,000	Less than \$50,000

DESCRIPTION: Real and personal property of a rural health care facility is exempt from property taxation if the property constitutes new construction, new additions, new

modifications, or new installations of property as of the first assessment date for which the facility is in service. Land and other existing property are not exempt. The exemption lasts three years, but the taxpayer must file its intention to take the exemption each year. The county must approve the exemption but each affected taxing district has the option of granting the exemption.

A rural health care facility is one that is located in a rural health service area with an average travel time of more than 30 minutes from a population center of 30,000 or more, as determined by the Office of Rural Health, and is used exclusively to provide medical care.

PURPOSE: To promote health care in rural areas.
 WHO BENEFITS: Owners of health care facilities in rural Oregon.
 EVALUATION: Not evaluated.

2.088 LONG-TERM CARE FACILITIES

Oregon Statute: 307.808
 Sunset Date: None
 Year Enacted: 1999

2003–04 Assessed Value of Property Exempted: \$3.1 million

	Loss	Shift
2003–05 Revenue Impact:	\$100,000	Less than \$50,000
2005–07 Revenue Impact:	\$100,000	Less than \$50,000

DESCRIPTION: A property tax exemption is allowed for certain long-term care facilities and adult foster homes. The long-term care facilities must have an average residency rate of at least 70 percent of residents eligible for Medicaid. The adult foster homes must have an average residency rate of at least 60 percent of residents eligible for Medicaid. Each long-term care facility and adult foster home will be required to get the exemption from each taxing district. The facility will only receive a property tax exemption from those taxing districts granting the exemption. The exemption applies to tax years beginning on or after July 1, 2000. Both real and personal property can be exempt from the long-term facilities, which include nursing facilities, assisted living, or a residential care facility. The owner of the facility must file with the county assessor a copy of a certificate issued by the Senior and People with Disabilities Cluster (of the Oregon Department of Human Services).

PURPOSE: ORS 307.808 states that "...owners of long term care facilities who devote substantial proportions of those facilities to providing long term care to residents eligible for medical services under Medicaid provide an essential community service. ...a property tax exemption will enable these essential community provider long term care facilities to increase the quality of care provided to facility residents."

WHO BENEFITS: In 2003–04, at least six facilities were granted an exemption.

EVALUATION: This tax expenditure has not achieved its purpose during its first year of operation. The exemption process has two parts. The Seniors and People with Disabilities Cluster certifies that the long-term care facility met the Medicaid residency criteria during the previous calendar year. They certified 225 facilities in 25 counties as

Property Tax
Partial Exemption

having met the residency criteria during 1999. The local taxing districts grant the property tax exemption; however, none has granted an exemption as of July 31, 2002. *[Evaluated by the Seniors and People with Disabilities Cluster, Department of Human Services.]*

2.089 STRATEGIC INVESTMENT PROGRAM (SIP)

Oregon Statute: 307.123

Sunset Date: None

Year Enacted: 1993, Modified in 2003 (HB 2299)

2003–04 Assessed Value of Property Exempted: \$5.2 billion

	Loss	Shift
2003–05 Revenue Impact:	\$145,900,000	\$27,000,000
2005–07 Revenue Impact:	\$159,100,000	\$29,400,000

DESCRIPTION: The assessed value above a certain threshold for a business firm’s new investment is exempt from property taxes for 15 years. In rural areas, this threshold is \$25 million; inside the urban growth boundaries of the state’s larger metropolitan areas, it is \$100 million.

The investments must benefit a traded sector industry, which is one that sells goods or services in markets with national or international competition, including but not limited to manufacturing.

The business firm must first execute an agreement with the county (and city, if applicable). Then, subject to a publicly approved official county request, the Oregon Economic and Community Development Commission determines if the proposed project is eligible under any policies as adopted by the commission. The business firm must also enter into a first-source hiring agreement with local publicly funded job training providers. Application fees are paid to the state and used by the Economic and Community Development Department and the Department of Revenue to offset administrative costs.

In addition to other possible requirements, the agreement between the business firm and the city must provide for the firm to pay an annual community services fee equal to the 25 percent of the property tax on the exempt value. This fee cannot exceed \$50,000 in rural areas or \$2 million in metropolitan areas.

This annual fee is shared by the county, city (if located in a city), and nonschool taxing districts (representing 75 percent of the respective taxing authority) according to mutual agreement.

PURPOSE: “...to improve employment in areas where eligible projects are to be located and [the Legislative Assembly] urges business firms that will benefit from an eligible project to hire employees from the region in which the eligible project is to be located whenever practicable.” (ORS 285C.603).

WHO BENEFITS: A total of six SIP agreements have current value exempt—two in Multnomah County and four in Washington County. All the firms participating in this program are high-technology industries, operating large semiconductor fabrication facilities.

IN LIEU

Businesses that have value exempt pay a portion of the property taxes saved in the form of annual community services fees. Such fees are used for specific projects.

EVALUATION:

The program appears to achieve its goal of leveling the proverbial playing field and thus encouraging highly capital-intensive investment in Oregon, particularly in high technology industries. A key question in evaluating this expenditure is whether or not the investments receiving tax benefits under this program would have been made without the program. That question cannot be answered with certainty, but there is evidence that both state and local officials have felt that this program was necessary to increase the likelihood that Oregon locations would be chosen as the sites for capital-intensive investments, and that key existing industries did not actually leave the state. The fact that local officials have thoughtfully approved eight applications under the program suggests that local officials believe these tax expenditures have a net positive value to their communities. If the investment would not have been made in Oregon without the program, a likely and very sizable increase in state income tax and corporate excise tax revenues may also be attributed to this program.

Economists have a range of opinions as to whether or not industrial investment tax incentives such as this are beneficial to local, regional, and national economies. Some claim that such incentives simply benefit the participating companies who receive lower tax bills at the expense of the participating jurisdictions that either receive lower tax revenue or must charge existing taxpayers more than otherwise. Other economists claim that both participants gain from the arrangement, with companies paying more reasonable taxes in communities that place a higher value than other communities on obtaining the companies' jobs, local purchases, and other benefits.

With the 2003 law, the lower rural threshold of \$25 million was added, so that the program might see greater diversity in terms of geography and industry types, and that an alternative to enterprise zones for relative huge projects in rural areas might be created. SIP offers a more flexible tool and politically better process compared to enterprise zone tax incentives for very large and controversial developments. For rural areas, this could be a vital new tool. As part of this change, special service districts were given an explicit place in terms of the distribution of the community service fees for future eligible projects *[Evaluated by the Economic and Community Development Department.]*

2.090 VERTICAL HOUSING DEVELOPMENT ZONE

Oregon Statutes: 285C.450

Sunset Date: None

Year Enacted: 2001

2003-04 Value of Property Exempted: \$9.3 million

	Loss	Shift
2003-05 Revenue Impact:	\$300,000	Less than \$50,000
2005-07 Revenue Impact:	\$300,000	\$100,000

DESCRIPTION:

Creates a partial property tax exemption for qualified residential housing in a vertical housing development zone. A vertical housing development zone is a designated area sponsored by a city or county that has been approved by the Economic and Community Development Department. The vertical housing development zone must be in a core area of an urban center or near a light rail or transit station area.

Property Tax
Partial Exemption

The qualified project must consist of a building with commercial space at least on the main level. One or more floors above the commercial space must be residential. The property tax exemption depends on the number of residential floors. If the project consists of one floor of residential housing, it is 20 percent exempt; with two floors, it is 40 percent exempt; with three floors, it is 60 percent exempt; and with four or more floors, the project is 80 percent exempt. The exemption lasts for 10 years. If any of the residential floors are converted to commercial space, the project is disqualified.

A project may be new construction, a reconstruction, or rehabilitation of an existing building.

Certain taxing districts may elect not to participate. The vertical housing development project owes the complete tax to districts that do not participate.

- PURPOSE:** To increase the supply of residential housing in certain urban centers and to encourage mixed-use development, especially in association with alternative transportation modes.
- WHO BENEFITS:** Property owners of approved projects in vertical housing development zones. Individuals and businesses in the vertical housing development zone benefit from increased investment in their community.
- EVALUATION:** Insufficient data with the program to evaluate at this time. *[Evaluated by the Economic and Community Development Department.]*

2.091 NEW HOUSES IN DISTRESSED AREA

Oregon Statute: 458.020
Sunset Date: 6-30-03
Year Enacted: 1989

2003–04 Assessed Value of Property Exempted: \$163.1 million

	Loss	Shift
2003–05 Revenue Impact:	\$4,800,000	\$800,000
2005–07 Revenue Impact:	\$4,700,000	\$800,000

DESCRIPTION: A new single family housing unit built in a distressed area can be exempt from property tax for 10 years. Only the value of the dwelling is exempt; the land remains taxable. A distressed area is designated by the city and may include deteriorated, unsafe, or abandoned structures that are detrimental to the safety and health of the community. A city can designate up to 20 percent of its land area as distressed.

Approval by the city will exempt only the city taxes. To exempt all property taxes, districts representing 51 percent of the taxes on the property must also agree to the exemption.

To qualify for the exemption, the single family dwelling must:

- Be constructed after January 1, 1990 and before July 1, 2003;
- Be used as a dwelling for one person or family; and
- Have a value that is no more than 120 percent of the median sales price of single family homes located in the city.

To grant an exemption, a city must do all the following:

- Adopt a resolution or ordinance;
- Designate a distressed area; Adopt standards and guidelines;
- Approve applications; and
- Certify approved exemptions to the assessor.

The property owner must file an application with the city to claim the exemption. A change of use will disqualify the property from the program. Upon disqualification, an additional tax equal to the tax benefit in the last year exempt multiplied by the number of years exempt (10 maximum) is due.

PURPOSE:	To “stimulate the construction of new single family residences in distressed urban areas in this state in order to improve in those areas the general life quality, to promote residential infill development on vacant or underutilized lots, to encourage home ownership and to reverse declining property values” (ORS 458.010).
WHO BENEFITS:	Most of these accounts are in the Portland area. In 2003, there were 2,100 accounts with this exemption in Multnomah County. The average exempt property value per house was about \$75,000. This exemption provided an estimated average tax benefit of about \$1,300 per year.
EVALUATION:	<p>This expenditure achieves its purpose. The program is relatively efficient to administer in comparison with other types of housing funding. There is no need to channel funding through different layers of government and minimal need to establish larger bureaucratic mechanisms to develop program guidelines or to review for program eligibility. The home either qualifies, or it doesn't. The exemption is intended to provide an incentive for builders to build housing they would not otherwise build in distressed areas by providing to the purchaser of a qualifying home a full property tax exemption on the building for 10 years. Whether any given home would or would not have been built without the benefit of the exemption is difficult to determine. The popularity of the program with builders suggests that the exemption functions well.</p> <p>A major advantage of tax exemptions over a direct expenditure is the ability to tie the exemption to the specific project with little risk to the city. If the project is not constructed, the assistance is not tied up pending the fate of the project in the way a direct budgeted funding commitment would be. In other words, there is no lost opportunity of funds committed to a project that is not constructed; nor is there any lost revenue.</p> <p>Additionally, the program provides an additional incentive that helps to design housing in ways consistent with local policy.</p> <p>The program is available to both for profit and nonprofit housing developers. It is governed by state enabling legislation that carries a ten-year sunset date. Local programs can be designed with a variety of monitoring and evaluative controls. <i>[Evaluated by Oregon Housing and Community Services.]</i></p>

2.092 REHABILITATED HOUSING

Oregon Statute: 308.459

Sunset Date: 6-30-08

Year Enacted: 1975

2003–04 Assessed Value of Property Exempted: \$24.4 million

	Loss	Shift
2003–05 Revenue Impact:	\$800,000	\$100,000
2005–07 Revenue Impact:	\$800,000	\$100,000

DESCRIPTION:

A city or county may exempt from property tax any value that is attributed to the rehabilitation of housing or conversion of buildings for housing (single or multi-family) for 10 years. To be eligible for the partial exemption:

- If the housing was built on or before January 1, 1961, it must have undergone rehabilitation during or after September 1975, and before January 2008. The rehabilitation must have cost at least 5 percent of the assessed value of the property before rehabilitation; or
- If the housing was built after January 1, 1961; it must have undergone rehabilitation after October 1989, and before January 2008, that cost at least 50 percent of the assessed value of the property before rehabilitation.

In addition, the property (land and improvements) must:

- Fail to comply with one or more standards of applicable building or housing codes;
- Be residential units of which at least 50 percent are for nontransient occupants;
- Be in a designated distressed area if owner occupied; and
- Be approved for exemption by the city or county.

To grant an exemption, a city or county must:

- Adopt the procedures in the statutes;
- Adopt standards for eligible rehabilitation including, if desired, negotiation of rents charged during the exemption period;
- Accept both preliminary and final applications;
- Approve or disapprove applications, giving reasons for its actions; and
- Certify approved exemptions to the assessor.

Property is frozen at its value before rehabilitation for 10 years. However, if the owners of the property participate in a low-income rental assistance contract with a government agency, the city may extend the limited assessment through December 31 of the assessment year during which the termination date of the contract falls. Qualified property is generally exempt only from city or county taxes. However, if districts representing at least 51 percent of the taxes on the property pass resolutions supporting the exemption, then the exemption applies to the taxes of all districts.

PURPOSE: To “encourage the rehabilitation of existing units in substandard condition and the conversion of transient accommodation to permanent residential units and the conversion of non-residential structures to permanent residential units in order to make these units sound additions to the housing stock of the state” (ORS 308.453).

WHO BENEFITS: Multnomah County reported 137 rehabilitation properties in 2003–04, which shows a decrease from the 192 properties in 1998–99. Multi-family housing accounts for a substantial share of the value exempted.

EVALUATION: This expenditure achieves its purpose. This is a relatively older tax exemption program, and it offers a greater track record than others. The exemption is intended to provide an incentive for investor owners of rental properties to preserve and rehabilitate qualified housing that might not otherwise be improved and to provide a similar incentive as that granted to owner occupants of housing in distressed areas [New Houses in Distressed Area (2.091)].

The owner applies for the exemption up front, during the building permit phase of the conversion or rehabilitation project. An inspector comes to the property, makes the necessary determination that the property is not in substantial compliance with applicable codes, and assesses what changes need to be made to bring the development into substantial compliance. The owner then undertakes the prescribed work, agrees to limit the rate of investment return from rents to 10 percent per year, and receives the rehabilitation exemption in return. The requirements that the development be out of code compliance at the beginning of the project and the participating owner’s rate of investment return be limited act as a restriction on the level of rents charged or other possible abuse of the exemption.

After the 10 year exemption, the property comes back onto the tax rolls at its new, higher value, increasing revenues to the taxing jurisdictions. Tenants, property owners, and local governments all benefit in the long term. When looking at the increased use of this exemption in the Portland area alone, it is easy to see the magnitude of change has occurred in large part to this exemption program. It has the added advantage of being easy to access and easy to administer. Determination of a home or development’s qualification for the exemption is easily made. This tax exemption appears to be both a fiscally effective and an efficient means of achieving its public purpose. *[Evaluated by Oregon Housing and Community Services.]*

2.093 MULTI-FAMILY RENTAL HOUSING IN CITY CORE

Oregon Statute: 307.630
 Sunset Date: 1-01-06
 Year Enacted: 1975, Modified in 2003 (HB 2380)

2003–04 Assessed Value of Property Exempted: \$193.9 million

	Loss	Shift
2003–05 Revenue Impact:	\$6,700,000	\$1,200,000
2005–07 Revenue Impact:	\$8,400,000	\$1,400,000

DESCRIPTION: A city may exempt from property tax the value of multiple-family rental housing (excluding land) in specific areas for up to 10 years or, if rent is subsidized by the state or federal government, for a longer period. Cities may designate light rail station

Property Tax
Partial Exemption

areas or transit oriented areas in addition to downtown core areas. Counties may designate light rail station areas or transit oriented areas but not core areas. Housing includes newly constructed housing and conversions to housing. To grant an exemption a city must:

- Adopt the procedures in the statutes;
- Designate the eligible core area;
- Adopt standards for eligible developments including existing use of property, design, rents, and long-run public benefits;
- Provide and accept applications;
- Hold public hearings to determine whether proposed projects could be built without property tax benefits; and
- Approve or disapprove applications, giving reasons for its actions.

Approved property is exempt from city property taxes. If districts representing at least 51 percent of the taxes on the property pass resolutions supporting the exemption, then the exemption applies to the taxes of all districts. The exemption may be granted for up to 10 years. However, land cannot be exempt, and for multi-unit conversions, only the added conversion value is exempt. Construction is to be completed by January 1, 2006, but an extension is possible.

Any city over 300,000 in population (i.e., Portland) may include urban renewal land and land near the central business district within its eligible core area.

See Low-Income Multi-Unit Housing (2.094) for additional provisions associated with this exemption.

PURPOSE:	To “stimulate the construction of rental housing in the core areas of Oregon’s urban centers to improve the balance between the residential and commercial nature of those areas...” and to have city programs emphasizing the “development of vacant or underutilized sites in the core areas...” with “rental rates accessible to a broad range of the general public” (ORS 307.600).
WHO BENEFITS:	Multnomah County reported 289 exempt properties, and Lane County reported two exempt properties.
EVALUATION:	This expenditure achieves its purpose. This is a relatively older tax exemption program that offers a long track record to judge its success. The exemption offers an incentive for developers to construct or convert to rental housing developments they would not otherwise construct or convert in city downtown core areas. The burden of proof falls on the developers as to whether any given development would have been built without the benefit of the exemption. This point must be demonstrated through a series of public hearings. The exemption is popular, but the process for either seeking or receiving qualification for the exemption is expensive and time consuming. Salem, for example, still presently has only one property that has this exemption for a total of 92 units (Salem has had a total of 3 since the exemption was created). The exemption expires in 2001. Two attempts have been made in the last few years to gain approval for a housing development in Salem’s Downtown Urban Renewal District. The first time, the city approved the project but the county had not adopted a resolution supporting the exemption. The second proposal was withdrawn with the developer citing the time and expense involved in the process as being too prohibitive. Eugene has 7 properties that are exempt under this program.

The process for obtaining the exemption is cumbersome. The city of Portland charges \$5,000 per application to help offset the costs associated with qualifying a property for the exemption. The city holds three hearings on the application and must ultimately adopt a city ordinance to approve it. The Portland Development Commission and the city of Portland both get involved in detailed analysis and negotiations to ensure the exempted property provides such public benefits as: 1) reduction of rents, 2) a limited rate of return on investment to the developer and the subsequent owner of only 10–12 percent per year, and 3) public art, landscaping, child care, or set-asides of land for public parks. Although developments need only 10 units or more to qualify for the exemption, the complexity of the process makes it impractical for all but large developments. Therefore, the exemption tends to exclude smaller projects and less sophisticated housing developers.

No limit exists for how expensive the exempted units may be as long as the overall development is located in a qualifying geographical area, would not be so located without the exemption, and serves some public purpose. The hearings process is designed to ensure that these requirements are met, but the Portland hearings have rarely attracted any significant public input. As a result, exemptions have been entered on the Portland City Council’s consent calendar for relatively summary disposition. The proposed project in Salem, on the other hand, attracted a great deal of opposition, primarily because the plan was for high-end condominiums on the riverfront.

The exemption seems to perform a solid public purpose, but is subject to a locally designed approval process. *[Evaluated by Oregon Housing and Community Services.]*

2.094 LOW-INCOME MULTI-UNIT HOUSING

Oregon Statute: 307.630

Sunset Date: 1-1-06

Year Enacted: 1999, Modified in 2003 (HB 2380)

2003–04 Assessed Value of Property Exempted: Included in Multi-Family Rental Housing in City Core (2.093)

	Loss	Shift
2003–05 Revenue Impact:	Included in 2.093	Included in 2.093
2005–07 Revenue Impact:	Included in 2.093	Included in 2.093

DESCRIPTION: This expenditure is an addition to the Multi-Family Rental Housing in City Core (2.093) expenditure. A city may exempt from property tax any building operated as low-income rental housing under a low-income assistance contract with the state or federal government, or a facility that has been converted into multiple-unit housing for low-income residents in a city or county that has adopted an ordinance.

An exemption is allowed only when the city or county has designated an area in which exemptions may be granted and has approved the exemption application. Applications must have been received for tax years beginning July 1, 2000, or later, and received through January 1, 2006.

Property Tax
Partial Exemption

PURPOSE: To provide an incentive to maintain or expand the supply of low-cost rental housing.

WHO BENEFITS: Owners of low-income rental housing complexes, who otherwise may have been forced to cease renting to low-income tenants.

EVALUATION: The tenants of subsidized housing are of very low income and would have very limited opportunities in finding replacement housing at the same subsidized rents without this program. *[Evaluated by Oregon Housing and Community Services.]*

2.095 NEW HOUSING FOR LOW-INCOME RENTAL

Oregon Statutes: 307.517 and 307.518
Sunset Date: 12-31-09
Year Enacted: 1989

2003–04 Assessed Value of Property Exempted: \$34.0 million

	Loss	Shift
2003–05 Revenue Impact:	\$1,100,000	\$200,000
2005–07 Revenue Impact:	\$1,200,000	\$200,000

DESCRIPTION: Newly constructed rental housing occupied by low-income persons or held for future development as low-income rental housing is exempt from property taxes for 20 years if the property is:

- Located in a city or county that adopts state statutes;
- Built after the city or county adopts state statutes, and completed prior to January 1, 2010;
- Approved by the city or county upon application;
- Rented only to persons with income at or below 60 percent of area median income based on U.S. Department of Housing and Urban Development Criteria; and
- Rented at rates that reflect the full property tax reduction.

The owner may be either a for-profit business or nonprofit entity. Leasehold interests qualify if the lease requires payment of property tax or the rent reflects the exemption tax savings. In addition, low-income rental residences owned by a nonprofit public benefit or religious corporation under state law (rather than as a federal 501(c)(3) nonprofit) are exempt provided the corporation uses 90 percent of its rental income for repair, purchase, or onsite day care services for the residents.

Approved property is exempt only from city or county taxes. To exempt all property tax, districts levying 51 percent or more of the taxes on the property must pass a resolution to approve the exemption.

PURPOSE: To encourage for-profit businesses to develop low-income housing by providing an exemption similar to that available to nonprofit organizations in cities adopting an exemption program under ORS 307.541 [Nonprofit Low-Income Rental Housing (2.096)].

WHO BENEFITS: About 58 properties in Douglas, Washington, Yamhill, and Lane counties are exempt under this provision.

EVALUATION: This expenditure is critical to the viability of many low-income housing developments; it achieves its stated purpose. The exemption reduces the operating expenses for the provider of low-income housing, thereby resulting in lower rents. Without this assistance in lowering rents, some Oregonians could not afford decent housing; in some cases, this housing would not be built.

Where a taxing jurisdiction has adopted the authorizing provisions, the process by which it grants the exemption is quite straightforward; if a development meets the criteria, it receives the benefit of the exemption. It is relatively easy to administer once in place. However, some jurisdictions have not adopted the authorizing provisions because the extent of their ability to add constraints to existing criteria for granting exemptions has not been clearly established. An amendment clarifying the ability of local governments to add additional criteria or to shorten the length of the exemption would be of value in encouraging more local governments to adopt and use this exemption.

The taxing entity typically requires an annual report of tenant income levels and the rental rates being charged in exempted developments. This helps ensure fulfillment of the requirement that the project rental rates reflect the full property tax reduction and prevents possible abuse of the exemption by developers or development owners.

After the 20-year exemption, the entire property comes onto the tax rolls at its full assessed value. Tenants, property owners, and local governments benefit in the long term.

The impact of Ballot Measure 50 on this exemption is unclear as of yet. Measure 50 may discourage local governments from using this exemption in the future. Under Measure 50, property tax exemptions cause actual revenue losses to local governments. Prior to Measure 50, exemptions did not decrease local tax revenues because other property tax payers paid at a higher tax rate to compensate.

This exemption enables local governments to contribute to providing affordable housing in their communities without raising additional revenue and spending it on affordable housing. The administrative costs of this exemption are likely less than would be incurred through a direct program developed to achieve this objective. This exemption fits well with other direct and indirect spending programs for affordable housing assistance. The exemption is both fiscally effective and an efficient means of achieving its public goal. *[Evaluated by Oregon Housing and Community Services.]*

2.096 NONPROFIT LOW-INCOME RENTAL HOUSING

Oregon Statute: 307.541

Sunset Date: 6-30-2014

Year Enacted: 1985 Sunset extended in 2003 (HB 2535)

2003–04 Assessed Value of Property Exempted: \$273.9 million

	Loss	Shift
2003–05 Revenue Impact:	\$8,600,000	\$1,500,000
2005–07 Revenue Impact:	\$10,200,000	\$1,700,000

DESCRIPTION: A city or county may exempt low-income rental housing owned or being purchased by a nonprofit corporation from property tax. The property must be in use as housing or must be held for that purpose. Qualifying nonprofit corporations must be exempt from federal income tax [Section 501(c)(3) or (4) of the Internal Revenue Code] and upon liquidation distribute remaining assets to other tax-exempt charitable organizations or the state of Oregon.

Qualified property is exempt only from city or county taxes. To exempt all property taxes, districts levying 51 percent or more of the taxes on the property must pass resolutions to approve the exemption.

The nonprofit corporation must certify that the income levels are below 60 percent of median family income guidelines and describe how the exemption will benefit project residents. No restriction exists on whether the housing is newly constructed, an existing structure, or a rehabilitated structure.

Each year the nonprofit corporation must file an application with the appropriate governing body to claim the exemption. The exemption is only allowed for tax years beginning on or after January 1, 1985, and before July 1, 2014.

This expenditure is similar to New Housing for Low-Income Rental (2.095). The qualifications differ somewhat for each expenditure, but for nonprofit organizations, they may likely qualify under either requirement.

PURPOSE: To encourage nonprofit organizations to help fill the need for low-income housing.

WHO BENEFITS: Nonprofit organizations benefit directly. The tenants of the housing benefit to the extent that below-market rate rental housing is available. In 2003–04 there were about 600 accounts in five counties that qualified for this exemption. Almost all of the exempt property is located in Multnomah County.

EVALUATION: This expenditure achieves its purpose. The exemption is intended to enable community development corporations and other qualifying local nonprofit organizations to provide affordable rental housing for low income households they would otherwise be unable to provide. To qualify for this popular program, the nonprofit submits an application each year for a one-year exemption, renewable indefinitely before the exemption’s sunset date as long as the organization, tenants, and property continue to meet the qualifying criteria. The exemption is simple to administer because the criteria are clear: 1) the benefiting organization must be a qualified nonprofit 2) the benefiting tenants must have qualifying income levels and 3) the property must consist of qualifying rental housing. Having met these requirements, a nonprofit will receive its exemption. The tax expenditure appears to be both a fiscally effective and efficient means of achieving its goal. These exemptions can be counted as matching funds by the state and other local

participating jurisdictions to enable the expenditure of HUD Home Investment Partnerships funds. *[Evaluated by Oregon Housing and Community Services.]*

2.097 WAR VETERANS AND THEIR SPOUSES

Oregon Statute: 307.250

Sunset Date: None

Year Enacted: 1921, Modified in 2003 (SB 225)

2003–04 Assessed Value of Property Exempted: \$475 million

	Loss	Shift
2003–05 Revenue Impact:	\$12,900,000	\$2,400,000
2005–07 Revenue Impact:	\$13,700,000	\$2,500,000

DESCRIPTION: Eligible war veterans or their surviving spouses may be able to exempt a portion of their homestead or personal property’s assessed value from property taxes. The taxpayer must own and live on the property. The exemption is first applied to the home and then to taxable personal property. For 2004-05, the exemption amount is either \$10,160 or \$13,520; these amounts increase by three percent each year.

To be eligible for the \$10,160 exemption, a taxpayer must be:

- A war veteran certified within the last three years by the U.S. Department of Veterans Affairs or any branch of the U.S. Armed Forces as having disabilities of at least 40 percent; or
- A war veteran who is annually certified to be at least 40 percent disabled by a licensed physician and whose total gross income is less than (a) \$8,778 if he or she has no spouse or dependent child, (b) \$11,497 if he or she has a spouse or dependent child, or (c) \$11,497 plus \$1,496 for the second and each additional dependent family member; or
- A surviving spouse of a war veteran (whether or not the veteran was disabled) who has not remarried.

To be eligible for the \$13,520 exemption, a taxpayer must be:

- A war veteran certified within the last three years by the U.S. Department of Veterans Affairs or any branch of the U.S. armed forces as having **service-connected** disabilities of at least 40 percent; or
- A surviving spouse of a war veteran who died from a service-connected injury or illness, or who had received at least one year of the maximum exemption (\$13,520). Also, the surviving spouse must not have remarried.

A war veteran is defined in ORS 174.105 as anyone who served in the Armed Forces of the United States at least 90 days during World War I, World War II, or the Korean War, or served at least 210 days anytime after 1955.

Veterans are allowed up to three years of retroactive partial exemption if the veteran has recently received a disability certificate. The veteran must have disabilities of at least 40 percent, as certified by the U.S. Department of Veterans Affairs or any branch of the U.S. Armed Forces. To receive this retroactive exemption and a refund

Property Tax
Partial Exemption

of taxes paid (with interest), the veteran must file a claim for exemption with the county assessor within six months of the date of the disability certification.

The revenue impacts reported here include those real property exemptions for veterans who live in qualified nonprofit homes for the elderly [War Veterans in Nonprofit Elderly Housing (2.098)].

- PURPOSE:** To recognize the service and sacrifices made by veterans for the country and to compensate veterans for reductions in civilian earning capacity due to disabilities.
- WHO BENEFITS:** In 2003–04 about 37,500 veterans or their spouses received the exemption. The average exemption was about \$12,600.
- EVALUATION:** This tax expenditure achieves its purpose by providing an additional income benefit to disabled veterans and surviving spouses of all veterans. In many cases, if it were not for this benefit, the veteran or spouse may lose their home or become dependent on social assistance programs. This additional spendable income also helps the local economy.
- The expenditure is fiscally effective. It allows disabled veterans and surviving spouses to remain independent and reduces their use of other social programs. *[Evaluated by the Oregon Department of Veterans' Affairs.]*

2.098 WAR VETERANS IN NONPROFIT ELDERLY HOUSING

Oregon Statute: 307.370
Sunset Date: None
Year Enacted: 1969

2003–04 Assessed Value of Property Exempted: \$5.6 million

	Loss	Shift
2003–05 Revenue Impact:	\$200,000	Less than \$50,000
2005–07 Revenue Impact:	\$200,000	Less than \$50,000

DESCRIPTION: Qualified nonprofit homes for the elderly can claim the veteran’s real property tax exemption for their residents if they pass the tax benefit through to the eligible individuals in terms of lower rentals. However, veterans or their widows who are residents of nonprofit homes for the elderly do not qualify for the War Veterans and Their Spouses (2.097) property tax exemption because they do not own their living units. To qualify under this exemption, the home must:

- Be nonprofit;
- Receive at least 95 percent of its operating revenue (excluding investment income) from residents for living, medical, recreational and social service costs;
- Not allow any of its net earnings to benefit any private individual; and
- Provide that, if the corporation is dissolved, any remaining assets revert to the state or to an exempt, religious, charitable, scientific, literary, or educational organization.

These are the same homes described under Nonprofit Housing for the Elderly (2.110). However, this exemption relates to the value of the personal property exempt. A claim for exemption must be filed with the county assessor.

Besides the real property veteran's exemption, all personal property of nonprofit homes for the elderly is exempt from property taxation. The exempt value reported here is for personal property of the nonprofit homes only. The real property veteran's exemption is included in War Veterans and Their Spouses (2.097).

PURPOSE: To extend veteran property tax exemption benefits to those not owning a home but living in a nonprofit home for elderly persons. In addition, the personal property exemption is to encourage housing for the elderly.

WHO BENEFITS: Approximately seven homes in four counties have a personal property exemption.

EVALUATION: This expenditure only partially achieves its purpose. It does allow disabled veterans and spouses who are living in nonprofit homes for the elderly to receive a rent reduction equivalent to the tax reduction for those who own their homes, as described in War Veterans and Their Spouses (2.097). This benefit may allow disabled veterans and surviving spouses to remain independent and reduces their use of other social programs.

However there are only about 15 such nonprofit homes for the elderly where disabled veterans and spouses can receive a rent reduction. It would appear that the number of veterans and spouses who can take advantage of this program is quite limited. In addition, we did not have the information to verify that the rent reductions were passed through to the eligible veterans and spouses, although a verification mechanism is in place. According to statute, each nonprofit corporation must provide information to the county assessor to show that the appropriate rent credit was given to each applicable resident. *[Evaluated by the Oregon Department of Veterans' Affairs.]*

2.099 AGRICULTURAL COMMODITY CLEANING PROPERTY

Oregon Statute: 307.120

Sunset Date: None

Year Enacted: 1999, Modified in 2003 (HB 2454)

2003–04 Assessed Value of Property Exempted: \$2.3 million

	Loss	Shift
2003–05 Revenue Impact:	\$100,000	Less than \$50,000
2005–07 Revenue Impact:	\$100,000	Less than \$50,000

DESCRIPTION: A partial property tax exemption is allowed for real property, owned or leased by a municipality or port, when the property is used to clean or decontaminate agricultural commodity cargo. Once real property qualifies, the taxpayer pays a tax of one-quarter of one percent of the real market value of the exempt property.

PURPOSE: To encourage cleaning or decontaminating of agricultural commodity cargo.

WHO BENEFITS: One grain cleaning facility located at the Port of Portland is known to benefit from this exemption.

Property Tax
Partial Exemption

EVALUATION: Local municipalities were attempting to tax recent improvements in grain export handling equipment at a higher rate than all other similar equipment and facilities located at the same port site. The tax status granted by this partial exemption simply places the improved cleaning facilities at the same tax rate as all other grain handling facilities at the Port of Portland. The grain company views this as an equity issue and believes it is critical to being competitive in international commerce. The partial exemption appears to be serving its purpose and is justifiable in keeping rates equitable for like facilities and equipment. *[Evaluated by the Department of Agriculture.]*

2.100 POLLUTION CONTROL FACILITIES

Oregon Statute: 307.405
Sunset Date: 12-31-07
Year Enacted: 1967

2003–04 Assessed Value of Property Exempted: \$1.1 million

	Loss	Shift
2003–05 Revenue Impact:	Less than \$50,000	Less than \$50,000
2005–07 Revenue Impact:	Less than \$50,000	Less than \$50,000

DESCRIPTION: A pollution control facility owned or leased by a cooperative or nonprofit corporation and used in connection with its trade or business is eligible for a property tax exemption.

The Environmental Quality Commission certifies the facility cost and the exemption percentage. The exemption lasts 20 years from the date of certification.

A pollution control facility is any land, structure, machinery, equipment, or device that prevents, controls, or reduces air, water, noise, or nonpoint source pollution, solid or hazardous waste, or recycles or disposes of used oil. In most cases, the percentage allocable to pollution control depends on whether the owner earns any income from the facility. Thus, if a pollution control facility, in addition to reducing pollution, has some useful end product, then only a portion of the construction of the facility might be allocated to pollution control.

The program provides an incentive to cooperatives and non-profits for installing pollution control facilities not required under current law; defined as “sole purpose facilities.” The program also compensates cooperatives and nonprofits for installing facilities required by the Department of Environmental Quality or by the U.S. Environmental Protection Agency; defined as “principal purpose facilities.”

This exemption is a companion to the Pollution Control credit (1.170) on income tax. For-profit companies are eligible for the income tax credit, while nonprofits and cooperatives are eligible for the property tax exemption.

PURPOSE: To “assist in the prevention, control and reduction of air, water and noise pollution and solid waste, hazardous wastes and used oil in this state by providing tax relief...” (ORS 468.160).

WHO BENEFITS: In 2003–04, there were seven pollution control facilities located in five counties. Most of the exempt value was approved before 1983. Only about \$1.2 million has been approved since for-profit businesses were denied the choice of a property tax exemption. Thus, the amount exempt is likely to decline over time.

EVALUATION: This expenditure has limited success in achieving its purpose. It attempts to provide, for cooperatives and nonprofits, an incentive similar to the income tax credit available to for-profit businesses [Pollution Control credit (1.170)]. Since 1995, no cooperatives or nonprofits have applied for a property tax exemption. As with the income tax credit, some of the investment qualifying for the property tax exemption is likely a result of the incentive, but most investments would have occurred anyway because law requires them. *[Evaluated by the Department of Environmental Quality.]*

2.101 ETHANOL PRODUCTION FACILITIES

Oregon Statute: 307.701

Sunset Date: 6-30-08

Year Enacted: 1993

2003–04 Assessed Value of Property Exempted: Minimal

	Loss	Shift
2003–05 Revenue Impact:	Less than \$50,000	Less than \$50,000
2005–07 Revenue Impact:	Less than \$50,000	Less than \$50,000

DESCRIPTION: The real and personal property of an ethanol production facility is exempt from taxation. The exemption is for 50 percent of the assessed value of the property determined under ORS 308.146. The exemption may be claimed for five assessment years. For the exemption to apply, the following conditions must be met:

- The facility is first in the process of construction, erection, or installation as a new facility after July 1, 1993;
- The facility is or will be placed in service to produce ethanol within four years after January 1 of the first assessment year for which the exemption under this section is claimed; and
- Within four years after January 1 of the first assessment year for which the exemption under this section is claimed, the facility is or will be certified by the state Department of Agriculture as a facility that produces ethanol capable of blending or mixing with gasoline.

An application must be filed with the county assessor. If production or certification does not occur within the time allowed, the property is not exempt for any tax year. Any prior exemption must be repaid by adding the property to the role as omitted property.

PURPOSE: To encourage ethanol production in Oregon to alleviate dependence on foreign oil, as well as to encourage an alternative method to dispose of agricultural waste.

WHO BENEFITS: Developers of ethanol production facilities. There are potentially three taxpayers who could benefit from this exemption.

EVALUATION: Three ethanol production facilities are being considered for development in Oregon. This exemption might affect whether they are built. *[Evaluated by the Department of Energy.]*

2.102 ALTERNATIVE ENERGY SYSTEMS

Oregon Statute: 307.175

Sunset Date: 6-30-12

Year Enacted: 1975

2003-04 Assessed Value of Property Exempted: \$123 million

	Loss	Shift
2003–05 Revenue Impact:	\$3,300,000	\$600,000
2005–07 Revenue Impact:	\$3,500,000	\$600,000

DESCRIPTION: Solar, geothermal, wind, water, fuel cell, or methane gas energy systems used for heating, cooling, or generating electricity are partially exempt from local property tax. The amount of exemption is the difference between the value of property equipped with the alternative system and its value if it were not equipped with the system. The exemption applies to all property (residential, business, etc.) except property of businesses whose primary activity is supplying energy.

PURPOSE: To encourage the use of alternative sources of energy by providing a tax incentive. Alternative energy systems often have greater up-front costs than energy systems such as natural gas or electric.

WHO BENEFITS: More than 22,000 residential properties and 500 businesses in Oregon have installed solar or other renewable energy systems since the program began.

EVALUATION: It is difficult to measure the impact the tax exemption has made on the number of households and businesses installing equipment that uses solar, wind, hydro, or geothermal energy. The predominant incentives that have encouraged such installations have been the tax credits described in Alternative Energy Devices (Residential) (1.175) and Business Energy Facilities (1.177) available under the income tax. The property tax exemption may work in tandem with those credits. Without the exemption, homeowners and businesses might hesitate to invest in a system that would increase their assessed valuation.

We have no evidence that residential and commercial appraisers account for the property tax exemption in their valuations of property and related equipment. Many of the qualifying business alternative energy systems are complex heat recovery or biomass boiler systems for which the assessment of component value is difficult.
[Evaluated by the Department of Energy]

2.103 WATERCRAFT CENTRALLY ASSESSED

Oregon Statute: 308.515
Sunset Date: None
Year Enacted: 1925

2003–04 Assessed Value of Property Exempted: Not Available*

	Loss	Shift
2003–05 Revenue Impact:	Not Available*	Not Available*
2005–07 Revenue Impact:	Not Available*	Not Available*

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

DESCRIPTION: Some watercraft used outside Oregon are partially exempted from property taxation.

The watercraft of water transportation companies (barges, tugboats, excursion boats, etc.) involved in transportation of people or goods on inland waters (including border rivers and coastal bays) are centrally assessed for property taxation by the Department of Revenue. Also, the watercraft of centrally assessed utilities are assessed by the department. To the extent that watercraft of these businesses are used on the high seas or outside Oregon, they are exempt. Trips between inland ports and high seas are treated as high seas' use. These watercraft are taxable to the extent they are used on Oregon inland waters.

A related provision, Watercraft Locally Assessed (2.118), allows for special assessment of some other types of commercial watercraft.

Interstate ferries also fall within this exemption.

PURPOSE: To apportion to Oregon the taxable value of watercraft based on their use in Oregon.

WHO BENEFITS: Only a small number of centrally assessed water transportation companies qualify for the exemption.

EVALUATION: Not evaluated.

2.104 HISTORIC PROPERTY

Oregon Statute: 358.505
Sunset Date: 6-30-10
Year Enacted: 1975

2003-04 Assessed Value of Property Exempted: \$607 million

	Loss	Shift
2003–05 Revenue Impact:	\$16,500,000	\$3,100,000
2005–07 Revenue Impact:	\$17,700,000	\$3,300,000

DESCRIPTION: Any growth in value of qualified historic property above its assessed value at the time of application for historic property classification is exempt from property tax for up to 15 years. In effect, the assessed value is frozen at the time of application, and increased value from improvements or inflation is exempt for 15 years. Business

Property Tax
Partial Exemption

property can qualify for a second 15-year exemption if a renovation plan is accepted for seismic upgrade, energy conservation, or disability access. The property continues to qualify if it meets minimum standards of maintenance set by the State Historic Preservation Officer and is open to the public at least one day a year.

Until January 2002, the program for new participants was limited to properties requiring rehabilitation, as opposed to normal maintenance. New applicants had to file a preservation plan with the State Historic Preservation Officer describing proposed rehabilitation, in addition to the requirements listed above. The plan had to be approved by the Historic Assessment Review Committee (HARC).

The 2001 Legislature made many changes to the statute. Maintenance and preservation were added to rehabilitation as eligible activities. The HARC was turned into an appellate body, and application approval authorities were transferred to the State Historic Preservation Officer. A revolving loan fund authority was granted, and, in some cases, new construction was allowed to be taxed at the “frozen” rate.

If the historic property is disqualified, the tax savings from having a frozen value must be repaid. The additional tax and interest is equal to the sum of the tax benefit received for each year of special assessment as historic property. In addition, if the owner fails to notify the assessor when the property becomes disqualified, the additional tax is increased by a penalty of 15 percent. However, if the property is destroyed by fire or act of God or transferred to a tax-exempt owner, no additional tax or penalty is charged. Also, if an owner invests 5 times the amount of the penalty in the historic building, they do not have to repay the back taxes.

- PURPOSE:** To “...maintain, preserve and rehabilitate properties of Oregon historical significance...” (ORS 358.475).
- WHO BENEFITS:** About 2,200 historic properties qualify for the exemption. Frozen value is about 50 percent commercial (including multi-family residential) and 50 percent single family residential property. Qualified properties are in almost every county but are concentrated in Multnomah County, where over 60 percent of the exempt value resides.
- EVALUATION:** This expenditure has been very successful in achieving its purpose, but the substantial reduction in property taxes caused by Measures 5 and 50 has reduced the incentive for taxpayers to participate in the program.
- Oregon's program is the nation's oldest tax incentive for the preservation of historic property. The incentive attracts both commercial and residential clients, representing all economic groups. The benefit, originally enacted as an anti-demolition incentive, has been used to save hundreds of significant abandoned or economically underutilized historic properties and to revitalize whole areas in communities. Direct investment in rehabilitation, stabilization, or expansion of the work force in historic urban commercial areas, re-use of existing infrastructure, and stabilization or expansion of the existing tax base are all measurable benefits of the expenditure. Other benefits include the preservation of the tangible remnants of Oregon's history, the enhancement of Oregon's quality of life, and the economic development and tourism benefits.
- The economic benefits of the program more than offset the costs to local government. Rehabilitation activity might have occurred without the incentive, but certainly not at the pace or extent that has been exhibited in the past. Despite this success, many potential recipients will not utilize the benefit, particularly in areas of the state with

flat economies. Mostly, this is because the effectiveness of the incentive has been greatly reduced by Ballot Measures 5 and 50.

As a result of Measure 50, we anticipate that specially-assessed property owners will see potential further reductions in savings because taxable assessed values are no longer directly tied to real market values. Without the potential for double-digit valuation increases on an individual property, the value of the benefit to the owner will likely be reduced. Potential savings are also likely to be reduced because improvements classified as minor construction will not change a property's assessed value. In addition, because of 1995 legislative changes requiring a commitment to a specific time-framed list of rehabilitation work items, it is now possible that rehabilitation expenditures will exceed more frequently the potential tax savings over the 15-year benefit period.

As a result of this instability, applications have continued to drop. In calendar year 2002, there was only one application (assessed value \$13,284); in calendar year 2003 there were 26 (assessed value \$7.4 million).

Given the administrative costs versus the anticipated tax savings, the program in its current form no longer provides an adequate state incentive for assisting owners of National Register properties in preserving and rehabilitating them in the public interest, particularly on the residential side. An investment tax credit has been proposed to the Governor's Office for several biennia but has not been approved. An investment tax credit would significantly increase the number of program beneficiaries, particularly in economically distressed communities. *[Evaluated by the Oregon Parks and Recreation Department.]*

2.105 RAILROAD RIGHT OF WAY IN WATER DISTRICT

Oregon Statute: 264.110

Sunset Date: None

Year Enacted: 1943

2003–04 Assessed Value of Property Exempted: \$49.5 million

	Loss	Shift
2003–05 Revenue Impact:	Less than \$50,000	Less than \$50,000
2005–07 Revenue Impact:	Less than \$50,000	Less than \$50,000

DESCRIPTION: Railroad right of way, improvements, or rolling stock are exempt from property tax imposed by a water supply district.

PURPOSE: To avoid taxing a property owner that would not significantly benefit from a water district's services and might otherwise oppose a district's formation.

WHO BENEFITS: Railroad companies that have property water supply districts.

EVALUATION: Not evaluated.

Property Tax
Partial Exemption

2.106 RAILROAD RIGHT OF WAY IN HIGHWAY LIGHTING DISTRICT

Oregon Statute: 372.190
Sunset Date: None
Year Enacted: 1947

2003–04 Assessed Value of Property Exempted: Not Available

	Loss	Shift
2003–05 Revenue Impact:	Not Available	Not Available
2005–07 Revenue Impact:	Not Available	Not Available

DESCRIPTION: Railroad rights of way are exempt from property taxes imposed by a highway lighting district unless the right of way is at a grade crossing.

PURPOSE: To avoid assessing a property owner that would not significantly benefit from a lighting district's services and might otherwise oppose a district's formation.

WHO BENEFITS: Railroad companies that have property in highway lighting districts.

EVALUATION: Not evaluated.

2.107 RAILROAD RIGHT OF WAY IN RURAL FIRE DISTRICT

Oregon Statute: 478.010(2)(d)
Sunset Date: None
Year Enacted: 1969

2003–04 Assessed Value of Property Exempted: \$176.8 million

	Loss	Shift
2003–05 Revenue Impact:	\$600,000	Less than \$50,000
2005–07 Revenue Impact:	\$700,000	Less than \$50,000

DESCRIPTION: Railroad right of way, improvements, or rolling stock are exempt from property tax by a rural fire protection district unless the railroad consents to be taxed.

PURPOSE: To avoid assessing a property owner that would not significantly benefit from a rural fire district and might otherwise oppose a district's formation.

WHO BENEFITS: Railroad companies that have property in fire districts are the beneficiaries. In 2003, there were 270 rural fire districts.

EVALUATION: Not evaluated.

2.108 AIRCRAFT

Oregon Statutes: 308.558 and 308.565

Sunset Date: None

Year Enacted: 1987

2003–04 Assessed Value of Property Exempted: \$284.6 million

	Loss	Shift
2003–05 Revenue Impact:	\$7,700,000	\$1,400,000
2005–07 Revenue Impact:	\$8,400,000	\$1,600,000

DESCRIPTION: 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.

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

WHO BENEFITS: The Department of Aviation registers about 4,950 aircraft that are exempt from property tax. In addition, a few air transportation companies own aircraft under 75,000 pounds that are taxed at 60 percent of their assessed value.

IN LIEU: The annual registration fee varies from \$37 for a sailplane to \$187 for a turbojet. Registration fees as an in-lieu payment will be about \$608,900 in the 2003–05 biennium.

EVALUATION: This expenditure achieves its purpose. The user fee principle noted for Motor Vehicles and Trailers (2.059) is similar in concept to the current means of assessing those that benefit from the use of aircraft facilities and services. The user fee principle is believed to be the most equitable practice for assessing fair cost. There are currently various means of assessing those that use airport facilities, such as aircraft registration, fuels tax, tie down fees, and parking fees. Value related taxation would upset the user fee principle.

Another method for taxing aircraft that was considered in the past was an assessment for the use of Oregon air space. However, it was never implemented because it was believed to be too cumbersome a process and too costly to enforce. *[Evaluated by the Department of Aviation.]*

2.109 DESTROYED OR DAMAGED PROPERTY

Oregon Statute: 308.425

Sunset Date: None

Year Enacted: 1971

2003–04 Assessed Value of Property Exempted: Minimal

	Loss	Shift
2003–05 Revenue Impact:	Less than \$50,000	Less than \$50,000
2005–07 Revenue Impact:	Less than \$50,000	Less than \$50,000

DESCRIPTION: If property is destroyed or damaged during the tax year by fire or an act of God, then the property tax is prorated on a monthly basis. If property is totally destroyed, the tax is 1/12 of the total tax for each month or part of a month in the tax year prior to destruction. If the property is damaged, the tax is 1/12 of the total tax for each month prior to damage plus a percent of the monthly tax for each month in the tax year that the property remains damaged. The percentage is the ratio of the value after damage to the value before damage.

This is not an exemption but a reduction in tax equivalent to a reduced value after the assessment date. The property owner must apply to receive the proration. Relief cannot be granted for a property when the person seeking relief is convicted of arson for the same property.

PURPOSE: To grant tax relief to those with a total or partial loss of use of the property due to fire or natural causes.

WHO BENEFITS: Property owners whose property is destroyed or damaged by fire or natural causes during the tax year.

EVALUATION: Not evaluated.

2.110 NONPROFIT HOUSING FOR THE ELDERLY

Oregon Statute: 308.490

Sunset Date: None

Year Enacted: 1969

2003–04 Assessed Value of Property Exempted: Minimal

	Loss	Shift
2003–05 Revenue Impact:	Less than \$50,000	Less than \$50,000
2005–07 Revenue Impact:	Less than \$50,000	Less than \$50,000

DESCRIPTION: The assessed value of a home for the elderly operated by a nonprofit corporation may only be calculated using certain appraisal methods. These methods may not take into account replacement cost, but rather include: the amount of money for which the property may be exchanged in a reasonable period of time, the gross income that could be reasonably expected from the property if leased or rented, and the relative supply and demand for such properties. Use of the gross income method for these properties generally results in lower assessed values than would be arrived at using a replacement cost approach. These lower assessed values result in decreased taxes on these properties.

The nonprofit corporation must be organized and operated to provide permanent residential, recreational, and social facilities primarily for the elderly and receive 95 percent of its gross operating revenue from payments for housing, medical, and recreation services received in its facilities.

PURPOSE: To encourage housing for the elderly. The statutory policy is to recognize “benefits inherent in operation of these homes, especially in the housing and care furnished to elderly persons for whom this state and its political subdivisions otherwise might be responsible...” [ORS 308.490(1)].

WHO BENEFITS: Nonprofit organizations that own elderly residence facilities receive the direct benefit from this expenditure. These facilities are located in Multnomah, Polk, Douglas, Jackson, and other counties. Qualifying facilities may serve a wide range of tenants, and these tenants may have any income level because there is no tenant income requirement.

EVALUATION: Whether this tax expenditure achieves its purpose is difficult to determine without more information. Unlike many other housing-related tax expenditure programs, this does not involve local government decision-making, but rather contemplates that nonprofit owners of qualified housing will deal directly with local assessors. The tax expenditure is intended to encourage owners to provide housing for the elderly that they might not otherwise be able to provide. The program benefits the owner directly through reduced property taxes and the occupants indirectly by ensuring that this form of housing is available to them, presumably at a reduced rate from market rents commensurate with the tax savings. No verification mechanism is in place to ensure this result. Additionally, those active in the provision of affordable housing in the state of Oregon claim this program is not significant in state or local efforts to provide affordable housing. *[Evaluated by Oregon Housing and Community Services.]*

2.111 MULTI-UNIT RENTAL HOUSING

Oregon Statutes: 308.704

Sunset Date: None

Year Enacted: 2001

2003–04 Assessed Value of Property Exempted: \$147.4 million

	Loss	Shift
2003–05 Revenue Impact:	\$4,600,000	\$800,000
2005–07 Revenue Impact:	\$5,100,000	\$900,000

DESCRIPTION: Owners of multi-unit rental housing property that is limited by government restrictions on use may apply for special assessment of the property. The restrictions on use are part of a number of government incentive programs that limit use by restricting rents and qualifying tenants based on income. The property must be residential and consist of four or more units and may not be an assisted living facility. It must be used for rental housing based on qualifying income of renters, which thereby allows the owner to take advantage of a federal low-income housing tax credit, a low interest or government guaranteed loan, rent subsidies, or other government incentive programs. This special assessment was available the first time for fiscal year 2002–03 taxes.

Upon application to the assessor by the owner before April 1 of the assessment year applied for, the owner may select a special assessment calculation method. If the application is submitted between April 1 and December 31, a late fee must accompany the application. The special assessed value may be calculated either by using:

- An annual net operating income approach and a capitalization rate, or
- An adjustment of market value based on the ratio of the average rent of restricted income rental units to the average rent of similar units that do not have tenant income qualifications and limited rents.

The assessed value is then determined as the lesser of the special assessed value, real market value, or maximum assessed value. In the first year applied for, the maximum assessed value equals the special assessed value multiplied by the ratio of maximum assessed value to real market value of properties in the same area with the same property class as the specially assessed property.

PURPOSE: To establish common appraisal methods and tax treatment for multi-unit low-income rental housing complexes in a way that provides tax relief to compensate for the government imposed restrictions on use of such properties. This is similar to the intent of legislators providing special assessment provisions for farm land in exclusive farm use zone areas where use of the land is limited to farming.

WHO BENEFITS: Twenty-nine counties reported 534 accounts qualified for this exemption for 2003–04.

EVALUATION: It is anticipated that this expenditure will achieve its purpose. The community of affordable housing developers, consisting of both for-profit and nonprofit organizations, were experiencing economic hardships with the valuation of properties based on the cost of development. The restricted rental incomes of the affordable housing developments throughout the state did not generate enough cash flow to cover property taxes based on valuations related to cost of development. Owners of

some newly created developments were forced to access operating reserves as a short-term gap to meet the additional property tax expenses. Without the relief offered through this special assessment, affordable housing developments were at risk of technical or actual default with their primary lenders. Without the relief, these same lenders would be less willing to underwrite new loans without additional subsidies from government entities thereby reducing the number of new affordable units that could be deployed. *[Evaluated by Oregon Housing and Community Services.]*

2.112 FARM LAND

Oregon Statute: 308A.050

Sunset Date: None

Year Enacted: 1967

2003-04 Assessed Value of Property Exempted: \$8.6 billion

	Loss	Shift
2003–05 Revenue Impact:	\$177,500,000	\$39,000,000
2005–07 Revenue Impact:	\$181,000,000	\$39,800,000

DESCRIPTION: Land used exclusively for farming may be specially assessed at its value for farm use instead of its value in its “highest and best use” (ORS 308A.050 to 308A.128). Farm activity may involve crops, livestock, poultry, fur-bearing animals, honeybees, dairies, animal husbandry, aquatic species, and cultured Christmas trees. Farm use land may also include a woodlot of 20 acres or less, wasteland, land under farm buildings, and ponds. The farmer must intend to make a profit using accepted farming practices.

Farm use value is determined by an income approach. Under this approach, income generated (before property taxes) from comparable properties is capitalized into a present value for farm use. The capitalization rate is the average interest rate charged over the last five years by the Farm Credit Service (formally Federal Land Bank) on loans for Oregon farm properties plus the local property tax rate. The Department of Revenue calculates the rate each year.

Eligible farm land is in one of two categories:

- Exclusive farm use farm land—inside an exclusive farm use (EFU) zone, or
- Non-exclusive farm use farm land—outside an exclusive farm use zone (non-EFU).

The farm use value of EFU and non-EFU farm land is determined the same way. However, the eligibility and disqualification procedures are different.

Exclusive Farm Use Farm Land

Special assessment of EFU farm land is automatic if the land is in an exclusive farm use zone and is in a qualifying farm use. No application is needed. EFU farm land becomes disqualified if it is not in farm use, the land is approved for a nonfarm use allowed in ORS Chapter 215, or the land is rezoned to a non-EFU zone. If land is

disqualified, an additional tax may be required. The additional tax is equal to the difference between the taxes assessed against the land and the taxes that would otherwise have been assessed against the land in each of the prior years (up to a maximum) of special assessment. The maximum number of years is 10 for land outside an urban growth boundary and five if inside an urban growth boundary. However, if a disqualifying zone change occurs that is not requested by the owner, no additional tax is imposed.

Non-Exclusive Farm Use Farm Land

An application must be filed for special assessment of non-EFU farm land. In addition to being in farm use, non-EFU farm land must be part of a farm unit that earns a minimum gross income from farm use in three of the last five nonflood or nondrought calendar years. For farms of more than 6-1/2 acres but less than 30 acres, the minimum gross income required is \$100 per acre. For farm units 6-1/2 acres or less, the minimum income is \$650, and for farms of 30 acres or more, the requirement is \$3,000.

If land is disqualified, additional taxes may be required. The additional tax is equal to the difference between the taxes assessed against the land and the taxes that would otherwise have been assessed against the land in prior years (up to five) of special assessment. If land is disqualified for current special assessment because the gross income test is not met, the additional taxes are deferred as long as the land remains in limited farm use and one year of additional taxes is abated (forgiven) for each year the land remains in limited farm use.

PURPOSE:	To preserve the agricultural economy of the state.
WHO BENEFITS:	Farmers benefit directly. In 2003–04, over 158,000 accounts comprising roughly 15.6 million acres of land were assessed at farm use value. Fifteen percent of the acreage is in Western Oregon and 85 percent is in Eastern Oregon. About 86 percent of the acreage was exclusive farm use farm land and 14 percent was non-exclusive farm use farm land.
EVALUATION:	<p>The special farm use assessment of land zoned for exclusive farm use is an essential part in achieving Oregon’s Agricultural Land Use Policy to preserve the maximum amount of agricultural land in large blocks. It is the primary incentive offered to encourage owners of rural lands to hold such lands in exclusive farm use zones (see ORS 215.243). The effective protection of agricultural land requires well-coordinated special assessment and land use programs.</p> <p>However, the unzoned special farm use assessment program can conflict with Oregon’s land use program in both urban and rural areas. In urban areas, it can discourage timely development by lowering an owner’s holding costs and encouraging speculation. In rural areas, the requirement to apply for special assessment and meet a minimum income is a disincentive to property owners to rezone appropriate areas for rural residential development and also makes development in exclusive farm use areas (where there is no application or income requirement) more attractive to those seeking a rural homesite. <i>[Evaluated by the Department of Land Conservation and Development.]</i></p>

2.113 FARM HOMESITES

Oregon Statute: 308A.253
Sunset Date: None
Year Enacted: 1987

2003-04 Assessed Value of Property Exempted: \$291.9 million

	Loss	Shift
2003-05 Revenue Impact:	\$6,000,000	\$1,300,000
2005-07 Revenue Impact:	\$6,200,000	\$1,400,000

DESCRIPTION: "Homesite" means up to one acre of land including all tangible improvements to the land under and adjacent to a dwelling and other structures, customarily provided in conjunction with the dwelling. A farm homesite being used in conjunction with specially assessed farm land has a special assessed property value. However, the housing structure is assessed the same as any other house.

The homesite specially assessed value is calculated as the average per acre real market value, as defined in ORS 308.205, for the contiguous bare farm land under the same ownership plus up to \$4,000 for land improvements. Land improvements would include a well and septic system necessary for a homesite. If disqualified, no additional tax is imposed unless the homesite is established as a non-farm dwelling under ORS 215.236.

PURPOSE: To preserve the agricultural economy of the state.

WHO BENEFITS: The number of farm homesites in Oregon is estimated at over 36,100. The average value exempted is approximately \$8,000 per homesite.

EVALUATION: Extending special farm assessments to farm homesites reinforces the effects of special assessments for Farm Land evaluated in 2.112. *[Evaluated by the Department of Land Conservation and Development.]*

2.114 FOREST HOMESITES

Oregon Statute: 308A.256
Sunset Date: None
Year Enacted: 1989

2003-04 Assessed Value of Property Exempted: \$122.5 million

	Loss	Shift
2003-05 Revenue Impact:	\$3,300,000	\$600,000
2005-07 Revenue Impact:	\$3,600,000	\$700,000

DESCRIPTION: A forest homesite being used in conjunction with growing and harvesting trees on forestland has a special property tax value. The homesite special assessment is the value of one acre. It must be on a parcel of more than 10 acres of highest and best use forestland, or land that has designated in Western Oregon under ORS 321.257 to 321.390 or in Eastern Oregon under ORS 321.805 to 321. The homesite specially assessed value is the average per acre real market value, as defined in ORS 308.205, for the contiguous bare forestland under the same ownership plus up to \$4,000 for land improvements. Land improvements include a well and septic system necessary for a homesite.

Property Tax
Special Assessment

- PURPOSE:** To improve the financial viability of growing and harvesting trees on forestland by reducing the cost of taxation. The special assessment grants forest homesites the same treatment as farm homesites.
- WHO BENEFITS:** Roughly 12,500 forest homesites were specially assessed in 2003–04. The average value exempted was about \$9,800.
- EVALUATION:** Extending special forest assessments to forest homesites reinforces the effects of special assessments for forestland. *[Evaluated by the State Forestry Department.]*

2.115 WESTERN PRIVATE FORESTLAND

Oregon Statute: 321.354
Sunset Date: None
Year Enacted: 1977, Modified in 2003 (HB 2188)

2003–04 Assessed Value of Property Exempted: \$3.0 billion

	Loss	Shift
2003–05 Revenue Impact:	\$57,900,000	\$12,700,000
2005–07 Revenue Impact:	\$55,300,000	\$12,100,000

DESCRIPTION: All forestland is considered either designated forestland or highest and best use forestland, and is specially assessed. Value is determined for these specially assessed properties by the potential of the land to grow timber. Each acre of land is assigned one of seven productivity classes based on the rate of growth of standing timber or the potential to grow timber. For highest and best use forestland, the special assessment value equals the real market value.

Highest and Best Use Forestland

The counties identify the highest and best use forestland within their county. These properties receive specially assessment value without the potential of additional taxes due upon change in classification. For these lands, the special assessment value equals the real market value.

Designated Forestland

These properties have a highest and best use as something other than forest use. The owners of these properties have applied to the county for special designation as forestland. The application contains a signed statement that the owner intends to use this property for the primary purpose of growing and harvesting trees. Lands that do not continue to meet the requirements of this program will be disqualified and be required to repay up to five years tax based on the difference between the tax at special assessment value and the tax at real market value of the property.

Small forestland owners (those that own between 10 and 5,000 acres of forestland) have the option of participating in the Small Tract Forestland Option (2.117).

- PURPOSE:** To promote the retention of forestland in forest use.
- WHO BENEFITS:** In 2003–04 approximately 39,000 private forestland owners claimed this exemption. There are approximately 6 million acres of private forestland in Western Oregon.
- EVALUATION:** The program encourages retention of forestland for forest use. Owners must meet stocking standards of the Forest Practices Act or have a management plan to meet

requirements. Owners pay assessment based on 100 percent of the value of land as forestland, so no severance tax is due at harvest.

Forestland owners delay timber harvests for an indeterminate period. During this period, noncommercial values that accrue to the public are maintained and increased, notably wildlife habitat, clean air, clean water, visual quality, etc. *[Evaluated by the State Forestry Department.]*

2.116 EASTERN PRIVATE FORESTLAND

Oregon Statute: 321.833

Sunset Date: None

Year Enacted: 1971, Modified in 2003 (HB 2188)

2003-04 Assessed Value of Property Exempted: \$210 million

	Loss	Shift
2003–05 Revenue Impact:	\$4,200,000	\$900,000
2005–07 Revenue Impact:	\$4,600,000	\$1,000,000

DESCRIPTION: All forestland is considered either designated forestland or highest and best use forestland, and is specially assessed. Value is determined for these specially assessed properties by the potential of the land to grow timber. Each acre of land is assigned one of seven productivity classes based on the rate of growth of standing timber or the potential to grow timber. For highest and best use forestland, the special assessment value equals the real market value

Highest and Best Use Forestland

The counties identify the highest and best use forestland within their county. These properties receive specially assessment value without the potential of additional taxes due upon change in classification. For these lands, the special assessment value equals the real market value.

Designated Forestland

These properties have a highest and best use as something other than forest use. The owners of these properties have applied to the county for special designation as forestland. The application contains a signed statement that the owner intends to use this property for the primary purpose of growing and harvesting trees. Lands that do not continue to meet the requirements of this program will be disqualified and be required to repay up to five years tax based on the difference between the tax at special assessment value and the real market value of the property.

Small forestland owners (those that own between 10 and 5,000 acres of forestland) have the option of participating in the Small Tract Forestland Option (2.117).

PURPOSE: To promote the retention of forestland in forest.

WHO BENEFITS: Approximately 3,000 private forestland owners claimed this exemption in 2003–04. There are approximately 2 million acres of private forest land in Eastern Oregon.

EVALUATION: The program encourages retention of forestland for forest use. Owners must meet stocking standards of the Forest Practices Act or have a management plan to meet

requirements. Owners pay assessments based on 100 percent of the value of land as forestland, so no severance tax is due at harvest.

Forestland owners delay timber harvests for an indeterminate period. During this period, noncommercial values, which accrue to the public, are maintained and increased, notably wildlife habitat, clean air and clean water, visual quality, etc.

[Evaluated by the State Forestry Department.]

2.117 SMALL TRACT FORESTLAND OPTION

Oregon Statute: 321.722

Sunset Date: None

Year Enacted: 2003 (HB 2197)

2003-04 Assessed Value of Property Exempted: \$0 million

	Loss	Shift	Total
2003–05 Revenue Impact:	\$1,100,000	\$200,000	\$1,300,000
2005–07 Revenue Impact:	\$2,300,000	\$500,000	\$2,800,000
2003-05 In Lieu (Severance) Tax:			\$1,000,000
2005-07 In Lieu (Severance) Tax:			\$2,000,000

DESCRIPTION: Owners of 10 to 4,999 acres of forestland are provided the option of paying the Small Tract Forestland Option Tax, rather than participating in the Forestland Program. Landowners who wish to place a portion of their property in this program must place all contiguous tax lots into this program. Under this program, forestland has a specially assessed value equal to 20 percent of the value determined by the Department of Revenue. For 2004–05, the values in Western Oregon range from \$1 to \$95 per acre; in Eastern Oregon, they are \$10. A severance tax must be paid at the time of harvest. The rates for 2004 are \$3.89 (Western) and \$3.03 (Eastern); they are indexed annually in proportion to the increase in forestland value.

PURPOSE: To encourage small owners to actively manage their forests and hold their timber to maturity before harvest by delaying the timing of property tax payments to match income producing activities.

WHO BENEFITS: Owners of small tracts of timberland who select this optional tax treatment.

EVALUATION: This is a new program, but it is very similar in form to the old land and privilege tax system. Like the old program, the land is assessed at 20 percent of its specially assessed value as forestland, and the remainder of the tax is collected at harvest when the landowner has cash flow. The severance tax differs from the old privilege tax in that it is based on volume harvested not the value of the trees. This will greatly simplify administration and reduce complexity for woodland owners in determining the tax owed. At the same time, it offers to landowners that harvest infrequently an option to pay most of their property tax at harvest when they have a cash flow from the resource lands they own. *[Evaluated by the State Forestry Department.]*

2.118 WATERCRAFT LOCALLY ASSESSED

Oregon Statute: 308.256

Sunset Date: None

Year Enacted: 1925

2003-04 Assessed Value of Property Exempted: \$88.6 million

	Loss	Shift
2003-05 Revenue Impact:	\$2,400,000	\$400,000
2005-07 Revenue Impact:	\$2,500,000	\$500,000

- DESCRIPTION:** Oregon private commercial watercraft not involved in transporting people or goods for hire are specially assessed for property tax by county assessors.
- Ships and vessels used on inland waters are specially assessed at 40 percent of assessed value.
 - Ships and vessels used on the high seas or between the high seas and inland ports (coastal fishing boats for example) are taxed at 4 percent of assessed value. Off-shore self-propelled oil drilling rigs are also taxed at 4 percent.
 - All watercraft under construction or undergoing major remodeling are exempt. Major remodeling exists if the cost exceeds 10 percent of the value of the watercraft before remodeling.
- Other watercraft receive no exemption and are taxed at 100 percent of assessed value. These include floating homes, houseboats, dredges, museum ships, restaurant ships, any vessel used for deep-sea fish reduction or processing (but not canning), and non-Oregon private commercial boats of noncentrally assessed companies.
- PURPOSE:** To provide tax relief to Oregon commercial fishermen.
- WHO BENEFITS:** The Department of Fish and Wildlife issued commercial fishing boat licenses to 1,353 Oregon residents and 427 nonresidents in 2003. This is the major portion of exempt value. The exempt value is primarily in the coastal counties and along the Columbia River.
- EVALUATION:** This expenditure has achieved its purpose, although the exact proportion of fish landed outside Oregon waters is unknown. Many fishing vessels operate in distant water fisheries, but return to Oregon in the off-season. *[Evaluated by the Department of Fish and Wildlife.]*

2.119 WILDLIFE HABITAT

Oregon Statute: 308A.400

Sunset Date: None

Year Enacted: 1993, Modified in 2003 (HB 3616)

2003–04 Assessed Value of Property Exempted: \$14.1 million

	Loss	Shift
2003–05 Revenue Impact:	\$300,000	\$100,000
2005–07 Revenue Impact:	\$300,000	\$100,000

DESCRIPTION: Owners of property zoned as exclusive farm use or mixed farm and forest use or forest use under a land use planning goal protecting agricultural or forest land or land that is clearly identifiable as containing significant wildlife habitat may apply to participate in a wildlife habitat conservation management plan. Application is made to the Department of Fish and Wildlife. By entering into such a plan, the property owner receives the benefit of having the property valued under the farm or forest land special assessment provisions without being required to meet all the farm or forest land special assessment qualifications. See Farm Land (2.112), Western Private Forestland (2.115), or Eastern Private Forestland (2.116) for descriptions of the assessment methods.

Wildlife habitat special assessment is only available in counties or cities that have requested to be in the program. Management plans must be developed in conjunction with a cooperating agency such as the Department of Fish and Wildlife, the Oregon State University Extension Service, or others. The plans must be approved by the Department of Fish and Wildlife. Once approved, the land is assessed at either its farm use or forestland value. If land is disqualified, an additional tax may be required.

Once property is assessed under wildlife habitat special assessment, the property may roll back into the original farm or forest use special assessment without penalty if certain conditions are met. Likewise, farm or forest use specially assessed property may roll into the wildlife habitat special assessment without penalty for leaving the farm or forest use.

PURPOSE: "...to encourage landowners to manage private lands in a sustainable manner ...[and] not to impose additional taxes on property, commodities or income if a landowner voluntarily foregoes, limits or postpones economic uses of private land for conservation purposes." (ORS 308A.740)

WHO BENEFITS: The direct beneficiaries are landowners who voluntarily enter into a wildlife habitat conservation and management plan approved by the state Department of Fish and Wildlife. In 2003–04 there were approximately 200 landowners taking part in the program. Land under the program included nearly 33,000 acres.

EVALUATION: It is too early to evaluate the effectiveness of this exemption in terms of the management and improvement of wildlife habitat on private lands. The provisions for exemption were not fully extended to forestland until adoption of the same 2001 act. Prior to that time, a pilot program was established for agricultural land in Marion and Polk Counties by a 1993 legislative act. The scope of the program was expanded to lands zoned for exclusive farm use or mixed farm and forest use throughout the entire state by a 1997 act, but not made mandatory for the counties. The 2001 act also gave counties the option to affirmatively "opt out" of the program until January 2003. If counties did not opt out by that date, they are in the program. As of January 2003, 22

of the 36 counties had opted out of the program. The 2003 legislature amended the statute so that cities and counties may request the Department designate areas as eligible for wildlife habitat special assessment. To date, no counties or cities have requested this designation.

An indication of the effectiveness of the exemption is suggested by results to date in Oregon Department of Fish and Wildlife's (ODFW) South Willamette Watershed District, which includes Marion and Polk counties from the original pilot project. The applicants in this district now include landowners from Benton, Lane, Linn, and Yamhill counties in addition to Marion and Polk counties. According to ODFW data, some 72 landowners and 2,129 acres have been enrolled in the program in that district. *[Evaluated by the Department of Fish and Wildlife.]*

2.120 OPEN SPACE LAND

Oregon Statute: 308A.300

Sunset Date: None

Year Enacted: 1971

2003-04 Assessed Value of Property Exempted: \$76.0 million

	Loss	Shift
2003-05 Revenue Impact:	\$1,600,000	\$300,000
2005-07 Revenue Impact:	\$1,600,000	\$400,000

DESCRIPTION:

Open space land is specially assessed for property tax as though its current highest and best use is open space use rather than an alternative use. The exempt value is the difference between assessed value in an alternative use and specially assessed value. Improvements on open space land do not receive special assessment (Chapter 493, 1971).

Open space land is any land designated as open space in an official comprehensive land use plan or any land that, if preserved in its present use, would accomplish one of the following:

- Conserve and enhance natural or scenic resources;
- Protect air, streams, or water supply;
- Promote conservation of soils, wetlands, beaches, or tidal marshes;
- Conserve landscaped areas, such as golf courses;
- Enhance the value of neighboring parks, forests, wildlife preserves, or other open space;
- Enhance recreation opportunities;
- Preserve historic sites;
- Promote orderly urban or suburban development; or
- Retain land in its natural state under conditions required by the legislative body granting the open space classification.

Open space land may be changed from one open space use to another without paying back taxes. However, if land is withdrawn from open space classification, any tax

Property Tax
Special Assessment

benefits received from open space classification in previous years must be paid back plus 8 percent annual interest. The amount of the payback is based on the difference between the assessed value in an alternative use and open space value in the year of withdrawal (ORS 308A.318).

PURPOSE: To preserve open space and its vegetation for public health and enjoyment. The exemption is also to prevent the forced conversion to more intensive use because of high property taxes based on an alternative use value.

WHO BENEFITS: Assessors report 489 open space properties, many of which are golf courses. When appraising open space land, the assessor cannot consider what the property might be worth if used for some purpose other than its current use. For example, in appraising a golf course in an urban area the assessor cannot value the land by looking at the value of surrounding land used for home sites. The course must be appraised as a golf course (its current use), not as home sites (its highest and best use).

EVALUATION: This exemption appears to achieve its purpose. The exemption encourages the preservation of open space and park land. Little information exists that would allow an in-depth evaluation of these programs, but as a matter of public policy, this program contributes to the special quality of life in Oregon and helps meet the needs of our growing population for open spaces, greenways, natural settings, and recreational facilities. The program also supplements what the government can provide by encouraging land management decisions that contribute to the public good by nongovernment entities. *[Evaluated by the Oregon Parks and Recreation Department.]*

CHAPTER 3. GAS, USE, AND JET FUEL TAXES

Fuels used in motor vehicles (gas and use) and airplanes (jet fuel) are taxed in Oregon. Use fuels are fuels other than gasoline or jet fuel used in motor vehicles, such as diesel, propane, and natural gas. Gas, use, and jet fuel taxes are one of two components of transportation taxes in Oregon; the other is the weight-mile tax (see Chapter 4). In general, vehicles are subject to only one of these two components. Revenue from the gas, use, and jet fuel taxes accounted for by the Department of Transportation is expected to be \$806.7 million in the 2003–05 biennium and \$832.3 million for the 2005–07 biennium.

Most of the gas and use fuel tax revenue is dedicated to the construction and maintenance of roads in Oregon. Gas taxes from gas sold for aviation use and the jet fuel tax revenues are used to fund aviation programs.

Gasoline Tax

In 1919 Oregon was the first state to institute a use tax on gasoline. Currently, the state of Oregon and the federal government impose taxes of 24 cents and 18.4 cents per gallon respectively for a total tax rate of 42.4 cents per gallon. The federal tax rates for gasohol vary by alcohol content. In addition to the state and federal taxes, two Oregon counties and nine cities also assess local gas taxes. The state tax is paid to the Oregon Department of Transportation (ODOT) by the approximately 165 licensed wholesale fuel dealers in the state. The tax is then passed on to the consumer in the price paid at the pump. Depending on the use of the fuel, these taxes may be refunded to the consumer. See the refunds section below.

Use Fuel Tax

In 1943 Oregon imposed a tax on fuels other than gasoline used in motor vehicles. Diesel is the primary fuel, but other fuels used in motor vehicles such as propane and natural gas are also taxed. Currently, the state of Oregon and the federal government impose taxes of 24 cents and 24.4 cents per gallon of diesel respectively for a total tax rate of 48.4 cents per gallon. There are approximately 700 licensed retailers in the state who submit payments to ODOT for taxes collected from consumers of use fuels. In addition, there are another 1,560 users operating more than 12,000 vehicles who have obtained ODOT Use Fuel User licenses and who pay the tax directly to the state rather than paying at the pump. The use fuel tax does not apply to trucks subject to weight-mile taxes. Some consumers of use fuels are exempted from the use fuel tax and may claim refunds for the tax paid. See refunds discussion below.

Gasoline and Other Fuel Tax Refunds

The state gasoline and use fuel taxes are intended to assess users of public roadways for a fair share of the related construction and maintenance costs for roads. State law allows an exception from these taxes in cases where the user does not benefit from the facilities or services funded by the imposed tax, or where an alternate method of payment has been established in lieu of the tax. Examples of these uses include: use of gasoline for cleaning or dyeing, in power take-off equipment, in stationary gas engines, or for other uses that do not propel vehicles on public highways. Gasoline or other fuel used on private property is treated similarly. Refunds may be claimed for taxes paid on gasoline or other fuels used in these ways. Finally, some consumers of gasoline or other fuels for highway transportation use may claim refunds when specifically allowed in statute. These highway use refunds are considered to be tax expenditures and are described in the following pages.

Additional information about refunds is available from the Department of Transportation Fuels Tax Group at <http://www.odot.state.or.us/fsbpublic/ftg/refunds.htm>

Aviation Fuel Tax

This tax is assessed in the same manner as the gasoline tax, but at a rate of nine cents per gallon for all fuels except jet fuel. A lower rate of one cent per gallon applies to jet fuel. When consumers purchase gasoline for use as aircraft fuel, they may be required to pay the full gasoline tax rate of 24 cents per gallon at the time of purchase. In such a case, statute allows consumers to claim a refund of the extra 15 cents per gallon of tax paid.

3.001 FOREST PRODUCTS—GASOLINE

Oregon Statute: 319.320(1)(b, d)
 Sunset Date: None
 Year Enacted: 1945

	Total
2003–05 Revenue Impact:	\$0
2005–07 Revenue Impact:	\$0

DESCRIPTION: 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.

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 that specific section of roadway.

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.

WHO BENEFITS: Nobody has used this provision recently. Potential beneficiaries include businesses that transport forest products to the extent that any required road maintenance costs are surpassed by the amount of refunds.

EVALUATION: This expenditure is ineffective in achieving its purpose as the costs of construction or maintenance of the county road would be higher than that of fuels tax. Removal of forest products are typically performed on roads other than state highways, county roads, or city streets, and a tax refund is allowed for fuels used for this purpose under ORS 319.320(b). A review of fuels tax refunds shows that, in the case of removal of forest products, fuels used on county road constitutes only a very small volume relative to total fuel consumption. Therefore, users typically pay tax for fuels used on county and other public roads and claim refunds for fuels used off road.

Furthermore, virtually no one knows about this provision. The public works department of counties with major timber operations, the Forest Service, and timber industry representatives were contacted. There was only one case identified where this provision had been exercised and, it was approximately 30 years ago. *[Evaluated by the Oregon Department of Transportation.]*

3.002 FOREST PRODUCTS—OTHER THAN GASOLINE

Oregon Statute: 319.831(1)(c, g)

Sunset Date: None

Year Enacted: 1965

	Total
2003–05 Revenue Impact:	\$0
2005–07 Revenue Impact:	\$0

DESCRIPTION: 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.

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 that specific section of roadway.

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.

WHO BENEFITS: Nobody has used this provision recently. Potential beneficiaries include businesses that transport forest products to the extent that any required road maintenance costs are surpassed by the amount of refunds.

EVALUATION: This expenditure is ineffective in achieving its purpose as the costs of construction or maintenance of the county road would be higher than that of fuels tax. Removal of forest products are typically performed on roads other than state highways, county roads, or city streets, and a tax refund is allowed for fuels used for this purpose under ORS 319.831(c). A review of fuels tax refunds shows that, in the case of removal of forest products, fuels used on county road constitutes only a very small volume relative to total fuel consumption. Therefore, users typically pay tax for fuels used on county and other public roads and claim refunds for fuels used off road.

Furthermore, virtually no one knows about this provision. The public works department of counties with major timber operations, the Forest Service, and timber industry representatives were contacted. There was only one case identified where this provision had been exercised, and it was approximately 30 years ago. *[Evaluated by the Oregon Department of Transportation.]*

3.003 FUEL FOR AIRCRAFT DEPARTING U.S.

Oregon Statutes: 319.330(2)

Sunset Date: None

Year Enacted: 1959

	Total
2003–05 Revenue Impact:	Less than \$50,000
2005–07 Revenue Impact:	Less than \$50,000

DESCRIPTION:	Under certain conditions, a refund is allowed for tax paid on fuel if satisfactory evidence is presented to the Department of Aviation that the aircraft fuel upon which the tax is paid has been used solely for aircraft operations from a point within the state of Oregon directly to a point not within any state of the United States.
PURPOSE:	To promote international airline travel to and from Oregon, and to make it attractive for airlines with international flights to operate from Oregon airports.
WHO BENEFITS:	The immediate beneficiaries are airlines—both domestic and international—whose aircraft use fuel to travel to and from foreign destinations.
EVALUATION:	It is estimated that a very small portion of international air travel originates to or from Oregon. <i>[Evaluated by the Department of Aviation.]</i>

3.004 PUBLIC SERVICES

Oregon Statutes: 319.831(1)(e-f), (h-k)

Sunset Date: None

Year Enacted: 1961

	Total
2003–05 Revenue Impact:	\$10,500,000
2005–07 Revenue Impact:	\$10,500,000

DESCRIPTION:	<p>A refund is allowed for any tax paid on fuels other than gasoline (primarily diesel) when the fuels are used in the performance of a public service. (Public entities do not receive refunds for taxes paid on gasoline except for uses off of state, city, or county roads.) State agencies, counties, incorporated cities and towns, rural fire protection districts, road assessment districts, and special districts (as defined in ORS 198) are allowed refunds for any use. Agencies of the United States are exempt under federal law. School and education service districts or their contractors may also claim refunds for fuels used in transporting students.</p> <p>Some public service vehicles are exempt from both the use fuel and weight-mile taxes. Those vehicles are included in the revenue impact reported here, and are also included in the weight mile tax expenditure Government Owned or Operated Vehicles (4.004). However, it should be noted that vehicles would not be subject to both taxes. Vehicles that were subject to weight-mile tax on any portion of their use would be exempt from taxation on use fuel for that part, and vice versa.</p>
PURPOSE:	To avoid reciprocal taxation among public entities; to avoid taxing public services that are funded through the tax (in particular, road maintenance services).

Gas, Use, Jet and Aviation Fuel Taxes

WHO BENEFITS: Beneficiaries include the state government, over 240 incorporated cities and towns, 36 counties, 227 school districts, 22 educational service districts, about 270 rural fire protection districts, and various other local districts and federal agencies.

EVALUATION: This expenditure achieves its purpose. Cities, counties, and the state use diesel fuel substantially in conjunction with the construction and maintenance of roads. Revenue generated through the tax on such fuels are dedicated for this purpose, and this provision reduces the processing of funds prior to returning them to public agencies to be used for this purpose. By expanding the law to allow refunds for other government uses to other government agencies and districts, the differing tax treatment of the past is eliminated. *[Evaluated by the Oregon Department of Transportation.]*

3.005 PUBLIC TRANSPORTATION

Oregon Statutes: 267.200 and 267.570(2)

Sunset Date: None

Year Enacted: 1969

	Total
2003–05 Revenue Impact:	\$2,600,000
2005–07 Revenue Impact:	\$2,700,000

DESCRIPTION: A refund is allowed for any tax paid on fuels other than gasoline when used in the operation of mass transit and transportation districts. Transit and transportation districts are treated the same as municipalities for purposes of claiming this exemption.

Some transit vehicles are exempt from both the use fuel and weight-mile taxes. Those vehicles are included in the revenue impact reported here and in the weight-mile tax expenditure Public Mass Transit Vehicles (4.005). However, it should be noted that vehicles would not be subject to both taxes. Vehicles that were subject to weight-mile tax would be exempt from taxation on use fuel and vice versa.

PURPOSE: To lower the cost of providing public transportation services.

WHO BENEFITS: Three mass transit districts, seven transportation districts, and one county service district in the state provide public transportation service.

EVALUATION: This expenditure achieves its purpose. Without this exemption, fares could be higher, which would decrease ridership, particularly those from lower income groups. *[Evaluated by the Oregon Department of Transportation.]*

CHAPTER 4. WEIGHT-MILE TAX

The weight-mile tax is one of two components of transportation taxes in Oregon; the other is the Gas, Use, and Jet Fuel Taxes (see Chapter 3). In general, vehicles are subject to only one of these two components. Heavy vehicles that are generally subject to the weight-mile tax are not subject to the use fuel tax. Revenue from the weight-mile tax is projected to be \$418.2 million in the 2003–05 biennium and \$455 million in the 2005-07 biennium. This tax revenue is dedicated to the construction and maintenance of roads in Oregon.

This tax is imposed on heavy vehicles according to a combination of the number of axles and/or combined weight of the vehicle and the number of miles driven. Studies show that, although fuel consumption increases with vehicle size and weight, it does not increase proportionately with cost responsibility. Above 26,000 pounds registered weight, the overall weight and axle loads become important factors in determining requirements for the strength of pavements, bridges, and other structures. Therefore, fuel tax is not a proper measure of cost responsibility for heavy vehicles.

The tax rate schedule changes as the weight of the vehicle increases from 26,000 pounds to 105,500 pounds, and the number of axles increases. Within each weight or axle group, a truck pays the stated amount multiplied by the number of miles the truck travels each year on Oregon public roads. The weight-mile tax schedules are based on results of cost responsibility studies that determine the fair share that heavy vehicles should pay for the maintenance, operation, and improvement of the state's highway system.

The tax rates consist of separate schedules for vehicles with registered weights between 26,001-80,000 pounds (Tax Table A) and those operated under special permit with registered weights between 80,001-105,500 pounds (Tax Table B). The tax tables and additional information are posted on the Internet at http://www.oregon.gov/ODOT/MCT/FORMS.shtml#Taxes_Fees.

Since 1947, the weight-mile tax schedules have been adjusted as the result of updated cost responsibility studies and revenue measures passed by the Legislature. The Office of Economic Analysis is responsible for producing the Highway Cost Allocation Study. The most recent edition of this study is available at <http://www.oregon.gov/DAS/OEA/highway.shtml>.

4.001 FARMING OPERATIONS

Oregon Statutes: 825.017(4), 825.017(18), and 825.024

Sunset Date: None

Year Enacted: 1983

	Total
2003–05 Revenue Impact:	\$2,800,000
2005–07 Revenue Impact:	\$3,000,000

DESCRIPTION: Vehicles used in conjunction with farming operations are exempt from the payment of weight-mile taxes. This includes implements of husbandry, low speed vehicles, and farm related equipment as referenced in the three Oregon statutes cited.

Implements of husbandry are those vehicles and trailers used exclusively in agricultural operations. The definition for farm related equipment is more inclusive and identifies uses incidental to farming operations such as transportation of supplies and equipment, as well as the personal use of vehicles by the farmer and the farmer’s family or employees. Low speed vehicles must be designed for off-road use, and no more than 15 percent of their mileage can be on the road.

Vehicles registered as farm equipment are used primarily off the road system, and in most cases, the transportation of such vehicles on the road is incidental to their use. Approximately two thirds of the vehicles operated in conjunction with farming weigh less than 26,000 pounds and are not subject to weight-mile taxation. This provision applies only to those farm vehicles that exceed 26,000 pounds.

It should be noted that farm vehicles are subject to the fuel taxes unless they are operated off the road system, in which case a refund is allowed under ORS 319.320(3). Because farm vehicles over 26,000 pounds pay fuel tax, they are not subject to weight-mile tax. Therefore, the revenue impact reported here is the difference between what they pay in fuel tax and what they would pay under the higher weight-mile tax.

PURPOSE: These laws may have been enacted to relieve all farmers of the recordkeeping necessary to comply with the weight-mile tax and perhaps to recognize the partial or seasonal use of this transportation system by these users.

WHO BENEFITS: There are approximately 39,500 farming operations in the state and about 43,400 registered farm vehicles.

EVALUATION: This expenditure appears to achieve its purpose. However, the benefit per farm is very small and probably does not provide a competitive edge for farming in Oregon. Of course, larger farming operations benefit according to the amount of equipment in operation. *[Evaluated by the Oregon Department of Transportation.]*

4.002 FOREST PRODUCTS ON COUNTY ROADS

Oregon Statute: 825.017(8)

Sunset Date: None

Year Enacted: 1977

	Total
2003–05 Revenue Impact:	\$0
2005–07 Revenue Impact:	\$0

DESCRIPTION: 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.

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.

WHO BENEFITS: Nobody has used this provision recently. Potential beneficiaries include businesses that transport forest products to the extent that any required road maintenance costs are surpassed by the amount of refunds.

EVALUATION: This expenditure is ineffective in achieving its purpose as the costs of construction or maintenance of the county road would be higher than that of weight-mile tax.

Furthermore, virtually no one knows about this provision. The public works department of counties with major timber operations, the Forest Service, and timber industry representatives were contacted. There was only one case identified where this provision had been exercised, and it was approximately 30 years ago. *[Evaluated by the Oregon Department of Transportation.]*

4.003 ELEMENTARY AND SECONDARY SCHOOLS

Oregon Statute: 825.017(1)

Sunset Date: None

Year Enacted: Pre-1953

	Total
2003–05 Revenue Impact:	\$1,600,000
2005–07 Revenue Impact:	\$1,800,000

DESCRIPTION: Vehicles used by, or under contract with, any elementary or secondary school district are exempt from the payment of weight-mile taxes when engaged exclusively in

Weight-Mile Tax

transporting students to or from school or authorized school activities or those activities sponsored by the State Board of Higher Education.

Some vehicles are exempt from both the use fuel and weight mile taxes. Those vehicles are included in the revenue impact reported here and also in the fuels tax expenditure for Public Services (3.004), which has information for schools and Education Service Districts. However, it should be noted that vehicles would not be subject to both taxes. Vehicles that were subject to the weight-mile tax would be exempt from taxation on use fuel and vice-versa.

- PURPOSE:** Weight-mile taxation is generally applied to for-hire commercial vehicles. School buses are either owned by a school district or contractor supplying services to a school district and are not for-hire vehicles. This provision reduces the record keeping and audit cost of the refund application process.
- WHO BENEFITS:** There are about 230 school districts operating more than 1,200 elementary and secondary schools. This provision applies only to school buses that exceed 26,000 pounds. Approximately 70 percent of the miles traveled by school buses are in weight classes equal to or less than 26,000 pounds.
- EVALUATION:** This expenditure achieves its purpose. There is a significant change from the revenue impact from that previously reported. Vehicles in this category were previously exempt from weight-mile tax only, and, as a result, the benefit was calculated to be the difference between what would have been paid under weight mile taxation and that paid through taxes paid on use fuels. Effective September 1, 2000, and retroactive to September 1, 1999, a refund can be claimed for use fuels as well. *[Evaluated by the Oregon Department of Transportation.]*

4.004 GOVERNMENT OWNED OR OPERATED VEHICLES

Oregon Statutes: 825.017(11) and 825.017(13)

Sunset Date: None

Year Enacted: Pre-1953

	Total
2003–05 Revenue Impact:	\$4,700,000
2005–07 Revenue Impact:	\$5,200,000

- DESCRIPTION:** Vehicles being used in the performance of public services are exempt from weight-mile taxes. Exempt vehicles include those:
- Owned or operated by the United States, the state of Oregon, any county, city, town or municipality in this state, or any department of any of them except when owned or operated as a carrier for hire; or
 - Involved in transportation of United States mail on rural or star routes by contract or employed by the Postal Service.
- Those vehicles are included in the revenue impact reported here and also in the fuels tax expenditure Public Services (3.004). However, it should be noted that vehicles would not be subject to both taxes. Vehicles that were subject to weight-mile tax would be exempt from taxation on use fuel and vice versa.

PURPOSE: To avoid reciprocal taxation among public entities when the tax revenue would be used largely for the same purpose as the activity being taxed (road construction and maintenance).

WHO BENEFITS: Beneficiaries include 240 incorporated cities and towns, 36 counties, and the Postal Service. Some public service vehicles are exempt from both the use fuel and weight-mile taxes.

EVALUATION: This expenditure achieves its purpose. Cities and counties, the major beneficiaries of this provision, operate equipment subject to this tax largely in conjunction with the construction and maintenance of roads. Revenue generated through this tax is dedicated for this purpose, and this provision reduces the processing of funds prior to returning them to public agencies to be used for this purpose. This is an effective continuation of established policies that avoid the reciprocal taxation of governing agencies. *[Evaluated by the Oregon Department of Transportation.]*

4.005 PUBLIC MASS TRANSIT VEHICLES

Oregon Statute: 825.017(12)
 Sunset Date: None
 Year Enacted: 1977

	Total
2003–05 Revenue Impact:	\$3,200,000
2005–07 Revenue Impact:	\$3,500,000

DESCRIPTION: Vehicles owned or operated by a mass transit district are exempt from weight-mile taxes. Mass transit districts are units of government and many transit vehicles are owned by units of government.

Some transit vehicles are exempt from both the use fuel and weight-mile taxes. Those vehicles are included in the revenue impact reported here and also in the fuels tax expenditure Public Transportation (3.005). However, it should be noted that vehicles would not be subject to both taxes. Vehicles that were subject to weight-mile tax would be exempt from taxation on use fuel and vice versa.

PURPOSE: To lower the cost of providing public transportation services.

WHO BENEFITS: There are three mass transit districts in Oregon.

EVALUATION: This expenditure achieves its purpose. Without this exemption, fares could be higher, which would decrease ridership, particularly those from lower income groups. *[Evaluated by the Oregon Department of Transportation.]*

4.006 FIRE PROTECTION

Oregon Statute: 825.017(23)

Sunset Date: None

Year Enacted: 1977

	Total
2003–05 Revenue Impact:	Less than \$50,000
2005–07 Revenue Impact:	Less than \$50,000

DESCRIPTION: Vehicles used for the purposes of forest protection and fire suppression are exempt from weight-mile taxes when directed by the state forester. This exemption also applies to the vehicles being moved to or from the work area.

It should be noted that fire protection vehicles are subject to fuel tax. Since they pay fuel tax, they are not subject to weight-mile tax. Therefore, the revenue estimate reported here is the difference between what they pay in fuel tax and what they would pay under the higher weight-mile tax. It should further be noted that many fire-fighting vehicles are owned by units of government.

PURPOSE: To lower the cost of providing fire protection services normally provided through public services, and to station additional water supply trucks near logging operations when deemed necessary by forestry officials.

WHO BENEFITS: The timber industry, forest owners, and firefighters.

EVALUATION: This expenditure appears to achieve its purpose. These fire protection vehicles are very few in number and operate primarily off the highway system; they would not be subject to taxation, with the exception of the provision that allows movement to and from the work area. This provision is effective, as the cost associated with record keeping and weight-mile audit would likely exceed any revenue generated. This is a minimal investment in supporting activities to protect Oregon’s forest resources.
[Evaluated by the Oregon Department of Transportation.]

4.007 CHARITABLE ORGANIZATIONS

Oregon Statute: 825.017(15)

Sunset Date: None

Year Enacted: 1977

	Total
2003–05 Revenue Impact:	Less than \$50,000
2005–07 Revenue Impact:	Less than \$50,000

DESCRIPTION: Vehicles owned, or under contract with, a charitable organization are exempt from the payment of weight-mile taxes when engaged exclusively in performing transportation necessary to the operation of the charitable organization.

It should be noted that vehicles used by charitable organizations are subject to fuel tax. Because they pay fuel tax, they are not subject to weight-mile tax. Therefore, the revenue estimate reported here is the difference between what they pay in fuel tax and what they would pay under the higher weight-mile tax.

- PURPOSE: To help support services provided by charitable organizations that fulfill a socially desirable function.
- WHO BENEFITS: Charitable organizations operating vehicles that are registered by weight.
- EVALUATION: Although the benefit in this case is relatively small, this provision is believed to be effective in achieving its purpose. There are relatively few vehicles being operated by charitable organizations that exceed the 26,000 pounds lower limit of the rate schedules.
- Charitable organizations are excluded from all provisions of Chapter 825 of the ORS, which include operating authority and regulatory requirements prior to deregulation. At the time this exemption was passed, the exclusion from the provisions of Chapter 825 would have granted such organizations greater operating freedom and may have been the original incentive to provide this exemption. *[Evaluated by the Oregon Department of Transportation.]*

CHAPTER 5. CIGARETTE TAX

Cigarette distributors are required to pay a tax for the distribution of each cigarette in this state. Each cigarette is subject to taxation for exactly one distribution. Currently, the tax rate is \$.059 per cigarette or \$1.18 per pack of 20 cigarettes. The \$1.18 per pack is distributed as follows: \$.22 goes to the General Fund, \$.87 to the Oregon Health Plan, \$.02 to cities, \$.02 to counties, \$.02 to the Oregon Department of Transportation, and \$.03 to the Tobacco Use Reduction Account.

Cigarette tax revenues for the 2003-05 biennium are forecasted to be \$467.7 million and will be distributed as follows: \$84.5 million to the General Fund, \$343.8 million to the Oregon Health Plan, \$13.1 million to the Tobacco Use Reduction Account, and \$26.3 million to Cities, Counties and Public Transit. For the 2005-07 biennium, revenues are expected to be \$454.4 million.

The Oregon cigarette tax began in 1966. Generally, the tax is paid through the use of tax stamps that are purchased by the 86 Oregon licensed cigarette distributors. Distributors may pay the tax at the time they purchase the stamps or defer the payment until the 20th of the month following the purchase.

5.001 SMALL QUANTITY BY CONSUMERS

Oregon Statute: 323.060
 Sunset Date: None
 Year Enacted: 1965

	Total
2003–05 Revenue Impact:	Less than \$50,000
2005–07 Revenue Impact:	Less than \$50,000

DESCRIPTION: The use or consumption of untaxed cigarettes transported into Oregon as a single lot or shipment of no more than 199 cigarettes is not taxed. This exemption also applies to cigarettes obtained at exempted federal installations when the quantity obtained is no more than 199 cigarettes at one time.

PURPOSE: To avoid the administrative and compliance costs of taxing these small shipments.

WHO BENEFITS: Individuals who transport small quantities of untaxed cigarettes into Oregon or obtain them at federal installations.

EVALUATION: Administratively, it would be virtually impossible to enforce the taxation of small quantities of cigarettes brought into Oregon by consumers. *[Evaluated by the Department of Revenue.]*

5.002 FEDERAL AND VETERAN INSTITUTIONS

Oregon Statute: 323.055
 Sunset Date: None
 Year Enacted: 1965

	Total
2003–05 Revenue Impact:	Not Available
2005–07 Revenue Impact:	Not Available

DESCRIPTION: Oregon cigarette taxes are not imposed on the sale of cigarettes to United States Army, Air Force, Navy, Marine Corps, or Coast Guard exchanges and commissaries; Navy or Coast Guard ships’ stores; the U.S. Department of Veterans Affairs; or ships’ stores maintained under federal bond. Also, the sale or gift of federally tax-free cigarettes delivered directly from the manufacturer to a veterans’ home, hospital, or domiciliary care facility are not taxed.

PURPOSE: To comply with federal law.

WHO BENEFITS: Members of the United States armed forces that purchase cigarettes at federal institutions.

EVALUATION: Because there is only a very small armed forces presence in Oregon, this exemption is likely to have little or no impact. *[Evaluated by the Department of Revenue.]*

5.003 RESERVATION CIGARETTE SALES

Oregon Statute: 323.401

Sunset Date: None

Year Enacted: 1979

	Total
2003–05 Revenue Impact:	\$2,900,000
2005–07 Revenue Impact:	\$2,900,000

DESCRIPTION: The Department of Revenue refunds to the governing body of any Indian reservation any cigarette tax collected on sales of cigarettes to Indians.

PURPOSE: To comply with federal law.

WHO BENEFITS: Cigarette retailers and consumers on reservations.

EVALUATION: Not evaluated.

CHAPTER 6. OTHER TOBACCO PRODUCTS TAX

A tax is imposed on the sale, storage, use, consumption, handling, or distribution of tobacco products other than cigarettes at the rate of 65 percent of the wholesale sales price. The tax is imposed on the distributor at the time the distributor imports, produces, or ships the tobacco products into Oregon. There are currently 189 distributors.

Other Tobacco Products tax revenue for the 2003-05 biennium is predicted to be \$42.6 million and will be distributed as follows: \$22.8 million to the General Fund, \$17.8 million to the Oregon Health Plan, and \$2 million to the Tobacco Use Reduction Account. For the 2005-07 biennium, receipts are expected to be \$43.7 million.

6.001 FEDERAL INSTALLATIONS

Oregon Statute: 323.515
 Sunset Date: None
 Year Enacted: 1985

	Total
2003–05 Revenue Impact:	Not Available
2005–07 Revenue Impact:	Not Available

DESCRIPTION: The tobacco products tax does not apply to tobacco products that are stored in a bonded warehouse and that are untaxed under the provisions of Chapter 52 of the Internal Revenue Act of 1954, as amended. The tax also does not apply to tobacco products that are sold to United States Army, Air Force, Navy, Marine Corps, or Coast Guard exchanges and commissaries; Navy or Coast Guard ships’ stores; U.S. Department of Veterans Affairs; or ships’ stores maintained under federal bond.

PURPOSE: To comply with federal law.

WHO BENEFITS: Consumers that purchase tobacco products at federal installations.

EVALUATION: Because there is only a very small Armed Forces presence in Oregon, this exemption is likely to have little or no impact. *[Evaluated by the Department of Revenue.]*

6.002 RESERVATION TOBACCO SALES

Oregon Statute: 323.615
 Sunset Date: None
 Year Enacted: 1985

	Total
2003–05 Revenue Impact:	Less than \$50,000
2005–07 Revenue Impact:	Less than \$50,000

DESCRIPTION: The Department of Revenue may enter into a refund agreement with the governing body of an Indian reservation in Oregon. The agreement may provide for a refund of any tobacco tax collected under the Tobacco Products Tax Act in connection with the sale, use, storage, or consumption of tobacco products on the Indian reservation.

PURPOSE: To comply with federal laws that limit the ability of states to tax Indians.

WHO BENEFITS: Sellers and consumers of untaxed other tobacco products on reservations.

EVALUATION: Not evaluated.

CHAPTER 7. BEER AND WINE TAX

A tax is imposed upon the privilege of engaging in business as a manufacturer or as an importing distributor of malt beverages or wines. The Oregon Liquor Control Commission (OLCC) collects the tax. The tax rate for manufacturing or importing malt beverages is \$2.60 per barrel of 31 gallons. The tax rate for manufacturing or importing wine is 67 cents per gallon on wines with 14 percent or less alcohol by volume and 77 cents per gallon on wines with more than 14 percent but not more than 21 percent alcohol by volume. Two cents of the wine tax goes to the Wine Advisory Board. Fifty percent of the remaining beer and wine taxes go to Mental Health and Drug Abuse Prevention, and the other fifty percent into the Oregon Liquor Control Commission Account (and distributed as described below).

Beverages with more than 21 percent alcohol are exclusively imported by the state of Oregon. Net revenue from the sale of these beverages and from the portion of the wine and malt beverage tax that goes into the OLCC Account are distributed as follows: 56 percent to the General Fund, 10 percent to counties (by population), 20 percent to cities (by population), and 14 percent to cities (by formula).

Beer and wine tax receipts are expected to be \$27 million for the 2003–05 biennium and \$26.7 million for the 2005–07 biennium.

7.001 SMALL WINERIES

Oregon Statute: 473.050(5)

Sunset Date: None

Year Enacted: 1977

	Total
2003–05 Revenue Impact:	\$1,700,000
2005–07 Revenue Impact:	\$2,000,000

DESCRIPTION: Allows all United States wine manufacturers producing less than 100,000 gallons annually to exempt the first 40,000 gallons sold each year in Oregon from the wine tax. It is estimated that 2,400,000 gallons will be claimed as tax exempt during the 2003–05 biennium. This is expected to increase to 2,900,000 gallons exempted in the 2005–07 biennium.

PURPOSE: To encourage the development of the Oregon wine industry.

WHO BENEFITS: The small wineries benefit because they are able to sell their product more competitively.

EVALUATION: This tax exemption achieves its purpose. It was enacted to help small Oregon wineries get established and allows these wineries enough profit to stay in business until they become large enough to compete with the established, high-volume wineries. In 1977, when the exemption was enacted, there were approximately 10 licensed wineries. Today, there are over 275 wineries in the state, and the industry is still growing. Nearly all of Oregon’s wineries are small enough to qualify for the full tax exemption. Oregon wines have continued to show overall growth.

Oregon has gained the reputation of a quality wine-producing state, which has added to the image and livability of the state and promotes tourism and hospitality. The growth of the Oregon wine industry has also caused growth in secondary markets such as vineyards, label design, bottling, and marketing.

Because of the exemption, the industry decided to dedicate some of the tax savings to establish and maintain the Oregon Wine Board. The board divides its resources between research and development and industry promotion. If this were not the case, the industry would be asking the Legislature for funding from General Fund dollars.

Due to the lack of public investors, this appears to be the only practical way to encourage the growth of the wine industry. *[Evaluated by the Oregon Liquor Control Commission.]*

7.002 WINE MARKETING ACTIVITIES

Oregon Statutes: 473.047

Sunset Date: None

Year Enacted: 2001

	Total
2003-05 Revenue Impact:	\$0
2005-07 Revenue Impact:	\$0

DESCRIPTION: This provision allows a credit against the wine privilege tax for certain marketing activities as defined by the Oregon Wine Board. The marketing activities must not promote any specific brand or winery and must be approved by the Oregon Wine Board. The credit cannot exceed 28 percent of the sum of the tax paid on the 40,000 gallons sold in Oregon and 25 percent of the tax owed on gallons over 40,000 gallons. The total credit may not exceed the tax liability of the manufacturer or importing distributor of wine.

PURPOSE: To encourage the development of the Oregon wine industry.

WHO BENEFITS: Large wineries and the Oregon wine industry (small wineries do not pay taxes).

EVALUATION: No winery has claimed the credit through June 30, 2004. *[Evaluated by the Oregon Liquor Control Commission.]*

CHAPTER 8. TELEPHONE EXCHANGE ACCESS (911) TAX

The Oregon telephone exchange access (911) tax is imposed on each retail subscriber who has telecommunication services with access to the 911 emergency reporting system. The tax is applied to each circuit. For cellular, wireless, or other radio common carrier, the tax is applied per instrument.

The tax was enacted in 1981 to help local governments pay for establishing, operating, or improving a 911 system. Originally, the tax was 3 percent of the monthly rate charged for basic exchange access services. In 1991, that rate was increased to 5 percent. Since October 1, 1995 the rate has been 75 cents per line per month and applies to all forms of wired and wireless telecommunications services. The tax is paid quarterly by the telecommunication utilities and service providers, who collect the tax from phone subscribers on their monthly billings.

Receipts are forecasted to be \$64 million for the 2003–05 biennium and \$66.5 million for the 2005–07 biennium. Net revenue from the tax is distributed to cities and counties on a per capita basis, to be used for their 911 systems.

8.001 STATE AND LOCAL SUBSCRIBERS

Oregon Statute: 401.794

Sunset Date: None (The telephone access tax sunsets 12-31-07.)

Year Enacted: 1981

	Total
2003–05 Revenue Impact:	\$3,000,000
2005–07 Revenue Impact:	\$3,100,000

- DESCRIPTION:** State and local governments are exempt from the telephone access (911) tax. This includes regional housing authorities.
- PURPOSE:** To avoid the administrative costs of taxing government to fund government services.
- WHO BENEFITS:** State and local governments.
- EVALUATION:** Typically, governments are exempt from taxation because, it is argued, such taxation simply represents a transfer of resources between governments. This argument ignores the role taxes play as prices for services provided by the public sector. The failure to tax governments for services they receive can introduce inefficiencies in the economy. In the case of 911 services, these inefficiencies are likely to be small.
[Evaluated by the Department of Revenue.]

8.002 FEDERAL SUBSCRIBERS

Oregon Statutes: 401.794

Sunset Date: None (The telephone access tax sunsets 12-31-07.)

Year Enacted: 1981

	Total
2003–05 Revenue Impact:	\$500,000
2005–07 Revenue Impact:	\$500,000

- DESCRIPTION:** The federal government is exempt from the telephone access (911) tax. This includes foreign government offices that are exempt from taxation by treaty provisions with the federal government, as well as certain federally chartered corporations specifically exempt from state income taxes by federal statute.
- PURPOSE:** To comply with federal law.
- WHO BENEFITS:** The federal government as well as foreign government offices and exempt federally chartered corporations.
- EVALUATION:** Not evaluated.

8.003 INDIAN RESERVATION SUBSCRIBERS

Oregon Statutes: 401.794

Sunset Date: None (The telephone access tax sunsets 12-31-07.)

Year Enacted: 1981

	Total
2003–05 Revenue Impact:	\$100,000
2005–07 Revenue Impact:	\$100,000

DESCRIPTION: Indians on federally recognized reservations are exempt from the telephone access (911) tax. They must be enrolled members of the tribe located on the reservation.

PURPOSE: To comply with federal law.

WHO BENEFITS: Tribal members using telephones with access to 911 service.

EVALUATION: Not evaluated.

CHAPTER 9. FOREST PRODUCTS HARVEST TAX

A privilege tax of a specified rate per thousand board feet is assessed on timber owners when timber is harvested from private and public lands. The tax revenue is used primarily to support forestry research, to support the Oregon Department of Forestry in its efforts to fight forest fires and administer Oregon's Forest Practices Act, and to support forest-related education through the Oregon Forest Resource Institute.

For calendar year 2004, the tax rate was set at \$2.95 per thousand board feet of timber harvested, of which \$.67 was to support forestry research, \$0.79 was to administer Oregon's Forest Practices Act, \$.50 was for fire protection, and \$.99 was for the Oregon Forest Resources Institute.

Receipts from the forest products harvest tax are forecasted to be \$22.6 million for the 2003–05 biennium and \$12.8 million for the 2005–07 biennium.

9.001 FIRST 25,000 BOARD FEET

Oregon Statute: 321.015(5)

Sunset Date: None (The forest products harvest tax partially sunsets on 12-31-05.)

Year Enacted: 1953

2003 Exemption: 63 million board feet

	Total
2003–05 Revenue Impact:	\$400,000
2005–07 Revenue Impact:	\$400,000

DESCRIPTION: The 2003 Legislature reinstated the Forest Products Harvest Tax through December 31, 2005. This exemption provides that the first 25,000 board feet harvested by each taxpayer each year are exempt from the Forest Products Harvest Tax.

PURPOSE: To provide tax relief to small timber harvesters.

WHO BENEFITS: All timber harvesters qualify for this exemption. Because the exemption represents a larger share of total timber harvested for small harvesters, small harvesters receive the largest benefit in percentage terms. In 2003, about 3,400 harvesters filed returns, with all reporting that they harvested during the year.

EVALUATION: Harvest taxes provide effective mechanism for funding programs important to the state and woodland owners. *[Evaluated by the State Forestry Department.]*

CHAPTER 10. ELECTRIC COOPERATIVE TAX

Mutual and cooperative electrical associations are subject to a tax on gross earnings that is in lieu of all other taxes on transmission and distribution lines. The associations must be nonprofit and the principle purpose must be to distribute electricity to its members. (See expenditure Nonprofit Electrical Distribution Associations (2.061).)

Associations must pay the lesser of :

- An in lieu-of property tax at 4 percent on gross earnings minus power costs, or
- The sum of (a) the real market value of the transmission and distribution lines multiplied by the maximum school tax rate allowable under ORS 310.150, plus (b) the real market value of the transmission and distribution lines multiplied by \$10 per \$1,000 of real market value, and (c) the real market value of the transmission and distribution lines multiplied by the tax rate of the county for exempt bonded indebtedness as defined in ORS 310.140.

Since the 2003–2004 fiscal year, 17 associations have paid the gross earnings tax, and two have paid the tax described in the second calculation.

The distribution of proceeds depends on which calculation method is used. If the first method is used, proceeds from the tax on gross earnings are distributed to the counties in proportion to the system's wire miles in each county. These payments are distributed one-third to the county school fund and two-thirds to the county general fund. If the second calculation method is used, payments are deposited in the unsegregated tax collections account and distributed according to the percentage distribution schedule in ORS 311.390.

Total collections in the 2003–05 biennium are expected to be \$9.5 million. For the 2005–07 biennium, revenues of \$10.1 million are forecasted.

10.001 REVENUE FROM GOVERNMENT LEASED LINES

Oregon Statute: 308.805

Sunset Date: None

Year Enacted: 1969

	Total
2003–05 Revenue Impact:	\$100,000
2005–07 Revenue Impact:	\$100,000

DESCRIPTION: Revenue received by nonprofit mutual and cooperative electric distribution associations for leasing lines to the government is not included in their gross earnings tax calculation for the electric cooperative tax.

PURPOSE: To exempt government from paying the tax.

WHO BENEFITS: There are 19 cooperatives in Oregon that paid the gross earnings tax, and five of them received this exemption.

EVALUATION: This expenditure achieves its purpose of ensuring there is no de facto taxation of government agencies through the fees charged for power line use. If the exemption were eliminated, either the state would be taxing another government agency through the pass-through of a tax, or it would require the electric cooperatives to raise electrical rates in low-density, rural areas. *[Evaluated by the Department of Energy.]*

CHAPTER 11. HAZARDOUS SUBSTANCES FEE

A variable fee is imposed on the possession of hazardous substances at business facilities in Oregon, including substances manufactured, stored, or used at the facility. Any chemical substance or waste for which a material safety data sheet is required by Department of Consumer and Business Services is considered a hazardous substance. Excluded from this category are crude oil and petroleum products, solid waste, or hazardous waste under ORS 466.005. The fee is based upon the type and quantity of the hazardous chemical, and the rate is set by the state fire marshal, subject to a statutory maximum.

The hazardous substance fee began in 1989. Its purpose is to provide community planners, emergency responders, and the public with information on hazardous substances in their communities; to minimize the use and dangers of hazardous substances; to fund the Oregon Community Right to Know programs; and to provide funding for the Orphan Site Account. The Orphan Site Account is part of the Hazardous Substance Remedial Action Fund established under ORS 465.381 and is used to clean up contaminated sites where the responsible party is unknown, unwilling, or unable to undertake the cleanup.

The level of the fee is set each year by the state fire marshal based on guidelines established in law (ORS 453.402). For funding the Community Right to Know and Protection Act, the fee can range from \$25 to \$2,000 per site. For funding the Toxics Use Reduction and Hazardous Waste Reduction Act, the fee can range from \$25 to \$2,000 per site. For funding the Orphan Site Account, the fee can range from \$25 to \$9,000 per site but not more than \$25,000 for a single company. The collections for the Orphan Site Account cannot exceed \$1 million per year.

Total receipts from the tax are forecasted to be \$4.9 million for the 2003–05 biennium and \$5.3 million for the 2005–07 biennium.

11.001 STATE AND LOCAL GOVERNMENT PROPERTY

Oregon Statute: 453.402(4)(e)

Sunset Date: None

Year Enacted: 1989

	Total
2003–05 Revenue Impact:	Not Available
2005–07 Revenue Impact:	Not Available

DESCRIPTION: State and local government property is exempt from paying the hazardous substances fee. This fee contributes to the Orphan Site Account, which is used to finance the cleanup of contaminated sites where the responsible party is unknown, unwilling, or unable to undertake the cleanup.

PURPOSE: To compensate for the fact that the Orphan Site Account may not be used to pay the state’s remedial action costs at facilities owned by the state.

WHO BENEFITS: State and local governments.

EVALUATION: This exemption is to recognize that the Orphan Site Account is not used to clean up hazardous substances on property owned by state or local governments. *[Evaluated by the Department of Revenue.]*

11.002 SUBSTANCE PROHIBITED FROM TAX BY FEDERAL LAW

Oregon Statute: 453.402(4)(d)

Sunset Date: None

Year Enacted: 1989

	Total
2003–05 Revenue Impact:	Not Available
2005–07 Revenue Impact:	Not Available

DESCRIPTION: Oregon law states that “Any substance or activity which the Constitution or laws of the United States prohibit the state from taxing” are exempt from the Hazardous Substances Tax. It is not clear, however, whether the federal constitution of laws prohibit the taxation of any specific substance or activity.

PURPOSE: To comply with federal law.

WHO BENEFITS: The federal government.

EVALUATION: Not evaluated.

CHAPTER 12. DRY CLEANING FEE/TAX

The dry cleaning fee/tax was passed by the 1995 Legislature and became effective January 1, 1996. A fee is imposed on dry cleaning owner/operators for the privilege of operating an active dry cleaning facility. A tax is also imposed on the sale or transfer of dry cleaning solvents within the state for the benefit of the general public. The purpose of the fee/tax is to create a cleanup fund that will ensure the cleanup of contaminated sites resulting from solvent spills at dry cleaning facilities. As of January 1, 2004, the Dry Cleaning Fee Program and the Dry Cleaning Distributor's Tax are administered by DEQ.

The fee/tax is comprised of two parts: an annual fee and a tax on the use of dry cleaning solvents. As of January 2002 the annual fee is comprised of a risk fee and an environmental fee.

- "Dry" stores pay a \$250 base annual fee. Additional fees are due if solvents of any kind were ever used at the site of the cleaners. Dry stores are defined as those that do not contain machinery using dry cleaning solvents.
- Dry cleaning facilities pay a \$500 base annual risk fee and additional fees depending upon the type of solvents used during the current fee period. If Perchloroethylene (Perc) was ever used at the site before 2002, there is an additional fee. Additional fees range from \$100 to \$400.
- Dry cleaning facilities also pay an annual environmental fee based upon projected gross sales (on dry cleaning services only) for the current fee period. These fees range from \$250 to \$1,250.

The tax on dry cleaning solvents is composed of two fees. The tax is \$10 per gallon on the sale of Perchloroethylene Solvent (Perc) and \$2 per gallon on the sale of other dry cleaning solvents. These taxes are paid quarterly by distributors of dry cleaning solvents.

Beginning January 1, 2003, and annually thereafter, dry cleaning facility operating base fees and inactive dry cleaning facilities list fees increase by 25 percent a year if the revenues fail to generate \$1 million or more during the preceding calendar year. For calendar year 2004, 303 dry cleaning facilities and 120 dry stores were subjected to the dry cleaning fee. Receipts for the dry cleaning program are forecasted to be \$1.4 million in the 2003–05 biennium and \$1.4 million in the 2005–07 biennium.

12.001 UNIFORM SERVICE OR LINEN SUPPLY FACILITY

Oregon Statute: 465.200(6)(b)

Sunset Date: None (The dry cleaning tax sunsets 12-31-05.)

Year Enacted: 1995

	Total
2003–05 Revenue Impact:	Less than \$50,000
2005–07 Revenue Impact:	Less than \$50,000

DESCRIPTION: The dry cleaning tax is not imposed on any uniform service or linen supply facilities.

PURPOSE: To reduce the tax burden on uniform services and linen supply facilities.

WHO BENEFITS: Companies operating uniform service or linen supply facilities.

EVALUATION: Because these facilities do not generally serve the public, but rather furnish uniforms and linen to institutional users including hospitals, restaurants, repair companies, and other business operations, the absence of such a tax is not likely to influence where uniform service and linen supply facilities locate. The lack of a tax might lower the costs of such services to their customers, but there is no evidence of this. Consistent and reliable delivery of uniforms and linens to institutions and businesses dictates that suppliers locate within a reasonable distance of their clients. Most delivery is by truck, which means a limited delivery range. Suppliers are not likely to move out of state if the tax were assessed. *[Evaluated by the Economic and Community Development Department.]*

12.002 PRISONS

Oregon Statute: 465.200(6)(c)

Sunset Date: None (The dry cleaning tax sunsets 12-31-05.)

Year Enacted: 1995

	Total
2003–05 Revenue Impact:	\$0
2005–07 Revenue Impact:	\$0

DESCRIPTION: The dry cleaning tax is not imposed on any prison or other penal institution.

PURPOSE: To recognize the principle that state governments typically do not tax their own agencies.

WHO BENEFITS: State government.

EVALUATION: This exemption would only have had a minimal effect on state operating costs when the law was enacted because prison dry cleaning operations at that time were very small. Since then, as a result of pollution problems, the Department of Corrections has closed its dry cleaning operations (in 1996) and has removed the equipment. Therefore, this exemption has zero revenue impact in the biennia considered. *[Evaluated by the Department of Revenue.]*

12.003 FACILITY ON U.S. MILITARY BASE

Oregon Statute: 465.200(6)(a)

Sunset Date: None (The dry cleaning tax sunsets 12-31-05.)

Year Enacted: 1995

	Total
2003–05 Revenue Impact:	\$0
2005–07 Revenue Impact:	\$0

DESCRIPTION: The dry cleaning tax is not imposed on dry cleaning facilities on U.S. military bases.

PURPOSE: To comply with federal law that prohibits states from taxing the federal government.

WHO BENEFITS: The federal government and, by extension, taxpayers.

EVALUATION: Due to the minimal military presence in Oregon, this expenditure likely has very little revenue impact. In fact, there are no military bases with dry cleaning operations at this time in Oregon. *[Evaluated by the Department of Revenue.]*

CHAPTER 13. PETROLEUM LOAD FEE

The petroleum load fee is paid by importers of petroleum products into Oregon. The fee rate is set by the state fire marshal and is currently \$4.75 per load of 100 or more gallons. Products subject to the fee are any petroleum products obtained from distilling and processing crude oil that are capable of being used as a fuel for propulsion of a motor vehicle, including aircraft. Products excluded are propane, naphtha and kerosene type jet fuels, products destined for chemical manufacturing or feedstock, or fuels sold to vessels engaged in interstate or international commerce.

The fee began September 1, 1989. Its purpose is to protect Oregon's environment; to carry out Oregon's oil, hazardous material, and hazardous substance Emergency Response Program; and to provide up to \$1 million each year to fund the Orphan Site Account. The Orphan Site Account is part of the Hazardous Substance Remedial Action Fund established under ORS 465.381 and is used to clean up contaminated sites where the responsible party is unknown, unwilling, or unable to undertake the cleanup. Revenues from the fee must be used to clean up spills on the state's roads and in roadside rest areas.

Receipts from the petroleum load fee are expected to be \$2.4 million for the 2003–05 biennium and \$2.5 million for the 2005–07 biennium.

13.001 PRODUCT PROHIBITED FROM TAX BY FEDERAL LAW

Oregon Statute: 465.111

Sunset Date: None

Year Enacted: 1989

	Total
2003–05 Revenue Impact:	Not Available
2005–07 Revenue Impact:	Not Available

DESCRIPTION: Oregon law states that “Any petroleum product which the Constitution or laws of the United States prohibit the state from taxing” is exempt from the Petroleum Loading Tax. It is not clear, however, whether the federal constitution or laws prohibit the taxation of any specific petroleum product.

PURPOSE: To comply with federal law.

WHO BENEFITS: The federal government.

EVALUATION: Not evaluated.

CHAPTER 14. OIL AND GAS SEVERANCE TAX

A privilege tax of 6 percent of the gross value at the well is levied on the production of oil and gas within Oregon. Receipts are forecasted to be \$233,000 for the 2003-05 biennium and \$237,000 for the 2005-07 biennium. Net revenue derived from this tax is paid into the Common School Fund.

14.001 FIRST \$3,000 IN GROSS SALES VALUE

Oregon Statute: 324.080

Sunset Date: None

Year Enacted: 1981

	Total
2003–05 Revenue Impact:	Less than \$50,000
2005–07 Revenue Impact:	Less than \$50,000

DESCRIPTION: 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.

PURPOSE: To encourage development of oil and gas reserves.

WHO BENEFITS: Oil and gas producers. 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.

EVALUATION: This provision is effective in encouraging gas producers to conserve the resource by reducing taxes throughout the life of the well production. As wells play out, decisions must be made regarding when to shut down. With this incentive, “end-of-well-life” technologies become economic and more gas can be taken from each well. The exemption promotes efficient production of the resource. *[Evaluated by the Department of Geology and Mineral Industries.]*

14.002 STATE AND LOCAL INTERESTS

Oregon Statute: 324.090(1)

Sunset Date: None

Year Enacted: 1981

	Total
2003–05 Revenue Impact:	\$0
2005–07 Revenue Impact:	\$0

DESCRIPTION: 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.

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

WHO BENEFITS: State government through lower administrative costs.

EVALUATION: Oregon state and local governments currently do not have any oil or gas interests in the state, so this exemption has no effect. *[Evaluated by the Department of Revenue.]*

14.003 CREDIT FOR PROPERTY TAXES PAID

Oregon Statute: 324.090(2)

Sunset Date: None

Year Enacted: 1981

	Total
2003–05 Revenue Impact:	Less than \$50,000
2005–07 Revenue Impact:	Less than \$50,000

DESCRIPTION: A credit is allowed against the oil and gas severance tax for all property taxes imposed. This includes taxes on any property rights attached to the right to produce oil and gas, producing oil and gas leases, and machinery and equipment used in the operation of the well.

PURPOSE: To avoid double taxation of the value of oil and gas extracted.

WHO BENEFITS: Oil and gas producers. 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.

EVALUATION: This credit effectively avoids the double taxation of oil and gas resources that would occur if mining companies paid both property taxes and severance taxes. If the companies were taxed through both the property tax and the severance tax, the companies would pay tax twice on the same property. *[Evaluated by the Department of Geology and Mineral Industries.]*

CHAPTER 15. MEDICAL PROVIDER TAXES

The 2003 Legislature created four new taxes, collectively referred to here as the Medical Provider Taxes. These four taxes are: (1) Hospital Tax, (2) Long Term Care Facility Tax, (3) Medicaid Managed Care Tax, and (4) Tax on Programs of All-Inclusive Care for Elderly Persons. All four of these taxes were created in HB 2747. These taxes are used to finance Medicaid services and leverage additional federal funds. Oregon relies on these taxes to fund 40 percent of Medicaid costs and matching federal funds for the remaining 60 percent. Revenue from these taxes is forecasted to be \$157.5 million in the 2003–05 biennium and \$243.4 million in the 2005–07 biennium. These taxes are temporary; they all sunset in 2007. While each of these taxes is described here, only the hospital and long-term care facility taxes have tax expenditures.

Hospital tax

The assessment on each hospital subject to this tax is imposed at a rate determined by the director of Human Services. The tax rate used is the best estimate of the rate needed to fund identified services and costs. The rate may not exceed 3 percent of net revenue of each hospital. The tax applies to net revenues earned by hospitals before January 1, 2008. Net proceeds from this tax are deposited in the Hospital Quality Assurance Fund. These revenues are to be used to partially fund an OHP Standard hospital benefit, to increase Medicaid rates to certain hospitals, and to restore the practice of allowing OHP eligibility retroactively, after medical costs have already been incurred. Other potential uses for these funds include expanding, continuing or modifying hospital services for persons 19 years of age or older with incomes below 100 percent of the federal poverty guidelines who do not have federal Medicare coverage.

Long term care facility tax

The assessment for this tax equals the rate times the number of patient days at the long term care facility for a calendar quarter. The director of the Department of Human Services establishes an annual assessment rate that applies for a 12-month period beginning July 1. The rate is that which will raise an amount equal to 6 percent of the annual gross revenue of all long term care facilities in Oregon. The rate may be adjusted to account for overages and underages during previous assessment periods. For calendar quarters beginning before July 1, 2004, the rate is \$8.25. The assessment is imposed in calendar quarters beginning before July 1, 2007. Net proceeds from this tax are deposited in the Long Term Care Facility Quality Assurance Fund. These revenues are intended to increase nursing facility rates and improve the financial stability of the nursing home industry. Also, in the 2003-05 biennium \$12.5 million dollars is to be transferred from these funds to the General Fund.

Medicaid Managed Care tax

The assessment on each prepaid managed care health services organization subject to this tax is imposed at a rate determined by the director of Human Services. The rate may not exceed six percent of managed care premiums paid to an organization. The rate applies to premiums received by these organization before January 1, 2008. The revenues from this tax are deposited into the Medical Care Quality Assurance Fund. These revenues are to be used to partially fund an OHP Standard population hospital benefit funded through Medicaid and funding the state medical assistance program

Tax on Programs of All-Inclusive Care for Elderly Persons

The assessment on each program of all-inclusive care for elderly persons is five percent of the total capitation rate paid by the Department of Human Services. The capitation rates are applicable for calendar months beginning before July 1, 2007. The revenues from this tax are deposited into the PACE Quality Assurance Fund. The revenue is intended to fund programs of all-inclusive care for elderly persons that are part of the Oregon Medicaid reimbursement system.

15.001 TYPE A AND B HOSPITALS

Oregon Statute: Note after 409.750
 Sunset Date: None (The hospital tax sunsets on 12-31-07.)
 Year Enacted: 2003 (HB 2747)

	Total
2003–05 Revenue Impact:	Less than \$50,000
2005–07 Revenue Impact:	Less than \$50,000

DESCRIPTION: Types A and B hospitals and hospitals that provide only psychiatric care are exempt from the hospital provider tax. Type A hospitals are small and remote hospitals that have 50 or fewer beds and are more than 30 miles from another acute inpatient care facility. Type B hospitals are small and rural hospitals that have 50 or fewer beds and are more than 30 miles from another acute inpatient care facility.

In general, to obtain federal matching funds the hospital tax must be broad based – it must apply to all hospitals. Exceptions to this rule may be granted under certain circumstances. For any hospital to be exempt, DHS must submit an application to the Centers for Medicare and Medicaid Services to request a waiver of the broad-based tax requirement.

PURPOSE: To exclude these hospitals from the state’s hospital provider tax.

WHO BENEFITS: Psychiatric, Type A, and Type B hospitals.

EVALUATION: A federal waiver has not been approved as of August 2004. *[Evaluated by the Department of Human Services.]*

15.002 VETERANS AFFAIRS AND PEDIATRIC SPECIALTY HOSPITALS

Oregon Statute: Note after 409.750, Section 2(5)
 Sunset Date: None (The hospital tax sunsets on 12-31-07.)
 Year Enacted: 2003 (HB 2747)

	Total
2003–05 Revenue Impact:	Less than \$50,000
2005–07 Revenue Impact:	Less than \$50,000

DESCRIPTION: Hospitals operated by the U.S. Department of Veterans Affairs and pediatric specialty hospitals providing care to children at no charge are exempt from the hospital tax.

In general, to obtain federal matching funds the hospital tax must be broad based – it must apply to all hospitals. Exceptions to this rule may be granted under certain circumstances. For any hospital to be exempt, DHS must submit an application to the Centers for Medicare and Medicaid Services to request a waiver of the broad-based tax requirement.

PURPOSE: To exclude both facilities from the state’s hospital provider tax. The U.S. Department of Veterans Affairs is a federal entity and not subject to state taxation.

WHO BENEFITS: Veterans Affairs and pediatric specialty hospitals in Oregon.

EVALUATION: A federal waiver has not been approved as of July 2004. *[Evaluated by the Department of Human Services.]*

15.003 OREGON VETERANS’ HOME

Oregon Statute: Note after 409.750, Section 18(1)
 Sunset Date: None (The long-term care facility tax sunsets 6-30-07.)
 Year Enacted: 2003 (HB 2747)

	Total
2003–05 Revenue Impact:	Less than \$50,000
2005–07 Revenue Impact:	Less than \$50,000

DESCRIPTION: The Oregon Veterans’ Home is exempt from the long-term care facility tax.

PURPOSE: To avoid taxing a state entity.

WHO BENEFITS: The Oregon Veterans’ Home.

EVALUATION: Not evaluated.

15.004 NURSING FACILITIES

Oregon Statute: Note after 409.750, Section 18(2)
 Sunset Date: None (The long-term care facility tax sunsets 6-30-07.)
 Year Enacted: 2003 (HB 2747)

	Total
2003–05 Revenue Impact:	Less than \$50,000
2005–07 Revenue Impact:	Less than \$50,000

DESCRIPTION: Two types of nursing facilities are exempt from the long term care facility tax: nursing facilities that are part of continuing care retirement communities; and nursing facilities in which a very high percentage of the residents are Medicaid clients.

In general, to obtain federal matching funds the long term care facility tax must be broad based – it must apply to all hospitals. Exceptions to this rule may be granted under certain circumstances. For any facility to be exempt, DHS must submit an application to the Centers for Medicare and Medicaid Services to request a waiver of the broad-based tax requirement.

PURPOSE: To meet the federal regulatory hold harmless provisions, both high end Medicaid facilities and Continuing Care Retirement Centers, which generally do not participate in Medicaid, had to be excluded from taxation.

WHO BENEFITS: Nursing facilities in retirement communities and those with a significant reliance on Medicaid payments.

EVALUATION: Not evaluated.

APPENDIX A: OREGON STATUTE REQUIRING TAX EXPENDITURE REPORT

68th OREGON LEGISLATIVE ASSEMBLY—1995 Regular Session

Oregon Laws 1995, Chapter 746

SECTION 61. Sections 62, 63, and 65 of this Act may be cited as the Budget Accountability Act.

SECTION 62. (1) The Legislative Assembly hereby declares that the ability to make fiscally sound and effective spending decisions has been enhanced by requiring agencies and programs to develop performance measures and to evaluate all General Fund, State Lottery Fund and other expenditures in accordance with these performance measures. Fiscal pressure on this state requires even greater accountability and necessitates a review of the fairness and efficiency of all tax deductions, tax exclusions, tax subtractions, tax exemptions, tax deferrals, preferential tax rates and tax credits. These types of tax expenditures are similar to direct government expenditures because they provide special benefits to favored individuals or businesses, and thus result in higher tax rates for all individuals.

(2) The Legislative Assembly further finds that 76 percent of property in this state is exempt from property taxation and that income tax expenditures total billions of dollars per biennium. An accurate and accountable state budget should reflect the true costs of tax expenditures and should fund only those tax expenditures that are effective and efficient uses of limited tax dollars.

(3) The Legislative Assembly declares that it is in the best interest of this state to have prepared a biennial report of tax expenditures that will allow the public and policy makers to identify and analyze tax expenditures and to periodically make criteria-based decisions on whether the expenditures should be continued. The tax expenditure report will allow tax expenditures to be debated in conjunction with on-line budgets and will result in the elimination of inefficient and inappropriate tax expenditures, resulting in greater accountability by state government and a

lowering of the tax burden on all taxpayers.

SECTION 63. As used in ORS 291.202 to 291.222, “tax expenditure” means any law of the Federal Government or 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.

SECTION 64. ORS 291.202 is amended to read:

291.202. (1) Except as otherwise provided in ORS 291.222, the Governor shall prepare in each even-numbered year [*a budget report*] for the biennium beginning July 1 of the following year:

- (a) A budget report; and
- (b) A tax expenditure report.

(2) The Oregon Department of Administrative Services shall advise and assist the Governor in the preparation of the budget report and tax expenditure report and shall perform such duties in connection therewith as the Governor requires.

(3) The Department of Revenue shall advise and assist the Governor in the preparation of the tax expenditure report.

SECTION 65. (1) Not later than November 10 of each even-numbered year, the Governor shall cause the tax expenditure report to be compiled and prepared for printing.

(2) In the tax expenditure report, the Governor shall:

- (a) List each tax expenditure;
- (b) Identify the statutory authority for each tax expenditure;
- (c) Describe the purpose of each tax expenditure;

(d) Estimate the amount of revenue loss caused by each tax expenditure for the coming biennium;

(e) List the actual amount of revenue loss in the preceding biennium for each tax expenditure or an estimate if the actual amount cannot be determined;

(f) Determine whether each tax expenditure is the most fiscally effective means of achieving each purpose of the tax expenditure;

(g) Determine whether each tax expenditure has successfully achieved the purpose for which the tax expenditure was enacted and currently serves, including an analysis of the persons that are benefited by the expenditure; and

(h) Categorize each tax expenditure according to the programs or functions each tax expenditure supports.

SECTION 66. ORS 291.210 is amended to read:

291.210. (1) The Oregon Department of Administrative Services, in connection with its direct studies of the operations, plans and needs of state agencies and of the existing and prospective sources of income, shall prepare a tentative budget plan **and tentative tax expenditure report** for the two fiscal years for which a budget report [is] **and tax expenditure report** are required to be prepared.

(2) **The Department of Revenue shall advise and assist in the preparation of the tentative tax expenditure report.**

SECTION 67. ORS 291.214 is amended to read:

291.214. The Governor, during the preparation of the budget report and before its submission to the Legislative Assembly, shall:

(1)(a) Examine the budget forms filed by the various agencies [*The Governor*] **and** may make or cause to be made such further investigations by the Oregon Department of Administrative Services, with such hearings before the Governor or any state agency, as the Governor deems advisable, and may make such changes or revisions in policy and program and in specific details of the tentative budget report **or tentative tax expenditure report** as the Governor finds warranted ; **and** [.]

(b) Identify each tax expenditure that has a full or partial sunset that, if allowed to take effect, will have a fiscal impact on the state or on school districts for the next biennium, and shall prepare a recommendation as to each tax expenditure identified under this paragraph that indicates the Governor's opinion on whether the full or partial sunset of the tax expenditure should be allowed to take effect as scheduled or should be revised to a different date.

(2) As used in this section:

(a) "Full sunset" means any provision that completely eliminates an existing tax expenditure on a specified date.

(b) "Partial sunset" means any provision that reduces the amount of an existing tax expenditure or that alters the eligibility requirements for the expenditure as of a specified date.

SECTION 67a. **If Senate Bill 251 becomes law, section 19, chapter 610, Oregon Laws 1995 (Enrolled Senate Bill 251) (amending ORS 291.214), is repealed.**

SECTION 68. ORS 291.216 is amended to read:

291.216. (1) Not later than November 10 of each even-numbered year the Governor shall cause the budget report to be compiled and prepared for printing.

(2) The budget report shall include a budget message prepared by the Governor, including recommendations of the Governor with reference to the fiscal policy of the state government for the coming biennium, describing the important features of the budget plan, embracing a general budget summary setting forth the aggregate figures of the budget report so as to show a balanced relation between the total proposed expenditures and the total anticipated income, with the basis and factors on which the estimates are made, the amount to be borrowed, and other means of financing the estimated expenditures for the ensuing biennium, compared with the corresponding figures for at least the last completed biennium and the current biennium.

(3) The budget plan shall be supported by explanatory schedules or statements, classifying the expenditures reported therein, both past and proposed, by organization units, objects and funds, and the income by organization units, sources and

funds, and the proposed amount of new borrowing as well as proposed new tax or revenue sources, including a single comprehensive list of all proposed increases in fees, licenses and assessments assumed in the budget plan.

(4) The budget plan shall be submitted for all dedicated funds, as well as the state General Fund, and shall include the estimated amounts of federal and other aids or grants to state agencies or activities provided for any purpose whatever, together with estimated expenditures therefrom.

(5) The budget report shall embrace the detailed estimates of expenditures and revenues. It shall include statements of the bonded indebtedness of the state government, showing the actual amount of the debt service for at least the past biennium, and the estimated amount for the current biennium and the ensuing biennium, the debt authorized and unissued, the condition of the sinking funds and the borrowing capacity. **It shall contain the Governor's recommendations concerning tax expenditures identified under ORS 291.214.** It shall also contain any statements relative to the financial plan which the Governor may deem desirable or which may be required by the legislature.

(6) The budget plan shall use the estimated revenues under ORS 291.342 for the fiscal year in which the plan is submitted as the basis for total anticipated income under subsection (2) of this section, subject to such adjustment as may be necessary to reflect accurately projections for the next biennium.

(7) As supplemental information to the budget report, the Governor shall publish an existing level tentative budget plan for the two fiscal years for which the budget report is required. This summary budget shall reflect only existing revenues estimated under subsection (6) of this section; subject to such adjustment as may be necessary to reflect accurately projections for the next biennium. The supplemental information to the budget report shall be submitted at the same time as the budget report.

SECTION 69. ORS 291.218 is amended to read:

291.218. Except when the Governor under whose supervision the budget report [*has*] **and the tax expenditure report have** been prepared will be succeeded in office in January next following:

(1) The Oregon Department of Administrative Services shall have as many copies

of the approved budget report **and the tax expenditure report** printed as the Governor directs.

(2) Not later than December 1 of each even-numbered year, the Governor shall transmit a copy [*thereof*] **of each report** to each member of the legislature who is to serve during the next session.

(3) Upon request, the Governor shall distribute copies free of charge, under such regulations as the Governor may establish, to public libraries, schools and state officials. The Governor shall make copies available to the general public at a reasonable charge for each copy.

SECTION 70. ORS 291.220 is amended to read:

291.220. The Governor, upon request, shall furnish the Legislative Assembly any further information required concerning the budget report **and the tax expenditure report**. The Oregon Department of Administrative Services, upon request, shall furnish a representative to assist the Legislative Assembly, its Joint Committee on Ways and Means, appointed under ORS 171.555, and the Legislative Revenue Officer in the consideration of the budget report, **the tax expenditure report** and any accompanying measures.

SECTION 71. ORS 291.222 is amended to read:

291.222. If the Governor under whose supervision the budget report **and tax expenditure report have** [*has*] been prepared will be succeeded in office in January next following:

(1) The Oregon Department of Administrative Services shall make available to the Governor-elect so much as the Governor-elect requests of the information upon which the tentative budget report **and tentative tax expenditure report are** [*is*] based, and upon completion of [*the tentative budget*] **each report** shall supply the Governor-elect with a copy [*thereof*] **of each report** but shall not cause the tentative budget report **or tentative tax expenditure report** to be printed and distributed. The department shall also make available to the Governor-elect all facilities of the department reasonably necessary to permit the Governor-elect to review and become familiar with the tentative

budget report or tentative tax expenditure report.

(2) After a review of the tentative budget report or tentative tax expenditure report the Governor-elect may prepare revisions and additions thereto. The **Oregon Department of Administrative Services and the Department of Revenue** shall assist, upon request, in the preparation of such revisions or additions.

(3) The **Oregon Department of Administrative Services** shall have **printed** as many copies of the revised budget report [*printed*] and revised tax expenditure report as the Governor-elect requests.

(4) (a) Not later than the convening of the next Legislative Assembly the **Oregon Department of Administrative Services** shall transmit a copy of a summary of the revised budget report containing the revenue and expenditure recommendations of the Governor-elect and a **summary of the revised tax expenditure report estimating the amount of revenue loss caused by each tax expenditure.**

(b) Not later than February 1, the **Oregon Department of Administrative Services** shall transmit a copy of the revised budget report and revised tax expenditure report to each member of the Legislative Assembly.

(5) Upon request, the department shall distribute copies of the revised budget report and revised tax expenditure report free of charge, under such regulations as it may establish, to public libraries, schools and state officials. It shall make copies of the revised budget report and revised tax expenditure report available to the general public at a reasonable charge for each copy.

SECTION 72. ORS 173.820 is amended to read:

173.820. Pursuant to policies and directions of the appointing authority, the Legislative Revenue Officer shall:

(1) Upon written request of a member of the Legislative Assembly or any committee thereof, prepare or assist in the preparation of studies and reports and provide information and research assistance on matters relating to taxation and to the revenue of this state and to any other relevant matters.

(2) (a) Ascertain facts concerning revenues and make estimates concerning state revenues ; and [.]

(b) Ascertain facts and make recommendations to the Legislative Assembly concerning the Governor's tax expenditure report.

(3) Prepare analyses of and recommendations on the fiscal impact of all revenue measures before the Legislative Assembly and of all other measures affecting the revenue of this state.

(4) Perform such duties as may be directed by joint or concurrent resolution of the Legislative Assembly.

(5) Adopt rules relating to the submission, processing and priorities of requests. Rules adopted under this subsection shall be in conformance with any applicable rule of the House of Representatives or the Senate. Requests made by joint or concurrent resolution of the Legislative Assembly shall be given priority over other requests received or initiated by the Legislative Revenue Officer. Rules adopted under this subsection shall be reviewed and approved by the appointing authority prior to their adoption.

(6) Seek the advice and assistance of political subdivisions of this state, governmental agencies and any interested persons, associations or organizations in the performance of the duties of the Legislative Revenue Officer.

(7) Enter into such contracts as considered necessary by the appointing authority to carry out the functions of the Legislative Revenue Officer.

(8) Perform such other duties as may be prescribed by law.

SECTION 73. ORS 176.110 is amended to read:

176.110. (1) The person elected to the office of Governor may take any action prior to the date the official term of office commences that is necessary to enable the Governor to exercise on such date the powers and duties of the office of Governor.

(2) The Governor-elect shall cause the budget report and the tax expenditure report for the biennium beginning July 1 of the year in which the Governor takes office to be compiled and prepared for printing as required in ORS 291.222.

(3) All necessary expenses of the Governor-elect incurred in carrying out the provisions of this section shall be audited by the Secretary of State and paid from any funds appropriated for this purpose in the same manner as other claims against the state are paid.

SECTION 74. Sections 63 and 65 of this Act are added to and made a part of ORS 291.202 to 291.222.

SECTION 75. If Senate Bill 719 becomes law, sections 61 to 74 of this Act are repealed.

Approved by the Governor July 19, 1995
Filed in the office of Secretary of State July 21, 1995
Effective date September 9, 1995

APPENDIX B: CONTRIBUTORS

This report was developed by the following members of the Department of Revenue Research Section, with assistance from numerous Department of Revenue and other state agency personnel:

Chris Allanach	Senior Economist
Ellen Crecelius	Tax Economist
Craig Fischer	Research Manager
Mary Fitzpatrick	Research Analyst
Gema Gutierrez	Clerical Support
Jon Hart	Senior Economist
Norma McLaren	Research Analyst

The following agencies evaluated the effectiveness of the tax expenditures and provided other important information:

Agriculture, Department of	Library, Oregon State
Aviation, Department of	Lottery, Oregon State
Budget and Management Division	Liquor Control Commission, Oregon
Consumer and Business Services, Department of	Marine Board, State
Economic and Community Development Department	Military Department, Oregon
Education, Department of	Oregon Health Plan Policy and Research
Employment Department	Oregon University System
Energy, Department of	Public Utility Commission of Oregon
Environmental Quality, Department of	Parks and Recreation Department, Oregon
Fish and Wildlife, Department of	Police, Oregon State
Forestry Department, State	Rural Health, Office of
Geology and Mineral Industries, Department of	Secretary of State, Oregon
Housing and Community Services, Oregon	State Lands, Department of
Human Services, Department of	Transportation, Oregon Department of
Children, Adult, and Family Services Cluster	Treasury, Oregon State
Senior and People with Disabilities Cluster	Veterans' Affairs, Oregon Department of
Land Conservation and Development, Dept. of	

APPENDIX C: TAX PROGRAMS WITHOUT TAX EXPENDITURES

Amusement Device Tax

Gift and Inheritance Taxes

Real Estate Recording Tax

Lodging Tax

APPENDIX D: NEW, MODIFIED, OR EXPIRED TAX EXPENDITURES

This appendix contains a list of tax expenditures that have been created or modified or have expired since the publication of the 2003–05 *Tax Expenditure Report*. The new and modified expenditures are those that were created or changed during Oregon’s 2003 Legislative session. This appendix does not include the creation, modification, or expiration of expenditures that result from Oregon’s connection to the federal definition of taxable income. Expired expenditures are those expenditures that have sunset and have no revenue impact in either the 2003–05 or 2005–07 biennium; consequently, they are not included in this report. For a detailed description of the expired expenditures, refer to the 2003–05 *Tax Expenditure Report*.

NEW TAX EXPENDITURES

1.146 Income	Credit	Film Production Development Contributions
1.172 Income	Credit	Diesel Truck Engines
1.181 Income	Credit	Mile-Based or Time-Based Motor Vehicle Insurance
1.194 Income	Other	Apportionment for Certain Forest Product Companies
2.009 Property	Full	Construction-in-Process in an Enterprise Zone
2.012 Property	Full	Centrally Assessed Electricity Generating Facility in an Enterprise Zone
2.014 Property	Full	Rural Renewable Energy Development Zone
15.001 Medical Provider	Exclusion	Type A and B Hospitals
15.002 Medical Provider	Exclusion	Veterans Affairs and Pediatric Specialty Hospitals
15.003 Medical Provider	Exclusion	Oregon Veterans' Home
15.004 Medical Provider	Exclusion	Nursing Facilities

MODIFIED TAX EXPENDITURES

1.111 Income	Subtraction	Oregon 529 College Savings Network
1.135 Income	Credit	Contributions of Computer Equipment
1.149 Income	Credit	Qualified Research Activities
1.150 Income	Credit	Qualified Research Activities (Alternative)
1.160 Income	Credit	Child Care Division Contributions
1.161 Income	Credit	Farm Worker Housing Construction
1.162 Income	Credit	Farm Worker Housing Lender's Credit
1.184 Income	Credit	Oregon IGA Assessments
1.191 Income	Other	Small City Business Development
2.010 Property	Full	Enterprise Zone Businesses
2.011 Property	Full	Long-Term Nonurban Enterprise Zone (Property Tax)
2.013 Property	Full	Electronic Commerce Enterprise Zone (Property Tax)
2.017 Property	Full	Cargo Containers
2.018 Property	Full	Leased Docks and Airports
2.045 Property	Full	Environmentally Sensitive Logging Equipment
2.057 Property	Full	Property Used as Golf Course and Effluent
2.062 Property	Full	Nonprofit Water Associations
2.089 Property	Partial	Strategic Investment Program (SIP)
2.093 Property	Partial	Multi-Family Rental Housing in City Core
2.094 Property	Partial	Low-Income Multi-Unit Housing
2.096 Property	Partial	Nonprofit Low-Income Rental Housing
2.097 Property	Partial	War Veterans and Their Spouses
2.099 Property	Partial	Agricultural Commodity Cleaning Property
2.115 Property	Special	Western Private Forestland
2.116 Property	Special	Eastern Private Forestland
2.119 Property	Special	Wildlife Habitat

EXPIRED TAX EXPENDITURES

Income	Subtraction	Medical Savings Accounts (Oregon)
Income	Subtraction	Oil Heat Tank Cleanup Costs
Income	Credit	Child Development Program Contributions
Income	Credit	Bone Marrow Transplant Expense
Income	Credit	Fish Habitat Improvement
Income	Credit	Geothermal Heating System Connection

APPENDIX E: PERSONAL AND CORPORATION INCOME TAX EXPENDITURES

Personal Income Tax Expenditures

Tax Expenditure	Program or Function	Year Enacted	Oregon Statute	Revenue Impact (\$ Thousands)		
				2003-05	2005-07	
<i>Federal Exclusions</i>						
1.001	Scholarship and Fellowship Income	Education	1954	316.048	11,500	12,300
1.002	Interest on Education Savings Bonds	Education	1988	316.048	200	200
1.003	Earnings on Education Savings Accounts	Education	1997	316.048	2,400	3,000
1.004	Qualified Tuition Programs (Federal)	Education	1996	316.048	3,800	5,500
1.005	Public Assistance Benefits	Human Services	Pre-1955	316.048	15,600	17,100
1.006	Certain Foster Care Payments	Human Services	1982	316.048	4,700	5,600
1.007	Employee Adoption Benefits	Human Services	1996	316.048	Less than 50	Less than 50
1.008	Cafeteria Plan Benefits	Human Services	1974	316.048	137,100	161,400
1.009	Employer Paid Medical Benefits	Human Services	1918	316.048	796,800	1,010,000
1.010	Compensatory Damages	Human Services	Pre-1955	316.048	10,600	11,000
1.011	Pension Contributions and Earnings	Human Services	1921	316.048	723,000	805,500
1.012	Hospital Insurance (Part A)	Human Services	1965	316.048	147,800	179,900
1.013	Supplementary Medical Insurance (Part B)	Human Services	1970	316.048	95,900	119,600
1.014	Special Benefits for Disabled Coal Miners	Human Services	1969	316.048	Less than 50	Less than 50
1.015	Social Security Benefits (Federal)	Human Services	1938	316.048	254,800	278,000
1.016	Income Earned Abroad by U.S. Citizens	Economic/Community	1926	316.048	25,900	29,400
1.018	Magazine, Paperback, and Record Returns	Economic/Community	1978	316.048/317.013	100	100
1.019	Cash Accounting, Other than Agriculture	Economic/Community	1916	316.048/317.013	4,900	6,000
1.020	Regional Economic Development Incentives	Economic/Community	1993	316.048/317.013	100	0
1.023	Cancellation of Debt for Non-Farmers	Economic/Community	Pre-1955	316.048/317.013	Less than 50	Less than 50
1.024	Employer Paid Group Life Insurance Premiums	Economic/Community	1920	316.048	19,700	21,400
1.025	Employer Paid Accident and Disability Insurance	Economic/Community	1954	316.048	19,700	22,100
1.026	Employer Provided Dependent Care	Economic/Community	1981	316.048	6,800	7,600
1.027	Miscellaneous Fringe Benefits	Economic/Community	1984	316.048	47,500	49,400
1.028	Employee Meals and Lodging (Non-Military)	Economic/Community	1918	316.048	7,300	7,300
1.029	Employee Stock Ownership Plans	Economic/Community	1974	316.048/317.013	2,300	2,400
1.030	Employee Awards	Economic/Community	1986	316.048	1,000	1,200
1.031	Employer Provided Education Benefits	Economic/Community	1997	316.048	6,400	7,200
1.032	Spread on Acquisition of Stock	Economic/Community	1981	316.048	3,200	3,100
1.033	Capital Gains on Home Sales	Economic/Community	1997	316.048	178,100	188,900
1.034	Veteran's Benefits and Services	Economic/Community	1917	316.048	33,900	36,800
1.035	Military and Dependents CHAMPUS/TRICARE Insurance	Economic/Community	1925	316.048	17,200	17,800
1.036	Agriculture Cost-Sharing Payments	Natural Resources	1978	316.048/317.013	100	100
1.037	Cancellation of Debt for Farmers	Natural Resources	1986	316.048	1,000	1,100
1.038	Energy Conservation Subsidies (Federal)	Natural Resources	1992	316.048	Incl. in 1.125	Incl. in 1.125
1.039	Employer Paid Transportation Benefits	Transportation	1992	316.048	25,400	25,700
1.041	Life Insurance Investment Income	Consumer and Business Services	1913	316.048/317.013	188,500	199,900
1.042	Workers' Compensation Benefits (Non-Medical)	Consumer and Business Services	1918	316.048	40,000	41,500
1.043	Workers' Compensation Benefits (Medical)	Consumer and Business Services	1918	316.048	30,600	33,100
1.046	Structured Settlement Accounts	Consumer and Business Services	1982	317.013	Less than 50	Less than 50
1.048	Imputed Interest Rules	Tax Administration	1964	316.048/317.013	2,300	2,300
1.049	Gain on Nondealer Installment Sales	Tax Administration	1921	316.048/317.013	3,300	3,800

Appendix E

Personal Income Tax Expenditures

Tax Expenditure	Program or Function	Year Enacted	Oregon Statute	Revenue Impact (\$ Thousands)	
				2003–05	2005–07
1.050 Gain on Like-Kind Exchanges	Tax Administration	1921	316.048/317.013	3,400	3,800
1.051 Allowances for Federal Employees Abroad	Government	1943	316.048	3,200	3,900
1.052 Interest on Oregon State and Local Debt	Government	1913	316.048	72,900	71,400
1.053 Capital Gains on Inherited Property	Social Policy	1921	316.048	498,400	560,000
1.054 Capital Gains on Gifts	Social Policy	1921	316.048	59,600	68,400
1.055 Gain on Involuntary Conversions in Disaster Areas	Social Policy	1996	316.048	200	200
1.056 Voluntary Employees' Beneficiary Associations	Social Policy	1928	316.048	23,400	27,200
1.057 Rental Allowances for Ministers' Homes	Social Policy	1921	316.048	3,300	3,800
1.058 Military Disability Benefits	Social Policy	1942	316.048	800	800
1.059 Benefits and Allowances of Armed Forces Personnel	Social Policy	1925	316.048	21,200	22,400
1.060 Restitution Payments for Holocaust Survivors	Social Policy	2001	316.048	Less than 50	Less than 50
1.061 Survivor Annuities	Social Policy	1997	316.048	Less than 50	Less than 50

Federal Adjustments

1.062 Interest on Student Loans	Education	1997	316.048	11,400	13,200
1.063 Qualified Higher Education Expenses	Education	2001	316.048	14,400	4,700
1.064 Teacher Classroom Expenses	Education	2002	316.048	Less than 50	0
1.065 Self-Employment Health Insurance	Human Services	1986	316.048	41,500	46,400
1.066 Medical Savings Accounts (Federal)	Human Services	1996	316.048	600	600
1.067 IRA Contributions and Earnings	Human Services	1974	316.048	106,700	134,000
1.068 Keogh Plan Contributions and Earnings	Human Services	1962	316.048	47,300	52,800
1.069 Moving Expenses	Economic/Community	1964	316.048	2,900	2,900

Federal Deductions

1.070 Charitable Contributions: Education	Education	1917	316.695/317.013	36,200	38,200
1.071 Charitable Contributions: Health	Human Services	1917	316.695/317.013	24,900	26,500
1.072 Medical and Dental Expenses	Human Services	1942	316.695	126,200	141,300
1.073 Removal of Architectural Barriers	Human Services	1976	316.048/317.013	Less than 50	Less than 50
1.074 Accelerated Depreciation of Buildings	Economic/Community	1954	316.048/317.013	11,400	2,200
1.075 Accelerated Depreciation of Equipment	Economic/Community	1954	316.048/317.013	85,300	-2,300
1.076 Accelerated Depreciation of Rental Housing	Economic/Community	1954	316.048/317.013	23,300	29,600
1.079 Section 179 Expensing Allowances	Economic/Community	1959	316.048/317.013	18,200	5,200
1.080 Amortization of Business Start-Up Costs	Economic/Community	1980	316.048/317.013	4,400	4,600
1.082 Ordinary Treatment of Losses from Small Business Corporation Stock	Economic/Community	1958	316.048	300	300
1.083 Property Taxes	Economic/Community	1913	316.695	256,500	296,100
1.084 Home Mortgage Interest	Economic/Community	1913	316.695	905,100	958,600
1.085 Cash Accounting for Agriculture	Natural Resources	1916	316.048/317.013	3,300	3,300
1.086 Soil and Water Conservation Expenditures	Natural Resources	1954	316.048/317.013	200	200
1.087 Fertilizer and Soil Conditioner Costs	Natural Resources	1960	316.048/317.013	1,100	1,100
1.088 Costs of Raising Dairy and Breeding Cattle	Natural Resources	1916	316.048/317.013	500	200
1.089 Sale of Stock to Farmers' Cooperatives	Natural Resources	1998	316.048/317.013	Less than 50	Less than 50
1.090 Redevelopment Costs in Contaminated Areas	Natural Resources	1997	316.048/317.013	100	0
1.091 Clean-Fuel Vehicles and Refueling Property	Natural Resources	1993	316.048/317.013	1,300	900
1.092 Intangible Development Costs for Fuels	Natural Resources	1978	316.695/317.013	Less than 50	Less than 50
1.093 Depletion Costs for Fuels	Natural Resources	1962	316.695/317.013	Less than 50	Less than 50
1.094 Tertiary Injectants	Natural Resources	1980	316.695/317.013	Less than 50	Less than 50
1.095 Multi-Period Timber Growing Costs	Natural Resources	1986	316.048/317.013	500	500
1.096 Amortization of Reforestation Expenditures	Natural Resources	1980	316.048/317.013	100	100

Personal Income Tax Expenditures

Tax Expenditure	Program or Function	Year Enacted	Oregon Statute	Revenue Impact (\$ Thousands)		
				2003-05	2005-07	
1.097	Development Costs for Nonfuel Minerals	Natural Resources	1951	316.048/317.013	200	200
1.098	Depletion Costs for Nonfuel Minerals	Natural Resources	1913	316.048/317.374	800	800
1.099	Mining Reclamation Reserves	Natural Resources	1984	316.048/317.013	200	200
1.104	Magazine Circulation Expenditures	Tax Administration	1950	316.048/317.013	200	200
1.106	Completed Contract Rules	Tax Administration	1986	316.048/317.013	200	200
1.107	Casualty and Theft Losses	Social Policy	1913	316.695	2,000	2,000
1.108	Local Income Taxes	Social Policy	1913	316.695	13,700	7,700
1.109	Charitable Contributions: Other	Social Policy	1917	316.695/317.013	195,400	207,200

Oregon Subtractions

1.110	Land Donated to Schools	Education	1999	316.852/317.488	Less than 50	Less than 50
1.111	Oregon 529 College Savings Network	Education	1999	316.680(1)(i)	9,800	13,400
1.112	Scholarship Awards Used for Housing Expenses	Education	1999	316.846	Less than 50	Less than 50
1.113	JOBS Plus Participants	Human Services	1995	316.680(1)(e)	Less than 50	Less than 50
1.114	Physicians in "Medically Disadvantaged" Areas	Human Services	1973	316.076	0	0
1.115	Additional Deduction for Elderly or Blind	Human Services	1989	316.695(7)	9,000	6,900
1.116	Additional Medical Deduction for Elderly	Human Services	1991	316.695 (1)(d)(B)	66,800	77,000
1.117	Social Security Benefits (Oregon)	Human Services	1985	316.054	213,100	229,400
1.118	Individual Development Accounts (Exclusion and Subtraction)	Economic/Community	1999	316.848	Less than 50	Less than 50
1.119	Donations of Art by the Artist	Economic/Community	1979	316.838	Less than 50	Less than 50
1.120	Capital Gains from Oregon Reinvestment	Economic/Community	1995	316.874	0	0
1.121	Municipal Bond Interest	Economic/Community	1987	316.056	26,500	26,500
1.123	Service in Vietnam on Missing Status	Economic/Community	1973	316.074	0	0
1.124	Underground Storage Tank Grants	Natural Resources	1991	316.834/317.383	0	0
1.125	Energy Conservation Subsidies (Oregon)	Natural Resources	1981	316.744/317.386	200	200
1.127	Income Earned in Border River Areas	Tax Administration	2001	316.127	Less than 50	Less than 50
1.128	Income Earned in "Indian Country"	Government	1977	316.777	2,300	2,300
1.129	Federal Pension Income	Government	1998	316.680(1)(g)	127,900	142,500
1.130	Oregon State Lottery Prizes	Government	1985	461.560	2,100	2,300
1.131	Federal Income Tax Deduction	Social Policy	1929	316.680/316.695	534,800	711,800
1.132	Military Active Duty Pay	Social Policy	1969	316.680/316.789	7,600	8,400
1.133	Interest and Dividends on U.S. Obligations	Federal Law	1970	316.680	38,500	40,900

Oregon Credits

1.134	Youth Apprenticeship Sponsorship	Education	1991	315.254	0	0
1.136	Employer Provided Scholarships	Education	2001	315.237	Less than 50	Less than 50
1.137	Earned Income Credit	Human Services	1997	315.266	18,500	19,300
1.138	Qualified Adoption Expense	Human Services	1999	315.274	1,400	400
1.139	Rural Medical Practice	Human Services	1989	316.143	13,700	14,800
1.140	Costs in lieu of Nursing Home Care	Human Services	1979	316.147-316.149	Less than 50	Less than 50
1.141	Long-Term Care Insurance	Human Services	1999	315.610	100	200
1.142	Disabled Child	Human Services	1985	316.099	3,100	3,500
1.143	Elderly or Permanently Disabled	Human Services	1969	316.087	100	Less than 50
1.144	Loss of Limbs	Human Services	1973	316.079	Less than 50	Less than 50
1.145	Severe Disability	Human Services	1985	316.758/316.765	4,600	5,000
1.146	Film Production Development Contributions	Economic/Community	2003	315.514	0	400
1.147	Individual Development Accounts (Credit)	Economic/Community	1999	315.271	900	900
1.148	Oregon Capital Corporation Investments	Economic/Community	1987	315.504	0	0

Appendix E

Personal Income Tax Expenditures

Tax Expenditure	Program or Function	Year Enacted	Oregon Statute	Revenue Impact (\$ Thousands)		
				2003–05	2005–07	
1.151 Long-term Nonurban Enterprise Zone (Income Tax)	Economic/Community	1997	317.124	Not available	Not available	
1.152 Reservation Enterprise Zone (Income Tax)	Economic/Community	2001	285C.309	Less than 50	Less than 50	
1.153 Electronic Commerce Enterprise Zone (Income Tax)	Economic/Community	2001	315.507	Not available	Not available	
1.154 Investment in Telecommunications Infrastructure	Economic/Community	2001	315.511	Less than 50	Less than 50	
1.155 Child and Dependent Care	Economic/Community	1975	316.078	15,400	16,400	
1.156 Working Family Child Care	Economic/Community	1997	315.262	44,700	46,500	
1.157 Dependent Care Assistance	Economic/Community	1987	315.204	100	100	
1.158 Dependent Care Facilities	Economic/Community	1987	315.208	Incl. in 1.157	Incl. in 1.157	
1.159 First Break Program	Economic/Community	1995	315.259	100	Less than 50	
1.160 Child Care Division Contributions	Economic/Community	2001	315.213	400	800	
1.161 Farm Worker Housing Construction	Economic/Community	1989	315.164	100	100	
1.163 Involuntary Mobile Home Moves	Economic/Community	1991	316.153	Less than 50	Less than 50	
1.165 Crop Gleaning	Natural Resources	1977	315.156	Less than 50	Less than 50	
1.166 Alternatives to Field Burning	Natural Resources	1975	468.150	Incl. in 1.170	Incl. in 1.170	
1.167 Farm Machinery and Equipment (Income)	Natural Resources	2001	315.119/315.123	300	300	
1.168 Riparian Lands Removed from Farm Production	Natural Resources	2001	315.113	Less than 50	Less than 50	
1.169 Pollution Prevention	Natural Resources	1995	315.311	100	100	
1.170 Pollution Control	Natural Resources	1967	315.304	8,900	8,800	
1.171 Reclaimed Plastics	Natural Resources	1985	315.324	200	Less than 50	
1.172 Diesel Truck Engines	Natural Resources	2003	Note: 315.356	0	1,500	
1.173 Sewer Connection	Natural Resources	1987	316.095	100	Less than 50	
1.174 Fish Screening Devices	Natural Resources	1989	315.138	Less than 50	Less than 50	
1.175 Alternative Energy Devices (Residential)	Natural Resources	1977	316.116	12,200	13,600	
1.176 Alternative Fuel Stations	Natural Resources	2001	317.115	Less than 50	Less than 50	
1.177 Business Energy Facilities	Natural Resources	1979	315.354	6,500	7,300	
1.180 Reforestation	Natural Resources	1979	315.104	Less than 50	Less than 50	
1.186 Political Contributions	Government	1969	316.102	9,700	10,000	
1.187 Personal Exemption	Social Policy	1985	316.085	897,600	1,019,100	
1.188 Retirement Income	Social Policy	1991	316.157	2,500	2,000	
1.189 Oregon Cultural Trust	Social Policy	2001	315.675	3,000	3,000	
<i>Other</i>						
1.190 Expatriate Residential Status	Economic/Community	1999	316.027	1,600	1,600	
1.191 Small City Business Development	Economic/Community	2001	316.778/317.391	Less than 50	Less than 50	
1.192 Income Averaging for Farmers	Natural Resources	2001	314.297	100	100	
1.193 Capital Gains from Farm Property	Natural Resources	2001	318.020/317.063	100	100	

Corporation Income Tax Expenditures

Tax Expenditure	Program or Function	Year Enacted	Oregon Statute	Revenue Impact (\$ Thousands)		
				2003–05	2005–07	
<i>Federal Exclusions</i>						
1.017	Inventory Property Sales Source-Rule Exception	Economic/Community	1921	317.013	24,200	27,000
1.018	Magazine, Paperback, and Record Returns	Economic/Community	1978	316.048/317.013	Less than 50	Less than 50
1.019	Cash Accounting, Other than Agriculture	Economic/Community	1916	316.048/317.013	100	100
1.020	Regional Economic Development Incentives	Economic/Community	1993	316.048/317.013	Less than 50	0
1.021	Income of Controlled Foreign Corporations	Economic/Community	1909	317.013	20,500	22,400
1.022	Extraterritorial Income Exclusion	Economic/Community	2000	317.013	23,400	26,300
1.023	Cancellation of Debt for Non-Farmers	Economic/Community	Pre-1955	316.048/317.013	Less than 50	Less than 50
1.029	Employee Stock Ownership Plans	Economic/Community	1974	316.048/317.013	4,000	4,300
1.036	Agriculture Cost-Sharing Payments	Natural Resources	1978	316.048/317.013	100	100
1.040	Contributions in Aid of Construction for Utilities	Consumer and Business Services	1996	317.013	100	100
1.041	Life Insurance Investment Income	Consumer and Business Services	1913	316.048/317.013	6,200	6,600
1.044	Credit Union Income	Consumer and Business Services	1951	317.080(1)	5,300	5,900
1.045	Life Insurance Company Reserves	Consumer and Business Services	1984	317.655(2)(f,g)	7,400	8,600
1.046	Structured Settlement Accounts	Consumer and Business Services	1982	317.013	Less than 50	Less than 50
1.047	Small Property Insurance Companies	Consumer and Business Services	1986	317.013	Less than 50	Less than 50
1.048	Imputed Interest Rules	Tax Administration	1964	316.048/317.013	100	100
1.049	Gain on Nondealer Installment Sales	Tax Administration	1921	316.048/317.013	2,600	2,800
1.050	Gain on Like-Kind Exchanges	Tax Administration	1921	316.048/317.013	5,400	5,700
<i>Federal Deductions</i>						
1.070	Charitable Contributions: Education	Education	1917	316.695/317.013	7,500	7,800
1.071	Charitable Contributions: Health	Human Services	1917	316.695/317.013	6,500	6,800
1.073	Removal of Architectural Barriers	Human Services	1976	316.048/317.013	Less than 50	Less than 50
1.074	Accelerated Depreciation of Buildings	Economic/Community	1954	316.048/317.013	6,900	4,800
1.075	Accelerated Depreciation of Equipment	Economic/Community	1954	316.048/317.013	171,600	28,300
1.076	Accelerated Depreciation of Rental Housing	Economic/Community	1954	316.048/317.013	1,500	1,900
1.077	Deferral of Certain Financing Income of Foreign Corporations	Economic/Community	1997	317.013	7,800	9,100
1.078	Research and Development Costs	Economic/Community	1954	316.048/317.013	18,400	26,900
1.079	Section 179 Expensing Allowances	Economic/Community	1959	316.048/317.013	2,400	800
1.080	Amortization of Business Start-Up Costs	Economic/Community	1980	316.048/317.013	100	100
1.081	Construction Funds of Shipping Companies	Economic/Community	1936	317.319	1,700	1,700
1.085	Cash Accounting for Agriculture	Natural Resources	1916	316.048/317.013	100	100
1.086	Soil and Water Conservation Expenditures	Natural Resources	1954	316.048/317.013	100	100
1.087	Fertilizer and Soil Conditioner Costs	Natural Resources	1960	316.048/317.013	100	100
1.088	Costs of Raising Dairy and Breeding Cattle	Natural Resources	1916	316.048/317.013	100	100
1.089	Sale of Stock to Farmers' Cooperatives	Natural Resources	1998	316.048/317.013	Less than 50	Less than 50
1.090	Redevelopment Costs in Contaminated Areas	Natural Resources	1997	316.048/317.013	100	0
1.091	Clean-Fuel Vehicles and Refueling Property	Natural Resources	1993	316.048/317.013	Less than 50	Less than 50
1.092	Intangible Development Costs for Fuels	Natural Resources	1978	316.695/317.013	Less than 50	Less than 50
1.093	Depletion Costs for Fuels	Natural Resources	1962	316.695/317.013	Less than 50	Less than 50
1.094	Tertiary Injectants	Natural Resources	1980	316.695/317.013	Less than 50	Less than 50
1.095	Multi-Period Timber Growing Costs	Natural Resources	1986	316.048/317.013	5,800	5,800

Appendix E

Corporation Income Tax Expenditures

Tax Expenditure	Program or Function	Year Enacted	Oregon Statute	Revenue Impact (\$ Thousands)		
				2003–05	2005–07	
1.096	Amortization of Reforestation Expenditures	Natural Resources	1980	316.048/317.013	100	100
1.097	Development Costs for Nonfuel Minerals	Natural Resources	1951	316.048/317.013	100	100
1.098	Depletion Costs for Nonfuel Minerals	Natural Resources	1913	316.048/317.374	400	400
1.099	Mining Reclamation Reserves	Natural Resources	1984	316.048/317.013	100	100
1.100	Bad Debt Reserves of Financial Institutions	Consumer and Business Services	1947	317.310	Less than 50	Less than 50
1.101	Small Life Insurance Companies	Consumer and Business Services	1984	317.013	400	400
1.102	Unpaid Loss Reserves	Consumer and Business Services	1986	317.655(2)(f,g)	7,400	7,100
1.103	Blue Cross/Blue Shield and Other Nonprofits	Consumer and Business Services	1986	317.013	Not available	Not available
1.104	Magazine Circulation Expenditures	Tax Administration	1950	316.048/317.013	100	100
1.105	Net Operating Loss Limitation	Tax Administration	1954	317.478/317.479	2,800	2,700
1.106	Completed Contract Rules	Tax Administration	1986	316.048/317.013	900	900
1.109	Charitable Contributions: Other	Social Policy	1917	316.695/317.013	12,600	13,300

Oregon Subtractions

1.110	Land Donated to Schools	Education	1999	316.852/317.488	Less than 50	Less than 50
1.122	Out-of-State Financial Institution	Economic/Community	1999	317.057	Not available	Not available
1.124	Underground Storage Tank Grants	Natural Resources	1991	316.834/317.383	0	0
1.125	Energy Conservation Subsidies (Oregon)	Natural Resources	1981	316.744/317.386	Less than 50	Less than 50
1.126	Wet Marine and Transportation Policies	Consumer and Business Services	1995	317.080(8)	400	500

Oregon Credits

1.134	Youth Apprenticeship Sponsorship	Education	1991	315.254	0	0
1.135	Contributions of Computer Equipment	Education	1985	317.151	200	200
1.136	Employer Provided Scholarships	Education	2001	315.237	Less than 50	Less than 50
1.141	Long-Term Care Insurance	Human Services	1999	315.610	Less than 50	Less than 50
1.146	Film Production Development Contributions	Economic/Community	2003	315.514	0	1,600
1.147	Individual Development Accounts (Credit)	Economic/Community	1999	315.271	Less than 50	Less than 50
1.148	Oregon Capital Corporation Investments	Economic/Community	1987	315.504	0	0
1.149	Qualified Research Activities	Economic/Community	1989	317.152	5,100	21,600
1.150	Qualified Research Activities (Alternative)	Economic/Community	1989	317.154	Incl. in 1.149	Incl. in 1.149
1.151	Long-term Nonurban Enterprise Zone (Income Tax)	Economic/Community	1997	317.124	Not available	Not available
1.152	Reservation Enterprise Zone (Income Tax)	Economic/Community	2001	285C.309	Less than 50	Less than 50
1.153	Electronic Commerce Enterprise Zone (Income Tax)	Economic/Community	2001	315.507	Not available	Not available
1.154	Investment in Telecommunications Infrastructure	Economic/Community	2001	315.511	Less than 50	Less than 50
1.157	Dependent Care Assistance	Economic/Community	1987	315.204	1,900	1,900
1.158	Dependent Care Facilities	Economic/Community	1987	315.208	Incl. in 1.157	Incl. in 1.157
1.159	First Break Program	Economic/Community	1995	315.259	Less than 50	Less than 50
1.160	Child Care Division Contributions	Economic/Community	2001	315.213	100	200
1.161	Farm Worker Housing Construction	Economic/Community	1989	315.164	200	200
1.162	Farm Worker Housing Lender's Credit	Economic/Community	1989	317.147	700	800
1.164	Oregon Affordable Housing Credit	Economic/Community	1989	317.097	7,700	8,100
1.165	Crop Gleaning	Natural Resources	1977	315.156	Less than 50	Less than 50
1.166	Alternatives to Field Burning	Natural Resources	1975	468.150	Incl. in 1.170	Incl. in 1.170
1.167	Farm Machinery and Equipment (Income)	Natural Resources	2001	315.119/315.123	100	100
1.168	Riparian Lands Removed from Farm Production	Natural Resources	2001	315.113	Less than 50	Less than 50

Corporation Income Tax Expenditures

Tax Expenditure	Program or Function	Year Enacted	Oregon Statute	Revenue Impact (\$ Thousands)		
				2003–05	2005–07	
1.169	Pollution Prevention	Natural Resources	1995	315.311	Less than 50	Less than 50
1.170	Pollution Control	Natural Resources	1967	315.304	16,300	16,000
1.171	Reclaimed Plastics	Natural Resources	1985	315.324	Less than 50	Less than 50
1.172	Diesel Truck Engines	Natural Resources	2003	Note: 315.356	0	1,500
1.174	Fish Screening Devices	Natural Resources	1989	315.138	Less than 50	Less than 50
1.176	Alternative Fuel Stations	Natural Resources	2001	317.115	Less than 50	Less than 50
1.177	Business Energy Facilities	Natural Resources	1979	315.354	6,100	5,600
1.178	Energy Conservation Lender's Credit	Natural Resources	1981	317.112	Less than 50	Less than 50
1.179	Weatherization Lender's Credit	Natural Resources	1977	317.111	Less than 50	Less than 50
1.180	Reforestation	Natural Resources	1979	315.104	Less than 50	Less than 50
1.181	Mile-Based or Time-Based Motor Vehicle Insurance	Consumer and Business Services	2003	Note: 317.122	0	400
1.182	Fire Insurance	Consumer and Business Services	1969	317.122(1)	2,300	2,600
1.183	Workers' Compensation Assessments	Consumer and Business Services	1995	317.122(2)	3,000	3,000
1.184	Oregon IGA Assessments	Consumer and Business Services	1977	734.575	400	200
1.185	Oregon Life and Health IGA Assessments	Consumer and Business Services	1975	734.835	400	400
1.189	Oregon Cultural Trust	Social Policy	2001	315.675	200	200
<i>Other</i>						
1.191	Small City Business Development	Economic/Community	2001	316.778/317.391	Less than 50	Less than 50
1.193	Capital Gains from Farm Property	Natural Resources	2001	318.020/317.063	100	100
1.194	Apportionment for Certain Forest Product Companies	Natural Resources	2003	314.650(2)	0	Not available
1.195	Apportionment for Utility and Telecommunication Companies	Consumer and Business Services	2001	314.280	800	1,400

Index of Tax Expenditures by Title

Tax Expenditure Name	Tax Expenditure Number	Program or Function
Academies, Day Care, and Student Housing	2.001	Property
Accelerated Depreciation of Buildings	1.074	Income
Accelerated Depreciation of Equipment	1.075	Income
Accelerated Depreciation of Rental Housing	1.076	Income
Additional Deduction for Elderly or Blind	1.115	Income
Additional Medical Deduction for Elderly	1.116	Income
Agricultural Commodity Cleaning Property	2.099	Property
Agricultural Products Held by Farmer	2.034	Property
Agriculture Cost-Sharing Payments	1.036	Income
Aircraft	2.108	Property
Aircraft Being Repaired	2.022	Property
Allowances for Federal Employees Abroad	1.051	Income
Alternative Energy Devices (Residential)	1.175	Income
Alternative Energy Systems	2.102	Property
Alternative Fuel Stations	1.176	Income
Alternatives to Field Burning	1.166	Income
Amortization of Business Start-Up Costs	1.080	Income
Amortization of Reforestation Expenditures	1.096	Income
Amtrak Passenger Railroad	2.085	Property
Apportionment for Certain Forest Product Companies	1.194	Income
Apportionment for Utility and Telecommunication Companies	1.195	Income
Bad Debt Reserves of Financial Institutions	1.100	Income
Beach Lands	2.070	Property
Benefits and Allowances of Armed Forces Personnel	1.059	Income
Beverage Containers Requiring Deposit	2.067	Property
Blue Cross/Blue Shield and Other Nonprofits	1.103	Income
Business Energy Facilities	1.177	Income
Business Personal Property Cancellation	2.016	Property
Cafeteria Plan Benefits	1.008	Income
Cancellation of Debt for Farmers	1.037	Income
Cancellation of Debt for Non-Farmers	1.023	Income
Capital Gains from Farm Property	1.193	Income
Capital Gains from Oregon Reinvestment	1.120	Income
Capital Gains on Gifts	1.054	Income
Capital Gains on Home Sales	1.033	Income
Capital Gains on Inherited Property	1.053	Income
Cargo Containers	2.017	Property
Cash Accounting for Agriculture	1.085	Income
Cash Accounting, Other than Agriculture	1.019	Income
Casualty and Theft Losses	1.107	Income
Cemeteries, Burial Grounds, and Mausoleums	2.079	Property
Center Pivot Irrigation Equipment	2.040	Property
Centrally Assessed Electricity Generating Facility in an Enterprise Zone	2.012	Property
Certain Foster Care Payments	1.006	Income
Charitable Contributions: Education	1.070	Income
Charitable Contributions: Health	1.071	Income

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Index of Tax Expenditures by Title

Tax Expenditure Name	Tax Expenditure Number	Program or Function
Charitable Contributions: Other	1.109	Income
Charitable Organizations	4.007	Weight-Mile
Charitable, Literary, and Scientific Organizations	2.075	Property
Child and Dependent Care	1.155	Income
Child Care Division Contributions	1.160	Income
City-Owned Sports Facility	2.081	Property
Clean-Fuel Vehicles and Refueling Property	1.091	Income
Commercial Buildings Under Construction	2.008	Property
Compensatory Damages	1.010	Income
Completed Contract Rules	1.106	Income
Construction Funds of Shipping Companies	1.081	Income
Construction-in-Process in an Enterprise Zone	2.009	Property
Contributions in Aid of Construction for Utilities	1.040	Income
Contributions of Computer Equipment	1.135	Income
Convention Facilities	2.082	Property
Costs in lieu of Nursing Home Care	1.140	Income
Costs of Raising Dairy and Breeding Cattle	1.088	Income
Crab Pots	2.054	Property
Credit for Property Taxes Paid	14.003	Oil and Gas Severance
Credit Union Income	1.044	Income
Crop Gleaning	1.165	Income
Crops, Plants, and Fruit Trees	2.033	Property
Defense Contractor With Federal Property	2.026	Property
Deferral of Certain Financing Income of Foreign Corporations	1.077	Income
Dependent Care Assistance	1.157	Income
Dependent Care Facilities	1.158	Income
Depletion Costs for Fuels	1.093	Income
Depletion Costs for Nonfuel Minerals	1.098	Income
Destroyed or Damaged Property	2.109	Property
Development Costs for Nonfuel Minerals	1.097	Income
Diesel Truck Engines	1.172	Income
Disabled Child	1.142	Income
Donations of Art by the Artist	1.119	Income
Earned Income Credit	1.137	Income
Earnings on Education Savings Accounts	1.003	Income
Eastern Private Forestland	2.116	Property
Eastern Private Standing Timber	2.049	Property
Elderly or Permanently Disabled	1.143	Income
Electronic Commerce Enterprise Zone (Income Tax)	1.153	Income
Electronic Commerce Enterprise Zone (Property Tax)	2.013	Property
Elementary and Secondary Schools	4.003	Weight-Mile
Employee Adoption Benefits	1.007	Income
Employee Awards	1.030	Income
Employee Meals and Lodging (Non-Military)	1.028	Income
Employee Stock Ownership Plans	1.029	Income
Employer Paid Accident and Disability Insurance	1.025	Income
Employer Paid Group Life Insurance Premiums	1.024	Income

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Tax Expenditure Name	Tax Expenditure Number	Program or Function
Employer Paid Medical Benefits	1.009	Income
Employer Paid Transportation Benefits	1.039	Income
Employer Provided Dependent Care	1.026	Income
Employer Provided Education Benefits	1.031	Income
Employer Provided Scholarships	1.136	Income
Energy Conservation Lender's Credit	1.178	Income
Energy Conservation Subsidies (Federal)	1.038	Income
Energy Conservation Subsidies (Oregon)	1.125	Income
Enterprise Zone Businesses	2.010	Property
Environmentally Sensitive Logging Equipment	2.045	Property
Ethanol Production Facility	2.101	Property
Exempt Lease from Exempt Owner	2.074	Property
Exempt Lease from Taxable Owner	2.073	Property
Expatriate Residential Status	1.190	Income
Extraterritorial Income Exclusion	1.022	Income
Facility on U.S. Military Base	12.003	Dry Cleaning
Fairground Leased Storage Space	2.020	Property
Farm Homesites	2.113	Property
Farm Labor Housing and Day Care Centers	2.030	Property
Farm Land	2.112	Property
Farm Machinery and Equipment (Income)	1.167	Income
Farm Machinery and Equipment (Property)	2.031	Property
Farming Operations	4.001	Weight-Mile
Farm Worker Housing Construction	1.161	Income
Farm Worker Housing Lender's Credit	1.162	Income
FCC Licenses	2.068	Property
Federal and Veteran Institutions	5.002	Cigarette
Federal Income Tax Deduction	1.131	Income
Federal Installations	6.001	Other Tobacco Products
Federal Land Under Recreation Facility	2.024	Property
Federal Land Under Summer Homes	2.025	Property
Federal Pension Income	1.129	Income
Federal Property	2.083	Property
Federal Standing Timber Under Contract	2.046	Property
Federal Subscribers	8.002	Telephone Exchange Access
Fertilizer and Soil Conditioner Costs	1.087	Income
Field Burning Smoke Management Equipment	2.042	Property
Film Production Development Contributions	1.146	Income
Fire Insurance	1.182	Income
Fire Protection	4.006	Weight-Mile
First \$3,000 in Gross Sales Value	14.001	Oil and Gas Severance
First 25,000 Board Feet	9.001	Forest Products Harvest
First Break Program	1.159	Income
Fish Screening Devices	1.174	Income
Forest Fire Protection Association	2.051	Property
Forest Homesites	2.114	Property

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Tax Expenditure Name	Tax Expenditure Number	Program or Function
Forest Products -- Gasoline	3.001	Gas and Use Fuel
Forest Products -- Other than Gasoline	3.002	Gas and Use Fuel
Forest Products on County Roads	4.002	Weight-Mile
Fraternal Organizations	2.077	Property
Fraternal Organizations, Sororities, and Cooperatives	2.086	Property
Fuel for Aircraft Departing U.S.	3.003	Gas and Use Fuel
Gain on Involuntary Conversions in Disaster Areas	1.055	Income
Gain on Like-Kind Exchanges	1.050	Income
Gain on Nondealer Installment Sales	1.049	Income
Government Owned or Operated Vehicles	4.004	Weight-Mile
Higher Education Parking Space	2.004	Property
Historic Property	2.104	Property
Home Mortgage Interest	1.084	Income
Hospital Insurance (Part A)	1.012	Income
Housing Authority Rental Units	2.028	Property
Imputed Interest Rules	1.048	Income
Inactive Mineral Interests	2.052	Property
Income Averaging for Farmers	1.192	Income
Income Earned Abroad by U.S. Citizens	1.016	Income
Income Earned in "Indian Country"	1.128	Income
Income Earned in Border River Areas	1.127	Income
Income of Controlled Foreign Corporations	1.021	Income
Indian Property on Reservation	2.084	Property
Indian Reservation Subscribers	8.003	Telephone Exchange Access
Individual Development Accounts (Credit)	1.147	Income
Individual Development Accounts (Exclusion and Subtraction)	1.118	Income
Industry Apprenticeship/Training Trust	2.027	Property
Intangible Development Costs for Fuels	1.092	Income
Intangible Personal Property	2.065	Property
Interest and Dividends on U.S. Obligations	1.133	Income
Interest on Education Savings Bonds	1.002	Income
Interest on Oregon State and Local Debt	1.052	Income
Interest on Student Loans	1.062	Income
Inventory	2.015	Property
Inventory Property Sales Source-Rule Exception	1.017	Income
Investment in Telecommunications Infrastructure	1.154	Income
Involuntary Mobile Home Moves	1.163	Income
IRA Contributions and Earnings	1.067	Income
JOBS Plus Participants	1.113	Income
Keogh Plan Contributions and Earnings	1.068	Income
Land Donated to Schools	1.110	Income
Leased Docks and Airports	2.018	Property
Leased Federal Grazing Land	2.037	Property
Leased Health Care Property	2.006	Property
Leased Public Farming and Grazing Land	2.036	Property
Leased Publicly Owned Shipyard Property	2.019	Property
Leased State Land Board Land	2.038	Property

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Tax Expenditure Name	Tax Expenditure Number	Program or Function
Leased Student Housing Publicly Owned	2.003	Property
Life Insurance Company Reserves	1.045	Income
Life Insurance Investment Income	1.041	Income
Local Income Taxes	1.108	Income
Long-Term Care Facilities	2.088	Property
Long-Term Care Insurance	1.141	Income
Long-term Nonurban Enterprise Zone (Income Tax)	1.151	Income
Long-Term Nonurban Enterprise Zone (Property Tax)	2.011	Property
Loss of Limbs	1.144	Income
Low-Income Multi-Unit Housing	2.094	Property
Magazine Circulation Expenditures	1.104	Income
Magazine, Paperback, and Record Returns	1.018	Income
Medical and Dental Expenses	1.072	Income
Medical Savings Accounts (Federal)	1.066	Income
Mile-Based or Time-Based Motor Vehicle Insurance	1.181	Income
Military Active Duty Pay	1.132	Income
Military and Dependents CHAMPUS/TRICARE Insurance	1.035	Income
Military Disability Benefits	1.058	Income
Mining Claims on Federal Land	2.053	Property
Mining Reclamation Reserves	1.099	Income
Miscellaneous Fringe Benefits	1.027	Income
Mobile Field Incinerators	2.032	Property
Motor Vehicles and Trailers	2.059	Property
Moving Expenses	1.069	Income
Multi-Family Rental Housing in City Core	2.093	Property
Multi-Period Timber Growing Costs	1.095	Income
Multi-Unit Rental Housing	2.111	Property
Municipal Bond Interest	1.121	Income
Net Operating Loss Limitation	1.105	Income
New Houses in Distressed Area	2.091	Property
New Housing for Low-Income Rental	2.095	Property
Nonprofit Elderly Housing State Funded	2.029	Property
Nonprofit Electrical Distribution Associations	2.061	Property
Nonprofit Housing for the Elderly	2.110	Property
Nonprofit Low-Income Rental Housing	2.096	Property
Nonprofit Public Park Use Land	2.056	Property
Nonprofit Sewage Treatment Facilities	2.043	Property
Nonprofit Telephone Associations	2.063	Property
Nonprofit Water Associations	2.062	Property
Nursery Stock	2.035	Property
ODOT Land Under Use Permit	2.060	Property
Open Space Land	2.120	Property
Ordinary Treatment of Losses from Small Business Corporation Stock	1.082	Income
Oregon 529 College Savings Network	1.111	Income
Oregon Affordable Housing Credit	1.164	Income
Oregon Capital Corporation Investments	1.148	Income

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Tax Expenditure Name	Tax Expenditure Number	Program or Function
Oregon Cultural Trust	1.189	Income
Oregon IGA Assessments	1.184	Income
Oregon Life and Health IGA Assessments	1.185	Income
Oregon State Lottery Prizes	1.130	Income
Oregon Veterans' Home	15.003	Medical Provider
Other Farm/Aquaculture/Egg Equipment	2.041	Property
Out-of-State Financial Institution	1.122	Income
Oyster Growing on State Land	2.039	Property
Pension Contributions and Earnings	1.011	Income
Personal Exemption	1.187	Income
Personal Property for Personal Use	2.066	Property
Physicians in "Medically Disadvantaged" Areas	1.114	Income
Political Contributions	1.186	Income
Pollution Control	1.170	Income
Pollution Control Facilities	2.100	Property
Pollution Prevention	1.169	Income
Prisons	12.002	Dry Cleaning
Private Farm and Logging Roads	2.050	Property
Private Libraries for Public Use	2.005	Property
Private Service Telephone Equipment	2.064	Property
Product Prohibited from Tax by Federal Law	13.001	Petroleum Load
Property Taxes	1.083	Income
Property Used as Golf Course and Effluent	2.057	Property
Public Assistance Benefits	1.005	Income
Public Mass Transit Vehicles	4.005	Weight-Mile
Public Services	3.004	Gas and Use Fuel
Public Transportation	3.005	Gas and Use Fuel
Public Ways	2.071	Property
Qualified Adoption Expense	1.138	Income
Qualified Higher Education Expenses	1.063	Income
Qualified Research Activities	1.149	Income
Qualified Research Activities (Alternative)	1.150	Income
Qualified Tuition Programs (Federal)	1.004	Income
Railroad Cars Being Repaired	2.023	Property
Railroad Right of Way in Highway Lighting District	2.106	Property
Railroad Right of Way in Rural Fire District	2.107	Property
Railroad Right of Way in Water District	2.105	Property
Railroad Right of Way Used for Alternative Transport	2.058	Property
Reclaimed Plastics	1.171	Income
Redevelopment Costs in Contaminated Areas	1.090	Income
Reforestation	1.180	Income
Regional Economic Development Incentives	1.020	Income
Rehabilitated Housing	2.092	Property
Religious Organizations	2.078	Property
Removal of Architectural Barriers	1.073	Income
Rental Allowances for Ministers' Homes	1.057	Income
Research and Development Costs	1.078	Income

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Tax Expenditure Name	Tax Expenditure Number	Program or Function
Reservation Cigarette Sales	5.003	Cigarette
Reservation Enterprise Zone (Income Tax)	1.152	Income
Reservation Tobacco Sales	6.002	Other Tobacco Products
Restitution Payments for Holocaust Survivors	1.060	Income
Retirement Income	1.188	Income
Revenue from Government Leased Lines	10.001	Electric Cooperative
Riparian Habitat Land	2.044	Property
Riparian Lands Removed from Farm Production	1.168	Income
Rural Health Care Facilities	2.087	Property
Rural Medical Practice	1.139	Income
Rural Renewable Energy Development Zone	2.014	Property
Sale of Stock to Farmers' Cooperatives	1.089	Income
Scholarship and Fellowship Income	1.001	Income
Scholarship Awards Used for Housing Expenses	1.112	Income
Section 179 Expensing Allowances	1.079	Income
Self-Employment Health Insurance	1.065	Income
Senior Services Centers	2.007	Property
Service in Vietnam on Missing Status	1.123	Income
Severe Disability	1.145	Income
Sewer Connection	1.173	Income
Ship Repair Facility Materials	2.021	Property
Small City Business Development	1.191	Income
Small Life Insurance Companies	1.101	Income
Small Property Insurance Companies	1.047	Income
Small Quantity by Consumers	5.001	Cigarette
Small Tract Forestland Option	2.117	Property
Small Watercraft	2.055	Property
Small Wineries	7.001	Beer and Wine
Social Security Benefits (Federal)	1.015	Income
Social Security Benefits (Oregon)	1.117	Income
Soil and Water Conservation Expenditures	1.086	Income
Special Benefits for Disabled Coal Miners	1.014	Income
Spread on Acquisition of Stock	1.032	Income
State and Local Government Property	11.001	Hazardous Substances
State and Local Interests	14.002	Oil and Gas Severance
State and Local Property	2.069	Property
State and Local Standing Timber Under Contract	2.047	Property
State and Local Subscribers	8.001	Telephone Exchange Access
Strategic Investment Program (SIP)	2.089	Property
Structured Settlement Accounts	1.046	Income
Student Housing Furnishings	2.002	Property
Substance Prohibited from Tax by Federal Law	11.002	Hazardous Substances
Supplementary Medical Insurance (Part B)	1.013	Income
Survivor Annuities	1.061	Income
Teacher Classroom Expenses	1.064	Income
Tertiary Injectants	1.094	Income

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Tax Expenditure Name	Tax Expenditure Number	Program or Function
Transfer of Land from Cemetery to School	2.080	Property
Tribal Land Being Placed in U.S. Trust	2.072	Property
Type A and B Hospitals	15.001	Medical Provider
Underground Storage Tank Grants	1.124	Income
Uniform Service or Linen Supply Facility	12.001	Dry Cleaning
Unpaid Loss Reserves	1.102	Income
Vertical Housing Development Zone	2.090	Property
Veterans Affairs and Pediatric Specialty Hospitals	15.002	Medical Provider
Veteran's Benefits and Services	1.034	Income
Voluntary Employees' Beneficiary Associations	1.056	Income
Volunteer Fire Department Property	2.076	Property
Nursing Facilities	15.004	Medical Provider
War Veterans and Their Spouses	2.097	Property
War Veterans in Nonprofit Elderly Housing	2.098	Property
Watercraft Centrally Assessed	2.103	Property
Watercraft Locally Assessed	2.118	Property
Weatherization Lender's Credit	1.179	Income
Western Private Forestland	2.115	Property
Western Private Standing Timber	2.048	Property
Wet Marine and Transportation Policies	1.126	Income
Wildlife Habitat	2.119	Property
Wine Marketing Activities	7.002	Beer and Wine
Workers' Compensation Assessments	1.183	Income
Workers' Compensation Benefits (Medical)	1.043	Income
Workers' Compensation Benefits (Non-Medical)	1.042	Income
Working Family Child Care	1.156	Income
Youth Apprenticeship Sponsorship	1.134	Income

