

State of Oregon

2007–2009



Tax Expenditure Report

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State of Oregon

2007–2009

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Tax Expenditure Report

Budget and Management Division
Department of Administrative Services

Research Section
Department of Revenue

Governor's Message

To the Citizens of Oregon:

I am pleased to submit the 2007-09 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, which is a valuable companion to my biennial Governor's Recommended Budget, 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.

Because tax expenditures amount to approximately 50 percent of spending through our tax system, we must ensure that they receive a thorough examination during the 2007 Oregon Legislative session. In so doing, we can make certain that they help us reach our policy goals. Moreover, Oregon's citizens and taxpayers deserve full disclosure of how well the system is working. 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 2007-09 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 362 tax expenditures contained within 16 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 16 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 2007–09 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 1–16).

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 16.001. This numbering system can be used as an index to locate the full description of each tax expenditure in Chapters 1–16. 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 1–16, 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 31 state agencies (see Appendix B). Agencies were asked to evaluate tax expenditures if the expenditure 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. Tables 1 and 2 provide totals of only the loss amount.

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.”

Many 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 many federal tax expenditures made by the Joint Committee on Taxation of the U.S. Congress were used as the basis of many estimates. For property tax expenditures, the primary data source was information reported 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 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. Estimates of federal tax expenditures made by the Joint Committee on Taxation of the U.S. Congress were used to estimate many tax expenditures that result from Oregon’s connection to the federal income tax.

SUMMARY

This report describes 362 individual tax expenditures currently specified in Oregon law. Of those, 122 are related to local property taxes and 202 to Oregon’s personal and corporation income taxes. The remaining 38 are related to various other state tax programs.

About half of the income tax expenditures result from Oregon’s connection to the federal income tax code. Oregon is generally tied to the federal definition of taxable income. 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.

SUMMARY OF OREGON TAX PROGRAMS WITH TAX EXPENDITURES (Dollars in Millions)				
Tax Program	Number	Estimated Revenues 2007-09	Revenue Impact	
			2005-07	2007-09
Income (Personal and Corporate)	202	\$12,963.1	\$8,838.7	\$9,860.2
Federal Exclusions	60		\$4,418.7	\$4,865.1
Federal Adjustments/Deductions	51		\$2,040.7	\$2,368.4
Oregon Subtractions	25		\$1,188.7	\$1,371.6
Oregon Credits	58		\$1,109.4	\$1,185.5
Other Oregon Provisions	8		\$81.2	\$69.6
Property ¹	122	\$8,612.5	\$17,006.3	\$18,732.3
Full Exemption	87		\$16,508.6	\$18,194.5
Partial Exemption	24		\$220.0	\$240.0
Special Assessment	11		\$277.8	\$297.8
Gas and Use Fuel	5	\$869.9	\$13.2	\$14.2
Weight-Mile	7	\$510.8	\$13.5	\$14.9
Cigarette & Other Tobacco	5	\$527.8	\$2.5	\$2.5
Beer and Wine	2	\$30.9	\$2.3	\$2.7
Other State Taxes	19	\$221.2	\$7.9	\$4.5
All Taxes	362	\$23,736.2	\$25,884.4	\$28,631.3

¹ The estimates include only the loss amounts.

For the 2007–09 biennium, total tax expenditures will result in the “spending” of about \$28.6 billion through Oregon’s tax code. Over the same period, the state of Oregon and local taxing districts will collect roughly \$23.7 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 summary table shows estimates of tax expenditures by tax program for the 2005–07 and 2007–09 biennia. The table also shows estimates of the total revenue to be raised in 2007–09 by each tax. The largest tax expenditures occur in the property tax program, where aggregate tax expenditures of \$18.7 billion are more than double the amount of estimated revenue. However, roughly \$15.2 billion of this amount is represented by the three largest property tax expenditures: the exemption of intangible personal property (\$11.1 billion), the exemption of federal property (\$2.5 billion), and the exemption for state and local property (\$1.6 billion).

Income tax expenditures (personal and corporation) in 2007–09 will total almost \$9.9 billion, about \$3 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 income tax expenditures. The three largest expenditures are each more than \$900 million and together account for about \$2.8 billion. These are Oregon’s personal exemption credit, the exclusion of employer paid medical benefits and the deduction of home mortgage interest.

Composition of Oregon’s Income Tax Expenditures

Of Oregon’s 202 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 EXPENDITURE ESTIMATES BY TYPE OF TAXPAYER FOR 2007-09 (Dollars in Millions)							
Expenditure Type	Individuals Only		Corporations Only		Both Individuals and Corporations		
	Number	Revenue Impact	Number	Revenue Impact	Number	Revenue Impact (Individuals)	Revenue Impact (Corporations)
Exclusions	44	\$4,551	5	\$46	11	\$238	\$31
Adjustments	8	\$285	0	\$0	0	\$0	\$0
Deductions	7	\$1,511	10	\$52	26	\$401	\$119
Subtractions	18	\$1,371	2	\$1	5	\$0	\$0
Credits	18	\$1,082	11	\$35	29	\$33	\$36
Other	3	\$2	4	\$66	1	\$1	\$0
Total	98	\$8,801	32	\$199	72	\$674	\$187

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 2007–09

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	2007-09 REVENUE IMPACT (\$000)	GOVERNOR'S RECOMMENDATION
1.112 Land Donated to Schools	Income Tax Subtraction	316.852/317.488	12/31/07	Less than 50	Extend Sunset
1.125 Gains from Manufactured Dwelling Park Sale	Income Tax Subtraction	316.153	12/31/07	Less than 50	Extend Sunset
1.153 Long-term Nonurban Enterprise Zone (Income Tax)	Income Tax Credit	317.124	06/30/09	Not Available*	Extend Sunset
1.163 Child Care Division Contributions	Income Tax Credit	315.213	12/31/08	400	Extend Sunset
1.166 Involuntary Manufactured Dwelling Moves	Income Tax Credit	316.153	12/31/07	400	Extend Sunset
1.172 Alternatives to Field Burning	Income Tax Credit	468.150	12/31/07	400	Extend Sunset
1.173 Farm Machinery and Equipment (Income Tax)	Income Tax Credit	315.119/315.123	12/31/07	Less than 50	Extend Sunset
1.176 Pollution Control	Income Tax Credit	315.304	12/31/07	18,300	Allow Sunset
1.178 Diesel Truck Engines	Income Tax Credit	Note: 315.356	12/31/07	300	Extend Sunset
2.009 Construction-in-Process in an Enterprise Zone	Full Property Tax Exemption	285C.170	06/30/09	Incl. in 2.008	Extend Sunset
2.010 Enterprise Zone Businesses	Full Property Tax Exemption	285C.175	06/30/09	30,800	Extend Sunset
2.011 Long-Term Rural Enterprise Zone (Property Tax)	Full Property Tax Exemption	285C.406	06/30/09	2,600	Extend Sunset
2.094 Rehabilitated Housing	Partial Property Tax Exemption	308.459	06/30/08	900	Extend Sunset
2.101 Pollution Control Facilities	Partial Property Tax Exemption	307.405	12/31/07	100	Allow Sunset
2.102 Ethanol Production Facility	Partial Property Tax Exemption	307.701	06/30/08	Less than 50	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)		
				2005-07	2007-09	
INCOME TAX						
<i>Federal Exclusions</i>						
1.001	Scholarship and Fellowship Income	Education	1954	316.048	11,600	13,200
1.002	Interest on Education Savings Bonds	Education	1988	316.048	200	200
1.003	Earnings on Education Savings Accounts	Education	1997	316.048	800	1,000
1.004	Qualified Tuition Programs (Federal)	Education	1996	316.048	5,500	7,000
1.005	Public Assistance Benefits	Human Services	Pre-1955	316.048	16,400	18,300
1.006	Certain Foster Care Payments	Human Services	1982	316.048	4,500	5,200
1.007	Employee Adoption Benefits	Human Services	1996	316.048	3,400	4,200
1.008	Cafeteria Plan Benefits	Human Services	1974	316.048	236,200	286,300
1.009	Employer Paid Medical Benefits	Human Services	1918	316.048	770,000	910,300
1.010	Compensatory Damages	Human Services	Pre-1955	316.048	10,900	11,400
1.011	Prescription Drug Insurance (Part D)	Human Services	2003	316.048/317.013	34,000	12,400
1.012	Hospital Insurance (Part A)	Human Services	1965	316.048	157,500	190,200
1.013	Supplementary Medical Insurance (Part B)	Human Services	1970	316.048	208,200	130,000
1.014	Pension Contributions and Earnings	Human Services	1921	316.048	803,900	884,000
1.015	Special Benefits for Disabled Coal Miners	Human Services	1969	316.048	Less than 50	Less than 50
1.016	Social Security Benefits (Federal)	Human Services	1938	316.048	313,100	338,500
1.017	Income Earned Abroad by U.S. Citizens	Economic/Community	1926	316.048	29,100	32,200
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	6,100	6,400
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	18,800	28,900
1.022	Extraterritorial Income Exclusion	Economic/Community	2000	317.013	13,400	1,400
1.023	Cancellation of Debt for Non-Farmers	Economic/Community	Pre-1955	316.048/317.013	Less than 50	Less than 50
1.024	Imputed Interest Rules	Economic/Community	1964	316.048/317.013	3,000	3,100
1.025	Employer Paid Group Life Insurance Premiums	Economic/Community	1920	316.048	21,100	22,000
1.026	Employer Paid Accident and Disability Insurance	Economic/Community	1954	316.048	22,200	24,500
1.027	Employer Provided Dependent Care	Economic/Community	1981	316.048	22,400	22,300
1.028	Miscellaneous Fringe Benefits	Economic/Community	1984	316.048	55,300	58,900
1.029	Employee Meals and Lodging (Non-Military)	Economic/Community	1918	316.048	7,500	7,800
1.030	Employee Stock Ownership Plans	Economic/Community	1974	316.048/317.013	6,600	7,100
1.031	Employee Awards	Economic/Community	1986	316.048	1,300	1,500
1.032	Employer Provided Education Benefits	Economic/Community	1997	316.048	7,000	7,500
1.033	Spread on Acquisition of Stock	Economic/Community	1981	316.048	3,000	2,500
1.034	Capital Gains on Home Sales	Economic/Community	1997	316.048	331,900	352,700
1.035	Veteran's Benefits and Services	Economic/Community	1917	316.048	42,200	45,800
1.036	Military and Dependents CHAMPUS/TRICARE Insurance	Economic/Community	1925	316.048	20,100	22,900
1.037	Agriculture Cost-Sharing Payments	Natural Resources	1978	316.048/317.013	200	200
1.038	Cancellation of Debt for Farmers	Natural Resources	1986	316.048	1,100	1,100
1.039	Energy Conservation Subsidies (Federal)	Natural Resources	1992	316.048	Incl. in 1.128	Incl. in 1.128
1.040	Employer Paid Transportation Benefits	Transportation	1992	316.048	28,500	29,900
1.041	Life Insurance Investment Income	Consumer and Business Services	1913	316.048/317.013	205,200	216,000
1.042	Workers' Compensation Benefits (Non-Medical)	Consumer and Business Services	1918	316.048	22,600	22,500
1.043	Workers' Compensation Benefits (Medical)	Consumer and Business Services	1918	316.048	54,000	63,200
1.044	Credit Union Income	Consumer and Business Services	1951	317.080(1)	13,700	15,100
1.045	Structured Settlement Accounts	Consumer and Business Services	1982	317.013	Less than 50	Less than 50
1.046	Contributions in Aid of Construction for Utilities	Consumer and Business Services	1996	317.013	100	100

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

Tax Expenditure	Program or Function	Year Enacted	Oregon Statute	Revenue Impact (\$ Thousands)		
				2005–07	2007–09	
1.047	Gain on Nondealer Installment Sales	Tax Administration	1921	316.048/317.013	6,600	7,200
1.048	Gain on Like-Kind Exchanges	Tax Administration	1921	316.048/317.013	14,300	16,400
1.049	Allowances for Federal Employees Abroad	Government	1943	316.048	4,200	5,000
1.050	Interest on Oregon State and Local Debt	Government	1913	316.048	78,900	77,700
1.051	Capital Gains on Inherited Property	Social Policy	1921	316.048	676,500	807,700
1.052	Gain on Involuntary Conversions in Disaster Areas	Social Policy	1996	316.048	200	200
1.053	Voluntary Employees' Beneficiary Associations	Social Policy	1928	316.048	25,100	27,000
1.054	Rental Allowances for Ministers' Homes	Social Policy	1921	316.048	3,800	4,100
1.055	Discharge of Certain Student Loan Debt	Social Policy	1984	316.048	Less than 50	Less than 50
1.056	Military Disability Benefits	Social Policy	1942	316.048	800	800
1.057	Benefits and Allowances of Armed Forces Personnel	Social Policy	1925	316.048	22,900	24,000
1.058	Capital Gains on Gifts	Social Policy	1921	316.048	72,700	87,100
1.059	Restitution Payments for Holocaust Survivors	Social Policy	2001	316.048	Less than 50	Less than 50
1.060	Survivor Annuities	Social Policy	1997	316.048	Less than 50	Less than 50
<i>Federal Adjustments</i>						
1.061	Teacher Classroom Expenses	Education	2002	316.048	400	0
1.062	Interest on Student Loans	Education	1997	316.048	12,000	13,500
1.063	Qualified Higher Education Expenses	Education	2001	316.048	5,000	0
1.064	Self-Employment Health Insurance	Human Services	1986	316.048	51,100	60,000
1.065	Health Savings Accounts	Human Services	1996	316.048	1,600	5,100
1.066	IRA Contributions and Earnings	Human Services	1974	316.048	93,100	120,000
1.067	SEP/SIMPLE Plan Contributions and Earnings	Human Services	1962	316.048	72,700	82,800
1.068	Moving Expenses	Economic/Community	1964	316.048	3,400	3,500
<i>Federal Deductions</i>						
1.069	Charitable Contributions: Education	Education	1917	316.695/317.013	45,800	49,800
1.070	Charitable Contributions: Health	Human Services	1917	316.695/317.013	33,800	36,700
1.071	Medical and Dental Expenses	Human Services	1942	316.695	217,100	275,800
1.072	Removal of Architectural Barriers	Human Services	1976	316.048/317.013	Less than 50	Less than 50
1.073	Accelerated Depreciation of Buildings	Economic/Community	1954	316.048/317.013	6,800	9,900
1.074	Accelerated Depreciation of Equipment	Economic/Community	1954	316.048/317.013	35,100	104,400
1.075	Deferral of Certain Financing Income of Foreign Corporations	Economic/Community	1997	317.013	5,800	5,900
1.076	Research and Development Costs	Economic/Community	1954	316.048/317.013	12,700	17,600
1.077	Section 179 Expensing Allowances	Economic/Community	1959	316.048/317.013	22,300	-7,200
1.078	Amortization of Business Start-Up Costs	Economic/Community	1980	316.048/317.013	5,300	6,100
1.079	Construction Funds of Shipping Companies	Economic/Community	1936	317.319	1,700	1,700
1.080	Ordinary Treatment of Losses from Small Business Corporation Stock	Economic/Community	1958	316.048	400	400
1.081	Renewal Community Tax Incentives	Economic/Community	2005	316.048/317.013	3,100	3,900
1.082	Deduction of Certain Film and Television Production Costs	Economic/Community	2005	317.013	200	100
1.083	Accelerated Depreciation of Rental Housing	Economic/Community	1954	316.048/317.013	33,300	44,600
1.084	Property Taxes	Economic/Community	1913	316.695	246,700	259,500
1.085	Home Mortgage Interest	Economic/Community	1913	316.695	848,800	972,500
1.086	Cash Accounting for Agriculture	Natural Resources	1916	316.048/317.013	7,100	7,200
1.087	Soil and Water Conservation Expenditures	Natural Resources	1954	316.048/317.013	300	300
1.088	Fertilizer and Soil Conditioner Costs	Natural Resources	1960	316.048/317.013	1,800	1,200
1.089	Costs of Raising Dairy and Breeding Cattle	Natural Resources	1916	316.048/317.013	600	500
1.090	Sale of Stock to Farmers' Cooperatives	Natural Resources	1998	316.048/317.013	Less than 50	Less than 50
1.091	Clean-Fuel Vehicles and Refueling Property	Natural Resources	1993	316.048/317.013	300	0
1.092	Small Refiner Expensing of Sulfur Compliant Equipment	Natural Resources	2004	317.013	Less than 50	Less than 50
1.093	Intangible Development Costs for Fuels	Natural Resources	1978	316.695/317.013	Less than 50	Less than 50
1.094	Depletion Costs for Fuels	Natural Resources	1962	316.695/317.013	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)	
				2005-07	2007-09
1.095 Tertiary Injectants	Natural Resources	1980	316.695/317.013	Less than 50	Less than 50
1.096 Deferral of Capital Gains From FERC Restructuring Requirements	Natural Resources	2004	317.013	2,200	-200
1.097 Expensing Timber Growing Costs	Natural Resources	1986	316.048/317.013	2,100	2,100
1.098 Expensing and Amortization of Reforestation Costs	Natural Resources	1980	316.048/317.013	1,700	1,700
1.099 Development Costs for Nonfuel Minerals	Natural Resources	1951	316.048/317.013	600	600
1.100 Depletion Costs for Nonfuel Minerals	Natural Resources	1913	316.048/317.374	1,200	1,200
1.101 Mining Reclamation Reserves	Natural Resources	1984	316.048/317.013	300	300
1.102 Life Insurance Company Reserves	Consumer and Business Services	1984	317.655(2)(f) and (g)	8,500	9,000
1.103 Additions to Bad Debt Reserves of Small Financial Institutions	Consumer and Business Services	1947	317.310	Less than 50	Less than 50
1.104 Property and Casualty Insurance Company Reserves	Consumer and Business Services	1986	317.655(2)(f,g)	13,900	15,600
1.105 Magazine Circulation Expenditures	Tax Administration	1950	316.048/317.013	300	300
1.106 Net Operating Loss Limitation	Tax Administration	1954	317.478/317.479	2,600	2,600
1.107 Completed Contract Rules	Tax Administration	1986	316.048/317.013	1,500	1,900
1.108 Casualty and Theft Losses	Social Policy	1913	316.695	2,100	2,100
1.109 Overnight-travel Expenses of National Guard and Reserve Members	Social Policy	2005	316.048	700	800
1.110 Local Income Taxes	Social Policy	1913	316.695	7,700	Less than 50
1.111 Charitable Contributions: Other	Social Policy	1917	316.695/317.013	227,000	254,600

Oregon Subtractions

1.112 Land Donated to Schools	Education	1999	316.852/317.488	Less than 50	Less than 50
1.113 Oregon 529 College Savings Network	Education	1999	316.699	6,600	7,400
1.114 Scholarship Awards Used for Housing Expenses	Education	1999	316.846	400	400
1.115 Physicians in "Medically Disadvantaged" Areas	Human Services	1973	316.076	0	0
1.116 Additional Deduction for Elderly or Blind	Human Services	1989	316.695(7)	6,100	3,800
1.117 Additional Medical Deduction for Elderly	Human Services	1991	316.695 (1)(d)(B)	84,300	96,000
1.118 Social Security Benefits (Oregon)	Human Services	1985	316.054	263,000	299,500
1.119 Domestic Partner Benefits	Social Policy	1999	OAR 150-316-007(B)	500	600
1.120 Donations of Art by the Artist	Economic/Community	1979	316.838	100	100
1.121 Municipal Bond Interest	Economic/Community	1987	316.056	1,900	2,200
1.122 Small City Business Development	Economic/Community	2001	316.778/317.391	Less than 50	400
1.123 Individual Development Accounts (Exclusion and Subtraction)	Economic/Community	1999	316.848	Less than 50	Less than 50
1.124 Out-of-State Financial Institution	Economic/Community	1999	317.057	Less than 50	Less than 50
1.125 Gains from Manufactured Dwelling Park Sale	Economic/Community	2005	316.153	Less than 50	Less than 50
1.126 Service in Vietnam on Missing Status	Economic/Community	1973	316.074	0	0
1.127 Underground Storage Tank Grants	Natural Resources	1991	316.834/317.383	0	0
1.128 Energy Conservation Subsidies (Oregon)	Natural Resources	1981	316.744/317.386	200	100
1.129 Wet Marine and Transportation Policies	Consumer and Business Services	1995	317.080(8)	500	600
1.130 Income Earned in Border River Areas	Tax Administration	2001	316.127	Less than 50	Less than 50
1.131 Oregon State Lottery Prizes	Government	1985	461.560	2,400	3,000
1.132 Income Earned in "Indian Country"	Government	1977	316.777	3,600	3,800
1.133 Federal Pension Income	Government	1998	316.680(1)(f)	130,300	137,000
1.134 Federal Income Tax Deduction	Social Policy	1929	316.680/316.695	632,400	747,200
1.135 Military Active Duty Pay	Social Policy	1969	316.680/316.789/316.791	28,500	35,200
1.136 Interest and Dividends on U.S. Obligations	Federal Law	1970	316.680	27,900	34,300

Oregon Credits

1.137 Youth Apprenticeship Sponsorship	Education	1991	315.254	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)	
				2005–07	2007–09
1.138 Contributions of Computer Equipment	Education	1985	317.151	Less than 50	Less than 50
1.139 Employer Provided Scholarships	Education	2001	315.237	Less than 50	Less than 50
1.140 Earned Income Credit	Human Services	1997	315.266	28,400	39,700
1.141 Qualified Adoption Expense	Human Services	1999	315.274	400	Less than 50
1.142 Rural Medical Practice	Human Services	1989	315.613/315.616/ 315.619	11,300	11,100
1.143 Volunteer Rural Emergency Medical Technicians	Human Services	2005	315.622	400	600
1.144 Costs in lieu of Nursing Home Care	Human Services	1979	316.147-316.149	Less than 50	Less than 50
1.145 Long-Term Care Insurance	Human Services	1999	315.610	11,300	12,600
1.146 Disabled Child	Human Services	1985	316.099	3,700	4,100
1.147 Elderly or Permanently Disabled	Human Services	1969	316.087	Less than 50	Less than 50
1.148 Loss of Limbs	Human Services	1973	316.079	Less than 50	Less than 50
1.149 Severe Disability	Human Services	1985	316.758/316.765	5,300	5,800
1.150 Film Production Development Contributions	Economic/Community	2003	315.514	1,500	1,700
1.151 Qualified Research Activities	Economic/Community	1989	317.152	11,300	16,500
1.152 Qualified Research Activities (Alternative)	Economic/Community	1989	317.154	Incl. in 1.151	Incl. in 1.151
1.153 Long-term Nonurban Enterprise Zone (Income Tax)	Economic/Community	1997	317.124	Less than 50	Less than 50
1.154 Reservation Enterprise Zone (Income Tax)	Economic/Community	2001	285C.309	Less than 50	Less than 50
1.155 Electronic Commerce Enterprise Zone (Income Tax)	Economic/Community	2001	315.507	2,900	3,000
1.156 Water Transit Vessel Manufacturing	Economic/Community	2005	315.517	Less than 50	Less than 50
1.157 Public University Venture Development Fund	Economic/Community	2005	315.521	Less than 50	400
1.158 Child and Dependent Care	Economic/Community	1975	316.078	16,800	15,600
1.159 Working Family Child Care	Economic/Community	1997	315.262	47,500	50,600
1.160 Dependent Care Assistance	Economic/Community	1987	315.204	1,900	1,900
1.161 Dependent Care Facilities	Economic/Community	1987	315.208	Incl. in 1.160	Incl. in 1.160
1.162 First Break Program	Economic/Community	1995	315.259	Less than 50	Less than 50
1.163 Child Care Division Contributions	Economic/Community	2001	315.213	400	400
1.164 Farm Worker Housing Construction	Economic/Community	1989	315.164	900	1,200
1.165 Farm Worker Housing Lender's Credit	Economic/Community	1989	317.147	700	700
1.166 Involuntary Manufactured Dwelling Moves	Economic/Community	1991	316.153	300	400
1.167 Oregon Affordable Housing Credit	Economic/Community	1989	317.097	5,800	9,000
1.168 Individual Development Account Contribution (Credit)	Economic/Community	1999	315.271	1,600	1,800
1.169 Individual Development Account Withdrawal (Credit)	Economic/Community	2005	315.272	Less than 50	100
1.170 Oregon Capital Corporation Investments	Economic/Community	1987	315.504	0	0
1.171 Crop Gleaning	Natural Resources	1977	315.156	100	100
1.172 Alternatives to Field Burning	Natural Resources	1975	468.150	400	400
1.173 Farm Machinery and Equipment (Income Tax)	Natural Resources	2001	315.119/315.123	Less than 50	Less than 50
1.174 Riparian Lands Removed from Farm Production	Natural Resources	2001	315.113	Less than 50	100
1.175 Pollution Prevention	Natural Resources	1995	315.311	Less than 50	Less than 50
1.176 Pollution Control	Natural Resources	1967	315.304	19,500	18,300
1.177 Reclaimed Plastics	Natural Resources	1985	315.324	Less than 50	Less than 50
1.178 Diesel Truck Engines	Natural Resources	2003	Note: 315.356	300	300
1.179 Fish Screening Devices	Natural Resources	1989	315.138	Less than 50	Less than 50
1.180 Alternative Energy Devices (Residential)	Natural Resources	1977	316.116	13,900	16,000
1.181 Alternative Fuel Stations	Natural Resources	2001	317.115	Less than 50	Less than 50
1.182 Business Energy Facilities	Natural Resources	1979	315.354	19,700	23,000
1.183 Energy Conservation Lender's Credit	Natural Resources	1981	317.112	Less than 50	Less than 50
1.184 Weatherization Lender's Credit	Natural Resources	1977	317.111	Less than 50	Less than 50
1.185 Reforestation	Natural Resources	1979	315.104	400	500
1.186 Sewer Connection	Natural Resources	1987	316.095	Less than 50	Less than 50
1.187 Mile-Based or Time-Based Motor Vehicle Insurance	Consumer and Business Services	2003	Note: 317.122	Less than 50	Less than 50
1.188 Fire Insurance	Consumer and Business Services	1969	317.122(1)	5,300	6,600

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

Tax Expenditure	Program or Function	Year Enacted	Oregon Statute	Revenue Impact (\$ Thousands)	
				2005-07	2007-09
1.189 Workers' Compensation Assessments	Consumer and Business Services	1995	317.122(2)	2,200	1,600
1.190 Oregon Life and Health IGA Assessments	Consumer and Business Services	1975	734.835	100	100
1.191 Political Contributions	Government	1969	316.102	11,600	11,900
1.192 Personal Exemption	Social Policy	1985	316.085	878,200	924,100
1.193 Oregon Cultural Trust	Social Policy	2001	315.675	3,300	3,700
1.194 Retirement Income	Social Policy	1991	316.157	2,000	1,600
<i>Other</i>					
1.195 Expatriate Residential Status	Economic/Community	1999	316.027	1,800	1,900
1.196 Public Warehouse Sales Throwback Exemption	Economic/Community	2005	314.665	Less than 50	Less than 50
1.197 Income Averaging for Farmers	Natural Resources	2001	314.297	300	400
1.198 Capital Gains from Farm Property	Natural Resources	2001	318.020/317.063	1,000	1,100
1.199 Apportionment for Certain Forest Product Companies	Natural Resources	2003	314.650(2)	Not available	Not available
1.200 Apportionment for Utility and Telecommunication Companies	Consumer and Business Services	2001	314.280	500	600
1.201 Title 10 Active Duty Death	Social Policy	2005	314.088	Less than 50	Less than 50
1.202 Single Sales Factor Corporate Apportionment	Economic/Community	2003	314.650	77,600	65,600

PROPERTY TAX

Full

2.001 Academies, Day Care, and Student Housing	Education	1957	307.145	14,600	15,800
2.002 Student Housing Furnishings	Education	1957	307.195	100	100
2.003 Leased Student Housing Publicly Owned	Education	1947	307.110(3)(a)	8,700	9,600
2.004 Higher Education Parking Space	Education	1989	307.095(3)	4,200	4,300
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	200	200
2.008 Commercial Buildings Under Construction	Economic/Community	1959	307.340	4,900	5,000
2.009 Construction-in-Process in an Enterprise Zone	Economic/Community	2003	285C.170	Incl. in 2.008	Incl. in 2.008
2.010 Enterprise Zone Businesses	Economic/Community	1985	285C.175	26,100	30,800
2.011 Long-Term Rural Enterprise Zone (Property Tax)	Economic/Community	1997	285C.406	2,200	2,600
2.012 Centrally Assessed Electricity Generating Facility in an Enterprise Zone	Economic/Community	2003	Note: 285C.175	0	0
2.013 Electronic Commerce Enterprise Zone (Property Tax)	Economic/Community	2001	285C.185	Incl. in 2.010	Incl. in 2.010
2.014 Rural Renewable Energy Development Zone	Economic/Community	2003	285C.362	0	800
2.015 Inventory	Economic/Community	1969	307.400	410,400	434,000
2.016 Business Personal Property Cancellation	Economic/Community	1979	308.250(2)	5,000	5,900
2.017 Cargo Containers	Economic/Community	1979	307.835	300	400
2.018 Leased Docks and Airports	Economic/Community	1947	307.120	8,500	10,000
2.019 Leased Publicly Owned Shipyard Property	Economic/Community	1995	307.111	3,300	3,700
2.020 Ship Repair Facility Materials	Economic/Community	1957	308.256(7)	0	0
2.021 Aircraft Being Repaired	Economic/Community	1995	308.559	0	0
2.022 Railroad Cars Being Repaired	Economic/Community	1973	308.665	0	0
2.023 Federal Land Under Recreation Facility	Economic/Community	1975	307.182	1,300	1,300
2.024 Defense Contractor With Federal Property	Economic/Community	1965	307.065	0	0
2.025 Federal Land Under Summer Homes	Economic/Community	1975	307.183/307.184	1,000	1,200
2.026 Housing Authority Rental Units	Economic/Community	1937	307.092	19,900	22,200
2.027 Nonprofit Elderly Housing State Funded	Economic/Community	1977	307.242	0	0
2.028 Farm Labor Housing and Day Care Centers	Economic/Community	1973	307.485	400	400
2.029 Fairground Leased Storage Space	Economic/Community	1987	307.110(3)(d)(e)	Less than 50	Less than 50
2.030 Industry Apprenticeship/Training Trust	Economic/Community	1983	307.580	400	400
2.031 Food Processing Equipment	Natural Resources	2005	307.455	900	1,900

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

Tax Expenditure	Program or Function	Year Enacted	Oregon Statute	Revenue Impact (\$ Thousands)	
				2005–07	2007–09
2.032 Farm Machinery and Equipment (Property Tax)	Natural Resources	1973	307.394	53,200	55,600
2.033 Mobile Field Incinerators	Natural Resources	1971	307.390	Less than 50	Less than 50
2.034 Crops, Plants, and Fruit Trees	Natural Resources	1957	307.320	16,700	17,900
2.035 Agricultural Products Held by Farmer	Natural Resources	1965	307.325	200	200
2.036 Nursery Stock	Natural Resources	1971	307.315	6,600	7,100
2.037 Leased Public Farming and Grazing Land	Natural Resources	1971	307.110(3)(b)	Incl. in 2.070	Incl. in 2.070
2.038 Leased Federal Grazing Land	Natural Resources	1961	307.060	Incl. in 2.085	Incl. in 2.085
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 2.032	Incl. in 2.032
2.041 Other Farm/Aquaculture/Egg Equipment	Natural Resources	1973	307.397	Incl. in 2.032	Incl. in 2.032
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 Property Used for Golf Course and Effluent	Natural Resources	2001	Note: 307.118	100	100
2.045 Riparian Habitat Land	Natural Resources	1981	308A.362	100	100
2.046 Environmentally Sensitive Logging Equipment	Natural Resources	1999	307.827/307.831	2,200	2,300
2.047 Crab Pots	Natural Resources	1969	508.270	300	300
2.048 Federal Standing Timber Under Contract	Natural Resources	1965	307.050	5,600	5,400
2.049 State and Local Standing Timber Under Contract	Natural Resources	1965	307.100	2,300	2,300
2.050 Western Private Standing Timber	Natural Resources	1977	321.272	399,300	415,000
2.051 Eastern Private Standing Timber	Natural Resources	1961	321.829	38,800	40,300
2.052 Private Farm and Logging Roads	Natural Resources	1963	308.236	33,700	36,100
2.053 Forest Fire Protection Association	Natural Resources	1957	307.125	300	300
2.054 Inactive Mineral Interests	Natural Resources	1997	308.115	200	200
2.055 Leased State Land Board Land	Natural Resources	1982	307.168	1,800	1,900
2.056 Small Watercraft	Natural Resources	1959	830.790(2)	30,100	30,700
2.057 Mining Claims on Federal Land	Natural Resources	1889	307.080	100	200
2.058 Nonprofit Public Park Use Land	Natural Resources	1971	307.115	200	200
2.059 Railroad Right of Way Used for Alternative Transport	Transportation	1977	307.205	0	0
2.060 Motor Vehicles and Trailers	Transportation	1919	803.585	710,300	748,500
2.061 ODOT Land Under Use Permit	Transportation	1981	307.110(3)(c)	Less than 50	Less than 50
2.062 Nonprofit Water Associations	Consumer and Business Services	1937	307.210	200	200
2.063 Nonprofit Electrical Distribution Associations	Consumer and Business Services	1943	308.805	8,600	9,200
2.064 Nonprofit Telephone Associations	Consumer and Business Services	1941	307.220	0	0
2.065 Private Service Telephone Equipment	Consumer and Business Services	1941	307.230	Less than 50	Less than 50
2.066 FCC Licenses	Consumer and Business Services	2001	307.126	6,100	6,400
2.067 Intangible Personal Property	Tax Administration	1935	307.030	10,013,800	11,145,600
2.068 Personal Property for Personal Use	Tax Administration	1854	307.190	667,800	725,100
2.069 Beverage Containers Requiring Deposit	Tax Administration	1983	307.402	100	100
2.070 State and Local Property	Government	1854	307.090	1,460,300	1,638,000
2.071 Beach Lands	Government	1969	307.450	Not available	Not available
2.072 Local Government Public Ways	Government	1895	307.200	Not available	Not available
2.073 NW Intertie Exemption	Government	2005	307.090	800	800
2.074 Tribal Land Being Placed in U.S. Trust	Government	1993	307.181	5,000	5,000
2.075 Charitable, Literary, and Scientific Organizations	Social Policy	1854	307.130	87,800	93,200
2.076 Fraternal Organizations	Social Policy	1961	307.136	8,200	9,100
2.077 Religious Organizations	Social Policy	1854	307.140	88,600	93,000
2.078 Cemeteries, Burial Grounds, and Mausoleums	Social Policy	1854	307.150	6,100	6,300
2.079 Transfer of Land from Cemetery to School	Social Policy	2001	307.157	200	300
2.080 Exempt Lease from Taxable Owner	Social Policy	1977	307.112	Incl. elsewhere	Incl. elsewhere
2.081 Exempt Lease from Exempt Owner	Social Policy	1973	307.166	Incl. elsewhere	Incl. elsewhere
2.082 City-Owned Sports Facility	Social Policy	2001	307.171	800	900
2.083 Convention Facilities	Social Policy	1985	263.290	0	0

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

Tax Expenditure	Program or Function	Year Enacted	Oregon Statute	Revenue Impact (\$ Thousands)		
				2005-07	2007-09	
2.084 LLC Owned by Nonprofit Corporation	Social Policy	2005	307.022	100	100	
2.085 Federal Property	Federal Law	1848	307.040	2,339,300	2,545,400	
2.086 Indian Property on Reservation	Federal Law	1854	307.180	Not available	Not available	
2.087 Amtrak Passenger Railroad	Federal Law	1983	308.515	300	300	
<i>Partial</i>						
2.088 Fraternities, Sororities, and Cooperatives	Education	1973	307.460	400	400	
2.089 Rural Health Care Facilities	Human Services	2001	307.804	Less than 50	Less than 50	
2.090 Long-Term Care Facilities	Human Services	1999	307.808	100	100	
2.091 Strategic Investment Program (SIP)	Economic/Community	1993	307.123	119,300	128,500	
2.092 Vertical Housing Development Zone	Economic/Community	2001	285C.450	Less than 50	Less than 50	
2.093 New Houses in Distressed Area	Economic/Community	1989	307.664	6,300	6,800	
2.094 Rehabilitated Housing	Economic/Community	1975	308.459	800	900	
2.095 Multi-Family Rental Housing in City Core	Economic/Community	1975	307.612	11,100	13,300	
2.096 Low-Income Multi-Unit Housing	Economic/Community	1999	307.612	Incl. in 2.095	Incl. in 2.095	
2.097 New Housing for Low-Income Rental	Economic/Community	1989	307.517/307.518	1,100	1,200	
2.098 Nonprofit Low-Income Rental Housing	Economic/Community	1985	307.541	13,100	15,800	
2.099 Disabled War Veterans or Their Spouses	Economic/Community	1921	307.250	28,400	31,300	
2.100 War Veterans in Nonprofit Elderly Housing	Economic/Community	1969	307.370	100	100	
2.101 Pollution Control Facilities	Natural Resources	1967	307.405	100	100	
2.102 Ethanol Production Facility	Natural Resources	1993	307.701	Less than 50	Less than 50	
2.103 Alternative Energy Systems	Natural Resources	1975	307.175	1,200	1,500	
2.104 Watercraft Centrally Assessed	Natural Resources	1925	308.515	Not available	Not available	
2.105 Historic Property	Natural Resources	1975	358.505	27,700	29,000	
2.106 Aircraft	Transportation	1987	308.558/308.565	9,700	10,500	
2.107 Railroad Right of Way in Water District	Social Policy	1943	264.110	Less than 50	Less than 50	
2.108 Railroad Right of Way in Highway Lighting District	Social Policy	1947	372.190	Less than 50	Less than 50	
2.109 Railroad Right of Way in Rural Fire District	Social Policy	1969	478.010(2)(d)	600	700	
2.110 Destroyed or Damaged Property	Social Policy	1971	308.425, 308.428	Less than 50	Less than 50	
2.111 Homestead Exemption for Federal Active Duty Military Servicemembers	Social Policy	2005	307.286	Less than 50	Less than 50	
<i>Special</i>						
2.112 Nonprofit Housing for the Elderly	Economic/Community	1969	308.490	Less than 50	Less than 50	
2.113 Multi-Unit Rental Housing	Economic/Community	2001	308.704	4,300	4,700	
2.114 Watercraft Locally Assessed	Natural Resources	1925	308.256	2,500	2,600	
2.115 Wildlife Habitat	Natural Resources	1993	308A.400	600	600	
2.116 Forest Homesites	Natural Resources	1989	308A.256	9,000	12,000	
2.117 Western Private Forestland	Natural Resources	1977	321.354	47,200	55,100	
2.118 Eastern Private Forestland	Natural Resources	1971	321.833	3,700	3,700	
2.119 Small Tract Forestland Option	Natural Resources	2003	321.722	23,300	28,200	
2.120 Farm Land	Natural Resources	1967	308A.050	179,400	183,000	
2.121 Farm Homesites	Natural Resources	1987	308A.253	6,800	7,000	
2.122 Open Space Land	Natural Resources	1971	308A.300	1,000	1,000	
GAS, USE, JET AND AVIATION FUEL TAXES						
3.001 Forest Products – Gasoline	Natural Resources	1945	319.320(1)(b,d)	0	0	
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)	2,700	3,700	

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

Tax Expenditure	Program or Function	Year Enacted	Oregon Statute	Revenue Impact (\$ Thousands)		
				2005–07	2007–09	
WEIGHT-MILE TAX						
4.001 Farming Operations	Natural Resources	1983	825.017(4,18)/ 825.024	3,000	3,100	
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)	1,800	2,700	
4.004 Government Owned or Operated Vehicles	Government	Pre-1953	825.017(11,13)	5,200	6,100	
4.005 Public Mass Transit Vehicles	Government	1977	825.017(12)	3,500	2,900	
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	100	
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	2,500	2,500	
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)	2,300	2,700	
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	3,100	800	
8.002 Federal Subscribers	Federal Law	1981	401.794	100	Less than 50	
8.003 Indian Reservation Subscribers	Federal Law	1981	401.794	100	Less than 50	
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	
12.003 Facility on U.S. Military Base	Federal Law	1995	465.200(6)(a)	0	0	

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

Tax Expenditure	Program or Function	Year Enacted	Oregon Statute	Revenue Impact (\$ Thousands)	
				2005-07	2007-09
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 TAX					
15.001 Type A and B Hospitals	Human Services	2003	Note: 409.750	700	200
15.002 Veterans Affairs and Pediatric Specialty Hospitals	Human Services	2003	Note: 409.750	600	200
15.003 Oregon Veterans' Home	Human Services	2003	Note: 409.750	800	800
15.004 Nursing Facilities	Human Services	2003	Note: 409.750	2,000	2,000
LODGING TAX					
16.001 Exempt Dwelling Units	Social Policy	2003	320.308	Not available	Not available

TABLE 2: INDEX OF TAX EXPENDITURES BY PROGRAM/FUNCTION

Tax Expenditure	Type	Year Enacted	Oregon Statute	Revenue Impact (\$ Thousands)		
				2005-07	2007-09	
EDUCATION						
<i>Income Tax</i>						
1.001	Scholarship and Fellowship Income	Exclusion	1954	316.048	11,600	13,200
1.002	Interest on Education Savings Bonds	Exclusion	1988	316.048	200	200
1.003	Earnings on Education Savings Accounts	Exclusion	1997	316.048	800	1,000
1.004	Qualified Tuition Programs (Federal)	Exclusion	1996	316.048	5,500	7,000
1.061	Teacher Classroom Expenses	Adjustment	2002	316.048	400	0
1.062	Interest on Student Loans	Adjustment	1997	316.048	12,000	13,500
1.063	Qualified Higher Education Expenses	Adjustment	2001	316.048	5,000	0
1.069	Charitable Contributions: Education	Deduction	1917	316.695/317.013	45,800	49,800
1.112	Land Donated to Schools	Subtraction	1999	316.852/317.488	Less than 50	Less than 50
1.113	Oregon 529 College Savings Network	Subtraction	1999	316.699	6,600	7,400
1.114	Scholarship Awards Used for Housing Expenses	Subtraction	1999	316.846	400	400
1.137	Youth Apprenticeship Sponsorship	Credit	1991	315.254	0	0
1.138	Contributions of Computer Equipment	Credit	1985	317.151	Less than 50	Less than 50
1.139	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	14,600	15,800
2.002	Student Housing Furnishings	Full	1957	307.195	100	100
2.003	Leased Student Housing Publicly Owned	Full	1947	307.110(3)(a)	8,700	9,600
2.004	Higher Education Parking Space	Full	1989	307.095(3)	4,200	4,300
2.005	Private Libraries for Public Use	Full	1854	307.160	Less than 50	Less than 50
2.088	Fraternalities, Sororities, and Cooperatives	Partial	1973	307.460	400	400
HUMAN SERVICES						
<i>Income Tax</i>						
1.005	Public Assistance Benefits	Exclusion	Pre-1955	316.048	16,400	18,300
1.006	Certain Foster Care Payments	Exclusion	1982	316.048	4,500	5,200
1.007	Employee Adoption Benefits	Exclusion	1996	316.048	3,400	4,200
1.008	Cafeteria Plan Benefits	Exclusion	1974	316.048	236,200	286,300
1.009	Employer Paid Medical Benefits	Exclusion	1918	316.048	770,000	910,300
1.010	Compensatory Damages	Exclusion	Pre-1955	316.048	10,900	11,400
1.011	Prescription Drug Insurance (Part D)	Exclusion	2003	316.048/317.013	34,000	12,400
1.012	Hospital Insurance (Part A)	Exclusion	1965	316.048	157,500	190,200
1.013	Supplementary Medical Insurance (Part B)	Exclusion	1970	316.048	208,200	130,000
1.014	Pension Contributions and Earnings	Exclusion	1921	316.048	803,900	884,000
1.015	Special Benefits for Disabled Coal Miners	Exclusion	1969	316.048	Less than 50	Less than 50
1.016	Social Security Benefits (Federal)	Exclusion	1938	316.048	313,100	338,500
1.064	Self-Employment Health Insurance	Adjustment	1986	316.048	51,100	60,000
1.065	Health Savings Accounts	Adjustment	1996	316.048	1,600	5,100
1.066	IRA Contributions and Earnings	Adjustment	1974	316.048	93,100	120,000
1.067	SEP/SIMPLE Plan Contributions and Earnings	Adjustment	1962	316.048	72,700	82,800
1.070	Charitable Contributions: Health	Deduction	1917	316.695/317.013	33,800	36,700
1.071	Medical and Dental Expenses	Deduction	1942	316.695	217,100	275,800
1.072	Removal of Architectural Barriers	Deduction	1976	316.048/317.013	Less than 50	Less than 50
1.115	Physicians in "Medically Disadvantaged" Areas	Subtraction	1973	316.076	0	0
1.116	Additional Deduction for Elderly or Blind	Subtraction	1989	316.695(7)	6,100	3,800
1.117	Additional Medical Deduction for Elderly	Subtraction	1991	316.695 (1)(d)(B)	84,300	96,000
1.118	Social Security Benefits (Oregon)	Subtraction	1985	316.054	263,000	299,500
1.140	Earned Income Credit	Credit	1997	315.266	28,400	39,700
1.141	Qualified Adoption Expense	Credit	1999	315.274	400	Less than 50
1.142	Rural Medical Practice	Credit	1989	315.613/315.616/ 315.619	11,300	11,100
1.143	Volunteer Rural Emergency Medical Technicians	Credit	2005	315.622	400	600
1.144	Costs in lieu of Nursing Home Care	Credit	1979	316.147-316.149	Less than 50	Less than 50
1.145	Long-Term Care Insurance	Credit	1999	315.610	11,300	12,600
1.146	Disabled Child	Credit	1985	316.099	3,700	4,100

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

Tax Expenditure	Type	Year Enacted	Oregon Statute	Revenue Impact (\$ Thousands)	
				2005–07	2007–09
1.147 Elderly or Permanently Disabled	Credit	1969	316.087	Less than 50	Less than 50
1.148 Loss of Limbs	Credit	1973	316.079	Less than 50	Less than 50
1.149 Severe Disability	Credit	1985	316.758/316.765	5,300	5,800

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	200	200
2.089 Rural Health Care Facilities	Partial	2001	307.804	Less than 50	Less than 50
2.090 Long-Term Care Facilities	Partial	1999	307.808	100	100

Medical Provider Tax

15.001 Type A and B Hospitals	Exclusion	2003	Note: 409.750	700	200
15.002 Veterans Affairs and Pediatric Specialty Hospitals	Exclusion	2003	Note: 409.750	600	200
15.003 Oregon Veterans' Home	Exclusion	2003	Note: 409.750	800	800
15.004 Nursing Facilities	Exclusion	2003	Note: 409.750	2,000	2,000

ECONOMIC AND COMMUNITY DEVELOPMENT

Income Tax

1.017 Income Earned Abroad by U.S. Citizens	Exclusion	1926	316.048	29,100	32,200
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	6,100	6,400
1.020 Regional Economic Development Incentives	Exclusion	1993	316.048/317.013	Less than 50	0
1.021 Income of Controlled Foreign Corporations	Exclusion	1909	317.013	18,800	28,900
1.022 Extraterritorial Income Exclusion	Exclusion	2000	317.013	13,400	1,400
1.023 Cancellation of Debt for Non-Farmers	Exclusion	Pre-1955	316.048/317.013	Less than 50	Less than 50
1.024 Imputed Interest Rules	Exclusion	1964	316.048/317.013	3,000	3,100
1.025 Employer Paid Group Life Insurance Premiums	Exclusion	1920	316.048	21,100	22,000
1.026 Employer Paid Accident and Disability Insurance	Exclusion	1954	316.048	22,200	24,500
1.027 Employer Provided Dependent Care	Exclusion	1981	316.048	22,400	22,300
1.028 Miscellaneous Fringe Benefits	Exclusion	1984	316.048	55,300	58,900
1.029 Employee Meals and Lodging (Non-Military)	Exclusion	1918	316.048	7,500	7,800
1.030 Employee Stock Ownership Plans	Exclusion	1974	316.048/317.013	6,600	7,100
1.031 Employee Awards	Exclusion	1986	316.048	1,300	1,500
1.032 Employer Provided Education Benefits	Exclusion	1997	316.048	7,000	7,500
1.033 Spread on Acquisition of Stock	Exclusion	1981	316.048	3,000	2,500
1.034 Capital Gains on Home Sales	Exclusion	1997	316.048	331,900	352,700
1.035 Veteran's Benefits and Services	Exclusion	1917	316.048	42,200	45,800
1.036 Military and Dependents CHAMPUS/TRICARE Insurance	Exclusion	1925	316.048	20,100	22,900
1.068 Moving Expenses	Adjustment	1964	316.048	3,400	3,500
1.073 Accelerated Depreciation of Buildings	Deduction	1954	316.048/317.013	6,800	9,900
1.074 Accelerated Depreciation of Equipment	Deduction	1954	316.048/317.013	35,100	104,400
1.075 Deferral of Certain Financing Income of Foreign Corporations	Deduction	1997	317.013	5,800	5,900
1.076 Research and Development Costs	Deduction	1954	316.048/317.013	12,700	17,600
1.077 Section 179 Expensing Allowances	Deduction	1959	316.048/317.013	22,300	-7,200
1.078 Amortization of Business Start-Up Costs	Deduction	1980	316.048/317.013	5,300	6,100
1.079 Construction Funds of Shipping Companies	Deduction	1936	317.319	1,700	1,700
1.080 Ordinary Treatment of Losses from Small Business Corporation Stock	Deduction	1958	316.048	400	400
1.081 Renewal Community Tax Incentives	Deduction	2005	316.048/317.013	3,100	3,900
1.082 Deduction of Certain Film and Television Production Costs	Deduction	2005	317.013	200	100
1.083 Accelerated Depreciation of Rental Housing	Deduction	1954	316.048/317.013	33,300	44,600
1.084 Property Taxes	Deduction	1913	316.695	246,700	259,500
1.085 Home Mortgage Interest	Deduction	1913	316.695	848,800	972,500
1.120 Donations of Art by the Artist	Subtraction	1979	316.838	100	100
1.121 Municipal Bond Interest	Subtraction	1987	316.056	1,900	2,200
1.122 Small City Business Development	Subtraction	2001	316.778/317.391	Less than 50	400
1.123 Individual Development Accounts (Exclusion and Subtraction)	Subtraction	1999	316.848	Less than 50	Less than 50

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

Tax Expenditure	Type	Year Enacted	Oregon Statute	Revenue Impact (\$ Thousands)		
				2005-07	2007-09	
1.124	Out-of-State Financial Institution	Subtraction	1999	317.057	Less than 50	Less than 50
1.125	Gains from Manufactured Dwelling Park Sale	Subtraction	2005	316.153	Less than 50	Less than 50
1.126	Service in Vietnam on Missing Status	Subtraction	1973	316.074	0	0
1.150	Film Production Development Contributions	Credit	2003	315.514	1,500	1,700
1.151	Qualified Research Activities	Credit	1989	317.152	11,300	16,500
1.152	Qualified Research Activities (Alternative)	Credit	1989	317.154	Incl. in 1.151	Incl. in 1.151
1.153	Long-term Nonurban Enterprise Zone (Income Tax)	Credit	1997	317.124	Less than 50	Less than 50
1.154	Reservation Enterprise Zone (Income Tax)	Credit	2001	285C.309	Less than 50	Less than 50
1.155	Electronic Commerce Enterprise Zone (Income Tax)	Credit	2001	315.507	2,900	3,000
1.156	Water Transit Vessel Manufacturing	Credit	2005	315.517	Less than 50	Less than 50
1.157	Public University Venture Development Fund	Credit	2005	315.521	Less than 50	400
1.158	Child and Dependent Care	Credit	1975	316.078	16,800	15,600
1.159	Working Family Child Care	Credit	1997	315.262	47,500	50,600
1.160	Dependent Care Assistance	Credit	1987	315.204	1,900	1,900
1.161	Dependent Care Facilities	Credit	1987	315.208	Incl. in 1.160	Incl. in 1.160
1.162	First Break Program	Credit	1995	315.259	Less than 50	Less than 50
1.163	Child Care Division Contributions	Credit	2001	315.213	400	400
1.164	Farm Worker Housing Construction	Credit	1989	315.164	900	1,200
1.165	Farm Worker Housing Lender's Credit	Credit	1989	317.147	700	700
1.166	Involuntary Manufactured Dwelling Moves	Credit	1991	316.153	300	400
1.167	Oregon Affordable Housing Credit	Credit	1989	317.097	5,800	9,000
1.168	Individual Development Account Contribution (Credit)	Credit	1999	315.271	1,600	1,800
1.169	Individual Development Account Withdrawal (Credit)	Credit	2005	315.272	Less than 50	100
1.170	Oregon Capital Corporation Investments	Credit	1987	315.504	0	0
1.195	Expatriate Residential Status	Other	1999	316.027	1,800	1,900
1.196	Public Warehouse Sales Throwback Exemption	Other	2005	314.665	Less than 50	Less than 50
1.202	Single Sales Factor Corporate Apportionment	Other	2003	314.65	77,600	65,600

Property Tax

2.008	Commercial Buildings Under Construction	Full	1959	307.340	4,900	5,000
2.009	Construction-in-Process in an Enterprise Zone	Full	2003	285C.170	Incl. in 2.008	Incl. in 2.008
2.010	Enterprise Zone Businesses	Full	1985	285C.175	26,100	30,800
2.011	Long-Term Rural Enterprise Zone (Property Tax)	Full	1997	285C.406	2,200	2,600
2.012	Centrally Assessed Electricity Generating Facility in an Enterprise Zone	Full	2003	Note: 285C.175	0	0
2.013	Electronic Commerce Enterprise Zone (Property Tax)	Full	2001	285C.185	Incl. in 2.010	Incl. in 2.010
2.014	Rural Renewable Energy Development Zone	Full	2003	285C.362	0	800
2.015	Inventory	Full	1969	307.400	410,400	434,000
2.016	Business Personal Property Cancellation	Full	1979	308.250(2)	5,000	5,900
2.017	Cargo Containers	Full	1979	307.835	300	400
2.018	Leased Docks and Airports	Full	1947	307.120	8,500	10,000
2.019	Leased Publicly Owned Shipyard Property	Full	1995	307.111	3,300	3,700
2.020	Ship Repair Facility Materials	Full	1957	308.256(7)	0	0
2.021	Aircraft Being Repaired	Full	1995	308.559	0	0
2.022	Railroad Cars Being Repaired	Full	1973	308.665	0	0
2.023	Federal Land Under Recreation Facility	Full	1975	307.182	1,300	1,300
2.024	Defense Contractor With Federal Property	Full	1965	307.065	0	0
2.025	Federal Land Under Summer Homes	Full	1975	307.183/307.184	1,000	1,200
2.026	Housing Authority Rental Units	Full	1937	307.092	19,900	22,200
2.027	Nonprofit Elderly Housing State Funded	Full	1977	307.242	0	0
2.028	Farm Labor Housing and Day Care Centers	Full	1973	307.485	400	400
2.029	Fairground Leased Storage Space	Full	1987	307.110(3)(d)(e)	Less than 50	Less than 50
2.030	Industry Apprenticeship/Training Trust	Full	1983	307.580	400	400
2.091	Strategic Investment Program (SIP)	Partial	1993	307.123	119,300	128,500
2.092	Vertical Housing Development Zone	Partial	2001	285C.450	Less than 50	Less than 50
2.093	New Houses in Distressed Area	Partial	1989	307.664	6,300	6,800
2.094	Rehabilitated Housing	Partial	1975	308.459	800	900
2.095	Multi-Family Rental Housing in City Core	Partial	1975	307.612	11,100	13,300
2.096	Low-Income Multi-Unit Housing	Partial	1999	307.612	Incl. in 2.095	Incl. in 2.095
2.097	New Housing for Low-Income Rental	Partial	1989	307.517/307.518	1,100	1,200
2.098	Nonprofit Low-Income Rental Housing	Partial	1985	307.541	13,100	15,800

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

Tax Expenditure	Type	Year Enacted	Oregon Statute	Revenue Impact (\$ Thousands)		
				2005-07	2007-09	
2.099 Disabled War Veterans or Their Spouses	Partial	1921	307.250	28,400	31,300	
2.100 War Veterans in Nonprofit Elderly Housing	Partial	1969	307.370	100	100	
2.112 Nonprofit Housing for the Elderly	Special	1969	308.490	Less than 50	Less than 50	
2.113 Multi-Unit Rental Housing	Special	2001	308.704	4,300	4,700	
<i>Beer and Wine Tax</i>						
7.001 Small Wineries	Exclusion	1977	473.050(5)	2,300	2,700	
7.002 Wine Marketing Activities	Exclusion	2001	473.047	0	0	
<i>Dry Cleaning Fee/Tax</i>						
12.001 Uniform Service or Linen Supply Facility	Exclusion	1995	465.200(6)(b)	Less than 50	Less than 50	
NATURAL RESOURCES						
<i>Income Tax</i>						
1.037 Agriculture Cost-Sharing Payments	Exclusion	1978	316.048/317.013	200	200	
1.038 Cancellation of Debt for Farmers	Exclusion	1986	316.048	1,100	1,100	
1.039 Energy Conservation Subsidies (Federal)	Exclusion	1992	316.048	Incl. in 1,128	Incl. in 1,128	
1.086 Cash Accounting for Agriculture	Deduction	1916	316.048/317.013	7,100	7,200	
1.087 Soil and Water Conservation Expenditures	Deduction	1954	316.048/317.013	300	300	
1.088 Fertilizer and Soil Conditioner Costs	Deduction	1960	316.048/317.013	1,800	1,200	
1.089 Costs of Raising Dairy and Breeding Cattle	Deduction	1916	316.048/317.013	600	500	
1.090 Sale of Stock to Farmers' Cooperatives	Deduction	1998	316.048/317.013	Less than 50	Less than 50	
1.091 Clean-Fuel Vehicles and Refueling Property	Deduction	1993	316.048/317.013	300	0	
1.092 Small Refiner Expensing of Sulfur Compliant Equipment	Deduction	2004	317.013	Less than 50	Less than 50	
1.093 Intangible Development Costs for Fuels	Deduction	1978	316.695/317.013	Less than 50	Less than 50	
1.094 Depletion Costs for Fuels	Deduction	1962	316.695/317.013	Less than 50	Less than 50	
1.095 Tertiary Injectants	Deduction	1980	316.695/317.013	Less than 50	Less than 50	
1.096 Deferral of Capital Gains From FERC Restructuring Requirements	Deduction	2004	317.013	2,200	-200	
1.097 Expensing Timber Growing Costs	Deduction	1986	316.048/317.013	2,100	2,100	
1.098 Expensing and Amortization of Reforestation Costs	Deduction	1980	316.048/317.013	1,700	1,700	
1.099 Development Costs for Nonfuel Minerals	Deduction	1951	316.048/317.013	600	600	
1.100 Depletion Costs for Nonfuel Minerals	Deduction	1913	316.048/317.374	1,200	1,200	
1.101 Mining Reclamation Reserves	Deduction	1984	316.048/317.013	300	300	
1.127 Underground Storage Tank Grants	Subtraction	1991	316.834/317.383	0	0	
1.128 Energy Conservation Subsidies (Oregon)	Subtraction	1981	316.744/317.386	200	100	
1.171 Crop Gleaning	Credit	1977	315.156	100	100	
1.172 Alternatives to Field Burning	Credit	1975	468.150	400	400	
1.173 Farm Machinery and Equipment (Income Tax)	Credit	2001	315.119/315.123	Less than 50	Less than 50	
1.174 Riparian Lands Removed from Farm Production	Credit	2001	315.113	Less than 50	100	
1.175 Pollution Prevention	Credit	1995	315.311	Less than 50	Less than 50	
1.176 Pollution Control	Credit	1967	315.304	19,500	18,300	
1.177 Reclaimed Plastics	Credit	1985	315.324	Less than 50	Less than 50	
1.178 Diesel Truck Engines	Credit	2003	Note: 315.356	300	300	
1.179 Fish Screening Devices	Credit	1989	315.138	Less than 50	Less than 50	
1.180 Alternative Energy Devices (Residential)	Credit	1977	316.116	13,900	16,000	
1.181 Alternative Fuel Stations	Credit	2001	317.115	Less than 50	Less than 50	
1.182 Business Energy Facilities	Credit	1979	315.354	19,700	23,000	
1.183 Energy Conservation Lender's Credit	Credit	1981	317.112	Less than 50	Less than 50	
1.184 Weatherization Lender's Credit	Credit	1977	317.111	Less than 50	Less than 50	
1.185 Reforestation	Credit	1979	315.104	400	500	
1.186 Sewer Connection	Credit	1987	316.095	Less than 50	Less than 50	
1.197 Income Averaging for Farmers	Other	2001	314.297	300	400	
1.198 Capital Gains from Farm Property	Other	2001	318.020/317.063	1,000	1,100	
1.199 Apportionment for Certain Forest Product Companies	Other	2003	314.650(2)	Not available	Not available	

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

Tax Expenditure	Type	Year Enacted	Oregon Statute	Revenue Impact (\$ Thousands)		
				2005–07	2007–09	
<i>Property Tax</i>						
2.031	Food Processing Equipment	Full	2005	307.455	900	1,900
2.032	Farm Machinery and Equipment (Property Tax)	Full	1973	307.394	53,200	55,600
2.033	Mobile Field Incinerators	Full	1971	307.390	Less than 50	Less than 50
2.034	Crops, Plants, and Fruit Trees	Full	1957	307.320	16,700	17,900
2.035	Agricultural Products Held by Farmer	Full	1965	307.325	200	200
2.036	Nursery Stock	Full	1971	307.315	6,600	7,100
2.037	Leased Public Farming and Grazing Land	Full	1971	307.110(3)(b)	Incl. in 2.070	Incl. in 2.070
2.038	Leased Federal Grazing Land	Full	1961	307.060	Incl. in 2.085	Incl. in 2.085
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 2.032	Incl. in 2.032
2.041	Other Farm/Aquaculture/Egg Equipment	Full	1973	307.397	Incl. in 2.032	Incl. in 2.032
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	Property Used for Golf Course and Effluent	Full	2001	Note: 307.118	100	100
2.045	Riparian Habitat Land	Full	1981	308A.362	100	100
2.046	Environmentally Sensitive Logging Equipment	Full	1999	307.827/307.831	2,200	2,300
2.047	Crab Pots	Full	1969	508.270	300	300
2.048	Federal Standing Timber Under Contract	Full	1965	307.050	5,600	5,400
2.049	State and Local Standing Timber Under Contract	Full	1965	307.100	2,300	2,300
2.050	Western Private Standing Timber	Full	1977	321.272	399,300	415,000
2.051	Eastern Private Standing Timber	Full	1961	321.829	38,800	40,300
2.052	Private Farm and Logging Roads	Full	1963	308.236	33,700	36,100
2.053	Forest Fire Protection Association	Full	1957	307.125	300	300
2.054	Inactive Mineral Interests	Full	1997	308.115	200	200
2.055	Leased State Land Board Land	Full	1982	307.168	1,800	1,900
2.056	Small Watercraft	Full	1959	830.790(2)	30,100	30,700
2.057	Mining Claims on Federal Land	Full	1889	307.080	100	200
2.058	Nonprofit Public Park Use Land	Full	1971	307.115	200	200
2.101	Pollution Control Facilities	Partial	1967	307.405	100	100
2.102	Ethanol Production Facility	Partial	1993	307.701	Less than 50	Less than 50
2.103	Alternative Energy Systems	Partial	1975	307.175	1,200	1,500
2.104	Watercraft Centrally Assessed	Partial	1925	308.515	Not available	Not available
2.105	Historic Property	Partial	1975	358.505	27,700	29,000
2.114	Watercraft Locally Assessed	Special	1925	308.256	2,500	2,600
2.115	Wildlife Habitat	Special	1993	308A.400	600	600
2.116	Forest Homesites	Special	1989	308A.256	9,000	12,000
2.117	Western Private Forestland	Special	1977	321.354	47,200	55,100
2.118	Eastern Private Forestland	Special	1971	321.833	3,700	3,700
2.119	Small Tract Forestland Option	Special	2003	321.722	23,300	28,200
2.120	Farm Land	Special	1967	308A.050	179,400	183,000
2.121	Farm Homesites	Special	1987	308A.253	6,800	7,000
2.122	Open Space Land	Special	1971	308A.300	1,000	1,000
<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	3,000	3,100
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

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

Tax Expenditure	Type	Year Enacted	Oregon Statute	Revenue Impact (\$ Thousands)		
				2005-07	2007-09	
<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</i>						
1.040	Employer Paid Transportation Benefits	Exclusion	1992	316.048	28,500	29,900
<i>Property Tax</i>						
2.059	Railroad Right of Way Used for Alternative Transport	Full	1977	307.205	0	0
2.060	Motor Vehicles and Trailers	Full	1919	803.585	710,300	748,500
2.061	ODOT Land Under Use Permit	Full	1981	307.110(3)(c)	Less than 50	Less than 50
2.106	Aircraft	Partial	1987	308.558/308.565	9,700	10,500
CONSUMER AND BUSINESS SERVICES						
<i>Income Tax</i>						
1.041	Life Insurance Investment Income	Exclusion	1913	316.048/317.013	205,200	216,000
1.042	Workers' Compensation Benefits (Non-Medical)	Exclusion	1918	316.048	22,600	22,500
1.043	Workers' Compensation Benefits (Medical)	Exclusion	1918	316.048	54,000	63,200
1.044	Credit Union Income	Exclusion	1951	317.080(1)	13,700	15,100
1.045	Structured Settlement Accounts	Exclusion	1982	317.013	Less than 50	Less than 50
1.046	Contributions in Aid of Construction for Utilities	Exclusion	1996	317.013	100	100
1.102	Life Insurance Company Reserves	Deduction	1984	317.655(2)(f) and (g)	8,500	9,000
1.103	Additions to Bad Debt Reserves of Small Financial Institutions	Deduction	1947	317.31	Less than 50	Less than 50
1.104	Property and Casualty Insurance Company Reserves	Deduction	1986	317.655(2)(f,g)	13,900	15,600
1.129	Wet Marine and Transportation Policies	Subtraction	1995	317.080(8)	500	600
1.187	Mile-Based or Time-Based Motor Vehicle Insurance	Credit	2003	Note: 317.122	Less than 50	Less than 50
1.188	Fire Insurance	Credit	1969	317.122(1)	5,300	6,600
1.189	Workers' Compensation Assessments	Credit	1995	317.122(2)	2,200	1,600
1.190	Oregon Life and Health IGA Assessments	Credit	1975	734.835	100	100
1.200	Apportionment for Utility and Telecommunication Companies	Other	2001	314.28	500	600
<i>Property Tax</i>						
2.062	Nonprofit Water Associations	Full	1937	307.210	200	200
2.063	Nonprofit Electrical Distribution Associations	Full	1943	308.805	8,600	9,200
2.064	Nonprofit Telephone Associations	Full	1941	307.220	0	0
2.065	Private Service Telephone Equipment	Full	1941	307.230	Less than 50	Less than 50
2.066	FCC Licenses	Full	2001	307.126	6,100	6,400
TAX ADMINISTRATION						
<i>Income Tax</i>						
1.047	Gain on Nondealer Installment Sales	Exclusion	1921	316.048/317.013	6,600	7,200
1.048	Gain on Like-Kind Exchanges	Exclusion	1921	316.048/317.013	14,300	16,400
1.105	Magazine Circulation Expenditures	Deduction	1950	316.048/317.013	300	300
1.106	Net Operating Loss Limitation	Deduction	1954	317.478/317.479	2,600	2,600
1.107	Completed Contract Rules	Deduction	1986	316.048/317.013	1,500	1,900
1.130	Income Earned in Border River Areas	Subtraction	2001	316.127	Less than 50	Less than 50

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

Tax Expenditure	Type	Year Enacted	Oregon Statute	Revenue Impact (\$ Thousands)		
				2005-07	2007-09	
<i>Property Tax</i>						
2.067	Intangible Personal Property	Full	1935	307.03	10,013,800	11,145,600
2.068	Personal Property for Personal Use	Full	1854	307.190	667,800	725,100
2.069	Beverage Containers Requirin g Deposit	Full	1983	307.402	100	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
<i>Cigarette Tax</i>						
5.001	Small Quantity by Consumers	Exclusion	1965	323.06	Less than 50	Less than 50
GOVERNMENT						
<i>Income Tax</i>						
1.049	Allowances for Federal Employees Abroad	Exclusion	1943	316.048	4,200	5,000
1.050	Interest on Oregon State and Local Debt	Exclusion	1913	316.048	78,900	77,700
1.131	Oregon State Lottery Prizes	Subtraction	1985	461.560	2,400	3,000
1.132	Income Earned in "Indian Country"	Subtraction	1977	316.777	3,600	3,800
1.133	Federal Pension Income	Subtraction	1998	316.680(1)(f)	130,300	137,000
1.191	Political Contributions	Credit	1969	316.102	11,600	11,900
<i>Property Tax</i>						
2.070	State and Local Property	Full	1854	307.090	1,460,300	1,638,000
2.071	Beach Lands	Full	1969	307.450	Not available	Not available
2.072	Local Government Public Ways	Full	1895	307.200	Not available	Not available
2.073	NW Intertie Exemption	Full	2005	307.09	800	800
2.074	Tribal Land Being Placed in U.S. Trust	Full	1993	307.181	5,000	5,000
<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)	2,700	3,700
<i>Weight-Mile Tax</i>						
4.003	Elementary and Secondary Schools	Exclusion	Pre-1953	825.017(1)	1,800	2,700
4.004	Government Owned or Operated Vehicles	Exclusion	Pre-1953	825.017(11,13)	5,200	6,100
4.005	Public Mass Transit Vehicles	Exclusion	1977	825.017(12)	3,500	2,900
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	3,100	800
<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)		
				2005–07	2007–09	
SOCIAL POLICY						
<i>Income Tax</i>						
1.051	Capital Gains on Inherited Property	Exclusion	1921	316.048	676,500	807,700
1.052	Gain on Involuntary Conversions in Disaster Areas	Exclusion	1996	316.048	200	200
1.053	Voluntary Employees' Beneficiary Associations	Exclusion	1928	316.048	25,100	27,000
1.054	Rental Allowances for Ministers' Homes	Exclusion	1921	316.048	3,800	4,100
1.055	Discharge of Certain Student Loan Debt	Exclusion	1984	316.048	Less than 50	Less than 50
1.056	Military Disability Benefits	Exclusion	1942	316.048	800	800
1.057	Benefits and Allowances of Armed Forces Personnel	Exclusion	1925	316.048	22,900	24,000
1.058	Capital Gains on Gifts	Exclusion	1921	316.048	72,700	87,100
1.059	Restitution Payments for Holocaust Survivors	Exclusion	2001	316.048	Less than 50	Less than 50
1.060	Survivor Annuities	Exclusion	1997	316.048	Less than 50	Less than 50
1.108	Casualty and Theft Losses	Deduction	1913	316.695	2,100	2,100
1.109	Overnight-travel Expenses of National Guard and Reserve Members	Deduction	2005	316.048	700	800
1.110	Local Income Taxes	Deduction	1913	316.695	7,700	Less than 50
1.111	Charitable Contributions: Other	Deduction	1917	316.695/317.013	227,000	254,600
1.119	Domestic Partner Benefits	Subtraction	1999	OAR 150-316-007(B)	500	600
1.134	Federal Income Tax Deduction	Subtraction	1929	316.680/316.695	632,400	747,200
1.135	Military Active Duty Pay	Subtraction	1969	316.680/316.789/ 316.791	28,500	35,200
1.192	Personal Exemption	Credit	1985	316.085	878,200	924,100
1.193	Oregon Cultural Trust	Credit	2001	315.675	3,300	3,700
1.194	Retirement Income	Credit	1991	316.157	2,000	1,600
1.201	Title 10 Active Duty Death	Other	2005	314.088	Less than 50	Less than 50
<i>Property Tax</i>						
2.075	Charitable, Literary, and Scientific Organizations	Full	1854	307.130	87,800	93,200
2.076	Fraternal Organizations	Full	1961	307.136	8,200	9,100
2.077	Religious Organizations	Full	1854	307.140	88,600	93,000
2.078	Cemeteries, Burial Grounds, and Mausoleums	Full	1854	307.150	6,100	6,300
2.079	Transfer of Land from Cemetery to School	Full	2001	307.157	200	300
2.080	Exempt Lease from Taxable Owner	Full	1977	307.112	Incl. elsewhere	Incl. elsewhere
2.081	Exempt Lease from Exempt Owner	Full	1973	307.166	Incl. elsewhere	Incl. elsewhere
2.082	City-Owned Sports Facility	Full	2001	307.171	800	900
2.083	Convention Facilities	Full	1985	263.29	0	0
2.084	LLC Owned by Nonprofit Corporation	Full	2005	307.022	100	100
2.107	Railroad Right of Way in Water District	Partial	1943	264.110	Less than 50	Less than 50
2.108	Railroad Right of Way in Highway Lighting District	Partial	1947	372.190	Less than 50	Less than 50
2.109	Railroad Right of Way in Rural Fire District	Partial	1969	478.010(2)(d)	600	700
2.110	Destroyed or Damaged Property	Partial	1971	308.425, 308.428	Less than 50	Less than 50
2.111	Homestead Exemption for Federal Active Duty Military Servicemembers	Partial	2005	307.286	Less than 50	Less than 50
<i>Weight-Mile Tax</i>						
4.007	Charitable Organizations	Exclusion	1977	825.017(15)	Less than 50	100
<i>Lodging Tax</i>						
16.001	Exempt Dwelling Units	Exclusion	2003	320.308	Not available	Not available
FEDERAL LAW						
<i>Income Tax</i>						
1.136	Interest and Dividends on U.S. Obligations	Subtraction	1970	316.680	27,900	34,300

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

Tax Expenditure	Type	Year Enacted	Oregon Statute	Revenue Impact (\$ Thousands)	
				2005-07	2007-09
<i>Property Tax</i>					
2.085 Federal Property	Full	1848	307.040	2,339,300	2,545,400
2.086 Indian Property on Reservation	Full	1854	307.180	Not available	Not available
2.087 Amtrak Passenger Railroad	Full	1983	308.515	300	300
<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	2,500	2,500
<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	100	Less than 50
8.003 Indian Reservation Subscribers	Exclusion	1981	401.794	100	Less than 50
<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 2005-07 biennium, this revenue is estimated to be \$11.1 billion, or 88 percent of General Fund revenues, and \$12.2 billion for 2007-09 (prior to any kicker¹). The Department of Revenue also publishes an annual report that provides detailed statistics on the personal income tax. The most recent edition of *Oregon Personal Income Tax Annual Statistics* can be found at <http://www.oregon.gov/DOR/STATS/index.shtml>.

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

The starting point for calculating Oregon’s personal income tax is federal taxable income, and this connection to the federal tax code has important implications for Oregon’s tax. Using the same definition of income helps simplify the Oregon tax return, reducing the number of calculations taxpayers need to make. The connection to the federal definition of taxable income also makes the tax easier for the state of Oregon to administer.

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

Tying to the federal definition of taxable income implicitly adopts many of the tax expenditures that exist in the federal tax code. Any special provisions allowed by the federal government that reduce taxable income will flow through to Oregon’s tax and result in lower Oregon tax collections. There currently are 96 of these special federal provisions—exclusions, deductions, and adjustments—that flow through to Oregon’s personal income tax.

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

Corporation Excise and Income Taxes

Oregon’s corporation excise and income taxes are the taxes on corporate profits where net income is the measure of profitability. About 99 percent of all corporations pay the excise tax, and just one percent pays the income tax. Because the taxes are nearly identical and the tax base is net income, we refer here to both taxes simply as the corporation income tax.

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

Income Tax

The corporation income tax is the second largest source of revenue for the state General Fund. For the 2005-07 biennium, this revenue is estimated to be \$738 million, or 5.9 percent of General Fund revenues, and \$778 million for 2007-09 (prior to any kicker²). The Department of Revenue publishes an annual report that provides detailed statistics on the corporation income tax. The most recent version of *Oregon Corporate Excise and Income Tax* can be found at <http://www.oregon.gov/DOR/STATS/index.shtml>.

As with the personal income tax, the “normal” tax base for the corporate income tax includes income from all sources, both monetary and nonmonetary. A key difference between the corporate income tax and the personal income tax is that the corporate income tax is meant to apply to net income, so corporations deduct expenses incurred in earning the income. Tax provisions that are departures from the normal base represent tax expenditures.

Oregon uses federal taxable income with some modifications as its tax base. Of particular note, when the 2005 Oregon Legislature passed the continuing connection to federal taxable income with Senate Bill 31A, two new federal provisions were excluded from that connection. Oregon did not tie to the federal Qualified Production Activities Income (QPAI) deduction, and beginning in January of 2008 Oregon will not be tied to the federal exclusion for Medicare subsidy income.

As with the personal income tax, connecting to the federal tax code reduces compliance costs for taxpayers, makes administration of the tax easier for the state of Oregon, and implicitly adopts many of the tax expenditures that exist in the federal tax code. For the 2007–09 biennium, the connection to the federal definition of taxable income is forecast to reduce Oregon corporation income tax revenue by roughly \$248 million. There are seven Oregon-specific subtractions that can further reduce the taxable income of corporations, and reduce tax revenues by about \$1 million. After Oregon taxable income is calculated, the tax rate of 6.6 percent is applied to arrive at the tax liability prior to credits.

There are 40 credits available to offset the corporation income tax. None is refundable, but most allow unused credit amounts to be carried forward and used in later years. In 2007–09, these credits are expected to reduce corporation tax revenue by roughly \$71 million.

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

1.001 SCHOLARSHIP AND FELLOWSHIP INCOME

Internal Revenue Code Section: 117

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

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1954

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

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

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

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

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

It is a fiscally effective method of achieving its purpose. Controlling cost of attendance has become increasingly important as tuition rates have exceeded the rate of inflation in recent years; although tuition increases in Oregon were limited to the increase in median family income in the current biennium. *[Evaluated by the Oregon University System.]*

1.002 INTEREST ON EDUCATION SAVINGS BONDS

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

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

DESCRIPTION: The interest earned on U.S. Series EE savings bonds purchased and owned to finance higher education for the taxpayer, his or her spouse, or dependents is excluded from personal taxable income. The bonds must be purchased and owned by people age 24 or over and must have been issued after 1989. They must be used for qualified higher education expenses in the same year in which they are redeemed. Qualified higher education expenses include tuition and fees, but not room and board expenses. For 2006, a full exclusion was allowed if income is less than \$63,100 if single and \$94,700 if married. The exclusion phases out through incomes of \$78,100 (single) and \$124,700 (married) at which point no exclusion is allowed.

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

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

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

1.003 EARNINGS ON EDUCATION SAVINGS ACCOUNTS

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

	Corporation	Personal	Total
2005–07 Revenue Impact:	Not Applicable	\$800,000	\$800,000
2007–09 Revenue Impact:	Not Applicable	\$1,000,000	\$1,000,000

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

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

There is a \$2,000 limit on annual contributions for a single beneficiary under 18. Contributions may also be made on behalf of special needs beneficiaries older than age 18. The contribution limit phases out for taxpayers with modified adjusted gross incomes between \$95,000 and \$110,000 (single), and \$190,000 and \$220,000 (married). Corporations and other entities are allowed to contribute, regardless of their income. Contributions may be made to both an 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
2005–07 Revenue Impact:	Not Applicable	\$5,500,000	\$5,500,000
2007–09 Revenue Impact:	Not Applicable	\$7,000,000	\$7,000,000

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

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

The revenue impacts for this expenditure do not include the value of the subtraction Oregon allows for contributions. That is included in the tax expenditure for Oregon 529 College Savings Network (1.113).

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

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 (1.113).

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

1.005 PUBLIC ASSISTANCE BENEFITS

Revenue Rulings, Internal Revenue Code Section 61 (defines gross income)
Oregon Statute: 316.048 (Connection to federal personal taxable income)
Federal Law Sunset Date: None
Year Enacted in Federal Law: Pre-1955

	Corporation	Personal	Total
2005–07 Revenue Impact:	Not Applicable	\$16,400,000	\$16,400,000
2007–09 Revenue Impact:	Not Applicable	\$18,300,000	\$18,300,000

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

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

PURPOSE: To reduce taxation of people receiving public assistance and to reduce the cost to government of providing such assistance.

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

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

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

1.006 CERTAIN FOSTER CARE PAYMENTS

Internal Revenue Code Section: 131

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

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1982

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

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

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

WHO BENEFITS: Foster care providers for children.

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

1.007 EMPLOYEE ADOPTION BENEFITS

Internal Revenue Code Section: 137

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

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1996

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

DESCRIPTION: Benefits received under employer-sponsored adoption assistance programs are excluded from personal taxable income. The maximum exclusion in 2006 was \$10,960 per child, including special needs children. Expenses may be incurred over several years. Employer-provided adoption assistance must be received under an established employer-sponsored adoption assistance program. In 2006, the exclusion

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was phased out at modified adjusted gross incomes between \$164,410 and \$204,410. The exclusion limit and phase-outs are indexed to inflation.

PURPOSE: To encourage and facilitate adoption.

WHO BENEFITS: Adoptive parents.

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

Nationally and within Oregon, considerable focus has been placed on achieving permanent homes for children who are waiting in foster care. This includes the federal Adoption and Safe Families Act (ASFA) of 1997, as well as Oregon SB 408 (1999; conforms Oregon statute to the ASFA) and the earlier SB 689 (1997). All three pieces of legislation have as their primary goal the movement of children from temporary foster care to permanent (adoptive) homes. In Oregon, where approximately 1,000 foster children and 1,400 non-foster children are adopted each year, it is unlikely that the employer-sponsored adoption assistance program created by ORS 316.048 significantly decreases revenue. Likewise, it is unlikely that it provides any significant financial incentive to achieve the national and federal goals of achieving permanent homes for children who are waiting in foster care. *[Evaluated by the Department of Human Services.]*

1.008 CAFETERIA PLAN BENEFITS

Internal Revenue Code Section: 125

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

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1974

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

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

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

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

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

1.009 EMPLOYER PAID MEDICAL BENEFITS

Internal Revenue Code Sections: 105 and 106
 Oregon Statute: 316.048 (Connection to federal personal taxable income)
 Federal Law Sunset Date: None
 Year Enacted in Federal Law: 1918

	Corporation	Personal	Total
2005–07 Revenue Impact:	Not Applicable	\$770,000,000	\$770,000,000
2007–09 Revenue Impact:	Not Applicable	\$910,300,000	\$910,300,000

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

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

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

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

This tax expenditure benefits workers on a differential basis depending on industry and wage levels. Many of the fastest growing industries, such as retail trade, construction, and services, are less likely to offer coverage to employees. Workers earning between 100–200 percent of the federal poverty level are less likely to be offered employer paid medical benefit coverage. *[Evaluated by the Oregon Health Plan Policy and Research.]*

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1.010 COMPENSATORY DAMAGES

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

	Corporation	Personal	Total
2005–07 Revenue Impact:	Not Applicable	\$10,900,000	\$10,900,000
2007–09 Revenue Impact:	Not Applicable	\$11,400,000	\$11,400,000

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

PURPOSE: To avoid reducing the value of these payments.

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

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

1.011 PRESCRIPTION DRUG INSURANCE (PART D)

Internal Revenue Code Section: 139A
Oregon Statute: 316.048 and 317.013 (Connections to federal personal and corporation taxable income)
Federal Law Sunset Date: None
Year Enacted in Federal Law: 2003

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

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

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

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

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

EVALUATION: Not evaluated.

1.012 HOSPITAL INSURANCE (PART A)

Internal Revenue Service Ruling 70-341, 1970-2 Cumulative Bulletin, page 31

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

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1965

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

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

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

WHO BENEFITS: In 2005, there were 526,000 Oregonians enrolled in Part A of Medicare.

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

1.013 SUPPLEMENTARY MEDICAL INSURANCE (PART B)

Internal Revenue Service Ruling 70-341, 1970-2 Cumulative Bulletin page 31

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

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1970

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

DESCRIPTION: For those who elect to pay the required monthly premiums (\$93.50 in 2007), Part B of Medicare covers certain doctors' services, outpatient services, and other medical services for people who are age 65 and over or who are disabled. The portion of the program's costs that are paid with governmental general revenues are not included in the personal taxable income of recipients. Currently, these costs account for 75 percent of the program's costs. Under current law, annual increases in the Part B

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premium are limited to the percentage increase in the Social Security cost of living allowance.

- PURPOSE:** To ensure the consistent treatment with nontaxed Social Security benefits.
- WHO BENEFITS:** In 2005, there were 500,000 Oregonians enrolled in Part B of Medicare.
- EVALUATION:** This tax expenditure achieves its purpose and lowers the direct cost of hospital care for the elderly. While it may be possible to assign a value to these nontaxed subsidies according to individual use, it is generally considered neither fair nor good public policy to tax people at a time they are most vulnerable. However, because this subsidy is not means tested, it is argued that the exclusion benefits higher income retirees. Congress has recognized this issue in discussions on health reform. While no conclusions have been reached, the merits of incorporating gross income thresholds that would raise the premiums for higher income retirees have been debated. *[Evaluated by the Department of Human Services.]*

1.014 PENSION CONTRIBUTIONS AND EARNINGS

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

	Corporation	Personal	Total
2005–07 Revenue Impact:	Not Applicable	\$803,900,000	\$803,900,000
2007–09 Revenue Impact:	Not Applicable	\$884,000,000	\$884,000,000

- DESCRIPTION:** Employer contributions to pension plans are not included in the employee’s personal taxable income in the year of contribution. Certain amounts contributed by employees are excluded from income as well. The maximum regular contribution for 2006 is \$15,000. After 2006, the limit is indexed to inflation. Taxation on contributions and earnings are deferred until distribution, when withdrawals are included in taxable income. The estimated tax benefit is a net figure; the revenue foregone in a given year offset by the amount of tax paid on withdrawals in that year.
- PURPOSE:** To promote saving for retirement.
- WHO BENEFITS:** Employees receiving employer-paid pension benefits. Employers may benefit by paying lower wages than would be paid if these benefits were not offered.
- EVALUATION:** This tax expenditure achieves its purpose. It is likely that pensions result in greater savings, thereby reducing the amount of government assistance needed by retirees. The tax deferral on contributions is particularly favorable to employees because earnings accrue to the amounts that would otherwise be paid in taxes, significantly increasing earnings over the life of the plan. It should be noted, however, that current projections suggest that the rate of retirement savings must increase threefold from present levels for future retirees to maintain their current living standards. Insufficient retirement savings could have a dramatic impact on government service programs, especially as the population age distribution shifts. *[Evaluated by the Department of Human Services.]*

1.015 SPECIAL BENEFITS FOR DISABLED COAL MINERS

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

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

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

PURPOSE: To ensure consistent treatment with workers’ compensation.

WHO BENEFITS: Oregon taxpayers receiving Black Lung benefits.

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

1.016 SOCIAL SECURITY BENEFITS (FEDERAL)

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

	Corporation	Personal	Total
2005–07 Revenue Impact:	Not Applicable	\$313,100,000	\$313,100,000
2007–09 Revenue Impact:	Not Applicable	\$338,500,000	\$338,500,000

DESCRIPTION: Only a portion of Social Security and Railroad Retirement Board benefits are considered nontaxable at the federal level while the state of Oregon extends the tax exemption to the full amount of benefits. As a result, there are two tax expenditures pertaining to these benefits. This tax expenditure pertains to those benefits that are exempt at the federal level. The tax expenditure pertaining to the portion of benefits that are taxed at the federal level but are exempt in Oregon is Social Security Benefits (Oregon) (1.118).

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

If “provisional income” is above these thresholds but below \$34,000 (single) or \$44,000 (joint) then the amount of benefits subject to tax is the lesser of: (1) 50 percent of benefits or (2) 50 percent of income in excess of the first threshold. If income is above the second threshold, the amount of benefits subject to tax is the

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lesser of: (1) 85 percent of benefits or (2) 85 percent of income above the second threshold, plus the smaller of \$4,500 if single (\$6,000 if a couple) or 50 percent of benefits. For couples filing separately, taxable benefits are the lesser of 85 percent of benefits or 85 percent of “provisional income.”

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

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

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

1.017 INCOME EARNED ABROAD BY U.S. CITIZENS

Internal Revenue Code Section: 911

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

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1926

	Corporation	Personal	Total
2005–07 Revenue Impact:	Not Applicable	\$29,100,000	\$29,100,000
2007–09 Revenue Impact:	Not Applicable	\$32,200,000	\$32,200,000

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

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

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

EVALUATION: This expenditure appears to achieve its purpose. It would appear that a relatively large number of Oregonians (or U.S. citizens who work for Oregon companies) are

working overseas. This not only benefits Oregon exports, but also helps Oregon attain an international frame of mind as many of these individuals return to Oregon.

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

1.018 MAGAZINE, PAPERBACK, AND RECORD RETURNS

Internal Revenue Code Section: 458

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

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1978

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

DESCRIPTION: Generally, if a buyer returns goods to the seller, the seller's income is reduced in the year in which the items are returned. This tax expenditure grants an exemption to publishers and distributors of magazines, paperbacks, and records. (Records include discs, tapes, and similar objects that contain pre-recorded sounds.) These publishers and distributors may elect to exclude from corporate or personal taxable income any goods sold during a tax year that are returned shortly after the close of the tax year. Specifically, magazines must be returned within two months and 15 days after the end of the tax year. Paperbacks and records must be returned within four months and 15 days. This allows publishers and distributors to sell more copies to wholesalers and retailers than they expect will be sold to consumers.

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

WHO BENEFITS: Publishers and distributors of magazines, paperbacks and records.

EVALUATION: This expenditure appears to achieve its purpose by promoting increased sales of materials. The removal of this provision might cause irritating back-orders of popular materials and reduce sales of published materials due to an insufficient number of copies to allow for conspicuous display. However, the provision probably also encourages the over-printing of copies and the resultant waste. *[Evaluated by the Economic and Community Development Department.]*

1.019 CASH ACCOUNTING, OTHER THAN AGRICULTURE

Internal Revenue Code Sections: 446 and 448

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

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1916

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

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

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

WHO BENEFITS: Small businesses benefit directly from this expenditure.

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

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

1.020 REGIONAL ECONOMIC DEVELOPMENT INCENTIVES

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

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

Federal Law Sunset Date: 12-31-09

Year Enacted in Federal Law: 1993

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

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

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

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

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

- PURPOSE:** To revitalize economically distressed areas through expanded business and employment opportunities.
- WHO BENEFITS:** Businesses and employees within the designated areas and holders of bonds nationwide.
- EVALUATION:** Indeterminate; insufficient usage and data to analyze effectiveness in Oregon. *[Evaluated by the Economic and Community Development Department.]*

1.021 INCOME OF CONTROLLED FOREIGN CORPORATIONS

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

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

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1909

	Corporation	Personal	Total
2005–07 Revenue Impact:	\$18,800,000	Not Applicable	\$18,800,000
2007–09 Revenue Impact:	\$28,900,000	Not Applicable	\$28,900,000

DESCRIPTION: When a U.S. firm earns income through a foreign subsidiary, the income is exempt from U.S. corporate taxes as long as it is in the hands of the foreign subsidiary. At the time the foreign income is repatriated, the U.S. parent corporation can credit foreign taxes paid by the subsidiary against U.S. taxes owed on the repatriated income. Because U.S. firms can delay paying U.S. taxes by keeping income in the hands of foreign subsidiaries, it provides a tax benefit for firms that invest in countries with low tax rates.

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

- PURPOSE:** To encourage the purchase and operation of foreign subsidiaries by U.S. firms, thereby increasing these firms' penetration into foreign markets and their global competitiveness.
- WHO BENEFITS:** U.S. multinational firms with foreign operations in low tax countries.
- EVALUATION:** This expenditure appears to achieve its purpose. Oregon remains relatively dependent on international trade, and its economy may benefit significantly from a tax climate

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

Encouraging companies to purchase and operate foreign subsidiaries may result in a short-term reduction in employment in the United States as production is moved to the foreign country where production costs may be cheaper than in the U.S. However, this move is likely to make the parent company more competitive worldwide, so that its remaining operations and employment in the United States become more secure in the long-term. If a company were to maintain all its production facilities in the United States, it might not be able to compete successfully with foreign-based companies and thus would not even employ the technical staff, marketers, corporate executives, and others that it currently employs in the United States.

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

1.022 EXTRATERRITORIAL INCOME EXCLUSION

Internal Revenue Code Sections: 114; 941-2

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

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

Year Enacted in Federal Law: 2000

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

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

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

The extraterritorial income (ETI) law was enacted in late 2000 to replace the foreign sales corporation (FSC) laws. In 2000, the World Trade Organization declared that the FSC structure was an illegal export subsidy under international trade agreements. In early 2002 the ETI provision was also declared an illegal export subsidy. In October 2004, the ETI federal law was repealed, but soon after was replaced by a similar deduction for 2005: the Qualified Production Activities Income (QPAI). The phase-out of ETI that was part of the repeal has also been declared illegal, but Congress has yet to repeal those provisions.

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

PURPOSE: To encourage foreign trade.

WHO BENEFITS: Taxpayers with extraterritorial income.

EVALUATION: The impetus for the FSC/ETI legislation is to encourage smaller and mid-size companies to become engaged in international trade. FSCs were sometimes operated as cooperatives with several being state sponsored because of the needed economies of scale that smaller firms needed to make them financially viable. FSCs and ETIs have continued to come under fire from international trade organizations as unfair trade practices. They are valuable assets for larger firms that have a considerable amount of export business/revenues and could be considered a competitiveness tool. For most companies however, there is limited benefit. *[Evaluated by the Economic and Community Development Department.]*

1.023 CANCELLATION OF DEBT FOR NON-FARMERS

Internal Revenue Code Sections: 108(a)(1)(D)
 Oregon Statute: 316.048 and 317.013 (Connections to federal personal and corporation taxable income)
 Federal Law Sunset Date: None
 Year Enacted in Federal Law: Pre-1955

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

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

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

WHO BENEFITS: Taxpayers who have had debt discharged.

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

1.024 IMPUTED INTEREST RULES

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

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

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

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

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

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

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

EVALUATION: Not evaluated.

1.025 EMPLOYER PAID GROUP LIFE INSURANCE PREMIUMS

Internal Revenue Code Sections: 79, 105, and 106
Legal Opinion 1014, 1920-2 Cumulative Bulletin, page 8
Oregon Statute: 316.048 (Connection to federal personal taxable income)
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1920

	Corporation	Personal	Total
2005–07 Revenue Impact:	Not Applicable	\$21,100,000	\$21,100,000
2007–09 Revenue Impact:	Not Applicable	\$22,000,000	\$22,000,000

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

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

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

EVALUATION: This tax expenditure achieves its purpose and is an effective way of providing employee security. It is an important component of the total benefits package in terms of attracting and retaining Oregon workers. In the increasingly competitive national labor market there is merit in retaining incentives that are available in other states. In addition, the tax expenditure is structured so that it does not discriminate in favor of select employees. The life insurance itself provides heirs with a greater sense of stability and reduces the potential for future public assistance. *[Evaluated by the Employment Department.]*

1.026 EMPLOYER PAID ACCIDENT AND DISABILITY INSURANCE

Internal Revenue Code Sections: 79, 105, and 106

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

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1954

	Corporation	Personal	Total
2005–07 Revenue Impact:	Not Applicable	\$22,200,000	\$22,200,000
2007–09 Revenue Impact:	Not Applicable	\$24,500,000	\$24,500,000

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

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

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

EVALUATION: This tax expenditure achieves its purpose and is an effective way of providing employee security. As is the case with Employer Paid Group Life Insurance Premiums (1.025), it is an important component of the total benefits package in terms of attracting and retaining Oregon workers. In the increasingly competitive national labor market there is merit in retaining incentives that are available in other states. In addition, the tax expenditure is structured so that it does not discriminate in favor of select employees. Accident, disability, and supplemental unemployment benefits allow an employee to maintain a standard of living through short-term transitions. *[Evaluated by the Employment Department.]*

1.027 EMPLOYER PROVIDED DEPENDENT CARE

Internal Revenue Code Section: 129

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

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1981

	Corporation	Personal	Total
2005–07 Revenue Impact:	Not Applicable	\$22,400,000	\$22,400,000
2007–09 Revenue Impact:	Not Applicable	\$22,300,000	\$22,300,000

DESCRIPTION: Employer payments for dependent care through a dependent care assistance program and employee contributions to a dependent care account are not included in the employee’s personal taxable income. The maximum exclusion is \$5,000 and may not exceed the lesser of the earned income of the employee or the earned income of the employee’s spouse, if married. To qualify, the employer assistance must be provided under a plan that meets certain conditions, such as eligibility requirements that do not discriminate in favor of certain employees.

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

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

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

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

1.028 MISCELLANEOUS FRINGE BENEFITS

Internal Revenue Code Sections: 132 and 117(d)

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

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1984

	Corporation	Personal	Total
2005–07 Revenue Impact:	Not Applicable	\$55,300,000	\$55,300,000
2007–09 Revenue Impact:	Not Applicable	\$58,900,000	\$58,900,000

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

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

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

WHO BENEFITS: Employees receiving fringe benefits.

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

1.029 EMPLOYEE MEALS AND LODGING (NON-MILITARY)

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

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

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1918

	Corporation	Personal	Total
2005–07 Revenue Impact:	Not Applicable	\$7,500,000	\$7,500,000
2007–09 Revenue Impact:	Not Applicable	\$7,800,000	\$7,800,000

DESCRIPTION: Employees do not include in personal taxable income the fair market value of meals furnished by employers if the meals are furnished on the employer's business premises and for the convenience of the employer. In certain situations, this includes

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the value of meals provided to an employee at a subsidized eating facility operated by the employer.

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

- PURPOSE:** To eliminate record-keeping difficulties and to acknowledge that the fair market value of employer provided meals and lodging may be difficult to measure.
- WHO BENEFITS:** Employees and their employers in occupations or sectors where the provision of meals or lodging is common.
- EVALUATION:** This tax expenditure achieves its purpose and provides a benefit to both the employer and the employee. In many cases, provided meals and lodging are considered a condition of hire. An example is the individual who is hired to tend an oil derrick in the Gulf of Mexico. It is not practical to have the individual ferry back and forth between the derrick and shore when a shift changes. The employee has no option but to accept the room and board if he or she wishes to take the job. In the case of apartment house managers, free apartment rent is likely a significant factor in accepting the position. This tax expenditure simplifies the bookkeeping process associated with tracking this benefit. *[Evaluated by the Employment Department.]*

1.030 EMPLOYEE STOCK OWNERSHIP PLANS

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

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

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1974

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

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

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

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

WHO BENEFITS: Employers and employees of participating companies.

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

1.031 EMPLOYEE AWARDS

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

	Corporation	Personal	Total
2005–07 Revenue Impact:	Not Applicable	\$1,300,000	\$1,300,000
2007–09 Revenue Impact:	Not Applicable	\$1,500,000	\$1,500,000

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

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

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

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

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1.032 EMPLOYER PROVIDED EDUCATION BENEFITS

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

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

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

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

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

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

WHO BENEFITS: Employees receiving employer provided educational assistance. Employers benefit from a better educated and trained work force.

EVALUATION: This tax expenditure achieves its purpose and provides a benefit to both the employer and the employee. The exclusion promotes improved job skills for the employee and a better educated work force for the employer. In the increasingly competitive national labor market there is merit in retaining the incentives that are available in other states. *[Evaluated by the Employment Department.]*

1.033 SPREAD ON ACQUISITION OF STOCK

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

	Corporation	Personal	Total
2005–07 Revenue Impact:	Not Applicable	\$3,000,000	\$3,000,000
2007–09 Revenue Impact:	Not Applicable	\$2,500,000	\$2,500,000

DESCRIPTION: Employees who have been granted stock options under an Incentive Stock Option plan or an Employer Stock Purchase plan are allowed to exercise, or buy, those options within a specified time frame. Presumably, the value of the stock at the time it is exercised is greater than the option price. At the time the employee exercises his

or her options, the stock is transferred from the company to the employee, but the difference in value between the exercise and options prices is not considered taxable income. The value of this tax expenditure is that the tax is deferred until the employee sells the stock.

- PURPOSE:** To defer tax liability until the income is realized by the taxpayer.
- WHO BENEFITS:** Taxpayers who receive stock options as a form of compensation.
- EVALUATION:** This tax expenditure achieves its purpose of allowing employees to exercise stock options without having to sell them immediately to pay taxes. This expenditure, in conjunction with the Employee Stock Ownership Plans (1.030), creates a sense of ownership among employees, promotes a means of accumulating retirement funds, and becomes an incentive in terms of recruiting and/or retaining Oregon workers. *[Evaluated by the Employment Department.]*

1.034 CAPITAL GAINS ON HOME SALES

Internal Revenue Code Section: 121

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

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1997

	Corporation	Personal	Total
2005–07 Revenue Impact:	Not Applicable	\$331,900,000	\$331,900,000
2007–09 Revenue Impact:	Not Applicable	\$352,700,000	\$352,700,000

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

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

WHO BENEFITS: Homeowners who sell their principal residences.

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

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

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

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

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

1.035 VETERANS’ BENEFITS AND SERVICES

U.S. Code Title 38, Section 3101

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

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1917

	Corporation	Personal	Total
2005–07 Revenue Impact:	Not Applicable	\$42,200,000	\$42,200,000
2007–09 Revenue Impact:	Not Applicable	\$45,800,000	\$45,800,000

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

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

WHO BENEFITS: Veterans, their survivors, and dependents and their families receiving benefits from the VA. In addition to the on-going benefits described above, the Oregon Department of Veterans’ Affairs manages a veterans’ nursing care facility, the Oregon Veterans’ Home, which opened in November 1997 in The Dalles. In 2005, 143 veterans resided in this facility.

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

- Service-connected disability compensation helps to compensate veterans who have mental or physical disabilities as a result of their service. This compensation assists in raising the standard of living in Oregon, brings federal funds into the state, and, in many cases, keeps recipients off other social assistance programs.
- Veterans’ pensions help to compensate war veterans for their service to state and nation. Without this income supplement, some of these recipients would most likely utilize other social services.

- Federal educational benefits assist returning veterans in furthering their education. This falls within many of the Oregon Benchmarks. The more citizens who are educated to their potential, the better off the state of Oregon.

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

1.036 MILITARY AND DEPENDENTS CHAMPUS/TRICARE INSURANCE

Internal Revenue Code Section: 112 and 134

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

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1925

	Corporation	Personal	Total
2005–07 Revenue Impact:	Not Applicable	\$20,100,000	\$20,100,000
2007–09 Revenue Impact:	Not Applicable	\$22,900,000	\$22,900,000

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

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

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

WHO BENEFITS: The families and dependents of military personnel.

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

1.037 AGRICULTURE COST-SHARING PAYMENTS

Internal Revenue Code Section: 126

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

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1978

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

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

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

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

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

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

1.038 CANCELLATION OF DEBT FOR FARMERS

Internal Revenue Code Sections: 108 and 1017

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

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1986

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

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

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

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

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

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

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

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1.039 ENERGY CONSERVATION SUBSIDIES (FEDERAL)

Internal Revenue Code Section: 136
Oregon Statute: 316.048 (Connection to federal personal taxable income)
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1992

	Corporation	Personal	Total
2005–07 Revenue Impact:	Included in 1.128	Included in 1.128	Included in 1.128
2007–09 Revenue Impact:	Included in 1.128	Included in 1.128	Included in 1.128

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

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

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

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

1.040 EMPLOYER PAID TRANSPORTATION BENEFITS

Internal Revenue Code Section: 132(f)
Oregon Statute: 316.048 (Connection to federal personal taxable income)
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1992

	Corporation	Personal	Total
2005–07 Revenue Impact:	Not Applicable	\$28,500,000	\$28,500,000
2007–09 Revenue Impact:	Not Applicable	\$29,900,000	\$29,900,000

DESCRIPTION: Employer payments for employee parking, transportation in a commuter highway vehicle, and transit passes are excludable from the personal taxable income of the employees. Parking facilities provided free of charge by the employer are also excludable from income. Employees are allowed to elect taxable cash compensation in lieu of qualified transportation fringe benefits. For tax year 2006, the maximum exclusion for parking is \$205 per month and the maximum exclusion for transit and commuter transportation is \$105 per month. The maximum exclusion amounts are adjusted for inflation in \$5 increments.

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

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

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

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

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

1.041 LIFE INSURANCE INVESTMENT INCOME

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

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

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1913

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

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

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

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

WHO BENEFITS: Policyholders who purchase life insurance and annuities (mostly middle-income taxpayers) for financial security for their families and themselves.

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

could put more strain on government social services programs. Taxing this investment income might also reduce overall savings levels.

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

1.042 WORKERS' COMPENSATION BENEFITS (NONMEDICAL)

Internal Revenue Code Section: 104(a)(1)

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

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1918

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

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

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

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

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

1.043 WORKERS' COMPENSATION BENEFITS (MEDICAL)

Internal Revenue Code Section: 104(a)(1)

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

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1918

	Corporation	Personal	Total
2005–07 Revenue Impact:	Not Applicable	\$54,000,000	\$54,000,000
2007–09 Revenue Impact:	Not Applicable	\$63,200,000	\$63,200,000

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

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

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

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

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

1.044 CREDIT UNION INCOME

Internal Revenue Code Section: 501(c)(14)

Section 122 Fed. Credit Act (RVSC Sec. 1768)

Oregon Statute: 317.080(1)

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1951

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

DESCRIPTION: Credit unions are nonprofit cooperatives organized by people with a common bond that distinguishes them from the general public. Members pool their funds to make

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loans to one another. Credit unions may be more likely to provide services to low-income individuals at rates lower than other financial institutions. This provision makes the income of credit unions exempt from corporate income taxation.

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

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

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

1.045 STRUCTURED SETTLEMENT ACCOUNTS

Internal Revenue Code Sections: 104(A)(2) and 130
Oregon Statute: 317.013 (Connection to federal corporation taxable income)
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1982

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

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

PURPOSE: The purpose for exempting investment income from structured settlement accounts is not clear and may have been inadvertent. The intent of the federal legislation that exempts periodic payments for damages was to make the tax treatment consistent with that of lump sum Compensatory Damages payments (1.010).

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

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

It may not have been recognized that the periodic payments included an investment income component. Because the legislation made the investment component tax-free also, the tax treatment of periodic payments is more favorable than that of lump sum payments.

This tax exemption also encourages investment through the particular vehicles prescribed (insured annuities and government bonds) rather than through competing vehicles (banks, mutual funds). *[Evaluated by the Department of Consumer and Business Services.]*

1.046 CONTRIBUTIONS IN AID OF CONSTRUCTION FOR UTILITIES

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

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

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1996

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

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

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

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

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

EVALUATION: Prior to enactment, the federal corporation income tax liability on contributions in aid of construction was a serious drawback to utilities accepting contributions. For tax purposes, the utility was responsible for paying taxes on contributions in aid of construction. For ratemaking purposes, however, the income tax on contributed capital was not allowed to be recovered from customers through regulated utility rates.

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

1.047 GAIN ON NONDEALER INSTALLMENT SALES

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

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

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1921

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

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

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

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

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

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

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

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

1.048 GAIN ON LIKE-KIND EXCHANGES

Internal Revenue Code Section: 1031

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

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1921

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

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

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

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

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

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

1.049 ALLOWANCES FOR FEDERAL EMPLOYEES ABROAD

Internal Revenue Code Section: 912

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

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1943

	Corporation	Personal	Total
2005–07 Revenue Impact:	Not Applicable	\$4,200,000	\$4,200,000
2007–09 Revenue Impact:	Not Applicable	\$5,000,000	\$5,000,000

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

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

WHO BENEFITS: Federal civilian employees working abroad.

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

1.050 INTEREST ON OREGON STATE AND LOCAL DEBT

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

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

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1913

	Corporation	Personal	Total
2005–07 Revenue Impact:	Not Applicable	\$78,900,000	\$78,900,000
2007–09 Revenue Impact:	Not Applicable	\$77,700,000	\$77,700,000

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

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

Second, there are qualified “private activity” bonds where a portion of the bond benefits accrue to individuals or businesses rather than to the general public. These are specifically listed in code and include the following state and local government bonds: industrial development bonds for energy production facilities; sewage, water and hazardous waste facilities bonds; bonds for owner-occupied housing; bonds for rental housing; small-issue industrial development bonds; bonds for high-speed rail; bonds for private airports, docks, and mass-commuting facilities; student loan bonds; bonds for private nonprofit hospital facilities; and bonds for veterans’ housing. Many of these bonds are subject to the state private activity bond annual volume cap set by the federal government.

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

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

PURPOSE: To lower the cost of borrowing for Oregon state and local governments.

WHO BENEFITS: In 2004, over 51,200 Oregon taxpayers received roughly \$420.6 million in interest on Oregon state or local government debt obligations, or an average of \$7,950 per return. Investors holding such debt instruments may claim this income tax-free. However, financial markets compensate for the tax-free status of state and local government debt by reducing the rate of return on that debt. Therefore, the primary beneficiaries are the state of Oregon and local governments, whose cost of borrowing is reduced.

EVALUATION: This tax expenditure achieves its purpose. Borrowing costs for the state of Oregon and Oregon local governments are reduced because of the exemption from state income taxes on interest earned on bonds issued by these public bodies. The lower costs associated with lower bond interest rates benefits Oregon citizens by reducing the costs of public investment in, for example, infrastructure needs such as schools, roads, sewers, water systems, colleges, and correctional facilities among many other projects.

Investors who are subject to an Oregon state income tax liability are willing to accept lower interest rates on Oregon state and Oregon local government bonds because the interest income they earn from these investments are excluded from state income taxes.

The state income tax exclusion for interest on Oregon bonds helps create demand for these securities, which improves their marketability and attracts not only in-state investors, but also national institutional and other national investors who wish to purchase tax-exempt bonds that have a strong market demand and reputation.

Even though most of these national investors are not subject to Oregon state income taxes, they are willing to pay higher prices and accept lower interest rates because of the good market performance of Oregon bonds. Oregonians benefit from these out-of-state purchases because Oregon governments can finance needed public activities at lower costs and state level income tax revenue flows are not affected. *[Evaluated by the State Treasury.]*

1.051 CAPITAL GAINS ON INHERITED PROPERTY

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

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

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1921

	Corporation	Personal	Total
2005–07 Revenue Impact:	Not Applicable	\$676,500,000	\$676,500,000
2007–09 Revenue Impact:	Not Applicable	\$807,700,000	\$807,700,000

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

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

WHO BENEFITS: Heirs who inherit property.

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

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

1.052 GAIN ON INVOLUNTARY CONVERSIONS IN DISASTER AREAS

Internal Revenue Code Section: 1033(h)

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

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1996

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

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

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

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

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

EVALUATION: Not evaluated.

1.053 VOLUNTARY EMPLOYEES' BENEFICIARY ASSOCIATIONS

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

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

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1928

	Corporation	Personal	Total
2005–07 Revenue Impact:	Not Applicable	\$25,100,000	\$25,100,000
2007–09 Revenue Impact:	Not Applicable	\$27,000,000	\$27,000,000

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

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

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

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

1.054 RENTAL ALLOWANCES FOR MINISTERS' HOMES

Internal Revenue Code Sections: 107

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

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1921

	Corporation	Personal	Total
2005–07 Revenue Impact:	Not Applicable	\$3,800,000	\$3,800,000
2007–09 Revenue Impact:	Not Applicable	\$4,100,000	\$4,100,000

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

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

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

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

1.055 DISCHARGE OF CERTAIN STUDENT LOAN DEBT

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

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

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

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

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

EVALUATION: Not evaluated.

1.056 MILITARY DISABILITY BENEFITS

Internal Revenue Code Section: 104(a)(4)
Oregon Statute: 316.048 (Connection to federal personal taxable income)
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1942

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

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

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

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

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

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

PURPOSE:	To compensate for the economic hardship imposed by injury or sickness and to be consistent with the tax treatment of workers' compensation payments and court awarded damages, which also are not taxed.
WHO BENEFITS:	Veterans who are retired on disability and were members of the armed forces on or before September 24, 1975, benefit from this exclusion. It is not precisely known how many Oregonians receive this benefit.
EVALUATION:	This tax expenditure achieves its purpose and is a valuable benefit to members of the Oregon National Guard, both Army and Air, as well as other military personnel. National Guard members may receive these benefits because of injuries incurred while performing Inactive Duty Training whereas Active Guard Reserve soldiers may have incurred injuries at any time during their tour of duty and are no longer capable of performing their jobs. While these compensation payments may not be a great deal of money, they may be the only income these soldiers and airmen have because their injuries prevent them from obtaining adequate full-time employment. The federal tax code excludes from taxation disability compensation from the Veterans Administration for personal injury or sickness resulting from duty in the armed forces. The state of Oregon should continue to treat these benefit payments the same as the Internal Revenue Service. <i>[Evaluated by the Military Department.]</i>

1.057 BENEFITS AND ALLOWANCES OF ARMED FORCES PERSONNEL

Internal Revenue Code Sections: 112 and 134

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

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1925

	Corporation	Personal	Total
2005–07 Revenue Impact:	Not Applicable	\$22,900,000	\$22,900,000
2007–09 Revenue Impact:	Not Applicable	\$24,000,000	\$24,000,000

DESCRIPTION: Various in-kind benefits received by military personnel are not taxed. These benefits include medical and dental benefits, group term life insurance, professional education

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and dependent education, moving and storage, premiums for survivor and retirement protection plans, subsistence allowances, uniform allowances, housing allowances, overseas cost-of-living allowances, evacuation allowances, family separation allowances, travel for consecutive overseas tours, emergency assistance, family counseling and defense counsel, burial and death services, and travel of dependents to a burial site. Other benefits include combat-zone compensation and combat-related benefits.

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

WHO BENEFITS: Oregonians serving in the U.S. military.

EVALUATION: This tax expenditure achieves its purpose and is a valuable benefit to Oregonians serving in the Armed Forces. Many of these allowances, such as overseas cost-of-living, emergency assistance, dependent education, and housing allowances, are provided to military personnel to offset the increased cost and complexity of living and working in a foreign country on behalf of the United States or of temporarily maintaining two households when family members are separated through assignment. It is more cost-effective for the government to centrally provide these benefits to all active-duty members of the Armed Forces than it would be to increase individual compensation sufficiently to allow for the additional personal expense and time. Because the provision of these benefits and allowances eliminates the necessity for personnel to seek out new housing, schools, and medical care each time relocation occurs, this approach benefits the military organization as much as it does the military personnel. Also, because these benefits and allowances are a truly intrinsic element of the military structure and are not taxed at the federal level or by other states, maintaining this tax expenditure prevents selectively detrimental financial hardship for Oregonians serving in the military and maintains parity between states. The state of Oregon should continue to treat these benefit payments the same way as the Internal Revenue Service. *[Evaluated by the Military Department.]*

1.058 CAPITAL GAINS ON GIFTS

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

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

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1921

	Corporation	Personal	Total
2005–07 Revenue Impact:	Not Applicable	\$72,700,000	\$72,700,000
2007–09 Revenue Impact:	Not Applicable	\$87,100,000	\$87,100,000

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

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

WHO BENEFITS: Donors and recipients of gifts.

EVALUATION: Not evaluated.

1.059 RESTITUTION PAYMENTS FOR HOLOCAUST SURVIVORS

Internal Revenue Code Sections: P.L. 107-36, Sec 803

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

Federal Law Sunset Date: None

Year Enacted in Federal Law: 2001

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

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

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

WHO BENEFITS: Holocaust survivors who receive restitution payments.

EVALUATION: Not evaluated.

1.060 SURVIVOR ANNUITIES

Internal Revenue Code Sections: 101(h)

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

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1997

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

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

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

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

EVALUATION: Not evaluated.

1.061 TEACHER CLASSROOM EXPENSES

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

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

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

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

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

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

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

1.062 INTEREST ON STUDENT LOANS

Internal Revenue Code Section: 221

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

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1997

	Corporation	Personal	Total
2005–07 Revenue Impact:	Not Applicable	\$12,000,000	\$12,000,000
2007–09 Revenue Impact:	Not Applicable	\$13,500,000	\$13,500,000

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

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

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

PURPOSE: To encourage higher education by reducing the costs.

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

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

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

1.063 QUALIFIED HIGHER EDUCATION EXPENSES

Internal Revenue Code Sections: 222

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

Federal Law Sunset Date: 12-31-05

Year Enacted in Federal Law: 2001

	Corporation	Personal	Total
2005–07 Revenue Impact:	Not Applicable	\$5,000,000	\$5,000,000
2007–09 Revenue Impact:	Not Applicable	\$0	\$0

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

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

PURPOSE: To reduce the cost of higher education.

WHO BENEFITS: College students or their parents who pay qualified education expenses. In 2004, there were 55,427 Oregon returns that included this deduction. The average deduction was \$2,229.

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

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

1.064 SELF-EMPLOYMENT HEALTH INSURANCE

Internal Revenue Code Section: 162(1)

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

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1986

	Corporation	Personal	Total
2005–07 Revenue Impact:	Not Applicable	\$51,100,000	\$51,100,000
2007–09 Revenue Impact:	Not Applicable	\$60,000,000	\$60,000,000

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

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

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

WHO BENEFITS: The number of full-year residents who claimed this adjustment has steadily risen from 52,100 in 1995 to 64,199 in 2004. The average adjustment amount has risen from \$710 to \$4,357 over the same time period. Part of the reason the average adjustment amount has risen so dramatically is that the portion of health insurance premiums considered deductible has increased during this time period.

The table below shows the tax year 2004 usage of this adjustment for each of the five income quintile groups.

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

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

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

1.065 HEALTH SAVINGS ACCOUNTS

Internal Revenue Code Section: 223

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

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1996

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

- DESCRIPTION:** Contributions to Health Savings Accounts (HSAs) by qualified individuals are deductible from federal gross income. Taxpayers do not have to itemize to claim the deduction. Savings in these accounts can be used by individuals to pay for medical expenses in a pre-tax manner. Congress adopted HSAs as a replacement (or expansion) of Medical Savings Accounts (MSAs), which were more restrictive.
- The accounts are used to pay medical costs incurred until an insurance deductible amount is met. To qualify for 2006, individuals must have high deductible (at least \$1,050 for individual coverage and \$2,100 for families) health insurance with limited maximum out-of-pocket expenses. Contributions are limited to the lower of the amount of the insurance deductible, or \$5,250 for individual coverage and \$10,500 for a family. Unused HSA account balances can accrue over years without limit. Both the deductible amounts and maximum out-of-pocket expenses amount are adjusted annually for inflation.
- Medical savings accounts still exist for the limited number of individuals who established them, but new ones cannot be created.
- Contributions can also be made by employers on an employee's behalf. Such contributions are excluded from employment taxation.
- PURPOSE:** To slow the growth of health care costs by reducing reliance on insurance, to preserve freedom of choice in health care, and to help families and individuals finance future health care costs.
- WHO BENEFITS:** Taxpayers who make use of health savings plans. Taxpayers made little use of the MSAs, but with federal legislation adding HSAs, the usage is expected to increase.
- EVALUATION:** Because the medical savings accounts (MSA) option does not appear to be widely used by consumers or aggressively marketed by insurers, it remains premature to evaluate the impact of MSA as either a medical cost containment strategy or an alternative to managed care strategies in the private sector. National policy experts have predicted that MSA will be attractive to higher income individuals with favorable health status profiles since time is necessary to accumulate enough to cover non-catastrophic expenses associated with preventive and chronic health care services. This tax policy treats MSA, a recent innovation in health care benefits, on

an equitable basis with other models of health benefits available to employers and the self-employed. *[Evaluated by the Oregon Health Plan Policy and Research.]*

1.066 IRA CONTRIBUTIONS AND EARNINGS

Internal Revenue Code Sections: 219 and 408

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

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1974

	Corporation	Personal	Total
2005–07 Revenue Impact:	Not Applicable	\$93,100,000	\$93,100,000
2007–09 Revenue Impact:	Not Applicable	\$120,000,000	\$120,000,000

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

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

WHO BENEFITS: The number of full-year residents claiming an adjustment for contributions to a Traditional IRA was 46,548 in 2004. The average adjustment was just over \$3,000.

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

EVALUATION: This tax expenditure has partially achieved its purpose. Whether it has substantially increased savings for retirement is still a matter of debate. Proponents have argued that the tax benefits of IRAs induce savings while opponents maintain that they simply result in a transfer of savings. Those with higher incomes (below the cap) benefit more from this deduction because participation rates steadily decline as income declines. While this tax deduction does provide an incentive to save for retirement, current forecasts indicate that retirement savings for people aged 30–48 needs to increase threefold from present standards in order for these individuals to

maintain their living standards. Without sufficient savings for retirement, there is an increased likelihood of reliance on government service programs. One possible improvement to this tax expenditure would be to increase the income thresholds to claim this deduction. [Evaluated by the Department of Human Services.]

1.067 SEP/SIMPLE PLAN CONTRIBUTIONS AND EARNINGS

Internal Revenue Code Sections: 401–407, 410–418E, and 457
Oregon Statute: 316.048 (Connection to federal personal taxable income)
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1962

	Corporation	Personal	Total
2005–07 Revenue Impact:	Not Applicable	\$72,700,000	\$72,700,000
2007–09 Revenue Impact:	Not Applicable	\$82,800,000	\$82,800,000

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

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

WHO BENEFITS: The number of full-year residents making contributions to SEP and SIMPLE plans was 16,835 in 2004. The average adjustment was approximately \$14,189.

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

EVALUATION: This tax expenditure achieves its purpose and is an important option in accumulating retirement savings. As our national economy changes and self-employment becomes an option for many people, this savings option becomes more vital. Keogh accounts provide a valuable tax-deferred savings device to that segment of the population without comparable alternatives. Current forecasts indicate that current retirement savings of those aged 30–48 are not nearly sufficient to maintain their current lifestyles. While by itself this tax expenditure will not solve the problem, it does

address certain aspects of it. One potential improvement would be to raise the thresholds and allow greater participation. *[Evaluated by the Department of Human Services.]*

1.068 MOVING EXPENSES

Internal Revenue Code Sections: 1073–1078

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

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1964

	Corporation	Personal	Total
2005–07 Revenue Impact:	Not Applicable	\$3,400,000	\$3,400,000
2007–09 Revenue Impact:	Not Applicable	\$3,500,000	\$3,500,000

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

PURPOSE: To reduce employment related moving costs.

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

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

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

1.069 CHARITABLE CONTRIBUTIONS: EDUCATION

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

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

DESCRIPTION: Contributions to educational organizations are allowed as itemized deductions from personal taxable income of amounts up to 50 percent of adjusted gross income. Corporations can deduct from corporate taxable income contributions up to 10 percent of adjusted taxable income. Taxpayers who donate property may deduct the current market value of the property up to 30 percent of adjusted gross income and do not need to pay tax on any capital gains realized on the property. Contributions in excess of the limits may be applied to up to five future tax years until the contributions are completely deducted. See Land Donated to Schools (1.112) for the related Oregon subtraction.

PURPOSE: To encourage donations to qualifying educational organizations.

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

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

1.070 CHARITABLE CONTRIBUTIONS: HEALTH

Internal Revenue Code Sections: 170 and 642(c)

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

Federal Law Sunset Date: None

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

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

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

PURPOSE: To encourage donations to designated health organizations.

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

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

1.071 MEDICAL AND DENTAL EXPENSES

Internal Revenue Code Section: 213

Oregon Statute: 316.695 (Connection to federal personal deductions)

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1942

	Corporation	Personal	Total
2005–07 Revenue Impact:	Not Applicable	\$217,100,000	\$217,100,000
2007–09 Revenue Impact:	Not Applicable	\$275,800,000	\$275,800,000

DESCRIPTION: Medical and dental expenses in excess of 7.5 percent of a taxpayer's adjusted gross income are allowed as a deduction from personal taxable income for taxpayers who itemize deductions. The deduction includes amounts paid for health insurance. (See also 1.117, Additional Medical Deduction for Elderly.)

Income Tax
Federal Deductions

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

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

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

1.072 REMOVAL OF ARCHITECTURAL BARRIERS

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

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

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

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

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

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

1.073 ACCELERATED DEPRECIATION OF BUILDINGS

Internal Revenue Code Sections: 167 and 168

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

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1954

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

DESCRIPTION: In general, taxpayers may deduct from corporation and personal taxable income the depreciation of buildings based on a straight-line method where equal amounts are deducted in each period. This tax expenditure permits the use of accelerated depreciation methods, which allow for faster write-offs than the straight-line method. The revenue impact of this tax expenditure represents the additional tax that would have been paid if straight-line depreciation had been used. Note: The tax expenditure associated with rental housing is covered separately in Accelerated Depreciation of Rental Housing (1.083).

PURPOSE: To promote investment in buildings.

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

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

1.074 ACCELERATED DEPRECIATION OF EQUIPMENT

Internal Revenue Code Sections: 167 and 168

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

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1954

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

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

Income Tax
Federal Deductions

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

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

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

1.075 DEFERRAL OF CERTAIN FINANCING INCOME OF FOREIGN CORPORATIONS

Internal Revenue Code Section: 954 (h)

Oregon Statutes: 317.013 (Connection to federal corporate taxable income)

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1997

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

- DESCRIPTION:** When a U.S. firm earns income through a foreign subsidiary, the income is exempt from U.S. corporate taxes as long as it is in the hands of the foreign subsidiary. Although U.S. tax laws generally exclude income from passive activities from this deferral, this tax expenditure expands the deferral principle to financial corporations. Companies that conduct active financial operations overseas may defer taxes on income earned abroad until that income is repatriated to the U.S. The Tax Increase Prevention and Reconciliation Act extended these exemptions through tax year 2008.
- PURPOSE:** To give financial and manufacturing businesses operating abroad similar tax benefits.
- WHO BENEFITS:** U.S. firms conducting financial business abroad. These firms are not liable for Oregon corporate income tax until they actually repatriate taxable income back to the United States.
- EVALUATION:** Limited data for assessment of response and limited fiscal impact. *[Evaluated by the Economic and Community Development Department.]*

1.076 RESEARCH AND DEVELOPMENT COSTS

Internal Revenue Code Section: 174

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

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1954

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

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

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

WHO BENEFITS: Firms with certain research and experimental expenditures.

EVALUATION: This expenditure appears to achieve its purpose. In conjunction with the Oregon tax credit (Qualified Research Activities (1.151)), it benefits research-intensive companies such as those in the fast-expanding high-tech and biotechnology sectors. The following benefits can be identified:

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

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

1.077 SECTION 179 EXPENSING ALLOWANCES

Internal Revenue Code Section: 179
Oregon Statutes: 316.048 and 317.013 (Connections to federal personal and corporation taxable income)
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1959

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

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

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

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

WHO BENEFITS: Businesses with qualified property purchases.

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

1.078 AMORTIZATION OF BUSINESS START-UP COSTS

Internal Revenue Code Section: 195
Oregon Statutes: 316.048 and 317.013 (Connections to federal personal and corporation taxable income)
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1980

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

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

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

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

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

1.079 CONSTRUCTION FUNDS OF SHIPPING COMPANIES

Internal Revenue Code Section: 7518
Oregon Statute: 317.319
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1936

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

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

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

WHO BENEFITS: U.S. shipping companies.

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

1.080 ORDINARY TREATMENT OF LOSSES FROM SMALL BUSINESS CORPORATION STOCK

Internal Revenue Code Sections: 1244

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

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1958

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

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

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

PURPOSE: To encourage investment in small businesses.

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

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

1.081 RENEWAL COMMUNITY TAX INCENTIVES

Internal Revenue Code Section: 45(d)

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

Federal Law Sunset Date: 12-31-07

Year Enacted in Federal Law: 2000

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

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

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

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

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

- PURPOSE:** To encourage investment and hiring in economically disadvantaged areas.
- WHO BENEFITS:** Any individual making an investment in a CDE and corporations located in renewal communities that can claim any of the corporate incentives.
- EVALUATION:** Insufficient data for analysis. Some Oregon-based CDEs have received NMTCs to use in raising equity funds. *[Evaluated by the Economic and Community Development Department.]*

1.082 DEDUCTION OF CERTAIN FILM AND TELEVISION PRODUCTION COSTS

Internal Revenue Code Section: 181

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

Federal Law Sunset Date: 12-31-08

Year Enacted in Federal Law: 2004

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

- DESCRIPTION:** The cost of producing films and television programs must be depreciated over a period of time using the income forecast method (which allows deductions based on the pattern of expected earnings). This Federal tax provision allows production costs to be deducted when incurred. Eligible productions are restricted to those with a cost of \$15 million or less (\$20 million if produced in certain designated low income areas) and in which at least 75 percent of the compensation is for services performed in the United States. Only the first 44 episodes of a television series qualify, and sexually explicit productions are not eligible.
- PURPOSE:** To encourage film production in the United States.
- WHO BENEFITS:** Any film or television production company that pays U.S. and Oregon corporate taxes. The size of the benefit will depend on the lag time between production and earning income; the longer the lag time, the greater the benefit of immediate depreciation.
- EVALUATION:** Not evaluated.

1.083 ACCELERATED DEPRECIATION OF RENTAL HOUSING

Internal Revenue Code Sections: 167 and 168

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

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1954

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

DESCRIPTION: In general, taxpayers may deduct from corporation and personal taxable income the depreciation of rental housing based on a straight-line method where equal amounts are deducted in each period. In general, for rental housing property placed in service since 1986, the depreciation life is 27.5 years, and the property is depreciated in equal amounts each year. In other words, the rental property follows a straight-line depreciation method for 27.5 years instead of the total anticipated life of the property. This tax expenditure measures the revenue loss due to deductions in excess of those allowed under the 40-year straight-line depreciation allowed under the 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, rental housing is not the only item that receives some form of preferential tax treatment. It is difficult to ascertain the fiscal effectiveness of this expenditure.

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

1.084 PROPERTY TAXES

Internal Revenue Code Section: 164

Oregon Statute: 316.695 (Connection to federal personal deductions)

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1913

	Corporation	Personal	Total
2005–07 Revenue Impact:	Not Applicable	\$246,700,000	\$246,700,000
2007–09 Revenue Impact:	Not Applicable	\$259,500,000	\$259,500,000

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

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

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

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

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

1.085 HOME MORTGAGE INTEREST

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

	Corporation	Personal	Total
2005–07 Revenue Impact:	Not Applicable	\$848,800,000	\$848,800,000
2007–09 Revenue Impact:	Not Applicable	\$972,500,000	\$972,500,000

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

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

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

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

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

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

1.086 CASH ACCOUNTING FOR AGRICULTURE

Internal Revenue Code Sections: 162, 175, 180, 447, 461, 464, and 465

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

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1916

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

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

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

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

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

1.087 SOIL AND WATER CONSERVATION EXPENDITURES

Internal Revenue Code Section: 175

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

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1954

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

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

Income Tax
Federal Deductions

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.]*

1.088 FERTILIZER AND SOIL CONDITIONER COSTS

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

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

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1960

	Corporation	Personal	Total
2005–07 Revenue Impact:	\$100,000	\$1,700,000	\$1,800,000
2007–09 Revenue Impact:	\$100,000	\$1,100,000	\$1,200,000

DESCRIPTION: For corporation and personal income tax purposes, certain investments in soil fertilization and conditioning projects that produce benefits over a number of years can be expensed rather than depreciated. The expensing of these costs represents a departure from typical practice and represents a tax expenditure because deductions can be claimed before the income associated with the deductions is realized. This tax expenditure is different from Soil and Water Conservation Expenditures (1.087) because these activities improve the soil for farming purposes. Soil and water conservation activities may result in retention or improvement of soil or water resources, but may not directly improve the soil quality.

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

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

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

1.089 COSTS OF RAISING DAIRY AND BREEDING CATTLE

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

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

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1916

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

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

PURPOSE: To simplify record keeping for farmers and ranchers.

WHO BENEFITS: Farmers who raise dairy or breeding cattle.

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

1.090 SALE OF STOCK TO FARMERS' COOPERATIVES

Internal Revenue Code Section: 1042(g)
Oregon Statute: 316.048 and 317.013 (Connections to federal personal and corporation taxable income)
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1998

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

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

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

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

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

1.091 CLEAN-FUEL VEHICLES AND REFUELING PROPERTY

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

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

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

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

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

The deduction applies to property placed in service after June 30, 1993, and before 2006. Beginning with 2006, the deduction was replaced by a federal income tax credit.

- PURPOSE:** To promote the use of vehicles that exceed motor vehicle emission standards.
- WHO BENEFITS:** Taxpayers who purchase clean-fuel vehicles or install refueling property.
- EVALUATION:** Oregon Department of Environmental Quality has no data to assess the fiscal or environmental effects of this tax expenditure. *[Evaluated by the Department of Environmental Quality.]*

1.092 SMALL REFINER EXPENSING OF SULFUR COMPLIANT EQUIPMENT

Internal Revenue Code Section: 179B

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

Federal Law Sunset Date: None

Year Enacted in Federal Law: 2004

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

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

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

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

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

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

1.093 INTANGIBLE DEVELOPMENT COSTS FOR FUELS

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

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

DESCRIPTION: Intangible drilling and development costs incurred in oil, gas, and geothermal wells may be expensed.

PURPOSE: To encourage development of petroleum, natural gas, and geothermal wells.

WHO BENEFITS: The owners incurring the specified expenses for qualified activities.

EVALUATION: Not evaluated.

1.094 DEPLETION COSTS FOR FUELS

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

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

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

PURPOSE: To permit correction of preliminary estimates of depletion costs and depreciation of improvements.

WHO BENEFITS: Owners of natural resources incurring resource depletion and depreciation of improvements.

EVALUATION: Not evaluated.

1.095 TERTIARY INJECTANTS

Internal Revenue Code Section: 193

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

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1980

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

DESCRIPTION: A deduction for qualified tertiary injection expenses is allowed for enhanced recovery of natural petroleum deposits. Tertiary injectants are substances such as carbon dioxide injected into oil bearing geological formations to enhance oil recovery from declining reserves.

PURPOSE: To provide incentives to increase oil recovery from declining reserves.

WHO BENEFITS: Owners of nearly depleted oil wells, which require enhanced recovery methods to provide any remaining production.

EVALUATION: Not evaluated.

1.096 DEFERRAL OF CAPITAL GAINS FROM FERC RESTRUCTURING REQUIREMENTS

Internal Revenue Code Section: 451

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

Federal Sunset Date: None

Year Enacted in Federal Law: 2004

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

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

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

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

EVALUATION: Not evaluated.

1.097 EXPENSING TIMBER GROWING COSTS

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

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

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1986

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

- DESCRIPTION:** Indirect expenses incurred in the growing of timber can be expensed rather than capitalized when computing corporation and personal taxable income. Expensing allows full deduction in the year the expenses are incurred, while capitalization requires the deduction to be taken over a number of years. In most other industries, these expenses must be capitalized.
- PURPOSE:** To provide tax relief to the timber growers in recognition of the long growing periods for timber during which no revenue is produced.
- WHO BENEFITS:** Taxpayers who have timber growing expenses that are not connected with a timber harvest or reforestation activity. According to the Congressional Research Service, nationally about 80 percent of the benefits accrue to corporations and 20 percent to noncorporate timber growers. In Oregon the percentage benefiting corporations may be even greater because the proportion of Oregon private timberlands owned by corporations is larger than the national average.
- EVALUATION:** It is not clear if this expenditure is achieving its purpose. If the purpose is to extend tax benefits to all who grow timber for sale, the purpose has not been fully achieved because the expensing is unavailable to those who are not “materially participating” in the management of the timber stand involved. If the taxpayer is an “investor” these expenses must be capitalized, thus effectively adding to the current tax burden. If the purpose extends only to those investing “sweat equity” in the land and to those entities for which the timber-growing is their sole business, then there is evidence that the purpose is being achieved.
- There is controversy surrounding this tax provision. The position of IRS and Congress’ tax-writing committees is that equity has been achieved through the 1986 Tax Reform Act so far as timber growing is concerned. Many landowners and small woodlands groups maintain, however, that their tax burdens were increased as a result of the passive loss rules and loss of the 60 percent capital gains exclusion provisions of the Act. They feel strongly that their ability to produce timber in a cost-effective manner has been diminished.
- Increasingly in Oregon, private forestland ownership is dominated by timber management investment organizations and real estate investment trusts, which are subject to lower federal taxation. *[Evaluated by the State Forestry Department.]*

1.098 EXPENSING AND AMORTIZATION OF REFORESTATION COSTS

Internal Revenue Code Section: 194

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

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1980

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

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

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

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

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

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

WHO BENEFITS: Taxpayers who are reforesting forest lands.

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

1.099 DEVELOPMENT COSTS FOR NONFUEL MINERALS

Internal Revenue Code Sections: 263(1)A, 291, 616–617, 56, and 1254

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

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1951

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

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

PURPOSE: To encourage mining.

Income Tax
Federal Deductions

WHO BENEFITS: Mining companies.

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

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

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

1.100 DEPLETION COSTS FOR NONFUEL MINERALS

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

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

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1913

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

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

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

WHO BENEFITS: Mining companies using the percentage depletion method.

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

1.101 MINING RECLAMATION RESERVES

Internal Revenue Code Section: 468

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

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1984

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

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

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

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

EVALUATION: This provision has been effective at assisting mining operations because tax deductions can be taken for the life of the mining operation instead of at the end of the project. It encourages reclamation throughout the length of the mining operation, which probably has the long-term value of benefiting mine site and surrounding land values during and after mining. It appears to be an effective way to encourage reclamation and help the environment. *[Evaluated by the Department of Geology and Mineral Industries.]*

1.102 LIFE INSURANCE COMPANY RESERVES

Internal Revenue Code Sections: 803(a)(2), 805(a)(2), and 807

Oregon Statute: 317.655(2)(f) and (g)

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1984

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

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

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

Income Tax
Federal Deductions

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

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

1.103 ADDITION TO BAD DEBT RESERVES OF SMALL FINANCIAL INSTITUTIONS

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

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

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

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

or

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

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

PURPOSE: To provide tax relief to financial institutions.

WHO BENEFITS: Small financial institutions.

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

1.104 PROPERTY AND CASUALTY INSURANCE COMPANY RESERVES

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

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

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

PURPOSE: To make tax rules consistent with standard industry accounting practices. For most regulated industries, the tax code was written to be consistent with the accounting rules already used in those industries (in most cases dictated by state regulation). In the insurance industry it is common practice to use some form of reserve accounting in estimating net income, and those methods were adopted for tax purposes when property and casualty insurance companies first became taxable in 1909.

WHO BENEFITS: Property and casualty insurance companies. Due to high competition in this market, the benefit of this deduction could be also passed on to the purchasers of insurance (other businesses, homeowners, and private property owners) in the form of lower premiums.

EVALUATION: This expenditure achieves its purpose. The nature and purpose of insurance is to reduce financial uncertainty. Insurers must estimate the amounts of unpaid losses because of the same uncertainty. Were this not so, insurance would be unnecessary. Historically, the liability estimates have been accurate or understated. Excessive estimates result in tax penalties and competitively ineffective pricing.

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

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

1.105 MAGAZINE CIRCULATION EXPENDITURES

Internal Revenue Code Section: 173

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

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1950

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

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

PURPOSE: To reduce the cost of tax compliance.

WHO BENEFITS: Publishers of periodicals.

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

1.106 NET OPERATING LOSS LIMITATION

Internal Revenue Code Section: 382

Oregon Statute: 317.478 and 317.479

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1954

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

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

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

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

EVALUATION: According to the Congressional Research Service, the rationale for the provision is reasonable, but the exception is not structured to be fully consistent with the rationale. There is no test to determine what portion, if any, of the pre-acquisition net operating loss carry-forwards was borne by creditors who became shareholders. *[Evaluated by the Department of Revenue.]*

1.107 COMPLETED CONTRACT RULES

Internal Revenue Code Section: 460(e)

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

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1986

	Corporation	Personal	Total
2005–07 Revenue Impact:	\$1,300,000	\$200,000	\$1,500,000
2007–09 Revenue Impact:	\$1,700,000	\$200,000	\$1,900,000

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

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

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

WHO BENEFITS: Residential construction contractors are the main beneficiaries.

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

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

1.108 CASUALTY AND THEFT LOSSES

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

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

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

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

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

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

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

1.109 OVERNIGHT-TRAVEL EXPENSES OF NATIONAL GUARD AND RESERVE MEMBERS

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

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

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

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

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

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

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

1.110 LOCAL INCOME TAXES

Internal Revenue Code Section: 164

Oregon Statute: 316.695 (Connection to federal personal deductions)

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1913

	Corporation	Personal	Total
2005–07 Revenue Impact:	Not Applicable	\$7,700,000	\$7,700,000
2007–09 Revenue Impact:	Not Applicable	Less than \$50,000	Less than \$50,000

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

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

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

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

WHO BENEFITS: Residents of Multnomah County who itemize deductions.

EVALUATION: Not evaluated.

1.111 CHARITABLE CONTRIBUTIONS: OTHER

Internal Revenue Code Sections: 170 and 642(c)

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

Federal Law Sunset Date: None

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

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

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

PURPOSE: To encourage donations to designated charitable organizations.

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

EVALUATION: Not evaluated.

1.112 LAND DONATED TO SCHOOLS

Oregon Statute: 316.852 and 317.488

Sunset Date: 12-31-07

Year Enacted: 1999

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

DESCRIPTION: A subtraction is allowed from corporate and personal taxable income for land donated or sold at below-market price on or after January 1, 2000, and before January 1, 2008, to a public school district, a nonprofit private school, or a public or nonprofit private community college, college, or university. For a donation, the amount of the subtraction is the fair market value of the land. For a sale, the amount of the subtraction is the difference between the fair market value and the sale price of the land. The amount of the subtraction is limited depending on whether the transfer was a donation or sale. In the case of a donation, the maximum subtraction in a given tax year is 50 percent of the taxpayer's taxable income in that year. When the land is sold, the maximum subtraction is 25 percent of the taxpayer's taxable income. Unused amounts in excess of the limitations may be carried forward and subtracted from taxable income for up to 15 succeeding years.

Oregon law supplements federal law in that federal law specifies that the unadjusted fair market value of the donation may be deducted only up to 30 percent of income, but Oregon allows the subtraction up to 50 percent of income. Any amount taken as a charitable contribution deduction is to be added to income on the Oregon return so that the taxpayer does not receive a double deduction. The federal deduction is described in Charitable Contributions: Education (1.069).

PURPOSE: To help schools meet the challenge of providing facilities when faced with rapid student enrollment growth by encouraging developers to donate land.

WHO BENEFITS: Taxpayers disposing of land to educational institutions receive the main benefit. Use of this provision is rare, and the value of benefits has been low.

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

1.113 OREGON 529 COLLEGE SAVINGS NETWORK

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

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

DESCRIPTION: A subtraction is allowed from individual taxable income of up to \$2,000 per year for contributions made to Oregon 529 College Savings Network accounts. The proceeds of these accounts are meant to be used to pay education-related expenses for a designated beneficiary (possibly themselves). Total contributions to these accounts are allowed up to the amount necessary to cover the qualified higher education expenses of the beneficiary or limits specified by the Oregon 529 College Savings Board.

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

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

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

EVALUATION: This tax expenditure is a fiscally effective method of achieving its purpose, which is to increase the ability of families and individuals to save for higher education. The program facilitates spreading the cost of higher education over a longer payment period that may extend prior to the student’s enrollment. *[Evaluated by the Oregon University System.]*

1.114 SCHOLARSHIP AWARDS USED FOR HOUSING EXPENSES

Oregon Statute: 316.846
Sunset Date: None
Year Enacted: 1999

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

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

a dependent of the taxpayer and must be attending an accredited community college, college, university, or other institution of higher education. A subtraction may not be allowed under this section if the amounts are not included in the taxpayer's federal gross income for the tax year or are taken into account as a deduction on the taxpayer's federal income tax return for the tax year.

- PURPOSE:** To help students meet the financial challenges of attending college.
- WHO BENEFITS:** Individuals receiving scholarship or fellowship income to pay for housing expenses. In 2005, more than 800 returns used this subtraction to save an average of \$194 in tax.
- EVALUATION:** This tax expenditure is a fiscally effective method of achieving its purpose, which is to reduce the cost of higher education. It makes more funding available to these students, allowing them to complete their education with less debt or need to extend the time in school. The economic and societal returns on the investment are very high. *[Evaluated by the Oregon University System.]*

1.115 PHYSICIANS IN “MEDICALLY DISADVANTAGED” AREAS

Oregon Statute: 316.076

Sunset Date: None

Year Enacted: 1973

	Corporation	Personal	Total
2005–07 Revenue Impact:	Not Applicable	\$0	\$0
2007–09 Revenue Impact:	Not Applicable	\$0	\$0

- DESCRIPTION:** Certain physicians who practice medicine in medically disadvantaged areas may subtract from personal taxable income an amount equal to the annual expense of attending medical school. This subtraction applies to people licensed between January 1, 1974, and January 1, 1982, to practice medicine in Oregon. The amount subtracted cannot exceed \$10,000 and can be taken for up to four tax years. “Medically disadvantaged area” means any area of the state designated by the Department of Human Resources to be in need of primary health care providers.
- PURPOSE:** To promote the provision of medical care in areas considered medically disadvantaged.
- WHO BENEFITS:** Currently, no one is taking advantage of this tax expenditure.
- EVALUATION:** This provision apparently achieved its purpose when passed (there was an impressive growth in rural practitioners during the 1970s), but few, if any, physicians currently in practice seem to be aware of it. Because this provision applies to a select number of physicians (those licensed in an eight-year period between 1974 and 1982), this program should be updated by amendment during the next legislative session. The impending shortage in physicians statewide will have a disproportionately adverse effect on rural physician supply, so modifying the archaic law by making it effective from 2007–2015 would be a sensible strategy. It would also be wise to clarify which medically underserved designation is to be used. The Office of Rural Health was once in DHR, but has since moved to Oregon Health & Science University, and maintains an annually updated "areas of unmet health care need" designation. Other designations, used for federally funded programs, use several different federal

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

1.116 ADDITIONAL DEDUCTION FOR ELDERLY OR BLIND

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

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

DESCRIPTION: Oregon taxpayers who are age 65 or over or who are blind receive a larger standard deduction from personal taxable income based on their filing status. For taxpayers who are single or head of household, the additional amount is \$1,200 per qualifying condition. For example, the additional deduction amount is \$2,400 if a taxpayer is age 65 or over and blind. For all other filers, the additional amount is \$1,000 per qualifying condition. This tax expenditure does not benefit taxpayers who itemize deductions because they do not use the standard deduction.

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

WHO BENEFITS: In 2004, approximately 85,000 individuals benefited from the additional deduction. The number of claims has been decreasing each year, down from 179,000 in 1990. This is due in part to more individuals itemizing deductions (thus they cannot use the standard deduction). Most claims are for elderly individuals as opposed to blind individuals.

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

1.117 ADDITIONAL MEDICAL DEDUCTION FOR ELDERLY

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

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

DESCRIPTION: All taxpayers who itemize deductions may deduct from personal taxable income medical and dental expenses that exceed 7.5 percent of their adjusted gross income [Medical and Dental Expenses (1.071)]. This tax expenditure extends that nontaxable

treatment to any amount of qualified medical or dental expenses that does not exceed the 7.5 percent of adjusted gross income. To be eligible for this deduction, taxpayers must be at least 62 years of age and itemize their Oregon deductions (but not necessarily their federal deductions). Thus, these taxpayers may deduct the full amount of their medical and dental expenses from Oregon taxable income.

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

WHO BENEFITS: The number of older Oregon taxpayers who benefit from the additional medical deduction has risen from approximately 91,000 in 1991 to nearly 182,600 in 2004. The average additional medical deduction amount has risen from roughly \$1,800 in 1991 to \$2,800 in 2004. The table below shows the tax year 2004 usage of this subtraction for each of the five income quintiles.

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

EVALUATION: This tax expenditure achieves its purpose and has similar benefits to the Additional Deduction for Elderly or Blind (1.116) in that it supports self-sufficiency and independence. This tax expenditure creates more disposable income for the affected individuals. Elderly people are more likely to have a greater percentage of their income devoted to medical and dental care. This deduction is an important element of financial assistance for these individuals and helps them avoid reliance on other state services. *[Evaluate d by the Department of Human Services.]*

1.118 SOCIAL SECURITY BENEFITS (OREGON)

Oregon Statute: 316.054

Sunset Date: None

Year Enacted: 1985

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

DESCRIPTION: The Oregon Constitution (Article IX, Section 9) prohibits state and local governments from considering Social Security and Railroad Retirement Board benefits as income for the purpose of any tax or from being used to compute any tax liability. Only a portion of these benefits is considered nontaxable at the federal level (roughly 50 percent). Consequently, there are two tax expenditures. This tax

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expenditure pertains to those benefits that are exempt only in Oregon (i.e., they are taxable at the federal level). The tax expenditure pertaining to those benefits that are exempt at both the federal level and in Oregon is Social Security Benefits (Federal) (1.016).

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

WHO BENEFITS: The number of Oregon taxpayers who benefit from the subtraction has risen consistently from 62,100 in 1990 to 149,155 in 2004. The average subtraction grew from \$3,800 in 1990 to \$9,235 in 2004.

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

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

1.119 DOMESTIC PARTNER BENEFITS

Oregon Administrative Rule: 150-316-007-(B)

Sunset Date: None

Year Enacted: 1999

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

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

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

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

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

- PURPOSE:** To comply with the Oregon Constitution and case law.
- WHO BENEFITS:** The same-sex domestic partners of individuals with employer-paid fringe benefits. Fewer than 1,000 returns claimed this for 2005. The average tax difference was around \$300.
- EVALUATION:** This expenditure achieves its purpose of compliance with the Oregon Constitution and case law. *[Evaluated by the Department of Revenue.]*

1.120 DONATIONS OF ART BY THE ARTIST

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

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

DESCRIPTION: Under Chapter 170 of the Federal Internal Revenue Code, artists can deduct the costs of materials used to produce artworks donated as charitable contributions. This tax provision allows artists liable for Oregon personal income taxes to subtract from taxable income the fair market value of the art, not just the costs of materials.

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

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

EVALUATION: It is not clear whether this tax expenditure has achieved its purpose. The calculation of "fair market value" of a donated work of art may be highly subjective and difficult to substantiate because of a very limited number of comparable sales. This raises the likelihood of inflated values being placed on donated works of art for the purpose of obtaining larger income tax subtractions. The introduction of subjective values into tax subtractions presents difficulties for tax auditors.

On the other hand, encouraging the donation of artwork to charitable organizations is a reasonable policy, and some donations of artists' work to galleries may not be made

without this tax incentive. A solution to these opposing values may be a compromise such as a deduction that is calculated as a simple multiple of the cost of materials used in producing the art. This would compensate the artist for the cost of materials and at least a portion of the artist’s time and effort, but would circumvent the reliance on a subjective “market value” for one-of-a-kind items that do not have a well-established market value. A multiple cost-of-materials subtraction may have its own undesirable effects, such as encouraging the use of the most expensive materials available, even if not warranted by the art. *[Evaluated by the Economic and Community Development Department.]*

1.121 MUNICIPAL BOND INTEREST

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

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

DESCRIPTION: Interest or dividends from all federally taxable bonds issued by Oregon state and local governments may be subtracted from Oregon taxable income. The interest or dividends received from obligations of counties, cities, districts, ports, or other public or municipal corporations or political subdivisions of Oregon qualify.

One specific type of federally taxable bond issue that this provision applies to is nonqualified private activity bonds, which are bonds primarily issued by local governments and used to finance private developments. With nonqualified private activity bonds, a substantial portion of the bond benefits accrue to individuals or businesses rather than to the general public. Interest on these nonqualified private activity bonds is taxed at the federal level, but this provision allows that income to be subtracted from Oregon personal taxable income.

By way of contrast, interest earned on qualified private activity bonds is exempt at both the federal level and in Oregon because of our connection to federal code [Interest on Oregon State and Local Debt (1.050)].

PURPOSE: To encourage the purchase of federally taxable bonds by Oregon residents in order to promote projects that have some public benefits.

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

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

Nearly every state provides an interest income exemption for bonds of in-state municipal issuers. This allows municipal issuers to benefit from lower-than-market

interest rates. In addition, the subtraction encourages state residents to purchase bonds of in-state issuers, which helps to create a market for the bonds and provide liquidity.

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

1.122 SMALL CITY BUSINESS DEVELOPMENT

Oregon Statutes: 316.778 and 317.391

Sunset Date: None

Year Enacted: 2001, Modified in 2005 (HB 3350)

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

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

The Economic and Community Development Department must annually certify facilities claiming this exemption. To qualify, (1) a facility must be intended to operate for at least 10 years; (2) the business firm will hire at least five full-time year round employees at a wage at least 50 percent higher than the per capita income for the county or at the per capita wage for the county and provide health insurance (wage and benefit restrictions will not apply for tax years 2006-2010); (3) the operation at the facility must constitute a new business that the firm does not operate at another location in the state, and (4) the operations of the firm must not compete with an existing business in the city or county where the facility is located.

If a firm does not qualify in a particular year, it is disqualified from the program for that year and all subsequent years. The business may apply for the exemption for up to 10 consecutive years after the facility is put into service.

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

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

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

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

1.123 INDIVIDUAL DEVELOPMENT ACCOUNTS (EXCLUSION AND SUBTRACTION)

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

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

DESCRIPTION: Contributions, matching deposits (from fiduciary organizations), and account earnings of individual development accounts (IDAs) for low-income households are exempt from state income tax if funds are withdrawn for approved purposes. Contributions to the accounts by the account holder are subtracted from federal taxable income of the account holder as they are made, and the matching deposits and account earnings are exempt from taxation until withdrawn. If withdrawals from the account are for a qualified purpose, the entire withdrawal is exempt from taxation. Low-income households are defined as those having a net worth less than \$20,000 and income no greater than 80 percent of the area median household income as determined by the U.S. Dept. of Housing and Urban Development.

The Oregon Housing and Community Services Department (OHCS) administers the Oregon IDA initiative and selects fiduciary organizations to manage the IDAs. These fiduciary organizations may establish lower thresholds for income and net worth of account holders than prescribed by statute. Approved purposes for which withdrawals may be made include: acquiring post-secondary education, the first-time purchase of a primary residence, and capitalization of a small business. An account may not exceed \$20,000.

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

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

PURPOSE: To help lower income Oregonians obtain the assets needed to become economically self-reliant by instituting an asset-based antipoverty strategy that promotes improved personal financial management and savings and the accumulation of key assets.

WHO BENEFITS: Lower income households benefit from the existence of these accounts. In 2006, about 380 participants will be engaged in the strategy.

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

1.124 OUT-OF-STATE FINANCIAL INSTITUTION

Oregon Statute: 317.057

Sunset Date: None

Year Enacted: 1999

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

DESCRIPTION: This exclusion specifies that certain out-of-state financial institutions may engage in limited mortgage activities in Oregon without being subject to certain tax and corporation laws. These out-of-state financial institutions are required to designate the director of the Department of Consumer and Business Services (DCBS) as attorney for purposes of service of process.

The 1997 Legislative Assembly revised the Oregon Bank Act, but in doing so, had inadvertently left out a couple provisions of law, which resulted in a change in the definition of which activities are taxable by Oregon. These provisions were added back into law through 1999 SB 26. As before 1997, the acquiring of an Oregon mortgage loan will not subject the out-of-state or foreign lender to Oregon taxation. However, if the financial institution forecloses a loan and then sells or otherwise disposes of the property, the income associated with that property will be taxed to the same extent an Oregon corporation would be taxed. In addition, as was the case under the pre-1997 law, a foreign entity may acquire mortgage loans without authorization to transact business under ORS Chapter 60 (Corporations). They will still be required to appoint the DCBS director as agent for service of process and pay a \$200 annual licensing fee.

PURPOSE: To reinstate the tax status of out-of-state financial institutions to the pre-1997 conditions.

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WHO BENEFITS: Four out-of-state financial institutions were registered with DCBS as of July 2006.

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

1.125 GAINS FROM MANUFACTURED DWELLING PARK SALE

Oregon Statute: 316.153

Sunset Date: 12-31-07

Year Enacted: 2005 (HB 2389C)

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

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

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

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

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

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

1.126 SERVICE IN VIETNAM ON MISSING STATUS

Oregon Statute: 316.074

Sunset Date: None

Year Enacted: 1973

	Corporation	Personal	Total
2005–07 Revenue Impact:	Not Applicable	\$0	\$0
2007–09 Revenue Impact:	Not Applicable	\$0	\$0

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

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

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

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

1.127 UNDERGROUND STORAGE TANK GRANTS

Oregon Statutes: 316.834 and 317.383

Sunset Date: None (Eligibility for the grant program ended December 31, 1999.)

Year Enacted: 1991

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

DESCRIPTION: Underground storage tank essential services grants made by the Department of Environmental Quality are subtracted from federal taxable income. The original grant program sunset June 30, 1997, but the 1997 Legislature extended it to December 31, 1999, and made \$2.8 million more in lottery and general funds available for grants. The programs concluded with minor wrap-up work in the 1999–2001 biennium.

PURPOSE: To promote fuel availability in rural areas by partially funding the upgrade and cleanup of underground storage tanks by businesses with limited financial resources and in public ports and airports. To maintain and ensure the existence of a transportation infrastructure throughout the state.

WHO BENEFITS: Tank owners who received grants from the Department of Environmental Quality. A typical grant project was an owner-operated gas station with one or two employees, combined with a repair shop, grocery store, cafe, motel and/or post-office, or a small port serving the public and commercial fishermen.

Tank owners had to show financial need and be located in rural areas, so most of the benefits went to independent gas stations with marginal profitability. Ports must be those defined in ORS 777.005 or 836.005.

EVALUATION: This expenditure was very effective in achieving its purpose. The tax benefit received by the grantee preserved the benefit of the grant program by the amount of the tax savings. Grantees were required to pay at least 25 percent of the project costs and would have been less able to do so if the grant were counted as income subject to taxation. The program funded 133 gas station projects and 9 public port and airport projects. Without the program, most of the 142 facilities would have had to shut down in 1998 pursuant to state and federal law, according to their owners.

Approximately 88 percent of the \$9.2 million received has gone directly into projects, with the other 12 percent being spent by the department to administer the program. Of the 142 projects, all but one have resulted in an upgraded, operating fueling facility that complies with federal and state laws to ensure future fuel availability. *[Evaluated by the Department of Environmental Quality.]*

1.128 ENERGY CONSERVATION SUBSIDIES (OREGON)

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

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

DESCRIPTION: Income subsidies provided by utilities for the purchase or installation of an energy conservation device can be excluded from corporation and personal taxable income. Federal law exempts these payments for residential energy customers only [1.039 Energy Conservation Subsidies (Federal)]. Oregon legislation excluding these subsidies from taxation was enacted in 1981, so these payments would be exempt from Oregon’s income tax even in the absence of the federal exclusion. The estimate includes the federal exclusion, outlined in 1.039.

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

WHO BENEFITS: Homeowners and owners of rental housing who receive cash payments from utilities as part of energy conservation programs.

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

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

1.129 WET MARINE AND TRANSPORTATION POLICIES

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

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

DESCRIPTION: Ocean marine insurers are exempt from the corporation income tax and the retaliatory premium tax, but only with respect to the income derived from writing wet marine and transportation insurance. These insurers pay a tax based on underwriting profits for wet marine and transportation policies under ORS 731.824. Taxable premiums allocable to the wet marine and transportation policy component of ocean marine insurers are estimated as follows, by year:

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

The revenue impacts are estimated based on a percentage profit margin of such taxable premiums, which are expected to be stable in both biennia.

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

- PURPOSE:** To reduce the burden of taxes on ocean marine insurers, who instead pay a tax based on underwriting profits.
- WHO BENEFITS:** Insurers who sell ocean marine policies and their policyholders.
- IN LIEU:** Five percent tax is imposed on the average annual underwriting profit from writing wet marine insurance policies.
- EVALUATION:** Ocean marine insurers have been taxed only on their underwriting profit since at least 1928. Wet marine and transportation is subject to federal law and treaty, so it is necessary that there be some uniformity with other states and countries. Taxing ocean marine insurers based on underwriting profit rather than gross premium helps to achieve this purpose. This method of taxation ultimately benefits the smaller ports and interstate transportation carriers by reducing their cost of providing services.
- This form of expenditure is the most effective way to provide this benefit. Otherwise Oregon would have a unique and more burdensome tax structure when compared to the rest of the world.
- For calendar year 2005, ocean marine insurers paid about \$56,000 of in-lieu tax based on underwriting profits from writing wet marine and transportation insurance. *[Evaluated by the Department of Consumer and Business Services.]*

1.130 INCOME EARNED IN BORDER RIVER AREAS

Federal Law: USC 46, Sect. 11108 (P.L. 106-489), USC 4 sect. 111 (P.L. 105-261)

Oregon Statute: 316.127

Sunset Date: None

Year Enacted: 2001

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

- DESCRIPTION:** Nonresident taxpayers who either provide services at federally operated dams on the Columbia River or work on ships that operate on navigable waters of more than one state may exclude income from those activities from their Oregon-source income. Prior to 2001, Oregon law followed federal law, which only exempted the income earned by nonresident federal employees working on the Columbia River dams. The 2001 Oregon law change followed a federal law change in 2000, which exempted the income earned by nonresidents working on ships in state-border waters. The law also

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broadened the exemption to include all nonresident dam workers, not just the federal employees working at the dams.

PURPOSE: To simplify tax compliance.

WHO BENEFITS: Nonresident workers at federal dams on the Columbia River and nonresident pilots, captains, and crews of boats operated on navigable waters of more than one state.

EVALUATION: This expenditure follows federal law and also relieves the specified taxpayers of the difficulty of determining the portion of income earned in Oregon while working on dams or ships in state-border waters. *[Evaluated by the Department of Revenue.]*

1.131 OREGON STATE LOTTERY PRIZES

Oregon Statute: 461.560

Sunset Date: None

Year Enacted: 1985

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

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

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

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

WHO BENEFITS: Fewer than 1,000 taxpayers claim this subtraction. Oregon Lottery players who win prizes of \$600 or less are the most direct beneficiaries. However, since Lottery prizes up to and including \$600 can be redeemed at Lottery retailer locations, retailers also benefit by avoiding the labor and expense of collecting and reporting tax information from each player who redeems a prize. The state also benefits because taxation of prizes of \$600 or less would be a disincentive to play or sell these games, thereby reducing overall state revenues.

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

retailer to collect, tax reporting information for every prize won and paid would be immense. It stands to reason that many retailers would discontinue carrying Lottery products, and many consumers would no longer play games if the tax exemption on prizes of \$600 or less were eliminated, thereby significantly reducing sales and profits for the public purpose. *[Evaluated by the Oregon Lottery.]*

1.132 INCOME EARNED IN “INDIAN COUNTRY”

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

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

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

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

WHO BENEFITS: Tribal members who earn income in “Indian country”. In 2005, roughly 1,200 taxpayers claimed this subtraction.

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

1.133 FEDERAL PENSION INCOME

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

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

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

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

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PURPOSE: To comply with a court ruling.

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

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

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

1.134 FEDERAL INCOME TAX DEDUCTION

Oregon Statutes: 316.680 and 316.695

Sunset Date: None

Year Enacted: 1929

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

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

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

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

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

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

1.135 MILITARY ACTIVE DUTY PAY

Oregon Statutes: 316.680, 316.789, and 316.791

Sunset Date: None

Year Enacted: 1969, Modified in 2005 (HB 2933B)

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

DESCRIPTION: Typically, taxpayers may subtract all active duty pay from Oregon taxable income in the year of entry or discharge from military service. In other years, taxpayers may subtract up to \$3,000 of active duty pay.

In 1991, this expenditure was modified so that all active duty military pay earned outside Oregon from August 1, 1990, to the end of combatant activities in the Persian Gulf can be subtracted from taxable income. As of August 2006, the president has not declared an end to combatant activities in the Persian Gulf.

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

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

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

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

EVALUATION: This tax expenditure achieves its purpose and is a valuable benefit to members of the Oregon National Guard, both Army and Air, as well as other military personnel. Although the subtraction per tax return is not a great deal of money, it is one of few incentives the state of Oregon offers its citizen soldiers that is comparable to those offered in other states. When talking with prospective recruits or soldiers

contemplating re-enlistment, the subject of state incentives frequently arises. There is merit in offering benefits that are comparable to those of other states; examples of which include free tuition to state colleges and universities, re-enlistment bonuses, free automobile licenses, free driver's licenses, and free hunting and fishing licenses. These state benefits are an inexpensive way to recognize the contributions Guard members make to their communities. They help the state recruit and retain quality soldiers and airmen and should be maintained by the state of Oregon. *[Evaluated by the Military Department.]*

1.136 INTEREST AND DIVIDENDS ON U.S. OBLIGATIONS

Oregon Statute: 316.680

Sunset Date: None

Year Enacted: 1970

	Corporation	Personal	Total
2005–07 Revenue Impact:	Not Applicable	\$27,900,000	\$27,900,000
2007–09 Revenue Impact:	Not Applicable	\$34,300,000	\$34,300,000

DESCRIPTION: Interest and dividends earned on the direct obligations of the U.S. government are subtracted from federal personal taxable income in arriving at Oregon personal taxable income. For example, the dividends or interest earned on U.S. Treasury bills, notes, bonds, and savings bonds are not taxable by state and local governments. Excluded from this provision are the debt instruments of quasi-governmental issuers like the Government National Mortgage Association (GNMA) and the Federal National Mortgage Association (FNMA). Bonds issued by quasi-governmental issuers are not direct obligations of the U.S. government.

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

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

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

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

1.137 YOUTH APPRENTICESHIP SPONSORSHIP

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

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

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

PURPOSE: To provide occupational skill training for students.

WHO BENEFITS: This credit can no longer be used by any taxpayers because current law limited credits to only those employers with apprentice participation prior to November 4, 1993, and only for the first year of wages for those participants.

EVALUATION: This tax expenditure has not achieved its purpose because the program has never been well utilized. While it was moderately successful for some eligible students, the “registered youth apprenticeships” were never developed in significant numbers. Consequently, the number of students and employers who could participate in this program was severely limited. A significant obstacle to success was the inability to guarantee movement from youth apprenticeships to adult apprenticeships. This program was eliminated after the 1993–95 biennium. If it had been continued as a tax credit it may well have had a noticeable impact. *[Evaluated by the Department of Education.]*

1.138 CONTRIBUTIONS OF COMPUTER EQUIPMENT

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

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

DESCRIPTION: A credit against corporation income taxes is allowed for contributions of computers and scientific equipment or a research donation to an institution of higher education, a post-secondary school, or a public school (grades K-12) located in Oregon. For the contribution to qualify for the credit, it must be contributed prior to January 1, 2010. The amount of the credit is equal to 10 percent of the fair market value of the equipment donated. Donations of money under a contract for scientific or

engineering research or donations of a contract for maintenance of computer or scientific equipment also qualify for the credit.

This credit is in lieu of any deduction based on the contribution. If a contract is agreed upon before January 1, 2010, but the donation is given after that date, the credit is still allowed. The credit is not refundable but unused credit amounts due to insufficient tax liability may be used in later years, for up to five years.

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

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

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

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

1.139 EMPLOYER PROVIDED SCHOLARSHIPS

Oregon Statute: 315.237

Sunset Date: None

Year Enacted: 2001

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

DESCRIPTION: Qualifying employers may claim a credit against their income tax for 50 percent of the amount of scholarships funded for their employees or their employees' dependents, with a maximum credit of \$50,000 per tax year. If the credit exceeds the employer's tax liability, the excess may be carried forward up to five years. To qualify, employers must have between four and 250 employees and have their scholarship program and credit amount certified by the Oregon Student Assistance Commission. There is a \$1 million cap on the total amount of credits that can be certified by the commission per calendar year, and the total lifetime amount of credits an employer may claim is limited to \$1 million.

PURPOSE: To encourage businesses to fund a greater share of the education costs of their employees using a program they can tailor to their specific needs.

WHO BENEFITS: Employers benefit directly through reduced taxes. Students receiving scholarships benefit as well to the extent that additional scholarship money becomes available. As of August 2006, the Student Assistance Commission had approved fewer than five employer programs.

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

1.140 EARNED INCOME CREDIT

Oregon Statute: 315.266

Sunset Date: None

Year Enacted: 1997, Modified in 2005 (SB 31A)

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

DESCRIPTION: A personal income tax credit is allowed for families that are eligible for the federal earned income credit. The state credit is equal to five percent (six percent starting in 2008) of the federal earned income credit.

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

PURPOSE: To increase after-tax incomes of low-income working families and individuals, to offset the burden of Social Security taxes, and to provide an incentive to work for those with little or no earned income.

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

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

EVALUATION: This tax credit allows low-income families to retain needed income to meet needs that otherwise may go unmet or cause them to return to public assistance. Many of these at-risk families have income below the income level where they must pay taxes and so do not benefit from this credit. By providing this credit, families with income

exceeding the income level where taxation begins will retain more resources to better ensure their continued self-sufficiency.

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

1.141 QUALIFIED ADOPTION EXPENSE

Oregon Statute: 315.274

Sunset Date: 12-31-05

Year Enacted: 1999

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

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

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

WHO BENEFITS: Persons who incur adoption expenses (other than those from the public child welfare foster care system) benefit from this tax credit. This includes those who adopt children from other countries and those who adopt from private and independent sources, as well as those who adopt their stepchildren or relative children, other than those who are in the public foster care system. This credit does not benefit taxpayers with high income (phasing out at roughly \$160,000).

EVALUATION: This tax credit, created in 1999 by HB 3157, is contrary to the federal Adoption and Safe Families Act of 1997, codified in Oregon in SB 408 (1999). These pieces of legislation, along with Oregon SB 689 (1997) have as their primary goal the movement of children from temporary foster care in the public child welfare system to permanent (adoptive) homes. This tax credit does not serve as an incentive to those adopting children from CAF foster care. Moreover, it could effectively reduce the state funds that are available to support those services that assist in caring for children in foster care and moving them to permanency. Over the past five years, adoption petitions on behalf of approximately 2,200 children were filed each year in the state of Oregon. In state fiscal year 2000, of the 2,215 adoption petitions, 799 were filed on behalf of children from foster care. If the full Oregon tax credit (\$1,500) were claimed for each of the approximately 1,400 non-foster care children adopted in Oregon in each of the six years before the credit sunsets on December 31, 2005, there would be a revenue loss of \$2.1 million each year, for a total potential loss of \$12.6 million.

In addition to the potential fiscal impact, the provision of financial incentives in the form of a state tax credit to families and individuals to adopt children from foreign, independent, and private sources could effectively reduce the number of potential adoptive families who are available to adopt children from the public child welfare

foster care system. This works against the federal and Oregon adoption reform goals of increasing the number of children who move from temporary foster care to permanent adoptive homes and decreasing the length of time to achieve permanency.

Persons who adopt children from the public child welfare system are unlikely to benefit from this credit for two reasons. First, adoption application, training, home study, and placement of a child, if done directly through Oregon’s Children, Adults, and Families Services Cluster (CAF), are at no cost to the adopting parents. If the adopting parents choose to use the services of a private adoption agency to assist them in adopting a child from CAF, the costs are minimal and fully reimbursable to the adoptive family through Adoption Assistance at the time of finalization. Second, whether the adoption of a foster child is done directly through CAF or indirectly with the services of a private agency, all associated legal costs are covered by Adoption Assistance.

An additional concern has to do with the coordination of state and federal benefits. Although ORS 315.274 is clear that the Oregon tax credit for adoption cannot be claimed for the portion of adoption expenses reimbursed as federal income tax credit under IRC Sec. 23, there is a lack of clarity regarding which tax credit should be used first. This amount changed from \$6,000 to \$10,000 and became effective in 2003. Moreover, there is no efficient way to monitor tax credit claims for adoption expenses that have been reimbursed to the adoptive family through Adoption Assistance. Adoptions Assistance benefits are available under certain circumstances that are clearly prescribed in Oregon Administrative Rule to those adopting children from sources other than the public child welfare foster care system. If a person adopts a child from a public child welfare agency in the United States, the person does not have to show receipts in order to get the tax exemption. *[Evaluated by the Department of Human Services.]*

1.142 RURAL MEDICAL PRACTICE

Oregon Statute: 315.613, 315.616, and 315.619

Sunset Date: None

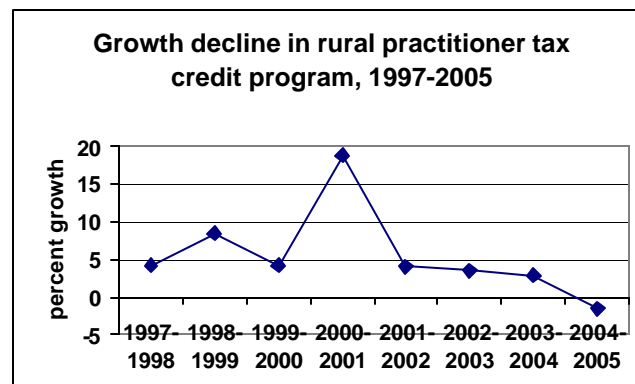
Year Enacted: 1989

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

DESCRIPTION:

An annual credit of up to \$5,000 against personal income taxes is allowed to certain rural medical providers including physicians, physician assistants, nurse practitioners, certified registered nurse anesthetists, podiatrists, dentists, and optometrists. The requirements for eligibility vary by type of provider. At least 60 percent of the provider’s practice, in terms of time, must be spent in a qualifying rural area to receive the credit. Rural means any area at least ten miles from a major population center of 30,000 or more. Currently, there are six such population centers: the Portland area, Salem, Eugene/Springfield, Medford, Bend, and Corvallis/Albany. In addition, physicians on staff of a hospital in a metropolitan statistical area (MSA) are not eligible, with the exception of Florence in Lane County and Dallas in Polk County.

- PURPOSE:** To encourage the establishment and continuation of medical practices in under-served rural areas.
- WHO BENEFITS:** For the 2005 tax year, 1136 physicians, 315 nurse practitioners, 114 physician assistants, 66 nurse anesthetists, 53 dentists, 19 optometrists, and 19 podiatrists qualified for the credit, for a total of 1,722 practitioners. In total, the participants of this program serve approximately 800,000 Oregonians. The ultimate beneficiaries of this program are rural Oregonians who might otherwise have no health care available to them.
- EVALUATION:** This tax credit appears to have originally achieved its purpose by attracting new practitioners to rural communities and retaining existing practitioners. A year-by-year analysis of the Office of Rural Health's tax credit data base shows an impressive net gain of 1,193 practitioners in rural areas eligible for the tax credit since 1990.
- The tax credit has been most successful in attracting new nurse practitioners to rural areas, and their figures have grown from 60 in 1990 to 315 for tax year 2005. In estimating the impact of this growth, however, one must take into account the increase in nurse practitioner training programs statewide during the same time period.
- Initially, Oregon experienced a remarkable gain in rural physicians, but that growth is slowing. Overall, growth in rural practitioners claiming the credit has begun to slow, as follows:



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

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

The health care workforce is a critical economic engine for rural communities, which are the ultimate beneficiaries of this program. A study conducted by Oklahoma State

University (Doeksen and Miller, *Journal of the Oklahoma State Medical Association*, September 1988, pp. 568-573) estimates that each rural physician returns \$343,706 worth of annual income to the local economy and creates 17.8 local jobs. For Oregon, the 224 additional physicians since 1990 translates into \$76,990,144 returned to local economies and almost 40,000 new jobs.

The program was devised to operate with a minimum of administrative burden and appears to be an efficient means of accomplishing its goal. A 1996 audit by the Secretary of State’s office concluded that the program is fulfilling the purpose for which it was created in an efficient and exemplary manner. Administrative costs are negligible and are covered by charging each applicant a \$25 processing fee.

Without intervention, a decline in rural practitioners similar to that experienced in the 1980s will inevitably repeat itself. In order to prevent a crisis in the availability of health care to rural Oregonians, the state should consider increasing the tax credit, e.g., indexing it to the medical consumer price index. *[Evaluated by the Office of Rural Health.]*

1.143 VOLUNTEER RURAL EMERGENCY MEDICAL TECHNICIANS

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

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

- DESCRIPTION:** An annual, nonrefundable credit of up to \$250 against personal income taxes is allowed to certain rural emergency medical technicians certified by the Office of Rural Health. At least 20 percent of the services provided by the emergency medical technician (EMT) must be in a qualifying rural area to receive the credit. Rural means any area at least 25 miles from a city with a population of 30,000 or more. There are about 15 cities in Oregon with a population that exceeds 30,000.
- PURPOSE:** To encourage provision of emergency medical technical services in rural areas.
- WHO BENEFITS:** Certified emergency medical technicians that volunteer at least 20 percent of their services in rural areas. Residents of rural areas who receive better access to emergency medical care.
- EVALUATION:** The Oregon Department of Revenue determined that this program would become effective 1/1/06. Therefore, no credits have been processed to date. Applications for this credit will be mailed to Oregon EMTs in December 2006. *[Evaluated by the Office of Rural Health.]*

1.144 COSTS IN LIEU OF NURSING HOME CARE

Oregon Statutes: 316.147 to 316.149

Sunset Date: None

Year Enacted: 1979

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

DESCRIPTION: A tax credit is allowed against personal income taxes for expenses incurred for the care of an individual who otherwise would be placed in a nursing home. The amount of the credit is \$250 or 8 percent of expenses paid, whichever is less. Taxpayers claiming the credit cannot have household income in excess of \$17,500. The person receiving the assistance must: 1) have household income of \$7,500 or less, 2) be eligible for home care services under Oregon Project Independence, 3) be certified by the Department of Human Services, 4) receive no assistance from Oregon Medical Assistance, and 5) be at least 60 years of age.

PURPOSE: To provide additional tax relief for low-income taxpayers who incur expenses caring for individuals who would otherwise be placed in a nursing home.

WHO BENEFITS: Taxpayers who care for elderly citizens in their homes. Fewer than 20 taxpayers used this credit in 2005.

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

1.145 LONG-TERM CARE INSURANCE

Oregon Statute: 315.610

Sunset Date: None

Year Enacted: 1999

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

DESCRIPTION: A credit based upon premiums paid for long-term care insurance as defined in ORS 743.652 is allowed against personal and corporate income tax. The credit is available for taxpayers purchasing long-term care insurance premiums for coverage of the taxpayer, dependents, and/or parents of the taxpayer. The credit is available to employers who provide long-term care insurance on behalf of their Oregon employees. For nonbusiness filers, the maximum income tax credit is 15 percent of the total amount of long-term care insurance premiums paid by the taxpayer, not to exceed \$500. For business filers, the maximum income tax credit is 15 percent of the total amount of long-term care insurance premiums provided by the taxpayer, not to exceed \$500 per employee or the tax liability of the taxpayer. If the amount paid for these premiums is taken as a deduction on the federal return, then it must be added to income on the Oregon return to take the credit.

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

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

EVALUATION: Because this is a new credit and applies to new policies issued after January 1, 2000, it is too early to tell if this expenditure achieves its purpose. *[Evaluated by the Department of Human Services.]*

1.146 DISABLED CHILD

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

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

DESCRIPTION: An additional personal exemption credit is allowed for each dependent child who is disabled. (Every nondependent taxpayer in Oregon is allowed one personal exemption credit for himself or herself, one for a spouse, and one for each dependent; this credit is in addition to those.) “Disabled child” is defined as your dependent child who is eligible for early intervention services, or who is diagnosed for special education purposes as being autistic, mentally retarded, multi-disabled, visually impaired, hearing impaired, deaf-blind, orthopedically impaired, other health impaired, or as having serious emotional disturbance or traumatic brain injury. The State Board of Education is responsible for adopting rules further defining “disabled child.”

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

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

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

EVALUATION: This tax expenditure achieves its purpose and is of greatest assistance to those people who are at the margin of needing state assistance. It allows for greater disposable income to meet the more costly needs of children with disabilities. This tax expenditure is well-targeted and provides the recipients with valuable financial assistance that alleviates or prevents the reliance on direct state services. As a result, this tax credit saves the state more than it costs. One concern is that the size of this credit, which is for all Oregon residents, is connected to consumer prices in Portland. Access to health care, which can be particularly difficult in rural areas, can represent significant costs. Basing changes on prices in Portland may therefore understate the price changes in other parts of the state. *[Evaluated by the Department of Human Services.]*

1.147 ELDERLY OR PERMANENTLY DISABLED

Oregon Statute: 316.087

Sunset Date: None

Year Enacted: 1969

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

DESCRIPTION: Taxpayers are allowed a credit against personal income taxes of up to 40 percent of the federal elderly or disabled credit. Taxpayers claiming the Retirement Income credit (1.194), however, are ineligible to claim this Oregon credit.

The federal credit is available to individuals who are 65 or older, or who have retired on disability and are permanently and totally disabled. The federal credit equals 15 percent of: \$5,000 in the case of a single individual or on a joint return where only one spouse is qualified, \$7,500 on joint returns where both spouses are qualified, or \$3,750 for married persons filing separately. For taxpayers under 65, the base cannot exceed the taxpayer's disability income. For all taxpayers, the base amount is reduced by one-half of the excess of income over \$7,500 for single filers, \$10,000 for joint filers, or \$5,000 for separate filers. The base amount is also reduced by any federally nontaxed Social Security benefits or veterans' benefits.

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

WHO BENEFITS: The number of Oregon taxpayers claiming this credit in 1990 was about 2,700 with an average credit of \$75. In 2004, the number of claimants was approximately 322, and the average credit was \$53.

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

EVALUATION: This tax expenditure achieves its purpose and, coupled with other tax benefits, allows for greater disposable income to meet the often more costly needs of the eligible individuals. This credit provides the targeted individuals with the additional financial capacity that may allow them to maintain their independence and not rely on direct state services. On the other hand, there is a concern that either the credit is too restrictive or that the complexity of determining eligibility is preventing some individuals from claiming the credit. *[Evaluated by the Department of Human Services.]*

1.148 LOSS OF LIMBS

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

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

DESCRIPTION: A personal income tax credit of \$50 is allowed for taxpayers with permanent and complete loss of function of at least two limbs. If both taxpayers on a joint return meet the criteria, the credit is \$100. All taxpayers eligible for this credit are also eligible for the Severe Disability credit (1.149).

PURPOSE: To provide additional tax relief to taxpayers disabled by the loss of the use of two limbs.

WHO BENEFITS: Taxpayers who have suffered the loss of the use of at least two limbs. In 2005, fewer than 500 taxpayers claimed this credit.

EVALUATION: This tax expenditure achieves its purpose. As with similar tax breaks, this credit is well targeted and helps meet the often more costly needs of the eligible individuals. It provides additional financial assistance that carries with it the potential for individuals to maintain their self-reliance and not turn to state-funded direct service programs. While a tax credit is clearly beneficial, there is a concern that those who qualify for this credit may not earn sufficient income to fully utilize it. *[Evaluated by the Department of Human Services.]*

1.149 SEVERE DISABILITY

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

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

DESCRIPTION: Every nondependent taxpayer in Oregon is allowed one personal exemption credit for himself or herself, one for a spouse, and one for each dependent. An additional personal exemption credit is allowed for taxpayers with severe disabilities. Two additional personal exemptions may be claimed on a joint return if both spouses qualify. The amount of the personal exemption credit (and hence the severe disability credit) is indexed each year to account for inflation. The credit is \$159 in 2006.

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

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

WHO BENEFITS: The number of taxpayers claiming this credit increased from approximately 7,800 in 1990 to just over 22,800 in 2004.

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

EVALUATION: This tax expenditure appears to achieve its purpose. It increases disposable income for eligible individuals. While a tax credit is clearly beneficial, there is a concern that those who qualify for this credit may not earn sufficient income to fully utilize it. Creating an income cap may provide an equitable way for the benefits to be enhanced for very low-income people. [Evaluated by the Department of Human Services.]

1.150 FILM PRODUCTION DEVELOPMENT CONTRIBUTIONS

Oregon Statute: 315.514

Sunset Date: None

Year Enacted: 2003 (HB 2747)

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

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

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

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

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

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

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

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

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

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

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

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

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

1.151 QUALIFIED RESEARCH ACTIVITIES

Oregon Statute: 317.152

Sunset Date: 12-31-12

Year Enacted: 1989, Modified in 2005 (SB 31A)

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

DESCRIPTION: If qualified research activities in Oregon exceed a base amount, then Oregon corporations may take a credit equal to 5 percent of the amount over the base amount. The base amount and the determination of the excess parallel the calculations in a

similar federal research credit (IRC §41) except that only qualified research expenses and basic research payments in Oregon are considered.

The base amount is calculated so that the credit rewards increases in qualified research activities. The base amount is either: a) the percentage that qualified research activities were of gross receipts in the 1984-88 period or b) for companies that did not conduct research for at least three years in 1984-88, the base amount equals three percent of the average of gross receipts over the last four years. Qualified research activities include “research expenses” either in-house or by contract and “basic research payments” to colleges, universities, and certain other nonprofit organizations. The amounts have to be paid or incurred by the sunset date.

The credit is limited to \$2,000,000 per taxpayer and is nonrefundable. Credits that cannot be used because of insufficient tax liability in the current year can be used in later years, for up to five years.

Taxpayers have the option of claiming this credit or the credit described in Qualified Research Activities (Alternative) (1.152). The revenue impact reported here includes any credits received under both tax expenditures.

PURPOSE:

To promote and increase research activities in Oregon

WHO BENEFITS:

Companies taking the credit benefit. For tax year 2004, about 74 taxpayers benefited from these credits. These taxpayers reduced their tax liability by \$37,400 on average. There were additional taxpayers claiming this credit who were unable to use it due to insufficient tax liability.

EVALUATION:

This expenditure appears to achieve its purpose. The estimated revenue impacts above equate to about \$65 million per year of increased research activity in Oregon over the four-year period. Some of this spending in Oregon is likely attributable to this provision's existence. Moreover, this type of tax credit is common and often more generous in other states than tax corporate income.

The benefits of this incentive can be identified as follows:

- The credit may convince companies to relocate to Oregon.
- The credit encourages existing companies to put more effort into research and development (R&D). Product introduction cycles for products, such as personal computers, high-definition screens and telecommunication products are ever increasingly short. They demand R&D commitments.
- The credit encourages small companies to explore new niche technology opportunities and enhances their ability to attract joint R&D capital.
- The credit encourages companies to utilize existing state research institutes to assist with R&D activities.

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

This expenditure is more efficient than a direct spending program because it allows individual companies to determine if R&D activities are efficient under the current tax structure. The expenditure does favor one group of industries in Oregon over another—*i.e.*, sectors substantially and formally oriented to R&D efforts—but these

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

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

1.152 QUALIFIED RESEARCH ACTIVITIES (ALTERNATIVE)

Oregon Statute: 317.154

Sunset Date: 12-31-12

Year Enacted: 1989, Modified in 2003 (HB 3183)

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

DESCRIPTION: A credit against corporation income taxes is allowed for qualified research expenses in Oregon that exceed 10 percent of Oregon sales. The credit is limited to 5 percent of the excess amount. The expenses that qualify for the credit are the same as those that qualify under Qualified Research Activities (1.151), except that basic research payments are not included.

The credit is limited to the lesser of: a) \$2,000,000 or b) \$10,000 multiplied by the number of percentage points that the qualified research expenses exceed 10 percent of Oregon sales. The credit is nonrefundable. Credits that cannot be used because of insufficient tax liability in the current year can be used in later years, for up to five years.

Taxpayers have the option of claiming this credit or the credit described in Qualified Research Activities (1.151). Some companies may not qualify for the standard credit because they do not have the necessary increase in research activities. This alternative still allows them to qualify for the credit if they conduct a large proportion of their research activities in Oregon relative to the proportion of their sales in Oregon.

PURPOSE: To promote research activities in Oregon.

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

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

1.153 LONG-TERM NONURBAN ENTERPRISE ZONE (INCOME TAX)

Oregon Statute: 317.124

Sunset Date: 6-30-09

Year Enacted: 1997, Modified in 2005 (HB 2234)

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

DESCRIPTION: Corporations that make certain large investments in a nonurban enterprise zone are eligible for a credit on the corporate income tax, if approved by the governor. The investment must be locally approved for the related tax expenditure for property tax—see Long-Term Nonurban Enterprise Zone (Property Tax) (2.011). To be eligible for the property tax exemption, the investment must be located in a county with chronic unemployment or low income. Depending on the location in the state, the investment also must exceed a certain minimum amount ranging from \$1 million to \$25 million; the firm must hire at least 10, 35, 50, or 75 full-time employees within three to five years; and the average annual worker compensation must be at least 50 percent above the county average wage.

The corporate income tax credit is equal to 62.5 percent of the taxpayer’s payroll and employee benefit costs at the facility. The credit applies only against liabilities above a minimum amount of \$1 million or less depending on the facility’s location and workforce size. The credit may be used only to offset the tax liability relating to the facility and cannot lower the taxable income of the company below the minimum amount determined by ORS 317.124, subsection 7. The credits may be received over a period of five to 15 years, as determined by the governor, beginning by the third year after the facility is placed in service. Each credit can be carried forward up to five years.

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

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

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

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

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

Changes by SB 245 (1999) made these long-term rural tax incentives conceivable as something that might be used to induce much-needed private investment throughout rural Oregon. Before these changes, the likelihood of them having an effect was small in those locations and elsewhere.

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

1.154 RESERVATION ENTERPRISE ZONE (INCOME TAX)

Oregon Statute: 285C.309

Sunset Date: None

Year Enacted: 2001, Modified in 2005 (HB 3143)

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

DESCRIPTION: Qualified taxpayers doing business in a reservation enterprise zone may claim an income tax credit for the amount of tribal tax paid. The credit must be used in the same year that taxes are paid and may not be carried forward to another year.

A reservation enterprise zone may be designated on trust land of an Indian tribe that meets certain conditions:

- the Indian tribe is a federally recognized tribe,
- the reservation of the tribe is entirely within Oregon,
- the land is inside the boundaries of the reservation,
- at least 50 percent of the households within the reservation must have incomes below 80 percent of the median income for Oregon, and
- the unemployment rate on the reservation must be at least two percentage points greater than the unemployment rate for the state of Oregon.

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

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

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

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

1.155 ELECTRONIC COMMERCE ENTERPRISE ZONE (INCOME TAX)

Oregon Statute: 315.507

Sunset Date: None (Enterprise zone law sunsets 6-30-09.)

Year Enacted: 2001

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

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

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

The credit is equal to 25 percent of the investments made by the firm during the tax year in electronic commerce operations within the designated area. The maximum credit is \$2 million. The credit is not refundable. A firm may carry the credit forward for up to five years.

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

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

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

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

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

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

1.156 WATER TRANSIT VESSEL MANUFACTURING

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

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

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

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

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

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

1.157 PUBLIC UNIVERSITY VENTURE DEVELOPMENT FUND

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

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

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

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

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

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

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

1.158 CHILD AND DEPENDENT CARE

Oregon Statute: 316.078

Sunset Date: None

Year Enacted: 1975

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

DESCRIPTION: A personal income tax credit for employment-related dependent care expenses is allowed to taxpayers who qualify for the federal child and dependent care credit. The Oregon credit amount is a percentage of eligible expenses. The percentage amount declines from 30 percent for taxpayers with income less than \$5,000 to zero percent for taxpayers with income above \$45,000. The credit is nonrefundable, but unused credit amounts due to insufficient tax liability may be carried forward for up to five years.

Eligible employment-related expenses are those necessary for the taxpayer to be gainfully employed and include expenses for household services and for the care of dependents. Qualifying individuals are children under 13, other dependents who are physically or mentally incapable of caring for themselves, or the taxpayer's spouse if incapable of caring for himself or herself. The eligible expenses are limited in a given year to \$2,400 when there is only one qualifying individual in the household and to \$4,800 when there are two or more qualifying individuals. In both cases this limit is reduced by any nontaxable payments received from an employer under a dependent care assistance program. Eligible expenses are limited to the individual's earned income (for unmarried individuals) or to the lower of either spouse's earned income (for married individuals). An income is imputed for taxpayers who are students.

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

WHO BENEFITS: Taxpayers with employment-related dependent care expenses who have an income of less than \$45,000 and sufficient tax liability to be able to claim the credit. The number of Oregon resident taxpayers claiming this credit increased slightly from about 46,800 in 2002 to 47,600 in 2004. The average credit was \$187 in 2004.

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

EVALUATION: This tax expenditure achieves its purpose and meets a need when other forms of nontaxable care are not available through the employer. It contributes to the taxpayer’s ability to remain gainfully employed and, to an extent, competitive with other members of the workforce. *[Evaluated by the Employment Department.]*

1.159 WORKING FAMILY CHILD CARE

Oregon Statute: 315.262

Sunset Date: None

Year Enacted: 1997, Modified in 2005 (HB 2451, SB 31A)

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

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

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

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

WHO BENEFITS: Low-income working taxpayers with employment-related dependent care expenses whose income is less than 250 percent of the federal poverty level. In 2004, 26,624 taxpayers claimed an average credit of \$805.

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

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

EVALUATION: This tax credit is effective because it assists low-income families with their child care expenses, which provides encouragement to stay in the workforce. *[Evaluated by the Employment Department.]*

1.160 DEPENDENT CARE ASSISTANCE

Oregon Statute: 315.204

Sunset Date: 12-31-16

Year Enacted: 1987, Modified in 2005 (HB 2951)

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

DESCRIPTION: Employers providing dependent care assistance or dependent care information and referral services to their employees are allowed a credit to either personal or corporation income tax. The credit equals 50 percent of the total costs the employer paid for dependent care (but no more than \$2,500 per employee) and 50 percent of the cost of providing information and referral services. The employer may not take the credit if the provision of dependent care services is part of the salary reduction plan. Credits unclaimed due to insufficient tax liability may be used in later years, for up to five years. Note that the revenue impact figures include the impact of the dependent care facilities credit listed in Dependent Care Facilities (1.161).

Employers must submit an application for certification to the Child Care Division of the Employment Department each year they wish to receive this credit.

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

WHO BENEFITS: Employers who provide child care facilities for their employees receive both the financial benefit of the tax credit and the additional benefit of more productive employees. In 2004, 17 corporations claimed either the Dependent Care Assistance (1.160) or the Dependent Care Facilities (1.161) credit. The average credit claimed was \$124,000. Twelve corporations reduced their tax liability using this credit by an average of about \$19,600. Fewer than 50 individuals claimed this credit in 2005.

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EVALUATION: This tax credit is effective because it encourages employers to help their employees address the difficulties of balancing work with their needs for dependent care.
[Evaluated by the Employment Department.]

1.161 DEPENDENT CARE FACILITIES

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

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

DESCRIPTION: Employers providing dependent care facilities for their employees are allowed a credit to either personal or corporation income tax. The credit equals the least of: 1) 50 percent of the cost of the acquisition, construction, reconstruction, renovation, or other improvement; 2) an amount equal to \$2,500 multiplied by the number of full-time equivalent employees; or 3) \$100,000. The facility must be certified by the Child Care Division of the Employment Department.

One-tenth of the credit is claimed in each of ten consecutive years beginning with the year the facility is completed. The credit is discontinued before the ten-year period is completed if facility use is discontinued. Credits that are not used due to insufficient tax liability may be carried forward for up to five years.

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

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

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

1.162 FIRST BREAK PROGRAM

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

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

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

PURPOSE: To encourage the provision of employment opportunities for qualified youths as defined by rule.

WHO BENEFITS: Employers who provide employment to qualified youths and the youths who face barriers to entering the job market. Very few taxpayers used this credit in 2005.

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

1.163 CHILD CARE DIVISION CONTRIBUTIONS

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

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

DESCRIPTION: A credit against corporation or personal income taxes is allowed for certified contributions made to the Child Care Division (CCD) of the Oregon Employment Department. The CCD is responsible for establishing a program that issues tax credit certificates to taxpayers who wish to utilize this credit. The total value of tax credit certificates may not exceed \$500,000 per calendar year. Any credits that are not used due to insufficient tax liability may be used in later years, for up to four years.

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

The CCD and selected community agencies distribute the money according to rules established by the advisory committee. A selected community agency is a nonprofit agency that provides services related to child care, children and families, community development, or similar services and is eligible to receive contributions that may qualify as deduction under Section 170 of the Internal Revenue Code.

PURPOSE: To provide a funding pool for child care that will: 1) reduce costs to parents, 2) increase revenue for center- and home-based child care businesses, and 3) improve the quality of care for the children of low- and moderate-income families throughout Oregon.

WHO BENEFITS: Fewer than 100 personal income taxpayers and some corporations benefit.

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

1.164 FARM WORKER HOUSING CONSTRUCTION

Oregon Statute: 315.164

Sunset Date: None

Year Enacted: 1989

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

- DESCRIPTION:** A credit against corporation or personal income taxes is allowed for construction, rehabilitation, or acquisition of farm worker housing in Oregon. The credit is 50 percent of the eligible construction costs for housing projects. A maximum of \$7.25 million in eligible costs can be approved for credit eligibility in a single calendar year.
- The housing must meet certain qualifications for the taxpayer to be eligible for the credit. Rehabilitation projects must restore housing to a condition that meets building code requirements. If the taxpayer is the operator of the farm worker housing, the housing must be inspected by the Department of Consumer and Business Services prior to occupancy. Housing on farms must also be registered, if required, as a camp with the Bureau of Labor and Industries and must be operated by someone who is endorsed as a farm worker camp operator. The credit is forfeited if the taxpayer is the owner, and the housing fails to continue to meet health and safety standards during its occupation.
- For tax years beginning in 2005, a taxpayer eligible to claim the credit may transfer the entire amount of the credit to another taxpayer that contributed to the project. For prior tax years, eighty percent of the credit is transferable.
- The maximum amount of credit claimed by a taxpayer for any one tax year cannot exceed 20 percent of the total allowable credit. Credits exceeding the taxpayer's tax liability may be applied against future taxes in up to nine later tax years.
- To claim the credit, taxpayers are required to obtain a letter of credit approval from the Housing and Community Services Department.
- PURPOSE:** To promote construction and rehabilitation of safe and healthful housing for farm workers.
- WHO BENEFITS:** Fewer than ten corporations and 50 individuals benefit from this credit each year. Since 1992 the credit has been used to provide safe, affordable housing for more than 3,000 farm workers and family members, who are the indirect beneficiaries of the credit.
- EVALUATION:** This expenditure achieves its purpose. It has been only in recent years that progress has been made in developing adequate housing for Oregon's farm worker population. This progress is due in large part to the availability of the farm worker tax credits. If the tax expenditure were eliminated, financing of community based farm worker housing would be impeded and a primary incentive to improve or construct onsite housing would be eliminated. Major supporters of better farm worker housing include migrant health clinics, who see the effects of unsanitary conditions.
- There is a direct tie between the provision of farm worker housing and the health of Oregon's agricultural industry. This industry must compete on a regional, national and international basis for its labor force. It can be argued that to remain competitive

in this market, Oregon must continue its efforts to improve the supply of decent and affordable housing for its farm labor force. Because agriculture is a major Oregon industry, with gross sales totaling \$4.3 billion annually, and because crops dependent on the labor of farm workers account for over one-third of this amount, the impact on Oregon's economy is significant. There are an estimated 150,000 farm workers and family members in Oregon, either migrant or year-round workers. Adequate on-farm housing is sufficient to house less than 10 percent of the farm workers and families in the state. Most of the remaining 90 percent of the population live in rural communities throughout the state, with two-thirds of their housing being unsafe, unsanitary, and overcrowded. (Oregon Farm Labor Housing Survey, Oregon Housing Agency, 1991). In a survey of its farm worker patients, Salud Medical Clinic in Woodburn found that ten percent have no housing at all, living in orchards, cars or along river banks.

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

1.165 FARM WORKER HOUSING LENDER'S CREDIT

Oregon Statute: 317.147

Sunset Date: None

Year Enacted: 1989

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

DESCRIPTION: A credit against corporation income taxes is allowed for lending institutions financing construction or rehabilitation of farm worker housing projects. The credit equals 50 percent of the interest received on loans to finance the direct costs associated with constructing or rehabilitating farm worker housing. The lender must receive certification from the borrower that upon completion the project will comply with all health and safety standards. The housing must be located in Oregon and the interest rate on the loan cannot be above 13½ percent. The credit may be claimed over the term of the loan or for 10 years, whichever is less.

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

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

WHO BENEFITS: To the extent that the credit program results in loans made at less-than-market interest rates, the borrower captures some of the benefit. The amount of credits

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

EVALUATION:

This expenditure achieves its purpose. Lenders historically did not make loans for farm worker housing. The credit has provided an incentive to get lenders to make these loans, at the same time furthering a partnership between these taxpayers and the agricultural industry. The tax credit is typically passed along to the borrower in the form of a lower interest rate, thereby making possible a project that would otherwise not be cost-effective.

Prior to the passage of the credits, even if lenders were willing to make such loans, conventional interest rates were generally too high to make such housing cost-effective. If the tax expenditure were eliminated, there would likely be a reduction in farm worker housing units built each year.

While more lenders are making loans for farm worker housing, these have been primarily larger lenders who can invest the time and money to investigate this relatively new program. Smaller lenders are potential recipients who may need to be educated about the benefits of the credit.

There are several direct spending programs, both at the state and the national level, that are used to develop affordable housing. This tax credit integrates well with these programs, since none of these direct spending programs alone provides enough spending programs to be leveraged with a conventional loan subsidized by the lender's tax credit.

While portions of the tax credit statute could be clarified (i.e., what constitutes "farm work"? Are occupations like "aquaculture" included?), the credit is now being efficiently used. Farm worker advocates suggest that the credit should be increased to its previous level of 50 percent of interest earned.

However, it is not clear whether lenders are willing to reduce interest rates for the credit, how much this program is being used, and whether such housing would not be built anyway using LIHTC and HOME funds or Rural Development Funds.
[Evaluated by the Housing and Community Services Department.]

1.166 INVOLUNTARY MANUFACTURED DWELLING MOVES

Oregon Statute: 316.153

Sunset Date: 12-31-07

Year Enacted: 1991, Modified in 2005 (HB 2389C)

	Corporation	Personal	Total
2005–07 Revenue Impact:	Not Applicable	\$300,000	\$300,000
2007–09 Revenue Impact:	Not Applicable	\$400,000	\$400,000

DESCRIPTION:

A credit against personal income tax is allowed for certain owners of mobile homes who are forced to move due to the closure of their mobile home park. To qualify for the credit, the taxpayer must move the home between January 1, 2006 and December 31, 2007.

The credit is available to taxpayers with household income of \$60,000 or less in the year of the move, and the mobile home must have a fair market value of \$110,000 or less. A taxpayer can claim this credit for only one involuntary move. The credit equals the lesser of \$10,000 or the actual relocation costs net of any reimbursement paid by the landlord.

For taxpayers with income above 200 percent of the federal poverty level, the credit is taken in three equal amounts for the three consecutive tax years beginning with the year of the move. Any nonrefundable portion of this credit that cannot be claimed because of insufficient tax liability may be carried forward up to five years. For taxpayers with income up to 200 percent of the federal poverty level, the credit is refundable and is taken for the year of the move.

The original credit provided for under this statute had sunset as of December 31, 2001. HB 2389 (2005) essentially created a new credit. It increased the amount of the credit and loosened eligibility requirements.

PURPOSE: To provide tax relief to mobile home residents who are forced to relocate because of the closure of their mobile home park.

WHO BENEFITS: Manufactured dwelling owners with household income of \$60,000 or less who must move their mobile homes as a result of the mobile home park closure or partial closure. Between 2001 and 2005, about 50 mobile home parks in Oregon were closed.

EVALUATION: The intent of this tax credit is to reduce the tax burden on qualified mobile home owners who will incur significant expense to relocate due to the closure of their park. Other taxpayers who relocate in conjunction with a new job or business can deduct qualified moving expenses [Moving Expenses (1.068)]. Although the circumstances are different for mobile home owners who are forced to move, this credit provides a similar tax break. It is not possible to assess the impact of 316.153 because the first credits will not be claimed until home owners file their 2006 tax returns. *[Evaluated by the Housing and Community Services Department.]*

1.167 OREGON AFFORDABLE HOUSING CREDIT

Oregon Statute: 317.097

Sunset Date: 12-31-19

Year Enacted: 1989, Modified in 2005 (SB 996B)

	Corporation	Personal	Total
2005–07 Revenue Impact:	\$5,800,000	Not Applicable	\$5,800,000
2007–09 Revenue Impact:	\$9,000,000	Not Applicable	\$9,000,000

DESCRIPTION: This provision allows a credit against corporation income taxes for lending institutions that make loans at below-market interest rates for the construction, development, or rehabilitation of low-income housing. The amount of the credit is the difference between the finance charge on the loan and the finance charge at the time the loan was made that would have been charged had a similar loan been made at market interest rates. The credit cannot exceed 4 percent of the unpaid balance of the loan during the tax year for which the credit is claimed. Any credit that cannot be

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used because of insufficient tax liability in the current year can be used in later years, for up to five years.

To qualify for the credit, loans must be made before January 1, 2020. Loans may be certified to receive credits for up to 20 years. The cap on credits granted for new and existing loans went from \$5 million to \$11 million per tax year beginning January 1, 2005.

- PURPOSE:** To promote the construction and rehabilitation of low-income housing units with affordable rent.
- WHO BENEFITS:** In 2004, 28 corporation income taxpayers benefited from this credit. These taxpayers had reduced tax liability of \$3.2 million, or \$114,500 on average. The program requires all interest savings to be directly credited as rent reductions. To the extent that the low interest rate reduces the rent paid by low-income households, the households also benefit. In 2003, the average rental saving benefit was \$50 per month for 6,600 units.
- EVALUATION:** This expenditure achieves its purpose. Without the credit program, rents in Oregon Affordable Housing Tax Credit projects would be 15–25 percent higher, which would decrease the number of units available for low- and very low-income persons. Without this incentive, these low-income housing projects would not be financially feasible.
- The credit is used with many other direct spending programs such as grants. The credit is applied to the permanent financing after all direct spending programs have been incorporated into the overall project financing. By using the credit in this manner, the maximum benefit is passed on to the tenants for a “bottom line” benefit. A direct spending program would likely be more costly. *[Evaluated by the Housing and Community Services Department.]*

1.168 INDIVIDUAL DEVELOPMENT ACCOUNT CONTRIBUTION (CREDIT)

Oregon Statute: 315.271
Sunset Date: None
Year Enacted: 1999

	Corporation	Personal	Total
2005–07 Revenue Impact:	Less than \$50,000	\$1,600,000	\$1,600,000
2007–09 Revenue Impact:	Less than \$50,000	\$1,800,000	\$1,800,000

DESCRIPTION: Individuals or businesses donating to the state selected nonprofit (currently the Neighborhood Partnership Fund) for individual development accounts (IDAs) are allowed an income tax credit equal to the lesser of \$75,000 or 75 percent of the amount donated. Contributions are applied toward matching IDA account holder savings and also toward program-related expenses of the fiduciary organization. Should the total credit exceed the tax liability of the taxpayer, the excess credit may be applied against taxes in the following three tax years. The Housing and Community Services Department currently maintains a limit on the total of all contributions made each year.

There are two other tax expenditures closely related to this program. The Individual Development Accounts (Exclusion and Subtraction) (1.123) provides that contributions to and earnings from IDAs are not taxed by Oregon if used for approved purposes. The Individual Development Account Withdrawal (Credit) (1.169) provides a credit for IDA withdrawals that are used to fund closing costs associated with the purchase of a primary residence.

- PURPOSE:** Fund an asset-based antipoverty strategy for low-income Oregonians that promotes personal financial management, investment, and savings for key assets. These assets include first-home purchase, starting a business, and obtaining further post-secondary education.
- WHO BENEFITS:** Individuals or businesses making contributions to the Neighborhood Partnership Fund to support IDAs directly benefit from this credit. The tax credit provides an incentive to the contributing businesses or individual to continue providing matching funds for the program. Using a combination of state, private and federal funds, more than 500 Oregonians have participated during the first three pilot years of the Oregon IDA initiative. The account holders of these IDAs indirectly benefit from the credit by being able to make use of the matching funds upon fulfillment of all program requirements and purchase of their planned asset.
- EVALUATION:** Only \$15,000 in 25 percent credits were granted during 2001. In 2002, 2003, and 2004, the amount of 75 percent credits successfully marketed was about \$500,000 per year. In 2005, about \$1 million in credits were granted. These contributions will engage an estimated 380 households during the 2006 program year. Upon successful completion of all program requirements over the next 1-5 years, the participants will have funds to match their savings to purchase their first home, obtain needed post-secondary education, or start a small business. *[Evaluated by Housing and Community Services Department.]*

1.169 INDIVIDUAL DEVELOPMENT ACCOUNT WITHDRAWAL (CREDIT)

Oregon Statute: 315.272

Sunset Date: None

Year Enacted: 2005 (HB 3358)

	Corporation	Personal	Total
2005–07 Revenue Impact:	Not Applicable	Less than \$50,000	Less than \$50,000
2007–09 Revenue Impact:	Not Applicable	\$100,000	\$100,000

DESCRIPTION: An Oregon income tax credit is available for withdrawals from individual development accounts (IDAs) that are used to fund closing costs associated with the purchase of a primary residence. The amount of the credit is the lower of: the amount of money withdrawn from the IDA for the purchase of a first home; the amount of the usual and reasonable closing costs of the first home; or \$2,000. The credit cannot exceed the taxpayer' tax liability.

There are two other tax expenditures closely related to this program. The Individual Development Accounts (Exclusion and Subtraction) (1.123) provides that contributions to and earnings from IDAs are not taxed by Oregon if used for approved purposes. The Individual Development Account Contribution (Credit)

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(1.168) provides a credit for individuals or businesses that make contributions to fiduciary organizations to support IDA programs.

PURPOSE: To assist low-income Oregonians to achieve homeownership, by allowing low income families to recover some of the closing costs of purchasing a first home.

WHO BENEFITS: Lower income Oregon households benefit from the existence of these accounts. Since 2004, more than 500 accounts have been established using a variety of state, private, and federal grant funds.

EVALUATION: As this is a new credit in 2006, no data exists on the effectiveness. Participants will be able to claim the credit on their 2006 tax forms, thus the first opportunity to determine utilization levels will be in 2007. Also, since the Oregon IDA initiative is just beginning to ramp up, the number of participants graduating and purchasing their first home will be small. Thus, the first meaningful evaluation of this credit may be accomplished in about 3-4 years. *[Evaluated by the Housing and Community Services Department.]*

1.170 OREGON CAPITAL CORPORATION INVESTMENTS

Oregon Statute: 315.504

Sunset Date: None

Year Enacted: 1987

	Corporation	Personal	Total
2005–07 Revenue Impact:	\$0	\$0	\$0
2007–09 Revenue Impact:	\$0	\$0	\$0

DESCRIPTION: A credit against corporation or personal income taxes is allowed for cash investment in the capitalization of the Oregon Capital Corporation. The credit is 20 percent of the amount of cash investment. To qualify for the credit, the Oregon Capital Corporation must have been certified by the Division of Finance and Securities. The Oregon Capital Corporation never came into existence because the qualifications were never met. In particular, the Corporation had to have at least \$40 million in funds by January 1, 1989, which was not achieved. Because the qualifications were never met, this expenditure has no effect, and the credit has never been allowed.

PURPOSE: To encourage investment in the Oregon Capital Corporation, which was intended to provide funding for capital investments in Oregon businesses (ORS 284.755) in order to promote economic growth in Oregon.

WHO BENEFITS: Because the corporation never came into existence, there have been no beneficiaries.

EVALUATION: Not evaluated.

1.171 CROP GLEANING

Oregon Statute: 315.156

Sunset Date: None

Year Enacted: 1977

	Corporation	Personal	Total
2005–07 Revenue Impact:	Less than \$50,000	\$100,000	\$100,000
2007–09 Revenue Impact:	Less than \$50,000	\$100,000	\$100,000

DESCRIPTION: A credit is allowed against personal or corporation income taxes for crop donations to gleaning cooperatives, food banks, or qualifying charitable organizations located in Oregon. The credit includes donations to food banks or other charitable organizations that distribute food at no charge to children or homeless, unemployed, elderly, or low-income individuals. The definition of “crop” includes plants or orchard stock that produce food for human consumption and livestock animals that may be processed into food for humans. Both harvest donations (gleaning) and post-harvest donations may qualify.

The credit is 10 percent of the wholesale market price of the crop. Credits that cannot be used because of insufficient tax can be used in later years, for up to three years.

PURPOSE: To encourage donations of food crops to gleaning cooperatives, food banks, or other charitable organizations engaged in the distribution of food without charge.

WHO BENEFITS: Farmers who donate crops to gleaning cooperatives, food banks, or charitable food distribution organizations. The tax benefit goes primarily to smaller, noncorporate farms. For tax year 2005, approximately 50 personal income tax payers saved about \$40,000 in tax using this credit.

EVALUATION: This expenditure achieves its purpose. It provides an effective incentive for farmers to donate crops to gleaning cooperatives. Without the incentive a few donations would still occur, but not at the same level as with the incentive. Increasing the credit would likely encourage more donations. *[Evaluated by the Department of Agriculture.]*

1.172 ALTERNATIVES TO FIELD BURNING

Oregon Statute: 468.150

Sunset Date: 12-31-07

Year Enacted: 1975

	Corporation	Personal	Total
2005–07 Revenue Impact:	\$300,000	\$100,000	\$400,000
2007–09 Revenue Impact:	\$300,000	\$100,000	\$400,000

DESCRIPTION: A credit is allowed against corporation or personal income taxes for up to 35 percent of acquisition or construction costs for equipment and facilities as alternatives to grass seed and cereal grain straw open field burning. This provision was added as an expansion to the Pollution Control credit (1.176) in 1975, and is scheduled to sunset at the end of 2007.

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Oregon Credits

Voluntary projects, projects that cost less than \$200,000, projects located in an enterprise zone or economically distressed area, or projects that meet high levels of environmental compliance are eligible for a credit of up to 35 percent of the certified cost of the facility.

The credit is taken in equal amounts over the life of the facility. The credit is allowed only for the fraction of use as an alternative to field burning, and the applicant must demonstrate a reduction in acreage burned. The revenue impact of this provision is included in that for the Pollution Control credit (1.172).

Note that the Mobile Field Incinerators expenditure (2.033) provides a property tax exemption that applies to some of the same equipment as this credit does.

PURPOSE:

To encourage reduction in the practice of open field burning while developing and utilizing alternative methods of field sanitation and alternative methods of using grass seed and cereal grain straw.

WHO BENEFITS:

Growers investing in equipment, facilities, and land for gathering, densifying, processing, handling, storing, transporting, and incorporating grass straw or straw-based products that result in reduction of open field burning, propane 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 adjusting to the current phasedown schedule, increased acreage in production, stable yields, and the results of recent research all indicate that the alternatives to field burning are helping to address production challenges. The key to maintaining the phasedown limitation of 40,000 acres is: 1) the continued development and maintenance of the infrastructure to process and store straw for the domestic and international feed markets and future potential use as feedstocks for biofuels, and 2) the continued availability and improvement in equipment that enables seed growers to chop and manage full straw loads left on the field, and research into no-till farming techniques. *[Evaluated by the Department of Agriculture.]*

1.173 FARM MACHINERY AND EQUIPMENT (INCOME TAX)

Oregon Statutes: 315.119

Sunset Date: 12-31-07

Year Enacted: 2001

	Corporation	Personal	Total
2005-07 Revenue Impact	Less than \$50,000	Less than \$50,000	Less than \$50,000
2007-09 Revenue Impact	Less than \$50,000	Less than \$50,000	Less than \$50,000

DESCRIPTION: A credit is allowed against personal or corporate income taxes for property taxes paid on machinery and equipment and personal property used in farm processing. The credit only applies in conjunction with property used for processing of wholesale farm crops or livestock after harvest has occurred, but before sale of the modified or altered products. The machinery and equipment must be located on land that is specially assessed for farm use or contiguous to land that is specially assessed for farm use and is owned and controlled by the farm operator. The amount of the tax credit is calculated as the lesser of the property tax rate multiplied by the adjusted basis (for income tax purposes) of the qualified machinery and equipment or \$30,000. This tax credit can be carried forward for five years. A tax credit is not allowed if the machinery and equipment is fully depreciated for tax purposes.

This credit does not apply to property that is exempt from taxation. Of particular note, this credit does not affect property used in farming or new property used in food processing because that property is exempted by Farm Machinery and Equipment (Property) (2.032) and Food Processing Equipment (2.031).

PURPOSE: To encourage the continued operation and expansion of value added on-farm food processing.

WHO BENEFITS: Farm operators with farm processing machinery and equipment on or contiguous to specially assessed farmland. Very few individuals or corporations benefit from this tax credit.

EVALUATION: Small- and medium-sized food processors face market disadvantages. After thousands of mergers and acquisitions in the food processing and retail sectors over the past five years, as few as six large food companies now control nearly 50 percent of retail food sales in the U.S. These companies only source from very large growers and processors. Oregon companies do not have the size to compete in these markets. Tax rates on processing equipment that reflect today's economic realities will help stabilize and develop Oregon's food processing value-added sector, adding vitality to rural and urban communities. *[Evaluated by the Department of Agriculture.]*

1.174 RIPARIAN LANDS REMOVED FROM FARM PRODUCTION

Oregon Statutes: 315.113
Sunset Date: None
Year Enacted: 2001

	Corporation	Personal	Total
2005-07 Revenue Impact	Less than \$50,000	Less than \$50,000	Less than \$50,000
2007-09 Revenue Impact	Less than \$50,000	\$100,000	\$100,000

DESCRIPTION: This expenditure creates an income tax credit for riparian farmland that is voluntarily taken out of agricultural production for conservation purposes. The statute defines riparian land as land that was formerly in agricultural production and within 35 feet of the bank of a natural watercourse. The credit is equal to 75 percent of the value of the crops foregone for each year crops are not raised on the eligible land. The credit has a five-year carry forward. The credit is available beginning with the 2004 tax year.

PURPOSE: “The purpose of [this tax credit] is to encourage taxpayers that have riparian land in farm production to voluntarily remove the riparian land from farm production and employ conservation practices applicable to the riparian land that minimize contributions to undesirable water quality, habitat degradation and stream bank erosion.” (ORS 315.111)

WHO BENEFITS: Taxpayers who voluntarily take riparian farmland out of production. In 2005, twelve personal income tax payers saved an average of \$2,050 in Oregon tax using this credit.

EVALUATION: This credit did not become available until 2004; the extent to which producers will utilize this incentive is difficult to estimate. *[Evaluated by the Department of Agriculture.]*

1.175 POLLUTION PREVENTION

Oregon Statute: 315.311
Sunset Date: 12-31-99
Year Enacted: 1995

	Corporation	Personal	Total
2005–07 Revenue Impact:	Less than \$50,000	Less than \$50,000	Less than \$50,000
2007–09 Revenue Impact:	Less than \$50,000	Less than \$50,000	Less than \$50,000

DESCRIPTION: This provision, referred to in statute as the Emission-Reducing Production Technology Credit, allowed a tax credit against corporation or personal income taxes for investments in technologies and processes that prevent emissions of perchloroethylene, chromium, and halogenated solvents. The Department of Environmental Quality (DEQ) certified all qualifying investments prior to the sunset date for installation on December 31, 1999. The credit amount was equal to 10 percent per year for five years of the costs of the technologies or processes as certified by DEQ. The credit was not refundable, and taxpayers could carry forward unused credit amounts for three years. No reduction in depreciable basis was required.

PURPOSE: To “encourage businesses to utilize technologies and processes that prevent the creation of pollutants.” (ORS 468A.095)

WHO BENEFITS: Taxpayers investing in technologies or processes that prevent emissions of the specified pollutants. The maximum amount available for tax relief through the pilot was \$5.2 million. The DEQ certified 35 pollution prevention investments to 32 taxpayers for tax credits totaling \$739,932. Much of the benefit went to the dry-cleaning industry, which is a large user of perchloroethylene.

EVALUATION: This expenditure was effective in achieving its purpose. Expanded technical assistance might have increased the number of potential credit recipients who installed eligible technologies. *[Evaluated by the Department of Environmental Quality.]*

1.176 POLLUTION CONTROL

Oregon Statute: 315.304

Sunset Date: 12-31-07

Year Enacted: 1967

	Corporation	Personal	Total
2005–07 Revenue Impact:	\$15,900,000	\$3,600,000	\$19,500,000
2007–09 Revenue Impact:	\$14,700,000	\$3,600,000	\$18,300,000

DESCRIPTION: The pollution control credit allows a credit against corporation or personal income taxes equal to up to 35 percent of the certified cost of pollution control facilities (depending on the type of project and installation date). The taxpayer must have the investment certified through the Department of Environmental Quality (DEQ). Taxpayers should submit the application for credit certification within one year of completion of the facility. The sunset date for construction completion is December 31, 2007. DEQ certifies both the facilities and the allowable costs under one of the following categorizations:

- air pollution control,
- water pollution control,
- noise pollution control,
- material recovery of solid waste, hazardous waste, or used oil control,
- hazardous waste pollution control, or
- nonpoint source pollution control.

To qualify, the principal purpose of the facility must be to meet pollution control requirements, or the sole purpose must be to prevent, control, or reduce a significant quantity of pollution. Projects can include the purchase of or reconstruction and improvements to structures, land, machinery, or equipment. The statute specifically excludes certain items including asbestos abatement, septic tanks, human waste facilities, office buildings, parking lots, landscaping and automobiles.

The qualified taxpayer may include the owner, lessee, lessor, or contract purchaser, depending on the categorization of the facility.

Income Tax
Oregon Credits

The annual amount of credit is up to 35 percent of the certified cost of the facility multiplied by the certified percentage allocable to pollution control, divided by the number of years of the facility's useful life. The maximum useful life for calculating the credit is 10 years.

Voluntary projects, projects that cost less than \$200,000, projects located in an enterprise zone or economically distressed area, or projects constructed at a site where the taxpayer holds an environmental certification or permit are eligible for a credit of up to 35 percent of the certified cost of the facility.

Facilities were eligible for a 50 percent credit if certified under ORS 468.155 to 468.190 (1999 Edition) or construction or installation started before January 1, 2001 and ended before January 1, 2004.

The credit is nonrefundable. A taxpayer may use any credit unclaimed in a particular year because of insufficient tax liability in later years, for up to three years.

The property tax Pollution Control Facilities exemption (2.101) is a companion to this income tax pollution control credit. Nonprofit corporations and cooperatives qualify for a 20-year property tax exemption on the facility.

PURPOSE:

"...to assist in the prevention, control and reduction of air, water and noise pollution and solid waste, hazardous wastes and used oil in this state by providing tax relief with respect to Oregon facilities constructed to accomplish such prevention, control and reduction." (ORS 468.160)

WHO BENEFITS:

Businesses that invest in pollution control equipment and facilities benefit from this credit. Most of the benefit goes to large corporations in manufacturing industries, including paper and allied products, wood processing, food processing, and electronics. For the calendar years 2004 and 2005, DEQ issued 65 certificates for \$26.6 million in credits to corporate taxpayers and 375 certificates for \$6.2 million in credits to taxpayers allowed to use the credit on their personal income taxes. For tax year 2004, there about 100 corporate taxpayers that claimed this credit. The total claimed was over \$20 million, but the total tax reduction for those taxpayers was about \$11 million. Corporate usage of this credit may decline with changes in how corporations apportion their income to Oregon.

EVALUATION:

The expenditure compensates taxpayers for achieving regulatory compliance. It is successful at meeting this purpose though the percentage of credits issued to this category has dropped from 62 percent over the past 20 years to 21 percent for the calendar years 2004 and 2005 when DEQ issued \$6.9 million in credits to taxpayers for achieving regulatory compliance.

The expenditure provides an incentive for taxpayers to invest in pollution controls voluntarily. It is successful in achieving this purpose especially when it is a leading-edge investment or the investment supports an emerging environmental practice. In the 2004 and 2005 calendar years, DEQ issued \$25.8 million in credits to taxpayers that voluntarily installed eligible facilities.

This tax expenditure would be more effective in achieving the legislative findings and declarations in ORS 468.153 if the eligibility criteria aligned with the findings and declarations.

The benefit of the program is to improve the relationship between business and regulatory entities. Regulators could enhance the benefit of this tax credit if used when working with small businesses to achieve environmental goals. *[Evaluated by the Department of Environmental Quality.]*

1.177 RECLAIMED PLASTICS

Oregon Statute: 315.324

Sunset Date: 12-31-01

Year Enacted: 1985

	Corporation	Personal	Total
2005–07 Revenue Impact:	Less than \$50,000	Less than \$50,000	Less than \$50,000
2007–09 Revenue Impact:	Less than \$50,000	Less than \$50,000	Less than \$50,000

DESCRIPTION: A credit against corporation or personal income taxes is allowed for 50 percent of an investment in personal property or equipment that is either: a) used to manufacture products from reclaimed plastics, or b) necessary to collect, transport, or process reclaimed plastic.

The property or equipment must have been acquired or constructed prior to December 31, 2001. The Department of Environmental Quality certified up to \$1.5 million in total investments each year.

The credit was available to either the owner of the business or to a lessee who conducted the business, but not to both. If claimed by more than one taxpayer, the aggregate certified investment cost may not exceed the total certified cost of the investment. The credit is equal to 10 percent of the cost of the investment in each of the five years beginning with the year the investment was certified. Thus, the total credit equals 50 percent of the cost of the investment. The credit is non-refundable. Any credit unclaimed in a particular year because of insufficient tax liability may be used in later years, for up to five years.

PURPOSE: “...to assist in the prevention, control and reduction of solid waste in this state by providing tax relief to Oregon businesses that make investments in order to collect, transport or process reclaimed plastic or manufacture a reclaimed plastic product.” (ORS 468.456)

WHO BENEFITS: In tax year 2004, fewer than five corporations reduced their tax liability by a total of less than \$35,000 for this credit. The direct beneficiaries of the reclaimed plastic tax credit are businesses that collect or process recyclable plastic, manufacture a product from reclaimed plastic, or own and lease equipment to plastic recyclers.

EVALUATION: This expenditure is achieving its purpose. The level of waste plastic collection and processing is greater because of the tax credit. It has a major influence on the development of new recycling facilities, and it has influenced advances in plastic recycling that would not have taken place without the incentive provided by the tax credit. *[Evaluated by the Department of Environmental Quality.]*

1.178 DIESEL TRUCK ENGINES

Oregon Statute: Note following ORS 315.356

Sunset Date: 12-31-07

Year Enacted: 2003

	Corporation	Personal	Total
2005–07 Revenue Impact:	\$100,000	\$200,000	\$300,000
2007–09 Revenue Impact:	\$100,000	\$200,000	\$300,000

DESCRIPTION: A credit is allowed against personal or corporate income taxes of \$400 to \$925 for purchases of qualifying diesel truck engines. Owners of smaller truck fleets are eligible for the larger per engine credit. Taxpayers apply to the Oregon Department of Environmental Quality (DEQ) for credit certification. To be eligible for the credit, the following specifications must be met:

The taxpayer:

- owns the truck, and
- purchased the qualifying engine in Oregon between 2004 and 2007.

The truck:

- has a combined weight of more than 26,000 pounds, and
- is registered in Oregon.

The diesel engine:

- is certified by the federal Environmental Protection Agency as emitting oxides of nitrogen at the rate of 2.5 grams per brake horsepower-hour or less, and
- model year is between 2003 and 2007.

DEQ approves eligible engines for the credit. The credit is nonrefundable. Any credit unclaimed in a particular year because of insufficient tax liability may be used in later years, for up to four years.

DEQ may issue credits up to \$80,000 to a single taxpayer and \$3 million to all taxpayers in any one calendar year.

PURPOSE: To encourage faster turnover of older heavy-duty diesel trucks with newer, less polluting engines.

WHO BENEFITS: Businesses or individuals who own trucks with qualifying diesel engines benefit from this credit. For 2004, DEQ certified about \$220,000 in credits and for 2005 about \$260,000 in credits.

EVALUATION: This new expenditure has had less participation than estimated. The majority of new truck owners that have applied for this credit would have purchased the truck with or without the credit. *[Evaluated by the Department of Environmental Quality.]*

1.179 FISH SCREENING DEVICES

Oregon Statute: 315.138

Sunset Date: None

Year Enacted: 1989

	Corporation	Personal	Total
2005–07 Revenue Impact:	Less than \$50,000	Less than \$50,000	Less than \$50,000
2007–09 Revenue Impact:	Less than \$50,000	Less than \$50,000	Less than \$50,000

DESCRIPTION: A credit against personal and corporation income tax is allowed for installing a fish screening device, by-pass device, or fishway when required to do so by law (except where the device is part of a federally regulated hydroelectric project). These projects are primarily on agricultural land to keep fish from entering irrigation canals. Devices that are financed by the Water Development Fund are ineligible for the credit. The credit for each device installed equals the lesser of half of the taxpayer's net certified installation costs, or \$5,000.

The device must be certified by the State Department of Fish and Wildlife to be eligible for the credit. There is a preliminary certification prior to installation and a final certification upon final completion. The credit is claimed in the year of final certification. The credit is non-refundable. Credits unclaimed because of insufficient tax liability can be used in later years, for up to five years.

PURPOSE: Fish screening devices and by-passes prevent fish from entering irrigation diversions and allow fish to swim around dams and other obstructions. In many cases the Oregon Department of Fish and Wildlife may require these devices to be installed. The credit recognizes that taxpayers in general benefit from the installation of fish screening devices and by-pass devices.

WHO BENEFITS: Taxpayers who install fish screening devices. The general public also benefits, particularly individuals connected with recreational or commercial fishing, if the projects result in improved fish habitat and increased fish populations.

For the 2003-05 biennium, 128 screens and 7 fishways were certified, with a potential tax credit of \$94,872.17. All 135 screen and fishway projects were funded through State Lottery Measure 66 funding. For the first half of the 2005–07 biennium, 52 screens and 4 fishways have been certified with a potential tax credit of \$22,082.91.

EVALUATION: This expenditure appears to be effective in achieving its purpose. The use of the credit has been increasing as the law requiring the installation of screens at irrigation diversions and fishways at artificial obstructions gains acceptance among irrigators and other water users. It seems unlikely the current level of screening and fish passage activity would have been attained without the legislation that created the program in its latest form. Additional funding for the fish screening and passage program through Measure 66 funding has increased the number of screens and fish passage projects installed during the 2003–05 biennium. Continuation of screen program funding is expected to maintain or increase the pace of program activities as compared to the 2003–05 biennium. *[Evaluated by the Department of Fish and Wildlife.]*

1.180 ALTERNATIVE ENERGY DEVICES (RESIDENTIAL)

Oregon Statute: 316.116

Sunset Date: 12-31-2015

Year Enacted: 1977, Modified in 2005 (SB 31A)

	Corporation	Personal	Total
2005–07 Revenue Impact:	Not Applicable	\$13,900,000	\$13,900,000
2007–09 Revenue Impact:	Not Applicable	\$16,000,000	\$16,000,000

DESCRIPTION: A credit against personal income taxes is allowed to taxpayers who install certain alternative energy devices in their residence. Examples of qualifying devices include solar devices; groundwater heat pumps; ground loop systems; a renewable energy system that heats or cools space, generates electricity, heats water, or is used for swimming pool, spa, or hot tub heating. Taxpayers may also receive a credit for the purchase of energy efficient appliances and alternative fuel vehicles. Homeowners or renters may receive a tax credit for eligible systems. A builder who owns a home built for speculative sale may claim a tax credit for an alternative-fuel fueling/charging system.

The amount of credit depends on the device and is a function of its energy- saving capability. Effective January 1, 2006, residents who install photovoltaic systems are eligible for a \$6,000 tax credit to be taken over a four-year period (\$1,500 maximum a year).

Systems and devices must meet the Oregon Department of Energy (ODOE) requirements to qualify for a tax credit. For solar, geothermal, heat pump, air conditioning and duct systems, the taxpayer must use a technician certified by the ODOE. The Oregon credit is in addition to any federal tax credit that the taxpayer might receive for an alternative energy device. Any credit unclaimed in a particular year because of insufficient tax liability may be used in later years, for up to five years.

PURPOSE: To promote the use of renewable energy resources for home heating and electric generation and to encourage the purchase of highly efficient appliances and alternative fuel vehicles.

WHO BENEFITS: Oregon residents who purchase renewable energy systems, energy-saving appliances, and alternative-fuel vehicles.

EVALUATION: This credit has been successful in achieving its purpose. In 2005, more than 31,000 highly efficient appliances were installed in Oregon. About 1000 alternative fuel vehicles were certified for the credit in the same year. These two categories constitute more than a half of the total credits claimed under this program. The use of the credit has increased since 1998, with the Legislature’s addition of energy-efficient appliances to the program. It is too soon to evaluate what effect the 2005 legislative amendment concerning photovoltaic systems will have.

Influence in the marketplace is another indicator of the credit’s effectiveness. Appliance dealers report substantial increases in energy-efficient appliance sales tied to the tax credit.

The credit is based on the efficiency of the system rather than system cost. This feature encourages the development of more efficient systems. The only alternatives to the credit are incentives offered by utilities and the Energy Trust of Oregon.

Ending the credit would discourage investment in renewable resources and highly efficient appliances. *[Evaluated by the Oregon Department of Energy.]*

1.181 ALTERNATIVE FUEL STATIONS

Oregon Statute: 317.115

Sunset Date: None

Year Enacted: 2001

	Corporation	Personal	Total
2005–07 Revenue Impact:	Less than \$50,000	Less than \$50,000	Less than \$50,000
2007–09 Revenue Impact:	Less than \$50,000	Less than \$50,000	Less than \$50,000

DESCRIPTION: A credit against corporate income tax and personal income tax is allowed for construction or installation of a fueling station in a dwelling, necessary to operate an alternative fuel vehicle. The credit equals 25 percent of the cost of the fueling station, not to exceed \$750.

The taxpayer must have the device certified by the Oregon Department of Energy (ODOE) or, for certain devices, a contractor certified by ODOE may provide the certification. Any credit unclaimed in a particular year because of insufficient tax liability may be carried forward for up to five years.

PURPOSE: To promote the use of alternative fuel vehicles.

WHO BENEFITS: Oregon residents who own alternative fuel vehicles benefit from having a fueling station located in their home. Homebuilders who install or construct alternative fueling stations in dwellings benefit from the increased value of the home to potential buyers.

EVALUATION: The expenditure has not achieved its purpose. To date, ODOE has received no applications from homebuilders for this credit. From the start of the program through year end 2005, ODOE has issued business energy tax credits for 30 alternative fuel stations - all of them larger stations not installed in dwellings and serving multiple vehicles. During the same period, ODOE issued only 6 residential energy tax credits for alternative vehicle fueling or charging systems. Of those, only a couple were for fueling stations installed in dwellings; most were for on-board systems in vehicles.

For unknown reasons, homebuilders are not using this tax credit. It may be a result of the sharp increase in sales of hybrid vehicles. The vast majority of residential energy tax credits issued for vehicles are for hybrids that use a combination of gasoline and electricity. As hybrids have gained in popularity over the past few years, consumer interest in older style alternative fuel vehicles has waned, with the result that currently there isn't much of a market for alternative fuel stations built into dwellings.

However, technology changes quickly and new technologies are emerging that could affect the situation. An example would be if better storage batteries were developed. This might lead to hybrid vehicles having removable batteries that can be recharged on an in-home photovoltaic system. Such a development might spur consumer interest in having an electric charging station in the home. Given the possibility of rapid changes in the marketplace, this credit may be used in the future. *[Evaluated by the Department of Energy].*

1.182 BUSINESS ENERGY FACILITIES

Oregon Statute: 315.354

Sunset Date: None

Year Enacted: 1979

	Corporation	Personal	Total
2005–07 Revenue Impact:	\$12,700,000	\$7,000,000	\$19,700,000
2007–09 Revenue Impact:	\$15,200,000	\$7,800,000	\$23,000,000

- DESCRIPTION:** A credit against corporation or personal income taxes is allowed for investments made by businesses to use renewable energy resources, to conserve energy, for recycling projects if the recycling projects are not otherwise required, or to use less-polluting transportation fuels. Car-sharing expenses, research development and demonstration projects (RD&D) and sustainable building practices qualify for the credit.
- The credit equals 35 percent of the certified cost of the approved project and is taken over five years: 10 percent in the first two years and 5 percent each year thereafter. However, the credit may be claimed entirely in the first year if the eligible costs are \$20,000 or less. Any credit not used in a particular year because of insufficient tax liability may be carried forward for up to eight years.
- Renewable resource facilities must produce energy or reduce energy consumption by using solar, wind, hydro, geothermal, or biomass sources. Energy conservation projects must reduce energy consumption by at least 10 percent and lighting projects must reduce it by a minimum of 25 percent.
- The program was crafted to ensure the credit stimulates investments in energy-efficiency projects rather than rewarding businesses for what they would have done without the credit. Eligible projects must have paybacks of more than one year. Credits are awarded only to projects or portions that significantly exceed standard practice. Projects that are required by state or federal law are not eligible.
- PURPOSE:** “. . . to encourage the conservation of electricity, petroleum and natural gas by providing tax relief for Oregon facilities that conserve energy resources or meet energy requirements through the use of renewable resources.” (ORS 469.190)
- WHO BENEFITS:** Businesses investing in facilities that produce energy, reduce the consumption of energy, recycle, or use less-polluting transportation fuels. A variety of businesses, including manufacturers, food processors, lumber companies, farmers and ranchers, service industries, retailers, and rental housing owners participate in the program. At least three-quarters of the projects have been undertaken by small businesses. Some 50,000 rental units have been weatherized through the program, reducing renters’ utility costs or rent and making their housing more comfortable.
- EVALUATION:** This credit has been effective in achieving its purpose. To date, more than 11,000 tax credits have been awarded to manufacturers and commercial businesses for their investments in such measures as apartment building weatherization, irrigation efficiency, renewable resource systems, energy-efficient plant modernization, waste heat recovery, alternative-fuel vehicles, and recycling. Businesses generally require short payback periods for their investments, but the credit has proven successful in making energy investments attractive. Nonprofit and public entities have benefited from 2001 legislative provisions enabling them to take advantage of the tax credit by finding a business partner with a tax liability. For-profit businesses can also choose to transfer their tax credit eligibility.

By reducing operating costs, the credit boosts the productivity and competitiveness of Oregon businesses. In 2005, the energy cost savings to Oregon businesses from the tax credit program exceeded \$312 million. *[Evaluated by the Oregon Department of Energy.]*

1.183 ENERGY CONSERVATION LENDER'S CREDIT

Oregon Statute: 317.112

Sunset Date: None

Year Enacted: 1981

	Corporation	Personal	Total
2005–07 Revenue Impact:	Less than \$50,000	Not Applicable	Less than \$50,000
2007–09 Revenue Impact:	Less than \$50,000	Not Applicable	Less than \$50,000

DESCRIPTION: Commercial lending institutions are allowed a credit against corporate income taxes for financing energy conservation measures of residential fuel oil customers or wood-heating residents. The institutions must charge no more than a 6.5 percent interest rate on the loan. The credit equals the difference between the interest that would be earned if the loan was made at the usual rate of interest (or alternatively at an upper limit rate established by the Department of Energy) and the interest earned at the 6.5 percent rate.

The loan amount cannot exceed \$5,000 for a single dwelling unit or \$2,000 for a single dwelling unit if it is owned by a corporation, and the term cannot exceed 10 years. The loan must be used by the dwelling owner to finance energy conservation measures that are recommended as cost-effective in the energy audit, which must be completed before getting the loan. The credit is nonrefundable. Any credits not used because of insufficient tax liability may be carried forward up to 15 succeeding years.

PURPOSE: To promote energy conservation in the more than 110,000 oil- and wood-heated homes by encouraging lending institutions to make loans for the financing of energy-saving projects.

WHO BENEFITS: Homeowners and owners of rental housing qualifying for energy conservation loans. Lenders may capture some of the benefit if the credit allows them to make profitable loans that they otherwise could not have made. Because the loan rate is not currently competitive with market rates, it is unlikely anyone is utilizing this credit.

EVALUATION: The lender's credit is part of a package of incentives offered by the State Home Oil Weatherization (SHOW) Program for energy conservation measures in oil- and wood-heated homes. Improving the efficiency of oil- and wood-heated homes helps achieve the Oregon benchmarks for affordable housing and better air quality.

Since 1982, over 4,400 SHOW loans have been made for energy conservation measures. As of year-end 2005, Oregon households that have participated in the program saved almost two million gallons of oil and cut household energy bills by about \$4 million per year. Administrative costs are kept low because the loan is offered through participating banks. The volume of this credit is expected to remain low as the number of oil-heated homes continues to decline. No loans have been made under this program since 2002. *[Evaluated by the Oregon Department of Energy.]*

1.184 WEATHERIZATION LENDER’S CREDIT

Oregon Statute: 317.111
Sunset Date: 11-01-81
Year Enacted: 1977

	Corporation	Personal	Total
2005–07 Revenue Impact:	Less than \$50,000	Not Applicable	Less than \$50,000
2007–09 Revenue Impact:	Less than \$50,000	Not Applicable	Less than \$50,000

DESCRIPTION: Provides a credit against corporation income taxes for lending institutions that make below-market rate loans for financing weatherization projects. The credit is equal to the difference between the amount of interest charged at a rate of 6.5 percent and the amount that would have been charged at the lesser of 12 percent or the average percent the lending institution charged for home improvement loans. Unused credit amounts could be carried forward for 15 years.

PURPOSE: To promote energy conservation by encouraging lending institutions to make loans for projects to weatherize homes.

WHO BENEFITS: Lending institutions that made weatherization loans between 1977 and 1981.

EVALUATION: This credit expired in 1981. Because no new loans qualify after 1981, this expenditure results only from the carry-forward provisions. So there should be few, if any, remaining program expenditures. *[Evaluated by the Oregon Department of Energy.]*

1.185 REFORESTATION

Oregon Statute: 315.104
Sunset Date: 12-31-11
Year Enacted: 1979

	Corporation	Personal	Total
2005–07 Revenue Impact:	Less than \$50,000	\$400,000	\$400,000
2007–09 Revenue Impact:	Less than \$50,000	\$500,000	\$500,000

DESCRIPTION A credit is allowed against personal or corporation income tax equal to 50 percent of the qualified cost of reforesting under-productive commercial forestland. To qualify, the taxpayer must pay a nonrefundable application fee (currently \$300) for the initial application. The taxpayer must then have the state Department of Forestry preliminarily certify the project after planting is completed. The taxpayer can claim 25 percent of the qualified costs in the year the trees are planted. After two growing seasons, the Department of Forestry must certify that the plantings are established. The taxpayer may then claim the remaining 25 percent of the initial cost, plus 50 percent of qualified maintenance costs over the two-year period. If the project is not established after two years, the remaining second half of the credit cannot be claimed. If the project is not established because of reasons within the taxpayer’s control, the credit previously claimed on preliminary certification must be returned.

The taxpayer must own at least five acres of commercial Oregon forestland, and the taxpayer’s portion of project cost must be at least \$500 for the project to qualify for the credit. Qualified costs include costs actually incurred for site preparation, tree

planting, and other necessary silviculture treatments (such as moisture, erosion and animal damage control). Qualified costs exclude the application fee and costs associated with reforestation projects required under the Forest Practices Act, any portion of costs paid through federal or state cost-sharing programs, and costs for growing Christmas trees, ornamental trees, or shrubs. Costs associated with short rotation hardwoods (such as cottonwoods) are not eligible.

Any credit unclaimed in a particular year because of insufficient tax liability may be carried forward for up to three years. This applies to the credits allowed on both preliminary and final certification.

The application fee, initiated in 2006, provides nominal administrative funding for the program. Full administrative funding was previously provided by the privilege tax until that tax was eliminated in 2005.

- PURPOSE:** To increase the public benefits that come from forested lands by promoting reforestation of commercial forestlands that do not currently have commercial trees growing on them, such as brush lands, burned areas with no commercial timber salvage value, and marginal pasture lands. These lands are typically mixed in with or adjacent to land that currently is being used to grow timber.
- WHO BENEFITS:** Taxpayers who make expenditures to reforest under-productive commercial forestlands. Use of the credit is concentrated among personal income tax filers with just over 100 claims in 2005. There is very little corporate usage of the credit.
- EVALUATION:** This expenditure continues to achieve its purpose. From 1987 to 2005, the credit has resulted in the rehabilitation of approximately 56,000 acres of under producing forestland.
- In 2001, the credit was increased from 30% to 50% . Since then approximately 7,000 acres of under producing forestland have been rehabilitated with the credit. Forested lands produce far more and far better public benefits (fish and wildlife habitat and carbon sequestration through the trees' use of carbon dioxide to produce wood volume are two notable benefits) than do brush lands. The cost to the state for this conversion to a fully stocked stand averages about \$366/acre with projected tax returns from these lands of about \$20/acre/year, or a total of \$1,000/acre, on a 50-year harvest rotation. Considering the positive effects to the environment and increase in future tax revenues, this has a good return on investment.
- There is concern that the application fee may discourage non-industrial owners from using the tax credit, thereby reducing the number of applications. At some point, fewer applications require an increase in the application fee. It is too early to determine if such a trend will materialize. However, if that trend did occur, it could begin a downward spiral of reduced non-industrial owner participation and increased application fees. Such a trend would defeat the purpose and benefits of the program.
- [Evaluated by the State Forestry Department.]*

1.186 SEWER CONNECTION

Oregon Statute: 316.095
Sunset Date: 6-30-95
Year Enacted: 1987

	Corporation	Personal	Total
2005–07 Revenue Impact:	Not Applicable	Less than \$50,000	Less than \$50,000
2007–09 Revenue Impact:	Not Applicable	Less than \$50,000	Less than \$50,000

DESCRIPTION: A credit is allowed against personal income tax to certain homeowners who connected their homes to a sewer system. Because this credit sunset in 1995, all current credit claims are for sewer connections that were made prior to July 1995. The credit equals \$160 per year for five consecutive years. The credit is nonrefundable. Any credit that cannot be claimed because of insufficient tax liability may be used in later years, for up to eight years.

To qualify for the credit, the connection must be made after January 1, 1985, and must be required by either: a) an order or rule issued or adopted by the Environmental Quality Commission (EQC) before July 1, 1989; b) an intergovernmental agreement between the EQC and a local government entered into before July 1, 1989; or c) a health hazard annexation ordered by the Assistant Director for Health after January 1, 1988, and before July 1, 1995. Because all connections have already been made, the total number of credits claimed in a particular year will decline as homeowners’ five-year credit periods are completed (falling to zero after tax year 2007).

PURPOSE: To compensate homeowners for the costs of connecting to sewer systems when connection is required by the Environmental Quality Commission. The Environment Quality Commission requires connections to protect the health of the public.

WHO BENEFITS: Homeowners who connect their homes to a sewer system under order or rule of the Environmental Quality Commission. Most of these connections have been in east Multnomah County. Less than twenty taxpayers were still claiming a carry forward for this credit in tax year 2005.

EVALUATION: Not evaluated.

1.187 MILE-BASED OR TIME-BASED MOTOR VEHICLE INSURANCE

Oregon Statute: Note following ORS 317.122
Sunset Date: 12-31-09
Year Enacted: 2003 (HB 2043)

	Corporation	Personal	Total
2005–07 Revenue Impact:	Less than \$50,000	Not Applicable	Less than \$50,000
2007–09 Revenue Impact:	Less than \$50,000	Not Applicable	Less than \$50,000

DESCRIPTION: Firms that provide mile-based or time-based rating plans for motor vehicle insurance may receive a corporate income tax credit, provided that the policies are at least 70 percent mile- or time-based. The credit equals \$100 for each vehicle insured under such a policy, and may not exceed \$300 per policy. The credit may not be claimed for a policy for which a credit was allowed the previous tax year. The total amount

of the credit in a tax year may not exceed the tax liability of the taxpayer and may not be carried forward to another tax year. This credit will be disallowed once the total of these credits claimed by all taxpayers exceeds \$1 million for all tax years beginning January 1, 2005, and before January 1, 2010.

PURPOSE: To encourage firms to offer motor vehicle insurance policies that reward individuals for limiting the amount they drive.

WHO BENEFITS: Firms offering these policies benefit because of the tax credit. Policy holders who limit the amount they drive may also benefit if the tax credit leads firms to offer lower priced policies to drivers that limit the use of their motor vehicle.

EVALUATION: The key questions in evaluating this expenditure is whether the credit causes a decrease in the number of miles driven and if policyholders receive lower priced policies when they limit the use of their motor vehicles.

As of August 2006, no rate or form filings related to this type of plan have been submitted by insurers, so data is not available to determine if this expenditure achieves its purpose. *[Evaluated by the Department of Consumer and Business Services.]*

1.188 FIRE INSURANCE

Oregon Statute: 317.122 (1)

Sunset Date: None

Year Enacted: 1969

	Corporation	Personal	Total
2005–07 Revenue Impact:	\$5,300,000	Not Applicable	\$5,300,000
2007–09 Revenue Impact:	\$6,600,000	Not Applicable	\$6,600,000

DESCRIPTION Property and casualty insurers who write fire insurance policies pay both the corporation income tax and the fire insurance gross premiums tax (Fire Marshal Tax). These insurers are then allowed a credit against the corporation income tax for the fire insurance premium taxes paid under ORS 731.820.

PURPOSE: To shift part of the funding of the Office of the State Fire Marshal from the insurance industry to the state General Fund.

WHO BENEFITS: For tax year 2004, about 260 corporate taxpayers benefited from this credit. These taxpayers reduced their tax liability by \$9,000 on average.

EVALUATION: Fire insurance premium taxes are used to fund the Office of State Fire Marshal. This credit has the effect of shifting part of that funding from the insurance industry to the state General Fund. If the credit were repealed, then the cost of fire insurance to policyholders might increase. *[Evaluated by the Department of Consumer and Business Services.]*

1.189 WORKERS' COMPENSATION ASSESSMENTS

Oregon Statute: 317.122(2)

Sunset Date: None

Year Enacted: 1995

	Corporation	Personal	Total
2005–07 Revenue Impact:	\$2,200,000	Not Applicable	\$2,200,000
2007–09 Revenue Impact:	\$1,600,000	Not Applicable	\$1,600,000

DESCRIPTION: Workers' compensation insurers pay both the corporation income tax and a workers' compensation assessment that provides funding to administer the Oregon Workers' Compensation system. These insurers are then entitled to a credit against corporation income taxes equal to the lesser of assessments paid on workers' compensation premiums under ORS 656.612 or the total profit attributable to the workers' compensation line of business.

PURPOSE: To shift part of the funding of the Oregon Workers' Compensation system from the insurance industry to the state General Fund.

WHO BENEFITS: For tax year 2004, 63 corporate taxpayers benefited from this credit. These taxpayers reduced their tax liability by \$19,000 on average.

EVALUATION: This expenditure was effective when it was a credit against the gross premium tax and is expected to remain effective under the corporation excise tax. The workers' compensation assessment provides funds used to administer the entire Oregon Workers' Compensation system. This includes occupational safety and health issues handled by OR-OSHA. OR-OSHA has worked very successfully to reduce accident rates to Oregon workers and thereby reduce costs to employers and harm to workers. Funds are also used to regulate the insurance industry to ensure fair rates are charged employers and benefits are paid timely and accurately to injured workers. The system also includes mechanisms to ensure timely resolution of disputes to guarantee injured workers receive benefits for worker injuries and illnesses in an expedient manner.

Two Oregon Benchmarks are directly impacted by the activities carried out as a result of this credit. Small Business Startups per 1,000 population are impacted by maintaining a safe and healthy work environment and by maintaining a reasonably priced workers' compensation system. Next, Oregon's ranking among states in workers' compensation costs has improved from 8th in 1990 to 42nd in 2004. Both benchmarks have been positively impacted as a result of this credit.

This credit has the effect of a partial funding of administrative program costs by the General Fund. If the credit were repealed, the cost of the workers' compensation insurance to policyholders might increase. *[Evaluated by the Department of Consumer and Business Services.]*

1.190 OREGON LIFE AND HEALTH IGA ASSESSMENTS

Oregon Statute: 734.835
Sunset Date: None
Year Enacted: 1975

	Corporation	Personal	Total
2005–07 Revenue Impact:	\$100,000	Not Applicable	\$100,000
2007–09 Revenue Impact:	\$100,000	Not Applicable	\$100,000

DESCRIPTION: Life insurance companies pay both the corporation income tax and an assessment to a guaranty association that is used to cover the cost of claims against insurers who have gone out of business. These insurers are then entitled to a credit against the corporation income taxes for assessments paid to Oregon Life and Health Insurance Guaranty Association (OLHIGA) at the rate of 20 percent per year for each of the five years following the year in which the assessment was paid.

PURPOSE: To shift part of the cost of claims against insolvent insurers from the insurance industry to the state General Fund.

WHO BENEFITS: For tax year 2004, about 100 corporate taxpayers benefited from this credit. These taxpayers reduced their tax liability by \$650 on average.

EVALUATION: This expenditure achieves its purpose. This type of credit is common throughout the United States. It allows insurers to recover the costs of the assessment they pay to the guaranty association, which in turn is used to cover the cost of claims against insolvent insurers. Although the credit is not a prerequisite for the existence of the guaranty association, the credit does, in effect, transfer the cost of claims against insolvent insurers from the insurance industry to the state General Fund. By allowing the assessments to be claimed as credits over five years, the cost to the General Fund is spread out over five years. In effect, this gives the General Fund a five-year interest-free loan equal to the total assessment levied. Without this credit, General Fund revenue would be subject to more erratic fluctuations as insurer insolvencies call for funds to pay claims. *[Evaluated by the Department of Consumer and Business Services.]*

1.191 POLITICAL CONTRIBUTIONS

Oregon Statute: 316.102
Sunset Date: None
Year Enacted: 1969

	Corporation	Personal	Total
2005–07 Revenue Impact:	Not Applicable	\$11,600,000	\$11,600,000
2007–09 Revenue Impact:	Not Applicable	\$11,900,000	\$11,900,000

DESCRIPTION: A credit may be claimed against personal income taxes for the amount of qualified political contributions, not to exceed \$50 (or \$100 on a joint return). Qualified political contributions include cash contributions to a major or minor political party; to candidates for state, federal or local elective office; or to political action committees in the state. The credit is nonrefundable. Credits that cannot be used

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because of insufficient tax liability in the current year may not be carried forward to later years.

PURPOSE: To increase public participation in the political process.

WHO BENEFITS: Taxpayers who make cash contributions to political candidates or political action committees. In tax year 2004, almost 100,000 Oregon full-year residents claimed this credit. A total of \$6.62 million was claimed in 2004; the average credit claimed was \$66.

Income Group (Quintiles)	Taxpayers		Mean Credit
	Number	Percent	
Below \$10,600	2,089	2.1%	\$33
\$10,600 - \$22,700	6,824	6.9%	\$47
\$22,700 - \$39,700	12,638	12.7%	\$56
\$39,700 - \$67,700	25,979	26.1%	\$63
Above \$67,700	51,983	52.2%	\$77
Total	99,513	100.0%	\$66

EVALUATION: It is difficult to determine whether this expenditure has been effective in achieving its purpose. The credit amount is relatively small at \$100 on a joint return. The data provided by the Department of Revenue does indicate an increase in the percentage of Oregon full-year residents claiming the credit growing from 4.9 percent in 1990 to 5.0 percent in 1996 and to 5.3 percent in 2002. However, the increase in political contributions could also be attributed to the increased number of ballot measures; the increased interest in the content of the ballot measures, such as property tax relief, public employees' retirement, etc.; and closely contested political races.

In 1996 and 1998, state law limited the candidates and committees whose contributors were eligible for the credit. These limitations were repealed in 1999 as a result of SB 369. Therefore the increase in numbers may be the result of the expansion.

We are unable to determine if a tax expenditure is the most fiscally effective means of increasing public participation in the political process other than to say the tax credit is relatively low compared to the amount of contributions an individual could make. *[Evaluated by the Secretary of State.]*

1.192 PERSONAL EXEMPTION

Oregon Statute: 316.085

Sunset Date: None

Year Enacted: 1985

	Corporation	Personal	Total
2005–07 Revenue Impact:	Not Applicable	\$878,200,000	\$878,200,000
2007–09 Revenue Impact:	Not Applicable	\$924,100,000	\$924,100,000

DESCRIPTION: Oregon personal income taxpayers receive a personal exemption credit for each taxpayer and dependent represented on the return (although individuals who can be claimed as a dependent on another's return cannot claim a credit on their own return). The amount of the credit is \$159 in 2006 (indexed to inflation).

PURPOSE: To provide a minimum level of tax-free income for all Oregon personal income taxpayers.

WHO BENEFITS: Oregon personal income taxpayers, except those who are claimed on another taxpayer's return. The number of personal exemptions increased from about 2.7 million in 1990 to 3.4 million in 2004.

Income Group (Quintiles)	Taxpayers		Mean Credit
	Number	Percent	
Below \$10,600	207,407	15.2%	\$95
\$10,600 - \$22,700	282,064	20.7%	\$228
\$22,700 - \$39,700	290,832	21.3%	\$290
\$39,700 - \$67,700	292,048	21.4%	\$354
Above \$67,700	292,222	21.4%	\$415
Total	1,364,573	100.0%	\$288

EVALUATION: The credit achieves its purpose of providing a level of tax-free income for personal income taxpayers, and because the credit is granted for each taxpayer and dependent, the credit increases with family size. Because this tax relief is in the form of a credit rather than a deduction, it provides more tax relief, relative to incomes, to lower income taxpayers, increasing the progressivity of Oregon's income tax. *[Evaluated by the Department of Revenue.]*

1.193 OREGON CULTURAL TRUST

Oregon Statutes: 315.675

Sunset Date: 12-31-12

Year Enacted: 2001

	Corporation	Personal	Total
2005-07 Revenue Impact:	Less than \$50,000	\$3,300,000	\$3,300,000
2007-09 Revenue Impact:	Less than \$50,000	\$3,700,000	\$3,700,000

- DESCRIPTION:** Allows an income tax credit for contributions made to the Trust for Cultural Development Account. The contribution must be matched by a contribution to an Oregon cultural organization. The credit is limited to a maximum of \$500 for a single filer, \$1,000 for joint filers, and \$2,500 for corporations. The credit may not be carried forward to another tax year. The Oregon Cultural Trust Board oversees the Trust for Cultural Development Account.
- The Oregon Cultural Trust invests in Oregon cultural development by funding county and tribal coalitions, providing grants to cultural organizations, and funding statewide cultural agencies.
- PURPOSE:** To create incentives for increased cultural development in Oregon and to encourage direct donations to Oregon-based nonprofit entities organized primarily for the purpose of producing, promoting or presenting the arts, heritage and humanities to the public, or for identifying, documenting, interpreting and/or preserving cultural resources which would include theatres, performing arts centers and programs, historic buildings, museums and their exhibits, public art, historic trails, historic cemeteries, archeological sites, architecture, Native American and other ethnic traditions, libraries and parks.
- WHO BENEFITS:** In 2005, about 3,400 Oregon taxpayers qualified for this credit. Nearly all credits were issued to personal income taxpayers. Oregon cultural organizations and the public also benefit from the Oregon Cultural Trust’s efforts to develop, exhibit, and preserve cultural resources.
- EVALUATION:** This tax incentive appears to achieve its purpose. It successfully funds cultural institutions, projects, and activities, for which public support is commonplace in the U.S. and elsewhere. The tax program accomplishes this with a great many small tax credits, such that it is the interested individual citizen/taxpayer, who decides whether to fund these objectives based on that person’s own evaluation and interests. More than 3,400 Oregonians contributed to the Cultural Trust in the 2005 tax year. Also, this tax credit balances between individual preferences for funding and the more centralized, larger investment capacity embodied by the Oregon Cultural Trust. *[Evaluated by the Economic and Community Development Department/Oregon Arts Commission.]*

1.194 RETIREMENT INCOME

Oregon Statute: 316.157

Sunset Date: None

Year Enacted: 1991

	Corporation	Personal	Total
2005–07 Revenue Impact:	Not Applicable	\$2,000,000	\$2,000,000
2007–09 Revenue Impact:	Not Applicable	\$1,600,000	\$1,600,000

DESCRIPTION: Certain taxpayers who are 62 or older are allowed a credit against personal income taxes equal to 9 percent of their net pension income. To qualify for the credit, the taxpayer must have household income of \$22,500 or less (\$45,000 or less if married filing jointly) and no more than \$7,500 (\$15,000 if married filing jointly) in Social Security and/or Tier 1 Railroad Retirement Board benefits. Taxpayers claiming the Elderly or Permanently Disabled credit (1.147), however, are ineligible to claim this credit.

Net pension income includes all retirement income included in federal taxable income. This includes private, state, local, and federal government pensions (all in excess of returns of contributions) and distributions from deferred compensation plans, IRAs, SEPs, and Keoghs. It does not include Social Security benefits, which are not taxed by Oregon. Net pension income qualifying for the credit is limited. For joint filers the limit equals \$15,000 minus the Social Security benefits received minus household income (not considering Social Security benefits) over \$30,000. For taxpayers who do not file a joint return, the limit is \$7,500 minus Social Security benefits minus household income (not considering Social Security benefits) over \$15,000.

PURPOSE: To exempt some retirement income without discriminating among the sources of that income.

WHO BENEFITS: The number of taxpayers claiming the credit has declined significantly over the years. Approximately 53,000 taxpayers used it in 1991, dropping to approximately 7,500 in 2004. When federal pension income became exempt from taxation in 1998, the use of this credit declined substantially.

Income Group (Quintiles)	Taxpayers		Mean Credit
	Number	Percent	
Below \$10,600	1,357	18.0%	\$86
\$10,600 - \$22,700	3,197	42.5%	\$178
\$22,700 - \$39,700	2,697	35.8%	\$276
\$39,700 - \$67,700	279	3.7%	\$151
Above \$67,700	0	0.0%	N/A
Total	7,530	100.0%	\$195

EVALUATION: This tax expenditure appears to achieve its purpose. It provides added financial security to those eligible and contributes to their ability to remain self-sufficient. By

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encouraging financial independence, this provision reduces demand for other state-funded services and saves the state money. This tax expenditure will become increasingly important as the population distribution changes. Current forecasts indicate that current retirement savings are not nearly sufficient to support future retirees in their accustomed lifestyles. Because this tax provision is relatively new, it should be monitored to determine if the established threshold level should be modified in the future. *[Evaluated by the Department of Human Services.]*

1.195 EXPATRIATE RESIDENTIAL STATUS

Oregon Statute: 316.027

Sunset Date: None

Year Enacted: 1999

	Corporation	Personal	Total
2005–07 Revenue Impact:	Not Applicable	\$1,800,000	\$1,800,000
2007–09 Revenue Impact:	Not Applicable	\$1,900,000	\$1,900,000

- DESCRIPTION:** Prior to 1999, certain taxpayers who worked in foreign countries were taxed on income from all sources because they considered Oregon their permanent home and planned to return. 1999 legislation changed this by allowing these individuals to file as nonresidents in the year they depart or return to Oregon to live. For example, someone who leaves or returns to Oregon in the middle of a year may now file as a part-year resident, and therefore is liable for Oregon income tax only on the income earned in the state.
- PURPOSE:** To provide tax relief to individuals who are absent from the state and earn income abroad for a substantial part of the year, even if they have a permanent place of abode in Oregon.
- WHO BENEFITS:** Those residents who end up paying lower income taxes. Companies with substantial overseas operations also benefit, because they are more attractive to prospective employees.
- EVALUATION:** This expenditure achieves its purpose of not penalizing employees of companies that require such employees to hold foreign assignments. In this way, it makes the corporate climate more attractive for these companies, leading to easier recruitment and retention of hard-to-attract, globally minded individuals.
- Oregon remains relatively dependent on international trade, and its economy may benefit significantly from a tax climate that remains relatively attractive to individuals and corporations that do or can engage in international commerce.
[Evaluated by the Economic and Community Development Department.]

1.196 PUBLIC WAREHOUSE SALES THROWBACK EXEMPTION

Oregon Statute: 314.665

Sunset Date: None

Year Enacted: 2005 (SB 31A)

	Corporation	Personal	Total
2005–07 Revenue Impact:	Less than \$50,000	Not Applicable	Less than \$50,000
2007–09 Revenue Impact:	Less than \$50,000	Not Applicable	Less than \$50,000

- DESCRIPTION:** Oregon taxes corporations based on the percentage of their sales within the state. Sales outside the state that originate in Oregon can be taxed in Oregon, or “thrown back”, if the sales are to the federal government or are made in another state where the company does not have a taxable presence, or “nexus”. Under current law,

corporate sales that are thrown back from other states are voluntarily reported to the Department of Revenue on the Oregon corporate income tax return form.

This measure exempts certain corporations from throwing back sales. To qualify for the exemption, the corporation's sole activity in Oregon must be the storage of goods in a public warehouse or storing goods in a public warehouse and the presence of employees within the state solely for the purposes of soliciting sales.

The Department of Revenue determines if a corporation's activities fit the definition of a public warehouse above and are not used solely for corporate tax avoidance purposes.

PURPOSE: To encourage development and expansion of public warehouses in Oregon.

WHO BENEFITS: Corporations that utilize public warehouses in Oregon.

EVALUATION: Insufficient data to analyze direct utilization of this new expenditure. Nevertheless, as Oregon has transitioned to a single sales factor for interstate apportionment of corporate taxable income, Oregon-based distributors have suffered a loss of competitiveness. An out-of-state producer with little or no nexus in other states, to which its goods are distributed, would face an increasing Oregon tax liability if using an Oregon-based distributor or warehouse. Under such circumstances, without this provision, its sales in those other states would be thrown-back to Oregon as the place of origin in apportioning its domestic, pre-tax profits to Oregon. This is an effective expenditure, in that these out-of-state corporations would likely just avoid using Oregon-based warehousing or distribution, in effect costing the state even a greater amount of tax revenue. This exemption allows such warehouses and distributors to retain and grow their business services for smaller corporations that might operate out of Washington or another state. *[Evaluated by the Economic and Community Development Department]*

1.197 INCOME AVERAGING FOR FARMERS

Oregon Statutes: 314.297

Sunset Date: None

Year Enacted: 2001

	Corporation	Personal	Total
2005-07 Revenue Impact	Not Applicable	\$300,000	\$300,000
2007-09 Revenue Impact	Not Applicable	\$400,000	\$400,000

DESCRIPTION: Personal income taxpayers are permitted to use the federal farm income averaging method to compute Oregon personal income taxes on farm income. This method allows taxpayers to calculate their current year income tax by averaging their income from farming over a three-year period.

Taxpayers may designate all or a portion of their current year income from farming as elected farm income and pay tax on that income as if it had been earned over the three prior tax years. The elected farm income can include gain on the sale of farm assets, with the exception of gain on the sale of land.

PURPOSE: To allow the 1997 reintroduction of federal farm income averaging to pass through to Oregon taxable income.

WHO BENEFITS: Taxpayers whose main source of income is agricultural production. For 2004, approximately 40 individuals saved at least \$500 on their Oregon tax using this provision. Many other individuals used this provision but saved less than \$500.

EVALUATION: Farmers often face substantial price swings from year to year while expenses stay fixed or rise. Matching the Oregon tax code to the federal code allowing farmers to use income averaging is consistent and provides a tool for growers to smooth out their financial management. *[Evaluated by the Department of Agriculture.]*

1.198 CAPITAL GAINS FROM FARM PROPERTY

Oregon Statutes: 318.020 and 317.063

Sunset Date: None

Year Enacted: 2001

	Corporation	Personal	Total
2005-07 Revenue Impact	Less than \$50,000	\$1,000,000	\$1,000,000
2007-09 Revenue Impact	Less than \$50,000	\$1,100,000	\$1,100,000

DESCRIPTION: Oregon long-term personal and corporate income tax rates are reduced to 5 percent on liquidated assets, including land, that were previously used in qualified farming activities. Qualified sales must constitute a substantially complete termination of a farming business.

PURPOSE: To lower the tax burden on farmers liquidating their farming businesses.

WHO BENEFITS: Property owners who terminate a farming business benefit by realizing more of their capitalized equity. For 2004, approximately 120 individuals saved at least \$500 on their Oregon tax using this provision. Many other individuals used this provision but saved less than \$500. About 10 corporations a year claim qualifying capital gains, but most are unable to benefit.

EVALUATION: Farmers build equity in their operations over time through ownership (paying down debt), appreciation, and improvements. Years of work are capitalized into the land, buildings, and equipment used to operate a viable farm business, which represents the retirement savings for the farm family. Capital gains taxes can substantially reduce the retirement “savings” of growers and discourage land sales. Many retired growers lease or rent out their land because of the capital gains penalty from selling. This simply pushes the tax burden to those inheriting the assets at the owner’s death. The average age of farmers in Oregon is over 55 years of age. These farmers own more than 50 percent of the farmland in Oregon; this farmland is destined to change hands in the next decade. Lower capital gains rates for those leaving agriculture achieve the purpose of an orderly transfer of ownership with a better secured retirement for older farmers. *[Evaluated by the Department of Agriculture.]*

1.199 APPORTIONMENT FOR CERTAIN FOREST PRODUCT COMPANIES

Oregon Statute: 314.650(2)
Sunset Date: None
Year Enacted: 2003

	Corporation	Personal	Total
2005–07 Revenue Impact:	Not Available	Not Applicable	Not Available
2007–09 Revenue Impact:	Not Available	Not Applicable	Not Available

DESCRIPTION: Certain forest products companies apportion their business income to Oregon using a double-weighted sales factor instead of using a single sales factor. This provision applies to any corporate taxpayer in the forest products industry that owns and manages between 300,000 and 400,000 acres in Oregon, and that processes at least 20 percent of the its total wood chip supply for papermaking from sawmill residue generated within Oregon.

This provision provides a deviation from the normal tax structure. Corporate taxes imposed by states are typically applied to apportioned income. Until 2005, corporations apportioned their income to Oregon using three factors: property, payroll and sales. For instance, the property factor is the corporation’s Oregon property as a percent of all of its property. Beginning July 1, 2005, most corporations apportion their income to Oregon using just the sales factor.

Changes in the apportionment formula are generally considered a change in the definition of the normal tax structure. The exception to the usual formula granted to certain forest product companies is included because it is applicable to a very specific subset of taxpayers.

PURPOSE: To lower taxes for narrowly defined forest product companies by requiring them to use the double-weighted sales factor formula to apportion income to Oregon.

WHO BENEFITS: Forest products firms that will apportion a lower percent of their income to Oregon under the double-weighted formula than they would under the formulas with larger sales factors. At the time this provision was passed by the Oregon Legislature, only one corporation was believed to qualify.

EVALUATION: Not evaluated.

1.200 APPORTIONMENT FOR UTILITIES AND TELECOMMUNICATION COMPANIES

Oregon Statute: 314.280
Sunset Date: None
Year Enacted: 2001

	Corporation	Personal	Total
2005–07 Revenue Impact:	\$500,000	Not Applicable	\$500,000
2007–09 Revenue Impact:	\$600,000	Not Applicable	\$600,000

DESCRIPTION: Corporate taxpayers primarily engaged in the business of utilities or telecommunications may opt to apportion their business income to Oregon using a

double-weighted sales factor instead of the apportionment formula in place at that time.

Changes in the apportionment formula are generally considered a change in the definition of the normal tax structure. The exception to the usual formula granted to utilities and telecommunication companies is included because it is optional, and affected companies will choose the option based on lowest cost.

Utilities and telecommunications firms may elect to use this alternative apportionment formula according to rule established by the Department of Revenue. This election remains in place until revoked by the taxpayer according to rule established by the Department of Revenue. The revocation applies to the tax year following the year in which the election is made and to all subsequent tax years. Because these corporate taxpayers use the method that results in the lowest tax liability, tax revenue from these corporations will be lower than it would be if either apportionment formula applied to all corporations.

- PURPOSE:** "...to allocate to the State of Oregon on a fair and equitable basis a proportion of such income earned from sources both within and without the state." (ORS 314.280)
- WHO BENEFITS:** Utility and telecommunication firms benefit by being able to choose between double-weighted sales and the current apportionment formula.
- EVALUATION:** The state has deemed that allowing utilities and telecommunications companies to use the alternative apportionment formula provides a "fair and equitable" allocation of a corporate taxpayer's business income to Oregon. Firms that choose the alternative formula lower their Oregon tax liability. The Commission sets rates for utilities including electric and natural gas; for those utilities, the benefits of the reduced tax liability would be passed on to customers as a lower cost of providing service. Most telecommunications companies are no longer under rate of return regulation, so their customers would not be affected if their provider elected to use the alternative apportionment. *[Evaluated by the Public Utilities Commission.]*

1.201 TITLE 10 ACTIVE DUTY DEATH

Oregon Statute: 314.088

Sunset Date: None

Year Enacted: 2005 (HB 2933C)

	Corporation	Personal	Total
2005–07 Revenue Impact:	Not Applicable	Less than \$50,000	Less than \$50,000
2007–09 Revenue Impact:	Not Applicable	Less than \$50,000	Less than \$50,000

- DESCRIPTION:** Members of the Armed Forces, military reserves, or other state militia service who die while performing military duties are absolved from all income tax liability (tax, penalty and interest). To qualify, members must have been under Title 10 service (activated under Presidential order) for 90 or more days at the time of death, and the death must occur on or after September 11, 2001.
- PURPOSE:** To provide a financial benefit to the families of qualifying military personal who die during service to the country.
- WHO BENEFITS:** Families or estates of qualifying military personnel.

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EVALUATION: This tax expenditure achieves its purpose, which is to relieve the financial burdens of families affected by the death of their loved ones in the military. It is also the most fiscally effective means of achieving this purpose. The extremely high demands placed on our service members since September 11, 2001 have merited this type of benefit to assist their families wherever possible. It represents a small token of appreciation for the service our soldiers and airmen have provided for our country. *[Evaluated by the Military Department.]*

1.202 SINGLE SALES FACTOR CORPORATE APPORTIONMENT

Oregon Statute: 314.650
Sunset Date: None
Year Enacted: 2003, Modified in 2005 (SB 31A)

	Corporation	Personal	Total
2005–07 Revenue Impact:	\$77,600,000	Not Applicable	\$77,600,000
2007–09 Revenue Impact:	\$65,600,000	Not Applicable	\$65,600,000

DESCRIPTION: Many corporations subject to Oregon’s corporate income tax also do business in other states. For these corporations, Oregon law defines the process for estimating the income attributable to Oregon.. For tax years beginning on or after July 1, 2005 most corporations will apportion their income to Oregon using just the sales factor. This will require corporations to multiply their business income by the percent of their total sales that are in Oregon to estimate their income attributable to Oregon. This formula is known as the single sales factor formula.

The following table shows the standard apportionment formulas in Oregon’s recent history:

	Property	Payroll	Sales
Double-weighted sales (Standard formula 1991 to 2003)	25%	25%	50%
Super-weighted sales (Standard formula beginning 2003)	10%	10%	80%
Single sales factor (Standard formula beginning 2005)	0%	0%	100%

There is disagreement about whether a change in the apportionment formula is a tax expenditure. ORS 291.201 defines a tax expenditure as, “any law...that exempts, in whole or in part, certain persons, income, goods, services or property from the impact of established taxes.” The apportionment formula defines the structure of established taxes, whereas all other items included in this report represent a specific deviation from established taxes.

The U.S. Supreme Court has said that neither the single sales factor nor the equally weighted three-factor formula is the natural method of apportioning income. The court has upheld the use of either formula to approximate the income earned within a specific state. Using a formula to apportion corporate income is “a rough approximation of a corporation’s income that is reasonably related to the activities conducted within the taxing State.” *[Moorman Mfg. Co. v. Bair, 437 U.S. 267 (1978)]*

The revenue impact assumes that using the double-weighted sales factor formula is the established tax for Oregon, and that using the single sales factor is a deviation. See Tax Expenditures 1.199 and 1.200 for tax expenditures resulting from deviating from the single sales factor.

- PURPOSE:** "...to allocate to the State of Oregon on a fair and equitable basis a proportion of such income earned from sources both within and without the state." (ORS 314.280)
- WHO BENEFITS:** The beneficiaries are corporate taxpayers that apportion their business income to Oregon using the single sales factor apportionment formula and have a high proportion of property and/or payroll in Oregon relative to their proportion of sales in Oregon. About 1,400 taxpayers per year would have reduced taxes averaging about \$37,300 each if this provision was in place for tax years 2001 to 2003.
- Most Oregon corporate taxpayers that do not pay the minimum tax pay higher taxes using single sales factor apportionment. About 2,300 taxpayers per year would have increased taxes averaging about \$11,700 each if this provision was in place for tax years 2001 to 2003.
- EVALUATION:** Not evaluated.

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 \$8.0 billion in the 2005-07 biennium and \$8.6 billion in the 2007-09 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.

The Department of Revenue also publishes an annual report that provides detailed statistics on Oregon's property tax system. The most recent edition of *Oregon Property Tax Statistics* can be found at <http://www.oregon.gov/DOR/STATS/index.shtml>.

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

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 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

2005–06 Assessed Value of Property Exempted: \$477.5 million

	Loss	Shift
2005–07 Revenue Impact:	\$14,600,000	\$2,200,000
2007–09 Revenue Impact:	\$15,800,000	\$2,400,000

- 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 tax treatment for certain school and child care properties that is analogous to the treatment provided to similar organizations (See Charitable, Literary, and Scientific Organizations (2.075) exemption).
- WHO BENEFITS:** Approximately 620 schools and day care properties in 15 counties were exempt in fiscal year 2005–06. Almost half of the accounts and 70 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.]*

Property Tax
Full Exemption

2.002 STUDENT HOUSING FURNISHINGS

Oregon Statute: 307.195
Sunset Date: None
Year Enacted: 1957

2005–06 Assessed Value of Property Exempted: \$3.6 million

	Loss	Shift
2005–07 Revenue Impact:	\$100,000	Less than \$50,000
2007–09 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.

PURPOSE: To help keep college housing costs to a minimum.

WHO BENEFITS: Nonprofit organizations that rent furnished units to college students.

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

2005–06 Assessed Value of Property Exempted: \$282.5 million

	Loss	Shift
2005–07 Revenue Impact:	\$8,700,000	\$1,300,000
2007–09 Revenue Impact:	\$9,600,000	\$1,400,000

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

2005–06 Assessed Value of Property Exempted: \$139.1 million

	Loss	Shift
2005–07 Revenue Impact:	\$4,200,000	\$600,000
2007–09 Revenue Impact:	\$4,300,000	\$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, 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

2005–06 Assessed Value of Property Exempted: \$0.5 million

	Loss	Shift
2005–07 Revenue Impact:	Less than \$50,000	Less than \$50,000
2007–09 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

Property Tax
Full Exemption

publicly owned libraries are exempt under State and Local Property (2.070). 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: Seven 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 law was first enacted by the Territorial Government in 1854. That was nearly a half-century before Oregon had a public library law that enabled local communities to establish tax-supported libraries. Today there are 132 such libraries serving most of the state and a number of other libraries, mostly organized as non-profit corporations, that do not claim the exemption afforded under ORS 307.160.

The Oregon State Library Board of Trustees would offer 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 15 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 three library districts headquartered in Veneta, Florence, and Creswell do not have public library services.

The Dexter Library is a volunteer library that was established several years ago. They applied for, and were granted, an exemption under ORS 307.160 beginning in the 2002 tax year.

The Lane Library District in Creswell was formed in 2005. They lease a facility from the Gemmell Living Trust. They negotiated a lease with the Trust that gives them reduced lease costs due to the fact that the Trust has been granted an exemption from property taxes by Lane County under ORS 307.160. The Oregon Department of Revenue has indicated that the Trust would also be exempt under ORS 307.090 and ORS 307.112. This law gives all municipal corporations the ability to lease facilities that then become tax exempt upon approval of a claim for exemption by a county. This being the case, repeal of ORS 307.160 would not adversely affect the Lane Library District, assuming the Lane County would be willing to approve an exemption for the Gemmell Living Trust under ORS 307.090 and 307.112.

The Lane Library League is currently working toward a plan that could bring public library services to all of Lane County. 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 could not operate without 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 their Central Library and 16 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 State Library.]*

2.006 LEASED HEALTH CARE PROPERTY

Oregon Statute: 307.110(3)(h)

Sunset Date: None

Year Enacted: 1999

2005–06 Assessed Value of Property Exempted: \$1.4 million

	Loss	Shift
2005–07 Revenue Impact:	Less than \$50,000	Less than \$50,000
2007–09 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

Property Tax
Full Exemption

of adequate and convenient office space is often a critical factor in the recruitment 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

2005–06 Assessed Value of Property Exempted: \$7 million

	Loss	Shift
2005–07 Revenue Impact:	\$200,000	Less than \$50,000
2007–09 Revenue Impact:	\$200,000	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, Hood River, 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 Department of Human Services.]*

2.008 COMMERCIAL BUILDINGS UNDER CONSTRUCTION

Oregon Statute: 307.340

Sunset Date: None

Year Enacted: 1959

2005–06 Assessed Value of Property Exempted: \$211.3 million

	Loss	Shift
2005–07 Revenue Impact:	\$4,900,000	\$800,000
2007–09 Revenue Impact:	\$5,000,000	\$800,000

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,
- no part of the new structure or improvement is in commercial use or occupancy,
- is being built for the purpose of earning income,
- is not to be occupied for at least one year after beginning construction if a non-manufacturing 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 revenue impact estimates include Construction-in-Process in an Enterprise Zone (2.009).

PURPOSE: To encourage investment in business by delaying property taxes until the facility can earn income.

WHO BENEFITS: Roughly 548 properties were exempt in 2005–06 under this expenditure or technically under Construction-in-Process in an Enterprise Zone (2.009). The location and amount can fluctuate substantially from year to year as major construction projects take place. Typically the majority of the exempt value is in the Portland metro area; 534 of the 2005-06 properties were in Multnomah County.

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 might be under-utilized, probably because it is not widely known (aside from utilization with enterprise zones or in the Portland metropolitan area) and administrative technicalities may 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)

2005–06 Assessed Value of Property Exempted: Incl. in Commercial Buildings Under Construction (2.008)

	Loss	Shift
2005–07 Revenue Impact:	Included in 2.008	Included in 2.008
2007–09 Revenue Impact:	Included in 2.008	Included in 2.008

- 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, and
 - the property will not be operated as a hotel, motel, or destination resort.
- 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 somewhat more property than might otherwise be the case under Commercial Building Under Construction (2.008). Such additional coverage under this provision include:
- A project of an authorized firm without new construction or addition to a building, but rather only modifications to or installations of qualified property,
 - Non-manufacturing facility (*e.g.*, a warehouse) of an authorized business firm taking less than 12 months to build,
 - Qualified property items that once installed are still personal property,
 - Machinery and equipment installed directly on land and not inside a building or otherwise affixed to a structure, and
 - Property that is still in the process of construction, reconstruction, modification or installation in a year, even after some part of the same facility or building has already been placed in service. [*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 2005 (HB 3143)

2005–06 Assessed Value of Property Exempted: \$910.2 million

	Loss	Shift
2005–07 Revenue Impact:	\$26,100,000	\$4,300,000
2007–09 Revenue Impact:	\$30,800,000	\$5,000,000

DESCRIPTION:

Qualified property owned or leased by a qualified business firm in an enterprise zone is exempt from property tax for three years. The local zone sponsor may increase the exemption period to a total of four or five consecutive years, if statutory employee compensation requirements and other specified sponsor conditions are satisfied. The qualified property must be used to produce income.

Cities, ports and counties apply for and sponsor enterprise zones inside their territory, or such governments may consent to a zone sponsored by other such jurisdictions. The applicant for a new designation or re-designation must consult with all taxing districts within the area proposed for designation in preparing applications to Economic and Community Development Department. Zone designations statewide cannot exceed 57, plus Reservation Enterprise Zones (see 1.154) and those based on federal designations.

An enterprise zone designation terminates after 10 years. A business firm qualified or authorized when the zone terminates may continue to qualify subsequent, continuous expansions of its zone operations 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 qualifies if the firm meets all of the following conditions:

- provides eligible products or services (assembly, fabrication, storage, *etc.*) as determined by statute and the designating agencies,
- is authorized pursuant to an application submitted before the start of new construction or installations of qualified property and approved by the local zone manager and county assessor,
- owns or leases qualified property that is part of the authorized business operations inside the zone,
- enters into a first-source hiring agreement to notify publicly funded job-training providers (community college, WIA, state agencies) of job openings, and to consider their referrals of qualified job applicants during exemption period,
- increases its full-time, year-round employment inside the enterprise zone by 10 percent or one employee, whichever is greater,
- maintains at least minimum employment levels during each year of the exemption, and
- does not initially diminish employment outside the zone boundary, except within 30 miles subject to an overall 10 percent increase.

Property Tax
Full Exemption

The following property of a qualified firm qualifies for the exemption, if generically indicated in the authorization application (regardless of total actual cost), and if it is first placed in service inside the zone in the immediate prior calendar year:

- all newly constructed, added to, modified or installed real property (buildings, structures and affixed/heavy machinery and equipment) if costing \$50,000 or more in total,
- modifications to an existing real property item of machinery or equipment for which refurbishments, retrofits, reconditioning or upgrades cost \$50,000 or more,
- an item of newly installed personal property costing \$50,000 or more, and
- an item of newly installed 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.

Regardless of all else, property must not be assessed or any work begun on it until after the zone is effectively designated or amended to include its location, and newly installed machinery and equipment or personal property must be either newly acquired or newly transferred into the zone from outside the county.

Property is disqualified if it is moved outside the zone or used for ineligible activity (e.g., retail) or if 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.

As of August 2006, there were 55 enterprise zones spread throughout the state in 35 of the 36 counties; of these, nine are "urban." These designations are sponsored by 96 cities, 2 ports, 29 counties and 1 Indian Tribe. Most enterprise zone businesses are manufacturing facilities, but approved properties include hotels, call centers, distribution centers, and other types of unconventional industries.

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 2,500 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 employment opportunities, or indirectly, through increased business activity, tax receipts and induced effects, as well as the initial stimulation from construction. Although a few zones have been unable to attract new investment, most have had at least significant 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 were thoroughly revised by the 1989

Legislature. 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.

In 2003, only a few modest policy changes were enacted [OR Laws 2003, Chapter 662 (HB 2299)] but the statutory scheme was thoroughly revisited and redesigned. In 2005, 10 more enterprise zones were allowed, of which six were designated by August 2006. That year's bill also provided for local zone sponsorship by ports and required consultation with all local taxing districts for any future designation.

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 2005-06 property tax year, there were 133 different exemptions, corresponding to 115 distinct investment projects. Businesses that were new to the enterprise zone—*i.e.*, not already operating there—comprised just 25 of these projects.

Total investments approximated \$1.5 billion, representing \$1.29 billion dollars in new, tax-exempt property value, which equated to \$18.6 million in property tax savings for qualified business firms in 2005-06.

These property tax savings and the underlying investments vary by orders of magnitude. Tax savings range from \$0 to \$3,800,000, with an average of about \$140,000, but a median value of only \$13,735.

Three quarters of the investments are under \$5 million, while much of the total exempt value is dominated by only nine projects costing in excess of \$25 million each, including a few giant capital projects worth hundreds of million of dollars.

The *extended abatement* program (which with local agreement offers two additional years for five consecutive years of exemption), accounted for 35 exemptions out of 115, but 71 percent of the exempt value. As such, the average length for all exemptions was 4.4 years.

In 2006, another 44 distinct investments costing about \$224 million in total will commence enterprise zone exemptions. And in the next few years, proposed investments by authorized business firms will readily exceed \$1 billion.

Job Creation—New, full time employees is slightly less than 5,900, in terms of persons working for qualified business firms receiving 2005-06 exemptions from property taxes. (Existing – potentially retained – employment with these firms in the enterprise zone was greater than 8,700)

Newly completed investments that begin exemptions in 2006-07 are associated with another 1,252 jobs.

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 one job or 10 percent—and be annually maintained at that level during the tax abatement period. The average increase was 44 new, full-time, year-round employees for investments exempted in 2005-06.

For extended abatements of four or five years, new jobs totaled 1,789 in relation to the 2005-06 exemptions. To receive the extension (except for Portland-area urban zones), these new employees must enjoy average annual compensation that equals or exceeds 150 percent of the county average annual wage, which across applicable counties would mean a current standard of \$46,142 per year.

Property tax savings per new job averaged \$13,981 for all exempted projects, and \$37,966 for extended abatements, over the total (average) length of the exemption period. These sorts of statewide figures remain highly problematic—varying dramatically from year to year, and they can shrink many times if one or two very extreme outliers are removed in terms of massive projects with little or no new jobs, which (must) receive special local sponsor approval.

Expansion of Property Tax Base—In addition to the direct job creation, as well as indirect or induced effects from business investments and hiring in the enterprise zones, there is a longer-run benefit to the public : Increased property tax revenues.

Since the program's beginning, in excess of \$2.5 billion in taxable property value has been added to county assessment rolls at the conclusion of an enterprise zone exemption, with as much as another \$2 billion to be added over the next five years.

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 has not or did not qualify for exemption, and other local property investments and values will have risen as a result, too.

Communities & Local Economies. As noted already, enterprise zones are found throughout the state. Compared to other states, Oregon's program continues to stand out for its rural basis. For several years, the trend had been for designations to be found increasingly in the more sparsely populated parts of the state. In 2005 and 2006, this trend was somewhat reversed, in that four urban zones were designated, including an unprecedented three in the greater Portland metropolitan area.

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. In terms of projects and jobs, enterprise zones in the state's central corridor and southwest are performing quite well, in general.

Combining the 2005-06 exemptions and newly completed investments for 2006, 18 of the 55 enterprise zones have no activity. A few of these 18 zones have been active in the past, and/or they have proposed projects under construction. Six were designated only in 2006. Nevertheless, nine zones have existed for several years and had next to no activity or prospects, and for other enterprise zones in smaller, more isolated localities, 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 at least 59 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 RURAL ENTERPRISE ZONE (PROPERTY TAX)

Oregon Statute: 285C.406

Sunset Date: 06-30-09

Year Enacted: 1997, Modified in 2005 (HB 2234)

2005–06 Assessed Value of Property Exempted: \$106.0 million

	Loss	Shift
2005–07 Revenue Impact:	\$2,200,000	\$400,000
2007–09 Revenue Impact:	\$2,600,000	\$500,000

DESCRIPTION: The value of all new property and improvements at certain large facilities in a rural enterprise zone are exempt from property tax for 7 to 15 years. Prior to this locally determined period, this new property if owned or leased by a certified business firm is exempt while under construction.

A business applies for certification with the city, port 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 75 full-time employees within five years,

Property Tax
Full Exemption

- the average annual 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, ports or county that sponsor the zone, which may include additional requirements, such as contributions for local services or infrastructure, and
- the facility is located in a rural enterprise zone and within a county with chronic unemployment or low income, as defined in statute, when the local agreement is executed.

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 Rural Enterprise Zone (Income Tax) (1.153)], 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 rural enterprise zone; for Enterprise Zone Businesses, business can be located in any rural or urban enterprise zone.

PURPOSE: To encourage investment in rural enterprise zone areas of chronic unemployment or low income.

WHO BENEFITS: Local officials had certified five business firms/project under this program, as of August 2006 ... four of them in the previous 18 months. Several other companies proposing major new facilities and workforces are also seeking or inquiring to use these tax incentives. This provision is intended to benefit rural 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 rural areas would have located to another state, or would not be looking so seriously at rural Oregon for major investments. 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 could 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. Other subsequent tweaks to the statutes have made this program even more useable and appreciated.

Interest and applications from investors has increased notably since 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: 12-31-05

Year Enacted: 2003 (HB 2671)

2005–06 Assessed Value of Property Exempted: \$0

	Loss	Shift
2005–07 Revenue Impact:	\$0	\$0
2007–09 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, and
- the agreement must set forth a distribution schedule under which the in lieu payment is distributed to taxing districts. The 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.

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

2005-06 Assessed Value of Property Exempted: Included in 2.010

	Loss	Shift
2005-07 Revenue Impact:	Included in 2.010	Included in 2.010
2007-09 Revenue Impact:	Included in 2.010	Included in 2.010

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 taxpayer is also eligible for an income tax credit based on its capital investment in electronic commerce assets—see tax expenditure Electronic Commerce Enterprise Zone (Income Tax) (1.155).

The electronic commerce zone is a specific type of enterprise zone, and this exemption does not differ substantially from what would be available in any existing enterprise zone—see tax expenditure Enterprise Zone Businesses (2.010).

The only property that may be effectively exempted from property taxes that would not normally be exempt under the standard enterprise zone exemption (2.010) is as follows:

- property in the electronic commerce city, which is not an enterprise zone, and which has not yet had an authorized electronic-commerce business firm,
- property of an electronic commerce business that would not otherwise be eligible under an enterprise zone exemption (no clear 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 income tax credit (1.155).

“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, as well as related operations that support or ensue from the internet-based transactions or customer service, such as shipping and storage facilities for order fulfillment.

Cities, ports or counties wishing to establish an electronic commerce enterprise zone must apply to the Economic and Community Development Department. The zone must first be designated as an enterprise zone before it can become an electronic commerce zone. By statute, up to 10 electronic commerce zones and one electronic commerce city may be designated. In 2006, there were nine designated Electronic Commerce Enterprise Zones and one Electronic Commerce City (North Plains).

PURPOSE: To encourage development of electronic commerce in particular areas and in Oregon as a whole.

WHO BENEFITS: Businesses operating in electronic commerce zones and cities.

EVALUATION: Respective to the above four points about property that is likely to be exempt in an area designated for “electronic commerce,” but not necessarily otherwise, number 4

(inducement effect of the income 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) (1.155)—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 notably 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 original *e-commerce* enterprise zones.

In the new five electronic commerce zones, there are also imminent projects anticipated to be underway by 2007.

In the 2005-06 tax year, 14 *e-commerce* projects were receiving enterprise zone exemptions, totaling more than \$25 million in property value and associated with 736 new jobs. A few of these are receiving extended abatements, with the attendant high employee-compensation requirement—see Enterprise Zone Businesses (2.010).

In 2006, six more *e-commerce* investments of nearly \$4 million will begin exemptions, adding 133 new employees as of April 2006. [*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, Modified in 2005 (HB 3350)

2005–06 Assessed Value of Property Exempted: \$0

	Loss	Shift
2005–07 Revenue Impact:	\$0	\$0
2007–09 Revenue Impact:	\$800,000	\$100,000

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. The total amount of investment per project allowed is set by a local resolution for the exemption.

To qualify, property must:

- be used to generate electricity from renewable energy or support or maintain a renewable energy facility,

Property Tax
Full Exemption

- 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 three years, 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: Insufficient data for analysis. By September 2006, five counties have been designated as an RREDZ, and other counties are presently considering such designation. Two projects have been authorized, one for biomass combustion and one for wind-power. *[Evaluated by the Economic and Community Development Department.]*

2.015 INVENTORY

Oregon Statute: 307.400
Sunset Date: None
Year Enacted: 1969

2005-06 Assessed Value of Property Exempted: \$15.1 billion

	Loss	Shift
2005–07 Revenue Impact:	\$410,400,000	\$75,900,000
2007–09 Revenue Impact:	\$434,000,000	\$80,300,000

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 are the primary beneficiaries of 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.

Almost all states provide some form of relief from property taxes on the value of goods for sale and on supplies that are transformed into goods for sale. 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. Moreover, the valuation of inventories on a particular date each year would represent a rather contrived exercise. *[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

2005–06 Assessed Value of Property Exempted: \$164.5 million

	Loss	Shift
2005–07 Revenue Impact:	\$5,000,000	\$800,000
2007–09 Revenue Impact:	\$5,900,000	\$1,000,000

DESCRIPTION: The county assessor may cancel the annual business personal property tax assessment for a taxpayer if the total assessed value of the property is less than the specified maximum. To receive this cancellation of taxes, the taxpayer must still file a return with 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 by adjusting the prior year's maximum by the U.S. City Average Consumer Price Index and rounded to the nearest \$500. The threshold is \$14,000 for the tax year beginning July 1, 2006.

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 48,600 accounts received this exemption in 2005–06.

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.

Property Tax
Full Exemption

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)

2005–06 Assessed Value of Property Exempted: \$12.1 million

	Loss	Shift
2005–07 Revenue Impact:	\$300,000	\$100,000
2007–09 Revenue Impact:	\$400,000	\$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 in Oregon. *[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)

2005–06 Assessed Value of Property Exempted: \$286.2 million

	Loss	Shift
2005–07 Revenue Impact:	\$8,500,000	\$1,400,000
2007–09 Revenue Impact:	\$10,000,000	\$1,600,000

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, public dock property that is used for berthing ships or barges, or handling, loading, and unloading cargo from

ships, or cleaning or decontaminating agricultural cargo 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.

An in lieu tax of one-quarter of one percent of real market value is assessed for these properties, and is distributed to school districts.

This tax expenditure covers agricultural commodity cleaning property, which was listed as a separate tax expenditure in previous reports. It is included here because it is treated the same as all property exempted by ORS 307.120.

- 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 13 counties.
- 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

2005–06 Assessed Value of Property Exempted: \$107.1 million

	Loss	Shift
2005–07 Revenue Impact:	\$3,300,000	\$500,000
2007–09 Revenue Impact:	\$3,700,000	\$500,000

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.

Property Tax
Full Exemption

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 SHIP REPAIR FACILITY MATERIALS

Oregon Statute: 308.256(7)
Sunset Date: None
Year Enacted: 1957

2005–06 Assessed Value of Property Exempted: \$0

	Loss	Shift
2005–07 Revenue Impact:	\$0	\$0
2007–09 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 (2.114).
- 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.

2.021 AIRCRAFT BEING REPAIRED

Oregon Statute: 308.559

Sunset Date: None

Year Enacted: 1995

2005–06 Assessed Value of Property Exempted: \$0

	Loss	Shift
2005–07 Revenue Impact:	\$0	\$0
2007–09 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.]*

2.022 RAILROAD CARS BEING REPAIRED

Oregon Statute: 308.665

Sunset Date: None

Year Enacted: 1973

2005–06 Assessed Value of Property Exempted: \$0

	Loss	Shift
2005–07 Revenue Impact:	\$0	\$0
2007–09 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

Property Tax
Full Exemption

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.]*

2.023 FEDERAL LAND UNDER RECREATION FACILITY

Oregon Statute: 307.182
Sunset Date: 6-30-12
Year Enacted: 1975

2005–06 Assessed Value of Property Exempted: \$61.6 million

	Loss	Shift
2005–07 Revenue Impact:	\$1,300,000	\$300,000
2007–09 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.]*

2.024 DEFENSE CONTRACTOR WITH FEDERAL PROPERTY

Oregon Statute: 307.065

Sunset Date: None

Year Enacted: 1965

2005–06 Assessed Value of Property Exempted: \$0

	Loss	Shift
2005–07 Revenue Impact:	\$0	\$0
2007–09 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.]*

2.025 FEDERAL LAND UNDER SUMMER HOMES

Oregon Statutes: 307.183 and 307.184

Sunset Date: 6-30-12

Year Enacted: 1975

2005–06 Assessed Value of Property Exempted: \$45.4 million

	Loss	Shift
2005–07 Revenue Impact:	\$1,000,000	\$200,000
2007–09 Revenue Impact:	\$1,200,000	\$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

Property Tax
Full Exemption

\$1,502,000. One quarter of this amount, or about \$375,000, was shared with the counties.

EVALUATION: Not evaluated.

2.026 HOUSING AUTHORITY RENTAL UNITS

Oregon Statute: 307.092
Sunset Date: None
Year Enacted: 1937

2005–06 Assessed Value of Property Exempted: \$644.8 million

	Loss	Shift
2005–07 Revenue Impact:	\$19,900,000	\$3,000,000
2007–09 Revenue Impact:	\$22,200,000	\$3,300,000

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 2005–06, more than 1,600 properties rented units to low- or very low-income people, including the elderly, disabled, and single parents and their children. According to the Association of Oregon Housing Authorities, housing authorities in Oregon provide services to more than 92,000 people. The U.S. Department of Housing and Urban Development 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 the Housing and Community Services Department.]*

2.027 NONPROFIT ELDERLY HOUSING STATE FUNDED

Oregon Statute: 307.242
Sunset Date: None
Year Enacted: 1977

2005–06 Assessed Value of Property Exempted: \$75.4 million

	Total Paid by State
2005–07 Revenue Impact:	\$2,600,000
2007–09 Revenue Impact:	\$3,100,000

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

Property Tax
Full Exemption

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 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 2005–06 property taxes of about \$1.3 million for 43 homes. Homes are in 17 counties with 12 in Multnomah County and nine in Clackamas 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 the Housing and Community Services Department.]*

2.028 FARM LABOR HOUSING AND DAY CARE CENTERS

Oregon Statute: 307.485

Sunset Date: None

Year Enacted: 1973

2005–06 Assessed Value of Property Exempted: \$17.5 million

	Loss	Shift
2005–07 Revenue Impact:	\$400,000	\$100,000
2007–09 Revenue Impact:	\$400,000	\$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.

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 2005–06 counties reported 40 exempt farm labor housing properties in six counties, most are located in Umatilla or Washington county.

IN LIEU: 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.

Nonprofit corporations operating farm labor housing do not usually have a net income after depreciation, and 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

Property Tax
Full Exemption

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 the Housing and Community Services Department.]*

2.029 FAIRGROUND LEASED STORAGE SPACE

Oregon Statute: 307.110(3)(d)(e)

Sunset Date: None

Year Enacted: 1987

2005–06 Assessed Value of Property Exempted: Minimal

	Loss	Shift
2005–07 Revenue Impact:	Less than \$50,000	Less than \$50,000
2007–09 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: All thirty-six counties in Oregon hold county fairs, thirty-four counties have fairgrounds and most of those benefit from this exemption. The State Fair does not have any leased property that is exempt under this statute. While leasing storage space for livestock and equipment at fairgrounds is common, the duration of the leases are short enough and the sizes of space being leased small enough to make the revenue impact minimal.

EVALUATION: Not evaluated.

2.030 INDUSTRY APPRENTICESHIP/TRAINING TRUST

Oregon Statute: 307.580

Sunset Date: None

Year Enacted: 1983

2005–06 Assessed Value of Property Exempted: \$14.9 million

	Loss	Shift
2005–07 Revenue Impact:	\$400,000	\$100,000
2007–09 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. Many skilled labor occupations require an apprenticeship period in order to obtain a license in Oregon, and apprenticeship trusts provide training often unavailable at traditional schools.

WHO BENEFITS: The exemption lowers the cost of operation to the apprenticeship trusts and presumably the costs of the students who attend.

EVALUATION: Not evaluated.

2.031 FOOD PROCESSING EQUIPMENT

Oregon Statute: 307.455

Sunset Date: 6-30-11

Year Enacted: 2005 (SB 479C)

2005–06 Assessed Value of Property Exempted: \$0 million (\$69.2 million in 2006-07)

	Loss	Shift
2005–07 Revenue Impact:	\$900,000	\$200,000
2007–09 Revenue Impact:	\$1,900,000	\$300,000

DESCRIPTION: Beginning with tax year 2006-07, newly acquired machinery or equipment used by food processing businesses is exempt from property taxation for five years. The machinery or equipment may be either new or used, as long as it is newly acquired by the food processor.

Property Tax
Full Exemption

Food processing businesses are those that freeze, can, dehydrate, concentrate, preserve, process or repack fruit, vegetables, nuts legumes or seafood in any procedure that occurs prior to sale by the processor. Producers of alcoholic beverages are ineligible. Qualified machinery is certified by the Oregon Department of Agriculture.

- PURPOSE:** “The Legislative Assembly declares that a property tax exemption for qualified real property machinery and equipment encourages continued operation and expansion of the food processing industry in this state.” (ORS 307.453).
- WHO BENEFITS:** Food processors that acquire machinery and equipment.
- EVALUATION:** Not evaluated.

2.032 FARM MACHINERY AND EQUIPMENT (PROPERTY TAX)

Oregon Statute: 307.394
Sunset Date: None
Year Enacted: 1973

2005–06 Assessed Value of Property Exempted: \$2.5 billion

	Loss	Shift
2005–07 Revenue Impact:	\$53,200,000	\$10,700,000
2007–09 Revenue Impact:	\$55,600,000	\$11,100,000

- 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.]

2.033 MOBILE FIELD INCINERATORS

Oregon Statute: 307.390

Sunset Date: None

Year Enacted: 1971

2005–06 Assessed Value of Property Exempted: Minimal

	Loss	Shift
2005–07 Revenue Impact:	Less than \$50,000	Less than \$50,000
2007–09 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 Tax) (2.032).

The Alternatives to Field Burning tax expenditure (1.172) 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.]*

2.034 CROPS, PLANTS, AND FRUIT TREES

Oregon Statute: 307.320

Sunset Date: None

Year Enacted: 1957

2005–06 Assessed Value of Property Exempted: \$788 million

	Loss	Shift
2005–07 Revenue Impact:	\$16,700,000	\$3,300,000
2007–09 Revenue Impact:	\$17,900,000	\$3,600,000

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 (2.035).

Property Tax
Full Exemption

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.]*

2.035 AGRICULTURAL PRODUCTS HELD BY THE FARMER

Oregon Statute: 307.325

Sunset Date: None

Year Enacted: 1965, Modified in 2005 (HB 2581)

2005–06 Assessed Value of Property Exempted: \$10.2 million

	Loss	Shift
2005–07 Revenue Impact:	\$200,000	Less than \$50,000
2007–09 Revenue Impact:	\$200,000	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; bivalve mollusks; and vermiculture supplies and products.

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.

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.]*

2.036 NURSERY STOCK

Oregon Statute: 307.315

Sunset Date: None

Year Enacted: 1971

2005–06 Assessed Value of Property Exempted: \$311.5 million

	Loss	Shift
2005–07 Revenue Impact:	\$6,600,000	\$1,300,000
2007–09 Revenue Impact:	\$7,100,000	\$1,400,000

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 (2.034)] 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. <i>[Evaluated by the Department of Agriculture.]</i>

2.037 LEASED PUBLIC FARMING AND GRAZING LAND

Oregon Statute: 307.110(3)(b)

Sunset Date: None

Year Enacted: 1971

2005-06 Assessed Value of Property Exempted: Included in State and Local Property (2.070)

	Loss	Shift
2005–07 Revenue Impact:	Included in 2.070	Included in 2.070
2007–09 Revenue Impact:	Included in 2.070	Included in 2.070

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.

Property Tax
Full Exemption

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 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.]*

2.038 LEASED FEDERAL GRAZING LAND

Oregon Statute: 307.060
Sunset Date: None
Year Enacted: 1961

2005–06 Assessed Value of Property Exempted: Included in Federal Property (2.085)

	Loss	Shift
2005–07 Revenue Impact:	Included in 2.085	Included in 2.085
2007–09 Revenue Impact:	Included in 2.085	Included in 2.085

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.]*

2.039 OYSTER GROWING ON STATE LAND

Oregon Statute: 622.290

Sunset Date: None

Year Enacted: 1969

2005–06 Assessed Value of Property Exempted: \$1.3 million

	Loss	Shift
2005–07 Revenue Impact:	Less than \$50,000	Less than \$50,000
2007–09 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 percent 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.
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. <i>[Evaluated by the Department of Agriculture.]</i>

Property Tax
Full Exemption

2.040 CENTER PIVOT IRRIGATION EQUIPMENT

Oregon Statute: 307.398
Sunset Date: None
Year Enacted: 1973

2005–06 Assessed Value of Property Exempted: Incl. in Farm Machinery and Equipment (2.032)

	Loss	Shift
2005–07 Revenue Impact:	Included in 2.032	Included in 2.032
2007–09 Revenue Impact:	Included in 2.032	Included in 2.032

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 Tax) (2.032).

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 Farm Machinery and Equipment (2.032). *[Evaluated by the Department of Agriculture.]*

2.041 OTHER FARM / AQUACULTURE / EGG EQUIPMENT

Oregon Statute: 307.397
Sunset Date: None
Year Enacted: 1973

2005–06 Assessed Value of Property Exempted: Incl. in Farm Machinery and Equipment (2.032)

	Loss	Shift
2005–07 Revenue Impact:	Included in 2.032	Included in 2.032
2007–09 Revenue Impact:	Included in 2.032	Included in 2.032

DESCRIPTION: Certain machinery and equipment used in farm operations is exempt from 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 Tax) (2.032).

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 Farm Machinery and Equipment (2.032). *[Evaluated by the Department of Agriculture.]*

2.042 FIELD BURNING SMOKE MANAGEMENT EQUIPMENT

Oregon Statute: 307.391

Sunset Date: None

Year Enacted: 1973

2005–06 Assessed Value of Property Exempted: Minimal

	Loss	Shift
2005–07 Revenue Impact:	Less than \$50,000	Less than \$50,000
2007–09 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 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 (Property Tax) (2.032) 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 for Farm Machinery and Equipment (2.032). *[Evaluated by the Department of Agriculture.]*

2.043 NONPROFIT SEWAGE TREATMENT FACILITIES

Oregon Statute: 307.118

Sunset Date: None

Year Enacted: 1997

2005–06 Assessed Value of Property Exempted: Minimal

	Loss	Shift
2005–07 Revenue Impact:	Less than \$50,000	Less than \$50,000
2007–09 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.

Property Tax
Full 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 PROPERTY USED FOR GOLF COURSE AND EFFLUENT

Oregon Statutes: Note after 307.118
Sunset Date: 6-30-21
Year Enacted: 2001

2005-06 Assessed Value of Property Exempted: \$2.9 million

	Loss	Shift
2005-07 Revenue Impact	\$100,000	Less than \$50,000
2007-09 Revenue Impact	\$100,000	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 have been filed with the county assessor for this tax exemption on or before July 1, 2002.

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: Two golf courses benefit from this exemption. One of the golf courses is in Douglas County; the other is in Deschutes County.

EVALUATION: Not evaluated.

2.045 RIPARIAN HABITAT LAND

Oregon Statute: 308A.362

Sunset Date: None

Year Enacted: 1981

2005-06 Assessed Value of Property Exempted: \$4.1 million

	Loss	Shift
2005-07 Revenue Impact:	\$100,000	Less than \$50,000
2007-09 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 2006, the Department of Fish and Wildlife had enrolled 1,269.41 acres in the program along roughly 91 miles of streams. One hundred fifty-eight landowners participated as of June 2006.

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 related expenditure data 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

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Full Exemption

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. *[Evaluated by the Department of Fish and Wildlife.]*

2.046 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)

2005–06 Assessed Value of Property Exempted: \$105.7 million

	Loss	Shift
2005–07 Revenue Impact:	\$2,200,000	\$400,000
2007–09 Revenue Impact:	\$2,300,000	\$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 2005-06 there were 475 exemptions in 20 counties.

EVALUATION: The effectiveness of this exemption has not been evaluated because its 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.]*

2.047 CRAB POTS

Oregon Statute: 508.270

Sunset Date: None

Year Enacted: 1969

2005-06 Assessed Value of Property Exempted: \$11.8 million

	Loss	Shift
2005-07 Revenue Impact:	\$300,000	\$100,000
2007-09 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 200,000 commercial crab pots are used in Oregon coastal counties. The number of pots utilized in the fishery will decrease due to crab pot limits that will be implemented during the 2006-2007 season. Individuals will be limited to one of three tiers numbering 200, 300 or 500 depending on their history in the fishery. The maximum number of pots that can be used in the fishery will decrease to approximately 150,000. Noncommercial crab pots are exempt as Personal Property for Personal Use (2.068).

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.]*

2.048 FEDERAL STANDING TIMBER UNDER CONTRACT

Oregon Statute: 307.050

Sunset Date: None

Year Enacted: 1965

2005-06 Assessed Value of Property Exempted: \$274 million

	Loss	Shift
2005-07 Revenue Impact:	\$5,600,000	\$1,100,000
2007-09 Revenue Impact:	\$5,400,000	\$1,100,000

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.

Property Tax
Full Exemption

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.]

2.049 STATE AND LOCAL STANDING TIMBER UNDER CONTRACT

Oregon Statute: 307.100

Sunset Date: None

Year Enacted: 1965

2005-06 Assessed Value of Property Exempted: \$111 million

	Loss	Shift
2005-07 Revenue Impact:	\$2,300,000	\$500,000
2007-09 Revenue Impact:	\$2,300,000	\$500,000

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 339 million board feet in 2005. 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.

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.]

2.050 WESTERN PRIVATE STANDING TIMBER

Oregon Statute: 321.272

Sunset Date: None

Year Enacted: 1977

2005–06 Assessed Value of Property Exempted: \$20.3 billion

	Loss	Shift
2005–07 Revenue Impact:	\$399,300,000	\$85,200,000
2007–09 Revenue Impact:	\$415,000,000	\$88,500,000

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 purpose of holding off on premature harvests of private timber appears to be successful. 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 confiscatory levels for young timber in order to be effective. *[Evaluated by the State Forestry Department.]*

2.051 EASTERN PRIVATE STANDING TIMBER

Oregon Statute: 321.829

Sunset Date: None

Year Enacted: 1961

2005–06 Assessed Value of Property Exempted: \$2.0 billion

	Loss	Shift
2005–07 Revenue Impact:	\$38,800,000	\$8,500,000
2007–09 Revenue Impact:	\$40,300,000	\$8,900,000

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.

Property Tax
Full Exemption

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. *[Evaluated by the State Forestry Department.]*

2.052 PRIVATE FARM AND LOGGING ROADS

Oregon Statute: 308.236
Sunset Date: None
Year Enacted: 1963

2005-06 Assessed Value of Property Exempted: \$1.6 billion

	Loss	Shift
2005-07 Revenue Impact:	\$33,700,000	\$6,700,000
2007-09 Revenue Impact:	\$36,100,000	\$7,200,000

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 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.]*

2.053 FOREST FIRE PROTECTION ASSOCIATION

Oregon Statute: 307.125

Sunset Date: None

Year Enacted: 1957

2005–06 Assessed Value of Property Exempted: \$10 million

	Loss	Shift
2005–07 Revenue Impact:	\$300,000	Less than \$50,000
2007–09 Revenue Impact:	\$300,000	Less than \$50,000

DESCRIPTION: All property of forest protection districts, organizations, associations and agencies is exempt from property taxation if the property is used exclusively for forest protection and fire suppression under ORS Chapter 477.

PURPOSE: To help keep the cost of protecting timber assets low.

WHO BENEFITS: Forest protection associations. Most of the property of forest protection entities has been deeded over to the State Forestry Department, and the associations work under contract or cooperative agreement with the department. Currently twelve forest protection associations exist in the state. The three largest associations operate in Douglas County, in Coos and Curry counties, and in northern Klamath County.

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.]*

2.054 INACTIVE MINERAL INTERESTS

Oregon Statute: 308.115

Sunset Date: None

Year Enacted: 1997

2005–06 Assessed Value of Property Exempted: \$7.2 million

	Loss	Shift
2005–07 Revenue Impact:	\$200,000	Less than \$50,000
2007–09 Revenue Impact:	\$200,000	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

Property Tax
Full Exemption

from the tax rolls, but once that work is completed no significant administration is needed for these accounts.

We expect administrative costs to be low, with little change in total new exemptions. *[Evaluated by the Department of Geology and Mineral Industries.]*

2.055 LEASED STATE LAND BOARD LAND

Oregon Statute: 307.168
Sunset Date: None
Year Enacted: 1982

2005-06 Assessed Value of Property Exempted: \$85.5 million

	Loss	Shift
2005-07 Revenue Impact:	\$1,800,000	\$400,000
2007-09 Revenue Impact:	\$1,900,000	\$400,000

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 Department 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.]*

2.056 SMALL WATERCRAFT

Oregon Statute: 830.790(2)
Sunset Date: None
Year Enacted: 1959

2005-06 Assessed Value of Property Exempted: \$1.1 billion

	Loss	Shift
2005-07 Revenue Impact:	\$30,100,000	\$4,900,000
2007-09 Revenue Impact:	\$30,700,000	\$5,000,000

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:** As of December 2005, there were 187,640 boats registered in Oregon. Nearly 85 percent of these boats are less than 20 feet in length.
- IN LIEU:** Fees for registration and title are estimated to be about \$11.4 million in the 2005–07 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 Marine Board.]*

2.057 MINING CLAIMS ON FEDERAL LAND

Oregon Statute: 307.080
Sunset Date: None
Year Enacted: 1889

2005-06 Assessed Value of Property Exempted: \$6.6 million

	Loss	Shift
2005–07 Revenue Impact:	\$100,000	Less than \$50,000
2007–09 Revenue Impact:	\$200,000	Less than \$50,000

- 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:** In 2006, there were 5,510 mining claims on Bureau of Land Management land in Oregon. Claims are usually between 20 and 160 acres, but the number of claims varies a great deal over time.
- 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 typically exempt from local property taxation. *[Evaluated by the Department of Revenue.]*

2.058 NONPROFIT PUBLIC PARK USE LAND

Oregon Statute: 307.115

Sunset Date: None

Year Enacted: 1971

2005-06 Assessed Value of Property Exempted: \$8 million

	Loss	Shift
2005–07 Revenue Impact:	\$200,000	Less than \$50,000
2007–09 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.

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: Roughly 30 privately owned parks are exempt under this provision.

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 State Parks and Recreation Department.]*

2.059 RAILROAD RIGHT OF WAY USED FOR ALTERNATIVE TRANSPORT

Oregon Statute: 307.205
Sunset Date: None
Year Enacted: 1977

2005–06 Assessed Value of Property Exempted: \$0

	Loss	Shift
2005–07 Revenue Impact:	\$0	\$0
2007–09 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.

2.060 MOTOR VEHICLES AND TRAILERS

Oregon Statute: 803.585
Sunset Date: None
Year Enacted: 1919

2005–06 Assessed Value of Property Exempted: \$26.2 billion

	Loss	Shift
2005–07 Revenue Impact:	\$710,300,000	\$115,900,000
2007–09 Revenue Impact:	\$748,500,000	\$122,100,000

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 purposes 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.

PURPOSE: To base the tax on motor vehicles on their share of the cost of maintaining a transportation system.

Property Tax
Full Exemption

WHO BENEFITS: In 2005 there were about 3.2 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 \$186 million for cars and pickups and \$73 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 Department of Transportation.]*

2.061 ODOT LAND UNDER USE PERMIT

Oregon Statute: 307.110(3)(c)
Sunset Date: None
Year Enacted: 1981

2005–06 Assessed Value of Property Exempted: Minimal

	Loss	Shift
2005–07 Revenue Impact:	Less than \$50,000	Less than \$50,000
2007–09 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: In August 2006, ODOT had 274 active permits that provide approximately \$11,030 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 Department of Transportation.]*

2.062 NONPROFIT WATER ASSOCIATIONS

Oregon Statute: 307.210

Sunset Date: None

Year Enacted: 1937, Modified in 2003 (HB 2026)

2005-06 Assessed Value of Property Exempted: \$8.4 million

	Loss	Shift
2005-07 Revenue Impact:	\$200,000	Less than \$50,000
2007-09 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 ELECTRICAL DISTRIBUTION ASSOCIATIONS

Oregon Statute: 308.805

Sunset Date: None

Year Enacted: 1943

2005-06 Assessed Value of Property Exempted: \$409.0 million

	Loss	Shift
2005-07 Revenue Impact:	\$8,600,000	\$1,700,000
2007-09 Revenue Impact:	\$9,200,000	\$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

Property Tax
Full Exemption

- 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 2005–06, the four percent in lieu tax on gross revenue will be less than property taxes for 16 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. Sixteen 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 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.]*

2.064 NONPROFIT TELEPHONE ASSOCIATIONS

Oregon Statute: 307.220

Sunset Date: None

Year Enacted: 1941

2005–06 Assessed Value of Property Exempted: \$0

	Loss	Shift
2005–07 Revenue Impact:	\$0	\$0
2007–09 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: Nonprofit telephone associations will have lower costs due to this property tax exemption and should pass these along to their customers in the form of lower rates.

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.]*

2.065 PRIVATE SERVICE TELEPHONE EQUIPMENT

Oregon Statute: 307.230

Sunset Date: None

Year Enacted: 1941

2005–06 Assessed Value of Property Exempted: Minimal

	Loss	Shift
2005–07 Revenue Impact:	Less than \$50,000	Less than \$50,000
2007–09 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, and the system's value does not exceed \$1,500. Property exempt under this provision

Property Tax
Full Exemption

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.]*

2.066 FCC LICENSES

Oregon Statute: 307.126
Sunset Date: None
Year Enacted: 2001

2005–06 Assessed Value of Property Exempted: \$223.7 million

	Loss	Shift
2005–07 Revenue Impact:	\$6,100,000	\$1,000,000
2007–09 Revenue Impact:	\$6,400,000	\$1,100,000

- DESCRIPTION:** The value of the Federal Communications Commission (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 (2.067).
- EVALUATION:** This tax expenditure meets the stated purpose of removing the FCC licenses from property taxation, but no specific information is available to determine whether Oregon customers of the affected companies have benefited, e.g., through lower rates, or whether there is a more fiscally effective means of achieving the purpose. *[Evaluated by the Public Utilities Commission.]*

2.067 INTANGIBLE PERSONAL PROPERTY

Oregon Statute: 307.030

Sunset Date: None

Year Enacted: 1935

2005–06 Assessed Value of Property Exempted: \$364.5 billion

	Loss	Shift
2005–07 Revenue Impact:	\$10,013,800,000	\$1,633,500,000
2007–09 Revenue Impact:	\$11,145,600,000	\$1,818,100,000

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. For these utilities, only the intangible value of the Federal Communications Commission (FCC) licenses is exempt [see FCC Licenses (2.066)].

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.]

Property Tax
Full Exemption

2.068 PERSONAL PROPERTY FOR PERSONAL USE

Oregon Statute: 307.190
Sunset Date: None
Year Enacted: 1854

2005–06 Assessed Value of Property Exempted: \$24.5 billion

	Loss	Shift
2005–07 Revenue Impact:	\$667,800,000	\$108,900,000
2007–09 Revenue Impact:	\$725,100,000	\$118,300,000

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.]*

2.069 BEVERAGE CONTAINERS REQUIRING DEPOSIT

Oregon Statute: 307.402
Sunset Date: None
Year Enacted: 1983

2005–06 Assessed Value of Property Exempted: \$4.9 million

	Loss	Shift
2005–07 Revenue Impact:	\$100,000	Less than \$50,000
2007–09 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.*]

2.070 STATE AND LOCAL PROPERTY

Oregon Statute: 307.090
Sunset Date: None
Year Enacted: 1854

2005–06 Assessed Value of Property Exempted: \$53 billion

	Loss	Shift
2005–07 Revenue Impact:	\$1,460,300,000	\$238,200,000
2007–09 Revenue Impact:	\$1,638,000,000	\$267,200,000

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 (2.029),
- Leased Public Farming and Grazing Land (2.037),
- Leased State Land Board Land (2.055),
- Oyster Growing on State Land (2.039),
- State and Local Standing Timber Under Contract (2.049), and
- ODOT Land Under Use Permit (2.061).

Property Tax
Full Exemption

PURPOSE: To avoid state government paying property tax to local governments and local governments paying property tax to each other.

WHO BENEFITS: State and local governments in Oregon. Counties report approximately 45,000 properties throughout Oregon.

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),
- State Timber Land (ORS 530.110–530.115), and
- 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.]*

2.071 BEACH LANDS

Oregon Statute: 307.450

Sunset Date: None

Year Enacted: 1969

2005–06 Assessed Value of Property Exempted: Not Available

	Loss	Shift
2005–07 Revenue Impact:	Not Available	Not Available
2007–09 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 (ORS 390.605 to 390.729). 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 (2.070), 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 76 of the 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.]*

2.072 LOCAL GOVERNMENT PUBLIC WAYS

Oregon Statute: 307.200
Sunset Date: None
Year Enacted: 1895

2005–06 Assessed Value of Property Exempted: Not Available

	Loss	Shift
2005–07 Revenue Impact:	Not Available	Not Available
2007–09 Revenue Impact:	Not Available	Not Available

DESCRIPTION: Privately held land that is subject to a designated public right-of-way is exempt from taxation. Affected land is land under a road, or within the boundaries of a road. The property owners do not have private use of the land. The land is not assessed and is not tracked on the assessment or tax roll.

Land subject to this exemption has clear economic value, but it is unclear if it carries direct value in the context of how property is valued in the property tax system. The value of the right-of-way may be captured in the increased value of adjoining lands and properties.

PURPOSE: To clarify that affected land is exempt from property tax and to recognize the difficulty associated with placing a value on the land.

WHO BENEFITS: It is not clear who benefits.

EVALUATION: This exemption achieves its purpose. *[Evaluated by the Department of Revenue.]*

Property Tax
Full Exemption

2.073 PACIFIC NORTHWEST AC INTERTIE EXEMPTION

Oregon Statute: 307.090
Sunset Date: None
Year Enacted: 2005 (SB 31)

2005–06 Assessed Value of Property Exempted: \$39 million

	Loss	Shift
2005–07 Revenue Impact:	\$800,000	\$200,000
2007–09 Revenue Impact:	\$800,000	\$200,000

DESCRIPTION: Exempts from taxation property related to the Pacific NW AC Intertie. To qualify for exemption, the property must be owned by a city or public entity of a state other than Oregon and the city or entity must not own other real property in Oregon. This exemption applies to tangible or intangible property, property rights or property interests in or related to the Pacific Northwest AC Intertie. Pacific NW – SW Intertie connects Washington, Oregon and California. It allows the transmission of electricity during high seasons from Pacific NW to Pacific SW and vice versa.

PURPOSE: To promote more efficient use of electricity by providing favorable conditions for members of Pacific NW AC Intertie.

WHO BENEFITS: Owners of qualifying property.

EVALUATION: Not evaluated.

2.074 TRIBAL LAND BEING PLACED IN U.S. TRUST

Oregon Statute: 307.181
Sunset Date: 6-30-12
Year Enacted: 1993

2005-06 Assessed Value of Property Exempted: \$105 million

	Loss	Shift
2005–07 Revenue Impact:	\$5,000,000	\$850,000
2007–09 Revenue Impact:	\$5,000,000	\$850,000

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.

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: Indian tribes wishing to transfer property into U.S. trust. The following counties reported having property exempted under this statute: Douglas, Harney, Jefferson, Klamath, Lincoln, Polk, Umatilla, Wasco, and Yamhill.

EVALUATION: Not evaluated.

2.075 CHARITABLE, LITERARY, AND SCIENTIFIC ORGANIZATIONS

Oregon Statute: 307.130
Sunset Date: None
Year Enacted: 1854

2005–06 Assessed Value of Property Exempted: \$3.2 billion

	Loss	Shift
2005–07 Revenue Impact:	\$87,800,000	\$14,300,000
2007–09 Revenue Impact:	\$93,200,000	\$15,200,000

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).

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 4,950 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 FRATERNAL ORGANIZATIONS

Oregon Statute: 307.136
Sunset Date: None
Year Enacted: 1961

2005–06 Assessed Value of Property Exempted: \$291.9 million

	Loss	Shift
2005–07 Revenue Impact:	\$8,200,000	\$1,300,000
2007–09 Revenue Impact:	\$9,100,000	\$1,500,000

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, janitorial services and supplies. Parking lots are

Property Tax
Full Exemption

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 1,200 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.

2.077 RELIGIOUS ORGANIZATIONS

Oregon Statute: 307.140

Sunset Date: None

Year Enacted: 1854

2005–06 Assessed Value of Property Exempted: \$3.3 billion

	Loss	Shift
2005–07 Revenue Impact:	\$88,600,000	\$14,500,000
2007–09 Revenue Impact:	\$93,000,000	\$15,200,000

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 7,800 religious properties are exempt.

EVALUATION: Not evaluated.

2.078 CEMETERIES, BURIAL GROUNDS, AND MAUSOLEUMS

Oregon Statute: 307.150
Sunset Date: None
Year Enacted: 1854

2005–06 Assessed Value of Property Exempted: \$229.8 million

	Loss	Shift
2005–07 Revenue Impact:	\$6,100,000	\$1,000,000
2007–09 Revenue Impact:	\$6,300,000	\$1,000,000

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 (2.070)]. Cemeteries owned and maintained by religious organizations are also exempt [see Religious Organizations (2.077)].

PURPOSE: The exemption was probably an implementation of traditional public policy to not tax cemeteries.

WHO BENEFITS: In 2005–06, roughly 1,100 properties were exempt. Over half of the exempt value is located in Multnomah County.

EVALUATION: Not evaluated.

2.079 TRANSFER OF LAND FROM CEMETERY TO SCHOOL

Oregon Statutes: 307.157
Sunset Date: 12-31-10
Year Enacted: 2001

2005-06 Assessed Value of Property Exempted: \$9.2 million

	Loss	Shift
2005-07 Revenue Impact	\$200,000	Less than \$50,000
2007-09 Revenue Impact	\$300,000	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 (2.078)] 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.

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Full Exemption

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.

2.080 EXEMPT LEASE FROM TAXABLE OWNER

Oregon Statute: 307.112
Sunset Date: None
Year Enacted: 1977

2005–06 Assessed Value of Property Exempted: *

	Loss	Shift
2005–07 Revenue Impact:	*	*
2007–09 Revenue Impact:	*	*

* Included in other ORS Chapter 307 property exemption tax expenditures.

- DESCRIPTION:** Property that is leased to an entity that qualifies for a property tax exemption (under ORS 307.090, 307.130, 307.136, 307.140, 307.145 or 307.147) is exempt from property taxation. Eligible entities are institutions, organizations, and public bodies (other than the state of Oregon). To qualify, the property must be used for a qualifying purpose, and the rent charged must be below market value in reflection of the exemption. 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:** This exemption extends the other Chapter 307 exemptions listed in the description. The evaluations for those exemptions appear with those specific tax expenditures.

2.081 EXEMPT LEASE FROM EXEMPT OWNER

Oregon Statute: 307.166
Sunset Date: None
Year Enacted: 1973

2005–06 Assessed Value of Property Exempted: *

	Loss	Shift
2005–07 Revenue Impact:	*	*
2007–09 Revenue Impact:	*	*

* Included in other ORS Chapter 307 property exemption tax expenditures.

- DESCRIPTION:** Property that is leased or rented to an entity that qualifies for a property tax exemption (under Chapter 307) from an owner who also qualifies for an exemption is

exempt from property tax. Eligible entities are institutions, organizations, and public bodies. 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:** This exemption extends other Chapter 307 exemptions. The evaluations for the other exemptions appear with those specific tax expenditures.

2.082 CITY-OWNED SPORTS FACILITIES

Oregon Statutes: 307.171
Sunset Date: None
Year Enacted: 2001

2005-06 Assessed Value of Property Exempted: \$20 million

	Loss	Shift
2005-07 Revenue Impact	\$800,000	\$100,000
2007-09 Revenue Impact	\$900,000	\$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, this provision exempts any sports facilities owned by a city with a population of at least 500,000 from taxation, even if leased to or operated by a taxpaying entity.
- 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.

2.083 CONVENTION FACILITIES

Oregon Statutes: 263.290
Sunset Date: None
Year Enacted: 1985

2005-06 Assessed Value of Property Exempted: \$0

	Loss	Shift
2005-07 Revenue Impact	\$0	\$0
2007-09 Revenue Impact	\$0	\$0

- DESCRIPTION:** Any real or personal property acquired, owned, leased, controlled, used, or occupied by a sports and convention facilities commission established under ORS 263.210 is exempt from property taxation. The commission must be created by a ballot measure and established as a municipal corporation.
- PURPOSE:** To ensure the property of these municipal corporations is not taxed.

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Full Exemption

WHO BENEFITS: There are no known beneficiaries of this statute.

EVALUATION: Not evaluated.

2.084 LLC OWNED BY NON-PROFIT CORPORATION

Oregon Statute: 307.022

Sunset Date: None

Year Enacted: 2005 (SB 283)

2005–06 Assessed Value of Property Exempted: \$0 (\$5.0 million in 2006-07)

	Loss	Shift
2005–07 Revenue Impact:	\$100,000	Less than \$50,000
2007–09 Revenue Impact:	\$100,000	Less than \$50,000

DESCRIPTION: A Limited Liability Company (LLC) that is wholly owned by non-profit corporations is an entity that qualifies for a special assessment or property tax exemption if the non-profit corporations would qualify. The LLC’s property qualifies for special assessment or exemption if it is exclusively using the property consistent with the non-profit corporations’ purposes.

The provision applies to tax years beginning on or after July 1, 2006.

PURPOSE: To allow non-profit owners of property to structure their property ownership in a way that provides the limited liability protection of an LLC while still providing the owner a property tax advantages.

WHO BENEFITS: Non-profit corporations that would qualify for a property tax exemption or special assessment that own property through wholly owned LLCs.

EVALUATION: Not evaluated.

2.085 FEDERAL PROPERTY

Oregon Statute: 307.040

Sunset Date: None

Year Enacted: 1848

2005-06 Assessed Value of Property Exempted: \$88.4 billion

	Loss	Shift
2005–07 Revenue Impact:	\$2,339,300,000	\$391,400,000
2007–09 Revenue Impact:	\$2,545,400,000	\$415,200,000

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 (2.023),

- Federal Land Under Summer Homes (2.025),
- Leased Federal Grazing Land (2.038),
- Federal Standing Timber Under Contract (2.048), and
- Mining Claims on Federal Land (2.057).

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 2005–06 there were about 22,300 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: This expenditure achieves its purpose of compliance with federal law. *[Evaluated by the Department of Revenue.]*

2.086 INDIAN PROPERTY ON RESERVATION

Oregon Statute: 307.180
Sunset Date: None
Year Enacted: 1854

2005-06 Assessed Value of Property Exempted: Not Available

	Loss	Shift
2005–07 Revenue Impact:	Not Available	Not Available
2007–09 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: 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: This expenditure achieves its purpose of compliance with federal law. *[Evaluated by the Department of Revenue.]*

Property Tax
Full Exemption

2.087 AMTRAK PASSENGER RAILROAD

Oregon Statute: 308.515

Sunset Date: None

Year Enacted: 1983

2005-06 Assessed Value of Property Exempted: \$11.4 million

	Loss	Shift
2005-07 Revenue Impact:	\$300,000	\$100,000
2007-09 Revenue Impact:	\$300,000	\$100,000

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: This expenditure achieves its purpose of compliance with federal law. *[Evaluated by the Department of Revenue.]*

2.088 FRATERNITIES, SORORITIES, AND COOPERATIVES

Oregon Statute: 307.460

Sunset Date: None

Year Enacted: 1973

2005–06 Assessed Value of Property Exempted: \$28.7 million

	Loss	Shift
2005–07 Revenue Impact:	\$400,000	\$100,000
2007–09 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.]*

2.089 RURAL HEALTH CARE FACILITIES

Oregon Statutes: 307.804

Sunset Date: None

Year Enacted: 2001

2005-06 Assessed Value of Property Exempted: \$2.0 million

	Loss	Shift
2005-07 Revenue Impact	Less than \$50,000	Less than \$50,000
2007-09 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

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Partial Exemption

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.

2.090 LONG-TERM CARE FACILITIES

Oregon Statute: 307.808
 Sunset Date: None
 Year Enacted: 1999

2005–06 Assessed Value of Property Exempted: \$2.5 million

	Loss	Shift
2005–07 Revenue Impact:	\$100,000	Less than \$50,000
2007–09 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 50 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. 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. The Legislative Assembly declares that 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: One facility in Eastern Oregon receives this 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 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 Department of Human Services.]

2.091 STRATEGIC INVESTMENT PROGRAM (SIP)

Oregon Statute: 307.123

Sunset Date: None

Year Enacted: 1993, Modified in 2005 (SB 879)

2005–06 Assessed Value of Property Exempted: \$4.7 billion

	Loss	Shift
2005–07 Revenue Impact:	\$119,300,000	\$20,100,000
2007–09 Revenue Impact:	\$128,500,000	\$21,800,000

DESCRIPTION:	<p>If the total assessed value of a business firm’s qualified new investment is above a certain threshold, the qualified property is exempt from tax 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.</p> <p>Counties must first request that the Oregon Economic and Community Development Commission establish a strategic investment zone, defined as a geographic area within which the property of eligible projects may be exempt from property taxation under the Strategic Investment Program (SIP). Business firms are then able to apply to the Commission for all projects they wish exempted under SIP.</p> <p>The business firm must enter into a first-source hiring agreement with local publicly funded job training providers. In addition, 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.</p>
PURPOSE:	<p>“...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).</p>
WHO BENEFITS:	<p>There are four ongoing SIP projects -- two in Multnomah County and two in Washington County. One project dominates the program and has been approved for a large addition to its SIP beginning in the 2007-09 biennium. All of the ongoing projects have been investments in large, high-technology semiconductor fabrication facilities.</p> <p>Three rural SIP projects were approved in 2006 and should begin to receive exemptions during the 2009-11 biennium. These projects are in different industries and include proposed developments in Clatsop and Union counties.</p>
IN LIEU:	<p>Businesses that have value exempt pay a portion of the property taxes saved in the form of annual community services fees. These and other fees imposed in the local agreement are used for a variety of public purposes.</p>
EVALUATION:	<p>The program appears to achieve its goal of leveling the proverbial playing field and thus encouraging extraordinarily large, highly capital-intensive investment in Oregon, particularly in high-technology industries.</p>

Property Tax
 Partial Exemption

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 both state and local officials have seen evidence that this program was crucial for Oregon locations being chosen as the site for exceptionally large investments in new property and for keeping key existing industries in the state. The fact that local officials have thoughtfully approved 11 applications under the program suggests that these local officials consider these tax expenditures to have a net positive value on their communities. Also, a very sizable increase in state income tax and corporate excise tax revenues can 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 merely benefit 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, and that these incentives generally stimulate growth and competitiveness.

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 to provide an alternative to enterprise zones for relative huge projects in rural areas. SIP offers a more flexible tool and politically better process compared to enterprise zone tax incentives in some cases for very large and controversial developments. For rural areas, this could be a vital new tool, and even outside of rural areas, \$25 million still signifies an unusually large, and special project. Recent events indicate that this rural version of SIP is having the desired effect.

As part of this change in 2003, special service districts were given an explicit place in terms of the distribution of community service fees for future eligible projects.
[Evaluated by the Economic and Community Development Department.]

2.092 VERTICAL HOUSING DEVELOPMENT ZONE

Oregon Statutes: 285C.450

Sunset Date 12-31-15

Year Enacted: 2001, Modified in 2005 (HB 2199)

2005-06 Value of Property Exempted: \$0.4 million

	Loss	Shift
2005-07 Revenue Impact:	Less than \$50,000	Less than \$50,000
2007-09 Revenue Impact:	Less than \$50,000	Less than \$50,000

DESCRIPTION: A partial property tax exemption is available for qualified residential housing combined with nonresidential uses 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 Oregon Housing and Community Services (OHCS).
 The qualified project must consist of a multiple-story building or group of buildings including at least one multiple-story building, containing nonresidential and

residential space in any proportion. The partial property tax exemption depends on the number of “equalized” floors, calculated by the ratio of residential to nonresidential space. If the project consists of one equalized floor of residential housing, it is 20 percent exempt; with two equalized floors, it is 40 percent exempt; with three equalized floors, it is 60 percent exempt; and with four or more equalized floors, the project is 80 percent exempt. The exemption lasts for a maximum of 10 years. If any of the residential floors are converted to commercial space, the project may receive a reduced exemption or be disqualified.

A project may be new construction or rehabilitation of an existing building. The exemption applies only to the improvements on the property, unless there are residential units in the project that restrict the income of the residents. The land on which a project is located may be included in the partial exemption if the project restricts participation at least a portion of the residential units to low-income persons or families (defined as income 80% or less of median income, adjusted for family size). Land adjacent to or surrounding the low-income residential project contained in separate tax lots, excess, or surplus land that is not necessary for the project is not eligible for partial exemption.

Certain special taxing districts may elect not to participate. The vertical housing development project owes the complete tax to special taxing districts that do not participate in the vertical housing development zone.

- PURPOSE:** To encourage investment in and rehabilitation of properties in targeted areas of a city or community, to augment the availability of appropriate housing, and to revitalize communities.
- WHO BENEFITS:** Property owners of approved projects receive short-term partial property tax exemptions. Individuals and businesses in the zone benefit from increased investment in their community.
- EVALUATION:** This is a relatively new program and there has not been adequate time to assess the success of the Program. OHCS has seen several local jurisdictions implement the vertical housing zones and are aware of several projects under construction in those zones. Since OHCS received the program, none of the projects are far enough along in development to have requested the partial property tax exemption from the assessor. Once projects begin requesting the partial exemption from the assessor in the newly established zones, the local jurisdictions will be able to provide input as to whether the partial property tax exemption was successful in bringing revitalization to the community.
- There has not been adequate time to assess if the partial property tax exemption provided by this program is the most fiscally effective means of providing local jurisdictions with a tool to incentivize developers to build in areas where they typically may not build. *[Evaluated by the Housing and Community Services Department.]*

2.093 NEW HOUSES IN DISTRESSED AREA

Oregon Statute: 307.664

Sunset Date: 6-30-15

Year Enacted: 1989, Modified in 2005 (SB 847)

2005–06 Assessed Value of Property Exempted: \$206.0 million

	Loss	Shift
2005–07 Revenue Impact:	\$6,300,000	\$900,000
2007–09 Revenue Impact:	\$6,800,000	\$1,000,000

DESCRIPTION:

A city may grant a property tax exemption for newly constructed owner-occupied single-unit housing with a market value of no more than 120 percent of the median sales price of dwelling units within the city. A city government may reduce the 120 percent by resolution. Homes built in designated distressed urban areas can be exempt from property tax for up to 10 successive tax 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 manufactured structure is eligible if it meets the definition of “needed housing” contained in ORS 197.307 (5) (a) to (f).

Approved property is exempt from city property taxes. The exemption also applies to the taxes of all districts who pass resolutions supporting the exemption and when the total combined rate of taxation of the city and agreeing taxing districts equals at least 51 percent.

To qualify for the exemption, the single family housing must:

- be constructed after January 1, 1990, and before July 1, 2015,
- 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-unit housing 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 307.654).

WHO BENEFITS: Most of these accounts are in the Portland area. In 2006, there were 2,090 accounts with this exemption in Multnomah County. The average exempt property value per account was about \$95,000. This exemption provided an estimated average tax benefit of about \$1,600 per year.

EVALUATION: 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.

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.

Additionally, the program provides an additional incentive that helps to design housing in ways consistent with local policy.

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.
[Evaluated by the Housing and Community Services Department.]

2.094 REHABILITATED HOUSING

Oregon Statute: 308.459
Sunset Date: 6-30-08
Year Enacted: 1975

2005–06 Assessed Value of Property Exempted: \$26.8 million

	Loss	Shift
2005–07 Revenue Impact:	\$800,000	\$100,000
2007–09 Revenue Impact:	\$900,000	\$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.

Property Tax
Partial Exemption

- 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.

A property's value 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 127 rehabilitation properties in 2006, which shows a decrease from the 192 properties in 1998–99. Multi-family housing accounts for a substantial share of the value exempted.
EVALUATION:	<p>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 (2.093)].</p> <p>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</p>

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 the Housing and Community Services Department.]*

2.095 MULTIFAMILY RENTAL HOUSING IN CITY CORE

Oregon Statute: 307.612

Sunset Date: 12-31-11

Year Enacted: 1975, Modified in 2005 (SB 839)

2005–06 Assessed Value of Property Exempted: \$355.6 million

	Loss	Shift
2005–07 Revenue Impact:	\$11,100,000	\$1,700,000
2007–09 Revenue Impact:	\$13,300,000	\$2,000,000

DESCRIPTION:

A city may grant a property tax exemption for multiple-family rental housing (excluding land) in specific areas for up to 10 years or for a longer period if the state or federal government subsidizes rent. Cities may designate light rail station 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 area,
- adopt standards for eligible developments including existing use of property, design, rents, and long-term public benefits,
- provide and accept applications,
- hold public hearings to determine whether proposed projects would be built without property tax benefits, and
- approve or disapprove applications, giving reasons for its actions.

Approved property is exempt from city or county property taxes. The exemption also applies to the taxes of all districts who pass resolutions supporting the exemption and when the total combined rate of taxation of the city or county and agreeing taxing districts equals at least 51 percent. The exemption does not include the land or any

Property Tax
Partial Exemption

improvements not part of the multiple-unit housing, but may include parking constructed as part of the multiple-unit housing construction, addition or conversion. In the case of a structure to which improvements are added or the structure is converted, only the addition or conversion value is exempt. Construction is to be completed by January 1, 2012, 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 (2.096) 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: In 2005, Multnomah County reported 313 exempt properties, and Lane County reported 13 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 three 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 seven 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 the Housing and Community Services Department.]*

2.096 LOW-INCOME MULTIFAMILY HOUSING

Oregon Statute: 307.612

Sunset Date: 12-31-11

Year Enacted: 1999, Modified in 2005 (SB 839)

2005–06 Assessed Value of Property Exempted: Included in 2.095

	Loss	Shift
2005–07 Revenue Impact:	Included in 2.095	Included in 2.095
2007–09 Revenue Impact:	Included in 2.095	Included in 2.095

DESCRIPTION: This expenditure is an addition to the Multi-Family Rental Housing in City Core (2.095) 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, 2012.

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 the Department of Housing and Community Services.]*

2.097 NEW HOUSING FOR LOW-INCOME RENTAL

Oregon Statutes: 307.517 and 307.518

Sunset Date: 12-31-09

Year Enacted: 1989

2005–06 Assessed Value of Property Exempted: \$34.9 million

	Loss	Shift
2005–07 Revenue Impact:	\$1,100,000	\$200,000
2007–09 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 daycare 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 (2.098)].

WHO BENEFITS: About 80 properties in Baker, Douglas, Jefferson, Lane, Washington, and Yamhill 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.

Since Measure 50 took effect in 1997, property tax exemptions have caused 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. Despite the loss to local governments caused by Measure 50, local governments have elected to increase the exempted value significantly since Measure 50.

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 the Housing and Community Services Department.]*

2.098 NONPROFIT LOW-INCOME RENTAL HOUSING

Oregon Statute: 307.541

Sunset Date: 6-30-14

Year Enacted: 1985, Sunset extended in 2003 (HB 2535)

2005–06 Assessed Value of Property Exempted: \$417.4 million

	Loss	Shift
2005–07 Revenue Impact:	\$13,100,000	\$2,000,000
2007–09 Revenue Impact:	\$15,800,000	\$2,400,000

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.

Property Tax
Partial 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 (2.097). 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 2005–06 there were over 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 the Housing and Community Services Department.]*

2.099 DISABLED WAR VETERANS OR THEIR SPOUSES

Oregon Statute: 307.250
Sunset Date: None
Year Enacted: 1921, Modified in 2005 (HB 2945)

2005–06 Assessed Value of Property Exempted: \$1.0 billion

	Loss	Shift
2005–07 Revenue Impact:	\$28,400,000	\$4,600,000
2007–09 Revenue Impact:	\$31,300,000	\$5,100,000

DESCRIPTION: Eligible war veterans or their surviving spouses may have a portion of their homestead or personal property’s assessed value exempt from property taxes. The taxpayer must own and live on the property and have disabilities of 40 percent or

more. For 2006-07, the exemption amount is \$15,000, or \$18,000 for veterans with service-connected disabilities. These amounts increase by three percent each year.

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 (2.100)].

- 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 2005–06 about 37,300 veterans or their spouses received the exemption.
- 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 Department of Veterans Affairs.]

2.100 WAR VETERANS IN NONPROFIT ELDERLY HOUSING

Oregon Statute: 307.370

Sunset Date: None

Year Enacted: 1969

2005–06 Assessed Value of Property Exempted: \$4 million

	Loss	Shift
2005–07 Revenue Impact:	\$100,000	Less than \$50,000
2007–09 Revenue Impact:	\$100,000	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 Disabled War Veterans or Their Spouses (2.099) 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 (2.112). However, this exemption relates to the value of the personal property exempt. A claim for exemption must be filed with the county assessor.

Property Tax
 Partial Exemption

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 Disabled War Veterans or Their Spouses (2.099).

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 nine 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 Disabled War Veterans or Their Spouses (2.099). This benefit may allow disabled veterans and surviving spouses to remain independent and reduce 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 Department of Veterans Affairs.]*

2.101 POLLUTION CONTROL FACILITIES

Oregon Statute: 307.405

Sunset Date: 12-31-07

Year Enacted: 1967

2005–06 Assessed Value of Property Exempted: \$3.4 million

	Loss	Shift
2005–07 Revenue Impact:	\$100,000	Less than \$50,000
2007–09 Revenue Impact:	\$100,000	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 (1.176) 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 2005–06, 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 (1.176)]. 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.]*

2.102 ETHANOL PRODUCTION FACILITIES

Oregon Statute: 307.701

Sunset Date: 6-30-08

Year Enacted: 1993

2005–06 Assessed Value of Property Exempted: Minimal

	Loss	Shift
2005–07 Revenue Impact:	Less than \$50,000	Less than \$50,000
2007–09 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.

Property Tax
Partial Exemption

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 Oregon Department of Energy.]*

2.103 ALTERNATIVE ENERGY SYSTEMS

Oregon Statute: 307.175
Sunset Date: 06-30-12
Year Enacted: 1975

2005-06 Assessed Value of Property Exempted: \$55.0 million

	Loss	Shift
2005-07 Revenue Impact:	\$1,200,000	\$200,000
2007-09 Revenue Impact:	\$1,500,000	\$300,000

- 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 23,000 residential properties and more than 600 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) (1.180) and Business Energy Facilities (1.182) 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 Oregon Department of Energy.]*

2.104 WATERCRAFT CENTRALLY ASSESSED

Oregon Statute: 308.515

Sunset Date: None

Year Enacted: 1925

2005–06 Assessed Value of Property Exempted: Not Available*

	Loss	Shift
2005–07 Revenue Impact:	Not Available*	Not Available*
2007–09 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 (2.114), 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.

2.105 HISTORIC PROPERTY

Oregon Statute: 358.505

Sunset Date: 6-30-10

Year Enacted: 1975, Modified in 2005 (HB 2776)

2005-06 Assessed Value of Property Exempted: \$1 billion

	Loss	Shift
2005–07 Revenue Impact:	\$27,700,000	\$4,500,000
2007–09 Revenue Impact:	\$29,000,000	\$4,700,000

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 can qualify for a second 15-year exemption if a renovation plan is accepted

Property Tax
Partial Exemption

for seismic upgrade, energy conservation, or disability access. Residential property can also qualify for a second 15-year exemption, but only if the local government opts to allow it (by resolution). 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.

Applicants must file a preservation plan with the State Historic Preservation Officer describing proposed rehabilitation and maintenance for the next 15 years. They must also pay a filing fee equal to one-third of one percent of the real market value; this helps cover staff and other costs to administer the program.

If the historic property is disqualified, either at the owner's request or from failure to meet the requirements, 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, or transferred to a new owner who expressly assents to and continues to implement the preservation plan in effect, no additional tax or penalty is charged. Also, if an owner invests five times the amount of the interest imposed following disqualification 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:

Currently, there are approximately 1,075 historic properties participating in the program. Commercial projects account for 37 percent of all projects, but, as might be expected, they represent a much higher percentage of the total assessed value (65 percent). Participating properties are in almost every county, but they are concentrated in Multnomah County, accounting for 41 percent of all projects and 80 percent of the total assessed value.

EVALUATION:

This expenditure has been very successful in achieving its purpose, but the substantial reduction in property taxes caused by Measures 5 and 50 in the 1990s reduced the incentive for taxpayers to participate in the program. In recent years, however, the program has picked up again. The number of approved applications (70) in 2006 was the highest in over a decade, and well up from the previous year (39). Despite this resurgence, it is doubtful that this expenditure will ever attract the number of applications it did in its heyday of the late 1980s and early 1990s, when an average of 140 projects were approved annually.

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. This is especially true of commercial projects, where the incentive is often critical to making projects feasible for business owners and developers.

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, specially-assessed property owners have seen 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 is reduced. Potential savings are also reduced because improvements classified as minor construction do not change a property's assessed value.

Despite the reduction in benefits, this program continues to provide an attractive incentive for historic building owners. Though the benefit has diminished over time, it still helps offset the high costs of restoring and maintaining some of Oregon's significant historic architecture.

The program has a heavier administrative burden than it should, partly due to the fact that it has been around for 30 years and has been amended a number of times. But overall it still functions quite well.

In terms of other ways to achieve the goals of this program, a direct expenditure, namely grants for restoration, could accomplish some of the purposes, but there would most likely not be a sufficient level of funding to accommodate all worthy projects. Plus, in a competitive grant selection process, it is likely that the applications from smaller and more rural projects would be edged out by more sophisticated and comprehensive applications from urban areas where professional expertise is more readily available.

Another incentive option is a state investment tax credit. A percentage of restoration costs (20 percent, in most states with such an incentive) is applied to the owner's state income tax. The benefit is directly proportional to the owner's investment (which is not true with the current property tax freeze program), and the program would be easier to administer because it would not entail monitoring for 15 years. Thus far, the Governor's Office has not supported the investment tax credit proposal. *[Evaluated by the State Parks and Recreation Department.]*

Property Tax
 Partial Exemption

2.106 AIRCRAFT

Oregon Statutes: 308.558 and 308.565

Sunset Date: None

Year Enacted: 1987

2005–06 Assessed Value of Property Exempted: \$356.4 million

	Loss	Shift
2005–07 Revenue Impact:	\$9,700,000	\$1,600,000
2007–09 Revenue Impact:	\$10,500,000	\$1,700,000

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 6,450 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 \$664,326 in the 2005–07 biennium.

EVALUATION: This expenditure achieves its purpose. The user fee principle noted for Motor Vehicles and Trailers (2.060) 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.]*

2.107 RAILROAD RIGHT OF WAY IN WATER DISTRICT

Oregon Statute: 264.110

Sunset Date: None

Year Enacted: 1943

2005–06 Assessed Value of Property Exempted: \$48.0 million

	Loss	Shift
2005–07 Revenue Impact:	Less than \$50,000	Less than \$50,000
2007–09 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 in water supply districts. In 2005 there were 98 water supply districts.

EVALUATION: This expenditure achieves its purpose of not assessing water supply district taxes on specified railroad property. *[Evaluated by the Department of Revenue.]*

2.108 RAILROAD RIGHT OF WAY IN HIGHWAY LIGHTING DISTRICT

Oregon Statute: 372.190
Sunset Date: None
Year Enacted: 1947

2005–06 Assessed Value of Property Exempted: Minimal

	Loss	Shift
2005–07 Revenue Impact:	Less than \$50,000	Less than \$50,000
2007–09 Revenue Impact:	Less than \$50,000	Less than \$50,000

DESCRIPTION: Railroad right 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. There are very few highway lighting districts in Oregon.

EVALUATION: This expenditure achieves its purpose of not assessing lighting district taxes on specified railroad property. *[Evaluated by the Department of Revenue.]*

2.109 RAILROAD RIGHT OF WAY IN RURAL FIRE DISTRICT

Oregon Statute: 478.010(2)(d)
Sunset Date: None
Year Enacted: 1969

2005–06 Assessed Value of Property Exempted: \$183.7 million

	Loss	Shift
2005–07 Revenue Impact:	\$600,000	Less than \$50,000
2007–09 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 2005, there were 270 rural fire districts.

Property Tax
Partial Exemption

EVALUATION: This expenditure achieves its purpose of not assessing fire district taxes on specified railroad property. *[Evaluated by the Department of Revenue.]*

2.110 DESTROYED OR DAMAGED PROPERTY

Oregon Statute: 308.425 and 308.428

Sunset Date: None

Year Enacted: 1971

2005–06 Assessed Value of Property Affected: Minimal

	Loss	Shift
2005–07 Revenue Impact:	Less than \$50,000	Less than \$50,000
2007–09 Revenue Impact:	Less than \$50,000	Less than \$50,000

DESCRIPTION: Under ORS 308.425, 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.

Note: This is not an exemption but rather a proration of 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.

Under ORS 308.428, if property is destroyed or damaged during the first half of the year by fire or an act of God, the owner may apply to have the property assessed as of July 1 of the year. Normally, property is assessed as of January 1.

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. Counties tend to have fewer than 50 affected properties with the total taxes canceled being under \$10,000; some counties do not have any affected properties.

EVALUATION: Not evaluated.

2.111 HOMESTEAD EXEMPTION FOR FEDERAL ACTIVE DUTY MILITARY SERVICEMEMBERS

Oregon Statute: 307.286

Sunset Date: None

Year Enacted: 2005 (HB 2945)

2005–06 Assessed Value of Property Exempted: Minimal

	Loss	Shift
2005–07 Revenue Impact:	Less than \$50,000	Less than \$50,000
2007–09 Revenue Impact:	Less than \$50,000	Less than \$50,000

DESCRIPTION: Oregon residents who are members of the Oregon National Guard may apply for an Oregon property tax exemption on their homestead of up to \$60,000 in assessed value if:

- they are initially ordered to federal active duty (Title 10) on or after January 1, 2005,
- they are serving under Title 32 (National Guard) and are ordered to serve under Title 10 federal active duty, and
- they serve under Title 10 for more than 178 consecutive days during the tax year for which the exemption is claimed.

If the qualified service member was killed in action, the person occupying the service member's home may file for the exemption.

PURPOSE: To assist Oregon households where a member has been called to active military service during the year.

WHO BENEFITS: Households of members of the Oregon National Guard (Title 32) who spend more than half the year on federal active duty service during the tax year.

EVALUATION: The purpose of this tax expenditure is to alleviate tax burdens for members of the Oregon National Guard or Reserve forces while they are deployed on federal active duty for 178 days or more. The intent of this tax expenditure has not been completely fulfilled: the original legislation limited the exemption to those who were activated on or after January 1, 2005. This prevented an exemption for over 550 Oregon National Guard members who were activated for duty in Iraq during November and December 2004. In addition, Reserve forces are governed by Title 10 of the U.S. Code, so they are currently excluded because they do not change status from Title 32 to Title 10. However, new legislation in the 2007 legislative session will attempt to correct the statutory language so that all members of the National Guard and Reserve forces serving our country for extended periods may receive this benefit. *[Evaluated by the Military Department.]*

2.112 NONPROFIT HOUSING FOR THE ELDERLY

Oregon Statute: 308.490

Sunset Date: None

Year Enacted: 1969

2005–06 Assessed Value of Property Exempted: Minimal

	Loss	Shift
2005–07 Revenue Impact:	Less than \$50,000	Less than \$50,000
2007–09 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 the Housing and Community Services Department.]*

2.113 MULT-UNIT RENTAL HOUSING

Oregon Statutes: 308.704

Sunset Date: None

Year Enacted: 2001

2005–06 Assessed Value of Property Exempted: \$138.0 million

	Loss	Shift
2005–07 Revenue Impact:	\$4,300,000	\$600,000
2007–09 Revenue Impact:	\$4,700,000	\$700,000

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: Thirty-two counties reported 480 accounts qualified for this exemption for 2005-06.

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 the Housing and Community Services Department.]*

2.114 WATERCRAFT LOCALLY ASSESSED

Oregon Statute: 308.256

Sunset Date: None

Year Enacted: 1925

2005-06 Assessed Value of Property Exempted: \$92.2 million

	Loss	Shift
2005–07 Revenue Impact:	\$2,500,000	\$400,000
2007–09 Revenue Impact:	\$2,600,000	\$400,000

- 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.
- Some types of commercial watercraft are not exempt, and are taxed at 100 percent of assessed value. These include 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 non-centrally assessed companies. Non-commercial watercraft are included in Small Watercraft (2.056).
- PURPOSE:** To provide tax relief to Oregon commercial fishermen.
- WHO BENEFITS:** The Department of Fish and Wildlife issued commercial fishing boat licenses to 1,349 Oregon residents and 460 nonresidents in 2005. This is the major portion of exempt value.
- 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.]*

2.115 WILDLIFE HABITAT

Oregon Statute: 308A.400

Sunset Date: None

Year Enacted: 1993

2005–06 Assessed Value of Property Exempted: \$28.3 million

	Loss	Shift
2005–07 Revenue Impact:	\$600,000	\$100,000
2007–09 Revenue Impact:	\$600,000	\$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 (2.120), Western Private Forestland (2.117), or Eastern Private Forestland (2.118) 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 2005–06 there were approximately 280 landowners taking part in the program. Land under the program included over 36,000 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. In 2005-07, Washington County has "opted" back into the program. Benton County has added some areas as eligible for wildlife habitat special assessment.

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.]*

2.116 FOREST HOMESITES

Oregon Statute: 308A.256

Sunset Date: None

Year Enacted: 1989

2005–06 Assessed Value of Property Exempted: \$315 million

	Loss	Shift
2005–07 Revenue Impact:	\$9,000,000	\$1,500,000
2007–09 Revenue Impact:	\$12,000,000	\$2,000,000

- 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 or designated forestland. The homesite specially assessed value is the average real market value for all contiguous bare forestland (on a per acre basis) under the same ownership, plus up to \$4,000 for land improvements. Land improvements include a well and septic system necessary for a homesite.
- 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 13,000 forest homesites were specially assessed in 2005–06. The average value exempted was roughly \$10,000.
- EVALUATION:** Extending special forest assessments to forest homesites reinforces the effects of special assessments for forestland. *[Evaluated by the State Forestry Department.]*

2.117 WESTERN PRIVATE FORESTLAND

Oregon Statute: 321.354

Sunset Date: None

Year Enacted: 1977, Modified in 2003 (HB 2188)

2005–06 Assessed Value of Property Exempted: \$2.3 billion

	Loss	Shift
2005–07 Revenue Impact:	\$47,200,000	\$10,300,000
2007–09 Revenue Impact:	\$55,100,000	\$12,000,000

DESCRIPTION: Forestland is considered either highest and best use forestland or can be designated 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.

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. Therefore, there is no tax expenditure associated with them.

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 (2.119).

PURPOSE: To promote the retention of forestland in forest use.

WHO BENEFITS: Owners of forestland. 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.]*

2.118 EASTERN PRIVATE FORESTLAND

Oregon Statute: 321.833

Sunset Date: None

Year Enacted: 1971, Modified in 2003 (HB 2188)

2005-06 Assessed Value of Property Exempted: \$194 million

	Loss	Shift
2005-07 Revenue Impact:	\$3,700,000	\$800,000
2007-09 Revenue Impact:	\$3,700,000	\$800,000

DESCRIPTION: Forestland is considered either highest and best use forestland or can be designated 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. Therefore, there is no tax expenditure associated with them.

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 (2.119).

PURPOSE: To promote the retention of forestland in forest.

WHO BENEFITS: Owners of the affected property. 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.]*

2.119 SMALL TRACT FORESTLAND OPTION

Oregon Statute: 321.722

Sunset Date: None

Year Enacted: 2003 (HB 2197)

2005-06 Assessed Value of Property Exempted: \$1.1 billion

	Loss	Shift
2005-07 Revenue Impact:	\$23,300,000	\$4,800,000
2007-09 Revenue Impact:	\$28,200,000	\$5,800,000

DESCRIPTION: Owners of 10 to 4,999 acres of forestland are provided the option of paying the Small Tract Forestland Option tax, rather than receiving special assessment under the Western or Eastern Oregon private forestland programs (see 2.117 and 2.118). Under this program, forestland has a specially assessed value equal to 20 percent of the specially assessed forestland value that designated forestland receives.

The Small Tract Forestland Program consists of two tax programs: an annual *ad valorem* tax and a severance tax due at time of harvest. This expenditure is associated with the *ad valorem* tax.

PURPOSE: To promote the economic and ecological benefits of forests by encouraging small owners to actively manage their forests and hold their timber to maturity before harvest.

WHO BENEFITS: Owners of small tracts of timberland who select this optional tax treatment.

IN LIEU: Participants in the Small Tract Forestland Program are subject to a severance tax paid when timber is harvested from the subject forestland. The severance tax is designed to offset the expenditure due to valuing the forestland at 20 percent. The severance tax rates are indexed annually in proportion to annual changes in small tract forestland assessed value.

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.]*

2.120 FARM LAND

Oregon Statute: 308A.050

Sunset Date: None

Year Enacted: 1967

2005-06 Assessed Value of Property Exempted: \$8.6 billion

	Loss	Shift
2005–07 Revenue Impact:	\$179,400,000	\$35,900,000
2007–09 Revenue Impact:	\$183,000,000	\$36,700,000

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 use value is determined by an income approach. Under this approach, the present value for farm use is calculated using income generated (before property taxes) from comparable properties. This value is converted to present value using the local property tax rate plus the five-year average interest rate charged by the Farm Credit Service (formally Federal Land Bank) on loans for Oregon farm properties.

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.

Eligible farm land is in one of two categories: exclusive farm use farm land inside an exclusive farm use (EFU) zone and 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.

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.

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 by offering an incentive for farmers to use their land for agricultural production.

WHO BENEFITS: Owners of farmland benefit directly. In 2005–06, over 154,000 accounts comprising roughly 15.5 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: The special farm use assessment of land zoned for exclusive farm use is one of the essential tools to achieve Oregon’s Agricultural Land Use Policy to preserve the maximum amount of agricultural land in large acreages. The assessment is the primary incentive offered to encourage owners of rural farm lands to hold such lands in exclusive farm use zones (see ORS 215.243). The other primary tool is regulatory: EFU zoning of rural farm land (i.e., agricultural land that is outside Urban Growth Boundaries). The effective protection of agricultural land requires well-coordinated special assessment and land use programs.

The special farm use assessment program can conflict with other aspects of Oregon’s land use program - in both urban and rural areas. Inside Urban Growth Boundaries (UGBs), it can discourage timely development by lowering an owner’s holding costs, encouraging speculation, and tying up land that is otherwise planned for urban development. Outside UGBs, the requirement to apply for special assessment and meet a minimum income test is a disincentive to property owners to rezone appropriate areas for rural residential development, making development in exclusive farm use zones (where there is no application or income requirement) more attractive to those seeking a rural homesite. This can put pressure on counties to permit more low-density rural residential housing in EFU zones.

The exemption can also raise potential conflicts with the State’s urban land use program for EFU-zoned land as applied inside UGBs. Oregon cities are required to have a 20-year supply of land inside their UGBs for future housing, employment, streets, parks, schools, and other urban land needs (Statewide Planning Goals 9 - Economic Development, 10 - Housing, and 14 - Urbanization (OAR 660-015-0000(9), (1) & (14)); ORS 197.296; OAR 660, divisions 007, 008, and 009). Land inside the UGB may retain EFU *zoning* until it is needed for urban development (ORS 197.752), but this land must be *available* for urban development (i.e., annexation and urban zoning), and it must be managed to maintain its potential for efficient and higher-intensity development (Goal 14; ORS 197.296 and 197.752). The special assessment program provides an incentive to keep urban land in farm use, which means that this land may *not* be considered available for urbanization and can put pressure on cities to expand their UGBs onto rural EFU lands when existing farm land inside the UGB is withheld from development.

Further, the passage of Ballot Measure 37, Oregon Laws 2004 (ORS 197.352) may have an impact on the effectiveness of the special farm use assessment program. The program was intended to encourage owners of rural land to keep the land in exclusive farm zones where use of the land is restricted (see ORS 215.243). The property tax savings from farm value assessment can be substantial over long periods of time, and

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serve as a partial offset for the potential loss of property value from these restrictions on use. Ballot Measure 37, however, requires compensation or waiver of regulations for owners of land in farm zones if land use regulations have restricted the use of the property and had the effect of reducing the fair market value of the property after acquisition. The measure does not take property tax savings from the special assessment into account.

Taking into consideration the impact of Measure 37, as well as other potential conflicts, this special assessment may merit additional review. *[Evaluated by the Department of Land Conservation and Development.]*

2.121 FARM HOMESITES

Oregon Statute: 308A.253
Sunset Date: None
Year Enacted: 1987

2005-06 Assessed Value of Property Exempted: \$337.2 million

	Loss	Shift
2005-07 Revenue Impact:	\$6,800,000	\$1,400,000
2007-09 Revenue Impact:	\$7,000,000	\$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. It does not include the value of the home built on the land. 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.
- An income test is required for homesites in non-exclusive farm use (Non-EFU) areas. For this reason, very few specially assessed homesites are in these areas.
- 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 by encouraging farmers to live on their property.
- WHO BENEFITS:** In 2005-06, the number of farm homesites in Oregon is estimated at over 40,500. 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 2.120. *[Evaluated by the Department of Land Conservation and Development.]*

2.122 OPEN SPACE LAND

Oregon Statute: 308A.300

Sunset Date: None

Year Enacted: 1971

2005-06 Assessed Value of Property Exempted: \$46 million

	Loss	Shift
2005-07 Revenue Impact:	\$1,000,000	\$200,000
2007-09 Revenue Impact:	\$1,000,000	\$200,000

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 value in an alternative highest and best use and the specially assessed value which considers only the value under its current open space use. 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 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: Owners of the 417 open space properties reported by county assessors.

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

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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 State 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 \$837.2 million in the 2005–07 biennium and \$869.9 million for the 2007–09 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 rate for gasohol is 18.4 cents per gallon. In addition to the state and federal taxes, two Oregon counties and 11 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 760 licensed retailers in the state who submit payments to ODOT for taxes collected from consumers of use fuels. In addition, there are another 1,219 users operating more than 7,600 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
2005–07 Revenue Impact:	\$0
2007–09 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 a 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 Department of Transportation.]*

3.002 FOREST PRODUCTS—OTHER THAN GASOLINE

Oregon Statute: 319.831(1)(c, g)

Sunset Date: None

Year Enacted: 1965

	Total
2005–07 Revenue Impact:	\$0
2007–09 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 a 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 Department of Transportation.]*

3.003 FUEL FOR AIRCRAFT DEPARTING U.S.

Oregon Statutes: 319.330(2)

Sunset Date: None

Year Enacted: 1959

Total	
2005–07 Revenue Impact:	Less than \$50,000
2007–09 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	
2005–07 Revenue Impact:	\$10,500,000
2007–09 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 Department of Transportation.]*

3.005 PUBLIC TRANSPORTATION

Oregon Statutes: 267.200 and 267.570(2)
Sunset Date: None
Year Enacted: 1969

Total	
2005–07 Revenue Impact:	\$2,700,000
2007–09 Revenue Impact:	\$3,700,000

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 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 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 \$489.4 million in the 2005–07 biennium and \$510.8 million in the 2007–09 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	
2005–07 Revenue Impact:	\$3,000,000
2007–09 Revenue Impact:	\$3,100,000

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. Over 50 percent 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 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: 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 Department of Transportation.]*

4.002 FOREST PRODUCTS ON COUNTY ROADS

Oregon Statute: 825.017(8)

Sunset Date: None

Year Enacted: 1977

	Total
2005–07 Revenue Impact:	\$0
2007–09 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 a 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 Department of Transportation.]*

4.003 ELEMENTARY AND SECONDARY SCHOOLS

Oregon Statute: 825.017(1)

Sunset Date: None

Year Enacted: Pre-1953

	Total
2005–07 Revenue Impact:	\$1,800,000
2007–09 Revenue Impact:	\$2,700,000

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 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.

Weight-Mile Tax

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 a 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 55 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 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
2005–07 Revenue Impact:	\$5,200,000
2007–09 Revenue Impact:	\$6,100,000

- 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 the 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 Department of Transportation.]*

4.005 PUBLIC MASS TRANSIT VEHICLES

Oregon Statute: 825.017(12)

Sunset Date: None

Year Enacted: 1977

Total	
2005–07 Revenue Impact:	\$3,500,000
2007–09 Revenue Impact:	\$2,900,000

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 the 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 main mass transit districts in Oregon.

EVALUATION: This expenditure achieves its purpose. Without this exemption, fares could be higher, which would decrease ridership, particularly by those from lower income groups. *[Evaluated by the Department of Transportation.]*

4.006 FIRE PROTECTION

Oregon Statute: 825.017(23)

Sunset Date: None

Year Enacted: 1977

Total	
2005–07 Revenue Impact:	Less than \$50,000
2007–09 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 weigh

Weight-Mile Tax

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 Department of Transportation.]*

4.007 CHARITABLE ORGANIZATIONS

Oregon Statute: 825.017(15)

Sunset Date: None

Year Enacted: 1977

Total	
2005–07 Revenue Impact:	Less than \$50,000
2007–09 Revenue Impact:	\$100,000

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 Department of Transportation.]*

CHAPTER 5. CIGARETTE TAX

Cigarette distributors are required to pay a tax for the distribution of each cigarette in Oregon. 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. After administrative and enforcement expenses, the \$1.18 per pack is distributed as follows: 18.6 percent to the General Fund, 72.6 percent to the Oregon Health Plan, 1.9 percent to cities, 1.9 percent to counties, 1.9 percent to the Oregon Department of Transportation, and 2.9 percent to the Tobacco Use Reduction Account.

Cigarette tax revenues for the 2005-07 biennium are forecast to be \$453.9 million and will be distributed as follows: \$87.3 million to the General Fund, \$327.5 million to the Oregon Health Plan, \$13.1 million to the Tobacco Use Reduction Account, and \$26.1 million to Cities, Counties and Public Transit. For the 2007-09 biennium, revenues are expected to be \$464.8 million.

The Oregon cigarette tax began in 1966. Generally, the tax is paid through the use of tax stamps that are purchased by the 70 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	
2005–07 Revenue Impact:	Less than \$50,000
2007–09 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	
2005–07 Revenue Impact:	Not Available
2007–09 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: This expenditure achieves its purpose of compliance with federal law. *[Evaluated by the Department of Revenue.]*

5.003 RESERVATION CIGARETTE SALES

Oregon Statute: 323.401

Sunset Date: None

Year Enacted: 1979

Total	
2005–07 Revenue Impact:	\$2,500,000
2007–09 Revenue Impact:	\$2,500,000

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: This expenditure achieves its purpose of compliance with federal law. *[Evaluated by the Department of Revenue.]*

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 182 distributors.

Other Tobacco Products tax revenue for the 2005-07 biennium is predicted to be \$58.8 million and will be distributed as follows: \$32.7 million to the General Fund, \$23.6 million to the Oregon Health Plan, and \$2.6 million to the Tobacco Use Reduction Account. For the 2007-09 biennium, receipts are expected to be \$63.0 million.

6.001 FEDERAL INSTALLATIONS

Oregon Statute: 323.515

Sunset Date: None

Year Enacted: 1985

Total	
2005–07 Revenue Impact:	Not Available
2007–09 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: This expenditure achieves its purpose of compliance with federal law. *[Evaluated by the Department of Revenue.]*

6.002 RESERVATION TOBACCO SALES

Oregon Statute: 323.615

Sunset Date: None

Year Enacted: 1985

Total	
2005–07 Revenue Impact:	Less than \$50,000
2007–09 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: This expenditure achieves its purpose of compliance with federal law. *[Evaluated by the Department of Revenue.]*

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 \$29.4 million for the 2005–07 biennium and \$30.9 million for the 2007–09 biennium.

7.001 SMALL WINERIES

Oregon Statute: 473.050(5)

Sunset Date: None

Year Enacted: 1977

Total	
2005–07 Revenue Impact:	\$2,300,000
2007–09 Revenue Impact:	\$2,700,000

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 3,200,000 gallons will be claimed as tax exempt during the 2005–07 biennium. This is expected to increase to 3,900,000 gallons exempted in the 2007–09 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 380 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 Liquor Control Commission.]*

7.002 WINE MARKETING ACTIVITIES

Oregon Statutes: 473.047

Sunset Date: None

Year Enacted: 2001

	Total
2005-07 Revenue Impact:	\$0
2007-09 Revenue Impact:	\$0

DESCRIPTION: This provision allows a credit against the wine 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 first 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 the wine tax).

EVALUATION: No winery has claimed the credit through June 30, 2006. *[Evaluated by the 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. Under current law the tax will sunset at the end of 2007.

Receipts are forecast to be \$73.4 million for the 2005–07 biennium and \$28.8 million for the 2007–09 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	
2005–07 Revenue Impact:	\$3,100,000
2007–09 Revenue Impact:	\$800,000

DESCRIPTION: State and local governments are exempt from the telephone access (911) tax. This includes regional housing authorities.

When the tax sunsets, this expenditure will have no effect.

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	
2005–07 Revenue Impact:	\$100,000
2007–09 Revenue Impact:	Less than \$50,000

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. There are about 30,000 federal employees in Oregon.

EVALUATION: This expenditure achieves its purpose of compliance with federal law. *[Evaluated by the Department of Revenue.]*

8.003 INDIAN RESERVATION SUBSCRIBERS

Oregon Statutes: 401.794

Sunset Date: None (The telephone access tax sunsets 12-31-07.)

Year Enacted: 1981

Total	
2005–07 Revenue Impact:	\$100,000
2007–09 Revenue Impact:	Less than \$50,000

DESCRIPTION: Tribal members 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 on reservations using telephones with access to 911 service.

EVALUATION: This expenditure achieves its purpose of compliance with federal law. *[Evaluated by the Department of Revenue.]*

CHAPTER 9. FOREST PRODUCTS HARVEST TAX

A 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 2006, the tax rate was set at \$2.61 per thousand board feet of timber harvested, of which \$0.67 was to support forestry research, \$0.55 was to administer Oregon's Forest Practices Act, \$0.50 was for fire protection, and \$0.89 was for the Oregon Forest Resources Institute.

Receipts from the forest products harvest tax are forecasted to be \$21.6 million for the 2005–07 biennium. The tax will sunset December 31, 2007 and receipts are forecasted to be \$19.0 million for the 2007–09 biennium.

9.001 FIRST 25,000 BOARD FEET

Oregon Statute: 321.015(5)

Sunset Date: 12-31-07

Year Enacted: 1953

Exemption: 75 million board feet in 2005

Total	
2005–07 Revenue Impact:	\$400,000
2007–09 Revenue Impact:	\$400,000

DESCRIPTION: The 2005 Legislature reinstated the Forest Products Harvest Tax through December 31, 2007. 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 timber harvesters who, on an annual basis, harvest a small amount of timber.

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 2005, about 3,900 harvesters benefited from this.

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 (2.063).)

Per ORS 308.807, 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.

For the 2006–2007 tax year, 14 associations have paid the gross earnings tax, and five 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 2005–07 biennium are expected to be \$11.1 million. For the 2007–09 biennium, revenues of \$12.0 million are forecast.

10.001 REVENUE FROM GOVERNMENT LEASED LINES

Oregon Statute: 308.805

Sunset Date: None

Year Enacted: 1969

Total	
2005–07 Revenue Impact:	\$100,000
2007–09 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 not less than zero and not more than \$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 forecast to be \$5.3 million for the 2005–07 biennium and \$5.5 million for the 2007–09 biennium.

11.001 STATE AND LOCAL GOVERNMENT PROPERTY

Oregon Statute: 453.402(4)(e)

Sunset Date: None

Year Enacted: 1989

Total	
2005–07 Revenue Impact:	Not Available
2007–09 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	
2005–07 Revenue Impact:	Not Available
2007–09 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 Fee. It is not clear, however, whether the federal constitution or laws prohibit the taxation of any specific substance or activity.
- PURPOSE:** To comply with federal law.
- WHO BENEFITS:** The federal government.
- EVALUATION:** This expenditure achieves its purpose of compliance with federal law. *[Evaluated by the Department of Revenue.]*

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 assessed on dry cleaning facilities is comprised of a risk fee and an environmental fee.

- Dry cleaning facilities that utilized any solvent prior to January 1, 1998 pay a \$500 fee. There is an additional fee of \$500 for any dry cleaning facility that has utilized or utilizes perchloroethylene during any part of the annual fee period.
- Dry cleaning facilities also pay an annual environmental fee based upon projected gross sales (on dry cleaning services only) for the current fee period. This fee is one percent of the gross revenue of dry cleaning services that the facility generates in the annual fee period.

The tax on dry cleaning solvents is composed of two fees. The tax is \$10 per gallon on the sale of perchloroethylene and \$2 per gallon on the sale of other dry cleaning solvents. These taxes are paid quarterly by distributors of dry cleaning solvents.

There are approximately 320 dry cleaning facilities and 120 dry stores subject to the dry cleaning fee. Receipts for the dry cleaning program are forecast to be \$1.5 million in the 2005–07 biennium and \$1.5 million in the 2007-09 biennium.

12.001 UNIFORM SERVICE OR LINEN SUPPLY FACILITY

Oregon Statute: 465.200(6)(b)

Sunset Date: None

Year Enacted: 1995

Total	
2005–07 Revenue Impact:	Less than \$50,000
2007–09 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

Year Enacted: 1995

Total	
2005–07 Revenue Impact:	\$0
2007–09 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

Year Enacted: 1995

	Total
2005–07 Revenue Impact:	\$0
2007–09 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. 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.

EVALUATION: This expenditure achieves its purpose of compliance with federal law. *[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 \$2.50 per load of 100 or more gallons. Effective July 1, 2007 the fee will increase to \$4.00 per load and effective July 1, 2009 the fee shall be \$6.00 per load. 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 \$1.3 million for the 2005–07 biennium and \$2.0 million for the 2007–09 biennium.

13.001 PRODUCT PROHIBITED FROM TAX BY FEDERAL LAW

Oregon Statute: 465.111

Sunset Date: None

Year Enacted: 1989

Total	
2005–07 Revenue Impact:	Not Available
2007–09 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: This expenditure achieves its purpose of compliance with federal law. *[Evaluated by the Department of Revenue.]*

CHAPTER 14. OIL AND GAS SEVERANCE TAX

A severance tax of 6 percent of the gross value at the well is levied on the production of oil and gas within Oregon. Receipts are forecast to be \$168,000 for the 2005-07 biennium and \$165,000 for the 2007-09 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	
2005–07 Revenue Impact:	Less than \$50,000
2007–09 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	
2005–07 Revenue Impact:	\$0
2007–09 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	
2005–07 Revenue Impact:	Less than \$50,000
2007–09 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. These taxes are used to finance Medicaid services and leverage additional federal funds. Only the hospital and long-term care facility taxes are discussed here since they are the only ones with tax expenditures.

Hospital tax

The assessment on each hospital subject to this tax is imposed at a rate determined by the director of the Department of Human Services (DHS). 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. Hospital tax receipts are forecasted to be \$79,400,000 for the 2005-07 biennium and \$23,900,000 for the 2007-09 biennium.

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 was initially \$8.25, and has increased to over \$12 (as of July 2006). 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. Long term care facility tax receipts are forecasted to be \$68,600,000 for the 2005-07 biennium and \$79,400,000 for the 2007-09 biennium.

15.001 TYPE A AND B HOSPITALS

Oregon Statute: Note after 409.750, Section 2(1)
 Sunset Date: None (Tax sunsets on 12-31-07.)
 Year Enacted: 2003 (HB 2747)

Total	
2005–07 Revenue Impact:	\$700,000
2007–09 Revenue Impact:	\$200,000

DESCRIPTION: Type A & B Hospitals in Oregon are waived from paying the hospital provider tax. Also waived are hospitals that provide only psychiatric care. The Centers for Medicare and Medicaid Services waiver is dated August 17, 2004. Type A hospitals have less than 50 beds and are more than 30 miles from another hospital. Type B hospitals have less than 50 beds and are less than 30 miles from another hospital. Type A & B hospitals are paid on a cost to charge ratio for Medicaid clients.

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 exempt the Type A & B hospitals and the Oregon State Hospital from the hospital provider tax assessment enacted under Chapter 736, Oregon Laws 2003 (HB 2747).

WHO BENEFITS: Psychiatric, Type A, and Type B hospitals.

EVALUATION: The hospital provider tax assessment is used to create a pool of State Other Funds revenue, along with the Federal matching of those funds, to be used to enhance payments to Diagnosis Related Group hospitals for treating Medicaid clients and providing hospital benefits for up to 25,000 Oregon Health Plan Standard clients. Type A & B hospitals are reimbursed at 100% of the hospital specific cost to charge ratio for Medicaid clients. If a hospital provider tax is assessed, DHS is unable to increase reimbursement above 100% without losing Federal matching dollars.
[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 (Tax sunsets on 12-31-07.)
 Year Enacted: 2003 (HB 2747)

Total	
2005–07 Revenue Impact:	\$600,000
2007–09 Revenue Impact:	\$200,000

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 exempt the US Department of Veterans Affairs and pediatric specialty hospitals from the hospital provider tax assessment enacted under Chapter 736, Oregon Laws 2003 (HB 2747). To exclude both types of facilities from the state’s hospital provider tax. To comply with federal law - 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:** The hospital provider tax assessment is used to create a pool of State Other Funds revenue, along with the Federal matching of those funds, to be used to enhance payments to Diagnosis Related Group hospitals for treating Medicaid clients and providing hospital benefits for up to 25,000 Oregon Health Plan Standard clients. Department of Veterans Affairs Hospital and pediatric specialty hospitals that provide free care are exempt from taxation because DHS does not pay for services provided by the facilities and the facilities would not receive enhanced reimbursement if they were taxed. *[Evaluated by the Department of Human Services.]*

15.003 OREGON VETERANS’ HOME

Oregon Statute: Note after 409.750, Section 18(1)
 Sunset Date: None (Tax sunsets 1-1-09)
 Year Enacted: 2003 (HB 2747) Modified 2005 (HB 2147)

	Total
2005–07 Revenue Impact:	\$800,000
2007–09 Revenue Impact:	\$800,000

- DESCRIPTION:** The Oregon Veterans’ Home is exempt from the long-term care facility tax. It is state owned and privately managed.
- PURPOSE:** To exempt the Oregon Veteran's Home (OVH) from the Long-term Care (LTC) provider tax assessment enacted under Chapter 736, Oregon Laws 2003 (HB 2747). To avoid taxing a state owned entity.
- WHO BENEFITS:** The Oregon Veterans’ Home and its residents and the spouses of residents.
- EVALUATION:** This tax expenditure achieves its purpose by providing an affordable rate structure to the residents of the Oregon Veterans’ Home. Affordable rates allow a larger number of veterans to have the ability to afford the facility for a longer period of time, and therefore not need Medicaid support as quickly or not at all during their stay. This helps keep veterans off the Medicaid rolls in the State of Oregon, and therefore helps control the State’s cost.
- The facility currently is fiscally solvent in its operations. Not only does fiscal solvency allow the facility to charge lower private rates to its veteran residents, it also helps to ensure that the facility meets its obligation of operating for the mandatory number of years to avoid repayment of the \$9 million federal construction grant by

the State of Oregon. If the facility were subject to the provider tax, the facility would probably be forced to increase private rates (and therefore potentially increase Medicaid rolls) and/or need to request additional operating funds. *[Evaluated by the Department of Veterans' Affairs.]*

15.004 NURSING FACILITIES

Oregon Statute: Note after 409.750, Section 18(2)
 Sunset Date: None (Tax sunsets 1-1-09)
 Year Enacted: 2003 (HB 2747)

Total	
2005–07 Revenue Impact:	\$2,000,000
2007–09 Revenue Impact:	\$2,000,000

- 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, have to be excluded from taxation.
- WHO BENEFITS:** Nursing facilities in retirement communities and those with a significant reliance on Medicaid payments.
- EVALUATION:** Not evaluated.

CHAPTER 16. LODGING TAX

The 2003 Oregon Legislature passed into law House Bill 2267 to establish a state lodging tax. The revenue this tax generates funds Oregon Tourism Commission programs. House Bill 2197, passed in 2005, expanded the definition of “transient lodging,” and also expanded the list of those who must pay the tax. The tax is one percent of the fee charged to the customer for overnight lodging.

The lodging tax was designed to be a tourism/travel-related tax, with a tax base that encompassed tourism/travel-related transient lodging. The statutory implementation of the lodging tax encompasses a wider base of transient lodging, and then excludes certain non-travel/tourism lodging. For example, was it not for a specific statutory exemption, overnight stays in hospitals and other medical facilities would be subject to the tax.

16.001 EXEMPT DWELLING UNITS

Oregon Statute: 320.308

Sunset Date: None

Year Enacted: 2003, Modified in 2005 (HB 2197)

Lodging Tax	
2005–07 Revenue Impact:	Not Available
2007–09 Revenue Impact:	Not Available

DESCRIPTION: Certain facilities and dwelling units used for temporary lodging are exempt from the state lodging taxation. Exempt facilities/units include:

- Healthcare facilities licensed by the Department of Human Services;
- Mental health and substance abuse treatment facilities;
- Units used for temporary occupancy for less than 30 days per year;
- Emergency shelters funded through a government agency;
- Nonprofit facilities;
- Units occupied by the same person for over 30 consecutive days.

The exclusion of nonprofit facilities represents a small expenditure, though revenue impact estimates are not available.

The lodging tax was enacted with the intent for the tax base to comprise tourism/travel related transient lodging providers. Its statutory implementation included all transient lodging, and provided for the exclusion of non-travel/tourism related lodging. For this report, these exclusions are considered to be a definition of the base, thus were not considered in revenue impact estimates.

PURPOSE: To implement a tourism/travel-related lodging tax program that does not apply to the exempted facilities.

WHO BENEFITS: Individuals who make use of exempt lodging facilities and the organizations that operate such facilities.

EVALUATION: This expenditure is effective in ensuring that the lodging tax is not applied to facilities which are not tourism/travel-related. *[Evaluated by the Department of Revenue.]*

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:

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The following agencies evaluated the effectiveness of the tax expenditures and provided other important information:

Agriculture, Department of	Land Conservation and Development, Dept. of
Aviation, Department of	Library, 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 Lottery
Energy, Department of	Oregon University System
Environmental Quality, Department of	Public Utility Commission of Oregon
Oregon Film and Video	Parks and Recreation Department, State
Fish and Wildlife, Department of	Rural Health, Office of
Forestry Department, State	Secretary of State, Oregon
Geology and Mineral Industries, Department of	State Lands, Department of
Housing and Community Services, Oregon	Transportation, Oregon Department of
Human Services, Department of	Treasury, Oregon State
Children, Adults, and Families	Veterans' Affairs, Department of
Senior and People with Disabilities	

APPENDIX C: TAX PROGRAMS WITHOUT TAX EXPENDITURES

Amusement Device Tax

Gift and Inheritance Taxes

Real Estate Recording 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 been removed since the publication of the 2005–07 *Tax Expenditure Report*. The new and modified expenditures were generally created or changed during Oregon’s 2005 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. The 2005–07 *Tax Expenditure Report* provides descriptions of the removed items.

NEW TAX EXPENDITURES

1.011 Income	Exclusion	Prescription Drug Insurance (Part D)
1.081 Income	Deduction	Renewal Community Tax Incentives
1.082 Income	Deduction	Deduction of Certain Film and Television Production Costs
1.092 Income	Deduction	Small Refiner Expensing of Sulfur Compliant Equipment
1.096 Income	Deduction	Deferral of Capital Gains From FERC Restructuring Requirements
1.109 Income	Deduction	Overnight-travel Expenses of National Guard and Reserve Members
1.119 Income	Subtraction	Domestic Partner Benefits
1.125 Income	Subtraction	Gains from Manufactured Dwelling Park Sale
1.143 Income	Credit	Volunteer Rural Emergency Medical Technicians
1.156 Income	Credit	Water Transit Vessel Manufacturing
1.157 Income	Credit	Public University Venture Development Fund
1.169 Income	Credit	Individual Development Account Withdrawal (Credit)
1.196 Income	Other	Public Warehouse Sales Throwback Exemption
1.201 Income	Other	Title 10 Active Duty Death
1.202 Income	Other	Single Sales Factor Corporate Apportionment
2.031 Property	Full	Food Processing Equipment
2.073 Property	Full	NW Intertie Exemption
2.084 Property	Full	LLC Owned by Nonprofit Corporation
2.111 Property	Partial	Homestead Exemption for Federal Active Duty Military Servicemembers
16.001 Lodging	Exclusion	Exempt Dwelling Units

MODIFIED TAX EXPENDITURES

1.122 Income	Subtraction	Small City Business Development
1.135 Income	Subtraction	Military Active Duty Pay
1.140 Income	Credit	Earned Income Credit
1.151 Income	Credit	Qualified Research Activities
1.153 Income	Credit	Long-term Nonurban Enterprise Zone (Income Tax)
1.154 Income	Credit	Reservation Enterprise Zone (Income Tax)
1.159 Income	Credit	Working Family Child Care
1.160 Income	Credit	Dependent Care Assistance
1.166 Income	Credit	Involuntary Manufactured Dwelling Moves
1.167 Income	Credit	Oregon Affordable Housing Credit
1.168 Income	Credit	Individual Development Account Contribution (Credit)
1.180 Income	Credit	Alternative Energy Devices (Residential)
2.010 Property	Full	Enterprise Zone Businesses
2.011 Property	Full	Long-Term Rural Enterprise Zone (Property Tax)
2.035 Property	Full	Agricultural Products Held by Farmer
2.076 Property	Full	Fraternal Organizations
2.091 Property	Partial	Strategic Investment Program (SIP)
2.092 Property	Partial	Vertical Housing Development Zone
2.093 Property	Partial	New Houses in Distressed Area
2.095 Property	Partial	Multi-Family Rental Housing in City Core
2.096 Property	Partial	Low-Income Multi-Unit Housing
2.099 Property	Partial	Disabled War Veterans or Their Spouses
2.105 Property	Partial	Historic Property
15.003 Medical Provider	Exclusion	Oregon Veterans' Home

REMOVED TAX EXPENDITURES

Income	Exclusion	Inventory Property Sales Source-Rule Exception	Previously included in error.
Income	Other	Small Property Insurance Companies	Previously included in error.
Income	Deduction	Redevelopment Costs in Contaminated Areas	Expired
Income	Other	Small Life Insurance Companies	Previously included in error.
Income	Deduction	Blue Cross/Blue Shield and Other Nonprofits	Previously included in error.
Income	Subtraction	JOBS Plus Participants	Included with 1.005
Income	Subtraction	Capital Gains from Oregon Reinvestment	Expired
Income	Credit	Investment in Telecommunications Infrastructure	Expired
Income	Credit	Oregon IGA Assessments	Expired
Property	Full	Volunteer Fire Department Property	Included with 2.075
Property	Partial	Agricultural Commodity Cleaning Property	Included with 2.018

APPENDIX E: PERSONAL AND CORPORATION INCOME TAX EXPENDITURES

Personal Income Tax Expenditures

Tax Expenditure	Program or Function	Year Enacted	Oregon Statute	Revenue Impact (\$ Thousands)		
				2005-07	2007-09	
<i>Federal Exclusions</i>						
1.001	Scholarship and Fellowship Income	Education	1954	316.048	11,600	13,200
1.002	Interest on Education Savings Bonds	Education	1988	316.048	200	200
1.003	Earnings on Education Savings Accounts	Education	1997	316.048	800	1,000
1.004	Qualified Tuition Programs (Federal)	Education	1996	316.048	5,500	7,000
1.005	Public Assistance Benefits	Human Services	Pre-1955	316.048	16,400	18,300
1.006	Certain Foster Care Payments	Human Services	1982	316.048	4,500	5,200
1.007	Employee Adoption Benefits	Human Services	1996	316.048	3,400	4,200
1.008	Cafeteria Plan Benefits	Human Services	1974	316.048	236,200	286,300
1.009	Employer Paid Medical Benefits	Human Services	1918	316.048	770,000	910,300
1.010	Compensatory Damages	Human Services	Pre-1955	316.048	10,900	11,400
1.011	Prescription Drug Insurance (Part D)	Human Services	2003	316.048/317.013	30,500	10,900
1.012	Hospital Insurance (Part A)	Human Services	1965	316.048	157,500	190,200
1.013	Supplementary Medical Insurance (Part B)	Human Services	1970	316.048	208,200	130,000
1.014	Pension Contributions and Earnings	Human Services	1921	316.048	803,900	884,000
1.015	Special Benefits for Disabled Coal Miners	Human Services	1969	316.048	Less than 50	Less than 50
1.016	Social Security Benefits (Federal)	Human Services	1938	316.048	313,100	338,500
1.017	Income Earned Abroad by U.S. Citizens	Economic/Community	1926	316.048	29,100	32,200
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	6,000	6,300
1.020	Regional Economic Development Incentives	Economic/Community	1993	316.048/317.013	Less than 50	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	Imputed Interest Rules	Economic/Community	1964	316.048/317.013	2,900	3,000
1.025	Employer Paid Group Life Insurance Premiums	Economic/Community	1920	316.048	21,100	22,000
1.026	Employer Paid Accident and Disability Insurance	Economic/Community	1954	316.048	22,200	24,500
1.027	Employer Provided Dependent Care	Economic/Community	1981	316.048	22,400	22,300
1.028	Miscellaneous Fringe Benefits	Economic/Community	1984	316.048	55,300	58,900
1.029	Employee Meals and Lodging (Non-Military)	Economic/Community	1918	316.048	7,500	7,800
1.030	Employee Stock Ownership Plans	Economic/Community	1974	316.048/317.013	2,500	2,500
1.031	Employee Awards	Economic/Community	1986	316.048	1,300	1,500
1.032	Employer Provided Education Benefits	Economic/Community	1997	316.048	7,000	7,500
1.033	Spread on Acquisition of Stock	Economic/Community	1981	316.048	3,000	2,500
1.034	Capital Gains on Home Sales	Economic/Community	1997	316.048	331,900	352,700
1.035	Veteran's Benefits and Services	Economic/Community	1917	316.048	42,200	45,800
1.036	Military and Dependents CHAMPUS/TRICARE Insurance	Economic/Community	1925	316.048	20,100	22,900
1.037	Agriculture Cost -Sharing Payments	Natural Resources	1978	316.048/317.013	100	100
1.038	Cancellation of Debt for Farmers	Natural Resources	1986	316.048	1,100	1,100
1.039	Energy Conservation Subsidies (Federal)	Natural Resources	1992	316.048	Incl. in 1.128	Incl. in 1.128
1.040	Employer Paid Transportation Benefits	Transportation	1992	316.048	28,500	29,900
1.041	Life Insurance Company Reserves	Consumer and Business Services	1913	316.048/317.013	194,200	204,400
1.042	Workers' Compensation Benefits (Non-Medical)	Consumer and Business Services	1918	316.048	22,600	22,500
1.043	Workers' Compensation Benefits (Medical)	Consumer and Business Services	1918	316.048	54,000	63,200
1.047	Gain on Nondealer Installment Sales	Tax Administration	1921	316.048/317.013	3,800	4,100
1.048	Gain on Like-Kind Exchanges	Tax Administration	1921	316.048/317.013	5,800	6,400
1.049	Allowances for Federal Employees Abroad	Government	1943	316.048	4,200	5,000
1.050	Interest on Oregon State and Local Debt	Government	1913	316.048	78,900	77,700
1.051	Capital Gains on Inherited Property	Social Policy	1921	316.048	676,500	807,700
1.052	Gain on Involuntary Conversions in Disaster Areas	Social Policy	1996	316.048	200	200
1.053	Voluntary Employees' Beneficiary Associations	Social Policy	1928	316.048	25,100	27,000
1.054	Rental Allowances for Ministers' Homes	Social Policy	1921	316.048	3,800	4,100
1.055	Discharge of Certain Student Loan Debt	Social Policy	1984	316.048	Less than 50	Less than 50

Appendix E

Personal Income Tax Expenditures

Tax Expenditure	Program or Function	Year Enacted	Oregon Statute	Revenue Impact (\$ Thousands)	
				2005-07	2007-09
1.056 Military Disability Benefits	Social Policy	1942	316.048	800	800
1.057 Benefits and Allowances of Armed Forces Personnel	Social Policy	1925	316.048	22,900	24,000
1.058 Capital Gains on Gifts	Social Policy	1921	316.048	72,700	87,100
1.059 Restitution Payments for Holocaust Survivors	Social Policy	2001	316.048	Less than 50	Less than 50
1.060 Survivor Annuities	Social Policy	1997	316.048	Less than 50	Less than 50
Federal Adjustments					
1.061 Teacher Classroom Expenses	Education	2002	316.048	400	0
1.062 Interest on Student Loans	Education	1997	316.048	12,000	13,500
1.063 Qualified Higher Education Expenses	Education	2001	316.048	5,000	0
1.064 Self-Employment Health Insurance	Human Services	1986	316.048	51,100	60,000
1.065 Health Savings Accounts	Human Services	1996	316.048	1,600	5,100
1.066 IRA Contributions and Earnings	Human Services	1974	316.048	93,100	120,000
1.067 SEP/SIMPLE Plan Contributions and Earnings	Human Services	1962	316.048	72,700	82,800
1.068 Moving Expenses	Economic/Community	1964	316.048	3,400	3,500
Federal Deductions					
1.069 Charitable Contributions: Education	Education	1917	316.695/317.013	39,200	44,800
1.070 Charitable Contributions: Health	Human Services	1917	316.695/317.013	27,200	30,600
1.071 Medical and Dental Expenses	Human Services	1942	316.695	217,100	275,800
1.072 Removal of Architectural Barriers	Human Services	1976	316.048/317.013	Less than 50	Less than 50
1.073 Accelerated Depreciation of Buildings	Economic/Community	1954	316.048/317.013	4,200	6,000
1.074 Accelerated Depreciation of Equipment	Economic/Community	1954	316.048/317.013	-6,000	20,600
1.077 Section 179 Expensing Allowances	Economic/Community	1959	316.048/317.013	19,700	-5,800
1.078 Amortization of Business Start-Up Costs	Economic/Community	1980	316.048/317.013	5,200	6,000
1.080 Ordinary Treatment of Losses from Small Business Corporation Stock	Economic/Community	1958	316.048	400	400
1.081 Renewal Community Tax Incentives	Economic/Community	2005	316.048/317.013	2,300	3,000
1.083 Accelerated Depreciation of Rental Housing	Economic/Community	1954	316.048/317.013	31,400	41,800
1.084 Property Taxes	Economic/Community	1913	316.695	246,700	259,500
1.085 Home Mortgage Interest	Economic/Community	1913	316.695	848,800	972,500
1.086 Cash Accounting for Agriculture	Natural Resources	1916	316.048/317.013	6,500	6,600
1.087 Soil and Water Conservation Expenditures	Natural Resources	1954	316.048/317.013	200	200
1.088 Fertilizer and Soil Conditioner Costs	Natural Resources	1960	316.048/317.013	1,700	1,100
1.089 Costs of Raising Dairy and Breeding Cattle	Natural Resources	1916	316.048/317.013	500	400
1.090 Sale of Stock to Farmers' Cooperatives	Natural Resources	1998	316.048/317.013	Less than 50	Less than 50
1.091 Clean-Fuel Vehicles and Refueling Property	Natural Resources	1993	316.048/317.013	200	0
1.093 Intangible Development Costs for Fuels	Natural Resources	1978	316.695/317.013	Less than 50	Less than 50
1.094 Depletion Costs for Fuels	Natural Resources	1962	316.695/317.013	Less than 50	Less than 50
1.095 Tertiary Injectants	Natural Resources	1980	316.695/317.013	Less than 50	Less than 50
1.097 Expensing Timber Growing Costs	Natural Resources	1986	316.048/317.013	300	300
1.098 Expensing and Amortization of Reforestation Costs	Natural Resources	1980	316.048/317.013	1,600	1,600
1.099 Development Costs for Nonfuel Minerals	Natural Resources	1951	316.048/317.013	200	200
1.100 Depletion Costs for Nonfuel Minerals	Natural Resources	1913	316.048/317.374	800	800
1.101 Mining Reclamation Reserves	Natural Resources	1984	316.048/317.013	200	200
1.105 Magazine Circulation Expenditures	Tax Administration	1950	316.048/317.013	200	200
1.107 Completed Contract Rules	Tax Administration	1986	316.048/317.013	200	200
1.108 Casualty and Theft Losses	Social Policy	1913	316.695	2,100	2,100
1.109 Overnight-travel Expenses of National Guard and Reserve Members	Social Policy	2005	316.048	700	800
1.110 Local Income Taxes	Social Policy	1913	316.695	7,700	Less than 50
1.111 Charitable Contributions: Other	Social Policy	1917	316.695/317.013	213,900	242,500
Oregon Subtractions					
1.112 Land Donated to Schools	Education	1999	316.852/317.488	Less than 50	Less than 50
1.113 Oregon 529 College Savings Network	Education	1999	316.699	6,600	7,400

Personal Income Tax Expenditures

Tax Expenditure	Program or Function	Year Enacted	Oregon Statute	Revenue Impact (\$ Thousands)		
				2005-07	2007-09	
1.114	Scholarship Awards Used for Housing Expenses	Education	1999	316.846	400	400
1.115	Physicians in "Medically Disadvantaged" Areas	Human Services	1973	316.076	0	0
1.116	Additional Deduction for Elderly or Blind	Human Services	1989	316.695(7)	6,100	3,800
1.117	Additional Medical Deduction for Elderly	Human Services	1991	316.695 (1)(d)(B)	84,300	96,000
1.118	Social Security Benefits (Oregon)	Human Services	1985	316.054	263,000	299,500
1.119	Domestic Partner Benefits	Social Policy	1999	OAR 150-316-007(B)	500	600
1.120	Donations of Art by the Artist	Economic/Community	1979	316.838	100	100
1.121	Municipal Bond Interest	Economic/Community	1987	316.056	1,900	2,200
1.122	Small City Business Development	Economic/Community	2001	316.778/317.391	Less than 50	100
1.123	Individual Development Accounts (Exclusion and Subtraction)	Economic/Community	1999	316.848	Less than 50	Less than 50
1.125	Gains from Manufactured Dwelling Park Sale	Economic/Community	2005	316.153	Less than 50	Less than 50
1.126	Service in Vietnam on Missing Status	Economic/Community	1973	316.074	0	0
1.127	Underground Storage Tank Grants	Natural Resources	1991	316.834/317.383	0	0
1.128	Energy Conservation Subsidies (Oregon)	Natural Resources	1981	316.744/317.386	200	100
1.130	Income Earned in Border River Areas	Tax Administration	2001	316.127	Less than 50	Less than 50
1.131	Oregon State Lottery Prizes	Government	1985	461.560	2,400	3,000
1.132	Income Earned in "Indian Country"	Government	1977	316.777	3,600	3,800
1.133	Federal Pension Income	Government	1998	316.680(1)(f)	130,300	137,000
1.134	Federal Income Tax Deduction	Social Policy	1929	316.680/316.695	632,400	747,200
1.135	Military Active Duty Pay	Social Policy	1969	316.680/316.789/ 316.791	28,500	35,200
1.136	Interest and Dividends on U.S. Obligations	Federal Law	1970	316.680	27,900	34,300
Oregon Credits						
1.137	Youth Apprenticeship Sponsorship	Education	1991	315.254	0	0
1.139	Employer Provided Scholarships	Education	2001	315.237	Less than 50	Less than 50
1.140	Earned Income Credit	Human Services	1997	315.266	28,400	39,700
1.141	Qualified Adoption Expense	Human Services	1999	315.274	400	Less than 50
1.142	Rural Medical Practice	Human Services	1989	315.613/315.616/315.619	11,300	11,100
1.143	Volunteer Rural Emergency Medical Technicians	Human Services	2005	315.622	400	600
1.144	Costs in lieu of Nursing Home Care	Human Services	1979	316.147-316.149	Less than 50	Less than 50
1.145	Long-Term Care Insurance	Human Services	1999	315.610	11,300	12,600
1.146	Disabled Child	Human Services	1985	316.099	3,700	4,100
1.147	Elderly or Permanently Disabled	Human Services	1969	316.087	Less than 50	Less than 50
1.148	Loss of Limbs	Human Services	1973	316.079	Less than 50	Less than 50
1.149	Severe Disability	Human Services	1985	316.758/316.765	5,300	5,800
1.150	Film Production Development Contributions	Economic/Community	2003	315.514	1,300	1,500
1.153	Long-term Nonurban Enterprise Zone (Income Tax)	Economic/Community	1997	317.124	Less than 50	Less than 50
1.154	Reservation Enterprise Zone (Income Tax)	Economic/Community	2001	285C.309	Less than 50	Less than 50
1.155	Electronic Commerce Enterprise Zone (Income Tax)	Economic/Community	2001	315.507	Less than 50	Less than 50
1.156	Water Transit Vessel Manufacturing	Economic/Community	2005	315.517	Less than 50	Less than 50
1.157	Public University Venture Development Fund	Economic/Community	2005	315.521	Less than 50	200
1.158	Child and Dependent Care	Economic/Community	1975	316.078	16,800	15,600
1.159	Working Family Child Care	Economic/Community	1997	315.262	47,500	50,600
1.160	Dependent Care Assistance	Economic/Community	1987	315.204	400	400
1.161	Dependent Care Facilities	Economic/Community	1987	315.208	Incl. in 1.160	Incl. in 1.160
1.162	First Break Program	Economic/Community	1995	315.259	Less than 50	Less than 50
1.163	Child Care Division Contributions	Economic/Community	2001	315.213	300	300
1.164	Farm Worker Housing Construction	Economic/Community	1989	315.164	200	200
1.166	Involuntary Manufactured Dwelling Moves	Economic/Community	1991	316.153	300	400
1.168	Individual Development Account Contribution (Credit)	Economic/Community	1999	315.271	1,600	1,800
1.169	Individual Development Account Withdrawal (Credit)	Economic/Community	2005	315.272	Less than 50	100
1.170	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)	
				2005-07	2007-09
1.171 Crop Gleaning	Natural Resources	1977	315.156	100	100
1.172 Alternatives to Field Burning	Natural Resources	1975	468.150	100	100
1.173 Farm Machinery and Equipment (Income Tax)	Natural Resources	2001	315.119/315.123	Less than 50	Less than 50
1.174 Riparian Lands Removed from Farm Production	Natural Resources	2001	315.113	Less than 50	100
1.175 Pollution Prevention	Natural Resources	1995	315.311	Less than 50	Less than 50
1.176 Pollution Control	Natural Resources	1967	315.304	3,600	3,600
1.177 Reclaimed Plastics	Natural Resources	1985	315.324	Less than 50	Less than 50
1.178 Diesel Truck Engines	Natural Resources	2003	Note: 315.356	200	200
1.179 Fish Screening Devices	Natural Resources	1989	315.138	Less than 50	Less than 50
1.180 Alternative Energy Devices (Residential)	Natural Resources	1977	316.116	13,900	16,000
1.181 Alternative Fuel Stations	Natural Resources	2001	317.115	Less than 50	Less than 50
1.182 Business Energy Facilities	Natural Resources	1979	315.354	7,000	7,800
1.185 Reforestation	Natural Resources	1979	315.104	400	500
1.186 Sewer Connection	Natural Resources	1987	316.095	Less than 50	Less than 50
1.191 Political Contributions	Government	1969	316.102	11,600	11,900
1.192 Personal Exemption	Social Policy	1985	316.085	878,200	924,100
1.193 Oregon Cultural Trust	Social Policy	2001	315.675	3,300	3,700
1.194 Retirement Income	Social Policy	1991	316.157	2,000	1,600

Other

1.195 Expatriate Residential Status	Economic/Community	1999	316.027	1,800	1,900
1.197 Income Averaging for Farmers	Natural Resources	2001	314.297	300	400
1.198 Capital Gains from Farm Property	Natural Resources	2001	318.020/317.063	1,000	1,100
1.201 Title 10 Active Duty Death	Social Policy	2005	314.088	Less than 50	Less than 50

Corporation Income Tax Expenditures

Tax Expenditure	Program or Function	Year Enacted	Oregon Statute	Revenue Impact (\$ Thousands)		
				2005-07	2007-09	
<i>Federal Exclusions</i>						
1.011	Prescription Drug Insurance (Part D)	Human Services	2003	316.048/317.013	3,500	1,500
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	18,800	28,900
1.022	Extraterritorial Income Exclusion	Economic/Community	2000	317.013	13,400	1,400
1.023	Cancellation of Debt for Non-Farmers	Economic/Community	Pre-1955	316.048/317.013	Less than 50	Less than 50
1.024	Imputed Interest Rules	Economic/Community	1964	316.048/317.013	100	100
1.030	Employee Stock Ownership Plans	Economic/Community	1974	316.048/317.013	4,100	4,600
1.037	Agriculture Cost-Sharing Payments	Natural Resources	1978	316.048/317.013	100	100
1.041	Life Insurance Company Reserves	Consumer and Business Services	1913	316.048/317.013	11,000	11,600
1.044	Credit Union Income	Consumer and Business Services	1951	317.080(1)	13,700	15,100
1.045	Structured Settlement Accounts	Consumer and Business Services	1982	317.013	Less than 50	Less than 50
1.046	Contributions in Aid of Construction for Utilities	Consumer and Business Services	1996	317.013	100	100
1.047	Gain on Nondealer Installment Sales	Tax Administration	1921	316.048/317.013	2,800	3,100
1.048	Gain on Like-Kind Exchanges	Tax Administration	1921	316.048/317.013	8,500	10,000
<i>Federal Deductions</i>						
1.069	Charitable Contributions: Education	Education	1917	316.695/317.013	6,600	5,000
1.070	Charitable Contributions: Health	Human Services	1917	316.695/317.013	6,600	6,100
1.072	Removal of Architectural Barriers	Human Services	1976	316.048/317.013	Less than 50	Less than 50
1.073	Accelerated Depreciation of Buildings	Economic/Community	1954	316.048/317.013	2,600	3,900
1.074	Accelerated Depreciation of Equipment	Economic/Community	1954	316.048/317.013	41,100	83,800
1.075	Deferral of Certain Financing Income of Foreign Corporations	Economic/Community	1997	317.013	5,800	5,900
1.076	Research and Development Costs	Economic/Community	1954	316.048/317.013	12,700	17,600
1.077	Section 179 Expensing Allowances	Economic/Community	1959	316.048/317.013	2,600	-1,400
1.078	Amortization of Business Start-Up Costs	Economic/Community	1980	316.048/317.013	100	100
1.079	Construction Funds of Shipping Companies	Economic/Community	1936	317.319	1,700	1,700
1.081	Renewal Community Tax Incentives	Economic/Community	2005	316.048/317.013	800	900
1.082	Deduction of Certain Film and Television Production Costs	Economic/Community	2005	317.013	200	100
1.083	Accelerated Depreciation of Rental Housing	Economic/Community	1954	316.048/317.013	1,900	2,800
1.086	Cash Accounting for Agriculture	Natural Resources	1916	316.048/317.013	600	600
1.087	Soil and Water Conservation Expenditures	Natural Resources	1954	316.048/317.013	100	100
1.088	Fertilizer and Soil Conditioner Costs	Natural Resources	1960	316.048/317.013	100	100
1.089	Costs of Raising Dairy and Breeding Cattle	Natural Resources	1916	316.048/317.013	100	100
1.090	Sale of Stock to Farmers' Cooperatives	Natural Resources	1998	316.048/317.013	Less than 50	Less than 50
1.091	Clean-Fuel Vehicles and Refueling Property	Natural Resources	1993	316.048/317.013	100	0
1.092	Small Refiner Expensing of Sulfur Compliant Equipment	Natural Resources	2004	317.013	Less than 50	Less than 50
1.093	Intangible Development Costs for Fuels	Natural Resources	1978	316.695/317.013	Less than 50	Less than 50
1.094	Depletion Costs for Fuels	Natural Resources	1962	316.695/317.013	Less than 50	Less than 50
1.095	Tertiary Injectants	Natural Resources	1980	316.695/317.013	Less than 50	Less than 50
1.096	Deferral of Capital Gains From FERC Restructuring Requirements	Natural Resources	2004	317.013	2,200	-200
1.097	Expensing Timber Growing Costs	Natural Resources	1986	316.048/317.013	1,800	1,800
1.098	Expensing and Amortization of Reforestation Costs	Natural Resources	1980	316.048/317.013	100	100
1.099	Development Costs for Nonfuel Minerals	Natural Resources	1951	316.048/317.013	400	400
1.100	Depletion Costs for Nonfuel Minerals	Natural Resources	1913	316.048/317.374	400	400
1.101	Mining Reclamation Reserves	Natural Resources	1984	316.048/317.013	100	100
1.102	Life Insurance Company Reserves	Consumer and Business Services	1984	317.655(2)(f) and (g)	8,500	9,000
1.103	Additions to Bad Debt Reserves of Small Financial Institutions	Consumer and Business Services	1947	317.310	Less than 50	Less than 50

Appendix E

Corporation Income Tax Expenditures

Tax Expenditure	Program or Function	Year Enacted	Oregon Statute	Revenue Impact (\$ Thousands)	
				2005-07	2007-09
1.104 Property and Casualty Insurance Company Reserves	Consumer and Business Services	1986	317.655(2)(f,g)	13,900	15,600
1.105 Magazine Circulation Expenditures	Tax Administration	1950	316.048/317.013	100	100
1.106 Net Operating Loss Limitation	Tax Administration	1954	317.478/317.479	2,600	2,600
1.107 Completed Contract Rules	Tax Administration	1986	316.048/317.013	1,300	1,700
1.111 Charitable Contributions: Other	Social Policy	1917	316.695/317.013	13,100	12,100

Oregon Subtractions

1.112 Land Donated to Schools	Education	1999	316.852/317.488	Less than 50	Less than 50
1.122 Small City Business Development	Economic/Community	2001	316.778/317.391	Less than 50	300
1.124 Out-of-State Financial Institution	Economic/Community	1999	317.057	Less than 50	Less than 50
1.125 Gains from Manufactured Dwelling Park Sale	Economic/Community	2005	316.153	Less than 50	Less than 50
1.127 Underground Storage Tank Grants	Natural Resources	1991	316.834/317.383	0	0
1.128 Energy Conservation Subsidies (Oregon)	Natural Resources	1981	316.744/317.386	Less than 50	Less than 50
1.129 Wet Marine and Transportation Policies	Consumer and Business Services	1995	317.080(8)	500	600

Oregon Credits

1.137 Youth Apprenticeship Sponsorship	Education	1991	315.254	0	0
1.138 Contributions of Computer Equipment	Education	1985	317.151	Less than 50	Less than 50
1.139 Employer Provided Scholarships	Education	2001	315.237	Less than 50	Less than 50
1.145 Long-Term Care Insurance	Human Services	1999	315.610	Less than 50	Less than 50
1.150 Film Production Development Contributions	Economic/Community	2003	315.514	200	200
1.151 Qualified Research Activities	Economic/Community	1989	317.152	11,300	16,500
1.152 Qualified Research Activities (Alternative)	Economic/Community	1989	317.154	Incl. in 1.151	Incl. in 1.151
1.153 Long-term Nonurban Enterprise Zone (Income Tax)	Economic/Community	1997	317.124	Less than 50	Less than 50
1.154 Reservation Enterprise Zone (Income Tax)	Economic/Community	2001	285C.309	Less than 50	Less than 50
1.155 Electronic Commerce Enterprise Zone (Income Tax)	Economic/Community	2001	315.507	2,900	3,000
1.156 Water Transit Vessel Manufacturing	Economic/Community	2005	315.517	Less than 50	Less than 50
1.157 Public University Venture Development Fund	Economic/Community	2005	315.521	Less than 50	200
1.160 Dependent Care Assistance	Economic/Community	1987	315.204	1,500	1,500
1.161 Dependent Care Facilities	Economic/Community	1987	315.208	Incl. in 1.160	Incl. in 1.160
1.162 First Break Program	Economic/Community	1995	315.259	Less than 50	Less than 50
1.163 Child Care Division Contributions	Economic/Community	2001	315.213	100	100
1.164 Farm Worker Housing Construction	Economic/Community	1989	315.164	700	1,000
1.165 Farm Worker Housing Lender's Credit	Economic/Community	1989	317.147	700	700
1.167 Oregon Affordable Housing Credit	Economic/Community	1989	317.097	5,800	9,000
1.168 Individual Development Account Contribution (Credit)	Economic/Community	1999	315.271	Less than 50	Less than 50
1.170 Oregon Capital Corporation Investments	Economic/Community	1987	315.504	0	0
1.171 Crop Gleaning	Natural Resources	1977	315.156	Less than 50	Less than 50
1.172 Alternatives to Field Burning	Natural Resources	1975	468.150	300	300
1.173 Farm Machinery and Equipment (Income Tax)	Natural Resources	2001	315.119/315.123	Less than 50	Less than 50
1.174 Riparian Lands Removed from Farm Production	Natural Resources	2001	315.113	Less than 50	Less than 50
1.175 Pollution Prevention	Natural Resources	1995	315.311	Less than 50	Less than 50
1.176 Pollution Control	Natural Resources	1967	315.304	15,900	14,700
1.177 Reclaimed Plastics	Natural Resources	1985	315.324	Less than 50	Less than 50
1.178 Diesel Truck Engines	Natural Resources	2003	Note: 315.356	100	100
1.179 Fish Screening Devices	Natural Resources	1989	315.138	Less than 50	Less than 50
1.181 Alternative Fuel Stations	Natural Resources	2001	317.115	Less than 50	Less than 50
1.182 Business Energy Facilities	Natural Resources	1979	315.354	12,700	15,200
1.183 Energy Conservation Lender's Credit	Natural Resources	1981	317.112	Less than 50	Less than 50
1.184 Weatherization Lender's Credit	Natural Resources	1977	317.111	Less than 50	Less than 50
1.185 Reforestation	Natural Resources	1979	315.104	Less than 50	Less than 50

Corporation Income Tax Expenditures

Tax Expenditure	Program or Function	Year Enacted	Oregon Statute	Revenue Impact (\$ Thousands)	
				2005–07	2007–09
1.187 Mile-Based or Time-Based Motor Vehicle Insurance	Consumer and Business Services	2003	Note: 317.122	Less than 50	Less than 50
1.188 Fire Insurance	Consumer and Business Services	1969	317.122(1)	5,300	6,600
1.189 Workers' Compensation Assessments	Consumer and Business Services	1995	317.122(2)	2,200	1,600
1.190 Oregon Life and Health IGA Assessments	Consumer and Business Services	1975	734.835	100	100
1.193 Oregon Cultural Trust	Social Policy	2001	315.675	Less than 50	Less than 50
<i>Other</i>					
1.196 Public Warehouse Sales Throwback Exemption	Economic/Community	2005	314.665	Less than 50	Less than 50
1.198 Capital Gains from Farm Property	Natural Resources	2001	318.020/317.063	Less than 50	Less than 50
1.199 Apportionment for Certain Forest Product Companies	Natural Resources	2003	314.650(2)	Not available	Not available
1.200 Apportionment for Utility and Telecommunication Companies	Consumer and Business Services	2001	314.280	500	600
1.202 Single Sales Factor Corporate Apportionment	Economic/Community	2003	314.650	77,600	65,600

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	1.073	Income
Accelerated Depreciation of Equipment	1.074	Income
Accelerated Depreciation of Rental Housing	1.083	Income
Additional Deduction for Elderly or Blind	1.116	Income
Additional Medical Deduction for Elderly	1.117	Income
Agricultural Products Held by Farmer	2.035	Property
Agriculture Cost-Sharing Payments	1.037	Income
Aircraft	2.106	Property
Aircraft Being Repaired	2.021	Property
Allowances for Federal Employees Abroad	1.049	Income
Alternative Energy Devices (Residential)	1.180	Income
Alternative Energy Systems	2.103	Property
Alternative Fuel Stations	1.181	Income
Alternatives to Field Burning	1.172	Income
Amortization of Business Start-Up Costs	1.078	Income
Amtrak Passenger Railroad	2.087	Property
Apportionment for Certain Forest Product Companies	1.199	Income
Apportionment for Utility and Telecommunication Companies	1.200	Income
Additions to Bad Debt Reserves of Small Financial Institutions	1.103	Income
Beach Lands	2.071	Property
Benefits and Allowances of Armed Forces Personnel	1.057	Income
Beverage Containers Requiring Deposit	2.069	Property
Business Energy Facilities	1.182	Income
Business Personal Property Cancellation	2.016	Property
Cafeteria Plan Benefits	1.008	Income
Cancellation of Debt for Farmers	1.038	Income
Cancellation of Debt for Non-Farmers	1.023	Income
Capital Gains from Farm Property	1.198	Income
Capital Gains on Gifts	1.058	Income
Capital Gains on Home Sales	1.034	Income
Capital Gains on Inherited Property	1.051	Income
Cargo Containers	2.017	Property
Cash Accounting for Agriculture	1.086	Income
Cash Accounting, Other than Agriculture	1.019	Income
Casualty and Theft Losses	1.108	Income
Cemeteries, Burial Grounds, and Mausoleums	2.078	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	1.069	Income
Charitable Contributions: Health	1.070	Income
Charitable Contributions: Other	1.111	Income
Charitable Organizations	4.007	Weight-Mile
Charitable, Literary, and Scientific Organizations	2.075	Property
Child and Dependent Care	1.158	Income
Child Care Division Contributions	1.163	Income
City-Owned Sports Facility	2.082	Property
Clean-Fuel Vehicles and Refueling Property	1.091	Income

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Index of Tax Expenditures by Title

Tax Expenditure Name	Tax Expenditure Number	Program or Function
Commercial Buildings Under Construction	2.008	Property
Compensatory Damages	1.010	Income
Completed Contract Rules	1.107	Income
Construction Funds of Shipping Companies	1.079	Income
Construction-in-Process in an Enterprise Zone	2.009	Property
Contributions in Aid of Construction for Utilities	1.046	Income
Contributions of Computer Equipment	1.138	Income
Convention Facilities	2.083	Property
Costs in lieu of Nursing Home Care	1.144	Income
Costs of Raising Dairy and Breeding Cattle	1.089	Income
Crab Pots	2.047	Property
Credit for Property Taxes Paid	14.003	Oil and Gas Severance
Credit Union Income	1.044	Income
Crop Gleaning	1.171	Income
Crops, Plants, and Fruit Trees	2.034	Property
Death During Performance of Military Active Duty	1.201	Income
Deduction for Overnight-travel Expenses of National Guard and Reserve Members	1.109	Income
Deduction of Certain Film and Television Production Costs	1.082	Income
Defense Contractor With Federal Property	2.024	Property
Deferral of Certain Financing Income of Foreign Corporations	1.075	Income
Deferral of Gain From to Implement FERC Restructuring Policy	1.096	Income
Dependent Care Assistance	1.160	Income
Dependent Care Facilities	1.161	Income
Depletion Costs for Fuels	1.094	Income
Depletion Costs for Nonfuel Minerals	1.100	Income
Destroyed or Damaged Property	2.110	Property
Development Costs for Nonfuel Minerals	1.099	Income
Diesel Truck Engines	1.178	Income
Disabled Child	1.146	Income
Disabled War Veterans or Their Spouses	2.099	Property
Discharge of Certain Student Loan Debt	1.055	Income
Domestic Partner Benefits	1.119	Income
Donations of Art by the Artist	1.120	Income
Earned Income Credit	1.140	Income
Earnings on Education Savings Accounts	1.003	Income
Eastern Private Forestland	2.118	Property
Eastern Private Standing Timber	2.051	Property
Elderly or Permanently Disabled	1.147	Income
Electronic Commerce Enterprise Zone (Income Tax)	1.155	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	1.031	Income
Employee Meals and Lodging (Non-Military)	1.029	Income
Employee Stock Ownership Plans	1.030	Income
Employer Paid Accident and Disability Insurance	1.026	Income
Employer Paid Group Life Insurance Premiums	1.025	Income
Employer Paid Medical Benefits	1.009	Income
Employer Paid Transportation Benefits	1.040	Income

Index of Tax Expenditures by Title

Tax Expenditure Name	Tax Expenditure Number	Program or Function
Employer Provided Dependent Care	1.027	Income
Employer Provided Education Benefits	1.032	Income
Employer Provided Scholarships	1.139	Income
Energy Conservation Lender's Credit	1.183	Income
Energy Conservation Subsidies (Federal)	1.039	Income
Energy Conservation Subsidies (Oregon)	1.128	Income
Enterprise Zone Businesses	2.010	Property
Environmentally Sensitive Logging Equipment	2.046	Property
Ethanol Production Facility	2.102	Property
Exempt Dwelling Units	16.001	Lodging
Exempt Lease from Exempt Owner	2.081	Property
Exempt Lease from Taxable Owner	2.080	Property
Expatriate Residential Status	1.195	Income
Expensing and Amortization of Reforestation Costs	1.098	Income
Extraterritorial Income Exclusion	1.022	Income
Facility on U.S. Military Base	12.003	Dry Cleaning
Fairground Leased Storage Space	2.029	Property
Farm Homesites	2.121	Property
Farm Labor Housing and Day Care Centers	2.028	Property
Farm Land	2.120	Property
Farm Machinery and Equipment (Income)	1.173	Income
Farm Machinery and Equipment (Property)	2.032	Property
Farm Worker Housing Construction	1.164	Income
Farm Worker Housing Lender's Credit	1.165	Income
Farming Operations	4.001	Weight-Mile
FCC Licenses	2.066	Property
Federal and Veteran Institutions	5.002	Cigarette
Federal Income Tax Deduction	1.134	Income
Federal Installations	6.001	Other Tobacco Products
Federal Land Under Recreation Facility	2.023	Property
Federal Land Under Summer Homes	2.025	Property
Federal Pension Income	1.133	Income
Federal Property	2.085	Property
Federal Standing Timber Under Contract	2.048	Property
Federal Subscribers	8.002	Telephone Exchange Access (911)
Fertilizer and Soil Conditioner Costs	1.088	Income
Field Burning Smoke Management Equipment	2.042	Property
Film Production Development Contributions	1.150	Income
Fire Insurance	1.188	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	1.162	Income
Fish Screening Devices	1.179	Income
Food Processing Equipment	2.031	Property
Forest Fire Protection Association	2.053	Property
Forest Homesites	2.116	Property
Forest Products -- Gasoline	3.001	Gas and Use Fuel
Forest Products -- Other than Gasoline	3.002	Gas and Use Fuel

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Index of Tax Expenditures by Title

Tax Expenditure Name	Tax Expenditure Number	Program or Function
Forest Products on County Roads	4.002	Weight-Mile
Fraternal Organizations	2.076	Property
Fraternal Organizations, Sororities, and Cooperatives	2.088	Property
Fuel for Aircraft Departing U.S.	3.003	Gas and Use Fuel
Gain on Involuntary Conversions in Disaster Areas	1.052	Income
Gain on Like-Kind Exchanges	1.048	Income
Gain on Nondealer Installment Sales	1.047	Income
Gains from Manufactured Dwelling Park Sale	1.125	Income
Government Owned or Operated Vehicles	4.004	Weight-Mile
Health Savings Accounts	1.065	Income
Higher Education Parking Space	2.004	Property
Historic Property	2.105	Property
Home Mortgage Interest	1.085	Income
Homestead Exemption for Federal Active Duty Military Servicemembers	2.111	Property
Hospital Insurance (Part A)	1.012	Income
Housing Authority Rental Units	2.026	Property
Imputed Interest Rules	1.024	Income
Inactive Mineral Interests	2.054	Property
Income Averaging for Farmers	1.197	Income
Income Earned Abroad by U.S. Citizens	1.017	Income
Income Earned in "Indian Country"	1.132	Income
Income Earned in Border River Areas	1.130	Income
Income of Controlled Foreign Corporations	1.021	Income
Indian Property on Reservation	2.086	Property
Indian Reservation Subscribers	8.003	Telephone Exchange Access (911)
Individual Development Account Contribution (Credit)	1.168	Income
Individual Development Account Withdrawal (Credit)	1.169	Income
Individual Development Accounts (Exclusion and Subtraction)	1.123	Income
Industry Apprenticeship/Training Trust	2.030	Property
Intangible Development Costs for Fuels	1.093	Income
Intangible Personal Property	2.067	Property
Interest and Dividends on U.S. Obligations	1.136	Income
Interest on Education Savings Bonds	1.002	Income
Interest on Oregon State and Local Debt	1.050	Income
Interest on Student Loans	1.062	Income
Inventory	2.015	Property
Involuntary Manufactured Dwelling Moves	1.166	Income
IRA Contributions and Earnings	1.066	Income
Land Donated to Schools	1.112	Income
Leased Docks and Airports	2.018	Property
Leased Federal Grazing Land	2.038	Property
Leased Health Care Property	2.006	Property
Leased Public Farming and Grazing Land	2.037	Property
Leased Publicly Owned Shipyard Property	2.019	Property
Leased State Land Board Land	2.055	Property
Leased Student Housing Publicly Owned	2.003	Property
Life Insurance Company Reserves	1.102	Income
Life Insurance Investment Income	1.041	Income
LLC Owned by Nonprofit Corporation	2.084	Property
Local Government Public Ways	2.072	Property

Index of Tax Expenditures by Title

Tax Expenditure Name	Tax Expenditure Number	Program or Function
Local Income Taxes	1.110	Income
Long-Term Care Facilities	2.090	Property
Long-Term Care Insurance	1.145	Income
Long-term Nonurban Enterprise Zone (Income Tax)	1.153	Income
Long-Term Nonurban Enterprise Zone (Property Tax)	2.011	Property
Loss of Limbs	1.148	Income
Low-Income Multi-Unit Housing	2.096	Property
Magazine Circulation Expenditures	1.105	Income
Magazine, Paperback, and Record Returns	1.018	Income
Medical and Dental Expenses	1.071	Income
Mile-Based or Time-Based Motor Vehicle Insurance	1.187	Income
Military Active Duty Pay	1.135	Income
Military and Dependents CHAMPUS/TRICARE Insurance	1.036	Income
Military Disability Benefits	1.056	Income
Mining Claims on Federal Land	2.057	Property
Mining Reclamation Reserves	1.101	Income
Miscellaneous Fringe Benefits	1.028	Income
Mobile Field Incinerators	2.033	Property
Motor Vehicles and Trailers	2.060	Property
Moving Expenses	1.068	Income
Multi-Family Rental Housing in City Core	2.095	Property
Multi-Period Timber Growing Costs	1.097	Income
Multi-Unit Rental Housing	2.113	Property
Municipal Bond Interest	1.121	Income
Net Operating Loss Limitation	1.106	Income
New Houses in Distressed Area	2.093	Property
New Housing for Low-Income Rental	2.097	Property
Nonprofit Elderly Housing State Funded	2.027	Property
Nonprofit Electrical Distribution Associations	2.063	Property
Nonprofit Housing for the Elderly	2.112	Property
Nonprofit Low-Income Rental Housing	2.098	Property
Nonprofit Public Park Use Land	2.058	Property
Nonprofit Sewage Treatment Facilities	2.043	Property
Nonprofit Telephone Associations	2.064	Property
Nonprofit Water Associations	2.062	Property
Nursery Stock	2.036	Property
Nursing Facilities	15.004	Medical Provider
NW Intertie Exemption	2.073	Property
ODOT Land Under Use Permit	2.061	Property
Open Space Land	2.122	Property
Ordinary Treatment of Losses from Small Business Corporation Stock	1.080	Income
Oregon 529 College Savings Network	1.113	Income
Oregon Affordable Housing Credit	1.167	Income
Oregon Capital Corporation Investments	1.170	Income
Oregon Cultural Trust	1.193	Income
Oregon Life and Health IGA Assessments	1.190	Income
Oregon State Lottery Prizes	1.131	Income
Oregon Veterans' Home	15.003	Medical Provider
Other Farm/Aquaculture/Egg Equipment	2.041	Property

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Index of Tax Expenditures by Title

Tax Expenditure Name	Tax Expenditure Number	Program or Function
Out-of-State Financial Institution	1.124	Income
Oyster Growing on State Land	2.039	Property
Pension Contributions and Earnings	1.014	Income
Personal Exemption	1.192	Income
Personal Property for Personal Use	2.068	Property
Physicians in "Medically Disadvantaged" Areas	1.115	Income
Political Contributions	1.191	Income
Pollution Control	1.176	Income
Pollution Control Facilities	2.101	Property
Pollution Prevention	1.175	Income
Prescription Drug Insurance (Part D)	1.011	Income
Prisons	12.002	Dry Cleaning
Private Farm and Logging Roads	2.052	Property
Private Libraries for Public Use	2.005	Property
Private Service Telephone Equipment	2.065	Property
Product Prohibited from Tax by Federal Law	13.001	Petroleum Loading
Property and Casualty Insur. Company Reserves	1.104	Income
Property Taxes	1.084	Income
Property Used as Golf Course and Effluent	2.044	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 University Venture Development Fund	1.157	Income
Public Warehouse Sales Throwback Exemption	1.196	Income
Qualified Adoption Expense	1.141	Income
Qualified Higher Education Expenses	1.063	Income
Qualified Research Activities	1.151	Income
Qualified Research Activities (Alternative)	1.152	Income
Qualified Tuition Programs (Federal)	1.004	Income
Railroad Cars Being Repaired	2.022	Property
Railroad Right of Way in Highway Lighting District	2.108	Property
Railroad Right of Way in Rural Fire District	2.109	Property
Railroad Right of Way in Water District	2.107	Property
Railroad Right of Way Used for Alternative Transport	2.059	Property
Reclaimed Plastics	1.177	Income
Reforestation	1.185	Income
Regional Economic Development Incentives	1.020	Income
Rehabilitated Housing	2.094	Property
Religious Organizations	2.077	Property
Removal of Architectural Barriers	1.072	Income
Renewal Community Tax Incentives	1.081	Income
Rental Allowances for Ministers' Homes	1.054	Income
Research and Development Costs	1.076	Income
Reservation Cigarette Sales	5.003	Cigarette
Reservation Enterprise Zone (Income Tax)	1.154	Income
Reservation Tobacco Sales	6.002	Other Tobacco Products
Restitution Payments for Holocaust Survivors	1.059	Income
Retirement Income	1.194	Income
Revenue from Government Leased Lines	10.001	Electric Cooperative

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Tax Expenditure Name	Tax Expenditure Number	Program or Function
Riparian Habitat Land	2.045	Property
Riparian Lands Removed from Farm Production	1.174	Income
Rural Health Care Facilities	2.089	Property
Rural Medical Practice	1.142	Income
Rural Renewable Energy Development Zone	2.014	Property
Sale of Stock to Farmers' Cooperatives	1.090	Income
Scholarship and Fellowship Income	1.001	Income
Scholarship Awards Used for Housing Expenses	1.114	Income
Section 179 Expensing Allowances	1.077	Income
Self-Employment Health Insurance	1.064	Income
Senior Services Centers	2.007	Property
SEP/SIMPLE Plan Contributions and Earnings	1.067	Income
Service in Vietnam on Missing Status	1.126	Income
Severe Disability	1.149	Income
Sewer Connection	1.186	Income
Ship Repair Facility Materials	2.020	Property
Single Sales Factor Corporate Apportionment	1.202	Income
Small City Business Development	1.122	Income
Small Quantity by Consumers	5.001	Cigarette
Small Refiner Expensing of Sulfur Compliant Equipment	1.092	Income
Small Tract Forestland Option	2.119	Property
Small Watercraft	2.056	Property
Small Wineries	7.001	Beer and Wine
Social Security Benefits (Federal)	1.016	Income
Social Security Benefits (Oregon)	1.118	Income
Soil and Water Conservation Expenditures	1.087	Income
Special Benefits for Disabled Coal Miners	1.015	Income
Spread on Acquisition of Stock	1.033	Income
State and Local Government Property	11.001	Hazardous Substances
State and Local Interests	14.002	Oil and Gas Severance
State and Local Property	2.070	Property
State and Local Standing Timber Under Contract	2.049	Property
State and Local Subscribers	8.001	Telephone Exchange Access (911)
Strategic Investment Program (SIP)	2.091	Property
Structured Settlement Accounts	1.045	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	1.060	Income
Teacher Classroom Expenses	1.061	Income
Tertiary Injectants	1.095	Income
Transfer of Land from Cemetery to School	2.079	Property
Tribal Land Being Placed in U.S. Trust	2.074	Property
Type A and B Hospitals	15.001	Medical Provider
Underground Storage Tank Grants	1.127	Income
Uniform Service or Linen Supply Facility	12.001	Dry Cleaning
Vertical Housing Development Zone	2.092	Property
Veterans Affairs and Pediatric Specialty Hospitals	15.002	Medical Provider
Veteran's Benefits and Services	1.035	Income

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Tax Expenditure Name	Tax Expenditure Number	Program or Function
Voluntary Employees' Beneficiary Associations	1.053	Income
Volunteer Emergency Medical Technicians	1.143	Income
War Veterans in Nonprofit Elderly Housing	2.100	Property
Water Transit Vessel Manufacturing Tax Credit	1.156	Income
Watercraft Centrally Assessed	2.104	Property
Watercraft Locally Assessed	2.114	Property
Weatherization Lender's Credit	1.184	Income
Western Private Forestland	2.117	Property
Western Private Standing Timber	2.050	Property
Wet Marine and Transportation Policies	1.129	Income
Wildlife Habitat	2.115	Property
Wine Marketing Activities	7.002	Beer and Wine
Workers' Compensation Assessments	1.189	Income
Workers' Compensation Benefits (Medical)	1.043	Income
Workers' Compensation Benefits (Non-Medical)	1.042	Income
Working Family Child Care	1.159	Income
Youth Apprenticeship Sponsorship	1.137	Income