State of Oregon
2003-05

Tax Expenditure Report

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Budget and Management Division
Department of Administrative Services

Research Section
Department of Revenue

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GOVERNOR'S MESSAGE

To the Citizens of Oregon:

I am pleased to submit the 2003-05 version of the biennial Tax Expenditure Report. This document is an important tool in understanding how government supports the achievement of social, economic, and environmental policies through the use of Oregon's tax structure.

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

Because tax expenditures can be considered "spending" through the tax system, it is important that they receive a thorough examination during the 2003 Oregon Legislative session. In so doing, we can ensure that they are being used effectively to reach our desired goals. Full disclosure of how well the system is working is something all Oregon citizens deserve. This report provides a factual contribution to a healthy debate regarding our public finance system.

Sincerely,

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INTRODUCTION

The 1995 Budget Accountability Act (the Act) requires that the governor, with the assistance of the Department of Revenue and the Department of Administrative Services, 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 2003–05 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 350 tax expenditures contained within 15 Oregon tax programs. Since 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. Descriptions of the tax bases for each of the 15 tax programs begin each chapter. There may be differences of opinion about what this normal tax base ought to be. Where there was uncertainty about whether a particular provision should be considered a tax expenditure, it was included in an effort to be as comprehensive as possible.

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 about 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 2003–05 biennium; an index of all tax expenditures by tax program (Table 1); an index of all tax expenditures by program/function (Table 2); and detailed descriptions of each tax expenditure (Chapters 1–15).

The indexes in Tables 1 and 2 are good starting points to identify those expenditures for which more information is desired. Table 1 provides a list of all tax expenditures sorted by tax and numbered sequentially from 1.001 to 15.003. This numbering system can be used as an index to locate the full description of each tax expenditure in Chapters 1–15. Similarly, Table 2 lists all the tax expenditures, but groups them by program/function rather than tax. This categorization has been done so that all tax expenditures related to a particular program area can be viewed together.

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

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

Program/Function Categories

Each tax expenditure has been assigned to one of 10 program/function categories. Wherever possible, an expenditure was categorized as one of the budget program areas used in the Governor's Recommended Budget: Education, Human Resources, Economic and Community Development, Natural Resources, and Transportation. Those that did not fit one of these program areas were assigned to one of five function categories: Insurance and Financial, 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 over 30 state agencies (see Appendix B). Agencies were asked to evaluate tax expenditures if the expenditure directly related to their program responsibility or if they had appropriate knowledge of the subject matter.

Revenue Impacts

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

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

For these reasons, and because tax expenditures interact with each other and the rest of the tax system, summing the revenue impacts may result in misleading totals that should be interpreted with caution.

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 districts 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 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 report the total of the loss and shift.

The revenue impact estimates are generally rounded to the nearest $100,000. For tax expenditures below $50,000 the revenue impact is indicated as "Less than $50,000." Where more precise estimates are available, they are provided in the tax expenditure description.

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

Acknowledgments

Although the Department of Revenue coordinated the construction of this report, numerous Oregon state agencies provided important information and analysis regarding the objectives and effectiveness of individual tax expenditures. These agencies are listed in Appendix B. The original report prepared in 1996 relied heavily on the tax expenditure report prepared by the Legislative Revenue Office in 1994 for the House and Senate Committees on Revenue and School Finance. The 2000 Congressional Research Service publication, *Tax Expenditures: Compendium of Background Material on Individual Provisions,* is used extensively throughout this report to describe and evaluate the tax expenditures that result from Oregon's connection to the federal income tax.

SUMMARY

This report describes 350 individual tax expenditures currently specified in Oregon law. Of those, 117 are related to local property taxes and 192 to Oregon's personal and corporation income taxes. The remaining 41 are related to various other state tax programs.

One hundred seven of the 192 income tax expenditures result from Oregon's connection to the federal income tax code. By adopting the federal definition of taxable income, Oregon also adopts all of the exclusions and deductions from income that are part of the federal personal and corporation income taxes. Since 1997, Oregon automatically connects to the federal definition of taxable income. This connection greatly reduces the costs for taxpayers to comply with Oregon tax law and simplifies tax administration. Oregon could "disconnect" from individual provisions in the federal tax code, but doing so would also increase compliance and administration costs and could create confusion.

For the 2001–03 biennium total tax expenditures will result in the "spending" of about $25 billion through Oregon's tax code. Over the same period the state of Oregon and local taxing districts will collect roughly $18 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.

The table below shows estimates of tax expenditures by tax program for the 2001–03 and 2003–05 biennia. The table also shows estimates of the total revenues raised in 2001–03 by each tax. The largest tax expenditures occur in the property tax program, where aggregate tax expenditures of over $18.1 billion per biennium are nearly three times the amount of revenue actually raised. The largest property tax expenditures are the exemption of intangible personal property ($10.2 billion), the exemption of federal property ($3.5 billion), and the exemption for state and local property ($905 million).

For income taxes (personal and corporation), tax expenditures in 2001–03 total nearly $7.0 billion, roughly 82 percent of actual tax collections. The largest expenditures are for Oregon's personal exemption credit ($810 million), the deduction of home mortgage interest ($787 million), and the deduction for pension contributions and earnings ($612 million).

OREGON REVENUES AND TAX EXPENDITURES BY TAX PROGRAM

(Millions of Dollars)

Tax Program	Number of Tax Expenditures	Estimated Revenues 2001-03	Estimated Tax Expenditures 2001-03	Estimated Tax Expenditures 2003-05
Income (Total)	192	$8,456.7	$6,949.8	$7,714.4
Federal Exclusions	64		$3,170.4	$3,515.6
Federal Deductions	43		$1,685.9	$1,929.1
Oregon Subtractions	29		$1,112.3	$1,179.1
Oregon Credits	56		$981.2	$1,090.6
Property	117	$6,633.7	$18,197.8	$19,253.3
Gas and Use Fuel	5	$791.7	$10.6	$13.1
Weight-Mile	7	$360.5	$11.5	$12.3
Insurance	7	$112.3	$11.1	$4.5
Cigarette & Other Tobacco	5	$415.6	$1.2	$2.3
Beer and Wine	2	$25.1	$1.6	$1.9
Other State Taxes	15	$1,665.1	$4.4	$4.6
All Taxes	350	$18,460.6	$25,187.9	$27,006.3

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 2003–05

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	2003-05 REVENUE IMPACT ($000)	GOVERNOR'S RECOMMENDATION
1.139	Contributions of Computer Equipment	Income Tax Credit	317.151	12/31/2003	100	Allow Sunset
1.155	Investment in Rural Enterprise Zones (Income Tax)	Income Tax Credit	Note: 285B.689	12/31/2004	Less than 50	Extend Sunset
1.164	First Break Program	Income Tax Credit	315.259	12/31/2004	100	Allow Sunset
2.013	Long-Term Rural Enterprise Zones (Property Tax)	Property Tax Exemption	Note: 285B.689	12/31/2004	1,330	Extend Sunset
2.036	Nonprofit Low-Income Rental Housing	Property Tax Exemption	307.541	6/30/2004	6,500	Extend Sunset

TABLE 1: INDEX OF TAX EXPENDITURES BY TAX PROGRAM

	Tax Expenditure	Program or Function	Year Enacted	Oregon Statute	Revenue Impact ($ Thousands) 2001-03	2003–05

INCOME TAX

Federal Exclusions

	Tax Expenditure	Program or Function	Year Enacted	Oregon Statute	2001-03	2003–05
1.001	Scholarship and Fellowship Income	Education	1954	316.048	9,600	11,200
1.002	Interest on Education Savings Bonds	Education	1988	316.048	100	200
1.003	Earnings on Education Savings Accounts	Education	1997	316.048	2,200	4,000
1.004	Qualified Tuition Programs (Federal)	Education	1996	316.048	1,000	1,700
1.005	Public Assistance Benefits	Human Resources	Pre-1955	316.048	9,800	10,100
1.006	Certain Foster Care Payments	Human Resources	1982	316.048	3,500	4,200
1.007	Employee Adoption Benefits	Human Resources	1996	316.048	Less than 50	Less than 50
1.008	Cafeteria Plan Benefits	Human Resources	1974	316.048	87,000	108,500
1.009	Employer Paid Medical Benefits	Human Resources	1918	316.048	532,800	634,400
1.010	Compensatory Damages	Human Resources	Pre-1955	316.048	200	200
1.011	Pension Contributions and Earnings	Human Resources	1921	316.048	611,900	633,900
1.012	Hospital Insurance (Part A)	Human Resources	1965	316.048	132,400	158,300
1.013	Supplementary Medical Insurance (Part B)	Human Resources	1970	316.048	78,500	96,400
1.014	Special Benefits for Disabled Coal Miners	Human Resources	1969	316.048	Less than 50	Less than 50
1.015	Social Security Benefits (Federal)	Human Resources	1938	316.048	226,900	238,600
1.016	Accelerated Depreciation of Buildings	Economic/Community	1954	316.048/317.013	8,800	7,500
1.017	Accelerated Depreciation of Equipment	Economic/Community	1954	316.048/317.013	284,100	275,700
1.018	Income Earned Abroad by U.S. Citizens	Economic/Community	1926	316.048	19,800	23,500
1.019	Inventory Property Sales Source-Rule Exception	Economic/Community	1921	317.013	21,500	24,900
1.020	Magazine, Paperback, and Record Returns	Economic/Community	1978	316.048/317.013	100	100
1.021	Cash Accounting, Other than Agriculture	Economic/Community	1916	316.048/317.013	2,000	2,300
1.022	Regional Economic Development Incentives	Economic/Community	1993	316.048/317.013	100	100
1.023	Income of Controlled Foreign Corporations	Economic/Community	1909	317.013	18,400	20,800
1.024	Extraterritorial Income Exclusion	Economic/Community	2000	316.048/317.013	19,000	24,900
1.025	Cancellation of Debt for Non-Farmers	Economic/Community	Pre-1955	316.048/317.013	Less than 50	Less than 50
1.026	Employer Paid Group Life Insurance Premiums	Economic/Community	1920	316.048	17,400	19,600
1.027	Employer Paid Accident and Disability Insurance	Economic/Community	1954	316.048	17,500	20,300
1.028	Employer Provided Dependent Care	Economic/Community	1981	316.048	5,000	6,500
1.029	Miscellaneous Fringe Benefits	Economic/Community	1984	316.048	45,100	48,500
1.030	Employee Meals and Lodging (Non-Military)	Economic/Community	1918	316.048	6,300	7,000
1.031	Employee Stock Ownership Plans	Economic/Community	1974	316.048/317.013	5,200	6,100
1.032	Employee Awards	Economic/Community	1986	316.048	800	800
1.033	Employer Provided Education Benefits	Economic/Community	1997	316.048	4,200	6,100
1.034	Spread on Acquisition of Stock	Economic/Community	1981	316.048	3,800	5,900
1.035	Accelerated Depreciation of Rental Housing	Economic/Community	1954	316.048/317.013	18,800	22,300
1.036	Capital Gains on Home Sales	Economic/Community	1997	316.048	129,700	140,900
1.037	Veteran's Benefits and Services	Economic/Community	1917	316.048	22,700	24,500
1.038	Military and Dependents CHAMPUS/TRICARE Insurance	Economic/Community	1925	316.048	14,800	15,700
1.039	Agriculture Cost-Sharing Payments	Natural Resources	1978	316.048/317.013	200	200
1.040	Cancellation of Debt for Farmers	Natural Resources	1986	316.048	400	400
1.041	Energy Conservation Subsidies (Federal)	Natural Resources	1992	316.048	100	100
1.042	Contributions in Aid of Construction for Utilities	Transportation	1996	317.013	100	100
1.043	Employer Paid Transportation Benefits	Transportation	1992	316.048	26,100	27,700
1.044	Life Insurance Investment Income	Insurance/Financial	1913	316.048/317.013	172,000	187,200
1.045	Workers' Compensation Benefits (Non-Medical)	Insurance/Financial	1918	316.048	41,100	45,600
1.046	Workers' Compensation Benefits (Medical)	Insurance/Financial	1918	316.048	28,000	29,700
1.047	Credit Union Income	Insurance/Financial	1951	317.013	3,800	4,100

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

	Tax Expenditure	Program or Function	Year Enacted	Oregon Statute	Revenue Impact ($ Thousands) 2001-03	2003–05
1.048	Life Insurance Company Reserves	Insurance/Financial	1984	317.013	5,400	5,800
1.049	Structured Settlement Accounts	Insurance/Financial	1982	317.013	Less than 50	Less than 50
1.050	Small Property Insurance Companies	Insurance/Financial	1986	317.013	Less than 50	Less than 50
1.051	Imputed Interest Rules	Tax Administration	1964	316.048/317.013	1,800	2,300
1.052	Gain on Non-Dealer Installment Sales	Tax Administration	1921	316.048/317.013	5,400	5,700
1.053	Gain on Like-Kind Exchanges	Tax Administration	1921	316.048/317.013	8,900	9,900
1.054	Allowances for Federal Employees Abroad	Government	1943	316.048	2,200	2,800
1.055	Interest on Oregon State and Local Debt	Government	1913	316.048	65,300	61,300
1.056	Capital Gains on Inherited Property	Social Policy	1921	316.048	374,800	444,300
1.057	Capital Gains on Gifts	Social Policy	1921	316.048	41,300	47,000
1.058	Gain on Involuntary Conversions in Disaster Areas	Social Policy	1996	316.048	100	100
1.059	Voluntary Employees' Beneficiary Association	Social Policy	1928	316.048	11,400	12,600
1.060	Rental Allowances for Ministers' Homes	Social Policy	1921	316.048	2,800	3,500
1.061	Military Disability Benefits	Social Policy	1942	316.048	700	700
1.062	Benefits and Allowances of Armed Forces Personnel	Social Policy	1925	316.048	17,400	18,700
1.063	Restitution Payments for Holocaust Survivors	Social Policy	2001	316.048	Less than 50	Less than 50
1.064	Survivor Annuities	Social Policy	1997	316.048	100	100
Federal Deductions						
1.065	Interest on Student Loans	Education	1997	316.048	6,100	8,000
1.066	Charitable Contributions: Education	Education	1917	316.695/317.013	44,400	52,900
1.067	Qualified Higher Education Expenses	Education	2001	316.048	11,200	24,100
1.068	Charitable Contributions: Health	Human Resources	1917	316.695/317.013	32,700	39,000
1.069	Medical and Dental Expenses	Human Resources	1942	316.695	116,900	140,700
1.070	Self-Employment Health Insurance	Human Resources	1986	316.048	23,700	36,800
1.071	Medical Savings Accounts (Federal)	Human Resources	1996	316.048	400	400
1.072	IRA Contributions and Earnings	Human Resources	1974	316.048	97,900	114,000
1.073	Keogh Plan Contributions and Earnings	Human Resources	1962	316.048	39,400	42,400
1.074	Removal of Architectural Barriers	Human Resources	1976	316.048/317.013	Less than 50	Less than 50
1.075	Deferral of Certain Financing Income of Foreign Corporations	Economic/Community	1997	317.013	2,100	100
1.076	Research and Development Costs	Economic/Community	1954	316.048/317.013	19,100	20,700
1.077	Section 179 Expensing Allowances	Economic/Community	1959	316.048/317.013	10,300	7,000
1.078	Amortization of Business Start-Up Costs	Economic/Community	1980	316.048/317.013	3,500	3,700
1.079	Construction Funds of Shipping Companies	Economic/Community	1936	317.013	1,200	1,200
1.080	Ordinary Treatment of Losses from Small Business Corporation Stock	Economic/Community	1958	316.048	300	300
1.081	Moving Expenses	Economic/Community	1964	316.048	3,400	3,400
1.082	Property Taxes	Economic/Community	1913	316.695	208,000	233,700
1.083	Home Mortgage Interest	Economic/Community	1913	316.695	786,500	882,000
1.084	Cash Accounting for Agriculture	Natural Resources	1916	316.048/317.013	4,300	3,400
1.085	Soil and Water Conservation Expenditures	Natural Resources	1954	316.048/317.013	300	300
1.086	Fertilizer and Soil Conditioner Costs	Natural Resources	1960	316.048/317.013	1,200	1,200
1.087	Costs of Raising Dairy and Breeding Cattle	Natural Resources	1916	316.048/317.013	200	200
1.088	Sale of Stock to Farmer's Cooperatives	Natural Resources	1998	316.048/317.013	Less than 50	Less than 50
1.089	Redevelopment Costs in Contaminated Areas	Natural Resources	1997	316.048/317.013	800	100
1.090	Clean-Fuel Vehicles and Refueling Property	Natural Resources	1993	316.048/317.013	Less than 50	Less than 50
1.091	Intangible Development Costs for Fuels	Natural Resources	1978	316.695/317.013	Less than 50	Less than 50
1.092	Depletion Costs for Natural Resources	Natural Resources	1962	316.695/317.013	Less than 50	Less than 50
1.093	Tertiary Injectants	Natural Resources	1980	316.695/317.013	Less than 50	Less than 50
1.094	Multi-Period Timber Growing Costs	Natural Resources	1986	316.048/317.013	8,100	8,200
1.095	Amortization of Reforestation Expenditures	Natural Resources	1980	316.048/317.013	300	300

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

	Tax Expenditure	Program or Function	Year Enacted	Oregon Statute	Revenue Impact ($ Thousands) 2001-03	Revenue Impact ($ Thousands) 2003–05
1.096	Development Costs for Nonfuel Minerals	Natural Resources	1951	316.048/317.013	300	300
1.097	Depletion Costs for Nonfuel Minerals	Natural Resources	1913	316.048/317.013	1,100	1,100
1.098	Mining Reclamation Reserves	Natural Resources	1984	316.048/317.013	200	200
1.099	Bad Debt Reserves of Financial Institutions	Insurance/Financial	1947	317.013	Less than 50	100
1.100	Small Life Insurance Companies	Insurance/Financial	1984	317.013	Less than 50	Less than 50
1.101	Unpaid Loss Reserves	Insurance/Financial	1986	317.013	12,900	13,300
1.102	Blue Cross/Blue Shield and Other Nonprofits	Insurance/Financial	1986	317.013	Not available	Not available
1.103	Magazine Circulation Expenditures	Tax Administration	1950	316.048/317.013	200	200
1.104	Net Operating Loss Limitation	Tax Administration	1954	317.013	2,200	2,200
1.105	Completed Contract Rules	Tax Administration	1986	316.048/317.013	1,000	1,000
1.106	Casualty and Theft Losses	Social Policy	1913	316.695	1,400	1,300
1.107	Charitable Contributions: Other	Social Policy	1917	316.695/317.013	217,700	258,700
	Oregon Subtractions					
1.108	Expatriate Residential Status	Economic/Community	1999	316.027	1,600	1,600
1.109	Income Averaging for Farmers	Natural Resources	2001	314.297	100	100
1.110	Capital Gains from Farm Property	Natural Resources	2001	318.020/317.063	Less than 50	200
1.111	Income Earned in Border River Areas	Tax Administration	2001	316.127	Less than 50	Less than 50
1.112	Land Donated to Schools	Education	1999	316.852/317.488	Less than 50	Less than 50
1.113	Oregon Qualified Tuition Savings	Education	1999	348.844/316.680	4,700	9,700
1.114	Scholarship Awards Used for Housing Expenses	Education	1999	316.846	Less than 50	Less than 50
1.115	Individual Development Accounts	Economic/Community	1999	316.848	Less than 50	Less than 50
1.116	JOBS Plus Participants	Human Resources	1995	316.680(1)(e)	Less than 50	Less than 50
1.117	Medical Savings Accounts (Oregon)	Human Resources	1997	316.743	Less than 50	0
1.118	Physicians in "Medically Disadvantaged" Areas	Human Resources	1973	316.076	0	0
1.119	Additional Deduction for Elderly or Blind	Human Resources	1989	316.695(7)	10,800	8,700
1.120	Additional Medical Deduction for Elderly	Human Resources	1991	316.695 (1)(d)(B)	64,300	72,200
1.121	Social Security Benefits (Oregon)	Human Resources	1985	316.054	220,300	249,500
1.122	Donations of Art by the Artist	Economic/Community	1979	316.838	Less than 50	Less than 50
1.123	Capital Gains from Oregon Reinvestment	Economic/Community	1995	316.874	0	0
1.124	Municipal Bond Interest	Economic/Community	1987	316.056	6,400	6,400
1.125	Out-of-State Financial Institution	Economic/Community	1999	317.057	Not available	Not available
1.126	Service in Vietnam on Missing Status	Economic/Community	1973	316.074	0	0
1.127	Oil Heat Tank Cleanup Costs	Natural Resources	1991	316.746	0	0
1.128	Underground Storage Tank Grants	Natural Resources	1991	316.834/317.383	0	0
1.129	Energy Conservation Subsidies (Oregon)	Natural Resources	1981	316.744/317.386	200	200
1.130	Wet Marine and Transportation Policies (Income Tax)	Insurance/Financial	1995	317.080(6)	400	400
1.131	Income Earned in "Indian Country"	Government	1977	316.777	2,500	2,900

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

	Tax Expenditure	Program or Function	Year Enacted	Oregon Statute	Revenue Impact ($ Thousands) 2001-03	2003–05
1.143	Qualified Adoption Expense	Human Resources	1999	315.274	900	900
1.144	Bone Marrow Transplant Expense	Human Resources	1991	315.604	Less than 50	Less than 50
1.145	Rural Medical Practice	Human Resources	1989	316.143	9,100	9,900
1.146	Costs in lieu of Nursing Home Care	Human Resources	1979	316.147-316.149	Less than 50	Less than 50
1.147	Long-Term Care Insurance	Human Resources	1999	315.610	100	100
1.148	Disabled Child	Human Resources	1985	316.099	3,000	3,400
1.149	Elderly or Permanently Disabled	Human Resources	1969	316.087	100	100
1.150	Loss of Limbs	Human Resources	1973	316.079	Less than 50	Less than 50
1.151	Severe Disability	Human Resources	1985	316.758/316.765	4,700	6,000
1.152	Oregon Capital Corporation Investments	Economic/Community	1987	315.504	0	0
1.153	Qualified Research Activities	Economic/Community	1989	317.152	14,100	7,700
1.154	Qualified Research Activities (Alternative)	Economic/Community	1989	317.154	Incl. in 1.153	Incl. in 1.153
1.155	Investment in Rural Enterprise Zones (Income Tax)	Economic/Community	1997	Note: 285B.689	Less than 50	Less than 50
1.156	Reservation Enterprise Zones (Income Tax)	Economic/Community	2001	285B.773	Less than 50	Less than 50
1.157	Small City Business Development	Economic/Community	2001	316.778	Less than 50	Less than 50
1.158	Electronic Commerce Enterprise Zones (Income Tax)	Economic/Community	2001	315.507	600	5,300
1.159	Investment in Telecommunications Infrastructure	Economic/Community	2001	315.511	Less than 50	4,000
1.160	Child and Dependent Care	Economic/Community	1975	316.078	10,200	9,800
1.161	Working Family Child Care	Economic/Community	1997	315.262	13,500	31,100
1.162	Dependent Care Assistance	Economic/Community	1987	315.204	1,100	700
1.163	Dependent Care Facilities	Economic/Community	1987	315.208	Incl. in 1.162	Incl. in 1.162
1.164	First Break Program	Economic/Community	1995	315.259	100	100
1.165	Child Care Division Contributions	Economic/Community	2001	315.213	500	1,000
1.166	Farm-Worker Housing Construction	Economic/Community	1989	315.164	700	1,600
1.167	Farm-Worker Housing Lender's Credit	Economic/Community	1989	317.147	900	1,200
1.168	Involuntary Mobile Home Moves	Economic/Community	1991	316.153	Less than 50	Less than 50
1.169	Oregon Affordable Housing Credit	Economic/Community	1989	317.097	8,000	9,600
1.170	Crop Gleaning	Natural Resources	1977	315.156	Less than 50	Less than 50
1.171	Alternatives to Field Burning	Natural Resources	1975	468.150	Incl. in 1.175	Incl. in 1.175
1.172	Farm Machinery and Equipment (Income)	Natural Resources	2001	315.119/315.123	400	1,400
1.173	Riparian Lands Removed from Farm Production	Natural Resources	2001	315.113	0	Less than 50
1.174	Pollution Prevention	Natural Resources	1995	315.311	100	100
1.175	Pollution Control	Natural Resources	1967	315.304	28,200	22,800
1.176	Reclaimed Plastics	Natural Resources	1985	315.324	100	100
1.177	Sewer Connection	Natural Resources	1987	316.095	100	100
1.178	Fish Habitat Improvement	Natural Resources	1981	315.134	Less than 50	0
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	316.116/317.115	7,600	8,200
1.181	Business Energy Facilities	Natural Resources	1979	315.354	14,400	19,700
1.182	Energy Conservation Lender's Credit	Natural Resources	1981	317.112	Less than 50	Less than 50
1.183	Geothermal Heating System Connection	Natural Resources	1979	316.086	Less than 50	0
1.184	Reforestation	Natural Resources	1979	315.104	500	1,300
1.185	Fire Insurance Credit	Insurance/Financial	1969	317.122(1)	3,400	3,600
1.186	Workers' Compensation Assessments (Income Tax)	Insurance/Financial	1995	317.122(2)	5,900	6,100
1.187	Oregon IGA Assessments (Income Tax)	Insurance/Financial	1977	734.575	4,700	5,700
1.188	Oregon Life and Health IGA Assessments (Income Tax)	Insurance/Financial	1975	734.835	7,000	7,000
1.189	Political Contributions	Government	1969	316.102	8,800	8,800
1.190	Personal Exemption Credit	Social Policy	1985	316.085	810,400	874,900
1.191	Retirement Income	Social Policy	1991	316.157	2,900	2,100
1.192	Trust for Cultural Development	Social Policy	2001	315.675	2,200	17,900

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

	Tax Expenditure	Program or Function	Year Enacted	Oregon Statute	Revenue Impact ($ Thousands) 2001-03	2003–05

PROPERTY TAX

	Tax Expenditure	Program or Function	Year Enacted	Oregon Statute	2001-03	2003–05
2.001	Academies, Day Care and Student Housing	Education	1957	307.145	15,000	16,300
2.002	Fraternities, Sororities, Cooperatives	Education	1973	307.460	470	500
2.003	Student Housing Furnishings	Education	1957	307.195	80	80
2.004	Leased Student Housing Publicly Owned	Education	1947	307.110(3)(a)	10,800	11,500
2.005	Higher Education Parking Space	Education	1989	307.095(3)	4,000	4,200
2.006	Private Libraries for Public Use	Education	1854	307.160	Less than 50	Less than 50
2.007	Leased Health Care Property	Human Resources	1999	307.110(3)(i)	Less than 50	Less than 50
2.008	Rural Health Care Facilities	Human Resources	2001	307.804	Less than 50	Less than 50
2.009	Long-Term Care Facilities	Human Resources	1999	307.808	Less than 50	Less than 50
2.010	Senior Services Centers	Human Resources	1993	307.147	70	80
2.011	Senior and Disabled Deferral Program	Human Resources	1963	311.668/311.704	-11,300	-6,200
2.012	Enterprise Zones Businesses	Economic/Community	1985	285B.698	33,500	38,300
2.013	Long-Term Rural Enterprise Zones (Property Tax)	Economic/Community	1997	Note: 285B.689	1,200	1,300
2.014	Commercial Buildings Under Construction	Economic/Community	1959	307.340	43,900	45,100
2.015	Strategic Investment Program (SIP)	Economic/Community	1993	307.123	106,000	196,500
2.016	Inventory	Economic/Community	1969	307.400	562,600	604,800
2.017	Business Personal Property Cancellation	Economic/Community	1979	308.250(2)	8,300	10,000
2.018	Cargo Containers	Economic/Community	1979	307.850	600	0
2.019	Leased Docks & Airports	Economic/Community	1947	307.120	8,400	9,500
2.020	Leased Publicly Owned Shipyard Property	Economic/Community	1995	307.111	3,100	3,400
2.021	Ship Repair Facility Materials	Economic/Community	1957	308.256(7)	0	0
2.022	Aircraft Being Repaired	Economic/Community	1995	308.559	0	0
2.023	Railroad Cars Being Repaired	Economic/Community	1973	308.665	0	0
2.024	Recreation Facility on Federal Land	Economic/Community	1975	307.182	1,600	1,700
2.025	Defense Contractor With Federal Property	Economic/Community	1965	307.065	0	0
2.026	Electronic Commerce Enterprise Zones (Property Tax)	Economic/Community	2001	285B.672 & 285B.698	200	500
2.027	Vertical Housing Development Zones	Economic/Community	2001	285B.825	100	400
2.028	Industry Apprenticeship/Training Trust	Economic/Community	1983	307.580	100	100
2.029	Fairground Leased Storage Space	Economic/Community	1987	307.110(3)(d)(e)	Less than 50	Less than 50
2.030	New Houses in Distressed Area	Economic/Community	1989	458.020	3,300	3,800
2.031	Rehabilitated Housing	Economic/Community	1975	308.459	800	800
2.032	Multi-Family Rental Housing in City Core	Economic/Community	1975	307.630	7,100	7,900
2.033	Low-Income Multi-Unit Housing	Economic/Community	1999	307.605(4)(a)	Incl. in 2.032	Incl. in 2.032
2.034	New Housing for Low-Income Rental	Economic/Community	1989	307.517/307.518	700	780
2.035	Housing Authority Rental Units	Economic/Community	1991	456.225	22,700	25,400
2.036	Nonprofit Low-Income Rental Housing	Economic/Community	1985	307.541	5,500	6,500
2.037	Nonprofit Housing for the Elderly	Economic/Community	1969	308.490	Less than 50	Less than 50
2.038	Nonprofit Elderly Housing State Funded	Economic/Community	1977	307.242	2,200	2,400
2.039	Farm Labor Housing and Day Care Centers	Economic/Community	1973	307.485	420	470
2.040	Federal Land Under Summer Homes	Economic/Community	1975	307.183/307.184	1,100	1,200
2.041	Multi-Unit Rental Housing Assessment	Economic/Community	2001	308.704	800	2,000
2.042	War Veterans and Their Spouses	Economic/Community	1921	307.250	13,500	14,500
2.043	War Veterans in Nonprofit Elderly Housing	Economic/Community	1969	307.370	60	60
2.044	Farm Land	Natural Resources	1967	308A.050	168,200	172,700
2.045	Farm Homesites	Natural Resources	1987	308A.253	4,700	4,800
2.046	Farm Machinery and Equipment (Property)	Natural Resources	1973	307.394	55,100	57,600
2.047	Mobile Field Incinerators	Natural Resources	1971	307.390	Less than 50	Less than 50
2.048	Agricultural Commodity Cleaning Property	Natural Resources	1999	307.120	100	100
2.049	Crops, Plants and Fruit Trees	Natural Resources	1957	307.320	20,500	20,900
2.050	Agricultural Products Held by Farmer	Natural Resources	1965	307.325	100	100
2.051	Nursery Stock	Natural Resources	1971	307.315	4,800	5,500
2.052	Leased Public Farming and Grazing Land	Natural Resources	1971	307.110(3)(b)	Incl. in 2.100	Incl. in 2.100

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

	Tax Expenditure	Program or Function	Year Enacted	Oregon Statute	Revenue Impact ($ Thousands) 2001-03	2003–05
2.053	Leased Federal Grazing Land	Natural Resources	1961	307.060	Incl. in 2.114	Incl. in 2.114
2.054	Oyster Growing on State Land	Natural Resources	1969	622.290	Less than 50	Less than 50
2.055	Center Pivot Irrigation Equipment	Natural Resources	1973	307.398	Incl. in 2.046	Incl. in 2.046
2.056	Other Farm/Aquaculture/Egg Equipment	Natural Resources	1973	307.397	Incl. in 2.046	Incl. in 2.046
2.057	Field Burning Smoke Management Equipment	Natural Resources	1973	307.391	Less than 50	Less than 50
2.058	Pollution Control Facilities	Natural Resources	1967	307.405	Less than 50	Less than 50
2.059	Nonprofit Sewage Treatment Facilities	Natural Resources	1997	307.118	Less than 50	Less than 50
2.060	Riparian Habitat Land	Natural Resources	1981	308A.362	Less than 50	Less than 50
2.061	Environmentally Sensitive Logging Equipment	Natural Resources	1999	307.827/307.831	5,500	5,800
2.062	Ethanol Production Facility	Natural Resources	1993	307.701	0	0
2.063	Alternative Energy Systems	Natural Resources	1975	307.175	3,900	4,200
2.064	State and Local Standing Timber Under Contract	Natural Resources	1965	307.100	2,900	2,800
2.065	Western Private Forestland	Natural Resources	1977	321.352	56,700	38,000
2.066	Western Private Standing Timber	Natural Resources	1977	321.272	472,900	449,500
2.067	Western Small Tract Option	Natural Resources	1961	321.720	4,700	4,900
2.068	Eastern Private Forestland	Natural Resources	1971	321.810	7,600	4,000
2.069	Eastern Private Standing Timber	Natural Resources	1961	321.420	63,800	61,800
2.070	Forest Homesites	Natural Resources	1989	308A.256	3,500	3,700
2.071	Federal Standing Timber Under Contract	Natural Resources	1965	307.050	6,600	6,300
2.072	Private Farm and Logging Roads	Natural Resources	1963	308.236	35,000	37,700
2.073	Forest Fire Protection Association	Natural Resources	1957	307.125	300	300
2.074	Inactive Mineral Interests	Natural Resources	1997	308.115	100	100
2.075	Leased State Land Board Land	Natural Resources	1982	307.168	420	450
2.076	Crab Pots	Natural Resources	1969	508.270	310	340
2.077	Pleasure Boats	Natural Resources	1959	830.790(2)	31,900	31,900
2.078	Watercraft Locally Assessed	Natural Resources	1925	308.256	2,600	2,800
2.079	Wildlife Habitat Conservation Plans	Natural Resources	1993	308A.743	200	200
2.080	Watercraft Centrally Assessed	Natural Resources	1925	308.515	Not available	Not available
2.081	Nonprofit Public Park Use Land	Natural Resources	1971	307.115	160	180
2.082	Open Space Land	Natural Resources	1971	308A.300	800	900
2.083	Historic Property	Natural Resources	1975	358.505	15,600	16,900
2.084	Land Used as Golf Course and Effluent	Natural Resources	2001	307.118	Less than 50	Less than 50
2.085	Nonprofit Water Associations	Natural Resources	Pre-1953	307.210	370	390
2.086	Nonprofit Electrical Distribution Associations	Transportation	Pre-1953	308.805	12,500	13,500
2.087	Nonprofit Telephone Associations	Transportation	Pre-1953	307.220	Less than 50	Less than 50
2.088	Private Service Telephone Equipment	Transportation	Pre-1953	307.230	Less than 50	Less than 50
2.089	Railroad Way Used for Alternative Transport	Transportation	1977	307.205	0	0
2.090	Railroad Right-of-Way in Water District	Transportation	1943	264.110	Less than 50	Less than 50
2.091	Railroad Way in Highway Lighting District	Transportation	Pre-1953	372.190	Not available	Not available
2.092	Railroad Right of Way in Rural Fire District	Transportation	1969	478.010(2)(d)	600	660
2.093	Motor Vehicles and Trailers	Transportation	1919	803.585	536,000	558,000
2.094	Aircraft	Transportation	1987	308.558/308.565	8,100	9,000
2.095	ODOT Land Under Use Permit	Transportation	1981	307.110(3)(c)	Less than 50	Less than 50
2.096	Intangible Personal Property	Tax Administration	1935	307.030	10,200,000	10,700,000
2.097	Personal Property for Personal Use	Tax Administration	1854	307.190	648,600	661,700
2.098	Beverage Containers Requiring Deposit	Tax Administration	1983	307.402	140	140
2.099	FCC Licenses	Tax Administration	2001	307.126	5,480	6,630
2.100	State and Local Property	Government	1854	307.090	905,000	1,006,000
2.101	Beach Lands	Government	1969	307.450	Not available	Not available
2.102	Public Ways	Government	1895	307.200	448,000	496,000
2.103	Tribal Land Being Placed in U.S. Trust	Government	1993	307.181	0	0
2.104	Exempt Lease from Taxable Owner	Social Policy	1977	307.112	Incl. elsewhere	Incl. elsewhere
2.105	Exempt Lease from Exempt Owner	Social Policy	1973	307.166	Incl. elsewhere	Incl. elsewhere

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

	Tax Expenditure	Program or Function	Year Enacted	Oregon Statute	Revenue Impact ($ Thousands) 2001-03	2003–05
2.106	Destroyed or Damaged Property	Social Policy	1971	308.425	Less than 50	Less than 50
2.107	Charitable, Literary and Scientific Organizations	Social Policy	1854	307.130	57,800	61,700
2.108	Volunteer Fire Department Property	Social Policy	1999	307.130	Less than 50	Less than 50
2.109	Fraternal Organizations	Social Policy	1961	307.136	7,700	8,400
2.110	Religious Organizations	Social Policy	1854	307.140	78,900	85,800
2.111	Cemeteries, Burial Grounds and Mausoleums	Social Policy	1854	307.150	6,300	6,900
2.112	City-Owned Sports Facility	Social Policy	2001	307.171	1,500	1,700
2.113	Transfer of Land from Cemetery to School	Social Policy	2001	307.157	250	250
2.114	Federal Property	Federal Law	1848	307.040	3,464,400	3,697,900
2.115	Indian Property on Reservation	Federal Law	1854	307.180	Not available	Not available
2.116	Mining Claims on Federal Land	Federal Law	1889	307.080	Not available	Not available
2.117	Amtrak Passenger Railroad	Federal Law	1983	308.515	240	250

GAS, USE, JET AND AVIATION FUEL TAXES

3.001	Forest Products -- Gasoline	Natural Resources	Pre-1953	319.320(1)(d)	0	0
3.002	Forest Products -- Other than Gasoline	Natural Resources	1965	319.831(1)(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)	8,100	10,500
3.005	Public Transportation	Government	1969	267.200/267.570(2)	2,500	2,600

WEIGHT-MILE TAX

4.001	Farming Operations	Natural Resources	1983	825.017(4,18)/ 825. 024	2,600	2,800
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)	1,500	1,600
4.004	Government Owned or Operated Vehicles	Government	Pre-1953	825.017(11,13)	4,400	4,700
4.005	Mass Transit Vehicles	Government	1977	825.017(12)	3,000	3,200
4.006	Fire Protection	Government	1977	825.017(23)	Less than 50	Less than 50
4.007	Charitable Organizations	Social Policy	1977	825.017(15)	Less than 50	Less than 50

INSURANCE TAXES

5.001	Annuity Policies Exempted	Insurance/Financial	1967	731.816	4,000	0
5.002	Wet Marine and Transportation Policies (Gross Premium)	Insurance/Financial	1967	731.816	Less than 50	0
5.003	Educational and Scientific Institutions	Insurance/Financial	1967	731.816	Not available	Not available
5.004	Workers' Compensation Assessments (Gross Premium)	Insurance/Financial	1965	731.832	1,500	0
5.005	Oregon IGA Assessments (Gross Premium)	Insurance/Financial	1977	734.575	2,700	0
5.006	Oregon Life and Health IGA Assessments (Gross Premium)	Insurance/Financial	1975	734.835	1,800	0
5.007	Oregon IGA Assessments (Fire Marshal)	Insurance/Financial	1977	734.575	1,100	4,500

CIGARETTE TAX

6.001	Small Quantity by Consumers	Tax Administration	1965	323.060	Less than 50	Less than 50
6.002	Federal and Veteran Institutions	Federal Law	1965	323.055	Not available	Not available
6.003	Reservation Cigarette Sales	Federal Law	1979	323.401	1,200	2,300

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

	Tax Expenditure	Program or Function	Year Enacted	Oregon Statute	Revenue Impact ($ Thousands) 2001-03	2003–05
OTHER TOBACCO PRODUCTS TAX						
7.001	Federal Installations	Federal Law	1985	323.515	Not available	Not available
7.002	Reservation Tobacco Sales	Federal Law	1985	323.615	Less than 50	Less than 50
BEER AND WINE TAX						
8.001	Small Wineries	Economic/Community	1977	473.050(5)	1,500	1,600
8.002	Wine Marketing Activities	Economic/Community	2001	473.047	100	300
TELEPHONE EXCHANGE ACCESS (911) TAX						
9.001	State and Local Subscribers	Government	1981	Note: 401.790	3,000	3,200
9.002	Federal Subscribers	Federal Law	1981	Note: 401.790	500	500
9.003	Indian Reservation Subscribers	Federal Law	1981	Note: 401.790	100	100
FOREST PRODUCTS HARVEST TAX						
10.001	First 25,000 Board Feet	Natural Resources	1953	321.015(6)	700	700
ELECTRIC COOPERATIVE TAX						
11.001	Revenue from Government Leased Lines	Natural Resources	1969	308.805	60	60
HAZARDOUS SUBSTANCES TAX						
12.001	State and Local Government Property	Government	1989	453.402(4)(e)	Not available	Not available
12.002	Substance Prohibited from Tax by Federal Law	Federal Law	1989	453.402(4)(d)	Not available	Not available
DRY CLEANING FEE/TAX						
13.001	Dry Store Selling Less than $50,000	Economic/Community	1995	465.200(6)(d)	Less than 50	0
13.002	Uniform Service or Linen Supply Facility	Economic/Community	1995	465.200(6)(b)	Less than 50	Less than 50
13.003	Prisons	Government	1995	465.200(6)(c)	0	0
13.004	Facility on U.S. Military Base	Federal Law	1995	465.200(6)(a)	0	0
PETROLEUM LOAD FEE						
14.001	Product Prohibited from Tax by Federal Law	Federal Law	1989	465.111	Not available	Not available
OIL AND GAS SEVERANCE TAX						
15.001	First $3,000 in Gross Sales Value	Natural Resources	1981	324.080	Less than 50	Less than 50
15.002	Credit for Property Taxes Paid	Natural Resources	1981	324.090(2)	Less than 50	Less than 50
15.003	State and Local Interests	Government	1981	324.090(1)	0	0

TABLE 2: INDEX OF TAX EXPENDITURES BY PROGRAM/FUNCTION

	Tax Expenditure	Type	Year Enacted	Oregon Statute	Revenue Impact ($ Thousands) 2001-03	2003–05
EDUCATION						
Income Tax						
1.001	Scholarship and Fellowship Income	Exclusion	1954	316.048	9,600	11,200
1.002	Interest on Education Savings Bonds	Exclusion	1988	316.048	100	200
1.003	Earnings on Education Savings Accounts	Exclusion	1997	316.048	2,200	4,000
1.004	Qualified Tuition Programs (Federal)	Exclusion	1996	316.048	1,000	1,700
1.065	Interest on Student Loans	Deduction	1997	316.048	6,100	8,000
1.066	Charitable Contributions: Education	Deduction	1917	316.695/317.013	44,400	52,900
1.067	Qualified Higher Education Expenses	Deduction	2001	316.048	11,200	24,100
1.112	Land Donated to Schools	Subtraction	1999	316.852/317.488	Less than 50	Less than 50
1.113	Oregon Qualified Tuition Savings	Subtraction	1999	348.844/316.680	4,700	9,700
1.114	Scholarship Awards Used for Housing Expenses	Subtraction	1999	316.846	Less than 50	Less than 50
1.137	Child Development Program Contributions	Credit	1991	315.234	Less than 50	0
1.138	Youth Apprenticeship Sponsorship	Credit	1991	315.254	0	0
1.139	Contributions of Computer Equipment	Credit	1985	317.151	100	100
1.140	Employer Provided Scholarships	Credit	2001	315.237	Less than 50	200
Property Tax						
2.001	Academies, Day Care and Student Housing	Full	1957	307.145	15,000	16,300
2.002	Fraternities, Sororities, Cooperatives	Partial	1973	307.460	470	500
2.003	Student Housing Furnishings	Full	1957	307.195	80	80
2.004	Leased Student Housing Publicly Owned	Full	1947	307.110(3)(a)	10,800	11,500
2.005	Higher Education Parking Space	Full	1989	307.095(3)	4,000	4,200
2.006	Private Libraries for Public Use	Full	1854	307.160	Less than 50	Less than 50
HUMAN RESOURCES						
Income Tax						
1.005	Public Assistance Benefits	Exclusion	Pre-1955	316.048	9,800	10,100
1.006	Certain Foster Care Payments	Exclusion	1982	316.048	3,500	4,200
1.007	Employee Adoption Benefits	Exclusion	1996	316.048	Less than 50	Less than 50
1.008	Cafeteria Plan Benefits	Exclusion	1974	316.048	87,000	108,500
1.009	Employer Paid Medical Benefits	Exclusion	1918	316.048	532,800	634,400
1.010	Compensatory Damages	Exclusion	Pre-1955	316.048	200	200
1.011	Pension Contributions and Earnings	Exclusion	1921	316.048	611,900	633,900
1.012	Hospital Insurance (Part A)	Exclusion	1965	316.048	132,400	158,300
1.013	Supplementary Medical Insurance (Part B)	Exclusion	1970	316.048	78,500	96,400
1.014	Special Benefits for Disabled Coal Miners	Exclusion	1969	316.048	Less than 50	Less than 50
1.015	Social Security Benefits (Federal)	Exclusion	1938	316.048	226,900	238,600
1.068	Charitable Contributions: Health	Deduction	1917	316.695/317.013	32,700	39,000
1.069	Medical and Dental Expenses	Deduction	1942	316.695	116,900	140,700
1.070	Self-Employment Health Insurance	Deduction	1986	316.048	23,700	36,800
1.071	Medical Savings Accounts (Federal)	Deduction	1996	316.048	400	400
1.072	IRA Contributions and Earnings	Deduction	1974	316.048	97,900	114,000
1.073	Keogh Plan Contributions and Earnings	Deduction	1962	316.048	39,400	42,400
1.074	Removal of Architectural Barriers	Deduction	1976	316.048/317.013	Less than 50	Less than 50
1.116	JOBS Plus Participants	Subtraction	1995	316.680(1)(e)	Less than 50	Less than 50
1.117	Medical Savings Accounts (Oregon)	Subtraction	1997	316.743	Less than 50	0
1.118	Physicians in "Medically Disadvantaged" Areas	Subtraction	1973	316.076	0	0
1.119	Additional Deduction for Elderly or Blind	Subtraction	1989	316.695(7)	10,800	8,700

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

	Tax Expenditure	Type	Year Enacted	Oregon Statute	Revenue Impact ($ Thousands) 2001-03	2003–05
1.120	Additional Medical Deduction for Elderly	Subtraction	1991	316.695 (1)(d)(B)	64,300	72,200
1.121	Social Security Benefits (Oregon)	Subtraction	1985	316.054	220,300	249,500
1.142	Earned Income Credit	Credit	1997	315.266	16,400	17,200
1.143	Qualified Adoption Expense	Credit	1999	315.274	900	900
1.144	Bone Marrow Transplant Expense	Credit	1991	315.604	Less than 50	Less than 50
1.145	Rural Medical Practice	Credit	1989	316.143	9,100	9,900
1.146	Costs in lieu of Nursing Home Care	Credit	1979	316.147-316.149	Less than 50	Less than 50
1.147	Long-Term Care Insurance	Credit	1999	315.610	100	100
1.148	Disabled Child	Credit	1985	316.099	3,000	3,400
1.149	Elderly or Permanently Disabled	Credit	1969	316.087	100	100
1.150	Loss of Limbs	Credit	1973	316.079	Less than 50	Less than 50
1.151	Severe Disability	Credit	1985	316.758/316.765	4,700	6,000

Property Tax

2.007	Leased Health Care Property	Full	1999	307.110(3)(i)	Less than 50	Less than 50
2.008	Rural Health Care Facilities	Full	2001	307.804	Less than 50	Less than 50
2.009	Long-Term Care Facilities	Partial	1999	307.808	Less than 50	Less than 50
2.010	Senior Services Centers	Full	1993	307.147	70	80
2.011	Senior and Disabled Deferral Program	Deferral	1963	311.668/311.704	-11,300	-6,200

ECONOMIC AND COMMUNITY DEVELOPMENT

Income Tax

1.016	Accelerated Depreciation of Buildings	Exclusion	1954	316.048/317.013	8,800	7,500
1.017	Accelerated Depreciation of Equipment	Exclusion	1954	316.048/317.013	284,100	275,700
1.018	Income Earned Abroad by U.S. Citizens	Exclusion	1926	316.048	19,800	23,500
1.019	Inventory Property Sales Source-Rule Exception	Exclusion	1921	317.013	21,500	24,900
1.020	Magazine, Paperback, and Record Returns	Exclusion	1978	316.048/317.013	100	100
1.021	Cash Accounting, Other than Agriculture	Exclusion	1916	316.048/317.013	2,000	2,300
1.022	Regional Economic Development Incentives	Exclusion	1993	316.048/317.013	100	100
1.023	Income of Controlled Foreign Corporations	Exclusion	1909	317.013	18,400	20,800
1.024	Extraterritorial Income Exclusion	Exclusion	2000	316.048/317.013	19,000	24,900
1.025	Cancellation of Debt for Non-Farmers	Exclusion	Pre-1955	316.048/317.013	Less than 50	Less than 50
1.026	Employer Paid Group Life Insurance Premiums	Exclusion	1920	316.048	17,400	19,600
1.027	Employer Paid Accident and Disability Insurance	Exclusion	1954	316.048	17,500	20,300
1.028	Employer Provided Dependent Care	Exclusion	1981	316.048	5,000	6,500
1.029	Miscellaneous Fringe Benefits	Exclusion	1984	316.048	45,100	48,500
1.030	Employee Meals and Lodging (Non-Military)	Exclusion	1918	316.048	6,300	7,000
1.031	Employee Stock Ownership Plans	Exclusion	1974	316.048/317.013	5,200	6,100
1.032	Employee Awards	Exclusion	1986	316.048	800	800
1.033	Employer Provided Education Benefits	Exclusion	1997	316.048	4,200	6,100
1.034	Spread on Acquisition of Stock	Exclusion	1981	316.048	3,800	5,900
1.035	Accelerated Depreciation of Rental Housing	Exclusion	1954	316.048/317.013	18,800	22,300
1.036	Capital Gains on Home Sales	Exclusion	1997	316.048	129,700	140,900
1.037	Veteran's Benefits and Services	Exclusion	1917	316.048	22,700	24,500
1.038	Military and Dependents CHAMPUS/TRICARE Insurance	Exclusion	1925	316.048	14,800	15,700
1.075	Deferral of Certain Financing Income of Foreign Corporations	Deduction	1997	317.013	2,100	100
1.076	Research and Development Costs	Deduction	1954	316.048/317.013	19,100	20,700
1.077	Section 179 Expensing Allowances	Deduction	1959	316.048/317.013	10,300	7,000

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

	Tax Expenditure	Type	Year Enacted	Oregon Statute	Revenue Impact ($ Thousands) 2001-03	2003–05
1.078	Amortization of Business Start-Up Costs	Deduction	1980	316.048/317.013	3,500	3,700
1.079	Construction Funds of Shipping Companies	Deduction	1936	317.013	1,200	1,200
1.080	Ordinary Treatment of Losses from Small Business Corporation Stock	Deduction	1958	316.048	300	300
1.081	Moving Expenses	Deduction	1964	316.048	3,400	3,400
1.082	Property Taxes	Deduction	1913	316.695	208,000	233,700
1.083	Home Mortgage Interest	Deduction	1913	316.695	786,500	882,000
1.108	Expatriate Residential Status	Subtraction	1999	316.027	1,600	1,600
1.115	Individual Development Accounts	Subtraction	1999	316.848	Less than 50	Less than 50
1.122	Donations of Art by the Artist	Subtraction	1979	316.838	Less than 50	Less than 50
1.123	Capital Gains from Oregon Reinvestment	Subtraction	1995	316.874	0	0
1.124	Municipal Bond Interest	Subtraction	1987	316.056	6,400	6,400
1.125	Out-of-State Financial Institution	Subtraction	1999	317.057	Not available	Not available
1.126	Service in Vietnam on Missing Status	Subtraction	1973	316.074	0	0
1.141	Individual Development Accounts (Credit)	Credit	1999	315.271	400	800
1.152	Oregon Capital Corporation Investments	Credit	1987	315.504	0	0
1.153	Qualified Research Activities	Credit	1989	317.152	14,100	7,700
1.154	Qualified Research Activities (Alternative)	Credit	1989	317.154	Incl. in 1.153	Incl. in 1.153
1.155	Investment in Rural Enterprise Zones (Income Tax)	Credit	1997	Note: 285B.689	Less than 50	Less than 50
1.156	Reservation Enterprise Zones (Income Tax)	Credit	2001	285B.773	Less than 50	Less than 50
1.157	Small City Business Development	Credit	2001	316.778	Less than 50	Less than 50
1.158	Electronic Commerce Enterprise Zones (Income Tax)	Credit	2001	315.507	600	5,300
1.159	Investment in Telecommunications Infrastructure	Credit	2001	315.511	Less than 50	4,000
1.160	Child and Dependent Care	Credit	1975	316.078	10,200	9,800
1.161	Working Family Child Care	Credit	1997	315.262	13,500	31,100
1.162	Dependent Care Assistance	Credit	1987	315.204	1,100	700
1.163	Dependent Care Facilities	Credit	1987	315.208	Incl. in 1.162	Incl. in 1.162
1.164	First Break Program	Credit	1995	315.259	100	100
1.165	Child Care Division Contributions	Credit	2001	315.213	500	1,000
1.166	Farm-Worker Housing Construction	Credit	1989	315.164	700	1,600
1.167	Farm-Worker Housing Lender's Credit	Credit	1989	317.147	900	1,200
1.168	Involuntary Mobile Home Moves	Credit	1991	316.153	Less than 50	Less than 50
1.169	Oregon Affordable Housing Credit	Credit	1989	317.097	8,000	9,600
Property Tax						
2.012	Enterprise Zones Businesses	Full	1985	285B.698	33,500	38,300
2.013	Long-Term Rural Enterprise Zones (Property Tax)	Full	1997	Note: 285B.689	1,200	1,300
2.014	Commercial Buildings Under Construction	Full	1959	307.340	43,900	45,100
2.015	Strategic Investment Program (SIP)	Partial	1993	307.123	106,000	196,500
2.016	Inventory	Full	1969	307.400	562,600	604,800
2.017	Business Personal Property Cancellation	Full	1979	308.250(2)	8,300	10,000
2.018	Cargo Containers	Full	1979	307.850	600	0
2.019	Leased Docks & Airports	Full	1947	307.120	8,400	9,500
2.020	Leased Publicly Owned Shipyard Property	Full	1995	307.111	3,100	3,400
2.021	Ship Repair Facility Materials	Full	1957	308.256(7)	0	0
2.022	Aircraft Being Repaired	Full	1995	308.559	0	0
2.023	Railroad Cars Being Repaired	Full	1973	308.665	0	0
2.024	Recreation Facility on Federal Land	Partial	1975	307.182	1,600	1,700
2.025	Defense Contractor With Federal Property	Full	1965	307.065	0	0
2.026	Electronic Commerce Enterprise Zones (Property Tax)	Full	2001	285B.672 & 285B.698	200	500
2.027	Vertical Housing Development Zones	Partial	2001	285B.825	100	400
2.028	Industry Apprenticeship/Training Trust	Full	1983	307.580	100	100

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

	Tax Expenditure	Type	Year Enacted	Oregon Statute	Revenue Impact ($ Thousands) 2001-03	2003–05
2.029	Fairground Leased Storage Space	Full	1987	307.110(3)(d)(e)	Less than 50	Less than 50
2.030	New Houses in Distressed Area	Part/Full	1989	458.020	3,300	3,800
2.031	Rehabilitated Housing	Part/Full	1975	308.459	800	800
2.032	Multi-Family Rental Housing in City Core	Part/Full	1975	307.630	7,100	7,900
2.033	Low-Income Multi-Unit Housing	Full	1999	307.605(4)(a)	Incl. in 2.032	Incl. in 2.032
2.034	New Housing for Low-Income Rental	Part/Full	1989	307.517/307.518	700	780
2.035	Housing Authority Rental Units	Full	1991	456.225	22,700	25,400
2.036	Nonprofit Low-Income Rental Housing	Part/Full	1985	307.541	5,500	6,500
2.037	Nonprofit Housing for the Elderly	Special	1969	308.490	Less than 50	Less than 50
2.038	Nonprofit Elderly Housing State Funded	Full	1977	307.242	2,200	2,400
2.039	Farm Labor Housing and Day Care Centers	Full	1973	307.485	420	470
2.040	Federal Land Under Summer Homes	Partial	1975	307.183/307.184	1,100	1,200
2.041	Multi-Unit Rental Housing Assessment	Special	2001	308.704	800	2,000
2.042	War Veterans and Their Spouses	Partial	1921	307.250	13,500	14,500
2.043	War Veterans in Nonprofit Elderly Housing	Partial	1969	307.370	60	60

Beer and Wine Tax

8.001	Small Wineries	Exclusion	1977	473.050(5)	1,500	1,600
8.002	Wine Marketing Activities	Exclusion	2001	473.047	100	300

Dry Cleaning Fee/Tax

13.001	Dry Store Selling Less than $50,000	Exclusion	1995	465.200(6)(d)	Less than 50	0
13.002	Uniform Service or Linen Supply Facility	Exclusion	1995	465.200(6)(b)	Less than 50	Less than 50

NATURAL RESOURCES

Income Tax

1.039	Agriculture Cost-Sharing Payments	Exclusion	1978	316.048/317.013	200	200
1.040	Cancellation of Debt for Farmers	Exclusion	1986	316.048	400	400
1.041	Energy Conservation Subsidies (Federal)	Exclusion	1992	316.048	100	100
1.084	Cash Accounting for Agriculture	Deduction	1916	316.048/317.013	4,300	3,400
1.085	Soil and Water Conservation Expenditures	Deduction	1954	316.048/317.013	300	300
1.086	Fertilizer and Soil Conditioner Costs	Deduction	1960	316.048/317.013	1,200	1,200
1.087	Costs of Raising Dairy and Breeding Cattle	Deduction	1916	316.048/317.013	200	200
1.088	Sale of Stock to Farmer's Cooperatives	Deduction	1998	316.048/317.013	Less than 50	Less than 50
1.089	Redevelopment Costs in Contaminated Areas	Deduction	1997	316.048/317.013	800	100
1.090	Clean-Fuel Vehicles and Refueling Property	Deduction	1993	316.048/317.013	Less than 50	Less than 50
1.091	Intangible Development Costs for Fuels	Deduction	1978	316.695/317.013	Less than 50	Less than 50
1.092	Depletion Costs for Natural Resources	Deduction	1962	316.695/317.013	Less than 50	Less than 50
1.093	Tertiary Injectants	Deduction	1980	316.695/317.013	Less than 50	Less than 50
1.094	Multi-Period Timber Growing Costs	Deduction	1986	316.048/317.013	8,100	8,200
1.095	Amortization of Reforestation Expenditures	Deduction	1980	316.048/317.013	300	300
1.096	Development Costs for Nonfuel Minerals	Deduction	1951	316.048/317.013	300	300
1.097	Depletion Costs for Nonfuel Minerals	Deduction	1913	316.048/317.013	1,100	1,100
1.098	Mining Reclamation Reserves	Deduction	1984	316.048/317.013	200	200
1.109	Income Averaging for Farmers	Subtraction	2001	314.297	100	100
1.110	Capital Gains from Farm Property	Subtraction	2001	318.020/317.063	Less than 50	200
1.127	Oil Heat Tank Cleanup Costs	Subtraction	1991	316.746	0	0
1.128	Underground Storage Tank Grants	Subtraction	1991	316.834/317.383	0	0
1.129	Energy Conservation Subsidies (Oregon)	Subtraction	1981	316.744/317.386	200	200

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

	Tax Expenditure	Type	Year Enacted	Oregon Statute	Revenue Impact ($ Thousands) 2001-03	2003–05
1.170	Crop Gleaning	Credit	1977	315.156	Less than 50	Less than 50
1.171	Alternatives to Field Burning	Credit	1975	468.150	Incl. in 1.175	Incl. in 1.175
1.172	Farm Machinery and Equipment (Income)	Credit	2001	315.119/315.123	400	1,400
1.173	Riparian Lands Removed from Farm Production	Credit	2001	315.113	0	Less than 50
1.174	Pollution Prevention	Credit	1995	315.311	100	100
1.175	Pollution Control	Credit	1967	315.304	28,200	22,800
1.176	Reclaimed Plastics	Credit	1985	315.324	100	100
1.177	Sewer Connection	Credit	1987	316.095	100	100
1.178	Fish Habitat Improvement	Credit	1981	315.134	Less than 50	0
1.179	Fish Screening Devices	Credit	1989	315.138	Less than 50	Less than 50
1.180	Alternative Energy Devices (Residential)	Credit	1977	316.116/317.115	7,600	8,200
1.181	Business Energy Facilities	Credit	1979	315.354	14,400	19,700
1.182	Energy Conservation Lender's Credit	Credit	1981	317.112	Less than 50	Less than 50
1.183	Geothermal Heating System Connection	Credit	1979	316.086	Less than 50	0
1.184	Reforestation	Credit	1979	315.104	500	1,300
Property Tax						
2.044	Farm Land	Special	1967	308A.050	168,200	172,700
2.045	Farm Homesites	Special	1987	308A.253	4,700	4,800
2.046	Farm Machinery and Equipment (Property)	Full	1973	307.394	55,100	57,600
2.047	Mobile Field Incinerators	Full	1971	307.390	Less than 50	Less than 50
2.048	Agricultural Commodity Cleaning Property	Partial	1999	307.120	100	100
2.049	Crops, Plants and Fruit Trees	Full	1957	307.320	20,500	20,900
2.050	Agricultural Products Held by Farmer	Full	1965	307.325	100	100
2.051	Nursery Stock	Full	1971	307.315	4,800	5,500
2.052	Leased Public Farming and Grazing Land	Full	1971	307.110(3)(b)	Incl. in 2.100	Incl. in 2.100
2.053	Leased Federal Grazing Land	Full	1961	307.060	Incl. in 2.114	Incl. in 2.114
2.054	Oyster Growing on State Land	Full	1969	622.290	Less than 50	Less than 50
2.055	Center Pivot Irrigation Equipment	Full	1973	307.398	Incl. in 2.046	Incl. in 2.046
2.056	Other Farm/Aquaculture/Egg Equipment	Full	1973	307.397	Incl. in 2.046	Incl. in 2.046
2.057	Field Burning Smoke Management Equipment	Full	1973	307.391	Less than 50	Less than 50
2.058	Pollution Control Facilities	Partial	1967	307.405	Less than 50	Less than 50
2.059	Nonprofit Sewage Treatment Facilities	Full	1997	307.118	Less than 50	Less than 50
2.060	Riparian Habitat Land	Full	1981	308A.362	Less than 50	Less than 50
2.061	Environmentally Sensitive Logging Equipment	Full	1999	307.827/307.831	5,500	5,800
2.062	Ethanol Production Facility	Partial	1993	307.701	0	0
2.063	Alternative Energy Systems	Partial	1975	307.175	3,900	4,200
2.064	State and Local Standing Timber Under Contract	Full	1965	307.100	2,900	2,800
2.065	Western Private Forestland	Special	1977	321.352	56,700	38,000
2.066	Western Private Standing Timber	Full	1977	321.272	472,900	449,500
2.067	Western Small Tract Option	Special	1961	321.720	4,700	4,900
2.068	Eastern Private Forestland	Special	1971	321.810	7,600	4,000
2.069	Eastern Private Standing Timber	Full	1961	321.420	63,800	61,800
2.070	Forest Homesites	Special	1989	308A.256	3,500	3,700
2.071	Federal Standing Timber Under Contract	Full	1965	307.050	6,600	6,300
2.072	Private Farm and Logging Roads	Full	1963	308.236	35,000	37,700
2.073	Forest Fire Protection Association	Full	1957	307.125	300	300
2.074	Inactive Mineral Interests	Full	1997	308.115	100	100
2.075	Leased State Land Board Land	Full	1982	307.168	420	450
2.076	Crab Pots	Full	1969	508.270	310	340
2.077	Pleasure Boats	Full	1959	830.790(2)	31,900	31,900
2.078	Watercraft Locally Assessed	Partial	1925	308.256	2,600	2,800

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

	Tax Expenditure	Type	Year Enacted	Oregon Statute	Revenue Impact ($ Thousands) 2001-03	2003–05
2.079	Wildlife Habitat Conservation Plans	Partial	1993	308A.743	200	200
2.080	Watercraft Centrally Assessed	Partial	1925	308.515	Not available	Not available
2.081	Nonprofit Public Park Use Land	Full	1971	307.115	160	180
2.082	Open Space Land	Special	1971	308A.300	800	900
2.083	Historic Property	Partial	1975	358.505	15,600	16,900
2.084	Land Used as Golf Course and Effluent	Full	2001	307.118	Less than 50	Less than 50
2.085	Nonprofit Water Associations	Full	Pre-1953	307.210	370	390
	Gas, Use, Jet and Aviation Fuel Taxes					
3.001	Forest Products -- Gasoline	Exclusion	Pre-1953	319.320(1)(d)	0	0
3.002	Forest Products -- Other than Gasoline	Exclusion	1965	319.831(1)(g)	0	0
	Weight-Mile Tax					
4.001	Farming Operations	Exclusion	1983	825.017(4,18)/ 825. 024	2,600	2,800
4.002	Forest Products on County Roads	Exclusion	1977	825.017(8)	0	0
	Forest Products Harvest Tax					
10.001	First 25,000 Board Feet	Exclusion	1953	321.015(6)	700	700
	Electric Cooperative Tax					
11.001	Revenue from Government Leased Lines	Exclusion	1969	308.805	60	60
	Oil and Gas Severance Tax					
15.001	First $3,000 in Gross Sales Value	Exclusion	1981	324.080	Less than 50	Less than 50
15.002	Credit for Property Taxes Paid	Credit	1981	324.090(2)	Less than 50	Less than 50
	TRANSPORTATION					
	Income Tax					
1.042	Contributions in Aid of Construction for Utilities	Exclusion	1996	317.013	100	100
1.043	Employer Paid Transportation Benefits	Exclusion	1992	316.048	26,100	27,700
	Property Tax					
2.086	Nonprofit Electrical Distribution Associations	Full	Pre-1953	308.805	12,500	13,500
2.087	Nonprofit Telephone Associations	Full	Pre-1953	307.220	Less than 50	Less than 50
2.088	Private Service Telephone Equipment	Full	Pre-1953	307.230	Less than 50	Less than 50
2.089	Railroad Way Used for Alternative Transport	Full	1977	307.205	0	0
2.090	Railroad Right-of-Way in Water District	Partial	1943	264.110	Less than 50	Less than 50
2.091	Railroad Way in Highway Lighting District	Partial	Pre-1953	372.190	Not available	Not available
2.092	Railroad Right of Way in Rural Fire District	Partial	1969	478.010(2)(d)	600	660
2.093	Motor Vehicles and Trailers	Full	1919	803.585	536,000	558,000
2.094	Aircraft	Part/Full	1987	308.558/308.565	8,100	9,000
2.095	ODOT Land Under Use Permit	Full	1981	307.110(3)(c)	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) 2001-03	2003–05
	INSURANCE AND FINANCIAL					
	Income Tax					
1.044	Life Insurance Investment Income	Exclusion	1913	316.048/317.013	172,000	187,200
1.045	Workers' Compensation Benefits (Non-Medical)	Exclusion	1918	316.048	41,100	45,600
1.046	Workers' Compensation Benefits (Medical)	Exclusion	1918	316.048	28,000	29,700
1.047	Credit Union Income	Exclusion	1951	317.013	3,800	4,100
1.048	Life Insurance Company Reserves	Exclusion	1984	317.013	5,400	5,800
1.049	Structured Settlement Accounts	Exclusion	1982	317.013	Less than 50	Less than 50
1.050	Small Property Insurance Companies	Exclusion	1986	317.013	Less than 50	Less than 50
1.099	Bad Debt Reserves of Financial Institutions	Deduction	1947	317.013	Less than 50	100
1.100	Small Life Insurance Companies	Deduction	1984	317.013	Less than 50	Less than 50
1.101	Unpaid Loss Reserves	Deduction	1986	317.013	12,900	13,300
1.102	Blue Cross/Blue Shield and Other Nonprofits	Deduction	1986	317.013	Not available	Not available
1.130	Wet Marine and Transportation Policies (Income Tax)	Subtraction	1995	317.080(6)	400	400
1.185	Fire Insurance Credit	Credit	1969	317.122(1)	3,400	3,600
1.186	Workers' Compensation Assessments (Income Tax)	Credit	1995	317.122(2)	5,900	6,100
1.187	Oregon IGA Assessments (Income Tax)	Credit	1977	734.575	4,700	5,700
1.188	Oregon Life and Health IGA Assessments (Income Tax)	Credit	1975	734.835	7,000	7,000
	Insurance Taxes					
5.001	Annuity Policies Exempted	Exclusion	1967	731.816	4,000	0
5.002	Wet Marine and Transportation Policies (Gross Premium)	Exclusion	1967	731.816	Less than 50	0
5.003	Educational and Scientific Institutions	Exclusion	1967	731.816	Not available	Not available
5.004	Workers' Compensation Assessments (Gross Premium)	Credit	1965	731.832	1,500	0
5.005	Oregon IGA Assessments (Gross Premium)	Credit	1977	734.575	2,700	0
5.006	Oregon Life and Health IGA Assessments (Gross Premium)	Credit	1975	734.835	1,800	0
5.007	Oregon IGA Assessments (Fire Marshal)	Credit	1977	734.575	1,100	4,500
	TAX ADMINISTRATION					
	Income Tax					
1.051	Imputed Interest Rules	Exclusion	1964	316.048/317.013	1,800	2,300
1.052	Gain on Non-Dealer Installment Sales	Exclusion	1921	316.048/317.013	5,400	5,700
1.053	Gain on Like-Kind Exchanges	Exclusion	1921	316.048/317.013	8,900	9,900
1.103	Magazine Circulation Expenditures	Deduction	1950	316.048/317.013	200	200
1.104	Net Operating Loss Limitation	Deduction	1954	317.013	2,200	2,200
1.105	Completed Contract Rules	Deduction	1986	316.048/317.013	1,000	1,000
1.111	Income Earned in Border River Areas	Subtraction	2001	316.127	Less than 50	Less than 50
	Property Tax					
2.096	Intangible Personal Property	Full	1935	307.030	10,200,000	10,700,000
2.097	Personal Property for Personal Use	Full	1854	307.190	648,600	661,700
2.098	Beverage Containers Requiring Deposit	Full	1983	307.402	140	140

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

	Tax Expenditure	Type	Year Enacted	Oregon Statute	Revenue Impact ($ Thousands) 2001-03	2003–05
2.099	FCC Licenses	Full	2001	307.126	5,480	6,630
Gas, Use, Jet and Aviation Fuel Taxes						
3.003	Fuel for Aircraft Departing U.S.	Exclusion	1959	319.330(2)	Less than 50	Less than 50
Cigarette Tax						
6.001	Small Quantity by Consumers	Exclusion	1965	323.060	Less than 50	Less than 50
GOVERNMENT						
Income Tax						
1.054	Allowances for Federal Employees Abroad	Exclusion	1943	316.048	2,200	2,800
1.055	Interest on Oregon State and Local Debt	Exclusion	1913	316.048	65,300	61,300
1.131	Income Earned in "Indian Country"	Subtraction	1977	316.777	2,500	2,900
1.132	Federal Pension Income	Subtraction	1998	316.680(1)(g)	220,000	130,400
1.133	Oregon State Lottery Prizes	Subtraction	1985	461.560	46,300	44,100
1.189	Political Contributions	Credit	1969	316.102	8,800	8,800
Property Tax						
2.100	State and Local Property	Full	1854	307.090	905,000	1,006,000
2.101	Beach Lands	Full	1969	307.450	Not available	Not available
2.102	Public Ways	Full	1895	307.200	448,000	496,000
2.103	Tribal Land Being Placed in U.S. Trust	Full	1993	307.181	0	0
Gas, Use, Jet and Aviation Fuel Taxes						
3.004	Public Services	Exclusion	1961	319.831(1)(e-f, h-k)	8,100	10,500
3.005	Public Transportation	Exclusion	1969	267.200/267.570(2)	2,500	2,600
Weight-Mile Tax						
4.003	Elementary and Secondary Schools	Exclusion	Pre-1953	825.017(1)	1,500	1,600
4.004	Government Owned or Operated Vehicles	Exclusion	Pre-1953	825.017(11,13)	4,400	4,700
4.005	Mass Transit Vehicles	Exclusion	1977	825.017(12)	3,000	3,200
4.006	Fire Protection	Exclusion	1977	825.017(23)	Less than 50	Less than 50
Telephone Exchange Access (911) Tax						
9.001	State and Local Subscribers	Exclusion	1981	Note: 401.790	3,000	3,200
Hazardous Substances Tax						
12.001	State and Local Government Property	Exclusion	1989	453.402(4)(e)	Not available	Not available
Dry Cleaning Fee/Tax						
13.003	Prisons	Exclusion	1995	465.200(6)(c)	0	0

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

	Tax Expenditure	Type	Year Enacted	Oregon Statute	Revenue Impact ($ Thousands) 2001-03	2003–05
Oil and Gas Severance Tax						
15.003	State and Local Interests	Exclusion	1981	324.090(1)	0	0
SOCIAL POLICY						
Income Tax						
1.056	Capital Gains on Inherited Property	Exclusion	1921	316.048	374,800	444,300
1.057	Capital Gains on Gifts	Exclusion	1921	316.048	41,300	47,000
1.058	Gain on Involuntary Conversions in Disaster Areas	Exclusion	1996	316.048	100	100
1.059	Voluntary Employees' Beneficiary Association	Exclusion	1928	316.048	11,400	12,600
1.060	Rental Allowances for Ministers' Homes	Exclusion	1921	316.048	2,800	3,500
1.061	Military Disability Benefits	Exclusion	1942	316.048	700	700
1.062	Benefits and Allowances of Armed Forces Personnel	Exclusion	1925	316.048	17,400	18,700
1.063	Restitution Payments for Holocaust Survivors	Exclusion	2001	316.048	Less than 50	Less than 50
1.064	Survivor Annuities	Exclusion	1997	316.048	100	100
1.106	Casualty and Theft Losses	Deduction	1913	316.695	1,400	1,300
1.107	Charitable Contributions: Other	Deduction	1917	316.695/317.013	217,700	258,700
1.134	Federal Income Tax Deduction	Subtraction	1929	316.680/316.695	482,300	597,700
1.135	Military Active Duty Pay	Subtraction	1969	316.680/316.789	7,500	8,300
1.190	Personal Exemption Credit	Credit	1985	316.085	810,400	874,900
1.191	Retirement Income	Credit	1991	316.157	2,900	2,100
1.192	Trust for Cultural Development	Credit	2001	315.675	2,200	17,900
Property Tax						
2.104	Exempt Lease from Taxable Owner	Full	1977	307.112	Incl. elsewhere	Incl. elsewhere
2.105	Exempt Lease from Exempt Owner	Full	1973	307.166	Incl. elsewhere	Incl. elsewhere
2.106	Destroyed or Damaged Property	Partial	1971	308.425	Less than 50	Less than 50
2.107	Charitable, Literary and Scientific Organizations	Full	1854	307.130	57,800	61,700
2.108	Volunteer Fire Department Property	Full	1999	307.130	Less than 50	Less than 50
2.109	Fraternal Organizations	Full	1961	307.136	7,700	8,400
2.110	Religious Organizations	Full	1854	307.140	78,900	85,800
2.111	Cemeteries, Burial Grounds and Mausoleums	Full	1854	307.150	6,300	6,900
2.112	City-Owned Sports Facility	Full	2001	307.171	1,500	1,700
2.113	Transfer of Land from Cemetery to School	Full	2001	307.157	250	250
Weight-Mile Tax						
4.007	Charitable Organizations	Exclusion	1977	825.017(15)	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) 2001-03	2003–05
FEDERAL LAW						
Income Tax						
1.136	Interest and Dividends on U.S. Obligations	Subtraction	1970	316.680	44,900	46,700
Property Tax						
2.114	Federal Property	Full	1848	307.040	3,464,400	3,697,900
2.115	Indian Property on Reservation	Full	1854	307.180	Not available	Not available
2.116	Mining Claims on Federal Land	Full	1889	307.080	Not available	Not available
2.117	Amtrak Passenger Railroad	Full	1983	308.515	240	250
Cigarette Tax						
6.002	Federal and Veteran Institutions	Exclusion	1965	323.055	Not available	Not available
6.003	Reservation Cigarette Sales	Credit	1979	323.401	1,200	2,300
Other Tobacco Products Tax						
7.001	Federal Installations	Exclusion	1985	323.515	Not available	Not available
7.002	Reservation Tobacco Sales	Exclusion	1985	323.615	Less than 50	Less than 50
Telephone Exchange Access (911) Tax						
9.002	Federal Subscribers	Exclusion	1981	Note: 401.790	500	500
9.003	Indian Reservation Subscribers	Exclusion	1981	Note: 401.790	100	100
Hazardous Substances Tax						
12.002	Substance Prohibited from Tax by Federal Law	Exclusion	1989	453.402(4)(d)	Not available	Not available
Dry Cleaning Fee/Tax						
13.004	Facility on U.S. Military Base	Exclusion	1995	465.200(6)(a)	0	0
Petroleum Load Fee						
14.001	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 1999–01 biennium $8.7 billion, or 86 percent, of General Fund revenues came from this source. The Department of Revenue also publishes an annual report that provides detailed statistics on the personal income tax. The most recent edition of *Oregon Personal Income Tax Annual Statistics* is for tax year 2000.

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

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

The other important effect of connecting to the federal definition of taxable income is that doing so implicitly adopts many of the tax expenditures that exist in the federal tax code. Any special provisions allowed by the federal government that reduce taxable income will flow through to Oregon’s tax and result in lower Oregon tax collections. There currently are 107 of these special federal provisions—exclusions and deductions—that flow through to Oregon’s personal income tax. Because federal tax credits are applied after the calculation of federal taxable income, federal credits do not flow through to Oregon’s tax.

For the 2001–03 biennium, the connection to the federal definition of taxable income reduces Oregon personal income tax revenue by approximately $4.9 billion. While Oregon could “disconnect” from the federal tax code (or parts of it) to collect some of that potential revenue, doing so would increase compliance costs for taxpayers and administrative costs for the state of Oregon.

In addition to the tax expenditures resulting from exclusions and deductions in the federal tax code, there are 29 subtractions in Oregon law that further reduce taxable income. In 2001–03 these subtractions reduce tax revenue by about $1.2 billion.

Once taxable income is calculated, tax liabilities (prior to credits) are calculated by applying the tax rates. Oregon’s personal income tax has three rate brackets: 5, 7, and 9 percent. Since 1993, the brackets have been indexed to reflect changes in the U.S. Consumer Price Index.

For 2003 the brackets are:

Single and Separate Returns		***Joint and Head of Household Returns***	
Taxable Income	Tax before Credits	Taxable Income	Tax before Credits
Not over $2,550	5% of taxable income	Not over $5,100	5% of taxable income
$2,550 to $6,350	$128 + 7% of income over $2,550	$5,100 to $12,700	$255 + 7% of income over $5,100
Over $6,350	$394 + 9% of income over $6,350	Over $12,700	$787 + 9% of income over $12,700

Oregon's personal income tax contains 46 credits that are considered tax expenditures. The personal exemption credit is available to nearly all taxpayers and increases each year based on growth in the Portland Consumer Price Index. For 2002 the credit is $145. The other 55 credits are designed to provide tax relief for specific groups of taxpayers. Aside from the Oregon Working Family Credit, none of the credits is "refundable," meaning that taxpayers can use the credit only up to the amount of their tax liabilities. If the credit is larger than the tax liability, the share of the credit that exceeds the tax liability goes unused or, for some credits, can be used in later years. In 2001–03, credits reduce Oregon personal income tax revenue by nearly $1 billion.

Corporation Excise and Income Taxes

Oregon's corporation excise and income taxes are the taxes on corporate profits where net income is the measure of profitability. The excise tax is paid by corporations that are "doing business" in Oregon, and the income tax is paid by corporations that have income originating in Oregon but that are not considered to be "doing business" here. "Doing business" is defined as having sales activity in Oregon and one or more of the following: a stock of goods, an office, and/or a place of business (other than an office) where affairs of the corporation are regularly carried on. About 99 percent of all corporations pay the excise tax, and just one percent pays the income tax. Because the taxes are nearly identical and the tax base is net income, we refer here to both taxes simply as the corporation income tax. The corporation income tax is the second largest source of revenue for the state General Fund. For the 1999–01 biennium, corporation income taxes were $755 million, or 7.5 percent of General Fund revenues.

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

Oregon uses federal taxable income with some modifications as its tax base. As with the personal income tax, connecting to the federal tax code reduces compliance costs for taxpayers, makes administration of the tax easier for the state of Oregon, and implicitly adopts many of the tax expenditures that exist in the federal tax code. For the 2001–03 biennium, the connection to the federal definition of taxable income reduces Oregon corporation income tax revenue by roughly $401 million. There are only six Oregon-specific subtractions that can further reduce the taxable income of corporations, and they have a negligible effect in reducing corporate taxes. After Oregon taxable income is calculated, the tax rate of 6.6 percent is applied to arrive at the tax liability prior to credits.

There are 40 credits available on the corporation income tax. None is refundable, but most allow unused credit amounts to be carried forward and used in later years. In 2001-03, these credits reduce corporation tax revenue by roughly $78 million.

Since 1997, foreign insurance companies have been subject to the corporation income tax, rather than the insurance gross premium tax. For more details, see the introduction to Chapter 5 Insurance Taxes.

Measure 28

On January 28, 2003, Oregonians will vote on Measure 28, which would temporarily increase the top personal income tax marginal rate from 9% to 9.5% and increase the corporation income tax rate from 6.6% to 6.93%. If passed, the increases would be in effect from 2002 through 2004. The estimates included in this report reflect current law and do not incorporate the effects of this measure. If Measure 28 passes, then most of the revenue impacts related to the personal and corporation income taxes will be understated.

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
2001–03 Revenue Impact:	Not Applicable	$9,600,000	$9,600,000
2003–05 Revenue Impact:	Not Applicable	$11,200,000	$11,200,000

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 primary or secondary schools, colleges or universities, or other educational institutions.

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

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

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

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

1.002 INTEREST ON EDUCATION SAVINGS BONDS

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

	Corporation	Personal	Total
2001–03 Revenue Impact:	Not Applicable	$100,000	$100,000
2003–05 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 at certain institutions in the same year in which they are redeemed. Qualified higher education expenses include tuition and fees, but not room and board expenses. In 2001, a full exclusion was allowed if income was less than $55,750 if single and $83,650 if married. The exclusion phased out through incomes of $70,750 (single) and $113,650 (married) at which point no exclusion was 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
2001–03 Revenue Impact:	Not Applicable	$2,200,000	$2,200,000
2003–05 Revenue Impact:	Not Applicable	$4,000,000	$4,000,000

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. Beginning in 2002, 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.

Annual contributions in 2001 were limited to $500 per beneficiary and could not be made after the beneficiary reached age 18. Beginning in 2002, the contribution limit was increased to $2,000 and could be contributed on behalf of special needs beneficiaries older than age 18. The contribution limit for 2002 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 make contributions beginning in 2002, regardless of their income. Beginning in 2002, contributions may be made to both an educations savings account and a qualified tuition program (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)
Sunset Date: None
Year Enacted: 1996

	Corporation	Personal	Total
2001–03 Revenue Impact:	Not Applicable	$1,000,000	$1,000,000
2003–05 Revenue Impact:	Not Applicable	$1,700,000	$1,700,000

DESCRIPTION: Individuals may establish tax-deferred and tax-exempt college savings plans through state sponsored savings plans, or as of 2002, 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. Prior to 2002, distributions of account earnings from state sponsored accounts were taxable. Beginning in 2002, qualifying distributions from state sponsored programs are excluded entirely from tax. Beginning in 2004, qualifying distributions from educational institution sponsored programs are also excluded entirely from tax.

Non-qualifying distributions are subject to a penalty, and the earnings share of the non-qualifying 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 Qualified Tuition Savings Program (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.

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 Qualified Tuition Savings Program (1.113).

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

1.005 PUBLIC ASSISTANCE BENEFITS

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

	Corporation	Personal	Total
2001–03 Revenue Impact:	Not Applicable	$9,800,000	$9,800,000
2003–05 Revenue Impact:	Not Applicable	$10,100,000	$10,100,000

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

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

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

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

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

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
2001–03 Revenue Impact:	Not Applicable	$3,500,000	$3,500,000
2003–05 Revenue Impact:	Not Applicable	$4,200,000	$4,200,000

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.

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

1.007 EMPLOYEE ADOPTION BENEFITS

Internal Revenue Code Section: 23 and 137
Oregon Statute: 316.048 (Connection to federal personal taxable income)
Federal Law Sunset Date: 12-31-10
Year Enacted in Federal Law: 1996

	Corporation	Personal	Total
2001–03 Revenue Impact:	Not Applicable	Less than $50,000	Less than $50,000
2003–05 Revenue Impact:	Not Applicable	Less than $50,000	Less than $50,000

DESCRIPTION: Benefits received under employer-sponsored adoption assistance programs are excluded from personal taxable income. Prior to 2002, the maximum exclusion was $5,000 per child or $6,000 in the case of a child with special needs. Beginning in 2002, the maximum exclusion is $10,000 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. The exclusion is phased out at incomes between $150,000 and $190,000 in 2002. Starting in 2003, the limit and phase-outs will be 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. Since 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 independently adopt related, unrelated, or stepchildren. Although families and individuals with incomes of less than $150,000 who adopt through any of these sources or from the public child welfare foster care system are eligible for this credit, it is unlikely that those adopting children from foster care (these children frequently have physical, emotional, or mental health issues or other special needs that make them difficult to place) would benefit from this tax credit. This is because the costs associated with foster care adoption are very low and are generally fully reimbursable to the adoptive parents at the time of finalization by the state's Adoption Assistance program which is jointly funded by federal Title IV-E and state general funds.

Nationally and within Oregon, considerable focus has been placed on achieving permanent homes for children who are waiting in foster care. This includes the federal Adoption and Safe Families Act of 1997, as well as Oregon SB 408 (1999; conforms Oregon statute to the ASFA) and the earlier SB 689 (1997). All three pieces of legislation have as their primary goal the movement of children from temporary foster care to permanent (adoptive) homes. In Oregon, where approximately 800 foster children and 1,400 non-foster children are adopted each year, it is unlikely that the employer-sponsored adoption assistance program created by ORS 316.048 significantly decreases revenue. Likewise, it is unlikely that it provides any significant financial incentive to achieve the national and federal goals of achieving permanent homes for children who are waiting in foster care. [*Evaluated by the Children, Adults, and Families Services Cluster*.]

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
2001–03 Revenue Impact:	Not Applicable	$87,000,000	$87,000,000
2003–05 Revenue Impact:	Not Applicable	$108,500,000	$108,500,000

DESCRIPTION: Employer-paid benefits under cafeteria plans, where employees are offered 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 employees to utilize such non-taxable qualified benefit options.

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

EVALUATION: This tax expenditure achieves its purpose and offers employees flexibility not present when an employer simply offers health insurance coverage. Employees are free to choose the option that is most beneficial to them, whether non-taxed health benefits or taxed monetary compensation. When choosing benefits, employees often receive benefit packages that are worth more than the foregone cash amount due to the advantages of group-based purchasing. This is particularly true when costs in a benefit area increase more than costs in non-benefits areas. Such tax incentives may encourage increased costs but also encourage preventive services and reduce barriers to health care. Employers also benefit from the choice of health benefits instead of cash payments. [*Evaluated by Oregon Health Plan Policy & 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
2001–03 Revenue Impact:	Not Applicable	$532,800,000	$532,800,000
2003–05 Revenue Impact:	Not Applicable	$634,400,000	$634,400,000

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

PURPOSE: To encourage employers and employees 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. Employers will also benefit from having a healthier work force.

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. Self-employed individuals do not currently receive the same benefit though this will change over the next two years. [*Evaluated by Oregon Health Plan Policy & Research*.]

1.010 COMPENSATORY DAMAGES

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

	Corporation	Personal	Total
2001–03 Revenue Impact:	Not Applicable	$200,000	$200,000
2003–05 Revenue Impact:	Not Applicable	$200,000	$200,000

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 monetary value of these payments.

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

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

1.011 PENSION CONTRIBUTIONS AND EARNINGS

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

	Corporation	Personal	Total
2001–03 Revenue Impact:	Not Applicable	$611,900,000	$611,900,000
2003–05 Revenue Impact:	Not Applicable	$633,900,000	$633,900,000

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 2002 is $11,000; this limit increases by $1,000 each year until it reaches $15,000 in 2006. After 2006, the limit is indexed to inflation. Taxation on contributions and earnings are deferred until distribution, when withdrawals are included in taxable income. The estimated tax benefit is a net figure, i.e. 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 and to tax income when it is received.

WHO BENEFITS: Employees receiving employer-paid pension benefits, although lower income workers are less likely to be covered by these plans. Employers may benefit by paying lower wages than would be paid if these benefits were not offered.

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

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
2001–03 Revenue Impact:	Not Applicable	$132,400,000	$132,400,000
2003–05 Revenue Impact:	Not Applicable	$158,300,000	$158,300,000

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

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

WHO BENEFITS: Recipients of the medical services provided through 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 Seniors and People with Disabilities Cluster*.]

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
2001–03 Revenue Impact:	Not Applicable	$78,500,000	$78,500,000
2003–05 Revenue Impact:	Not Applicable	$96,400,000	$96,400,000

DESCRIPTION: For those who elect to pay the required monthly premiums ($50 in 2001), Part B of Medicare covers certain doctors' services, outpatient services, and other medical services for people who are age 65 and over or who are disabled. The portion of the program's costs that are paid with governmental general revenues are not included in the personal taxable income of recipients. Currently, these costs account for 75 percent of the program's costs. Under current law, annual increases in the Part B premium is limited to the percentage increase in the social security cost of living allowance.

PURPOSE: To ensure the consistent treatment with non-taxed Social Security benefits.

WHO BENEFITS: Recipients of the medical services provided through 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 non-taxed subsidies according to individual use, it is generally considered neither fair nor good public policy to tax people at a time they are most vulnerable. However, because this subsidy is not means tested, it is argued that the exclusion benefits higher income retirees. Congress has recognized this issue in discussions on health reform. While no conclusions have been reached, the merits of incorporating gross income thresholds that would raise the premiums for higher income retirees have been debated. [*Evaluated by the Seniors and People with Disabilities Cluster*.]

1.014 SPECIAL BENEFITS FOR DISABLED COAL MINERS

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

	Corporation	Personal	Total
2001–03 Revenue Impact:	Not Applicable	Less than $50,000	Less than $50,000
2003–05 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: Former coal mine workers and their survivors.

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

1.015 SOCIAL SECURITY BENEFITS (FEDERAL)

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

	Corporation	Personal	Total
2001–03 Revenue Impact:	Not Applicable	$226,900,000	$226,900,000
2003–05 Revenue Impact:	Not Applicable	$238,600,000	$238,600,000

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) (1.121).

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

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

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

WHO BENEFITS: The number of Oregon taxpayers who receive some nontaxable Social Security and Railroad Retirement Board benefits has ranged from approximately 122,000 to 143,000 between 1990 and 1998. In 1998, the average exclusion was slightly over $7,100.

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 Seniors and People with Disabilities Cluster.]*

1.016 ACCELERATED DEPRECIATION OF BUILDINGS

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

	Corporation	Personal	Total
2001–03 Revenue Impact:	$5,300,000	$3,500,000	$8,800,000
2003–05 Revenue Impact:	$4,500,000	$3,000,000	$7,500,000

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 represents the impact of depreciation methods accelerated over the straight-line method. The tax expenditure is the additional tax that would have been paid if straight-line depreciation had been used instead. The tax expenditure associated with rental housing is covered separately in Accelerated Depreciation of Rental Housing (1.035). The decreased revenue impact across the biennia shown above could reflect a recent nationwide tendency to acquire a greater proportion of shorter-lived real assets.

PURPOSE: To promote investment in business 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*.]

1.017 ACCELERATED DEPRECIATION OF EQUIPMENT

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

	Corporation	Personal	Total
2001–03 Revenue Impact:	$208,900,000	$75,200,000	$284,100,000
2003–05 Revenue Impact:	$198,300,000	$77,400,000	$275,700,000

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 represents the impact of depreciation methods accelerated over the straight-line method. The tax expenditure is the additional tax that would have been paid if straight-line depreciation had been used instead.

The revenue impact includes the bonus depreciation provision of the "Job Creation and Worker Assistance Act of 2002." This federal economic stimulus bill allows a special first year bonus depreciation deduction equal to 30 percent of the adjusted basis for qualified property placed in service between September 10, 2001, and September 11, 2004. The remaining 70 percent of the property is depreciated according to prior standards.

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*.]

1.018 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
2001–03 Revenue Impact:	Not Applicable	$19,800,000	$19,800,000
2003–05 Revenue Impact:	Not Applicable	$23,500,000	$23,500,000

DESCRIPTION: For the 2002 tax year, 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. 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 encourage U.S. exports by encouraging U.S. citizens to work abroad. U.S. citizens working abroad may play an important role in promoting the sale of U.S. goods abroad. The exclusion also compensates for higher living costs overseas, and for the fact that the individual living overseas may pay taxes to the foreign country that are often higher than U.S. taxes.

WHO BENEFITS: Individuals who live and work abroad.

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

1.019 INVENTORY PROPERTY SALES SOURCE-RULE EXCEPTION

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

	Corporation	Personal	Total
2001–03 Revenue Impact:	$21,500,000	Not Applicable	$21,500,000
2003–05 Revenue Impact:	$24,900,000	Not Applicable	$24,900,000

DESCRIPTION: In general, U.S. corporations that have foreign operations must consider the income from sales of personal property as U.S. rather than foreign-source income. This provision allows the income from inventory property sold by the foreign operation of a U.S. company to be sourced to the foreign operation. This sourcing rule exemption allows a company to use the foreign tax credit provisions in a way that can effectively exempt a portion of a firm's export income from corporate taxable income.

PURPOSE: To encourage U.S. exports and to promote "just-in-time" supply to the buyer.

WHO BENEFITS: Corporations involved in the sale of exports.

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

1.020 MAGAZINE, PAPERBACK, AND RECORD RETURNS

Internal Revenue Code Section: 458
Oregon Statutes: 316.048 and 317.013 (Connections to federal personal and corporation taxable incomes)
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1978

	Corporation	Personal	Total
2001–03 Revenue Impact:	Less than $50,000	$100,000	$110,000
2003–05 Revenue Impact:	Less than $50,000	$100,000	$110,000

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. An exception has been granted to publishers and distributors of magazines, paperbacks, and records. (Records include audiocassettes, CDs, and laser discs 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 then returned shortly after the close of the tax year. This allows publishers and distributors to sell more copies to wholesalers and retailers than they expect will be sold to consumers.

Overstocking of inventory occurs for two reasons. First, it is difficult to predict consumer demand for particular titles. Second, overstocking is used as a marketing strategy that relies on the conspicuous display of selected titles.

PURPOSE: To encourage the purchase of printed magazines, paperbacks and recordings. To promote the business of those involved in publishing and distributing those materials.

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

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

1.021 CASH ACCOUNTING, OTHER THAN AGRICULTURE

Internal Revenue Code Sections: 446 and 448
Oregon Statutes: 316.048 and 317.013 (Connections to federal personal and corporation taxable incomes)
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1916

	Corporation	Personal	Total
2001–03 Revenue Impact:	$100,000	$1,900,000	$2,000,000
2003–05 Revenue Impact:	$100,000	$2,200,000	$2,300,000

DESCRIPTION: For tax purposes, certain small businesses and personal service corporations are allowed to use the cash method of accounting, rather than the accrual method, for tax purposes. This effectively defers corporation and personal income tax by allowing qualifying businesses to record income when it is received rather than when it is earned.

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

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

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

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

1.022 REGIONAL ECONOMIC DEVELOPMENT INCENTIVES

Internal Revenue Code Sections: 38(b), 39(d), 45A, 168(j), 280C(a), 1391–1397D, and 1400-1400B
Oregon Statutes: 316.048 and 317.013 (Connections to federal personal and corporation taxable incomes)
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1993

	Corporation	Personal	Total
2001–03 Revenue Impact:	Less than $50,000	Less than $50,000	$100,000
2003–05 Revenue Impact:	Less than $50,000	$100,000	$100,000

DESCRIPTION: The original 1993 federal legislation specified that nine empowerment zones and 95 enterprise communities in the U.S. be designated to receive special tax benefits. There are two major benefits: 1) provisions for deducting certain expenditures in the year made rather than depreciating them over a number of years, and 2) the benefits derived from tax-exempt financing. Designated areas must satisfy eligibility criteria including poverty rates and population and geographic size limits. They are eligible for benefits for 10 years. The main benefits of designation are social service block grants from the U.S. Department of Housing and Urban Development or the U.S. Department of Agriculture.

Additional communities were able to participate in these economic development tools through expansions to the program offered by 1997 and 2001 federal legislation.

Oregon currently has no empowerment zones. It does have two enterprise communities, one rural and one urban (Josephine County and Portland). Enterprise communities may receive tax-exempt/bond financing for zone businesses and special tax credits for investment in qualified-zone academy bonds for local education. (Empowerment zone businesses receive additional tax incentives, including wage credits and equipment expensing allowances). Tax-exempt bonds for any one community cannot exceed $3 million and must be part of the state's existing allocation for such bonds.

PURPOSE: To revitalize economically distressed areas.

WHO BENEFITS: Businesses and employees within the designated areas and holders of bonds nationwide.

EVALUATION: Indeterminate; not enough usage to evaluate effectiveness. [*Evaluated by the Economic and Community Development Department*.]

1.023 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
2001–03 Revenue Impact:	$18,400,000	Not Applicable	$18,400,000
2003–05 Revenue Impact:	$20,800,000	Not Applicable	$20,800,000

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 the deferral principle allows U.S. firms to delay any residual U.S. taxes that may be due after foreign tax credits, it provides a tax benefit for firms that invest in countries with low tax rates.

PURPOSE: To encourage the purchase and operation of foreign subsidiaries by U.S. firms, thereby increasing these firms' penetration into foreign markets and their global competitiveness.

WHO BENEFITS: U.S. multinational firms with foreign operations in low tax countries.

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

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

1.024 EXTRATERRITORIAL INCOME EXCLUSION

Internal Revenue Code Sections: 114; 941-2
Oregon Statute: 316.048 and 317.013 (Connection to federal personal and corporation taxable incomes)
Federal Law Sunset Date: None
Year Enacted in Federal Law: 2000

	Corporation	Personal	Total
2001–03 Revenue Impact:	$19,000,000	Not Applicable	$19,000,000
2003–05 Revenue Impact:	$24,900,000	Not Applicable	$24,900,000

DESCRIPTION: Through this tax provision taxpayers may exclude certain export income from taxation. This excluded extraterritorial income is the portion of income that is attributable to "qualifying foreign trade income."

"Qualifying foreign trade income" is the amount of gross income that, if excluded, would result in the reduction of taxable income by the greatest of:

- 15 percent of foreign trade income
- 1.2 percent of foreign trading gross receipts
- 30 percent of foreign sale and leasing incomes

The goods or services sold abroad must have no more than 50 percent of the market value of the property attributable to articles manufactured or assembled outside the United States or to the cost of labor performed outside the United States.

When a taxpayer excludes extraterritorial income they cannot also deduct foreign taxes associated with that income.

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. As of September 2002 the ETI federal law has not been modified nor has an alternative regime been implemented.

Oregon currently ties to the ETI exclusion through the connection to federal taxable income. Under the former FSC regime, Oregon specifically broke from this federal law and required corporations to add back the income associated with an FSC to their Oregon 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.*]

1.025 CANCELLATION OF DEBT FOR NON-FARMERS

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

	Corporation	Personal	Total
2001–03 Revenue Impact:	Less than $50,000	Less than $50,000	Less than $50,000
2003–05 Revenue Impact:	Less than $50,000	Less than $50,000	Less than $50,000

DESCRIPTION: In general if a taxpayer has a debt forgiven ("discharge of indebtedness") the forgiven debt is considered income to the taxpayer. Exceptions are allowed for certain qualified debt forgiveness. One such qualified exception is associated with the discharge of indebtedness incurred in connection with qualified real property business indebtedness. This indebtedness must be connected with real property used in a trade or business.

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

WHO BENEFITS: Taxpayers having debt discharged.

EVALUATION: Very limited usage of this credit 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.*]

1.026 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
2001–03 Revenue Impact:	Not Applicable	$17,400,000	$17,400,000
2003–05 Revenue Impact:	Not Applicable	$19,600,000	$19,600,000

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. This exclusion from the federal income tax passes through to Oregon tax returns, simplifying tax preparation.

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. Higher income individuals are more likely than lower income individuals to benefit from this exclusion because they are more likely to have this benefit.

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*.]

1.027 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
2001–03 Revenue Impact:	Not Applicable	$17,500,000	$17,500,000
2003–05 Revenue Impact:	Not Applicable	$20,300,000	$20,300,000

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. This exclusion from the federal income tax passes through to Oregon tax returns, simplifying tax preparation.

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. Higher income individuals are more likely than lower income individuals to benefit from this exclusion because they are more likely to have this benefit.

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 (1.026), 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*.]

1.028 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
2001–03 Revenue Impact:	Not Applicable	$5,000,000	$5,000,000
2003–05 Revenue Impact:	Not Applicable	$6,500,000	$6,500,000

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. This exclusion from the federal income tax passes through to Oregon tax returns, simplifying tax preparation.

WHO BENEFITS: Most of the benefit goes to employees making contributions to tax-free dependent care accounts set up by their employers. A relatively small share goes to employees receiving employer-paid dependent care benefits because those benefits are not widespread.

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 non-taxable 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.*]

1.029 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
2001–03 Revenue Impact:	Not Applicable	$45,100,000	$45,100,000
2003–05 Revenue Impact:	Not Applicable	$48,500,000	$48,500,000

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.

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. This exclusion from the federal income tax passes through to Oregon tax returns, simplifying tax preparation.

WHO BENEFITS: Employees receiving fringe 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 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.*]

1.030 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
2001–03 Revenue Impact:	Not Applicable	$6,300,000	$6,300,000
2003–05 Revenue Impact:	Not Applicable	$7,000,000	$7,000,000

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

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

PURPOSE: To eliminate record-keeping difficulties and to acknowledge that the fair market value of employer provided meals and lodging may be difficult to measure. This exclusion from the federal income tax passes through to Oregon tax returns, simplifying tax preparation.

WHO BENEFITS: Employees and their employers in those occupations or sectors in which the provision of meals and/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*.]

1.031 EMPLOYEE STOCK OWNERSHIP PLANS

Internal Revenue Code Sections: 133, 401(a)(28), 404(a)(9), 404(k), 415(c)(6), 1042, 4975(e)(7), 4978, and 4979A
Oregon Statute: 316.048 and 317.013 (Connections to federal personal and corporation taxable incomes)
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1974

	Corporation	Personal	Total
2001–03 Revenue Impact:	$3,700,000	$1,500,000	$5,200,000
2003–05 Revenue Impact:	$3,900,000	$2,200,000	$6,100,000

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. This exclusion from the federal income tax passes through to Oregon tax returns, simplifying tax preparation.

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*.]

1.032 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
2001–03 Revenue Impact:	Not Applicable	$800,000	$800,000
2003–05 Revenue Impact:	Not Applicable	$800,000	$800,000

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. This exclusion from the federal income tax passes through to Oregon tax returns, simplifying tax preparation.

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

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

1.033 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
2001–03 Revenue Impact:	Not Applicable	$4,200,000	$4,200,000
2003–05 Revenue Impact:	Not Applicable	$6,100,000	$6,100,000

DESCRIPTION: Employer-provided educational assistance benefits, up to $5,250 annually, are excluded from the personal taxable income of the recipient if they are part of undergraduate assistance as part of an educational assistance program. The program must not discriminate in favor of highly compensated employees; assistance provided to employees owning more than 5 percent of the employer may not receive more than five percent of the benefits; employees may not have a choice between these benefits and other benefits that may be considered taxable income; and 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.

Prior to the passage of the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA), this law was set to expire on December 31, 2001. Prior to the passage of the Small Business Job Protection Act of 1996, payments for graduate level education were also excluded from taxable income. With the passage of EGTRRA, this provision has been made permanent and extended to graduate level education.

PURPOSE: To promote the provision of educational benefits by employers. This exclusion from the federal income tax passes through to Oregon tax returns, simplifying tax preparation.

WHO BENEFITS: Employees receiving employer provided educational assistance. Employers may benefit by paying a lower wage than would be paid if these benefits were not offered. Employers also 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*.]

1.034 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
2001–03 Revenue Impact:	Not Applicable	$3,800,000	$3,800,000
2003–05 Revenue Impact:	Not Applicable	$5,900,000	$5,900,000

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. This value is ultimately taxed when 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 (1.031) 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*.]

1.035 ACCELERATED DEPRECIATION OF RENTAL HOUSING

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

	Corporation	Personal	Total
2001–03 Revenue Impact:	$1,300,000	$17,500,000	$18,800,000
2003–05 Revenue Impact:	$1,300,000	$21,000,000	$22,300,000

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. This tax expenditure represents the impact of depreciation methods accelerated over the straight-line method. 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, but only for 27.5 years, instead of the total anticipated life of the property. 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 the "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*.]

1.036 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
2001–03 Revenue Impact:	Not Applicable	$129,700,000	$129,700,000
2003–05 Revenue Impact:	Not Applicable	$140,900,000	$140,900,000

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

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

WHO BENEFITS: Homeowners who sell their principal residences.

EVALUATION: This exclusion achieves its purpose of reducing the tax burden on individuals selling their principal residence. According to the Congressional Research Service,

> Congress believed that taxing capital gains from the sale of principal residences imposed a "hardship," because capital gains may reflect only a general rise in housing prices, in which case, the tax on the gain would reduce the...ability to replace the home they had sold.

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

As previously noted, this law replaces a commonly used deferral, 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 house." [*Evaluated by the Housing and Community Services Department*.]

1.037 VETERANS' BENEFITS AND SERVICES

38 U.S. Code 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
2001–03 Revenue Impact:	Not Applicable	$22,700,000	$22,700,000
2003–05 Revenue Impact:	Not Applicable	$24,500,000	$24,500,000

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. Located in The Dalles, 123 veterans resided in this facility in 1999.

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 time 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*.]

1.038 MILITARY AND DEPENDENTS CHAMPUS/TRICARE INSURANCE

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

	Corporation	Personal	Total
2001–03 Revenue Impact:	Not Applicable	$14,800,000	$14,800,000
2003–05 Revenue Impact:	Not Applicable	$15,700,000	$15,700,000

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 is implementing a new program, entitled Tricare, in an effort to coordinate the efforts of armed services' medical facilities and civilian providers. Beneficiaries can receive care under one of three options: 1) Tricare prime, a DoD-managed HMO; 2) Tricare Extra, a preferred-provider organization; or 3) Tricare Standard, formerly known as CHAMPUS. Under the latter two options, beneficiaries are reimbursed for portions of the costs of health care received from civilian providers.

Beginning in 2002, 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. As with the case with the exclusion of medical and health care benefits in general, the tax benefits of CHAMPUS/Tricare are greater for military personnel in higher tax brackets.

PURPOSE: 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 non-taxable expenses authorized by the executive branch.

The CHAMPUS 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 non-taxable 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*.]

1.039 AGRICULTURE COST-SHARING PAYMENTS

Internal Revenue Code Section: 126
Oregon Statute: 316.048 and 317.013 (Connections to federal personal and corporation taxable incomes)
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1978

	Corporation	Personal	Total
2001–03 Revenue Impact:	$100,000	$100,000	$200,000
2003–05 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: Because these payments cannot be used to make improvements that increase the income-earning capacity of the property, the major beneficiaries are the general public to the extent they value conservation and improvements in the environment.

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 which has developed over a long period of time. Others relate to improving land which 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. The Emergency Watershed Protection projects that have been conducted, in response to the February 1996 flood, have all been successful. [*Evaluated by the Department of Agriculture*.]

1.040 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
2001–03 Revenue Impact:	Not Applicable	$400,000	$400,000
2003–05 Revenue Impact:	Not Applicable	$400,000	$400,000

DESCRIPTION: The cancellation of debt for farmers is not included in taxable income.

PURPOSE: To reduce the tax burden on farmers who are insolvent or in bankruptcy or facing severe economic stress, and to avoid forcing farmers to sell their farmland in order to pay large tax liabilities on income arising from canceled debt.

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

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

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

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

1.041 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
1999–01 Revenue Impact:	Not Applicable	$100,000	$100,000
2001–03 Revenue Impact:	Not Applicable	$100,000	$100,000

DESCRIPTION: Residential energy customers can exclude from personal taxable income subsidies provided by utilities for the purchase or installation of an energy conservation device. Oregon legislation excluding these subsidies from taxation was enacted in 1981, so these payments would be exempt from Oregon's income tax even in the absence of the federal exclusion. Prior to 1997, a partial exclusion was granted to subsidies received with respect to business property. This provision was repealed in 1996, unless a particular subsidy was pursuant to a binding contract in effect on September 13, 1995.

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

WHO BENEFITS: Homeowners who install conservation devices.

EVALUATION: See the evaluation of Cash Payments for Energy Conservation (1.129).

1.042 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
2001–03 Revenue Impact:	$100,000	Not Applicable	$100,000
2003–05 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 the utility's water or sewerage disposal facilities. Contributions that are an advance of funds to the utility, that the utility is obligated to repay, are also excluded from income. Connection fees charged to customers for installing lines to connect to the customer's lines cannot be excluded from income unless the line to be installed 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 and ultimately their customers benefit because the utilities are able to attract capital through contributions in aid of construction in addition to, or rather than from 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*.]

1.043 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
2001–03 Revenue Impact:	Not Applicable	$26,100,000	$26,100,000
2003–05 Revenue Impact:	Not Applicable	$27,700,000	$27,700,000

DESCRIPTION: Employer payments for employee parking, transportation in a commuter highway vehicle, and transit passes are excludable from the personal taxable income of the employees. Parking facilities provided free of charge by the employer are also excludable from income. Employees are allowed to elect taxable cash compensation in lieu of qualified transportation fringe benefits. Effective in tax year 2002, the maximum exclusion for parking will increase to $185 per month and the maximum exclusion for transit and commuter transportation will increase to $100 per month. The maximum exclusion amounts are indexed for inflation in $5 increments after 2001.

PURPOSE: To codify the standard practice of not taxing this benefit. The ceiling was established for parking benefits in order to limit that long-standing 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). The parking exclusion is more likely to benefit higher income individuals than do the transit and vanpool subsidies.

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. Since 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*.]

1.044 LIFE INSURANCE INVESTMENT INCOME

Internal Revenue Code Sections: 72, 101, 7702, and 7702A
Oregon Statutes: 316.048 and 317.013 (Connections to federal personal and corporation taxable incomes)
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1913

	Corporation	Personal	Total
2001–03 Revenue Impact:	$5,800,000	$166,200,000	$172,000,000
2003–05 Revenue Impact:	$6,300,000	$180,900,000	$187,200,000

DESCRIPTION: The investment income of life insurance and annuity contracts 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.

PURPOSE: To promote the welfare of insurance beneficiaries.

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

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

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

1.045 WORKERS' COMPENSATION BENEFITS (NON-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
2001–03 Revenue Impact:	Not Applicable	$41,100,000	$41,100,000
2003–05 Revenue Impact:	Not Applicable	$45,600,000	$45,600,000

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. Benefits received through private accident, health, or disability insurance are not considered income and also are not taxed. The expenditure estimates shown above are for workers' compensation non-medical benefits only. The effect of workers' compensation *medical* benefits is covered in Workers' Compensation Benefits (Medical)(1.046).

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

WHO BENEFITS: Workers receiving workers' compensation benefits. Under the provisions of Social Security law, workers' compensation benefits can be counted as income in determining Social Security benefits, so recipients of workers' compensation payments who also receive Social Security income may have their Social Security benefits reduced.

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*.]

1.046 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
2001–03 Revenue Impact:	Not Applicable	$28,000,000	$28,000,000
2003–05 Revenue Impact:	Not Applicable	$29,700,000	$29,700,000

DESCRIPTION: Workers' compensation medical benefits are not included in personal taxable income. Medical benefits received through private accident, health, or disability insurance are also not considered income and are not taxed. The expenditure estimates shown are for workers' compensation (medical) benefits only. The expenditure estimates for worker's compensation non-medical benefits are covered in Workers' Compensation Benefits (Non-Medical)(1.045).

PURPOSE: To exclude from taxable income the value of medical care received by an injured worker who is covered by worker's compensation. Workers' compensation provides mostly disability payments to disabled workers, but also, in certain cases, reimbursements for medical costs, to disabled workers. These benefits, although income to the recipients, are not subject to the income tax.

WHO BENEFITS: Workers that are injured and then receive medical care need not include the value of such care in taxable income. This is consistent with the general exclusion of sums received for workers compensation.

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*.]

1.047 CREDIT UNION INCOME

Internal Revenue Code Section: 501(c)(14)
Section 122 Fed. Credit Act (RVSC Sec. 1768)
Oregon Statute: 317.013 (Connection to federal corporation taxable income)
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1951

	Corporation	Personal	Total
2001–03 Revenue Impact:	$3,800,000	Not Applicable	$3,800,000
2003–05 Revenue Impact:	$4,100,000	Not Applicable	$4,100,000

DESCRIPTION: Credit unions are organized and operated for mutual purposes and as nonprofits they are 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 their exemption. The rationale for the continued exemption for credit unions was not made explicit in the legislation. According to the Congressional Research Service, the reason may be that credit unions serve a unique niche in financial markets. They are non-profit cooperatives organized by people with a common bond that distinguishes them from the general public. Members pool their funds to make loans to one another. They also are thought to be more likely to provide services to low-income individuals at rates lower than other financial institutions.

Credit union board of directors and committees are composed of volunteers who are not paid. The board is elected by the members.

WHO BENEFITS: Members of credit unions, primarily by receiving services at lower rates than are available from other financial institutions. In Oregon, the exemption affects 109 credit unions who have $8.4 billion in total assets and include over a 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*.]

1.048 LIFE INSURANCE COMPANY RESERVES

Internal Revenue Code Sections: 803(a)(2), 805(a)(2), and 807
Oregon Statute: 317.013 (Connection to federal corporation taxable income)
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1984

	Corporation	Personal	Total
2001–03 Revenue Impact:	$5,400,000	Not Applicable	$5,400,000
2003–05 Revenue Impact:	$5,800,000	Not Applicable	$5,800,000

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. 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 into the tax code when life insurance companies first became taxable in 1909.

WHO BENEFITS: Competitive pressures in the life insurance industry probably result in the benefits being passed on to policyholders in the form of lower premiums.

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

1.049 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
2001–03 Revenue Impact:	Less than $50,000	Less than $50,000	Less than $50,000
2003–05 Revenue Impact:	Less than $50,000	Less than $50,000	Less than $50,000

DESCRIPTION: Individuals who are liable for damages due to 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 persons responsible for causing the damage 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. If the lump sum payment were made directly to the injured party, interest subsequently earned would be taxed.

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 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.

WHO BENEFITS: The individual who is liable for damage payments—although the tax benefit accrues to the annuity company and the individual receiving the periodic damage payments.

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

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

1.050 SMALL PROPERTY INSURANCE COMPANIES

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

	Corporation	Personal	Total
2001–03 Revenue Impact:	Less than $50,000	Not Applicable	Less than $50,000
2003–05 Revenue Impact:	Less than $50,000	Not Applicable	Less than $50,000

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

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

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

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

This exemption for small companies is probably also fiscally effective. Since it involves minor revenue losses, the administrative cost involved in collecting taxes is likely to exceed the revenue loss. [*Evaluated by the Economic and Community Development Department*.]

1.051 IMPUTED INTEREST RULES

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

	Corporation	Personal	Total
2001–03 Revenue Impact:	$100,000	$1,700,000	$1,800,000
2003–05 Revenue Impact:	$100,000	$2,200,000	$2,300,000

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 the general rules for imputing interest on these debt instruments. 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 at all. Debt instruments for amounts not exceeding an inflation-adjusted maximum (currently about $3 million), given in exchange for real property, may not have imputed to them an interest rate greater than 9 percent. This tax expenditure is the revenue loss caused by these exceptions.

According to the Congressional Research Service, the imputed interest rules relating to property sales were enacted to prevent taxpayers from overstating the price, and understating the interest rate, to take advantage of the lower tax rate on capital gains.

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

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

EVALUATION: Not Evaluated.

1.052 GAIN ON NON-DEALER INSTALLMENT SALES

Internal Revenue Code Sections: 453 and 453A(b)
Oregon Statute: 316.048 and 317.013 (Connections to federal personal and corporation taxable incomes)
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1921

	Corporation	Personal	Total
2001–03 Revenue Impact:	$2,600,000	$2,800,000	$5,400,000
2003–05 Revenue Impact:	$2,800,000	$2,900,000	$5,700,000

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.

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 the property on an installment basis.

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

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

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

1.053 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. Amended 2001 HB 2206)
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1921

	Corporation	Personal	Total
2001–03 Revenue Impact:	$5,800,000	$3,100,000	$8,900,000
2003–05 Revenue Impact:	$6,300,000	$3,600,000	$9,900,000

DESCRIPTION: Like-kind exchanges are exchanges of properties that are of the same general type but that may be of very different quality and use, such as real estate. Gain or loss at the time of exchange is deferred until the property is ultimately 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. With the passage of HB 2206, 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*.]

1.054 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
2001–03 Revenue Impact:	Not Applicable	$2,200,000	$2,200,000
2003–05 Revenue Impact:	Not Applicable	$2,800,000	$2,800,000

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

PURPOSE: To offset the extra living costs of working abroad and to encourage employees to accept these assignments. This exclusion from the federal income tax passes through to Oregon tax returns, simplifying tax preparation.

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*.]

1.055 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
2001–03 Revenue Impact:	Not Applicable	$65,300,000	$65,300,000
2003–05 Revenue Impact:	Not Applicable	$61,300,000	$61,300,000

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.

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 (1.124)).

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 2000, nearly 51,200 Oregon taxpayers received roughly $375 million in interest on Oregon state or local government debt obligations, or an average of about $7,300 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*.]

1.056 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
2001–03 Revenue Impact:	Not Applicable	$374,800,000	$374,800,000
2003–05 Revenue Impact:	Not Applicable	$444,300,000	$444,300,000

DESCRIPTION: When property is transferred upon death, any capital gains accrued but not recognized on the property during the decedent's ownership 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. A rationale may be that estates are subject to taxation at the federal level.

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 often force heirs to sell the assets in order to pay the taxes. [*Evaluated by the Department of Revenue.*]

1.057 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
2001–03 Revenue Impact:	Not Applicable	$41,300,000	$41,300,000
2003–05 Revenue Impact:	Not Applicable	$47,000,000	$47,000,000

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.

1.058 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
2001–03 Revenue Impact:	Not Applicable	$100,000	$100,000
2003–05 Revenue Impact:	Not Applicable	$100,000	$100,000

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.

1.059 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
2001–03 Revenue Impact:	Not Applicable	$11,400,000	$11,400,000
2003–05 Revenue Impact:	Not Applicable	$12,600,000	$12,600,000

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 and treat VEBA benefits identical to employer provided benefits. This exclusion from the federal income tax passes through to Oregon tax returns, simplifying tax preparation.

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 non-discriminatory manner and who would otherwise not purchase or could not afford such coverage. [*Evaluated by the Employment Department.*]

1.060 RENTAL ALLOWANCES FOR MINISTERS' HOMES

Internal Revenue Code Section: 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
2001–03 Revenue Impact:	Not Applicable	$2,800,000	$2,800,000
2003–05 Revenue Impact:	Not Applicable	$3,500,000	$3,500,000

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 between ministers who receive a cash allowance and those who have their home included in their compensation package. This exclusion from the federal income tax passes through to Oregon tax returns, simplifying tax preparation.

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

EVALUATION: This tax expenditure achieves its purpose and provides a benefit to both the employer and the employee. In many cases, church-provided housing is a condition of hire or is necessitated by a lack of other housing available 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.*]

1.061 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
2001–03 Revenue Impact:	Not Applicable	$700,000	$700,000
2003–05 Revenue Impact:	Not Applicable	$700,000	$700,000

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.

Only the amount calculated under the first method is excluded from taxable income.

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.

PURPOSE: To treat veterans' disability benefits the same as compensation for injuries and sickness such as workers' compensation payments.

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. During fiscal years 1997 and 1998, three Oregon Army National Guard soldiers received this benefit with total compensation of roughly $38,000. It is not precisely known how many Oregon veterans from other branches of the military receive this benefit.

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

1.062 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
2001–03 Revenue Impact:	Not Applicable	$17,400,000	$17,400,000
2003–05 Revenue Impact:	Not Applicable	$18,700,000	$18,700,000

DESCRIPTION: Various in-kind benefits received by military personnel are not taxed. These benefits include medical and dental benefits, group term life insurance, professional education and dependent education, moving and storage, premiums for survivor and retirement protection plans, subsistence allowances, uniform allowances, housing allowances, overseas cost-of-living allowances, evacuation allowances, family separation allowances, travel for consecutive overseas tours, emergency assistance, family counseling and defense counsel, burial and death services, and travel of dependents to a burial site. Other benefits include combat-zone compensation and combat-related benefits.

PURPOSE: To treat these benefits similar to fringe benefits, although certain allowances were not considered compensation, but rather intrinsic elements in the military structure.

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. Since 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, since 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*.]

1.063 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
2001–03 Revenue Impact:	Not Applicable	Less than $50,000	Less than $50,000
2003–05 Revenue Impact:	Not Applicable	Less than $50,000	Less than $50,000

DESCRIPTION: Historically, the IRS has ruled that payments made by Germany, Austria, and the Netherlands on account of Nazi persecution that caused damage to life, body, health, liberty, or to professional or economic advancement, were not taxable income. For capital gains on property received as such a payment, decisions were made on the facts of particular cases. These rulings had very limited application and did not apply generally to recipients of such restitution payments. In 2001, a new law was passed that excludes all such payments received by an eligible individual, or the individual's heirs or estate, from taxable income.

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

1.064 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
2001–03 Revenue Impact:	Not Applicable	$100,000	$100,000
2003–05 Revenue Impact:	Not Applicable	$100,000	$100,000

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

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

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

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

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

1.065 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
2001–03 Revenue Impact:	Not Applicable	$6,100,000	$6,100,000
2003–05 Revenue Impact:	Not Applicable	$8,000,000	$8,000,000

DESCRIPTION: A taxpayer may deduct interest on qualified higher education loans. The maximum deduction is $2,500. For 2001, the deduction was allowed only with respect to interest paid on a qualified loan during the first five years in which interest payments were required. Beginning 2002, the five-year limit is repealed. Months during which the loan is in deferral or forbearance do not count against the five-year period (for 2001 tax year). The deduction is not allowed to individuals who may be claimed as a dependent on another taxpayer's return.

A qualified education loan is indebtedness incurred 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. The deduction is phased out for taxpayers with income between $50,000 and $65,000 (if single) or $100,000 and $130,000 (if married). While the maximum deduction amount is not indexed for inflation, the phase out ranges are indexed for inflation starting in 2003.

PURPOSE: To encourage higher education by reducing the costs.

WHO BENEFITS: In 2000, roughly 41,400 full-year resident taxpayers deducted from taxable income an average of $610 of interest paid on higher education loans. The table below shows the tax year 2000 usage of this deduction for each of the five income quintiles.

Income Group (Quintiles)	Taxpayers		Mean Deduction
	Number	Percent	
Below $10,000	2,374	5.7%	$529
$10,000 - $22,000	6,352	15.3%	$531
$22,000 - $37,000	11,871	28.7%	$703
$37,000 - $63,000	15,600	37.7%	$674
Above $63,000	5,205	12.6%	$364
Total	41,402	100.0%	$613

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*.]

1.066 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
2001–03 Revenue Impact:	$6,600,000	$37,800,000	$44,400,000
2003–05 Revenue Impact:	$7,900,000	$45,000,000	$52,900,000

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 pre-tax 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 1998, nearly 500,000 Oregonians took a deduction for charitable contributions worth a total of roughly $1,250 million, of which $153 million went to educational organizations. The average total charitable deduction was $2,500.

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*.]

1.067 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
2001–03 Revenue Impact:	Not Applicable	$11,200,000	$11,200,000
2003–05 Revenue Impact:	Not Applicable	$24,100,000	$24,100,000

DESCRIPTION: A limited 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. For tax years 2002 and 2003, the deduction may not exceed $3,000 per taxpayer and is only available to taxpayers with adjusted gross income not exceeding $65,000 ($130,000 on a joint return). In tax years 2004 and 2005, the limit 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. For joint returns in 2004 and 2005, the $2,000 limit applies to returns with income above $130,000 and no more than $160,000. 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.

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

1.068 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
2001–03 Revenue Impact:	$6,600,000	$26,100,000	$32,700,000
2003–05 Revenue Impact:	$7,900,000	$31,100,000	$39,000,000

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 2000, nearly 500,000 Oregonians took a deduction for charitable contributions; the average deduction was $2,700. Of the $1.4 billion in charitable contributions, roughly $133 million went to health organizations.

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

1.069 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
2001–03 Revenue Impact:	Not Applicable	$116,900,000	$116,900,000
2003–05 Revenue Impact:	Not Applicable	$140,700,000	$140,700,000

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

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

WHO BENEFITS: There were nearly 105,000 full-year resident taxpayers who took this deduction in 2000 with an average deduction of roughly $6,500.

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

1.070 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
2001–03 Revenue Impact:	Not Applicable	$23,700,000	$23,700,000
2003–05 Revenue Impact:	Not Applicable	$36,800,000	$36,800,000

DESCRIPTION: Self-employed individuals may take 70 percent of amounts paid for health insurance in 2002 as an adjustment from personal taxable income. The adjustment increases to 100 percent in 2003. The insurance must be for themselves, their spouses, or their dependents. The adjustment 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 two percent of the corporation's stock.

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

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

WHO BENEFITS: The number of full-year residents who claimed this adjustment has steadily risen from 52,100 in 1995 to roughly 60,300 in 2000. The average adjustment amount has risen from $710 to nearly $1,900 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 2000 usage of this adjustment for each of the five income quintile groups.

Income Group (Quintiles)	Taxpayers		Mean Deduction
	Number	Percent	
Below $10,000	6,253	10.4%	$1,349
$10,000 - $22,000	8,611	14.3%	$1,418
$22,000 - $37,000	10,646	17.7%	$1,613
$37,000 - $63,000	12,631	20.9%	$1,796
Above $63,000	22,169	36.8%	$2,350
Total	60,310	100.0%	$1,867

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 Oregon Health Plan Policy & Research*.]

1.071 MEDICAL SAVINGS ACCOUNTS (FEDERAL)

Internal Revenue Code Section: 220
Oregon Statute: 316.048 (Connection to federal personal taxable income)
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1996

	Corporation	Personal	Total
2001–03 Revenue Impact:	Not Applicable	$400,000	$400,000
2003–05 Revenue Impact:	Not Applicable	$400,000	$400,000

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

Contributions are allowed if individuals are covered by a high-deductible health plan and no other insurance. For tax year 2000, plan deductibles must be at least $1,550 (but not more than $2,350) for coverage of one person and at least $3,100 (but not more than $4,650) for more than one. Individuals must also be self-employed or covered through plans offered by small employers. Eligibility to establish accounts will be restricted to 750,000 taxpayers nationally. Once restricted, participation will be generally limited to those individuals who previously had contributions to their accounts or who work for participating employers. Unqualified distributions are included in taxable income and a 15 percent penalty is added except in cases of disability, death or attaining age 65. No new accounts are allowed after 12-31-00, but existing accounts continue to be eligible for deductions with no sunset.

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

WHO BENEFITS: The number of full-year taxpayers who claimed this adjustment has increased from 540 in 1997 to 1,160 in 2000. Over the same period, the average adjustment has increased from $1,000 to $1,700. The table below shows the tax year 2000 usage of this adjustment for each of the five income quintiles.

Income Group (Quintiles)	Taxpayers		Mean Deduction
	Number	Percent	
Below $10,000	38	3.3%	$1,521
$10,000 - $22,000	112	9.7%	$1,298
$22,000 - $37,000	199	17.2%	$1,379
$37,000 - $63,000	273	23.6%	$1,659
Above $63,000	534	46.2%	$2,008
Total	1,156	100.0%	$1,733

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

1.072 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
2001–03 Revenue Impact:	Not Applicable	$97,900,000	$97,900,000
2003–05 Revenue Impact:	Not Applicable	$114,000,000	$114,000,000

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

The deductibility in 2002 is phased-out for taxpayers with incomes between $34,000 and $44,000 for single filers ($54,000 to $64,000 if married). These ranges increase over the next several years until they reach $50,000 to $60,000 for single filers in 2005 and $80,000 to $100,000 for married filers in 2007. Deductible contributions of up to $2,000 per year are also allowed for spouses of individuals who participate in an employer-sponsored retirement plan. This deduction is phased out for taxpayers with income between $150,000 and $160,000.

The limit for nondeductible contributions to a Roth IRA is also $2,000, the same as for Traditional IRAs. The phase-out schedule, however, is different. The contribution limit is phased out for taxpayers with incomes between $150,000 and $160,000 for joint returns ($95,000 and $110,000 for single returns). Qualified distributions from a Roth IRA are not taxed. Accounts must be held at least five years in order for distributions to qualify for the tax exemption. Individuals with income of $100,000 or less may convert an IRA into a Roth IRA.

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

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

WHO BENEFITS: The number of full-year residents claiming an adjustment for contributions has steadily fallen from 97,700 in 1990 to roughly 47,300 in 2000. During the same period, the average adjustment rose from $1,400 to $2,200.

Income Group (Quintiles)	Taxpayers		Mean Deduction
	Number	Percent	
Below $10,000	1,975	4.2%	$1,695
$10,000 - $22,000	5,173	10.9%	$1,881
$22,000 - $37,000	10,898	23.0%	$1,998
$37,000 - $63,000	14,172	29.9%	$2,100
Above $63,000	15,115	31.9%	$2,492
Total	47,333	100.0%	$2,161

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

1.073 KEOGH PLAN CONTRIBUTIONS AND EARNINGS

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

	Corporation	Personal	Total
2001–03 Revenue Impact:	Not Applicable	$39,400,000	$39,400,000
2003–05 Revenue Impact:	Not Applicable	$42,400,000	$42,400,000

DESCRIPTION: Self-employed taxpayers who make contributions to their own retirement (Keogh) accounts may subtract those contributions from personal taxable income. The maximum adjustment allowed is the lesser of 25 percent of income or $30,000. Taxes on Keogh earnings are deferred until distribution during retirement. Withdrawals from Keoghs are included in personal taxable income.

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

WHO BENEFITS: The number of full-year residents making contributions to Keogh plans increased from about 12,400 in 1990 to 18,400 in 2000. The average adjustment has grown from approximately $7,400 in 1995 to $8,900 in 2000.

Income Group (Quintiles)	Taxpayers		Mean Deduction
	Number	Percent	
Below $10,000	271	1.5%	$2,664
$10,000 - $22,000	697	3.8%	$2,361
$22,000 - $37,000	1,585	8.6%	$3,290
$37,000 - $63,000	3,379	18.3%	$4,282
Above $63,000	12,484	67.8%	$11,297
Total	18,416	100.0%	$8,855

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

1.074 REMOVAL OF ARCHITECTURAL BARRIERS

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

	Corporation	Personal	Total
1999–01 Revenue Impact:	Less than $50,000	Less than $50,000	Less than $50,000
2001–03 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 encourage the modification of business facilities to a more barrier-free environment for both employees and customers.

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

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

1.075 DEFERRAL OF CERTAIN FINANCING INCOME OF FOREIGN CORPORATIONS

Internal Revenue Code Section: 954
Oregon Statutes: 317.013 (Connection to federal corporation deduction)
Federal Law Sunset Date: 12-31-01
Year Enacted in Federal Law: 1997

	Corporation	Personal	Total
2001–03 Revenue Impact:	$2,100,000	Not Applicable	$2,100,000
2003–05 Revenue Impact:	$100,000	Not Applicable	$100,000

DESCRIPTION: In general U.S. tax law defers income earned abroad by foreign subsidiaries of U.S. companies from taxation until the income is repatriated to the U.S. The tax laws exclude certain types of income from this deferral—most notably income from passive activities. This limitation effectively excludes financial corporations from the benefit of this tax provision.

This deduction of certain financing income expands the deferral principle to allow financial corporations the same advantage as other. Companies that conduct active financial operations overseas may defer taxes on income earned abroad until that income is repatriated to the U.S. Such corporations need to conduct active financial operations overseas.

PURPOSE: To allow companies conducting active financial business abroad the same privileges as those conducting manufacturing operations in foreign countries; to give financial and manufacturing businesses operating abroad similar tax benefits.

WHO BENEFITS: Certain foreign corporations that do business in Oregon. These 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 deductions)
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1954

	Corporation	Personal	Total
2001–03 Revenue Impact:	$19,100,000	Not Applicable	$19,100,000
2003–05 Revenue Impact:	$20,700,000	Not Applicable	$20,700,000

DESCRIPTION: Research and development (R&D) expenditures can be fully expensed in the year made for purposes of computing corporation and personal taxable income. This is considered a tax expenditure because these expenditures presumably provide a business with benefits over a period of time. To be consistent with the treatment of other investments with multi-year benefits, R&D expenditures would need to be depreciated over their useful life.

PURPOSE: To encourage investment in research and development and, additionally, to avoid the difficulty of determining whether the expenditures are “successful” and the length of useful life.

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 (1.153)), 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 efforts into research and development. Product introduction cycles for products such as personal computers and high definition television and telecommunication products are getting shorter and shorter. They demand R&D commitments.
- Encourages small companies to explore new niche technology opportunities and enhances their ability to attract joint R&D capital.

- Encourages companies to utilize existing state research institutes to assist with R&D activities.

This last point is an issue in Oregon. Recent data indicate that corporate R&D 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. [*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 deductions)
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1959

	Corporation	Personal	Total
2001–03 Revenue Impact:	$1,300,000	$9,000,000	$10,300,000
2003–05 Revenue Impact:	$900,000	$6,100,000	$7,000,000

DESCRIPTION: In general, the cost of business property must be deducted from personal and corporation income as it depreciates over its useful life. This expenditure allows a taxpayer to deduct, as an expense, up to $17,500 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 $200,000 of property during the year. This limitation ensures that smaller businesses receive most of the benefit from this expenditure. A likely reason for the declining expenditure impact is the effect of inflation on the purchase price of business property, especially when phase-out brackets are not inflation-indexed.

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

WHO BENEFITS: Firms with tangible personal property purchases below $217,500.

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 deductions)
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1980

	Corporation	Personal	Total
2001–03 Revenue Impact:	$100,000	$3,400,000	$3,500,000
2003–05 Revenue Impact:	$100,000	$3,600,000	$3,700,000

DESCRIPTION: Generally, costs incurred before the beginning of a business are not deductible. However, under this tax provision a taxpayer may elect to deduct from personal or corporation taxable income eligible start-up expenditures over a period of at least 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 reduce the controversy over how these start-up costs were supposed to be treated for tax purposes.

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 from which to benefit by 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: 317.013 (Connection to federal corporation deductions)
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1936

	Corporation	Personal	Total
2001–03 Revenue Impact:	$1,200,000	Not Applicable	$1,200,000
2003–05 Revenue Impact:	$1,200,000	Not Applicable	$1,200,000

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 certain deposits. Such deposits are deductible from corporate taxable income, and income tax on the earnings of the deposits in the fund is deferred. When tax-deferred deposits and their earnings are withdrawn from a 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. shipbuilding firms.

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

1.080 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
2001–03 Revenue Impact:	Not Applicable	$300,000	$300,000
2003–05 Revenue Impact:	Not Applicable	$300,000	$300,000

DESCRIPTION: Taxpayers may deduct as an ordinary loss (rather than a capital loss) a loss on the sale, trade, or worthlessness 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 numerous 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 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
2001–03 Revenue Impact:	Not Applicable	$3,400,000	$3,400,000
2003–05 Revenue Impact:	Not Applicable	$3,400,000	$3,400,000

DESCRIPTION: Taxpayers may take qualified moving expenses as an adjustment to personal taxable income. 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. Congress limited the deductible amount in 1993 but made the deduction available to taxpayers who take the standard deduction.

PURPOSE: To provide tax relief for people where moving expenses are an employee business expense necessary to earn income. This federal income tax deduction passes through to Oregon tax returns, simplifying tax preparation.

WHO BENEFITS: Employees incurring moving expenses related to a new job or business. The number of taxpayers claiming this adjustment in 2000 was up from 1998, increasing from approximately 14,100 to 15,700. The average moving expense claimed increased from $1,800 in 1998 to $2,000 in 2000.

Income Group (Quintiles)	Taxpayers		Mean Deduction
	Number	Percent	
Below $10,000	3,633	23.1%	$1,981
$10,000 - $22,000	3,255	20.7%	$1,788
$22,000 - $37,000	3,200	20.3%	$1,871
$37,000 - $63,000	3,043	19.3%	$1,996
Above $63,000	2,622	16.6%	$2,786
Total	15,753	100.0%	$2,056

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*.]

1.082 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
2001–03 Revenue Impact:	Not Applicable	$208,000,000	$208,000,000
2003–05 Revenue Impact:	Not Applicable	$233,700,000	$233,700,000

DESCRIPTION: Property taxes on non-business 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. According to Congressional Research Service, under the original 1913 Federal income tax law nearly all state and local taxes were deductible. The rationale was that such payments reduced disposable income "in a mandatory way," and thus affected the taxpayer's ability to pay federal income tax. Congress has since eliminated the deductibility of many taxes, such as local income taxes and sales taxes.

WHO BENEFITS: In 2000, 495,000 full-year resident taxpayers claimed $1,040 million in itemized deductions for the property taxes paid on their residences. The average deduction was about $2,100.

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*.]

1.083 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
2001–03 Revenue Impact:	Not Applicable	$786,500,000	$786,500,000
2003–05 Revenue Impact:	Not Applicable	$882,000,000	$882,000,000

DESCRIPTION: Mortgage interest paid by owner-occupants on their primary and secondary residences is deductible from the personal taxable income for taxpayers who itemize deductions. Interest may be deducted on loans up to $1,000,000 for the purchase of the residence ($500,000 in the case of a married individual filing a separate return) and on loans up to $100,000 ($50,000 for married individuals filing separately) for home equity loans. These dollar limitations do not apply, however, to qualified indebtedness acquired on or before October 13, 1987.

PURPOSE: To promote home ownership. According to the Congressional Research Service, initial enactment of the mortgage interest deduction in 1913 was part of the deduction for all types of interest, which in those days were almost exclusively business related. The original purpose was not, therefore, to encourage home ownership. In recent years the deduction has, however, been defended on those grounds.

WHO BENEFITS: In 2000, about 452,000 taxpayers claimed a total of $3,769 million of itemized deductions for home mortgage interest. The average deduction was about $8,350.

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 to increase home ownership. [*Evaluated by the Housing and Community Services Department*.]

1.084 CASH ACCOUNTING FOR AGRICULTURE

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

	Corporation	Personal	Total
2001–03 Revenue Impact:	$100,000	$4,200,000	$4,300,000
2003–05 Revenue Impact:	$100,000	$3,300,000	$3,400,000

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

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

WHO BENEFITS: Small farmers.

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*.]

1.085 SOIL AND WATER CONSERVATION EXPENDITURES

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

	Corporation	Personal	Total
2001–03 Revenue Impact:	$100,000	$200,000	$300,000
2003–05 Revenue Impact:	$100,000	$200,000	$300,000

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

PURPOSE: To encourage expenditures that 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 2003 or 2004. [*Evaluated by the Department of Agriculture*.]

1.086 FERTILIZER AND SOIL CONDITIONER COSTS

Internal Revenue Code Section: 180 (Reg. S1.180-1 and S1.180-2)
Oregon Statute: 316.048 and 317.013 (Connections to federal personal and corporation taxable deductions)
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1960

	Corporation	Personal	Total
2001–03 Revenue Impact:	$100,000	$1,100,000	$1,200,000
2003–05 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 1.085 (Soil and Water Conservation Expenditures) 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*.]

1.087 COSTS OF RAISING DAIRY AND BREEDING CATTLE

Internal Revenue Code Section: 263A(d)(1)(A)(i)
Oregon Statute: 316.048 and 317.013 (Connections to federal personal and corporation taxable deductions)
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1916

	Corporation	Personal	Total
1999–01 Revenue Impact:	$100,000	$100,000	$200,000
2001–03 Revenue Impact:	$100,000	$100,000	$200,000

DESCRIPTION: Costs incurred in the raising of dairy and breeding cattle can be expensed rather than depreciated in calculating taxable income. In most industries, 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. The “expenditure” in this case 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 reduce the tax burden on farmers.

WHO BENEFITS: Farmers who raise dairy and 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 fits the treatment of animals 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*.]

1.088 SALE OF STOCK TO FARMER'S COOPERATIVE

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

	Corporation	Personal	Total
2001–03 Revenue Impact:	Less than $50,000	Less than $50,000	Less than $50,000
2003–05 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 sale of food processing facilities.

WHO BENEFITS: Both the buyers and sellers in such transactions benefit.

EVALUATION: It is too early to tell 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. [*Evaluated by the Department of Agriculture*.]

1.089 REDEVELOPMENT COSTS IN CONTAMINATED AREAS

Internal Revenue Code Section: 198
Oregon Statute: 316.048 and 317.013 (Connection to federal personal and corporation taxable incomes)
Federal Law Sunset Date: 12-31-01
Year Enacted in Federal Law: 1997

	Corporation	Personal	Total
2001–03 Revenue Impact:	$400,000	$400,000	$800,000
2003–05 Revenue Impact:	$100,000	$0	$100,000

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

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

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

WHO BENEFITS: The brownfields tax incentive primarily benefited taxpayers who purchased property that had already been contaminated. It may also have allowed taxpayers responsible for the contamination to deduct remediation-related expenditures that would otherwise have been chargeable to a capital account. Because the tax incentive promoted environmental cleanup efforts that might otherwise not have been undertaken, it also benefited the general public, especially the communities in the targeted areas.

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

1.090 CLEAN-FUEL VEHICLES AND REFUELING PROPERTY

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

	Corporation	Personal	Total
2001–03 Revenue Impact:	Less than $50,000	Less than $50,000	Less than $50,000
2003–05 Revenue Impact:	Less than $50,000	Less than $50,000	Less than $50,000

DESCRIPTION: Taxpayers are allowed a limited deduction for the cost of clean-fuel vehicles and refueling property. The deduction for clean-fuel refueling property may only be taken in connection with trade or business. The deduction for a clean-fuel vehicle may be taken even if the property is not used in a trade or business.

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

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

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

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

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

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

1.091 INTANGIBLE DEVELOPMENT COSTS FOR FUELS

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

	Corporation	Personal	Total
2001–03 Revenue Impact:	Less than $50,000	Less than $50,000	Less than $50,000
2003–05 Revenue Impact:	Less than $50,000	Less than $50,000	Less than $50,000

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

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

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

EVALUATION: Not evaluated

1.092 DEPLETION COSTS FOR NATURAL RESOURCES

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

	Corporation	Personal	Total
2001–03 Revenue Impact:	Less than $50,000	Less than $50,000	Less than $50,000
2003–05 Revenue Impact:	Less than $50,000	Less than $50,000	Less than $50,000

DESCRIPTION: In the case of natural resources like mines, hydrocarbon wells, and timber, a deduction in computing taxable income is allowed for depletion allowances and depreciation of improvements. If as a result of operations or of development work, it becomes apparent that the recoverable units are greater or lesser than the prior estimate, then the prior estimate (but not the basis for depletion) shall be revised and the allowance under this section for subsequent tax years shall be based on such a revised estimate.

The basis on which depletion is to be allowed shall be the adjusted basis for the purpose of determining the gain upon the sale or other disposition of such property.

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.

1.093 TERTIARY INJECTANTS

Internal Revenue Code Section: 193
Oregon Statute: 316.695 and 317.013 (Connection to federal personal and corporation taxable incomes)
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1980

	Corporation	Personal	Total
2001–03 Revenue Impact:	Less than $50,000	Less than $50,000	Less than $50,000
2003–05 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.

1.094 MULTI-PERIOD TIMBER GROWING COSTS

Internal Revenue Code Sections: 162, 263(d)(1)
Oregon Statute: 316.048 and 317.013 (Connections to federal personal and corporation taxable deductions)
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1986

	Corporation	Personal	Total
2001–03 Revenue Impact:	$7,000,000	$1,100,000	$8,100,000
2003–05 Revenue Impact:	$7,000,000	$1,200,000	$8,200,000

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.

The Tax Reform Act of 1986 reduced the overall capital gains tax rate, removed a number of exemptions from capital gains taxation (including a portion of timber value), and maintained the practice that nearly all young-growth timber growing costs are to be capitalized rather than expensed. The law continued Congress' recognition of the long growing periods for timber during which no revenue is produced by continuing a favorable tax treatment of timber. It did so by permitting indirect costs of growing timber (expenses not associated with re-establishment of a timber stand and not producing revenue) to be expensed during the year they occurred.

PURPOSE: To provide tax relief to the timber-growing sector.

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 non-corporate timber growers. In Oregon the percentage benefiting corporations may be even greater because the proportion of Oregon private timberlands owned by corporations is larger than the national average.

EVALUATION: It is not clear if this expenditure is achieving its purpose. If the purpose is to extend tax benefits to all who grow timber for sale, the purpose has not been fully achieved because the expensing is unavailable to those who are not "materially participating" in the management of the timber stand involved. If the taxpayer is an "investor" these expenses must be capitalized, thus effectively adding to the current tax burden. If the purpose extends only to those investing "sweat equity" in the land and to those entities for which the timber-growing is their sole business, then there is evidence that the purpose is being achieved.

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

1.095 AMORTIZATION OF REFORESTATION EXPENDITURES

Internal Revenue Code Section: 194
Oregon Statute: 316.048 and 317.013 (Connections to federal personal and corporation taxable incomes)
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1980

	Corporation	Personal	Total
2001–03 Revenue Impact:	$200,000	$100,000	$300,000
2003–05 Revenue Impact:	$200,000	$100,000	$300,000

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

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

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

1. It is held for the growing and cutting of timber the taxpayer will either use in, or sell for use in, the commercial production of timber products.

2. It consists of at least one acre planted with tree seedlings in the manner normally used in forestation or reforestation.

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

Each year, the taxpayer may choose to amortize up to $10,000 ($5,000 if married filing separately) of qualifying costs paid or incurred during the tax year. Taxpayers cannot carry over or carry back qualifying costs over the annual limit. The annual limit applies to qualifying costs for all the taxpayer's qualified timber property. If the taxpayer's qualifying costs are more than $10,000 for more than one piece of timber property, the taxpayer can divide the annual limit among any of the properties in any manner they wish.

PURPOSE: To lower the annual after-tax cost of reforestation. Since there is a $10,000 annual cap, this expenditure proportionally helps smaller owners more as a percentage of their total holdings or income.

WHO BENEFITS: Taxpayers that are reforesting forest lands.

EVALUATION: Not Evaluated

1.096 DEVELOPMENT COSTS FOR NONFUEL MINERALS

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

	Corporation	Personal	Total
2001–03 Revenue Impact:	$100,000	$200,000	$300,000
2003–05 Revenue Impact:	$100,000	$200,000	$300,000

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

PURPOSE: To encourage mining and to reduce the ambiguity in the way mining operations were taxed.

WHO BENEFITS: Mining companies.

EVALUATION: This provision effectively allows mining companies to get a quicker return on their investment through tax deductions, hence it 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 explorations.

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. [*Evaluated by the Department of Geology and Mineral Industries*.]

1.097 DEPLETION COSTS FOR NONFUEL MINERALS

Internal Revenue Code Sections: 611, 612, 613, and 291
Oregon Statute: 316.048 and 317.013 (Connection to federal personal and corporation taxable deductions)
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1913

	Corporation	Personal	Total
2001–03 Revenue Impact:	$400,000	$700,000	$1,100,000
2003–05 Revenue Impact:	$400,000	$700,000	$1,100,000

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. Cost depletion is considered the standard method for tax purposes. 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. To the extent that percentage depletion exceeds cost depletion, this provision is a tax expenditure.

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*.]

1.098 MINING RECLAMATION RESERVES

Internal Revenue Code Section: 468
Oregon Statute: 316.048 and 317.013 (Connection to federal personal and corporation taxable income)
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1984

	Corporation	Personal	Total
2001–03 Revenue Impact:	$100,000	$100,000	$200,000
2003–05 Revenue Impact:	$100,000	$100,000	$200,000

DESCRIPTION: Mine reclamation costs, which typically occur at the end of a mining project, are deductible from corporation and personal taxable income at the beginning of the project, thus allowing deduction of the expenses before they occur.

PURPOSE: To encourage mine reclamation activities and to compensate mining companies for the cost of reclamation.

WHO BENEFITS: Mining companies with reclamation costs. Oregonians also benefit greatly from the reclamation encouraged through this expenditure. The environmental and habitat benefits can be very large, although difficult to place exact values on.

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*.]

1.099 BAD DEBT RESERVES OF FINANCIAL INSTITUTIONS

Internal Revenue Code Sections: 585, 593, and 596
Oregon Statute: 317.013 (Connection to federal corporation taxable income)
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1947

	Corporation	Personal	Total
2001–03 Revenue Impact:	Less than $50,000	Not Applicable	Less than $50,000
2003–05 Revenue Impact:	$100,000	Not Applicable	$100,000

DESCRIPTION: Small banks (those with an average adjusted asset basis of up to $500 million) and savings and loans institutions can use a reserve method of accounting in calculating write-offs for bad debts. Under a reserve method, payments are made into a reserve account to cover bad debts expected to accrue in the future. These payments can be deducted from corporate taxable income. This differs from the technique used by large commercial banks, which can only write off bad debts at the time they become worthless. The effect of the reserve method is to allow future bad debts to be written off against current income. In effect, this defers taxes, lowering the effective tax rate on the financial institution. Credit unions also qualify because they are already eligible for the tax benefits stated in Title 26, Subtitle A, Chapter 1, Subchapter F, Part I, Section 501 of the Internal Revenue Code.

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

WHO BENEFITS: Small banks and savings and loans institutions.

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

1.100 SMALL LIFE INSURANCE COMPANIES

Internal Revenue Code Section: 806
Oregon Statute: 317.013 (Connection to federal corporation taxable income)
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1984

	Corporation	Personal	Total
2001–03 Revenue Impact:	Less than $50,000	Not Applicable	Less than $50,000
2003–05 Revenue Impact:	Less than $50,000	Not Applicable	Less than $50,000

DESCRIPTION: Life insurance companies with less than $500 million in assets and taxable income of less than $15 million are allowed a special deduction on their corporate income taxes. For taxable income less than $3 million, companies can deduct 60 percent of their corporate taxable income. The deduction is reduced by a further 15 percentage points for each additional $3 million of taxable income that exceeds $3 million, so the deduction falls to zero when taxable income reaches $15 million.

PURPOSE: To provide a benefit to small insurance companies in an industry dominated by very large companies.

WHO BENEFITS: Small life insurance companies with assets less than $500 million and taxable income of less than $15 million. Competitive pressures in the life insurance industry may cause the benefits to be passed on to policyholders in the form of lower premiums.

EVALUATION: This expenditure is generally effective in achieving its purpose. It may serve to help newer companies to become established and build up the reserves state law requires of insurance companies. Many of these newer companies are located in smaller communities where they become an integral part of the economic fiber. Without this tax law incentive to strengthen smaller life insurance companies, they could be taken over by the larger national companies.

However, there is a concern that inequities are created by this expenditure, since taxes on business income are based on the size of the business rather than profitability. It distorts the efficient allocation of resources, since it offers a cost advantage based on size and not economic performance. Nor does this tax reduction serve any simplification purpose, since it requires an additional set of computations and some complex rules to keep it from being abused. [*Evaluated by the Department of Consumer and Business Services*.]

1.101 UNPAID LOSS RESERVES

Internal Revenue Code Sections: 832(b)(5) and 846
Oregon Statute: 317.013 (Connection to federal corporation taxable income)
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1986

	Corporation	Personal	Total
2001–03 Revenue Impact:	$12,900,000	Not Applicable	$12,900,000
2003–05 Revenue Impact:	$13,300,000	Not Applicable	$13,300,000

DESCRIPTION: In calculating corporate taxable income, most businesses cannot deduct expenses until the company becomes liable for paying them. Property and casualty insurance companies, however, are allowed to deduct the estimated losses they expect to pay in the future, including claims in dispute. This allows them to deduct future expenses from current income and thereby defer tax liability.

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: Competitive pressures in the insurance industry could result in the benefits being passed on to policyholders 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 since the General Fund offsets excise taxes for guaranty fund assessments on surviving companies. [*Evaluated by the Department of Consumer and Business Services*.]

1.102 BLUE CROSS/BLUE SHIELD AND OTHER NONPROFITS

Internal Revenue Code Section: 833
Oregon Statute: 317.013 (Connection to federal corporation taxable income)
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1986

	Corporation	Personal	Total
2001–03 Revenue Impact:	Not Available*	Not Applicable	Not Available*
2003–05 Revenue Impact:	Not Available*	Not Applicable	Not Available*

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

DESCRIPTION: Blue Cross and Blue Shield health insurance companies in existence on August 16, 1986, and other nonprofit health insurers that meet strict community service standards are allowed a special deduction from corporate taxable income of up to 25 percent of the excess of the year's health-related claims over their accumulated surplus at the beginning of the year. These organizations are also allowed a full deduction for unearned premiums, unlike other property and casualty insurance companies. Accumulated surplus is defined in Section 833 of the Internal Revenue Code as the excess of total assets over total liabilities as shown on the annual statement.

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

WHO BENEFITS: Because of competitive pressures in the health insurance industry, the benefits of this provision probably accrue to policyholders.

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

1.103 MAGAZINE CIRCULATION EXPENDITURES

Internal Revenue Code Section: 173
Oregon Statute: 316.048 and 317.013 (Connections to federal personal and corporation taxable deductions)
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1950

	Corporation	Personal	Total
2001–03 Revenue Impact:	$100,000	$100,000	$200,000
2003–05 Revenue Impact:	$100,000	$100,000	$200,000

DESCRIPTION: Publishers of periodicals are permitted to deduct from corporation and personal taxable income expenditures to establish, maintain, or to increase circulation in the year that the expenditures are made. Normally, those expenses pertaining to establishing and developing circulation would have to be capitalized. The 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 by eliminating the problem of distinguishing between expenditures to maintain circulation and those to establish or develop circulation.

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*.]

1.104 NET OPERATING LOSS LIMITATION

Internal Revenue Code Section: 381(l)(5)
Oregon Statute: 317.013 (Connection to federal corporation taxable income)
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1954

	Corporation	Personal	Total
2001–03 Revenue Impact:	$2,200,000	Not Applicable	$2,200,000
2003–05 Revenue Impact:	$2,200,000	Not Applicable	$2,200,000

DESCRIPTION: Under federal tax law, when one corporation acquires another, the acquiring corporation inherits the tax situation of the acquired corporation, including net operating loss carryovers. Limitations are imposed, however, so that the acquiring corporation cannot write off losses faster than the acquired corporation would have. The limitations were imposed to prevent abuses. When the acquired corporation is in bankruptcy, however, the limitations do not apply. The favorable tax treatment in this departure from the limitations is a tax expenditure.

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

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

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

1.105 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
2001–03 Revenue Impact:	$900,000	$100,000	$1,000,000
2003–05 Revenue Impact:	$900,000	$100,000	$1,000,000

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 rather than the “percentage of completion” method. Under the “completed contract” method, income and costs pertaining to the contract are reported when the contract is completed; however, several 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.

According to the CRS, contractors prior to 1986 were less restricted on the use of the “completed contract method.” However, due to recognized abuses of the law, most notably by contractors with government agency contracts (where overall contract risk was low), the law was over a number of years restricted to now allow use of the method mostly for long-term home construction contracts. Other residential construction contracts (that are not for the building of dwelling units) may be partially accounted for under the “completed contract” method. Non-residential construction contracts can 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 match the tax liability related to a contract with the final determined income from the contract, when the profitability of such a contract was uncertain. This accounting method, according to the CRS, has been allowed under IRS regulations since 1918 on the basis that without knowing whether a contract would be profitable, any other accounting method would have been difficult to administer.

WHO BENEFITS: Residential construction contractors are the main beneficiaries, although some other contractors may benefit as well, but to a lesser extent.

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, who 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.

Since 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.*]

1.106 CASUALTY AND THEFT LOSSES

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

	Corporation	Personal	Total
2001–03 Revenue Impact:	Not Applicable	$1,400,000	$1,400,000
2003–05 Revenue Impact:	Not Applicable	$1,300,000	$1,300,000

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 1,100 taxpayers claimed $10.4 million in casualty and theft losses that were not covered by insurance in 2000. The average deduction was $9,100.

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.*]

1.107 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
2001–03 Revenue Impact:	$11,300,000	$206,400,000	$217,700,000
2003–05 Revenue Impact:	$13,400,000	$245,300,000	$258,700,000

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 1998, nearly 500,000 Oregonians took a deduction for charitable contributions worth a total of roughly $1,250 million, of which $981 million went to organizations that were not considered educational or health-related. The average total charitable deduction was $2,500.

EVALUATION: Not evaluated.

1.108 EXPATRIATE RESIDENTIAL STATUS

Oregon Statute: 316.027
Sunset Date: None
Year Enacted: 1999

	Corporation	Personal	Total
2001–03 Revenue Impact:	Not Applicable	$1,600,000	$1,600,000
2003–05 Revenue Impact:	Not Applicable	$1,600,000	$1,600,000

DESCRIPTION: Certain taxpayers who worked in foreign countries used to be taxed on income from all sources, because they considered Oregon their permanent home and planned to return. 1999 legislation allows these individuals to file as nonresidents in the year they departed and the year they returned to Oregon to live. For instance, someone who left or returned to Oregon in the middle of a year is now allowed to file as a part-year resident, thus being liable for Oregon income tax only on the income they earned while in the state. This allows for potential savings in personal income tax liability for such individuals.

It modifies the definition of "resident for personal income tax purposes" to exclude certain individuals present in foreign countries under IRC 911(d)(1) and is applicable to tax years beginning January 1, 1995, or to tax years for which a notice of deficiency may be issued on the effective date of the bill.

PURPOSE: This provision affords 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. It thus affords potential tax savings to such individuals, making them liable for Oregon income tax only on the income they earned while in the state and removing any income tax liability for income earned while abroad.

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 such companies, leading to easier recruitment and retention of hard-to-attract employees. [*Evaluated by the Department of Economic and Community Development*.]

1.109 INCOME AVERAGING FOR FARMERS

Oregon Statutes: 314.297
Sunset Date: None
Year Enacted: 2001 (HB 2554)

	Corporation	Personal	Total
2001-03 Revenue Impact	Not Applicable	$100,000	$100,000
2003-05 Revenue Impact	Not Applicable	$100,000	$100,000

DESCRIPTION: This permits personal income taxpayers to use the federal farm income averaging method to compute Oregon personal income taxes on farm income. This applies to tax years beginning on or after January 1, 2002.

PURPOSE: To allow the 1997 reintroduction of federal farm income averaging to pass through to Oregon taxable income.

WHO BENEFITS: Farmers with volatile farm incomes will be under less financial stress, enabling them to continue farming.

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]*

1.110 CAPITAL GAINS FROM FARM PROPERTY

Oregon Statutes: 318.020/317.063
Sunset Date: None
Year Enacted: 2001 (HB 2555)

	Corporation	Personal	Total
2001-03 Revenue Impact	Less than $50,000	Less than $50,000	Less than $100,000
2003-05 Revenue Impact	$100,000	$100,000	$200,000

DESCRIPTION: Reduces Oregon long-term personal and corporate income tax rates to 5 percent on assets liquidated that were previously used in qualified farming activities. Qualified sales must constitute a substantially complete termination of the taxpayer's agricultural business activity. This applies to tax years beginning on or after January 1, 2002.

PURPOSE: To lower the tax burden on farmers liquidating their farming businesses.

WHO BENEFITS: Retiring growers benefit by realizing more of their capitalized equity (retirement savings). The farm economy benefits from an orderly transfer of ownership to other growers.

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 simply 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 achieves the purpose of an orderly transfer of ownership with a better secured retirement for older farmers. *[Evaluated by the Department of Agriculture]*

1.111 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 (SB 426)

	Corporation	Personal	Total
2001–03 Revenue Impact:	Not Applicable	Less than $50,000	Less than $50,000
2003–05 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-sourced income. Prior to 2001, Oregon law followed federal law, which only exempted the income earned of nonresident federal employees working on the Columbia River dams. The 2001 Oregon law change followed a federal law change in 2000, which exempted the income of nonresidents working on ships in state-border waters. The law also broadened the exemption to include all nonresident dam workers, not just the federal employees working at the dams.

PURPOSE: To follow federal law and to treat federal dam contract workers in the same manner as the federal employees at those sites.

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 boats in state-border waters. [*Evaluated by the Department of Revenue*.]

1.112 LAND DONATED TO SCHOOLS

Oregon Statute: 316.852 and 317.488
Sunset Date: 12-31-07
Year Enacted: 1999

	Corporation	Personal	Total
2001–03 Revenue Impact:	Less Than $50,000	Less Than $50,000	Less Than $100,000
2003–05 Revenue Impact:	Less Than $50,000	Less Than $50,000	Less Than $100,000

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 non-profit private school, or a public or non-profit 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 subtraction in a given tax year cannot exceed 50 percent of the taxpayer's taxable income in that year. When the land is sold the subtraction cannot exceed 25 percent of the taxpayer's taxable 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. 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. The federal deduction is described in Charitable Contributions: Education (1.066).

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

WHO BENEFITS: Taxpayers disposing of land to educational institutions receive the main benefit. Those who donate rather than sell their property receive the most benefit, since property sold at below market price may not be deducted as quickly as donated property. Donated property may be deducted at a faster rate for Oregon taxes than for federal taxes.

EVALUATION: The Oregon Department of Education has no data at this time with which to evaluate this tax expenditure since the measure recently took effect in January 2000. [*Evaluated by the Department of Education*.]

1.113 OREGON QUALIFIED TUITION SAVINGS PROGRAM

Oregon Statute: 348.844 and note after 316.680
Sunset Date: None
Year Enacted: 1999, modified in 2001 (HB2124, HB 2125, and HB 3080)

	Corporation	Personal	Total
2001–03 Revenue Impact:	Not Applicable	$4,700,000	$4,700,000
2003–05 Revenue Impact:	Not Applicable	$9,700,000	$9,700,000

DESCRIPTION: Individuals may establish tax-deferred and tax-exempt college savings accounts through the Oregon Qualified Tuition Savings Program for the purpose of paying education-related expenses to 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 Qualified Tuition Savings Board. This program meets the specifications of a state-administered federal Qualified Tuition Program (QTP), and thereby passes the federal exclusion of earnings income through to Oregon. The revenue impact and description of the federal tax benefits are detailed in Qualified Tuition Programs (Federal) (1.004).

In addition to the federal tax benefits, Oregon taxpayers may also subtract from federal taxable income up to $2,000 per year ($1,000 if married filing separately) for contributions made to these Oregon-administered accounts. Non-qualifying distributions are added into federal taxable income for Oregon purposes but only to the extent of the first $2,000 distributed or the amount of contributions made in the year preceding the distribution, whichever is less. The revenue impact above includes only the impacts of the state-allowed subtraction for contributions and the state limit on the amount of non-qualifying distributions that would be added back to taxable income.

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

WHO BENEFITS: Oregon residents are able to defer and eventually avoid tax on earnings of these accounts, and therefore may accumulate savings more quickly for future higher education expenses. In 2001, roughly 6,200 contributors established accounts with a total balance of $33.4 million in assets. By the end of June 2002, the program had expanded to approximately 10,200 contributors and $62.8 million in assets, a participation increase of 65 percent and an 88 percent increase in assets. Almost all of the contributors were from within Oregon and roughly 80 percent of them claimed to have household incomes between $40,000 and $250,000.

EVALUATION: It is too early to determine if this tax expenditure achieves its purpose. [*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
2001–03 Revenue Impact:	Not Applicable	Less than $50,000	Less than $50,000
2003–05 Revenue Impact:	Not Applicable	Less than $50,000	Less than $50,000

DESCRIPTION: There is a federal exclusion, Scholarship and Fellowship Income (1.001), for income received from scholarships and fellowships to the extent that the awards cover tuition and course-related expenses only. This Oregon subtraction extends this non-taxable treatment of scholarship awards to the extent they are used for housing expenses. The scholarship recipient must be either the taxpayer or a dependent of the taxpayer and must be attending an accredited community college, college, university, or other institution of higher education. Scholarships for housing during grades K-12 may not be subtracted. 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. The subtraction applies to tax years beginning on or after January 1, 2000.

PURPOSE: To help students meet the financial challenges of attending college.

WHO BENEFITS: Individuals receiving scholarship or fellowship income to pay for housing expenses.

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

1.115 INDIVIDUAL DEVELOPMENT ACCOUNTS

Oregon Statute: 316.848
Sunset Date: None
Year Enacted: 1999, modified in 2001 (HB 3391)

	Corporation	Personal	Total
2001–03 Revenue Impact:	Not Applicable	Less than $50,000	Less than $50,000
2003–05 Revenue Impact:	Not Applicable	Less than $50,000	Less than $50,000

DESCRIPTION: Contributions, matching deposits (from fiduciary organizations), and account earnings of individual development accounts (IDAs) for low-income households are exempt from state income tax if funds are withdrawn for approved purposes. Contributions to the accounts by the account holder are subtracted from federal taxable income of the account holder as they are made, and the matching deposits and account earnings are exempt from taxation until withdrawn. If withdrawals from the account are for a qualified purpose, the entire withdrawal is exempt from taxation. Low-income households are defined as those having a net worth less than $20,000 and income no greater than 80 percent of the area median household income as determined by the U.S. Dept. of Housing and Urban Development.

The Oregon Housing and Community Services Department (OHCS) administers the program and selects fiduciary organizations to manage the IDAs. These fiduciary organizations may establish lower thresholds for income and net worth of account holders than prescribed by statute. Approved purposes for which withdrawals may be made include: acquiring post-secondary education, the first-time purchase of a primary residence, and capitalization of a small business. An account may not exceed $20,000.

As of January 2002, accounts may be rolled over into qualified tuition savings program accounts. See Oregon Qualified Tuition Savings Program (1.113) for more on these accounts.

A companion expenditure, Individual Development Accounts (Credit) (1.141), provides a credit for individuals or businesses that make contributions to fiduciary organizations to support IDA programs.

PURPOSE: To help lower income Oregonians obtain the assets needed to become economically self-reliant by instituting an asset-based antipoverty strategy that promotes improved personal financial management and savings and the accumulation of key assets.

WHO BENEFITS: Lower income households benefit from the existence of these accounts. In the past five years, more than 300 accounts have been established using a variety of private and federal grant funds.

EVALUATION: The $250,000 exemption was not utilized during the 1999–01 biennium and is not likely to be fully utilized during the 2001–03 biennium for two reasons. 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. Also, this initiative is only now getting under way. Credit provisions in the 1999 legislation proved unworkable and required amendment in the 2001 Legislative session. Those provisions are now being instituted with greater success; however, the full impact of the account holders’ exemption is not expected until probably 2004, when the greatest number of active account holders are anticipated for a given year of funding. [*Evaluated by the Housing and Community Services Department*.]

1.116 JOBS PLUS PARTICIPANTS

Oregon Statute: 316.680(1)(e)
Sunset Date: None
Year Enacted: 1995

	Corporation	Personal	Total
2001–03 Revenue Impact:	Not Applicable	Less than $50,000	Less than $50,000
2003–05 Revenue Impact:	Not Applicable	Less than $50,000	Less than $50,000

DESCRIPTION: Participants in the JOBS Plus program are allowed a subtraction from personal taxable income for certain payments received from the program. The JOBS Plus program places individuals who receive public assistance payments in jobs in the private or public sector. As part of the program, the amount of public assistance received by the individual is reduced. If the wages the participants earn in their jobs are less than the equivalent value of the public assistance they formerly received, the Department of Human Resources makes supplemental payments to the participants to bring their total compensation up to the level they received while on public assistance. These supplemental payments are not included in Oregon personal taxable income.

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

WHO BENEFITS: On average in 2000, the program involved roughly 1,200 employers and 1,400 clients per month statewide. In the vast majority of cases, the wages earned by the clients were greater than their compensation through public assistance. Consequently, few participants benefit from this tax expenditure.

EVALUATION: This tax expenditure achieved its purpose during the initial phase of the JOBS Plus program and appears to continue doing so as the program expands statewide. Families receiving public assistance benefits are living below the poverty level and, as a result, are incurring debts beyond their ability to pay or are deferring necessary expenses until they can find a family wage job and become self-sufficient. The supplemental amounts provided through this program are only intended to bring a family's income up to the total they were receiving from welfare and food stamps. As in the case with Public Assistance Benefits (1.005), it would be counterproductive to add these supplements to their taxable income, thereby reducing their ability to overcome the effects of poverty.

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

1.117 MEDICAL SAVINGS ACCOUNTS (OREGON)

Oregon Statute: 316.743
Sunset Date: None
Year Enacted: 1997, repealed in 2001 (HB 2272)

	Corporation	Personal	Total
2001–03 Revenue Impact:	Not Applicable	Less than $50,000	Less than $50,000
2003–05 Revenue Impact:	Not Applicable	$0	$0

DESCRIPTION: This tax expenditure is an extension of the federal deduction for Medical Savings Accounts (Federal)(1.071), which is limited to 750,000 participants. This subtraction ensures that certain Oregonians who are unable to participate in the federal program will at least receive a tax break at the state level.

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

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

For those participating in the federal program, the contributions are not included in federal personal taxable income, and hence are not included in Oregon personal taxable income. The estimated tax benefit for federal participants is shown in Medical Savings Accounts (Federal) (1.071). For non-participants of the federal program, the contributions are taxed at the federal level. Therefore, they must be subtracted from federal personal taxable income when calculating Oregon personal taxable income. The provision became effective January 1, 1998.

Due to minimal usage, the 2001 Legislature repealed this provision.

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

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

EVALUATION: 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 MSAs will be attractive to higher income individuals with favorable health status profiles since time is necessary to accumulate enough savings to cover non-catastrophic expenses associated with preventive and chronic health care services. This tax policy treats MSAs, a recent innovation in health care benefits, on an equitable basis with other models of health benefits available to employers and the self-employed. [*Evaluated by Oregon Health Plan Policy & Research*.]

1.118 PHYSICIANS IN "MEDICALLY DISADVANTAGED" AREAS

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

	Corporation	Personal	Total
2001–03 Revenue Impact:	Not Applicable	$0	$0
2003–05 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: Because this provision applies to a select number of physicians (those licensed in an eight-year period between 1974 and 1982) and is not well publicized, there are currently no participants. Consequently, this program should either be repealed or updated by amendment during the next legislative session. [*Evaluated by the Office of Rural Health.*]

1.119 ADDITIONAL DEDUCTION FOR ELDERLY OR BLIND

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

	Corporation	Personal	Total
2001–03 Revenue Impact:	Not Applicable	$10,800,000	$10,800,000
2003–05 Revenue Impact:	Not Applicable	$8,700,000	$8,700,000

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 (e.g., the amount is $2,400 if the taxpayer is age 65 or over and blind). For all other filers, the amount is $1,000 per qualifying condition. This tax expenditure does not benefit taxpayers who itemize deductions because they do not use the standard deduction.

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

WHO BENEFITS: The number of individuals who benefit from the additional deduction due to age has declined from 176,000 in 1990 to 99,000 in 2000. The number of Oregon taxpayers age 65 or over has increased from approximately 259,000 in 1990 to 286,000 in 2000. However, the percentage of these taxpayers who claim the standard deduction, and hence qualify for this additional deduction, has fallen from 68 percent in 1990 to 35 percent in 2000. Because more elderly taxpayers are itemizing deductions, fewer are able to make use of this subtraction.

The number of taxpayers who benefit from the additional deduction due to blindness has decreased between 1990 and 2000 from over 3,000 to just over 2,500. The number of blind Oregon taxpayers has risen from approximately 4,000 in 1990 to nearly 5,500 in 1998. Of these, the percentage who claim the standard deduction, and hence qualify for the additional deduction, has fallen from 76 percent in 1990 to 46 percent in 2000. Because more blind taxpayers are itemizing deductions, fewer are able to make use of this subtraction.

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

1.120 ADDITIONAL MEDICAL DEDUCTION FOR ELDERLY

Oregon Statute: 316.695(1)(d)(B)
Sunset Date: None
Year Enacted: 1991

	Corporation	Personal	Total
2001–03 Revenue Impact:	Not Applicable	$64,300,000	$64,300,000
2003–05 Revenue Impact:	Not Applicable	$72,200,000	$72,200,000

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 (1.069)). This tax expenditure extends that non-taxable 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 approximately 152,500 in 2000. The average additional medical deduction amount has risen from roughly $1,800 in 1991 to $2,600 in 2000. The table below shows the tax year 2000 usage of this subtraction for each of the five income quintiles.

Income Group (Quintiles)	Taxpayers		Mean Deduction
	Number	Percent	
Below $10,000	12,993	8.5%	$550
$10,000 - $22,000	35,575	23.3%	$1,164
$22,000 - $37,000	30,386	19.9%	$1,992
$37,000 - $63,000	32,703	21.4%	$3,013
Above $63,000	40,816	26.8%	$4,745
Total	152,473	100.0%	$2,632

EVALUATION: This tax expenditure achieves its purpose and has similar benefits to the Additional Deduction for Elderly or Blind (1.119) in that it supports self-sufficiency and independence. This tax expenditure creates more disposable income for the affected individuals. Elderly people are more likely to have a greater percentage of their income devoted to medical and dental care. This deduction is an important element of financial assistance for these individuals and helps them avoid reliance on other state services. [*Evaluated by the Seniors and People with Disabilities Cluster*.]

1.121 SOCIAL SECURITY BENEFITS (OREGON)

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

	Corporation	Personal	Total
2001–03 Revenue Impact:	Not Applicable	$220,300,000	$220,300,000
2003–05 Revenue Impact:	Not Applicable	$249,500,000	$249,500,000

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. Consequently, there are two tax expenditures. This tax expenditure pertains to those benefits that are exempt only in Oregon (i.e., they are taxable at the federal level). The tax expenditure pertaining to those benefits that are exempt at both the federal level and in Oregon is Social Security Benefits (Federal) (1.015).

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

WHO BENEFITS: The number of Oregon taxpayers who benefit from the subtraction has risen consistently from 62,100 in 1990 to 133,000 in 2000. The average subtraction grew from $3,800 in 1990 to $8,300 in 2000. When the maximum federally taxable percentage increased in 1994 from 50 to 85 percent, the average subtraction amount jumped by 50 percent to $6,500.

Income Group (Quintiles)	Taxpayers		Mean Subtraction
	Number	Percent	
Below $10,000	387	.3%	$4,182
$10,000 - $22,000	4,464	3.4%	$1,476
$22,000 - $37,000	37,395	28.1%	$2,777
$37,000 - $63,000	43,552	32.7%	$8,313
Above $63,000	47,206	35.5%	$13,350
Total	133,004	100.0%	$8,303

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 Seniors and People with Disabilities Cluster*.]

1.122 DONATIONS OF ART BY THE ARTIST

Oregon Statute: 316.838
Sunset Date: None
Year Enacted: 1979

	Corporation	Personal	Total
2001–03 Revenue Impact:	Not Applicable	Less than $50,000	Less than $50,000
2003–05 Revenue Impact:	Not Applicable	Less than $50,000	Less than $50,000

DESCRIPTION: Under Chapter 170 of the Federal Internal Revenue Code, artists can deduct charitable contributions of their work only to the extent of the costs of materials in producing the art. 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, whether or not warranted by the art. [*Evaluated by the Economic and Community Development Department*.]

1.123 CAPITAL GAINS FROM OREGON REINVESTMENT

Oregon Statute: 316.874
Sunset Date: 12-31-99
Year Enacted: 1995

	Corporation	Personal	Total
2001–03 Revenue Impact:	Not Applicable	$0	$0
2003–05 Revenue Impact:	Not Applicable	$0	$0

DESCRIPTION: Under this expenditure personal income tax on certain capital gains could be deferred if the gain was reinvested under qualified conditions. This provision required that reinvestments of such gain were made by December 31, 1999.

Deferrals were limited to gains on assets used in a trade or business of the taxpayer or gain from the sale of expansion shares of qualified Oregon businesses. In order to defer the gain, the taxpayer must have reinvested the sale proceeds in either a qualified Oregon business, a qualified investment fund, or in qualified business assets. Reinvestments in financial and certain professional service businesses, real estate, and investment type businesses were excluded.

The taxpayer had six months to make a qualified reinvestment of gain. The deferral period ended and tax payment was required if any of the following occurred:

- The business, investment fund, or asset ceased to qualify;
- The business discontinued operation;
- 50 percent or more of business capital assets were withdrawn; or
- The business was sold and the proceeds were not reinvested in another qualified reinvestment within six months.

This provision went into effect January 1, 1997. Taxes on capital gains realized on or after this date were eligible for deferral. Reinvestment of sale proceeds must have been made by December 31, 1999.

PURPOSE: To promote investment in Oregon companies and to prevent the movement of capital out of Oregon to avoid Oregon income tax on capital gains. As capital gains are reinvested in qualified businesses, these businesses would be expected to grow and create employment opportunities for Oregon residents.

WHO BENEFITS: Investors who sold business assets and reinvested the proceeds in an Oregon company were the direct beneficiaries. In each of the tax years 1996 and 1997, fewer than 50 taxpayers used this expenditure. In 1996 the amount of capital gains income deferred was about $7.3 million. This amount fell to $1.4 million in 1997.

EVALUATION: This program has had limited impact on reinvestment in Oregon due to several flaws. Given Oregon's high marginal tax rates on personal income, the issue is paramount to investors in upstart companies in Oregon who need equity investors. [*Evaluated by the Economic and Community Development Department*.]

1.124 MUNICIPAL BOND INTEREST

Oregon Statute: 316.056
Sunset Date: None
Year Enacted: 1987

	Corporation	Personal	Total
2001–03 Revenue Impact:	Not Applicable	$6,400,000	$6,400,000
2003–05 Revenue Impact:	Not Applicable	$6,400,000	$6,400,000

DESCRIPTION: Bonds issued by Oregon state and local governments that are included in gross income for federal tax purposes 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.

The majority of the time federally taxable debt is issued to avoid the restrictive tax covenants imposed by the IRS for tax-exempt bonds. Taxable debt is also issued to avoid having to use the federal allotted private activity volume cap.

Some of these taxable bond issues include non-qualified private activity bonds, which are bonds primarily issued by local governments and used to finance private developments. There are two types of local private activity bonds: 1) qualified bonds, which are exempt from federal income tax, and 2) non-qualified bonds, which are taxed at the federal level. With non-qualified private activity bonds, a substantial portion of the bond benefits accrue to individuals or businesses rather than to the general public. Interest on these non-qualified private activity bonds is taxed at the federal level, but Oregon allows that income to be subtracted from Oregon personal taxable income.

By way of contrast, interest earned on qualified private activity bonds is exempt at the federal level and hence in Oregon because of our connection to federal code—see Interest on Oregon State and Local Debt (1.055).

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 such bonds benefit from the tax-free income. The state of Oregon and local governments, whose costs of borrowing are reduced, also benefit. Those individuals or businesses financing projects using non-qualified private activity bonds also benefit because their cost of borrowing is reduced.

As of June 30, 2002, about $1.6 billion of federally taxable bonds issued by Oregon state and local governments were outstanding.

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 the 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*.]

1.125 OUT-OF-STATE FINANCIAL INSTITUTION

Oregon Statute: 317.057
Sunset Date: None
Year Enacted: 1999

	Corporation	Personal	Total
2001–03 Revenue Impact:	Not Available	Not Applicable	Not Available
2003–05 Revenue Impact:	Not Available	Not Applicable	Not Available

DESCRIPTION: This exclusion specifies that certain out-of-state financial institutions may engage in mortgage activities in Oregon without being subject to certain tax and corporation laws. These out-of-state financial institutions are required to designate the Director of the Department of Consumer and Business Services (DCBS) as attorney for purposes of service of process.

The 1997 Legislative Assembly had revised the Oregon Bank Act, but in doing so, had inadvertently left out a couple provisions of law, which resulted in a change in the definition of which activities are taxable by Oregon. These provisions were added back into law through 1999 SB 26. As before 1997, the acquiring of an Oregon mortgage loan will not subject the out-of-state or foreign lender to Oregon taxation. However, if the financial institution forecloses a loan and then sells or otherwise disposes of the property, the income associated with that property will be taxed to the same extent an Oregon corporation would be taxed. In addition, as was the case under the pre-1997 law, a foreign entity may acquire mortgage loans without authorization to transact business under ORS Chapter 60 (Corporations), they will still be required to appoint the DCBS director as agent for service of process and pay a $200 annual licensing fee.

PURPOSE: To reinstate the tax status of out-of-state financial institutions to the pre-1997 conditions.

WHO BENEFITS: Four out-of-state financial institutions are currently registered with DCBS. Indirect beneficiaries could include Oregon residents who have mortgages acquired by such out-of-state banks.

EVALUATION: Insufficient information to evaluate this new tax expenditure at this time. [*Evaluated by the Department of Housing and Community Services*.]

1.126 SERVICE IN VIETNAM ON MISSING STATUS

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

	Corporation	Personal	Total
2001–03 Revenue Impact:	Not Applicable	$0	$0
2003–05 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 OIL HEAT TANK CLEANUP COSTS

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

	Corporation	Personal	Total
2001–03 Revenue Impact:	Not Applicable	$0	$0
2003–05 Revenue Impact:	Not Applicable	$0	$0

DESCRIPTION: This program was abolished by the 1999 Legislature (SB 542) and was never implemented with funds collected from heating oil distributors. Payments by the Oil Heat

Commission to reimburse persons who incur costs for environmental cleanup of heating oil tank releases would have not been included in Oregon personal taxable income. Prior to abolishment and while waiting to see if the Oil Heat Commission would collect the fees from distributors, the Department of Environmental Quality (DEQ) received a grant from the federal government to implement a small portion of the program.

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

Through a federal grant administered by the Department of Energy, DEQ made pass-through grants to home owners to decommission their underground heating oil tank if they met federal criteria. Energy (oil) was conserved through the removal and recycling of oil from decommissioned tanks. DEQ made 191 grants between January 1 and June 30, 1999, to eligible recipients with annual income levels of $35,000 or less. These grants did not include reimbursement for any cleanup costs, as was previously covered by the program administered by the Oil Heat Commission. The grants were fully taxable.

PURPOSE: To comply with federal Internal Revenue Service requirements. The funds passed on to Oregon homeowners were federal funds for a program to provide energy-related grants for projects designed to conserve energy.

WHO BENEFITS: This credit has not been utilized.

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

Given the current lack of funds to finance clean-up grants, this expenditure has no effect. [*Evaluated by the Department of Environmental Quality*.]

1.128 UNDERGROUND STORAGE TANK GRANTS

Oregon Statutes: 316.834 and 317.383
Sunset Date: The tax law provision has no sunset date, but the grant program sunset December 31, 1999.
Year Enacted: 1991

	Corporation	Personal	Total
2001–03 Revenue Impact:	$0	$0	$0
2003–05 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 receiving 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 must 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 has been very effective in achieving its purpose. The tax benefit received by the grantee preserves the benefit of the grant program by the amount of the tax savings. Grantees are required to pay at least 25 percent of the project costs and would be 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*.]

1.129 ENERGY CONSERVATION SUBSIDIES (OREGON)

Oregon Statutes: 316.744 and 317.386
Sunset Date: None
Year Enacted: 1981

	Corporation	Personal	Total
2001–03 Revenue Impact:	Less than $50,000	$200,000	$200,000
2003–05 Revenue Impact:	Less than $50,000	$200,000	$200,000

DESCRIPTION: Income subsidies provided by utilities for the purchase or installation of an energy conservation device can be excluded from corporation and personal taxable income. A similar federal law treats these payments as exempt for residential energy customers only (Energy Conservation Subsidies (Federal) (1.041).

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

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

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 in recent years as utilities reduce their conservation programs. [*Evaluated by the Office of Energy*.]

1.130 WET MARINE AND TRANSPORTATION POLICIES (INCOME TAX)

Oregon Statute: 317.080(6)
Sunset Date: None
Year Enacted: 1995

	Corporation	Personal	Total
2001–03 Revenue Impact:	$400,000	Not Applicable	$400,000
2003–05 Revenue Impact:	$400,000	Not Applicable	$400,000

DESCRIPTION: Ocean marine insurers are exempt from the corporation income 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 is estimated as follows, by year:

1999: $17.6 million
2000: $17.4 million
2001: $17.7 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.

This expenditure became effective January 1, 1997. Prior to that date, these insurers were exempt from the gross premium tax as reported in Wet Marine and Transportation Policies (Gross Premium) (5.002).

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: For calendar year 2001, ocean marine insurers paid about $50,000 of in lieu tax based on underwriting profits from writing wet marine and transportation insurance. This in lieu tax continues even after the full phase out of the gross premium tax.

EVALUATION: Not evaluated.

1.131 INCOME EARNED IN "INDIAN COUNTRY"

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

	Corporation	Personal	Total
2001–03 Revenue Impact:	Not Applicable	$2,500,000	$2,500,000
2003–05 Revenue Impact:	Not Applicable	$2,900,000	$2,900,000

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

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

WHO BENEFITS: Tribal members who earn income in Indian country. About 750 Oregon residents benefited in 2000. Slightly over $17 million was excluded. The average tax benefit was about $1,550 per claimant.

EVALUATION: Not evaluated.

1.132 FEDERAL PENSION INCOME

Oregon Statute: 316.680(1)(f) and note after 314.415.
Sunset Date: None
Year Enacted: 1998

	Corporation	Personal	Total
2001–03 Revenue Impact:	Not Applicable	$220,000,000*	$220,000,000*
2003–05 Revenue Impact:	Not Applicable	$130,400,000	$130,400,000

** Revenue impact includes $104 million in refunds paid to taxpayers for taxes collected for tax years 1991 to 1997.*

DESCRIPTION: In June 1998 the Oregon Supreme Court ruled that Oregon was illegally taxing federal pension income (*Vogl v. Dept. of Revenue*). The Court ruled that personal income taxes paid to Oregon on federal pension income for tax years 1991 through 1997 were to be refunded to taxpayers during the 1997–99 biennium. Beginning on July 1, 2001, the law allowed refunds to taxpayers who had not filed protective claims. This "opened up" previously closed years and allowed a greater number of taxpayers to receive refunds. Starting with tax year 1998, federal pension income attributable to service prior to October 1, 1991, is to be subtracted from federal taxable income to arrive at Oregon taxable income.

This court decision was the latest in a series of court decisions and legislative responses that goes back to 1989 when the U.S. Supreme Court ruled that federal pension income could not be taxed differently from state and local pension income (*Davis v. Michigan Dept. of Treasury*). In response, the 1991 Legislature passed a bill that allowed taxation of all pension income, but instituted a credit of up to 9 percent of the pension income (Retirement Income (1.191)). But in 1992, the Oregon Supreme Court ruled that taxing PERS state and local pensions was a breach of past contract. The 1995 Legislature addressed that issue by increasing PERS pension benefits to certain members to compensate for having the pension taxed. In response, the Oregon Supreme Court ruled that this system of taxing still constitutes illegal tax discrimination between PERS retirees and federal retirees.

In summary, 1998 legislation modified the provisions of this expenditure by authorizing payments of refunds back to 1991 and to decedents; authorized refund of personal income tax imposed on federal pension income before October 1, 1991; and excluded federal pension income tax refunds from federal adjusted gross income for purposes of eligibility under the Oregon senior citizen property tax deferral program.

PURPOSE: To comply with court ruling.

WHO BENEFITS: In 2000, just under 37,500 taxpayers claimed an average subtraction of about $19,200.

Income Group (Quintiles)	Taxpayers		Mean Subtraction
	Number	Percent	
Below $10,000	1,258	3.4%	$7,193
$10,000 - $22,000	7,145	19.1%	$11,954
$22,000 - $37,000	9,069	24.2%	$17,278
$37,000 - $63,000	10,509	28.0%	$21,563
Above $63,000	9,511	25.4%	$25,319
Total	37,492	100.0%	$19,166

**Does not total 100 percent due to rounding.*

EVALUATION: Not evaluated.

1.133 OREGON STATE LOTTERY PRIZES

Oregon Statute: 461.560
Sunset Date: None
Year Enacted: 1985

	Corporation	Personal	Total
2001–03 Revenue Impact:	Not Applicable	$46,300,000	$46,300,000
2003–05 Revenue Impact:	Not Applicable	$44,100,000	$44,100,000

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

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

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

EVALUATION: This tax expenditure achieves its purpose and helps support the statutory purpose of the Lottery: to generate revenue for the public purpose without the imposition of additional or increased taxes. Eliminating this tax expenditure would be a major disincentive to players and would place a huge burden on Lottery retailers. Approximately 83 percent of all traditional game Lottery prizes won and 100 percent of all Video Lottery game prizes won are $600 or less, and payable at Lottery retailers (3,300 statewide). Consequently, the burden placed on the player to provide and the retailer to collect tax reporting information for every prize won and paid would be immense. It stands to reason that many retailers would discontinue carrying Lottery products and many consumers would no longer play games if the tax exemption on prizes of $600 or less were eliminated, thereby drastically reducing sales and state revenues. [*Evaluated by the State Lottery*.]

1.134 FEDERAL INCOME TAX DEDUCTION

Oregon Statutes: 316.680 and 316.695
Sunset Date: None
Year Enacted: 1929; modified in 2000 (Measure 88); modified in 2001 (HB 2550); modified in 2002 (HB 4054)

	Corporation	Personal	Total
2001–03 Revenue Impact:	Not Applicable	$482,300,000	$482,300,000
2003–05 Revenue Impact:	Not Applicable	$597,700,000	$597,700,000

DESCRIPTION: Prior to 2002, taxpayers were allowed to deduct up to $3,000 of federal income taxes paid or accrued from Oregon personal taxable income (up to $1,500 for spouses filing their Oregon tax returns separately). In November 2000, voters passed Measure 88, which increased the limit from $3,000 to $5,000. The new limit was to be effective for tax years beginning on or after January 1, 2002. For tax years beginning on or after January 1, 2003, the $5,000 threshold was to be indexed to inflation. However, during the Third Special Session of 2002, the Legislature modified this subtraction by phasing in the limit between 2002 and 2007. For 2002, the limit is $3,250 ($1,625 for spouses filing their returns separately). For tax year 2003 through 2007, the limit is as follows: $3,500; $4,000; $4,500; $5,000; $5,500. The limit is half this amount for spouses filing their returns separately.

Under HR 1836, the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA), taxpayers received advanced refund checks in the summer of 2001 and are allowed an additional federal credit as a result of the new federal 10 percent tax bracket. Because federal income taxes are reduced, the federal income tax subtraction would be reduced, resulting in greater Oregon tax liability. The 2001 Legislature passed HB 2550, which allows taxpayers to ignore the advanced refund check and credit when computing their federal tax subtraction for 2001.

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: Each year since 1990, approximately 75 percent of Oregon taxpayers have claimed a subtraction for federal income taxes paid. The average amount of the subtraction in 2000 was $2,200. The percentage of Oregon taxpayers claiming the maximum amount of $3,000 ($1,500 if married filing separately) has risen slightly from 27.7 percent in 1990 to 36 percent in 2000.

Income Group (Quintiles)	Taxpayers		Mean Subtraction
	Number	Percent	
Below $10,000	89,079	8.0%	$275
$10,000 - $22,000	197,933	17.8%	$1,020
$22,000 - $37,000	258,506	23.2%	$2,156
$37,000 - $63,000	281,003	25.3%	$2,771
Above $63,000	286,353	25.7%	$2,978
Total	1,112,874	100.0%	$2,170

EVALUATION: This provision achieves its purpose. Because the deduction is limited, it reduces Oregon taxes proportionally more for lower income taxpayers. [*Evaluated by the Department of Revenue*.]

1.135 MILITARY ACTIVE DUTY PAY

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

	Corporation	Personal	Total
2001–03 Revenue Impact:	Not Applicable	$7,500,000	$7,500,000
2003–05 Revenue Impact:	Not Applicable	$8,300,000	$8,300,000

DESCRIPTION: Taxpayers may subtract all active duty pay from Oregon personal taxable income in the year of entry or discharge from military service. In other years, taxpayers may subtract up to $3,000 of active duty pay. In addition, all active duty military pay earned outside Oregon from August 1, 1990, to the end of “combatant activities” in the Persian Gulf can be subtracted from taxable income. As of July, 2002, the president had not declared an end to combatant activities in the Persian Gulf.

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

WHO BENEFITS: Roughly 6,800 Oregon taxpayers claimed an average subtraction of $5,100 in 1998. One group that claims this subtraction is Oregon National Guard members who receive active duty pay while attending military schools to fulfill education requirements for retention and/or promotion. This subtraction also benefits Active Guard Reserve members.

EVALUATION: This tax expenditure achieves its purpose and is a valuable benefit to members of the Oregon National Guard, both Army and Air, as well as other military personnel. Although the subtraction per tax return is not a great deal of money, it is the only incentive the state of Oregon offers its citizen soldiers that is comparable to those offered in other states. When talking with prospective recruits or soldiers contemplating re-enlistment, the subject of state incentives frequently arises. There is merit in offering benefits that are comparable to those of other states; examples of these benefits include free tuition to state colleges and universities, re-enlistment 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
2001–03 Revenue Impact:	Not Applicable	$44,900,000	$44,900,000
2003–05 Revenue Impact:	Not Applicable	$46,700,000	$46,700,000

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 GNMA and FNMA, because their bonds are not direct obligations of the U.S. government.

PURPOSE: To comply with federal law. Federal law prohibits states from taxing interest and dividends on U.S. government obligations.

WHO BENEFITS: Because financial markets valuations compensate for the tax status of the interest and dividends on financial instruments, the beneficiary is the U.S. government, which can borrow at lower rates than would be the case if these instruments were taxable. Approximately 5.7 percent of Oregon taxpayers (approximately 108,500) claimed this subtraction for interest and dividends from U.S. government obligations in 2000. The pre-tax average income from these investments was about $2,500.

Income Group (Quintiles)	Taxpayers		Mean Subtraction
	Number	Percent	
Below $10,000	11,845	10.9%	$795
$10,000 - $22,000	14,283	13.2%	$1,479
$22,000 - $37,000	15,363	14.2%	$1,961
$37,000 - $63,000	22,709	20.9%	$2,303
Above $63,000	44,339	40.9%	$4,344
Total	108,539	100.0%	$2,815

EVALUATION: Not evaluated.

1.137 CHILD DEVELOPMENT PROGRAM CONTRIBUTIONS

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

	Corporation	Personal	Total
2001–03 Revenue Impact:	Less than $50,000	Less than $50,000	Less than $50,000
2003–05 Revenue Impact:	$0	$0	$0

DESCRIPTION: A credit against corporation or personal income taxes was allowed for contributions made to school district child development or student-parent programs approved by the state Department of Education. The contributions must have been made on or before December 31, 2001. Child development programs consist of both an education and day care component; student-parent programs provide day care and education to the children of students while providing education for the student-parents. There are limits of 20 child development programs and 20 student-parent programs for the state. The credit equaled 50 percent of the contribution, but could not exceed $5,000 for each program location. The taxpayer was required to reduce the amount of any deduction taken for charitable contributions by the amount of any credit received. The credit was non-refundable and could not be carried forward to future tax years.

The revenue impact amounts go to zero in the 2003–05 biennium as a result of the sunset of the program.

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

WHO BENEFITS: Taxpayers who made contributions to child development or student-parent programs as well as the school districts. There were 10 school districts that had approved programs and received contributions between January 1998 and June 2000.

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

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

1.138 YOUTH APPRENTICESHIP SPONSORSHIP

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

	Corporation	Personal	Total
2001–03 Revenue Impact:	$0	$0	$0
2003–05 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 that 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*.]

1.139 CONTRIBUTIONS OF COMPUTER EQUIPMENT

Oregon Statute: 317.151
Sunset Date: 12-31-03
Year Enacted: 1985

	Corporation	Personal	Total
2001–03 Revenue Impact:	$100,000	Not Applicable	$100,000
2003–05 Revenue Impact:	$100,000	Not Applicable	$100,000

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

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

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

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

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

1.140 EMPLOYER PROVIDED SCHOLARSHIPS

Oregon Statute: 315.237
Sunset Date: None
Year Enacted: 2001 (HB 2521)

	Corporation	Personal	Total
2001–03 Revenue Impact:	Less than $50,000	Less than $50,000	Less than $50,000
2003–05 Revenue Impact:	$100,000	$100,000	$200,000

DESCRIPTION: Qualifying employers may claim a credit against their income tax for 50 percent of the amount of scholarships funded for their employees or their employees' dependents, with a maximum credit of $50,000 per tax year. If the credit exceeds the employer's tax liability, the excess may be carried forward up to five years. To qualify, employers must have between four and 250 employees and have their scholarship program and credit amount certified by the Oregon Student Assistance Commission. There is a $1 million cap on the total amount of credits that can be certified by the commission per calendar year, and the total lifetime amount of credits an employer may claim is limited to $1 million. The credit is available beginning in the 2002 tax year.

PURPOSE: To encourage businesses to fund a greater share of the education costs of their employees using a program they can tailor to their specific needs.

WHO BENEFITS: Employers benefit directly through reduced taxes. Students receiving scholarships benefit as well to the extent that additional scholarship money becomes available. The Legislative Revenue Office anticipated that approximately 6 to 10 new employer scholarship programs would become available each year through the first six years, benefiting on average 10 employees per employer. As of October 2002, two employer programs had been approved by the Student Assistance Commission. Several other employers have requested information but have not been certified yet.

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

1.141 INDIVIDUAL DEVELOPMENT ACCOUNTS (CREDIT)

Oregon Statute: 315.271
Sunset Date: None
Year Enacted: 1999, modified in 2001 (HB 3391)

	Corporation	Personal	Total
2001–03 Revenue Impact:	$200,000	$200,000	$400,000
2003–05 Revenue Impact:	$300,000	$500,000	$800,000

DESCRIPTION: Individuals or businesses donating funds to fiduciary organizations for individual development accounts (IDAs) are allowed an income tax credit equal to the lesser of $75,000 or 75 percent of the amount donated. Contributions are applied toward matching IDA account holder savings and also toward program-related expenses of the fiduciary organization. Prior to January 1, 2002, the contribution limit was $25,000 or 25 percent. 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.

A companion expenditure, Individual Development Accounts (Exclusion and Subtraction) (1.115) provides an *exclusion* and *subtraction* from taxable income for individual IDA account holders.

PURPOSE: To help low-income Oregonians obtain the assets needed to become economically self-reliant by instituting an asset-based antipoverty strategy that promotes personal financial management, investment, and the accumulation of key assets.

WHO BENEFITS: Individuals or businesses making contributions to a fiduciary organization to support IDAs directly benefit from this credit. The tax credit provides an incentive to the contributing businesses to continue providing enough matching funds for the program. Using a combination of private and federal funds, more than 300 IDAs have been opened in Oregon during the past five years. The account holders of these IDAs indirectly benefit from the credit by being able to make use of the matching funds when they are distributed on their behalf.

EVALUATION: About $15,000 in 25 percent credits were granted during 2001. In 2002, the amount of granted 75 percent credits is anticipated to approach $500,000. The contributions generated by the credits will help an estimated 200 Oregon households purchase their first home, obtain needed post-secondary education, or start a small business. [*Evaluated by Housing and Community Services Department*.]

1.142 EARNED INCOME CREDIT

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

	Corporation	Personal	Total
2001–03 Revenue Impact:	Not Applicable	$16,400,000	$16,400,000
2003–05 Revenue Impact:	Not Applicable	$17,200,000	$17,200,000

DESCRIPTION: A personal income tax credit is allowed for families that are eligible for the federal earned income credit. The state credit is equal to five percent of the federal earned income credit but is nonrefundable. No carryover is allowed for unused amounts that exceed tax liability.

The amount of the federal credit allowed declines as the amount of total earned income, both taxable and nontaxable, increases. For taxpayers without a qualifying child, some credit is allowed for total earned income up to $10,710 in 2001. For taxpayers with one qualifying child, some credit is allowed for total earned income up to $28,281 in 2001. For taxpayers with two or more qualifying children, some credit is allowed for total earned income up to $32,121 in 2001.

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 1998, about 156,000 full-year resident taxpayers claimed an average credit of $64. In 2000, the number of claimants declined to 148,000 while the average claim increased to $66. Because many of the families claiming the credit do not have sufficient tax liability to use the full amount of the credit, the average tax benefits for 1998 and 2000 were $45 and $46, respectively.

Income Group (Quintiles)	Taxpayers		Mean Credit
	Number	Percent	
Below $10,000	52,399	35.4%	$35
$10,000 - $22,000	62,472	42.2%	$105
$22,000 - $37,000	33,235	22.4%	$41
$37,000 - $63,000	0	0.0%	N/A
Above $63,000	0	0.0%	N/A
Total	148,106	100.0%	$66

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

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

1.143 QUALIFIED ADOPTION EXPENSE

Oregon Statute: 315.274
Sunset Date: 12-31-05
Year Enacted: 1999

	Corporation	Personal	Total
2001–03 Revenue Impact:	Not Applicable	$900,000	$900,000
2003–05 Revenue Impact:	Not Applicable	$900,000	$900,000

DESCRIPTION: A credit against personal income taxes is allowed for qualified expenses incurred in adopting a child. The credit cannot be claimed for the portion of adoption expenses reimbursed as federal income tax credit under IRC Sec. 23. The maximum credit is $1,500 phasing out for taxpayers between $150,000 and $190,000 adjusted gross income. Taxpayers are allowed to carry forward unused credits for up to four additional years. It is effective for tax years beginning on or after January 1, 2000, and before January 1, 2006.

PURPOSE: To reduce the financial cost of adoption, which may act as a barrier for some taxpayers.

WHO BENEFITS: Persons with incomes below $115,000 who adopt children other than those from the public child welfare foster care system benefit from this tax credit. This includes those who adopt children from other countries and those who adopt from private and independent sources, as well as those who adopt their stepchildren or relative children, other than those who are in the public foster care system.

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.

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.

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. 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. [*Evaluated by the Children, Adult, and Families Services Cluster*.]

1.144 BONE MARROW TRANSPLANT EXPENSE

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

	Corporation	Personal	Total
2001–03 Revenue Impact:	Less than $50,000	Less than $50,000	Less than $50,000
2003–05 Revenue Impact:	Less than $50,000	Less than $50,000	Less than $50,000

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

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

PURPOSE: To promote donations of bone marrow.

WHO BENEFITS: Employers who incur expenses related to the development and operation of an employee bone marrow donation program. In 1999, there were 11 for-profit companies paying for donor tests; that number fell to five in 2000. Patients in need of bone marrow transplants are also intended beneficiaries of this policy through increased availability of transplant tissue.

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

1.145 RURAL MEDICAL PRACTICE

Oregon Statute: 316.143
Sunset Date: None
Year Enacted: 1989, modified in 2001 (HB 2206)

	Corporation	Personal	Total
2001–03 Revenue Impact:	Not Applicable	$9,100,000	$9,100,000
2003–05 Revenue Impact:	Not Applicable	$9,900,000	$9,900,000

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 ten or more miles from a 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.

Originally, this credit was scheduled to sunset on December 31, 2001, and taxpayers could only claim this credit for up to ten years. The 1999 Legislature, however, eliminated the sunset and removed the ten-year time limit. Beginning in 2002, the eligibility for the credit includes medical staff at Type B hospitals in a MSA if the county has a population of less than 75,000.

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

WHO BENEFITS: For the 1999 tax year, 735 physicians, 234 nurse practitioners, 66 physician assistants, 47 nurse anesthetists, 49 dentists, 15 optometrists, and nine podiatrists qualified for the credit, for a total of 1,155 practitioners. The average rural medical tax credit recipient practices in a town with a population of 2,103. In total, approximately 486,000 Oregonians are served by the participants in this program. The ultimate beneficiaries of this program are rural Oregonians who might otherwise have no health care available to them. In 2000, just over 900 taxpayers claimed an average credit of roughly $4,650.

EVALUATION: This tax credit appears to achieve its purpose by attracting new practitioners to rural communities. A year-by-year analysis of the Office of Rural Health's tax credit data base shows a net gain of 450 practitioners in rural areas eligible for the tax credit since 1990.

The tax credit has been most successful in attracting new nurse practitioners to rural areas, and their figures have grown from 61 in 1990 to 234 for tax year 1999, a net gain of nearly 300 percent. Physicians are not far behind, with a net increase of 188 new doctors, or almost one-third, since 1990. The program has attracted 29 additional physician assistants and netted two new CRNAs. Dental participation has grown from 26 in the first year to 49 in 1999, and podiatrists have increased from seven to nine.

Licensure data from the Oregon Board of Medical Examiners (BME) confirms that a trend first witnessed in 1995 appears to be stable – unprecedented growth in the physician population is occurring in non-metropolitan areas. Between 1990 and 2000, physician growth in non-metropolitan areas of the state (31.9 percent) has significantly exceeded growth in metro areas (18.7 percent).

To determine if the tax credit played a role in this desired outcome, the Office of Rural Health periodically surveys rural practitioners, most recently in 1998–99. Approximately 80 percent of recipients responded, and only 45 percent indicated that they would stay in their rural practices without the tax credit. ORH additionally sought to determine if the original function of the credit, i.e., to make up for lower earnings in rural communities, is still valid. The survey found that Oregon's rural physicians make approximately $117,500 annually, compared to $199,000 for all U.S. physicians.

The rural practitioner tax credit certainly appears to be meeting its stated purpose by directly meeting the economic needs of the practitioners for whom it was intended. As expected, more rural practitioners are locating their practices in rural Oregon and remaining there. Rural communities 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 a continuing intervention like the rural practitioner tax credit, a decline in rural practitioners similar to that experienced in the 1980s would inevitably repeat itself. The advancing age of Oregon's rural physicians makes this program as important today as the day it was initially passed by the Legislature. [*Evaluated by the Office of Rural Health*.]

1.146 COSTS IN LIEU OF NURSING HOME CARE

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

	Corporation	Personal	Total
2001–03 Revenue Impact:	Not Applicable	Less than $50,000	Less than $50,000
2003–05 Revenue Impact:	Not Applicable	Less than $50,000	Less than $50,000

DESCRIPTION: A tax credit is allowed against personal income taxes for expenses incurred for the care of an individual who otherwise would be placed in a nursing home. The amount of the credit is $250 or eight percent of expenses paid, whichever is less. Taxpayers claiming the credit cannot have household income in excess of $17,500. The person receiving the assistance must: 1) have household income of $7,500 or less; 2) be eligible for home care services under Oregon Project Independence; 3) be certified by the Department of Human Services; 4) receive no assistance from Oregon Medical Assistance; and 5) be at least 60 years of age.

PURPOSE**:** To provide additional tax relief for low-income taxpayers who incur expenses caring for individuals who would otherwise be placed in a nursing home.

WHO BENEFITS: Taxpayers who care for elderly citizens in their homes.

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

1.147 LONG-TERM CARE INSURANCE

Oregon Statute: 315.610
Sunset Date: None
Year Enacted: 1999

	Corporation	Personal	Total
2001–03 Revenue Impact:	$100,000	Less than $50,000	$100,000
2003–05 Revenue Impact:	$100,000	Less than $50,000	$100,000

DESCRIPTION: A non-refundable 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 non-business 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. The credit is allowed only for new policies purchased on or after January 1, 2000. 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 in order to take the credit.

PURPOSE: To encourage younger individuals to plan for their long-term care needs.

WHO BENEFITS: Taxpayers who purchase long-term care insurance.

EVALUATION: Because this is a new credit and applies to new policies issued after January 1, 2000, it is too early to tell if this expenditure achieves its purpose. [*Evaluated by the Seniors and People with Disabilities Cluster*.]

1.148 DISABLED CHILD

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

	Corporation	Personal	Total
2001–03 Revenue Impact:	Not Applicable	$3,000,000	$3,000,000
2003–05 Revenue Impact:	Not Applicable	$3,400,000	$3,400,000

DESCRIPTION: Every non-dependent taxpayer in Oregon is allowed one personal exemption credit for himself or herself, one for a spouse, and one for each dependent. An additional personal exemption credit is allowed for each dependent child who is disabled. "Disabled child" is defined as a child aged 17 or younger who is eligible for early intervention services, or who is diagnosed for special education purposes as being autistic, mentally retarded, multi-disabled, visually impaired, hearing impaired, deaf-blind, orthopedically impaired, other health impaired, or as having serious emotional disturbance or traumatic brain injury. The State Board of Education is charged with adopting rules further defining "disabled child."

The amount of the personal exemption credit (and hence the disabled child credit) is indexed to inflation, and equals $145 in 2002. The credit is non-refundable.

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

WHO BENEFITS In 2000, about 9,400 Oregon taxpayers claimed disabled child credits. Because the credit is non-refundable, taxpayers may only use the credit for amounts up to their tax liability. The average credit of $141, which is above the 2000 allowed credit of $139, indicates that some taxpayers claimed more than one disabled child credit.

Income Group (Quintiles)	**Taxpayers**		**Mean Credit**
	Number	**Percent**	
Below $10,000	608	6.4%	$37
$10,000 - $22,000	1,370	14.5%	$123
$22,000 - $37,000	2,104	22.3%	$151
$37,000 - $63,000	2,848	30.2%	$155
Above $63,000	2,503	26.5%	$151
Total	9,433	100.0%	$141

EVALUATION: This tax expenditure achieves its purpose and is of greatest assistance to those people who are at the margin of needing state assistance. It allows for greater disposable income to meet the more costly needs of children with disabilities. This tax expenditure is well-targeted and provides the recipients with valuable financial assistance that alleviates or prevents the reliance on direct state services. As a result, this tax credit saves the state more than it costs. One concern is that the size of this credit, which is for all Oregon residents, is connected to consumer prices in Portland. Access to health care, which can be particularly difficult in rural areas, can represent significant costs. Basing changes on prices in Portland may therefore understate the price changes in other parts of the state. [*Evaluated by the Seniors and People with Disabilities Cluster*.]

1.149 ELDERLY OR PERMANENTLY DISABLED

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

	Corporation	Personal	Total
2001–03 Revenue Impact:	Not Applicable	$100,000	$100,000
2003–05 Revenue Impact:	Not Applicable	$100,000	$100,000

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 Oregon Retirement Income Credit (1.191), 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 non-taxed Social Security benefits or veteran's benefits. The credit is non-refundable.

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

WHO BENEFITS: The number of Oregon taxpayers claiming this credit in 1990 was about 2,700, with an average credit of $75. In 2000, the number of claimants was approximately 700 while the average credit was $103.

Income Group (Quintiles)	Taxpayers		Mean Credit
	Number	Percent	
Below $10,000	251	34.7%	$88
$10,000 - $22,000	451	62.4%	$112
$22,000 - $37,000	21	2.9%	$81
$37,000 - $63,000	0	0.0%	N/A
Above $63,000	0	0.0%	N/A
Total	723	100.0%	$103

EVALUATION: This tax expenditure achieves its purpose and, coupled with other tax benefits, allows for greater disposable income to meet the often more costly needs of the eligible individuals. This credit provides the targeted individuals with the additional financial capacity that may allow them to maintain their independence and not rely on direct state services. On the other hand, there is a concern that either the credit is too restrictive or that the complexity of determining eligibility is preventing some individuals from claiming the credit. [*Evaluated by the Seniors and People with Disabilities Cluster*.]

1.150 LOSS OF LIMBS

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

	Corporation	Personal	Total
2001–03 Revenue Impact:	Not Applicable	Less than $50,000	Less than $50,000
2003–05 Revenue Impact:	Not Applicable	Less than $50,000	Less than $50,000

DESCRIPTION: A personal income tax credit of $50 is allowed for taxpayers with permanent and complete loss of function of at least two limbs. If both taxpayers on a joint return meet the criteria, the credit is $100. The credit is non-refundable. All taxpayers eligible for this credit are also eligible for the Severe Disability Credit (1.151).

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 2000, approximately 130 taxpayers claimed this credit.

EVALUATION: This tax expenditure achieves its purpose. As with similar tax breaks, this credit is well targeted and helps meet the often more costly needs of the eligible individuals. It provides additional financial assistance that carries with it the potential for individuals to maintain their self-reliance and not turn to state-funded direct service programs. While a tax credit is clearly beneficial, there is a concern that those who qualify for this credit may not earn sufficient income to fully utilize it. [*Evaluated by the Seniors and People with Disabilities Cluster*.]

1.151 SEVERE DISABILITY

Oregon Statute: 316.758, 316.765
Sunset Date: None
Year Enacted: 1985

	Corporation	Personal	Total
2001–03 Revenue Impact:	Not Applicable	$4,700,000	$4,700,000
2003–05 Revenue Impact:	Not Applicable	$6,000,000	$6,000,000

DESCRIPTION: Every non-dependent 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 was $145 in 2002.

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

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 18,000 in 2000. Because the credit is non-refundable, taxpayers may only use the credit for amounts up to their tax liability. The average credit of $127, which is below the 2000 allowed credit of $139, indicates that some taxpayers did not benefit from the full credit amount.

Income Group (Quintiles)	Taxpayers		Mean Credit
	Number	Percent	
Below $10,000	3,042	16.8%	$51
$10,000 - $22,000	4,649	25.7%	$106
$22,000 - $37,000	3,923	21.7%	$123
$37,000 - $63,000	3,575	19.8%	$131
Above $63,000	2,908	16.1%	$138
Total	18,097	100.0%	$110

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

1.152 OREGON CAPITAL CORPORATION INVESTMENTS

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

	Corporation	Personal	Total
2001–03 Revenue Impact:	$0	$0	$0
2003–05 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 in turn, intended to provide funding for capital investments in Oregon businesses (ORS 284.755) in order to promote economic growth in Oregon.

WHO BENEFITS: Because the corporation never came into existence, there have been no beneficiaries.

EVALUATION: Not evaluated.

1.153 QUALIFIED RESEARCH ACTIVITIES

Oregon Statute: 317.152
Sunset Date: 12-31-07
Year Enacted: 1989, modified in 2001 (HB 2729)

	Corporation	Personal	Total
2001–03 Revenue Impact:	$14,100,000	Not Applicable	$14,100,000
2003–05 Revenue Impact:	$7,700,000	Not Applicable	$7,700,000

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) with the following restrictions: a) only qualified research expenses and basic research payments in Oregon are considered, and b) qualified expenses and payments are limited to the fields of advanced computing, advanced materials, biotechnology, electronic device technology, environmental technology, or straw utilization.

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 were not conducting research for at least three of those years, the base amount equals 3 percent of the average of gross receipts over the last four years. Qualified research activities include "research expenses" either in-house or by contract, and "basic research payments" to colleges, universities, and certain other nonprofit organizations. The amounts have to be paid or incurred by the sunset date.

The credit is limited to $500,000 and is non-refundable. Beginning in 1993, credits that cannot be used because of insufficient tax liability in the current year can be used in later years, for up to five years.

Taxpayers have the option of claiming this credit or the credit described in Qualified Research Activities (Alternative) (1.154). Some companies may not qualify for the credit under ORS 317.154 because they do not have the necessary spending on research activities. This alternative still allows them to qualify for the credit if such activities exceed a base dollar amount, even if they do not conduct a large proportion of their research activities in Oregon relative to the proportion of their sales in Oregon.

The sunset was extended to December 31, 2007, by the 2001 Legislature.

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

WHO BENEFITS: Beneficiaries include the companies taking the credit and indirectly, their suppliers, customers, and employees. The revenue impact reported here also includes any credits received under ORS 317.154. For tax year 2000, about 90 taxpayers benefited from these credits. These taxpayers reduced their tax liability by $100,000 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. Based on the revenue impacts above, the qualified research activities would amount to roughly $130 million per year over the base amount. Some of this spending is likely attributable to this provision. The benefits can be identified as follows:

- The credit may convince companies to relocate to Oregon.
- The credit encourages existing companies to put more efforts into research and development. Product introduction cycles for products such as personal computers and high definition television and telecommunication products are getting shorter and shorter. They demand R&D commitments.
- 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 over another, but these do appear to be the industries most likely to use the credit. [*Evaluated by the Economic and Community Development Department*.]

1.154 QUALIFIED RESEARCH ACTIVITIES (ALTERNATIVE)

Oregon Statute: 317.154
Sunset Date: 12-31-07
Year Enacted: 1989, modified in 2001 (HB 2729)

	Corporation	Personal	Total
2001–03 Revenue Impact:	Included in 1.153	Not Applicable	Included in 1.153
2003–05 Revenue Impact:	Included in 1.153	Not Applicable	Included in 1.153

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 (1.153), except that basic research payments are not included.

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

Taxpayers have the option of claiming this credit or the credit described in Qualified Research Activities (1.153). Some companies may not qualify for the credit under ORS 317.152 because they do not have the necessary increase in research activities. This alternative still allows them to qualify for the credit if they conduct a large proportion of their research activities in Oregon relative to the proportion of their sales in Oregon.

The sunset was extended to December 31, 2007, in 2001.

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

WHO BENEFITS: It is not known whether anyone uses this alternative credit.

EVALUATION: See evaluation under Qualified Research Activities (1.153). [*Evaluated by the Economic and Community Development Department*.]

1.155 LONG-TERM RURAL ENTERPRISE ZONES (INCOME TAX)

Oregon Statute: Note following ORS 285B.689 (OR Laws 1997, Ch. 835, Sec. 40)
Sunset Date: 12-31-04
Year Enacted: 1997, modified in 2001 (HB 2103)

	Corporation	Personal	Total
2001–03 Revenue Impact:	Less than $50,000	Less than $50,000	Less than $50,000
2003–05 Revenue Impact:	Less than $50,000	Less than $50,000	Less than $50,000

DESCRIPTION: Corporations that make certain large investments in a non-urban enterprise zone are eligible for a credit on the corporate income tax, if approved by the governor. The investment must be locally approved for the related tax expenditure for property tax (Long -Term Rural Enterprise Zone (Property Tax) (2.013)). To be eligible for the property tax exemption, the investment must be located in a county with chronic unemployment. 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 worker compensation must be at least 50 percent above the county average wage. Prior to the modification contained in HB 2103 in the 2001 session the minimum investment was $50 million.

The corporate income tax credit is equal to 62.5 percent of the taxpayer's payroll and employee benefit costs at the facility. The credit applies only to liabilities above a certain minimum amount, depending on in-state location, with an overall threshold of $1 million. The credits range in duration from five to 15 years, as determined by the governor. The credits can be carried forward up to five years after the 15-year period expires. The taxpayer is exempt from corporate income taxes relating to the facility until the tax year after the facility is placed in service. Thirty percent of any taxes paid by the taxpayer receiving the credit are distributed to the local property-taxing district, and the city or county sponsor of the Enterprise Zone receives the rest.

Approval from the Governor's Office is required for this, but is not required for the accompanying Property Tax exemption, Long-Term Rural Enterprise Zone (Property Tax) (2.013). For both of these exemptions, applications are handled by the Economic and Community Development Department.

Only one company has been certified as of July 2002.

PURPOSE: To encourage investment in non-urban areas of chronic unemployment or low income. This incentive is still in an experimental stage.

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

EVALUATION: At this time, no company has used this provision, although the Governor has approved one project. It is possible, and perhaps likely, that if Oregon did not have this provision, these projects would be relocated to another state. Therefore, this provision appears to be having the intended effect on investment in Oregon.

Although not necessary for the current investment, changes by SB 245 (1999) made these long-term rural tax incentives conceivable as something that might be used to induce much-needed private investment in Central and Eastern Oregon enterprise zones. Before these changes, the likelihood of them having an effect was very small in those locations and elsewhere.

To allow these changes to have greater opportunity to work, the Economic and Community Development Department recently instituted modified administrative rules. There is currently insufficient experience for evaluation. [*Evaluated by the Economic and Community Development Department.*]

1.156 RESERVATION ENTERPRISE ZONES (INCOME TAX)

Oregon Statutes: 285B.773
Sunset Date: None
Year Enacted: 2001 (HB 2332)

	Corporation	Personal	Total
2001-03 Revenue Impact:	Less than $50,000	Less than $50,000	Less than $50,000
2003-05 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 is the trust land of an Indian tribe that must meet the same conditions as a non-urban enterprise zone. In addition the enterprise zone must meet certain additional conditions:

- The Indian tribe must be a federally recognized tribe;
- The reservation of the tribe must be entirely within Oregon;
- The land for the zone designation must be land held in trust by the United States for the benefit of the Indian tribe;
- As of January 1, 2002 the population density of the reservation must not exceed 15 people per square mile;
- At least 50 percent of the households within the reservation must have incomes below 80 percent of the median income for Oregon; and
- The unemployment rate on the reservation must be at least two percentage points greater than the unemployment rate for the state of Oregon.

Non-Indian property on reservation enterprise zones is still subject to property taxes owed to the appropriate taxing districts.

PURPOSE: To encourage "growth, development and expansion of employment and business opportunities within reservation boundaries." (ORS 285B.767).

WHO BENEFITS: Businesses operating in reservation enterprise zones. Residents of reservations who benefit from enhanced development opportunities. Currently one reservation enterprise zone has been approved in Umatilla County and an application is pending for an enterprise zone in Warm Springs. As of May 2002 no tribe levies tribal taxes on non-Indian businesses—hence the estimated revenue impact is minimal.

EVALUATION: A new program, and as of now there is insufficient activity to evaluate. *[Evaluated by the Department of Economic Development.]*

1.157 SMALL CITY BUSINESS DEVELOPMENT

Oregon Statutes: 316.778
Sunset Date: None
Year Enacted: 2001 (HB 3770)

	Corporation	Personal	Total
2001-03 Revenue Impact:	Less than $50,000	Less than $50,000	Less than $50,000
2003-05 Revenue Impact:	Less than $50,000	Less than $50,000	Less than $50,000

DESCRIPTION: This provision exempts from Oregon income tax the portion of business income attributable to qualified new facilities. Qualified new facilities must be built in a qualified location.

"Qualified location" means any area within the boundaries of a city of 10,000 or fewer residents that is located in a county with an unemployment rate in the highest quartile and per capita personal income in the lowest quartile in the state.

The Economic and Community Development Department must annually certify the facility for the business to receive the exemption. If the firm does not qualify in a particular year they are disqualified from the program for that year and all subsequent years. The business may apply for the exemption for up to 10 consecutive years after the facility is put into service.

The following conditions must be met to qualify as a certified facility:

- The facility must be located in a qualified location;
- The proposed facility must be intended to operate for at least 10 years;
- The business firm will hire at least 10 full-time year round employees at a wage at least 50 percent higher than the per capita income for the county or at the per capita wage for the county and provide health insurance;
- The operation at the facility must constitute a new business that the firm does not operate at another location in the state; and
- The operations of the firm must not compete with an existing business in the city or county where the facility is located.

As of April 2001 four Oregon counties would be eligible for this exemption: Lake, Sherman, Wallowa, and Wheeler counties.

PURPOSE: To encourage business development in low-income areas with high unemployment rates.

WHO BENEFITS: Businesses and low-income area population.

EVALUATION: New program, insufficient information with which to conduct an evaluation. [*Evaluated by the Economic Development Department*.]

1. 158 ELECTRONIC COMMERCE ENTERPRISE ZONES (INCOME TAX)

Oregon Statutes: 315.507
Sunset Date: The tax law provision has no sunset date but the enterprise zone law sunsets 6-30-09.
Year Enacted: 2001 (SB 229)

	Corporation	Personal	Total
2001-03 Revenue Impact:	$600,000	Less than $50,000	$600,000
2003-05 Revenue Impact:	$5,300,000	Less than $50,000	$5,300,000

DESCRIPTION: Qualified business firms may claim an income tax credit for investment in electronic commerce operations under certain circumstances. The business must make the investment in a qualified electronic commerce enterprise zone or in a city designated as an electronic commerce city (see ORS 285B.672 and 285B.673). In order to qualify as an electronic commerce enterprise zone, the zone must already be designated as an enterprise zone. (See tax expenditure 2.012 Enterprise Zone Businesses.)

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.

Qualified firms in Electronic Commerce Enterprise Zones must also receive a property tax exemption. See tax expenditure Electronic Commerce Enterprise Zone (Property Tax) (2.026).

PURPOSE: To encourage development of electronic commerce in specified zones and cities.

WHO BENEFITS: Businesses operating in electronic commerce zones and cities.

EVALUATION: In the first three months since this program became available, three direct investments have been made as a direct result of the benefit. Combined projected job creation for these projects is in excess of 500 jobs. *[Evaluated by the Department of Economic Development.]*

1.159 INVESTMENT IN TELECOMMUNICATIONS INFRASTRUCTURE

Oregon Statutes: 315.511
Sunset Date: 12-31-05
Year Enacted: 2001 (SB 229)

	Corporation	Personal	Total
2001-03 Revenue Impact:	Less than $50,000	Less than $50,000	Less than $50,000
2003-05 Revenue Impact:	$4,000,000	Less than $50,000	$4,000,000

DESCRIPTION: Qualified taxpayers may claim an income tax credit for investment in advanced telecommunications facilities. Advanced telecommunications facilities must meet guidelines specified in statute (see ORS 285B.488 and ORS 285B.486).

A certified facility must meet the following conditions:

- The facility must be located in an area where most customers do not have access to minimum bandwith service;
- The facility must improve access for customers in unserved or underserved areas;
- The total certified costs must not exceed $10 million; and
- The facility must be certified by the Economic and Community Development Department.

The Economic and Community Development Department must issue the credit certification between January 1, 2002, and December 31, 2005.

The credit is equal to 20 percent of the costs. The credit may not be carried forward to another tax year.

PURPOSE: To encourage development of telecommunications infrastructure to serve individuals and businesses in Oregon that do not currently have access to advanced telecommunications facilities.

WHO BENEFITS: Taxpayers investing in telecommunications infrastructure. Individuals and businesses served by the enhanced telecommunications facilities.

EVALUATION: This program is new and no applications have been received the this point by the department for certification.[*Evaluated by the Department of Economic Development*.]

1.160 CHILD AND DEPENDENT CARE

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

	Corporation	Personal	Total
2001–03 Revenue Impact:	Not Applicable	$10,200,000	$10,200,000
2003–05 Revenue Impact:	Not Applicable	$9,800,000	$9,800,000

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 non-refundable, but unused credit amounts due to insufficient tax liability may be used in later years, 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 oneself. The eligible expenses are limited in a given year to $2,400 when there is only one qualifying individual in the household and to $4,800 when there are two or more qualifying individuals. In both cases this limit is reduced by any non-taxable payments received from an employer under a dependent care assistance program. Eligible expenses are limited to the individual's earned income (for unmarried individuals) or to the lower of either spouse's earned income (for married individuals).

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 who benefit from this credit has declined from about 66,000 in 1990 to 47,800 taxpayers in 2000. The average benefit increased slightly from $126 in 1990 to $142 in 1996. In 1997, two new credits–the Earned Income Credit (1.142) and the Working Family Child Care Credit (1.161)–became available and had a significant impact on the usage of this credit. With the reduced tax liability as a result of these credits, some taxpayers were unable to use the full amount of this credit. The average benefit fell to $105 in 1997 and $101 in 2000.

Income Group (Quintiles)	Taxpayers		Mean Credit
	Number	Percent	
Below $10,000	658	1.4%	$78
$10,000 - $22,000	8,394	17.6%	$210
$22,000 - $37,000	13,794	28.9%	$168
$37,000 - $63,000	19,592	41.0%	$103
Above $63,000	5,320	11.1%	$89
Total	47,758	100.0%	$139

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

1.161 WORKING FAMILY CHILD CARE

Oregon Statute: 315.262
Sunset Date: None
Year Enacted: 1997, modified in 2001 (HB 2716)

	Corporation	Personal	Total
2001–03 Revenue Impact:	Not Applicable	$13,500,000	$13,500,000
2003–05 Revenue Impact:	Not Applicable	$31,100,000	$31,100,000

DESCRIPTION: A personal income tax credit is allowed for child care expenses for low-income families who have a minimum amount of earned income for the year. The amount is indexed to inflation and was $6,500 for 2002. The credit is calculated as a declining percentage of qualified child care expenses and is nonrefundable through 2002. No carryover is allowed for amounts that exceed tax liability.

Prior to 2001, taxpayers under 150 percent of the federal poverty level were allowed a credit equal to 40 percent of expenses, which is the maximum credit. The credit phased out for taxpayers over 200 percent of the federal poverty level. Beginning in tax year 2001, taxpayers under 200 percent of the federal poverty level are allowed a credit equal to 40 percent of expenses (the maximum credit). The credit phases out for taxpayers over 250 percent of the federal poverty level.

The 2001 Legislature changed this credit to a refundable credit, beginning in 2003. To the extent that this credit exceeds a taxpayer's liability (reduced by any non-refundable credits), the taxpayer is entitled to a refund of the difference. The Legislature also established that to be eligible, the earned income of a taxpayer may not exceed 1,040 hours times the minimum wage.

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

WHO BENEFITS: Low-income working taxpayers with employment-related dependent care expenses whose income is less than 250 percent of the federal poverty level and who have sufficient tax liability to be able to claim the credit. However, many taxpayers who are eligible for the tax credit do not have sufficient tax liability to use their full amount. Parents who are in training or school receive assistance to pay for child care while they get training to enhance their skills.

The average credit claimed by roughly 16,500 taxpayers in 1997 was $332. In 2000, 18,200 taxpayers claimed an average credit of $388. However, many of these taxpayers did not have sufficient tax liability to benefit from the full amount of the credit. On average, only 62 percent of the credit could be used in 2000.

Income Group (Quintiles)	Taxpayers		Mean Credit
	Number	Percent	
Below $10,000	1,170	6.4%	$133
$10,000 - $22,000	9,941	54.7%	$367
$22,000 - $37,000	6,411	35.3%	$461
$37,000 - $63,000	639	3.5%	$461
Above $63,000	0	0.0%	N/A
Total	18,161	100.0%	$388

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*.]

1.162 DEPENDENT CARE ASSISTANCE

Oregon Statute: 315.204
Sunset Date: 12-31-06
Year Enacted: 1987, modified in 2001 (HB 2676)

	Corporation	Personal	Total
2001–03 Revenue Impact:	$1,100,000	Not Available	$1,100,000
2003–05 Revenue Impact:	$700,000	Not Available	$700,000

DESCRIPTION: Employers providing dependent care assistance or dependent care information and referral services to their employees are allowed a credit to either personal or corporation income tax. The credit equals 50 percent of the total costs the employer paid for dependent care (but no more than $2,500 per employee) and 50 percent of the cost of providing information and referral services. The employer may not take the credit if the provision of dependent care services is part of salary reduction plan. Credits unclaimed due to insufficient tax liability may be used in later years, for up to five years. Note that the revenue impact figures include the impact of the dependent care facilities credit listed in Dependent Care Facilities (1.163).

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. Since 1990 the number of corporations that have claimed either the Dependent Care Assistance (1.162) or the Dependent Care Facilities (1.163) credit has ranged from 14 to 26. In 1998, 18 corporations claimed one of these credits. The average credit has steadily increased from $9,000 in 1990 to $140,000 in 1998.

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*.]

1.163 DEPENDENT CARE FACILITIES

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

	Corporation	Personal	Total
2001–03 Revenue Impact:	Included in 1.162	Included in 1.162	Included in 1.162
2003–05 Revenue Impact:	Included in 1.162	Included in 1.162	Included in 1.162

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 unclaimed due to insufficient tax liability may be used in later years, for up to five years.

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

WHO BENEFITS: Employers who provide child care facilities for their employees receive both the financial benefit of the tax credit and the additional benefit of more productive employees. Since 1990 the number of corporations that have claimed either the Dependent Care Assistance (1.162) or the Dependent Care Facilities (1.163) credit has ranged from 14 to 25. In 2000, 16 corporations claimed one of these credits. Throughout the 1990s, the average credit ranged from $9,000 to $34,000. In 2000, however, the average credit was $96,000.

EVALUATION: This tax credit expired on December 31, 2001. [*Evaluated by the Employment Department*.]

1.164 FIRST BREAK PROGRAM

Oregon Statute: 315.259
Sunset Date: 12-31-04
Year Enacted: 1995

	Corporation	Personal	Total
2001–03 Revenue Impact:	Less than $50,000	$100,000	$100,000
2003–05 Revenue Impact:	Less than $50,000	$100,000	$100,000

DESCRIPTION: A credit against corporation or personal income taxes is allowed for wages paid to a "qualified youth" hired by the taxpayer. A qualified youth is an individual who is 14 to 23 years old and has been identified to participate in the First Break Program by a community-based organization according to rules adopted by the Employment Department. Community-based organizations include all local commissions for children and families, schools or class groups offering alternative education programs, the federal Job Corps, school districts, and the Youth Employment and Empowerment Coalition. The credit amount is equal to 50 percent of the wages paid to the qualifying youth or $1,000, whichever is less. Statute limits the total number of certificates issued to 1,500 (there is one certificate per youth).

PURPOSE: To encourage the provision of employment opportunities for qualified youths as defined by rule.

WHO BENEFITS: Employers who provide employment to qualified youths and the youths who face barriers to entering the job market.

EVALUATION: As of July 2002, 2.2 percent (33) of the 1,500 certifications allotted for the First Break Program were issued to qualified youth by community-based organizations (CBOs). Of the 33 certificates used, 27 were issued since June 2000. At this pace the CBOs are unlikely to use more than 10 percent (150) of the certificates before January 2005. Infrequent use of the First Break Program brings into question its effectiveness for discouraging gang involvement and promoting job-skill and educational development of youth.

On the other hand, if performance is measured by the number of available certificates and by the number of participating CBOS, then First Break has plenty of room for growth. [*Evaluated by the Employment Department*.]

1.165 CHILD CARE DIVISION CONTRIBUTIONS

Oregon Statute: 315.213
Sunset Date: 12-31-06
Year Enacted: 2001 (HB 2676)

	Corporation	Personal	Total
2001-03 Revenue Impact	$500,000	Less than $50,000	$500,000
2003-05 Revenue Impact	$1,000,000	Less than $50,000	$1,000,000

DESCRIPTION: A credit against corporation or personal income taxes is allowed for certified contributions made to the Child Care Division (CCD) of the Oregon Employment

Department or a selected community agency. The CCD is responsible for establishing a program that issues tax credit certificates to taxpayers who wish to utilize this credit. The total value of tax credit certificates may not exceed $500,000 per calendar year. Any credits that are not used due to insufficient tax liability may be used in later years, for up to four years.

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 are eligible to receive contributions that may qualify as deduction under Section 170 of the IRC.

PURPOSE: To provide a funding pool for child care that will: 1) reduce parent cost; 2) increase revenue for center- and home-based child care businesses; and 3) improve the quality of care for the children of low- and moderate-income families throughout Oregon.

WHO BENEFITS: Taxpayers who choose to use this method to reduce their tax liability, parents and child care providers who participate in the program once it is established, and, ultimately, the child care system in the state of Oregon.

EVALUATION: The effectiveness of this tax credit has not been evaluated because it is new and not yet fully implemented. [*Evaluated by the Employment Department*.]

1.166 FARM WORKER HOUSING CONSTRUCTION

Oregon Statute: 315.164
Sunset Date: None
Year Enacted: 1989, modified in 2001 (HB 3173)

	Corporation	Personal	Total
2001–03 Revenue Impact:	$500,000	$200,000	$700,000
2003–05 Revenue Impact:	$1,200,000	$400,000	$1,600,000

DESCRIPTION: A credit against corporation or personal income taxes is allowed for owners or operators of farm worker housing that construct or rehabilitate such housing. The credit amount increased from 30 percent to 50 percent of the eligible construction costs for housing projects completed after January 1, 2002. Other changes that apply to housing completed after January 1, 2002, included:

- Removing the sunset date of December 31, 2001;
- Allowing the owner or operator to transfer up to 80 percent of the credit to contributors who helped finance or construct the housing;
- Limiting the amount of the credit that may be claimed in any year to 20 percent of the total possible credit;
- Extending the time period over which the credit may be claimed from five to 10 years; and
- Increasing the limit on total annual construction costs certified to $7.5 million (from $3.3 million).

Contributors financing farm worker housing may continue to claim the credit even if the owner or operator becomes disqualified so long as they had certified that the housing met health and safety requirements upon completion and initial occupancy. The housing must be located in Oregon.

The housing must meet certain qualifications for the taxpayer to be eligible for the credit. Rehabilitation projects must restore housing to a condition where it meets building code requirements. In the case where the taxpayer 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.

Credits exceeding the taxpayer's tax liability may be applied against future taxes in up to nine later tax years, with the oldest credits being applied first in each year.

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

WHO BENEFITS: Taxpayers who construct or rehabilitate housing for farm workers or contribute finances toward such projects. Since 1992 the credit has been used to provide safe, affordable housing for more than 1,500 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 offsite farm worker housing would be impeded and a primary incentive to improve or construct onsite housing would be eliminated. Major supporters of better farm worker housing include migrant health clinics, who see the effects of unsanitary conditions.

There is a direct tie between the provision of farm worker housing and the health of Oregon's agricultural industry. This industry must compete on a regional, national and even international basis for its labor force. It can be argued that to remain competitive in this market, Oregon must continue its efforts to improve the supply of decent and affordable housing for its farm labor force. Because agriculture is a major Oregon's industry, with gross sales totaling $3 billion annually, and because crops dependent on the labor of farm workers account for over one-third of this amount, the impact on Oregon's economy is significant. There are an estimated 150,000 farm workers and family members in Oregon, either migrant or year-round workers. Adequate on-farm housing is sufficient to house less than 10 percent of the farm workers and families in the state. Most of the remaining 90 percent of the population live in rural communities throughout the state, with two-thirds of their housing being unsafe, unsanitary, and overcrowded. (Oregon Farm Labor Housing Survey, Oregon Housing Agency, 1991). In a survey of its farm worker patients, Salud Medical Clinic in Woodburn found that 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 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*.]

1.167 FARM WORKER HOUSING LENDER'S CREDIT

Oregon Statute: 317.147
Sunset Date: None
Year Enacted: 1989, modified in 2001 (HB 3173)

	Corporation	Personal	Total
2001–03 Revenue Impact:	$900,000	Not Applicable	$900,000
2003–05 Revenue Impact:	$1,200,000	Not Applicable	$1,200,000

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 made on or after January 1, 1990, to finance the direct costs associated with constructing or rehabilitating farm worker housing. The lender must receive certification from the borrower that upon completion the project will comply with all health and safety standards. The housing must be located in Oregon and the interest rate on the loan cannot be above 13½ percent. The credit may be claimed over the term of the loan or for 10 years, whichever is less.

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

The 2001 legislation (HB 3173) made changes to the program that only apply to housing projects completed after December 31, 2001. The legislation expanded the credit to include nonprofit organizations that make loans for farmworker housing projects. These nonprofit organizations may sell or otherwise transfer the credit to other business taxpayers for application of the credit against the recipient's taxes. The legislation also increased the credit from 30 to 50 percent of the interest received.

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

WHO BENEFITS: Beneficiaries include lending institutions that make loans for farm worker housing projects. To the extent that the credit program results in loans made at less-than-market interest rates, the borrower captures some of the benefit. The farm workers and their families who are provided with safe, affordable housing are the indirect beneficiaries of the credit. The amount of credits claimed varies widely from year to year. For tax year 2000 about six taxpayers benefited from this credits. These taxpayers reduced their tax liability by $77,000 on average.

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 level and at 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*.]

1.168 INVOLUNTARY MOBILE HOME MOVES

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

	Corporation	Personal	Total
2001–03 Revenue Impact:	Not Applicable	Less Than $50,000	Less Than $50,000
2003–05 Revenue Impact:	Not Applicable	Less Than $50,000	Less Than $50,000

DESCRIPTION: A credit against personal income tax is allowed for certain owners of mobile homes who were forced to move due to the closure of their mobile home park. To qualify for the credit, the taxpayer had to move the home on or before December 31, 2001. Their federal adjusted gross income had to be $30,000 or less in the year of the move, and the mobile home must have had a fair market value of $50,000 or less.

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

PURPOSE: To provide tax relief to mobile home residents who are forced to relocate because of the closure of their mobile home park.

WHO BENEFITS: Mobile home owners with federal adjusted gross income of $30,000 or less who must move their mobile homes as a result of the mobile home park closure or partial closure. The Oregon Mobile Home Association estimates that one to two mobile home parks close down each year.

EVALUATION: It is not clear whether this tax expenditure is effective. In theory, this program reduces the tax burden on mobile home residents who are being required to relocate and will incur significant costs. Other taxpayers who relocate in conjunction with a new job or business can deduct qualified moving expenses (Moving Expenses (1.081)). Although the circumstances are different for mobile home residents who are forced to move, this credit provides a similar tax break. [*Evaluated by the Housing and Community Services Department.*]

1.169 OREGON AFFORDABLE HOUSING CREDIT

Oregon Statute: 317.097
Sunset Date: 12-31-09
Year Enacted: 1989

	Corporation	Personal	Total
2001–03 Revenue Impact:	$8,000,000	Not Applicable	$8,000,000
2003–05 Revenue Impact:	$9,600,000	Not Applicable	$9,600,000

DESCRIPTION: This provision allows a credit against corporation income taxes for lending institutions that make loans at below-market interest rates for the construction, development, or rehabilitation of low-income housing. The amount of the credit is the difference between the finance charge on the loan and the finance charge at the time the loan was made that would have been charged had a similar loan been made at market interest rates. The credit cannot exceed 4 percent of the unpaid balance of the loan during the tax year for which the credit is claimed. Any credit that cannot be used because of insufficient tax liability in the current year can be used in later years, for up to five years.

To qualify for the credit, loans must be made before January 1, 2010. Loans may be certified to receive credits for up to 20 years. The cap on credits granted for new and existing loans went up to $6 million per tax year beginning January 1, 2002, an increase from the $5 million cap prior to that date.

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

WHO BENEFITS: The amount of credits claimed has grown steadily since 1990 when only two taxpayers used the program, claiming under $34,000 in credits. In 2000, about 20 corporation income taxpayers benefited from this credit. These taxpayers had reduced tax liability of $3.4 million, or $170,000 on average. There were additional taxpayers claiming this credit who were unable to use it due to insufficient tax liability. 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. An indirect benefit is the community goodwill derived from lender participation in the program and the interest savings can be counted in calculations for HUD HOME Investment Partnership funds.

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*.]

1.170 CROP GLEANING

Oregon Statute: 315.156
Sunset Date: None
Year Enacted: 1977, modified in 2001 (HB 2718)

	Corporation	Personal	Total
2001–03 Revenue Impact:	Less than $50,000	Less than $50,000	Less than $50,000
2003–05 Revenue Impact:	Less than $50,000	Less than $50,000	Less than $50,000

DESCRIPTION: Taxpayers may take a credit against personal or corporation income taxes for "crop" donations to gleaning cooperatives, food banks, or qualifying charitable organizations located in Oregon. The law changed in 2001 to expand the program for tax years beginning January 1, 2002, to include 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" was expanded to include 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 equals 10 percent of the wholesale market price of the crop. Credits that cannot be used because of insufficient tax can be used in later years, for up to three years.

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

WHO BENEFITS: Farmers who donate crops to gleaning cooperatives, food banks, or charitable food distribution organizations. The benefit goes primarily to smaller, non-corporate farms. Charitable food distributors also benefit by receiving donations of food products.

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*.]

1.171 ALTERNATIVES TO FIELD BURNING

Oregon Statute: 468.150
Sunset Date: 12-31-07
Year Enacted: 1975, modified in 2001(SB 764)

	Corporation	Personal	Total
2001–03 Revenue Impact:	Included in 1.175	Included in 1.175	Included in 1.175
2003–05 Revenue Impact:	Included in 1.175	Included in 1.175	Included in 1.175

DESCRIPTION: This provision was added as an expansion to the Pollution Control Credit (1.175) in 1975. It allows a credit against corporation or personal income taxes for up to 50 percent of acquisition or construction costs for equipment and facilities as alternatives to grass seed and cereal grain straw open field burning. The 2001 legislation rearranged the credits as follows:

- Projects started prior to January 1, 2001, and completed before January 1, 2004, qualify for the 50 percent credit.
- All other projects are categorized into upper tier (35 percent credit) or lower tier (25 percent or less credit) categories depending on whether they meet certain qualifications.
- The sunset date was extended from 2001 to 2007.

The credit is taken in equal amounts over the life of the facility. The credit is allowed only for the fraction of use as an alternative to field burning, and the applicant must demonstrate a reduction in acreage burned. The revenue impact of this provision is included in that for the pollution control credit.

Note that the Mobile Field Incinerators expenditure (2.047) 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 and marketing grass seed and cereal grain straw.

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

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

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

Even though the industry is facing a crucial period in the phasedown schedule, continued reductions in field burning, increased acreage in production, high yields, and the results of recent research all indicate that the alternatives to field burning are satisfactory. The key to maintaining the phasedown limitation of 40,000 acres is: 1) the continued development and maintenance of the infrastructure to process and store straw for the domestic and international feed markets, and 2) the continued availability and improvement in equipment that enables seed growers to chop and manage full straw loads left on the field. [*Evaluated by the Department of Agriculture*.]

1.172 FARM MACHINERY AND EQUIPMENT (INCOME)

Oregon Statutes: 315.119 and 315.123
Sunset Date: 12-31-07
Year Enacted: 2001 (HB 2033)

	Corporation	Personal	Total
2001-03 Revenue Impact	$200,000	$200,000	$400,000
2003-05 Revenue Impact	$700,000	$700,000	$1,400,000

DESCRIPTION: Establishes an income tax or a corporate income tax credit 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 which is specially assessed for farm use and owned and controlled by the farm operator. The amount of the tax credit is calculated as the lesser of the effective property tax rate multiplied by the adjusted basis (for income tax purposes) of the qualified machinery and equipment or $30,000. This tax credit can be carried forward for five years. A tax credit is not allowed if the machinery and equipment is fully depreciated for tax purposes.

The credit is available for tax years beginning on or after January 1, 2002. However, the program does not extend beyond the 2007 tax year except for the application of unused credits to taxes in later years.

This credit does not apply to the property used in farming because it is exempted from property tax as described in Farm Machinery and Equipment (Property) (2.046).

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.

EVALUATION: Small- and medium-sized food processors face market disadvantages. After thousands of mergers and acquisitions in the food procesing 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]*

1.173 RIPARIAN LANDS REMOVED FROM FARM PRODUCTION

Oregon Statutes: 315.113
Sunset Date: None
Year Enacted: 2001 (HB 3105)

	Corporation	Personal	Total
2001-03 Revenue Impact	$0	$0	$0
2003-05 Revenue Impact	Less than $50,000	Less than $50,000	Less than $50,000

DESCRIPTION: This expenditure creates an income tax credit for certain riparian farmland that is voluntarily taken out of agricultural production for conservation purposes. The credit applies only to land that was formerly in agricultural production and within 35 feet of the bank of a natural watercourse. The credit is equal to 75 percent of the value of the crops foregone, excluding the raising of livestock. The credit has a five-year carry forward. The credit is available beginning with the 2004 tax year

PURPOSE: The purpose 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.

WHO BENEFITS: The general public benefits by increased water quality and the associated increase in fish and other wildlife populations. The producer is partially "made whole" for the loss of production value of the land taken out of production if he has taxable income against which to take a tax credit.

EVALUATION: This credit does not become available until 2004; the extent to which producers will utilize this incentive is difficult to estimate. *[Evaluated by the Department of Agriculture]*

1.174 POLLUTION PREVENTION

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

	Corporation	Personal	Total
2001–03 Revenue Impact:	Less than $50,000	$100,000	$100,000
2003–05 Revenue Impact:	Less than $50,000	$100,000	$100,000

DESCRIPTION: This provision, referred to in statute as the Emission-Reducing Production Technology Credit, allows a tax credit against corporation or personal income taxes for investments in technologies and processes that prevent emissions of perchloroethylene, chromium, and halogenated solvents. The taxpayer must have the investment certified by the Department of Environmental Quality (DEQ). The application for credit certification should be made within one year of completion of the installation. The sunset date for installation was December 31, 1999. The credit amount is equal to 10 percent per year for five years of the costs of the technologies or processes as certified by DEQ. The credit is not refundable, and unused credit amounts can be carried forward for three years. No reduction in depreciable basis is required.

PURPOSE: A pilot program designed to test the effectiveness of a tax credit that "encourages 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. A total of 35 pollution prevention investments were certified to 32 taxpayers for tax credits total $739,932. Much of the benefit goes to the dry-cleaning industry, which is a large user of perchloroethylene. For discussion of additional tax expenditures related to the dry-cleaning industry, see Chapter 13.

EVALUATION: This expenditure is effective in achieving its purpose. It could be improved by expanding the awareness of the program, thereby reaching the potential credit recipients who have installed eligible technologies. [*Evaluated by the Department of Environmental Quality*.]

1.175 POLLUTION CONTROL

Oregon Statute: 315.304
Sunset Date: 12-31-07
Year Enacted: 1967, modified in 2001 (SB 764)

	Corporation	Personal	Total
2001–03 Revenue Impact:	$19,400,000	$8,800,000	$28,200,000
2003–05 Revenue Impact:	$15,700,000	$7,100,000	$22,800,000

DESCRIPTION: The pollution control credit allows a credit against corporation or personal income taxes equal to up to 50 percent (depending on the type of project and installation date) of the cost of pollution control facilities. The taxpayer must have the investment certified by the Department of Environmental Quality (DEQ). The application for credit certification should be made within one year of completion of the facility. The sunset date for construction is December 31, 2007. Both the facilities themselves and the allowable costs are certified by the DEQ. Facilities are certified for the credit 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 government pollution control standards, or the sole purpose must be to prevent, control, or reduce a significant quantity of pollution. Facilities can include structures, land, machinery, or reconstruction and improvements to land or existing structures. Certain items are specifically excluded by statute, including asbestos abatement, septic tanks, and human waste facilities, office buildings, parking lots, landscaping and automobiles.

The qualified taxpayer may include the lessee, lessor, or contract purchaser of a pulp, paper, or paperboard facility. Prior to modification of the law in 1999, only credits for recycling and material recovery facilities could be passed onto a non-owner operator. The credit is available to either the owner or lessee of the facility, but not to both.

The amount of credit is up to half of the certified cost of the facility multiplied by the certified percentage allocable to pollution control, divided by the number of years of the facility's useful life. The maximum useful life for calculating the credit is 10 years.

Projects started before January 1, 2001, and completed before January 1, 2004, are eligible for credits of 50 percent of the cost. Projects after these dates are eligible for a credit of up to 35 percent of the cost of projects that meet high levels of environmental compliance. Pollution control projects not meeting these conditions are eligible for phase-out credits equal to 25 percent, 15 percent, or 0 percent dependent on when the project commenced.

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

The Pollution Control Facilities Exemption (2.058) on the property tax is a companion to this pollution control credit on the income tax. 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 tax year 2000 about 100 corporate tax payers benefited from this credit. These corporate taxpayers reduced their tax liability by $101,000 on average. There were additional taxpayers claming this credit who were unable to use it due to insufficient tax liability. Additional taxpayers paying personal income taxes benefited from this provision.

EVALUATION: The expenditure has been only partially successful in achieving its purpose as an incentive to promote the installation of some pollution control equipment that otherwise would *not* have been installed. Only 25 percent of all tax credits approved since 1995 were for this type of facility.

Most expenditures provided a reward to taxpayers for activities that they are required to do anyway. Seventy-five percent of approved tax credits were for principal purpose facilities. This tax expenditure would be far more effective it were only allowed for investments in pollution control that would not otherwise be made.

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

Since the program's inception, over 4,000 facilities have received pollution control tax credit certificates totaling about $650 million. [*Evaluated by the Department of Environmental Quality*.]

1.176 RECLAIMED PLASTICS

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

	Corporation	Personal	Total
2001–03 Revenue Impact:	Less than $50,000	$100,000	$100,000
2003–05 Revenue Impact:	Less than $50,000	$100,000	$100,000

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 taxpayer must apply to the Department of Environmental Quality and have the investment certified to qualify for the credit. The Environmental Quality Commission may grant preliminary certification to no more than $1.5 million in total investments each year.

The property or equipment must have been acquired or constructed prior to December 31, 2001.

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

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

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

WHO BENEFITS: In tax year 2000, nine corporations claimed a total of less than $50,000 for the credit. The direct beneficiaries of the reclaimed plastic tax credit are businesses that collect or process recyclable plastic, manufacture a product from reclaimed plastic, or own and lease equipment to plastic recyclers. The benefits from this tax credit also flow through to other persons and companies in the plastic recycling chain. These benefits include reduced charges for recycling service or reduced cost of reclaimed plastic stock and products. In addition, the public benefits from the recovery of waste plastic.

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

1.177 SEWER CONNECTION

Oregon Statute: 316.095
Sunset Date: 6-30-95
Year Enacted: 1987

	Corporation	Personal	Total
2001–03 Revenue Impact:	Not Applicable	$100,000	$100,000
2003–05 Revenue Impact:	Not Applicable	$100,000	$100,000

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 non-refundable. Any credit that cannot be claimed because of insufficient tax liability may be used in later years, for up to eight years.

To qualify for the credit, the connection must be made after January 1, 1985, and must be required by either: a) an order or rule issued or adopted by the Environmental Quality Commission (EQC) before July 1, 1989; b) an intergovernmental agreement between the EQC and a local government entered into before July 1, 1989; or c) a health hazard annexation ordered by the Assistant Director for Health after January 1, 1988 and before July 1, 1995. Because all connections have already been made, the total number of credits claimed in a particular year will decline as homeowners' five-year credit periods are completed. Because no new projects can be approved after July 1, 1995, connections qualifying for the credit will eventually cease and total credits will fall to zero.

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

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

EVALUATION: Not evaluated.

1.178 FISH HABITAT IMPROVEMENT

Oregon Statute: 315.134
Sunset Date: 1-1-1998
Year Enacted: 1981

	Corporation	Personal	Total
2001–03 Revenue Impact:	Less than $50,000	Less than $50,000	Less than $50,000
2003–05 Revenue Impact:	$0	$0	$0

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

The credit was allowed to sunset as of January 1, 1998, the last date for submitting applications for preliminary certification, so the tax expenditure shown above represents only prior-year credits carried forward. Based on when final certifications of projects were made, the last tax year for carry forwards of credits is 2002.

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

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

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

EVALUATION: Although the credit had been used infrequently, it appears to be effective in promoting projects that improve fish habitat. The previous annual limit ($100,000) on certifiable costs was reached in applications for calendar year 1996. However, after the Legislature failed to remove the sunset clause, applications for calendar year 1997 had an aggregate cost of only $65,000. The number of applications declined from 12 in 1996 to seven in

1997, with six of the seven 1997 applications coming from entities that had not previously applied.

There are several possible reasons why the credit was not used extensively. First, the whole salmon restoration process was not moving forward with the momentum it now has. Second, many landowners were probably not aware of the credit. Third, some landowners may have undertaken habitat improvement projects in association with nonprofit organizations and treated expenditures and donations as charitable contributions. We think this may have happened with companies that participated in restoration projects since 1994 under the North Coast Salmonid Project (Oregon Wildlife Heritage Foundation). Unfortunately, there are no data to describe the relative importance of these explanations. [*Evaluated by the Department of Fish and Wildlife*.]

1.179 FISH SCREENING DEVICES

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

	Corporation	Personal	Total
2001–03 Revenue Impact:	Less than $50,000	Less than $50,000	Less than $50,000
2003–05 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 1999–01 biennium, 166 screens were certified, with a potential tax credit of $44,867. Of the biennium total, 132 screens with a potential credit of $25,768 were from screen projects funded through the Oregon Watershed Enhancement Board (OWEB) under a new program that continues into the 2001–03 biennium. The other 34 screens were funded through a statewide program, and three of these qualified for the maximum credit of $5,000 per screen. For the first half of the 2001–03 biennium, 48 screens have been certified with a potential tax credit of $9,187. All screens for 2001–03 are funded through OWEB.

EVALUATION: This expenditure appears to be effective in achieving its purpose. The use of the credit has been increasing because the amount of fish screening is increasing as the law requiring the installation of screens on irrigation diversions gains acceptance among irrigators. It seems unlikely the current level of screening activity would be going on without the legislation that created the program in its latest form. Additional funding for the overall screening program through OWEB increased the number of screens installed during the 1999–01 biennium. Continuation of this screens funding via OWEB is expected to continue the program at a pace faster than that observed prior to the 1999–01 biennium. [*Evaluated by the Department of Fish and Wildlife*.]

1.180 ALTERNATIVE ENERGY DEVICES (RESIDENTIAL)

Oregon Statute: 316.116, 317.115
Sunset Date: None
Year Enacted: 1977, modified in 2001 (SB 520)

	Corporation	Personal	Total
2001–03 Revenue Impact:	Less than $50,000	$7,600,000	$7,600,000
2003–05 Revenue Impact:	Less than $50,000	$8,200,000	$8,200,000

DESCRIPTION: A credit against personal income taxes is allowed to taxpayers who install certain alternative energy devices in their residence. Examples of qualifying devices include solar devices; groundwater heat pumps; ground loop systems; a renewable energy system that heats or cools space, generates electricity, heats water, or is used for swimming pool, spa, or hot tub heating. Taxpayers may also receive a credit for the purchase of energy-efficient appliances and alternative fuel devices. Homeowners or renters may receive a tax credit for eligible system. A builder who owns a home built for speculative sale may claim a tax credit for an alternative-fuel fueling/charging system.

The credit for solar, geothermal, wind, and fuel cell systems equals 60 cents multiplied by the first-year energy savings in kilowatt-hours, up to $1,500 per dwelling served. For swimming pool, spa, or hot tub heating, the credit equals 15 cents multiplied by the first-year energy savings in kilowatt-hours, up to 50 percent of the device cost, not to exceed $1,500. The appliance credit is 40 cents per kilowatt-hour saved or 25 percent of the appliance cost, whichever is less, not to exceed $1,000 total for all appliances. For alternative fuel devices, the maximum credit is 25 percent of the cost, not to exceed $750.

Corporations that construct or install a fueling station necessary to operate an alternative fuel vehicle are also eligible for a credit equal to 25 percent of the cost of the fueling station, not to exceed $750.

The taxpayer must have the device certified by the Office of Energy or, for certain devices, a contractor certified by the Office of Energy may provide the certification. Any credit unclaimed in a particular year because of insufficient tax liability may be used in later years, for up to five years.

The 1997 Legislature added energy-efficient appliances and alternative-fuel vehicles/fueling systems to the list of qualifying devices, effective January 1, 1998.

The 1999 Legislature added wind systems, fuel cell systems, and a "pass-through" tax credit payment through dealers and lenders for alternative-fuel vehicles, effective January 1, 2000.

The 2001 Legislature expanded the pass-through provision to apply to any energy equipment that qualifies for this credit, eliminated the requirement that the alternative energy devices provide at least 10 percent of the total dwelling energy requirement, and eliminated the former December 31, 2001, sunset date.

PURPOSE: The credit is designed 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. Because the program reduces the demand for energy, it helps keep energy bills lower.

EVALUATION: This credit has been successful in achieving its purpose. Through 2001, more than 21,000 renewable energy systems and almost 66,000 highly efficient appliances have been installed in Oregon—primarily as a result of the tax credit. Energy cost savings to Oregon households from the program are nearly $5 million per year. The use of the credit has increased since 1998, with the Legislature's addition of energy-efficient appliances to the program.

Changes in the 2001 legislation appear to be having a positive impact on installation of renewable systems. Influence in the marketplace is another indicator of the credit's effectiveness. Appliance dealers report substantial increases in energy-efficient appliance sales tied to the tax credit.

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

1.181 BUSINESS ENERGY FACILITIES

Oregon Statute: 315.354
Sunset Date: None
Year Enacted: 1979, modified in 2001 (SB 521 and HB 2272)

	Corporation	Personal	Total
2001–03 Revenue Impact:	$10,800,000	$3,600,000	$14,400,000
2003–05 Revenue Impact:	$15,000,000	$4,700,000	$19,700,000

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.

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. Any credit unclaimed in a particular year because of insufficient tax liability may be used in later years, for up to eight years.

Renewable resource facilities must produce energy or reduce energy consumption by using solar, wind, hydro, geothermal, or biomass sources. Energy conservation projects must reduce energy consumption by at least 10 percent.

The program was crafted to ensure the credit stimulates investments in energy-efficiency projects rather than rewarding businesses for what they would have done without the credit. Eligible projects must have paybacks of more than one year. Credits are awarded only to projects or portions that significantly exceed standard practice. Projects that are required by state or federal law are not eligible.

The 2001 amendments to this expenditure affect it in several ways. For example, the credit may be claimed entirely in the first year if the eligible costs are less than $20,000. The list of eligible users of the credit was expanded to include both utilities and customers of consumer-owned and other public utilities. Car-sharing expenses and sustainable building practices now qualify for the credit. These new provisions apply to tax years beginning on or after January 1, 2001.

PURPOSE: " . . . to encourage the conservation of electricity, petroleum and natural gas by providing tax relief for Oregon facilities that conserve energy resources or meet energy requirements through the use of renewable resources." (ORS 469.190)

WHO BENEFITS: Businesses investing in facilities that produce energy, reduce the consumption of energy, recycle, or use less-polluting transportation fuels. For tax year 2000 about 95 corporate taxpayers benefited from this credit. These taxpayers reduced their tax liability by $26,000 on average. There were additional taxpayers claiming this credit who were unable to use it due to insufficient tax liability. Additional taxpayers paying personal income taxes benefited from this provision. A variety of businesses, including manufacturers, food processors, lumber companies, farmers and ranchers, service industries, retailers, and rental housing owners participate in the program. At least three-quarters of the projects have been undertaken by small businesses. Some 48,000 rental units have been weatherized through the program, reducing renters' utility costs or rent and making their housing more comfortable.

EVALUATION: This credit has been very effective in achieving its purpose. To date, more than 6,000 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.

By reducing operating costs, the credit boosts the productivity and competitiveness of Oregon businesses. All told, the credit has cut the energy costs of Oregon businesses by more than $143 million a year. [*Evaluated by the Office of Energy*.]

1.182 ENERGY CONSERVATION LENDER'S CREDIT

Oregon Statute: 317.112
Sunset Date: None
Year Enacted: 1981, modified in 2001 (SB0520)

	Corporation	Personal	Total
2001–03 Revenue Impact:	Less than $50,000	Not Applicable	Less than $50,000
2003–05 Revenue Impact:	Less than $50,000	Not Applicable	Less than $50,000

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

The loan amount cannot exceed $5,000 per dwelling (or $2,000 per dwelling for nonprofit homes for the elderly) and the term cannot exceed 10 years. The loan must be used by the dwelling owner for energy conservation measures, including weather-stripping, caulking, insulation, energy-efficient replacement or storm windows and doors, and efficient oil furnaces. The owner must get an energy audit before getting the loan. The credit is non-refundable. Any credit unclaimed in a particular year because of insufficient tax liability may be carried forward up to 15 years. The 2001 legislation eliminates the former sunset date of December 21, 2001.

PURPOSE: To promote energy conservation in the more than 100,000 oil- and propane-heated homes by encouraging lending institutions to make loans for the financing of energy-saving projects.

WHO BENEFITS: Homeowners and owners of rental housing qualifying for energy conservation loans. Lenders may capture some of the benefit if the credit allows them to make profitable loans that they otherwise could not have made. Currently seven lending institutions are making energy conservation loans, but the bulk of the loans are made by two of them.

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 propane-heated homes. Improving the efficiency of oil- and propane-heated homes helps achieve the Oregon benchmarks for affordable housing and better air quality.

Since 1982, over 4,400 SHOW loans have been made for energy conservation measures. Oregon households that have participated in the program save almost two million gallons of oil and cut household energy bills by about $2.3 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. [*Evaluated by the Office of Energy*.]

1.183 GEOTHERMAL HEATING SYSTEM CONNECTION

Oregon Statute: 316.086
Sunset Date: 12-31-95
Year Enacted: 1979

	Corporation	Personal	Total
2001–03 Revenue Impact:	Not Applicable	Less than $50,000	Less than $50,000
2003–05 Revenue Impact:	Not Applicable	$0	$0

DESCRIPTION: A credit is allowed against personal income taxes equal to 25 percent of the cost of connecting a principal residence to a geothermal heating system run by a geothermal heating district. The credit may not exceed $1,000. The credit is non-refundable. Any credit unclaimed in a particular year because of insufficient tax liability may be used in later years, for up to five years. The credit was allowed to sunset on December 31, 1995, so the tax expenditure shown above represents only prior-year credits carried forward. The year 2000 is the final year these carryforwards can be used (which impacts revenues only in FY01).

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

PURPOSE: To promote the use of geothermal energy as an alternative to non-renewable energy sources. The Alternative Energy Devices (Residential) credit (1.180) applies to geothermal energy devices, but not to connections to a geothermal district.

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

EVALUATION: This credit has been replaced with the Business Energy Tax Credit and the Residential Energy Tax Credit. [*Evaluated by the Office of Energy*.]

1.184 REFORESTATION

Oregon Statute: 315.104
Sunset Date: 12-31-11
Year Enacted: 1979, modified in 2001 (HB 2161)

	Corporation	Personal	Total
2001–03 Revenue Impact:	$300,000	$200,000	$500,000
2003–05 Revenue Impact:	$800,000	$500,000	$1,300,000

DESCRIPTION A credit is allowed against personal or corporation income tax equal to 50 percent of the qualified cost of reforesting under-productive commercial forest land. To qualify, the taxpayer must have the state Department of Forestry preliminarily certify the project after planting is completed. The taxpayer can claim 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 forest land and the taxpayer's portion of project cost must be at least $500 for the project to qualify for the credit. Qualified costs include costs actually incurred for site preparation, tree planting, and other necessary silviculture treatments (such as moisture, erosion and animal damage control). Qualified costs exclude costs associated with reforestation projects required under the Forest Practices Act, any portion of cost paid through federal or state cost-sharing programs, and costs for growing Christmas trees, ornamental trees, or shrubs. Generally, costs associated with short rotation hardwoods (such as cottonwoods) are not eligible. Taxpayers owning no more than 2,000 acres of forest land in western Oregon (and no more than 5,000 acres in eastern Oregon) may, however, elect to claim the credit for planting these short rotation crops, but they must then pay the timber privilege tax at the time of harvest.

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

The 2001 legislation increased the amount of the credit from 30 percent to 50 percent. The credits only apply to claims established after January 1, 2001, but before December 31, 2011. The legislation also expands the exclusion of qualifying costs from federal and state cost share to other financial assistance or incentive programs.

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

WHO BENEFITS: Taxpayers who make expenditures to reforest under-productive commercial forest lands. About half of the beneficiaries are small, non-industrial timber growers, and half are larger industrial (mostly corporate) owners. The bulk of the credit, however, goes to the large industrial timber growers because they reforest much more of this type of forest land than do individual growers. The public also benefits from changing underproducing lands into productive forests for the many social, economic, and environmental benefits that forests have to offer.

EVALUATION: This expenditure is achieving its purpose with progress increasing significantly since the forest industry became eligible for the program. About 3,500 acres of brush and under stocked forest lands have been converted since the credit was increased from 10 to 30 percent in 1987. Forested lands produce far more and far better public benefits (fish and wildlife habitat and carbon sequestration through the tree's use of carbon dioxide to produce wood volume are two notable benefits) than do brush lands. The cost per acre for this conversion to the state averages about $50/acre with projected tax returns from these lands at over $400/acre on land that is converted to full stocking over a 50-year period. Considering positive effects to the environment and increase in future tax revenues, this has a good return on investment. [*Evaluated by the Forestry Department*.]

1.185 FIRE INSURANCE CREDIT

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

	Corporation	Personal	Total
2001–03 Revenue Impact:	$3,400,000	Not Applicable	$3,400,000
2003–05 Revenue Impact:	$3,600,000	Not Applicable	$3,600,000

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.

Prior to January 1, 1997, this expenditure pertained only to domestic insurers. Foreign insurers did not have an equivalent credit for the gross premium tax. With the repeal of the gross premium tax, all insurers are eligible to claim a credit against the corporation income tax for their fire insurance taxes paid.

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

WHO BENEFITS: For tax year 2000 about 215 corporate taxpayers benefited from this credit. These taxpayers reduced their tax liability by $8,000 on average. There were additional taxpayers claiming this credit who were unable to use it due to insufficient tax liability.

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

1.186 WORKERS' COMPENSATION ASSESSMENTS (INCOME TAX)

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

	Corporation	Personal	Total
2001–03 Revenue Impact:	$5,900,000	Not Applicable	$5,900,000
2003–05 Revenue Impact:	$6,100,000	Not Applicable	$6,100,000

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

This expenditure became effective January 1, 1997. Prior to that date, foreign insurers claimed this credit against the gross premium tax as reported in Workers' Compensation Assessments (Gross Premium) (5.004).

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

WHO BENEFITS: For tax year 2000 about 65 corporate taxpayers benefited from this credit. These taxpayers reduced their tax liability by $44,000 on average. There were additional taxpayers claiming this credit who were unable to use it due to insufficient tax liability. Additional taxpayers paying personal income taxes benefited from this provision.

EVALUATION: This expenditure was effective as a credit against the gross premium tax and is expected to remain effective under the corporation income tax. The workers' compensation assessment provides funds used to administer the entire Oregon Workers' Compensation system. This includes occupational safety and health issues handled by OR-OSHA. OR-OSHA has worked very successfully to reduce accident rates to Oregon workers and thereby reduce costs to employers and harm to workers. Funds are also used to regulate the insurance industry to ensure fair rates are charged employers and benefits are paid timely and accurately to injured workers. The system also includes mechanisms to ensure timely resolution of disputes to guarantee injured workers receive benefits for legitimate injuries in an expedient manner.

Two Oregon Benchmarks are directly impacted by the activities carried out as a result of this credit. Small Business Startups per 1,000 population are impacted by maintaining a safe and healthy work environment and by maintaining a reasonably priced workers' compensation system. Next, Oregon's ranking among states in workers' compensation costs has improved from 8th in 1990 to 34th in 2000. 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*.]

1.187 OREGON IGA ASSESSMENTS (INCOME TAX)

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

	Corporation	Personal	Total
2001–03 Revenue Impact:	$4,700,000	Not Applicable	$4,700,000
2003–05 Revenue Impact:	$5,700,000	Not Applicable	$5,700,000

DESCRIPTION: Property and casualty insurers pay both the corporation income tax and an assessment to a guaranty association that is used to cover the cost of claims against insurers who have gone out of business. These insurers are then entitled to a credit against the corporation income taxes for assessments paid to Oregon Insurance Guaranty Association (OIGA) at the rate of 20 percent per year for each of the five years following the year in which the assessment was paid.

Prior to January 1, 1997, this expenditure pertained only to domestic insurers, while foreign insurers had an equivalent credit against gross premium tax. With the repeal of the gross premium tax, all insurers are eligible to claim a credit against the corporation income tax for assessments paid to OIGA. The expenditure relating to gross premium tax is reported in Oregon IGA Assessments (Gross Premium) (5.005).

The revenue impact includes the estimated impact of recent 2001 and 2002 OIGA assessments.

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

WHO BENEFITS: For tax year 2000 about 10 corporate taxpayers benefited from this credit. These taxpayers reduced their tax liability by $200 on average. There were additional taxpayers claiming this credit who were unable to use it due to insufficient tax liability.

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*.]

1.188 OREGON LIFE AND HEALTH IGA ASSESSMENTS (INCOME TAX)

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

	Corporation	Personal	Total
2001–03 Revenue Impact:	$7,000,000	Not Applicable	$7,000,000
2003–05 Revenue Impact:	$7,000,000	Not Applicable	$7,000,000

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.

Prior to January 1, 1997, this expenditure pertained only to domestic insurers, while foreign insurers had an equivalent credit against gross premium tax. With the repeal of the gross premium tax, all insurers are eligible to claim a credit against the corporation income tax for assessments paid to OLHIGA. The expenditure relating to gross premium tax is reported in Oregon Life and Health IGA Assessments (5.006). The revenue impacts reported here account for the phase out of the gross premium tax.

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

WHO BENEFITS: For tax year 2000 about 250 corporate taxpayers benefited from this credit. These taxpayers reduced their tax liability by $14,000 on average. There were additional taxpayers claiming this credit who were unable to use it due to insufficient tax liability.

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*.]

1.189 POLITICAL CONTRIBUTIONS

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

	Corporation	Personal	Total
2001–03 Revenue Impact:	Not Applicable	$8,800,000	$8,800,000
2003–05 Revenue Impact:	Not Applicable	$8,800,000	$8,800,000

DESCRIPTION: A credit may be claimed against personal income taxes for the amount of qualified political contributions, not to exceed $50 (or $100 on a joint return). Qualified political contributions include voluntary cash contributions to a major or minor political party, to candidates for office in an election in the state (includes federal candidates), or to political action committees (PACs) in the state. The credit is non-refundable. Credits that cannot be used because of insufficient tax liability in the current year may not be carried forward to later years. The credit was modified in 1999 (SB 369) by expanding the candidates and contributions eligible for the credit.

PURPOSE: To increase public participation in the political process.

WHO BENEFITS: Taxpayers who make cash contributions to political candidates or political action committees. The number of full-year resident taxpayers who claim this credit fluctuates from year to year. The number of taxpayers claiming the credit expanded dramatically in 1999 because of the law’s expansion.

In 1999, about 55,700 Oregon full-year residents claimed this credit. In 2000, about 73,400 Oregon full-year residents claimed this credit. The average credit claimed held steady at about $70 in both 1999 and 2000; a total of $3.79 million was claimed in 1999 and $4.97 million in 2000.

Income Group (Quintiles)	Taxpayers		Mean Credit
	Number	Percent	
Below $10,000	1,246	1.7%	$36
$10,000 - $22,000	4,337	5.9%	$50
$22,000 - $37,000	8,196	11.2%	$57
$37,000 - $63,000	18,384	25.0%	$63
Above $63,000	41,242	56.2%	$76
Total	73,405	100.0%	$69

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

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, it is expected that claimants will increase in numbers. The 2001–03 expenditure estimate included the estimated $1 million impact of the limitation repeal.

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.

1.190 PERSONAL EXEMPTION CREDIT

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

	Corporation	Personal	Total
2001–03 Revenue Impact:	Not Applicable	$810,400,000	$810,400,000
2003–05 Revenue Impact:	Not Applicable	$874,900,000	$874,900,000

DESCRIPTION: Every taxpayer in Oregon receives a minimum of one personal exemption credit on Oregon's personal income tax. In addition to this credit, taxpayers receive an additional credit for each dependent. On joint returns, each spouse receives a credit. Individuals who can be claimed as a dependent on another's return cannot claim a credit on their own return. The amount of the credit was $145 in 2002; it is indexed to inflation.

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

WHO BENEFITS: All personal income taxpayers in Oregon, except those who are claimed on another taxpayer's return. The benefit rises with increases in family size. The number of personal exemptions increased from about 2,680,000 in 1990 to 3,226,000 in 2000. The credit per exemption, indexed for inflation, increased from $98 to $139 in that same period. The credit is non-refundable and cannot be carried forward, so taxpayers whose tax liability is less than their exemption do not receive the full benefit of the credit. About 9 percent of the credit went unused in 2000 due to insufficient tax liabilities. The total amount of Oregon exemption credits increased from $227 million in 1990 to $386 million in 2000.

Income Group (Quintiles)	Taxpayers		Mean Credit
	Number	Percent	
Below $10,000	187,000	14.2%	$100
$10,000 - $22,000	274,978	20.8%	$216
$22,000 - $37,000	285,091	21.6%	$263
$37,000 - $63,000	286,567	21.7%	$332
Above $63,000	286,804	21.7%	$382
Total	1,320,440	100.0%	$271

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

1.191 RETIREMENT INCOME

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

	Corporation	Personal	Total
2001–03 Revenue Impact:	Not Applicable	$2,900,000	$2,900,000
2003–05 Revenue Impact:	Not Applicable	$2,100,000	$2,100,000

DESCRIPTION: Certain taxpayers who are 62 or older are allowed a credit against personal income taxes equal to nine 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.

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.

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

The revenue impacts reported here include the effect of exempting federal pension income beginning with tax year 1998 (Federal Pension Income (1.132)). Because federal pensioners will no longer be paying Oregon taxes on federal pension income, they will also be using this retirement credit much less.

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

WHO BENEFITS: The number of taxpayers claiming the credit declined from about 52,800 in 1991 to 26,700 in 1997. The average credit claimed in 1997 was $285. When federal pension income became exempt from taxation in 1998, the use of this credit declined substantially. In 1998, roughly 16,900 taxpayers claimed an average credit of $280. In 2000 the number of taxpayers and average credit declined further to approximately 11,500 and $190, respectively.

Income Group (Quintiles)	Taxpayers		Mean Credit
	Number	Percent	
Below $10,000	1,696	14.7%	$80
$10,000 - $22,000	5,110	44.4%	$170
$22,000 - $37,000	4,068	35.4%	$269
$37,000 - $63,000	629	5.5%	$197
Above $63,000	0	0.0%	N/A
Total	11,503	100.0%	$193

EVALUATION: This tax expenditure appears to achieve its purpose. It provides added financial security to those eligible and contributes to their ability to remain self-sufficient. By encouraging financial independence, this provision reduces demand for other state-funded services and saves the state money. This tax expenditure will become increasingly important as the population distribution changes. Current forecasts indicate that current retirement savings are not nearly sufficient to support future retirees in their accustomed lifestyles. Because this tax provision is relatively new, it should be monitored to determine if the established threshold level should be modified in the future. [*Evaluated by the Seniors and People with Disabilities Cluster*.]

1.192 TRUST FOR CULTURAL DEVELOPMENT

Oregon Statutes: 315.675
Sunset Date: 12-31-12
Year Enacted: 2001 (HB 2923)

	Corporation	Personal	Total
2001-03 Revenue Impact:	$300,000	$1,900,000	$2,200,000
2003-05 Revenue Impact:	$2,400,000	$15,500,000	$17,900,000

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 taxpayer may still deduct any amount allowed for a charitable contribution. The credit is limited to a maximum of $1,000 ($500 for a single filer) for personal income tax filers and $2,500 for corporations. The Secretary of State oversees the Cultural Development Board which oversees the Trust for Cultural Development Account.

The credit is available for tax years beginning in 2002 but only for donations made to the account after December 1, 2002. The credit may not be carried forward to another tax year.

The Trust for Cultural Development invests in Oregon cultural development by funding county and tribal coalitions, providing grants to cultural organizations, and funding statewide cultural agencies.

PURPOSE: To encourage donations to cultural organizations that include “theatres, performing arts centers and programs, historic buildings, museums and their exhibits, public art, historic trails, pioneer cemeteries, archeological sites, architecture, Native American culture and traditions, [and] libraries and parks.”

WHO BENEFITS: Oregon cultural organizations.

EVALUATION: The Oregon Cultural Trust has no data at this time with which to evaluate this tax expenditure since the measure takes effect in December 2002. [*Evaluated by the Secretary of State*.]

CHAPTER 2: PROPERTY TAX

The property tax is the second largest tax in Oregon, providing most of the revenue for non-school local governments and roughly one quarter of the revenue for school districts. Total property taxes imposed, including taxes for urban renewal agencies, totaled $5.8 billion in the 1999–01 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 three percent per year.

For a more detailed description of Oregon's property tax system, see the Oregon Department of Revenue publication Oregon Property Tax Statistics, Fiscal Year 2001–02.

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 which results in a lower taxable value than would be the case if the usual assessment practice were used.

Revenue Loss and Shift

The revenue impact for property tax expenditures consists of two components: revenue loss and shift. Under Oregon's property tax system before Measure 5 passed in 1990, if property value was removed from the assessment roll because it was exempt, the result was a higher tax rate applied to all remaining property. There was no revenue loss to districts, and taxes were shifted completely to other properties. In contrast, under the tax rate limitations of Measure 5 exempting property from taxation resulted in revenue losses for local districts if tax rates were at the constitutional rate limits because rates could not rise to compensate for the reduction in taxable value. If tax rates were below the rate limits, rates could rise to compensate for the lower taxable value, and taxes were shifted to other properties.

Under the Measure 50 system, exempting property from taxation can still result in both a loss and a shift, much like under the Measure 5 system. Losses occur because the permanent tax rates established by Measure 50 do not adjust in response to changes in taxable assessed value. Consequently, the granting of property tax exemptions leads to revenue losses for local governments and schools. Shifts occur because most bond and local option taxes are passed by voters as fixed dollar amounts, which must be paid by owners of all taxable property. The removal of value leads to a higher tax rate, shifting taxes to other properties. Because nearly 80 percent of all property taxes are from permanent rates, the revenue losses due to property tax exemptions are much larger than the shifts.

Property tax expenditures also interact with other parts of the public finance system. Because part of the property tax revenue lost to school districts is replaced by state funding to schools, property tax exemptions 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 the total of the loss and shift.

2.001 ACADEMIES, DAY CARE, AND STUDENT HOUSING

Oregon Statute: 307.145
Sunset Date: None
Year Enacted: 1957

2001–02 Assessed Value of Property Exempted: $471.0 million

	Loss	Shift
2001–03 Revenue Impact:	$12,500,000	$2,500,000
2003–05 Revenue Impact:	$13,600,000	$2,700,000

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 (2.107)). Child care facilities must be certified by the Child Care Division of the Employment Department. To qualify, the property must be used exclusively for, or in immediate connection with, educational purposes. The organization must file an application with the county assessor to claim the exemption.

PURPOSE: To maintain similar tax treatment for certain school and child care properties to the treatment provided to other similar organizations (see Charitable, Literary, and Scientific Organizations (2.107) exemption).

WHO BENEFITS: Approximately 550 schools and day care properties in 14 counties were exempt in fiscal year 2001–02. Roughly 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*.]

2.002 FRATERNITIES, SORORITIES, AND COOPERATIVES

Oregon Statute: 307.460
Sunset Date: None
Year Enacted: 1973

2001–02 Assessed Value of Property Exempted: $30.3 Million

	Loss	Shift
2001–03 Revenue Impact:	$400,000	$60,000
2003–05 Revenue Impact:	$400,000	$60,000

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 non-discriminatory. An application is required to claim the exemption. If an exempt property no longer qualifies for the exemption, 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 (2.004) 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 (2.004)).

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.]

2.003 STUDENT HOUSING FURNISHINGS

Oregon Statute: 307.195
Sunset Date: None
Year Enacted: 1957

2001–02 Assessed Value of Property Exempted: $2.6 million

	Loss	Shift
2001–03 Revenue Impact:	$70,000	$10,000
2003–05 Revenue Impact:	$70,000	$10,000

DESCRIPTION: Generally, household furnishings that are leased with a housing unit are considered taxable. However, all personal property, furniture, goods, and furnishings in a student housing cooperative, fraternity, or sorority are exempt from property taxation so long as the housing is not rented out for profit. This tax expenditure is an extension of Fraternities, Sororities, and Cooperatives Exemption (2.002).

PURPOSE: To help keep college housing costs to a minimum by giving personal property of fraternities, sororities, and co-ops the same exempt status as personal property used in public school dorms.

WHO BENEFITS: About 80 accounts are exempt and are located primarily in Benton, Lane, Multnomah, and Yamhill counties.

EVALUATION: This tax expenditure achieves its purpose. As with real property taxes, the tax exemption on personal property for not-for-profit student housing is a valuable provision in minimizing housing costs for students.

It is a fiscally effective means of achieving its purpose. [Evaluated by the Oregon University System.]

2.004 LEASED STUDENT HOUSING PUBLICLY OWNED

Oregon Statute: 307.110(3)(a)
Sunset Date: None
Year Enacted: 1947

2001–02 Assessed Value of Property Exempted: $341.2 million

	Loss	Shift
2001–03 Revenue Impact:	$9,000,000	$1,800,000
2003–05 Revenue Impact:	$9,600,000	$1,900,000

DESCRIPTION: In general, when public property is held under contract of sale or is leased to a private individual or business, it is considered taxable. However, all publicly owned property that is rented or leased to students attending a school or college, such as state-owned dormitory rooms, is exempt from property tax. This provision applies to all student housing, such as dormitories and student family housing, owned by the Oregon University System and leased by publicly owned schools to students. Dormitories owned by private colleges generally fall under the charitable, literary, or scientific organizations exemption (2.107).

PURPOSE: To help keep college housing costs to a minimum by treating state higher education dormitories the same as other public property (State and Local Property (2.100)).

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*.]

2.005 HIGHER EDUCATION PARKING SPACE

Oregon Statute: 307.095(3)
Sunset Date: None
Year Enacted: 1989, modified in 2001 (SB 329)

2001–02 Assessed Value of Property Exempted: $127 million

	Loss	Shift
2001–03 Revenue Impact:	$3,300,000	$700,000
2003–05 Revenue Impact:	$3,500,000	$700,000

DESCRIPTION: In general, when public property is held under contract of sale or is leased to a private individual or business, it is considered taxable. However, state property owned by the Oregon University System and rented to employees, students, or visitors for parking use is exempt from property tax. University spaces rented to the general public for a fee are taxable. The 2001 legislation added parking spaces rented to visitors to the exemption and removed the expiration date of June 30, 2002.

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*.]

2.006 PRIVATE LIBRARIES FOR PUBLIC USE

Oregon Statute: 307.160
Sunset Date: None
Year Enacted: 1854

2001–02 Assessed Value of Property Exempted: $0.6 million

	Loss	Shift
2001–03 Revenue Impact:	Less Than $50,000	Less Than $50,000
2003–05 Revenue Impact:	Less Than $50,000	Less Than $50,000

DESCRIPTION: Private property used as a library open to the public is exempt from property taxation. The exemption includes the real property, books, and furnishings dedicated to library use. Privately owned libraries open to the general public use the exemption while publicly owned libraries are exempt as public property (State and Local Property (2.100)). 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 (2.107) to public or private libraries, treating them as places of learning similar to schools.

WHO BENEFITS: Five libraries use this exemption within Jackson, Lane, and Multnomah counties.

EVALUATION: This tax expenditure, in all but one case, is no longer necessary to ensure that Oregonians have access to public library services. It is a vestige of the time, in the 19th century, when Oregon did not have a public library law that enabled local communities to establish tax-supported libraries. Today there are 128 such libraries serving nearly the entire state and a number of other libraries, mostly organized as non-profit corporations, that do not claim the exemption afforded under ORS 307.160. A review of the exempted libraries finds that they vary in focus as well as the population served.

In Jackson County, public library services are available to all county residents through the Jackson County Library, a department of the county. This county library maintains libraries in 16 communities throughout Jackson County. There is no need for additional private libraries to provide public library services in the county, though the Rogue Valley Genealogical Society does provide family history research services not provided by the Jackson County Library. It may be that the Society could obtain a tax exemption under other provisions of Oregon law if ORS 307.160 was repealed.

In Lane County, the Blue River Library has for many years served an isolated population in the rural northeast part of the county that does not have any other public library services. Lane County does not have a county library. Lane County residents living outside of Eugene, Springfield, Junction City, Cottage Grove, Oakridge, and two library districts headquartered in Veneta and Florence do not have public library services. The Lane Library League is currently working toward a plan that would bring public library services to the rest of Lane County, perhaps as soon as 2005. Until such a plan can be implemented, there will continue to be a need for the services provided by the Blue River Library which probably depends on its tax exemption under ORS 307.160.

In Multnomah County, the Multnomah County Library, a department of the county, serves all county residents from their Central Library and 15 branch libraries throughout the county. The State Library has not gathered information about the Polish Library, but we assume that it serves a special clientele, possibly with Polish-language materials that are not readily available at the Multnomah County Library. It may be that the association could obtain a tax exemption under other provisions of Oregon law if ORS 307.160 was repealed.

The conclusion of this county-by-county analysis is that once the plans of the Lane Library League can be implemented, and if the Polish Library and the Rogue Valley Genealogical Society were able to receive a tax exemption under some other provision of ORS 307, there may not be a need to continue the tax exemption for private libraries provided by ORS 307.160.

The most fiscally effective means of providing quality public library services to all Oregonians is through the establishment of tax-supported public libraries under the provisions of ORS 357. Over 200 communities in Oregon have chosen to establish tax-supported public libraries under ORS 357. As was stated above, ORS 307.160 is a vestige of the situation prior to the development of tax-supported public library enabling legislation, beginning in 1901. Within a few years, given the conditions in the preceding paragraph, 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*.]

2.007 LEASED HEALTH CARE PROPERTY

Oregon Statute: 307.110(3)(i)
Sunset Date: None
Year Enacted: 1999

2001–02 Assessed Value of Property Exempted: $1.2 million

	Loss	Shift
2001–03 Revenue Impact:	Less Than $50,000	Less Than $50,000
2003–05 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 county, as defined by the Office of Rural Health.

PURPOSE: To clarify the tax treatment of property that a health district owns but leases or rents to other health care providers.

WHO BENEFITS: Residents of rural communities who have formed to support a health district.

EVALUATION: This modest benefit costs local governments less than $50,000 per biennium and affects only seven Oregon counties. It allows very fragile rural hospitals that are located in "frontier" communities to use a portion of their property to provide office space for physicians, without incurring a tax liability on those properties. Provision of adequate and convenient office space is often a critical factor in the recruitment and retention of rural physicians. Passage of this law has allowed Harney District Hospital to complete new office suites for its physicians and will ultimately affect other frontier hospitals as well. [*Evaluated by the Office of Rural Health*.]

2.008 RURAL HEALTH CARE FACILITIES

Oregon Statutes: 307.804
Sunset Date: None
Year Enacted: 2001 (SB 684)

2001–02 Assessed Value of Property Exempted: $0

	Loss	Shift
2001-03 Revenue Impact	Less Than $50,000	Less Than $50,000
2003-05 Revenue Impact	Less Than $50,000	Less Than $50,000

DESCRIPTION: Real and personal property of a rural health care facility is exempt from property taxation if the property constitutes new construction, new additions, new modifications, or new installations of property as of the first assessment date for which the facility is in service. Land and other existing property are not exempt. The exemption lasts three years, but the taxpayer must file its intention to take the exemption each year. The county must approve the exemption but each affected taxing district has the option of granting the exemption. It applies for tax years that begin on or after July 1, 2002.

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.

2.009 LONG-TERM CARE FACILITIES

Oregon Statute: 307.808
Sunset Date: None
Year Enacted: 1999

2001–02 Assessed Value of Property Exempted: $0

	Loss	Shift
2001–03 Revenue Impact:	Less than $50,000	Less than $50,000
2003–05 Revenue Impact:	Less than $50,000	Less than $50,000

DESCRIPTION: A property tax exemption is allowed for certain long-term care facilities and adult foster homes. The long-term care facilities must have an average residency rate of at least 70 percent and the adult foster homes must have an average residency rate of at least 60 percent of residents who are eligible for Medicaid. Each long-term care facility and adult foster home will be required to get the exemption from each taxing district. The facility will only receive a property tax exemption from those taxing districts granting the exemption. The exemption applies to tax years beginning on or after July 1, 2000. Both real and personal property can be exempt from the long-term facilities, which include nursing facilities, assisted living, or a residential care facility. The owner of the facility must file with the county assessor a copy of a certificate issued by the Senior and People with Disabilities Cluster (of the Oregon Department of Human Services).

PURPOSE: ORS 307.808 states that "…owners of long term care facilities who devote substantial proportions of those facilities to providing long term care to residents eligible for medical services under Medicaid provide an essential community service. …a property tax exemption will enable these essential community provider long term care facilities to increase the quality of care provided to facility residents."

WHO BENEFITS: There are currently no facilities utilizing 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 Seniors and People with Disabilities Cluster*.]

2.010 SENIOR SERVICES CENTERS

Oregon Statute: 307.147
Sunset Date: None
Year Enacted: 1993

2001–02 Assessed Value of Property Exempted: $2.4 million

	Loss	Shift
2001–03 Revenue Impact:	$60,000	$10,000
2003–05 Revenue Impact:	$70,000	$10,000

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 (2.107) exemption.

WHO BENEFITS: Roughly 20 properties primarily located in Coos, Curry and Douglas 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 (2.107), one concern is the restriction placed on fund raising. This condition often translates into a choice for senior service centers between fund raising and this property tax exemption. It is not likely that many centers will opt for the exemption over the fund raising so questions of applicability and efficiency of this tax expenditure arise. [*Evaluated by the Seniors and People with Disabilities Cluster*.]

2.011 SENIOR AND DISABLED DEFERRAL PROGRAM

Oregon Statute: 311.668 and 311.704
Sunset Date: None
Year Enacted: 1963; modified in 2001 (HB 2208 and HB 2347)

	Total
1999–01 Revenue Impact:	- $11,300,000
2001–03 Revenue Impact:	- $6,200,000

DESCRIPTION: This program allows qualifying citizens to delay paying property taxes, as well as special assessments for local improvements, on their residences. Oregon homeowners age 62 or over may delay payments for property taxes and special assessments. Disabled citizens may also delay these payments, regardless of age, as long as they are *eligible* to collect Social Security disability benefits. Instead, the state pays the property taxes and special assessments and charges the homeowners an annual interest rate of six percent. The state must be repaid, with interest, when the owner dies, sells the property, or moves.

Any person receiving Social Security survivor benefits in lieu of Social Security benefits due to disability or blindness is also allowed to participate in this program. For a disabled homeowner who is less than 62 years old, the lien from the deferred property taxes cannot exceed 90 percent of the real market value of the property.

To qualify for entrance into this deferral program, the taxpayer(s) must meet a maximum household income limit test. The income limit is adjusted annually for inflation and is $32,500 for fiscal year 2003-04. To maintain eligibility once accepted into the program, the taxpayer's federal adjusted gross income (FAGI) must be below each year's income limit. If the FAGI exceeds the income limit for the year, the amount of taxes or special assessments deferred is reduced by $0.50 for every dollar of FAGI in excess of the income limit.

Prior to 2001-02, eligibility was limited to Oregon homeowners age 62 or over and the income limit was absolute – taxpayers with an income above the limit were excluded from the program. The 1999 Legislature expanded eligibility to include homeowners, regardless of age, who receive Social Security disability benefits and they installed the phaseout of the deferral amount for homeowners with income above the limit. These changes took effect in fiscal year 2001–02. The 2001 Legislature expended this program slightly by including taxpayers who are *eligible* to receive Social Security disability benefits.

The Department of Revenue maintains records on the amount of tax deferred in each year as well as the amount repaid, with interest, each year. The reported tax benefit is the difference between deferrals and repayments in a given year. In years when repayments are greater than deferrals, the tax benefit is reported as a negative number.

PURPOSE: To defer the property tax burden on low-income seniors and disabled people in recognition that many may not have the resources to pay their taxes until they sell their homes.

WHO BENEFITS: Approximately 9,100 low-income, senior homeowners chose to defer their local property taxes for the 1999–00 fiscal year. These deferrals translated into nearly $12.4 million in local property taxes that were paid by the state. The average amount of local property taxes paid was $1,360. Currently, the total amount of deferred taxes owed to the state is just under $134 million.

As for the deferral of special assessments, 170 low-income, senior homeowners chose to participate in this aspect of the program in 1999–00. These deferrals resulted in the state paying over $70,000 in special assessments, or $415 per participant, on average.

EVALUATION: This tax expenditure achieves its purpose. It provides a mechanism by which elderly people might have an option to assist themselves during retirement years if other mechanisms of retirement were not adequate. While most elderly people have a strong aversion to drawing down the equity in their homes to pay for retirement, it should be noted that current retirement index data forecasts that current retirement programs and saving patterns of persons aged 30 to 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 levels to accomplish this future parity. The inability to achieve this parity will cause greater numbers of people to look at government service programs to assist them. The present population of 30–48 is substantial and will have a dramatic impact when they reach the retirement age. Therefore, this program will have greater importance in the years to come. One concern centers on the state's ability to sustain this program into the future as the eligible taxpayer base grows. [*Evaluated by the Seniors and People with Disabilities Cluster*.]

2.012 ENTERPRISE ZONES BUSINESSES

Oregon Statute: 285B.698
Sunset Date: 6-30-09
Year Enacted: 1985, modified in 2001 (SB 292)

2001–02 Assessed Value of Property Exempted: $1.0 billion

	Loss	Shift
2001–03 Revenue Impact:	$28,000,000	$5,500,000
2003–05 Revenue Impact:	$32,000,000	$6,300,000

DESCRIPTION: Qualified property owned or leased by a qualified business firm in an enterprise zone is exempt from property tax for three years. The exemption period may be increased to four or five years by a city or county zone sponsor if statutory employee compensation requirements or other specified sponsor conditions are met. The qualified property must be used to produce income and each application must be for more than $25,000 of investment. Unlike with the Strategic Investment Program (SIP) (2.015), the value of the land is not exempt under the Enterprise Zone Business exemption.

Cities and counties apply for enterprise zones, and the director of the Economic and Community Development Department approves zone designations in areas with qualifying levels of economic hardship, and pursuant to competitive evaluation among applicants, as necessary. Zone designations cannot exceed 48 in number. There are urban and non-urban zones. An enterprise zone designation terminates after 10 years. A firm may continue to qualify subsequent expansions up to 10 years after the zone terminates if certain criteria are met. The director of the Economic and Community Development Department designates new zones as and when existing zones are terminated.

The following property of a qualified firm qualifies: a) a new building costing $25,000 or more; b) an existing building addition or modification costing $25,000 or more; c) real property, machinery, and equipment, and personal property valued at $1,000 or greater, used in the production process and moved into a zone from outside the county; and d) a building leased from a governmental body.

A business firm is qualified if the firm meets all of the following conditions:

- Provides products or services (assembly, fabrication, storage, etc.) for other businesses;
- Owns or leases property within a zone that is part of the business operation;
- Increases employment by 10 percent or one employee, whichever is greater, and;
- Does not substantially decrease employment outside the zone and does not decrease employment inside the zone in years two and three of the exemption period.

As of September 2002, 31 enterprise zones (includes one reservation zone) also allow hotels, motels and destination resorts to qualify. Retail operations located at the same site and owned or operated by the same firms as the hotel, motel, or resort also qualify as long as their primary function is to serve the hotel and motel guests.

Property is disqualified if it is moved outside the zone or the firm curtails operations or closes. Under certain circumstances idle property is still qualified for the exemption (see ORS 285B.714). When property is disqualified, all prior exempt taxes must be repaid.

Unlike Long-Term Rural Enterprise Zones (Property Tax)(2.013), the maximum property tax abatement is for five years; the minimum investment required is far lower; and the property or business can be located in either rural or urban areas.

Existing enterprise zones may be designated for electronic commerce. This was accomplished through 2001 legislation in SB 229. Up to four such zones may be designed by the Economic and Community Development Department. See Electronic Commerce Enterprise Zones (Property) (2.026) for further details.

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 285B.665).

WHO BENEFITS: There are currently 48 enterprise zones—the maximum allowed by law. The four most recent enterprise zones were designated in January 2002. For 2001-02, about 150 businesses in enterprise zones benefited from the exemption. Ten businesses accounted for over 80 percent of the total tax benefit. The majority of the exempt value consisted of manufacturing facilities, ranging from electronics to wood products to food processing, as well as a number of other types. There were about 15 hotels or motels exempt, but they comprise a small proportion of the total value. Beneficiaries include the companies' owners, employees, customers, suppliers, and the communities in which they reside.

EVALUATION: This expenditure achieves its purpose. The program has been associated with numerous job-creating investments by mostly in-state companies, as well as some companies attracted from out-of-state, that have benefited Oregon and its economy. The program stimulates the creation of 1,000 to 2,000 jobs each year. These jobs are located in economically depressed areas and have been effective in improving the quality of life of residents in these areas either directly, by providing a job, or indirectly, by paying needed local taxes for local government services. Other benefits to the economy include non-property taxes paid, lower unemployment, higher wages, as well as indirect stimulation such as construction work and orders for suppliers. Although a few zones have been unable to attract new investment, most have been effective.

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 the program faced cumbersome statutory provisions but those have been revised. The short time frame of the exemption, three to five years, keeps the cost of the program modest. One alternative to this property tax exemption would be an income tax credit, but that might be more difficult to administer and some firms would be unable to benefit due to lack of tax liability.

A final issue is whether enterprise zone investments would have been made even without this tax incentive. Indisputably, some would have. However, a substantial number of zone investments would not have occurred at all, or would have been significantly delayed, smaller, or less likely to survive their first few years without the exemption. In addition, this program directs the investment to the areas of the state that are most needy.

There were several recent changes to the structure of this tax expenditure. Revisions made by OR Laws 1999, Chapter 460 (HB 1127) increased the number of permitted non-urban enterprise zones by 10. Oregon Laws 1999 Chapter 104 (SB 245) primarily affected this program by simplifying methods of determining business eligibility and extending that eligibility to appropriate facility types not seen in enterprise zones 10 years ago; for example, call centers and regional administrative facilities.

Overall, enterprise zones have become less common in the larger urbanized areas of the Willamette Valley. New designations are increasingly happening in smaller, remote communities that are interested in sponsoring such zones. These rural designations, however, will in no way replace the activity of certain terminated zones (e.g., Eugene). This will lead to a significant drop in enterprise zone jobs and tax abatements, but any exemptions in some of the more rural zones will be greatly welcomed. [*Evaluated by the Economic and Community Development Department*.]

2.013 LONG-TERM RURAL ENTERPRISE ZONES (PROPERTY TAX)

Oregon Statute: Note following 285B.689
Sunset Date: 12-31-04
Year Enacted: 1997, modified in 2001 (HB 2103)

2001–02 Assessed Value of Property Exempted: $47.9 million

	Loss	Shift
2001–03 Revenue Impact:	$1,000,000	$200,000
2003–05 Revenue Impact:	$1,000,000	$200,000

DESCRIPTION: The value of all property and improvements to certain large investments in a non-urban enterprise zone is exempt from property tax for up to 15 years, depending on local approval. The investment must be located in a county with chronic unemployment or chronic low income. Depending on the location in the state, the investment must exceed a minimum amount ranging from $1 million to $25 million, the firm must hire at least 10, 35, 50, or 75 full-time employees within five years, and the average worker compensation must be at least 50 percent above the county average. Prior to HB 2103 passed in the 2001 legislative session the investment minimum ranged from $1 million to $50 million.

A business applies for certification with the city and/or county sponsoring the enterprise zone and with the county assessor in which the zone is located. The following conditions must be met for approval:

- The governing body of the county or city has adopted a resolution approving the tax exemption;
- The business has committed to meet the investment and hiring requirements;
- The business has a written agreement with the cities or county that sponsors the zone, which may include additional requirements, including contributions for local services or infrastructure; and
- The facility is located in a county with chronic unemployment, as defined in statute.

If a certified business fails to meet the requirements of the program, all prior exempt taxes must be repaid.

All property value is exempt during the construction period. The seven to 15-year exemption period begins after the facility is completed.

Properties receiving the property tax exemption are also eligible to receive a corporate income tax credit (Long-Term Rural Enterprise Zones (Income Tax) (1.155)), if approved by the governor.

There are a few key differences between this expenditure and Enterprise Zones Businesses (2.012) expenditure. First, the minimum investment ranges from $1 million to $25 million, whereas it is only $25,000 under Enterprise Zone Businesses. Second, this expenditure exempts qualified businesses from property tax for up to 15 years, whereas under (Enterprise Zones Businesses) the exemption period is for five years. Third, this expenditure exempts all property (land, buildings, machinery, and personal property), whereas under (Enterprise Zones Businesses) land and most personal property are not exempt. Finally, the location of the business must be in rural areas; for (Enterprise Zones Businesses), this does not apply and the business can be located in either rural or urban areas.

Approval from the Governor's office is not required for this expenditure but is required for the accompanying income tax exemption, 1.155 Long-Term Rural Enterprise Zones (Income Tax) (1.155). For both of these exemptions, applications are handled by the Economic and Community Development Department.

Only one company has applied for and received this exemption.

PURPOSE: To encourage investment in non-urban enterprise zone areas of chronic unemployment or low income.

WHO BENEFITS: This provision is intended to benefit "non-urban" enterprise zones and the surrounding residents in counties with chronic unemployment or low income. The beneficiaries include the participating companies, their suppliers, customers, and employees.

EVALUATION: At this time, no company has used this provision, although one construction company has begun a locally approved project, and approval is pending for another. It is possible, and perhaps likely, that if Oregon did not have this provision, the project would have relocated to another state. Therefore, this provision appears to be having the intended effect on investment in Oregon.

Although not necessary for the current investment, changes by SB 245 passed in the 1999 legislative session made these long-term rural tax incentives conceivable as something that might be used to induce much-needed private investment in Central and Eastern Oregon enterprise zones. Before these changes, the likelihood of them having an effect was very small in those locations and elsewhere.

To allow these changes to have greater opportunity to work, the Economic and Community Development Department recently instituted modified administrative rules. Insufficient experience for evaluation. [*Evaluated by the Economic and Community Development Department*.]

2.014 COMMERCIAL BUILDINGS UNDER CONSTRUCTION

Oregon Statute: 307.340
Sunset Date: None
Year Enacted: 1959

2001–02 Assessed Value of Property Exempted: $1.4 million

	Loss	Shift
2001–03 Revenue Impact:	$36,700,000	$7,200,000
2003–05 Revenue Impact:	$37,700,000	$7,400,000

DESCRIPTION: Certain commercial and industrial buildings are exempt from property taxation while they are under construction. A new structure or addition is exempt from property taxation if, on the January 1 assessment date, it:

- Is under construction,
- Is not and has not been used or occupied,
- Is being built for the purpose of earning income,
- Is not to be occupied for at least one year after beginning construction if a nonmanufacturing facility, and
- Is not centrally assessed property.

The exemption cannot be claimed for more than two years. Machinery and equipment at the building site also qualifies if it is to be installed in the structure. The property is listed for assessment but the assessment is canceled if proof that the property meets the above requirements is furnished to the assessor by April 1 of the assessment year.

PURPOSE: To encourage investment in business by delaying property taxes until the facility can earn income.

WHO BENEFITS: About 40 properties were exempt in 2001–02. The location and amount can fluctuate substantially from year to year as major construction projects take place. For example, the 1999–00 exempt value was slightly over half that in 1997–98. The majority of the exempt value is typically in the Portland metro area.

EVALUATION: This expenditure achieves its purpose by allowing new investments to delay paying property taxes until they are actually earning income. Economic consequences are also relevant. New construction and investments might be significantly deterred by the additional up-front cost of paying property taxes on partially finished but unused property.

This expenditure is also fiscally effective. Alternatives to this expenditure would be to refund such taxes through direct payments or credits on other taxes. The administrative burdens and complexity of these alternatives suggest that the current cancellation is the most fiscally effective means of achieving the purpose.

This program, however, seems to be greatly under-utilized, probably because it is not widely known and administrative technicalities have limited its accessibility. [*Evaluated by the Economic and Community Development Department*.]

2.015 STRATEGIC INVESTMENT PROGRAM (SIP)

Oregon Statute: 307.123
Sunset Date: None
Year Enacted: 1993

2001–02 Assessed Value of Property Exempted: $2.1 billion

	Loss	Shift
2001–03 Revenue Impact:	$88,500,000	$17,500,000
2003–05 Revenue Impact:	$164,100,000	$32,400,000

DESCRIPTION: The assessed value above $100 million of certain investment projects is exempt from property tax for up to 15 years. The $100 million threshold increases each year by a compounded 3 percent. The Oregon Economic and Community Development Commission determines whether a project is eligible for the tax exemption.

These investments must be in certain "key industries" as specified by statute. A key industry is defined as an industry that sells goods or services in markets with national or international competition and makes a major contribution to the Oregon economy. Examples are forest products, agricultural products, high technology, primary and fabricated metals, fisheries, interstate and international tourism, film and video production, graphic communications, biotechnology, software, environmental services, plastics, and aerospace (ORS 285B.280(3)).

The key industry business must enter into a first-source hiring agreement with a publicly funded training provider. The business must pay an annual community services fee equal to the lesser of (a) 25 percent of the equivalent property tax on the exempt value or (b) $2 million. The county and city (if located in a city) in which the project is located share the annual fee by mutual agreement. The county and city must have an agreement with a business applicant about any special requirements before the county requests a project (ORS 285B.386).

PURPOSE: The purpose is to allow Oregon to compete with other states for major investment projects by establishing an upper limit on property taxes for an investment project. These projects tend to have very high investment levels per employee (i.e., they are capital intensive) and property taxes may be significantly higher than the cost of government services associated with the business and its employees.

WHO BENEFITS: A total of five SIP agreements have current value exempt—one in Multnomah County and four in Washington County. A second project in Multnomah County was approved in August 2002. It is often the case that the investment still under construction may be exempt initially as Commercial Buildings Under Construction (2.014). All the firms participating in this program are high technology industry businesses.

IN LIEU Businesses that have value exempt typically pay about 25 percent of their property taxes saved in annual community services fees. Such fees are used for specific projects. In 2001 community service, in lieu, and guaranteed payment fees paid to Washington and Multnomah counties were about $9 million. Negotiations regarding the projects that benefit from the payment of such community service fees is conducted at the county level.

EVALUATION: The program appears to achieve its goal of encouraging capital-intensive investment in Oregon, particularly in high technology industries. A key question in evaluating this expenditure is whether or not the investments receiving tax benefits under this program would have been made without the program. That question cannot be answered with certainty, but there is evidence that both state and local officials have felt that such a program was necessary to increase the likelihood that Oregon locations would be chosen as the sites for capital-intensive investments in key industries. The fact that local officials have approved five applications under the program indicates that local officials believe these tax expenditures have a net positive value to their communities. If the investment would not have been made in Oregon without the program, there is also a likely increase in state corporation income tax.

Economists have a range of opinions as to whether or not industrial investment tax incentives such as this are beneficial to local, regional, and national economies. Some claim that such incentives simply benefit the participating companies who receive lower tax bills at the expense of the participating jurisdictions that either receive lower tax revenue or must charge existing taxpayers more than otherwise. Other economists claim that both participants gain from the arrangement, with companies paying more reasonable taxes in communities that place a higher value than other communities on obtaining the companies' jobs, local purchases, and other benefits. [*Evaluated by the Economic and Community Development Department*.]

2.016 INVENTORY

Oregon Statute: 307.400
Sunset Date: None
Year Enacted: 1969 (ORS renumbered in 2001)

2001–02 Assessed Value of Property Exempted: $17.8 billion

	Loss	Shift
2001–03 Revenue Impact:	$469,900,000	$92,700,000
2003–05 Revenue Impact:	$508,400,000	$96,400,000

DESCRIPTION: Inventory is exempt from property taxation. In general, inventory is tangible personal property that is or will become part of the stock held for sale in the ordinary course of a taxpayer's business. This includes materials, supplies, containers, goods in process, finished goods, and the for-sale inventory of retail shopping outlets, but not machinery and equipment used to produce these goods.

PURPOSE: To eliminate the tax compliance burden of enumerating inventory and to eliminate behavior specifically aimed at reducing inventories on the date of assessment, especially when that behavior negatively affects the economy.

WHO BENEFITS: Manufacturing, wholesale, and retail trade businesses benefit from this exemption. Because the value of inventory varies by industry, some types of businesses will benefit more from this exemption than others.

EVALUATION: This expenditure achieves its purpose. For most types of businesses (particularly manufacturers, wholesalers, and retailers), inventory represents the largest category of business assets. Therefore a property tax on inventory would tend to impact most businesses to a greater extent than existing ad valorem taxes on personal and real property.

Virtually every state provides some form of property tax exemption for inventory. From this perspective, the Oregon exemption allows the state's businesses to be on equal footing with competitors located in other states. The provision's elimination of the burden of enumerating inventory for tax purposes eliminates a potentially large and unnecessary cost to businesses, especially small businesses, and leaves businesses freer to plan its inventory based on sound business practices. [*Evaluated by the Economic and Community Development Department*.]

2.017 BUSINESS PERSONAL PROPERTY CANCELLATION

Oregon Statute: 308.250(2)
Sunset Date: None
Year Enacted: 1979, modified in 2001 (HB 2111)

2001–02 Assessed Value of Property Exempted: $231.9 million

	Loss	Shift
2001–03 Revenue Impact:	$6,900,000	$1,400,000
2003–05 Revenue Impact:	$8,400,000	$1,600,000

DESCRIPTION: If a taxpayer has less than a specified maximum in assessed value of business personal property in a county in a given year, the property tax assessment is canceled for that year. An initial return must be filed with the assessor who then cancels the assessment. After an initial cancellation a taxpayer may file an annual statement declaring that the value continues to be less than the threshold.

The maximum value of the assessed property for which property taxes may be cancelled was $10,000 prior to 2002-03. The 2001 Legislature increased the maximum value to $12,500 for tax years beginning July 1, 2003. For subsequent years the Department of Revenue reports the recomputed maximum amounts of personal property for which the property tax assessment may be canceled. The amount is indexed by the U.S. City Average Consumer Price Index rounded to the nearest $500.

PURPOSE: To reduce the filing burden for many small businesses and avoid the administrative processing and collection costs for returns where this cost may be more than the tax owed.

WHO BENEFITS: This cancellation benefits small businesses directly, and indirectly benefits the suppliers, customers, and employees of those businesses. Over 42,000 accounts were reported as being valued at less than $10,000 in 2001–02.

EVALUATION: This cancellation is effective in reducing the filing burden for small business and is consistent with Oregon's desire to encourage entrepreneurial activity in the state. The average tax reduction is exceedingly small and probably, by itself, does not make much difference to the operation of the small business. However, the reduced filing burden, in combination with the modest tax cancellation, may help encourage small businesses to form and remain in business.

The cancellation probably does not reduce administrative costs for county assessors' offices, since the assessor must continue to track these accounts and revalue them each year with additions and deletions considered. [*Evaluated by the Economic and Community Development Department*.]

2.018 CARGO CONTAINERS

Oregon Statute: 307.850
Sunset Date: 6-30-02
Year Enacted: 1979

2001–02 Assessed Value of Property Exempted: $39.1 million

	Loss	Shift
2001–03 Revenue Impact:	$500,000	$100,000
2003–05 Revenue Impact:	$0	$0

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. This provision has sunset for tax years beginning July 1, 2002.

PURPOSE: To help Oregon ports remain competitive with Washington and California, which exempt all cargo containers. The statute reinstated the status quo of not taxing cargo containers after an Attorney General opinion determined that cargo containers were taxable personal property.

WHO BENEFITS: The equivalent of roughly 10,000 20-foot containers is estimated to be in the state. The tax benefit estimate reported above includes the value of all 10,000 of these containers. Almost all of these are used in foreign commerce and thus would be exempt even without this specific statute. Containers used in domestic trade would probably have their value apportioned between Oregon and other states.

EVALUATION: Because most of the containers covered by this exemption would also be exempt from Oregon property tax due to their use in foreign commerce, the effectiveness of this exemption cannot reasonably be based on an evaluation of the exemption's impact on cargo container traffic. However, this exemption may be effective in eliminating a tax bias against the domestic use of cargo containers. [*Evaluated by the Economic and Community Development Department*.]

2.019 LEASED DOCKS AND AIRPORTS

Oregon Statute: 307.120
Sunset Date: None
Year Enacted: 1947

2001–02 Assessed Value of Property Exempted: $262.8 million

	Loss	Shift
2001–03 Revenue Impact:	$7,000,000	$1,400,000
2003–05 Revenue Impact:	$7,900,000	$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 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 serving fewer than 300,000 inhabitants that is leased and used by private individuals remains exempt as long as rent proceeds are used for airport maintenance.

PURPOSE: To exempt public dock property that is leased or rented by private individuals for certain purposes, probably to be more competitive with other states.

WHO BENEFITS: Exempt value of leased port property that is subject to an in-lieu payment is $80 million. This property is in nine counties, but Multnomah County accounts for about 90 percent of the exempt value. Assessors report another $60 million of exempt value that is either dock property not subject to in-lieu payments or airport property. Beneficiaries include those who use docks and airports directly and those affected by the increased level of business activity in port districts that, without this exemption, might not have occurred.

IN LIEU: The in-lieu tax is one-quarter of 1 percent of the assessed value of the property and is distributed to the school districts. Typically, about $250,000 of in-lieu tax is paid to school districts in each tax year, primarily in Multnomah County.

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*.]

2.020 LEASED PUBLICLY OWNED SHIPYARD PROPERTY

Oregon Statute: 307.111
Sunset Date: 6-30-10
Year Enacted: 1995

2001–02 Assessed Value of Property Exempted: $86.4 million

	Loss	Shift
2001–03 Revenue Impact:	$2,600,000	$500,000
2003–05 Revenue Impact:	$2,900,000	$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.

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. The revenue impact reported here is based on the value of the entire shipyard (less any subleased property) since the entire shipyard is exempt under this statute. However, the value of the actual property occupied by the sole contractor has historically been only about 10 percent of the value of the entire shipyard. In the past, much of the shipyard has not been leased.

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*.]

2.021 SHIP REPAIR FACILITY MATERIALS

Oregon Statute: 308.256(7)
Sunset Date: None
Year Enacted: 1957

2001–02 Assessed Value of Property Exempted: $0

	Loss	Shift
2001–03 Revenue Impact:	$0	$0
2003–05 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 (2.078).

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

WHO BENEFITS: This exemption predates the full Inventory (2.016) 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.

2.022 AIRCRAFT BEING REPAIRED

Oregon Statute: 308.559
Sunset Date: None
Year Enacted: 1995

2001–02 Assessed Value of Property Exempted: $0

	Loss	Shift
2001–03 Revenue Impact:	$0	$0
2003–05 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.”

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.

“Major work” includes scheduled maintenance, repairs, renovation, and conversion in which the total labor expended for the work exceeds 10 hours.

The exemption first applied in tax year 1996–97.

PURPOSE: To promote the aircraft repair industry, promote the aircraft maintenance center in Portland (Pacific Aircraft Maintenance Corporation, Pamcorp), and provide an aircraft repair exemption comparable to the exemption for Railroad Cars Being Repaired (2.023).

WHO BENEFITS: Airline companies who repair aircraft in Oregon. There is currently only one facility operating. The Portland aircraft maintenance facility is not operating, and Pamcorp is no longer in existence. For the 2001-02 tax years no companies applied for this exemption.

EVALUATION: This exemption was created at least partly to encourage the location of a major aircraft repair facility in Oregon. The prospective facility was to be managed by a firm named Pamcorp. However, despite the fact that buildings were built to house this activity, Pamcorp did not succeed in operating the facility and is no longer in business. In this respect, the exemption has not yet succeeded in achieving its desired result. The exemption has been used by Horizon Air and may in the future more fully achieve its original desired result. [*Evaluated by the Economic and Community Development Department*.]

2.023 RAILROAD CARS BEING REPAIRED

Oregon Statute: 308.665
Sunset Date: None
Year Enacted: 1973

2001–02 Assessed Value of Property Exempted: $0

	Loss	Shift
2001–03 Revenue Impact:	$0	$0
2003–05 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 ten hours. A railroad car is exempt from the time it awaits transportation to a repair facility to the time it is returned from a repair facility. Documentary proof of qualification for exemption must be furnished to the Department of Revenue. Private car companies have "major work" done at two companies in Oregon.

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

WHO BENEFITS: Private railroad car companies are the potential beneficiaries, although no such company is using this provision at the moment.

EVALUATION: This expenditure may reduce the disadvantage to using Oregon sites for rail car repair compared to some other potential rail car repair sites in the United States where the rail cars being repaired may not be subject to property tax. This makes Oregon marginally more competitive with such areas. The expenditure would probably slightly increase the number of rail cars repaired in Oregon. [*Evaluated by the Economic and Community Development Department*.]

2.024 RECREATION FACILITY ON FEDERAL LAND

Oregon Statute: 307.182
Sunset Date: 6-30-12
Year Enacted: 1975, modified in 2001 (SB 329)

2001–02 Assessed Value of Property Exempted: $62.0 million

	Loss	Shift
2001–03 Revenue Impact:	$1,300,000	$300,000
2003–05 Revenue Impact:	$1,400,000	$300,000

DESCRIPTION: 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, the financial problems of the industry at the time the exemption was passed, and the difficulty of valuing the property with its restrictions. The exemption may also avoid "double taxation" since 25 percent of the fee income to the Forest Service is shared with counties.

WHO BENEFITS: The Forest Service has almost 16,000 acres under permit for over 40 ski and lake recreational areas throughout Oregon. Fees paid to the Forest Service for these permits total a little over $1 million annually, mostly for ski areas. One-quarter of this amount is shared with the counties.

EVALUATION: This expenditure achieves its purpose. Recreation areas that benefit from this legislation are on Forest Service land via a Special Use Permit. This permit, while long-term, is very restrictive and not at all like a typical private landlord-tenant arrangement. These restrictions make it very difficult to establish a value on the property. In addition, removal of the property tax exemption for recreation facilities on federal lands would subject these areas to some level of double taxation unless other adjustments were also made. [*Evaluated by the Economic and Community Development Department*.]

2.025 DEFENSE CONTRACTOR WITH FEDERAL PROPERTY

Oregon Statute: 307.065
Sunset Date: None
Year Enacted: 1965

2001–02 Assessed Value of Property Exempted: $0

	Loss	Shift
2001–03 Revenue Impact:	$0	$0
2003–05 Revenue Impact:	$0	$0

DESCRIPTION: Property that is owned by the federal government and 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: The purpose of the exemption is unknown. It may be to clarify that the property is not taxable because of its federal ownership status, and to help promote the defense industry in Oregon.

WHO BENEFITS: No property could be identified as currently exempt.

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*.]

2.026 ELECTRONIC COMMERCE ENTERPRISE ZONES (PROPERTY TAX)

Oregon Statutes: 285B.672 and 285B.698
Sunset Date: None (enterprise zone law sunsets 6-30-09)
Year Enacted: 2001 (SB 229)

2001–02 Assessed Value of Property Exempted: $0

	Loss	Shift
2001-03 Revenue Impact:	$200,000	Less than $50,000
2003-05 Revenue Impact:	$400,000	$100,000

DESCRIPTION: Qualified property owned or leased by a qualified business firm in an electronic commerce enterprise zone is exempt from property tax for three to five years. The electronic commerce zone is a specific type of enterprise zone (see tax expenditure 2.012). Electronic commerce enterprise zones must be an existing enterprise zone before they can apply to be an electronic commerce zone.

"Electronic commerce" includes: engaging in commercial or retail transactions predominantly over the Internet or a computer network, utilizing the Internet as a platform for transacting business, or facilitating the use of the Internet.

Cities or counties wishing to establish an electronic commerce enterprise zone must apply to the Economic and Community Development Department. The department may approve up to four electronic enterprise zones. The electronic commerce enterprise zones are geographically dispersed across the state. By statute up to four electronic commerce zones and one electronic commerce city may be designated.

As of 2002 the four enterprise zones and electronic commerce city are as follows:

- Harney County/Burns/Hines,
- Medford Urban,
- N/NE Portland,
- Roberts Creek,
- The city of North Plains (electronic commerce city).

Qualified firms and qualified property must first qualify for enterprise zone treatment.

Taxpayers may also be eligible for an income tax credit for investment in electronic commerce enterprise zones. See tax expenditure Electronic Commerce Enterprise Zones (Income Tax) (1.158).

PURPOSE: To encourage development of electronic commerce in specified zones and cities.

WHO BENEFITS: Businesses operating in electronic commerce zones and cities.

EVALUATION: In the first three months since this program became available, three direct investments have been made as a direct result of the benefit. Combined projected job creation for these projects is in excess of 500 jobs. *[Evaluated by the Department of Economic Development.]*

2.027 VERTICAL HOUSING DEVELOPMENT ZONES

Oregon Statutes: 285B.825
Sunset Date: None
Year Enacted: 2001 (SB 763)

2001-02 Value of Property Exempted: $0

	Loss	Shift
2001-03 Revenue Impact:	$100,000	Less than $50,000
2003-05 Revenue Impact:	$300,000	$100,000

DESCRIPTION: Creates a partial property tax exemption for qualified residential housing in a vertical housing development zone. A vertical housing development zone is a designated area sponsored by a city or county that has been approved by the Economic and Community Development Department. The vertical housing development zone must be in a core area of an urban center or near a light rail or transit station area.

The qualified project must consist of a building with at least the main level of commercial space. One or more floors above the commercial space must be residential. The property tax exemption depends on the number of residential floors. If the project consists of one floor of residential housing it is 20 percent exempt; two floors it is 40 percent exempt; three floors it is 60 percent exempt; and four or more floors the project is 80 percent exempt. The exemption lasts for 10 years. If any of the residential floors are converted to commercial space the project is disqualified.

A project may be new construction or a reconstruction or rehabilitation of an existing building.

Only ORS 198 taxing districts may elect to not participate. The vertical housing development project owes the complete tax to districts that do not participate.

PURPOSE: Increase the supply of residential housing in certain urban centers.

WHO BENEFITS: Property owners of approved projects in vertical housing development zones. Individuals and businesses in the vertical housing development zone benefit from increased investment in their community.

EVALUATION: Rule-making recently went into effect; insufficient experience with the program to evaluate at this time. [*Evaluated by the Economic Development Department*.]

2.028 INDUSTRY APPRENTICESHIP/TRAINING TRUST

Oregon Statute: 307.580
Sunset Date: None
Year Enacted: 1983

2001–02 Assessed Value of Property Exempted: $3.5 million

	Loss	Shift
2001–03 Revenue Impact:	$100,000	Less than $50,000
2003–05 Revenue Impact:	$100,000	Less than $50,000

DESCRIPTION: All real and personal property owned, being purchased, or leased by an industry apprenticeship or training trust is exempt from property taxation if the industry apprenticeship or training trust meets all of the following conditions:

- The trust is organized only for assisting or implementing training programs according to ORS Chapter 660, Apprentices and Trainees;
- The property is used exclusively and actively in training;
- The trust is exempt from federal income taxes; and
- The trust does not discriminate.

The organization must file an application with the county assessor to claim the exemption.

PURPOSE: To provide equity between training trusts and other private schools. (Trusts cannot qualify for an exemption under other statutes because they are not incorporated and are prevented from doing so by federal regulation.)

WHO BENEFITS: Training trusts exist in five counties.

EVALUATION: Not evaluated.

2.029 FAIRGROUND LEASED STORAGE SPACE

Oregon Statute: 307.110(3)(d)(e)
Sunset Date: None
Year Enacted: 1987

2001–02 Assessed Value of Property Exempted: Negligible

	Loss	Shift
2001–03 Revenue Impact:	Less than $50,000	Less than $50,000
2003–05 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: County fairs benefit from this exemption. The State Fair does not have any leased property that is exempt under this statute.

EVALUATION: Not evaluated.

2.030 NEW HOUSES IN A DISTRESSED AREA

Oregon Statute: 458.020
Sunset Date: 6-30-03
Year Enacted: 1989

2001–02 Assessed Value of Property Exempted: $90.8 million

	Loss	Shift
2001–03 Revenue Impact:	$2,800,000	$500,000
2003–05 Revenue Impact:	$3,200,000	$600,000

DESCRIPTION: A new single family housing unit built in a distressed area can be exempt from property tax for 10 years. Only the value of the dwelling is exempt while the land remains taxable. A distressed area is designated by the city and may include deteriorated, unsafe, or abandoned structures that are detrimental to the safety and health of the community. A city can designate up to 20 percent of its land area as distressed.

Approval by the city will exempt only the city taxes. To exempt all property taxes, districts representing 51 percent of the taxes on the property must also agree to the exemption.

To qualify for the exemption, the single family dwelling must: 1) be constructed after January 1, 1990 and before July 1, 2003; 2) be used as a dwelling for one person or family; and 3) 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: 1) adopt a resolution or ordinance; 2) designate a distressed area; 3) adopt standards and guidelines; 4) approve applications; and 5) certify approved exemptions to the assessor.

The property owner must file an application with the city to claim the exemption. A change of use will disqualify the property from the program. Upon disqualification, an additional tax equal to the tax benefit in the last year exempt multiplied by the number of years exempt (10 maximum) is due.

PURPOSE: To “stimulate the construction of new single family residences in distressed urban areas in this state in order to improve in those areas the general life quality, to promote residential infill development on vacant or underutilized lots, to encourage home ownership and to reverse declining property values” (ORS 458.010).

WHO BENEFITS: Most of these accounts are in the Portland area. In 2001, there were 1,458 accounts with this exemption in Portland. The average exempt property value per house is about $60,000, for an estimated average tax benefit per house of less than $1,000 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.*]

2.031 REHABILITATED HOUSING

Oregon Statute: 308.459
Sunset Date: 6-30-08
Year Enacted: 1975

2001–02 Assessed Value of Property Exempted: $22.9 million

	Loss	Shift
2001–03 Revenue Impact:	$680,000	$130,000
2003–05 Revenue Impact:	$740,000	$140,000

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, the property (land and improvements) must:

- Have been at least 25 years old in 1986 and have undergone rehabilitation during or after September 1975, and before January 2008, that cost at least 5 percent of the assessed value of the property before rehabilitation, or regardless of the age of the property, 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;
- 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 non-transient occupants;
- Be in a designated distressed area if owner occupied; and

- Be approved for exemption by the city or county.

To grant an exemption, a city or county must:

- Adopt the procedures in the statutes;
- Adopt standards for eligible rehabilitation including, if desired, negotiation of rents charged during the exemption period;
- Accept both preliminary and final applications;
- Approve or disapprove applications, giving reasons for its actions; and
- Certify approved exemptions to the assessor.

Property is frozen at its value before rehabilitation for 10 years. However, if the owners of the property participate in a low-income rental assistance contract with a government agency, the city may extend the limited assessment through December 31 of the assessment year during which the termination date of the contract falls. Qualified property is generally exempt only from city or county taxes. However, if districts representing at least 51 percent of the taxes on the property pass resolutions supporting the exemption, then the exemption applies to the taxes of all districts.

If use of the property changes, an additional tax equal to the sum of the tax benefits in the years exempt, up to a maximum of 10 years, is due.

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: Portland had 180 rehabilitation properties in 2001–02, down slightly from the 192 properties in 1998–99. Multi-family housing accounts for a substantial share of the value exempted.

EVALUATION: This expenditure achieves its purpose. This is a relatively older tax exemption program, and it offers a greater track record than others. The exemption is intended to provide an incentive for investor owners of rental properties to preserve and rehabilitate qualified housing that might not otherwise be improved and to provide a similar incentive as that granted to owner occupants of housing in distressed areas (New Houses in Distressed Area (2.030)).

The owner applies for the exemption up front, during the building permit phase of the conversion or rehabilitation project. An inspector comes to the property, makes the necessary determination that the property is not in substantial compliance with applicable codes, and assesses what changes need to be made to bring the development into substantial compliance. The owner then undertakes the prescribed work, agrees to limit the rate of investment return from rents to 10 percent per year, and receives the rehabilitation exemption in return. The requirements that the development be out of code compliance at the beginning of the project and the participating owner's rate of investment return be limited act as a restriction on the level of rents charged or other possible abuse of the exemption.

After the 10 year exemption, the property comes back onto the tax rolls at its new, higher value, increasing revenues to the taxing jurisdictions. Tenants, property owners, and local governments all benefit in the long term. When looking at the increased use of this exemption in the Portland area alone, it is easy to see the magnitude of change has occurred in large part to this exemption program. It has the added advantage of being easy to access and easy to administer. Determination of a home or development's qualification for the exemption is easily made. This tax exemption appears to be both a fiscally effective and an efficient means of achieving its public purpose. [*Evaluated by the Housing and Community Services Department*.]

2.032 MULTI-FAMILY RENTAL HOUSING IN CITY CORE

Oregon Statute: 307.630
Sunset Date: 1-01-06
Year Enacted: 1975

2001–02 Assessed Value of Property Exempted: $199 million

	Loss	Shift
2001–03 Revenue Impact:	$6,000,000	$1,100,000
2003–05 Revenue Impact:	$6,700,000	$1,200,000

DESCRIPTION: A city may exempt from property tax the value of multiple-family rental housing (excluding land) in specific areas for up to 10 years or, if rent is subsidized by the state or federal government, for a longer period. Cities may designate light rail station areas or transit oriented areas in addition to downtown core areas. Counties may designate light rail station areas or transit oriented areas but not core areas. Housing includes newly constructed housing and conversions to housing. To grant an exemption a city must:

- Adopt the procedures in the statutes;
- Designate the eligible core area;
- Adopt standards for eligible developments including existing use of property, design, rents, and long-run public benefits;
- Provide and accept applications;
- Hold public hearings to determine whether proposed projects could be built without property tax benefits; and
- Approve or disapprove applications, giving reasons for its actions.

Approved property is exempt from city property taxes. If districts representing at least 51 percent of the taxes on the property pass resolutions supporting the exemption, then the exemption applies to the taxes of all districts. The exemption may be granted for up to 10 years. However, land cannot be exempt, and for multi-unit conversions, only the added conversion value is exempt. Construction is to be completed by January 1, 2006, but an extension is possible.

Any city over 300,000 in population (i.e., Portland) may include urban renewal land and land near the central business district within its eligible core area.

Additional taxes for up to 10 years are due if the use of the property is changed to condominiums, or the owner has benefited from exemption when the property should not have been exempt.

See Low Income Multi-Unit Housing (2.033) 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: The cities of Portland, Salem, and Eugene have a core area multi-family rental housing program. About 150 properties are exempt in Portland, two in Salem, and eight in Eugene.

EVALUATION: This expenditure achieves its purpose. This is a relatively older tax exemption program that offers a long track record to judge its success. The exemption offers an incentive for developers to construct or convert to rental housing developments they would not otherwise construct or convert in city downtown core areas. The burden of proof falls on the developers as to whether any given development would have been built without the benefit of the exemption. This point must be demonstrated through a series of public hearings. The exemption is popular, but the process for either seeking or receiving qualification for the exemption is expensive and time consuming. Salem, for example, still presently has only one property that has this exemption for a total of 92 units (Salem has had a total of 3 since the exemption was created). The exemption expires in 2001. Two attempts have been made in the last few years to gain approval for a housing development in Salem's Downtown Urban Renewal District. The first time, the city approved the project but the county had not adopted a resolution supporting the exemption. The second proposal was withdrawn with the developer citing the time and expense involved in the process as being too prohibitive. Eugene has 7 properties that are exempt under this program.

The process for obtaining the exemption is cumbersome. The city of Portland charges $5,000 per application to help offset the costs associated with qualifying a property for the exemption. The city holds three hearings on the application and must ultimately adopt a city ordinance to approve it. The Portland Development Commission and the city of Portland both get involved in detailed analysis and negotiations to ensure the exempted property provides such public benefits as: 1) reduction of rents, 2) a limited rate of return on investment to the developer and the subsequent owner of only 10–12 percent per year, and 3) public art, landscaping, child care, or set-asides of land for public parks. Although developments need only 10 units or more to qualify for the exemption, the complexity of the process makes it impractical for all but large developments. Therefore, the exemption tends to exclude smaller projects and less sophisticated housing developers.

No limit exists for how expensive the exempted units may be as long as the overall development is located in a qualifying geographical area, would not be so located without the exemption, and serves some public purpose. The hearings process is designed to ensure that these requirements are met, but the Portland hearings have rarely attracted any significant public input. As a result, exemptions have been entered on the Portland City Council's consent calendar for relatively summary disposition. The proposed project in Salem, on the other hand, attracted a great deal of opposition, primarily because the plan was for high-end condominiums on the riverfront.

The exemption seems to perform a solid public purpose, but is subject to a locally designed approval process. [*Evaluated by the Housing and Community Services Department.*]

2.033 LOW-INCOME MULTI-UNIT HOUSING

Oregon Statute: 307.630, 307.605(4)(a)
Sunset Date: 1-1-06
Year Enacted: 1999

2001–02 Assessed Value of Property Exempted: Included in 2.032

	Loss	Shift
2001–03 Revenue Impact:	Included in 2.032	Included in 2.032
2003–05 Revenue Impact:	Included in 2.032	Included in 2.032

DESCRIPTION: This expenditure is an addition to the Multi-Family Rental Housing in City Core (2.032) expenditure. The 1999 Legislature extended eligibility for a 10-year property tax exemption to both existing building owners who either operate low-income rental housing under a low-income assistance contract with the state or federal government or have converted their facility into multiple-unit housing for low-income residents in a city or county that has adopted an ordinance.

The 1999 legislation allows an exemption only when the city or county has designated an area in which exemptions may be granted and has approved the exemption application. Applications must have been received for tax years beginning July 1, 2000, or later, and received through January 1, 2006.

Large cities, such as Portland, currently face a major problem of retaining their supply of low-income housing facilities. When low-income housing owners' contracts expire, some of them are choosing to convert the property to real market value. Provisions of this measure will allow cities to encourage retention of low-income housing by providing property tax exemptions to owners.

PURPOSE: To provide an incentive to maintain or expand the supply of low-cost rental housing when market conditions would otherwise have driven the supply down.

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*.]

2.034 NEW HOUSING FOR LOW INCOME RENTAL

Oregon Statutes: 307.517 and 307.518
Sunset Date: 12-31-09
Year Enacted: 1989

2001–02 Assessed Value of Property Exempted: $19.5 million

	Loss	Shift
2001–03 Revenue Impact:	$600,000	$100,000
2003–05 Revenue Impact:	$700,000	$100,000

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 meets all of the following conditions. It 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;
- 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.

The property owner or lessee must file an application with the appropriate governing body before January 1, 2010, to claim the exemption. Disqualification occurs if the property is not used as required or is not completed by January 1, 2010. If disqualified, additional taxes equal to the sum of the tax benefits for the years exempt (up to 10 years) are due.

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 (2.036 Nonprofit Low Income Rental Housing).

WHO BENEFITS: About 30 properties in Washington, Yamhill, Lane, Linn, and Deschutes counties are exempt under this provision. About half the exempt value is in Eugene.

EVALUATION: This expenditure is critical to the viability of many low-income housing developments; it achieves its stated purpose. The exemption reduces the operating expenses for the provider of low-income housing, thereby resulting in lower rents. Without this assistance in lowering rents, some Oregonians could not afford decent housing; in some cases, this housing would not be built.

Where a taxing jurisdiction has adopted the authorizing provisions, the process by which it grants the exemption is quite straightforward; if a development meets the criteria, it receives the benefit of the exemption. It is relatively easy to administer once in place. However, some jurisdictions have not adopted the authorizing provisions because the extent of their ability to add constraints to existing criteria for granting exemptions has not been clearly established. An amendment clarifying the ability of local governments to add additional criteria or to shorten the length of the exemption would be of value in encouraging more local governments to adopt and use this exemption.

The taxing entity typically requires an annual report of tenant income levels and the rental rates being charged in exempted developments. This helps ensure fulfillment of the requirement that the project rental rates reflect the full property tax reduction and prevents possible abuse of the exemption by developers or development owners.

After the 20-year exemption, the entire property comes onto the tax rolls at its full assessed value. Tenants, property owners, and local governments benefit in the long term.

The impact of Ballot Measure 50 on this exemption is unclear as of yet. Measure 50 may discourage local governments from using this exemption in the future. Under Measure 50, property tax exemptions cause actual revenue losses to local governments. Prior to Measure 50, exemptions did not decrease local tax revenues because other property tax payers paid at a higher tax rate to compensate.

This exemption enables local governments to contribute to providing affordable housing in their communities without raising additional revenue and spending it on affordable housing. The administrative costs of this exemption are likely less than would be incurred through a direct program developed to achieve this objective. This exemption fits well with other direct and indirect spending programs for affordable housing assistance. The exemption is both fiscally effective and an efficient means of achieving its public goal. [*Evaluated by the Housing and Community Services Department*.]

2.035 HOUSING AUTHORITY RENTAL UNITS

Oregon Statute: 456.225
Sunset Date: None
Year Enacted: 1991

2001–02 Assessed Value of Property Exempted: $635.6 million

	Loss	Shift
2001–03 Revenue Impact:	$19,100,000	$3,600,000
2003–05 Revenue Impact:	$21,400,000	$4,000,000

DESCRIPTION: Property that is owned or leased by housing authorities is exempt from all state and local taxes and special assessments. Property held in a partnership with private partners is also exempt so long as the housing authority is the general partner or manager of the property, and the property is used for housing low-income persons. Housing authorities are public corporations at the city or county level created under ORS 456.055. They provide affordable housing services to low-income individuals and families.

The housing authority must file an application with the county assessor to claim the exemption on property that they lease from a taxable owner. However, no application is required to claim the exemption if the housing authority owns the property.

PURPOSE: The exemption recognizes housing authority property to be "public property used for essential public and governmental purposes" (ORS 456.225) 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 1997, Oregon's 22 housing authorities rented about 12,300 units of housing to approximately 26,500 low- or very low-income people, including an elderly population, a disabled population, and single parents and their children, with children being the largest single population element among those served. HUD definition of very low income is those who earn 50 percent or less of median income. Low income is defined as those who earn 80 percent or less of median income.

IN LIEU: A housing authority can agree to make payments in lieu of tax payments for improvements, services, and facilities furnished by local governments, such as streets, lighting, water and sewer, but the payments cannot exceed estimated costs for these services.

EVALUATION: This expenditure achieves its purpose. The exemption itself has been around for at least 10 years and has been amended at the instigation of the housing authorities. It is believed, however, that the 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*.]

2.036 NONPROFIT LOW INCOME RENTAL HOUSING

Oregon Statute: 307.541
Sunset Date: 6-30-04
Year Enacted: 1985

2001–02 Assessed Value of Property Exempted: $151 million

	Loss	Shift
2001–03 Revenue Impact:	$4,600,000	$900,000
2003–05 Revenue Impact:	$5,500,000	$1,000,000

DESCRIPTION: A city or county may exempt from property tax (both land and improvements) low-income rental housing owned or being purchased by a nonprofit corporation. The property must be currently in use as housing or must be held for that purpose. Qualifying nonprofit corporations must be exempt from federal income tax (Section 501(c)(3) or (4) of the Internal Revenue Code) and upon liquidation distribute remaining assets to other tax-exempt charitable organizations or the state of Oregon.

Qualified property is exempt only from city or county taxes. To exempt all property taxes, districts levying 51 percent or more of the taxes on the property must pass resolutions to approve the exemption.

The nonprofit corporation must certify that the income levels are below 60 percent of median family income guidelines and describe how the exemption will benefit project residents. No restriction exists on whether the housing is newly constructed, an existing structure, or a rehabilitated structure.

Each year the nonprofit corporation must file an application with the appropriate governing body to claim the exemption. The exemption is only allowed for tax years beginning on or after January 1, 1985, and before July 1, 2004.

This expenditure is similar to New Housing for Low Income Rental (2.034). The qualifications differ somewhat for each expenditure, but for nonprofit organizations, they may likely qualify under either requirement.

PURPOSE: To encourage the provision of affordable low-income rental housing. The intent is for nonprofit organizations to help fill the need for low-income housing especially after federal housing subsidy cutbacks.

WHO BENEFITS: Nonprofit organizations benefit directly. The tenants of the housing benefit to the extent that below-market rate rental housing is available.

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 so 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*.]

2.037 NONPROFIT HOUSING FOR THE ELDERLY

Oregon Statute: 308.490
Sunset Date: None
Year Enacted: 1969

2001–02 Assessed Value of Property Exempted: $0.5 million

	Loss	Shift
2001–03 Revenue Impact:	Less than $50,000	Less than $50,000
2003–05 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 shall include: the amount of money or money's worth 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 numbers of tenants, and these tenants may have any income level because there is no tenant income requirement. This provision of law may not provide consistent tax relief because the limitations on what may be included in the consideration of value cause calculation problems in determining the value of these properties.

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 assuring 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 assure 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*.]

2.038 NONPROFIT ELDERLY HOUSING STATE FUNDED

Oregon Statute: 307.242
Sunset Date: None
Year Enacted: 1977

2001–02 Assessed Value of Property Exempted: $63.2 million

	Total
2001–03 Revenue Impact:	$2,200,000
2003–05Revenue Impact:	$2,400,000

DESCRIPTION: Homes for the elderly built or acquired after January 1, 1977, by private nonprofit corporations (ORS 307.375 qualifications) that receive subsidies under certain federal and state housing programs are exempt from property taxation. Only the land and improvements value, not personal property, may be exempted. The corporation may not charge more than one month’s rent as a “move-in” fee or deposit, and rents must reflect the property tax savings. The occupants do not qualify for the veteran’s exemption or homestead tax relief. If the corporation receives a state subsidy, any property added after January 1, 1990, is not eligible for exemption.

Any taxes exempted under this provision are billed to the state Department of Revenue. Funds to pay these taxes are appropriated as part of the Elderly Rental Assistance program. If the Elderly Rental Assistance program appropriation is not sufficient to pay the liabilities in full, distributions to both the Elderly Rental Assistance program participants and the counties for nonprofit elderly housing property taxes exempted are prorated down to the appropriation amount. In the event that this proration is necessary, it would result in a tax loss to the taxing districts. Since 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). The exemption reduced the cost of new elderly housing to qualify for federal Housing and Urban Development National Housing Act funds. At the time, providing the nonprofit corporation a tax exemption accomplished this at about the same cost of providing Homeowners and Renters Refund Program (HARRP) tax relief to eligible occupants. While the HARRP program was phased out in 1991, the state-funded tax relief for these elderly housing projects still remains.

WHO BENEFITS: The state paid 2001–02 property taxes of $840,000 for 39 homes with over 1,200 units. Homes are in 17 counties with 10 of the 39 in Multnomah county. Between 1999–00 and 2001–02, there was a net addition of three homes.

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 assure this result.

It is also assumed that the elderly households that reside in eligible housing projects have limited incomes which warrants 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*.]

2.039 FARM LABOR HOUSING AND DAYCARE CENTERS

Oregon Statute: 307.485
Sunset Date: None
Year Enacted: 1973

2001–02 Assessed Value of Property Exempted: $16.6 million

	Loss	Shift
2001–03 Revenue Impact:	$300,000	$100,000
2003–05 Revenue Impact:	$400,000	$100,000

DESCRIPTION: Eligible camps for farm laborers and associated day care centers 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. Housing can be provided to agricultural workers not currently employed if employed when work is available. Housing can also be for workers' families. An eligible day care center must be owned or operated by a nonprofit corporation and operated in conjunction with an eligible farm labor camp.

In lieu of property taxes, owners of exempt farm labor housing must make tax payments to the county treasurer equal to 10 percent of yearly net rentals. A claim for exemption must be made each year with the county assessor. The assessor, in turn, forwards applications to the Department of Revenue, the State Fire Marshal, Children's Services Division, and the local health officer for approval. A health inspection of the housing must be made each year.

PURPOSE: To encourage low-cost housing for farm workers by nonprofit corporations.

WHO BENEFITS: Direct recipients are the nonprofit owners and operators of farm labor housing and associated day care centers. The farm workers and their families who live in the housing are the indirect beneficiaries of the credit. In 1997–98 there were about 50 farm labor housing properties exempt in eight counties, with about 80 percent of the value in Hood River, Malheur, Umatilla, and Washington counties. Eleven nonprofit corporations operate the housing.

IN LIEU: Nonprofit corporations operating farm labor housing do not usually have a net income after depreciation is taken into account, and hence 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 daycare facilities may not be built or rehabilitated at all. Assuming that the difference between (a) the amount of property taxes that would be owed without this statute and (b) the amount of the payment in lieu of taxes that in fact is paid under the statute, is passed along to the residents, then the benefit of the tax expenditure is easily calculated by the amount of the reduced rent or day care cost.

While an administrative improvement would be to eliminate the requirement that an application be filed every year, it is probably the trigger mechanism needed for the annual health and safety inspections. [*Evaluated by the Housing and Community Services Department*.]

2.040 FEDERAL LAND UNDER SUMMER HOMES

Oregon Statutes: 307.183 and 307.184
Sunset Date: 6-30-2012
Year Enacted: 1975, modified in 2001 (SB 329)

2001–02 Assessed Value of Property Exempted: $46.2 million

	Loss	Shift
2001–03 Revenue Impact:	$900,000	$200,000
2003–05 Revenue Impact:	$1,000,000	$200,000

DESCRIPTION: In general, when public property is held under contract of sale or is leased to a private individual or business, it is consider taxable. However, the *land* under summer homes that is owned by the Forest Service or Bureau of Land Management and used by permit or lease is exempt from property tax. The summer home, other buildings or structures, and improvements to the land (water or septic systems, electric service, and landscaping) are all taxable to the lessee. This exemption was extended by 2001 SB 329 through tax year 2012.

PURPOSE: To provide tax relief to compensate for the cost of permit fees and to avoid the difficulty of valuing the property with its restrictions. The exemption reinstates the status quo of no land lease taxation after a court decision in 1971 found such land taxable.

WHO BENEFITS: In 1994 the Forest Service had 1,639 homesite permits totaling 616 acres in 17 counties. Clackamas County was the leading location with 558 homesites totaling 140 acres. Fees paid to the Forest Service for these permits totaled about $1,270,000 in 1994, or about $776 per permit. One quarter of this amount, or about $318,000, was shared with the counties. The Forest Service is no longer tracking this program, as newer data is not readily available.

EVALUATION: Not evaluated.

2.041 MULTI-UNIT RENTAL HOUSING ASSESSMENT

Oregon Statutes: 308.704
Sunset Date: None
Year Enacted: 2001 (HB 2204)

2001–02 Assessed Value of Property Exempted: $0

	Loss	Shift
2001–03 Revenue Impact:	$750,000	$140,000
2003–05 Revenue Impact:	$1,670,000	$310,000

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 will be 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:

1. An annual net operating income approach and a capitalization rate, or
2. 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: Owners of these types of property benefit directly from reduced assessments and lower property taxes.

EVALUATION: It is anticipated that this expenditure will achieve its purpose. The community of affordable housing developers, consisting of both for-profit and non-profit 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]*

2.042 WAR VETERANS AND THEIR SPOUSES

Oregon Statute: 307.250
Sunset Date: None
Year Enacted: 1921, modified in 2001 (HB 2282 and SB 745)

2001–02 Assessed Value of Property Exempted: $422.7 million

	Loss	Shift
2001–03 Revenue Impact:	$11,300,000	$2,200,000
2003–05 Revenue Impact:	$12,100,000	$2,400,000

DESCRIPTION: Eligible war veterans or their surviving spouses may be able to exempt a portion of their homestead or personal property's assessed value from property taxes. The taxpayer must own and live on the property. The exemption is first applied to the home and then to taxable personal property. For 2002-03, the exemption amount is either $9,570 or $12,750; these amounts increase by three percent each year.

To be eligible for the $9,570 exemption, a taxpayer must be:

- A war veteran certified within the last three years by the U.S. Department of Veterans Affairs or any branch of the U.S. Armed Forces as having disabilities of at least 40 percent; or
- A war veteran who is annually certified to be at least 40 percent disabled by a licensed physician and whose total gross income is less than (a) $8,778 if he or she has no spouse or dependent child, (b) $11,497 if he or she has a spouse or dependent child or (c) $11,497 plus $1,496 for the second and each additional dependent family member; or
- A surviving spouse of a war veteran (whether or not the veteran was disabled) who has not remarried.

To be eligible for the $12,750 exemption, a taxpayer must be:

- A war veteran certified within the last three years by the U.S. Department of Veterans Affairs or any branch of the U.S. armed forces as having **service-connected** disabilities of at least 40 percent; or
- A surviving spouse of a war veteran who died from a service-connected injury or illness, or who had received at least one year of the maximum exemption ($12,750). Also, the surviving spouse must not have remarried.

A war veteran is defined in ORS 174.105 as anyone who served in the Armed Forces of the United States at least 90 days during World War I, World War II, or the Korean War, or served at least 210 days anytime after 1955.

The 2001 Legislature modified the law to allow war veterans up to three years of retroactive partial exemption if the veteran has recently received a disability certificate. The veteran must have disabilities of at least 40 percent, as certified by the U.S. Department of Veterans Affairs or any branch of the U.S. Armed Forces. To receive this retroactive exemption and a refund of taxes paid (with interest), the veteran must file a claim for exemption with the county assessor within six months of the date of the disability certification.

The 2001 Legislature also modified this law to allow a surviving spouse of a war veteran to file a claim for exemption at any time throughout the year if the veteran died during the previous or current tax year. Prior to 2001-02, a surviving spouse had to meet all requirements under ORS 307.250 to qualify for the exemption, including the timely filing of the claim. Beginning in 2001-02, if all requirements except the timely filing of the claim are met, the surviving spouse is allowed the exemption. A refund of any taxes paid on the exempt amount will be made without interest.

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 (2.043)).

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 2001–02 about 36,000 veterans or their spouses received the exemption. The average exemption was about $11,800 and the average tax reduction was about $175.

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*.]

2.043 WAR VETERANS IN NONPROFIT ELDERLY HOUSING

Oregon Statute: 307.370
Sunset Date: None
Year Enacted: 1969

2001–02 Assessed Value of Property Exempted: $5.0 million

	Loss	Shift
2001–03 Revenue Impact:	$50,000	$10,000
2003–05 Revenue Impact:	$50,000	$10,000

DESCRIPTION: Qualified nonprofit homes for the elderly can claim the veteran's real property tax exemption for their residents if they pass the tax benefit through to the eligible individuals in terms of lower rentals. However, veterans or their widows who are residents of nonprofit homes for the elderly do not qualify for the War Veterans and Their Spouses (2.042) property tax exemption because they do not own their living units. To qualify under War Veterans in Nonprofit Elderly Housing (2.043), the home must:

- Be nonprofit;
- Receive at least 95 percent of their 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 (2.037). However, this exemption relates to the value of the personal property exempt. A claim for exemption must be filed with the county assessor.

Besides the real property veteran's exemption, all personal property of nonprofit homes for the elderly is exempt from property taxation. The exempt value reported here is for personal property of the nonprofit homes only. The real property veteran's exemption is included in War Veterans and Their Spouses (2.042).

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: About 15 homes have a personal property exemption.

EVALUATION: This expenditure only partially achieves its purpose. It does allow disabled veterans and spouses who are living in nonprofit homes for the elderly to receive a rent reduction equivalent to the tax reduction for those who own their homes, as described in War Veterans and Their Spouses (2.042). This benefit may allow disabled veterans and surviving spouses to remain independent and reduces their use of other social programs.

However there are only about 15 such nonprofit homes for the elderly where disabled veterans and spouses can receive a rent reduction. It would appear that the number of veterans and spouses who can take advantage of this program is quite limited. In addition, we did not have the information to verify that the rent reductions were passed through to the eligible veterans and spouses, although a verification mechanism is in place. According to statute, each nonprofit corporation must provide information to the county assessor to show that the appropriate rent credit was given to each applicable resident. [*Evaluated by the Department of Veterans' Affairs*.]

2.044 FARM LAND

Oregon Statute: 308A.050
Sunset Date: None
Year Enacted: 1967

2001–02 Assessed Value of Property Exempted: $6.8 billion

	Loss	Shift
2001–03 Revenue Impact:	$137,100,000	$31,100,000
2003–05 Revenue Impact:	$140,700,000	$32,000,000

DESCRIPTION: Under local property tax law, 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). Legitimate 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. See ORS 308A.056 for the definition of farm use.

Farm use land is specially assessed at its "value for farm use" and not its value in other use. Farm use value is determined by an income approach. Under this approach, income generated (before property taxes) from comparable properties is capitalized into a present value for farm use. The capitalization rate is the average interest rate charged over the last five years by the Farm Credit Service (formally Federal Land Bank) on loans for Oregon farm properties plus the local property tax rate. The Department of Revenue calculates the rate each year.

Eligible farm land is in one of two categories:

- zoned farm land—inside an exclusive farm use (EFU) zone; or
- unzoned farm land—outside an exclusive farm use zone (non-EFU).

The farm use value of zoned and unzoned farm land is determined the same way. However, the eligibility and disqualification procedures are different.

Zoned Farm Land

Special assessment of zoned farm land is automatic if the land is in a qualifying farm use zone and in farm use. No application is needed. Zoned 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-farm use zone. If land is disqualified, an additional tax may be required. The additional tax is equal to the sum of the tax benefit received 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.

Unzoned Farm Land

An application must be filed for special assessment of unzoned farm land. In addition to being in farm use, unzoned farm land must be part of a farm unit that earns a minimum gross income from farm use in three of the last five non-flood or non-drought calendar years. For farms of more than six but less than 30 acres, the minimum income required is $100 per acre. For farms of less than six acres, 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 taxes are equal to the sum of all tax benefits received 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 forgiven for each year the land remains in limited farm use.

PURPOSE: To preserve the agricultural economy of the state. To protect the limited supply of agricultural land as an efficient means of conserving natural resources. To prevent urban growth and development influences from increasing land values to the point where farming is no longer an economically viable use of the land, and to limit expansion of urban development into rural areas.

WHO BENEFITS: Farmers benefit directly. In 2001–02, over 150,000 accounts comprising roughly 15.5 million acres of land were assessed at farm use value with 15 percent of the acreage in western Oregon and 85 percent in eastern Oregon. About 88 percent of the acreage was zoned farm use land and 12 percent was unzoned.

EVALUATION: The special farm use assessment of land zoned for exclusive farm use is an essential part in achieving Oregon’s Agricultural Land Use Policy to preserve the maximum amount of agricultural land in large blocks. It is the primary incentive offered to encourage owners of rural lands to hold such lands in exclusive farm use zones (see ORS 215.243). The effective protection of agricultural land requires well-coordinated special assessment and land use programs.

However, the unzoned special farm use assessment program can conflict with Oregon’s land use program in both urban and rural areas. In urban areas, it can discourage timely development by lowering an owner’s holding costs and encouraging speculation. In rural areas, the requirement to apply for special assessment and meet a minimum income is a disincentive to property owners to rezone appropriate areas for rural residential development and also makes development in exclusive farm use areas (where there is no application or income requirement) more attractive to those seeking a rural homesite. [*Evaluated by the Department of Land Conservation and Development*.]

2.045 FARM HOMESITES

Oregon Statute: 308A.253
Sunset Date: None
Year Enacted: 1987

2001–02 Assessed Value of Property Exempted: $188.4 million

	Loss	Shift
2001–03 Revenue Impact:	$3,800,000	$900,000
2003–05 Revenue Impact:	$3,900,000	$900,000

DESCRIPTION: “Homesite” means up to one acre of land including all tangible improvements to the land under and adjacent to a dwelling and other structures, customarily provided in conjunction with the dwelling. A farm homesite being used in conjunction with specially assessed farm land has a special assessed property value. However, the housing structure is assessed the same as any other house.

The homesite specially assessed value is calculated as the average per acre real market value, as defined in ORS 308.205, for the contiguous bare farm land under the same ownership plus up to $4,000 for land improvements. Land improvements would include a well and septic system necessary for a homesite. If disqualified, no additional tax is imposed unless the homesite is established as a non-farm dwelling under ORS 215.236 (See ORS 308A.259). Also, a homesite related to a wildlife habitat program is eligible to receive the same farm use tax assessment rate.

PURPOSE: To improve the financial viability of farming by reducing the property tax burden, and to reduce the incentive to convert productive farm land to urban uses.

WHO BENEFITS: The number of farm homesites in Oregon is estimated at about 30,000. This includes homesites used for a combination of farm and forestry. The average value exempted is about $6,000 per homesite.

The value per acre of farm land tends to decrease as the farm acreage increases. Thus farm homesite special values for small farms under this statute are likely to be higher than the homesite special value for larger farms.

EVALUATION: Extending special farm assessments to farm homesites reinforces the effects of special assessments for Farm Land evaluated in 2.044. [*Evaluated by the Department of Land Conservation and Development*.]

2.046 FARM MACHINERY AND EQUIPMENT (PROPERTY)

Oregon Statute: 307.394
Sunset Date: None
Year Enacted: 1973, modified in 2001 (HB2208)

2001–02 Assessed Value of Property Exempted: $2.2 billion

	Loss	Shift
2001–03 Revenue Impact:	$44,900,000	$10,200,000
2003–05 Revenue Impact:	$46,900,000	$10,700,000

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 2001 legislation separated earlier versions of this tax expenditure into separate sections of law. This separation of statute resulted in separate reporting of the new statute sections as separate tax expenditures for the Other Farm / Aquaculture / Egg Equipment exemptions (2.056), the Center Pivot Irrigation Equipment exemption (2.055), and the Field Burning Smoke Management Equipment exemption (2.057). Note that the revenue impacts of the exemptions for Center Pivot Irrigation Equipment (2.055) and Other Farm / Aquaculture / Egg Equipment (2.056) are included here. The field burning smoke management equipment revenue impacts are separately accounted for in expenditure 2.057.

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*.]

2.047 MOBILE FIELD INCINERATORS

Oregon Statute: 307.390
Sunset Date: None
Year Enacted: 1971, modified in 2001 (HB 2208 only changed placement in statutes)

2001–02 Assessed Value of Property Exempted: Less than $1 million

	Loss	Shift
2001–03 Revenue Impact:	Less than $50,000	Less than $50,000
2003–05 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 (2.046).

The Alternatives to Field Burning tax expenditure (1.171) 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*.]

2.048 AGRICULTURAL COMMODITY CLEANING PROPERTY

Oregon Statute: 307.120
Sunset Date: None
Year Enacted: 1999

2001–02 Assessed Value of Property Exempted: $3.0 million

	Loss	Shift
2001–03 Revenue Impact:	$100,000	Less than $50,000
2003–05 Revenue Impact:	$100,000	Less than $50,000

DESCRIPTION: A partial property tax exemption is allowed for real property, owned or leased by a municipality or port, when the property is used to clean or decontaminate agricultural commodity cargo. Once real property qualifies, the taxpayer pays a tax of one-quarter of 1 percent of the assessed value of the exempt property.

PURPOSE: To encourage cleaning or decontaminating of agricultural commodity cargo.

WHO BENEFITS: Grain cleaning facility leased by a municipality or port. In recent years, there has been increasing demand from Asian wheat importers to have less dockage in their grain imports. This prompted the construction of a grain cleaning facility on the Port of Portland land near the grain loading/unloading processing facilities.

EVALUATION: Local municipalities were attempting to tax recent improvements in grain export handling equipment at a higher rate than all other similar equipment and facilities located at the same port site. The tax status granted by this partial exemption simply places the improved cleaning facilities at the same tax rate as all other grain handling facilities at the Port of Portland. The grain company views this as an equity issue and believes it is critical to being competitive in international commerce. The partial exemption appears to be serving its purpose and is justifiable in keeping rates equitable for like facilities and equipment. [*Evaluated by the Department of Agriculture.*]

2.049 CROPS, PLANTS, AND FRUIT TREES

Oregon Statute: 307.320
Sunset Date: None
Year Enacted: 1957

2001–02 Assessed Value of Property Exempted: $831.7 million

	Loss	Shift
2001–03 Revenue Impact:	$16,700,000	$3,800,000
2003–05 Revenue Impact:	$17,000,000	$3,900,000

DESCRIPTION: Deciduous trees, shrubs, plants, crops, cultured Christmas trees, and cultivated hardwood trees growing on agricultural land are exempt from local property taxation. When crops and plants are harvested and unsold as of the assessment date, they are treated as inventory subject to the Inventory Exemption (2.016).

PURPOSE: To improve the financial viability of farming by reducing the property tax burden and to ease administration by eliminating the filing of personal property tax returns for farmers.

WHO BENEFITS: Oregon has about 5 million acres of harvested cropland (excluding Christmas trees). The exempt value is divided about evenly between vineyards, berries and fruit and nut trees; annual row and other crops; and Christmas trees.

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*.]

2.050 AGRICULTURAL PRODUCTS HELD BY THE FARMER

Oregon Statute: 307.325
Sunset Date: None
Year Enacted: 1965, modified in 2001 (HB2208)

2001–02 Assessed Value of Property Exempted: $4 million

	Loss	Shift
2001–03 Revenue Impact:	$80,000	Less than $50,000
2003–05 Revenue Impact:	$80,000	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 local property taxation. These products are grain, seed, hay, fruit, vegetables, nuts, hops, wool, fish, livestock, fur-bearing animals, bees, poultry, butter, cheese, evaporated, condensed or concentrated milk, mint, and bivalve mollusks.

Most products held by farmers are considered inventories by nature of their 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, which is a relatively small amount. The 2001 legislative session (HB 2208) moved the exemption for livestock, fur-bearing animals, and bees (formerly ORS 307.400) into this section of statute.

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*.]

2.051 NURSERY STOCK

Oregon Statute: 307.315
Sunset Date: None
Year Enacted: 1971

2001–02 Assessed Value of Property Exempted: $187.4 million

	Loss	Shift
2001–03 Revenue Impact:	$3,900,000	$900,000
2003–05 Revenue Impact:	$4,500,000	$1,000,000

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 (2.049)) and with the exemption of inventories in non-agricultural industries (Inventory (2.016)). Any change, such as the elimination of this exemption, resulting in an increase in market price would reduce the competitiveness of Oregon-grown nursery stock in the national and international marketplaces. The current tax expenditure is the most effective means of achieving this purpose. [*Evaluated by the Department of Agriculture*.]

2.052 LEASED PUBLIC FARMING AND GRAZING LAND

Oregon Statute: 307.110(3)(b)
Sunset Date: None
Year Enacted: 1971

2001–02 Assessed Value of Property Exempted: Included in State and Local Property (2.100).

	Loss	Shift
2001–03 Revenue Impact:	Included in 2.100	Included in 2.100
2003–05 Revenue Impact:	Included in 2.100	Included in 2.100

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 encourage leasing of small parcels of government land (that would be exempt anyway if not leased) to avoid government land maintenance costs.

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 program 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*.]

2.053 LEASED FEDERAL GRAZING LAND

Oregon Statute: 307.060
Sunset Date: None
Year Enacted: 1961

2001–02 Assessed Value of Property Exempted: Included in Federal Property (2.114).

	Loss	Shift
2001–03 Revenue Impact:	Included in 2.114	Included in 2.114
2003–05 Revenue Impact:	Included in 2.114	Included in 2.114

DESCRIPTION: 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 leases grazing land 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. The expenditure may also benefit local communities through increased economic activity. In 1999, the Bureau of Land Management issued permits and leases for 83,858 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 would likely exceed the benefits. [*Evaluated by the Department of Agriculture*.]

2.054 OYSTER GROWING ON STATE LAND

Oregon Statute: 622.290
Sunset Date: None
Year Enacted: 1969

2001–02 Assessed Value of Property Exempted: $1.4 million

	Loss	Shift
2001–03 Revenue Impact:	Less than $50,000	Less than $50,000
2003–05 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 (increased from $2 in 1997) and the use tax is $0.10 cents per gallon (increased from $0.05 cents) 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 $1.4 million in 2001. The total acreage of submerged state estuary land has been rather stable for the past five years. Production of shucked oysters harvested, about 16,000 gallons per year, has remained about the same as well.

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 $14,247 in fees in 2001. The in-lieu fees were for leasing 3,670 acres and producing 41,016 total gallons of oysters.

EVALUATION: The tax expenditure seems to be effective in achieving its purpose. The expenditure is particularly helpful to growers who are just getting started in the business and to those with small lease holdings. It takes several grow-out years before oysters can be harvested. The tax expenditure helps make it possible for growers to make it through the unproductive years. [*Evaluated by the Department of Agriculture*.]

2.055 CENTER PIVOT IRRIGATION EQUIPMENT

Oregon Statute: 307.398
Sunset Date: None
Year Enacted: 1973, modified in 2001 (HB 2208)

2001–02 Assessed Value of Property Exempted: Included in 2.046

	Loss	Shift
2001–03 Revenue Impact:	Included in 2.046	Included in 2.046
2003–05 Revenue Impact:	Included in 2.046	Included in 2.046

DESCRIPTION: Personal property center pivot irrigation equipment used in farm operations is exempt from ad valorem property taxation. Note that this expenditure was previously contained under Farm Machinery and Equipment (2.046). During the 2001 legislative session, HB 2208 moved this expenditure to a different section of statute. The revenue impacts however, are still included under 2.046.

PURPOSE: To improve the financial viability of farming and ease tax administration.

WHO BENEFITS: All farmers who own center pivot irrigation equipment receive benefits from this provision.

EVALUATION: See evaluation for 2.046. *[Evaluated by the Department of Agriculture.]*

2.056 OTHER FARM / AQUACULTURE / EGG EQUIPMENT

Oregon Statute: 307.397
Sunset Date: None
Year Enacted: 1973, modified in 2001 (HB 2208)

2001–02 Assessed Value of Property Exempted: Included in 2.046

	Loss	Shift
2001–03 Revenue Impact:	Included in 2.046	Included in 2.046
2003–05 Revenue Impact:	Included in 2.046	Included in 2.046

DESCRIPTION: Certain personal property machinery and equipment used in farm operations is exempt from ad valorem property taxation. Under this section of statute the following are exempt: frost control systems, trellises for hops and other agricultural purposes, hop harvesting equipment, in-water racks and other equipment for raising bivalve mollusks, and equipment used in production and preparation of eggs in the fresh shell egg industry.

This expenditure was previously contained under Farm Machinery and Equipment (2.046). During the 2001 legislative session, HB 2208 moved this expenditure to a separate section of statute. The revenue impacts, however, are still included under 2.046.

PURPOSE: To improve the financial viability of farming and ease tax administration.

WHO BENEFITS: All farmers who own the specified equipment receive benefits from this provision.

EVALUATION: See evaluation for 2.046. *[Evaluated by the Department of Agriculture.]*

2.057 FIELD BURNING SMOKE MANAGEMENT EQUIPMENT

Oregon Statute: 307.391
Sunset Date: None
Year Enacted: 1973, modified in 2001 (HB 2208)

2001–02 Assessed Value of Property Exempted: Less than $1 million

	Loss	Shift
2001–03 Revenue Impact:	Less than $50,000	Less than $50,000
2003–05 Revenue Impact:	Less than $50,000	Less than $50,000

DESCRIPTION: Radio communications equipment, meteorological equipment, or other tangible personal property used in connection with the operation of the field burning smoke management program (administered by the Oregon Department of Agriculture) is exempt from ad valorem property taxation. The goal of the smoke management program is to offer maximum opportunities for open field burning, propane flaming, and stack burning with minimal smoke impacts on the public. The field burning equipment itself would be exempt under Farm Machinery and Equipment (2.046) as long as the burning was conducted for the purpose of soil maintenance for farming use.

This expenditure was previously contained under Farm Machinery and Equipment (2.046). During the 2001 legislative session, HB 2208 moved this expenditure to a different section of statute.

PURPOSE: To reduce the cost of ownership of equipment used in conjunction with the field burning smoke management program, and thereby support the implementation of the program.

WHO BENEFITS: All farmers who own the specified equipment receive benefits from this provision. Roughly 160 farmers burn fields; they would be required to have at a minimum a radio to receive burning information. The general public accrues health and other benefits from less air pollution as a result of the smoke management program.

EVALUATION: See evaluation under 2.046. *[Evaluated by the Department of Agriculture.]*

2.058 POLLUTION CONTROL FACILITIES

Oregon Statute: 307.405
Sunset Date: 12-31-07
Year Enacted: 1967, modified in 2001 (SB 764)

2001–02 Assessed Value of Property Exempted: $1.5 million

	Loss	Shift
2001–03 Revenue Impact:	Less than $50,000	Less than $50,000
2003–05 Revenue Impact:	Less than $50,000	Less than $50,000

DESCRIPTION: A pollution control facility owned or leased by a cooperative or nonprofit corporation and used in connection with its trade or business is eligible for a property tax exemption.

The Environmental Quality Commission certifies the facility cost and the exemption percentage. The exemption lasts 20 years from the date of certification.

A pollution control facility is any land, structure, machinery, equipment, or device that prevents, controls, or reduces air, water, or noise pollution, solid or hazardous waste, or recycles or disposes of used oil. The 1999 Legislature added non-point source pollution control facilities to the list of qualifying projects. In most cases the percentage allocable to pollution control depends on whether the owner earns any income from the facility. Thus, if an air, water, or noise 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.

This exemption is a companion to the Pollution Control Credit (1.175) on income tax. For-profit companies are eligible for the income tax credit, while non-profits 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). The tax relief helps to offset the cost of government-imposed requirements for reducing pollution and to encourage the reduction of pollution beyond what is required by law.

WHO BENEFITS: 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 non-profits for installing facilities required by the Department of Environmental Quality or by the U.S. Environmental Protection Agency; defined as "principal purpose facilities."

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 non-profits, an incentive similar to the income tax credit available to for-profit businesses (Pollution Control Credit (1.146)). Since 1995, no cooperatives or non-profits 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 they are required by law. [*Evaluated by the Department of Environmental Quality*.]

2.059 NONPROFIT SEWAGE TREATMENT FACILITIES

Oregon Statute: 307.118
Sunset Date: None
Year Enacted: 1997

2001–02 Assessed Value of Property Exempted: $200,000

	Loss	Shift
2001–03 Revenue Impact:	Less than $50,000	Less than $50,000
2003–05 Revenue Impact:	Less than $50,000	Less than $50,000

DESCRIPTION: An exemption from property taxes is allowed for wastewater treatment, sewage treatment, and related property owned by a nonprofit corporation engaged solely in wastewater treatment and sewage treatment facility applications. It applies to tax years beginning on or after July 1, 1996. The exemption refunds and abates any taxes paid for the 1996 and 1997 tax years, and provides an exemption for future tax years. The nonprofit corporation must have been in existence as of January 1, 1997, and the corporation and plant must have been in operation on July 1, 1997. The exemption was created for the Mapleton Commercial Area Owners' Association in Lane County, and it is unlikely any other facilities qualify for the exemption.

PURPOSE: To assist nonprofit sewage treatment facilities.

WHO BENEFITS: There appears to only 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 three homes and 17 businesses comprising the membership of the Mapleton Commercial Area Owners' Association.

EVALUATION: This legislation provides an economic benefit for communities who elect to manage their wastewater treatment needs through formation of a nonprofit corporation. This form of organization is rare; only one such organization was covered by the law when it was passed. Because the existing law does not cover other privately owned community sewer system in the state, such as trailer and recreational vehicle parks, it has limited applicability to Oregon businesses. [*Evaluated by the Department of Environmental Quality*.]

2.060 RIPARIAN HABITAT LAND

Oregon Statute: 308A.362
Sunset Date: None
Year Enacted: 1981

2001–02 Assessed Value of Property Exempted: $1.6 million

	Loss	Shift
2001–03 Revenue Impact:	Less than $50,000	Less than $50,000
2003–05 Revenue Impact:	Less than $50,000	Less than $50,000

DESCRIPTION: Land designated as riparian land by the State Department of Fish and Wildlife is exempt from local property taxation. Riparian land is defined as 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 streambank. 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 no longer outside an UGB or so zoned may also qualify. However, the landowner must apply for riparian designation within five years of the change. The Department of Fish and Wildlife can designate 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 streambank 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.

No new land may be designated as riparian land after June 30, 2004.

PURPOSE: To maintain riparian habitat in a healthy condition To control erosion, improve water quality, and prolong streamflow. It is also 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 2002, the Department of Fish and Wildlife had enrolled 1,043 acres in the program along roughly 77 miles of streams. 111 landowners participate.

EVALUATION: This expenditure, as amended in Oregon Laws 1997, Chapter 811, Section 2, may be more effective than it was previously. However, the usage and data around this expenditure are not conclusive.

With the 1997 statute changes and increased efforts to save Oregon salmon runs, the Riparian Habitat Land exemption has become more widely used, but a number of features of the provision may limit its effectiveness. First, the land that qualifies for the exemption is already taxed at relatively low levels as farm or forest land, so the exemption provides a relatively small reduction in taxes. Second, the program limits the amount of new riparian land that can be certified annually prior to July 1, 2004, to no more than 200 miles of streambank 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. [*Evaluated by the Department of Fish and Wildlife.*]

2.061 ENVIRONMENTALLY SENSITIVE LOGGING EQUIPMENT

Oregon Statute: 307.827 and 307.831
Sunset Date: 6-30-08
Year Enacted: 1999

2001–02 Assessed Value of Property Exempted: $223.9 million

	Loss	Shift
2001–03 Revenue Impact:	$4,500,000	$1,000,000
2003–05 Revenue Impact:	$4,700,000	$1,100,000

DESCRIPTION: A property tax exemption is provided for environmentally sensitive logging equipment. Environmentally sensitive logging equipment is statutorily defined as “logging equipment that was originally manufactured not more than eight years preceding the assessment date for the tax year for which exemption under this section is claimed. This equipment must be specifically designed for activities related to water quality or fish and wildlife habitat protection in the forest.” The exemption can be used for five years if the equipment meets the specified criteria for at least one year between July 1, 2000, and June 30, 2008. This provision exempts from taxation logging equipment already considered environmentally sensitive, such as skyline yarders and carriages.

PURPOSE: The public policy of this tax expenditure is 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. Personal property taxes paid on logging equipment act as a disincentive to a transition to environmentally sensitive technology, because older equipment has a lower assessed value and therefore generates a correspondingly reduced property tax liability. In contrast, newer equipment, the use of which benefits the environment more than the use of older equipment, has a higher assessed value and a correspondingly higher property tax liability.

WHO BENEFITS: Loggers who switch to more environmentally friendly logging equipment.

EVALUATION: The effectiveness of this exemption has not been evaluated because it is relatively new, and potential benefits to fish habitat have not yet been assessed comprehensively. The level of habitat improvement is expected to increase gradually 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*.]

2.062 ETHANOL PRODUCTION FACILITY

Oregon Statute: 307.701
Sunset Date: 6-30-08
Year Enacted: 1993

2001–02 Assessed Value of Property Exempted: $0

	Loss	Shift
2001–03 Revenue Impact:	$0	$0
2003–05 Revenue Impact:	$0	$0

DESCRIPTION: The real and personal property of an ethanol production facility is exempt from taxation. The exemption is for 50 percent of the assessed value of the property determined under ORS 308.146. The exemption may be claimed for five assessment years. For the exemption to apply, the following conditions must be met:

- The facility is first in the process of construction, erection or installation as a new facility after July 1, 1993;
- The facility is or will be placed in service to produce ethanol within four years after January 1 of the first assessment year for which the exemption under this section is claimed; and
- Within four years after January 1 of the first assessment year for which the exemption under this section is claimed, the facility is or will be certified by the state Department of Agriculture as a facility that produces ethanol capable of blending or mixing with gasoline.

An application must be filed with the county assessor. If production or certification does not occur within the time allowed, the property is not exempt for any tax year. Any prior exemption must be repaid by adding the property to the role as omitted property.

In 1993 the exemption was shifted from a fuel tax exemption to a property tax exemption in order to focus the incentive on ethanol produced in Oregon. The shift also allowed the state to maintain an incentive without cutting revenue to the highway fund with a fuel tax exemption.

PURPOSE: To encourage ethanol production in Oregon in order 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. The two pending facilities are located in rural counties where jobs and economic development are especially needed.

EVALUATION: Two ethanol production facilities are being considered for development in Oregon. This exemption might affect whether they are built. [*Evaluated by the Office of Energy*.]

2.063 ALTERNATIVE ENERGY SYSTEMS

Oregon Statute: 307.175
Sunset Date: 6-30-12
Year Enacted: 1975, modified in 2001 (SB 520)

2001–02 Assessed Value of Property Exempted: $125.4 million

	Loss	Shift
2001–03 Revenue Impact:	$3,300,000	$600,000
2003–05 Revenue Impact:	$3,500,000	$700,000

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. The 2001 legislation extends the exemption to include fuel cells and extends the sunset to tax years beginning prior to July 1, 2012.

PURPOSE: The exemption is 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 21,000 residential properties and 500 businesses in Oregon have installed solar or other renewable energy systems.

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 Alternative Energy Devices Tax Credit (1.180) and the Business Energy Facilities Tax Credit (1.181) 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 Office of Energy*.]

2.064 STATE AND LOCAL STANDING TIMBER UNDER CONTRACT

Oregon Statute: 307.100
Sunset Date: None
Year Enacted: 1965

2001–02 Assessed Value of Property Exempted: $112 million

	Loss	Shift
2001–03 Revenue Impact:	$2,200,000	$700,000
2003–05 Revenue Impact:	$2,200,000	$600,000

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 301 million board feet in 2001. The volume of local timber under contract is unknown but is thought to be small.

PURPOSE: Taxing timber under contract would be contrary to the tax treatment of 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 Forestry Department*.]

2.065 WESTERN PRIVATE FORESTLAND

Oregon Statute: 321.352
Sunset Date: None
Year Enacted: 1977, modified in 2001 (HB 3537)

2001–02 Assessed Value of Property Exempted: $2.3 billion

	Loss	Shift	Total
2001–03 Revenue Impact:	$46,200,000	$10,500,000	$56,700,000
2003–05 Revenue Impact:	$31,000,000	$7,000,000	$38,000,000
2001–03 In Lieu (Privilege) Tax:			$35,000,000
2003–05 In Lieu (Privilege) Tax:			$0

DESCRIPTION: The 1999 Oregon Legislature made major changes in the assessment of forestland under this program. Prior to 1999, forestland in Western Oregon was subject to local property taxation using a specially assessed value. In 1995–96, land values were set statutorily by site class (from $1 to $720 per acre). For subsequent years the statutory values has been indexed by 50 percent of a seven-year moving average change in log purchase values. The proposed changes in 1999 are as follows:

Large Owners: In general large forestland owners (those with 5,000 acres or more) by 2003 will phase into paying land taxes based on 100 percent of statutory land values annually. These owners currently pay 20 percent of statutory land values, and in lieu of the other 80 percent of the statutory land value deferred, pay a 3.2 percent privilege tax on the value of timber harvested. Starting on July 1, 2000, property taxes on these landowners' forestland will increase from 20 percent of the statutory land value to 75 percent. Starting on July 1, 2003, property taxes on these landowners' forestland will increase from 75 percent of the statutory land value to 100 percent. Privilege tax rates are 1.9 percent for 2000 and 2001 and 1.4 percent for 2002. The privilege tax will phase out by 2003.

Small Owners: Smaller forestland owners (less than 5,000 acres) will have the option of either moving to the large owner (phase in) 100 percent land value or remain under their current assessment system until 2003. Their current system is based on 20 percent of the statutory land values annually and a 3.2 percent privilege tax levied at harvest in lieu of the other 80 percent of the property tax exempted. The 2003 Legislature may review recommendations for creation of a new program for smaller owners that is easier to administer and provides that most of the land taxes are paid at harvest. In 2003 small woodland owners under the 20 percent statutory value program will automatically transfer to the 100 percent statutory value program unless they have opted into the program possibly developed by the 2003 Legislature or another program.

Privilege tax revenue is distributed by formula to local taxing districts. The formula allocates revenue based on the tax rate, value of timber harvested, and the forestland assessed value in the district.

PURPOSE: To promote the retention of forestland in forest use. Also to remove the incentive for earlier harvest that annual taxation creates for smaller forestland owners.

WHO BENEFITS: Private forestland owners. There are approximately 5.6 million acres of private forest land in western Oregon.

IN LIEU: Recent privilege tax collections are as follows:

1996–97	$40.9 million
1997–98	$34.6 million
1998–99	$33.0 million
1999–00	$30.1 million
2000–01	$22.5 million
2001–02	$17.6 million

EVALUATION: This expenditure appears to be achieving its purpose. The tax treatment of private timber land in concert with land-use planning promotes the retention of forestland in forest uses. It is debatable whether the tax treatment or the land-use planning provisions are more important in achieving the purpose. What seems evident is that the combination is working to retain the land in forest use. [*Evaluated by the Forestry Department*.]

2.066 WESTERN PRIVATE STANDING TIMBER

Oregon Statute: 321.272
Sunset Date: None
Year Enacted: 1977

2001–02 Assessed Value of Property Exempted: $19.7 billion

	Loss	Shift
2001–03 Revenue Impact:	$385,400,000	$87,500,000
2003–05 Revenue Impact:	$366,300,000	$83,200,000

DESCRIPTION: Privately owned standing timber in Western Oregon is exempt from local property taxes.

PURPOSE: To promote retention of forestland in forest uses. Forestland owners delay timber harvests for an indeterminate period. During this period, non-commercial values that accrue to the public are maintained and increased, notably wildlife habitat, clean air, clean water, visual quality, etc.

WHO BENEFITS: Private timber owners benefit directly.

EVALUATION: The purpose of holding off on premature harvests of private timber appears to be being 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 Forestry Department*.]

2.067 WESTERN SMALL TRACT OPTION

Oregon Statute: 321.720
Sunset Date: None
Year Enacted: 1961

2001–02 Assessed Value of Property Exempted: $181.4 million

	Loss	Shift
2001–03 Revenue Impact:	$3,600,000	$1,100,000
2003–05 Revenue Impact:	$3,900,000	$1,000,000

DESCRIPTION: Owners of more than ten and less than 5,000 acres of timber in Western Oregon may be taxed for property tax purposes under the Western Oregon Small Tract Option Tax (WOSTOT). Owners must elect this option before the average size of their timber becomes eight inches in diameter at breast height or the timber is less than 40 years of age.

The land is inspected by the Department of Forestry. The land is classified in one of five possible site classes based on the productivity of the land. Until 1997–98, the site class values were based on income from a model forest using a statutory 17 percent capitalization rate when considering costs, risk, and return on investment. The site class value applied to the land was based on the timber the land was capable of producing. This became the assessed value in the normal property tax process. Starting in 1997–98, site class values are set by statute rather than by an income capitalization approach using some of the land values under the Western Oregon Forest Land Assessment. Small woodland owners under WOSTOT pay property taxes on 100 percent of the statutory land values. Because owners pay on 100 percent of the statutory value, there is no privilege tax at harvest.

The 2001 Legislature extended for two years the Department of Forestry's administration this special assessment. The Legislature also directed the department to convene a working group to review the tax policy for family and non-industrial small tract forestland and return to the 2003 session with recommendations for change. On July 1, 2003, this special assessment is slated to be eliminated with forestlands so assessed moving to ORS 321.354 unless the landowner selects another option.

PURPOSE: The special assessment gives small landowners the option of a property tax assessed value based on productivity with program emphasis on management and technical assistance provided by the Department of Forestry. The intent is to encourage small owners to actively manage their forests and hold their timber to maturity before harvest. The pubic indirectly benefits from these well managed forests for the clean air, clean water, timber, wildlife habitat, open space and recreational opportunities produced on these lands.

WHO BENEFITS: Owners of small tracts of timberland who select this optional tax treatment. In 1999 small tract acreage was 175,000. About 44 percent of the acreage is in Clackamas, Lane and Washington counties.

EVALUATION: This expenditure appears to be effective in providing an option for small timber owners. The bulk of small forestland owners pay property taxes under a different program based on 20 percent of the statutory value of the land each year. The remainder of the deferred land tax is paid in the form of timber privilege tax payments at the time of harvest. WOSTOT participants pay the tax on 100 percent of the value of the land, but are exempt from the privilege tax (deferred land taxes) at time of harvest. The class of landowner for whom the WOSTOT program makes sense tend to harvest a small amount of timber each year, or at closely spaced intervals if not annually. This group of landowners tends to manage its forests quite intensively, and likely produces (per acre) more timber than the "model" forest.

The requirements that pertain to WOSTOT require some level of inspection, which requires an additional level of government expenditure over that required for the "standard" system (the standard system has inspection provisions for the State Forester, but these have not been funded). It is likely that the WOSTOT is thus not the "cheapest" system, but as the name suggests, an "Optional" or alternative one, and it appears to be a working, positive incentive to more efficiently grow crops of timber while producing other public values on non-industrial forest land. [*Evaluated by the Forestry Department*.]

2.068 EASTERN PRIVATE FORESTLAND

Oregon Statute: 321.810
Sunset Date: None
Year Enacted: 1971, modified in 2001 (HB 3537)

2001–02 Assessed Value of Property Exempted: $307.9 million

	Loss	Shift	Total
2001–03 Revenue Impact:	$6,200,000	$1,400,000	$7,600,000
2003–05 Revenue Impact:	$3,300,000	$700,000	$4,000,000
2001–03 In Lieu (Privilege) Tax:			$2,600,000
2003–05 In Lieu (Privilege) Tax:			$0

DESCRIPTION: The 1999 Oregon Legislature made major changes in the assessment of forestland under this program. Prior to 1999, privately owned forestland in Eastern Oregon was subject to local property taxation using a specially assessed value. In 1995–96, land values were set statutorily at $42 per acre. For subsequent years the statutory values has been indexed by 50 percent of a five-year moving average change in log purchase values. The proposed changes in 1999 are as follows:

Large Owners: In general, large forestland owners (those with 5,000 acres or more) by 2003 will phase into paying land taxes based on 100 percent of statutory land values annually. These owners currently pay 20 percent of statutory land values and in lieu of the other 80 percent of the statutory land value deferred pay a 1.8 percent privilege tax on the value of timber harvested. Starting on July 1, 2000, property taxes on these landowners' forestland will increase from 20 percent of the statutory land value to 75 percent. Starting on July 1, 2003, property taxes on these landowners' forestland will increase from 75 percent of the statutory land value to 100 percent. Privilege tax rates are 1.1 percent for 2000 and 2001 and 0.8 percent for 2002. The privilege tax will phase out by 2003.

Small Owners: Smaller forestland owners (less than 5,000 acres) will have the option of either moving to the large owner (phase in) 100 percent land value, or remain under their current assessment system until 2003. Their current system is based on 20 percent of the statutory land values annually and a 3.2 percent privilege tax levied at harvest in lieu of the other 80 percent of the property tax exempted. The 2003 Legislature may review recommendations for creation of a new program for smaller owners that is easier to administer and provides that most of the land taxes are paid at harvest. In 2003 small woodland owners under the 20 percent statutory value program will automatically transfer to the 100 percent statutory value program unless they have opted into the program developed by the 2003 Legislature or another program.

Privilege tax revenue is distributed by formula to local tax districts with timber as an offset to district property tax levies. The formula allocates revenue based on the frozen 1964 timber values and district property tax rates.

PURPOSE: To promote the retention of forestland in forest use and to remove the incentive for earlier harvest that annual taxation creates for smaller forestland owners.

WHO BENEFITS: Private forestland owners. There are approximately 1.5 million acres of private forest land in eastern Oregon.

IN LIEU: Recent privilege tax collections are as follows:

1996–97	$2.9 million
1997–98	$2.7 million
1998–99	$3.0 million
1999–00	$2.7 million
2000–01	$1.5 million
2001–02	$1.3 million

EVALUATION: This expenditure appears to be achieving its purpose. The tax treatment of private timber land, in concert with land-use planning, promotes the retention of forestland in forest uses. It is debatable whether the tax treatment or the land-use planning provisions are more important in achieving the purpose. What seems evident is that the combination is working to retain the land in forest use. [*Evaluated by the Forestry Department*.]

2.069 EASTERN PRIVATE STANDING TIMBER

Oregon Statute: 321.420
Sunset Date: None
Year Enacted: 1961

2001–02 Assessed Value of Property Exempted: $2.6 Billion

	Loss	Shift
2001–03 Revenue Impact:	$52,000,000	$11,800,000
2003–05 Revenue Impact:	$50,400,000	$11,400,000

DESCRIPTION: Privately owned standing timber in Eastern Oregon is exempt from local property taxation.

PURPOSE: To promote retention of forest land in forest uses. Forest land owners delay timber harvests for an indeterminate period. During this period, non-commercial values, which accrue to the public, are maintained and increased, notably wildlife habitat, clean air and clean water, visual quality, etc.

WHO BENEFITS: Private timber owners benefit directly.

EVALUATION: Information is lacking on the effectiveness of this and 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 Forestry Department*.]

2.070 FOREST HOMESITES

Oregon Statute: 308A.256
Sunset Date: None
Year Enacted: 1989

2001–02 Assessed Value of Property Exempted: $108.9 million

	Loss	Shift
2001–03 Revenue Impact:	$2,900,000	$600,000
2003–05 Revenue Impact:	$3,100,000	$600,000

DESCRIPTION: A forest homesite being used in conjunction with growing and harvesting trees on forestland has a special property tax value. The homesite special assessment is the value of one acre. It must be on a parcel of more than 10 acres of highest and best use forestland, or land that has designated in Western Oregon under ORS 321.257 to 321.390 or in Eastern Oregon under ORS 321.805 to 321.825 or classified under ORS 321.705 to 321.765 (Western Small Tract Option). The homesite specially assessed value is the average per acre real market value, as defined in ORS 308.205, for the contiguous bare forestland under the same ownership plus up to $4,000 for land improvements. Land improvements include a well and septic system necessary for a homesite.

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: The number of specially assessed forest homesites is estimated at 8,000 excluding home sites used for both farm and forestry (Farm Homesites (2.045)). The average value exempted is about $8,400 per homesite.

EVALUATION: Extending special forest assessments to forest homesites reinforces the effects of special assessments for forestland. [*Evaluated by the Forestry Department*.]

2.071 FEDERAL STANDING TIMBER UNDER CONTRACT

Oregon Statute: 307.050
Sunset Date: None
Year Enacted: 1965

2001–02 Assessed Value of Property Exempted: $270.7 million

	Loss	Shift
2001–03 Revenue Impact:	$5,400,000	$1,200,000
2003–05 Revenue Impact:	$5,100,000	$1,200,000

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.

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 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 Forestry Department*.]

2.072 PRIVATE FARM AND LOGGING ROADS

Oregon Statute: 308.236
Sunset Date: None
Year Enacted: 1963

2001–02 Assessed Value of Property Exempted: $1.3 billion

	Loss	Shift
2001–03 Revenue Impact:	$28,500,000	$6,500,000
2003–05 Revenue Impact:	$30,700,000	$7,000,000

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 Forestry Department*.]

2.073 FOREST FIRE PROTECTION ASSOCIATION

Oregon Statute: 307.125
Sunset Date: None
Year Enacted: 1957

2001–02 Assessed Value of Property Exempted: $8.4 million

	Loss	Shift
2001–03 Revenue Impact:	$200,000	$100,000
2003–05 Revenue Impact:	$200,000	$100,000

DESCRIPTION: All property of forest and vegetation protection groups is exempt from local property taxation if the property is used exclusively for fire suppression or forest protection. ORS Chapter 477 provides for the establishment of a variety of forest and vegetation protection groups. These groups include forest protection districts, cooperative agreements between the State Forester and Forest Protective Associations, and joint or separate agreements between state and federal agencies and local governments, corporations, landowner organizations, and similar groups.

PURPOSE: To treat these groups the same as publicly owned fire departments and to help keep the cost of protecting timber assets low.

WHO BENEFITS: The forest fire protection associations. Most of the property of fire protection associations has been deeded over to the Department of Forestry and the associations work under contract with the department. Currently there are three fire protection associations operating in the state: one in Douglas County, one in Coos County, and one serving multiple counties in eastern Oregon.

EVALUATION: This provision is effective in achieving its purpose. The costs of providing forest fire prevention and suppression varies among districts due to the fuel and weather conditions that prevail on the lands protected and the risks and hazards that exist. It appears that this tax treatment provides the equity desired, as the purely administrative costs do not appear to be different among the various districts, whether association or state-operated. Because the expenses of these associations are largely borne by the forest landowner, the associations would likely raise the assessments to landowners if this property were not exempt. [*Evaluated by the Forestry Department*.]

2.074 INACTIVE MINERAL INTERESTS

Oregon Statute: 308.115
Sunset Date: None
Year Enacted: 1997

2001–02 Assessed Value of Property Exempted: $6.2 million

	Loss	Shift
2001–03 Revenue Impact:	$100,000	Less than $50,000
2003–05 Revenue Impact:	$100,000	Less than $50,000

DESCRIPTION: Mineral interests owned separately from surface interests are exempt from local property tax if the property is not being mined. The exemption first applied in tax year 1998–99.

PURPOSE: To eliminate the administrative burden of assessing those accounts, when the administrative cost might be higher than the tax generated.

WHO BENEFITS: Owners of mineral interests who are not actively mining those interests.

EVALUATION: This expenditure has been effective in reducing the administrative costs of county assessment offices. Initially, additional work was required to remove these accounts from the tax rolls, but once that work is completed no significant administration is needed for these accounts. [*Evaluated by the Department of Geology and Mineral Industries*.]

2.075 LEASED STATE LAND BOARD LAND

Oregon Statute: 307.168
Sunset Date: None
Year Enacted: 1982

2001–02 Assessed Value of Property Exempted: $16.5 million

	Loss	Shift
2001–03 Revenue Impact:	$300,000	$100,000
2003–05 Revenue Impact:	$400,000	$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, land leased from the State Land Board or Division of State Lands is exempt from local property taxation. Eligible land includes submerged, submersible, and grazing land but excludes mines, quarries or minerals, and buildings or improvements.

The State Land Board has about $1.5 million in lease revenue per year from grazing land and waterways for the Common School Fund.

PURPOSE: The exemption is to maintain the status quo of leased State Land Board land, after a 1982 Oregon Supreme Court decision ruled that certain land leased from the board to a private party was taxable.

WHO BENEFITS: Lessees are the main beneficiary from the tax exemption, but it has been argued that lessees are unaffected because they would attempt to keep their out-of-pocket expenses the same by asking for reduced lease rates if lessees were required to pay taxes. The other beneficiaries are Oregon’s K–12 public schools, so the main effect of taxation could be to reduce potential lease income to the Common School Fund.

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 Division of State Lands*.]

2.076 CRAB POTS

Oregon Statute: 508.270
Sunset Date: None
Year Enacted: 1969

2001–02 Assessed Value of Property Exempted: $10.0 million

	Loss	Shift
2001–03 Revenue Impact:	$300,000	$50,000
2003–05 Revenue Impact:	$300,000	$60,000

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 after an Attorney General opinion determined that crab pots were not an integral part of a commercial fishing boat (taxed at 4 percent of value), but should be taxed as personal property (taxed at 100 percent of value). The exemptions 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 147,000 commercial crab pots are used in the coastal counties. The number of pots may increase due to shifts in fishing effort by multi-purpose fishing boats in response to diminished opportunities in the groundfish fishery. Non-commercial crab pots are exempt as Personal Property for Personal Use (2.097).

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*.]

2.077 PLEASURE BOATS

Oregon Statute: 830.790(2)
Sunset Date: None
Year Enacted: 1959

2001–02 Assessed Value of Property Exempted: $1.0 billion

	Loss	Shift
2001–03 Revenue Impact:	$26,600,000	$5,300,000
2003–05 Revenue Impact:	$26,600,000	$5,300,000

DESCRIPTION: Certain pleasure 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: The exemption is an extension of the personal property for personal use exemption to boats (similar to that for motor vehicles) and to avoid administrative problems dealing with a very mobile property. It would be very difficult to ascertain the value of small pleasure craft, which can depreciate rapidly depending on make, model, use, and care.

WHO BENEFITS: In 2001 about 194,615 boats were registered in Oregon as pleasure boats. Over 85 percent of these boats are less than 20 feet in length.

IN LIEU: Fees for registration will be about $5.4 million in the 2001–03 biennium. Registration fees range from $15 to $25 for boats up to 20 feet in length. The fee for boats 20 or more feet is $30 plus an additional $2 per foot for each foot over 20 feet.

The 2001 Legislature directed the agency to evaluate the adequacy of existing fees. A working group reported the need to increase fees in 2003 to support agency programs. The working group recommended a new flat fee of $3.00 per foot/two years to replace the current tiered fee system. The new fee would raise an additional $4.9 million in the 2003-05 budget cycle in combination with higher title and duplicate fees to support boating programs. 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 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*.]

2.078 WATERCRAFT LOCALLY ASSESSED

Oregon Statute: 308.256
Sunset Date: None
Year Enacted: 1925

2001–02 Assessed Value of Property Exempted: $83.6 million

	Loss	Shift
2001–03 Revenue Impact:	$2,200,000	$400,000
2003–05 Revenue Impact:	$2,300,000	$500,000

DESCRIPTION: Oregon private commercial watercraft not involved in transporting people or goods for hire are specially assessed for property tax by county assessors.

- Ships and vessels used on inland waters are specially assessed at 40 percent of “normal” 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.

Watercraft that are not “ships” or “vessels,” such as dredges, museum ships, and restaurant ships, are taxed on 100 percent of assessed value. In addition, any vessel used for deep-sea fish reduction or processing (but not canning) is taxed on 100 percent of assessed value.

Non-Oregon private commercial boats of non-centrally assessed companies might be taxable (at 100 percent of value) if they are used significantly in Oregon. However, it is difficult to prove a tax situs in Oregon for non-Oregon boats.

Floating homes and houseboats are taxed at 100 percent of assessed value.

PURPOSE: The exemption provides tax relief to Oregon commercial fishermen who harvest a substantial share of landed fish outside state waters.

WHO BENEFITS: The Department of Fish and Wildlife issued commercial fishing boat licenses to 1,418 Oregon residents and 433 nonresidents in 2001. This is the major portion of exempt value. The Department of Revenue assists some counties in valuing centrally assessed companies that have ocean-going watercraft to be locally assessed. The exempt value is primarily in the coastal counties and along the Columbia River. Several watercraft construction (generally barges) and repair businesses are in operation but the value of watercraft under construction or being remodeled is unknown.

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*.]

2.079 WILDLIFE HABITAT CONSERVATION PLANS

Oregon Statute: 215.808(5), 308A.743 and 308A.706
Sunset Date: None
Year Enacted: 1993, modified in 2001 (HB 3564)

2001–02 Assessed Value of Property Exempted: $7.8 million

	Loss	Shift
2001–03 Revenue Impact:	$200,000	Less than $50,000
2003–05 Revenue Impact:	$200,000	Less than $50,000

DESCRIPTION: Owners of property zoned as exclusive farm use or mixed farm and forest use or that is specially assessed forestland may apply to the Department of Fish and Wildlife to participate in a wildlife habitat conservation management plan. By entering into such a plan, the property owner receives the benefit of having the property assessed 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 (2.044), Western Private Forest Land (2.065), Western Small Tract Option (2.067), or Eastern Private Forest Land (2.068) for descriptions of the assessment methods.

Counties may by resolution forbid the establishment of such plans within their boundaries, but this resolution must have been made by January 1, 2003.

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, and plans must be approved by the Department of Fish and Wildlife. Once approved, the assessor assesses the property as open space use assessment, but with the specification that the valuation and any disqualification penalties be calculated according to the provisions for farm or forest land special assessment rather than using the open space use assessment provisions.

Once property is assessed under wildlife habitat conservation open space use, 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 conservation open space use assessment without penalty for leaving the farm or forest use.

The revenue impacts above describe the tax difference between taxation without any special assessment and taxation under this program. Many accounts in this program would likely receive the same tax benefit under the farm or forest land special assessment provisions even if this program did not exist.

PURPOSE: "The Legislative Assembly finds that it is in the interests of the people of this state that certain private lands be managed in a sustainable manner for the purpose of maintaining the long-term ecological, economic and social values that these lands provide. The Legislative Assembly declares that it is the policy of this state to encourage landowners to manage private lands in a sustainable manner through tax policy, land use planning, education and technical and financial incentives. The Legislative Assembly further declares that it is the policy of this state 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.

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 do not opt out by that date, they are in the program. It is likely there will be growth in interest in the program as time passes.

An indication of the effectiveness of the exemption is suggested by results to date in ODFW's 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 62 landowners and 1,904 acres have been enrolled in the program in that district out of 122 parties representing slightly over 4,000 acres who have taken some steps to enroll, but who have not completed the process. Some of those who have not been enrolled will probably be ineligible, will not have suitable lands, or will withdraw their applications. *[Evaluated by the Department of Fish and Wildlife.]*

2.080 WATERCRAFT CENTRALLY ASSESSED

Oregon Statute: 308.515
Sunset Date: None
Year Enacted: 1925

2001–02 Assessed Value of Property Exempted: Not Available*

	Loss	Shift
2001–03 Revenue Impact:	Not Available*	Not Available*
2003–05 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 on the high seas or 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 other 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, even if a certificate fee is paid.

A related provision, Watercraft Locally Assessed (2.078), allows for special assessment of some other types of commercial watercraft.

Interstate ferries also fall within this exemption.

PURPOSE: To relate the taxable value to value attributable to use in Oregon.

WHO BENEFITS: Only a small number of centrally assessed water transportation companies qualify for the exemption. The value of the exemption depends on whether the property is used for transportation to or on the high seas, in which case the value is prorated, or whether the property is used for hire for the specified purposes and is fully exempt.

EVALUATION: Few centrally assessed companies that have exempt watercraft operate, and the numbers are expected to remain minimal. [*Evaluated by the Department of Transportation*].

2.081 NONPROFIT PUBLIC PARK USE LAND

Oregon Statute: 307.115
Sunset Date: None
Year Enacted: 1971

2001–02 Assessed Value of Property Exempted: $5.0 million

	Loss	Shift
2001–03 Revenue Impact:	$130,000	$30,000
2003–05 Revenue Impact:	$150,000	$30,000

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: There currently are 38 properties that were exempt under this provision, 11 in Coos, 10 in Josephine, seven in Multnomah, and five in Union County. Most of the benefit went to the property owners in Coos, Josephine, and Multnomah counties.

EVALUATION: This exemption appears to be effective in achieving its purpose. The exemption encourages the preservation of open space and park land. Little information exists that would allow an in-depth evaluation of these programs, but as a matter of public policy, this program contributes to the special quality of life in Oregon and helps meet the needs of our growing population for open spaces, greenways, natural settings, and recreational facilities. The program also supplements what the government can provide by encouraging land management decisions that contribute to the public good by non-government entities. [*Evaluated by the Parks and Recreation Department.*]

2.082 OPEN SPACE LAND

Oregon Statute: 308A.300
Sunset Date: None
Year Enacted: 1971

2001–02 Assessed Value of Property Exempted: $31.8 million

	Loss	Shift
2001–03 Revenue Impact:	$700,000	$100,000
2003–05 Revenue Impact:	$700,000	$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 difference between assessed value in an alternative use and specially assessed value is the exempt value. Improvements on open space land do not receive special assessment (Chapter 493, 1971).

Open space land is any land designated as open space in an official comprehensive land use plan or any land that, if preserved in its present use, would accomplish one of the following:

- Conserve and enhance natural or scenic resources;
- Protect air, streams, or water supply;
- Promote conservation of soils, wetlands, beaches, or tidal marshes;
- Conserve landscaped areas, such as golf courses;
- Enhance the value of neighboring parks, forests, wildlife preserves, or other open space;
- Enhance recreation opportunities;
- Preserve historic sites;
- Promote orderly urban or suburban development; or
- Retain land in its natural state under conditions required by the legislative body granting the open space classification.

Open space land may be changed from one open space use to another without paying back taxes. However, if land is withdrawn from open space classification, any tax benefits received from open space classification in previous years must be paid back plus 8 percent annual interest. The amount of the payback is based on the difference between the assessed value in an alternative use and open space value in the year of withdrawal (ORS 308A.318).

PURPOSE: To preserve open space and its vegetation for public health and enjoyment. The exemption is also to prevent the forced conversion to more intensive use because of high property taxes based on an alternative use value.

WHO BENEFITS: Assessors report 600 open space properties, many of which are golf courses. When appraising open space land the assessor cannot consider what the property might be worth if used for some purpose other than its current use. For example, in appraising a golf course in an urban area the assessor cannot value the land by looking at the value of surrounding land used for home sites. The course must be appraised as a golf course (its current use), not as home sites (its highest and best use).

EVALUATION: This exemption appears to achieve its purpose. The exemption encourages the preservation of open space and park land. Little information exists that would allow an in-depth evaluation of these programs, but as a matter of public policy, this program contributes to the special quality of life in Oregon and helps meet the needs of our growing population for open spaces, greenways, natural settings, and recreational facilities. The program also supplements what the government can provide by encouraging land management decisions that contribute to the public good by non-government entities. [*Evaluated by the Parks and Recreation Department*.]

2.083 HISTORIC PROPERTY

Oregon Statute: 358.505
Sunset Date: 6-30-10
Year Enacted: 1975, modified in 2001 (HB 2270)

2001–02 Assessed Value of Property Exempted: $439 million

	Loss	Shift
2001–03 Revenue Impact:	$13,000,000	$2,600,000
2003–05 Revenue Impact:	$14,100,000	$2,800,000

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 for seismic upgrade, energy conservation, or disability access. The property continues to qualify if it meets minimum standards of maintenance set by the State Historic Preservation Officer and is open to the public at least one day a year.

Until January 2002, the program for new participants was limited to properties requiring rehabilitation, as opposed to normal maintenance. New applicants had to file a preservation plan with the State Historic Preservation Officer describing proposed rehabilitation, in addition to the requirements listed above. The plan had to be approved by the Historic Assessment Review Committee (HARC).

The 2001 Legislature made many changes to the statute. Maintenance and preservation were added to rehabilitation as eligible activities. The HARC was turned into an appellate body and application approval authorities were transferred to the State Historic Preservation Officer. A revolving loan fund authority was granted, and, in some cases, new construction was allowed to be taxed at the “frozen” rate.

If the historic property is disqualified, the tax savings from having a frozen value must be repaid. The additional tax and interest is equal to the sum of the tax benefit received for each year of special assessment as historic property. In addition, if the owner fails to notify the assessor when the property becomes disqualified, the additional tax is increased by a penalty of 15 percent. However, if the property is destroyed by fire or Act of God or transferred to a tax-exempt owner, no additional tax or penalty is charged. A 2001 statute amendment allowed an owner who invests 5 times the amount of the “penalty” in the historic building, to not have to repay the back taxes.

PURPOSE: As stated in statute, the exemption is to “maintain, preserve and rehabilitate properties of Oregon historical significance” (ORS 358.475).

WHO BENEFITS: About 1,600 historic properties qualify for the exemption. Frozen value is about 50 percent commercial (including multi-family residential) and 50 percent single family residential property. Qualified properties are in almost every county but are concentrated in Multnomah County, where nearly three-quarters of the exempt value resides.

EVALUATION: This expenditure has been very successful in achieving its purpose, but the substantial reduction in property taxes caused by Measures 5 and 50 has reduced the incentive for taxpayers to participate in the program.

Oregon's program is the nation's oldest tax incentive for the preservation of historic property. The incentive attracts both commercial and residential clients, representing all economic groups. The benefit, originally enacted as an anti-demolition incentive, has been used to save hundreds of significant abandoned or economically underutilized historic properties and to revitalize whole areas in communities. Direct investment in rehabilitation, stabilization, or expansion of the work force in historic urban commercial areas, re-use of existing infrastructure, and stabilization or expansion of the existing tax base are all measurable benefits of the expenditure. Other benefits include the preservation of the tangible remnants of Oregon's history; the enhancement of Oregon's quality of life; and the economic development and tourism benefits.

The economic benefits of the program more than offset the costs to local government. Rehabilitation activity might have occurred without the incentive, but certainly not at the pace or extent that has been exhibited in the past. Despite this success, many potential recipients will not utilize the benefit, particularly in areas of the state with flat economies. Mostly, this is due to the fact that the effectiveness of the incentive has been greatly reduced by Ballot Measures 5 and 50.

As a result of Measure 50, we anticipate that specially-assessed property owners will see potential further reductions in savings since taxable assessed values are no longer directly tied to real market values. Without the potential for double-digit valuation increases on an individual property, the value of the benefit to the owner will likely be reduced. Potential savings are also likely to be reduced since improvements classified as minor construction will not change a property's assessed value. In addition, because of 1995 legislative changes requiring a commitment to a specific time-framed list of rehabilitation work items, it is now possible that rehabilitation expenditures will exceed more frequently the potential tax savings over the 15-year benefit period.

The State Historic Preservation Office approved 31 applications in tax year 2000-2001, a figure that reflects the recent flat growth of the program

Given the administrative costs versus the anticipated tax savings, it could be said that the program in its current form no longer provides an adequate state incentive for assisting owners of National Register properties in preserving and rehabilitating them in the public interest, particularly on the residential side. An investment tax credit has been proposed to the Governor’s Office, which would significantly increase the number of program beneficiaries, particularly in economically distressed communities. [*Evaluated by the Parks and Recreation Department*.]

2.084 LAND USED AS GOLF COURSE AND EFFLUENT

Oregon Statutes: 307.118
Sunset Date: 6-30-21
Year Enacted: 2001 (HB 2670)

2001-02 Value of Property Exempted: $0

	Loss	Shift
2001-03 Revenue Impact	Less than $50,000	Less than $50,000
2003-05 Revenue Impact	Less than $50,000	Less than $50,000

DESCRIPTION: This property tax exemption is for a nonprofit corporation that leases land from a municipality and uses the land both as a golf course and for the discharge of wastewater or sewage effluent. This exemption applies only to the land and not to improvements or personal property. It allows any unpaid property taxes and interest due be waived beginning on or after July 1, 1998. An application must be filed with the county assessor for this tax exemption on or before July 1, 2002. Refunds shall be made for any property taxes and interest paid for tax years 1998-99 through 2001-02.

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 non-profit corporation had to own the wastewater treatment facility.

WHO BENEFITS: This property tax exemption applies only to taxes of one local district, which has adopted an ordinance authorizing the exemption.

EVALUATION: Not evaluated.

2.085 NONPROFIT WATER ASSOCIATIONS

Oregon Statute: 307.210
Sunset Date: None
Year Enacted: Pre-1953

2001–02 Assessed Value of Property Exempted: $14.6 million

	Loss	Shift
2001–03 Revenue Impact:	$300,000	$70,000
2003–05 Revenue Impact:	$300,000	$70,000

DESCRIPTION: All water system property of mutual or cooperative water associations is exempt from property taxation if:

- The association is non-profit;
- The sole purpose of the association is to distribute water to its members for domestic use or irrigation;
- No more than 15 percent of the members use the water for private commercial purposes; and
- No more than 25 percent of the water is used for private commercial purposes.

Eligible associations must be certified by the county assessor.

PURPOSE: The exemption is probably to encourage central water supplies and to treat privately owned water supply systems the same as publicly owned water systems.

WHO BENEFITS: About 400 water associations are exempt.

EVALUATION: Not evaluated.

2.086 NONPROFIT ELECTRICAL DISTRIBUTION ASSOCIATIONS

Oregon Statute: 308.805
Sunset Date: None
Year Enacted: Pre-1953

2001–02 Assessed Value of Property Exempted: $500 million

	Loss	Shift
2001–03 Revenue Impact:	$10,200,000	$2,300,000
2003–05 Revenue Impact:	$11,000,000	$2,500,000

DESCRIPTION: The "transmission and distribution lines" of a mutual or cooperative electrical association are exempt from local property taxation if:

- The association is nonprofit, and
- The principle purpose of the association is to distribute electricity to its members (ORS 308.805 to 308.820).

The exemption for "transmission and distribution lines" includes all property that is energized or energizable and all property supporting or integrated with energized or energizable property. This includes but is not limited to: substations, poles, conductors, transformers, services, meters, street lights, easements, generators, communication equipment, lines leased to government agencies, tools, supplies, and office furniture and equipment.

Exempt associations must pay the lesser of (1) a tax in lieu of the property tax, at 4 percent on gross revenue minus power costs or (2) property tax at the Measure 5 limits plus a bond rate. Gross revenue includes all revenue from the operation of electric distribution systems except line lease payments from government agencies.

PURPOSE: To avoid the difficulty of assessing electrical lines and to encourage the distribution of electricity in areas that were not supplied by for-profit companies because of the distribution cost.

WHO BENEFITS: Nineteen cooperatives scattered around the state are exempt. Theoretically, the benefits of this exemption would flow through to the members of the cooperative in the form of lower electric rates; in theory, it might permit otherwise unprofitable service area to receive electric service.

IN LIEU: The 4 percent in-lieu tax on gross revenue was less than property taxes for all cooperatives in 1995, and the gross revenue tax raised revenue of $2.6 million. Proceeds are distributed to the counties in proportion to the system's wire miles in each county.

Within each county, 67.7 percent goes to the county and 33.3 percent to the County School Fund.

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, so the Public Utility Commission does not have any financial or other information about these companies.

All 19 electric cooperatives in the state qualify for the exemption. Seventeen of these currently choose 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*.]

2.087 NONPROFIT TELEPHONE ASSOCIATIONS

Oregon Statute: 307.220
Sunset Date: None
Year Enacted: Pre-1953

2001–02 Assessed Value of Property Exempted: Negligible

	Loss	Shift
2001–03 Revenue Impact:	Less than $50,000	Less than $50,000
2003–05 Revenue Impact:	Less than $50,000	Less than $50,000

DESCRIPTION: All telephone system property except land and buildings of a mutual or cooperative telephone association are 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.

PURPOSE: The exemption is probably to encourage telephone service in rural areas.

WHO BENEFITS: Direct recipients of the tax expenditure are the members of the nonprofit association. However, only a handful of associations meet the qualifications, and the cash values of their systems would likely be above $2,500.

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*.]

2.088 PRIVATE SERVICE TELEPHONE EQUIPMENT

Oregon Statute: 307.230
Sunset Date: None
Year Enacted: Pre-1953

2001–02 Assessed Value of Property Exempted: Negligible

	Loss	Shift
2001–03 Revenue Impact:	Less than $50,000	Less than $50,000
2003–05 Revenue Impact:	Less than $50,000	Less than $50,000

DESCRIPTION: Any telephone property (not land) 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 includes improvements, fixtures, equipment, and supplies used for the construction, maintenance and operation of the individual's telephone system.

PURPOSE: To help individuals in remote areas connect to a telephone system.

WHO BENEFITS: Direct recipients of the tax expenditure are persons who install telephone communication systems that serve only property owned or operated by that person. It is unknown whether any taxpayers currently qualify for the exemption. Since it is more likely that a telephone system's value is over the $1,500 cap, there would likely be few beneficiaries.

EVALUATION: This provision does not appear to be achieving its purpose. No specific information exists that would allow a thorough evaluation of this exemption, but 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*.]

2.089 RAILROAD WAY USED FOR ALTERNATIVE TRANSPORT

Oregon Statute: 307.205
Sunset Date: None
Year Enacted: 1977

2001–02 Assessed Value of Property Exempted: $0

	Loss	Shift
2001–03 Revenue Impact:	$0	$0
2003–05 Revenue Impact:	$0	$0

DESCRIPTION: Real property owned by a railroad is exempt from local property taxation 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.

2.090 RAILROAD RIGHT OF WAY IN WATER DISTRICT

Oregon Statute: 264.110
Sunset Date: None
Year Enacted: 1943

2001–02 Assessed Value of Property Exempted: $45.6 million

	Loss	Shift
2001–03 Revenue Impact:	Less than $50,000	Less than $50,000
2003–05 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. Water supply districts can levy up to one-fourth of 1 percent on taxable property for its operating purposes plus a levy for bonds. When calculating the rate, railroad property must be excluded unless the railroad expressly consents to its inclusion.

PURPOSE: The purpose is probably 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: About 110 water supply districts exist in the state. Those railroad companies that have property in such water supply districts are the beneficiaries.

EVALUATION: Not Evaluated.

2.091 RAILROAD WAY IN HIGHWAY LIGHTING DISTRICT

Oregon Statute: 372.190
Sunset Date: None
Year Enacted: Pre-1953

2001–02 Assessed Value of Property Exempted: Not Available

	Loss	Shift
2001–03 Revenue Impact:	Not Available	Not Available
2003–05 Revenue Impact:	Not Available	Not Available

DESCRIPTION: Railroad rights of way are exempt from property taxes imposed by a highway lighting district unless the right of way is at a grade crossing. Highway means any public road or street. A highway lighting district can levy on any reasonable basis, but the assessment cannot exceed $1 per front foot of property abutting a lighted highway. The $1 limit can be exceeded for initial construction and installation costs.

PURPOSE: The purpose is probably 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: Those railroad companies that have property in such highway lighting districts are the beneficiaries.

EVALUATION: Not evaluated.

2.092 RAILROAD RIGHT OF WAY IN RURAL FIRE DISTRICT

Oregon Statute: 478.010 (2)(d)
Sunset Date: None
Year Enacted: 1969

2001–02 Assessed Value of Property Exempted: $163 million

	Loss	Shift
2001–03 Revenue Impact:	$570,000	$30,000
2003–05 Revenue Impact:	$620,000	$40,000

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: About 300 rural fire districts exist in the state. Those railroad companies that have property in such fire districts are the beneficiaries. Rural fire protection districts may issue bonds up to a maximum of 1.25 percent of the district market value but may use their full permanent tax rate (Chapter 667, 1969).

EVALUATION: Not evaluated.

2.093 MOTOR VEHICLES AND TRAILERS

Oregon Statute: 803.585
Sunset Date: None
Year Enacted: 1919

2001–02 Assessed Value of Property Exempted: $17.2 billion

	Loss	Shift
2001–03 Revenue Impact:	$448,000,000	$88,000,000
2003–05 Revenue Impact:	$466,000,000	$92,000,000

DESCRIPTION: Generally, vehicles pay registration fees and are exempt from property taxation. The exemption covers virtually all vehicles that transport people or goods over public roads including cars, trucks, buses, most travel trailers, campers, and motorcycles.

Travel trailers include park trailers less than 8½ feet wide. Although travel trailers are normally exempt from property taxation, an owner may have it assessed for property taxation if the trailer is used as a permanent home or for other than recreation (ORS 308.880). No registration is needed in this case. Manufactured homes, including park trailers over 8½ feet wide, are subject to property tax.

Fixed-load vehicles that are not used primarily to transport people or property over public roads are generally taxable. The definition of fixed-load vehicles as specified in ORS 801.285 is difficult to apply in some cases so the statute lists 64 specific types of fixed-load vehicles (cement spreaders, scoopmobiles, backhoes, etc.). In addition, the statute lists five fixed-load vehicles that are exempt, including self-propelled mobile cranes.

Article IX, Section 3a of the Constitution dedicates taxes on motor vehicles to roads. This restriction would remain, even if motor vehicles were subject to property taxes. Since some local taxing districts are not involved with road construction or maintenance, they could not use the property tax revenues from this source.

PURPOSE: To base the tax on motor vehicles on their share of the cost of maintaining a transportation system.

WHO BENEFITS: In 2001 there were about 3 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 $30; for motorcycles it is $9. 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 $120 million for cars and pickups and $50 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*.]

2.094 AIRCRAFT

Oregon Statutes: 308.558 and 308.565
Sunset Date: None
Year Enacted: 1987

2001–02 Assessed Value of Property Exempted: $257.4 million

	Loss	Shift
2001–03 Revenue Impact:	$6,800,000	$1,300,000
2003–05 Revenue Impact:	$7,500,000	$1,500,000

DESCRIPTION: Generally, aircraft are exempt from property taxation but pay registration fees to the Department of Aviation. Aircraft owned by air transportation companies (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 base the tax on aircraft on their share of the cost of maintaining aircraft facilities and services. It also avoids administrative problems dealing with a very mobile property that could easily be moved out of state on assessment day in order to avoid taxation.

WHO BENEFITS: The Department of Aviation registers about 4,900 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 $607,600 in the 2001–03 biennium.

EVALUATION: This expenditure achieves its purpose. The user fee principle noted for Motor Vehicles and Trailers (2.093) 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*.]

2.095 ODOT LAND UNDER USE PERMIT

Oregon Statute: 307.110(3)(c)
Sunset Date: None
Year Enacted: 1981

2001–02 Assessed Value of Property Exempted: Not Available

	Loss	Shift
2001–03 Revenue Impact:	Less than $50,000	Less than $50,000
2003–05 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 facilitate the use of small, uneconomic real property parcels where the benefit derived is equal to or greater than the expected revenue if it were to be leased or rented and property tax was due. By permitting this use, ODOT saves maintenance and weed control costs. Parcels with marginal value under a lease or rental agreement would otherwise require administrative costs on the part of the state and counties for the assessment and payment of property taxes that would exceed revenue generated.

WHO BENEFITS: ODOT has about 294 active permits that provide approximately $11,670 in annual administrative fees. This permit system relieves ODOT of the maintenance responsibility and eliminates the need for county governments to assess property that would in many cases raise very little revenue.

EVALUATION: This provision is effective in achieving its purpose. It reduces costs to both ODOT and county governments. [*Evaluated by the Department of Transportation*.]

2.096 INTANGIBLE PERSONAL PROPERTY

Oregon Statute: 307.030
Sunset Date: None
Year Enacted: 1935

2001–02 Assessed Value of Property Exempted: $327.5 billion

	Loss	Shift
2001–03 Revenue Impact:	$8,500,000,000	$1,700,000,000
2003–05 Revenue Impact:	$8,900,000,000	$1,800,000,000

DESCRIPTION: Intangible personal property is exempt from local property taxation. ORS 307.020 defines intangible personal property to include (a) financial property such as interest-bearing accounts, stocks, and bonds; (b) business records in various media forms; and (c) business intangibles like goodwill, patents, trademarks, and copyrights.

On the other hand, business intangibles of centrally-assessed utilities such as communications, energy, railroads, and airlines are included in the taxable value of these companies because of the unitary method by which they are appraised. An exception for utilities is that the intangible value of FCC licenses is exempted (see 2.099 FCC Licenses).

PURPOSE: To avoid administrative problems and inequities that would arise from low compliance. Intangibles are very mobile and easily concealed. Assessors could not easily identify intangibles without information from financial institutions. A taxpayer could avoid the tax by moving intangibles out of state, converting to tax-exempt bonds, or simply not reporting.

WHO BENEFITS: The exemption benefits virtually every household and business in Oregon.

EVALUATION: The experience of most states that impose taxes on intangible personal property is that the taxes are difficult to administer effectively and equitably. Taxes on intangibles are relatively easy to avoid for most intangible assets by simply locating them in a state that does not impose an intangibles tax. In addition, tax compliance tends to be low because many taxpayers are unaware of the tax and enforcement is difficult.

The exemption achieves its purpose of avoiding administrative costs, but it also is likely to create some economic inefficiencies by favoring the ownership of intangible property over tangible property.

The issue of taxation of the intangible property of centrally-assessed utilities received considerable attention during recent legislative sessions. With deregulation of the telecommunications and energy industries, these industries are concerned about paying taxes on intangible property that future competitors would not pay. A critical element of this discussion has centered on the definition of intangible property. [*Evaluated by the Department of Revenue*.]

2.097 PERSONAL PROPERTY FOR PERSONAL USE

Oregon Statute: 307.190
Sunset Date: None
Year Enacted: 1854

2001–02 Assessed Value of Property Exempted: $20.9 billion

	Loss	Shift
2001–03 Revenue Impact:	$541,800,000	$106,800,000
2003–05 Revenue Impact:	$552,700,000	$109,000,000

DESCRIPTION: Tangible personal property held by the owner for personal use, benefit, or enjoyment is exempt from property tax. Examples of personal property for personal use are household goods, furniture and appliances, personal effects and clothing, and recreational and entertainment equipment.

The exemption does not apply to any property:

- 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
- That is a floating home, boathouse, or manufactured structure.

PURPOSE: The exemption facilitates administration by eliminating the tax on numerous items troublesome to value. As the variety and amount of personal property increased over time, identifying and valuing the property became an increasingly difficult job.

WHO BENEFITS: The exemption benefits all households. Those households with more personal property receive a proportionately greater benefit.

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*.]

2.098 BEVERAGE CONTAINERS REQUIRING DEPOSIT

Oregon Statute: 307.402
Sunset Date: None
Year Enacted: 1983

2001–02 Assessed Value of Property Exempted: $4.7 million

	Loss	Shift
2001–03 Revenue Impact:	$100,000	Less than $50,000
2003–05 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, which is constantly changing as the containers are redeemed by purchasers, collected by retailers, stored by distributors, then recycled.

WHO BENEFITS: Distributors of beverages sold in containers requiring a deposit are the direct beneficiaries.

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*.]

2.099 FCC LICENSES

Oregon Statute: 307.126
Sunset Date: None
Year Enacted: 2001 (HB 2778)

2001–02 Assessed Value of Property Exempted: $168.9 million

	Loss	Shift
2001–03 Revenue Impact:	$4,600,000	$900,000
2003–05 Revenue Impact:	$5,500,000	$1,100,000

DESCRIPTION: The value of FCC licenses are exempt from ad valorem taxation beginning in the 2001–02 fiscal year 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 non-utility companies would be exempted under the general intangible property exemption (2.096). Utilities, on the other hand, would otherwise be required to include the FCC license value in their assessed values if this law did not exist.

EVALUATION: Not evaluated.

2.100 STATE AND LOCAL PROPERTY

Oregon Statute: 307.090
Sunset Date: None
Year Enacted: 1854

2001–02 Assessed Value of Property Exempted: $28.5 billion

	Loss	Shift
2001–03 Revenue Impact:	$756,400,000	$149,200,000
2003–05 Revenue Impact:	$847,900,000	$157,900,000

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 (2.004),

- Higher Education Parking Space (2.005),
- Leased Docks and Airports (2.019),
- Leased Publicly Owned Shipyard Property (2.020),
- Fairground Leased Storage Space (2.029),
- Leased Public Farming and Grazing Land (2.052),
- Oyster Growing on State Land (2.054),
- State and Local Standing Timber Under Contract (2.064),
- Leased State Land Board Land (2.075), and
- ODOT Land Under Use Permit (2.095).

PURPOSE: To avoid state government paying property tax to local governments, and local governments paying property tax to each other.

WHO BENEFITS: It is not clear who benefits. Because these properties are owned by federal, state, and local governments, taxation would result in both higher costs and higher revenues for the government entities. This would result in higher taxes for some taxpayers and lower taxes for others, but identifying the winners and losers would be very difficult.

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),
- 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*.]

2.101 BEACH LANDS

Oregon Statute: 307.450
Sunset Date: None
Year Enacted: 1969

2001–02 Assessed Value of Property Exempted: Not Available

	Loss	Shift
2001–03 Revenue Impact:	Not Available	Not Available
2003–05 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 Chapter 601, 1969). While this tax expenditure covers all beach land, regardless of ownership, the publicly owned portion of beach land would be exempted under 2.100, State and Local Property, if this provision did not exist.

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: The state owns the beach land between ordinary high tide and extreme low tide. The “dry sand” land between ordinary high tide and the vegetation line (16 feet elevation) can be privately owned. Of the 362 mile coastline, 262 miles has dry sand beach. Dry sand beach of 116 miles is privately owned and 146 miles is publicly owned. The State Parks and Recreation Department administers the 76 state-owned miles.

EVALUATION: Privately owned beach lands are typically portions of privately owned lots that include both beach and non-beach 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 non-beach portions of ocean-front lots, so the value of the beach portion is, in effect, taxed indirectly. [*Evaluated by the Department of Revenue*.]

2.102 PUBLIC WAYS

Oregon Statute: 307.200
Sunset Date: None
Year Enacted: 1895

2001–02 Assessed Value of Property Exempted: $14.1 Billion

	Loss	Shift
2001–03 Revenue Impact:	$373,900,000	$73,700,000
2003–05 Revenue Impact:	$418,500,000	$78,000,000

DESCRIPTION: All dedicated streets, alleys, and county roads are exempt from local property taxation if used for transportation. About 84,000 miles of such public highways, roads, and streets exist in the state. The value of the land itself varies widely, generally being of much higher value in urban areas than in rural areas. Most of the exempt value is, however, the value of the road surface itself, not the land under it.

PURPOSE: The exemption is a clarification of the exemptions for State and Local Property (2.100) and Federal Property (2.114).

WHO BENEFITS: It is not clear who benefits. Because these roads are owned by federal, state, and local governments, taxation would result in both higher costs and higher revenues for the government entities. This would result in higher taxes for some taxpayers and lower taxes for others, but identifying the winners and losers would be very difficult.

EVALUATION: The exemption of public ways is an extension of the general exemption of government-owned property and, therefore, is based on the same rationale: that governments should not tax other levels of government. While many economists argue that the failure of governments to tax other governments in exchange for services provided can slow economic growth, it is unlikely that the failure to tax the value of public ways has much effect. [*Evaluated by the Department of Revenue*.]

2.103 TRIBAL LAND BEING PLACED IN U.S. TRUST

Oregon Statute: 307.181
Sunset Date: 6-30-12
Year Enacted: 1993

2001–02 Assessed Value of Property Exempted: $700,000

	Loss	Shift
2001–03 Revenue Impact:	Less than $50,000	Less than $50,000
2003–05 Revenue Impact:	Less than $50,000	Less than $50,000

DESCRIPTION: Land acquired by an Indian tribe is exempt from local 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: In 1994, a few properties were exempt in four counties. Some of these exempt properties will be placed in trust before the sunset. Other properties will likely become exempt before the sunset.

EVALUATION: Not evaluated.

2.104 EXEMPT LEASE FROM TAXABLE OWNER

Oregon Statute: 307.112
Sunset Date: None
Year Enacted: 1977

2001–02 Assessed Value of Property Exempted: *

	Loss	Shift
2001–03 Revenue Impact:	*	*
2003–05 Revenue Impact:	*	*

** Included in various other categories of exempt property.*

DESCRIPTION: Property that is leased to a qualified exempt organization or local government, other than the state of Oregon, from an otherwise taxable owner is exempt from local property taxation. Eligible organizations include fraternal, literary, benevolent, charitable, scientific, and religious organizations; senior centers; private schools; day cares; and housing authorities. To qualify, (1) the property must be used for a qualifying purpose; (2) it must be expressly agreed in the lease or lease-purchase agreement that the rent has been established to reflect the exemption; and (3) the rent charged must be below market rent. The lessee must file an application with the county assessor to receive this exemption.

PURPOSE: The exemption gives leased property used for an exempt purpose the same status as property owned by the lessee.

WHO BENEFITS: Exempt organizations and local governments, but it is difficult to identify who and where they are. The Department of Revenue advises counties to include the value of exempt leased property in the same category as the lessees' owned property. How much leased value is included with that owned is unknown. For 1999–00, Multnomah County identifies 432 accounts with about $285 million in value leased by exempt organizations from taxable owners.

EVALUATION: The evaluations for the various exemptions that are included in this category are presented separately elsewhere.

2.105 EXEMPT LEASE FROM EXEMPT OWNER

Oregon Statute: 307.166
Sunset Date: None
Year Enacted: 1973

2001–02 Assessed Value of Property Exempted: *

	Loss	Shift
2001–03 Revenue Impact:	*	*
2003–05 Revenue Impact:	*	*

** Included in various other categories of exempt property.*

DESCRIPTION: Property that is leased or rented to a qualified exempt organization or public body from an owner who is also a qualified exempt organization or public body is exempt from property tax.

To qualify, the property must be used for a qualifying purpose, and the rent charged must not exceed the cost of repairs, maintenance, amortization and upkeep.

The lessee must file an application with the county assessor to claim the exemption.

PURPOSE: The exemption gives leased property used for an exempt purpose the same status as property owned by the lessee.

WHO BENEFITS: Exempt organizations, but it is difficult to identify who and where they are. The Department of Revenue advises counties to include the value of exempt leased property in the same category as the lessees' owned property. How much leased value is included with that owned is unknown. For 1999–00, Multnomah County identifies 85 accounts with about $56 million in this category.

EVALUATION: The evaluations for the various exemptions that are included in this category are presented separately elsewhere.

2.106 DESTROYED OR DAMAGED PROPERTY

Oregon Statute: 308.425
Sunset Date: None
Year Enacted: 1971

2001–02 Assessed Value of Property Exempted: Negligible

	Loss	Shift
2001–03 Revenue Impact:	Less than $50,000	Less than $50,000
2003–05 Revenue Impact:	Less than $50,000	Less than $50,000

DESCRIPTION: If property is destroyed or damaged during the tax year by fire or an act of God, then the property tax is prorated on a monthly basis. If property is totally destroyed, the tax is 1/12 of the total tax for each month or part of a month in the tax year prior to destruction. If the property is damaged, the tax is 1/12 of the total tax for each month prior to damage plus a percent of the monthly tax for each month in the tax year that the property remains damaged. The percentage is the ratio of the value after damage to the value before damage.

This is not an exemption but a reduction in tax equivalent to a reduced value after the assessment date. The property owner must apply to receive the proration. Relief cannot be granted for a property when the person seeking relief is convicted of arson for the same property.

PURPOSE: The initial purpose was probably to grant tax relief to those with a total or partial loss of use of the property due to fire or other natural causes. The proration approach passed in 1991 is to comply with 1990 Ballot Measure 5, which requires that the tax not exceed a limit based on the minimum value during the tax year.

WHO BENEFITS: Property owners whose property is destroyed or damaged by fire or natural causes during the tax year.

EVALUATION: This provision is not an exemption, but a method for adjusting a property's assessed value to reflect loss in value from partial or complete destruction. [*Evaluated by the Department of Revenue*.]

2.107 CHARITABLE, LITERARY, AND SCIENTIFIC ORGANIZATIONS

Oregon Statute: 307.130
Sunset Date: None
Year Enacted: 1854

2001–02 Assessed Value of Property Exempted: $1.8 billion

	Loss	Shift
2001–03 Revenue Impact:	$48,300,000	$9,500,000
2003–05 Revenue Impact:	$51,500,000	$10,200,000

DESCRIPTION: Property owned or being purchased by literary, benevolent, or charitable organizations or scientific institutions is exempt from local property taxation. To qualify, the organization or institution must (1) be a nonprofit corporation, (2) provide a charitable gift to the public without expectation of payment, and (3) occupy and use the property in a manner that furthers the organization's charitable purpose. Sheltered 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 2,700 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.

2.108 VOLUNTEER FIRE DEPARTMENT PROPERTY

Oregon Statute: 307.130
Sunset Date: None
Year Enacted: 1999

2001–02 Assessed Value of Property Exempted: Negligible

	Loss	Shift
2001–03 Revenue Impact:	Less than $50,000	Less than $50,000
2003–05 Revenue Impact:	Less than $50,000	Less than $50,000

DESCRIPTION: Defines a volunteer fire department as a nonprofit corporation organized to provide fire protection service in an area. Allows a real and personal property tax exemption for volunteer fire departments.

PURPOSE: To ensure that volunteer fire departments are treated similar to those properties that qualify for the Charitable, Literary and Scientific Organizations (2.107) exemption.

WHO BENEFITS: One volunteer fire department in Wasco county.

EVALUATION: Not evaluated.

2.109 FRATERNAL ORGANIZATIONS

Oregon Statute: 307.136
Sunset Date: None
Year Enacted: 1961

2001–02 Assessed Value of Property Exempted: $242.8 million

	Loss	Shift
2001–03 Revenue Impact:	$6,400,000	$1,300,000
2003–05 Revenue Impact:	$7,000,000	$1,400,000

DESCRIPTION: Property used for fraternal lodge work, entertainment, or recreational purposes is exempt from local property taxation. Fraternal organization property remains exempt even while being rented or leased to other persons so long as the rent does not exceed expenses for heat, lights, water and janitorial services and supplies. Parking lots are exempt as long as there is no charge for at least 355 days each year.

To qualify, a fraternal organization must: (1) be organized as a nonprofit; (2) be established under the lodge system with ritualistic form of work and representative form of government; (3) support some benevolent or charitable activity; (4) not distribute any income to its officers, members, or employees except for reasonable compensation for services; and (5) not be a college fraternity or sorority.

The fraternal organization must file an application with the county assessor to claim the exemption.

PURPOSE: To subsidize organizations providing property and services that serve a socially valuable function.

WHO BENEFITS: About 1,500 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.

2.110 RELIGIOUS ORGANIZATIONS

Oregon Statute: 307.140
Sunset Date: None
Year Enacted: 1854

2001–02 Assessed Value of Property Exempted: $2.5 billion

	Loss	Shift
2001–03 Revenue Impact:	$65,900,000	$13,000,000
2003–05 Revenue Impact:	$71,700,000	$14,100,000

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 and restrict the financial burdens imposed by taxation.

WHO BENEFITS: Approximately 6,900 religious properties are exempt. The number of properties with religious structures rather than schools, cemeteries, etc. is unknown.

EVALUATION: Not evaluated.

2.111 CEMETERIES, BURIAL GROUNDS, AND MAUSOLEUMS

Oregon Statute: 307.150
Sunset Date: None
Year Enacted: 1854

2001–02 Assessed Value of Property Exempted: $199 Million

	Loss	Shift
2001–03 Revenue Impact:	$5,300,000	$1,000,000
2003–05 Revenue Impact:	$5,800,000	$1,100,000

DESCRIPTION: Burial grounds, tombs, and rights of burial are exempt from property taxation. Also, land (not exceeding 30 acres) and buildings of crematory associations are exempt. Buildings to store maintenance equipment are included in the exemption. To qualify, a claim must be filed with the county assessor. Family burial grounds are exempt without application.

If use of the exempt property changes to a non-exempt use, then additional taxes equal to the tax benefit received for the years exempt (up to 10) is due.

This statute exempts both nonprofit and for-profit cemetery and crematory associations, as well as family burial grounds. Cemeteries owned by cities, counties, or districts are exempt under ORS 307.090 (State and Local Property (2.100)), while cemeteries owned and maintained by religious organizations fall under ORS 307.140 (Religious Organizations (2.110)).

PURPOSE: The exemption was probably an implementation of traditional public policy to not tax cemeteries.

WHO BENEFITS: Assessors report about 1,000 exempt properties. Over half of the exempt value is located in Multnomah County.

2.112 CITY-OWNED SPORTS FACILITIES

Oregon Statutes: 307.171
Sunset Date: None
Year Enacted: 2001 (HB 2280)

2001–02 Assessed Value of Property Exempted: $44 million

	Loss	Shift
2001-03 Revenue Impact	$1,300,000	$200,000
2003-05 Revenue Impact	$1,400,000	$300,000

DESCRIPTION: In general, when public property is held under contract of sale or is leased to a private individual or business, it is considered taxable. However, this provision exempts any sports facilities owned by a city with a population of at least 500,000 from taxation, even if leased to or operated by a 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

2.113 TRANSFER OF LAND FROM CEMETERY TO SCHOOL

Oregon Statutes: 307.157
Sunset Date: 6-30-21
Year Enacted: 2001 (HB 2612)

2001–02 Assessed Value of Property Exempted: $8 million

	Loss	Shift
2001-03 Revenue Impact	$200,000	$50,000
2003-05 Revenue Impact	$200,000	$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 (2.111 Cemeteries, Burial Grounds, Mausoleums) remains exempt as long as the land is owned or being purchased by an incorporated eleemosynary or 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 eleemosynary or charitable institution in connection with educational purposes.

To qualify for this special treatment, the property must be purchased on or after January 1, 2001, and before January 1, 2011. The exemption pertains to tax year beginning on or after July 1, 2001, and before July 1, 2021.

PURPOSE: To eliminate the potential tax burden as property is transferred between two tax-exempt organizations.

WHO BENEFITS: Owners of land that is transferred from a cemetery to a school.

EVALUATION: Not evaluated.

2.114 FEDERAL PROPERTY

Oregon Statute: 307.040
Sunset Date: None
Year Enacted: 1848

2001–02 Assessed Value of Property Exempted: $110 billion

	Loss	Shift
2001–03 Revenue Impact:	$2,893,700,000	$570,700,000
2003–05 Revenue Impact:	$3,088,800,000	$609,100,000

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 taxable.

The Oregon Legislature exempted some leasehold interests that otherwise would be taxable federal land. Refer to the following exemptions in this report:

- Recreation Facility on Federal Land (2.024),
- Federal Land Under Summer Homes (2.040),
- Leased Federal Grazing Land (2.053)
- Federal Standing Timber Under Contract (2.071), and
- Mining Claims on Federal Land (2.116).

PURPOSE: To clarify and 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. Over 90 percent of the value is standing timber.

IN LIEU: The federal government makes payments in lieu of property taxes to local governments for the following types of federal land:

- Federal Oregon and California Railroad (O & C) Lands,
- Federal Forest Land,
- Land subject to the Payments In-Lieu-Of Taxes Act of 1976,
- Coos Bay Wagon Road Lands,
- Public Land Resource Sales,
- BLM Grazing Lands, and
- U.S. Mineral Leases.

EVALUATION: Not evaluated.

2.115 INDIAN PROPERTY ON RESERVATION

Oregon Statute: 307.180
Sunset Date: None
Year Enacted: 1854

2001–02 Assessed Value of Property Exempted: Not Available

	Loss	Shift
2001–03 Revenue Impact:	Not Available	Not Available
2003–05 Revenue Impact:	Not Available	Not Available

DESCRIPTION: Property located on an Indian reservation is generally exempt from property tax. Exempt property must be real property of Indians residing upon reservations who have not severed their tribal relations or taken land in severalty, or individual ownership (except lands held by them by purchase or inheritance). Lands owned or held by Indians in severalty on an Indian reservation, and their personal property on the reservation, are exempt only when provided by federal law.

PURPOSE: The exemption is to comply with the status of Indians under federal law before statehood.

WHO BENEFITS: Seven reservations are located in 12 counties. Reservation acreage is 842,555 acres. Three tribes do not currently have reservations.

EVALUATION: Not evaluated.

2.116 MINING CLAIMS ON FEDERAL LAND

Oregon Statute: 307.080
Sunset Date: None
Year Enacted: 1889

2001–02 Assessed Value of Property Exempted: Not Available

	Loss	Shift
2001–03 Revenue Impact:	Not Available	Not Available
2003–05 Revenue Impact:	Not Available	Not Available

DESCRIPTION: Unpatented mining claims on federal property are exempt from local property taxation. Any improvements or equipment on the claim are taxable. Unpatented mining claims are private claims to public land without the federal government having conveyed title.

PURPOSE: The exemption is to recognize that the federal government is still the owner of the land.

WHO BENEFITS: About 17,000 mining claims exist on Bureau of Land Management land. Claims can overlap so the total acreage is unknown. The value of mining claims is also unknown.

EVALUATION: The exemption of mining claims on federal land is inconsistent with the treatment of other taxable activity taking place on property owned by an exempt entity. In most other circumstances, such property would be taxed. The rationale for this exemption may be rooted in the fact that mining claims are intangible in nature, and intangible property is typically exempt from local property taxation. [*Evaluated by the Department of Revenue*.]

2.117 AMTRAK PASSENGER RAILROAD

Oregon Statute: 308.515
Sunset Date: None
Year Enacted: 1983

2001–02 Assessed Value of Property Exempted: $8.2 million

	Loss	Shift
2001–03 Revenue Impact:	$200,000	$40,000
2003–05 Revenue Impact:	$200,000	$50,000

DESCRIPTION: National Railroad Passenger Corporation (Amtrak) property is exempt from property tax as long as federal law prohibits the company from paying property taxes. Amtrak does not own land or structures in Oregon but leases or pays fees for use. The value of personal property (engines and cars) is uncertain. Oregon's value would likely depend on an allocation formula using factors like share of passenger miles.

PURPOSE: To comply with federal law.

WHO BENEFITS: Most likely Amtrak passengers, who pay lower fares because Amtrak's costs are lower.

EVALUATION: Not evaluated.

CHAPTER 3. GAS, USE, JET AND AVIATION FUEL TAXES

Fuels used in motor vehicles and airplanes are taxed in Oregon. These fuels include gasoline, use fuels and jet fuel. 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. In general, vehicles are subject to one tax or the other but not both. Heavy vehicles that are generally subject to the weight-mile tax are therefore not subject to the use fuel tax. Revenue from the motor vehicle, use and jet fuel taxes accounted for by the Department of Transportation totaled $792 million in the 1999–01 biennium.

Most of the gas and use fuel tax revenue is dedicated to the construction and maintenance of roads in Oregon. Gas taxes from gas sold for aviation use and the jet fuel tax revenues are used to fund aviation programs.

Gasoline Tax

In 1919 Oregon was the first state to institute a use tax on gasoline. Currently, the state of Oregon and the federal government impose taxes of 24 cents and 18.4 cents per gallon respectively, for a total tax rate of 42.4 cents per gallon. The federal tax rates for gasohol vary by alcohol content. In addition to the state and federal taxes, two Oregon counties and five cities also assess local gas taxes. The state tax is paid to the Oregon Department of Transportation (ODOT) by the approximately 200 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 560 licensed retailers in the state who submit payments to ODOT for taxes collected from consumers of use fuels. In addition, there are another 1,560 users operating more than 12,000 vehicles who have obtained ODOT Use Fuel User licenses and who pay the tax directly to the state rather than paying at the pump. The use fuel tax does not apply to trucks subject to weight-mile taxes. Some consumers of use fuels are excepted 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 tranportation 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

Aircraft 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: Pre-1953

	Total
2001–03 Revenue Impact:	$0
2003–05 Revenue Impact:	$0

DESCRIPTION: A refund is allowed for tax paid on gasoline when used: A) for the removal of forest products on certain public roads, or B) 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. In order to qualify for refunds of tax on fuels used for county road use, the user is required to have the same authorization to use the road as above and in addition is required to pay for construction or maintenance of the county road.

In some cases, construction of specific roadway is necessary for the removal of forest products. This provision allows counties to contract with the users of a roadway for the maintenance and improvement of that specific section of roadway.

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

WHO BENEFITS: Potential beneficiaries include businesses that transport forest products to the extent that any required road maintenance costs are surpassed by the amount of refunds. Counties and their taxpayers would benefit as well by passing the cost of construction and maintenance of these roads on to businesses.

IN LIEU: Financial responsibility for the construction and maintenance of the roadway in use is contracted with the county court and county commissioners in lieu of paying fuels tax.

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
2001–03 Revenue Impact:	$0
2003–05 Revenue Impact:	$0

DESCRIPTION: A refund is allowed for tax paid on fuels other than gasoline when used: A) for the removal of forest products on certain public roads, or B) for construction or maintenance of the roads used for such forest products removal. Only roads which 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. In order to qualify for refunds of tax on fuels used for county road use, the user is required to have the same authorization to use the road as above, and in addition is required to pay for construction or maintenance of the county road.

In some cases, construction of specific roadway is necessary for the removal of forest products. This provision allows counties to contract with the users of a roadway for the maintenance and improvement of that specific section of roadway.

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

WHO BENEFITS: Potential beneficiaries include businesses that transport forest products to the extent that any required road maintenance costs are surpassed by the amount of refunds. Counties and their taxpayers would benefit as well by passing the cost of construction and maintenance of these roads on to businesses.

IN LIEU: Financial responsibility for the construction and maintenance of the county roadway in use is contracted with the county court and county commissioners in lieu of paying fuels tax.

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 THE U.S.

Oregon Statutes: 319.330(2)
Sunset Date: None
Year Enacted: 1959

	Total
2001–03 Revenue Impact:	Less than $50,000
2003–05 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 airports, to make it attractive for airlines with international flights to operate from Oregon airports, and to capture the economic and trade benefits this would bring to the state.

WHO BENEFITS: The immediate beneficiaries are airlines–both domestic and international–whose aircraft use fuel to travel to and from foreign destinations. Indirect beneficiaries could include individuals and businesses that use such international flights.

EVALUATION: It is estimated that a very small portion of international air travel originates to or from Oregon. [*Evaluated by the Department of Aviation*.].

3.004 PUBLIC SERVICES

Oregon Statutes: 319.831(1)(e-f), (h-k).
Sunset Date: None
Year Enacted: 1961, modified in 2001 (SB 483)

	Total
2001–03 Revenue Impact:	$8,100,000
2003–05 Revenue Impact:	$10,500,000

DESCRIPTION: 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.

The 2001 Legislature added state agencies, road assessment districts, and local government districts described in ORS 198 to the list of entities that may claim refunds of use fuel taxes paid. The legislation also broadened the refund for counties to include all use instead of just road maintenance. These entities are allowed to claim refunds for taxes paid on or after January 1, 2001.

PURPOSE: To avoid reciprocal taxation among public entities, to avoid taxing public services that are funded through the tax (in particular, road maintenance services), and to equalize tax treatment across government entities.

WHO BENEFITS: Beneficiaries include the state government, at least 240 incorporated cities and towns, 36 counties, 198 school districts, 21 educational service districts, about 230 rural fire protection districts, and various other local districts and federal agencies. The Department of Transportation estimated that state government would benefit from more than $900 thousand in refunds in the 2001–03 biennium and more than $1.2 million in refunds in the 2003–05 biennium as a result of the 2001 law changes.

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.

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
2001–03 Revenue Impact:	$2,500,000
2003–05 Revenue Impact:	$2,600,000

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.

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. Ultimately, the beneficiaries would be transit riders if cost savings lead to lower fares. 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.

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. In general, vehicles are subject to one tax or the other, not both taxes. Heavy vehicles that are generally subject to the weight-mile tax are therefore not subject to the use fuel tax. Revenue from the weight-mile tax totaled $454 million in the 1999–01 biennium. This tax revenue is dedicated to the construction and maintenance of roads in Oregon.

This tax is imposed on heavy vehicles, in lieu of paying fuel tax, 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: (1) the weight of the vehicle increases from 26,000 pounds to 105,500 pounds; and (2) 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). As a result of legislation passed in 1999, weight-mile taxes dropped 12.3 percent beginning September 1, 2000. The new tax tables and additional information are posted on the Internet at http://www.odot.state.or.us/trucking/regis/links/define.htm#Taxes

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 2002 Highway Cost Allocation Study for the 2003 Legislative Session. More information about this study is available at http://www.oea.das.state.or.us

4.001 FARMING OPERATIONS

Oregon Statutes: 825.017(4), 825.017(18), and 825.024
Sunset Date: None
Year Enacted: 1983

	Total
2001–03 Revenue Impact:	$2,600,000
2003–05 Revenue Impact:	$2,800,000

DESCRIPTION: Vehicles being 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 than for implements of husbandry 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 his family or employees. Low speed vehicles must be designed for off-road use and no more than 15 percent of their mileage can be on the road.

Vehicles registered as farm equipment are used primarily off the road system, and in most cases, the transportation of such vehicles on the road is incidental to their use. Approximately two thirds of the vehicles operated in conjunction with farming weigh less than 26,000 pounds and are not subject to weight-mile taxation. This provision applies only to those farm vehicles that exceed 26,000 pounds.

PURPOSE**:** These laws may have been enacted to relieve all farmers of the recordkeeping necessary to comply with the weight-mile tax, and perhaps to recognize the partial or seasonal use of this transportation system by these users. For example, a proportion of farmers appear to drive comparatively more mileage on exempt private dirt roads and county gravel roads, which may typically have lower right-of-way, traffic light, curb, access, drainage, signage, and utility relocation costs than city roads or interstate highways.

Some farmers may also use paved, farm-to-market or farm-to-terminal roads more during summer-like conditions and at times when both damage and repair costs may be lower than when compared to other user groups who drive more during freeze-thaw and storm conditions and perhaps use city roads and highways to commute to work or transport high-tech components or consumer products.

WHO BENEFITS**:** There are approximately 39,500 farming operations in the state and about 43,400 registered farm vehicles. The average benefit is about $24 annually per farm and perhaps some marginal benefit for interstate and overseas companies and consumers who process or consume Oregon farm products.

It should be noted that farm vehicles are subject to the fuel taxes unless they are operated off the road system, in which case a refund is allowed under ORS 319.320(3). Because farm vehicles over 26,000 pounds pay fuel tax, they are not subject to weight-mile tax. Therefore, the revenue impact reported here is the difference between what they pay in fuel tax and what they would pay under the higher weight-mile tax.

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
2001–03 Revenue Impact:	$0
2003–05 Revenue Impact:	$0

DESCRIPTION: Under certain conditions, vehicles being used for the removal of forest products on a public road are exempt from the payment of weight-mile taxes. An agreement with the State Board of Forestry, the State Forester, or an agency of the United States must authorize the use of the road and require the user to pay for or perform the construction or maintenance of the county road. In some cases, construction of specific roadway is necessary for the removal of forest products. This provision allows counties to contract with the users of a roadway for the maintenance and improvement of the specific section of roadway used.

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

WHO BENEFITS: Potential beneficiaries include the 36 county governments and roadway users, but none of them uses it.

IN LIEU: Financial responsibility for the construction and maintenance of the roadway in use is contracted with the county court and county commissioners in lieu of paying the weight-mile tax.

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
2001–03 Revenue Impact:	$1,500,000
2003–05 Revenue Impact:	$1,600,000

DESCRIPTION: Vehicles being 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.

PURPOSE: Weight-mile taxation is generally applied to for-hire commercial vehicles. School buses are either owned by a school district or contractor supplying services to a school district and are not for-hire vehicles. This provision reduces the record keeping and audit cost of the refund application process.

WHO BENEFITS: There are about 220 school districts operating more than 1,200 elementary and secondary schools. This provision applies only to those school buses that exceed 26,000 pounds. Approximately 70 percent of the miles traveled by school buses are in weight classes equal to or less than 26,000 pounds.

Some vehicles are exempt from both the use fuel and weight mile taxes. Those vehicles are included in the revenue impact reported here and also in the fuels tax expenditure for Public Services (3.004), which has information for schools and Education Service Districts. However, it should be noted that vehicles would not be subject to both taxes. Vehicles that were subject to the weight-mile tax would be exempt from taxation on use fuel and vice-versa.

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
2001–03 Revenue Impact:	$4,400,000
2003–05 Revenue Impact:	$4,700,000

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.

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. Those vehicles are included in the revenue impact reported here and also in the fuels tax expenditure Public Services (3.004). However, it should be noted that vehicles would not be subject to both taxes. Vehicles that were subject to weight-mile tax would be exempt from taxation on use fuel and vice versa.

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 MASS TRANSIT VEHICLES

Oregon Statute: 825.017(12)
Sunset Date: None
Year Enacted: 1977

	Total
2001–03 Revenue Impact:	$3,000,000
2003–05 Revenue Impact:	$3,200,000

DESCRIPTION: Vehicles owned or operated by a mass transit district are exempt from weight-mile taxes.

PURPOSE: To lower the cost of providing public transportation services.

WHO BENEFITS: There are three mass transit districts in Oregon. The ultimate beneficiaries would be transit riders if cost savings lead to lower fares. Some transit vehicles are exempt from both the use fuel and weight-mile taxes. Those vehicles are included in the revenue impact reported here and also in the fuels tax expenditure Public Transportation (3.005). However, it should be noted that vehicles would not be subject to both taxes. Vehicles that were subject to weight-mile tax would be exempt from taxation on use fuel and vice versa.

It should further be noted that mass transit districts are units of government and many transit vehicles are owned by units of government.

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*.]

4.006 FIRE PROTECTION

Oregon Statute: 825.017(23)
Sunset Date: None
Year Enacted: 1977

	Total
2001–03 Revenue Impact:	Less Than $50,000
2003–05 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. The primary purpose of this law is to station additional water supply trucks near logging operations when deemed necessary by forestry officials.

PURPOSE: To lower the cost of providing fire protection services normally provided through public services.

WHO BENEFITS: The timber industry, forest owners, and firefighters. It should be noted that fire protection vehicles are subject to fuel tax. Since they pay fuel tax, they are not subject to weight-mile tax. Therefore, the revenue estimate reported here is the difference between what they pay in fuel tax and what they would pay under the higher weight-mile tax. It should further be noted that many fire-fighting vehicles are owned by units of government.

EVALUATION: This expenditure appears to achieve its purpose. These fire protection vehicles are very few in numbers and operate primarily off the highway system and 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
2001–03 Revenue Impact:	Less Than $50,000
2003–05 Revenue Impact:	Less Than $50,000

DESCRIPTION: Vehicles owned, or under contract with, a charitable organization are exempt from the payment of weight-mile taxes when engaged exclusively in performing transportation necessary to the operation of the charitable organization.

PURPOSE: To help support public services provided by organizations that fulfill a socially desirable function. The elimination of such services would further burden existing social services provided by government agencies.

WHO BENEFITS: There are approximately 9,100 charitable organizations registered in the state. It should be noted that vehicles used by charitable organizations are subject to fuel tax. Since they pay fuel tax, they are not subject to weight-mile tax. Therefore, the revenue estimate reported here is the difference between what they pay in fuel tax and what they would pay under the higher weight-mile tax.

It should further be noted that although there are a relatively large number of charitable organizations, only a fraction are believed to have the class of vehicles 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. INSURANCE TAXES

Formerly, the major insurance tax in Oregon was the gross premium tax, which was based on premiums written for insurance policies in Oregon. This tax was repealed and was replaced by a corporate excise tax beginning in 1997. There was a five year period to transition from the gross premium tax to the corporate excise tax. The tax expenditures reported herein reflect the effects of the transition.

During the next two biennia, the major insurance taxes are the corporation excise tax, a retaliatory tax, and a transition tax, all of which are based on insurance business conducted in the state of Oregon. In addition, property and casualty insurers (both in-state and out-of-state) are subject to the Fire Marshal Tax, which is based on premiums written for fire insurance policies in Oregon. General Fund revenue from combined insurance taxes (this does not include the corporate excise tax) was $102.8 million for the 1999-01 biennium.

Corporation Excise, Retaliatory, and Transition Taxes

All authorized insurers are subject to the corporation excise tax, collected by the Oregon Department of Revenue. Foreign insurers (domiciled in other states) and alien insurers (domiciled in other countries) are also subject to another tax known as the retaliatory tax, collected by the Insurance Division of the Department of Consumer and Business Services. Both foreign and alien insurers are subject to precisely the same tax provisions as discussed below for foreign insurers.

The retaliatory tax measures the tax burden that would be imposed on an Oregon insurer in another state given the same premium written in that state during the year. If the foreign state's tax laws would have imposed a larger tax on a similar Oregon insurer, then the difference between the Oregon tax and the other state's tax is charged to the foreign insurer. This difference is the retaliatory tax.

Foreign insurers were also subject to a temporary tax known as the transition tax for calendar years 1997–01. Prior to 1997, foreign insurers paid a premium tax instead of the excise tax. When insurer tax laws were changed to the current system, this temporary tax was instituted to compensate for an expected reduction in total tax revenue collected under the new law. The transition tax compared the current total tax to what would have been imposed under the old law and then collected the difference, reduced 20 percent per year until it expired on December 31, 2001.

Fire Marshal Tax

Property and casualty insurers are subject to a Fire Marshal tax of one percent on net direct premiums written for coverage of fire risks in Oregon. This tax is in addition to the taxes described above. The purpose of the tax is to finance the Office of State Fire Marshal. This tax continues to be paid even after the expiration of the transition tax law in 2001.

5.001 ANNUITY POLICIES EXEMPTED

Oregon Statute: 731.816
Sunset Date: None
Year Enacted: 1967

	Total
2001–03 Revenue Impact:	$4,000,000
2003–05 Revenue Impact:	$0

DESCRIPTION: Monies received from an annuity policy are exempt from the gross premium tax. There is no equivalent credit under the corporation income tax. The revenue impacts reported account for the phase-out of the gross premium tax.

PURPOSE: To recognize that annuities are not the same as insurance policies, but rather are investment instruments.

WHO BENEFITS: Life insurance companies that sell annuities and the purchasers of annuities.

EVALUATION: ORS 731.816 was repealed. The gross premium tax was phased out over a five-year period from January 1, 1997, to December 31, 2001. [*Evaluated by the Department of Consumer and Business Services*.]

5.002 WET MARINE AND TRANSPORTATION POLICIES (GROSS PREMIUM)

Oregon Statute: 731.816
Sunset Date: None
Year Enacted: 1967

	Total
2001–03 Revenue Impact:	Less than $50,000
2003–05 Revenue Impact:	$0

DESCRIPTION: Premiums received for wet marine and transportation policies are exempt from the gross premium tax. These insurers instead pay a tax based on underwriting profits under ORS 731.824.

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

The gross premium tax was phased out over a five-year period from January 1, 1997, to December 31, 2001. However, this expenditure continues under the corporation income tax, as reported in Wet Marine and Transportation Policies (Income) (1.130). The revenue impacts reported account for the phase-out of the gross premium tax. The 01-03 revenue impact reflects payments made under 731.824.

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: For calendar year 2001, ocean marine insurers paid about $50,000 of in-lieu tax based on underwriting profits from writing wet marine and transportation insurance (ORS 731.824). This in-lieu tax continues even after the full phaseout of the gross premium tax.

EVALUATION: ORS 731.816 was repealed. The gross premium tax was phased out over a five-year period from January 1, 1997, to December 31, 2001. [*Evaluated by the Department of Consumer and Business Services*.]

5.003 EDUCATIONAL AND SCIENTIFIC INSTITUTIONS

Oregon Statute: 731.816
Sunset Date: None
Year Enacted: 1967

	Total
2001–03 Revenue Impact:	Not Available
2003–05 Revenue Impact:	Not Available

DESCRIPTION: Annuity policies issued by nonprofit organizations to benefit educational and scientific institutions are exempt from the gross premium tax.

PURPOSE: Presumably to encourage and protect annuities for grants and scholarships for science and education.

WHO BENEFITS: Nonprofit insurers of educational and scientific institutions, and those institutions.

EVALUATION: ORS 731.816 was repealed. The gross premium tax was phased out over a five-year period from January 1, 1997, to December 31, 2001. [*Evaluated by the Department of Consumer and Business Services*.]

5.004 WORKERS' COMPENSATION ASSESSMENTS (GROSS PREMIUM)

Oregon Statute: 731.832
Sunset Date: None
Year Enacted: 1965

	Total
2001–03 Revenue Impact:	$1,500,000
2003–05 Revenue Impact:	$0

DESCRIPTION: Workers' compensation insurers pay both the gross premium tax (2001 and prior) and an assessment that provides funding to administer the Oregon Workers' compensation system. These insurers are then entitled to a credit against the gross premium tax on workers' compensation premiums for assessments paid on workers' compensation premiums under ORS 656.612

The gross premium tax was phased out over a five-year period from January 1, 1997, to December 31, 2001. However, this credit continues under the corporation income tax, as reported in Workers' Compensation Assessments (Income) (1.186). The revenue impacts reported account for the phase-out of the gross premium tax.

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

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

EVALUATION: This expenditure achieves its purpose. The workers' compensation assessment provides funds used to administer the entire Oregon Workers' Compensation system. This includes occupational safety and health issues handled by the Oregon Occupational Safety and Health Division (OR-OSHA). OR-OSHA has worked very successfully to reduce accident rates to Oregon workers and thereby reduce costs to employers and harm to workers. Funds are also used to regulate the insurance industry to assure fair rates are charged employers and benefits are paid timely and accurately to injured workers. The system also includes mechanisms to ensure timely resolution of disputes to guarantee injured workers receive benefits for legitimate injuries in an expedient manner.

Two Oregon Benchmarks are directly impacted by the activities carried out as a result of this credit, 213 and 225. Small business startups per 1,000 population are impacted by maintaining a safe and healthy work environment and by maintaining a reasonably priced workers' compensation system. Oregon's ranking among states in workers' compensation costs has improved from 8th in 1990 to 34th in 2000. Both benchmarks have been positively impacted as a result of this credit.

This credit has the effect of a partial funding of administrative program costs by the General Fund. If the credit were repealed then the cost of the workers' compensation insurance to policyholders might increase. [*Evaluated by the Department of Consumer and Business Services*.]

5.005 OREGON IGA ASSESSMENTS (GROSS PREMIUM)

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

	Total
2001–03 Revenue Impact:	$2,700,000
2003–05 Revenue Impact:	$0

DESCRIPTION: Property and casualty insurers pay both the gross premium tax (2001 and prior) 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 gross premium taxes for assessments paid to Oregon Insurance Guaranty Association (OIGA) at the rate of 20 percent per year for each of the five years following the year in which the assessment was paid.

The gross premium tax was phased out over a five-year period from January 1, 1997, to December 31, 2001. However, this credit continues under the corporation income tax as reported in Oregon IGA Assessments (Income Tax) (1.187). The revenue impacts reported reflect the phaseout of the gross premium tax.

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

WHO BENEFITS: Property and casualty insurers and their policyholders.

EVALUATION: This expenditure achieves its purpose. This type of credit is common throughout the United States. It allows insurers to recover the costs of the assessment they pay to the guaranty association, which in turn is used to cover the cost of claims against insolvent insurers. Although the credit is not a prerequisite for the existence of the guaranty association, the credit does, in effect, transfer the cost of claims against insolvent insurers from the insurance industry to the state General Fund. By allowing the assessments to be claimed as credits over five years, the cost to the General Fund is spread out over five years. In effect, this gives the General Fund a five-year interest free loan equal to the total assessment levied. Without this credit, General Fund revenue would be subject to more erratic fluctuations as insurer insolvencies call for funds to pay claims. [*Evaluated by the Department of Consumer and Business Services*.]

5.006 OREGON LIFE AND HEALTH IGA ASSESSMENTS (GROSS PREMIUM)

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

	Total
2001–03 Revenue Impact:	$1,800,000
2003–05 Revenue Impact:	$0

DESCRIPTION: Life insurance companies pay both the gross premium tax (2001 and prior) 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 gross premium 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.

The gross premium tax was phased out over a five-year period from January 1, 1997, to December 31, 2001. However, this credit continues under the corporation income tax as reported in Oregon Life and Health IGA Assessments (Income Tax) (1.188). The revenue impacts reported account for the phaseout of the gross premium tax.

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

WHO BENEFITS: Life insurance companies and their policyholders.

EVALUATION: This expenditure achieves its purpose. This type of credit is common throughout the United States. It allows insurers to recover the costs of the assessment they pay to the guaranty association, which in turn is used to cover the cost of claims against insolvent insurers. Although the credit is not a prerequisite for the existence of the guaranty association, the credit does, in effect, transfer the cost of claims against insolvent insurers from the insurance industry to the state General Fund. By allowing the assessments to be claimed as credits over five years, the cost to the General Fund is spread out over five years. In effect, this gives the General Fund a five-year interest free loan equal to the total assessment levied. Without this credit, General Fund revenue would be subject to more erratic fluctuations as insurer insolvencies call for funds to pay claims. [*Evaluated by the Department of Consumer and Business Services*.]

5.007 OREGON IGA ASSESSMENTS (FIRE MARSHAL)

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

	Total
2001–03 Revenue Impact:	$1,100,000
2003–05 Revenue Impact:	$4,500,000

DESCRIPTION: Property and casualty insurers who write fire insurance policies pay the corporate income and excise tax, the gross premium tax (prior to 2002), the fire insurance gross premium tax (Fire Marshal 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 fire insurance premium taxes for assessments paid to Oregon Insurance Guaranty Association (OIGA) at the rate of 20 percent per year for each of the five years following the year in which the assessment was paid.

OIGA assessments are first credited against the corporation income tax (Oregon IGA Assessments (Income) (1.187)) or the gross premium tax (Oregon IGA Assessments (Gross Premium) (5.005)). If there is not enough tax liability to offset the full assessment, then insurers may use the remainder of these assessments to offset against the fire insurance premium tax.

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

WHO BENEFITS: Property and casualty insurers and their policyholders.

EVALUATION: Although the gross premium tax has been repealed, the fire insurance premium tax will continue. Therefore, this credit will continue.

CHAPTER 6. CIGARETTE TAX

Cigarette distributors are required to pay a tax for the distribution of each cigarette in this state. Each cigarette is subject to taxation for exactly one distribution. Currently, the tax rate is $.064 per cigarette, or $1.28 per pack of 20 cigarettes. Of the $1.28 per pack, $1.18 is a permanent tax and $.10 is a temporary tax that was enacted by the legislature in 1993 to fund the Oregon Health Plan. The $1.18 per pack is distributed as follows: $.22 goes to the General Fund, $.86 to the Oregon Health Plan, $.02 to cities, $.02 to counties, $.02 to the Oregon Department of Transportation, and $.04 to the Tobacco Use Reduction Account. The temporary $.10 per pack tax dedicated to the Health Plan was extended in the 1997 session to expire December 31, 2003.

Cigarette tax revenues for the 1999-01 biennium were distributed as follows: $104.3 million to the General Fund, $174.9 million to the Oregon Health Plan, $14.2 million to the Tobacco Use Reduction Account, and $28.4 million to Cities, Counties and Public Transit, for a total distributed of $321.8 million.

The Oregon cigarette tax began in 1966. Generally, the tax is paid through the use of tax stamps that are purchased by the 80 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.

6.001 SMALL QUANTITY BY CONSUMERS

Oregon Statute: 323.060
Sunset Date: None
Year Enacted: 1965

	Total
2001–03 Revenue Impact:	Less than $50,000
2003–05 Revenue Impact:	Less than $50,000

DESCRIPTION: The use or consumption of previously untaxed cigarettes transported to this state in a single lot or shipment of 200 or fewer cigarettes is not taxed. This exemption also applies to cigarettes obtained from exempted federal installations and veterans' institutions when quantities obtained from those institutions are no more than 200 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 tax free cigarettes into Oregon or obtain them through federal installations or veteran's institutions.

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*.]

6.002 FEDERAL AND VETERAN INSTITUTIONS

Oregon Statute: 323.055
Sunset Date: None
Year Enacted: 1965

	Total
2001–03 Revenue Impact:	Not Available
2003–05 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 provide an incentive for the armed forces and Veterans Administration to purchase cigarettes in Oregon. This supports the economic activity surrounding their distribution and retailing. Also, these taxpayers are thought deserving of a subsidy for their present or past service to their country.

WHO BENEFITS: Cigarette sellers (primarily wholesalers) and the consumers.

EVALUATION: Because there is only a very small Armed Forces presence in Oregon, this exemption is likely to have little or no impact. [*Evaluated by the Department of Revenue*.]

6.003 RESERVATION CIGARETTE SALES

Oregon Statute: 323.401
Sunset Date: None
Year Enacted: 1979

	Total
2001–03 Revenue Impact:	$1,200,000
2003–05 Revenue Impact:	$2,300,000

DESCRIPTION: The Department of Revenue refunds to the governing body of any Indian reservation any cigarette tax collected on sales of cigarettes to Indians upon the reservation and paid into the State Treasury.

PURPOSE: To comply with federal laws that limit the ability of states to tax Indians.

WHO BENEFITS: Cigarette retailers and consumers on reservations.

EVALUATION: Not Evaluated.

CHAPTER 7. 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. There is a limit of 50¢ per cigar. The tax is imposed on the distributor at the time the distributor imports, produces, or ships the tobacco products into Oregon. There are currently approximately 190 distributors.

Other Tobacco Products tax revenue for the 1999-01 biennium was distributed as follows: $22.1 million to the General Fund, $17.1 million to the Oregon Health Plan, and $1.9 million to the Tobacco Use Reduction Account, for a total distribution of $41.1 million.

7.001 FEDERAL INSTALLATIONS

Oregon Statute: 323.515
Sunset Date: None
Year Enacted: 1985

	Total
2001–03 Revenue Impact:	Not Available
2003–05 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 provide an incentive for the Armed Forces and Veterans' Administration to purchase cigarettes in Oregon. This supports the economic activity surrounding their distribution and retailing. Also, these taxpayers are thought deserving of a subsidy for their present or past service to their country.

WHO BENEFITS: Sellers of other tobacco products (primarily wholesalers) and consumers.

EVALUATION: Because there is only a very small Armed Forces presence in Oregon, this exemption is likely to have little or no impact. [*Evaluated by the Department of Revenue*.]

7.002 RESERVATION TOBACCO SALES

Oregon Statute: 323.615
Sunset Date: None
Year Enacted: 1985

	Total
2001–03 Revenue Impact:	Less than $50,000
2003–05 Revenue Impact:	Less than $50,000

DESCRIPTION: The Department of Revenue refunds to the governing body of any Indian reservation 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 other tobacco products on reservations.

EVALUATION: Not evaluated.

CHAPTER 8. 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 were $24.8 million for the 1999-01 biennium and are expected to be $25.1 million for the 2001-03 biennium and $25.7 million for the 2003-05 biennium.

8.001 SMALL WINERIES

Oregon Statute: 473.050(5)
Sunset Date: None
Year Enacted: 1977

	Total
1999–01 Revenue Impact:	$1,500,000
2001–03 Revenue Impact:	$1,600,000

DESCRIPTION: Allows all United States wine manufacturers producing less than 100,000 gallons annually to exempt the first 40,000 gallons sold each year in Oregon from the wine tax. It is estimated that 2,200,000 gallons will be claimed as tax exempt during the 1999–01 biennium. This is expected to increase to 2,350,000 gallons exempted in the 2001–03 biennium.

PURPOSE: To provide tax relief to small wineries.

WHO BENEFITS: The small wineries benefit in that they are able to sell their product more competitively. In addition, secondary industries such as vineyards, label design, bottling, and marketing benefit from the exemption. Nearly all of Oregon's 120 wineries are small enough to qualify for the full tax exemption.

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 120 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. While overall wine consumption is declining, Oregon wines have continued to show modest 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 Wine Advisory 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*.]

8.002 WINE MARKETING ACTIVITIES

Oregon Statutes: 473.047
Sunset Date: None
Year Enacted: 2001 (HB 3961)

	Total
2001-03 Revenue Impact:	$100,000
2003-05 Revenue Impact:	$300,000

DESCRIPTION: This provision allows a credit against the wine privilege tax for certain marketing activities as defined by the Wine Advisory Board. The marketing activities must not promote any specific brand or winery and must be approved by the Wine Advisory Board. The total credit is 28 percent of the sum of the tax paid on the 40,000 gallons sold in Oregon and 25 percent of the tax owed on gallons over 40,000 gallons. The total credit may not exceed the tax liability of the manufacturer or importing distributor of wine under ORS 473.030 for the calendar year following the year in which qualified marketing activity occurred.

Requires General Fund transfers to replace any revenue reduction due to the credit, to cities, counties, and the Mental Health Alcoholism and Drug Services Account.

The credit applies to expenditures made after January 1, 2002. The credit may be claimed in the calendar year following the year in which the qualifying marketing activity occurs.

PURPOSE: To encourage the development of the Oregon wine industry.

WHO BENEFITS: Large wineries and the Oregon wine industry (small wineries do not pay taxes).

EVALUATION: It is too early to determine if this tax expenditure achieves its purpose. *[Evaluated by the Liquor Control Commission.]*

CHAPTER 9. 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 three percent of the monthly rate charged for basic exchange access services. In 1991, that rate was increased to five percent. Since October 1, 1995 the rate has been 75 cents per line per month, and applies to all forms of wired and wireless telecommunications services. The tax is paid quarterly by the telecommunication utilities and service providers, who collect the tax from phone subscribers on their monthly billings.

Receipts were $54.9 million for the 1999–01 biennium. Net revenue from the tax is distributed to cities and counties on a per capita basis, to be used for their 911 systems.

9.001 STATE AND LOCAL SUBSCRIBERS

Oregon Statutes: Note following 401.790 (OR Laws 1981, Ch. 533, Sec. 11)
Sunset Date: The tax law provision has no sunset date, but the telephone access tax sunsets 12-31-07.
Year Enacted: 1981

	Total
2001–03 Revenue Impact:	$3,000,000
2003–05 Revenue Impact:	$3,200,000

DESCRIPTION: State and local governments are exempt from the telephone access (911) tax. This includes regional housing authorities. The revenue impact reflects the sunset of the telephone access tax.

PURPOSE: The exemption is probably to avoid the administrative costs of taxing government to fund government services.

WHO BENEFITS: Because this exemption results in lower costs for some governments but lower revenues for others, it is not clear who, if anyone, benefits.

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*.]

9.002 FEDERAL SUBSCRIBERS

Oregon Statutes: Note following 401.790 (OR Laws 1981, Ch. 533, Sec. 11)
Sunset Date: The tax law provision has no sunset date, but the telephone access tax sunsets 12-31-07.
Year Enacted: 1981

	Total
2001–03 Revenue Impact:	$500,000
2003–05 Revenue Impact:	$500,000

DESCRIPTION: The federal government is exempt from the telephone access (911) tax. This includes foreign government offices that are exempt from taxation by treaty provisions with the federal government, as well as certain federally chartered corporations specifically exempt from state income taxes by federal statute.

PURPOSE: The exemption complies with federal law.

WHO BENEFITS: Because this exemption results in lower costs for some governments but lower revenues for others, it is not clear who, if anyone, benefits.

EVALUATION: Not evaluated.

9.003 INDIAN RESERVATION SUBSCRIBERS

Oregon Statutes: Note following 401.790 (OR Laws 1981, Ch. 533, Sec. 11)
Sunset Date: The tax law provision has no sunset date, but the telephone access tax sunsets 12-31-07.
Year Enacted: 1981

	Total
2001–03 Revenue Impact:	$100,000
2003–05 Revenue Impact:	$100,000

DESCRIPTION: Indians on federally recognized reservations are exempt from the telephone access (911) tax. They must be enrolled members of the tribe located on the reservation.

PURPOSE: The exemption complies with federal law.

WHO BENEFITS: Tribal members using 911 service.

EVALUATION: Not evaluated.

CHAPTER 10. FOREST PRODUCTS HARVEST TAX

A privilege tax of a specified rate per thousand board feet is assessed on timber owners when timber is harvested from private and public lands. The tax revenue is used primarily to support forestry research, to support the Oregon Department of Forestry in its efforts to fight forest fires and administer Oregon's Forest Practices Act, and to support forest-related education through the Oregon Forest Resource Institute.

The first 25,000 board feet of forest products harvested annually by any taxpayer during each calendar year are excluded from taxation. For calendar years 2002 and 2003, the tax rate was set at $3.07 per thousand board feet of timber harvested, of which $.67 was to support forestry research, $0.91 was to administer Oregon's Forest Practices Act, $.50 was for fire protection, and $.99 was for the Oregon Forest Resources Institute.

Receipts from the forest products harvest tax summed to $21.6 million for the 1999–01 biennium. Receipts from the forest products harvest tax summed to $21.6 million for the 1999–01 biennium.

10.001 FIRST 25,000 BOARD FEET

Oregon Statute: 321.015(6)
Sunset Date: None
Year Enacted: 1953, modified in 2001 (HB 2159)

1999 Exemption: 113 million board feet

	Total
2001–03 Revenue Impact:	$700,000
2003–05 Revenue Impact:	$700,000

DESCRIPTION: The 2001 Legislature reinstated the Forest Products Harvest Tax through December 31, 2003. The exemption was also reinstated. This exemption provides that the first 25,000 board feet harvested by all taxpayer each year are exempt from the Forest Products Harvest Tax.

PURPOSE: To provide tax relief to small timber harvesters.

WHO BENEFITS: All timber harvesters qualify for this exemption. Because the exemption represents a larger share of total timber harvested for small harvesters, small harvesters receive the largest benefit in percentage terms. In 1999, about 5,700 harvesters filed returns, with 4,500 of those reporting that they harvested during the year.

EVALUATION: Harvest taxes provide effective mechanism for funding programs important to the state and woodland owners. [*Evaluated by the Forestry Department*.]

CHAPTER 11. 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 (2.086).)

Associations must pay the lesser of :
(1) an in lieu-of property tax at four percent on gross earnings minus power costs, or
(2) the sum of (a) the real market value of the transmission and distribution lines multiplied by the maximum school tax rate allowable under ORS 310.150, plus (b) the real market value of the transmission and distribution lines multiplied by $10 per $1,000 of real market value, and (c) the real market value of the transmission and distribution lines multiplied by the tax rate of the county for exempt bonded indebtedness as defined in ORS 310.140.

Since the 1999–2000 fiscal year, 18 associations have paid the gross earnings tax and one has paid the tax described in the second calculation.

Proceeds are distributed differently depending 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 over the 1999–01 biennium were $9.9 million.

11.001 REVENUE FROM GOVERNMENT LEASED LINES

Oregon Statute: 308.805
Sunset Date: None
Year Enacted: 1969

	Total
2001–03 Revenue Impact:	$60,000
2003–05 Revenue Impact:	$60,000

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: Presumably to allow a lower lease rate for governments, in effect exempting the governments from paying the tax.

WHO BENEFITS: In 1995, 19 cooperatives scattered around the state paid the gross earnings tax, and five of the 19 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 Office of Energy*.]

CHAPTER 12. 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, and to minimize the use and dangers of hazardous substances, to fund the Oregon Community Right to Know programs, and to provide funding for the Orphan Site Account. The Orphan Site Account is part of the Hazardous Substance Remedial Action Fund established under ORS 465.381 and is used to clean up contaminated sites where the responsible party is unknown, unwilling, or unable to undertake the cleanup.

The level of the fee is set each year by the State Fire Marshal based on guidelines established in law (ORS 453.402). For funding the Community Right to Know and Protection Act, the fee can range from $25 to $2,000 per site. For funding the Toxics Use Reduction and Hazardous Waste Reduction Act, the fee can range from $25 to $2,000 per site. For funding the Orphan Site Account, the fee can range from $25 to $9,000 per site, but not more than $25,000 for a single company. The collections for the Orphan Site Account cannot exceed $1 million per year.

Total receipts from the tax were $4.9 million for the 1999–01 biennium.

12.001 STATE AND LOCAL GOVERNMENT PROPERTY

Oregon Statute: 453.402(4)(e)
Sunset Date: None
Year Enacted: 1989

	Total
2001–03 Revenue Impact:	Not Available
2003–05 Revenue Impact:	Not Available

DESCRIPTION: State and local government property is exempt from paying the hazardous substances fee that contributes to the Orphan Site Account, which is used to finance the cleanup of contaminated sites where the responsible party is unknown or is 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, and by extension, taxpayers.

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*.]

12.002 SUBSTANCE PROHIBITED FROM TAX BY FEDERAL LAW

Oregon Statute: 453.402(4)(d)
Sunset Date: None
Year Enacted: 1989

	Total
2001–03 Revenue Impact:	Not Available
2003–05 Revenue Impact:	Not Available

DESCRIPTION: Oregon law states that "Any substance or activity which the Constitution or laws of the United States prohibit the state from taxing" are exempt from the Hazardous Substances Tax. It is not clear, however, whether the federal constitution of laws prohibit the taxation of any specific substance or activity. Some federal agencies have refused to pay this tax, claiming "sovereign immunity."

PURPOSE: To comply with federal law.

WHO BENEFITS: The federal government, and by extension, taxpayers.

EVALUATION: Not evaluated.

CHAPTER 13. 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.

The fee/tax is comprised of two parts: an annual fee and a tax on the use of dry cleaning solvents. As of January 2002 the annual fee is comprised of a risk fee and an environmental fee.

- “Dry” stores pay a $250 base annual fee. Additional fees are due if solvents of any kind were ever used at the site of the cleaners. Dry stores are defined as those that do not contain machinery using dry cleaning solvents.
- Dry cleaning facilities pay a $500 base annual risk fee and additional fees depending upon the type of solvents used during the current fee period. If Perchloroethylene (Perc) was ever used at the site before 2002, there is an additional fee. Additional fees range from $100 to $400.
- Dry cleaning facilities also pay an annual environmental fee based upon projected gross sales (on dry cleaning services only) for the current fee period. These fees range from $250 to $1,250.

The tax on dry cleaning solvents is composed of two fees. The tax is $10.00 per gallon on the sale of Perchloroethylene Solvent (Perc) and $2.00 per gallon on the sale of other dry cleaning solvents. These taxes are paid quarterly by distributors of dry cleaning solvents.

Beginning January 1, 2003, and annually thereafter, dry cleaning facility operating base fees and inactive dry cleaning facilities list fees increase by 25 percent a year if the revenues fail to generate $1 million or more during the preceeding calendar year.

For calendar year 2001, 334 dry cleaning facilities and 84 dry stores were subject to the dry cleaning fee and nearly 12,000 gallons of Perc and other solvents were also subject to the fee.

Total receipts for the 1999-01 biennium from this tax were $1.4 million.

13.001 DRY STORE SELLING LESS THAN $50,000

Oregon Statute: 465.200(6)(d)
Sunset Date: The tax law provision has no sunset date, but the dry cleaning tax sunsets 12-31-05.
Year Enacted: 1995, modified in 2001 (SB 463)

	Total
2001–03 Revenue Impact:	Less Than $50,000
2003–05 Revenue Impact:	$0

DESCRIPTION: The dry cleaning tax originated in the 1995 Legislature. From 1995 through 2001, the tax was not imposed on any facility engaged in dry cleaning operations only as a dry store and selling less than $50,000 per year of dry cleaning services. A dry store is a facility that does not include machinery using dry cleaning solvents. Examples are pick-up stores, drop-off stores, call stations, and pickup and delivery services not otherwise operated by a dry cleaning facility.

The 2001 Legislature modified the law to reduce fees for all dry stores and removed the exemption for stores selling less than $50,000 per year.

PURPOSE: To avoid putting an undue financial and regulatory burden on small businesses.

WHO BENEFITS: Businesses operating dry stores selling less than $50,000 per year, as well as their customers, employees, and suppliers. There are about 70 such dry store facilities in Oregon.

EVALUATION: This tax expenditure originated in 1995. It seems reasonable that small dry stores, as described above, do not represent a substantial environmental threat. However, it seems that this exemption may provide some incentive, however slight, for companies with large dry store operations to attempt to avoid the tax by restructuring their operations into several smaller dry store operations or for new companies to find ways to be exempt. No analysis to examine to assess whether such impacts have occurred has been conducted. [*Evaluated by the Economic and Community Development Department*.]

13.002 UNIFORM SERVICE OR LINEN SUPPLY FACILITY

Oregon Statute: 465.200(6)(b)
Sunset Date: The tax law provision has no sunset date, but the dry cleaning tax sunsets 12-31-05.
Year Enacted: 1995

	Total
1999–01 Revenue Impact:	Less Than $50,000
2001–03 Revenue Impact:	Less Than $50,000

DESCRIPTION: The dry cleaning tax is not imposed on any uniform service or linen supply facilities.

PURPOSE: The intent of the dry cleaning tax, as stated in statute, is to impose the tax on facilities serving the general public. This exemption presumably is to recognize that uniform services and linen supply facilities are likely to serve other businesses, not the general public.

WHO BENEFITS: Companies operating uniform service or linen supply facilities, as well as their customers, employees, and suppliers benefit from the absence of tax payments. According to the Department of Environmental Quality, there are only a handful of these types of dry cleaning facilities, but they tend to have much larger operations than the typical dry cleaner. Most stopped dry cleaning at their facilities about 15-20 years ago.

EVALUATION: Since 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.

13.003 PRISONS

Oregon Statute: 465.200(6)(c)
Sunset Date: The tax law provision has no sunset date, but the dry cleaning tax sunsets 12-31-05.
Year Enacted: 1995

	Total
1999–01 Revenue Impact:	$0
2001–03 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, and by extension taxpayers, through reduced administrative costs.

EVALUATION: This exemption would only have had a minimal effect on state operating costs when the law was enacted since prison dry cleaning operations at that time were very small. Since then, as a result of pollution problems, the Department of Corrections has closed their 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*.]

13.004 FACILITY ON U.S. MILITARY BASE

Oregon Statute: 465.200(6)(a)
Sunset Date: The tax law provision has no sunset date, but the dry cleaning tax sunsets 12-31-05.
Year Enacted: 1995

	Total
2001–03 Revenue Impact:	$0
2003–05 Revenue Impact:	$0

DESCRIPTION: The dry cleaning tax is not imposed on dry cleaning facilities on U.S. military bases.

PURPOSE: To comply with federal law that prohibits states from taxing the federal government.

WHO BENEFITS: The federal government, and by extension, taxpayers.

EVALUATION: Due to the minimal military presence in Oregon, this expenditure likely has very little revenue impact. In fact, there are no military bases with dry cleaning operations at this time in Oregon. [*Evaluated by the Department of Revenue*.]

CHAPTER 14. PETROLEUM LOAD FEE

The petroleum load fee is paid by importers of petroleum products into Oregon. The fee rate is set by the State Fire Marshal and is currently $4.75 per load of 100 or more gallons. Products subject to the fee are any petroleum products obtained from distilling and processing crude oil that are capable of being used as a fuel for propulsion of a motor vehicle, including aircraft. Products excluded are propane, naphtha and kerosene type jet fuels, products destined for chemical manufacturing or feedstock, or fuels sold to vessels engaged in interstate or international commerce.

The fee began September 1, 1989. Its purpose is to protect Oregon's environment; to carry out Oregon's oil, hazardous material and hazardous substance Emergency Response Program; and to provide up to $1 million each year to fund the Orphan Site Account. The Orphan Site Account is part of the Hazardous Substance Remedial Action Fund established under ORS 465.381 and is used to clean up contaminated sites where the responsible party is unknown, unwilling, or unable to undertake the cleanup. Revenues from the fee must be used to clean up spills on the state's roads and in roadside rest areas.

Receipts from the petroleum load fee were $2.5 million for the 1999–01 biennium.

14.001 PRODUCT PROHIBITED FROM TAX BY FEDERAL LAW

Oregon Statute: 465.111
Sunset Date: None
Year Enacted: 1989

	Total
2001–03 Revenue Impact:	Not Available
2003–05 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 Load Fee. 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, and by extension, taxpayers.

EVALUATION: Not evaluated.

CHAPTER 15. OIL AND GAS SEVERANCE TAX

A privilege tax of six percent of the gross value at the well is levied on the production of oil and gas within Oregon. Receipts were $270,000 for the 1999–01 biennium. Net revenue derived from this tax is paid into the Common School Fund.

15.001 FIRST $3,000 IN GROSS SALES VALUE

Oregon Statute: 324.080
Sunset Date: None
Year Enacted: 1981

	Total
2001–03 Revenue Impact:	Less than $50,000
2003–05 Revenue Impact:	Less than $50,000

DESCRIPTION: An exemption from the tax levied on oil or gas severance is granted upon 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 and to prolong production activities at the end of a well's life when production is low.

WHO BENEFITS: Oil and gas producers. There currently are two producers of natural gas in Oregon, with a total of 15 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*.]

15.002 CREDIT FOR PROPERTY TAXES PAID

Oregon Statute: 324.090(2)
Sunset Date: None
Year Enacted: 1981

	Total
2001–03 Revenue Impact:	Less than $50,000
2003–05 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 15 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 company would pay tax twice on the same property. [*Evaluated by the Department of Geology and Mineral Industries*.]

15.003 STATE AND LOCAL INTERESTS

Oregon Statute: 324.090(1)
Sunset Date: None
Year Enacted: 1981

	Total
1999–01 Revenue Impact:	$0
2001–03 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, and by extension taxpayers, 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*.]

APPENDIX A: OREGON STATUTE REQUIRING TAX EXPENDITURE REPORT

68th OREGON LEGISLATIVE ASSEMBLY—1995 Regular Session

Oregon Laws 1995, Chapter 746

SECTION 61. **Sections 62, 63, and 65 of this Act may be cited as the Budget Accountability Act.**

SECTION 62. **(1) The Legislative Assembly hereby declares that the ability to make fiscally sound and effective spending decisions has been enhanced by requiring agencies and programs to develop performance measures and to evaluate all General Fund, State Lottery Fund and other expenditures in accordance with these performance measures. Fiscal pressure on this state requires even greater accountability and necessitates a review of the fairness and efficiency of all tax deductions, tax exclusions, tax subtractions, tax exemptions, tax deferrals, preferential tax rates and tax credits. These types of tax expenditures are similar to direct government expenditures because they provide special benefits to favored individuals or businesses, and thus result in higher tax rates for all individuals.**

(2) The Legislative Assembly further finds that 76 percent of property in this state is exempt from property taxation and that income tax expenditures total billions of dollars per biennium. An accurate and accountable state budget should reflect the true costs of tax expenditures and should fund only those tax expenditures that are effective and efficient uses of limited tax dollars.

(3) The Legislative Assembly declares that it is in the best interest of this state to have prepared a biennial report of tax expenditures that will allow the public and policy makers to identify and analyze tax expenditures and to periodically make criteria-based decisions on whether the expenditures should be continued. The tax expenditure report will allow tax expenditures to be debated in conjunction with on-line budgets and will result in the elimination of inefficient and inappropriate tax expenditures, resulting in greater accountability by state government and a lowering of the tax burden on all taxpayers.

SECTION 63. **As used in ORS 291.202 to 291.222, "tax expenditure" means any law of the Federal Government or this state that exempts, in whole or in part, certain persons, income, goods, services or property from the impact of established taxes, including but not limited to tax deductions, tax exclusions, tax subtractions, tax exemptions, tax deferrals, preferential tax rates and tax credits.**

SECTION 64. ORS 291.202 is amended to read:

291.202. **(1)** Except as otherwise provided in ORS 291.222, the Governor shall prepare in each even-numbered year [*a budget report*] for the biennium beginning July 1 of the following year:

(a) A budget report; and

(b) A tax expenditure report.

(2) The Oregon Department of Administrative Services shall advise and assist the Governor in the preparation of the budget report **and tax expenditure report** and shall perform such duties in connection therewith as the Governor requires.

(3) The Department of Revenue shall advise and assist the Governor in the preparation of the tax expenditure report.

SECTION 65. **(1) Not later than November 10 of each even-numbered year, the Governor shall cause the tax expenditure report to be compiled and prepared for printing.**

(2) In the tax expenditure report, the Governor shall:

(a) List each tax expenditure;

(b) Identify the statutory authority for each tax expenditure;

(c) Describe the purpose of each tax expenditure;

(d) Estimate the amount of revenue loss caused by each tax expenditure for the coming biennium;

(e) List the actual amount of revenue loss in the preceding biennium for each tax

expenditure or an estimate if the actual amount cannot be determined;

(f) Determine whether each tax expenditure is the most fiscally effective means of achieving each purpose of the tax expenditure;

(g) Determine whether each tax expenditure has successfully achieved the purpose for which the tax expenditure was enacted and currently serves, including an analysis of the persons that are benefited by the expenditure; and

(h) Categorize each tax expenditure according to the programs or functions each tax expenditure supports.

SECTION 66. ORS 291.210 is amended to read:

291.210. **(1)** The Oregon Department of Administrative Services, in connection with its direct studies of the operations, plans and needs of state agencies and of the existing and prospective sources of income, shall prepare a tentative budget plan **and tentative tax expenditure report** for the two fiscal years for which a budget report [*is*] **and tax expenditure report are** required to be prepared.

(2) The Department of Revenue shall advise and assist in the preparation of the tentative tax expenditure report.

SECTION 67. ORS 291.214 is amended to read:

291.214. The Governor, during the preparation of the budget report and before its submission to the Legislative Assembly, shall:

(1)(a) Examine the budget forms filed by the various agencies [*. The Governor*] **and** may make or cause to be made such further investigations by the Oregon Department of Administrative Services, with such hearings before the Governor or any state agency, as the Governor deems advisable, and may make such changes or revisions in policy and program and in specific details of the tentative budget report **or tentative tax expenditure report** as the Governor finds warranted **; and** [*.*]

(b) Identify each tax expenditure that has a full or partial sunset that, if allowed to take effect, will have a fiscal impact on the state or on school districts for the next biennium, and shall prepare a recommendation as to each tax expenditure identified under this paragraph that indicates the Governor's opinion on whether the full or partial sunset of the tax expenditure should be allowed to take effect as scheduled or should be revised to a different date.

(2) As used in this section:

(a) "Full sunset" means any provision that completely eliminates an existing tax expenditure on a specified date.

(b) "Partial sunset" means any provision that reduces the amount of an existing tax expenditure or that alters the eligibility requirements for the expenditure as of a specified date.

SECTION 67a. **If Senate Bill 251 becomes law, section 19, chapter 610, Oregon Laws 1995 (Enrolled Senate Bill 251) (amending ORS 291.214), is repealed.**

SECTION 68. ORS 291.216 is amended to read:

291.216. (1) Not later than November 10 of each even-numbered year the Governor shall cause the budget report to be compiled and prepared for printing.

(2) The budget report shall include a budget message prepared by the Governor, including recommendations of the Governor with reference to the fiscal policy of the state government for the coming biennium, describing the important features of the budget plan, embracing a general budget summary setting forth the aggregate figures of the budget report so as to show a balanced relation between the total proposed expenditures and the total anticipated income, with the basis and factors on which the estimates are made, the amount to be borrowed, and other means of financing the estimated expenditures for the ensuing biennium, compared with the corresponding figures for at least the last completed biennium and the current biennium.

(3) The budget plan shall be supported by explanatory schedules or statements, classifying the expenditures reported therein, both past and proposed, by organization units, objects and funds, and the income by organization units, sources and funds, and the proposed amount of new borrowing as well as proposed new tax or revenue sources, including a single comprehensive list of all proposed increases in fees, licenses and assessments assumed in the budget plan.

(4) The budget plan shall be submitted for all dedicated funds, as well as the state General Fund, and shall include the estimated amounts of

federal and other aids or grants to state agencies or activities provided for any purpose whatever, together with estimated expenditures therefrom.

(5) The budget report shall embrace the detailed estimates of expenditures and revenues. It shall include statements of the bonded indebtedness of the state government, showing the actual amount of the debt service for at least the past biennium, and the estimated amount for the current biennium and the ensuing biennium, the debt authorized and unissued, the condition of the sinking funds and the borrowing capacity. **It shall contain the Governor's recommendations concerning tax expenditures identified under ORS 291.214.** It shall also contain any statements relative to the financial plan which the Governor may deem desirable or which may be required by the legislature.

(6) The budget plan shall use the estimated revenues under ORS 291.342 for the fiscal year in which the plan is submitted as the basis for total anticipated income under subsection (2) of this section, subject to such adjustment as may be necessary to reflect accurately projections for the next biennium.

(7) As supplemental information to the budget report, the Governor shall publish an existing level tentative budget plan for the two fiscal years for which the budget report is required. This summary budget shall reflect only existing revenues estimated under subsection (6) of this section; subject to such adjustment as may be necessary to reflect accurately projections for the next biennium. The supplemental information to the budget report shall be submitted at the same time as the budget report.

SECTION 69. ORS 291.218 is amended to read:

291.218. Except when the Governor under whose supervision the budget report [*has*] **and the tax expenditure report have** been prepared will be succeeded in office in January next following:

(1) The Oregon Department of Administrative Services shall have as many copies of the approved budget report **and the tax expenditure report** printed as the Governor directs.

(2) Not later than December 1 of each even-numbered year, the Governor shall transmit a copy [*thereof*] **of each report** to each member of the legislature who is to serve during the next session.

(3) Upon request, the Governor shall distribute copies free of charge, under such regulations as the Governor may establish, to public libraries, schools and state officials. The Governor shall make copies available to the general public at a reasonable charge for each copy.

SECTION 70. ORS 291.220 is amended to read:

291.220. The Governor, upon request, shall furnish the Legislative Assembly any further information required concerning the budget report **and the tax expenditure report**. The Oregon Department of Administrative Services, upon request, shall furnish a representative to assist the Legislative Assembly, its Joint Committee on Ways and Means, appointed under ORS 171.555, and the Legislative Revenue Officer in the consideration of the budget report, **the tax expenditure report** and any accompanying measures.

SECTION 71. ORS 291.222 is amended to read:

291.222. If the Governor under whose supervision the budget report **and tax expenditure report have** [*has*] been prepared will be succeeded in office in January next following:

(1) The Oregon Department of Administrative Services shall make available to the Governor-elect so much as the Governor-elect requests of the information upon which the tentative budget report **and tentative tax expenditure report are** [*is*] based, and upon completion of [*the tentative budget*] **each** report shall supply the Governor-elect with a copy [*thereof*] **of each report** but shall not cause the tentative budget report **or tentative tax expenditure report** to be printed and distributed. The department shall also make available to the Governor-elect all facilities of the department reasonably necessary to permit the Governor-elect to review and become familiar with the tentative budget report **or tentative tax expenditure report**.

(2) After a review of the tentative budget **report or tentative tax expenditure report** the Governor-elect may prepare revisions and additions thereto. The **Oregon** Department **of Administrative Services and the Department of Revenue** shall assist, upon request, in the preparation of such revisions or additions.

(3) The **Oregon** Department **of Administrative Services** shall have **printed** as many copies of the revised budget report [*printed*] **and revised tax expenditure report** as the Governor-elect requests.

(4) **(a)** Not later than the convening of the next Legislative Assembly the **Oregon** Department **of Administrative Services** shall transmit a copy of a summary of the revised budget report containing the revenue and expenditure recommendations of the Governor-elect and **a summary of the revised tax expenditure report estimating the amount of revenue loss caused by each tax expenditure.**

(b) Not later than February 1, **the Oregon Department of Administrative Services** shall transmit a copy of the revised budget report **and revised tax expenditure report** to each member of the Legislative Assembly.

(5) Upon request, the department shall distribute copies of the revised budget report **and revised tax expenditure report** free of charge, under such regulations as it may establish, to public libraries, schools and state officials. It shall make copies of the revised budget report **and revised tax expenditure report** available to the general public at a reasonable charge for each copy.

SECTION 72. ORS 173.820 is amended to read:

173.820. Pursuant to policies and directions of the appointing authority, the Legislative Revenue Officer shall:

(1) Upon written request of a member of the Legislative Assembly or any committee thereof, prepare or assist in the preparation of studies and reports and provide information and research assistance on matters relating to taxation and to the revenue of this state and to any other relevant matters.

(2) **(a)** Ascertain facts concerning revenues and make estimates concerning state revenues **; and** [.]

(b) Ascertain facts and make recommendations to the Legislative Assembly concerning the Governor's tax expenditure report.

(3) Prepare analyses of and recommendations on the fiscal impact of all revenue measures before the Legislative Assembly and of all other measures affecting the revenue of this state.

(4) Perform such duties as may be directed by joint or concurrent resolution of the Legislative Assembly.

(5) Adopt rules relating to the submission, processing and priorities of requests. Rules adopted under this subsection shall be in conformance with any applicable rule of the House of Representatives or the Senate. Requests made by joint or concurrent resolution of the Legislative Assembly shall be given priority over other requests received or initiated by the Legislative Revenue Officer. Rules adopted under this subsection shall be reviewed and approved by the appointing authority prior to their adoption.

(6) Seek the advice and assistance of political subdivisions of this state, governmental agencies and any interested persons, associations or organizations in the performance of the duties of the Legislative Revenue Officer.

(7) Enter into such contracts as considered necessary by the appointing authority to carry out the functions of the Legislative Revenue Officer.

(8) Perform such other duties as may be prescribed by law.

SECTION 73. ORS 176.110 is amended to read:

176.110. (1) The person elected to the office of Governor may take any action prior to the date the official term of office commences that is necessary to enable the Governor to exercise on such date the powers and duties of the office of Governor.

(2) The Governor-elect shall cause the budget report **and the tax expenditure report** for the biennium beginning July 1 of the year in which the Governor takes office to be compiled and prepared for printing as required in ORS 291.222.

(3) All necessary expenses of the Governor-elect incurred in carrying out the provisions of this section shall be audited by the Secretary of State and paid from any funds appropriated for this purpose in the same manner as other claims against the state are paid.

SECTION 74. **Sections 63 and 65 of this Act are added to and made a part of ORS 291.202 to 291.222.**

SECTION 75. **If Senate Bill 719 becomes law, sections 61 to 74 of this Act are repealed.**

Approved by the Governor July 19, 1995
Filed in the office of Secretary of State July 21, 1995
Effective date September 9, 1995

APPENDIX B: CONTRIBUTORS

This report was developed by the following members of the Department of Revenue Research Section, with assistance from numerous Department of Revenue and other state agency personnel:

Chris Allanach	Senior Economist
Amy Brown	Tax Economist
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The following agencies evaluated the effectiveness of the tax expenditures and provided other important information:

Agriculture, Department of

Aviation, Department of

Budget and Management Division

Consumer and Business Services Department

Economic and Community Development Department

Education, Department of

Employment Department

Energy, Office of

Environmental Quality, Department of

Fish and Wildlife, Department of

Forestry Department

Geology and Mineral Industries, Department of

Housing and Community Services Department

Human Resources, Department of

- Children, Adult, and Family Services Cluster
- Senior and People with Disabilities Cluster

Land Conservation and Development, Dept. of

Lottery, Oregon State

Liquor Control Commission

Marine Board

Military Department

Oregon Health Plan Policy and Research

Oregon University System

Public Utility Commission

Parks and Recreation Department

Rural Health, Office of

Secretary of State

State Lands Division

State Police, Oregon

Library, Oregon State

Transportation, Department of

Treasury, Oregon State

Veterans' Affairs, Department of

APPENDIX C: TAX PROGRAMS WITHOUT TAX EXPENDITURES

Amusement Device Tax

Gift and Inheritance Taxes

Real Estate Recording Tax

Timber Severance Taxes

APPENDIX D: NEW, MODIFIED, OR EXPIRED TAX EXPENDITURES

This appendix contains a list of tax expenditures that have been created or modified or have expired since the publication of the 2001-03 *Tax Expenditure Report*. The new and modified expenditures are those that were created or changed during Oregon's 2001 Legislative session and selected expenditures that have been newly created or modified at the federal level and flow through to Oregon through our tie to the federal definition of taxable income. For a detailed description of these expenditures, refer to the relevant chapter in this publication. Expired expenditures are those expenditures that have sunset and have no revenue impact in either the 2001-03 or 2003-05 biennium; consequently, they are not included in this report. For a detailed description of the expired expenditures, refer to the 2001-03 *Tax Expenditure Report*.

NEW TAX EXPENDITURES

1.063	Income Tax	Exclusion	Restitution Payments for Holocaust Survivors
1.067	Income Tax	Deduction	Qualified Higher Education Expenses
1.109	Income Tax	Subtraction	Income Averaging for Farmers
1.110	Income Tax	Subtraction	Capital Gains from Farm Property
1.111	Income Tax	Subtraction	Income Earned in Border River Areas
1.140	Income Tax	Credit	Employer Provided Scholarships
1.156	Income Tax	Credit	Reservation Enterprise Zones (Income Tax)
1.157	Income Tax	Credit	Small City Business Development
1.158	Income Tax	Credit	Electronic Commerce Enterprise Zones (Income Tax)
1.159	Income Tax	Credit	Investment in Telecommunications Infrastructure
1.165	Income Tax	Credit	Child Care Division Contributions
1.172	Income Tax	Credit	Farm Machinery and Equipment (Income)
1.173	Income Tax	Credit	Riparian Lands Removed from Farm Production
1.192	Income Tax	Credit	Trust for Cultural Development
2.008	Property Tax	Full	Rural Health Care Facilities
2.026	Property Tax	Full	Electronic Commerce Enterprise Zones (Property Tax)
2.027	Property Tax	Partial	Vertical Housing Development Zones
2.041	Property Tax	Special	Multi-Unit Rental Housing Assessment
2.084	Property Tax	Full	Land Used as Golf Course and Effluent
2.099	Property Tax	Full	FCC Licenses
2.112	Property Tax	Full	City-Owned Sports Facility
2.113	Property Tax	Full	Transfer of Land from Cemetery to School
8.002	Beer and Wine Tax	Exclusion	Wine Marketing Activities

MODIFIED TAX EXPENDITURES

1.004	Income Tax	Exclusion	Qualified Tuition Programs (Federal)
1.053	Income Tax	Exclusion	Gain on Like-Kind Exchanges
1.065	Income Tax	Deduction	Interest on Student Loans
1.113	Income Tax	Subtraction	Oregon Qualified Tuition Savings
1.115	Income Tax	Subtraction	Individual Development Accounts
1.117	Income Tax	Subtraction	Medical Savings Accounts (Oregon)
1.134	Income Tax	Subtraction	Federal Income Tax Deduction
1.141	Income Tax	Credit	Individual Development Accounts (Credit)
1.145	Income Tax	Credit	Rural Medical Practice
1.153	Income Tax	Credit	Qualified Research Activities
1.154	Income Tax	Credit	Qualified Research Activities (Alternative)
1.155	Income Tax	Credit	Investment in Rural Enterprise Zones (Income Tax)
1.161	Income Tax	Credit	Working Family Child Care
1.162	Income Tax	Credit	Dependent Care Assistance
1.166	Income Tax	Credit	Farm-Worker Housing Construction
1.167	Income Tax	Credit	Farm-Worker Housing Lender's Credit
1.170	Income Tax	Credit	Crop Gleaning
1.171	Income Tax	Credit	Alternatives to Field Burning
1.175	Income Tax	Credit	Pollution Control
1.180	Income Tax	Credit	Alternative Energy Devices (Residential)
1.181	Income Tax	Credit	Business Energy Facilities
1.182	Income Tax	Credit	Energy Conservation Lender's Credit
1.184	Income Tax	Credit	Reforestation
2.005	Property Tax	Full	Higher Education Parking Space
2.011	Property Tax	Deferral	Senior and Disabled Deferral Program
2.012	Property Tax	Full	Enterprise Zones Businesses
2.013	Property Tax	Full	Long-Term Rural Enterprise Zones (Property Tax)
2.017	Property Tax	Full	Business Personal Property Cancellation
2.024	Property Tax	Partial	Recreation Facility on Federal Land
2.040	Property Tax	Partial	Federal Land Under Summer Homes
2.042	Property Tax	Partial	War Veterans and Their Spouses
2.046	Property Tax	Full	Farm Machinery and Equipment (Property)
2.047	Property Tax	Full	Mobile Field Incinerators
2.050	Property Tax	Full	Agricultural Products Held by Farmer
2.055	Property Tax	Full	Center Pivot Irrigation Equipment
2.056	Property Tax	Full	Other Farm/Aquaculture/Egg Equipment
2.057	Property Tax	Full	Field Burning Smoke Management Equipment
2.058	Property Tax	Partial	Pollution Control Facilities
2.063	Property Tax	Partial	Alternative Energy Systems
2.065	Property Tax	Special	Western Private Forestland
2.068	Property Tax	Special	Eastern Private Forestland
2.079	Property Tax	Partial	Wildlife Habitat Conservation Plans
2.083	Property Tax	Partial	Historic Property
3.004	Gas and Use Fuel	Exclusion	Public Services
10.001	Forest Products Harvest Tax	Exclusion	First 25,000 Board Feet
13.001	Dry Cleaning Tax	Exclusion	Dry Store Selling Less than $50,000

EXPIRED TAX EXPENDITURES

	Property Tax	Full Exemption	Natural Heritage Conservation Areas
	Cigarette Tax	Exclusion	Cigarette Gift Packets

APPENDIX E: PERSONAL AND CORPORATION INCOME TAX EXPENDITURES

Personal Income Tax Expenditures

	Tax Expenditure	Program or Function	Year Enacted	Oregon Statute	Revenue Impact ($ Thousands) 2001–03	2003–05
Federal Exclusions						
1.001	Scholarship and Fellowship Income	Education	1954	316.048	9,600	11,200
1.002	Interest on Education Savings Bonds	Education	1988	316.048	100	200
1.003	Earnings on Education Savings Accounts	Education	1997	316.048	2,200	4,000
1.004	Qualified Tuition Programs (Federal)	Education	1996	316.048	1,000	1,700
1.005	Public Assistance Benefits	Human Resources	Pre-1955	316.048	9,800	10,100
1.006	Certain Foster Care Payments	Human Resources	1982	316.048	3,500	4,200
1.007	Employee Adoption Benefits	Human Resources	1996	316.048	Less than 50	Less than 50
1.008	Cafeteria Plan Benefits	Human Resources	1974	316.048	87,000	108,500
1.009	Employer Paid Medical Benefits	Human Resources	1918	316.048	532,800	634,400
1.010	Compensatory Damages	Human Resources	Pre-1955	316.048	200	200
1.011	Pension Contributions and Earnings	Human Resources	1921	316.048	611,900	633,900
1.012	Hospital Insurance (Part A)	Human Resources	1965	316.048	132,400	158,300
1.013	Supplementary Medical Insurance (Part B)	Human Resources	1970	316.048	78,500	96,400
1.014	Special Benefits for Disabled Coal Miners	Human Resources	1969	316.048	Less than 50	Less than 50
1.015	Social Security Benefits (Federal)	Human Resources	1938	316.048	226,900	238,600
1.016	Accelerated Depreciation of Buildings	Economic/Community	1954	316.048/317.013	3,500	3,000
1.017	Accelerated Depreciation of Equipment	Economic/Community	1954	316.048/317.013	75,200	77,400
1.018	Income Earned Abroad by U.S. Citizens	Economic/Community	1926	316.048	19,800	23,500
1.020	Magazine, Paperback, and Record Returns	Economic/Community	1978	316.048/317.013	100	100
1.021	Cash Accounting, Other than Agriculture	Economic/Community	1916	316.048/317.013	1,900	2,200
1.022	Regional Economic Development Incentives	Economic/Community	1993	316.048/317.013	Less than 50	100
1.025	Cancellation of Debt for Non-Farmers	Economic/Community	Pre-1955	316.048/317.013	Less than 50	Less than 50
1.026	Employer Paid Group Life Insurance Premiums	Economic/Community	1920	316.048	17,400	19,600
1.027	Employer Paid Accident and Disability Insurance	Economic/Community	1954	316.048	17,500	20,300
1.028	Employer Provided Dependent Care	Economic/Community	1981	316.048	5,000	6,500
1.029	Miscellaneous Fringe Benefits	Economic/Community	1984	316.048	45,100	48,500
1.030	Employee Meals and Lodging (Non-Military)	Economic/Community	1918	316.048	6,300	7,000
1.031	Employee Stock Ownership Plans	Economic/Community	1974	316.048/317.013	1,500	2,200
1.032	Employee Awards	Economic/Community	1986	316.048	800	800
1.033	Employer Provided Education Benefits	Economic/Community	1997	316.048	4,200	6,100
1.034	Spread on Acquisition of Stock	Economic/Community	1981	316.048	3,800	5,900
1.035	Accelerated Depreciation of Rental Housing	Economic/Community	1954	316.048/317.013	17,500	21,000
1.036	Capital Gains on Home Sales	Economic/Community	1997	316.048	129,700	140,900
1.037	Veteran's Benefits and Services	Economic/Community	1917	316.048	22,700	24,500
1.038	Military and Dependents CHAMPUS/TRICARE Insurance	Economic/Community	1925	316.048	14,800	15,700
1.039	Agriculture Cost-Sharing Payments	Natural Resources	1978	316.048/317.013	100	100
1.040	Cancellation of Debt for Farmers	Natural Resources	1986	316.048	400	400
1.041	Energy Conservation Subsidies (Federal)	Natural Resources	1992	316.048	100	100
1.043	Employer Paid Transportation Benefits	Transportation	1992	316.048	26,100	27,700
1.044	Life Insurance Investment Income	Insurance/Financial	1913	316.048/317.013	166,200	180,900
1.045	Workers' Compensation Benefits (Non-Medical)	Insurance/Financial	1918	316.048	41,100	45,600
1.046	Workers' Compensation Benefits (Medical)	Insurance/Financial	1918	316.048	28,000	29,700
1.049	Structured Settlement Accounts	Insurance/Financial	1982	317.013	Less than 50	Less than 50

Appendix E

Personal Income Tax Expenditures

	Tax Expenditure	Program or Function	Year Enacted	Oregon Statute	Revenue Impact ($ Thousands) 2001–03	2003–05
1.051	Imputed Interest Rules	Tax Administration	1964	316.048/317.013	1,700	2,200
1.052	Gain on Non-Dealer Installment Sales	Tax Administration	1921	316.048/317.013	2,800	2,900
1.053	Gain on Like-Kind Exchanges	Tax Administration	1921	316.048/317.013	3,100	3,600
1.054	Allowances for Federal Employees Abroad	Government	1943	316.048	2,200	2,800
1.055	Interest on Oregon State and Local Debt	Government	1913	316.048	65,300	61,300
1.056	Capital Gains on Inherited Property	Social Policy	1921	316.048	374,800	444,300
1.057	Capital Gains on Gifts	Social Policy	1921	316.048	41,300	47,000
1.058	Gain on Involuntary Conversions in Disaster Areas	Social Policy	1996	316.048	100	100
1.059	Voluntary Employees' Beneficiary Association	Social Policy	1928	316.048	11,400	12,600
1.060	Rental Allowances for Ministers' Homes	Social Policy	1921	316.048	2,800	3,500
1.061	Military Disability Benefits	Social Policy	1942	316.048	700	700
1.062	Benefits and Allowances of Armed Forces Personnel	Social Policy	1925	316.048	17,400	18,700
1.063	Restitution Payments for Holocaust Survivors	Social Policy	2001	316.048	Less than 50	Less than 50
1.064	Survivor Annuities	Social Policy	1997	316.048	100	100

Federal Deductions

	Tax Expenditure	Program or Function	Year Enacted	Oregon Statute	2001–03	2003–05
1.065	Interest on Student Loans	Education	1997	316.048	6,100	8,000
1.066	Charitable Contributions: Education	Education	1917	316.695/317.013	37,800	45,000
1.067	Qualified Higher Education Expenses	Education	2001	316.048	11,200	24,100
1.068	Charitable Contributions: Health	Human Resources	1917	316.695/317.013	26,100	31,100
1.069	Medical and Dental Expenses	Human Resources	1942	316.695	116,900	140,700
1.070	Self-Employment Health Insurance	Human Resources	1986	316.048	23,700	36,800
1.071	Medical Savings Accounts (Federal)	Human Resources	1996	316.048	400	400
1.072	IRA Contributions and Earnings	Human Resources	1974	316.048	97,900	114,000
1.073	Keogh Plan Contributions and Earnings	Human Resources	1962	316.048	39,400	42,400
1.074	Removal of Architectural Barriers	Human Resources	1976	316.048/317.013	Less than 50	Less than 50
1.077	Section 179 Expensing Allowances	Economic/Community	1959	316.048/317.013	9,000	6,100
1.078	Amortization of Business Start-Up Costs	Economic/Community	1980	316.048/317.013	3,400	3,600
1.080	Ordinary Treatment of Losses from Small Business Corporation Stock	Economic/Community	1958	316.048	300	300
1.081	Moving Expenses	Economic/Community	1964	316.048	3,400	3,400
1.082	Property Taxes	Economic/Community	1913	316.695	208,000	233,700
1.083	Home Mortgage Interest	Economic/Community	1913	316.695	786,500	882,000
1.084	Cash Accounting for Agriculture	Natural Resources	1916	316.048/317.013	4,200	3,300
1.085	Soil and Water Conservation Expenditures	Natural Resources	1954	316.048/317.013	200	200
1.086	Fertilizer and Soil Conditioner Costs	Natural Resources	1960	316.048/317.013	1,100	1,100
1.087	Costs of Raising Dairy and Breeding Cattle	Natural Resources	1916	316.048/317.013	100	100
1.088	Sale of Stock to Farmer's Cooperatives	Natural Resources	1998	316.048/317.013	Less than 50	Less than 50
1.089	Redevelopment Costs in Contaminated Areas	Natural Resources	1997	316.048/317.013	400	0
1.090	Clean-Fuel Vehicles and Refueling Property	Natural Resources	1993	316.048/317.013	Less than 50	Less than 50
1.091	Intangible Development Costs for Fuels	Natural Resources	1978	316.695/317.013	Less than 50	Less than 50
1.092	Depletion Costs for Natural Resources	Natural Resources	1962	316.695/317.013	Less than 50	Less than 50
1.093	Tertiary Injectants	Natural Resources	1980	316.695/317.013	Less than 50	Less than 50
1.094	Multi-Period Timber Growing Costs	Natural Resources	1986	316.048/317.013	1,100	1,200
1.095	Amortization of Reforestation Expenditures	Natural Resources	1980	316.048/317.013	100	100
1.096	Development Costs for Nonfuel Minerals	Natural Resources	1951	316.048/317.013	200	200
1.097	Depletion Costs for Nonfuel Minerals	Natural Resources	1913	316.048/317.013	700	700

Personal Income Tax Expenditures

	Tax Expenditure	Program or Function	Year Enacted	Oregon Statute	Revenue Impact ($ Thousands) 2001–03	2003–05
1.098	Mining Reclamation Reserves	Natural Resources	1984	316.048/317.013	100	100
1.103	Magazine Circulation Expenditures	Tax Administration	1950	316.048/317.013	100	100
1.105	Completed Contract Rules	Tax Administration	1986	316.048/317.013	100	100
1.106	Casualty and Theft Losses	Social Policy	1913	316.695	1,400	1,300
1.107	Charitable Contributions: Other	Social Policy	1917	316.695/317.013	206,400	245,300
	Oregon Subtractions					
1.108	Expatriate Residential Status	Economic/Community	1999	316.027	1,600	1,600
1.109	Income Averaging for Farmers	Natural Resources	2001	314.297	100	100
1.110	Capital Gains from Farm Property	Natural Resources	2001	318.020/317.063	Less than 50	100
1.111	Income Earned in Border River Areas	Tax Administration	2001	316.127	Less than 50	Less than 50
1.112	Land Donated to Schools	Education	1999	316.852/317.488	Less than 50	Less than 50
1.113	Oregon Qualified Tuition Savings	Education	1999	348.844/316.680	4,700	9,700
1.114	Scholarship Awards Used for Housing Expenses	Education	1999	316.846	Less than 50	Less than 50
1.115	Individual Development Accounts	Economic/Community	1999	316.848	Less than 50	Less than 50
1.116	JOBS Plus Participants	Human Resources	1995	316.680(1)(e)	Less than 50	Less than 50
1.117	Medical Savings Accounts (Oregon)	Human Resources	1997	316.743	Less than 50	0
1.118	Physicians in "Medically Disadvantaged" Areas	Human Resources	1973	316.076	0	0
1.119	Additional Deduction for Elderly or Blind	Human Resources	1989	316.695(7)	10,800	8,700
1.120	Additional Medical Deduction for Elderly	Human Resources	1991	316.695 (1)(d)(B)	64,300	72,200
1.121	Social Security Benefits (Oregon)	Human Resources	1985	316.054	220,300	249,500
1.122	Donations of Art by the Artist	Economic/Community	1979	316.838	Less than 50	Less than 50
1.123	Capital Gains from Oregon Reinvestment	Economic/Community	1995	316.874	0	0
1.124	Municipal Bond Interest	Economic/Community	1987	316.056	6,400	6,400
1.126	Service in Vietnam on Missing Status	Economic/Community	1973	316.074	0	0
1.127	Oil Heat Tank Cleanup Costs	Natural Resources	1991	316.746	0	0
1.128	Underground Storage Tank Grants	Natural Resources	1991	316.834/317.383	0	0
1.129	Energy Conservation Subsidies (Oregon)	Natural Resources	1981	316.744/317.386	200	200
1.131	Income Earned in "Indian Country"	Government	1977	316.777	2,500	2,900
1.132	Federal Pension Income	Government	1998	316.680(1)(g)	220,000	130,400
1.133	Oregon State Lottery Prizes	Government	1985	461.560	46,300	44,100
1.134	Federal Income Tax Deduction	Social Policy	1929	316.680/316.695	482,300	597,700
1.135	Military Active Duty Pay	Social Policy	1969	316.680/316.789	7,500	8,300
1.136	Interest and Dividends on U.S. Obligations	Federal Law	1970	316.680	44,900	46,700
	Oregon Credits					
1.137	Child Development Program Contributions	Education	1991	315.234	Less than 50	0
1.138	Youth Apprenticeship Sponsorship	Education	1991	315.254	0	0
1.140	Employer Provided Scholarships	Education	2001	315.237	Less than 50	100
1.141	Individual Development Accounts (Credit)	Economic/Community	1999	315.271	200	500
1.142	Earned Income Credit	Human Resources	1997	315.266	16,400	17,200
1.143	Qualified Adoption Expense	Human Resources	1999	315.274	900	900
1.144	Bone Marrow Transplant Expense	Human Resources	1991	315.604	Less than 50	Less than 50
1.145	Rural Medical Practice	Human Resources	1989	316.143	9,100	9,900
1.146	Costs in lieu of Nursing Home Care	Human Resources	1979	316.147-316.149	Less than 50	Less than 50
1.147	Long-Term Care Insurance	Human Resources	1999	315.610	Less than 50	Less than 50
1.148	Disabled Child	Human Resources	1985	316.099	3,000	3,400
1.149	Elderly or Permanently Disabled	Human Resources	1969	316.087	100	100
1.150	Loss of Limbs	Human Resources	1973	316.079	Less than 50	Less than 50

Personal Income Tax Expenditures

	Tax Expenditure	Program or Function	Year Enacted	Oregon Statute	Revenue Impact ($ Thousands) 2001–03	2003–05
1.151	Severe Disability	Human Resources	1985	316.758/316.765	4,700	6,000
1.152	Oregon Capital Corporation Investments	Economic/Community	1987	315.504	0	0
1.155	Investment in Rural Enterprise Zones (Income Tax)	Economic/Community	1997	Note: 285B.689	Less than 50	Less than 50
1.156	Reservation Enterprise Zones (Income Tax)	Economic/Community	2001	285B.773	Less than 50	Less than 50
1.157	Small City Business Development	Economic/Community	2001	316.778	Less than 50	Less than 50
1.158	Electronic Commerce Enterprise Zones (Income Tax)	Economic/Community	2001	315.507	Less than 50	Less than 50
1.159	Investment in Telecommunications Infrastructure	Economic/Community	2001	315.511	Less than 50	Less than 50
1.160	Child and Dependent Care	Economic/Community	1975	316.078	10,200	9,800
1.161	Working Family Child Care	Economic/Community	1997	315.262	13,500	31,100
1.162	Dependent Care Assistance	Economic/Community	1987	315.204	Not available	Not available
1.163	Dependent Care Facilities	Economic/Community	1987	315.208	Incl. in 1.162	Incl. in 1.162
1.164	First Break Program	Economic/Community	1995	315.259	100	100
1.165	Child Care Division Contributions	Economic/Community	2001	315.213	Less than 50	Less than 50
1.166	Farm-Worker Housing Construction	Economic/Community	1989	315.164	200	400
1.168	Involuntary Mobile Home Moves	Economic/Community	1991	316.153	Less than 50	Less than 50
1.170	Crop Gleaning	Natural Resources	1977	315.156	Less than 50	Less than 50
1.171	Alternatives to Field Burning	Natural Resources	1975	468.150	Incl. in 1.175	Incl. in 1.175
1.172	Farm Machinery and Equipment (Income)	Natural Resources	2001	315.119/315.123	200	700
1.173	Riparian Lands Removed from Farm Production	Natural Resources	2001	315.113	0	Less than 50
1.174	Pollution Prevention	Natural Resources	1995	315.311	100	100
1.175	Pollution Control	Natural Resources	1967	315.304	8,800	7,100
1.176	Reclaimed Plastics	Natural Resources	1985	315.324	100	100
1.177	Sewer Connection	Natural Resources	1987	316.095	100	100
1.178	Fish Habitat Improvement	Natural Resources	1981	315.134	Less than 50	0
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	316.116/317.115	7,600	8,200
1.181	Business Energy Facilities	Natural Resources	1979	315.354	3,600	4,700
1.183	Geothermal Heating System Connection	Natural Resources	1979	316.086	Less than 50	0
1.184	Reforestation	Natural Resources	1979	315.104	200	500
1.189	Political Contributions	Government	1969	316.102	8,800	8,800
1.190	Personal Exemption Credit	Social Policy	1985	316.085	810,400	874,900
1.191	Retirement Income	Social Policy	1991	316.157	2,900	2,100
1.192	Trust for Cultural Development	Social Policy	2001	315.675	1,900	15,500

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	Tax Expenditure	Program or Function	Year Enacted	Oregon Statute	Revenue Impact ($ Thousands) 2001–03	2003–05
	Federal Exclusions					
1.016	Accelerated Depreciation of Buildings	Economic/Community	1954	316.048/317.013	5,300	4,500
1.017	Accelerated Depreciation of Equipment	Economic/Community	1954	316.048/317.013	208,900	198,300
1.019	Inventory Property Sales Source-Rule Exception	Economic/Community	1921	317.013	21,500	24,900
1.020	Magazine, Paperback, and Record Returns	Economic/Community	1978	316.048/317.013	Less than 50	Less than 50
1.021	Cash Accounting, Other than Agriculture	Economic/Community	1916	316.048/317.013	100	100
1.022	Regional Economic Development Incentives	Economic/Community	1993	316.048/317.013	Less than 50	Less than 50
1.023	Income of Controlled Foreign Corporations	Economic/Community	1909	317.013	18,400	20,800
1.024	Extraterritorial Income Exclusion	Economic/Community	2000	316.048/317.013	19,000	24,900
1.025	Cancellation of Debt for Non-Farmers	Economic/Community	Pre-1955	316.048/317.013	Less than 50	Less than 50
1.031	Employee Stock Ownership Plans	Economic/Community	1974	316.048/317.013	3,700	3,900
1.035	Accelerated Depreciation of Rental Housing	Economic/Community	1954	316.048/317.013	1,300	1,300
1.039	Agriculture Cost-Sharing Payments	Natural Resources	1978	316.048/317.013	100	100
1.042	Contributions in Aid of Construction for Utilities	Transportation	1996	317.013	100	100
1.044	Life Insurance Investment Income	Insurance/Financial	1913	316.048/317.013	5,800	6,300
1.047	Credit Union Income	Insurance/Financial	1951	317.013	3,800	4,100
1.048	Life Insurance Company Reserves	Insurance/Financial	1984	317.013	5,400	5,800
1.049	Structured Settlement Accounts	Insurance/Financial	1982	317.013	Less than 50	Less than 50
1.050	Small Property Insurance Companies	Insurance/Financial	1986	317.013	Less than 50	Less than 50
1.051	Imputed Interest Rules	Tax Administration	1964	316.048/317.013	100	100
1.052	Gain on Non-Dealer Installment Sales	Tax Administration	1921	316.048/317.013	2,600	2,800
1.053	Gain on Like-Kind Exchanges	Tax Administration	1921	316.048/317.013	5,800	6,300
	Federal Deductions					
1.066	Charitable Contributions: Education	Education	1917	316.695/317.013	6,600	7,900
1.068	Charitable Contributions: Health	Human Resources	1917	316.695/317.013	6,600	7,900
1.074	Removal of Architectural Barriers	Human Resources	1976	316.048/317.013	Less than 50	Less than 50
1.075	Deferral of Certain Financing Income of Foreign Corporations	Economic/Community	1997	317.013	2,100	100
1.076	Research and Development Costs	Economic/Community	1954	316.048/317.013	19,100	20,700
1.077	Section 179 Expensing Allowances	Economic/Community	1959	316.048/317.013	1,300	900
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	317.013	1,200	1,200
1.084	Cash Accounting for Agriculture	Natural Resources	1916	316.048/317.013	100	100
1.085	Soil and Water Conservation Expenditures	Natural Resources	1954	316.048/317.013	100	100
1.086	Fertilizer and Soil Conditioner Costs	Natural Resources	1960	316.048/317.013	100	100
1.087	Costs of Raising Dairy and Breeding Cattle	Natural Resources	1916	316.048/317.013	100	100
1.088	Sale of Stock to Farmer's Cooperatives	Natural Resources	1998	316.048/317.013	Less than 50	Less than 50
1.089	Redevelopment Costs in Contaminated Areas	Natural Resources	1997	316.048/317.013	400	100
1.090	Clean-Fuel Vehicles and Refueling Property	Natural Resources	1993	316.048/317.013	Less than 50	Less than 50
1.091	Intangible Development Costs for Fuels	Natural Resources	1978	316.695/317.013	Less than 50	Less than 50
1.092	Depletion Costs for Natural Resources	Natural Resources	1962	316.695/317.013	Less than 50	Less than 50
1.093	Tertiary Injectants	Natural Resources	1980	316.695/317.013	Less than 50	Less than 50
1.094	Multi-Period Timber Growing Costs	Natural Resources	1986	316.048/317.013	7,000	7,000
1.095	Amortization of Reforestation Expenditures	Natural Resources	1980	316.048/317.013	200	200
1.096	Development Costs for Nonfuel Minerals	Natural Resources	1951	316.048/317.013	100	100

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	Tax Expenditure	Program or Function	Year Enacted	Oregon Statute	Revenue Impact ($ Thousands) 2001–03	2003–05
1.097	Depletion Costs for Nonfuel Minerals	Natural Resources	1913	316.048/317.013	400	400
1.098	Mining Reclamation Reserves	Natural Resources	1984	316.048/317.013	100	100
1.099	Bad Debt Reserves of Financial Institutions	Insurance/Financial	1947	317.013	Less than 50	100
1.100	Small Life Insurance Companies	Insurance/Financial	1984	317.013	Less than 50	Less than 50
1.101	Unpaid Loss Reserves	Insurance/Financial	1986	317.013	12,900	13,300
1.102	Blue Cross/Blue Shield and Other Nonprofits	Insurance/Financial	1986	317.013	Not available	Not available
1.103	Magazine Circulation Expenditures	Tax Administration	1950	316.048/317.013	100	100
1.104	Net Operating Loss Limitation	Tax Administration	1954	317.013	2,200	2,200
1.105	Completed Contract Rules	Tax Administration	1986	316.048/317.013	900	900
1.107	Charitable Contributions: Other	Social Policy	1917	316.695/317.013	11,300	13,400
Oregon Subtractions						
1.110	Capital Gains from Farm Property	Natural Resources	2001	318.020/317.063	Less than 50	100
1.112	Land Donated to Schools	Education	1999	316.852/317.488	Less than 50	Less than 50
1.125	Out-of-State Financial Institution	Economic/Community	1999	317.057	Not available	Not available
1.128	Underground Storage Tank Grants	Natural Resources	1991	316.834/317.383	0	0
1.129	Energy Conservation Subsidies (Oregon)	Natural Resources	1981	316.744/317.386	Less than 50	Less than 50
1.130	Wet Marine and Transportation Policies (Income Tax)	Insurance/Financial	1995	317.080(6)	400	400
Oregon Credits						
1.137	Child Development Program Contributions	Education	1991	315.234	Less than 50	0
1.138	Youth Apprenticeship Sponsorship	Education	1991	315.254	0	0
1.139	Contributions of Computer Equipment	Education	1985	317.151	100	100
1.140	Employer Provided Scholarships	Education	2001	315.237	Less than 50	100
1.141	Individual Development Accounts (Credit)	Economic/Community	1999	315.271	200	300
1.144	Bone Marrow Transplant Expense	Human Resources	1991	315.604	Less than 50	Less than 50
1.147	Long-Term Care Insurance	Human Resources	1999	315.610	100	100
1.152	Oregon Capital Corporation Investments	Economic/Community	1987	315.504	0	0
1.153	Qualified Research Activities	Economic/Community	1989	317.152	14,100	7,700
1.154	Qualified Research Activities (Alternative)	Economic/Community	1989	317.154	Incl. in 1.153	Incl. in 1.153
1.155	Investment in Rural Enterprise Zones (Income Tax)	Economic/Community	1997	Note: 285B.689	Less than 50	Less than 50
1.156	Reservation Enterprise Zones (Income Tax)	Economic/Community	2001	285B.773	Less than 50	Less than 50
1.157	Small City Business Development	Economic/Community	2001	316.778	Less than 50	Less than 50
1.158	Electronic Commerce Enterprise Zones (Income Tax)	Economic/Community	2001	315.507	600	5,300
1.159	Investment in Telecommunications Infrastructure	Economic/Community	2001	315.511	Less than 50	4,000
1.162	Dependent Care Assistance	Economic/Community	1987	315.204	1,100	700
1.163	Dependent Care Facilities	Economic/Community	1987	315.208	Incl. in 1.162	Incl. in 1.162
1.164	First Break Program	Economic/Community	1995	315.259	Less than 50	Less than 50
1.165	Child Care Division Contributions	Economic/Community	2001	315.213	500	1,000
1.166	Farm-Worker Housing Construction	Economic/Community	1989	315.164	500	1,200
1.167	Farm-Worker Housing Lender's Credit	Economic/Community	1989	317.147	900	1,200
1.169	Oregon Affordable Housing Credit	Economic/Community	1989	317.097	8,000	9,600
1.170	Crop Gleaning	Natural Resources	1977	315.156	Less than 50	Less than 50
1.171	Alternatives to Field Burning	Natural Resources	1975	468.150	Incl. in 1.175	Incl. in 1.175
1.172	Farm Machinery and Equipment (Income)	Natural Resources	2001	315.119/315.123	200	700
1.173	Riparian Lands Removed from Farm Production	Natural Resources	2001	315.113	0	Less than 50

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	Tax Expenditure	Program or Function	Year Enacted	Oregon Statute	Revenue Impact ($ Thousands) 2001–03	2003–05
1.174	Pollution Prevention	Natural Resources	1995	315.311	Less than 50	Less than 50
1.175	Pollution Control	Natural Resources	1967	315.304	19,400	15,700
1.176	Reclaimed Plastics	Natural Resources	1985	315.324	Less than 50	Less than 50
1.178	Fish Habitat Improvement	Natural Resources	1981	315.134	Less than 50	0
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	316.116/317.115	Less than 50	Less than 50
1.181	Business Energy Facilities	Natural Resources	1979	315.354	10,800	15,000
1.182	Energy Conservation Lender's Credit	Natural Resources	1981	317.112	Less than 50	Less than 50
1.184	Reforestation	Natural Resources	1979	315.104	300	800
1.185	Fire Insurance Credit	Insurance/Financial	1969	317.122(1)	3,400	3,600
1.186	Workers' Compensation Assessments (Income Tax)	Insurance/Financial	1995	317.122(2)	5,900	6,100
1.187	Oregon IGA Assessments (Income Tax)	Insurance/Financial	1977	734.575	4,700	5,700
1.188	Oregon Life and Health IGA Assessments (Income Tax)	Insurance/Financial	1975	734.835	7,000	7,000
1.192	Trust for Cultural Development	Social Policy	2001	315.675	300	2,400

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