

State of Oregon

2009–2011



# Tax Expenditure Report

Budget and Management Division  
Department of Administrative Services

Research Section  
Department of Revenue

Additional copies of this publication are available through the Budget and Management Division at 503-378-3106.

In compliance with the Americans with Disabilities Act (ADA), this publication is available in alternate formats by calling the Budget and Management Division at 503-378-3106 (voice) or 503-378-4672 (TTY).

## GOVERNOR'S MESSAGE

---

### To the Citizens of Oregon:

I am pleased to submit the 2009-11 version of the biennial Tax Expenditure Report. This document is an important tool in understanding how government supports the achievement of education, social, economic and environmental policies through the use of Oregon's tax structure.

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

Because tax expenditures amount to approximately 50 percent of spending through our tax system, we must ensure that they receive a thorough examination during the 2009 Oregon Legislative session. In so doing, we can make certain that they help us reach our policy goals. Moreover, Oregon's citizens and taxpayers deserve full disclosure of how well the system is working. This report provides a factual contribution to a healthy debate regarding our public finance system.

Sincerely,



THEODORE R. KULONGOSKI  
Governor



# TABLE OF CONTENTS

	<u>Page</u>
Introduction.....	1
Tax Expenditure Defined.....	1
Purpose of the Tax Expenditure Report.....	1
How to Use This Report .....	2
Acknowledgments .....	3
Summary .....	5
Tax Expenditures Scheduled For Sunset in 2009–11 .....	7
Table 1: Index of Tax Expenditures by Tax Program.....	9
Table 2: Index of Tax Expenditures by Program/Function.....	19
Detailed Descriptions of Tax Expenditures	
Chapter 1: Income Tax (Personal and Corporation).....	31
Federal Exclusions .....	33
Federal Adjustments .....	72
Federal Deductions .....	79
Oregon Subtractions.....	107
Oregon Credits .....	133
Oregon Other .....	196
Chapter 2: Property Tax .....	205
Full Exemption .....	207
Partial Exemption.....	285
Special Assessment .....	312
Other Assessment.....	326
Chapter 3: Gas, Use, and Jet Fuel Taxes .....	327
Chapter 4: Weight-Mile Tax .....	335
Chapter 5: Cigarette Tax .....	343
Chapter 6: Other Tobacco Products Tax .....	347
Chapter 7: Beer and Wine Tax .....	349
Chapter 8: Telephone Exchange Access (911) Tax .....	353
Chapter 9: Forest Products Harvest Tax.....	357
Chapter 10: Electric Cooperative Tax .....	359
Chapter 11: Hazardous Substances Fee.....	361
Chapter 12: Dry Cleaning Fee/Tax .....	363
Chapter 13: Petroleum Load Fee.....	367
Chapter 14: Oil and Gas Privilege Tax .....	369
Chapter 15: Medical Provider Taxes.....	373
Chapter 16: Lodging Tax .....	377
Chapter 17: Local Construction.....	381

## TABLE OF CONTENTS (CONT.)

	<u>Page</u>
Chapter 18: Inheritance .....	383
Appendix A: Oregon Statute Requiring Tax Expenditure Report.....	385
Appendix B: Contributors .....	391
Appendix C: Tax Programs Without Tax Expenditures.....	393
Appendix D: New, Modified, or Expired Tax Expenditures.....	395
Appendix E: Personal and Corporation Income Tax Expenditures.....	397
Index: Index of Tax Expenditures by Title .....	407

# INTRODUCTION

The 1995 Budget Accountability Act (the Act) requires the governor, with the assistance of the Department of Revenue and the Department of Administrative Services, to produce a tax expenditure report every biennium, along with the Governor's Recommended Budget. The report was first prepared in 1996 for the 1997–99 biennium. This report covers tax expenditures for the 2009-11 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 380 tax expenditures in 18 Oregon tax programs. Because tax expenditures impart special treatment to groups of taxpayers, it is necessary to begin with a clear definition of the “normal” tax base from which that special treatment departs. Because there may be different opinions about the normal base for each tax, a description of the tax base for each of the 18 tax programs begins each chapter.

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

## Purpose of the Tax Expenditure Report

The Act declares the necessity of:

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

The Act specifies that the report include the following information: a list of the tax 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 tax expenditure. Each tax expenditure is to be categorized according to the programs or functions 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 2009–11 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 1–18).

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 18.001. This numbering system can be used as an index to locate the full description of each tax expenditure in Chapters 1–18. 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 1–18, 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 through C include the full text of the Budget Accountability Act, a list of contributors, including the 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 in 2006. Appendix E lists the personal income tax expenditures and corporation income tax expenditures separately along with their corresponding revenue impacts.

### ***Program/Function Categories***

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

### ***Evaluations***

Personnel in 27 state agencies evaluated whether these tax expenditures achieve their purpose and if they are a fiscally effective means of doing so (see Appendix B). Agencies were asked to evaluate tax expenditures if the expenditure related to their program responsibility or if they had appropriate knowledge of the subject matter.



### ***Revenue Impacts***

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

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

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

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

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

Because tax expenditures reflect income or property that is not taxed, direct data often does not exist when estimating revenue impacts. So, it is important to view these revenue estimates as orders of magnitude. For the income tax expenditures, the primary and secondary data sources were Oregon and federal tax returns, respectively. Estimates of many federal tax expenditures made by the Joint Committee on Taxation of the U.S. Congress were used as the basis for many Oregon estimates. For property tax expenditures, information reported by county assessors was used whenever possible. For all tax programs, data from various federal and state agencies were used where available.

At the time of this book’s printing, the national and Oregon economies are undergoing considerable turmoil and uncertainty. Much of the work for this publication was completed before the current sequence of negative economic events. We have attempted to account for the most recent thinking wherever possible. However, because of the extraordinary level of uncertainty about the economy, these estimates should be viewed as orders of magnitude.

### **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 Congressional Research Service publication, *Tax Expenditures: Compendium of Background Material on Individual Provisions*, is used extensively throughout this report to describe and evaluate the tax expenditures that result from Oregon’s connection to the federal income tax. Estimates of federal tax expenditures made by the Joint Committee on Taxation of the U.S. Congress were used to estimate many tax expenditures that result from Oregon’s connection to the federal income tax.



## SUMMARY

This report describes 380 individual tax expenditures currently specified in Oregon law. Of those, 123 are related to local property taxes and 216 to Oregon's personal and corporation income taxes. The remaining 41 are related to various other state tax programs.

More than half of the 216 income tax expenditures result from Oregon's connection to the federal income tax code. Oregon is generally tied to the federal definition of taxable income. By adopting the federal definition of income, Oregon also adopts most of the exclusions and deductions from income that are part of the federal personal and corporation income taxes.

<b>SUMMARY OF OREGON TAX PROGRAMS WITH TAX EXPENDITURES (Dollars in Millions)</b>				
Tax Program	Number	Estimated Revenues 2009-11	Revenue Impact	
			2007-09	2009-11
Income (Personal and Corporate)	216	\$13,900.0	\$9,988.6	\$11,151.7
Federal Exclusions	62		\$4,972.7	\$5,632.5
Federal Adjustments/Deductions	54		\$2,314.1	\$2,501.3
Oregon Subtractions	28		\$1,318.6	\$1,484.9
Oregon Credits	64		\$1,297.3	\$1,435.6
Other Oregon Provisions	8		\$85.9	\$97.4
Property <sup>1</sup>	123	\$10,000.0	\$17,895.3	\$19,712.5
Full Exemption	87		\$17,345.0	\$19,124.1
Partial Exemption	23		\$189.6	\$191.8
Special Assessment	12		\$360.6	\$396.4
Other Assessment	1		\$0.2	\$0.2
Gas and Use Fuel	5	\$876.5	\$15.3	\$15.6
Weight-Mile	7	\$486.7	\$15.2	\$15.9
Cigarette & Other Tobacco	5	\$457.5	\$2.8	\$2.5
Beer and Wine	2	\$35.6	\$2.2	\$2.5
Other State Taxes	22	\$434.3	\$7.5	\$8.0
<b>All Taxes</b>	<b>380</b>	<b>\$26,190.6</b>	<b>\$27,926.9</b>	<b>\$30,908.7</b>

<sup>1</sup> The estimates include only the loss amounts.

For the 2009–11 biennium, total tax expenditures will result in the “spending” of about \$30.9 billion through Oregon's tax code. Over the same period, the state of Oregon and local taxing districts will collect roughly \$26.2 billion in taxes for spending on various state and local programs. This indicates that governments in Oregon “spend” more through special provisions in the tax code than they do through direct outlays. However, it is important to note that there are a few extremely large tax expenditures that magnify the total revenue impact.

The summary table shows estimates of tax expenditures by tax program for the 2007–09 and 2009–11 biennia. The table also shows estimates of the total revenue to be raised in 2009–11 by each tax. The largest tax expenditures occur in the property tax program, where aggregate tax expenditures of \$19.7 billion are about double the amount of estimated revenue. However, roughly \$15.8 billion of this amount is represented

by the three largest property tax expenditures: the exemption of intangible personal property (\$12.4 billion), the exemption of federal property (\$1.8 billion), and the exemption for state and local property (\$1.6 billion).

Income tax expenditures (personal and corporation) in 2009–11 will total approximately \$11.1 billion, about \$2.8 billion less than expected income tax revenues over this period. Although not as extreme as the property tax program, there are also several very large tax expenditures. The three largest expenditures together account for about \$3.1 billion. These are Oregon’s personal exemption credit (\$1.0 billion), the exclusion of employer paid medical benefits (\$1.2 billion) and the deduction of home mortgage interest (\$0.9 billion).

**Composition of Oregon’s Income Tax Expenditures**

Of Oregon’s 216 income tax expenditures, some apply exclusively to individuals, some apply exclusively to corporations, and some may be claimed by both individuals and corporations. The table below provides the numbers of tax expenditures and their revenue impacts in each of these categories.

INCOME TAX EXPENDITURE ESTIMATES BY TYPE OF TAXPAYER FOR 2009-11 (Dollars in Millions)							
Expenditure Type	Individuals Only		Corporations Only		Both Individuals and Corporations		
	Number	Revenue Impact	Number	Revenue Impact	Number	Revenue Impact (Individuals)	Revenue Impact (Corporations)
Exclusions	44	\$5,264	6	\$42	12	\$290	\$37
Adjustments	9	\$415	0	\$0	0	\$0	\$0
Deductions	6	\$1,459	10	\$49	29	\$463	\$116
Subtractions	19	\$1,484	2	\$0	7	\$0	\$0
Credits	22	\$1,174	13	\$52	29	\$128	\$82
Other	3	\$2	4	\$91	1	\$5	\$0
<b>Total</b>	<b>103</b>	<b>\$9,798</b>	<b>35</b>	<b>\$234</b>	<b>78</b>	<b>\$885</b>	<b>\$235</b>

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 2009–11

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	2009-11 REVENUE IMPACT (\$000)	GOVERNOR'S RECOMMENDATION
1.402 Contributions of Computer Equipment	Income Tax Credit	317.151	12/31/09	Less than 50	Extend sunset
1.407 Volunteer Rural Emergency Medical Technicians	Income Tax Credit	315.622	12/31/10	200	Extend sunset
1.455 Mile-Based or Time-Based Motor Vehicle Insurance	Income Tax Credit	317.122	12/31/09	Less than 50	Extend sunset
2.016 Cargo Containers	Full Property Tax Exemption	307.835	06/30/10	300	Extend sunset
2.018 Leased Publicly Owned Shipyard Property	Full Property Tax Exemption	307.111	06/30/10	0	Extend sunset
2.031 Food Processing Equipment	Full Property Tax Exemption	307.455/307.462	06/30/11	2,700	Extend sunset
2.097 New Housing for Low-Income Rental	Partial Property Tax Exemption	307.517/307.518	12/31/09	1,400	Extend sunset
2.105 Historic Property	Partial Property Tax Exemption	358.505	06/30/10	19,800	Extend sunset
15.001 Type A and B Hospitals	Medical Provider Tax	Note: 409.750	09/30/09	0*	Extend sunset
15.002 Veterans Affairs and Pediatric Specialty Hospitals	Medical Provider Tax	Note: 409.750	09/30/09	0*	Extend sunset

*\*While there is no revenue loss, there is a shift from exempt hospitals to non-exempt hospitals. See the individual descriptions of these tax expenditures for those shift amounts.*



**TABLE 1: INDEX OF TAX EXPENDITURES BY TAX PROGRAM**

Tax Expenditure	Program or Function	Year Enacted	Oregon Statute	Revenue Impact (\$ Thousands)		
				2007-09	2009-11	
<b>INCOME TAX</b>						
<i>Federal Exclusions</i>						
1.001	Scholarship and Fellowship Income	Education	1954	316.048	13,200	14,700
1.002	Interest on Education Savings Bonds	Education	1988	316.048	Less than 50	Less than 50
1.003	Earnings on Education Savings Accounts	Education	1997	316.048	800	800
1.004	Qualified Tuition Programs (Federal)	Education	1996	316.048	5,800	8,100
1.005	Public Assistance Benefits	Human Services	Pre-1955	316.048	19,400	20,800
1.006	Certain Foster Care Payments	Human Services	1982	316.048	5,200	6,000
1.007	Employee Adoption Benefits	Human Services	1996	316.048	100	100
1.008	Cafeteria Plan Benefits	Human Services	1974	316.048	292,200	359,000
1.009	Employer Paid Medical Benefits	Human Services	1918	316.048	1,009,800	1,190,700
1.010	Compensatory Damages	Human Services	Pre-1955	316.048	11,300	11,600
1.011	Prescription Drug Insurance (Part D)	Human Services	2003	316.048/317.013	37,900	46,900
1.012	Hospital Insurance (Part A)	Human Services	1965	316.048	192,200	234,500
1.013	Supplementary Medical Insurance (Part B)	Human Services	1970	316.048	136,300	161,800
1.014	Pension Contributions and Earnings	Human Services	1921	316.048	868,500	983,400
1.015	Special Benefits for Disabled Coal Miners	Human Services	1969	316.048	Less than 50	Less than 50
1.016	Social Security Benefits (Federal)	Human Services	1938	316.048	431,300	481,700
1.017	Income Earned Abroad by U.S. Citizens	Economic/Community	1926	316.048	30,400	33,700
1.018	Magazine, Paperback, and Record Returns	Economic/Community	1978	316.048/317.013	200	200
1.019	Cash Accounting, Other than Agriculture	Economic/Community	1916	316.048/317.013	6,300	7,100
1.020	Regional Economic Development Incentives	Economic/Community	1993	316.048/317.013	0	0
1.021	Income of Controlled Foreign Corporations	Economic/Community	1909	317.013	28,600	33,400
1.022	Extraterritorial Income Exclusion	Economic/Community	2000	317.013	Less than 50	0
1.023	Cancellation of Debt for Non-Farmers	Economic/Community	Pre-1955	316.048/317.013	1,300	1,500
1.024	Imputed Interest Rules	Economic/Community	1964	316.048/317.013	3,000	3,700
1.025	Employer Paid Group Life Insurance Premiums	Economic/Community	1920	316.048	22,400	23,300
1.026	Employer Paid Accident and Disability Insurance	Economic/Community	1954	316.048	24,900	27,600
1.027	Employer Provided Dependent Care	Economic/Community	1981	316.048	22,500	21,700
1.028	Miscellaneous Fringe Benefits	Economic/Community	1984	316.048	59,700	67,400
1.029	Employee Meals and Lodging (Non-Military)	Economic/Community	1918	316.048	8,000	8,600
1.030	Employee Stock Ownership Plans	Economic/Community	1974	316.048/317.013	7,200	8,300
1.031	Employee Awards	Economic/Community	1986	316.048	1,500	1,600
1.032	Employer Provided Education Benefits	Economic/Community	1997	316.048	7,100	5,500
1.033	Spread on Acquisition of Stock	Economic/Community	1981	316.048	2,700	1,900
1.034	Capital Gains on Home Sales	Economic/Community	1997	316.048	317,000	353,100
1.035	Veteran's Benefits and Services	Economic/Community	1917	316.048	38,000	41,700
1.036	Military and Dependents CHAMPUS/TRICARE Insurance	Economic/Community	1925	316.048	32,700	38,700
1.037	Agriculture Cost-Sharing Payments	Natural Resources	1978	316.048/317.013	200	200
1.038	Cancellation of Debt for Farmers	Natural Resources	1986	316.048	1,100	1,100
1.039	Energy Conservation Subsidies (Federal)	Natural Resources	1992	316.048	200	200
1.040	Earnings of Certain Environmental Settlement Funds	Natural Resources	2005	316.048	Less than 50	Less than 50
1.041	Employer Paid Transportation Benefits	Transportation	1992	316.048	31,500	33,400
1.042	Life Insurance Investment Income	Consumer and Business Services	1913	316.048/317.013	213,900	226,800
1.043	Workers' Compensation Benefits (Non-Medical)	Consumer and Business Services	1918	316.048	22,900	24,300

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

Tax Expenditure	Program or Function	Year Enacted	Oregon Statute	Revenue Impact (\$ Thousands)		
				2007–09	2009–11	
1.044	Workers' Compensation Benefits (Medical)	Consumer and Business Services	1918	316.048	70,500	83,900
1.045	Credit Union Income	Consumer and Business Services	1951	317.080(1)	7,500	8,300
1.046	Structured Settlement Accounts	Consumer and Business Services	1982	317.013	Less than 50	Less than 50
1.047	Contributions in Aid of Construction for Utilities	Consumer and Business Services	1996	317.013	200	200
1.048	Certain Disaster Mitigation Payments.	Consumer and Business Services	2005	316.048/317.013	Less than 50	Less than 50
1.049	Gain on Nondealer Installment Sales	Tax Administration	1921	316.048/317.013	15,300	8,900
1.050	Gain on Like-Kind Exchanges	Tax Administration	1921	316.048/317.013	21,900	22,600
1.051	Allowances for Federal Employees Abroad	Government	1943	316.048	4,700	5,300
1.052	Interest on Oregon State and Local Debt	Government	1913	316.048	78,700	87,000
1.053	Capital Gains on Inherited Property	Social Policy	1921	316.048	741,400	796,800
1.054	Gain on Involuntary Conversions in Disaster Areas	Social Policy	1996	316.048	Less than 50	Less than 50
1.055	Voluntary Employees' Beneficiary Associations	Social Policy	1928	316.048	15,300	16,200
1.056	Rental Allowances for Ministers' Homes	Social Policy	1921	316.048	4,500	5,200
1.057	Discharge of Certain Student Loan Debt	Social Policy	1984	316.048	200	200
1.058	Military Disability Benefits	Social Policy	1942	316.048	800	800
1.059	Benefits and Allowances of Armed Forces Personnel	Social Policy	1925	316.048	26,600	29,600
1.060	Capital Gains on Gifts	Social Policy	1921	316.048	77,600	82,200
1.061	Restitution Payments for Holocaust Survivors	Social Policy	2001	316.048	Less than 50	Less than 50
1.062	Survivor Annuities	Social Policy	1997	316.048	200	200
<i>Federal Adjustments</i>						
1.101	Teacher Classroom Expenses	Education	2002	316.048	1,600	1,400
1.102	Interest on Student Loans	Education	1997	316.048	20,700	23,300
1.103	Qualified Higher Education Expenses	Education	2001	316.048	19,000	15,100
1.104	Self-Employment Health Insurance	Human Services	1986	316.048	84,800	106,900
1.105	Health Savings Accounts	Human Services	1996	316.048	5,100	9,900
1.106	IRA Contributions and Earnings	Human Services	1974	316.048	130,400	159,000
1.107	SEP/SIMPLE Plan Contributions and Earnings	Human Services	1962	316.048	73,700	93,600
1.108	Moving Expenses	Economic/Community	1964	316.048	4,900	5,300
1.109	Overnight-travel Expenses of National Guard and Reserve Members	Social Policy	2003	316.048	200	400
<i>Federal Deductions</i>						
1.201	Charitable Contributions: Education	Education	1917	316.695/317.013	52,400	57,600
1.202	Charitable Contributions: Health	Human Services	1917	316.695/317.013	39,000	41,400
1.203	Medical and Dental Expenses	Human Services	1942	316.695	175,800	228,700
1.204	Removal of Architectural Barriers	Human Services	1976	316.048/317.013	Less than 50	Less than 50
1.205	Accelerated Depreciation of Buildings	Economic/Community	1954	316.048/317.013	8,200	8,400
1.206	Accelerated Depreciation of Equipment	Economic/Community	1954	316.048/317.013	119,800	106,200
1.207	Deferral of Certain Financing Income of Foreign Corporations	Economic/Community	1997	317.013	8,200	400
1.208	Research and Development Costs	Economic/Community	1954	316.048/317.013	13,100	19,700
1.209	Section 179 Expensing Allowances	Economic/Community	1959	316.048/317.013	21,400	6,100
1.210	Amortization of Business Start-Up Costs	Economic/Community	1980	316.048/317.013	5,900	6,700
1.211	Construction Funds of Shipping Companies	Economic/Community	1936	317.319	400	400



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

Tax Expenditure	Program or Function	Year Enacted	Oregon Statute	Revenue Impact (\$ Thousands)	
				2007–09	2009–11
1.212 Ordinary Treatment of Losses from Small Business Corporation Stock	Economic/Community	1958	316.048	Less than 50	Less than 50
1.213 Renewal Community Tax Incentives	Economic/Community	2000	316.048/317.013	0	0
1.214 Deduction of Certain Film and Television Production Costs	Economic/Community	2004	317.013	400	0
1.215 Accelerated Depreciation of Rental Housing	Economic/Community	1954	316.048/317.013	36,100	44,900
1.216 Property Taxes	Economic/Community	1913	316.695	296,600	323,500
1.217 Home Mortgage Interest	Economic/Community	1913	316.695	884,500	905,100
1.218 Cash Accounting for Agriculture	Natural Resources	1916	316.048/317.013	100	100
1.219 Soil and Water Conservation Expenditures	Natural Resources	1954	316.048/317.013	400	600
1.220 Fertilizer and Soil Conditioner Costs	Natural Resources	1960	316.048/317.013	1,300	1,100
1.221 Costs of Raising Dairy and Breeding Cattle	Natural Resources	1916	316.048/317.013	1,100	1,100
1.222 Sale of Stock to Farmers' Cooperatives	Natural Resources	1998	316.048/317.013	Less than 50	Less than 50
1.223 Small Refiner Expensing of Sulfur Compliant Equipment	Natural Resources	2004	317.013	Less than 50	Less than 50
1.224 Intangible Development Costs for Fuels	Natural Resources	1978	316.695/317.013	1,700	1,100
1.225 Depletion Costs for Fuels	Natural Resources	1962	316.695/317.013	2,800	2,900
1.226 Tertiary Injectants	Natural Resources	1980	316.695/317.013	Less than 50	Less than 50
1.227 Deferral of Capital Gains From FERC Restructuring Requirements	Natural Resources	2004	317.013	900	200
1.228 Expensing Timber Growing Costs	Natural Resources	1986	316.048/317.013	1,100	1,100
1.229 Expensing and Amortization of Reforestation Costs	Natural Resources	1980	316.048/317.013	1,100	1,100
1.230 Development Costs for Nonfuel Minerals	Natural Resources	1951	316.048/317.013	200	200
1.231 Depletion Costs for Nonfuel Minerals	Natural Resources	1913	316.048/317.374	600	600
1.232 Mining Reclamation Reserves	Natural Resources	1984	316.048/317.013	100	100
1.233 Energy Efficient Commercial Property	Natural Resources	2006	316.048/317.013	900	1,100
1.234 Advanced Mine Safety Equipment	Natural Resources	2006	316.048/317.014	Less than 50	Less than 50
1.235 Redevelopment Costs in Contaminated Areas	Natural Resources	1997	316.048/317.013	1,700	200
1.236 Life Insurance Company Reserves	Consumer and Business Services	1984	317.655(2)(f) and (g)	8,900	9,800
1.237 Additions to Bad Debt Reserves of Small Financial Institutions	Consumer and Business Services	1947	317.310	Less than 50	Less than 50
1.238 Property and Casualty Insurance Company Reserves	Consumer and Business Services	1986	317.655(2)(f,g)	15,400	16,000
1.239 Magazine Circulation Expenditures	Tax Administration	1950	316.048/317.013	100	100
1.240 Net Operating Loss Limitation	Tax Administration	1954	317.478/317.479	2,200	2,200
1.241 Completed Contract Rules	Tax Administration	1986	316.048/317.013	1,900	2,600
1.242 Casualty and Theft Losses	Social Policy	1913	316.695	2,000	1,800
1.243 Local Income Taxes	Social Policy	1913	316.695	0	0
1.244 Charitable Contributions: Other	Social Policy	1917	316.695/317.013	267,400	293,300
1.245 Creation or Acquisition of Musical Compositions	Social Policy	2005	316.048/317.013	Less than 50	Less than 50

*Oregon Subtractions*

1.301 Land Donated to Schools	Education	1999	316.852/317.488	Less than 50	Less than 50
1.302 Oregon 529 College Savings Network	Education	1999	316.699	8,500	10,500
1.303 Scholarship Awards Used for Housing Expenses	Education	1999	316.846	400	400
1.304 Physicians in "Medically Disadvantaged" Areas	Human Services	1973	316.076	0	0
1.305 Additional Deduction for Elderly or Blind	Human Services	1989	316.695(7)	9,100	8,800
1.306 Additional Medical Deduction for Elderly	Human Services	1991	316.695 (1)(d)(B)	107,100	127,000
1.307 Social Security Benefits (Oregon)	Human Services	1985	316.054	330,300	356,600
1.308 Donations of Art by the Artist	Economic/Community	1979	316.838	100	100

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

Tax Expenditure	Program or Function	Year Enacted	Oregon Statute	Revenue Impact (\$ Thousands)	
				2007–09	2009–11
1.309 Municipal Bond Interest	Economic/Community	1987	316.056	200	200
1.310 Small City Business Development	Economic/Community	2001	316.778/317.391	100	200
1.311 Individual Development Accounts (Exclusion and Subtraction)	Economic/Community	1999	316.848	Less than 50	Less than 50
1.312 Out-of-State Financial Institutions	Economic/Community	1999	317.057	Less than 50	Less than 50
1.313 Capital Gains from Manufactured Dwelling Park Sale	Economic/Community	2005	316.153	Less than 50	Less than 50
1.314 Payments for Closure of Manufactured Dwelling Park	Economic/Community	2007	316.795/317.092	200	200
1.315 Service in Vietnam on Missing Status	Economic/Community	1973	316.074	0	0
1.316 Film Production Labor Rebate	Economic/Community	2005	316.698/317.394	100	100
1.317 Underground Storage Tank Grants	Natural Resources	1991	316.834/317.383	0	0
1.318 Energy Conservation Subsidies (Oregon)	Natural Resources	1981	316.744/317.386	Less than 50	Less than 50
1.319 Wet Marine and Transportation Policies	Consumer and Business Services	1995	317.080(8)	400	400
1.320 Income Earned in Border River Areas	Tax Administration	2001	316.127	Not Available	Not Available
1.321 Oregon State Lottery Prizes	Government	1985	461.560	2,100	2,100
1.322 Income Earned in "Indian Country"	Government	1977	316.777	4,100	4,600
1.323 Federal Pension Income	Government	1998	316.680(1)(f)	124,000	126,600
1.324 Legislative Per Diem and Allowance	Government	1967	171.072	100	100
1.325 Federal Income Tax Deduction	Social Policy	1929	316.680(1)(b)/316.695	649,400	749,200
1.326 Military Active Duty Pay	Social Policy	1969	316.680(1)(c) and (k)/316.789/316.791	29,300	36,500
1.327 TRICARE Payments	Social Policy	2007	316.680	800	1,900
1.328 Interest and Dividends on U.S. Obligations	Federal Law	1970	316.680	52,300	59,400

*Oregon Credits*

1.401 Youth Apprenticeship Sponsorship	Education	1991	315.254	0	0
1.402 Contributions of Computer Equipment	Education	1985	317.151	Less than 50	Less than 50
1.403 Employer Provided Scholarships	Education	2001	315.237	Less than 50	Less than 50
1.404 Earned Income Credit	Human Services	1997	315.266	48,100	55,600
1.405 Qualified Adoption Expense	Human Services	1999	315.274	Less than 50	Less than 50
1.406 Rural Medical Practice	Human Services	1989	315.613/315.616/315.619	13,300	13,000
1.407 Volunteer Rural Emergency Medical Technicians	Human Services	2005	315.622	300	200
1.408 Costs in-lieu of Nursing Home Care	Human Services	1979	316.148	Less than 50	Less than 50
1.409 Long-Term Care Insurance	Human Services	1999	315.610	13,700	15,200
1.410 Disabled Child	Human Services	1985	316.099	5,900	7,000
1.411 Elderly or Permanently Disabled	Human Services	1969	316.087	100	100
1.412 Loss of Limbs	Human Services	1973	316.079	Less than 50	Less than 50
1.413 Severe Disability	Human Services	1985	316.758/316.765	7,100	8,100
1.414 Film Production Development Contributions	Economic/Community	2003	315.514	7,900	10,000
1.415 Qualified Research Activities	Economic/Community	1989	317.152	14,900	18,200
1.416 Qualified Research Activities (Alternative)	Economic/Community	1989	317.154	Incl. in 1.415	Incl. in 1.415
1.417 Long-term Rural Enterprise Zone (Income Tax)	Economic/Community	1997	317.124	Not Available	Not Available
1.418 Reservation Enterprise Zone (Income Tax)	Economic/Community	2001	285C.309	Less than 50	Less than 50
1.419 Electronic Commerce Enterprise Zone (Income Tax)	Economic/Community	2001	315.507	1,100	1,200
1.420 Water Transit Vessel Manufacturing	Economic/Community	2005	315.517	Less than 50	Less than 50
1.421 Public University Venture Development Fund	Economic/Community	2005	315.521	500	600
1.422 Small Corporation Tax Credit	Economic/Community	2007	Note: 317.092 (OR Laws 2007, Chap. 4)	24,800	0
1.423 Child and Dependent Care	Economic/Community	1975	316.078	17,400	16,900

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

Tax Expenditure	Program or Function	Year Enacted	Oregon Statute	Revenue Impact (\$ Thousands)	
				2007–09	2009–11
1.424 Working Family Child Care	Economic/Community	1997	315.262	44,000	44,700
1.425 Employer Provided Dependent Care Assistance	Economic/Community	1987	315.204	1,900	1,900
1.426 Employer Provided Dependent Care Facilities	Economic/Community	1987	315.208	Incl. in 1.425	Incl. in 1.425
1.427 First Break Program	Economic/Community	1995	315.259	Less than 50	Less than 50
1.428 Child Care Division Contributions	Economic/Community	2001	315.213	1,000	1,000
1.429 Farmworker Housing Construction	Economic/Community	1989	315.164	2,100	2,200
1.430 Farmworker Housing Lender's Credit	Economic/Community	1989	317.147	800	800
1.431 Oregon Affordable Housing Lender's Credit	Economic/Community	1989	317.097	14,000	20,600
1.432 Individual Development Account Contribution (Credit)	Economic/Community	1999	315.271	10,300	13,000
1.433 Individual Development Account Withdrawal (Credit)	Economic/Community	2005	315.272	Less than 50	Less than 50
1.434 Mobile Home Park Closure	Economic/Community	2007	Note: 316.116/OR Laws 2007, Chap 906, Sect. 16-18	2,000	2,000
1.435 Crop Gleaning	Natural Resources	1977	315.156	200	200
1.436 Alternatives to Field Burning	Natural Resources	1975	315.304	200	Less than 50
1.437 Farm Machinery and Equipment (Income Tax)	Natural Resources	2001	315.119/315.123	Less than 50	Less than 50
1.438 Riparian Lands Removed from Farm Production	Natural Resources	2001	315.113	Less than 50	Less than 50
1.439 Pollution Prevention	Natural Resources	1995	315.311	Less than 50	0
1.440 Pollution Control	Natural Resources	1967	315.304	5,800	3,500
1.441 Reclaimed Plastics	Natural Resources	1985	315.324	Less than 50	Less than 50
1.442 Diesel Truck Engines (New)	Natural Resources	2003	Note: 315.356	500	600
1.443 Diesel Truck Engines (Retrofit and Repower)	Natural Resources	2007	Note: 315.356	1,400	3,800
1.444 Fish Screening Devices	Natural Resources	1989	315.138	Less than 50	Less than 50
1.445 Alternative Energy Devices (Residential)	Natural Resources	1977	316.116	25,400	28,700
1.446 Alternative Fuel Stations	Natural Resources	2001	317.115	Less than 50	Less than 50
1.447 Business Energy Facilities	Natural Resources	1979	315.354	68,600	143,800
1.448 Energy Conservation Lender's Credit	Natural Resources	1981	317.112	Less than 50	Less than 50
1.449 Weatherization Lender's Credit	Natural Resources	1977	317.111	Less than 50	Less than 50
1.450 Biofuel Consumer Credit	Natural Resources	2007	315.465	600	1,100
1.451 Biodiesel Used in Home Heating	Natural Resources	2007	315.469	200	600
1.452 Production or Collection of Biomass	Natural Resources	2007	315.141	3,600	7,100
1.453 Reforestation	Natural Resources	1979	315.104	300	300
1.454 Sewer Connection	Natural Resources	1987	316.095	Less than 50	0
1.455 Mile-Based or Time-Based Motor Vehicle Insurance	Consumer and Business Services	2003	Note: 317.122	Less than 50	Less than 50
1.456 Fire Insurance	Consumer and Business Services	1969	317.122(1)	8,500	10,200
1.457 Workers' Compensation Assessments	Consumer and Business Services	1995	317.122(2)	2,000	1,800
1.458 Oregon Life and Health IGA Assessments	Consumer and Business Services	1975	734.835	100	100
1.459 Political Contributions	Government	1969	316.102	15,200	15,800
1.460 Personal Exemption	Social Policy	1985	316.085	925,200	974,700
1.461 Oregon Cultural Trust	Social Policy	2001	315.675	4,900	5,500
1.462 Retirement Income	Social Policy	1991	316.157	1,500	1,200
1.463 TRICARE Health Care Providers	Social Policy	2007	315.628	1,900	4,300
1.464 Oregon Veterans' Home Physician	Social Policy	2007	315.624	Less than 50	Less than 50

*Other*

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

Tax Expenditure	Program or Function	Year Enacted	Oregon Statute	Revenue Impact (\$ Thousands)	
				2007–09	2009–11
1.501 Foreign Resident Filing Status	Economic/Community	1999	316.027	1,600	1,700
1.502 Public Warehouse Sales Throwback Exemption	Economic/Community	2005	314.665	Less than 50	Less than 50
1.503 Single Sales Factor Corporate Apportionment	Economic/Community	2003	314.650/317.660	79,100	89,900
1.504 Income Averaging for Farmers	Natural Resources	2001	314.297	200	300
1.505 Capital Gains from Farm Property	Natural Resources	2001	318.020/317.063	4,100	4,600
1.506 Apportionment for Certain Forest Product Companies	Natural Resources	2003	314.650(2)	0	0
1.507 Apportionment for Utility and Telecommunication Companies	Consumer and Business Services	2001	314.280	900	900
1.508 Title 10 Active Duty Death	Social Policy	2005	314.088	Less than 50	Less than 50

**PROPERTY TAX**

*Full Exemption*

2.001 Academies, Day Care, and Student Housing	Education	1957	307.145	21,400	23,100
2.002 Student Housing Furnishings	Education	1957	307.195	100	100
2.003 Leased Student Housing Publicly Owned	Education	1947	307.110(3)(a)	7,300	7,900
2.004 Higher Education Parking Space	Education	1989	307.095(3)	3,400	3,700
2.005 Private Libraries for Public Use	Education	1854	307.160	Less than 50	Less than 50
2.006 Leased Health Care Property	Human Services	1999	307.110(3)(h)	Less than 50	Less than 50
2.007 Senior Services Centers	Human Services	1993	307.147	200	200
2.008 Commercial Buildings Under Construction	Economic/Community	1959	307.330	8,900	8,900
2.009 Construction-in-Process in an Enterprise Zone	Economic/Community	2003	285C.170	Incl. in 2.008	Incl. in 2.008
2.010 Enterprise Zone Businesses	Economic/Community	1985	285C.175	35,700	36,900
2.011 Long-Term Rural Enterprise Zone (Property Tax)	Economic/Community	1997	285C.409	11,800	13,800
2.012 Electronic Commerce Enterprise Zone (Property Tax)	Economic/Community	2001	285C.175	Incl. in 2.010	Incl. in 2.010
2.013 Rural Renewable Energy Development Zone	Economic/Community	2003	285C.362	0	600
2.014 Inventory	Economic/Community	1969	307.400	559,600	639,400
2.015 Business Personal Property Cancellation	Economic/Community	1979	308.250(2)	3,500	4,000
2.016 Cargo Containers	Economic/Community	1979	307.835	600	300
2.017 Leased Docks and Airports	Economic/Community	1947	307.120	6,600	7,000
2.018 Leased Publicly Owned Shipyard Property	Economic/Community	1995	307.111	0	0
2.019 Ship Repair Facility Materials	Economic/Community	1957	308.256(7)	Incl. in 2.014	Incl. in 2.014
2.020 Aircraft Being Repaired	Economic/Community	1995	308.559	0	0
2.021 Railroad Cars Being Repaired	Economic/Community	1973	308.665	0	0
2.022 Federal Land Under Recreation Facility	Economic/Community	1975	307.182	1,100	1,200
2.023 Defense Contractor With Federal Property	Economic/Community	1965	307.065	0	0
2.024 Federal Land Under Summer Homes	Economic/Community	1975	307.183/307.184	900	1,000
2.025 Housing Authority Rental Units	Economic/Community	1937	307.092	19,300	20,900
2.026 Nonprofit Elderly Housing State Funded	Economic/Community	1977	307.242	2,100	2,300
2.027 Farm Labor Housing and Day Care Facilities	Economic/Community	1973	307.485	300	300
2.028 Fairground Leased Storage Space	Economic/Community	1987	307.110(3)(d)(e)	Less than 50	Less than 50
2.029 Industry Apprenticeship/Training Trust	Economic/Community	1983	307.580	300	300
2.030 Businesses Transferring or Leasing Property	Economic/Community	2007	Note: 285C.175	Incl. in 2.010	Incl. in 2.010
2.031 Food Processing Equipment	Natural Resources	2005	307.455/307.462	2,100	2,700
2.032 Farm Machinery and Equipment (Property Tax)	Natural Resources	1973	307.394	55,800	60,400

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

Tax Expenditure	Program or Function	Year Enacted	Oregon Statute	Revenue Impact (\$ Thousands)	
				2007–09	2009–11
2.033 Mobile Field Incinerators	Natural Resources	1971	307.390	Incl. in 2.032	Incl. in 2.032
2.034 Crops, Plants, and Fruit Trees	Natural Resources	1957	307.320	15,200	16,400
2.035 Agricultural Products Held by Farmer	Natural Resources	1965	307.325	100	100
2.036 Nursery Stock	Natural Resources	1971	307.315	7,000	7,500
2.037 Leased Public Farming and Grazing Land	Natural Resources	1971	307.110(3)(b)	Incl. in 2.071	Incl. in 2.071
2.038 Leased Federal Grazing Land	Natural Resources	1961	307.060	Incl. in 2.085	Incl. in 2.085
2.039 Shellfish Growing on State Land	Natural Resources	1969	622.290	Less than 50	Less than 50
2.040 Center Pivot Irrigation Equipment	Natural Resources	1973	307.398	Incl. in 2.032	Incl. in 2.032
2.041 Other Farm/Aquaculture/Egg Equipment	Natural Resources	1973	307.397	Incl. in 2.032	Incl. in 2.032
2.042 Field Burning Smoke Management Equipment	Natural Resources	1973	307.391	Incl. in 2.032	Incl. in 2.032
2.043 Nonprofit Sewage Treatment Facilities	Natural Resources	1997	307.118	Less than 50	Less than 50
2.044 Property Used for Golf Course and Effluent	Natural Resources	2001	Note: 307.118	Less than 50	100
2.045 Riparian Habitat Land	Natural Resources	1981	308A.362	100	100
2.046 Environmentally Sensitive Logging Equipment	Natural Resources	1999	307.827/307.831	2,400	2,400
2.047 Crab Pots	Natural Resources	1969	508.270	200	200
2.048 Federal Standing Timber Under Contract	Natural Resources	1965	307.050	2,900	2,900
2.049 State and Local Standing Timber Under Contract	Natural Resources	1965	307.100	1,200	1,200
2.050 Western Private Standing Timber	Natural Resources	1977	321.272	348,600	348,600
2.051 Eastern Private Standing Timber	Natural Resources	1961	321.829	33,500	33,500
2.052 Private Farm and Logging Roads	Natural Resources	1963	308.236	26,300	26,300
2.053 Forest Fire Protection Association	Natural Resources	1957	307.125	200	200
2.054 Inactive Mineral Interests	Natural Resources	1997	308.115	100	100
2.055 Leased State Land Board Land	Natural Resources	1982	307.168	1,500	1,600
2.056 Small Watercraft	Natural Resources	1959	830.790(2)	28,600	28,000
2.057 Mining Claims on Federal Land	Natural Resources	1889	307.080	100	100
2.058 Nonprofit Public Park Use Land	Natural Resources	1971	307.115	200	200
2.059 Natural Gas Pipeline Extension	Natural Resources	2007	307.107	Less than 50	Less than 50
2.060 Railroad Right of Way Used for Alternative Transport	Transportation	1977	307.205	0	0
2.061 Motor Vehicles and Trailers	Transportation	1919	803.585	821,700	883,700
2.062 ODOT Land Under Use Permit	Transportation	1981	307.110(3)(c)	Less than 50	Less than 50
2.063 Nonprofit Water Associations	Consumer and Business Services	1937	307.210	100	200
2.064 Nonprofit Electrical Distribution Associations	Consumer and Business Services	1943	308.805	15,300	16,200
2.065 Nonprofit Telephone Associations	Consumer and Business Services	1941	307.220	0	0
2.066 Private Service Telephone Equipment	Consumer and Business Services	1941	307.230	Less than 50	Less than 50
2.067 FCC Licenses	Consumer and Business Services	2001	307.126	23,700	23,700
2.068 Intangible Personal Property	Tax Administration	1935	307.030	11,059,400	12,426,300
2.069 Personal Property for Personal Use	Tax Administration	1854	307.190	864,400	912,600
2.070 Beverage Containers Requiring Deposit	Tax Administration	1983	307.402	Less than 50	Less than 50
2.071 State and Local Property	Government	1854	307.090	1,502,300	1,593,800
2.072 Beach Lands	Government	1969	307.450	Not Available	Not Available
2.073 Local Government Public Ways	Government	1895	307.200	Not Available	Not Available
2.074 Pacific Northwest AC Intertie Exemption	Government	2005	307.090	1,100	1,200
2.075 Tribal Land Being Placed in U.S. Trust	Government	1993	307.181	500	500
2.076 Charitable, Literary, and Scientific Organizations	Social Policy	1854	307.130	91,900	97,500
2.077 Fraternal Organizations	Social Policy	1961	307.136	7,800	8,300
2.078 Religious Organizations	Social Policy	1854	307.140	82,900	89,600
2.079 Cemeteries, Burial Grounds, and	Social Policy	1854	307.150	4,800	5,200

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

Tax Expenditure	Program or Function	Year Enacted	Oregon Statute	Revenue Impact (\$ Thousands)		
				2007–09	2009–11	
<i>Mausoleums</i>						
2.080	Exempt Lease from Taxable Owner	Social Policy	1977	307.112	Incl. Elsewhere	Incl. Elsewhere
2.081	Exempt Lease from Exempt Owner	Social Policy	1973	307.166	Incl. Elsewhere	Incl. Elsewhere
2.082	City-Owned Sports Facility	Social Policy	2001	307.171	1,000	1,100
2.083	Convention Facilities	Social Policy	1985	263.290	0	0
2.084	LLC Owned by Nonprofit Corporation	Social Policy	2005	307.022	Incl. Elsewhere	Incl. Elsewhere
2.085	Federal Property	Federal Law	1848	307.040	1,658,000	1,759,000
2.086	Indian Property on Reservation	Federal Law	1854	307.180	Not Available	Not Available
2.087	Amtrak Passenger Railroad	Federal Law	1983	308.515	700	700
<i>Partial Exemption</i>						
2.088	Fraternities, Sororities, and Cooperatives	Education	1973	307.460	300	300
2.089	Rural Health Care Facilities	Human Services	2001	307.804(2)	Less than 50	Less than 50
2.090	Long-Term Care Facilities	Human Services	1999	307.811	100	100
2.091	Strategic Investment Program (SIP)	Economic/Community	1993	307.123	97,900	103,900
2.092	Vertical Housing Development Zone	Economic/Community	2001	285C.450	Less than 50	Less than 50
2.093	New Houses in Distressed Area	Economic/Community	1989	307.664	3,300	3,500
2.094	Rehabilitated Housing	Economic/Community	1975	308.459	600	600
2.095	Multi-Family Rental Housing in City Core	Economic/Community	1975	307.612	10,500	11,300
2.096	Low-Income Multi-Unit Housing	Economic/Community	1999	307.612	Incl. in 2.095	Incl. in 2.095
2.097	New Housing for Low-Income Rental	Economic/Community	1989	307.517/307.518	1,400	1,400
2.098	Nonprofit Low-Income Rental Housing	Economic/Community	1985	307.541	10,800	11,700
2.099	Disabled War Veterans or Their Spouses	Economic/Community	1921	307.250	22,200	24,000
2.100	War Veterans in Nonprofit Elderly Housing	Economic/Community	1969	307.370	100	100
2.101	Pollution Control Facilities	Natural Resources	1967	307.405	100	Less than 50
2.102	Ethanol Production Facility	Natural Resources	1993	307.701	0	0
2.103	Alternative Energy Systems	Natural Resources	1975	307.175	1,800	2,000
2.104	Watercraft Centrally Assessed	Natural Resources	1925	308.515	Not Available	Not Available
2.105	Historic Property	Natural Resources	1975	358.505	26,000	19,800
2.106	Aircraft	Transportation	1987	308.558/308.565	10,500	10,200
2.107	Railroad Right of Way in Water District	Social Policy	1943	264.110	Less than 50	Less than 50
2.108	Railroad Right of Way in Highway Lighting District	Social Policy	1947	372.190	Less than 50	Less than 50
2.109	Railroad Right of Way in Rural Fire District	Social Policy	1969	478.010(2)(d)	500	600
2.110	Homestead Exemption for Federal Active Duty Military Servicemembers	Social Policy	2005	307.286	3,500	2,100
<i>Special Assessment</i>						
2.111	Nonprofit Housing for the Elderly	Economic/Community	1969	308.490	Less than 50	Less than 50
2.112	Multi-Unit Rental Housing	Economic/Community	2001	308.704	2,000	2,100
2.113	Watercraft Locally Assessed	Natural Resources	1925	308.256	1,600	1,600
2.114	Wildlife Habitat	Natural Resources	1993	308A.400	900	1,000
2.115	Forest Homesites	Natural Resources	1989	308A.256	8,600	9,200
2.116	Western Private Forestland	Natural Resources	1977	321.354	47,000	53,900
2.117	Eastern Private Forestland	Natural Resources	1971	321.833	3,100	3,200
2.118	Small Tract Forestland Option	Natural Resources	2003	321.722	26,100	37,600
2.119	Farm Land	Natural Resources	1967	308A.050	247,300	262,400
2.120	Farm Homesites	Natural Resources	1987	308A.253	22,800	24,200
2.121	Open Space Land	Natural Resources	1971	308A.300	1,100	1,200
2.122	Conservation Easements	Natural Resources	2007	308A.450	100	100
<i>Other Assessment</i>						
2.123	Destroyed or Damaged Property	Social Policy	1971	308.425, 308.428	200	200

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

Tax Expenditure	Program or Function	Year Enacted	Oregon Statute	Revenue Impact (\$ Thousands)	
				2007-09	2009-11
<b>GAS, USE, AND FUEL TAXES</b>					
3.001 Forest Products -- Gasoline	Natural Resources	1945	319.320(1)(b,d)	0	0
3.002 Forest Products -- Other than Gasoline	Natural Resources	1965	319.831(1)(c,g)	0	0
3.003 Fuel for Aircraft Departing U.S.	Tax Administration	1959	319.330(2)	400	400
3.004 Public Services	Government	1961	319.831(1)(e-f, h-k)	11,000	11,200
3.005 Public Transportation	Government	1969	267.200/267.570(2)	3,900	4,000
<b>WEIGHT-MILE TAX</b>					
4.001 Farming Operations	Natural Resources	1983	825.017(4,15)/825.024	1,700	1,800
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)	2,000	2,100
4.004 Government Owned or Operated Vehicles	Government	Pre-1953	825.017(11,13)	9,000	9,300
4.005 Public Mass Transit Vehicles	Government	1977	825.017(12)	2,400	2,600
4.006 Fire Protection	Government	1977	825.017(18)	Less than 50	Less than 50
4.007 Charitable Organizations	Social Policy	1977	825.017(14)	100	100
<b>CIGARETTE TAX</b>					
5.001 Small Quantity by Consumers	Tax Administration	1965	323.060	Less than 50	Less than 50
5.002 Federal and Veteran Institutions	Federal Law	1965	323.055	Less than 50	Less than 50
5.003 Reservation Cigarette Sales	Federal Law	1979	323.401	2,800	2,500
<b>OTHER TOBACCO PRODUCTS TAX</b>					
6.001 Federal Installations	Federal Law	1985	323.515	Less than 50	Less than 50
6.002 Reservation Tobacco Sales	Federal Law	1985	323.615	Less than 50	Less than 50
<b>BEER AND WINE TAX</b>					
7.001 Small Wineries	Economic/Community	1977	473.050(5)	2,200	2,500
7.002 Wine Marketing Activities	Economic/Community	2001	473.047	0	0
<b>911 EMERGENCY COMMUNICATIONS TAX</b>					
8.001 State and Local Subscribers	Government	1981	401.794	4,900	5,300
8.002 Federal Subscribers	Federal Law	1981	401.794	500	600
8.003 Indian Reservation Subscribers	Federal Law	1981	401.794	500	500
<b>FOREST PRODUCTS HARVEST TAX</b>					
9.001 First 25,000 Board Feet	Natural Resources	1953	321.015(5)	500	200
<b>ELECTRIC COOPERATIVE TAX</b>					
10.001 Revenue from Government Leased Lines	Natural Resources	1969	308.805	100	100
<b>HAZARDOUS SUBSTANCES FEE</b>					
11.001 State and Local Government Property	Government	1989	453.402(4)(e)	Not Available	Not Available

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

Tax Expenditure	Program or Function	Year Enacted	Oregon Statute	Revenue Impact (\$ Thousands)	
				2007–09	2009–11
11.002 Substance Prohibited from Tax by Federal Law	Federal Law	1989	453.402(4)(d)	Not Available	Not Available
<b>DRY CLEANING FEE/TAX</b>					
12.001 Uniform Service or Linen Supply Facility	Economic/Community	1995	465.200(6)(b)	Less than 50	Less than 50
12.002 Prisons	Government	1995	465.200(6)(c)	0	0
12.003 Facility on U.S. Military Base	Federal Law	1995	465.200(6)(a)	0	0
<b>PETROLEUM LOAD FEE</b>					
13.001 Product Prohibited from Tax by Federal Law	Federal Law	1989	465.111	Not Available	Not Available
<b>OIL AND GAS PRIVILEGE TAX</b>					
14.001 First \$3,000 in Gross Sales Value	Natural Resources	1981	324.080	Less than 50	Less than 50
14.002 State and Local Interests	Government	1981	324.090(1)	0	0
14.003 Credit for Property Taxes Paid	Natural Resources	1981	324.090(2)	Less than 50	Less than 50
<b>MEDICAL PROVIDER TAX</b>					
15.001 Type A and B Hospitals	Human Services	2003	Note: 409.750	0	0
15.002 Veterans Affairs and Pediatric Specialty Hospitals	Human Services	2003	Note: 409.750	0	0
15.003 Oregon Veterans' Home	Human Services	2003	Note: 409.750	0	0
15.004 Nursing Facilities	Human Services	2003	Note: 409.750	0	0
<b>LODGING TAX</b>					
16.001 Exempt Dwelling Units	Social Policy	2003	320.308	Not Available	Not Available
16.002 Federal Employees on Federal Business	Federal Law	2007	OAR 150-320.305	Less than 50	Less than 50
<b>LOCAL CONSTRUCTION TAX</b>					
17.001 Exempt Construction	Social Policy	2007	320.173	Not Available	Not Available
<b>INHERITANCE</b>					
18.001 Natural Resource and Fishing Property	Natural Resources	2007	118.140	1,000	1,300



## TABLE 2: INDEX OF TAX EXPENDITURES BY PROGRAM/FUNCTION

Tax Expenditure	Type	Year Enacted	Oregon Statute	Revenue Impact (\$ Thousands)		
				2007-09	2009-11	
<b>EDUCATION</b>						
<i>Income Tax</i>						
1.001	Scholarship and Fellowship Income	Exclusion	1954	316.048	13,200	14,700
1.002	Interest on Education Savings Bonds	Exclusion	1988	316.048	Less than 50	Less than 50
1.003	Earnings on Education Savings Accounts	Exclusion	1997	316.048	800	800
1.004	Qualified Tuition Programs (Federal)	Exclusion	1996	316.048	5,800	8,100
1.101	Teacher Classroom Expenses	Adjustment	2002	316.048	1,600	1,400
1.102	Interest on Student Loans	Adjustment	1997	316.048	20,700	23,300
1.103	Qualified Higher Education Expenses	Adjustment	2001	316.048	19,000	15,100
1.201	Charitable Contributions: Education	Deduction	1917	316.695/317.013	52,400	57,600
1.301	Land Donated to Schools	Subtraction	1999	316.852/317.488	Less than 50	Less than 50
1.302	Oregon 529 College Savings Network	Subtraction	1999	316.699	8,500	10,500
1.303	Scholarship Awards Used for Housing Expenses	Subtraction	1999	316.846	400	400
1.401	Youth Apprenticeship Sponsorship	Credit	1991	315.254	0	0
1.402	Contributions of Computer Equipment	Credit	1985	317.151	Less than 50	Less than 50
1.403	Employer Provided Scholarships	Credit	2001	315.237	Less than 50	Less than 50
<i>Property Tax</i>						
2.001	Academies, Day Care, and Student Housing	Full	1957	307.145	21,400	23,100
2.002	Student Housing Furnishings	Full	1957	307.195	100	100
2.003	Leased Student Housing Publicly Owned	Full	1947	307.110(3)(a)	7,300	7,900
2.004	Higher Education Parking Space	Full	1989	307.095(3)	3,400	3,700
2.005	Private Libraries for Public Use	Full	1854	307.160	Less than 50	Less than 50
2.088	Fraternalities, Sororities, and Cooperatives	Partial	1973	307.460	300	300
<b>HUMAN SERVICES</b>						
<i>Income Tax</i>						
1.005	Public Assistance Benefits	Exclusion	Pre-1955	316.048	19,400	20,800
1.006	Certain Foster Care Payments	Exclusion	1982	316.048	5,200	6,000
1.007	Employee Adoption Benefits	Exclusion	1996	316.048	100	100
1.008	Cafeteria Plan Benefits	Exclusion	1974	316.048	292,200	359,000
1.009	Employer Paid Medical Benefits	Exclusion	1918	316.048	1,009,800	1,190,700
1.010	Compensatory Damages	Exclusion	Pre-1955	316.048	11,300	11,600
1.011	Prescription Drug Insurance (Part D)	Exclusion	2003	316.048/317.013	37,900	46,900
1.012	Hospital Insurance (Part A)	Exclusion	1965	316.048	192,200	234,500
1.013	Supplementary Medical Insurance (Part B)	Exclusion	1970	316.048	136,300	161,800
1.014	Pension Contributions and Earnings	Exclusion	1921	316.048	868,500	983,400
1.015	Special Benefits for Disabled Coal Miners	Exclusion	1969	316.048	Less than 50	Less than 50
1.016	Social Security Benefits (Federal)	Exclusion	1938	316.048	431,300	481,700
1.104	Self-Employment Health Insurance	Adjustment	1986	316.048	84,800	106,900
1.105	Health Savings Accounts	Adjustment	1996	316.048	5,100	9,900
1.106	IRA Contributions and Earnings	Adjustment	1974	316.048	130,400	159,000
1.107	SEP/SIMPLE Plan Contributions and Earnings	Adjustment	1962	316.048	73,700	93,600
1.202	Charitable Contributions: Health	Deduction	1917	316.695/317.013	39,000	41,400
1.203	Medical and Dental Expenses	Deduction	1942	316.695	175,800	228,700
1.204	Removal of Architectural Barriers	Deduction	1976	316.048/317.013	Less than 50	Less than 50
1.304	Physicians in "Medically Disadvantaged" Areas	Subtraction	1973	316.076	0	0
1.305	Additional Deduction for Elderly or Blind	Subtraction	1989	316.695(7)	9,100	8,800
1.306	Additional Medical Deduction for Elderly	Subtraction	1991	316.695 (1)(d)(B)	107,100	127,000

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

Tax Expenditure	Type	Year Enacted	Oregon Statute	Revenue Impact (\$ Thousands)	
				2007–09	2009–11
1.307 Social Security Benefits (Oregon)	Subtraction	1985	316.054	330,300	356,600
1.404 Earned Income Credit	Credit	1997	315.266	48,100	55,600
1.405 Qualified Adoption Expense	Credit	1999	315.274	Less than 50	Less than 50
1.406 Rural Medical Practice	Credit	1989	315.613/315.616/315.619	13,300	13,000
1.407 Volunteer Rural Emergency Medical Technicians	Credit	2005	315.622	300	200
1.408 Costs in-lieu of Nursing Home Care	Credit	1979	316.148	Less than 50	Less than 50
1.409 Long-Term Care Insurance	Credit	1999	315.61	13,700	15,200
1.410 Disabled Child	Credit	1985	316.099	5,900	7,000
1.411 Elderly or Permanently Disabled	Credit	1969	316.087	100	100
1.412 Loss of Limbs	Credit	1973	316.079	Less than 50	Less than 50
1.413 Severe Disability	Credit	1985	316.758/316.765	7,100	8,100

*Property Tax*

2.006 Leased Health Care Property	Full	1999	307.110(3)(h)	Less than 50	Less than 50
2.007 Senior Services Centers	Full	1993	307.147	200	200
2.089 Rural Health Care Facilities	Partial	2001	307.804(2)	Less than 50	Less than 50
2.090 Long-Term Care Facilities	Partial	1999	307.811	100	100

*Medical Provider Tax*

15.001 Type A and B Hospitals	Exclusion	2003	Note: 409.750	0	0
15.002 Veterans Affairs and Pediatric Specialty Hospitals	Exclusion	2003	Note: 409.750	0	0
15.003 Oregon Veterans' Home	Exclusion	2003	Note: 409.750	0	0
15.004 Nursing Facilities	Exclusion	2003	Note: 409.750	0	0

**ECONOMIC AND COMMUNITY DEVELOPMENT**

*Income Tax*

1.017 Income Earned Abroad by U.S. Citizens	Exclusion	1926	316.048	30,400	33,700
1.018 Magazine, Paperback, and Record Returns	Exclusion	1978	316.048/317.013	200	200
1.019 Cash Accounting, Other than Agriculture	Exclusion	1916	316.048/317.013	6,300	7,100
1.020 Regional Economic Development Incentives	Exclusion	1993	316.048/317.013	0	0
1.021 Income of Controlled Foreign Corporations	Exclusion	1909	317.013	28,600	33,400
1.022 Extraterritorial Income Exclusion	Exclusion	2000	317.013	Less than 50	0
1.023 Cancellation of Debt for Non-Farmers	Exclusion	Pre-1955	316.048/317.013	1,300	1,500
1.024 Imputed Interest Rules	Exclusion	1964	316.048/317.013	3,000	3,700
1.025 Employer Paid Group Life Insurance Premiums	Exclusion	1920	316.048	22,400	23,300
1.026 Employer Paid Accident and Disability Insurance	Exclusion	1954	316.048	24,900	27,600
1.027 Employer Provided Dependent Care	Exclusion	1981	316.048	22,500	21,700
1.028 Miscellaneous Fringe Benefits	Exclusion	1984	316.048	59,700	67,400
1.029 Employee Meals and Lodging (Non-Military)	Exclusion	1918	316.048	8,000	8,600
1.030 Employee Stock Ownership Plans	Exclusion	1974	316.048/317.013	7,200	8,300
1.031 Employee Awards	Exclusion	1986	316.048	1,500	1,600
1.032 Employer Provided Education Benefits	Exclusion	1997	316.048	7,100	5,500
1.033 Spread on Acquisition of Stock	Exclusion	1981	316.048	2,700	1,900
1.034 Capital Gains on Home Sales	Exclusion	1997	316.048	317,000	353,100
1.035 Veteran's Benefits and Services	Exclusion	1917	316.048	38,000	41,700
1.036 Military and Dependents CHAMPUS/TRICARE Insurance	Exclusion	1925	316.048	32,700	38,700
1.108 Moving Expenses	Adjustment	1964	316.048	4,900	5,300
1.205 Accelerated Depreciation of Buildings	Deduction	1954	316.048/317.013	8,200	8,400
1.206 Accelerated Depreciation of Equipment	Deduction	1954	316.048/317.013	119,800	106,200

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

Tax Expenditure	Type	Year Enacted	Oregon Statute	Revenue Impact (\$ Thousands)		
				2007–09	2009–11	
1.207	Deferral of Certain Financing Income of Foreign Corporations	Deduction	1997	317.013	8,200	400
1.208	Research and Development Costs	Deduction	1954	316.048/317.013	13,100	19,700
1.209	Section 179 Expensing Allowances	Deduction	1959	316.048/317.013	21,400	6,100
1.210	Amortization of Business Start-Up Costs	Deduction	1980	316.048/317.013	5,900	6,700
1.211	Construction Funds of Shipping Companies	Deduction	1936	317.319	400	400
1.212	Ordinary Treatment of Losses from Small Business Corporation Stock	Deduction	1958	316.048	Less than 50	Less than 50
1.213	Renewal Community Tax Incentives	Deduction	2000	316.048/317.013	0	0
1.214	Deduction of Certain Film and Television Production Costs	Deduction	2004	317.013	400	0
1.215	Accelerated Depreciation of Rental Housing	Deduction	1954	316.048/317.013	36,100	44,900
1.216	Property Taxes	Deduction	1913	316.695	296,600	323,500
1.217	Home Mortgage Interest	Deduction	1913	316.695	884,500	905,100
1.308	Donations of Art by the Artist	Subtraction	1979	316.838	100	100
1.309	Municipal Bond Interest	Subtraction	1987	316.056	200	200
1.310	Small City Business Development	Subtraction	2001	316.778/317.391	100	200
1.311	Individual Development Accounts (Exclusion and Subtraction)	Subtraction	1999	316.848	Less than 50	Less than 50
1.312	Out-of-State Financial Institutions	Subtraction	1999	317.057	Less than 50	Less than 50
1.313	Capital Gains from Manufactured Dwelling Park Sale	Subtraction	2005	316.153	Less than 50	Less than 50
1.314	Payments for Closure of Manufactured Dwelling Park	Subtraction	2007	316.795/317.092	200	200
1.315	Service in Vietnam on Missing Status	Subtraction	1973	316.074	0	0
1.316	Film Production Labor Rebate	Subtraction	2005	316.698/317.394	100	100
1.414	Film Production Development Contributions	Credit	2003	315.514	7,900	10,000
1.415	Qualified Research Activities	Credit	1989	317.152	14,900	18,200
1.416	Qualified Research Activities (Alternative)	Credit	1989	317.154	Incl. in 1.415	Incl. in 1.415
1.417	Long-term Rural Enterprise Zone (Income Tax)	Credit	1997	317.124	Not Available	Not Available
1.418	Reservation Enterprise Zone (Income Tax)	Credit	2001	285C.309	Less than 50	Less than 50
1.419	Electronic Commerce Enterprise Zone (Income Tax)	Credit	2001	315.507	1,100	1,200
1.420	Water Transit Vessel Manufacturing	Credit	2005	315.517	Less than 50	Less than 50
1.421	Public University Venture Development Fund	Credit	2005	315.521	500	600
1.422	Small Corporation Tax Credit	Credit	2007	Note: 317.092 (OR Laws 2007, Chap. 4)	24,800	0
1.423	Child and Dependent Care	Credit	1975	316.078	17,400	16,900
1.424	Working Family Child Care	Credit	1997	315.262	44,000	44,700
1.425	Employer Provided Dependent Care Assistance	Credit	1987	315.204	1,900	1,900
1.426	Employer Provided Dependent Care Facilities	Credit	1987	315.208	Incl. in 1.425	Incl. in 1.425
1.427	First Break Program	Credit	1995	315.259	Less than 50	Less than 50
1.428	Child Care Division Contributions	Credit	2001	315.213	1,000	1,000
1.429	Farmworker Housing Construction	Credit	1989	315.164	2,100	2,200
1.430	Farmworker Housing Lender's Credit	Credit	1989	317.147	800	800
1.431	Oregon Affordable Housing Lender's Credit	Credit	1989	317.097	14,000	20,600
1.432	Individual Development Account Contribution (Credit)	Credit	1999	315.271	10,300	13,000
1.433	Individual Development Account Withdrawal (Credit)	Credit	2005	315.272	Less than 50	Less than 50
1.434	Mobile Home Park Closure	Credit	2007	Note: 316.116/OR Laws 2007, Chap 906, Sect. 16-18	2,000	2,000
1.501	Foreign Resident Filing Status	Other	1999	316.027	1,600	1,700
1.502	Public Warehouse Sales Throwback Exemption	Other	2005	314.665	Less than 50	Less than 50
1.503	Single Sales Factor Corporate Apportionment	Other	2003	314.650/317.660	79,100	89,900

*Property Tax*

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

Tax Expenditure	Type	Year Enacted	Oregon Statute	Revenue Impact (\$ Thousands)	
				2007–09	2009–11
2.008 Commercial Buildings Under Construction	Full	1959	307.33	8,900	8,900
2.009 Construction-in-Process in an Enterprise Zone	Full	2003	285C.170	Incl. in 2.008	Incl. in 2.008
2.010 Enterprise Zone Businesses	Full	1985	285C.175	35,700	36,900
2.011 Long-Term Rural Enterprise Zone (Property Tax)	Full	1997	285C.409	11,800	13,800
2.012 Electronic Commerce Enterprise Zone (Property Tax)	Full	2001	285C.175	Incl. in 2.010	Incl. in 2.010
2.013 Rural Renewable Energy Development Zone	Full	2003	285C.362	0	600
2.014 Inventory	Full	1969	307.400	559,600	639,400
2.015 Business Personal Property Cancellation	Full	1979	308.250(2)	3,500	4,000
2.016 Cargo Containers	Full	1979	307.835	600	300
2.017 Leased Docks and Airports	Full	1947	307.120	6,600	7,000
2.018 Leased Publicly Owned Shipyard Property	Full	1995	307.111	0	0
2.019 Ship Repair Facility Materials	Full	1957	308.256(7)	Incl. in 2.014	Incl. in 2.014
2.020 Aircraft Being Repaired	Full	1995	308.559	0	0
2.021 Railroad Cars Being Repaired	Full	1973	308.665	0	0
2.022 Federal Land Under Recreation Facility	Full	1975	307.182	1,100	1,200
2.023 Defense Contractor With Federal Property	Full	1965	307.065	0	0
2.024 Federal Land Under Summer Homes	Full	1975	307.183/307.184	900	1,000
2.025 Housing Authority Rental Units	Full	1937	307.092	19,300	20,900
2.026 Nonprofit Elderly Housing State Funded	Full	1977	307.242	2,100	2,300
2.027 Farm Labor Housing and Day Care Facilities	Full	1973	307.485	300	300
2.028 Fairground Leased Storage Space	Full	1987	307.110(3)(d)(e)	Less than 50	Less than 50
2.029 Industry Apprenticeship/Training Trust	Full	1983	307.580	300	300
2.030 Businesses Transferring or Leasing Property	Full	2007	Note: 285C.175	Incl. in 2.010	Incl. in 2.010
2.091 Strategic Investment Program (SIP)	Partial	1993	307.123	97,900	103,900
2.092 Vertical Housing Development Zone	Partial	2001	285C.450	Less than 50	Less than 50
2.093 New Houses in Distressed Area	Partial	1989	307.664	3,300	3,500
2.094 Rehabilitated Housing	Partial	1975	308.459	600	600
2.095 Multi-Family Rental Housing in City Core	Partial	1975	307.612	10,500	11,300
2.096 Low-Income Multi-Unit Housing	Partial	1999	307.612	Incl. in 2.095	Incl. in 2.095
2.097 New Housing for Low-Income Rental	Partial	1989	307.517/307.518	1,400	1,400
2.098 Nonprofit Low-Income Rental Housing	Partial	1985	307.541	10,800	11,700
2.099 Disabled War Veterans or Their Spouses	Partial	1921	307.250	22,200	24,000
2.100 War Veterans in Nonprofit Elderly Housing	Partial	1969	307.370	100	100
2.111 Nonprofit Housing for the Elderly	Special	1969	308.490	Less than 50	Less than 50
2.112 Multi-Unit Rental Housing	Special	2001	308.704	2,000	2,100

*Beer and Wine Tax*

7.001 Small Wineries	Exclusion	1977	473.050(5)	2,200	2,500
7.002 Wine Marketing Activities	Exclusion	2001	473.047	0	0

*Dry Cleaning Fee/Tax*

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

**NATURAL RESOURCES**

*Income Tax*

1.037 Agriculture Cost-Sharing Payments	Exclusion	1978	316.048/317.013	200	200
1.038 Cancellation of Debt for Farmers	Exclusion	1986	316.048	1,100	1,100
1.039 Energy Conservation Subsidies (Federal)	Exclusion	1992	316.048	200	200

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

Tax Expenditure	Type	Year Enacted	Oregon Statute	Revenue Impact (\$ Thousands)	
				2007–09	2009–11
1.040 Earnings of Certain Environmental Settlement Funds	Exclusion	2005	316.048	Less than 50	Less than 50
1.218 Cash Accounting for Agriculture	Deduction	1916	316.048/317.013	100	100
1.219 Soil and Water Conservation Expenditures	Deduction	1954	316.048/317.013	400	600
1.220 Fertilizer and Soil Conditioner Costs	Deduction	1960	316.048/317.013	1,300	1,100
1.221 Costs of Raising Dairy and Breeding Cattle	Deduction	1916	316.048/317.013	1,100	1,100
1.222 Sale of Stock to Farmers' Cooperatives	Deduction	1998	316.048/317.013	Less than 50	Less than 50
1.223 Small Refiner Expensing of Sulfur Compliant Equipment	Deduction	2004	317.013	Less than 50	Less than 50
1.224 Intangible Development Costs for Fuels	Deduction	1978	316.695/317.013	1,700	1,100
1.225 Depletion Costs for Fuels	Deduction	1962	316.695/317.013	2,800	2,900
1.226 Tertiary Injectants	Deduction	1980	316.695/317.013	Less than 50	Less than 50
1.227 Deferral of Capital Gains From FERC Restructuring Requirements	Deduction	2004	317.013	900	200
1.228 Expensing Timber Growing Costs	Deduction	1986	316.048/317.013	1,100	1,100
1.229 Expensing and Amortization of Reforestation Costs	Deduction	1980	316.048/317.013	1,100	1,100
1.230 Development Costs for Nonfuel Minerals	Deduction	1951	316.048/317.013	200	200
1.231 Depletion Costs for Nonfuel Minerals	Deduction	1913	316.048/317.374	600	600
1.232 Mining Reclamation Reserves	Deduction	1984	316.048/317.013	100	100
1.233 Energy Efficient Commercial Property	Deduction	2006	316.048/317.013	900	1,100
1.234 Advanced Mine Safety Equipment	Deduction	2006	316.048/317.014	Less than 50	Less than 50
1.235 Redevelopment Costs in Contaminated Areas	Deduction	1997	316.048/317.013	1,700	200
1.317 Underground Storage Tank Grants	Subtraction	1991	316.834/317.383	0	0
1.318 Energy Conservation Subsidies (Oregon)	Subtraction	1981	316.744/317.386	Less than 50	Less than 50
1.435 Crop Gleaning	Credit	1977	315.156	200	200
1.436 Alternatives to Field Burning	Credit	1975	315.304	200	Less than 50
1.437 Farm Machinery and Equipment (Income Tax)	Credit	2001	315.119/315.123	Less than 50	Less than 50
1.438 Riparian Lands Removed from Farm Production	Credit	2001	315.113	Less than 50	Less than 50
1.439 Pollution Prevention	Credit	1995	315.311	Less than 50	0
1.440 Pollution Control	Credit	1967	315.304	5,800	3,500
1.441 Reclaimed Plastics	Credit	1985	315.324	Less than 50	Less than 50
1.442 Diesel Truck Engines (New)	Credit	2003	Note: 315.356	500	600
1.443 Diesel Truck Engines (Retrofit and Repower)	Credit	2007	Note: 315.356	1,400	3,800
1.444 Fish Screening Devices	Credit	1989	315.138	Less than 50	Less than 50
1.445 Alternative Energy Devices (Residential)	Credit	1977	316.116	25,400	28,700
1.446 Alternative Fuel Stations	Credit	2001	317.115	Less than 50	Less than 50
1.447 Business Energy Facilities	Credit	1979	315.354	68,600	143,800
1.448 Energy Conservation Lender's Credit	Credit	1981	317.112	Less than 50	Less than 50
1.449 Weatherization Lender's Credit	Credit	1977	317.111	Less than 50	Less than 50
1.450 Biofuel Consumer Credit	Credit	2007	315.465	600	1,100
1.451 Biodiesel Used in Home Heating	Credit	2007	315.469	200	600
1.452 Production or Collection of Biomass	Credit	2007	315.141	3,600	7,100
1.453 Reforestation	Credit	1979	315.104	300	300
1.454 Sewer Connection	Credit	1987	316.095	Less than 50	0
1.504 Income Averaging for Farmers	Other	2001	314.297	200	300
1.505 Capital Gains from Farm Property	Other	2001	318.020/317.063	4,100	4,600
1.506 Apportionment for Certain Forest Product Companies	Other	2003	314.650(2)	0	0

*Property Tax*

2.031 Food Processing Equipment	Full	2005	307.455/307.462	2,100	2,700
2.032 Farm Machinery and Equipment (Property Tax)	Full	1973	307.394	55,800	60,400
2.033 Mobile Field Incinerators	Full	1971	307.390	Incl. in 2.032	Incl. in 2.032
2.034 Crops, Plants, and Fruit Trees	Full	1957	307.320	15,200	16,400
2.035 Agricultural Products Held by Farmer	Full	1965	307.325	100	100

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

Tax Expenditure	Type	Year Enacted	Oregon Statute	Revenue Impact (\$ Thousands)		
				2007–09	2009–11	
2.036	Nursery Stock	Full	1971	307.315	7,000	7,500
2.037	Leased Public Farming and Grazing Land	Full	1971	307.110(3)(b)	Incl. in 2.071	Incl. in 2.071
2.038	Leased Federal Grazing Land	Full	1961	307.060	Incl. in 2.085	Incl. in 2.085
2.039	Shellfish Growing on State Land	Full	1969	622.290	Less than 50	Less than 50
2.040	Center Pivot Irrigation Equipment	Full	1973	307.398	Incl. in 2.032	Incl. in 2.032
2.041	Other Farm/Aquaculture/Egg Equipment	Full	1973	307.397	Incl. in 2.032	Incl. in 2.032
2.042	Field Burning Smoke Management Equipment	Full	1973	307.391	Incl. in 2.032	Incl. in 2.032
2.043	Nonprofit Sewage Treatment Facilities	Full	1997	307.118	Less than 50	Less than 50
2.044	Property Used for Golf Course and Effluent	Full	2001	Note: 307.118	Less than 50	100
2.045	Riparian Habitat Land	Full	1981	308A.362	100	100
2.046	Environmentally Sensitive Logging Equipment	Full	1999	307.827/307.831	2,400	2,400
2.047	Crab Pots	Full	1969	508.270	200	200
2.048	Federal Standing Timber Under Contract	Full	1965	307.050	2,900	2,900
2.049	State and Local Standing Timber Under Contract	Full	1965	307.100	1,200	1,200
2.050	Western Private Standing Timber	Full	1977	321.272	348,600	348,600
2.051	Eastern Private Standing Timber	Full	1961	321.829	33,500	33,500
2.052	Private Farm and Logging Roads	Full	1963	308.236	26,300	26,300
2.053	Forest Fire Protection Association	Full	1957	307.125	200	200
2.054	Inactive Mineral Interests	Full	1997	308.115	100	100
2.055	Leased State Land Board Land	Full	1982	307.168	1,500	1,600
2.056	Small Watercraft	Full	1959	830.790(2)	28,600	28,000
2.057	Mining Claims on Federal Land	Full	1889	307.080	100	100
2.058	Nonprofit Public Park Use Land	Full	1971	307.115	200	200
2.059	Natural Gas Pipeline Extension	Full	2007	307.107	Less than 50	Less than 50
2.101	Pollution Control Facilities	Partial	1967	307.405	100	Less than 50
2.102	Ethanol Production Facility	Partial	1993	307.701	0	0
2.103	Alternative Energy Systems	Partial	1975	307.175	1,800	2,000
2.104	Watercraft Centrally Assessed	Partial	1925	308.515	Not Available	Not Available
2.105	Historic Property	Partial	1975	358.505	26,000	19,800
2.113	Watercraft Locally Assessed	Special	1925	308.256	1,600	1,600
2.114	Wildlife Habitat	Special	1993	308A.400	900	1,000
2.115	Forest Homesites	Special	1989	308A.256	8,600	9,200
2.116	Western Private Forestland	Special	1977	321.354	47,000	53,900
2.117	Eastern Private Forestland	Special	1971	321.833	3,100	3,200
2.118	Small Tract Forestland Option	Special	2003	321.722	26,100	37,600
2.119	Farm Land	Special	1967	308A.050	247,300	262,400
2.120	Farm Homesites	Special	1987	308A.253	22,800	24,200
2.121	Open Space Land	Special	1971	308A.300	1,100	1,200
2.122	Conservation Easements	Special	2007	308A.450	100	100

*Gas, Use, and Jet Fuel Taxes*

3.001	Forest Products -- Gasoline	Exclusion	1945	319.320(1)(b,d)	0	0
3.002	Forest Products -- Other than Gasoline	Exclusion	1965	319.831(1)(c,g)	0	0

*Weight-Mile Tax*

4.001	Farming Operations	Exclusion	1983	825.017(4,15)/825.024	1,700	1,800
4.002	Forest Products on County Roads	Exclusion	1977	825.017(8)	0	0

*Forest Products Harvest Tax*

9.001	First 25,000 Board Feet	Exclusion	1953	321.015(5)	500	200
-------	-------------------------	-----------	------	------------	-----	-----

*Electric Cooperative Tax*

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

Tax Expenditure	Type	Year Enacted	Oregon Statute	Revenue Impact (\$ Thousands)	
				2007–09	2009–11
10.001 Revenue from Government Leased Lines	Exclusion	1969	308.805	100	100
<i>Oil and Gas Privilege Tax</i>					
14.001 First \$3,000 in Gross Sales Value	Exclusion	1981	324.080	Less than 50	Less than 50
14.003 Credit for Property Taxes Paid	Credit	1981	324.090(2)	Less than 50	Less than 50
<i>Inheritance Tax</i>					
18.001 Natural Resource and Fishing Property	Credit	2007	118.14	1,000	1,300
<b>TRANSPORTATION</b>					
<i>Income Tax</i>					
1.041 Employer Paid Transportation Benefits	Exclusion	1992	316.048	31,500	33,400
<i>Property Tax</i>					
2.060 Railroad Right of Way Used for Alternative Transport	Full	1977	307.205	0	0
2.061 Motor Vehicles and Trailers	Full	1919	803.585	821,700	883,700
2.062 ODOT Land Under Use Permit	Full	1981	307.110(3)(c)	Less than 50	Less than 50
2.106 Aircraft	Partial	1987	308.558/308.565	10,500	10,200
<b>CONSUMER AND BUSINESS SERVICES</b>					
<i>Income Tax</i>					
1.042 Life Insurance Investment Income	Exclusion	1913	316.048/317.013	213,900	226,800
1.043 Workers' Compensation Benefits (Non-Medical)	Exclusion	1918	316.048	22,900	24,300
1.044 Workers' Compensation Benefits (Medical)	Exclusion	1918	316.048	70,500	83,900
1.045 Credit Union Income	Exclusion	1951	317.080(1)	7,500	8,300
1.046 Structured Settlement Accounts	Exclusion	1982	317.013	Less than 50	Less than 50
1.047 Contributions in Aid of Construction for Utilities	Exclusion	1996	317.013	200	200
1.048 Certain Disaster Mitigation Payments.	Exclusion	2005	316.048/317.013	Less than 50	Less than 50
1.236 Life Insurance Company Reserves	Deduction	1984	317.655(2)(f) and (g)	8,900	9,800
1.237 Additions to Bad Debt Reserves of Small Financial Institutions	Deduction	1947	317.31	Less than 50	Less than 50
1.238 Property and Casualty Insurance Company Reserves	Deduction	1986	317.655(2)(f,g)	15,400	16,000
1.319 Wet Marine and Transportation Policies	Subtraction	1995	317.080(8)	400	400
1.455 Mile-Based or Time-Based Motor Vehicle Insurance	Credit	2003	Note: 317.122	Less than 50	Less than 50
1.456 Fire Insurance	Credit	1969	317.122(1)	8,500	10,200
1.457 Workers' Compensation Assessments	Credit	1995	317.122(2)	2,000	1,800
1.458 Oregon Life and Health IGA Assessments	Credit	1975	734.835	100	100
1.507 Apportionment for Utility and Telecommunication Companies	Other	2001	314.28	900	900
<i>Property Tax</i>					
2.063 Nonprofit Water Associations	Full	1937	307.210	100	200
2.064 Nonprofit Electrical Distribution Associations	Full	1943	308.805	15,300	16,200
2.065 Nonprofit Telephone Associations	Full	1941	307.220	0	0

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

Tax Expenditure	Type	Year Enacted	Oregon Statute	Revenue Impact (\$ Thousands)	
				2007–09	2009–11
2.066 Private Service Telephone Equipment	Full	1941	307.230	Less than 50	Less than 50
2.067 FCC Licenses	Full	2001	307.126	23,700	23,700

**TAX ADMINISTRATION**

*Income Tax*

1.049 Gain on Nondealer Installment Sales	Exclusion	1921	316.048/317.013	15,300	8,900
1.050 Gain on Like-Kind Exchanges	Exclusion	1921	316.048/317.013	21,900	22,600
1.239 Magazine Circulation Expenditures	Deduction	1950	316.048/317.013	100	100
1.240 Net Operating Loss Limitation	Deduction	1954	317.478/317.479	2,200	2,200
1.241 Completed Contract Rules	Deduction	1986	316.048/317.013	1,900	2,600
1.320 Income Earned in Border River Areas	Subtraction	2001	316.127	Not Available	Not Available

*Property Tax*

2.068 Intangible Personal Property	Full	1935	307.03	11,059,400	12,426,300
2.069 Personal Property for Personal Use	Full	1854	307.190	864,400	912,600
2.070 Beverage Containers Requiring Deposit	Full	1983	307.402	Less than 50	Less than 50

*Gas, Use, and Jet Fuel Taxes*

3.003 Fuel for Aircraft Departing U.S.	Exclusion	1959	319.330(2)	400	400
--	-----------	------	------------	-----	-----

*Cigarette Tax*

5.001 Small Quantity by Consumers	Exclusion	1965	323.06	Less than 50	Less than 50
-----------------------------------	-----------	------	--------	--------------	--------------

**GOVERNMENT**

*Income Tax*

1.051 Allowances for Federal Employees Abroad	Exclusion	1943	316.048	4,700	5,300
1.052 Interest on Oregon State and Local Debt	Exclusion	1913	316.048	78,700	87,000
1.321 Oregon State Lottery Prizes	Subtraction	1985	461.560	2,100	2,100
1.322 Income Earned in "Indian Country"	Subtraction	1977	316.777	4,100	4,600
1.323 Federal Pension Income	Subtraction	1998	316.680(1)(f)	124,000	126,600
1.324 Legislative Per Diem and Allowance	Subtraction	1967	171.072	100	100
1.459 Political Contributions	Credit	1969	316.102	15,200	15,800

*Property Tax*

2.071 State and Local Property	Full	1854	307.090	1,502,300	1,593,800
2.072 Beach Lands	Full	1969	307.450	Not Available	Not Available
2.073 Local Government Public Ways	Full	1895	307.200	Not Available	Not Available
2.074 Pacific Northwest AC Intertie Exemption	Full	2005	307.09	1,100	1,200
2.075 Tribal Land Being Placed in U.S. Trust	Full	1993	307.181	500	500

*Gas, Use, and Jet Fuel Taxes*

3.004 Public Services	Exclusion	1961	319.831(1)(e-f, h-k)	11,000	11,200
3.005 Public Transportation	Exclusion	1969	267.200/267.570(2)	3,900	4,000



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

Tax Expenditure	Type	Year Enacted	Oregon Statute	Revenue Impact (\$ Thousands)		
				2007–09	2009–11	
<i>Weight-Mile Tax</i>						
4.003	Elementary and Secondary Schools	Exclusion	Pre-1953	825.017(1)	2,000	2,100
4.004	Government Owned or Operated Vehicles	Exclusion	Pre-1953	825.017(11,13)	9,000	9,300
4.005	Public Mass Transit Vehicles	Exclusion	1977	825.017(12)	2,400	2,600
4.006	Fire Protection	Exclusion	1977	825.017(18)	Less than 50	Less than 50
<i>911 Emergency Communications Tax</i>						
8.001	State and Local Subscribers	Exclusion	1981	401.794	4,900	5,300
<i>Hazardous Substances Fee</i>						
11.001	State and Local Government Property	Exclusion	1989	453.402(4)(e)	Not Available	Not Available
<i>Dry Cleaning Fee/Tax</i>						
12.002	Prisons	Exclusion	1995	465.200(6)(c)	0	0
<i>Oil and Gas Privilege Tax</i>						
14.002	State and Local Interests	Exclusion	1981	324.090(1)	0	0
<b>SOCIAL POLICY</b>						
<i>Income Tax</i>						
1.053	Capital Gains on Inherited Property	Exclusion	1921	316.048	741,400	796,800
1.054	Gain on Involuntary Conversions in Disaster Areas	Exclusion	1996	316.048	Less than 50	Less than 50
1.055	Voluntary Employees' Beneficiary Associations	Exclusion	1928	316.048	15,300	16,200
1.056	Rental Allowances for Ministers' Homes	Exclusion	1921	316.048	4,500	5,200
1.057	Discharge of Certain Student Loan Debt	Exclusion	1984	316.048	200	200
1.058	Military Disability Benefits	Exclusion	1942	316.048	800	800
1.059	Benefits and Allowances of Armed Forces Personnel	Exclusion	1925	316.048	26,600	29,600
1.060	Capital Gains on Gifts	Exclusion	1921	316.048	77,600	82,200
1.061	Restitution Payments for Holocaust Survivors	Exclusion	2001	316.048	Less than 50	Less than 50
1.062	Survivor Annuities	Exclusion	1997	316.048	200	200
1.109	Overnight-travel Expenses of National Guard and Reserve Members	Adjustment	2003	316.048	200	400
1.242	Casualty and Theft Losses	Deduction	1913	316.695	2,000	1,800
1.243	Local Income Taxes	Deduction	1913	316.695	0	0
1.244	Charitable Contributions: Other	Deduction	1917	316.695/317.013	267,400	293,300
1.245	Creation or Acquisition of Musical Compositions	Deduction	2005	316.048/317.013	Less than 50	Less than 50
1.325	Federal Income Tax Deduction	Subtraction	1929	316.680(1)(b)/316.695	649,400	749,200
1.326	Military Active Duty Pay	Subtraction	1969	316.680(1)(c) and (k)/316.789/316.791	29,300	36,500
1.327	TRICARE Payments	Subtraction	2007	316.68	800	1,900
1.460	Personal Exemption	Credit	1985	316.085	925,200	974,700
1.461	Oregon Cultural Trust	Credit	2001	315.675	4,900	5,500
1.462	Retirement Income	Credit	1991	316.157	1,500	1,200
1.463	TRICARE Health Care Providers	Credit	2007	315.628	1,900	4,300
1.464	Oregon Veterans' Home Physician	Credit	2007	315.624	Less than 50	Less than 50
1.508	Title 10 Active Duty Death	Other	2005	314.088	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)		
				2007-09	2009-11	
<i>Property Tax</i>						
2.076	Charitable, Literary, and Scientific Organizations	Full	1854	307.130	91,900	97,500
2.077	Fraternal Organizations	Full	1961	307.136	7,800	8,300
2.078	Religious Organizations	Full	1854	307.140	82,900	89,600
2.079	Cemeteries, Burial Grounds, and Mausoleums	Full	1854	307.150	4,800	5,200
2.080	Exempt Lease from Taxable Owner	Full	1977	307.112	Incl. Elsewhere	Incl. Elsewhere
2.081	Exempt Lease from Exempt Owner	Full	1973	307.166	Incl. Elsewhere	Incl. Elsewhere
2.082	City-Owned Sports Facility	Full	2001	307.171	1,000	1,100
2.083	Convention Facilities	Full	1985	263.29	0	0
2.084	LLC Owned by Nonprofit Corporation	Full	2005	307.022	Incl. Elsewhere	Incl. Elsewhere
2.107	Railroad Right of Way in Water District	Partial	1943	264.110	Less than 50	Less than 50
2.108	Railroad Right of Way in Highway Lighting District	Partial	1947	372.190	Less than 50	Less than 50
2.109	Railroad Right of Way in Rural Fire District	Partial	1969	478.010(2)(d)	500	600
2.110	Homestead Exemption for Federal Active Duty Military Servicemembers	Partial	2005	307.286	3,500	2,100
2.123	Destroyed or Damaged Property	Other	1971	308.425, 308.428	200	200
<i>Weight-Mile Tax</i>						
4.007	Charitable Organizations	Exclusion	1977	825.017(14)	100	100
<i>Lodging Tax</i>						
16.001	Exempt Dwelling Units	Exclusion	2003	320.308	Not Available	Not Available
<b>FEDERAL LAW</b>						
<i>Income Tax</i>						
1.328	Interest and Dividends on U.S. Obligations	Subtraction	1970	316.680	52,300	59,400
<i>Property Tax</i>						
2.085	Federal Property	Full	1848	307.040	1,658,000	1,759,000
2.086	Indian Property on Reservation	Full	1854	307.180	Not Available	Not Available
2.087	Amtrak Passenger Railroad	Full	1983	308.515	700	700
<i>Cigarette Tax</i>						
5.002	Federal and Veteran Institutions	Exclusion	1965	323.055	Less than 50	Less than 50
5.003	Reservation Cigarette Sales	Credit	1979	323.401	2,800	2,500
<i>Other Tobacco Products Tax</i>						
6.001	Federal Installations	Exclusion	1985	323.515	Less than 50	Less than 50
6.002	Reservation Tobacco Sales	Exclusion	1985	323.615	Less than 50	Less than 50
<i>911 Emergency Communications Tax</i>						
8.002	Federal Subscribers	Exclusion	1981	401.794	500	600
8.003	Indian Reservation Subscribers	Exclusion	1981	401.794	500	500

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

Tax Expenditure	Type	Year Enacted	Oregon Statute	Revenue Impact (\$ Thousands)	
				2007–09	2009–11
<i>Hazardous Substances Fee</i>					
11.002 Substance Prohibited from Tax by Federal Law	Exclusion	1989	453.402(4)(d)	Not Available	Not Available
<i>Dry Cleaning Fee/Tax</i>					
12.003 Facility on U.S. Military Base	Exclusion	1995	465.200(6)(a)	0	0
<i>Petroleum Load Fee</i>					
13.001 Product Prohibited from Tax by Federal Law	Exclusion	1989	465.111	Not Available	Not Available
<i>Lodging Tax</i>					
16.002 Federal Employees on Federal Business	Exclusion	2007	OAR 150-320.305	Less than 50	Less than 50



## 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 2007-09 biennium, this revenue is estimated to be \$11.1 billion, or 86 percent of General Fund revenues, and \$13.8 billion for 2009-11 (before any kicker<sup>1</sup>). The Department of Revenue 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 at [www.oregon.gov/DOR/STATS/index.shtml](http://www.oregon.gov/DOR/STATS/index.shtml).

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

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

Oregon has some deviations from federal taxable income. Income taxed federally but not by Oregon is subtracted from federal adjusted gross income (AGI) when computing Oregon tax (called subtractions). There are also additions to federal income--income Oregon taxes but is not taxed federally.

Tying to the federal definition of taxable income implicitly adopts many of the tax expenditures that exist in the federal tax code. Any special provisions allowed by the federal government that reduce taxable income will flow through to Oregon’s tax and result in lower Oregon tax collections. There currently are 100 of these special federal provisions—exclusions, deductions, and adjustments—that flow through to Oregon’s personal income tax.

In addition to the tax expenditures resulting from exclusions, deductions, and adjustments in the federal tax code, there are about 26 subtractions, 51 credits, and four other provisions in Oregon law that further reduce individuals’ taxable income. The subtractions and credits provide special or specific tax benefits to people, and are thus considered tax expenditures.

### Corporation Excise and Income Taxes

Oregon’s corporation excise and income taxes are the taxes on corporate profits where net income is the measure of profitability. About 99 percent of all corporations pay the excise tax, and just 1 percent pay the income tax. Because the taxes are nearly identical and the tax base is net income, we refer here to both taxes as the corporation income tax.

---

<sup>1</sup> Oregon law requires the state to refund excess revenue to individual taxpayers whenever General Fund revenues from all sources other than corporate income tax exceed the forecast for the biennial budget period by 2 percent or more.

## Income Tax

The corporation income tax is the second largest source of revenue for the state General Fund. For the 2007-09 biennium, this revenue is estimated to be \$857 million, or 6.7 percent of General Fund revenues, and \$795 million for 2009-11 (before any kicker<sup>2</sup>). The Department of Revenue publishes an annual report that provides detailed statistics on the corporation income tax. The most recent version of *Oregon Corporate Excise and Income Tax* is at [www.oregon.gov/DOR/STATS/index.shtml](http://www.oregon.gov/DOR/STATS/index.shtml).

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

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

As with the personal income tax, connecting to the federal tax code reduces compliance costs for taxpayers, makes administration of the tax easier for the state of Oregon, and implicitly adopts many of the tax expenditures that exist in the federal tax code. For the 2009–11 biennium, the connection to the federal definition of taxable income is forecast to reduce Oregon corporation income tax revenue by roughly \$550 million. There are only nine Oregon-specific subtractions that can further reduce the taxable income of corporations; these reduce tax revenues by about \$1 million. After Oregon taxable income is calculated, the tax rate of 6.6 percent is applied to arrive at the tax liability before credits.

There are 42 credits available to offset the corporation income tax. None are refundable, but most allow unused credit amounts to be carried forward and used in later years. In 2009–11, these credits are expected to reduce corporation tax revenue by roughly \$239 million.

---

<sup>2</sup> Oregon law requires the state to refund excess revenue to corporate taxpayers whenever General Fund revenues from the corporate income tax exceed the forecast for the biennial budget period by 2 percent or more.

## 1.001 SCHOLARSHIP AND FELLOWSHIP INCOME

Internal Revenue Code Section: 117

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

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1954

	Corporation	Personal	Total
2007–09 Revenue Impact:	Not Applicable	\$13,200,000	\$13,200,000
2009–11 Revenue Impact:	Not Applicable	\$14,700,000	\$14,700,000

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

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

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

**EVALUATION:** Not evaluated.

## 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
2007–09 Revenue Impact:	Not Applicable	Less than \$50,000	Less than \$50,000
2009–11 Revenue Impact:	Not Applicable	Less than \$50,000	Less than \$50,000

**DESCRIPTION:** The interest earned on U.S. Series EE savings bonds purchased and owned to finance higher education for the taxpayer, their 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 the same year in which they are used. Qualified higher education expenses include tuition and fees, but not room and board expenses. For 2008, a full exclusion was allowed if income is less than \$67,100 (single) and \$100,650 (married). The exclusion phases out through incomes of \$82,100 (single) and \$130,650 (married) at which point no exclusion is allowed.

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

Income Tax  
Federal Exclusions

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

EVALUATION: Not evaluated.

### 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
2007–09 Revenue Impact:	Not Applicable	\$800,000	\$800,000
2009–11 Revenue Impact:	Not Applicable	\$800,000	\$800,000

DESCRIPTION: Taxpayers may establish trust or custodial accounts for the exclusive purpose of paying the qualified higher education expenses of a named beneficiary. Contributions are not deductible. However, earnings on contributions to the accounts are not subject to tax. Distributions from the accounts may be excluded from gross income to the extent that they do not exceed the qualified education expenses of the beneficiary. If a Hope or lifetime learning credit is claimed in a given year, distributions from an education savings account in the same year are allowed tax-free, provided that the distributions are not used for the same expenses for which the credit is claimed. Tax-free and penalty-free transfers or rollovers from an education savings account of one beneficiary to an education savings account of another beneficiary are allowed provided that the new beneficiary is a family member of the old beneficiary, and the distribution is deposited in the new account within 60 days.

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

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: Not evaluated.



## 1.004 QUALIFIED TUITION PROGRAMS (FEDERAL)

Internal Revenue Code Section: 529

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

Federal Law Sunset Date: None

Year Enacted: 1996

	Corporation	Personal	Total
2007–09 Revenue Impact:	Not Applicable	\$5,800,000	\$5,800,000
2009–11 Revenue Impact:	Not Applicable	\$8,100,000	\$8,100,000

**DESCRIPTION:** Individuals may establish tax-deferred and tax-exempt college savings plans through state-sponsored savings plans or prepaid tuition accounts through qualifying educational institutions. These accounts are set up for the purpose of paying education-related expenses or tuition on behalf of a designated beneficiary. Total contributions to these accounts are allowed up to the amount necessary to cover the qualified higher education expenses of the beneficiary. Under federal law, contributions to these accounts are not tax deductible. Qualifying distributions from savings or prepaid tuition plans are excluded from tax.

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

The revenue impacts for this expenditure do not include the value of the subtraction Oregon allows for contributions. That is included in tax expenditure 1.302, Oregon 529 College Savings Network.

**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 tax expenditure 1.302, Oregon 529 College Savings Network.

**EVALUATION:** Not evaluated.

## 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
2007–09 Revenue Impact:	Not Applicable	\$19,400,000	\$19,400,000
2009–11 Revenue Impact:	Not Applicable	\$20,800,000	\$20,800,000

**DESCRIPTION:** Public assistance benefits in the form of cash payments or goods and services, whether provided free or at an income-scaled charge, are not included in the personal taxable income of the recipient. Some examples include Temporary Assistance to

Income Tax  
Federal Exclusions

Needy Families (TANF; Supplemental Security Income (SSI) for the aged, blind, or disabled; and state-local programs of General Assistance (GA).

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

- PURPOSE:** To reduce taxation of people receiving public assistance and to reduce the cost to government of providing such assistance.
- WHO BENEFITS:** Those people receiving public assistance benefits above the income level where taxation begins. It should be noted that many welfare recipients, however, have income below this threshold and would have no tax liability even without the exemption.
- EVALUATION:** Not evaluated.

## 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
2007–09 Revenue Impact:	Not Applicable	\$5,200,000	\$5,200,000
2009–11 Revenue Impact:	Not Applicable	\$6,000,000	\$6,000,000

- DESCRIPTION:** Payments made by a state, local, or qualified foster care placement agency to a foster care provider for the purpose of caring for a foster individual in the provider's home is excluded from personal taxable income of the foster care provider.
- PURPOSE:** To encourage individuals to assume the responsibility of caring for foster children and to relieve foster care providers from maintaining complex records that might deter families from accepting foster children, or prevent them from claiming their full tax benefit.
- WHO BENEFITS:** Foster care providers for children.
- EVALUATION:** Not evaluated.

## 1.007 EMPLOYEE ADOPTION BENEFITS

Internal Revenue Code Section: 137

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

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1996

	Corporation	Personal	Total
2007–09 Revenue Impact:	Not Applicable	\$100,000	\$100,000
2009–11 Revenue Impact:	Not Applicable	\$100,000	\$100,000

**DESCRIPTION:** Benefits that employees who adopt children receive under employer-sponsored adoption assistance programs are excluded from personal taxable income. The maximum exclusion in 2008 is \$11,650 per child, including special-needs children. Expenses may be incurred over several years. Employees who receive Employer-provided adoption assistance must do so under an established employer-sponsored adoption assistance program. In 2008, the exclusion is phased out for modified adjusted gross incomes between \$174,730 and \$214,730, at which point no exclusion is allowed. The exclusion limit and phase-outs are indexed to inflation.

**PURPOSE:** To encourage and facilitate adoption.

**WHO BENEFITS:** Adoptive parents.

**EVALUATION:** Not evaluated.

## 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
2007–09 Revenue Impact:	Not Applicable	\$292,200,000	\$292,200,000
2009–11 Revenue Impact:	Not Applicable	\$359,000,000	\$359,000,000

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

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

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

**EVALUATION:** Not evaluated.

### 1.009 EMPLOYER PAID MEDICAL BENEFITS

Internal Revenue Code Sections: 105, 106 and 125  
Oregon Statute: 316.048 (Connection to federal personal taxable income)  
Federal Law Sunset Date: None  
Year Enacted in Federal Law: 1918

	Corporation	Personal	Total
2007–09 Revenue Impact:	Not Applicable	\$1,009,800,000	\$1,009,800,000
2009–11 Revenue Impact:	Not Applicable	\$1,190,700,000	\$1,190,700,000

**DESCRIPTION:** Employer payments for health insurance, other employee medical expenses, and long-term care insurance are not included in the employee’s personal taxable income. Federal law does require that the imputed value of health and other fringe benefits of a domestic partner be included in adjusted gross income when cohabitating couples are not married.

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

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

**EVALUATION:** Not evaluated.

### 1.010 COMPENSATORY DAMAGES

Internal Revenue Code Section: 104(a)(2)-104(a)(5)  
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
2007–09 Revenue Impact:	Not Applicable	\$11,300,000	\$11,300,000
2009–11 Revenue Impact:	Not Applicable	\$11,600,000	\$11,600,000

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

**PURPOSE:** To avoid reducing the value of these payments.

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

**EVALUATION:** Not evaluated.

## 1.011 PRESCRIPTION DRUG INSURANCE (PART D)

Internal Revenue Code Section: 139A

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

Federal Law Sunset Date: None

Year Enacted in Federal Law: 2003

	Corporation	Personal	Total
2007–09 Revenue Impact:	\$1,100,000	\$36,800,000	\$37,900,000
2009–11 Revenue Impact:	\$0	\$46,900,000	\$46,900,000

**DESCRIPTION:** Medicare Part D is a federal program that subsidizes the cost of some prescription drugs for individuals eligible for Medicare. Benefits are provided to individuals through insurance companies approved by Medicare, and are excluded from individuals taxable income. Benefits that exceed premiums paid by participants are considered a tax expenditure.

Subsidies are also paid to public and private employers providing equivalent coverage to individuals that would otherwise be eligible for Medicare Part D. These subsidies are excluded from corporate income calculations. Oregon Revised Statutes 316.837 and 317.401 disconnected Oregon from this provision for tax years beginning January 1, 2008.

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

**WHO BENEFITS:** People enrolled in Medicare Part D or working for businesses providing equivalent benefits. Companies that provide these benefits for their employees.

**EVALUATION:** Not evaluated.

## 1.012 HOSPITAL INSURANCE (PART A)

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

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

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1965

	Corporation	Personal	Total
2007–09 Revenue Impact:	Not Applicable	\$192,200,000	\$192,200,000
2009–11 Revenue Impact:	Not Applicable	\$234,500,000	\$234,500,000

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

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

Income Tax  
Federal Exclusions

WHO BENEFITS: In 2007, more than 500,000 Oregonians were enrolled in Part A of Medicare.

EVALUATION: Not evaluated.

### 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
2007–09 Revenue Impact:	Not Applicable	\$136,300,000	\$136,300,000
2009–11 Revenue Impact:	Not Applicable	\$161,800,000	\$161,800,000

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

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

WHO BENEFITS: In 2007, more than 500,000 Oregonians were enrolled in Part B of Medicare.

EVALUATION: Not evaluated.

### 1.014 PENSION CONTRIBUTIONS AND EARNINGS

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

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

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1921

	Corporation	Personal	Total
2007–09 Revenue Impact:	Not Applicable	\$868,500,000	\$868,500,000
2009–11 Revenue Impact:	Not Applicable	\$983,400,000	\$983,400,000

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 self-employed individuals (through Keogh plans) are excluded from income as well, and make up a relative small portion of this tax expenditure.

Taxation on contributions and earnings are deferred until distribution when withdrawals are included in taxable income. The estimated revenue impact is a net

figure; the revenue foregone in a given year offset by the amount of tax paid on withdrawals in that year.

- PURPOSE:** To promote saving for retirement.
- WHO BENEFITS:** Employees receiving employer-paid pension benefits. Employers may benefit by paying lower wages than would be paid if these benefits were not offered.
- EVALUATION:** Not evaluated.

## 1.015 SPECIAL BENEFITS FOR DISABLED COAL MINERS

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

	Corporation	Personal	Total
2007–09 Revenue Impact:	Not Applicable	Less than \$50,000	Less than \$50,000
2009–11 Revenue Impact:	Not Applicable	Less than \$50,000	Less than \$50,000

- DESCRIPTION:** Benefits to coal mine workers or their survivors for total disability or death resulting from coal workers' pneumoconiosis (black lung disease) paid under the Black Lung Benefits Act are not considered taxable. These benefits may be either monthly cash payments or coverage of black-lung-related medical costs.
- PURPOSE:** To ensure consistent treatment with workers' compensation.
- WHO BENEFITS:** Oregon taxpayers receiving black lung benefits.
- EVALUATION:** Not evaluated.

## 1.016 SOCIAL SECURITY BENEFITS (FEDERAL)

Internal Revenue Code Section: 86 (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
2007–09 Revenue Impact:	Not Applicable	\$431,300,000	\$431,300,000
2009–11 Revenue Impact:	Not Applicable	\$481,700,000	\$481,700,000

- DESCRIPTION:** A portion of Social Security and Railroad Retirement Board benefits are considered nontaxable at the federal level. 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.

Income Tax  
Federal Exclusions

The tax expenditure pertaining to the portion of benefits that are taxed at the federal level but are exempt in Oregon is 1.307, Social Security Benefits (Oregon).

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 (single) or \$32,000 (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 above 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 (single) or \$6,000 (joint), 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:** More than 250,000 Oregon resident taxpayers reported some nontaxable Social Security or Railroad Retirement Board benefits in 2006.

**EVALUATION:** Not evaluated.

### 1.017 INCOME EARNED ABROAD BY U.S. CITIZENS

Internal Revenue Code Section: 911

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

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1926

	Corporation	Personal	Total
2007–09 Revenue Impact:	Not Applicable	\$30,400,000	\$30,400,000
2009–11 Revenue Impact:	Not Applicable	\$33,700,000	\$33,700,000

**DESCRIPTION:** U.S. citizens (except U.S. federal employees) who live abroad may exclude from personal taxable income up to \$85,700 earned from employment overseas in 2007. This income level is indexed to inflation. A taxpayer must meet foreign residence tests to receive the exclusion. Taxpayers may also exclude a certain amount of employer-provided foreign housing expenses.

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

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

**EVALUATION:** Not evaluated.



## 1.018 MAGAZINE, PAPERBACK, AND RECORD RETURNS

Internal Revenue Code Section: 458

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

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1978

	Corporation	Personal	Total
2007–09 Revenue Impact:	\$100,000	\$100,000	\$200,000
2009–11 Revenue Impact:	\$100,000	\$100,000	\$200,000

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

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

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

**EVALUATION:** Not evaluated.

## 1.019 CASH ACCOUNTING, OTHER THAN AGRICULTURE

Internal Revenue Code Sections: 446 and 448

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

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1916

	Corporation	Personal	Total
2007–09 Revenue Impact:	Less than \$50,000	\$6,300,000	\$6,300,000
2009–11 Revenue Impact:	Less than \$50,000	\$7,100,000	\$7,100,000

**DESCRIPTION:** This tax expenditure allows employee-owned service businesses and small businesses with average annual gross receipts of less than \$10 million for the last three years to choose the cash method of accounting instead of the accrual method. Using the cash method of accounting for tax purposes effectively defers corporation and personal income tax by allowing qualified businesses to record income when it is received rather than when it is earned. The tax expenditure 1.218, Cash Accounting for Agriculture, is a similar tax expenditure for small farms.

Income Tax  
Federal Exclusions

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

**WHO BENEFITS:** Small businesses benefit directly from this expenditure.

**EVALUATION:** Not evaluated.

## 1.020 REGIONAL ECONOMIC DEVELOPMENT INCENTIVES

Internal Revenue Code Sections: 38(b), 39(d), 45A, 168(j), 280C(a), and 1391–1397D  
Oregon Statutes: 316.048 and 317.013 (Connections to federal personal and corporation taxable income)  
Federal Law Sunset Date: 12-31-2009  
Year Enacted in Federal Law: 1993

	Corporation	Personal	Total
2007–09 Revenue Impact:	\$0	\$0	\$0
2009–11 Revenue Impact:	\$0	\$0	\$0

**DESCRIPTION:** Federal law allows for the designation of up to 40 empowerment zones, 95 enterprise communities, and 40 renewal communities in the United States to receive special tax benefits. The major benefit of designation is access to tax-exempt bond financing. Qualified public schools in enterprise communities and empowerment zones also have access to qualified zone academy bonds for school modernization. Empowerment zone and renewal community businesses receive additional tax incentives in the form of wage credits and an additional \$35,000 in capital equipment expensing.

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

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

**PURPOSE:** To revitalize economically distressed areas through expanded business and employment opportunities.

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

**EVALUATION:** Not evaluated.

## 1.021 INCOME OF CONTROLLED FOREIGN CORPORATIONS

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

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

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1909

	Corporation	Personal	Total
2007–09 Revenue Impact:	\$28,600,000	Not Applicable	\$28,600,000
2009–11 Revenue Impact:	\$33,400,000	Not Applicable	\$33,400,000

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

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

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

**EVALUATION:** Not evaluated.

## 1.022 EXTRATERRITORIAL INCOME EXCLUSION

Internal Revenue Code Sections: 114 and 941-2

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

Federal Law Sunset Date: 05-18-2006

Year Enacted in Federal Law: 2000

	Corporation	Personal	Total
2007–09 Revenue Impact:	Less than \$50,000	Not Applicable	Less than \$50,000
2009–11 Revenue Impact:	\$0	Not Applicable	\$0

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

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

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. The ETI

Income Tax  
Federal Exclusions

law was repealed for tax years beginning after May 17, 2006. At the federal level, ETI was replaced by a similar deduction for 2005: the Qualified Production Activities Income (QPAI). Oregon is not tied to this provision in its current definition of federal taxable income.

PURPOSE: To encourage foreign trade.  
WHO BENEFITS: Taxpayers with extraterritorial income.  
EVALUATION: Not evaluated.

### 1.023 CANCELLATION OF DEBT FOR NON-FARMERS

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

	Corporation	Personal	Total
2007–09 Revenue Impact:	Less than \$50,000	\$1,300,000	\$1,300,000
2009–11 Revenue Impact:	Less than \$50,000	\$1,500,000	\$1,500,000

DESCRIPTION: In general, when a “discharge of indebtedness” occurs, the forgiven debt is considered income to the taxpayer. An exception is allowed for the discharge of qualified real property business indebtedness. This qualified indebtedness must be connected with real property used in a trade or business. This provision was expanded in 2007 (and extended in 2008), and also applies to mortgage debt of up to \$2 million (\$1 million if married filing separately) forgiven in 2007 through 2012 as a result of a decline in the home’s value or the taxpayer’s financial condition.  
Tax expenditure 1.038, Cancellation of Debt for Farmers, is similar to this tax expenditure.

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

WHO BENEFITS: Taxpayers who have had debt discharged.

EVALUATION: Not evaluated.

## 1.024 IMPUTED INTEREST RULES

Internal Revenue Code Sections: 163(e), 483, 1274 and 1274A

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

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1964

	Corporation	Personal	Total
2007–09 Revenue Impact:	Less than \$50,000	\$3,000,000	\$3,000,000
2009–11 Revenue Impact:	Less than \$50,000	\$3,700,000	\$3,700,000

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

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

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

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

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

**EVALUATION:** Not evaluated.

## 1.025 EMPLOYER PAID GROUP LIFE INSURANCE PREMIUMS

Internal Revenue Code Sections: 79

Legal Opinion 1014 and 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
2007–09 Revenue Impact:	Not Applicable	\$22,400,000	\$22,400,000
2009–11 Revenue Impact:	Not Applicable	\$23,300,000	\$23,300,000

**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.

Income Tax  
Federal Exclusions

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

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

**EVALUATION:** Not evaluated.

## 1.026 EMPLOYER PAID ACCIDENT AND DISABILITY INSURANCE

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: 1954

	Corporation	Personal	Total
2007–09 Revenue Impact:	Not Applicable	\$24,900,000	\$24,900,000
2009–11 Revenue Impact:	Not Applicable	\$27,600,000	\$27,600,000

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

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

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

**EVALUATION:** Not evaluated.

## 1.027 EMPLOYER PROVIDED DEPENDENT CARE

Internal Revenue Code Section: 129  
Oregon Statute: 316.048 (Connection to federal personal taxable income)  
Federal Law Sunset Date: None  
Year Enacted in Federal Law: 1981

	Corporation	Personal	Total
2007–09 Revenue Impact:	Not Applicable	\$22,500,000	\$22,500,000
2009–11 Revenue Impact:	Not Applicable	\$21,700,000	\$21,700,000

**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 employee’s earned income or the earned income of the

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

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

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

**EVALUATION:** Not evaluated.

## 1.028 MISCELLANEOUS FRINGE BENEFITS

Internal Revenue Code Sections: 132 and 117(d)

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

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1984

	Corporation	Personal	Total
2007–09 Revenue Impact:	Not Applicable	\$59,700,000	\$59,700,000
2009–11 Revenue Impact:	Not Applicable	\$67,400,000	\$67,400,000

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

Federal law requires that the imputed value of health and other fringe benefits of a domestic partner be included in adjusted gross income when cohabitating couples are not married.

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

**WHO BENEFITS:** Employees receiving fringe benefits.

**EVALUATION:** Not evaluated.

## 1.029 EMPLOYEE MEALS AND LODGING (NON-MILITARY)

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

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

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1918

	Corporation	Personal	Total
2007–09 Revenue Impact:	Not Applicable	\$8,000,000	\$8,000,000
2009–11 Revenue Impact:	Not Applicable	\$8,600,000	\$8,600,000

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

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

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

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

**EVALUATION:** Not evaluated.

## 1.030 EMPLOYEE STOCK OWNERSHIP PLANS

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

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

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1974

	Corporation	Personal	Total
2007–09 Revenue Impact:	\$4,600,000	\$2,600,000	\$7,200,000
2009–11 Revenue Impact:	\$5,700,000	\$2,600,000	\$8,300,000

**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. Generally, sponsoring employers provide the funds for the ESOP to purchase the stock for the benefit of their employees—no contribution from the employee is required, but the employees are the owners of the stock. 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 more than 50 percent of the company's stock. Under certain circumstances, a stockholder may defer the recognition of the gain from the sale of stock to an ESOP. The estimated tax benefit is a net figure, i.e., the revenue foregone in a given year offset by the amount of tax paid on distributions in that year.

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

**WHO BENEFITS:** Employers and employees of participating companies.

**EVALUATION:** Not evaluated.

### 1.031 EMPLOYEE AWARDS

Internal Revenue Code Sections: 74(c) and 274(j)

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

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1986

	Corporation	Personal	Total
2007–09 Revenue Impact:	Not Applicable	\$1,500,000	\$1,500,000
2009–11 Revenue Impact:	Not Applicable	\$1,600,000	\$1,600,000

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

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

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

**EVALUATION:** Not evaluated.

### 1.032 EMPLOYER PROVIDED EDUCATION BENEFITS

Internal Revenue Code Section: 127

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

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1997

	Corporation	Personal	Total
2007–09 Revenue Impact:	Not Applicable	\$7,100,000	\$7,100,000
2009–11 Revenue Impact:	Not Applicable	\$5,500,000	\$5,500,000

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

- The program must not discriminate in favor of highly compensated employees; and
- Assistance provided to employees owning more than 5 percent of the business may not exceed more than 5 percent of the benefits; 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.

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

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

**EVALUATION:** Not evaluated.

### 1.033 SPREAD ON ACQUISITION OF STOCK

Internal Revenue Code Sections: 422 and 423

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

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1981

	Corporation	Personal	Total
2007–09 Revenue Impact:	Not Applicable	\$2,700,000	\$2,700,000
2009–11 Revenue Impact:	Not Applicable	\$1,900,000	\$1,900,000

**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. Generally, a stock option or purchase plan allows an employee to buy the stock for less than the current market 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 market value and the option's prices is not considered taxable income. The value of this tax expenditure is that the tax is deferred until the employee sells the stock.

**PURPOSE:** To defer tax liability until the income is realized by the taxpayer.  
**WHO BENEFITS:** Taxpayers who receive stock options as a form of compensation.  
**EVALUATION:** Not evaluated.

### 1.034 CAPITAL GAINS ON HOME SALES

Internal Revenue Code Section: 121  
 Oregon Statute: 316.048 (Connection to federal personal taxable income)  
 Federal Law Sunset Date: None  
 Year Enacted in Federal Law: 1997

	Corporation	Personal	Total
2007–09 Revenue Impact:	Not Applicable	\$317,000,000	\$317,000,000
2009–11 Revenue Impact:	Not Applicable	\$353,100,000	\$353,100,000

**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. To qualify, the taxpayer must have owned and occupied the home for at least two of the previous five years. 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:** Not evaluated.

### 1.035 VETERANS' BENEFITS AND SERVICES

U.S. Code Title 38, Section 3101  
Oregon Statute: 316.048 (Connection to federal personal taxable income)  
Federal Law Sunset Date: None  
Year Enacted in Federal Law: 1917

	Corporation	Personal	Total
2007–09 Revenue Impact:	Not Applicable	\$38,000,000	\$38,000,000
2009–11 Revenue Impact:	Not Applicable	\$41,700,000	\$41,700,000

**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 151-bed veterans' nursing care facility, the Oregon Veterans' Home, which opened in November 1997 in The Dalles.

**EVALUATION:** Not evaluated.

### 1.036 MILITARY AND DEPENDENTS CHAMPUS/TRICARE INSURANCE

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

	Corporation	Personal	Total
2007–09 Revenue Impact:	Not Applicable	\$32,700,000	\$32,700,000
2009–11 Revenue Impact:	Not Applicable	\$38,700,000	\$38,700,000

**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, retired military, and their dependents. Some military care for such dependents is provided in military facilities and by military doctors on a space-available basis.

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

Medicare and participate in Medicare Part B will be allowed to retain their TRICARE coverage, which includes pharmaceutical benefits.

- PURPOSE:** To comply with a court ruling. A 1925 court case, *Jones v. United States* [60 CT. CL. 552 (1925)] drew a distinction between the pay and allowances provided for military personnel. The court found that housing and other housing allowances were reimbursements similar to other nontaxable expenses authorized by the executive branch. This exclusion is consistent with the court’s reasoning and extends it to military health benefits.
- WHO BENEFITS:** The families and dependents of military personnel.
- EVALUATION:** Not evaluated.

### 1.037 AGRICULTURE COST-SHARING PAYMENTS

Internal Revenue Code Section: 126

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

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1978

	Corporation	Personal	Total
2007–09 Revenue Impact:	\$100,000	\$100,000	\$200,000
2009–11 Revenue Impact:	\$100,000	\$100,000	\$200,000

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

### 1.038 CANCELLATION OF DEBT FOR FARMERS

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

	Corporation	Personal	Total
2007–09 Revenue Impact:	Not Applicable	\$1,100,000	\$1,100,000
2009–11 Revenue Impact:	Not Applicable	\$1,100,000	\$1,100,000

- DESCRIPTION:** In general, when a “discharge of indebtedness” occurs the forgiven debt is considered income to the taxpayer. An exception is allowed for the discharge of qualified debt. To qualify, farm debt must be a direct result of farm operations, and at least half of the taxpayer’s gross receipts from the previous three years must be from farming. The lender canceling the debt must also meet several qualifications. For instance, the lender cannot be related to the farmer.
- PURPOSE:** To reduce the tax burden on farmers who have a debt discharged and to avoid forcing farmers to sell their farmland in order to pay large tax liabilities on income arising from canceled debt.
- WHO BENEFITS:** Farmers who have debt canceled by lenders. Debt cancellations are not often granted, but may be of substantial value when they do occur.
- EVALUATION:** Not evaluated.

### 1.039 ENERGY CONSERVATION SUBSIDIES (FEDERAL)

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

	Corporation	Personal	Total
2007–09 Revenue Impact:	Not Applicable	\$200,000	\$200,000
2009–11 Revenue Impact:	Not Applicable	\$200,000	\$200,000

- DESCRIPTION:** Residential energy customers can exclude from personal taxable income subsidies provided by public utilities for the purchase or installation of an energy conservation device.
- PURPOSE:** To encourage residential customers of public utilities to participate in conservation programs, sponsored by the utility. This would enhance energy efficiency of dwelling units and encourage energy conservation in residential buildings.
- WHO BENEFITS:** Homeowners who participate in conservation programs and install energy-saving devices.
- EVALUATION:** Not evaluated.

## 1.040 EARNINGS OF CERTAIN ENVIRONMENTAL SETTLEMENT FUNDS

Internal Revenue Code Section: 468B(g)

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

Federal Law Sunset Date: 12-31-2010

Year Enacted in Federal Law: 2005

	Corporation	Personal	Total
2007–09 Revenue Impact:	Less than \$50,000	Not Applicable	Less than \$50,000
2009–11 Revenue Impact:	Less than \$50,000	Not Applicable	Less than \$50,000

**DESCRIPTION:** Hazardous waste site cleanup is sometimes funded by environmental “settlement funds.” These accounts are established in consent decrees between the Environmental Protection Agency and the settling parties under the jurisdiction of a Federal district court. This provision allows businesses that contribute to certain environmental settlement funds to exclude the earnings on those contributions from taxable income. Contributions to funds established between May 17, 2006 and December 31, 2010 are treated as government owned, so that earnings are not taxable

**PURPOSE:** To encourage the creation of environmental settlement funds.

**WHO BENEFITS:** Businesses that establish environmental settlement funds during the eligible period.

**EVALUATION:** Not evaluated.

## 1.041 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
2007–09 Revenue Impact:	Not Applicable	\$31,500,000	\$31,500,000
2009–11 Revenue Impact:	Not Applicable	\$33,400,000	\$33,400,000

**DESCRIPTION:** Employer payments for employee parking, transportation in a commuter highway vehicle, and transit passes are excludable from the personal taxable income of the employees. Parking facilities provided free of charge by the employer are also excludable from income. Employees are allowed to elect taxable cash compensation in-lieu of qualified transportation fringe benefits. For tax year 2008, the maximum exclusion for parking is \$220 per month and the maximum exclusion for transit and commuter transportation is \$115 per month. The maximum exclusion amounts are adjusted for inflation in \$5 increments.

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

Income Tax  
Federal Exclusions

WHO BENEFITS: Employers that pay for some portion of their employees' transportation and commuting costs.

EVALUATION: Not evaluated.

## 1.042 LIFE INSURANCE INVESTMENT INCOME

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

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

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1913

	Corporation	Personal	Total
2007–09 Revenue Impact:	\$11,500,000	\$202,400,000	\$213,900,000
2009–11 Revenue Impact:	\$12,100,000	\$214,700,000	\$226,800,000

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

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

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

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

EVALUATION: Not evaluated.

## 1.043 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
2007–09 Revenue Impact:	Not Applicable	\$22,900,000	\$22,900,000
2009–11 Revenue Impact:	Not Applicable	\$24,300,000	\$24,300,000

DESCRIPTION: Non-medical workers' compensation benefits to disabled workers and to their families in cases of work-related death are not included in personal taxable income. The revenue impact estimates shown above are for workers' compensation non-medical benefits only. These benefits may include cash earnings-replacement



payments, special payments for physical impairment, and coverage for certain injury or death-related expenses (e.g., burial costs). The effect of workers' compensation medical benefits is covered in tax expenditure 1.044, Workers' Compensation Benefits (Medical).

- PURPOSE:** To compensate for the economic hardship imposed by work-related injury, sickness, or death, and to be consistent with the tax treatment of court awarded compensatory damages. See tax expenditure 1.010, Compensatory Damages, for more information.
- WHO BENEFITS:** Workers, or their families in cases of work-related death, receiving workers' compensation benefits.
- EVALUATION:** Not evaluated.

### **1.044 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
2007–09 Revenue Impact:	Not Applicable	\$70,500,000	\$70,500,000
2009–11 Revenue Impact:	Not Applicable	\$83,900,000	\$83,900,000

- DESCRIPTION:** Workers' compensation medical benefits are not included in personal taxable income. These benefits include payments for medical treatment of work-related illness or injury. The revenue impact estimates shown are for workers' compensation medical benefits only; workers' compensation non-medical benefits are covered in tax expenditure 1.043, Workers' Compensation Benefits (Non-Medical).
- PURPOSE:** To compensate for the economic hardship imposed by work-related injury, sickness, or death and to be consistent with the tax treatment of court awarded compensatory damages. See tax expenditure 1.010, Compensatory Damages, for more information.
- WHO BENEFITS:** Injured or ill workers that receive workers' compensation medical benefits.
- EVALUATION:** Not evaluated.

Income Tax  
Federal Exclusions

### 1.045 CREDIT UNION INCOME

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

	Corporation	Personal	Total
2007–09 Revenue Impact:	\$7,500,000	Not Applicable	\$7,500,000
2009–11 Revenue Impact:	\$8,300,000	Not Applicable	\$8,300,000

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

Before 1951, the income of mutual banks, savings and loans, and credit unions was not taxed. In 1951, the exemption from mutual banks and savings and loans was removed, but credit unions retained the exemption.

**PURPOSE:** According to the Congressional Research Service, credit unions may retain the exemption because they are viewed as serving a unique niche in financial markets.

**WHO BENEFITS:** Credit unions and their members.

**EVALUATION:** Not evaluated.

### 1.046 STRUCTURED SETTLEMENT ACCOUNTS

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

	Corporation	Personal	Total
2007–09 Revenue Impact:	Less than \$50,000	Not Applicable	Less than \$50,000
2009–11 Revenue Impact:	Less than \$50,000	Not Applicable	Less than \$50,000

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

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

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

**EVALUATION:** Not evaluated.

## 1.047 CONTRIBUTIONS IN AID OF CONSTRUCTION FOR UTILITIES

Internal Revenue Code Section: 118(c) and (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
2007–09 Revenue Impact:	\$200,000	Not Applicable	\$200,000
2009–11 Revenue Impact:	\$200,000	Not Applicable	\$200,000

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

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

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

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

**EVALUATION:** Not evaluated.

## 1.048 CERTAIN DISASTER MITIGATION PAYMENTS

Internal Revenue Code Section: 139(g)

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

Federal Law Sunset Date: None

Year Enacted in Federal Law: 2005

	Corporation	Personal	Total
2007–09 Revenue Impact:	Less than \$50,000	Less than \$50,000	Less than \$50,000
2009–11 Revenue Impact:	Less than \$50,000	Less than \$50,000	Less than \$50,000

DESCRIPTION:	Disaster mitigation payments made to the owner of a property to mitigate hazards to that property, as paid through the Robert T. Stafford Disaster Relief and Emergency Assistance Act, or the National Flood Insurance Act are excluded from taxable income.
PURPOSE:	To retain the value of disaster mitigation payments by not imposing tax on those payments.
WHO BENEFITS:	Recipients of specified disaster mitigation payments.
EVALUATION:	Not evaluated.

## 1.049 GAIN ON NONDEALER INSTALLMENT SALES

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

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

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1921

	Corporation	Personal	Total
2007–09 Revenue Impact:	\$7,000,000	\$8,300,000	\$15,300,000
2009–11 Revenue Impact:	\$3,900,000	\$5,000,000	\$8,900,000

DESCRIPTION:	<p>Persons who do not deal regularly in selling property (i.e., nondealers) are allowed to report some sales of property for corporation and personal tax purposes under a special method of accounting called the installment method. Under the installment method, gross profit from the sale is prorated over the years during which the payments are received. This conveys a tax advantage compared to being taxed in full in the year of sale because the taxes are deferred to future years. A provision of the American Jobs Creation Act of 2004, limited the use of this provision to sale of debt that is not readily tradable.</p> <p>Interest must be paid to the government on the deferred taxes attributable to the portion of the installment sales that exceed \$5 million. Transactions in which the sales price is less than \$150,000 do not count toward the \$5 million limit.</p>
PURPOSE:	To match the timing of tax payments to the timing of the cash flow generated by the sale of the property. Requiring an up-front payment of taxes by a seller who won't receive the bulk of payments for the property until the future can place a heavy burden on infrequent sellers of property.

WHO BENEFITS: Infrequent sellers of property who sell on an installment basis.  
EVALUATION: Not evaluated.

## 1.050 GAIN ON LIKE-KIND EXCHANGES

Internal Revenue Code Section: 1031

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

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1921

	Corporation	Personal	Total
2007–09 Revenue Impact:	\$14,400,000	\$7,500,000	\$21,900,000
2009–11 Revenue Impact:	\$14,700,000	\$7,900,000	\$22,600,000

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

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

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

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

**EVALUATION:** Not evaluated.

### 1.051 ALLOWANCES FOR FEDERAL EMPLOYEES ABROAD

Internal Revenue Code Section: 912  
Oregon Statute: 316.048 (Connection to federal personal taxable income)  
Federal Law Sunset Date: None  
Year Enacted in Federal Law: 1943

	Corporation	Personal	Total
2007–09 Revenue Impact:	Not Applicable	\$4,700,000	\$4,700,000
2009–11 Revenue Impact:	Not Applicable	\$5,300,000	\$5,300,000

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

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

**WHO BENEFITS:** Federal civilian employees working abroad.

**EVALUATION:** Not evaluated.

### 1.052 INTEREST ON OREGON STATE AND LOCAL DEBT

Internal Revenue Code Sections: 103, 141, 142, 143, 144, 145, 146 and 501(c)(3)  
Oregon Statutes: 316.048 (Connection to federal personal taxable income)  
Federal Law Sunset Date: None  
Year Enacted in Federal Law: 1913

	Corporation	Personal	Total
2007–09 Revenue Impact:	Not Applicable	\$78,700,000	\$78,700,000
2009–11 Revenue Impact:	Not Applicable	\$87,000,000	\$87,000,000

**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 in which 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 include the following state and local government bonds: industrial development bonds for energy production facilities; sewage, water, and hazardous waste facilities bonds; bonds for owner-occupied housing; bonds for rental housing; small-issue industrial development bonds; bonds for high-speed rail; bonds for private airports, docks, and mass-commuting facilities; student loan bonds; bonds for private

nonprofit hospital facilities; and bonds for veterans' housing. Many of these bonds are subject to the state private activity bond annual volume cap set by the federal government.

Interest income on these qualified private activity bonds is exempt from federal income tax as well as Oregon income tax. There are other non-qualified private activity bonds. The interest earned on these bonds is taxable at the federal level but not at the state level. See tax expenditure 1.309, Municipal Bond Interest, for more information.

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 2006, more than 55,000 Oregon taxpayers reported nontaxable interest income from Oregon state or local government debt obligations, saving a total of about \$39 million in tax. This amount has been declining for several years.
- EVALUATION:** Not evaluated.

### **1.053 CAPITAL GAINS ON INHERITED PROPERTY**

Internal Revenue Code Sections: 1001, 1002, 1014, 1023, 1040, 1221 and 1222  
 Oregon Statute: 316.048 (Connection to federal personal taxable income)  
 Federal Law Sunset Date: None  
 Year Enacted in Federal Law: 1921

	Corporation	Personal	Total
2007–09 Revenue Impact:	Not Applicable	\$741,400,000	\$741,400,000
2009–11 Revenue Impact:	Not Applicable	\$796,800,000	\$796,800,000

- DESCRIPTION:** When property is transferred upon death, unrealized capital gains on the property are excluded from personal taxable income. The new basis for the heir is set to the market value on the date of the decedent's death.
- PURPOSE:** To provide tax relief to heirs who inherit property.
- WHO BENEFITS:** Heirs who inherit property.
- EVALUATION:** Not evaluated.

### 1.054 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
2007–09 Revenue Impact:	Not Applicable	Less than \$50,000	Less than \$50,000
2009–11 Revenue Impact:	Not Applicable	Less than \$50,000	Less than \$50,000

**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 that experience an involuntary gain as a result of being reimbursed for damaged property.

**EVALUATION:** Not evaluated.

### 1.055 VOLUNTARY EMPLOYEES’ BENEFICIARY ASSOCIATIONS

Internal Revenue Code Sections: 419, 419A, 501(a), 501(c)(9) and 4976  
Oregon Statute: 316.048 (Connection to federal personal taxable income)  
Federal Law Sunset Date: None  
Year Enacted in Federal Law: 1928

	Corporation	Personal	Total
2007–09 Revenue Impact:	Not Applicable	\$15,300,000	\$15,300,000
2009–11 Revenue Impact:	Not Applicable	\$16,200,000	\$16,200,000

**DESCRIPTION:** A Voluntary Employees’ Beneficiary Association (VEBA) provides life, sickness, accident, and other insurance as well as fringe benefits to its employee members, their dependents, and their beneficiaries; these benefits are not included in personal taxable income.

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



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

EVALUATION: Not evaluated.

## 1.056 RENTAL ALLOWANCES FOR MINISTERS' HOMES

Internal Revenue Code Sections: 107

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

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1921

	Corporation	Personal	Total
2007–09 Revenue Impact:	Not Applicable	\$4,500,000	\$4,500,000
2009–11 Revenue Impact:	Not Applicable	\$5,200,000	\$5,200,000

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

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

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

EVALUATION: Not evaluated.

## 1.057 DISCHARGE OF CERTAIN STUDENT LOAN DEBT

Internal Revenue Code Sections: 108(f), 20 U.S.C. 1087ee(a)(5) and 42 U.S.C. 2541-1(g)(3)

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

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1984

	Corporation	Personal	Total
2007–09 Revenue Impact:	Not Applicable	\$200,000	\$200,000
2009–11 Revenue Impact:	Not Applicable	\$200,000	\$200,000

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

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

Income Tax  
Federal Exclusions

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

EVALUATION: Not evaluated.

## 1.058 MILITARY DISABILITY BENEFITS

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

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

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1942

	Corporation	Personal	Total
2007–09 Revenue Impact:	Not Applicable	\$800,000	\$800,000
2009–11 Revenue Impact:	Not Applicable	\$800,000	\$800,000

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

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

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

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

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

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

WHO BENEFITS: Veterans who are retired on disability and were members of the armed forces on or before September 24, 1975, benefit from this exclusion.

EVALUATION: Not evaluated.

## 1.059 BENEFITS AND ALLOWANCES OF ARMED FORCES PERSONNEL

Internal Revenue Code Sections: 112 and 134

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

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1925

	Corporation	Personal	Total
2007–09 Revenue Impact:	Not Applicable	\$26,600,000	\$26,600,000
2009–11 Revenue Impact:	Not Applicable	\$29,600,000	\$29,600,000

**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. In addition, combat-zone compensation and payments made to families as death gratuities when members of the armed forces die are tax exempt.

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

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

**EVALUATION:** Not evaluated.

## 1.060 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
2007–09 Revenue Impact:	Not Applicable	\$77,600,000	\$77,600,000
2009–11 Revenue Impact:	Not Applicable	\$82,200,000	\$82,200,000

**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.

Income Tax  
Federal Exclusions

WHO BENEFITS: Donors and recipients of gifts.

EVALUATION: Not evaluated.

## 1.061 RESTITUTION PAYMENTS FOR HOLOCAUST SURVIVORS

Internal Revenue Code Sections: P.L. 107-36 and 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
2007–09 Revenue Impact:	Not Applicable	Less than \$50,000	Less than \$50,000
2009–11 Revenue Impact:	Not Applicable	Less than \$50,000	Less than \$50,000

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

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

WHO BENEFITS: Holocaust survivors or family members who receive restitution payments.

EVALUATION: Not evaluated.

## 1.062 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
2007–09 Revenue Impact:	Not Applicable	\$200,000	\$200,000
2009–11 Revenue Impact:	Not Applicable	\$200,000	\$200,000

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

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

WHO BENEFITS: Surviving family members of officers killed in the line of duty.  
EVALUATION: Not evaluated.

## 1.101 TEACHER CLASSROOM EXPENSES

Internal Revenue Code Section: 62(a)(2)(D)  
Oregon Statute: 316.048 (Connection to federal personal taxable income)  
Federal Law Sunset Date: 12-31-2009  
Year Enacted in Federal Law: 2002

	Corporation	Personal	Total
2007–09 Revenue Impact:	Not Applicable	\$1,600,000	\$1,600,000
2009–11 Revenue Impact:	Not Applicable	\$1,400,000	\$1,400,000

**DESCRIPTION:** Eligible teachers are allowed to deduct up to \$250 per year for unreimbursed expenses incurred in connection with books, supplies, computer equipment, and supplementary materials used in the classroom for tax years 2002 through 2009. This deduction can be taken without itemizing (known as an adjustment or above the line deduction). Eligible teachers include kindergarten through grade 12 teachers, instructors, counselors, or principals in a school for at least 900 hours during a school year.

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

**WHO BENEFITS:** In 2005, about 35,000 Oregon teachers saved an average of \$20 in Oregon tax due to this provision.

**EVALUATION:** Not evaluated.

## 1.102 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
2007–09 Revenue Impact:	Not Applicable	\$20,700,000	\$20,700,000
2009–11 Revenue Impact:	Not Applicable	\$23,300,000	\$23,300,000

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

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

For 2007 returns, the deduction is phased out for taxpayers with income between \$55,000 and \$70,000 (single) or \$115,000 and \$145,000 (married).

**PURPOSE:** To encourage higher education by reducing the costs.

**WHO BENEFITS:** The table below shows the usage of this deduction in tax year 2006.

Income Group for Full-Year Taxpayers	2006 Taxpayers			Mean Deduction
	Total Number	Number Taking Deduction	Percent Taking Deduction	
<b>Below \$10,000</b>	266,929	7,147	2.7%	\$639
<b>\$10,000 - \$20,000</b>	248,677	11,378	4.6%	\$634
<b>\$20,000 - \$40,000</b>	368,295	28,813	7.8%	\$742
<b>\$40,000 - \$70,000</b>	321,332	34,358	10.7%	\$793
<b>Above \$70,000</b>	340,864	30,835	9.0%	\$872
<b>All Full-Year Taxpayers</b>	1,546,097	112,531	7.3%	\$776
<b>Part-Year and Nonresident Taxpayers</b>	209,471	22,171	10.6%	\$785

**EVALUATION:** Not evaluated.

### 1.103 QUALIFIED HIGHER EDUCATION EXPENSES

Internal Revenue Code Sections: 222

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

Federal Law Sunset Date: 12-31-2009

Year Enacted in Federal Law: 2001

	Corporation	Personal	Total
2007–09 Revenue Impact:	Not Applicable	\$19,000,000	\$19,000,000
2009–11 Revenue Impact:	Not Applicable	\$15,100,000	\$15,100,000

**DESCRIPTION:** A deduction is allowed for qualified higher education expenses paid by the taxpayer during tax years 2002 through 2009. Qualified expenses included tuition and fees paid as a condition of enrollment or attendance at a post-secondary educational institution. This deduction could be made even if the taxpayer does not itemize deductions. The maximum deduction is \$4,000 per taxpayer with income not more than \$65,000 (\$130,000 on a joint return) or \$2,000 if the taxpayer's income was above \$65,000 but not more than \$80,000 (\$160,000 for joint returns). If adjusted gross income exceeded 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.

Income Tax  
Federal Adjustments

WHO BENEFITS: College students or their parents who paid qualified education expenses. In 2005, about 70,000 Oregon returns included this deduction. The average Oregon tax savings was \$212.

EVALUATION: Not evaluated.

## 1.104 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
2007–09 Revenue Impact:	Not Applicable	\$84,800,000	\$84,800,000
2009–11 Revenue Impact:	Not Applicable	\$106,900,000	\$106,900,000

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

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 table below shows the usage of this adjustment in tax year 2006.

Income Group for Full-Year Taxpayers	2006 Taxpayers			Mean Deduction
	Total Number	Number Taking Deduction	Percent Taking Deduction	
<b>Below \$10,000</b>	266,929	6,085	2.3%	\$3,144
<b>\$10,000 - \$20,000</b>	248,677	6,153	2.5%	\$3,178
<b>\$20,000 - \$40,000</b>	368,295	10,991	3.0%	\$3,751
<b>\$40,000 - \$70,000</b>	321,332	12,331	3.8%	\$4,373
<b>Above \$70,000</b>	340,864	25,822	7.6%	\$6,765
<b>All Full-Year Taxpayers</b>	1,546,097	61,382	4.0%	\$5,026
<b>Part-Year and Nonresident Taxpayers</b>	209,471	10,243	4.9%	\$6,334

EVALUATION: Not evaluated.



## 1.105 HEALTH SAVINGS ACCOUNTS

Internal Revenue Code Section: 223

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

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1996

	Corporation	Personal	Total
2007–09 Revenue Impact:	Not Applicable	\$5,100,000	\$5,100,000
2009–11 Revenue Impact:	Not Applicable	\$9,900,000	\$9,900,000

**DESCRIPTION:** Contributions to health savings accounts (HSAs) by qualified individuals are deductible from federal gross income. Taxpayers do not have to itemize to claim the deduction. Savings in these accounts can be used by individuals to pay for medical expenses in a pre-tax manner.

The accounts are used to pay medical costs incurred until an insurance deductible amount is met. To qualify for 2007, individuals must have high-deductible (at least \$1,100 for individual coverage and \$2,200 for families) health insurance with limited maximum out-of-pocket expenses. Contributions are limited to \$2,850 for individual coverage and \$5,650 for a family. Individuals who are 55 or older and not yet covered by Medicare may contribute an additional \$800 in 2007. Unused HSA account balances can accrue over years without limit. Both the deductible amounts and maximum out-of-pocket expenses amount are adjusted annually.

Contributions can also be made by employers on an employee's behalf. Such contributions are excluded from employment taxation.

**PURPOSE:** To slow the growth of health care costs by reducing reliance on insurance, to preserve freedom of choice in health care, and to help families and individuals finance future health care costs.

**WHO BENEFITS:** Taxpayers who use health savings plans.

**EVALUATION:** Not evaluated.

## 1.106 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
2007–09 Revenue Impact:	Not Applicable	\$130,400,000	\$130,400,000
2009–11 Revenue Impact:	Not Applicable	\$159,000,000	\$159,000,000

**DESCRIPTION:** There are two types of Individual Retirement Accounts (IRAs) from which taxpayers may enjoy a tax benefit: Traditional and Roth. The Traditional IRA allows for tax deductible contributions, while the Roth IRA allows for tax-free withdrawals. The revenue impact consists of the tax benefits from the deductibility of traditional IRAs,

Income Tax  
Federal Adjustments

the tax-deferred earnings of traditional IRAs, and the tax-free earnings of Roth IRAs. This deduction can be taken without itemizing (known as an adjustment or above-the-line deduction).

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

**WHO BENEFITS:** The table below shows the usage of this adjustment in tax year 2006.

Income Group for Full-Year Taxpayers	2006 Taxpayers			Mean Deduction
	Total Number	Number Taking Deduction	Percent Taking Deduction	
<b>Below \$10,000</b>	266,929	1,334	0.5%	\$2,778
<b>\$10,000 - \$20,000</b>	248,677	3,322	1.3%	\$2,720
<b>\$20,000 - \$40,000</b>	368,295	11,003	3.0%	\$3,243
<b>\$40,000 - \$70,000</b>	321,332	15,095	4.7%	\$3,789
<b>Above \$70,000</b>	340,864	17,077	5.0%	\$4,762
<b>All Full-Year Taxpayers</b>	1,546,097	47,831	3.1%	\$3,908
<b>Part-Year and Nonresident Taxpayers</b>	209,471	5,981	2.9%	\$4,163

**EVALUATION:** Not evaluated.

### 1.107 SEP/SIMPLE PLAN CONTRIBUTIONS AND EARNINGS

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

	Corporation	Personal	Total
2007–09 Revenue Impact:	Not Applicable	\$73,700,000	\$73,700,000
2009–11 Revenue Impact:	Not Applicable	\$93,600,000	\$93,600,000

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

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

**WHO BENEFITS:** The table below shows the usage of this adjustment in tax year 2006.

Income Group for Full-Year Taxpayers	2006 Taxpayers			Mean Deduction
	Total Number	Number Taking Deduction	Percent Taking Deduction	
<b>Below \$10,000</b>	266,929	602	0.2%	\$4,632
<b>\$10,000 - \$20,000</b>	248,677	720	0.3%	\$3,753
<b>\$20,000 - \$40,000</b>	368,295	1,941	0.5%	\$5,498
<b>\$40,000 - \$70,000</b>	321,332	3,181	1.0%	\$7,280
<b>Above \$70,000</b>	340,864	13,904	4.1%	\$16,655
<b>All Full-Year Taxpayers</b>	1,546,097	20,348	1.3%	\$13,313
<b>Part-Year and Nonresident Taxpayers</b>	209,471	3,769	1.8%	\$25,096

EVALUATION: Not evaluated.

## 1.108 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
2007–09 Revenue Impact:	Not Applicable	\$4,900,000	\$4,900,000
2009–11 Revenue Impact:	Not Applicable	\$5,300,000	\$5,300,000

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

**PURPOSE:** To reduce employment related moving costs.

**WHO BENEFITS:** Employees incurring moving expenses related to a new job or business. The number of taxpayers claiming this adjustment in 2006 was about 20,000 (up from about 17,000 in 2004). The average tax savings from this provision was \$134 in 2006.

**EVALUATION:** Not evaluated.

## 1.109 OVERNIGHT-TRAVEL EXPENSES OF NATIONAL GUARD AND RESERVE MEMBERS

Internal Revenue Code Section: 162(p)

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

Sunset Date: None

Year Enacted in Federal Law: 2003

	Corporation	Personal	Total
2007–09 Revenue Impact:	Not Applicable	\$200,000	\$200,000
2009–11 Revenue Impact:	Not Applicable	\$400,000	\$400,000

**DESCRIPTION:** A deduction from federal gross income is allowed for all unreimbursed overnight travel, meals, and lodging expenses of National Guard and Reserve members. This deduction can be taken without itemizing (known as an adjustment or above-the-line deduction). To qualify, they must have traveled more than 100 miles away from home and stayed overnight as part of an activity while on official duty. No deduction is permitted for commuting expenses to and from drill meetings and the amount of expenses may not exceed the general federal government per diem rate applicable to that locale.

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

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

**EVALUATION:** Not evaluated.

## 1.201 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
2007–09 Revenue Impact:	\$5,700,000	\$46,700,000	\$52,400,000
2009–11 Revenue Impact:	\$6,000,000	\$51,600,000	\$57,600,000

**DESCRIPTION:** Contributions to educational organizations are allowed as itemized deductions from personal taxable income of amounts up to 50 percent of adjusted gross income. Corporations can deduct from corporate taxable income contributions up to 10 percent of adjusted taxable income. Taxpayers who donate property may deduct the current market value of the property up to 30 percent of adjusted gross income and do not need to pay tax on any capital gains realized on the property. Contributions in excess of the limits may be applied to up to five future tax years until the contributions are completely deducted. See tax expenditure 1.301, Land Donated to Schools, for the related Oregon subtraction.

**PURPOSE:** To encourage donations to qualifying educational organizations.

**WHO BENEFITS:** In 2006, roughly 600,000 individual Oregonians took a deduction for charitable contributions. The average tax savings was about \$250. The total tax savings was \$150.6 million. It is estimated that 14 percent went to educational institutions, 10 percent went to health related organizations, and 76 percent went to all other charitable organizations.

**EVALUATION:** Not evaluated.

## 1.202 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
2007–09 Revenue Impact:	\$6,800,000	\$32,200,000	\$39,000,000
2009–11 Revenue Impact:	\$6,800,000	\$34,600,000	\$41,400,000

**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.

Income Tax  
Federal Deductions

**PURPOSE:** To encourage donations to designated health organizations.

**WHO BENEFITS:** In 2006, roughly 600,000 individual Oregonians took a deduction for charitable contributions. The average tax savings was about \$250. The total tax savings was \$150.6 million. It is estimated that 14 percent went to educational institutions, 10 percent went to health related organizations, and 76 percent went to all other charitable organizations.

**EVALUATION:** Not evaluated.

### 1.203 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
2007–09 Revenue Impact:	Not Applicable	\$175,800,000	\$175,800,000
2009–11 Revenue Impact:	Not Applicable	\$228,700,000	\$228,700,000

**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. (See also 1.306, Additional Medical Deduction for Elderly.)

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

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

**EVALUATION:** Not evaluated.

### 1.204 REMOVAL OF ARCHITECTURAL BARRIERS

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

	Corporation	Personal	Total
2007–09 Revenue Impact:	Less than \$50,000	Less than \$50,000	Less than \$50,000
2009–11 Revenue Impact:	Less than \$50,000	Less than \$50,000	Less than \$50,000

**DESCRIPTION:** A deduction from corporation or personal taxable income of up to \$15,000 is allowed for the removal of architectural and transportation barriers. Eligible expenses include

those necessary to make facilities or transportation vehicles for use in the trade or business more accessible to the handicapped and those 65 and over.

- PURPOSE:** To reduce physical barriers for both employees and customers who are handicapped or age 65 and over.
- WHO BENEFITS:** The taxpayers incurring the costs of making the structural changes and the elderly and handicapped who have access to areas they may not have had without the deduction.
- EVALUATION:** Not evaluated.

## 1.205 ACCELERATED DEPRECIATION OF BUILDINGS

Internal Revenue Code Sections: 167 and 168

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

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1954

	Corporation	Personal	Total
2007–09 Revenue Impact:	\$3,000,000	\$5,200,000	\$8,200,000
2009–11 Revenue Impact:	\$3,100,000	\$5,300,000	\$8,400,000

- DESCRIPTION:** In general, taxpayers may deduct from corporation and personal taxable income the depreciation of buildings based on a straight-line method where equal amounts are deducted in each period. This tax expenditure permits the use of accelerated depreciation methods, which allow for faster write-offs than the straight-line method. The revenue impact of this tax expenditure represents the additional tax that would have been paid if straight-line depreciation had been used. Note: The tax expenditure associated with rental housing is covered separately in 1.215, Accelerated Depreciation of Rental Housing.
- PURPOSE:** To promote investment in buildings.
- WHO BENEFITS:** This expenditure benefits owners of buildings used in a trade or business.
- EVALUATION:** Not evaluated.

## 1.206 ACCELERATED DEPRECIATION OF EQUIPMENT

Internal Revenue Code Sections: 167 and 168

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

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1954

	Corporation	Personal	Total
2007–09 Revenue Impact:	\$90,000,000	\$29,800,000	\$119,800,000
2009–11 Revenue Impact:	\$74,000,000	\$32,200,000	\$106,200,000

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

Accelerated depreciation of any type of capital does not change the cumulative amount of depreciation over all years. Therefore, this provision allows a taxpayer to deduct more in the first year of the investment and subsequently less in the latter years of the capital life-cycle resulting in a potential revenue gain from this provision (reported as a negative revenue impact).

The revenue impact includes expansion of accelerated depreciation contained in the economic stimulus act of 2008, which leads to a substantial increase in the 2007-09 biennium.

**PURPOSE:** To promote investment in business equipment.

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

**EVALUATION:** Not evaluated.

## 1.207 DEFERRAL OF CERTAIN FINANCING INCOME OF FOREIGN CORPORATIONS

Internal Revenue Code Section: 954 (h)

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

Federal Law Sunset Date: 12-31-2008

Year Enacted in Federal Law: 1997

	Corporation	Personal	Total
2007–09 Revenue Impact:	\$8,200,000	Not Applicable	\$8,200,000
2009–11 Revenue Impact:	\$400,000	Not Applicable	\$400,000

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



income earned abroad until that income is repatriated to the U.S. The Tax Increase Prevention and Reconciliation Act (2006) extended these exemptions through tax year 2008.

- PURPOSE:** To give financial and manufacturing businesses operating abroad similar tax benefits.
- WHO BENEFITS:** U.S. firms conducting financial business abroad. These firms are not liable for Oregon corporate income tax until they actually repatriate taxable income back to the United States.
- EVALUATION:** Not evaluated.

## 1.208 RESEARCH AND DEVELOPMENT COSTS

Internal Revenue Code Section: 174

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

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1954

	Corporation	Personal	Total
2007–09 Revenue Impact:	\$13,100,000	Not Applicable	\$13,100,000
2009–11 Revenue Impact:	\$19,700,000	Not Applicable	\$19,700,000

- DESCRIPTION:** To be consistent with the treatment of other investments with multi-year benefits, research and development (R&D) expenditures would need to be depreciated over their useful life. Instead, this provision allows research and development expenditures to be fully expensed in the first year for purposes of computing corporation and personal taxable income.
- PURPOSE:** To encourage investment in research and development and to avoid the difficulty of determining the length of useful life of any assets created through the research and development process.
- WHO BENEFITS:** Firms with certain research and experimental expenditures.
- EVALUATION:** Not evaluated.

## 1.209 SECTION 179 EXPENSING ALLOWANCES

Internal Revenue Code Section: 179

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

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1959

	Corporation	Personal	Total
2007–09 Revenue Impact:	\$1,500,000	\$19,900,000	\$21,400,000
2009–11 Revenue Impact:	\$400,000	\$5,700,000	\$6,100,000

**DESCRIPTION:** In general, the cost of business property must be deducted from personal and corporation income as it depreciates over its useful life. For taxable years beginning in 2008, this expenditure has been expanded by the Economic Stimulus Act of 2008. The temporary limits allow a taxpayer to deduct, as an expense, up to \$250,000 of the cost of qualifying property in the year it is purchased. The amount that can be expensed is phased out if the taxpayer purchases more than \$800,000 of property during the year. Without the expansion, the 2008 expensing limitations would be \$128,000 and \$510,000, the 2009 and 2010 limits will be based on these amounts adjusted for inflation. In 2011, these limits are scheduled to be reduced 25,000 and \$200,000. The limitations ensure that smaller businesses receive most of the benefit from this expenditure.

Accelerated depreciation of any type of property does not change the cumulative amount of depreciation over all years. Therefore, this provision allows a taxpayer to deduct more in the first year of the investment and subsequently less in the latter years of the capital life-cycle resulting in a potential revenue gain from this provision (reported as a negative revenue impact).

The revenue impact includes expansion of accelerated depreciation contained in the federal Economic Stimulus Act of 2008, which leads to a substantial increase in the 2007-09 biennium.

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

**WHO BENEFITS:** Businesses with qualified property purchases.

**EVALUATION:** Not evaluated.

## 1.210 AMORTIZATION OF BUSINESS START-UP COSTS

Internal Revenue Code Section: 195

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

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1980

	Corporation	Personal	Total
2007–09 Revenue Impact:	Less than \$50,000	\$5,900,000	\$5,900,000
2009–11 Revenue Impact:	Less than \$50,000	\$6,700,000	\$6,700,000

**DESCRIPTION:** This provision allows a taxpayer to deduct from personal or corporation taxable income eligible start-up expenditures of up to \$5,000 and to amortize any remaining amount over 15 years. An expenditure must satisfy two requirements to qualify for this treatment. First, it must be paid in connection with creating or investigating a trade or business before the taxpayer begins an active business. Second, it must be an expenditure that would have been deductible for an active business.

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

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

**EVALUATION:** Not evaluated.

## 1.211 CONSTRUCTION FUNDS OF SHIPPING COMPANIES

Internal Revenue Code Section: 7518

Oregon Statute: 317.319

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1936

	Corporation	Personal	Total
2007–09 Revenue Impact:	\$400,000	Not Applicable	\$400,000
2009–11 Revenue Impact:	\$400,000	Not Applicable	\$400,000

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

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

**WHO BENEFITS:** U.S. shipping companies.

**EVALUATION:** Not evaluated.

## 1.212 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
2007–09 Revenue Impact:	Not Applicable	Less than \$50,000	Less than \$50,000
2009–11 Revenue Impact:	Not Applicable	Less than \$50,000	Less than \$50,000

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

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

**PURPOSE:** To encourage investment in small businesses.

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

**EVALUATION:** Not evaluated.

## 1.213 RENEWAL COMMUNITY TAX INCENTIVES

Internal Revenue Code Section: 45(d)  
Oregon Statute: 316.048 and 317.013 (Connections to federal personal and corporation taxable incomes)  
Federal Law Sunset Date: 12-31-2007  
Year Enacted in Federal Law: 2000

	Corporation	Personal	Total
2007–09 Revenue Impact:	\$0	\$0	\$0
2009–11 Revenue Impact:	\$0	\$0	\$0

**DESCRIPTION:** The federal government provided four renewal community (RC) tax incentives that target businesses. They were: 1) Gains from the sale of assets designated as RC businesses were taxed at zero percent, 2) a qualified RC business was eligible for a federal tax credit worth 15 percent of the first \$10,000 of wages for each qualified employee it hired, 3) each state could allocate up to \$12 million for “commercial revitalization expenditures” for businesses in an RC, and 4) RC businesses could claim up to \$35,000 in IRS section 179 expensing for qualified RC property. Only the last of these (increased 179 expensing) was passed on through Oregon’s connection to federal taxable income, and is potentially a tax expenditure.

**PURPOSE:** To encourage investment and hiring in economically disadvantaged areas.

**WHO BENEFITS:** Any individual who made an investment in a CDE and corporations located in renewal communities that could claim any of the corporate incentives. Oregon does not currently have any RCs.

**EVALUATION:** Not evaluated.

## 1.214 DEDUCTION OF CERTAIN FILM AND TELEVISION PRODUCTION COSTS

Internal Revenue Code Section: 181

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

Federal Law Sunset Date: 12-31-2009

Year Enacted in Federal Law: 2004

	Corporation	Personal	Total
2007–09 Revenue Impact:	\$400,000	Less than \$50,000	\$400,000
2009–11 Revenue Impact:	\$0	\$0	\$0

**DESCRIPTION:** The cost of producing films and television programs is usually depreciated over a period of time using the income forecast method (which allows deductions based on the pattern of expected earnings). This federal tax provision allows production costs to be deducted when incurred. Eligible productions are restricted to those with a cost of \$15 million or less (\$20 million if produced in certain designated low income areas) and in which at least 75 percent of the compensation is for services performed in the United States. Only the first 44 episodes of a television series qualify, and sexually explicit productions are not eligible.

**PURPOSE:** To encourage film production in the United States.

**WHO BENEFITS:** Any film or television production company that pays U.S. and Oregon corporate taxes. The size of the benefit will depend on the lag time between production and earning income; the longer the lag time, the greater the benefit of immediate depreciation.

**EVALUATION:** Not evaluated.

## 1.215 ACCELERATED DEPRECIATION OF RENTAL HOUSING

Internal Revenue Code Sections: 167 and 168

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

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1954

	Corporation	Personal	Total
2007–09 Revenue Impact:	\$2,100,000	\$34,000,000	\$36,100,000
2009–11 Revenue Impact:	\$2,800,000	\$42,100,000	\$44,900,000

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

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

**WHO BENEFITS:** Owners of rental housing.

**EVALUATION:** Not evaluated.

## 1.216 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
2007–09 Revenue Impact:	Not Applicable	\$296,600,000	\$296,600,000
2009–11 Revenue Impact:	Not Applicable	\$323,500,000	\$323,500,000

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

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

**WHO BENEFITS:** In 2006, approximately 670,000 filers saved a total of \$136.5 million in Oregon tax because of this itemized deduction. The average tax savings was \$204.

**EVALUATION:** Not evaluated.

## 1.217 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
2007–09 Revenue Impact:	Not Applicable	\$884,500,000	\$884,500,000
2009–11 Revenue Impact:	Not Applicable	\$905,100,000	\$905,100,000

**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 million (\$500,000 if married filing separately) for the purchase of the residence and on loans up to \$100,000 (\$50,000 if married filing separately) for home equity loans

For 2007 through 2010, mortgage insurance premiums are also deductible as interest for insurance contracts issued after 2006. Taxpayers with income under \$100,000 (\$50,000 if married filing separately) could deduct the full amount of their premiums, with the deduction phased out at 10 percent for every \$1,000 (\$500 if married filing separately) in income above \$100,000.

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

**WHO BENEFITS:** In 2006, about 625,000 Oregon taxpayers lowered their taxes by about \$492.5 million using this itemized deduction for home mortgage interest. The average tax savings was about \$787.

**EVALUATION:** Not evaluated.

## 1.218 CASH ACCOUNTING FOR AGRICULTURE

Internal Revenue Code Sections: 162, 175, 180, 446, 447, 448, 461, 464 and 465

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

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1916

	Corporation	Personal	Total
2007–09 Revenue Impact:	Less than \$50,000	\$100,000	\$100,000
2009–11 Revenue Impact:	Less than \$50,000	\$100,000	\$100,000

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

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

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

**EVALUATION:** Not evaluated.

## 1.219 SOIL AND WATER CONSERVATION EXPENDITURES

Internal Revenue Code Section: 175

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

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1954

	Corporation	Personal	Total
2007–09 Revenue Impact:	\$100,000	\$300,000	\$400,000
2009–11 Revenue Impact:	\$100,000	\$500,000	\$600,000

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

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



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

EVALUATION: Not evaluated.

## 1.220 FERTILIZER AND SOIL CONDITIONER COSTS

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

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

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1960

	Corporation	Personal	Total
2007–09 Revenue Impact:	Less than \$50,000	\$1,300,000	\$1,300,000
2009–11 Revenue Impact:	Less than \$50,000	\$1,100,000	\$1,100,000

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 1.219, 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: Not evaluated.

## 1.221 COSTS OF RAISING DAIRY AND BREEDING CATTLE

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

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

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1916

	Corporation	Personal	Total
2007–09 Revenue Impact:	Less than \$50,000	\$1,100,000	\$1,100,000
2009–11 Revenue Impact:	Less than \$50,000	\$1,100,000	\$1,100,000

DESCRIPTION: Costs incurred in the raising of dairy and breeding cattle can be expensed rather than depreciated in calculating taxable income. Generally, expenses that provide benefits over a number of years must be depreciated. This approach includes dairy and

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

**PURPOSE:** To simplify record keeping for farmers and ranchers.  
**WHO BENEFITS:** Farmers who raise dairy or breeding cattle.  
**EVALUATION:** Not evaluated.

### 1.222 SALE OF STOCK TO FARMERS' COOPERATIVES

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

	Corporation	Personal	Total
2007–09 Revenue Impact:	Less than \$50,000	Less than \$50,000	Less than \$50,000
2009–11 Revenue Impact:	Less than \$50,000	Less than \$50,000	Less than \$50,000

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

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

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

**EVALUATION:** Not evaluated.

## 1.223 SMALL REFINER EXPENSING OF SULFUR COMPLIANT EQUIPMENT

Internal Revenue Code Section: 179B

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

Federal Law Sunset Date: None

Year Enacted in Federal Law: 2004

	Corporation	Personal	Total
2007–09 Revenue Impact:	Less than \$50,000	Not Applicable	Less than \$50,000
2009–11 Revenue Impact:	Less than \$50,000	Not Applicable	Less than \$50,000

**DESCRIPTION:** A small refiner of diesel fuel is able to expense 75 percent of the capital costs incurred in producing low-sulfur diesel fuel that complies with the Environmental Protection Agency (EPA) sulfur regulations. The full incentive is available to refiners with capacity below 155,000 barrels per day and is prorated for refining capacities between 155,000 and 205,000 barrels per day.

In addition to the capacity requirements, small refiners can have no more than 1,500 employees.

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

**WHO BENEFITS:** No Oregon taxpayer is known to qualify for this provision.

**EVALUATION:** Not evaluated.

## 1.224 INTANGIBLE DEVELOPMENT COSTS FOR FUELS

Internal Revenue Code Section: 263(c), 291, 616-617, 57(a)(2), 59(e) and 1254

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

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1978

	Corporation	Personal	Total
2007–09 Revenue Impact:	\$1,700,000	Less than \$50,000	\$1,700,000
2009–11 Revenue Impact:	\$1,100,000	Less than \$50,000	\$1,100,000

**DESCRIPTION:** Intangible drilling and development costs incurred in oil, gas, and geothermal wells may be expensed. Intangible drilling and development costs include amounts paid for fuel, labor, materials, hauling, or repair to drilling equipment. Costs associated with determining the precise location and potential size of a mineral deposit are amortized over two years by independent businesses, and over five years by major oil companies.

Though relatively few oil, gas and geothermal wells exist in Oregon, corporations' income is apportioned to Oregon after these costs are expensed.

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

Income Tax  
Federal Deductions

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

EVALUATION: Not evaluated.

### 1.225 DEPLETION COSTS FOR FUELS

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

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

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1962

	Corporation	Personal	Total
2007–09 Revenue Impact:	\$2,800,000	Less than \$50,000	\$2,800,000
2009–11 Revenue Impact:	\$2,900,000	Less than \$50,000	\$2,900,000

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

Though relatively little fuel extraction is done in Oregon, corporations' income is apportioned to Oregon after these costs are expensed.

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.

### 1.226 TERTIARY INJECTANTS

Internal Revenue Code Section: 193

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

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1980

	Corporation	Personal	Total
2007–09 Revenue Impact:	Less than \$50,000	Less than \$50,000	Less than \$50,000
2009–11 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.

## 1.227 DEFERRAL OF CAPITAL GAINS FROM FERC RESTRUCTURING REQUIREMENTS

Internal Revenue Code Section: 451

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

Federal Sunset Date: 12-31-2009

Year Enacted in Federal Law: 2004

	Corporation	Personal	Total
2007–09 Revenue Impact:	\$900,000	Not Applicable	\$900,000
2009–11 Revenue Impact:	\$200,000	Not Applicable	\$200,000

**DESCRIPTION:** Under restructuring, certain jurisdictions and Federal Energy Regulatory Commission (FERC) were considering rules that would require the separate ownership of generation and distribution and transmission assets. However, some investor-owned utilities own and operate a large portion of transmission infrastructure. This tax provision encouraged the sale of transmission assets to independent system operators or regional transmission organizations, who would own and operate the transmission lines. Taxpayers could have recognized any capital gain from the sale of qualifying electricity transmission property evenly over eight year beginning with the year of the sale. The sale proceeds must have been reinvested in other electricity assets within four years. It was a deferral, rather than complete forgiveness, of tax liability and served as a delay in tax payments. This deferral is available for sales through 2009.

- PURPOSE:** To defer tax liability as compensation for the forced sale of assets while restructuring the electric utility industry.
- WHO BENEFITS:** Corporations that sold electricity property to comply with FERC requirements.
- EVALUATION:** Not evaluated.

## 1.228 EXPENSING TIMBER GROWING COSTS

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

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

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1986

	Corporation	Personal	Total
2007–09 Revenue Impact:	\$900,000	\$200,000	\$1,100,000
2009–11 Revenue Impact:	\$900,000	\$200,000	\$1,100,000

**DESCRIPTION:** Indirect expenses incurred in the growing of timber can be expensed rather than capitalized when computing corporation and personal taxable income. Expensing allows full deduction in the year the expenses are incurred, while capitalization requires the deduction to be taken over a number of years. In most other industries, these expenses must be capitalized.

**PURPOSE:** To provide tax relief to the timber growers in recognition of the long growing periods for timber during which no revenue is produced.

**WHO BENEFITS:** Taxpayers who have timber growing expenses that are not connected with a timber harvest or reforestation activity. According to the Congressional Research Service, nationally about 80 percent of the benefits accrue to corporations and 20 percent to noncorporate timber growers.

**EVALUATION:** Not evaluated.

## 1.229 EXPENSING AND AMORTIZATION OF REFORESTATION COSTS

Internal Revenue Code Section: 194 and 263A(c)(5)

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

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1980

	Corporation	Personal	Total
2007–09 Revenue Impact:	\$100,000	\$1,000,000	\$1,100,000
2009–11 Revenue Impact:	\$100,000	\$1,000,000	\$1,100,000

**DESCRIPTION:** Qualified reforestation costs incurred after October 31, 2004 can be expensed up to \$10,000 annually with the remainder amortized (deducted) over seven years. Costs that qualify for amortization are those for site preparation, seed or seedlings, labor and tools. The limitation on expensing is for each qualifying property (see also 1.453, Reforestation tax credit).

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

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

**PURPOSE:** To lower the annual after-tax cost of reforestation.

WHO BENEFITS: Taxpayers who are reforesting forest lands.  
EVALUATION: Not evaluated.

### 1.230 DEVELOPMENT COSTS FOR NONFUEL MINERALS

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

	Corporation	Personal	Total
2007–09 Revenue Impact:	\$200,000	Less than \$50,000	\$200,000
2009–11 Revenue Impact:	\$200,000	Less than \$50,000	\$200,000

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

PURPOSE: To encourage mining.

WHO BENEFITS: Mining companies.

EVALUATION: Not evaluated.

### 1.231 DEPLETION COSTS FOR NONFUEL MINERALS

Internal Revenue Code Sections: 611, 612, 613, and 291  
Oregon Statute: 316.048 and 317.374 (Connection to federal personal and corporation taxable income)  
Federal Law Sunset Date: None  
Year Enacted in Federal Law: 1913

	Corporation	Personal	Total
2007–09 Revenue Impact:	\$200,000	\$400,000	\$600,000
2009–11 Revenue Impact:	\$200,000	\$400,000	\$600,000

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

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

Income Tax  
Federal Deductions

WHO BENEFITS: Mining companies using the percentage depletion method.

EVALUATION: Not evaluated.

### 1.232 MINING RECLAMATION RESERVES

Internal Revenue Code Section: 468

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

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1984

	Corporation	Personal	Total
2007–09 Revenue Impact:	Less than \$50,000	\$100,000	\$100,000
2009–11 Revenue Impact:	Less than \$50,000	\$100,000	\$100,000

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

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

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

EVALUATION: Not evaluated.

### 1.233 ENERGY EFFICIENT COMMERCIAL PROPERTY

Internal Revenue Code Section: 179D

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

Federal Law Sunset Date: 12-31-2013

Year Enacted in Federal Law: 2006

	Corporation	Personal	Total
2007–09 Revenue Impact:	\$300,000	\$600,000	\$900,000
2009–11 Revenue Impact:	\$400,000	\$700,000	\$1,100,000

DESCRIPTION: A deduction is available for expenditures made on energy-efficient commercial property after December 31, 2005 and before January 1, 2014. The deduction is based on a formula with a maximum of \$1.80 per square foot of commercial building space. The deduction may be taken by the designer of a commercial building that would otherwise qualify, if the building is owned by a non-taxable entity like a school or non-profit organization.

PURPOSE: To promote energy efficiency by encouraging businesses to retrofit their buildings with energy conserving equipment.



WHO BENEFITS: Businesses that make investments in energy-efficient property benefit from this provision.

EVALUATION: Not evaluated.

### 1.234 ADVANCED MINE SAFETY EQUIPMENT

Internal Revenue Code Section: 179E  
 Oregon Statute: 316.048 and 317.013 (Connections to federal personal and corporation taxable income)  
 Federal Law Sunset Date: 12-31-2009  
 Year Enacted in Federal Law: 2006

	Corporation	Personal	Total
2007–09 Revenue Impact:	Less than \$50,000	Less than \$50,000	Less than \$50,000
2009–11 Revenue Impact:	Less than \$50,000	Less than \$50,000	Less than \$50,000

DESCRIPTION: Fifty percent of the cost of qualified mine safety equipment for underground mines may be expensed in the taxable year in which the property is placed in service. This provision is available through December 31, 2009.

PURPOSE: To encourage investment in advanced mine safety equipment.

WHO BENEFITS: There are relatively few Oregon beneficiaries, because mining is a relatively small part of Oregon’s economy.

EVALUATION: Not evaluated.

### 1.235 REDEVELOPMENT COSTS IN CONTAMINATED AREAS

Internal Revenue Code Section: 198, 280B, 468, 1221(1), 1245, 1392(b)(4) and 1393(a)(9)  
 Oregon Statute: 316.048 and 317.013 (Connections to federal personal and corporation taxable income)  
 Federal Law Sunset Date: 12-31-2009  
 Year Enacted in Federal Law: 1997

	Corporation	Personal	Total
2007–09 Revenue Impact:	\$1,000,000	\$700,000	\$1,700,000
2009–11 Revenue Impact:	\$200,000	Less than \$50,000	\$200,000

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 expires at the end of 2009. The expenditures must be incurred in connection with the abatement or control of hazardous substances at qualified contaminated sites (“brownfields”) located within targeted areas. These include Enterprise Communities, Empowerment Zones, and some other areas with high poverty rates.

Income Tax  
Federal Deductions

Taxpayers who cause contamination can, under a 1994 IRS ruling, deduct certain environmental cleanup expenditures. This tax incentive permits 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 benefits taxpayers who purchased property that had already been contaminated. It may also allow taxpayers responsible for the contamination to deduct remediation-related expenditures that would otherwise be chargeable to a capital account.
- EVALUATION:** Not evaluated.

### 1.236 LIFE INSURANCE COMPANY RESERVES

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

	Corporation	Personal	Total
2007–09 Revenue Impact:	\$8,900,000	Not Applicable	\$8,900,000
2009–11 Revenue Impact:	\$9,800,000	Not Applicable	\$9,800,000

- 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. In any year there is a reduction to the reserve account, a corresponding addition to income is required. This effectively allows them to offset current income (in years there is an addition to the reserve) with expenses that will not actually be paid until some future time period. This means that in some years they may reduce the amount of reserves and that would actually add to their tax liability. However, most years insurance companies add to reserves.
- PURPOSE:** To make tax rules consistent with standard industry accounting practices. In the insurance industry, it is common practice to use some form of reserve accounting in estimating net income, and these methods were adopted into the tax code when life insurance companies first became taxable in 1909.
- WHO BENEFITS:** Life insurance companies.
- EVALUATION:** Not evaluated.

## 1.237 ADDITION TO BAD DEBT RESERVES OF SMALL FINANCIAL INSTITUTIONS

Internal Revenue Code Sections: 585 (b) and 593 (b)

Oregon Statute: 317.310

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1947

	Corporation	Personal	Total
2007–09 Revenue Impact:	Less than \$50,000	Not Applicable	Less than \$50,000
2009–11 Revenue Impact:	Less than \$50,000	Not Applicable	Less than \$50,000

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

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

*or*

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

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

**PURPOSE:** To provide tax relief to small financial institutions.

**WHO BENEFITS:** Small financial institutions.

**EVALUATION:** Not evaluated.

### 1.238 PROPERTY AND CASUALTY INSURANCE COMPANY RESERVES

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

	Corporation	Personal	Total
2007–09 Revenue Impact:	\$15,400,000	Not Applicable	\$15,400,000
2009–11 Revenue Impact:	\$16,000,000	Not Applicable	\$16,000,000

**DESCRIPTION:** In calculating corporation taxable income, most businesses cannot deduct expenses until the business becomes liable for paying them. Property and casualty insurance companies, however, can deduct additions to reserve accounts for future liabilities. In any year there is a reduction to the reserve account, a corresponding addition to income is required. This effectively allows them to offset current income (in years there is an addition to the reserve) with expenses that will not actually be paid until some future time period. This means that in some years they may reduce the amount of reserves and that would actually add to their tax liability. However, most years insurance companies add to reserves.

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

**WHO BENEFITS:** Property and casualty insurance companies.

**EVALUATION:** Not evaluated.

### 1.239 MAGAZINE CIRCULATION EXPENDITURES

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

	Corporation	Personal	Total
2007–09 Revenue Impact:	Less than \$50,000	\$100,000	\$100,000
2009–11 Revenue Impact:	Less than \$50,000	\$100,000	\$100,000

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

PURPOSE: To reduce the cost of tax compliance.  
 WHO BENEFITS: Publishers of periodicals.  
 EVALUATION: Not evaluated.

## 1.240 NET OPERATING LOSS LIMITATION

Internal Revenue Code Section: 382  
 Oregon Statute: 317.478 and 317.479  
 Federal Law Sunset Date: None  
 Year Enacted in Federal Law: 1954

	Corporation	Personal	Total
2007–09 Revenue Impact:	\$2,200,000	Not Applicable	\$2,200,000
2009–11 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 any net operating loss carryovers. Limitations are imposed, however, so that the acquiring corporation cannot write off losses faster than the acquired corporation would have. Under this provision, the limitations do not apply when the acquired corporation is in bankruptcy.

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

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

EVALUATION: Not evaluated.

## 1.241 COMPLETED CONTRACT RULES

Internal Revenue Code Section: 460  
 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
2007–09 Revenue Impact:	\$1,900,000	Less than \$50,000	\$1,900,000
2009–11 Revenue Impact:	\$2,600,000	Less than \$50,000	\$2,600,000

DESCRIPTION: Some taxpayers with construction or manufacturing contracts extending for more than one tax year are allowed to use the completed contract method of accounting. Under this method, income and costs pertaining to the contract are reported when the contract is completed; however, some indirect costs may be deducted from

Income Tax  
Federal Deductions

corporation and personal taxable income in the year paid or incurred. This mismatching of income and expenses results in a deferral of tax payments.

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

- PURPOSE:** To simplify tax administration when the ultimate profitability of a contract is currently unknown.
- WHO BENEFITS:** Residential construction contractors are the main beneficiaries.
- EVALUATION:** Not evaluated.

### 1.242 CASUALTY AND THEFT LOSSES

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

	Corporation	Personal	Total
2007–09 Revenue Impact:	Not Applicable	\$2,000,000	\$2,000,000
2009–11 Revenue Impact:	Not Applicable	\$1,800,000	\$1,800,000

- 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 1,400 taxpayers had their taxes reduced by about \$1 million due to casualty and theft losses that were not covered by insurance in 2006.
- EVALUATION:** Not evaluated.

## 1.243 LOCAL INCOME TAXES

Internal Revenue Code Section: 164

Oregon Statute: 316.695 (Connection to federal personal deductions)

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1913

	Corporation	Personal	Total
2007–09 Revenue Impact:	Not Applicable	\$0	\$0
2009–11 Revenue Impact:	Not Applicable	\$0	\$0

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

The only tax that qualified for this exemption was the Multnomah County Personal Income Tax, which was in place for tax years 2003, 2004, and 2005.

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

**WHO BENEFITS:** There are currently no local taxes that qualify; therefore there are currently no direct beneficiaries.

**EVALUATION:** Not evaluated.

## 1.244 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
2007–09 Revenue Impact:	\$14,000,000	\$253,400,000	\$267,400,000
2009–11 Revenue Impact:	\$14,300,000	\$279,000,000	\$293,300,000

**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 2006, roughly 600,000 individual Oregonians took a deduction for charitable contributions. The average tax savings was about \$250. The total tax savings was \$150.6 million. It is estimated that 14 percent went to educational institutions, 10 percent went to health related organizations, and 76 percent went to all other charitable organizations.

**EVALUATION:** Not evaluated.

## 1.245 CREATION OR ACQUISITION OF MUSICAL COMPOSITIONS

Internal Revenue Code Section: 167(g)(8)

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

Federal Law Sunset Date: 12-31-2010

Year Enacted in Federal Law: 2005

	Corporation	Personal	Total
2007–09 Revenue Impact:	Less than \$50,000	Less than \$50,000	Less than \$50,000
2009–11 Revenue Impact:	Less than \$50,000	Less than \$50,000	Less than \$50,000

DESCRIPTION:	A taxpayer may elect to amortize over five years the expenses associated with the creation or acquisition of musical compositions. This method is elective, allowing the taxpayer to choose five-year amortization. The prior methods generally available for deduction of these costs were 15-year straight line, or the income forecast method.
PURPOSE:	To reduce barriers to creation of musical compositions and to transfers of song catalogs.
WHO BENEFITS:	Acquirers or creators of musical compositions for whom the five-year amortization accelerates the expensing of these costs.
EVALUATION:	Not evaluated.



## 1.301 LAND DONATED TO SCHOOLS

Oregon Statute: 316.852 and 317.488

Sunset Date: 12-31-2007

Year Enacted: 1999

	Corporation	Personal	Total
2007–09 Revenue Impact:	Less than \$50,000	Less than \$50,000	Less than \$50,000
2009–11 Revenue Impact:	Less than \$50,000	Less than \$50,000	Less than \$50,000

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

This program has expired, but carryforward of unused amounts in excess of the limitations may be subtracted from taxable income for up to 15 succeeding years. So a taxpayer who made a donation in 2007 could carryforward unused amounts through 2022.

Oregon law was more generous than federal law in that federal law specified that the unadjusted fair market value of the donation may be deducted only up to 30 percent of income, but Oregon allowed the subtraction up to 50 percent of income. Any amount taken as a charitable contribution deduction is to be added to income on the Oregon return so that the taxpayer does not receive a double deduction. The federal deduction is described in tax expenditure 1.201, Charitable Contributions: Education.

**PURPOSE:** The statutes that allowed this expenditure did not explicitly state a purpose. Presumably, the purpose was 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 who disposed of land to educational institutions receive the main benefit. Use of this provision was rare.

**EVALUATION:** Not evaluated.

### 1.302 OREGON 529 COLLEGE SAVINGS NETWORK

Oregon Statute: 316.699

Sunset Date: None

Year Enacted: 1999, Modified in 2007 (HB 3201)

	Corporation	Personal	Total
2007–09 Revenue Impact:	Not Applicable	\$8,500,000	\$8,500,000
2009–11 Revenue Impact:	Not Applicable	\$10,500,000	\$10,500,000

**DESCRIPTION:** A subtraction is allowed from individual taxable income of up to \$4,000 per year on a joint return or \$2,000 on all others returns for contributions made to Oregon 529 College Savings Network accounts. The allowable subtraction amount is annually adjusted for inflation. Before 2008, the subtraction amount was limited to \$1,000 for married filing separate returns or \$2,000 for all other filers.

The proceeds of these accounts are meant to be used to pay higher education-related expenses for 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 or limits specified by the Oregon 529 College Savings Board. Contributions over the annual limit may be carried forward for up to four years.

The revenue impact above includes only the impact of the state-allowed subtraction for contributions. Under federal law, contributions to these accounts are not tax deductible. However, qualifying distributions from the accounts are excluded from federal tax. The revenue impact and complete description of federal tax benefits applicable to Oregon 529 College Savings Network accounts are detailed in tax expenditure 1.004, Qualified Tuition Programs (Federal).

**PURPOSE:** The statute that allows this expenditure does not explicitly state a purpose. Presumably, the purpose is to increase the ability of families and individuals to save for higher education.

**WHO BENEFITS:** Oregon personal income taxpayers that contribute to Oregon 529 College Savings Network accounts. In 2006, over 22,000 taxpayers used this subtraction.

Income Group for Full-Year Taxpayers	2006 Taxpayers			Mean Subtraction
	Total Number	Number Taking Subtraction	Percent Taking Subtraction	
<b>Below \$10,000</b>	266,929	161	0.1%	\$1,533
<b>\$10,000 - \$20,000</b>	248,677	236	0.1%	\$1,390
<b>\$20,000 - \$40,000</b>	368,295	877	0.2%	\$1,341
<b>\$40,000 - \$70,000</b>	321,332	3,259	1.0%	\$1,403
<b>Above \$70,000</b>	340,864	17,043	5.0%	\$1,733
<b>All Full-Year Taxpayers</b>	1,546,097	21,576	1.4%	\$1,662
<b>Part-Year and Nonresident Taxpayers</b>	209,471	583	0.3%	\$1,559

**EVALUATION:** *by Oregon University System*

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

### 1.303 SCHOLARSHIP AWARDS USED FOR HOUSING EXPENSES

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

	Corporation	Personal	Total
2007–09 Revenue Impact:	Not Applicable	\$400,000	\$400,000
2009–11 Revenue Impact:	Not Applicable	\$400,000	\$400,000

**DESCRIPTION:** A subtraction from taxable income is allowed for scholarship and fellowship income used to pay for housing expenses. This provision extends the federal exclusion described in tax expenditure 1.001, Scholarship and Fellowship Income, for income received from scholarships and fellowships that is used for tuition and course-related expenses only. The scholarship recipient must be either the taxpayer or a dependent of the taxpayer and must be attending an accredited community college, college, university, or other institution of higher education. A subtraction may not be allowed under this section if the amounts are not included in the taxpayer's federal gross income for the tax year or are taken as a deduction on the taxpayer's federal income tax return for the tax year.

**PURPOSE:** The statute that allows this expenditure does not explicitly state a purpose. Presumably, the purpose is to help students meet the financial challenges of attending college.

**WHO BENEFITS:** Individuals receiving scholarship or fellowship income to pay for housing expenses. In 2006, almost 1,000 returns used this subtraction to save an average of approximately \$200 in tax.

**EVALUATION:** *by the Oregon University System*  
This tax expenditure is a fiscally effective method of achieving its purpose, which is to reduce the cost of higher education. It makes more funding available to these students, allowing them to complete their education with less debt or need to extend the time in school. The economic and societal returns on the investment are very high.

### 1.304 PHYSICIANS IN “MEDICALLY DISADVANTAGED” AREAS

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

	Corporation	Personal	Total
2007–09 Revenue Impact:	Not Applicable	\$0	\$0
2009–11 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 their annual expense of attending medical school. This subtraction is available only to physicians who became licensed to practice medicine in Oregon between January 1, 1974, and

Income Tax  
Oregon Subtractions

January 1, 1982. The subtraction may be claimed for up to four tax years but cannot exceed \$10,000 in any given year. “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:** The statute that allows this expenditure does not explicitly state a purpose. Presumably, the purpose is to promote the provision of medical care in areas considered medically disadvantaged.

**WHO BENEFITS:** Currently, no one is taking advantage of this tax expenditure. Individuals are more likely to qualify for and use the \$5,000 per year tax credit for rural physicians. See tax expenditure 1.406, Rural Medical Practice for more information.

**EVALUATION:** Not evaluated.

### 1.305 ADDITIONAL DEDUCTION FOR ELDERLY OR BLIND

Oregon Statute: 316.695(7)

Sunset Date: None

Year Enacted: 1989

	Corporation	Personal	Total
2007–09 Revenue Impact:	Not Applicable	\$9,100,000	\$9,100,000
2009–11 Revenue Impact:	Not Applicable	\$8,800,000	\$8,800,000

**DESCRIPTION:** Taxpayers who are age 65 or over or who are blind receive a larger Oregon standard deduction from personal taxable income based on their filing status. For taxpayers who are single or head of household, the additional amount is \$1,200 per qualifying condition. For example, the additional deduction amount is \$2,400 if a taxpayer is age 65 or over and blind. For all other filers, the additional amount is \$1,000 per qualifying condition. This tax expenditure does not benefit taxpayers who itemize deductions for Oregon because they do not use the standard deduction. Many taxpayers itemize their deductions for Oregon in order to take advantage of 1.306, Additional Medical Deduction for the Elderly.

**PURPOSE:** The statute that allows this expenditure does not explicitly state a purpose. Presumably, the purpose is to provide tax relief to Oregon taxpayers who are elderly or blind.

**WHO BENEFITS:** In 2006, approximately 86,000 individuals benefited from this additional deduction. Most claims are for elderly individuals as opposed to blind individuals.

**EVALUATION:** *by the Department of Human Services*

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.

## 1.306 ADDITIONAL MEDICAL DEDUCTION FOR ELDERLY

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

Sunset Date: None

Year Enacted: 1991

	Corporation	Personal	Total
2007–09 Revenue Impact:	Not Applicable	\$107,100,000	\$107,100,000
2009–11 Revenue Impact:	Not Applicable	\$127,000,000	\$127,000,000

**DESCRIPTION:** All taxpayers who itemize deductions may deduct from federal personal taxable income medical and dental expenses that exceed 7.5 percent of their adjusted gross income; see tax expenditure 1.203, Medical and Dental Expenses. This tax expenditure expands the deduction to those qualified medical or dental expenses that are less than 7.5 percent of adjusted gross income. To be eligible for this subtraction, taxpayers must be at least 62 years of age and itemize their Oregon deductions (but not necessarily their federal deductions). When combined with the federal deduction, the effect is to allow these taxpayers to subtract the full amount of their medical and dental expenses from Oregon taxable income.

**PURPOSE:** The statute that allows this expenditure does not explicitly state a purpose. Presumably, the purpose is to provide 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 more than 214,500 in 2006.

The cost of this program was mitigated initially by the phase-out requirements of the statute. When the program began in 1991, taxpayers aged 58 and older qualified. Then, every two years the minimum age requirement increased by one year. Until in 1999 the final age requirement of 62 was attained.

The average additional medical deduction amount has risen from roughly \$1,800 in 1991 to \$3,370 in 2006. The table below shows usage of this subtraction for tax year 2006.

Income Group for Full-Year Taxpayers	2006 Taxpayers			Mean Subtraction
	Total Number	Number Taking Subtraction	Percent Taking Subtraction	
<b>Below \$10,000</b>	266,929	15,927	6.0%	\$479
<b>\$10,000 - \$20,000</b>	248,677	35,331	14.2%	\$1,113
<b>\$20,000 - \$40,000</b>	368,295	46,202	12.5%	\$2,078
<b>\$40,000 - \$70,000</b>	321,332	48,104	15.0%	\$3,531
<b>Above \$70,000</b>	340,864	59,989	17.6%	\$6,038
<b>All Full-Year Taxpayers</b>	1,546,097	205,553	13.3%	\$3,284
<b>Part-Year and Nonresident Taxpayers</b>	209,471	9,044	4.3%	\$5,316

**EVALUATION:** *by the Department of Human Services*

This tax expenditure achieves its purpose and has similar benefits to 1.305, Additional Deduction for Elderly or Blind, 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 Tax  
Oregon Subtractions

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.

### 1.307 SOCIAL SECURITY BENEFITS (OREGON)

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

	Corporation	Personal	Total
2007–09 Revenue Impact:	Not Applicable	\$330,300,000	\$330,300,000
2009–11 Revenue Impact:	Not Applicable	\$356,600,000	\$356,600,000

**DESCRIPTION:** The Oregon Constitution (Article IX, Section 9) prohibits state and local governments from considering Social Security and Railroad Retirement Board benefits as income for the purpose of any tax or from being used to compute any tax liability. Only a portion of these benefits is considered nontaxable at the federal level (roughly 50 percent). Consequently, there are two tax expenditures. This tax 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 1.016, Social Security Benefits (Federal).

**PURPOSE:** To comply with Oregon’s Constitution.

**WHO BENEFITS:** Oregon taxpayers who receive Social Security or Railroad Retirement Board benefits. The table below shows usage of this subtraction for tax year 2006.

Income Group for Full-Year Taxpayers	2006 Taxpayers			Mean Subtraction
	Total Number	Number Taking Subtraction	Percent Taking Subtraction	
<b>Below \$10,000</b>	266,929	341	0.1%	\$3,827
<b>\$10,000 - \$20,000</b>	248,677	4,934	2.0%	\$1,321
<b>\$20,000 - \$40,000</b>	368,295	53,816	14.6%	\$3,425
<b>\$40,000 - \$70,000</b>	321,332	58,150	18.1%	\$10,787
<b>Above \$70,000</b>	340,864	64,965	19.1%	\$16,546
<b>All Full-Year Taxpayers</b>	1,546,097	182,206	11.8%	\$10,397
<b>Part-Year and Nonresident Taxpayers</b>	209,471	16,693	8.0%	\$12,918

**EVALUATION:** *by the Department of Human Services*

This tax expenditure achieves its purpose; however, the issue continues to be the focus of significant national discussion and debate. While this tax subtraction provides the recipients with more disposable income, there are severe concerns over the viability of the Social Security benefits system in the long term. Current retirement index data forecasts that current retirement programs and savings patterns of persons aged 30–48 are not adequate to maintain these individuals at a living standard commensurate with their current living standards. Projections suggest that

the rate of retirement savings must increase threefold from present standards in order to accomplish this future parity. The inability to achieve this parity will cause greater numbers of people to look to government service programs to assist them. The present population of those age 30–48 is substantial, and this program could have a dramatic impact when they reach the retirement age.

### 1.308 DONATIONS OF ART BY THE ARTIST

Oregon Statute: 316.838

Sunset Date: None

Year Enacted: 1979

	Corporation	Personal	Total
2007–09 Revenue Impact:	Not Applicable	\$100,000	\$100,000
2009–11 Revenue Impact:	Not Applicable	\$100,000	\$100,000

**DESCRIPTION:** Under Chapter 170 of the Federal Internal Revenue Code, artists can deduct the costs of materials used to produce artworks donated as charitable contributions. Oregon law is more generous than the federal provision as it 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. To take the subtraction, a copy of an appraisal report showing the fair market value of the art object must accompany the tax return.

**PURPOSE:** The statute that allows this expenditure does not explicitly state a purpose. Presumably, the purpose is 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. In 2006, more than 550 taxpayers claimed this subtraction.

**EVALUATION:** *by the Economic and Community Development Department*

It is not clear whether this tax expenditure has achieved its purpose. The calculation of “fair market value” of a donated work of art may be highly subjective and difficult to substantiate because of a very limited number of comparable sales. This raises the likelihood of inflated values being placed on donated works of art for the purpose of obtaining larger income tax subtractions. The introduction of subjective values into tax subtractions presents difficulties for tax auditors.

On the other hand, encouraging the donation of artwork to charitable organizations is a reasonable policy, and some donations of artists’ work to galleries may not be made without this tax incentive. A solution to these opposing values may be a compromise such as a deduction that is calculated as a simple multiple of the cost of materials used in producing the art. This would compensate the artist for the cost of materials and at least a portion of the artist’s time and effort, but would circumvent the reliance on a subjective “market value” for one-of-a-kind items that do not have a well-established market value. A multiple cost-of-materials subtraction may have its own undesirable effects, such as encouraging the use of the most expensive materials available, even if not warranted by the art.

### 1.309 MUNICIPAL BOND INTEREST

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

	Corporation	Personal	Total
2007–09 Revenue Impact:	Not Applicable	\$200,000	\$200,000
2009–11 Revenue Impact:	Not Applicable	\$200,000	\$200,000

**DESCRIPTION:** Interest or dividends from all federally taxable bonds issued by Oregon state and local governments may be subtracted from Oregon taxable income. The interest or dividends received from obligations of counties, cities, local service districts, special government bodies, Oregon Health and Science University, or other political subdivisions of Oregon that are authorized by the Legislative Assembly to issue bonds qualify.

One specific type of federally taxable bond issue that this provision applies to is nonqualified private activity bonds, which are bonds primarily issued by local governments and used to finance private developments. With nonqualified private activity bonds, a substantial portion of the bond benefits accrue to individuals or businesses rather than to the general public. Interest on these nonqualified private activity bonds is taxed at the federal level, but this provision allows that income to be subtracted from Oregon personal taxable income.

By way of contrast, interest earned on qualified private activity bonds is exempt at both the federal level and in Oregon because of our connection to federal code. See tax expenditure 1.052, Interest on Oregon State and Local Debt, for more information.

**PURPOSE:** The statute that allows this expenditure does not explicitly state a purpose. Presumably, the purpose is to encourage the purchase of federally taxable bonds by Oregon residents in order to promote projects that have some public benefits.

**WHO BENEFITS:** Taxpayers holding these bonds benefit from the tax-free income. In 2006, almost 500 taxpayers used this subtraction.. The state of Oregon and local governments also benefit because this provision reduces the costs of borrowing.

**EVALUATION:** *by the Economic and Community Development Department*

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.

Very few nonqualified private activity bonds are issued in Oregon. Without the federal tax exemption, most projects do not find this source of funding attractive relative to 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 tax subtraction.

When private activity bonds are issued on behalf of individuals or businesses, it is typically for projects that are expected to result in the creation or retention of jobs, which in turn increases income. For private activity bonds issued by the Economic Development Commission, the department performs a cost-effectiveness analysis 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.

### 1.310 SMALL CITY BUSINESS DEVELOPMENT

Oregon Statutes: 316.778 and 317.391  
Sunset Date: None  
Year Enacted: 2001, Modified in 2007 (HB 3201)

	Corporation	Personal	Total
2007-09 Revenue Impact:	\$100,000	Less than \$50,000	\$100,000
2009-11 Revenue Impact:	\$200,000	Less than \$50,000	\$200,000

**DESCRIPTION:** This provision allows certain business operations that are new to Oregon to exempt from Oregon income taxation the portion of business income attributable to an approved facility in a qualified location. In general, facilities must be within the urban growth boundary of a city of 15,000 or fewer residents, or on industrially zoned land (included in a larger city or unincorporated area). The locations also must be in counties that meet certain criteria related to unemployment levels and per capita income.

The income of a business firm that is exempt is determined by multiplying the taxable income of the business firm by the sum of: (a) 50 percent of the ratio of the payroll of the business firm from employment at the certified facility over total statewide payroll of the business firm, and (b) 50 percent of the ratio of the average value of the property of the business firm at the certified facility over the average value of the property of the business firm statewide.

The income of a personal income taxpayer that is exempt under this provision is determined by: (a) multiplying the federal taxable income of the taxpayer by the ratio of the taxpayer's portion of the federal adjusted gross income derived from the business firm over the taxpayer's total federal adjusted gross income; and (b) multiplying the amount determined under paragraph (a) of this subsection by the ratio of the business firm's income derived from the firm's activities at the certified facility over the business firm's income from all business activities.

To claim the exemption, the business must receive a preliminary certification from the Economic and Community Development Department under the Oregon Investment Advantage Act. To qualify, (1) a facility must be intended to operate for at least 10 years; (2) the business firm must intend to hire at least five full-time year-round employees at a wage at least 50 percent higher than the per capita personal income for the county, or at the per capita personal income for the county and provide health insurance (wage and benefit restrictions does not apply for preliminary certification during 2006-10); (3) the operation at the facility must constitute a new business that the firm does not operate at another location in the state; and (4) the operations of the firm must not compete with an existing business in the city or county where the facility is located.

If a firm does not qualify in a particular year, it is disqualified from the program for that year and all subsequent years. The business may apply for the exemption for up to 10 consecutive years after the facility is put into service. Legislation passed in

Income Tax  
Oregon Subtractions

2007 allows a firm to keep this exemption after a transfer of ownership if the facility and business operations are reasonably similar to what was in the preliminary certification.

**PURPOSE:** The statutes that allow this expenditure do not explicitly state a purpose. Presumably, the purpose is to encourage business development in low-income areas with high unemployment rates.

**WHO BENEFITS:** Businesses investing in new facilities in areas with low income or high unemployment rates.

**EVALUATION:** *by the Economic and Community Development Department*

The program remains rather new, although as of September 2008, 23 business firms had received preliminary certification from the department on proposed facilities in nine different counties.

Nevertheless, only a few businesses have received annual certification and been able to claim the exemption, so far. Recent legislation that opened it up to more counties has had an impact, in that the department has been issuing a steady stream of preliminary certifications. A much wider base of usability, coupled with a rising number of actual users, allows for more effective allocation and application of resources to market the program. In conclusion, this taxable income exemption appears to be presently serving its purpose of spurring and supporting economic success in the more lagging parts of the state.

At the end of 2010, however, the law reverts to a more restrictive geography, such that only 11 counties could now offer this business incentive relative to the 20 that, in fact, may do so under current law. The Oregon Economic and Community Development Department believes that the Legislature should maintain the presently expanded geography for this program. A number of the counties that would become ineligible after 2010 will likely continue to need this additional inducement for business investments and new employment for several more years.

### 1.311 INDIVIDUAL DEVELOPMENT ACCOUNTS (EXCLUSION AND SUBTRACTION)

Oregon Statute: 316.848

Sunset Date: None

Year Enacted: 1999, Modified in 2007 (HB 2094)

	Corporation	Personal	Total
2007–09 Revenue Impact:	Not Applicable	Less than \$50,000	Less than \$50,000
2009–11 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.

For this subtraction, 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. Department of Housing and Urban Development.

The Oregon Housing and Community Services Department (OHCS) administers the Oregon IDA Initiative through the Neighborhood Partnership Fund, which 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; certain improvements and repairs to a primary residence; purchase of equipment or training needed to obtain or maintain employment; and capitalization of a small business. Account holders may not accrue more than \$3,000 of matching funds in any 12-month period. OHCS establishes a maximum total amount of state-directed moneys that may be deposited as matching funds into an individual development account.

Amounts remaining in accounts after asset purchase may be rolled over into qualified tuition savings program accounts. See 1.302, Oregon 529 College Savings Network, for more on these accounts.

There are two other tax expenditures closely related to this program: 1.432, The Individual Development Account Contribution (Credit), provides a credit for individuals or businesses that make contributions to fiduciary organizations to support IDA programs; and 1.433, The Individual Development Account Withdrawal (Credit), provides a credit for IDA withdrawals that are used to fund closing costs associated with the purchase of a primary residence.

**PURPOSE:** The statute that allows this expenditure does not explicitly state a purpose. Presumably, the purpose is 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. As of June 30, 2008, graduates of the three-year IDA Initiative numbered 611, and another 970 had active accounts. In 2006, approximately 35 taxpayers claimed this subtraction.

**EVALUATION:** *by the Housing and Community Services Department*

These exclusions and subtractions remove one barrier that IDA participants face when ready to withdraw the funds they have saved. Many participants would find it difficult to pay the Oregon income tax that would otherwise be payable. While the additional income tax would be a burden to individual low income participants, the amount of taxes that would be collected is a very small percentage of total income tax receipts.

Participants in Oregon's IDA initiative typically save between \$25-\$50 per month. Their savings account balances remain small through the life of their participation and their earnings are also pretty small. Matching deposits are also limited. Low-income households typically have very low state income tax liability to begin with, so tax liabilities on the amount of savings accrued in IDA accounts will also be very small. The maximum amount that would be collected represents about 1/10<sup>th</sup> of 1 percent of general fund revenue. The reduction of revenue is potentially offset by the economic stimulus effect of the qualifying uses of the distributions.

### 1.312 OUT-OF-STATE FINANCIAL INSTITUTIONS

Oregon Statute: 317.057

Sunset Date: None

Year Enacted: 1999

	Corporation	Personal	Total
2007–09 Revenue Impact:	Less than \$50,000	Not Applicable	Less than \$50,000
2009–11 Revenue Impact:	Less than \$50,000	Not Applicable	Less than \$50,000

**DESCRIPTION:** This exclusion specifies that certain out-of-state financial institutions may engage in limited mortgage activities in Oregon without being subject to certain tax and corporation laws. The 1997 Legislature revised the Oregon Bank Act, but in doing so, 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.

Any out-of-state bank, extranational institution or foreign association may take, acquire, hold, and enforce notes secured by mortgages or trust deeds and make commitments to purchase such notes; may foreclose the mortgages or trust deeds in the courts of this state; may acquire the mortgaged property, hold, own and operate the property for a period not exceeding five years and may dispose of the property. The activities do not constitute transacting business in this state for the purposes of ORS chapter 60.

However, if the out-of-state bank, extranational institution or foreign association acquires any property given as security for a mortgage or trust deed, all income accruing to the out-of-state bank, extranational institution or foreign association solely from the ownership, sale or other disposition of such property is subject to taxation in the same manner and on the same basis as income of corporations doing business in this state.

In other words, out-of-state entities can engage in activities that ordinarily would be considered "doing business" for tax purposes and thus subject them to the excise tax. Instead, if the entities limit themselves to what is described, they won't be considered to be "doing business" in Oregon and are not subject to the excise tax. However, if the entities actually do take property in this state, such as through foreclosure, then any income derived from the property will be subject to tax.

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 and pay a \$200 annual licensing fee.

**PURPOSE:** The statute that allows this expenditure does not explicitly state a purpose. Presumably, the purpose is to provide that out-of-state financial institutions that engage in limited activity in Oregon are not considered to be "doing business" in Oregon for purposes of imposing the excise tax.

**WHO BENEFITS:** Six out-of-state financial institutions were registered with DCBS as of July 2008.

**IN-LIEU:** Out-of-state banks shall pay an initial filing fee of \$200 and an annual fee of \$200.

**EVALUATION:** *by the Housing and Community Services Department*

This exclusion increases the available mortgage options to homebuyers. Homeownership has a significant economic benefit to Oregonians. Home sales lead to the development and construction of new homes.

## 1.313 CAPITAL GAINS FROM MANUFACTURED DWELLING PARK SALE

Oregon Statute: Note following 316.791

Sunset Date: 12-31-2013

Year Enacted: 2005, Sunset extended in 2007 (HB 2735)

	Corporation	Personal	Total
2007–09 Revenue Impact:	Less than \$50,000	Less than \$50,000	Less than \$50,000
2009–11 Revenue Impact:	Less than \$50,000	Less than \$50,000	Less than \$50,000

**DESCRIPTION:** For tax years beginning January 1, 2006 through December 31, 2013, individuals or corporations that sell a manufactured dwelling park may subtract the capital gains from Oregon taxable income if the sale was made to one of the following:

- A tenants' association.
- A facility purchase association.
- A tenants' association supported nonprofit organization.
- A community development corporation.
- A housing authority.

**PURPOSE:** The statute that allows this expenditure does not explicitly state a purpose. Presumably, the purpose is to encourage sales of manufactured dwelling parks to one of the listed organizations as an alternative to closure.

**WHO BENEFITS:** Owners of manufactured dwelling parks that sell to one of the listed organizations and have a capital gain as a result of the sale.

**EVALUATION:** *by the Housing and Community Services Department*

Insufficient information to evaluate this new tax expenditure at this time. OHCS is not aware of any park owners who have qualified for this exemption. It is anticipated that this favorable tax treatment will result in a lower purchase price for an organization that wants to purchase a park and keep it affordable for low income residents.

### 1.314 PAYMENTS FOR CLOSURE OF MANUFACTURED DWELLING PARK

Oregon Statute: 316.795 and 317.092  
Sunset Date: None  
Year Enacted: 2007 (HB 2735)

	Corporation	Personal	Total
2007–09 Revenue Impact:	Less than \$50,000	\$200,000	\$200,000
2009–11 Revenue Impact:	Less than \$50,000	\$200,000	\$200,000

**DESCRIPTION:** Under ORS 90.505 to 90.840, an owner of a manufactured dwelling park is required to pay each manufactured dwelling homeowner between \$5,000 and \$9,000 if the homeowner is forced to relocate or abandon their property due to the park’s closure. This subtraction allows the homeowner to subtract the payment from federal taxable income.

The payment amount depends on the size of the dwelling. The owner of a single-wide manufactured dwelling will receive \$5,000; a double-wide dwelling - \$7,000; and a triple-wide dwelling - \$9,000.

**PURPOSE:** The statutes that allow this expenditure do not explicitly state a purpose. Presumably, the purpose is to maintain the value of payments made to manufactured dwelling residents who are forced to relocate because of the closure of their manufactured dwelling park.

**WHO BENEFITS:** Residents of closed manufactured dwelling parks who receive payments from the park owners.

**EVALUATION:** *by the Housing and Community Services Department*

This expenditure achieves its purpose. Many residents of manufactured dwelling parks are low income or do not have sufficient resources to pay relocation costs. Exempting the amount that the park owner pays them from their income allows the resident to apply the full amount to the cost of relocating. In many instances the cost to move exceeds the amount paid by the owner.

### 1.315 SERVICE IN VIETNAM ON MISSING STATUS

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

	Corporation	Personal	Total
2007–09 Revenue Impact:	Not Applicable	\$0	\$0
2009–11 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:** The statute that allows this expenditure does not explicitly state a purpose. Presumably, the purpose is 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:** Not evaluated.

### 1.316 FILM PRODUCTION LABOR REBATE

Oregon Statute: 316.698 and 317.394

Sunset Date: 12-31-2011

Year Enacted: 2005

	Corporation	Personal	Total
2007–09 Revenue Impact:	\$100,000	Less than \$50,000	\$100,000
2009–11 Revenue Impact:	\$100,000	Less than \$50,000	\$100,000

**DESCRIPTION:** Labor rebate payments are excluded from taxation for individuals or corporations that incur \$1 million or more in actual expenses for film, commercial or television show production in Oregon. The Oregon Film and Video Office (OFVO) certifies persons engaging in qualifying film production as eligible for the labor rebate if it is reasonably likely that the person will incur actual expenses of at least \$1 million. Upon completion of the film production, OFVO verifies actual expenses and disallows the rebate if actual expenses are less than \$1 million.

The labor rebate is equal to 6.2 percent of the qualifying compensation paid during qualifying film production and is withheld in-lieu of the state personal income tax withholding requirements. The Department of Revenue may prescribe by rule an updated withholding percentage that reflects the best estimate of state personal income tax attributable to qualifying compensation for tax years beginning on or after January 1, 2007. The amounts withheld are paid to the Department of Revenue and then transferred to the Greenlight Oregon Labor Rebate Fund (GOLRF).

**PURPOSE:** The statutes that allow this expenditure do not explicitly state a purpose. Presumably, the purpose is to encourage film production in Oregon.

**WHO BENEFITS:** Persons engaging in film production. Over \$635,000 was transferred to the GOLRF in fiscal year 2008.

**EVALUATION:** *by the Oregon Film and Video Office*

This tax expenditure achieves its purpose of encouraging film production in the state and generating associated spending and employment.

The Greenlight Oregon Labor Rebate, in tandem with the Oregon Production Investment Fund, has been integral in Oregon's ability to compete with the 38 other US states that offer production incentives and is directly responsible for the 117 percent growth of out-of-state production in Oregon between 2005 and 2007.

In addition to helping recruit out-of-state productions into Oregon, this program also supports Oregon's indigenous commercial production industry. Combined, these two

Income Tax  
Oregon Subtractions

production sectors account for over \$400 million in direct production output and impact nearly 9,000 jobs.

**1.317 UNDERGROUND STORAGE TANK GRANTS**

Oregon Statutes: 316.834 and 317.383

Sunset Date: None (Eligibility for the grant program ended 12-31-1999.)

Year Enacted: 1991

	Corporation	Personal	Total
2007–09 Revenue Impact:	\$0	\$0	\$0
2009–11 Revenue Impact:	\$0	\$0	\$0

**DESCRIPTION:** Undergound storage tank essential services grants made by the Department of Environmental Quality were subtracted from federal taxable income. The original grant program sunset on 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:** The statutes that allowed this expenditure did not explicitly state a purpose. Presumably, the purpose was 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; and to maintain and ensure the existence of a transportation infrastructure throughout the state.

**WHO BENEFITS:** Tank owners who received grants from the Department of Environmental Quality. A typical grant project was an owner-operated gas station with one or two employees, combined with a repair shop, grocery store, cafe, motel and/or post-office, or a small port serving the public and commercial fishermen.

Tank owners had to show financial need and be located in rural areas, so most of the benefits went to independent gas stations with marginal profitability. Ports must have been those defined in ORS 777.005 or an airport, as defined in ORS 836.005 that was owned by a port.

**EVALUATION:** Not evaluated.



## 1.318 ENERGY CONSERVATION SUBSIDIES (OREGON)

Oregon Statutes: 316.744 and 317.386

Sunset Date: None

Year Enacted: 1981

	Corporation	Personal	Total
2007–09 Revenue Impact:	Less than \$50,000	\$0	Less than \$50,000
2009–11 Revenue Impact:	Less than \$50,000	\$0	Less than \$50,000

**DESCRIPTION:** Subsidies provided by publicly and investor-owned utilities for the purchase or installation of an energy conservation device under Residential Energy Conservation Act (ORS 469.631-469.687, 2007 Edition) can be excluded from corporate and personal taxable income. Federal law exempts these payments for residential energy customers and therefore there is no revenue impact in addition to the values listed in 1.039, Energy Conservation Subsidies (Federal), for the personal income tax. Subsidies to corporations are not exempt at the federal level and therefore their full impact is realized.

**PURPOSE:** The statutes that allow this expenditure do not explicitly state a purpose. Presumably, the purpose is to promote energy conservation by encouraging residents to participate in conservation programs sponsored by utilities, and to install energy-conserving devices.

**WHO BENEFITS:** Owners of rental housing who receive cash payments from utilities as part of energy conservation programs.

**EVALUATION:** *by the Department of Energy*

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

The revenue impact of this provision continues to decline. Conservation dollars previously expended by investor-owned utilities are now being spent by the nonprofit Energy Trust of Oregon. The expenditure is not subject to this exemption.

## 1.319 WET MARINE AND TRANSPORTATION POLICIES

Oregon Statute: 317.080(8)

Sunset Date: None

Year Enacted: 1995

	Corporation	Personal	Total
2007–09 Revenue Impact:	\$400,000	Not Applicable	\$400,000
2009–11 Revenue Impact:	\$400,000	Not Applicable	\$400,000

**DESCRIPTION:** Insurers that write wet marine and transportation (often referred to as ocean marine) insurance are exempt from the corporate excise tax and the retaliatory tax related to

Income Tax  
Oregon Subtractions

this line of business. However, insurers that write wet marine and transportation insurance pay a tax based upon underwriting profits (net wet marine and transportation premiums less losses incurred and related expenses) from these policies pursuant to ORS 731.824. This tax revenue goes to the General Fund. As described in ORS 731.194, wet marine and transportation insurance covers: (1) the insurance of ships and freight; (2) the insurance of personal property in transport between countries or transported by coast or inland waterways; and (3) the insurance of railroads and aircraft along with their freight while engaged in interstate transport or commerce.

**PURPOSE:** The statute that allows this expenditure does not explicitly state a purpose. Presumably, the purpose is to conform to other states' tax treatment of wet marine and transportation insurers.

**WHO BENEFITS:** Insurers who sell wet marine and transportation policies and potentially their policyholders who include ports and interstate transportation carriers, including marine, railroad, and aircraft, benefit by reducing the cost of providing these transportation services.

**IN-LIEU:** A 5 percent tax is imposed on the average wet marine insurance underwriting profit during the previous three years. For calendar year 2007, 65 ocean marine insurers paid about \$130,000 of in-lieu tax based on underwriting profits from writing wet marine and transportation insurance.

**EVALUATION:** *by the Department of Consumer and Business Services*

Wet marine and transportation insurers have been taxed only on their underwriting profit since at least 1928. Wet marine and transportation is subject to federal law and treaty. Taxing wet marine and transportation insurers based on underwriting profit rather than gross premium helps to achieve uniformity among states. This method of taxation ultimately benefits parties that purchase this type of insurance, such as ports and interstate transportation carriers, including marine, railroad, and aircraft, by reducing the cost of insurance (if the insurer passes the savings on to the insured).

If this tax expenditure was eliminated, Oregon would have a unique tax structure compared to other states. If the tax subtraction were repealed, it could potentially put the policy holders at a competitive disadvantage with other states.

**1.320 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: 1998

	Corporation	Personal	Total
2007–09 Revenue Impact:	Not Applicable	Not Available	Not Available
2009–11 Revenue Impact:	Not Applicable	Not Available	Not Available

**DESCRIPTION:** Under federal law enacted in 1998 (P.L. 105-261), Oregon cannot tax nonresident federal employees who provide services at federally operated dams on the Columbia

River. In 2001, Oregon law was broadened to include compensation earned by all nonresident dam workers, not just the federal employees working at the dams.

Under federal law enacted in 2001 (P.L. 106-489), Oregon cannot tax nonresidents working on ships that operate on navigable waters of more than one state.

**PURPOSE:** The statute that allows this expenditure does not explicitly state a purpose. Presumably, the purpose is to comply with federal law and simplify tax compliance for nonresidents with regularly assigned duties in more than one state.

**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:** *by the Department of Revenue*  
This expenditure complies with federal law and also relieves the specified taxpayers of the difficulty of determining the portion of income earned in Oregon while working on dams or ships in border river areas.

### 1.321 OREGON STATE LOTTERY PRIZES

Oregon Statute: 461.560

Sunset Date: None

Year Enacted: 1985, Modified 1997 (HB 3709)

	Corporation	Personal	Total
2007–09 Revenue Impact:	Not Applicable	\$2,100,000	\$2,100,000
2009–11 Revenue Impact:	Not Applicable	\$2,100,000	\$2,100,000

**DESCRIPTION:** Oregon State Lottery (Lottery) prizes up to \$600 are exempt from Oregon personal income tax. The \$600 limit applies to a single play of a single game.

Originally, all prizes awarded by the Lottery were exempt from tax. In 1997, the Oregon Legislature changed the law so that only prizes up to and including \$600 were exempt. However, individuals who purchased a winning ticket prior to January 1, 1998 may continue to subtract those winnings.

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

**WHO BENEFITS:** Fewer than 1,000 taxpayers claim this subtraction. Oregon Lottery players who win prizes of \$600 or less are the most direct beneficiaries. However, since Lottery prizes up to and including \$600 can be redeemed at Lottery retailer locations, retailers also benefit by avoiding the labor and expense of collecting and reporting tax information from each player who redeems a prize. The state also benefits because taxation of prizes of \$600 or less would be a disincentive to play or sell these games, thereby reducing overall state revenues.

**EVALUATION:** *by the Oregon Lottery*

Income Tax  
Oregon Subtractions

This tax expenditure achieves its purpose and helps support the statutory purpose of the Lottery: to generate profits for the public purpose without imposing additional or increased taxes. Eliminating this tax expenditure would be a disincentive to players and would place an undue burden on Lottery retailers. Approximately 76 percent of all traditional game Lottery prizes won and 100 percent of all Video Lottery game prizes won are \$600 or less and are payable at Lottery retailers (approx 3,700 statewide). Consequently, the burden placed upon the player to provide, and the retailer to collect, tax reporting information for every prize won and paid would be immense. It stands to reason that many retailers would discontinue carrying Lottery products, and many consumers would no longer play games if the tax exemption on prizes of \$600 or less were eliminated, thereby significantly reducing sales and profits for the public purpose.

**1.322 INCOME EARNED IN “INDIAN COUNTRY”**

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

	Corporation	Personal	Total
2007–09 Revenue Impact:	Not Applicable	\$4,100,000	\$4,100,000
2009–11 Revenue Impact:	Not Applicable	\$4,600,000	\$4,600,000

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

**PURPOSE:** To comply with federal law.

**WHO BENEFITS:** Tribal members who earn income in “Indian country.” In 2006, roughly 1,600 taxpayers claimed this subtraction.

**EVALUATION:** *by the Department of Revenue*  
This expenditure achieves its purpose of compliance with federal law.

## 1.323 FEDERAL PENSION INCOME

Oregon Statute: 316.680(1)(f)

Sunset Date: None

Year Enacted: 1998

	Corporation	Personal	Total
2007–09 Revenue Impact:	Not Applicable	\$124,000,000	\$124,000,000
2009–11 Revenue Impact:	Not Applicable	\$126,600,000	\$126,600,000

**DESCRIPTION:** Federal pension income attributable to federal employment prior to October 1, 1991 is exempt from the Oregon personal income tax. The subtraction is apportioned based on the number of months of federal employment prior to October 1991 versus the months after October 1991.

This tax expenditure is the result of a series of legislative actions and court cases through the 1990s which attempted to define a consistent tax policy toward government pension income. This followed the 1989 U.S. Supreme Court ruling that state pensions could not receive better tax treatment than federal pensions (*Davis vs. Michigan*).

**PURPOSE:** To comply with a court ruling.

**WHO BENEFITS:** In 2006, approximately 43,500 taxpayers claimed an average subtraction of about \$21,100.

Income Group for Full-Year Taxpayers	Taxpayers			Mean Subtraction
	Total Number	Number Taking Subtraction	Percent Taking Subtraction	
<b>Below \$10,000</b>	266,929	1,234	0.46%	\$6,749
<b>\$10,000 - \$20,000</b>	248,677	5,343	2.15%	\$11,553
<b>\$20,000 - \$40,000</b>	368,295	10,793	2.93%	\$17,723
<b>\$40,000 - \$70,000</b>	321,332	12,607	3.92%	\$23,334
<b>Above \$70,000</b>	340,864	12,473	3.66%	\$27,395
<b>All Full-Year Taxpayers</b>	1,546,097	42,450	2.75%	\$21,136
<b>Part-Year and Nonresident Taxpayers</b>	209,471	1,092	0.52%	\$19,838

**EVALUATION:** *by the Department of Revenue*

This expenditure achieves its purpose of compliance with a court ruling.

### 1.324 LEGISLATIVE PER DIEM AND ALLOWANCE

Oregon Statute: 171.072  
Sunset Date: None  
Year Enacted: 1967

	Corporation	Personal	Total
2007–09 Revenue Impact:	Not Applicable	\$100,000	\$100,000
2009–11 Revenue Impact:	Not Applicable	\$100,000	\$100,000

- DESCRIPTION:** Members of the Oregon Legislature receive a per diem for each day that the Legislature is in session. In addition, members are entitled to a monthly allowance for expenses incurred in the performance of official duties during periods when the Legislature is not in session. Members may also receive mileage reimbursement and a per diem for each interim day spent serving on a nonlegislative committee or entity such as an interstate body or advisory committee. Further, when the Legislature is not in session, members may receive mileage reimbursement for periods spent working on a Legislative committee or task force. These amounts are excluded from Oregon taxable income. A member may not claim a tax subtraction for expenditures of amounts received tax-free under ORS 171.072.
- PURPOSE:** The statute that allows this expenditure does not explicitly state a purpose. Presumably, the purpose is to increase the benefits available to members serving in Oregon’s Legislature.
- WHO BENEFITS:** Members of the Legislative Assembly.
- EVALUATION:** Not evaluated.

### 1.325 FEDERAL INCOME TAX DEDUCTION

Oregon Statutes: 316.680(1)(b) and 316.695  
Sunset Date: None  
Year Enacted: 1929

	Corporation	Personal	Total
2007–09 Revenue Impact:	Not Applicable	\$649,400,000	\$649,400,000
2009–11 Revenue Impact:	Not Applicable	\$749,200,000	\$749,200,000

- DESCRIPTION:** Taxpayers are allowed a limited subtraction for federal income taxes paid or accrued. The subtraction limit is \$5,600 for 2008 (indexed to inflation). For spouses filing their returns separately, the limit is half that amount.
- PURPOSE:** The statutes that allow this expenditure do not explicitly state a purpose. Presumably, the purpose is to provide tax relief to Oregonians who pay federal income taxes. The deduction is based on the supposition that federal income taxes are involuntary payments that reduce the ability to pay Oregon taxes.
- WHO BENEFITS:** In 2006, approximately 71 percent of Oregon resident taxpayers claimed a subtraction for federal income taxes paid. The average amount of the subtraction was \$3,000.

Income Group for Full-Year Taxpayers	2006 Taxpayers			Mean Subtraction
	Total Number	Number Taking Subtraction	Percent Taking Subtraction	
<b>Below \$10,000</b>	266,929	50,214	18.8%	\$176
<b>\$10,000 - \$20,000</b>	248,677	138,984	55.9%	\$608
<b>\$20,000 - \$40,000</b>	368,295	275,965	74.9%	\$1,891
<b>\$40,000 - \$70,000</b>	321,332	292,259	91.0%	\$3,618
<b>Above \$70,000</b>	340,864	337,629	99.1%	\$4,778
<b>All Full-Year Taxpayers</b>	1,546,097	1,095,051	70.8%	\$3,000
<b>Part-Year and Nonresident Taxpayers</b>	209,471	147,326	70.3%	\$1,553

EVALUATION: Not evaluated.

### 1.326 MILITARY ACTIVE DUTY PAY

Oregon Statutes: 316.680(1)(c) and (k), 316.789, and 316.791

Sunset Date: None

Year Enacted: 1969, Modified in 2007 (HB 2026 and HB 3201)

	Corporation	Personal	Total
2007–09 Revenue Impact:	Not Applicable	\$29,300,000	\$29,300,000
2009–11 Revenue Impact:	Not Applicable	\$36,500,000	\$36,500,000

**DESCRIPTION:** Typically, taxpayers may subtract all military active duty pay from Oregon taxable income in the year of entry or discharge from military service. In other years, taxpayers may subtract up to \$6,000 of active duty pay.

In 1991, this expenditure was modified so that all active duty military pay earned outside Oregon from August 1, 1990 to the end of combatant activities in the Persian Gulf may be subtracted from taxable income. As of July 2008, the president had not declared an end to combatant activities in the Persian Gulf.

In 2005, the provision was amended to allow National Guard members called to active duty to subtract all active duty pay earned inside Oregon from taxable income.

In 2007, this subtraction was changed again to allow members of the Oregon National Guard and military reservists who are away from home for three consecutive weeks to exempt all active duty pay from Oregon tax. Oregon National Guard and Reserve members who receive active duty pay while attending military schools to fulfill education requirements for retention and/or promotion may also claim this subtraction.

Also in 2007, the Legislature added language to the statute allowing employees of the Oregon Military Department to subtract up to \$6,000 of income earned while performing duties for the Oregon National Guard Youth Challenge Program. This provision applies to tax years 2008 through 2011.

**PURPOSE:** The statutes that allow this expenditure do not explicitly state a purpose. Presumably, the purpose is to provide additional compensation for military personnel for service to their country.

Income Tax  
Oregon Subtractions

WHO BENEFITS: Approximately 11,400 Oregon taxpayers claimed this subtraction in tax year 2006.

EVALUATION: *by the Military Department*

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

### 1.327 TRICARE PAYMENTS

Oregon Statute: 316.680

Sunset Date: 12-31-2011

Year Enacted: 2007 (HB 3201), Modified in 2008 (SB 1060)

	Corporation	Personal	Total
2007–09 Revenue Impact:	Not Applicable	\$800,000	\$800,000
2009–11 Revenue Impact:	Not Applicable	\$1,900,000	\$1,900,000

DESCRIPTION: Beginning with tax year 2008, health care providers may subtract from taxable income any payments received from the TRICARE military health care system during the first two years the provider participates in the TRICARE system. Providers must be certified by the Office of Rural Health. The maximum number of certified providers is limited to

(a) 500 certifications for tax years beginning on or after January 1, 2008, and before January 1, 2009;

(b) 1,000 certifications for tax years beginning on or after January 1, 2009, and before January 1, 2010;

(c) 1,500 certifications for tax years beginning on or after January 1, 2010, and before January 1, 2011; and

(d) 2,000 certifications for tax years beginning on or after January 1, 2011, and before January 1, 2012.

PURPOSE: The statute that allows this expenditure does not explicitly state a purpose. Presumably, the purpose is to encourage health care providers to participate in the TRICARE system and to provide a benefit for active military service members and their families and to encourage military families to obtain health insurance coverage under the TRICARE system.



WHO BENEFITS: Health care providers participating in the TRICARE system.

EVALUATION: *by the Military Department*

This tax expenditure meets its purpose of offering tax incentives to health care providers who participate in the TRICARE system. Its goal is to increase the number of such providers. In the past, military families in Oregon have had difficulty finding providers that accept TRICARE. This tax expenditure should help alleviate that problem.

### 1.328 INTEREST AND DIVIDENDS ON U.S. OBLIGATIONS

Oregon Statute: 316.680

Sunset Date: None

Year Enacted: 1970

	Corporation	Personal	Total
2007–09 Revenue Impact:	Not Applicable	\$52,300,000	\$52,300,000
2009–11 Revenue Impact:	Not Applicable	\$59,400,000	\$59,400,000

DESCRIPTION: Interest and dividends earned on the direct obligations of the U.S. government are exempt from Oregon personal income tax. For example, the dividends or interest earned on U.S. Treasury bills, notes, bonds, and savings bonds are not taxable by state and local governments. Excluded from this provision are the debt instruments of quasi-governmental issuers like the Government National Mortgage Association (GNMA) and the Federal National Mortgage Association (FNMA). Bonds issued by quasi-governmental issuers are not direct obligations of the U.S. government.

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

WHO BENEFITS: The direct beneficiaries are taxpayers who purchase U.S. government bonds. In 2006, almost 79,000 taxpayers claimed this subtraction for interest and dividends from U.S. government obligations. The average subtraction was approximately \$3,800.

Income Group for Full-Year Taxpayers	2006 Taxpayers			Mean Subtraction
	Total Number	Number Taking Subtraction	Percent Taking Subtraction	
<b>Below \$10,000</b>	266,929	6,219	2.3%	\$1,051
<b>\$10,000 - \$20,000</b>	248,677	7,180	2.9%	\$1,409
<b>\$20,000 - \$40,000</b>	368,295	11,870	3.2%	\$1,833
<b>\$40,000 - \$70,000</b>	321,332	16,586	5.2%	\$2,291
<b>Above \$70,000</b>	340,864	34,110	10.0%	\$4,918
<b>All Full-Year Taxpayers</b>	1,546,097	75,965	4.9%	\$3,214
<b>Part-Year and Nonresident Taxpayers</b>	209,471	2,586	1.2%	\$20,210

Income Tax  
Oregon Subtractions

EVALUATION: *by the Department of Revenue*

*This expenditure achieves its purpose of compliance with federal law.*

## 1.401 YOUTH APPRENTICESHIP SPONSORSHIP

Oregon Statute: 315.254

Sunset Date: None (Eligibility for the program ended in 1993.)

Year Enacted: 1991

	Corporation	Personal	Total
2007–09 Revenue Impact:	\$0	\$0	\$0
2009–11 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 old or older to participate in the Youth Apprenticeship program. In 1993, the apprenticeship program changed from a tax credit to a partial cost reimbursement structure. With the change, the credit was limited to the amount of first-year wages paid to students who began participation in the program prior to November 4, 1993. Unused credits could be carried forward for two years.

**PURPOSE:** The statute that allowed this expenditure did not explicitly state a purpose. Presumably, the purpose was 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:** Not evaluated.

## 1.402 CONTRIBUTIONS OF COMPUTER EQUIPMENT

Oregon Statute: 317.151

Sunset Date: 12-31-2009

Year Enacted: 1985

	Corporation	Personal	Total
2007–09 Revenue Impact:	Less than \$50,000	Not Applicable	Less than \$50,000
2009–11 Revenue Impact:	Less than \$50,000	Not Applicable	Less than \$50,000

**DESCRIPTION:** A credit against corporation income taxes is allowed for contributions of computers and scientific equipment or a research donation to an institution of higher education, a post-secondary school, or a public school (grades K-12) in Oregon. The contribution must be made before January 1, 2010 to qualify for the credit. The credit is equal to 10 percent of the fair market value of the equipment donated. Donations of money under a contract for scientific or engineering research or donations of a contract for maintenance of computer or scientific equipment also qualify for the credit.

This credit is in-lieu of any deduction based on the contribution. If a contract is agreed upon before January 1, 2010, but the donation is given after that date, the credit is still allowed. Unused credit amounts due to insufficient tax liability may be used in later years, for up to five years.

Income Tax  
Oregon Credits

**PURPOSE:** The statute that allows this expenditure does not explicitly state a purpose. Presumably, the purpose is to encourage firms to donate computers and scientific equipment to educational institutions.

**WHO BENEFITS:** The use of this credit varies greatly from year to year, but in most years very few corporations benefit from this credit.

**EVALUATION:** *by the Oregon University System*

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.

**1.403 EMPLOYER PROVIDED SCHOLARSHIPS**

Oregon Statute: 315.237  
Sunset Date: None  
Year Enacted: 2001

	Corporation	Personal	Total
2007–09 Revenue Impact:	Less than \$50,000	Less than \$50,000	Less than \$50,000
2009–11 Revenue Impact:	Less than \$50,000	Less than \$50,000	Less than \$50,000

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

**PURPOSE:** The statute that allows this expenditure does not explicitly state a purpose. Presumably, the purpose is to encourage businesses to fund a greater share of the education costs of their employees using a program they can tailor to their specific needs.

**WHO BENEFITS:** Employers benefit directly through reduced taxes. Students receiving scholarships benefit as well to the extent that additional scholarship money becomes available. As of August 2008, the Student Assistance Commission had approved fewer than five employer programs for tax year 2007.

**EVALUATION:** *by the Oregon University System*

While this tax expenditure is not widely used, it has attracted funding from some businesses to assist students in the funding of their education, thus it achieves its purpose.

## 1.404 EARNED INCOME CREDIT

Oregon Statute: 315.266

Sunset Date: 12-31-2013

Year Enacted: 1997, Modified in 2007 (HB 2810)

	Corporation	Personal	Total
2007–09 Revenue Impact:	Not Applicable	\$48,100,000	\$48,100,000
2009–11 Revenue Impact:	Not Applicable	\$55,600,000	\$55,600,000

**DESCRIPTION:** A personal income tax credit is allowed for families that are eligible for the federal earned income credit, a refundable federal income tax credit for low-income working individuals and families. See *IRS Publication 596: Earned Income Credit* for more details on the federal credit. Beginning January 1, 2008, the state credit increased from 5 percent to 6 percent of the federal earned income credit.

Beginning January 1, 2006, the earned income credit became a “refundable credit.” To the extent that the credit exceeds a taxpayer’s liability (reduced by any nonrefundable credits), the taxpayer is entitled to a refund of the excess.

**PURPOSE:** The statute that allows this expenditure does not explicitly state a purpose. Presumably, the purpose is 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 2006, almost 226,000 taxpayers claimed the earned income credit with an average credit of \$85.

Income Group for Full-Year Taxpayers	2006 Taxpayers			Mean Credit
	Total Number	Number Taking Credit	Percent Taking Credit	
Below \$10,000	266,929	72,586	27.2%	\$53
\$10,000 - \$20,000	248,677	63,126	25.4%	\$140
\$20,000 - \$40,000	368,295	70,914	19.3%	\$77
\$40,000 - \$70,000	321,332	0	0.0%	NA
Above \$70,000	340,864	0	0.0%	NA
<b>All Full-Year Taxpayers</b>	<b>1,546,097</b>	<b>206,626</b>	<b>13.4%</b>	<b>\$88</b>
<b>Part-Year and Nonresident Taxpayers</b>	<b>209,471</b>	<b>19,162</b>	<b>9.1%</b>	<b>\$54</b>

**EVALUATION:** *by the Department of Human Services*

This tax credit allows low-income families to retain needed income to meet needs that otherwise may go unmet or cause them to return to public assistance. Many of these at-risk families have income below the income level where they must pay taxes and so do not benefit from this credit. By providing this credit, families with income

exceeding the income level where taxation begins will retain more resources to better ensure their continued self-sufficiency.

This is a fiscally effective means of assisting low-income families to maintain their self-sufficiency. It costs less to administer the credit than a means test program designed to assist families at this income level.

## 1.405 QUALIFIED ADOPTION EXPENSE

Oregon Statute: 315.274

Sunset Date: 12-31-2005

Year Enacted: 1999

	Corporation	Personal	Total
2007–09 Revenue Impact:	Not Applicable	Less than \$50,000	Less than \$50,000
2009–11 Revenue Impact:	Not Applicable	Less than \$50,000	Less than \$50,000

**DESCRIPTION:** A credit against personal income taxes was allowed for qualified expenses incurred in adopting a child. The credit could not be claimed for the portion of adoption expenses that were reimbursed through the federal income tax credit under IRC Sec. 23. Taxpayers were allowed to carry forward unused credits for up to four additional years.

**PURPOSE:** The statute that allowed this expenditure did not explicitly state a purpose. Presumably, the purpose was to reduce the financial cost of adoption, which may act as a barrier for some taxpayers.

**WHO BENEFITS:** Persons who incurred adoption expenses (other than those from the public child welfare foster care system) benefited from this tax credit. This included those who adopted children from other countries and those who adopted from private and independent sources, as well as those who adopted their stepchildren or relative children, other than those who were in the public foster care system. This credit did not benefit taxpayers with high income (phasing out at roughly \$160,000).

**EVALUATION:** Not evaluated.

## 1.406 RURAL MEDICAL PRACTICE

Oregon Statute: 315.613, 315.616, and 315.619

Sunset Date: None

Year Enacted: 1989

	Corporation	Personal	Total
2007–09 Revenue Impact:	Not Applicable	\$13,300,000	\$13,300,000
2009–11 Revenue Impact:	Not Applicable	\$13,000,000	\$13,000,000

**DESCRIPTION:** An annual credit of up to \$5,000 against personal income taxes is allowed to certain rural medical providers. The original statute covered physicians, physician assistants, and nurse practitioners. Certified registered nurse anesthetists were added in 1991, podiatrists and dentists in 1995, and optometrists in 1997.

The credit may be claimed as long as the health practitioners maintain their eligibility. Before 1999, there was a 10-year limit for claiming this credit.

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. For this provision, rural is defined as any area at least ten miles from a major population center of 40,000 or more. Currently, there are six such population centers: the Portland area, Salem, Eugene/Springfield, Medford, Bend, and Corvallis/Albany. In addition, physicians on staff of a hospital in a metropolitan statistical area (MSA) are not eligible, with the exception of Florence in Lane County and Dallas in Polk County (2001 legislation).

**PURPOSE:** The statutes that allow this expenditure do not explicitly state a purpose. Presumably, the purpose is to encourage the establishment and continuation of medical practices in under-served rural areas.

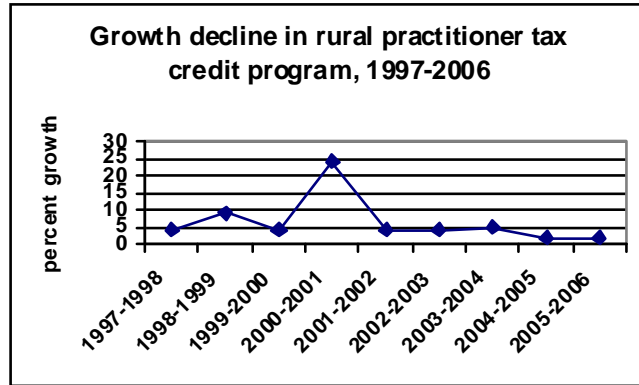
**WHO BENEFITS:** For the 2007 tax year, 1,130 physicians, 390 nurse practitioners, 158 physician assistants, 64 nurse anesthetists, 54 dentists, 20 optometrists, and 17 podiatrists qualified for the credit, for a total of 1,833 practitioners. The ultimate beneficiaries of this program are rural Oregonians who might otherwise have no health care available to them.

**EVALUATION:** *by the Office of Rural Health*

This tax credit appears to have originally achieved its purpose by attracting new practitioners to rural communities and retaining existing practitioners. A year-by-year analysis of the Office of Rural Health's tax credit data base shows an impressive net gain of 1,261 practitioners in rural areas eligible for the tax credit since 1990.

The tax credit has been most successful in attracting new nurse practitioners to rural areas, and their figures have grown from 60 in 1990 to 390 for tax year 2007. In estimating the impact of this growth, however, one must take into account the increase in nurse practitioner training programs statewide during the same time period.

Initially, Oregon experienced a remarkable gain in rural physicians, but that growth is slowing. Overall, growth in rural practitioners claiming the credit has begun to slow, as follows:



Reasons for the decline may include (1) a general shortage in health care workforce statewide; (2) a reversal in the trend that witnessed disproportionate workforce growth in rural areas vs. urban areas during the past few years (growth is now greater in urban areas); (3) aging of the overall workforce (the greatest concentration of physicians is now in the 51-60 age group — much higher than the rest of the population); and (4) perhaps most significantly, the tax credit has not increased for 15 years, while the medical consumer price index has risen 54 percent between January 1994 and June 2004, a measure of physician office overhead.

The decline in participation does not in any way indicate that adequate numbers of health care practitioners have been recruited to serve the needs of rural Oregonians. In 2003, the Portland metro area had 302 physicians per 100,000 population. In Eastern Oregon, the measure was 153 per 100,000, and in rural NW Oregon, the number was only 107.

The health care workforce is a critical economic engine for rural communities, which are the ultimate beneficiaries of this program. A study conducted by Oklahoma State University (Doeksen and Miller, *Journal of the Oklahoma State Medical Association*, September 1988, pp. 568-573) estimates that each rural physician returns \$343,706 worth of annual income to the local economy and creates 17.8 local jobs. For Oregon, the 224 additional physicians since 1990 translates into \$76,990,144 returned to local economies and almost 40,000 new jobs.

The program was devised to operate with a minimum of administrative burden and appears to be an efficient means of accomplishing its goal. A 1996 audit by the Secretary of State's office concluded that the program is fulfilling the purpose for which it was created in an efficient and exemplary manner. Administrative costs are negligible and are covered by charging each applicant a \$45 processing fee.

Without intervention, a decline in rural practitioners similar to that experienced in the 1980s will inevitably repeat itself. In order to prevent a crisis in the availability of health care to rural Oregonians, the state should consider increasing the tax credit, e.g., indexing it to the medical consumer price index.



## 1.407 VOLUNTEER RURAL EMERGENCY MEDICAL TECHNICIANS

Oregon Statute: 315.622  
Sunset Date: 12-31-2010  
Year Enacted: 2005

	Corporation	Personal	Total
2007–09 Revenue Impact:	Not Applicable	\$300,000	\$300,000
2009–11 Revenue Impact:	Not Applicable	\$200,000	\$200,000

**DESCRIPTION:** An annual, nonrefundable credit of \$250 against personal income taxes is allowed to certain rural emergency medical technicians certified by the Office of Rural Health. At least 20 percent of the services provided by the emergency medical technician (EMT) must be in a qualifying rural area to receive the credit. For this provision, rural means any area at least 25 miles from a city with a population of 40,000 or more.

**PURPOSE:** The statute that allows this expenditure does not explicitly state a purpose. Presumably, the purpose is to encourage provision of emergency medical technical services in rural areas.

**WHO BENEFITS:** Certified emergency medical technicians that volunteer at least 20 percent of their services in rural areas. In 2006, almost 550 taxpayers used this credit.

**EVALUATION:** *by the Office of Rural Health*

The Oregon Department of Revenue determined that this program would become effective 1/1/06. 568 EMTs were certified as eligible for tax year 2006 and 525 EMTs have been certified to date as eligible for tax year 2007.

Rural volunteer EMTs must pay for the cost of certification out of their own pockets, which has made the recruitment and retention of rural volunteer EMTs difficult. The EMT Tax Credit program was designed to assist rural volunteer EMTs in offsetting those costs and increasing the retention of trained health care professionals. While the Office of Rural Health has not done a formal evaluation of this program, the office does believe it is an effective program and should be continued.

## 1.408 COSTS IN-LIEU OF NURSING HOME CARE

Oregon Statutes: 316.148  
Sunset Date: None  
Year Enacted: 1979

	Corporation	Personal	Total
2007–09 Revenue Impact:	Not Applicable	Less than \$50,000	Less than \$50,000
2009–11 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 the lesser of \$250 or 8 percent of expenses paid. Taxpayers providing the care and claiming the credit cannot have household income in excess of \$17,500.

Income Tax  
Oregon Credits

The person receiving the care must: 1) not be in a nursing home, rehabilitation facility, or other long-term skilled care facility; 2) have household income of \$7,500 or less; 3) be eligible for but not receive home care services under Oregon Project Independence; 4) receive no medical assistance from the state Seniors and Peoples with Disabilities Division; and 5) be at least 60 years of age.

**PURPOSE:** The statutes that allow this expenditure do not explicitly state a purpose. Presumably, the purpose is to provide tax relief for low-income taxpayers who incur expenses caring for individuals who would otherwise be placed in a nursing home.

**WHO BENEFITS:** Taxpayers who care for elderly citizens in their homes. Fewer than 25 taxpayers used this credit in 2006.

**EVALUATION:** *by the Department of Human Services*  
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.

### 1.409 LONG-TERM CARE INSURANCE

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

	Corporation	Personal	Total
2007–09 Revenue Impact:	Less than \$50,000	\$13,700,000	\$13,700,000
2009–11 Revenue Impact:	Less than \$50,000	\$15,200,000	\$15,200,000

**DESCRIPTION:** A credit based upon premiums paid for long-term care insurance as defined in ORS 743.652 is allowed against personal and corporate income tax. The credit is available for individuals purchasing long-term care insurance policies on or after January 1, 2000 that provide coverage for the taxpayer, dependents, or parents of the taxpayer. The credit is also available to employers who provide long-term care insurance on behalf of their Oregon-based employees. For individual filers, the maximum income tax credit is the lesser of 15 percent of the total amount of long-term care insurance premiums paid by the taxpayer or \$500. For employers, the maximum income tax credit is the lesser of 15 percent of the total amount of long-term care insurance premiums provided by the taxpayer or \$500 per employee, but cannot exceed the tax liability of the taxpayer. If the amount paid for these premiums is taken as a deduction on the federal return, then it must be added to income on the Oregon return to take the credit.

**PURPOSE:** The statute that allows this expenditure does not explicitly state a purpose. Presumably, the purpose is to encourage younger individuals to prepare for potential long-term care needs and to encourage businesses to provide insurance coverage for employees.

**WHO BENEFITS:** Taxpayers who purchase long-term care insurance. Typically, fewer than 10 corporations claim this credit. Almost 29,000 individuals claimed it in 2006.

Income Group for Full-Year Taxpayers	2006 Taxpayers			Mean Credit
	Total Number	Number Taking Credit	Percent Taking Credit	
<b>Below \$10,000</b>	266,929	981	0.4%	\$271
<b>\$10,000 - \$20,000</b>	248,677	2,023	0.8%	\$277
<b>\$20,000 - \$40,000</b>	368,295	4,329	1.2%	\$278
<b>\$40,000 - \$70,000</b>	321,332	6,780	2.1%	\$271
<b>Above \$70,000</b>	340,864	13,151	3.9%	\$309
<b>All Full-Year Taxpayers</b>	1,546,097	27,264	1.8%	\$291
<b>Part-Year and Nonresident Taxpayers</b>	209,471	1,453	0.7%	\$119

EVALUATION: *by the Department of Human Services*

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.

## 1.410 DISABLED CHILD

Oregon Statute: 316.099

Sunset Date: None

Year Enacted: 1985, Modified 2007

	Corporation	Personal	Total
2007–09 Revenue Impact:	Not Applicable	\$5,900,000	\$5,900,000
2009–11 Revenue Impact:	Not Applicable	\$7,000,000	\$7,000,000

**DESCRIPTION:** An additional personal exemption credit is allowed for each dependent child who is disabled. (Every nondependent taxpayer in Oregon is allowed one personal exemption credit for himself or herself, one for a spouse, and one for each dependent; this credit is in addition to those.) “Disabled child” is defined as your dependent child who is eligible for early intervention services, or who is diagnosed for special education purposes as being autistic, mentally retarded, multi-disabled, visually impaired, hearing impaired, deaf-blind, orthopedically impaired, other health impaired, or as having serious emotional disturbance or traumatic brain injury, in accordance with State Board of Education rules.

Use of this program has been expanded by the federal Americans with Disabilities Act, as well as a tax court decision allowing the credit for nonresident dependents diagnosed and schooled in other states. The amount of the personal exemption credit (and hence the disabled child credit) is \$169 in 2008 (indexed to inflation).

**PURPOSE:** The statute that allows this expenditure does not explicitly state a purpose. Presumably, the purpose is to provide tax relief to the families of disabled children.

**WHO BENEFITS** In 2006, almost 17,000 full-year taxpayers claimed disabled child credits with an average credit of about \$157.

Income Group for Full-Year Taxpayers	2006 Taxpayers			Mean Credit
	Total Number	Number Taking Credit	Percent Taking Credit	
<b>Below \$10,000</b>	266,929	1,227	0.5%	\$35
<b>\$10,000 - \$20,000</b>	248,677	2,133	0.9%	\$132
<b>\$20,000 - \$40,000</b>	368,295	4,206	1.1%	\$166
<b>\$40,000 - \$70,000</b>	321,332	4,516	1.4%	\$176
<b>Above \$70,000</b>	340,864	4,500	1.3%	\$174
<b>All Full-Year Taxpayers</b>	1,546,097	16,582	1.1%	\$157
<b>Part-Year and Nonresident Taxpayers</b>	209,471	1,222	0.6%	\$93

EVALUATION: *by the Department of Human Services*

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.

### 1.411 ELDERLY OR PERMANENTLY DISABLED

Oregon Statute: 316.087

Sunset Date: None

Year Enacted: 1969

	Corporation	Personal	Total
2007–09 Revenue Impact:	Not Applicable	\$100,000	\$100,000
2009–11 Revenue Impact:	Not Applicable	\$100,000	\$100,000

DESCRIPTION: Taxpayers are allowed a credit against Oregon personal income taxes of up to 40 percent of the federal elderly or disabled credit. For details on the federal credit, see IRS Publication 524, *Credit for the Elderly or the Disabled*. Taxpayers claiming the state Retirement Income credit (1.462), however, are ineligible to claim this Oregon credit.

PURPOSE: The statute that allows this expenditure does not explicitly state a purpose. Presumably, the purpose is to provide 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 2006, the number of claimants was approximately 395, and the average credit was \$73.

EVALUATION: *by the Department of Human Services*

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.

## 1.412 LOSS OF LIMBS

Oregon Statute: 316.079

Sunset Date: None

Year Enacted: 1973

	Corporation	Personal	Total
2007–09 Revenue Impact:	Not Applicable	Less than \$50,000	Less than \$50,000
2009–11 Revenue Impact:	Not Applicable	Less than \$50,000	Less than \$50,000

**DESCRIPTION:** A personal income tax credit of \$50 is allowed for taxpayers with permanent and complete loss of function of at least two limbs. If both taxpayers on a joint return meet the criteria, the credit is \$100. All taxpayers eligible for this credit are also eligible for the severe disability credit. See tax expenditure 1.413, Severe Disability Credit, for more information.

**PURPOSE:** The statute that allows this expenditure does not explicitly state a purpose. Presumably, the purpose is to provide 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 2006, fewer than 500 taxpayers claimed this credit.

**EVALUATION:** *by the Department of Human Services*

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.

### 1.413 SEVERE DISABILITY

Oregon Statute: 316.758 and 316.765

Sunset Date: None

Year Enacted: 1985

	Corporation	Personal	Total
2007–09 Revenue Impact:	Not Applicable	\$7,100,000	\$7,100,000
2009–11 Revenue Impact:	Not Applicable	\$8,100,000	\$8,100,000

**DESCRIPTION:** Every nondependent taxpayer in Oregon is allowed one personal exemption credit for himself or herself, one for a spouse, and one for each dependent. An additional personal exemption credit is allowed for taxpayers with severe disabilities. Two additional personal exemptions may be claimed on a joint return if both spouses qualify. The amount of the personal exemption credit (and hence the severe disability credit) is indexed each year to account for inflation. The credit is \$169 in 2008.

Severe disability is defined as: a) the loss of use of one or more lower extremities; b) the loss of use of both hands; c) permanent blindness; or d) a physical or mental condition that limits the abilities of the person to earn a living, maintain a household, or provide personal transportation without employing special orthopedic or medical equipment or outside help.

**PURPOSE:** The statutes that allow this expenditure do not explicitly state a purpose. Presumably, the purpose is to provide 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 30,500 in 2006.

Income Group for Full-Year Taxpayers	2006 Taxpayers			Mean Credit
	Total Number	Number Taking Credit	Percent Taking Credit	
<b>Below \$10,000</b>	266,929	5,322	2.0%	\$41
<b>\$10,000 - \$20,000</b>	248,677	5,688	2.3%	\$104
<b>\$20,000 - \$40,000</b>	368,295	7,070	1.9%	\$131
<b>\$40,000 - \$70,000</b>	321,332	6,029	1.9%	\$145
<b>Above \$70,000</b>	340,864	4,712	1.4%	\$157
<b>All Full-Year Taxpayers</b>	1,546,097	28,821	1.9%	\$116
<b>Part-Year and Nonresident Taxpayers</b>	209,471	1,714	0.8%	\$72

**EVALUATION:** *by the Department of Human Services*

This tax expenditure appears to achieve its purpose. It increases disposable income for eligible individuals. While a tax credit is clearly beneficial, there is a concern that those who qualify for this credit may not earn sufficient income to fully utilize it. Creating an income cap may provide an equitable way for the benefits to be enhanced for very low-income people.

## 1.414 FILM PRODUCTION DEVELOPMENT CONTRIBUTIONS

Oregon Statute: 315.514

Sunset Date: 12-31-2011

Year Enacted: 2003, Modified in 2007 (SB 635 and HB 3201)

	Corporation	Personal	Total
2007–09 Revenue Impact:	\$600,000	\$7,300,000	\$7,900,000
2009–11 Revenue Impact:	\$800,000	\$9,200,000	\$10,000,000

**DESCRIPTION:** A credit against corporation or personal income taxes is available to taxpayers for certified contributions to the Oregon Production Investment Fund. Taxpayers receive a credit equal to 110 percent of the contribution. Five million dollars in credits can be issued annually to generate \$4.5 million in operating funds to the Oregon Production Investment Fund.

The fund provides rebates to qualifying film or television productions that directly spend at least \$750,000 in Oregon. The maximum reimbursement for productions is 10 percent of salaries, wages, and benefits plus 20 percent of other expenses.

To receive this credit, a taxpayer must apply for tax credit certification to the Oregon Film and Video Office. If the amount of contribution is allowed as a deduction for federal tax purposes, the contribution amount is added to federal taxable income for Oregon tax purposes.

Any unused credit may be carried forward for up to three years. If the credit is claimed by a nonresident or part-year resident taxpayer, the amount is allowed without proration. A taxpayer who has received a credit certificate may sell the certificate to another taxpayer, provided that notice of the sale is filed with the Department of Revenue.

**PURPOSE:** “The Oregon Film and Video Office shall adopt rules for determining the amount of tax credit to be certified in order to achieve the following goals: (1) generate contributions for which \$5 million in tax credits are certified each fiscal year, (2) maximize the income and excise tax revenues available to Oregon for state operations, and (3) provide the necessary financial incentives for taxpayers to make contributions to the Oregon Production Investment Fund.” (ORS 315.514(2)(b)).

**WHO BENEFITS:** Taxpayers who contribute to the Oregon Production Investment Fund benefit because of their decreased tax liability. Approximately 206 individuals made contributions to the fund for tax year 2007. Television and film production companies benefit as well because the Oregon Production Investment Fund is used to reimburse a portion of their actual expenses incurred in Oregon related to the production of a film or television series.

**EVALUATION:** *by the Oregon Film and Video Office*

This tax expenditure achieves its purpose of encouraging film production in the state and generating associated spending and employment.

The Oregon Production Investment Fund has been integral in Oregon's ability to compete with the 38 other US states that offer production incentives and is directly responsible for the 117 percent growth of out-of-state production in Oregon between 2005 and 2007.

Every \$1 that is made available to the OPIF production incentive results in \$6.20 in direct production spending and \$11.87 in total economic impact. Thus, the current

annual \$5 million fund generates \$31 million in direct production spending, \$59 million in overall economic impact, and supports 844 FTE jobs.

Additionally, according to ECONorthwest estimates, every \$1 million in out-of state production spending nets \$80,813 in state tax revenue. Therefore, using the annual direct production spending figures quoted above (\$31 million per \$5 million annual OPIF expenditure), \$2.5 million is returned to the State Treasury via the production spending that the annual \$5 million incentive fund attracts into Oregon, making the net annual cost \$2.5 million.

These figures equate to the following ROIs:

ROI for direct production spending to gross cost of fund - 6.2:1

ROI for overall economic impact to gross cost of fund - 11.8:1

ROI for direct production spending to net cost of fund - 12.4:1

ROI for overall economic impact to net cost of fund - 23.6:1

## 1.415 QUALIFIED RESEARCH ACTIVITIES

Oregon Statute: 317.152

Sunset Date: 12-31-2012

Year Enacted: 1989

	Corporation	Personal	Total
2007–09 Revenue Impact:	\$14,900,000	Not Applicable	\$14,900,000
2009–11 Revenue Impact:	\$18,200,000	Not Applicable	\$18,200,000

**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, definitions of basic research and qualified research and the determination of the excess follows the calculations in a similar federal research credit (IRC §41) except that only research in Oregon is considered.

The base amount is calculated so that the credit rewards increases in qualified research activities. The base amount is either: a) the percentage that qualified research activities were of gross receipts in the 1984–88 period, or b) for companies that did not conduct research for at least three years in 1984-88, the base amount equals 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 \$2 million per taxpayer (limit was increased from \$1 million by the 2005 Legislature). 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 tax expenditure 1.416, Qualified Research Activities (Alternative). The revenue impact reported here includes any credits received under both tax expenditures.



- PURPOSE:** The statute that allows this expenditure does not explicitly state a purpose. Presumably, the purpose is to promote and increase research activities in Oregon
- WHO BENEFITS:** Companies undertaking qualified research activities. For tax year 2005, approximately 80 taxpayers benefited from the credit. These taxpayers reduced their tax liability by \$41,000, on average. Other taxpayers claiming this credit were unable to use it due to insufficient tax liability.
- EVALUATION:** *by the Economic and Community Development Department*
- This expenditure appears to achieve its purpose. The estimated revenue impacts above equate to about \$165 million per year of increased research activity in Oregon over the four-year period. Some of this spending in Oregon is likely attributable to this provision's existence. Moreover, this type of tax credit is common and often more generous in other states that tax corporate income.
- The benefits of this incentive can be identified as follows:
- The credit may convince companies to relocate to Oregon.
  - The credit encourages existing companies to put more effort into research and development (R&D). Product introduction cycles for products, such as personal computers, high-definition screens and telecommunication products are ever increasingly short. They demand R&D commitments.
  - The credit encourages small companies to explore new niche technology opportunities and enhances their ability to attract joint R&D capital.
  - The credit encourages companies to utilize existing state research institutes to assist with R&D activities.
- This last point is an issue in Oregon for which evidence has suggested low corporate R&D funding of state research institutes compared to the situation in other states. This could reflect a mismatch between industry needs and the capacities and objectives of state research facilities, or that corporations fail to engage Oregon's state research facilities for other reasons.
- This expenditure is more efficient than a direct spending program because it allows individual companies to determine if R&D activities are efficient under the current tax structure. The expenditure does favor one group of industries in Oregon over another—i.e., sectors substantially and formally oriented to R&D efforts—but these are industries that Oregon public policies are designed to attract and foster, and they will use the federal tax credit, anyway.
- Furthermore, the Governor and the Legislature have identified "innovation" as a critical strategic priority for Oregon's economy.

### 1.416 QUALIFIED RESEARCH ACTIVITIES (ALTERNATIVE)

Oregon Statute: 317.154  
Sunset Date: 12-31-2012  
Year Enacted: 1989

	Corporation	Personal	Total
2007–09 Revenue Impact:	Included in 1.415	Not Applicable	Included in 1.415
2009–11 Revenue Impact:	Included in 1.415	Not Applicable	Included in 1.415

**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 equal to 5 percent of the excess amount.

The credit is limited to the lesser of: a) \$2 million, or b) \$10,000 multiplied by the number of percentage points that the qualified research expenses exceed 10 percent of Oregon sales. The expenses that qualify for the credit are the same as those that qualify under Qualified Research Activities (1.415), except that basic research payments are not included.

Taxpayers have the option of claiming this credit or the credit described in tax expenditure 1.415, Qualified Research Activities. Some companies may not qualify for the standard credit because they do not have the necessary increase in research activities. This alternative still allows them to qualify for the credit if they conduct a large proportion of their research activities in Oregon relative to the proportion of their sales in Oregon.

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.

**PURPOSE:** The statute that allows this expenditure does not explicitly state a purpose. Presumably, the purpose is to promote research activities in Oregon.

**WHO BENEFITS:** See 1.415, Qualified Research Activities.

**EVALUATION:** *by the Economic and Community Development Department*  
See evaluation for 1.415, Qualified Research Activities.

### 1.417 LONG-TERM RURAL ENTERPRISE ZONE (INCOME TAX)

Oregon Statute: 317.124  
Sunset Date: 06-30-2013  
Year Enacted: 1997, Sunset extended in 2007 (SB 151)

	Corporation	Personal	Total
2007–09 Revenue Impact:	Not Available*	Not Applicable	Not Available*
2009–11 Revenue Impact:	Not Available*	Not Applicable	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:	<p>Corporations that make certain large investments in a rural enterprise zone are eligible for a corporate income tax credit, if approved by the Governor. The investment must be locally approved for the related property tax expenditure—see 2.011, Long-Term Rural Enterprise Zone (Property Tax)—on or before June 30, 2013. To be eligible for the property tax exemption, the investment must be located in a county with chronic unemployment or low income. Depending on the location in the state, the investment also must exceed a certain minimum amount ranging from \$1 million to \$25 million, the firm must hire from 10 to 75 full-time employees within three to five years, and the average annual worker compensation must be at least 50 percent above the county average wage.</p> <p>The corporate income tax credit is equal to 62.5 percent of the taxpayer’s payroll and employee benefit costs at the facility. The credit applies only against liabilities above a minimum amount of \$1 million or less depending on the facility’s location and workforce size. The credit may be received over a period of five to 15 years, as determined by the governor, beginning no later than the third calendar year after the facility is placed in service. Unused credit can be carried forward for up to five years.</p> <p>Approval from the Governor’s Office is required for this credit. It is not required for the related property tax exemption—see 2.011, Long-Term Rural Enterprise Zone (Property Tax).</p> <p>There are several other tax expenditures associated with the enterprise zones. Please refer to the NOTE in 2.010, Enterprise Zone Businesses, which is intended to clarify how these tax expenditures are related and addresses both property tax and income tax expenditures.</p>
PURPOSE:	<p>The statute that allows this expenditure does not explicitly state a purpose. Presumably, the purpose is to encourage investment in rural areas of chronic unemployment or low income.</p>
WHO BENEFITS:	<p>This provision is intended to benefit rural enterprise zones and their surrounding residents in counties with chronic unemployment or low income. So far, the Governor has approved such credits on four different facilities. The credit remains unused.</p>
EVALUATION:	<p><i>by the Economic and Community Development Department</i></p> <p>The credit appears to be a major point of interest with special investments in special places, which is the intended effect—see 2.011, Long-Term Rural Enterprise Zone (Property Tax).</p> <p>Changes by SB 245 (1999) made these long-term rural tax incentives conceivable as something to significantly help induce much-needed private investment throughout rural Oregon. Before these changes, the likelihood of them having an effect was small in those locations and elsewhere.</p> <p>There is currently insufficient data for further analysis. Nevertheless, other legislative adjustments since 1999, greater marketing and a stronger economy have continued to raise the profile and usability of this incentive.</p>

## 1.418 RESERVATION ENTERPRISE ZONE (INCOME TAX)

Oregon Statute: 285C.309

Sunset Date: None

Year Enacted: 2001

	Corporation	Personal	Total
2007-09 Revenue Impact:	Less than \$50,000	Less than \$50,000	Less than \$50,000
2009-11 Revenue Impact:	Less than \$50,000	Less than \$50,000	Less than \$50,000

**DESCRIPTION:** Qualified taxpayers operating a new business facility in a reservation enterprise zone may claim an income tax credit for the amount of tribal tax paid. The credit must be used in the same year that taxes are paid and may not be carried forward to another year.

A reservation enterprise zone may be designated on trust land of an Indian tribe that meets the following conditions:

- The Indian tribe is a federally recognized tribe; and
- The reservation of the tribe is entirely within Oregon; and
- The land is inside the boundaries of the reservation; and
- 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.

Changes to statutes in 2005 that repealed population density requirement allow more Oregon tribes to designate a reservation enterprise zone.

Except for this special tribal tax credit, reservation enterprise zones are otherwise equivalent to a regular rural enterprise zone and businesses can be exempt from property taxes if they meet the requirements for tax expenditure 2.010, Enterprise Zone Business.

There are several other tax expenditures associated with the enterprise zones. Please refer to the NOTE in 2.010, Enterprise Zone Businesses, which is intended to clarify how these tax expenditures are related and addresses both property tax and income tax expenditures.

**PURPOSE:** “To remove the tax disincentives that currently inhibit private business and industry from locating and operating enterprises within the boundaries of the rural Indian reservations of this state.” (ORS 285C.303).

**WHO BENEFITS:** Businesses operating in reservation enterprise zones. Residents of reservations who benefit from enhanced development opportunities. Currently one reservation enterprise zone has been designated by the Confederated Tribes of the Umatilla Indian Reservation.

**EVALUATION:** *by the Economic and Community Development Department*  
Insufficient data for analysis: the credit remains unused.

## 1.419 ELECTRONIC COMMERCE ENTERPRISE ZONE (INCOME TAX)

Oregon Statute: 315.507

Sunset Date: None (Enterprise zone law sunsets 06-30-2013.)

Year Enacted: 2001

	Corporation	Personal	Total
2007-09 Revenue Impact:	\$900,000	\$200,000	\$1,100,000
2009-11 Revenue Impact:	\$900,000	\$300,000	\$1,200,000

**DESCRIPTION:** Qualified business firms may claim an income tax credit for investment in electronic commerce (E-commerce) operations under certain circumstances. Such a firm must be engaged or preparing to engage in electronic commerce within a regular enterprise zone or the (one) city designated statutorily for "electronic commerce" — see ORS 285C.095 and 285C.100 (North Plains) and tax expenditure 2.012, Electronic Commerce Enterprise Zone (Property Tax).

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. A firm may carry the credit forward for up to five years.

The taxpayer must also be locally authorized and qualify for the enterprise zone exemption from property taxes — see 2.010, Enterprise Zone Businesses.

The director of the Economic and Community Development Department grants electronic commerce status to enterprise zones. In order to be designated for electronic commerce, the enterprise zone must already be designated, its zone sponsor must adopt resolutions requesting such designation, and a proposed business investment that can and will use the incentives must come forward.

Ten E-commerce enterprise zones are allowed under current law. In 2002, four enterprise zones could receive this special designation. Six more electronic commerce enterprise zones were allowed by 2005 laws. Five have been designated for a total of nine E-commerce zones as of September 2008.

There are several other tax expenditures associated with the enterprise zones. Please refer to the NOTE in 2.010, Enterprise Zone Businesses, which is intended to clarify how these tax expenditures are related and addresses both property tax and income tax expenditures.

**PURPOSE:** The statute that allows this expenditure does not explicitly state a purpose. Presumably, the purpose is to encourage development of electronic commerce in specified zones and cities.

**WHO BENEFITS:** E-commerce businesses operating in electronic commerce enterprise zones and cities. For tax year 2005, fewer than five corporations benefited from this credit for a total reduction in tax liability of about \$ 400,000.

**EVALUATION:** *by the Economic and Community Development Department*

Since 2002, this income tax credit has been a critical, final element in influencing investments in a few of the applicable enterprise zones, especially in Medford. Among designated enterprise zones, however, activity in using this program has varied tremendously. In any event, the tax credit appears to be fulfilling its purpose in the context of other marketing factors—not only by inducing the E-Commerce sector

to grow in Oregon, but also by spurring additional enterprise zone investments and job creation.

## 1.420 WATER TRANSIT VESSEL MANUFACTURING

Oregon Statute: 315.517

Sunset Date: 12-31-2012

Year Enacted: 2005

	Corporation	Personal	Total
2007–09 Revenue Impact:	Less than \$50,000	Less than \$50,000	Less than \$50,000
2009–11 Revenue Impact:	Less than \$50,000	Less than \$50,000	Less than \$50,000

**DESCRIPTION:** Companies engaged in the manufacture of water transit vessels licensed by the U.S. Coast Guard to carry at least 50 passengers can take a tax credit of the lesser of \$5,000, 15 percent of the wages paid to new employees hired during the tax year and employed in this state, or the tax liability for the tax year. To qualify, a new employee cannot have previously worked at the company and must be the result of an increase in full-time equivalent employees compared to the prior tax year. The tax credit cannot be carried forward to future years, but can be taken in multiple years for additional new employees until the sunset date. The tax credit is not in-lieu of payroll expenses deducted from taxable income.

**PURPOSE:** The statute that allows this expenditure does not explicitly state a purpose. Presumably, the purpose is to encourage new hiring in the Oregon ferry-building industry.

**WHO BENEFITS:** Companies manufacturing ferries and other passenger vessels that hire at least one new employee in any tax year between January 1, 2006 and December 31, 2012.

**EVALUATION:** *by the Economic and Community Development Department*  
Insufficient data for analysis.

## 1.421 PUBLIC UNIVERSITY VENTURE DEVELOPMENT FUND

Oregon Statute: 315.521

Sunset Date: None

Year Enacted: 2005, Modified in 2007 (SB 582)

	Corporation	Personal	Total
2007–09 Revenue Impact:	Less than \$50,000	\$500,000	\$500,000
2009–11 Revenue Impact:	Less than \$50,000	\$600,000	\$600,000

**DESCRIPTION:** Oregon universities may establish “university venture development funds” in order to provide capital for affiliate research and development of commercially viable products and services. Either the university or its affiliate organizations may accept

donations, issue credits and manage the monies in the funds. Typically, the University Foundation has this role.

Donors to these funds qualify for a credit equal to 60 percent of the amount donated to be claimed against their personal or corporate income taxes. The taxpayer can claim the credit over any number of years, but the amount claimed in any one year may not exceed the lesser of \$50,000 or 20 percent of the total donated amount.

In 2007, the Legislature eliminated a total contribution cap of \$14 million and replaced it with limitations on the number of tax credit certificates that the public universities may issue. The university must transfer 20 percent of the income realized through its university venture development fund to the General Fund, up to the amount of tax credits issued by the university as a result of contributions. Whenever the outstanding amount owed to the General Fund by the Oregon University System reaches \$6 million—\$2.4 million in the case of the Oregon Health and Science University—the issuance of further tax credit certificate must cease. The university may issue new tax credits to equal the transferred amount immediately upon deposit into the General Fund.

- PURPOSE:** The statute that allows this expenditure does not explicitly state a purpose. Presumably, the purpose is to encourage private investment and entrepreneurship in products and services developed through research at Oregon universities. This entails elements of what is frequently referred to as "technology transfer."
- WHO BENEFITS:** Individuals and corporations that make donations to the funds. As of June 16, 2008, 68 tax credit certificates had been issued to taxpayers.
- EVALUATION:** *by the Economic and Community Development Department*  
Insufficient data for analysis. The above revenue impacts would equate to average annual donations to university venture development funds of approximately \$420,000 during the current biennium and \$500,000 during the succeeding biennium.

## 1.422 SMALL CORPORATION TAX CREDIT

Oregon Statute: Note following ORS 317.092

Sunset Date: 12-31-2007

Year Enacted: 2007 (HB 2031)

	Corporation	Personal	Total
2007–09 Revenue Impact:	\$24,800,000	Not Applicable	\$24,800,000
2009–11 Revenue Impact:	\$0	Not Applicable	\$0

- DESCRIPTION:** C corporations with less than \$5 million in Oregon sales for tax year 2007 were allowed a credit equal to 67 percent of the corporation's tax liability for that year. The credit may only be applied to the 2007 tax year.
- PURPOSE:** The statute that allowed this expenditure did not explicitly state a purpose. Presumably, the purpose was to provide tax relief to small businesses whose potential kicker credits were eliminated due to the transfer of excess corporate revenues to a Rainy Day Fund established under HB 2707.

Income Tax  
Oregon Credits

WHO BENEFITS: C corporations with less than \$5 million in Oregon sales for tax year 2007.

EVALUATION: Not evaluated.

### 1.423 CHILD AND DEPENDENT CARE

Oregon Statute: 316.078

Sunset Date: None

Year Enacted: 1975

	Corporation	Personal	Total
2007–09 Revenue Impact:	Not Applicable	\$17,400,000	\$17,400,000
2009–11 Revenue Impact:	Not Applicable	\$16,900,000	\$16,900,000

**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 based on federal taxable income. The percentage amount ranges from 30 percent for taxpayers with taxable income less than \$5,000 to zero percent for taxpayers with taxable income above \$45,000. Unused credit amounts due to insufficient tax liability may be carried forward for up to five years.

Eligible employment-related expenses are those necessary for the taxpayer to be gainfully employed and include expenses for household services and for the care of qualifying dependents. Qualifying dependents are children under 13, other dependents who are physically or mentally incapable of caring for themselves, or the taxpayer's spouse if incapable of caring for himself or herself. The eligible expenses are limited in a given year to \$3,000 when there is only one qualifying dependent in the household and to \$6,000 when there are two or more qualifying dependents. In both cases this limit is reduced by any nontaxable payments received from an employer under a dependent care assistance program. Eligible expenses are further limited to the individual's earned income (for unmarried individuals) or to the lower of either spouse's earned income (for married individuals).

**PURPOSE:** The statute that allows this expenditure does not explicitly state a purpose. Presumably, the purpose is to provide tax relief to working taxpayers who must incur dependent care expenses to stay in the workforce.

**WHO BENEFITS:** The number of Oregon resident taxpayers claiming this credit decreased from about 54,900 in 2003 to 44,266 in 2006. The average credit was \$195 in 2006. Note that in the table below, "income" is federal adjusted gross income. However, this credit is based on taxable income, or federal adjusted gross income minus itemized deductions (or the standard deduction) and the exemption amount.



Income Group for Full-Year Taxpayers	2006 Taxpayers			Mean Credit
	Total Number	Number Taking Credit	Percent Taking Credit	
<b>Below \$10,000</b>	266,929	1,065	0.4%	\$105
<b>\$10,000 - \$20,000</b>	248,677	5,853	2.4%	\$336
<b>\$20,000 - \$40,000</b>	368,295	15,182	4.1%	\$252
<b>\$40,000 - \$70,000</b>	321,332	17,969	5.6%	\$125
<b>Above \$70,000</b>	340,864	4,197	1.2%	\$108
<b>All Full-Year Taxpayers</b>	1,546,097	44,266	2.9%	\$195
<b>Part-Year and Nonresident Taxpayers</b>	209,471	4,488	2.1%	\$98

EVALUATION: *by the Employment Department*

This tax expenditure achieves its purpose and meets a need when other forms of nontaxable care are not available through the employer. It contributes to the taxpayer's ability to remain gainfully employed and, to an extent, competitive with other members of the workforce.

## 1.424 WORKING FAMILY CHILD CARE

Oregon Statute: 315.262

Sunset Date: 01-01-2014

Year Enacted: 1997, Modified in 2007 (HB 2752)

	Corporation	Personal	Total
2007–09 Revenue Impact:	Not Applicable	\$44,000,000	\$44,000,000
2009–11 Revenue Impact:	Not Applicable	\$44,700,000	\$44,700,000

**DESCRIPTION:** A refundable personal income tax credit is allowed for qualifying child care expenses for low-income working families. To qualify, a taxpayer must have a minimum amount of Oregon-source earned income and must not exceed the maximum allowable interest income (such as interest, dividends, and capital gains). For 2008, the minimum earned income is \$7,550; the maximum interest income is \$2,950. The credit is calculated as a declining percentage of qualified child care expenses. The credit phases out for taxpayers between 200 percent and 250 percent of the federal poverty level.

This credit became a refundable credit in 2003. To the extent that the credit exceeds a taxpayer's liability (reduced by any nonrefundable credits), the taxpayer is entitled to a refund of the excess.

**PURPOSE:** The statute that allows this expenditure does not explicitly state a purpose. Presumably, the purpose is to provide tax relief to low-income working taxpayers who must incur dependent care expenses to stay in the workforce.

**WHO BENEFITS:** Low-income working taxpayers with employment-related dependent care expenses whose income is less than 250 percent of the federal poverty level. In 2006, more than 27,000 taxpayers claimed an average credit of almost \$800.

Since this is a refundable credit, the full amount of credits claimed can be used, even if the taxpayer has little or no tax liability. Of the almost \$21.7 million claimed in total for 2006, approximately \$10 million was used to reduce tax liability, while the remaining \$11.7 million exceeded tax liability and was refunded.

Income Group for Full-Year Taxpayers	2006 Taxpayers			Mean Credit
	Total Number	Number Taking Credit	Percent Taking Credit	
<b>Below \$10,000</b>	266,929	1,214	0.5%	\$578
<b>\$10,000 - \$20,000</b>	248,677	6,807	2.7%	\$748
<b>\$20,000 - \$40,000</b>	368,295	13,276	3.6%	\$926
<b>\$40,000 - \$70,000</b>	321,332	3,874	1.2%	\$674
<b>Above \$70,000</b>	340,864	38	0.0%	\$603
<b>All Full-Year Taxpayers</b>	1,546,097	25,209	1.6%	\$822
<b>Part-Year and Nonresident Taxpayers</b>	209,471	1,933	0.9%	\$488

EVALUATION: *by the Employment Department*

This *tax credit* is effective because it assists low-income families with their child care expenses, which provides encouragement to stay in the workforce.

## 1.425 EMPLOYER PROVIDED DEPENDENT CARE ASSISTANCE

Oregon Statute: 315.204  
Sunset Date: 12-31-2016  
Year Enacted: 1987

	Corporation	Personal	Total
2007–09 Revenue Impact:	\$1,500,000	\$400,000	\$1,900,000
2009–11 Revenue Impact:	\$1,500,000	\$400,000	\$1,900,000

DESCRIPTION: Employers providing dependent care assistance or dependent care information and referral services to their employees are allowed a credit to either personal or corporation tax. The credit equals 50 percent of the total costs the employer paid for dependent care (but no more than \$2,500 per employee) and 50 percent of the cost of providing information and referral services. The employer may not take the credit if the provision of dependent care services is part of the salary reduction plan. Credits unclaimed due to insufficient tax liability may be used in later years, for up to five years. Note that the revenue impact figures include the impact of the dependent care facilities credit listed in tax expenditure 1.426, Employer Provided Dependent Care Facilities.

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: The statute that allows this expenditure does not explicitly state a purpose. Presumably, the purpose is to encourage employers to provide dependent care services and referrals to their employees.

**WHO BENEFITS:** Employers who provide child care facilities for their employees receive both the financial benefit of the tax credit and the additional benefit of more productive employees. In 2005, 17 corporations benefited from either 1.425, Employer Provided Dependent Care Assistance or 1.426, Employer Provided Dependent Care Facilities credit. The average benefit was \$42,300. Fewer than 40 individuals claimed this credit in 2006.

**EVALUATION:** *by the Employment Department*

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.

## 1.426 EMPLOYER PROVIDED DEPENDENT CARE FACILITIES

Oregon Statute: 315.208

Sunset Date: 12-31-2001

Year Enacted: 1987

	Corporation	Personal	Total
2007–09 Revenue Impact:	Included in 1.425	Included in 1.425	Included in 1.425
2009–11 Revenue Impact:	Included in 1.425	Included in 1.425	Included in 1.425

**DESCRIPTION:** Employers providing dependent care facilities for their employees were allowed a credit to either personal or corporation income tax. The credit equaled 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 have been certified by the Child Care Division of the Employment Department and must have been completed before January 1, 2002.

One-tenth of the credit can be claimed in each of 10 consecutive years beginning with the year the facility is completed. The credit is discontinued before the 10-year period is completed if facility use was discontinued. Credits that are not used due to insufficient tax liability may be carried forward for up to five years.

This credit has sunset and the last year to claim potential carry forward amount is 2015.

**PURPOSE:** The statute that allowed this expenditure did not explicitly state a purpose. Presumably, the purpose was to encourage employers to provide child care facilities near the place of employment.

**WHO BENEFITS:** Use of this credit is limited to unused credit amounts carried forward from past years. Beneficiaries are included in 1.425, Employer Provided Dependent Care Assistance.

**EVALUATION:** Not evaluated.

### 1.427 FIRST BREAK PROGRAM

Oregon Statute: 315.259  
Sunset Date: 12-31-2004  
Year Enacted: 1995

	Corporation	Personal	Total
2007–09 Revenue Impact:	Less than \$50,000	Less than \$50,000	Less than \$50,000
2009–11 Revenue Impact:	Less than \$50,000	Less than \$50,000	Less than \$50,000

- DESCRIPTION:** A credit against corporation or personal income taxes was allowed for wages paid to a qualified youth hired by the taxpayer in the First Break Program. No credit amounts can be certified anymore, but credits can still be carried forward from previous years through 2009.
- PURPOSE:** The statute that allowed this expenditure did not explicitly state a purpose. Presumably, the purpose was to encourage the provision of employment opportunities for qualified youths as defined by rule.
- WHO BENEFITS:** Employers who provided employment to qualified youths and the youths who faced barriers to entering the job market. Very few taxpayers used this credit in 2006.
- EVALUATION:** Not evaluated.

### 1.428 CHILD CARE DIVISION CONTRIBUTIONS

Oregon Statute: 315.213  
Sunset Date: 12-31-2012  
Year Enacted: 2001, Sunset extended in 2007 (HB 2810)

	Corporation	Personal	Total
2007-09 Revenue Impact	Less than \$50,000	\$1,000,000	\$1,000,000
2009-11 Revenue Impact	Less than \$50,000	\$1,000,000	\$1,000,000

- DESCRIPTION:** A credit against corporation or personal income taxes is allowed for contributions made to the Child Care Division (CCD) of the Oregon Employment Department. The CCD issues tax credit certificates to taxpayers who made contributions. The total value of tax credit certificates may not exceed \$500,000 per calendar year. The credit is equal to 75 percent of the contribution amount. Any credits that are not used due to insufficient tax liability may be used in later years, for up to four years.
- If a charitable contribution deduction is taken for federal tax purposes, only the credit amount needs to be added back to Oregon taxable income.
- The CCD and selected community agencies distribute the money according to rules established by the advisory committee. A selected community agency is a nonprofit agency that provides services related to child care, children and families, community development, or similar services and is eligible to receive contributions that may qualify as deduction under Section 170 of the Internal Revenue Code.
- PURPOSE:** The statute that allows this expenditure did not explicitly state a purpose. Presumably, the purpose is to provide a funding pool for child care that will: 1)

reduce costs to parents, 2) stabilize child care businesses, and 3) improve the quality of care for the children of low- and moderate-income families throughout Oregon.

WHO BENEFITS: Fewer than 100 individuals and a few corporations benefit.

EVALUATION: *by the Employment Department*

This tax credit is effective because the funds increase childcare provider wages and professional development, decrease parent cost to less than 10 percent of family income and improves the quality of care children receive. In addition to receiving tax credits, contributors help Oregon by encouraging small business development, supporting the child care workforce, helping to create safe environments for learning and assisting children to enter school ready to succeed.

## 1.429 FARMWORKER HOUSING CONSTRUCTION

Oregon Statute: 315.164

Sunset Date: None

Year Enacted: 1989

	Corporation	Personal	Total
2007–09 Revenue Impact:	\$1,900,000	\$200,000	\$2,100,000
2009–11 Revenue Impact:	\$1,900,000	\$300,000	\$2,200,000

DESCRIPTION: A credit against corporation or personal income taxes is allowed for construction, rehabilitation, or acquisition of farmworker housing in Oregon. The credit is 50 percent of the eligible costs for housing projects. A maximum of \$7.25 million in eligible costs can be approved for credit eligibility in a single calendar year by Housing and Community Services Department (HCSD). A credit is disallowed if a taxpayer does not get certification from HCSD or if the housing units for which the credit is being claimed is not occupied by farmworkers.

The maximum amount of credit claimed by a taxpayer for any one tax year cannot exceed 20 percent of the total allowable credit. Credits exceeding the taxpayer's tax liability may be carried forward for up to nine years.

The housing must meet certain qualifications for the taxpayer to be eligible for the credit. Rehabilitation projects must restore housing to a condition that meets building code requirements. Farmworker housing must also be registered, if required, as a farmworker camp with the Department of Consumer and Business Services.

For tax years beginning in 2005, a taxpayer eligible to claim the credit may transfer the entire amount of the credit to another taxpayer that contributed to the project. For prior tax years, 80 percent of the credit is transferable.

PURPOSE: The statute that allows this expenditure does not explicitly state a purpose. Presumably, the purpose is to promote construction and rehabilitation of safe and healthful housing for farm workers.

WHO BENEFITS: About 10 corporations and 40 individuals benefit from this credit each year. Since 1992 the credit has been used to provide safe, affordable housing for more than 3,000 farm workers and family members, who are the indirect beneficiaries of the credit.

EVALUATION: *by the Housing and Community Services Department*

This expenditure achieves its purpose. It has been only in recent years that progress has been made in developing adequate housing for Oregon’s farm worker population. This progress is due in large part to the availability of the farm worker tax credits. If the tax expenditure were eliminated, financing of community based farm worker housing would be impeded and a primary incentive to improve or construct onsite housing would be eliminated. Major supporters of better farm worker housing include migrant health clinics, who see the effects of unsanitary conditions.

There is a direct tie between the provision of farm worker housing and the health of Oregon’s agricultural industry. This industry must compete on a regional, national and international basis for its labor force. It can be argued that to remain competitive in this market, Oregon must continue its efforts to improve the supply of decent and affordable housing for its farm labor force. Because agriculture is a major Oregon industry, with gross sales totaling \$4.3 billion annually, and because crops dependent on the labor of farm workers account for over one-third of this amount, the impact on Oregon’s economy is significant. There are an estimated 150,000 farm workers and family members in Oregon, either migrant or year-round workers. Adequate on-farm housing is sufficient to house less than 10 percent of the farm workers and families in the state. Most of the remaining 90 percent of the population live in rural communities throughout the state, with two-thirds of their housing being unsafe, unsanitary, and overcrowded. (Oregon Farm Labor Housing Survey, Oregon Housing Agency, 1991). In a survey of its farm worker patients, Salud Medical Clinic in Woodburn found that ten percent have no housing at all, living in orchards, cars or along river banks.

There are several direct spending programs, both at the state level and at the national level, that are used to develop affordable housing. This tax credit integrates well with these programs, since a chief factor in the award of funds under the other programs is the ability to match those funds. The availability of the farm worker tax credit allows Oregon to compete particularly well for federal dollars. Of significance are the USDA Rural Development 514 and 516 programs designated for farm worker housing. Before the advent of the farm worker tax credit, Oregon’s usage of US Department of Agriculture labor housing fund was almost nonexistent.

**1.430 FARMWORKER HOUSING LENDER’S CREDIT**

Oregon Statute: 317.147  
Sunset Date: None  
Year Enacted: 1989

	Corporation	Personal	Total
2007–09 Revenue Impact:	\$800,000	Not Applicable	\$800,000
2009–11 Revenue Impact:	\$800,000	Not Applicable	\$800,000

DESCRIPTION: A credit against corporation income taxes is allowed for lending institutions financing construction or rehabilitation of farmworker housing projects. The credit equals 50 percent of the interest on loans to finance the direct costs associated with constructing or rehabilitating farmworker 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. It only applies to the loans made on or after January 1, 1990.

If a lending institution sells a qualifying loan, the right to claim the credit is passed on to the buyer provided the same conditions are offered to the borrower. The selling bank retains the right to claim the credit if it continues to service the loan.

Credits that cannot be used because of insufficient tax liability in the current year cannot be carried forward to later years.

- PURPOSE:** The statute that allows this expenditure does not explicitly state a purpose. Presumably, the purpose is to promote construction and rehabilitation of safe and healthful housing for farm workers.
- WHO BENEFITS:** The amount of credits claimed varies widely from year to year. For tax year 2005, six taxpayers benefited from this credit. These taxpayers reduced their tax liability on average by about \$74,000.
- EVALUATION:** *by the Housing and Community Services Department*
- This expenditure achieves its purpose. Lenders historically did not make loans for farm worker housing. The credit has provided an incentive to get lenders to make these loans, at the same time furthering a partnership between these taxpayers and the agricultural industry. The tax credit is typically passed along to the borrower in the form of a lower interest rate, thereby making possible a project that would otherwise not be cost-effective.
- Prior to the passage of the credits, even if lenders were willing to make such loans, conventional interest rates were generally too high to make such housing cost-effective. If the tax expenditure were eliminated, there would likely be a reduction in farm worker housing units built each year.
- While more lenders are making loans for farm worker housing, these have been primarily larger lenders who can invest the time and money to investigate this relatively new program. Smaller lenders are potential recipients who may need to be educated about the benefits of the credit.
- There are several direct spending programs, both at the state and the national level, that are used to develop affordable housing. This tax credit integrates well with these programs, since none of these direct spending programs alone provides enough spending programs to be leveraged with a conventional loan subsidized by the lender's tax credit.
- While portions of the tax credit statute could be clarified (i.e., what constitutes "farm work"? Are occupations like "aquaculture" included?), the credit is now being efficiently used. Farm worker advocates suggest that the credit should be increased to its previous level of 50 percent of interest earned.
- However, it is not clear whether lenders are willing to reduce interest rates for the credit, how much this program is being used, and whether such housing would not be built anyway using LIHTC and HOME funds or Rural Development Funds.

### 1.431 OREGON AFFORDABLE HOUSING LENDER’S CREDIT

Oregon Statute: 317.097

Sunset Date: 12-31-2019

Year Enacted: 1989, Modified in 2007 (HB 3201), Modified in 2008 (HB 3619)

	Corporation	Personal	Total
2007–09 Revenue Impact:	\$14,000,000	Not Applicable	\$14,000,000
2009–11 Revenue Impact:	\$20,600,000	Not Applicable	\$20,600,000

**DESCRIPTION:** This provision allows a credit against corporation taxes for lending institutions that make loans at below-market interest rates for the construction, development, acquisition, or rehabilitation of a manufactured dwelling park, a preservation project, or low-income housing. (“Preservation project” means housing that was previously developed as affordable housing with a contract for rent assistance from the United States Department of Housing and Urban Development or the United States Department of Agriculture.)

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. Unused credits from tax years before January 1, 1995 can be carried forward for up to 15 years.

To qualify for the credit, loans must be made before January 1, 2020. Loans may be certified to receive credits for up to 20 years. The cap on credits granted for new and existing loans was increased from \$6 million to \$11 million in 2005 and to \$13 million in 2007. Current limit of \$17 million per fiscal year was set in 2008 and applies to tax year 2009.

**PURPOSE:** The statute that allows this expenditure does not explicitly state a purpose. Presumably, the purpose is to promote the construction and rehabilitation of housing units with affordable rent.

**WHO BENEFITS:** In tax year 2005, 28 corporation income taxpayers benefited from this credit. These taxpayers had reduced their tax liability by about \$78,000 on average. The program requires all interest savings to be directly credited as rent reductions. To the extent that the low interest rate reduces the rent paid by low-income households, the households also benefit.

**EVALUATION:** *by the Housing and Community Services Department*

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.



Since July 2007 OHCS has successfully used this credit with tax-exempt bond financing. The ability to use these credits increases the amount of debt a development can afford which reduces the amount needed from other financing sources such as grants. The department has been able to preserve 22 projects (976 units) that have Project Based Section 8 Housing Assistance Payment Contracts. The related subsidies received on these units totals over \$6 million annually.

## 1.432 INDIVIDUAL DEVELOPMENT ACCOUNT CONTRIBUTION (CREDIT)

Oregon Statute: 315.271

Sunset Date: 12-31-2011

Year Enacted: 1999, Modified in 2007 (HB 2094)

	Corporation	Personal	Total
2007–09 Revenue Impact:	Less than \$50,000	\$10,300,000	\$10,300,000
2009–11 Revenue Impact:	Less than \$50,000	\$13,000,000	\$13,000,000

**DESCRIPTION:** Individuals or businesses donating to the state selected nonprofit (currently the Neighborhood Partnership Fund) for individual development accounts (IDAs) are allowed a tax credit equal to the lesser of \$75,000 or 75 percent of the amount donated prior to January 1, 2012. Contributions are applied toward matching IDA account holder savings and also toward program-related expenses. The amount used to compute the credit must be added to Oregon taxable income if it was deducted in arriving at federal taxable income. The credit may be carried forward for up to three years. The Housing and Community Services Department maintains a limit on the total of all contributions made each year. The limit was \$4 million for 2006 and \$6 million for 2007. Currently, the limit is \$8 million for 2008 and will increase to \$10 million for 2009 and 2010.

There are two other tax expenditures closely related to this program: 1.311, The Individual Development Accounts (Exclusion and Subtraction), provides that contributions to and earnings from IDAs are not taxed by Oregon if used for approved purposes; and 1.433, Individual Development Account Withdrawal (Credit), provides a credit for IDA withdrawals that are used to fund closing costs associated with the purchase of a primary residence.

**PURPOSE:** The statute that allows this expenditure does not explicitly state a purpose. Presumably, the purpose is to fund an asset-based antipoverty strategy for low-income Oregonians that promotes personal financial management, investment, and savings for key assets. These assets include first-home purchase, starting a business, and obtaining further post-secondary education.

**WHO BENEFITS:** Individuals or businesses making contributions to the Neighborhood Partnership Fund to support IDAs directly benefit from this credit. In 2006 more than 250 individuals used this credit.

**EVALUATION:** *by the Housing and Community Services Department*

Only \$15,000 in 25 percent credits were granted during 2001. In 2002, 2003, and 2004, the amount of 75 percent credits successfully marketed was about \$500,000 per

year. In 2005, about \$1 million in credits were granted. In 2006 and 2007, \$2,688,134 and \$4.5 million of the credits were used, respectively. These contributions will engage an estimated total of 984 households during the 2008 program year (826 new households are expected to enter the program in 2008). Upon successful completion of all program requirements over the next one to six years, the participants will have funds to match their savings to purchase their first home, obtain needed post-secondary education, or start a small business.

### 1.433 INDIVIDUAL DEVELOPMENT ACCOUNT WITHDRAWAL (CREDIT)

Oregon Statute: 315.272  
Sunset Date: None  
Year Enacted: 2005

	Corporation	Personal	Total
2007–09 Revenue Impact:	Not Applicable	Less than \$50,000	Less than \$50,000
2009–11 Revenue Impact:	Not Applicable	Less than \$50,000	Less than \$50,000

**DESCRIPTION:** A personal income tax credit is available for withdrawals from individual development accounts (IDAs) that are used to fund closing costs associated with the purchase of a primary residence. The amount of the credit is the lesser of: the amount of money withdrawn from the IDA for the purchase of a first home, the amount of the usual and reasonable closing costs of the first home, or \$2,000. The credit cannot exceed the taxpayer's tax liability.

There are two other tax expenditures closely related to this program: 1.311, Individual Development Accounts (Exclusion and Subtraction), provides that contributions to and earnings from IDAs are not taxed by Oregon if used for approved purposes; and 1.432, Individual Development Account Contribution (Credit), provides a credit for individuals or businesses that make contributions to fiduciary organizations to support IDA programs.

**PURPOSE:** The statute that allows this expenditure does not explicitly state a purpose. Presumably, the purpose is to assist low-income Oregonians to achieve homeownership, by allowing low income families to recover some of the closing costs of purchasing a first home.

**WHO BENEFITS:** IDA account holders who use the credit when purchasing a home are the beneficiaries. To date, very few taxpayers have used this credit.

**EVALUATION:** *by the Housing and Community Services Department*

As this is a new credit in 2006, no data exists on the effectiveness. Participants will be able to claim the credit on their 2006 tax forms, thus the first opportunity to determine utilization levels will be in 2007. Also, since the Oregon IDA initiative is just beginning to ramp up, the number of participants graduating and purchasing their first home will be small. Thus, the first meaningful evaluation of this credit may be accomplished in about three to four years.

### 1.434 MOBILE HOME PARK CLOSURE

Oregon Statute: Temporary Provision following 316.116  
Sunset Date: 12-31-2012  
Year Enacted: 2007 (HB 3201)

	Corporation	Personal	Total
2007–09 Revenue Impact:	Not Applicable	\$2,000,000	\$2,000,000
2009–11 Revenue Impact:	Not Applicable	\$2,000,000	\$2,000,000

**DESCRIPTION:** A \$5,000 refundable credit is allowed for owners of mobile homes who are forced to move due to the closure of their mobile home park. To qualify for the credit, the taxpayer must move between January 1, 2007 and December 31, 2012. The credit is reduced by any payments made as compensation for exercise of eminent domain by order of a federal, state or local agency or by the landlord.

**PURPOSE:** The statute that allows this expenditure does not explicitly state a purpose. Presumably, the purpose is to provide tax relief to mobile home residents who are forced to relocate because of the closure of their mobile home park.

**WHO BENEFITS:** Manufactured dwelling owners who must move their homes as a result of the park closure.

**EVALUATION:** *by the Housing and Community Services Department*

This expenditure achieves its purpose. As noted in the evaluation of expenditure 1.314, Payments for Closure of Manufactured Dwelling Park, many residents do not have the resources to pay for the costs of moving their home and related expenses. The payments received from owners often do not cover all of these costs. This credit helps offset the unreimbursed expenditures.

However residents must first pay the costs and then wait to file their tax return and receive their refund. While OHCS provides information about the credit when assisting residents during park closures, it is not know how many residents file for this credit.

### 1.435 CROP GLEANING

Oregon Statute: 315.156  
Sunset Date: None  
Year Enacted: 1977

	Corporation	Personal	Total
2007–09 Revenue Impact:	Less than \$50,000	\$200,000	\$200,000
2009–11 Revenue Impact:	Less than \$50,000	\$200,000	\$200,000

**DESCRIPTION:** A credit is allowed against personal or corporation income taxes for crop donations to gleaning cooperatives, food banks, or qualifying charitable organizations located in Oregon. Beginning in 2001, the credit includes donations to food banks or other charitable organizations that distribute food at no charge to children or homeless, unemployed, elderly, or low-income individuals.

Income Tax  
Oregon Credits

The definition of “crop” includes plants or orchard stock that produces food for human consumption and livestock animals (added in 2001) that may be processed into food for humans.

Both harvest donations (gleaning) and post-harvest donations may qualify. Before 2001, the charitable organization receiving the donation was responsible for picking (gleaning) the crop.

The credit is 10 percent of the wholesale market price of the crop. Credits that cannot be used because of insufficient tax can be used in later years, for up to three years.

**PURPOSE:** The statute that allows this expenditure does not explicitly state a purpose. Presumably, the purpose is to encourage donations of food crops to gleaning cooperatives, food banks, or other charitable organizations engaged in the distribution of food without charge.

**WHO BENEFITS:** Farmers who donate crops to gleaning cooperatives, food banks, or charitable food distribution organizations. The tax benefit goes primarily to smaller, noncorporate farms. For tax year 2006, approximately 85 personal income tax payers saved a total of about \$83,000 in tax using this credit. The recipient organizations are major beneficiaries of this incentive in the form of donated crops and livestock.

**EVALUATION:** *by the Department of Agriculture*  
This expenditure achieves its purpose. It provides an 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, although increasing the credit would likely encourage more donations.

### 1.436 ALTERNATIVES TO FIELD BURNING

Oregon Statute: 315.304  
Sunset Date: 12-31-2007  
Year Enacted: 1975

	Corporation	Personal	Total
2007–09 Revenue Impact:	\$100,000	\$100,000	\$200,000
2009–11 Revenue Impact:	Less than \$50,000	Less than \$50,000	Less than \$50,000

**DESCRIPTION:** A credit was allowed against corporation or personal income taxes for up to 35 percent of acquisition or construction costs for equipment and facilities as alternatives to grass seed and cereal grain straw open field burning. This provision was added as an expansion of tax expenditure 1.440, Pollution Control, in 1975 and sunset at the end of 2007.

Voluntary projects, projects that cost less than \$200,000, projects located in an enterprise zone or economically distressed area, or projects that met high levels of environmental compliance were eligible for a credit of up to 35 percent of the certified cost of the facility.

The credit was taken in equal amounts over the life of the facility. The credit was allowed only for the fraction of use as an alternative to field burning, and the applicant must have demonstrated a reduction in acreage burned.

Note that tax expenditure 2.033, Mobile Field Incinerators, provides a property tax exemption that applies to some of the same equipment as this credit does.

- PURPOSE:** The statute that allowed this expenditure did not explicitly state a purpose. Presumably, the purpose was to encourage reduction in the practice of open field burning while developing and utilizing alternative methods of field sanitation and alternative methods of using grass seed and cereal grain straw.
- WHO BENEFITS:** Growers who invested in equipment, facilities, and land for gathering, densifying, processing, handling, storing, transporting, and incorporating grass straw or straw-based products that resulted in reduction of open field burning, propane flammers, or mobile field sanitizers that reduced air quality impacts, and drainage tile installations that resulted in a reduction of grass seed acreage under production.
- EVALUATION:** Not evaluated.

### 1.437 FARM MACHINERY AND EQUIPMENT (INCOME TAX)

Oregon Statutes: 315.119  
Sunset Date: 12-31-2007  
Year Enacted: 2001

	Corporation	Personal	Total
2007-09 Revenue Impact	Less than \$50,000	Less than \$50,000	Less than \$50,000
2009-11 Revenue Impact	Less than \$50,000	Less than \$50,000	Less than \$50,000

- DESCRIPTION:** A credit was allowed against personal or corporate income taxes for property taxes paid on machinery and equipment and personal property used in farm processing. The credit only applied in conjunction with property used for processing of wholesale farm crops or livestock after harvest had occurred, but before sale of the modified or altered products. The machinery and equipment must have been located on land that was specially assessed for farm use or contiguous to land that was specially assessed for farm use and was owned and controlled by the farm operator. The amount of the tax credit was calculated as the lesser of the property tax rate multiplied by the adjusted basis (for income tax purposes) of the qualified machinery and equipment or \$30,000. A tax credit was not allowed if the machinery and equipment was fully depreciated for tax purposes.
- This credit has expired; however, a five-year carry forward provision allows credits to be used until 2012.
- This credit did not apply to property that was exempt from taxation. Of particular note, this credit does not affect property used in farming or new property used in food processing because that property is exempted by tax expenditures 2.032, Farm Machinery and Equipment (Property), and 2.031, Food Processing Equipment.
- PURPOSE:** The statute that allowed this expenditure does not explicitly state a purpose. Presumably, the purpose was to encourage the continued operation and expansion of value added on-farm food processing.

Income Tax  
Oregon Credits

**WHO BENEFITS:** Farm operators with farm processing machinery and equipment on or contiguous to specially assessed farmland. In 2006, almost 50 personal income taxpayers used this credit, while fewer than 10 corporation income taxpayers benefited from the credit.

**EVALUATION:** *by the Department of Agriculture*

Small- and medium-sized food processors face market disadvantages. After thousands of mergers and acquisitions in the food processing and retail sectors over the past five years, as few as six large food companies now control nearly 50 percent of retail food sales in the U.S. These companies only source from very large growers and processors. Oregon companies do not have the size to compete in these markets. Tax rates on processing equipment that reflect today’s economic realities will help stabilize and develop Oregon’s food processing value-added sector, adding vitality to rural and urban communities. Tax expenditure 2.031, Food Processing Equipment, replaces this credit.

**1.438 RIPARIAN LANDS REMOVED FROM FARM PRODUCTION**

Oregon Statutes: 315.113  
Sunset Date: None  
Year Enacted: 2001

	Corporation	Personal	Total
2007-09 Revenue Impact	Less than \$50,000	Less than \$50,000	Less than \$50,000
2009-11 Revenue Impact	Less than \$50,000	Less than \$50,000	Less than \$50,000

**DESCRIPTION:** A credit is allowed against personal or corporate income taxes for riparian farmland that is voluntarily taken out of agricultural production for conservation purposes. The statute defines riparian land as land that was formerly in agricultural production and within 35 feet of the bank of a natural watercourse. The credit is equal to 75 percent of the value of the crops foregone for each year crops are not raised on the eligible land. The credit has a five-year carry forward.

**PURPOSE:** “The purpose of [this tax credit] is to encourage taxpayers that have riparian land in farm production to voluntarily remove the riparian land from farm production and employ conservation practices applicable to the riparian land that minimize contributions to undesirable water quality, habitat degradation and stream bank erosion.” (ORS 315.111)

**WHO BENEFITS:** Taxpayers who voluntarily take riparian farmland out of production. In 2006, 11 personal income tax payers saved an average of approximately \$425 in Oregon tax using this credit. Very few corporations claim this credit.

**EVALUATION:** *by the Department of Agriculture*

This credit did not become available until 2004; the extent to which producers will utilize this incentive is difficult to estimate. Often it is not cropping that occurs with 35 feet of streams, but rather livestock grazing. The incentive may not be structured appropriately to entice livestock producers to forgo this loss of land, or at high enough rates to attract crop growers, as evidenced by the minimal amount of usage of the credit in 2006.

## 1.439 POLLUTION PREVENTION

Oregon Statute: 315.311  
Sunset Date: 12-31-1999  
Year Enacted: 1995

	Corporation	Personal	Total
2007–09 Revenue Impact:	Less than \$50,000	Less than \$50,000	Less than \$50,000
2009–11 Revenue Impact:	\$0	\$0	\$0

- DESCRIPTION:** This provision, referred to in statute as the Emission-Reducing Production Technology Credit, allowed a tax credit against corporation or personal income taxes for investments in technologies and processes that prevented emissions of perchloroethylene, chromium, and halogenated solvents. The Department of Environmental Quality (DEQ) certified all qualifying investments prior to the sunset date for installation on December 31, 1999. The credit amount was equal to 10 percent per year for five years of the costs of the technologies or processes as certified by DEQ. Taxpayers could carry forward unused credit amounts for three years. No reduction in depreciable basis was required.
- PURPOSE:** To “encourage businesses to utilize technologies and processes that prevent the creation of pollutants.” (ORS 468A.095)
- WHO BENEFITS:** Taxpayers who invested in technologies or processes that prevent emissions of the specified pollutants. The maximum amount that was available for tax relief through the pilot was \$5.2 million. The DEQ certified 35 pollution prevention investments to 32 taxpayers for tax credits totaling \$739,932. Much of the benefit went to the dry-cleaning industry, which is a large user of perchloroethylene.
- EVALUATION:** Not evaluated.

## 1.440 POLLUTION CONTROL

Oregon Statute: 315.304  
Sunset Date: 12-31-2007  
Year Enacted: 1967

	Corporation	Personal	Total
2007–09 Revenue Impact:	\$3,100,000	\$2,700,000	\$5,800,000
2009–11 Revenue Impact:	\$1,900,000	\$1,600,000	\$3,500,000

- DESCRIPTION:** The pollution control credit allowed a credit against corporation or personal income taxes equal to up to 35 percent of the certified cost of pollution control facilities (depending on the type of project and installation date). The taxpayer must have had the investment certified through the Department of Environmental Quality (DEQ). The sunset date for construction completion was December 31, 2007. Taxpayers should submit the application for credit certification within one year of completion of the facility. DEQ certifies both the facilities and the allowable costs under one of the following categorizations:
- Air pollution control;

Income Tax  
Oregon Credits

- Water pollution control;
- Noise pollution control;
- Material recovery of solid waste, hazardous waste, or used oil control;
- Hazardous waste pollution control;
- Nonpoint source pollution control.

To have qualified, the principal purpose of the facility must have been to meet pollution control requirements, or the sole purpose must have been to prevent, control, or reduce a significant quantity of pollution. Projects could have included the purchase of or reconstruction and improvements to structures, land, machinery, or equipment. The statute specifically excluded certain items, including asbestos abatement, septic tanks, human waste facilities, office buildings, parking lots, landscaping and automobiles.

The qualified taxpayer may have included the owner, lessee, lessor, or contract purchaser, depending on the categorization of the facility.

The annual amount of credit was up to 35 percent of the certified cost of the facility multiplied by the certified percentage allocable to pollution control, divided by the number of years of the facility's useful life. The maximum useful life for calculating the credit was 10 years.

Voluntary projects if the certified cost did not exceed \$200,000, projects that cost less than \$200,000, projects located in an enterprise zone or economically distressed area, or projects constructed at a site where the taxpayer holds an environmental certification or permit were eligible for a credit of up to 35 percent of the certified cost of the facility.

Facilities were eligible for a 50-percent credit if certified under ORS 468.155 to 468.190 (1999 Edition) or construction or installation started before January 1, 2001 and ended before January 1, 2004.

A taxpayer may use any credit unclaimed in a particular year because of insufficient tax liability in later years, for up to three years.

The property tax expenditure 2.101, Pollution Control Facilities exemption, was a companion to this income tax credit. Non-profit corporations and cooperatives qualified 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 invested in pollution-control equipment and facilities benefit from this credit. Most of the benefit went to large corporations in manufacturing industries, including paper and allied products, wood processing, food processing, and electronics. For tax year 2005, 89 corporate taxpayers benefited from this credit. Average amount of benefit was about \$65,000. Personal income tax credit was used by 635 taxpayers, who saved on average about \$3,400 in tax year 2006. For the calendar years 2006 and 2007, DEQ issued 65 certificates for \$12.6 million in credits to 116 corporate taxpayers and 410 certificates for \$3.8 million in credits to taxpayers allowed to use the credit on their personal income taxes.

**EVALUATION:** Not evaluated.



## 1.441 RECLAIMED PLASTICS

Oregon Statute: 315.324

Sunset Date: 12-31-2001

Year Enacted: 1985

	Corporation	Personal	Total
2007–09 Revenue Impact:	Less than \$50,000	Less than \$50,000	Less than \$50,000
2009–11 Revenue Impact:	Less than \$50,000	Less than \$50,000	Less than \$50,000

**DESCRIPTION:** A credit against corporation or personal income taxes was allowed for 50 percent of an investment in personal property or equipment that was either: a) used to manufacture products from reclaimed plastics, or b) necessary to collect, transport, or process reclaimed plastic.

The property or equipment must have been acquired or constructed prior to December 31, 2001. The Department of Environmental Quality certified up to \$1.5 million in total investments each year.

The credit was available to either the owner of the business or to a lessee who conducted the business, but not to both. If claimed by more than one taxpayer, the aggregate certified investment cost may not exceed the total certified cost of the investment. The credit was equal to 10 percent of the cost of the investment in each of the five years beginning with the year the investment was certified. Thus, the total credit equaled 50 percent of the cost of the investment. Any credit unclaimed in a particular year because of insufficient tax liability may be used in later years, for up to five years. Even though the credit has sunset, carry forward amounts can be claimed through 2010.

**PURPOSE:** "...to assist in the prevention, control and reduction of solid waste in this state by providing tax relief to Oregon businesses that make investments in order to collect, transport or process reclaimed plastic or manufacture a reclaimed plastic product." (ORS 468.456)

**WHO BENEFITS:** The direct beneficiaries of the reclaimed plastic tax credit were businesses that collected or processed recyclable plastic, manufactured a product from reclaimed plastic, or owned and leased equipment to plastic recyclers.

**EVALUATION:** Not evaluated.

## 1.442 DIESEL TRUCK ENGINES (NEW)

Oregon Statute: Note following ORS 315.356

Sunset Date: 12-31-2011

Year Enacted: 2003, Modified in 2007 (HB 3201)

	Corporation	Personal	Total
2007–09 Revenue Impact:	\$200,000	\$300,000	\$500,000
2009–11 Revenue Impact:	\$200,000	\$400,000	\$600,000

**DESCRIPTION:** A credit of \$400 to \$925 is allowed against personal or corporate income taxes for purchases of qualifying diesel truck engines. Owners of smaller truck fleets are eligible for the larger per engine credit. Taxpayers apply to the Oregon Department of Environmental Quality (DEQ) for credit certification. To be eligible for the credit, a taxpayer should own the truck registered in Oregon with combined weight of more than 26,000 pounds.

The diesel engine is certified by the Federal Environmental Protection Agency as emitting:

- Oxides of nitrogen at the rate of 2.5 grams per brake horsepower-hour or less for a model year 2003 to 2007 engine purchased in calendar years 2003 to 2007, or
- Particulate matter at the rate of 0.01 grams per brake horsepower-hour or less for a model year 2007 to 2011 engine is purchased in the calendar years 2007 to 2011.

DEQ approves eligible engines for the credit. Any credit unclaimed in a particular year because of insufficient tax liability may be used in later years, for up to four years.

DEQ may issue credits up to \$80,000 to a single taxpayer. For calendar years 2004 to 2007 the total credit certifications for all taxpayers were limited to \$3 million. For 2008 to 2011, the overall limit was reduced to \$500,000 per calendar year.

**PURPOSE:** The statute that allows this expenditure does not explicitly state a purpose. Presumably, the purpose is to encourage faster turnover of older heavy-duty diesel trucks with newer, less polluting engines.

**WHO BENEFITS:** Businesses or individuals who own trucks with qualifying diesel engines benefit from this credit. In tax year 2005, 12 corporations used this credit to reduce their tax liability by \$6,700 on average. Close to 70 individuals claim this credit annually, totaling \$100,000 in usage.

**EVALUATION:** *by the Department of Environmental Quality*

This expenditure had less participation than estimated from 2004 to 2007; therefore, HB 3201 reduced the annual limitation. The majority of new truck owners that have applied for this credit would have purchased the truck with or without the credit.

## 1.443 DIESEL TRUCK ENGINES (RETROFIT AND REPOWER)

Oregon Statute: Note following 315.356

Sunset Date: 01-01-2018

Year Enacted: 2007 (HB 3201)

	Corporation	Personal	Total
2007–09 Revenue Impact:	\$900,000	\$500,000	\$1,400,000
2009–11 Revenue Impact:	\$2,100,000	\$1,700,000	\$3,800,000

**DESCRIPTION:** Beginning with tax year 2008, taxpayers may claim a credit for certified costs incurred in repowering or retrofitting certain diesel engines. The credit is equal to 25 percent of the certified cost of a qualifying diesel engine repower, or 50 percent of the certified cost of a qualifying diesel engine retrofit.

A qualifying diesel engine repower is the scrapping of an old diesel engine in a nonroad vehicle and replacing it with a new, used or remanufactured engine; or with electric motors, electric drives or fuel cells with a minimum seven-year useful life.

A qualifying diesel engine retrofit means to equip a diesel engine designed for use on a public highway with new emissions-reducing parts or technology after the manufacture of the original engine. A retrofit must use the greatest degree of emissions reduction available for the particular application of the equipment retrofitted that meets the cost effectiveness threshold.

To qualify for the credit, the repower and retrofit must reduce particulate matter emissions by at least 25 percent, and at least 50 percent of the use for the three years following the repower or retrofit must occur in Oregon.

Qualifying repowers and retrofits are defined by rules adopted by the Environmental Quality Commission, and the Department of Environmental Quality (DEQ) will certify costs. Unused credits may be carried forward for three years.

This credit can be transferred if a certification transfer notice is filed with Department of Revenue prior to the first tax year for which a credit will be claimed.

**PURPOSE:** “To reduce excess lifetime risk of cancer due to exposure to diesel engine emissions to no more than one case per million individuals by 2017. ... To substantially reduce the risk to school children from diesel engine emissions produced by Oregon school buses by the end of 2013.” (ORS 468A.793).

**WHO BENEFITS:** Businesses or individuals who repower or retrofit diesel engines benefit from this credit.

**EVALUATION:** Not evaluated.

## 1.444 FISH SCREENING DEVICES

Oregon Statute: 315.138

Sunset Date: 12-31-2013

Year Enacted: 1989, Modified in 2007 (HB 2294)

	Corporation	Personal	Total
2007–09 Revenue Impact:	Less than \$50,000	Less than \$50,000	Less than \$50,000
2009–11 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 (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. Legislation passed in 2007 attempted to encourage the wider use of these devices by allowing the credit on any substantial diversion of water from rivers, lakes and streams.

Devices that are financed by the Water Development Fund are ineligible for the credit. The credit for each device installed equals 50 percent of the taxpayer's net certified cost of installing the screening device, by-pass device, or fishway. The total credit allowed shall not exceed \$5,000 per device installed.

The device must be certified by the Oregon Department of Fish and Wildlife (ODFW) to be eligible for the credit. There is a preliminary certification prior to installation and a final certification upon completion.

Screening devices may be required on any diversion located in waters of the state in which fish subject to the department's jurisdiction live. The owner must maintain any mandatory device after completion. However, the ODFW is responsible for major maintenance on diversions of less than 30 cubic feet per second.

The credit is claimed in the year of final certification. Credits unclaimed because of insufficient tax liability can be carried forward for up to five years. In 2007, a sunset date of 12-31-2013 was added to statute.

**PURPOSE:** The statute that allows this expenditure does not explicitly state a purpose. Presumably, the purpose is to promote the use of fish screening devices and by-passes to prevent fish from entering irrigation diversions and to allow fish to swim around dams and other obstructions. In many cases, the ODFW may require these devices to be installed. The credit recognizes that citizens in general benefit from the installation of fish screening devices, by-pass devices, and fishways.

**WHO BENEFITS:** Taxpayers who install fish screening or passage devices. For the 2005-07 biennium, ODFW certified 141 screens and fishways, with a potential tax credit of \$72,703. For the first half of the 2007–09 biennium, 57 screens and fishways have been certified with a potential tax credit of \$10,399.

**EVALUATION:** *by the Department of Fish and Wildlife*

This expenditure appears to be effective in achieving its purpose. The use of the credit has been increasing as water users increasingly realize the benefits of installing screens at irrigation diversions and laws requiring fish passage at artificial obstructions are accepted among irrigators and other water users. It seems unlikely the current level of screening and fish passage activity would have been attained without the legislation that created the program in its latest form. Additional funding for the fish screening and passage program through Measure 66 funding has increased the number of screens and fish passage projects installed during the 2005–

07 biennium. Continuation of screen program funding is expected to maintain or increase the pace of program activities as compared to the 2005–07 biennium.

## 1.445 ALTERNATIVE ENERGY DEVICES (RESIDENTIAL)

Oregon Statute: 316.116

Sunset Date: 12-31-2015

Year Enacted: 1977, Modified in 2007 (HB 3201)

	Corporation	Personal	Total
2007–09 Revenue Impact:	Not Applicable	\$25,400,000	\$25,400,000
2009–11 Revenue Impact:	Not Applicable	\$28,700,000	\$28,700,000

**DESCRIPTION:** A credit against personal income tax 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; and a renewable energy system that heats or cools space, generates electricity, heats water, or is used for swimming pool, spa, or hot tub heating.

The amount of credit depends on the device and is a function of its energy-saving capability. Residents who install solar electric systems, fuel cell electric systems or wind electric systems are eligible for a \$6,000 tax credit to be taken over a four-year period (\$1,500 maximum a year). The total amount of credit allowed to an eligible taxpayer may not exceed \$9,000 per single family dwelling (\$12,000 if the dwelling is a high-performance home as defined by Oregon Department of Energy (ODOE)).

Systems and devices must meet ODOE requirements to qualify for a tax credit. For solar, geothermal, heat pump, air conditioning and duct systems, the taxpayer must use a technician certified by the ODOE.

Homeowners or renters may receive a tax credit for eligible systems. A builder who owns a home built for speculative sale may claim a tax credit for an alternative-fuel fueling/charging system.

Since enactment, almost every legislative session has seen major changes to this program. Most notably, the expansion in 1999 added credits for the purchase of energy efficient appliances and alternative fuel vehicles, in 2005—solar systems, and in 2007—wind systems and high efficiency wood stoves. The 2007 Legislature also allowed taking a credit for each qualifying device, if more than one device is acquired in the same year.

The Oregon credit is in addition to any federal tax credit that the taxpayer might receive for an alternative energy device. Any credit unused in a particular year because of insufficient tax liability may be used in later years, for up to five years.

**PURPOSE:** The statute that allows this expenditure does not explicitly state a purpose. Presumably, the purpose is 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.

Income Tax  
Oregon Credits

Income Group for Full-Year Taxpayers	2006 Taxpayers			Mean Credit
	Total Number	Number Taking Credit	Percent Taking Credit	
<b>Below \$10,000</b>	266,929	604	0.2%	\$263
<b>\$10,000 - \$20,000</b>	248,677	1,252	0.5%	\$248
<b>\$20,000 - \$40,000</b>	368,295	4,233	1.1%	\$269
<b>\$40,000 - \$70,000</b>	321,332	9,339	2.9%	\$289
<b>Above \$70,000</b>	340,864	20,414	6.0%	\$357
<b>All Full-Year Taxpayers</b>	1,546,097	35,842	2.3%	\$324
<b>Part-Year and Nonresident Taxpayers</b>	209,471	1,515	0.7%	\$263

EVALUATION:

*by the Department of Energy*

This credit has been successful in achieving its purpose of encouraging Oregonians to invest in energy efficient and renewable resources. In 2007, more than 32,000 highly efficient appliances were installed in Oregon. About 2,900 alternative fuel vehicles were certified for the credit in the same year. These two categories constitute about 70 percent of the total credits claimed under this program. We have seen an increase of approximately 56 percent in the number of applications for solar water heating and solar photovoltaic systems as a result of the 2005 legislation that increased the tax credit amount to be taken over four years. It is too soon to evaluate the effect of extending the tax credit to \$6,000 for residential wind and fuel cells. To date we have not seen an increase in these projects, however this may be due to availability constraints in the market.

The new credit for High Performance Homes given to homebuilders as a Business Energy Tax Credit (BETC) has been successful in stimulating the production of homes that will result in a 40-percent energy savings for their owners. To date nine homes are completed and 19 are under construction.

High energy bills and increased awareness of energy efficiency and climate change are factors in the continued growth of the Residential Energy Tax Credit program. Most of Oregon's 3.7 million residents can benefit from the program. Influence in the marketplace is another indicator of the credit's effectiveness. Appliance dealers report substantial increases in energy-efficient appliance sales tied to the tax credit.

The credit is based on the efficiency of the system rather than system cost. This feature encourages the development of more efficient systems. The only alternatives to the credit are incentives offered by utilities and the Energy Trust of Oregon. Ending the credit would discourage investment in renewable resources and highly efficient appliances.

## 1.446 ALTERNATIVE FUEL STATIONS

Oregon Statute: 317.115

Sunset Date: 12-31-2015

Year Enacted: 2001

	Corporation	Personal	Total
2007–09 Revenue Impact:	Less than \$50,000	Less than \$50,000	Less than \$50,000
2009–11 Revenue Impact:	Less than \$50,000	Less than \$50,000	Less than \$50,000

**DESCRIPTION:** A credit against corporate income tax and personal income tax is allowed for construction or installation of a fueling station in a dwelling, necessary to operate an alternative fuel vehicle. The credit equals 25 percent of the cost of the fueling station, not to exceed \$750.

The taxpayer must have the device certified by the Oregon Department of Energy (ODOE) or, for certain devices, a contractor certified by ODOE may provide the certification. Any credit unclaimed in a particular year because of insufficient tax liability may be carried forward for up to five years.

**PURPOSE:** The statute that allows this expenditure does not explicitly state a purpose. Presumably, the purpose is to promote the use of alternative fuel vehicles.

**WHO BENEFITS:** Oregon residents who own alternative fuel vehicles benefit from having a fueling station located in their home. Homebuilders who install or construct alternative fueling stations in dwellings benefit from the increased value of the home to potential buyers. Very few taxpayers use this credit.

**EVALUATION:** *by the Department of Energy*

The expenditure has not achieved its purpose. To date, ODOE has received no applications from homebuilders for this credit. From the start of the program through year end 2007, ODOE has issued business energy tax credits for 31 alternative fuel stations--all of them larger stations not installed in dwellings and serving multiple vehicles. During the same period, ODOE issued only six residential energy tax credits for alternative vehicle fueling or charging systems. Of those, only a couple were for fueling stations installed in dwellings; most were for on-board systems in vehicles.

To date homebuilders are not using this tax credit. It may be a result of the sharp increase in sales of hybrid vehicles. The vast majority of residential energy tax credits issued for vehicles are for hybrids that use a combination of gasoline and electricity. As hybrids have gained in popularity over the past few years, consumer interest in older style alternative fuel vehicles has waned.

However, technologies and markets change rapidly. New technologies are emerging that could affect the situation. An example would be if better storage batteries were developed. This might lead to hybrid vehicles having removable batteries that can be recharged on an in-home photovoltaic system. Such a development might spur consumer interest in having an electric charging station in the home. Driven by increasing fuel prices and interest in all electric vehicles this trend may change dramatically in the coming years.

## 1.447 BUSINESS ENERGY FACILITIES

Oregon Statute: 315.354

Sunset Date: 12-31-2015

Year Enacted: 1979, Modified in 2007(HB 3201), Modified in 2008 (HB 3619)

	Corporation	Personal	Total
2007–09 Revenue Impact:	\$32,500,000	\$36,100,000	\$68,600,000
2009–11 Revenue Impact:	\$69,200,000	\$74,600,000	\$143,800,000

**DESCRIPTION:**

This credit, commonly known as BETC (Business Energy Tax Credit), is allowed against corporation or personal income taxes for investments made by businesses to use renewable energy resources, to conserve energy, for recycling projects if the recycling projects are not otherwise required, or to use less-polluting transportation fuels. Car-sharing expenses, research development and demonstration projects (RD&D), and sustainable building practices qualify for the credit.

The credit equals 35 percent of the certified cost of the approved project and is taken over five years: 10 percent in each of the first two years and 5 percent each year thereafter. However, the credit may be claimed entirely in the first year if the eligible costs are \$20,000 or less. If the facility uses or produces renewable energy resources or is a renewable energy resource equipment manufacturing facility, then the credit equals 50 percent of the certified costs and can be taken over five years, 10 percent each year.

Maximum amount of cost eligible for tax credit has been increased from \$10 million to \$20 million in 2007 for renewable energy facilities and high-efficiency combined heat and power, and even further to \$40 million in 2008 for renewable energy resource equipment manufacturing facilities.

Any credit not used in a particular year because of insufficient tax liability may be carried forward for up to eight years. The credit can be transferred in exchange for a cash payment equal to the present value of the tax credit. Oregon Department of Energy may establish by rule uniform discount rates to be used in calculating the present value.

Renewable resource facilities must produce energy or reduce energy consumption by using solar, wind, hydro, geothermal, or biomass sources. Energy conservation projects must reduce energy consumption by at least 10 percent and lighting projects must reduce it by a minimum of 25 percent.

Eligible projects must have paybacks of more than one year. Credits are awarded only to projects or portions that significantly exceed standard practice. Projects that are required by state or federal law are not eligible.

**PURPOSE:**

“ . . . to encourage the conservation of electricity, petroleum and natural gas by providing tax relief for Oregon facilities that conserve energy resources or meet energy requirements through the use of renewable resources.” (ORS 469.190)

**WHO BENEFITS:**

Businesses investing in facilities that produce energy, reduce the consumption of energy, recycle, or use less-polluting transportation fuels. In tax year 2005, 200 businesses benefited from this credit. An average benefit was about \$73,000. A variety of businesses, including manufacturers, food processors, lumber companies, farmers and ranchers, service industries, retailers, and rental housing owners participate in the program.

**EVALUATION:**

*by the Department of Energy*



As a result, energy conservation and the BETC program are experiencing increased interest and rapid growth rate due to rising utility costs, market competition and growing awareness of climate change and environmental impacts. Consumers are acutely aware of rising energy prices and understand that saving energy is the cheapest and cleanest energy resource. This understanding now affects decisions by consumers, the business community, corporations and governmental agencies.

Changes in 2007 and 2008 increasing the tax credit to 50 percent for renewable energy resources and high efficiency combined heat and increasing the project cap to \$20 million have increased participation in the program by approximated 31 percent.

This credit has been effective in achieving its purpose. To date, more than 13,952 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, sustainable buildings and recycling. Businesses generally require short payback periods for their investments, but the credit has proven successful in making energy investments attractive. Nonprofit and public entities have benefited from 2001 legislative provisions enabling them to take advantage of the tax credit by finding a business partner with a tax liability. For-profit businesses can also choose to transfer their tax credit eligibility.

Benefits of the tax credit program include: 1) Large and small companies become more competitive when they can use less energy; 2) Oregon becomes less reliant on imported fossil fuels when it generates more energy from renewable resources; 3) Oregon's economy benefits from new jobs when renewable resource manufacturing facilities select the state for their business location; 4) Oregon's air quality improves from energy efficiency and renewable energy projects that reduce greenhouse gas emissions; 5) Low-income residents pay less for utilities when landlords weatherize existing rental dwellings or developers include energy efficient appliances in new low-income housing; 6) Oregon encourages new technologies and improved product quality through process improvements; 7) Schools, non-profits, tribes and public entities can participate and receive a cash payment for transferring their tax credit eligibility to a private partner.

By reducing operating costs, the credit boosts the productivity and competitiveness of Oregon businesses. In 2007, the energy cost savings to Oregon businesses from the tax credit program exceeded \$582 million.

### 1.448 ENERGY CONSERVATION LENDER'S CREDIT

Oregon Statute: 317.112  
Sunset Date: None  
Year Enacted: 1981

	Corporation	Personal	Total
2007–09 Revenue Impact:	Less than \$50,000	Not Applicable	Less than \$50,000
2009–11 Revenue Impact:	Less than \$50,000	Not Applicable	Less than \$50,000

**DESCRIPTION:** Commercial lending institutions are allowed a credit against corporate income taxes for financing energy conservation measures of residential fuel oil customers or wood-heating residents. The institutions must charge no more than a 6.5-percent interest rate on the loan. The credit equals the difference between the interest that would be earned if the loan was made at the usual rate of interest (or alternatively at an upper limit rate established by the Department of Energy) and the interest earned at the 6.5-percent rate.

The loan amount cannot exceed \$5,000 for a single dwelling unit or \$2,000 for a single dwelling unit if it is owned by a corporation, and the term cannot exceed 10 years. The loan must be used by the dwelling owner to finance energy conservation measures that are recommended as cost-effective in the energy audit, which must be completed before getting the loan. Any credits not used because of insufficient tax liability may be carried forward up to 15 succeeding years.

**PURPOSE:** The statute that allows this expenditure does not explicitly state a purpose. Presumably, the purpose is to promote energy conservation in oil- and wood-heated homes by encouraging lending institutions to make loans for the financing of energy-saving projects.

**WHO BENEFITS:** Lenders who make loans for energy conservation measures. Homeowners and owners of rental housing qualifying for energy conservation loans. Because the loan rate is not currently competitive with market rates, very few taxpayers are using this credit.

**EVALUATION:** *by the Department of Energy*

The lender's credit is part of a package of incentives offered by the State Home Oil Weatherization (SHOW) Program for energy conservation measures in oil- and wood-heated homes. Improving the efficiency of oil- and wood-heated homes helps achieve the Oregon benchmarks for affordable housing and better air quality.

Since 1982, over 4,400 SHOW loans have been made for energy conservation measures. As of year-end 2005, Oregon households that have participated in the program saved almost two million gallons of oil and cut household energy bills by about \$4 million per year. Administrative costs are kept low because the loan is offered through participating banks. The volume of this credit is expected to remain low as the number of oil-heated homes continues to decline. No loans have been made under this program since 2002.

## 1.449 WEATHERIZATION LENDER'S CREDIT

Oregon Statute: 317.111  
Sunset Date: 11-01-1981  
Year Enacted: 1977

	Corporation	Personal	Total
2007–09 Revenue Impact:	Less than \$50,000	Not Applicable	Less than \$50,000
2009–11 Revenue Impact:	Less than \$50,000	Not Applicable	Less than \$50,000

**DESCRIPTION:** Provided a credit against corporation income taxes for lending institutions that made below-market rate loans for financing weatherization projects. The credit was equal to the difference between the amount of interest charged at a rate of 6.5 percent and the amount that would have been charged at the lesser of 12 percent or the average percent the lending institution charged for home improvement loans. Unused credit amounts could be carried forward for 15 years.

**PURPOSE:** The statute that allowed this expenditure did not explicitly state a purpose. Presumably, the purpose was to promote energy conservation by encouraging lending institutions to make loans for projects to weatherize homes.

**WHO BENEFITS:** Lending institutions that made weatherization loans between 1977 and 1981.

**EVALUATION:** Not evaluated.

## 1.450 BIOFUEL CONSUMER CREDIT

Oregon Statute: 315.465  
Sunset Date: 12-31-2012  
Year Enacted: 2007 (HB 2210)

	Corporation	Personal	Total
2007–09 Revenue Impact:	Not Applicable	\$600,000	\$600,000
2009–11 Revenue Impact:	Not Applicable	\$1,100,000	\$1,100,000

**DESCRIPTION:** A credit against personal income taxes is allowed for consumers who purchase fuel blends for use in alternative fuel vehicles or wood pellets for home heating. “Wood pellets” mean forest, rangeland or agriculture waste or residue densified and dried prepared solid biofuel that contains 100 percent biomass. “Fuel blend” means diesel fuel of blends equal to or exceeding 99 percent biodiesel or gasoline of a blend equal to or exceeding 85 percent methanol or ethanol.

The fuel blend tax credit is computed as a product of the amount of biofuel purchased and the credit rate, which varies depending on the type of biofuel. For diesel blended fuel or gasoline blended fuel, the credit is 50 cents per gallon but may not exceed \$200 per year per Oregon registered motor vehicle that is owned or leased by the taxpayer. The credit for wood pellets is equal to \$10 per bone dry ton of solid biofuel and may not exceed \$200 per taxpayer in a tax year.

The credit cannot be carried forward. For each tax year for which the credit is claimed the taxpayer shall maintain records sufficient to determine the taxpayer's

Income Tax  
Oregon Credits

purchase of qualifying fuel blends or wood and keep these records for at least five years.

**PURPOSE:** The statute that allows this expenditure does not explicitly state a purpose. Presumably, the purpose is to stimulate demand for biofuel to be used in alternative fuel vehicles and as an alternative source of heat in consumers' homes.

**WHO BENEFITS:** Consumers of biofuels.

**EVALUATION:** *by the Department of Energy*

Availability of the E85 and B99 is increasing; Oregon currently has seven stations offering E85 and 14 stations offering B99 statewide. There are approximately 70,000 vehicles capable of using E85 within a 10-mile radius of these stations. Most customers are unaware of the dual fuel natures of their vehicles and most diesels vehicles produced after 2000 are capable of using B99.

It is too soon to evaluate the impact of the program; the department has not yet completed an analysis of the credits claimed through the Department of Revenue.

### 1.451 BIODIESEL USED IN HOME HEATING

Oregon Statute: 315.469

Sunset Date: 12-31-2012

Year Enacted: 2007 (HB 2210)

	Corporation	Personal	Total
2007–09 Revenue Impact:	Not Applicable	\$200,000	\$200,000
2009–11 Revenue Impact:	Not Applicable	\$600,000	\$600,000

**DESCRIPTION:** A credit is allowed against personal income taxes for costs paid or incurred to purchase fuel for primary home space heating that is at least 20 percent biodiesel.

The tax credit is computed as the lesser of five cents per gallon or \$200. The credit cannot be carried forward. For each tax year for which credit is claimed, a taxpayer should maintain records to substantiate the eligibility for the credit and keep these records for at least five years.

**PURPOSE:** The statute that allows this expenditure does not explicitly state a purpose. Presumably, the purpose is to stimulate demand for biodiesel to be used as an alternative source of heat in consumers' homes.

**WHO BENEFITS:** Consumers of biofuel.

**EVALUATION:** *by the Department of Energy*

Home heating fuel suppliers currently offer B20. The cost of fuel oil prices has risen sharply over the last year and it remains to be seen if users will pay an additional fee for the use of biodiesel.

It is too soon to evaluate the impact of the program, the department has not yet completed an analysis of the credits claimed through the Department of Revenue.

## 1.452 PRODUCTION OR COLLECTION OF BIOMASS

Oregon Statute: 315.141

Sunset Date: 12-31-2012

Year Enacted: 2007 (HB 2210)

	Corporation	Personal	Total
2007–09 Revenue Impact:	\$1,500,000	\$2,100,000	\$3,600,000
2009–11 Revenue Impact:	\$3,500,000	\$3,600,000	\$7,100,000

**DESCRIPTION:** A credit is allowed against personal income taxes to producers and collectors of biomass used in Oregon as biofuel or to produce biofuels. The credit is computed as a product of the quantity of biomass produced and credit rate. The credit rates vary by the type of biomass. The credit can be carried forward for four years.

The tax credit for biomass production or collection may be transferred to a third party. However, a tax credit may not be transferred from an agricultural producer to a biomass collector claiming a credit for collecting the biomass; or from a biomass collector to an agricultural producer claiming a credit for producing the biomass. For example, a grass seed grower may produce and bale straw for use as a feedstock for cellulosic ethanol. That producer is eligible to claim a credit for that feedstock. However, a collector that serves as a straw broker may be contracted to collect and distribute that feedstock to a qualifying biofuel facility. Only the producer or the collector may claim a credit--they cannot claim credits on the same tonnage of feedstock.

**PURPOSE:** The statute that allows this expenditure does not explicitly state a purpose. Presumably, the purpose is to stimulate production and collection of biomass necessary to produce biofuel.

**WHO BENEFITS:** Producers and collectors of biomass.

**EVALUATION:** *by the Department of Energy*

Oregon Department of Energy began a survey of biomass collection and energy use in Oregon July 2008. Results will be published in October 2008. Preliminary estimates show 14 of Oregon's 62 woody biomass facilities received over 80,000 bone dry tons of eligible forest or urban waste sourced biomass in 2007. Most facilities use biomass from mill residue which is not eligible for this credit. Some 7,000 acres of seed oil crops, harvested in spring of 2008, resulted in 60 gallons of neat seed oil per acre (420,000 gallons) which is eligible for the credit as biodiesel feedstock. Just less than 2 million gallons of waste oil and tallow were collected for biodiesel feedstock. In 2007, and to-date in 2008 no cellulosic material (straw or loose woody fiber), grain nor yard debris was used as biofuel feedstock. That collection is expected to begin in the second quarter of 2009. Dairies expanded collection of manure for methane digester operation at two sites (Tillamook, Salem) using some 4,000 tons of feedstock.

Three new woody biomass facilities were built in Oregon in 2007 and 2008. Three more are permitted. Two seed oil crushing facilities operate. Both operating ethanol plants plan low carbon fuel production through conversion of cellulosic materials (tree greens, wheat or grass straw). One new ethanol facility is being built to use exclusively food processing wastes. These new facilities will use feedstocks eligible for this credit. Given these findings, the 2007- 08 revenue impact estimates appear high.

### 1.453 REFORESTATION

Oregon Statute: 315.104

Sunset Date: 12-31-2022

Year Enacted: 1979, Sunset extended in 2007 (HB 3364)

	Corporation	Personal	Total
2007–09 Revenue Impact:	Less than \$50,000	\$300,000	\$300,000
2009–11 Revenue Impact:	Less than \$50,000	\$300,000	\$300,000

**DESCRIPTION**

A credit is allowed against personal or corporation income tax equal to 50 percent of the qualified cost of reforesting underproductive commercial forestland. To qualify, the taxpayer must pay a nonrefundable application fee (currently \$300) for the initial application. The taxpayer must then have the Oregon Department of Forestry (ODF) 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 ODF must certify that the plantings are established. The taxpayer may then claim the remaining 25 percent of the initial cost, plus 50 percent of qualified maintenance costs over the two-year period. If the project is not established after two years, the remaining second half of the credit cannot be claimed. If the project is not established because of reasons within the taxpayer’s control, the credit previously claimed on preliminary certification must be returned.

The taxpayer must own at least five acres of commercial Oregon forestland, and the taxpayer’s portion of project cost must be at least \$500 for the project to qualify for the credit. Qualified costs include costs actually incurred for site preparation, tree planting, and other necessary silviculture treatments (such as moisture, erosion and animal damage control). Qualified costs exclude costs associated with reforestation projects required under the Forest Practices Act, any portion of costs paid through federal or state cost-sharing programs, and costs for growing Christmas trees, ornamental trees, or shrubs. Costs associated with short-rotation hardwoods (such as cottonwoods) are not eligible.

Any credit unclaimed in a particular year because of insufficient tax liability may be carried forward for up to three years. This applies to the credits allowed on both preliminary and final certification.

The application fee, initiated in 2006, provides nominal administrative funding for the program. Full administrative funding was previously provided by the privilege tax until that tax was eliminated in 2005. The 2007 Legislature allowed the application fee to be a qualified cost in claiming the credit.

**PURPOSE:**

The statute that allows this expenditure does not explicitly state a purpose. Presumably, the purpose is to increase the public benefits that come from forested lands by promoting reforestation of commercial forestlands that do not currently have commercial trees growing on them, such as brush lands, burned areas with no commercial timber salvage value, and marginal pasture lands. These lands are typically mixed in with or adjacent to land that currently is being used to grow timber.

**WHO BENEFITS:** Taxpayers who make expenditures to reforest under-productive commercial forestlands. Use of the credit is concentrated among personal income tax filers who made almost 100 claims in 2006. There is very little corporate usage of the credit.

**EVALUATION:** *by the Department of Forestry*

This expenditure continues to achieve its purpose. From 1987 to 2005, the credit has resulted in the rehabilitation of approximately 56,000 acres of under producing forestland.

In 2001, the credit was increased from 30 percent to 50 percent . Since then approximately 7,000 acres of under producing forestland have been rehabilitated with the credit. Forested lands produce far more and far better public benefits (fish and wildlife habitat and carbon sequestration through the trees' use of carbon dioxide to produce wood volume are two notable benefits) than do brush lands. The cost to the state for this conversion to a fully stocked stand averages about \$400 per acre with projected tax returns from these lands of about \$20 per acre per year, or a total of \$1,000 per acre, on a 50-year harvest rotation. Considering the positive effects to the environment and increase in future tax revenues, this has a good return on investment.

There is concern that the application fee may discourage non-industrial owners from using the tax credit, thereby reducing the number of applications. At some point, fewer applications require an increase in the application fee. It is too early to determine if such a trend will materialize. However, if that trend did occur, it could begin a downward spiral of reduced non-industrial owner participation and increased application fees. Such a trend would defeat the purpose and benefits of the program.

## 1.454 SEWER CONNECTION

Oregon Statute: 316.095

Sunset Date: 06-30-1995

Year Enacted: 1987

	Corporation	Personal	Total
2007–09 Revenue Impact:	Not Applicable	Less than \$50,000	Less than \$50,000
2009–11 Revenue Impact:	Not Applicable	\$0	\$0

**DESCRIPTION:** A credit was 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 before July 1995. The credit equaled \$160 per year for five consecutive years. Any credit that could not be claimed because of insufficient tax liability may be used in later years, for up to eight years.

To have qualified for the credit, the connection must have been made after January 1, 1985, and must have been 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.

Income Tax  
Oregon Credits

**PURPOSE:** The statute that allowed this expenditure did not explicitly state a purpose. Presumably, the purpose was to compensate homeowners for the costs of connecting to sewer systems when the connection was required by the EQC. It requires connections to protect the health of the public.

**WHO BENEFITS:** Homeowners who connected their homes to a sewer system under order or rule of the EQC. Most of these connections have been in east Multnomah County. Fewer than 20 taxpayers were still claiming a carry forward credit in tax year 2005.

**EVALUATION:** Not evaluated.

### 1.455 MILE-BASED OR TIME-BASED MOTOR VEHICLE INSURANCE

Oregon Statute: Note following ORS 317.122  
Sunset Date: 12-31-2009  
Year Enacted: 2003

	Corporation	Personal	Total
2007–09 Revenue Impact:	Less than \$50,000	Not Applicable	Less than \$50,000
2009–11 Revenue Impact:	Less than \$50,000	Not Applicable	Less than \$50,000

**DESCRIPTION:** Firms that provide mile-based or time-based policies for motor vehicle insurance may receive a corporate income tax credit, provided that the policies are at least 70-percent mile- or time-based. The credit equals \$100 for each vehicle insured under such a policy, and may not exceed \$300 per policy. The credit may not be claimed for a policy for which a credit was allowed the previous tax year. The total amount of the credit in a tax year may not exceed the tax liability of the taxpayer and may not be carried forward to another tax year. This credit will be disallowed once the total of these credits claimed by all taxpayers exceeds \$1 million for all tax years beginning January 1, 2005, and before January 1, 2010.

**PURPOSE:** The statute that allows this expenditure does not explicitly state a purpose. Based on the legislative staff measure summary for HB 2043 (2003), the purpose is to encourage insurers to offer mileage or time-based motor vehicle insurance policies and to provide an incentive to Oregon drivers to drive less, leading to a reduction in road congestion and environmental pollution.

**WHO BENEFITS:** Insurers offering these policies benefit because of the tax credit. Policy holders who limit the amount they drive may also benefit if the tax credit results in insurers offering lower priced policies to drivers that limit the use of their motor vehicles. However, because of Oregon's retaliatory tax provisions, domestic insurers and foreign insurers domiciled in low taxing states benefit from this credit. Other foreign insurers would pay higher retaliatory taxes that effectively offset the credit provided by this provision.

**EVALUATION:** *by the Department of Consumer and Business Services*

All insurance companies authorized to transact insurance in Oregon pay a corporate income tax. Insurers formed in a state other than Oregon also pay a retaliatory tax. The retaliatory tax compares the taxes, fees, and assessments a company pays to Oregon to the amount of taxes, fees, and assessments a like Oregon company would have paid in that other state. If the taxes, fees, and assessments paid to Oregon are



less than a like Oregon company would have paid in the other state, the difference is paid to Oregon in the form of a retaliatory tax unless specifically exempted from the retaliatory tax. Generally, a tax credit provided on the Oregon excise tax return results in an increase in retaliatory tax imposed on an insurer. Likewise, an increase in corporate income taxes paid to Oregon results in a decrease in retaliatory tax paid to Oregon.

The key question in evaluating this expenditure is whether the credit results in a decrease in the number of miles driven. An anticipated outcome for policyholders is that they will lower their insurance costs when they limit the use of their motor vehicles.

The effect of this tax treatment results in a credit against the corporation excise tax which lowers the amount of tax collected for General Fund. This reduction might be offset by an increase in retaliatory tax because, while domestic insurers and foreign insurers domiciled in low taxing states benefit from this credit, other foreign insurers would pay higher retaliatory taxes. Therefore, the incentive is lost for those insurers who effectively receive no tax benefit which might impact the intent of this law.

Currently, there are two companies that have submitted mile-based or time-based motor vehicle insurance filings. The department does not know how many policy holders have selected these plans.

## 1.456 FIRE INSURANCE

Oregon Statute: 317.122 (1)

Sunset Date: None

Year Enacted: 1969

	Corporation	Personal	Total
2007–09 Revenue Impact:	\$8,500,000	Not Applicable	\$8,500,000
2009–11 Revenue Impact:	\$10,200,000	Not Applicable	\$10,200,000

**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. This credit cannot be carried forward.

**PURPOSE:** The statute that allows this expenditure does not explicitly state a purpose. Presumably, the purpose is to shift part of the funding of the Office of the State Fire Marshal from the insurance industry to the state General Fund.

**WHO BENEFITS:** For tax year 2005, about 240 property and casualty insurers that write fire insurance policies benefited from this credit. These taxpayers reduced their tax liability by \$10,000 on average. Because of Oregon's retaliatory tax provisions, domestic insurers and foreign insurers domiciled in low taxing states benefit from this credit. Other foreign insurers would pay higher retaliatory taxes that effectively offset the credit provided by this provision.

**EVALUATION:** *by the Department of Consumer and Business Services*

All insurance companies authorized to transact insurance in Oregon pay a corporate income tax. Insurers formed in a state other than Oregon also pay a retaliatory tax. The retaliatory tax compares the taxes, fees, and assessments a company pays to Oregon to the amount of taxes, fees, and assessments a like Oregon company would have paid in that other state. If the taxes, fees, and assessments paid to Oregon are less than a like Oregon company would have paid in the other state, the difference is paid to Oregon in the form of a retaliatory tax unless specifically exempted from the retaliatory tax. Generally, a tax credit provided on the Oregon income tax return results in an increase in retaliatory tax imposed on an insurer. Likewise, an increase in corporate income taxes paid to Oregon results in a decrease in retaliatory tax paid to Oregon.

Fire insurance premium taxes are used to fund the Office of State Fire Marshal. The effect of this tax treatment results in a credit against the corporation income tax which lowers the amount of tax collected for General Fund Revenue. As mentioned above, this reduction may be offset by an increase in retaliatory tax. If the credit were repealed and insurers were required to continue to pay the fire insurance gross premium tax, it is reasonable to assume the increased cost to the insurer would be passed on to policyholders. The impact would be borne mainly by policy holders of domestic insurers and foreign insurers domiciled in low taxing states because the foreign insurers in higher taxing states basically pay back the credit through Oregon's retaliatory tax.

## 1.457 WORKERS' COMPENSATION ASSESSMENTS

Oregon Statute: 317.122(2)

Sunset Date: None

Year Enacted: 1995, Modified 2007 (SB 179)

	Corporation	Personal	Total
2007–09 Revenue Impact:	\$2,000,000	Not Applicable	\$2,000,000
2009–11 Revenue Impact:	\$1,800,000	Not Applicable	\$1,800,000

**DESCRIPTION** Workers' compensation insurers pay both the corporation income tax and a workers' compensation assessment that provides funding to administer the Oregon Workers' Compensation system. This tax expenditure entitles them to a credit against corporation income taxes equal to the lesser of assessments paid on workers' compensation premiums under ORS 656.612 or the total profit attributable to the workers' compensation line of business, up to their tax liability. Insurance companies collect premium assessments from businesses purchasing workers' compensation insurance and pay assessments to The Department of Consumer and Business Services (DCBS). Premium assessments are not included in the insurers' taxable income reported on their corporation income tax return.

**PURPOSE:** The statute that allows this expenditure does not explicitly state a purpose. Presumably, the purpose is to reduce the taxes paid by insurers in the amount they have collected and paid in the Premium Assessment. The premium assessment covers the operating costs of the Workers' Compensation System administered by DCBS.

**WHO BENEFITS:** For tax year 2005, about 70 corporate taxpayers benefited from this credit. Total reduction in tax liability was about \$680,000. The usage of this credit is heavily concentrated among a few large companies. The State Accident Insurance Fund (SAIF) is exempt from state corporation taxes and as such does not benefit from this tax expenditure.

**EVALUATION:** *by the Department of Consumer and Business Services*

All insurance companies authorized to transact insurance in Oregon pay a corporate income tax. Insurers formed in a state other than Oregon also pay a retaliatory tax. The retaliatory tax compares the taxes, fees, and assessments a company pays to Oregon to the amount of taxes, fees, and assessments a like Oregon company would have paid in that other state. If the taxes, fees, and assessments paid to Oregon are less than a like Oregon company would have paid in the other state, the difference is paid to Oregon in the form of a retaliatory tax unless specifically exempted from the retaliatory tax. Generally, a tax credit provided on the Oregon income tax return results in an increase in retaliatory tax imposed on an insurer. Likewise, an increase in corporate income taxes paid to Oregon results in a decrease in retaliatory tax paid to Oregon.

An elimination of this tax expenditure might place pressure on an insurer to raise rates in order for them to maintain the same profit margin. Because of Oregon's retaliatory tax provisions, domestic insurers and foreign insurers domiciled in states that tax less than Oregon benefit from this credit. Whereas, other foreign insurers would pay higher retaliatory taxes that effectively offset the credit from this provision.

## 1.458 OREGON LIFE AND HEALTH IGA ASSESSMENTS

Oregon Statute: 734.835

Sunset Date: None

Year Enacted: 1975

	Corporation	Personal	Total
2007–09 Revenue Impact:	\$100,000	Not Applicable	\$100,000
2009–11 Revenue Impact:	\$100,000	Not Applicable	\$100,000

**DESCRIPTION:** Life and health insurance companies pay both the corporation income tax and an assessment to Oregon Life and Health Insurance Guaranty Association (OLHIGA) 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 their corporation income taxes for assessments paid to OLHIGA at the rate of 20 percent of the assessment per year for each of the five years following the year in which the assessment was paid, not to exceed the insurer's corporate income tax liability.

**PURPOSE:** The statute that allows this expenditure does not explicitly state a purpose. Presumably, the purpose is to shift part of the cost of claims against insolvent insurers from the insurance industry to the state General Fund.

**WHO BENEFITS:** For tax year 2005, 44 life and health insurance companies benefited from this credit. These taxpayers reduced their tax liability by \$590 on average.

Income Tax  
Oregon Credits

EVALUATION: *by the Department of Consumer and Business Services*

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. In effect the General Fund, through the OLHIGA, funds the costs associated with Oregon claims filed against insolvent insurers.

Because this tax credit is not considered in calculating the retaliatory tax, there is no off-setting increase in retaliatory tax as a result of this credit.

### 1.459 POLITICAL CONTRIBUTIONS

Oregon Statute: 316.102  
Sunset Date: None  
Year Enacted: 1969

	Corporation	Personal	Total
2007–09 Revenue Impact:	Not Applicable	\$15,200,000	\$15,200,000
2009–11 Revenue Impact:	Not Applicable	\$15,800,000	\$15,800,000

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 cash contributions to a major or minor political party; to candidates for state, federal or local elective office; or to political action committees in the state. Credits that cannot be used because of insufficient tax liability in the current year may not be carried forward to later years.

PURPOSE: The statute that allows this expenditure does not explicitly state a purpose. Presumably, the purpose is to increase public participation in the political process.

WHO BENEFITS: Taxpayers who make cash contributions to political candidates or political action committees. In tax year 2006, almost 93,000 taxpayers claimed this credit.

Income Group for Full-Year Taxpayers	2006 Taxpayers			Mean Credit
	Total Number	Number Taking Credit	Percent Taking Credit	
Below \$10,000	266,929	1,622	0.6%	\$35
\$10,000 - \$20,000	248,677	4,246	1.7%	\$44
\$20,000 - \$40,000	368,295	11,546	3.1%	\$54
\$40,000 - \$70,000	321,332	22,579	7.0%	\$62
Above \$70,000	340,864	49,617	14.6%	\$77
All Full-Year Taxpayers	1,546,097	89,610	5.8%	\$68
Part-Year and Nonresident Taxpayers	209,471	2,908	1.4%	\$66

EVALUATION: *by the Secretary of State*

It is difficult to determine whether this expenditure has been effective in achieving its purpose. The credit amount is relatively small at \$100 on a joint return. The data provided by the Department of Revenue does indicate an increase in the percentage of Oregon full-year residents claiming the credit growing from 4.9 percent in 1990 to

5.0 percent in 1996, and to 5.3 percent in 2002. However, the increase in political contributions could also be attributed to the increased number of ballot measures; the increased interest in the content of the ballot measures, such as property tax relief, public employees' retirement, etc.; and closely contested political races.

In 1996 and 1998, state law limited the candidates and committees whose contributors were eligible for the credit. These limitations were repealed in 1999 as a result of SB 369. Therefore the increase in numbers may be the result of the expansion.

We are unable to determine if a tax expenditure is the most fiscally effective means of increasing public participation in the political process other than to say the tax credit is relatively low compared to the amount of contributions an individual could make.

## 1.460 PERSONAL EXEMPTION

Oregon Statute: 316.085

Sunset Date: None

Year Enacted: 1985, Modified in 2007 (HB 3201)

	Corporation	Personal	Total
2007–09 Revenue Impact:	Not Applicable	\$925,200,000	\$925,200,000
2009–11 Revenue Impact:	Not Applicable	\$974,700,000	\$974,700,000

**DESCRIPTION:** Oregon personal income taxpayers receive a personal exemption credit for each taxpayer and dependent represented on the return (although individuals who can be claimed as a dependent on another's return cannot claim a credit on their own return). The amount of the credit is \$169 in 2008 (indexed to inflation). Beginning in 2007, the credit phases-down for high income returns to a minimum of 33 percent of the full credit amount.

**PURPOSE:** The statute that allows this expenditure does not explicitly state a purpose. Presumably, the purpose is to provide a minimum level of tax-free income for all Oregon personal income taxpayers.

**WHO BENEFITS:** Oregon personal income taxpayers, except those who are claimed on another taxpayer's return. The number of personal exemptions increased from about 2.7 million in 1990 to 3.5 million in 2006.

Income Group for Full-Year Taxpayers	2006 Taxpayers			Mean Credit
	Total Number	Number Taking Credit	Percent Taking Credit	
<b>Below \$10,000</b>	266,929	179,699	67.3%	\$97
<b>\$10,000 - \$20,000</b>	248,677	235,277	94.6%	\$230
<b>\$20,000 - \$40,000</b>	368,295	365,723	99.3%	\$291
<b>\$40,000 - \$70,000</b>	321,332	320,912	99.9%	\$357
<b>Above \$70,000</b>	340,864	340,627	99.9%	\$425
<b>All Full-Year Taxpayers</b>	1,546,097	1,442,238	93.3%	\$303
<b>Part-Year and Nonresident Taxpayers</b>	209,471	200,374	95.7%	\$152

EVALUATION: *by the Department of Revenue*

The credit achieves its purpose of providing a level of tax-free income for personal income taxpayers, and because the credit is granted for each taxpayer and dependent, the credit increases with family size. This tax relief is in the form of a credit rather than a deduction, so it provides more tax relief, relative to incomes, to lower income taxpayers, increasing the progressivity of Oregon’s income tax.

### 1.461 OREGON CULTURAL TRUST

Oregon Statutes: 315.675  
Sunset Date: 12-31-2012  
Year Enacted: 2001

	Corporation	Personal	Total
2007-09 Revenue Impact:	\$100,000	\$4,800,000	\$4,900,000
2009-11 Revenue Impact:	\$100,000	\$5,400,000	\$5,500,000

DESCRIPTION: A credit is allowed against personal or corporation income tax for contributions made to the Trust for Cultural Development Account. In order to qualify for the credit, the taxpayer must make a matching contribution to an Oregon cultural organization. The credit is equal to the amount of the contribution to the Trust for Cultural Development Account, not to exceed \$500 for a single filer, \$1,000 for joint filers, and \$2,500 for corporations. It may not be carried forward to another tax year.

The Oregon Cultural Trust Board oversees the Trust for the Cultural Development Account. The Oregon Cultural Trust invests in Oregon cultural development by funding county and tribal coalitions, providing grants to cultural organizations, and funding statewide cultural agencies. Beneficiaries include theatres, performing arts centers and programs, historic buildings, museums and their exhibits, public art, historic trails, historic cemeteries, archeological sites, architecture, Native American and other ethnic traditions, libraries, and parks.

PURPOSE: The statute that allows this expenditure does not explicitly state a purpose. Presumably, the purpose is to create incentives for increased cultural development in Oregon and to encourage direct donations to Oregon-based nonprofit entities organized primarily for the purpose of producing, promoting or presenting the arts,

heritage and humanities to the public, or for identifying, documenting, interpreting and/or preserving cultural resources.

**WHO BENEFITS:** In 2006, about 4,600 Oregon taxpayers used this credit. Nearly all credits were issued to personal income taxpayers.

**EVALUATION:** *by the Economic and Community Development Department/Oregon Arts Commission*

This tax incentive appears to achieve its purpose. It successfully funds cultural institutions, projects and activities, for which public support is commonplace in the U.S. and elsewhere. The tax program accomplishes this with a great many small tax credits, such that it is the interested individual citizen/taxpayer, who decides whether to fund these objectives based on that person's own evaluation and interests. More than 3,400 Oregonians contributed to the Cultural Trust in the 2005 tax year. Also, this tax credit balances between individual preferences for funding and the more centralized, larger investment capacity embodied by the Oregon Cultural Trust.

## 1.462 RETIREMENT INCOME

Oregon Statute: 316.157

Sunset Date: None

Year Enacted: 1991

	Corporation	Personal	Total
2007–09 Revenue Impact:	Not Applicable	\$1,500,000	\$1,500,000
2009–11 Revenue Impact:	Not Applicable	\$1,200,000	\$1,200,000

**DESCRIPTION:** Taxpayers who are 62 or older and receiving taxable retirement income are allowed a credit against personal income taxes of up to 9 percent of their net pension income. To qualify for the credit, the taxpayer must meet the following conditions:

- 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, and
- Household income plus Social Security and Tier 1 Railroad Retirement Board benefits of \$22,500 or less (\$45,000 if married filing jointly).

Taxpayers may claim this credit or the credit for the elderly or the disabled (see 1.411 Elderly or Permanently Disabled), but not both.

Net pension income includes all retirement income included in federal taxable income. This consists of 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 Social Security benefits minus household income over

Income Tax  
Oregon Credits

\$30,000. For taxpayers who do not file a joint return, the limit is \$7,500 minus Social Security benefits minus household income over \$15,000.

**PURPOSE:** The statute that allows this expenditure does not explicitly state a purpose. Presumably, the purpose is to exempt some retirement income without discriminating among the sources of that income.

**WHO BENEFITS:** The number of taxpayers claiming the credit has declined significantly over the years. Approximately 53,000 taxpayers (or 4% of all taxpayers) used it in 1991, dropping to approximately 5,700 (or less than 1% of all taxpayers) in 2006. When federal pension income became exempt from taxation in 1998 (see 1.323 Federal Pension Income), the use of this credit declined substantially.

**EVALUATION:** *by the Department of Human Services*

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.

## 1.463 TRICARE HEALTH CARE PROVIDERS

Oregon Statute: 315.628  
Sunset Date: 12-31-2011  
Year Enacted: 2007 (HB 3201), Modified 2008 (SB 1060)

	Corporation	Personal	Total
2007–09 Revenue Impact:	Not Applicable	\$1,900,000	\$1,900,000
2009–11 Revenue Impact:	Not Applicable	\$4,300,000	\$4,300,000

**DESCRIPTION:** A credit against personal income tax is allowed for health care providers who contract to provide services under the TRICARE military health care services. The amount of the credit is \$2,500 for providers who first enter into a contract on or after January 1, 2007. The credit is \$1,000 for existing providers. For existing providers to qualify for the credit, they must provide service for at least 10 patients. A health care provider who serves patients in a rural community, as defined by Office of Rural Health, may provide health care services to fewer than 10 patients in a tax year and qualify for the credit. The Office of Rural Health must establish criteria for providers to qualify for the credit and must certify those eligible. The maximum number of certified providers is limited to:

(a) 500 certifications for tax years beginning on or after January 1, 2008, and before January 1, 2009;



(b) 1,000 certifications for tax years beginning on or after January 1, 2009, and before January 1, 2010;

(c) 1,500 certifications for tax years beginning on or after January 1, 2010, and before January 1, 2011; and

(d) 2,000 certifications for tax years beginning on or after January 1, 2011, and before January 1, 2012.

**PURPOSE:** The statute that allows this expenditure does not explicitly state a purpose. Presumably, the purpose is to encourage health care providers to provide services under the TRICARE military health care system and to encourage existing providers to continue participation in the TRICARE system.

**WHO BENEFITS:** Providers of health care services under the TRICARE program.

**EVALUATION:** *by the Office of Rural Health*

Certifications for this program become effective with tax year 2008. Therefore, no certifications have been processed to date.

## 1.464 OREGON VETERANS' HOME PHYSICIANS

Oregon Statute: 315.624

Sunset Date: 12-31-2011

Year Enacted: 2007 (HB 3201)

	Corporation	Personal	Total
2007–09 Revenue Impact:	Not Applicable	Less than \$50,000	Less than \$50,000
2009–11 Revenue Impact:	Not Applicable	Less than \$50,000	Less than \$50,000

**DESCRIPTION:** A credit against personal income tax is allowed for physicians who provide medical care to residents of the Oregon Veterans' Home in The Dalles. The credit is \$1,000 for every eight residents to whom the physician provides care, with a maximum of \$5,000 per year. To qualify for the credit, a physician cannot miss more than 5 percent of scheduled visits with residents.

**PURPOSE:** The statute that allows this expenditure does not explicitly state a purpose. Presumably, the purpose is to encourage physicians to provide care to residents of the Oregon Veterans' Home.

**WHO BENEFITS:** Physicians providing care to residents of the Oregon Veterans' Home.

**EVALUATION:** *by the Department of Veterans' Affairs*

This tax credit is having the desired effect of encouraging physicians to provide care to residents of the Oregon Veterans' Home. This is the first year that this credit is in effect. As of July 31, 2008, there are eight doctors that attend to 141 residents at the Oregon Veterans' Home. Four doctors have already qualified for the tax credit.

In light of the importance to provide quality care to the Veteran residents in the Oregon Veterans' Home, which is rurally located, it is very important that this tax expenditure be extended beyond the sunset date of 12-31-2011.

## 1.501 FOREIGN RESIDENT FILING STATUS

Oregon Statute: 316.027

Sunset Date: None

Year Enacted: 1999

	Corporation	Personal	Total
2007–09 Revenue Impact:	Not Applicable	\$1,600,000	\$1,600,000
2009–11 Revenue Impact:	Not Applicable	\$1,700,000	\$1,700,000

**DESCRIPTION:** In general, all income of an Oregon resident is taxable, regardless of the source of the income. An exception to this general rule allows individuals to be taxed as nonresidents if they do not have a permanent home in Oregon, do have a permanent home elsewhere, and spend less than 30 days per year in Oregon. This means that taxpayers who maintain a home elsewhere and spend little time in Oregon pay tax only on income sourced to Oregon, even if they plan to return to Oregon and to make it their home.

Before 1999, taxpayers who worked in foreign countries were subject to taxes on income from all sources if they kept their permanent home in Oregon, planned to return, and spent more than 30 days per year in Oregon. Legislation in 1999 changed this by modifying the definition of an Oregon resident for personal income tax purposes to exclude individuals qualifying as “resident” or “physically present” in foreign countries under IRC 911(d)(1). Thus allowing these individuals to file as part-year residents in the years they leave or return to Oregon and as nonresidents in the intervening years. As a result, these individuals are liable for Oregon income tax only on the income sourced to the state.

**PURPOSE:** The statute that allows this expenditure does not explicitly state a purpose. Presumably, the purpose is to provide tax relief to individuals who work in foreign countries, plan to return to their permanent home in Oregon, and spend more than 30 days in Oregon during the year.

**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:** *by the Economic and Community Development Department*

This expenditure achieves its purpose of not penalizing employees of companies that require such employees to hold foreign assignments. In this way, it makes the corporate climate more attractive for these companies, leading to easier recruitment and retention of hard-to-attract, globally minded individuals.

Oregon remains relatively dependent on international trade, and its economy may benefit significantly from a tax climate that remains relatively attractive to individuals and corporations that do or can engage in international commerce.

## 1.502 PUBLIC WAREHOUSE SALES THROWBACK EXEMPTION

Oregon Statute: 314.665

Sunset Date: None

Year Enacted: 2005

	Corporation	Personal	Total
2007–09 Revenue Impact:	Less than \$50,000	Not Applicable	Less than \$50,000
2009–11 Revenue Impact:	Less than \$50,000	Not Applicable	Less than \$50,000

<b>DESCRIPTION:</b>	<p>Oregon taxes corporations based on the percentage of their sales within the state. Sales outside the state that originate in Oregon can be taxed in Oregon, or “thrown back,” if the sales are to the federal government or are made in another state where the company does not have a taxable presence, or “nexus.”</p> <p>This measure exempts certain corporations from throwing back sales. To qualify for the exemption, the corporation’s sole activity in Oregon must be the storage of goods in a public warehouse or storing goods in a public warehouse and the presence of employees within the state solely for the purposes of soliciting sales.</p> <p>“Public warehouse” means:</p> <ul style="list-style-type: none"> <li>• A warehouse owned or operated by a person that does not own the goods stored in the warehouse; and</li> <li>• Does not include a warehouse that is owned by a person that is related to the person that owns goods that are stored in the warehouse, or an affiliate of the person that owns goods that are stored in the warehouse.</li> </ul> <p>The Department of Revenue determines if a corporation’s activities fit this definition of a public warehouse.</p>
<b>PURPOSE:</b>	<p>The statute that allows this expenditure does not explicitly state a purpose. Presumably, the purpose is to encourage development and expansion of public warehouses in Oregon.</p>
<b>WHO BENEFITS:</b>	<p>Corporations that utilize public warehouses in Oregon.</p>
<b>EVALUATION:</b>	<p><i>by the Economic and Community Development Department</i></p> <p>Insufficient data to analyze direct utilization of this new expenditure. Nevertheless, as Oregon transitioned to a single sales factor for interstate apportionment of corporate taxable income, Oregon-based distributors suffered a loss of competitiveness. An out-of-state producer with little or no nexus in other states, in which it sold goods, would face an increasing Oregon tax liability if using an Oregon-based distributor or warehouse. Under such circumstances, without this provision, the producer’s sales in those other states would be thrown-back to Oregon as the place of origin in apportioning its domestic, pre-tax profits to Oregon.</p> <p>This is an effective expenditure, in that these out-of-state corporations might just as well avoid using Oregon-based warehousing or distribution, in effect costing the state even a greater amount of tax revenue. This exemption allows such warehouses and distributors to retain and grow their business services for smaller corporations that might operate out of Washington or another state.</p>

### 1.503 SINGLE SALES FACTOR CORPORATE APPORTIONMENT

Oregon Statute: 314.650 and 317.660

Sunset Date: None

Year Enacted: 2003, Modified in 2007 (SB 179)

	Corporation	Personal	Total
2007–09 Revenue Impact:	\$79,100,000	Not Applicable	\$79,100,000
2009–11 Revenue Impact:	\$89,900,000	Not Applicable	\$89,900,000

**DESCRIPTION:** Many corporations subject to Oregon’s corporate income tax also do business in other states. For these corporations, Oregon law defines the process for estimating the income attributable to Oregon. For tax years beginning on or after July 1, 2005, most corporations apportion their income to Oregon using just the sales factor. This will require corporations to multiply their business income by the percent of their total sales that are in Oregon to estimate their income attributable to Oregon. This formula is known as the single sales factor formula.

The following table shows the standard apportionment formulas in Oregon’s recent history:

	Property	Payroll	Sales
Double-weighted sales (Standard formula 1991 to 2003)	25%	25%	50%
Super-weighted sales (Standard formula beginning 2003)	10%	10%	80%
Single sales factor ( Standard formula beginning 2005)	0%	0%	100%

There is disagreement about whether a change in the apportionment formula is a tax expenditure. ORS 291.201 defines a tax expenditure as, “any law...that exempts, in whole or in part, certain persons, income, goods, services or property from the impact of established taxes.” The apportionment formula defines the structure of established taxes, whereas all other items included in this report represent a specific deviation from established taxes.

The U.S. Supreme Court has said that neither the single sales factor nor the equally weighted three-factor formula is the natural method of apportioning income. The court has upheld the use of either formula to approximate the income earned within a specific state. Using a formula to apportion corporate income is “a rough approximation of a corporation's income that is reasonably related to the activities conducted within the taxing State.” [*Moorman Mfg. Co. v. Bair*, 437 U.S. 267 (1978)]

The revenue impact assumes that using the double-weighted sales factor formula is the established tax for Oregon, and that using the single sales factor is a deviation. See 1.506, Apportionment for Certain Forest Product Companies, and 1.507, Apportionment for Utilities and Telecommunication Companies, for tax expenditures resulting from deviating from single sales factor.

**PURPOSE:** “...to allocate to the State of Oregon on a fair and equitable basis a proportion of such income earned from sources both within and without the state.” (ORS 314.280)

**WHO BENEFITS:** The beneficiaries are corporate taxpayers that apportion their business income to Oregon using the single sales factor apportionment formula and have a high

proportion of property and/or payroll in Oregon relative to their proportion of sales in Oregon. About 1,700 taxpayers per year would have reduced taxes averaging about \$49,400 each if this provision was in place for tax years 2001 to 2006.

Most Oregon corporate taxpayers that do not pay the minimum tax pay higher taxes the using single sales factor apportionment. About 3,100 taxpayers per year would have increased taxes averaging about \$13,700 each if this provision was in place for tax years 2001 to 2006.

EVALUATION: Not evaluated.

## 1.504 INCOME AVERAGING FOR FARMERS

Oregon Statutes: 314.297

Sunset Date: None

Year Enacted: 2001

	Corporation	Personal	Total
2007-09 Revenue Impact	Not Applicable	\$200,000	\$200,000
2009-11 Revenue Impact	Not Applicable	\$300,000	\$300,000

DESCRIPTION: Personal income taxpayers are permitted to use the federal farm income averaging method to compute Oregon personal income taxes on farm income. This method allows taxpayers to calculate their current year income tax by averaging their income from farming over a three-year period.

Taxpayers may designate all or a portion of their current year income from farming as elected farm income and pay tax on that income as if it had been earned over the three prior tax years. The elected farm income can include gain on the sale of farm assets, with the exception of gain on the sale of land.

PURPOSE: The statute that allows this expenditure does not explicitly state a purpose. Presumably, the purpose is to allow the 1997 reintroduction of federal farm income averaging to pass through to Oregon taxable income.

WHO BENEFITS: Taxpayers whose main source of income is agricultural production. For 2006, approximately 260 individuals saved a total of about \$112,000 of Oregon tax using this provision.

EVALUATION: *by the Department of Agriculture*

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.

## 1.505 CAPITAL GAINS FROM FARM PROPERTY

Oregon Statutes: 318.020 and 317.063

Sunset Date: None

Year Enacted: 2001

	Corporation	Personal	Total
2007-09 Revenue Impact	Less than \$50,000	\$4,100,000	\$4,100,000
2009-11 Revenue Impact	Less than \$50,000	\$4,600,000	\$4,600,000

**DESCRIPTION:** When terminating a farming business, Oregon personal and corporate income tax rates are reduced to 5 percent on liquidated assets, including land, that were previously used in qualified farming activities. Qualified sales must constitute a substantially complete termination of a farming business.

**PURPOSE:** The statutes that allow this expenditure do not explicitly state a purpose. Presumably, the purpose is to lower the tax burden on farmers liquidating their farming businesses, allowing transition farmland to continue in farm use, and the owners to retain capital they have accumulated over years of investment in an operation.

**WHO BENEFITS:** Property owners who terminate a farming business benefit by realizing more of their capitalized equity. For 2006, approximately 165 individuals saved a total of about \$2 million of Oregon tax using this provision.

**EVALUATION:** *by the Department of Agriculture*

Farmers build equity in their operations over time through ownership (paying down debt), appreciation, and improvements. Years of work are capitalized into the land, buildings, and equipment used to operate a viable farm business, which represents the retirement savings for the farm family. Capital gains taxes can substantially reduce the retirement "savings" of growers and discourage land sales. Many retired growers lease or rent out their land because of the capital gains penalty from selling. This simply pushes the tax burden to those inheriting the assets at the owner's death. The average age of farmers in Oregon is over 55 years of age. These farmers own more than 50 percent of the farmland in Oregon; this farmland is destined to change hands in the next decade. Lower capital gains rates for those leaving agriculture achieve the purpose of an orderly transfer of ownership with a better secured retirement for older farmers.

## 1.506 APPORTIONMENT FOR CERTAIN FOREST PRODUCT COMPANIES

Oregon Statute: 314.650(2)  
Sunset Date: None  
Year Enacted: 2003

	Corporation	Personal	Total
2007–09 Revenue Impact:	\$0	Not Applicable	\$0
2009–11 Revenue Impact:	\$0	Not Applicable	\$0

**DESCRIPTION:** Certain forest products companies apportion their business income to Oregon using a double-weighted sales factor instead of using a single sales factor. This provision applies to any corporate taxpayer in the forest products industry that owns and manages between 300,000 and 400,000 acres in Oregon, and that processes at least 20 percent of its total wood chip supply for papermaking from sawmill residue generated within Oregon.

This provision provides a deviation from the normal tax structure. Corporate taxes imposed by states are typically applied to apportioned income. Until 2005, corporations apportioned their income to Oregon using three factors: property, payroll, and sales. For instance, the property factor is the corporation's Oregon property as a percent of all of its property. For tax years beginning on or after July 1, 2005, most corporations apportion their income to Oregon using just the sales factor.

Changes in the apportionment formula are generally considered a change in the definition of the normal tax structure. The exception to the usual formula granted to certain forest product companies is included because it is applicable to a very specific subset of taxpayers.

**PURPOSE:** The statute that allows this expenditure does not explicitly state a purpose. Presumably, the purpose is to lower taxes for narrowly defined forest product companies by requiring them to use the double-weighted sales factor formula to apportion income to Oregon.

**WHO BENEFITS:** Forest products firms that will apportion a lower percent of their income to Oregon under the double-weighted formula than they would under the formulas with larger sales factors. At the time this provision was passed by the Oregon Legislature, only one corporation was believed to qualify. As of August 2008, no corporation is believed to qualify.

**EVALUATION:** Not evaluated.

## 1.507 APPORTIONMENT FOR UTILITIES AND TELECOMMUNICATION COMPANIES

Oregon Statute: 314.280  
Sunset Date: None  
Year Enacted: 2001

	Corporation	Personal	Total
2007–09 Revenue Impact:	\$900,000	Not Applicable	\$900,000
2009–11 Revenue Impact:	\$900,000	Not Applicable	\$900,000

- DESCRIPTION:** Corporate taxpayers primarily engaged in the business of utilities or telecommunications may opt to apportion their business income to Oregon using a double-weighted sales factor instead of the apportionment formula in place at that time.
- Changes in the apportionment formula are generally considered a change in the definition of the normal tax structure. The exception to the usual formula granted to utilities and telecommunication companies is included because it is optional, and affected companies will choose the option based on lowest cost.
- Utilities and telecommunications firms may elect to use this alternative apportionment formula until they decide to revoke it. The revocation should be done according to the rules, established by the Department of Revenue, and it applies to the tax year following the year in which the election is made and to all subsequent tax years. Because these corporate taxpayers use the method that results in the lowest tax liability, tax revenue from these corporations will be lower than it would be if either apportionment formula applied to all corporations.
- PURPOSE:** "...to allocate to the State of Oregon on a fair and equitable basis a proportion of such income earned from sources both within and without the state." (ORS 314.280)
- WHO BENEFITS:** Utility and telecommunication firms benefit by being able to choose between double-weighted sales and the current apportionment formula.
- EVALUATION:** *by the Public Utility Commission*
- The state has deemed that allowing utilities and telecommunications companies to use the alternative apportionment formula provides a "fair and equitable" allocation of a corporate taxpayer's business income to Oregon. Firms that choose the alternative formula lower their Oregon tax liability. The Commission sets rates for utilities including electric and natural gas. For those utilities that provide electric or natural gas service to an average of 50,000 or more customers, the benefits of the reduced tax liability would be passed on to customers as a lower cost of providing service pursuant to ORS 757.268. For those utilities regulated by the Commission, but not subject to ORS 757.268, the benefit of the alternative formula remains with the Utility in the form of lower Oregon tax liability. Most telecommunications companies are no longer under rate of return regulation, so their customers would not be affected if their provider elected to use the alternative apportionment.



## 1.508 TITLE 10 ACTIVE DUTY DEATH

Oregon Statute: 314.088

Sunset Date: None

Year Enacted: 2005

	Corporation	Personal	Total
2007–09 Revenue Impact:	Not Applicable	Less than \$50,000	Less than \$50,000
2009–11 Revenue Impact:	Not Applicable	Less than \$50,000	Less than \$50,000

**DESCRIPTION:** Members of the Armed Forces, military reserves, or other state militia service who die while performing military duties are absolved from all income tax liability (tax, penalty, and interest). To qualify, members must have been under Title 10 service (activated under presidential order) for 90 or more days at the time of death.

**PURPOSE:** The statute that allows this expenditure does not explicitly state a purpose. Presumably, the purpose is to provide financial relief to the families of qualifying military personal who die during service to the country.

**WHO BENEFITS:** Families or estates of qualifying military personnel.

**EVALUATION:** *by the Military Department*

This tax expenditure achieves its purpose, which is to relieve the financial burdens of families affected by the death of their loved ones in the military. It is also the most fiscally effective means of achieving this purpose. The extremely high demands placed on our service members since September 11, 2001 have merited this type of benefit to assist their families wherever possible. It represents a small token of appreciation for the service our soldiers and airmen have provided for our country.

Income Tax  
Oregon Other

## CHAPTER 2: PROPERTY TAX

The property tax is the second largest tax in Oregon, providing most of the revenue for nonschool local governments and roughly one quarter of the revenue for school districts. Total property taxes imposed, including taxes for urban renewal agencies, are forecast to total \$9.2 billion in the 2007-09 biennium and \$10.0 billion in the 2009-11 biennium.

Oregon's property tax system underwent a major transformation in 1997–98 as the voter-approved Measure 50 was implemented. Measure 50 cut property taxes and made three fundamental changes to the structure of the property tax system: first, it replaced most tax levies with permanent tax rates; second, it rolled back the assessed value of every property in the state to 90 percent of its 1995–96 assessed value; and third, it limited the future growth in each property's assessed value to 3 percent per year.

The Department of Revenue also publishes an annual report that provides detailed statistics on Oregon's property tax system. The most recent edition of *Oregon Property Tax Statistics* can be found at [www.oregon.gov/DOR/STATS/index.shtml](http://www.oregon.gov/DOR/STATS/index.shtml).

### ***Property Tax Expenditures***

The tax base for the property tax is considered to be all property in Oregon. Tax expenditures occur when certain property is removed from the assessment roll and thus excluded from taxation. There are three primary 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.

The final primary type of property tax expenditure is known as a special assessment. Specially assessed properties are valued using an assessment technique that results in a lower taxable value than would be the case if the usual assessment practice were used.

### ***Revenue Loss and Shift***

The revenue impact for property tax expenditures consists of two components: revenue loss and shift. Under Oregon's property tax system before Measure 5 passed in 1990, if property value was removed from the assessment roll because it was exempt, the result was a higher tax rate applied to all remaining property. There was no revenue loss to districts, and taxes were shifted completely to other properties. In contrast, under the tax rate limitations of Measure 5, exempting property from taxation resulted in revenue losses for local districts if tax rates were at the constitutional rate limits, because rates could not rise to compensate for the reduction in taxable value. If tax rates were below the rate limits, rates could rise to compensate for the lower taxable value, and taxes were shifted to other properties.

Under the Measure 50 system, exempting property from taxation can still result in both a loss and a shift, much like under the Measure 5 system. Losses occur because the permanent tax rates established by Measure 50 do not adjust in response to changes in taxable assessed value. Consequently, the granting of property tax exemptions leads to revenue losses for local governments and schools. Shifts occur because most bond and local option taxes are passed by voters as fixed dollar amounts, which must be paid by owners of all taxable property. The removal of value leads to a higher tax rate, shifting taxes to other properties. Because nearly 80 percent of all property taxes are from permanent rates, the revenue losses due to property tax exemptions are much larger than the shifts.

## Property Tax

Property tax expenditures also interact with other parts of the public finance system. Because part of the property tax revenue lost to school districts is replaced by state funding to schools, property tax exemptions have an indirect effect on the state General Fund. This replacement component is not included in the revenue impacts reported here. For all property tax expenditures, the detailed descriptions report both the revenue loss and shift separately, while Tables 1 and 2 report only the loss.

## 2.001 ACADEMIES, DAY CARE, AND STUDENT HOUSING

Oregon Statute: 307.145

Sunset Date: None

Year Enacted: 1957

2007–08 Assessed Value of Property Exempted: \$716 million

	Loss	Shift
2007–09 Revenue Impact:	\$21,400,000	\$3,300,000
2009–11 Revenue Impact:	\$23,100,000	\$3,500,000

**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 under this provision. 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:** The statute that allows this expenditure does not explicitly state a purpose. Presumably, the purpose is to maintain tax treatment for certain school and child care properties that is comparable to the treatment provided to similar organizations under 2.076, Charitable, Literary, and Scientific Organizations.

**WHO BENEFITS:** Approximately 660 schools and day care properties in 15 counties were exempt in fiscal year 2007–08, with nearly half located within Multnomah County.

**EVALUATION:** *by the Department of Education*

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 also 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.

Property Tax  
Full Exemption

## 2.002 STUDENT HOUSING FURNISHINGS

Oregon Statute: 307.195  
Sunset Date: None  
Year Enacted: 1957

2007–08 Assessed Value of Property Exempted: \$4 million

	Loss	Shift
2007–09 Revenue Impact:	\$100,000	Less than \$50,000
2009–11 Revenue Impact:	\$100,000	Less than \$50,000

**DESCRIPTION:** Generally, household furnishings that are leased with a housing unit are considered taxable. However, all personal property, furniture, goods, and furnishings in a student housing cooperative, fraternity, or sorority are exempt from property taxation so long as the housing is not rented out for profit.

**PURPOSE:** The statute that allows this expenditure does not explicitly state a purpose. Presumably, the purpose is to reduce the costs associated with college housing. In conjunction with 2.088, Fraternities, Sororities, and Cooperatives, this expenditure provides equitable treatment with those students living on campus in publicly owned dormitories; see 2.003, Leased Student Housing Publicly Owned, for more information.

**WHO BENEFITS:** Nonprofit organizations that rent furnished units to college students, which in turn benefits students by reducing rental rates.

**EVALUATION:** *by the Oregon University System*  
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.

## 2.003 LEASED STUDENT HOUSING PUBLICLY OWNED

Oregon Statute: 307.110(3)(a)  
Sunset Date: None  
Year Enacted: 1947

2007–08 Assessed Value of Property Exempted: \$244 million

	Loss	Shift
2007–09 Revenue Impact:	\$7,300,000	\$1,100,000
2009–11 Revenue Impact:	\$7,900,000	\$1,200,000

**DESCRIPTION:** In general, when public property is held under contract of sale or is leased to a private individual or business, it is 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 tax expenditure 2.076, Charitable, Literary, or Scientific Organizations exemption.

- PURPOSE:** The statute that allows this expenditure does not explicitly state a purpose. Presumably, the purpose is to reduce the costs associated with college housing.
- WHO BENEFITS:** Approximately 10,000 students who lease dorm rooms or apartments from eight state colleges and universities.
- EVALUATION:** *by the Oregon University System*  
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.

## 2.004 HIGHER EDUCATION PARKING SPACE

Oregon Statute: 307.095(3)  
Sunset Date: None  
Year Enacted: 1989

2007–08 Assessed Value of Property Exempted: \$115 million

	Loss	Shift
2007–09 Revenue Impact:	\$3,400,000	\$500,000
2009–11 Revenue Impact:	\$3,700,000	\$600,000

- DESCRIPTION:** In general, when public property is held under contract of sale or is leased to a private individual or business, it is considered taxable. However, state property owned by the Oregon University System and rented to employees, students, or visitors for parking use is exempt from property tax. University spaces rented to the general public for a fee are taxable.
- PURPOSE:** The statute that allows this expenditure does not explicitly state a purpose. Presumably, the purpose is to reduce the costs associated with college housing.
- 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:** *by the Oregon University System*  
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.

## 2.005 PRIVATE LIBRARIES FOR PUBLIC USE

Oregon Statute: 307.160

Sunset Date: None

Year Enacted: 1854

2007–08 Assessed Value of Property Exempted: \$1.1 million

	Loss	Shift
2007–09 Revenue Impact:	Less than \$50,000	Less than \$50,000
2009–11 Revenue Impact:	Less than \$50,000	Less than \$50,000

**DESCRIPTION:** Private property used as a library open to the public is exempt from property taxation. The exemption includes the real property, books, and furnishings dedicated to library use. Privately owned libraries open to the general public use the exemption while publicly owned libraries are exempt under tax expenditure 2.071, State and Local Property. The owner must file an application with the county assessor to claim the exemption. (ORS 307.162)

**PURPOSE:** The statute that allows this expenditure does not explicitly state a purpose. Presumably, the purpose is to broaden the application of tax expenditure 2.076, Charitable, Literary, and Scientific Organization exemption, to public or private libraries, acknowledging the public contribution of these efforts as activities and services that relieves government from having to provide the same.

**WHO BENEFITS:** Eight libraries use this exemption within Benton, Coos, Curry, Lane, and Multnomah counties.

**EVALUATION:** *by the State Library*

ORS 307.160, in all but two cases, is no longer necessary to ensure that Oregonians have access to public library services. The law was first enacted by the Territorial Government in 1854. That was nearly a half-century before Oregon had a public library law that enabled local communities to establish tax-supported libraries. Today there are 132 such libraries serving most of the state and a number of other libraries, mostly organized as non-profit corporations that do not claim the exemption provided under ORS 307.160.

The Oregon State Library Board of Trustees would offer the following comments about libraries in the five counties that report tax expenditures under ORS 307.160:

### Benton County

Every citizen in Benton County receives public library services from the Corvallis-Benton County Public Library, so repeal of ORS 307.160 would not affect the provision of public library services in Benton County.

### Coos County

The Dora Public Library has been granted the exemption provided by ORS 307.160 to reduce the cost of their lease of space in the Dora-Sitkum Rural Fire Department building. The Dora Public Library is a non-profit corporation that contracts with Coos County to provide library services in Dora and surrounding parts of Coos County. The space leased by the Dora Public Library from the fire district might be exempt under ORS 307.166. In any case, repeal of ORS 307.160 would probably not do significant harm to library services to Dora area residents.

### Curry County



All but an estimated 322 people in Curry County are served by one of the five library districts in the county. The 322 people live in rural parts of the county that fall outside the boundaries of the five districts. It is highly unlikely that the two private libraries that were reported to receive the tax exemption under ORS 307.160 exist to serve this small rural population. Assuming this is the case, repeal of ORS 307.160 would not adversely affect public library services in Curry County.

#### Lane County

The Blue River Library, run by volunteers, has for many years served an isolated population in rural northeast Lane County that does not have any other public library services. Lane County does not have a county library. Lane County residents living outside of Eugene, Springfield, Junction City, Cottage Grove, Oakridge, and three library districts headquartered in Veneta, Florence, and Creswell do not have public library services. The State Library estimates that about 79,000 Lane County residents do not have services.

The Dexter Library is a volunteer library that was established several years ago. They applied for, and were granted, an exemption under ORS 307.160 beginning in the 2002 tax year.

The Lane Library District in Creswell was formed in 2005. They lease a facility from the Gemmell Living Trust. They negotiated a lease with the Trust that gives them reduced lease costs due to the fact that the Trust has been granted an exemption from property taxes by Lane County under ORS 307.160. The Oregon Department of Revenue has indicated that the Trust would also be exempt under ORS 307.090 and ORS 307.112. This law gives all municipal corporations the ability to lease facilities that then become tax exempt upon approval of a claim for exemption by a county. This being the case, repeal of ORS 307.160 would not adversely affect the Lane Library District, assuming Lane County would be willing to approve an exemption for the Gemmell Living Trust under ORS 307.090 and 307.112.

The Lane Library League continues to work toward the long range goal of bringing public library services to all of Lane County. Until this goal is reached, there will continue to be a need for the services provided by the Blue River Library and the Dexter Library which probably could not operate without their tax exemption under ORS 307.160

#### Multnomah County

The Multnomah County Library, a department of Multnomah County, serves all of the residents of Multnomah County from their Central Library and 16 branch libraries throughout the county. For many years, a library known as the Polish Library, located in North Portland, has received an exemption under ORS 307.160. 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 the tax exemption provided by ORS 307.160 is still needed to enable two private libraries in rural Lane County to continue to provide library services to Lane County residents who otherwise would be unserved. However, it is likely that repeal of ORS 307.160 would not have a significant adverse impact on public library services in Benton, Coos, Curry and Multnomah counties.

Property Tax  
Full Exemption

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 before the development of tax-supported public library enabling legislation, beginning in 1901. If and when county-wide library services can be established in Lane County, the State Library Board of Trustees hopes to be able to recommend to the Governor that ORS 307.160 be repealed.

**2.006 LEASED HEALTH CARE PROPERTY**

Oregon Statute: 307.110(3)(h)  
Sunset Date: None  
Year Enacted: 1999

2007–08 Assessed Value of Property Exempted: \$1.1 million

	Loss	Shift
2007–09 Revenue Impact:	Less than \$50,000	Less than \$50,000
2009–11 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 is being leased or rented for purposes of providing facilities for health care practitioners. The health district must reside in a frontier rural practice county, as defined by the Office of Rural Health.

**PURPOSE:** The statute that allows this expenditure does not explicitly state a purpose. Presumably, the purpose is to encourage medical practitioners to practice in rural areas by extending the public health district property tax exemption to property leased by health districts to private taxable entities.

**WHO BENEFITS:** Private individuals or businesses that are medical practitioners and lessees of public property in rural areas. In 2008, one health district benefited from this exemption.

**EVALUATION:** *by the Office of Rural Health*

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 play a significant role in allowing Wallowa Memorial Hospital in Enterprise to build a badly-needed new facility.

## 2.007 SENIOR SERVICES CENTERS

Oregon Statute: 307.147

Sunset Date: None

Year Enacted: 1993

2007–08 Assessed Value of Property Exempted: \$6.1 million

	Loss	Shift
2007–09 Revenue Impact:	\$200,000	Less than \$50,000
2009–11 Revenue Impact:	\$200,000	Less than \$50,000

**DESCRIPTION:** Property that is owned by a nonprofit organization and used for senior services and qualified activities is exempt from property tax. To qualify, the property must be open to people over age 50 and used for senior activities. Eligible activities include food service programs, exercise and health screening, estate planning, crafts workshops, and dances. If the property is used primarily for fund raising or as living quarters, then the exemption is not allowed. The nonprofit organization must file an application with the county assessor to claim the exemption.

**PURPOSE:** The statute that allows this expenditure does not explicitly state a purpose. Presumably, the purpose is to reduce the tax burden for organizations providing property and services that serve a socially valuable function.

**WHO BENEFITS:** Eighteen senior service centers received this exemption in 2008.

**EVALUATION:** *by the Department of Human Services*

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 tax expenditure 2.076, Charitable, Literary, and Scientific Organizations, 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.

## 2.008 COMMERCIAL BUILDINGS UNDER CONSTRUCTION

Oregon Statute: 307.330

Sunset Date: None

Year Enacted: 1959

2007–08 Assessed Value of Property Exempted: \$303 million

	Loss	Shift
2007–09 Revenue Impact:	\$8,900,000	\$1,400,000
2009–11 Revenue Impact:	\$8,900,000	\$1,400,000

**DESCRIPTION:** Certain commercial and industrial buildings are exempt from property taxation while they are under construction. A new structure or an addition is exempt from property taxation if, on the January 1 assessment date, it meets the following requirements:

Property Tax  
Full Exemption

- The property is under construction; and
- No part of the new structure or improvement has been or is in commercial use or occupancy; and
- The property is being built for the purpose of earning income; and
- The property is not to be occupied for at least one year after construction began in the case of any “non-manufacturing” facility; and
- The property is not centrally assessed property.

The exemption cannot be claimed for more than two consecutive years. Machinery and equipment at the building site also qualifies if it will be installed as real property in the structure. The property is listed for assessment but the assessment is canceled if proof that the property meets the above requirements is furnished to the assessor by April 1 of the assessment year.

The revenue impact estimates include those from tax expenditure 2.009, Construction-in-Process in an Enterprise Zone.

**PURPOSE:** The statute that allows this expenditure does not explicitly state a purpose. Presumably, the purpose is to encourage investment in business by delaying property taxes until the facility can earn income.

**WHO BENEFITS:** In 2007-08, about 200 properties were exempt under this expenditure or under 2.009, Construction-in-Process in an Enterprise Zone. The location and amount can fluctuate substantially from year to year as major construction projects take place. Typically the majority of the exempt value is in the Portland metro area; 163 of the 2007-08 properties were in Multnomah County.

**EVALUATION:** *by the Economic and Community Development Department*

This expenditure achieves its purpose by allowing new investments to delay paying property taxes until they are actually earning income. Economic consequences are also relevant. New construction and investments might be significantly deterred by the additional up-front cost of paying property taxes on partially finished but unproductive property.

This expenditure is also fiscally effective. Alternatives to this expenditure would be to refund such taxes through direct payments or credits on other taxes. The administrative burdens and complexity of these alternatives suggest that the current cancellation is the most fiscally effective means of achieving the purpose.

This program might be under-utilized, probably because it is not widely known (aside from utilization with enterprise zones or in the Portland metropolitan area) and administrative technicalities may limit its accessibility.

## 2.009 CONSTRUCTION-IN-PROCESS IN AN ENTERPRISE ZONE

Oregon Statute: 285C.170

Sunset Date: 06-30-2013

Year Enacted: 2003

2007–08 Assessed Value of Property Exempted: Included in 2.008, Commercial Buildings Under Construction

	Loss	Shift
2007–09 Revenue Impact:	Included in 2.008	Included in 2.008
2009–11 Revenue Impact:	Included in 2.008	Included in 2.008

**DESCRIPTION:** Property undergoing construction, addition, modification, or installation is exempt from property taxation for up to two consecutive years provided that it meets the following requirements:

- The property is located in an enterprise zone; and
- The property is owned or leased by a business firm with active authorization, as approved by local zone sponsor and county assessor; and
- The property will be qualified property upon completion, and there is no known reason to conclude that the property or firm will not satisfy the requirements for 2.010, Enterprise Zone Businesses; and
- The property has not been exempt under 2.008, Commercial Buildings Under Construction; and
- The property will not be centrally assessed; and
- The property will not be operated as a hotel, motel, or destination resort.

This exemption is virtually identical to 2.008, Commercial Buildings Under Construction, but more automatically and fully dovetails into the regular enterprise zone exemption—see 2.010 Enterprise Zone Businesses—to avoid technical discrepancies amongst property/project types that are exempt and to simplify communication about total tax benefit for investing in an enterprise zone.

There are several other tax expenditures associated with the enterprise zones. Please refer to the NOTE in 2.010, Enterprise Zone Businesses, which is intended to clarify how these tax expenditures are related and addresses both property tax and income tax expenditures.

**PURPOSE:** “To stimulate and protect economic success [throughout all regions of the state, but especially in those communities at the center of or outside major metropolitan areas for which geography may act as an economic hindrance] by providing tax incentives for employment, business, industry and commerce and by providing adequate levels of complementary assistance to community strategies for such interrelated goals as environmental protection, growth management and efficient infrastructure.” (ORS 285C.055).

**WHO BENEFITS:** See 2.008, Commercial Buildings Under Construction.

**EVALUATION:** *by the Economic and Community Development Department*

This program has already achieved its purpose in allowing for a more straightforward message about the new property to be exempt in an enterprise zone, before and after that property is placed in service. Most enterprise zone projects will – while under construction – fall under this exemption.

Property Tax  
Full Exemption

In any case, almost all such project property would be able to use the longstanding tax expenditure 2.008, Commercial Buildings Under Construction, although this exemption may, at times, cover somewhat more property. Such additional coverage under this provision compared to 2.008, Commercial Building Under Construction include:

A project of an authorized firm without new construction or addition to a building, but rather only modifications to or installations of qualified property,

- Non-manufacturing facility (*e.g.*, distribution center) of an authorized business firm that necessitates less than 12 months to build,
- Qualified property items that once installed are *still* “personal property”,
- Machinery and equipment installed directly on land and not inside a building or otherwise affixed to a structure, and
- Property that is still in the process of construction, reconstruction, modification or installation in a year, even after some part of the same facility or building has already been placed in service.

It is not possible to isolate and analyze usage of this expenditure independent of 2.008, Commercial Buildings Under Construction, because they both operate through the same filing system and are fundamentally indistinguishable.

## 2.010 ENTERPRISE ZONE BUSINESSES

Oregon Statute: 285C.175

Sunset Date: 06-30-2013

Year Enacted: 1985, Sunset extended in 2007 (SB 151)

2007–08 Assessed Value of Property Exempted: \$1.4 billion

	Loss	Shift
2007–09 Revenue Impact:	\$35,700,000	\$5,900,000
2009–11 Revenue Impact:	\$36,900,000	\$6,100,000

**DESCRIPTION:** Enterprise zones serve to help attract private business investment and to help resident businesses to reinvest and grow in those communities facing economic challenges. They also assist many local governments that wish to offer tax incentives and other assistance to stimulate sound business investments that support and improve the quality of life.

Qualified real and personal property owned or leased and newly placed into service by a qualified business firm in an enterprise zone is exempt from property tax for three years. The local zone sponsor may increase the exemption period to a total of four or five consecutive years, subject to employee compensation requirements and other specified sponsor conditions.

Cities, ports and counties can sponsor enterprise zones inside their territory. The applicant for a new zone designation or re-designation must consult with all taxing districts within the area proposed for designation in preparing applications to the Economic and Community Development Department (ECDD). The director of the ECDD designates new zones or re-designates when existing zones are expiring. Zone

designations statewide cannot exceed 57, not including reservation enterprise zones (see tax expenditure 1.419, Reservation Enterprise Zones (Income Tax)), and those based on a “federal enterprise zone” under ORS 285C.085. An enterprise zone designation terminates after 10 years. A business firm that is qualified when the zone terminates may continue to qualify for up to 10 years after termination, subject to certain criteria.

As of September 2008, all 57 enterprise zones expressly allowed by law were designated, plus one reservation zone and one federally based designation, for a total of 59; 48 of these are categorized as "rural," and 11 are "urban." They are spread throughout the state in 35 of the 36 counties, and are presently sponsored by 106 cities, 7 ports, 31 counties and 1 Indian Tribe.

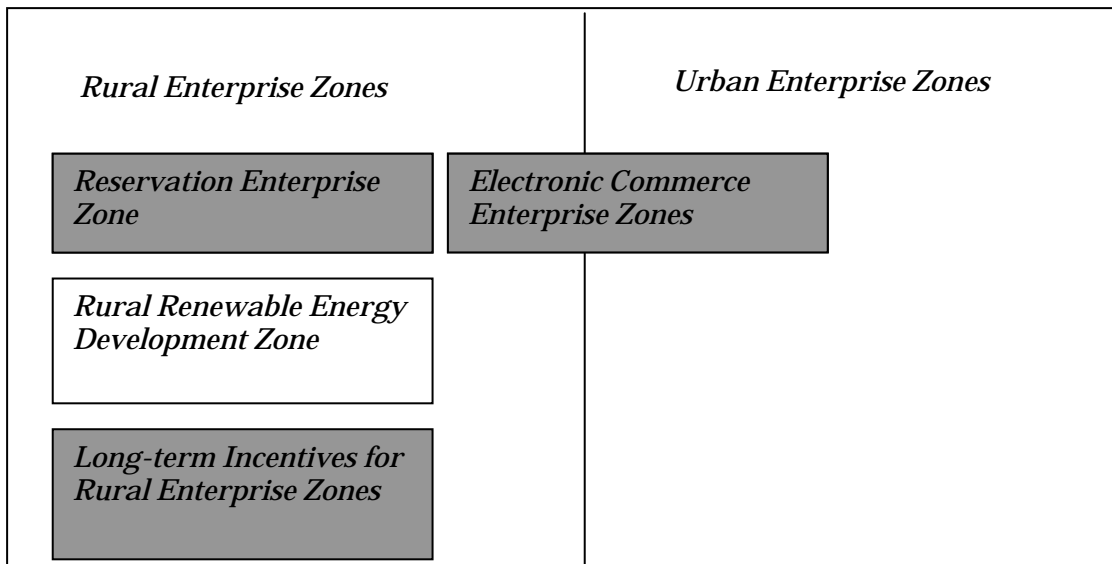
A business firm qualifies if the firm meets all of the eligibility requirements, such as type of activity and employment, outlined in ORS 285C.135. Exempt property of the business firm should meet applicable usage, lease, location and minimum cost requirements, described in ORS 285C.180.

Property is disqualified if it is used for ineligible activity (*e.g.*, retail) or if the firm substantially curtails operations or closes. When property becomes disqualified, all prior exempt taxes must be repaid.

The sunset for this expenditure has been extended twice – by the 1995 and 2007 Legislatures.

There are several other tax expenditures associated with the enterprise zones. The NOTE below is intended to clarify how these tax expenditures are related and addresses both property tax and income tax expenditures.

NOTE: Relationship between different enterprise zones tax expenditures



There are two main types of enterprise zones: urban and rural. Regardless of the type, qualified businesses in the zones are eligible for property tax exemption under ORS 285C.175 (2.010, Enterprise Zone Businesses) for a maximum of five years. Businesses in the zones shaded with grey on the diagram above may also be eligible for different income tax credits. Properties under construction in the enterprise zones owned by qualified businesses are generally exempt under ORS 285C.170 (2.009, Construction-in-Process in an Enterprise Zone) for maximum two consecutive years, with some exceptions.

Property Tax  
Full Exemption

- An *existing* enterprise zone (rural or urban) may be designated as ***Electronic Commerce Enterprise Zone*** (under ORS 285C.095) or a city can be designated as electronic commerce city (under ORS 285C.100, which currently provides for only one). In addition to a property tax exemption (2.012, Electronic Commerce Enterprise Zone (Property Tax)), which is essentially the same as 2.010, Enterprise Zone Businesses, this special overlay designation allows qualified businesses to be eligible for income tax credit (1.419, Electronic Commerce Enterprise Zone (Income Tax)).

- ***Reservation Enterprise Zone*** designation allows certain new business facilities to claim income tax credit under ORS 285C.309 (1.418, Reservation Enterprise Zone (Income Tax)). For property tax exemption these zones are considered to be rural and businesses qualify accordingly under general statute 285C.175 (2.010, Enterprise Zone Businesses). Reservation enterprise zones are not subject to numerical and size limitations, applicable to other zones. There are, however, criteria that limit which Indian reservations may obtain one of these designations.

- ***Rural Renewable Energy Development Zone*** is almost indistinguishable from a regular rural enterprise zone in terms of the property tax exemption that it provides, except that only certain types of renewable energy projects are eligible. In the case of this type of zone, however, the entire territory of an applicant (county, city in a rural area or combination of continuous counties) is designated as a zone, which is helpful in accommodating physically expansive "wind farms". There is also a limit of \$250 million for exemption. Property tax exemption is allowed under ORS 285C.362 (2.013, Rural Renewable Energy Development Zone).

- Businesses in most of the rural enterprise zones may alternatively qualify for ***Long-term Incentives for Rural Enterprise Zones*** exemption from property taxes under ORS 285C.409 (2.011, Long-term Rural Enterprise Zones (Property Tax)). Both completed buildings and properties under construction qualify. Total cost of the facility if located near Interstate-5 must exceed the lesser of \$25 million or one percent of the real market value of all nonexempt taxable property in the county in which facility is located; away from I-5 the minimum investment required is half as much. Exemption is from 7 to 15 years. Income tax credit is allowed for the businesses that qualify for property tax exemption if approved by Governor's Office (1.417, Long-term Rural Enterprise Zone (Income Tax)).

PURPOSE: "To stimulate and protect economic success [throughout all regions of the state, but especially in those communities at the center of or outside major metropolitan areas for which geography may act as an economic hindrance] by providing tax incentives for employment, business, industry and commerce and by providing adequate levels of complementary assistance to community strategies for such interrelated goals as environmental protection, growth management and efficient infrastructure." (ORS 285C.055)

WHO BENEFITS: Owners, employees, customers, and suppliers of eligible business firms, and the communities in which they are located.

Most enterprise zone businesses are manufacturing facilities, but approved properties include hotels/resorts, call centers, distribution centers, and other types of unconventional industries, as specifically allowed by law consistent with the concept of "traded-sector" industries.



IN LIEU: Businesses also pay significant amounts to the zone sponsor and other local taxing districts and organizations, in direct association with their use of the enterprise zone (aside from nonexempt property and other local government charges and taxes). Such other local income falls into three categories: (1) application/filing fees; (2) one-time, payment of annual tax savings to avoid total disqualification when not satisfying a requirement; and (3) special payments imposed by or agreed to with the zone sponsor under urban-zone conditions or additional requirements arising with extended abatements or a local waiver of 10-percent employment increase.

EVALUATION: *by the Economic and Community Development Department*

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 thousands of jobs each year. These jobs are located in economically depressed areas and have been effective in improving the quality of life of residents in these areas either directly, by providing employment opportunities, or indirectly, through increased business activity, tax receipts and induced effects, as well as the initial stimulation from construction. Although a few zones have been unable to attract new investment, most have had at least notable activity.

Issues of equity arise with respect to those who directly benefit from a tax incentive program. Such inequity is justified by the overall benefits that accrue indirectly from economic development. In addition, these zones are relatively common, their benefits are the same throughout the state, and the typical zone covers all property within an area. These characteristics allow a wide spectrum of traded-sector businesses to participate and for satisfaction of strictures about taxation in the State Constitution.

This expenditure is also fiscally effective. The administration is simple, inexpensive, and minimizes the possibility of abuse. Initially (in the 1980s), the program faced cumbersome statutory provisions, but those were thoroughly revised by the 1989 Legislature. The short time frame of the exemption, three to five years, moderates revenue impacts. One alternative to this property tax exemption would be an income tax credit, but that might be more difficult to administer, and its attractiveness as an inducement to many firms would be substantially lessened due to an anticipated lack of immediate tax liability.

A final issue is whether enterprise zone investments would have been made even without this tax incentive. Indisputably, some would have, although these tend to be among the many smaller projects, which amount overall to relatively little exempt property value. Whereas, without the exemption, a substantial number of sizeable developments would not have occurred at all, or they might have been significantly delayed, smaller, reduced in size, or less likely to have succeeded through their first few years. In addition, this program directs the investment to the areas of the state that are most needy.

With respect to recent activity, observations about the regular enterprise zone program—three to five-year exemption—may be broken-down as follows:

***Private Sector Capital Investments***—In the 2006-7 property tax year, there were 153 different exemptions, corresponding to 133 distinct investment projects with two or three years successive investments. Businesses new to the enterprise zone—*i.e.*, not already operating there—comprised only 36 of these projects.

## Property Tax Full Exemption

Total investments approximated \$1.5 billion, representing \$1.27 billion dollars in new, tax-exempt property value, which equated to about \$17.5 million in property tax savings for qualified business firms in 2006-07.

These property tax savings and the underlying investments vary by orders of magnitude. Tax savings range from \$0 to \$3.7 million, with an average of about \$114,000, but a median value of only \$10,141.

Just over three quarters of the investments are under \$5 million, while the vast majority of total exempt value is dominated by only eight projects costing in excess of \$25 million each, including a few giant capital projects.

The *extended abatement* program (which offers up to two additional years for five consecutive years of exemption pursuant to local agreement by the business with the zone sponsor), accounted for 38 exemptions out of 133, but 66 percent of the exempt value. As such, the (weighted) average length for all exemptions was 4.28 years.

In 2007, another 53 distinct investments costing about \$540 million in total will commence enterprise zone exemptions. Moreover, in the next few years, proposed investments by authorized business firms would approach \$3 billion in new capital.

**Job Creation**—New, full time employees slightly exceeded 7,000, in terms of persons working for qualified business firms receiving 2006-07 exemptions from property taxes. (Existing – potentially retained – employment with these firms in the enterprise zone was greater than 8,000).

Newly completed investments that began exemptions in 2007-08 are associated with another 1,772 jobs.

In almost every case, the business firm's enterprise zone employment must rise by the greater of one job or 10 percent—and be annually maintained at that level during the tax abatement period—although by local resolution(s), a business firm may receive enterprise zone benefits without increasing employment or even with a net loss of jobs under certain statutory stipulations. The average increase was 46 new, full-time, year-round employees for projects exempt during the 2006-07 tax year.

For extended abatements of four or five years, new jobs totaled 1,875 in relation to the 2006-07 exemptions. To receive the extension (except for Portland-area urban zones), these new employees need to have average annual compensation that equals or exceeds 150 percent of the county average annual wage, which across applicable counties would mean a current standard of \$49,744 per year, for eligible business firms authorized in 2008.

Property tax savings per new job averaged \$10,686 for all exempted projects, and \$27,954 for extended abatements, over the total (average) length of the exemption period. These sorts of statewide figures remain highly problematic—varying dramatically from year to year, and they can shrink many times if one excludes from the calculation a few extreme outliers – i.e., massive projects with little or no new jobs, which (must) receive special local sponsor approval.

**Expansion of Tax Base**—In addition to the direct job creation, as well as indirect and induced effects from business investments and hiring in the enterprise zones, there is a longer-run benefit to the public: Increased property tax revenues.

Since the program's beginning through 2006-07, more than \$2.5 billion in taxable property value has been added to county assessment rolls at the conclusion of an enterprise zone exemption, with as much as another \$1.6 billion to be added in the succeeding five years.

Some of this property value might have occurred anyway, but by no means all. Also, while some of it will have been retired and removed from the state by now, other property would have been invested by the business that has not or did not qualify for exemption, and there would be associated increases in other local property investments and values will have risen as a result, too.

Finally, the additionally induced payroll at enterprise zone projects will contribute millions each year in withholding/personal income tax receipts

***Communities and Local Economies***—As noted already, enterprise zones are found throughout the state. Compared to other states, Oregon's program continues to stand out for its rural basis and to an extent, its reliance on property tax relief. For several years, the trend had been for designations to increasingly occur in the more sparsely populated parts of the state. Since 2005, this trend has been somewhat reversed, in that five urban zones were designated, including an unprecedented four in the greater Portland metropolitan area for a total of six there now.

Total capital investment tends to be much greater in the urban environs and population centers of the Willamette Valley and the Northwest of Oregon. In terms of projects and jobs, enterprise zones in the state's central corridor and southwest are performing quite well, in general.

Most zones enjoy recent, ongoing or imminent projects, with many having regular activity. Nevertheless, 11 zones have existed for a number of years with so far no utilization or prospects. These and other enterprise zones with only a very few, modest projects tend to be in smaller, more isolated localities. Improved efforts at marketing and site readiness could help remedy this. Nevertheless, while enterprise zones do help to better distribute economic activity and resource utilization, they cannot by themselves overcome the barriers and disadvantages faced by some rural locations.

***Statewide Business Recruitment***—On a broad, statewide level, Oregon's enterprise zones are one of, if not the state's premier tool for inducing increased business investment as well as for competing with places outside of Oregon for the location of major new business opportunities.

Oftentimes, the exemption from property taxes may be the only significant incentive that the locality and Oregon can make available. By policy, of course, enterprise zones are discrete areas of limited quantity (albeit as much as 59 statewide). Yet, even when a company looks to locate or expand in an enterprise zone, Oregon may still not compete well against the advantages and offerings available elsewhere.

As noted already, many users of the enterprise zone program are making relatively small capital investments, for which the resulting property tax savings can have only a limited effect on the business decision.

As investment size grows, the present-value benefit of avoiding cash outlays for taxes on new plant and equipment during the first few years of a project’s life becomes increasingly significant and is crucial for attracting and retaining capital investment and associated traded-sector jobs in Oregon.

## 2.011 LONG-TERM RURAL ENTERPRISE ZONE (PROPERTY TAX)

Oregon Statute: 285C.409

Sunset Date: 06-30-2013

Year Enacted: 1997, Sunset extended in 2007 (SB 151)

2007–08 Assessed Value of Property Exempted: \$557 million

	Loss	Shift
2007–09 Revenue Impact:	\$11,800,000	\$2,300,000
2009–11 Revenue Impact:	\$13,800,000	\$2,700,000

**DESCRIPTION:** The value of all new property and improvements at certain large facilities in a rural enterprise zone can be exempt from property tax for 7 to 15 years. Before this locally determined period, this new property can be exempt while under construction.

A qualified firm must obtain local approval and meet requirements on minimum levels of investment (from around \$1 million to \$25 million, depending on a location) and a minimum number of new hires and employee compensation. Businesses also pay significant amounts to the zone sponsor and other local taxing districts and organizations to fulfill local additional requirements in the agreement with the zone sponsor.

If a certified business fails to meet the requirements of the program, all prior exempt taxes must be repaid.

Business firms receiving this property tax exemption are also eligible for a corporate income tax credit, if approved by the Governor. See tax expenditure 1.417, Long-Term Rural Enterprise Zone (Income Tax), for more information.

There are a few key differences between this expenditure and 2.010, Enterprise Zone Businesses. First, there is a significant minimum investment requirement here, ranging from around \$1 million to \$25 million. Second, this expenditure exempts qualified businesses from property tax for up to 15 years, whereas under Enterprise Zone Businesses the exemption period is for no more than five consecutive years. Third, this expenditure exempts property under construction, whereas under Enterprise Zone Businesses it is not exempt. However, the enterprise zone business under construction would be exempt under 2.009, Construction-in-process in an Enterprise Zone. Finally, the location of the business must be in a rural enterprise zone with chronically low income or chronic unemployment; for Enterprise Zone Businesses, business can be located in any rural or urban enterprise zone.

There are several other tax expenditures associated with the enterprise zones. Please refer to the NOTE in 2.010, Enterprise Zone Businesses, which is intended to clarify how these tax expenditures are related and addresses both property tax and income tax expenditures.

**PURPOSE:** The statute that allows this expenditure does not explicitly state a purpose. Presumably, the purpose is to encourage investment in rural enterprise zones with chronically low income or chronic unemployment.

**WHO BENEFITS:** This provision is intended to benefit rural enterprise zones and the surrounding residents in counties with chronic unemployment or low income. Potential beneficiaries include the participating companies, their suppliers, customers, and employees.

**EVALUATION:** *by the Economic and Community Development Department*

Local officials had certified six business firms, accounting for eight separate facilities under this program, three of which had begun exemptions, as of September 2008. Several other companies proposing major new facilities and workforces are also inquiring after these tax incentives.

It is possible, and perhaps likely, that if Oregon did not have this provision, some major investment in rural areas would have located to another state, or prospective investors would not be looking so seriously at rural Oregon. Therefore, this provision appears to be having the intended effect on investment in Oregon.

Changes made by SB 245 passed in the 1999 legislative session made these long-term rural tax incentives conceivable as something that could induce much-needed private investment in Central and Eastern Oregon enterprise zones. Before these changes, the likelihood of them having an effect was very small in those locations and elsewhere. Other subsequent tweaks to the statutes have made this program even more marketable.

Interest and applications from investors has increased notably since 2004, as the state has also adopted a more aggressive marketing stance.

## 2.012 ELECTRONIC COMMERCE ENTERPRISE ZONE (PROPERTY TAX)

Oregon Statutes: 285C.175  
Sunset Date: 06-30-2013  
Year Enacted: 2001

2007-08 Assessed Value of Property Exempted: Included in 2.010, Enterprise Zone Businesses

	Loss	Shift
2007-09 Revenue Impact:	Included in 2.010	Included in 2.010
2009-11 Revenue Impact:	Included in 2.010	Included in 2.010

**DESCRIPTION:** Qualified property owned or leased by a qualified business firm in an electronic commerce (E-commerce) enterprise zone is exempt from property tax for three to five years.

As outlined in ORS 285C.050, “electronic commerce” means “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 by other persons for business transactions.”

Property Tax  
Full Exemption

Cities, ports or counties wishing to establish an E-commerce enterprise zone must apply to the Economic and Community Development Department. The zone must first be designated as an enterprise zone before it can become an E-commerce zone. By statute, up to 10 electronic commerce zones and one electronic commerce city may be designated. In 2008, there were nine designated electronic commerce enterprise zones and one electronic commerce city (North Plains).

This exemption is statutorily and substantially indistinguishable from the regular enterprise zone exemption—see 2.010, Enterprise Zone Businesses. In fact, this is not a different expenditure, but rather a specialized category of eligibility under the standard exemption. In addition to this property tax exemption, E-commerce designation allows qualified businesses to be eligible for an income tax credit. The credit is based on capital investment in electronic commerce assets—see tax expenditure 1.419, Electronic Commerce Enterprise Zone (Income Tax).

There are several other tax expenditures associated with the enterprise zones. Please refer to the NOTE in 2.010, Enterprise Zone Businesses, which is intended to clarify how these tax expenditures are related and addresses both property tax and income tax expenditures.

**PURPOSE:** “To stimulate and protect economic success [throughout all regions of the state, but especially in those communities at the center of or outside major metropolitan areas for which geography may act as an economic hindrance] by providing tax incentives for employment, business, industry and commerce and by providing adequate levels of complementary assistance to community strategies for such interrelated goals as environmental protection, growth management and efficient infrastructure.” (ORS 285C.055).

**WHO BENEFITS:** Businesses operating in electronic commerce zones and cities.

**EVALUATION:** *by the Economic and Community Development Department*

The added inducement effect of the income tax credit offers a compelling explanation for the activity seen so far in the electronic commerce enterprise zones.

The special income tax credit—see 1.419, Electronic Commerce Enterprise Zone (Income Tax)—provides not only an extra financial benefit, but it confers both tangible and intangible marketing strengths, by accentuating that the designated area is specially primed as a “hot spot” for E-Commerce. This suggests add-on incentives along with the regular enterprise zone exemption may make for potent combinations. The Medford Urban Enterprise Zone has notably exploited these marketing advantages. A few other E-commerce businesses have made investments in other E-commerce zones.

The ability of a business, particularly a small start-up, to substantially gain from a credit against its income tax liability will always be problematic. The potential nevertheless exists, given the five-year carry-forward period.

In the 2006-07 tax year, 13 E-commerce projects were receiving enterprise zone exemptions, totaling more than \$23 million in property value and associated with 497 new jobs. A few of these are receiving extended abatements, with the attendant high employee-compensation requirement—see 2.010, Enterprise Zone Businesses.

In 2007, four more E-commerce investments of nearly \$11 million began exemptions, adding 142 new employees.

As discussed above, it is not feasible to evaluate the tax impacts of these projects' exempt property separately from overall use of the standard exemption.

## 2.013 RURAL RENEWABLE ENERGY DEVELOPMENT ZONE

Oregon Statute: 285C.362

Sunset Date: None (Enterprise zone law sunsets 06-30-2013.)

Year Enacted: 2003, Modified in 2007 (HB 2210)

2007–08 Assessed Value of Property Exempted: \$0 (expected \$30.6 million in 2009-10)

	Loss	Shift
2007–09 Revenue Impact:	\$0	\$0
2009–11 Revenue Impact:	\$600,000	\$100,000

**DESCRIPTION:** Rural counties, cities in rural counties or combinations of contiguous rural counties may apply to the director of the Economic and Community Development Department for a designation as a rural renewable energy development zone (RREDZ), which encompasses all of the territory of the applicant jurisdiction(s). RREDZs can be set up in any area outside the urban growth boundary of cities with a population of 30,000 or more.

This property tax exemption applies for three years, but may be extended by the zone sponsor for two additional years. The total amount of investment per project allowed is set by a local resolution for the exemption and by default cannot exceed \$250 million (increased from \$100 million in 2007) in real market value of property within the zone.

Eligible zone project must meet business firm and property qualifications for the standard enterprise zone exemption outlined in ORS 258C.135 and ORS 285C.180 and must involve the generation of electricity from a "renewable energy resource" or the manufacture, storage or distribution of biodiesel, ethanol or similar fuels made from applicable inputs.

Essentially indistinguishable from tax expenditure 2.010, Enterprise Zone Businesses, this special designation is intended to facilitate physically very expansive forms of renewable energy (e.g., "wind farms"). These could be served by a regular enterprise zone, but the zone's boundary would need to be amended in an awkward way.

There are several other tax expenditures associated with the enterprise zones. Please refer to the NOTE in 2.010, Enterprise Zone Businesses, which is intended to clarify how these tax expenditures are related and addresses both property tax and income tax expenditures.

**PURPOSE:** The statute that allows this expenditure does not explicitly state a purpose. Presumably, the purpose is to encourage renewable energy investments in rural parts of the state.

**WHO BENEFITS:** Firms involved in the production of electricity generated from renewable energy resources in rural communities.

Property Tax  
Full Exemption

EVALUATION: *by the Economic and Community Development Department*

Insufficient data for analysis. By September 2008, eight counties have been designated as an RREDZ. Two wind-power projects have been authorized and were under construction by 2008.

## 2.014 INVENTORY

Oregon Statute: 307.400  
Sunset Date: None  
Year Enacted: 1969

2007-08 Assessed Value of Property Exempted: \$20.6 billion

	Loss	Shift
2007-09 Revenue Impact:	\$559,600,000	\$91,800,000
2009-11 Revenue Impact:	\$639,400,000	\$104,900,000

**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:** The statute that allows this expenditure does not explicitly state a purpose. Presumably, the purpose is to eliminate the tax compliance burden of enumerating inventory and to eliminate behavior specifically aimed at reducing inventories on the date of assessment, especially when that behavior negatively affects the economy.

**WHO BENEFITS:** Manufacturing, wholesale, and retail trade businesses are the primary beneficiaries of this exemption.

**EVALUATION:** Not evaluated.

## 2.015 BUSINESS PERSONAL PROPERTY CANCELLATION

Oregon Statute: 308.250(2)  
Sunset Date: None  
Year Enacted: 1979, Modified in 2007 (HB 2228)

2007-08 Assessed Value of Property Exempted: \$131 million

	Loss	Shift
2007-09 Revenue Impact:	\$3,500,000	\$600,000
2009-11 Revenue Impact:	\$4,000,000	\$700,000

**DESCRIPTION:** The county assessor may cancel the annual business personal property tax assessment for a taxpayer if the total assessed value of the property is less than the specified



maximum. The threshold is \$14,500 for the tax year beginning July 1, 2008. It is indexed to inflation annually.

To receive this cancellation of taxes, the taxpayer must still file a return with the county assessor. After receiving an initial cancellation of taxes on this property, the taxpayer may file an annual statement declaring that the value continues to be less than the threshold.

- PURPOSE:** The statute that allows this expenditure does not explicitly state a purpose. Presumably, the purpose is to reduce the filing burden for small businesses and to reduce administrative costs related to the processing and collections of small business personal property accounts.
- WHO BENEFITS:** Over 41,700 accounts benefited from cancellation in 2007-08.
- EVALUATION:** Not evaluated.

## 2.016 CARGO CONTAINERS

Oregon Statute: 307.835  
Sunset Date: 06-30-2010  
Year Enacted: 1979

2007–08 Assessed Value of Property Exempted: \$22 million

	Loss	Shift
2007–09 Revenue Impact:	\$600,000	\$100,000
2009–11 Revenue Impact:	\$300,000	Less than \$50,000

- DESCRIPTION:** All cargo containers principally used for the transportation of cargo by vessels in trade and ocean commerce 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 statutory exemption in applies to containers owned by both domestic and foreign companies. However, the containers owned by foreign companies would be exempt, even in the absence of the statute, under *Japan Line Ltd., v. County of Los Angeles*, 441 US 434, 99 S Ct 1813, 60 L Ed 2d 336 (1979). See also *Itel Containers International Corp. v. Huddleston, Comm’r of Revenue of Tennessee*, 507 US 60, 113 S Ct 1095, 122 L Ed 2d 421 (1993) (explaining the scope of the holding in *Japan Line*).
- PURPOSE:** The statute that allows this expenditure does not explicitly state a purpose. Presumably, the purpose is to treat all domestic and foreign owned cargo containers the same for administrative and perhaps legal reasons and to help Oregon ports remain competitive with Washington and California, which exempt all cargo containers.
- WHO BENEFITS:** Owners of cargo containers.
- EVALUATION:** Not evaluated.

## 2.017 LEASED DOCKS AND AIRPORTS

Oregon Statute: 307.120

Sunset Date: None

Year Enacted: 1947

2007–08 Assessed Value of Property Exempted: \$222 million

	Loss	Shift
2007–09 Revenue Impact:	\$6,600,000	\$1,000,000
2009–11 Revenue Impact:	\$7,000,000	\$1,100,000

**DESCRIPTION:** In general, when public property is held under contract of sale or is leased to a private individual or business, it is considered taxable. However, public dock property that is used for berthing ships or barges, or handling, loading, and unloading cargo from ships, or cleaning or decontaminating agricultural cargo is exempt from property tax. Dock property that is leased by a private entity and used for storage of cargo that is in transshipment is assessed an in-lieu of tax payment as long as there is no change to the cargo. Dock property that is leased or used for any other purpose is not exempt.

Each year, the lessee must file an application with the county assessor to claim the exemption. Port district or city-owned airport property that serves a population of fewer than 300,000 and is leased and used by private individuals remains exempt as long as rent proceeds are used for airport maintenance.

**PURPOSE:** The statute that allows this expenditure does not explicitly state a purpose. Presumably, the purpose is to exempt public dock and airport properties that are leased or rented, making them more competitive with other states.

**WHO BENEFITS:** The lessees of dock and airport properties benefit from this provision. Exempt properties are located in 13 counties.

**IN LIEU:** An in-lieu tax of one-quarter of 1 percent of real market value is assessed for these properties, and is distributed to school districts.

**EVALUATION:** *by the Economic and Community Development Department*

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. Increased economic activity due to this exemption may compensate for this tax shift by increasing other local and state tax collections, and by supporting the upkeep and utilization of port infrastructure and local airports in smaller communities.

## 2.018 LEASED PUBLICLY OWNED SHIPYARD PROPERTY

Oregon Statute: 307.111  
Sunset Date: 06-30-10  
Year Enacted: 1995

2007–08 Assessed Value of Property Exempted: \$0

	Loss	Shift
2007–09 Revenue Impact:	\$0	\$0
2009–11 Revenue Impact:	\$0	\$0

**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:** The statute that allows this expenditure does not explicitly state a purpose. Presumably, the purpose was to promote the Port of Portland shipyard by making it more competitive with other shipyards for contracting ship repair and construction work.

**WHO BENEFITS:** Port of Portland sold its shipyard to a private company in 2000 and no longer benefits from this exemption.

**EVALUATION:** *by the Economic and Community Development Department*  
This exemption appeared to be effective. Using this exemption as a negotiating tool, the Port of Portland successfully leased its shipyard property despite strong competition from shipyard properties outside Oregon.

## 2.019 SHIP REPAIR FACILITY MATERIALS

Oregon Statute: 308.256(7)  
Sunset Date: None  
Year Enacted: 1957

2007–08 Assessed Value of Property Exempted: Included in 2.014, Inventory

	Loss	Shift
2007–09 Revenue Impact:	Included in 2.014	Included in 2.014
2009–11 Revenue Impact:	Included in 2.014	Included in 2.014

**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

Property Tax  
Full Exemption

assessment if documentary proof of qualification for exemption is provided before April 1.

The value of watercraft under construction or undergoing major remodeling is also exempt, as described in tax expenditure 2.113, Watercraft Locally Assessed.

- PURPOSE:** The statute that allows this expenditure does not explicitly state a purpose. Presumably, the purpose is to help Oregon shipyards compete with shipyards in other states.
- WHO BENEFITS:** This exemption predates the tax expenditure for 2.014, Inventory, exemption. Most, if not all, of the material exempted by this statute would probably be considered inventory.
- EVALUATION:** Not evaluated.

**2.020 AIRCRAFT BEING REPAIRED**

Oregon Statute: 308.559  
Sunset Date: None  
Year Enacted: 1995

2007–08 Assessed Value of Property Exempted: \$0

	Loss	Shift
2007–09 Revenue Impact:	\$0	\$0
2009–11 Revenue Impact:	\$0	\$0

- DESCRIPTION:** Aircraft owned by an air transportation company are exempt from property tax during the time the aircraft are undergoing “major work.” Major work includes scheduled maintenance, repairs, renovation, and conversion in which the total labor expended for the work exceeds 10 hours.
- The Oregon value of an airline company is normally determined by calculating the value of the entire company. The Oregon portion of that value is then determined by an allocation formula that takes into account the number of Oregon departures, number of hours in Oregon, and the amount of Oregon cargo. This exemption reduces the number of hours an aircraft is in Oregon in the allocation formula, and thus reduces the Oregon property value for an airline doing aircraft repair in Oregon.
- PURPOSE:** The statute that allows this expenditure does not explicitly state a purpose. Presumably, the purpose is to promote the aircraft repair industry in Oregon.
- WHO BENEFITS:** Airline companies that repair aircraft in Oregon are potential beneficiaries, although no such company is using this provision at the moment.
- EVALUATION:** *by the Economic and Community Development Department*
- 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.

## 2.021 RAILROAD CARS BEING REPAIRED

Oregon Statute: 308.665  
Sunset Date: None  
Year Enacted: 1973

2007-08 Assessed Value of Property Exempted: \$0

	Loss	Shift
2007-09 Revenue Impact:	\$0	\$0
2009-11 Revenue Impact:	\$0	\$0

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

**PURPOSE:** The statute that allows this expenditure does not explicitly state a purpose. Presumably, the purpose is 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:** *by the Economic and Community Development Department*

This expenditure may reduce the disadvantage to using Oregon sites for rail car repair compared to other potential, readily available railcar repair sites in the United States. This makes Oregon marginally more competitive with such areas. The expenditure might probably slightly increase the number of railcars repaired in Oregon.

## 2.022 FEDERAL LAND UNDER RECREATION FACILITY

Oregon Statute: 307.182  
Sunset Date: 06-30-2012  
Year Enacted: 1975

2007-08 Assessed Value of Property Exempted: \$53 million

	Loss	Shift
2007-09 Revenue Impact:	\$1,100,000	\$200,000
2009-11 Revenue Impact:	\$1,200,000	\$200,000

**DESCRIPTION:** In general, when public property is held under contract of sale or is leased to a private individual or business, it is considered taxable. This provision ensures that federal

Property Tax  
Full Exemption

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:** The statute that allows this expenditure does not explicitly state a purpose. Presumably, the purpose is to avoid the difficulty of valuing the property with its restrictions.

**WHO BENEFITS:** The operators of recreational facilities that operate under permit on federal land benefit from this exemption.

**IN LIEU:** Recreational facilities pay for the permits to use land. Twenty-five percent of the fees paid to the Forest Service is shared with counties.

**EVALUATION:** *by the Economic and Community Development Department*

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. Moreover, exceptional legal complexities might attend efforts to assess taxes on land effectively still under federal ownership and control. Nevertheless, the Federal Forest Task Force that met during 2008 recommended repeal of this exemption.

## 2.023 DEFENSE CONTRACTOR WITH FEDERAL PROPERTY

Oregon Statute: 307.065

Sunset Date: None

Year Enacted: 1965

2007–08 Assessed Value of Property Exempted: \$0

	Loss	Shift
2007–09 Revenue Impact:	\$0	\$0
2009–11 Revenue Impact:	\$0	\$0

**DESCRIPTION:** Property that is owned by the federal government and is in the possession of a private contractor upon an agreement with an Armed Forces agency is exempt from property tax. The property must be in use under a federal defense or space contract to assemble or manufacture a product.

**PURPOSE:** The statute that allows this expenditure does not explicitly state a purpose. Presumably, the purpose is to clarify that this property is not taxable because of its federal ownership status and to help promote the defense industry in Oregon.

**WHO BENEFITS:** Defense and space contractors are potential beneficiaries, although no such company is using this provision at the moment.

EVALUATION: *by the Economic and Community Development Department*

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.

## 2.024 FEDERAL LAND UNDER SUMMER HOMES

Oregon Statutes: 307.183 and 307.184

Sunset Date: None

Year Enacted: 1975

2007–08 Assessed Value of Property Exempted: \$43 million

	Loss	Shift
2007–09 Revenue Impact:	\$900,000	\$200,000
2009–11 Revenue Impact:	\$1,000,000	\$200,000

DESCRIPTION: In general, when public property is held under contract of sale or is leased to a private individual or business, it is consider taxable. However, the *land* under summer homes that is owned by the Forest Service or Bureau of Land Management and used by permit or lease is exempt from property tax. The summer home, other buildings or structures and improvements to the land (water or septic systems, electric service and landscaping) are all taxable to the lessee.

PURPOSE: The statutes that allow this expenditure do not explicitly state a purpose. Presumably, the purpose is to avoid the difficulty of valuing the property with its restrictions.

WHO BENEFITS: Owners of summer homes on federal land.

EVALUATION: Not evaluated. The Federal Forest Task Force that met during 2008 recommended repeal of this exemption.

## 2.025 HOUSING AUTHORITY RENTAL UNITS

Oregon Statute: 307.092

Sunset Date: None

Year Enacted: 1937

2007–08 Assessed Value of Property Exempted: \$646 Million

	Loss	Shift
2007–09 Revenue Impact:	\$19,300,000	\$3,000,000
2009–11 Revenue Impact:	\$20,900,000	\$3,200,000

- DESCRIPTION:** Property that is owned or leased by housing authorities is exempt from all state and local taxes and special assessments. Property held in a partnership with private partners is also exempt so long as the housing authority is the general partner or manager of the property, and the property is used for housing low-income persons. Housing authorities are public corporations at the city or county level created under ORS 456.055. They provide affordable housing services to low-income individuals and families.
- The housing authority must file an application with the county assessor to claim the exemption on property that it leases from an exempt owner. However, no application is required to claim the exemption if the housing authority owns the property or leases the property from a taxable owner.
- PURPOSE:** The exemption recognizes housing authority property as “public property used for essential public and governmental purposes” (ORS 307.092) and gives it the same exempt status as other public property. The exemption also facilitates authorities providing lower rents to low income renters.
- WHO BENEFITS:** Approximately 1,600 properties received this exemption.
- 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:** *by the Housing and Community Services Department*
- This expenditure achieves its purpose. Based on research, this statute was required in the beginning ( in, or along with, the federal Housing Act of 1937. Oregon's first housing authority was chartered in 1938) by the federal government of the states that wanted to contract with the federal government for housing development dollars. Since then, the exemption has proven to be a critical component of housing authorities' ability to provide housing affordable to very low-income tenants. The exemption has been extensively used and heavily relied upon to allow housing authorities to provide more units of housing and units at more affordable rates to very low income tenants.
- The exemption achieves affordable rents in the following two ways. First, approximately 50 percent of housing authority tenants pay a rent of 30 percent of their income. That is the maximum they can pay under federal law in public housing—that is, federally subsidized, housing authority owned housing. The balance of their rent is paid by the federal government through the housing authority. Tenant rent cannot be increased if the cost of their housing unit is increased. The benefit of



the property tax exemption in these units is that the housing authorities can make more units available to a larger number of tenants than if there were no exemption.

Second, approximately 50 percent of the tenants live in housing owned by housing authorities but not subsidized by the old federal public housing subsidies. Instead, this housing has been financed through a mix of commercial loans and “off market” financing sources including federal low income housing tax credits, the Oregon Housing Fund, and the property tax exemption. In these housing developments, rent is not restricted to 30 percent of income. Even though the tenants are low income, their rents are directly related to construction and operating costs. The property tax exemption is a substantial part of making these units affordable to low-income households.

The people who benefit from this expenditure have average household incomes of approximately \$8,000 annually, and many have little or no income at all. Clearly, fewer of them would have affordable housing, and some no housing at all, without this exemption. This exemption successfully achieves its purpose. The process for providing the exemption is very straightforward and easily administered; upon demonstration of a housing authority’s qualifying relationship to a given piece of property, the exemption is granted. It is unlikely that local jurisdictions would prefer to collect taxes and use them in a direct spending program to achieve the low-income housing development that this exemption make possible. The exemption is also the most fiscally effective means of achieving its purpose.

## 2.026 NONPROFIT ELDERLY HOUSING STATE FUNDED

Oregon Statute: 307.242

Sunset Date: None

Year Enacted: 1977

2007–08 Assessed Value of Property Exempted: \$72 million

	Total Paid by State
2007–09 Revenue Impact:	\$2,100,000
2009–11 Revenue Impact:	\$2,300,000

### DESCRIPTION:

Homes for the elderly built or acquired after January 1, 1977, by private nonprofit corporations (defined in ORS 307.375) that receive subsidies under certain federal and state housing programs are exempt from property taxation. Only the land and improvement value, not personal property, may be exempted. The corporation may not charge more than one month’s rent as a “move-in” fee or deposit, and rents must reflect the property tax savings. The occupants do not qualify for the veteran’s exemption or homestead tax relief. If the corporation receives a state subsidy, any property added after January 1, 1990, is not eligible for exemption.

Any taxes exempted under this provision are billed to the 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

Property Tax  
Full Exemption

are prorated to the appropriation amount. In the event that this proration is necessary, it will result in a tax loss to the taxing districts. For 2007-08, the payments made by the state totaled approximately \$1.3 million.

A claim must be filed with the county assessor. The assessor assesses the property as if no exemption existed. However, the taxes are paid by the state.

**PURPOSE:** To “assist private nonprofit corporations to provide permanent housing, recreational and social facilities, and care to elderly persons” (ORS 307.241).

**WHO BENEFITS:** Residents of exempted homes who pay lower rent as a result of the home not paying property tax. Twelve counties have homes receiving this exemption.

**EVALUATION:** *by the Housing and Community Services Department*

Generally, this expenditure appears to achieve its purpose. The effect of the state-funded tax relief is to reduce housing project operating expenses, thereby reducing the rents to project occupants. Tenants otherwise would have to support the property taxes through the monthly rent they pay. The average monthly rent reduction is about \$40 per unit. This may have been significant figure when the program was conceived, but represents less than 10 percent of current comparable apartment (only) rent or approximately 2 percent of assisted living monthly costs.

Because eligible project sponsorship or ownership is limited to nonprofit corporations, it is assumed the full benefit of the tax relief is passed on to the project tenants. This assumption cannot be confirmed as no mechanism is in place to monitor project operating budgets to ensure this result.

It is also assumed that the elderly households that reside in eligible housing projects have limited incomes that warrant the benefit of this rent reduction. There is no review that confirms this assumption.

The current annual application process is very time-consuming and involves a minimum of six separate steps each year. The administrative steps for county government include: 1) mail applications to each qualifying nonprofit, 2) verify information received from each applicant, 3) provide a copy of the information to the Department of Revenue, 4) notify applicant of approval/denial, 5) send tax statements and certification letter to the Department of Revenue for payment, and 6) notify applicant that the taxes have been paid. An alternative to the annual application could be a statement of compliance from the qualifying nonprofit, if verification is required.

An alternate means to provide an equal benefit to the project residents would be a rent subsidy program. Administration of a rent subsidy program would be more administratively burdensome than the existing subsidy, however.

A direct property tax exemption may be a more efficient means to provide a like benefit to the project tenants. However, local taxing districts (such as cities and schools) would not receive compensating income if a direct property tax exemption were implemented in lieu of the tax relief program. This revenue loss would be relatively small when considered in the context of the overall scope of exemptions and special assessments.

## 2.027 FARM LABOR HOUSING AND DAY CARE FACILITIES

Oregon Statute: 307.485

Sunset Date: None

Year Enacted: 1973

2007–08 Assessed Value of Property Exempted: \$16 million

	Loss	Shift
2007–09 Revenue Impact:	\$300,000	\$100,000
2009–11 Revenue Impact:	\$300,000	\$100,000

**DESCRIPTION:** Eligible camps for farm laborers and eligible day care facilities operated in conjunction with those camps are exempt from property tax. An eligible camp is a place where housing, sleeping places, or camping grounds are owned or operated by a nonprofit corporation in compliance with applicable health and fire safety codes. An eligible child care facility is certified by the Child Care Division of the Employment Department, and owned or operated by a nonprofit corporation and operated in conjunction with an eligible farm labor camp. Housing can be provided to agricultural workers not currently employed if employed when work is available. Housing can also be for workers' immediate families.

A claim for the exemption must be made each year with the county assessor. The assessor, in turn, forwards copies of the claim to the Department of Revenue, the State Fire Marshal, Children's Services Division, and the local health officer for verification of compliance. A health inspection of the housing must be made each year.

**PURPOSE:** The statute that allows this expenditure does not explicitly state a purpose. Presumably, the purpose is to encourage provision of low-cost housing and day care for farm workers.

**WHO BENEFITS:** Nonprofit owners and operators of farm labor housing and associated day care facilities. In 2007-08, counties reported 38 exempt farm labor housing properties in six counties, most are located in Umatilla or Washington counties.

**IN-LIEU:** In-lieu of real and personal property taxes, the nonprofit corporation owning or operating the exempt farm labor housing must make annual payments to the county treasurer equal to 10 percent of net rental income for the previous year.

Nonprofit corporations operating farm labor housing do not usually have a net rental income after depreciation, and generally make no in-lieu of tax payments. When payments are made, they are usually small. Any funds collected are distributed to taxing districts where the exempt property is located.

**EVALUATION:** *by the Housing and Community Services Department*

This expenditure achieves its purpose. Without the tax exemption, the associated day care facilities may not be built or rehabilitated at all. Assuming that the difference between (a) the amount of property taxes that would be owed without this statute and (b) the amount of the payment in-lieu of taxes that in fact is paid under the statute is passed along to the residents, then the benefit of the tax expenditure is easily calculated by the amount of the reduced rent or day care cost.

While an administrative improvement would be to eliminate the requirement that an application be filed every year, it is probably the trigger mechanism needed for the annual health and safety inspections.

## 2.028 FAIRGROUND LEASED STORAGE SPACE

Oregon Statute: 307.110(3)(d)(e)

Sunset Date: None

Year Enacted: 1987

2007–08 Assessed Value of Property Exempted: Minimal

	Loss	Shift
2007–09 Revenue Impact:	Less than \$50,000	Less than \$50,000
2009–11 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 are exempt from property tax if they are used for certain purposes in addition to county fair use. Usage described in ORS 565.230(2) (exhibitions, shows, carnivals, circuses, dances, entertainments or public gatherings), storage of recreational vehicles or farm machinery and equipment and use of horse stalls qualify.

While leasing storage space for livestock and equipment at fairgrounds is common, the duration of the leases are short enough and the sizes of space being leased small enough to make the revenue impact minimal.

**PURPOSE:** The statute that allows this expenditure does not explicitly state a purpose. Presumably, the purpose is to promote fairs by allowing fair boards to earn more revenue throughout the off-season to support fairs. Boards can charge higher rent because the renter pays no property taxes.

**WHO BENEFITS:** All 36 counties in Oregon hold county fairs, 34 counties have fairgrounds and most of those benefit from this exemption. The State Fair does not have any leased property that is exempt under this statute. Since assessment date is January 1, only property leased at that time would benefit.

**EVALUATION:** Not evaluated.

## 2.029 INDUSTRY APPRENTICESHIP/TRAINING TRUST

Oregon Statute: 307.580

Sunset Date: None

Year Enacted: 1983

2007–08 Assessed Value of Property Exempted: \$12 million

	Loss	Shift
2007–09 Revenue Impact:	\$300,000	\$100,000
2009–11 Revenue Impact:	\$300,000	\$100,000

**DESCRIPTION:** All real and personal property owned, held under contract of sale, 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, Apprenticeship and Training; and
- The property is used exclusively and actively in training; and
- 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:** The statute that allows this expenditure does not explicitly state a purpose. Presumably, the purpose is to provide equity between training trusts and other private schools. Trusts cannot qualify for an exemption under other statutes because they are not incorporated and are prevented from doing so by federal regulation. Many skilled labor occupations require an apprenticeship period in order to obtain a license in Oregon, and apprenticeship trusts provide training often unavailable at traditional schools.

**WHO BENEFITS:** The exemption lowers the cost of operation to the apprenticeship trusts.

**EVALUATION:** Not evaluated.

### 2.030 BUSINESSES TRANSFERRING OR LEASING PROPERTY

Oregon Statute: note following 285C.175  
Sunset Date: 06-30-2016  
Year Enacted: 2007 (SB 151)

2007–08 Assessed Value of Property Exempted: Included in 2.010, Enterprise Zone Businesses

	Loss	Shift
2007–09 Revenue Impact:	Included in 2.010	Included in 2.010
2009–11 Revenue Impact:	Included in 2.010	Included in 2.010

**DESCRIPTION:** The property of a business firm that engages in business activities or operations resulting from a transfer or lease of real property between the business firm and a public body is exempt from property taxation under the enterprise zone law if at the time of the transfer or lease of real property the following conditions are met:

- Business activities or operations of a firm are located in a city that has population between 2,500 and 5,500 people; and
- The enterprise zone is located in a county that has population between 6,000 and 9,000 people.

**PURPOSE:** “To stimulate and protect economic success [in those communities at the center of or outside major metropolitan areas for which geography may act as an economic hindrance] by providing tax incentives for employment, business, industry and commerce and by providing adequate levels of complementary assistance to community strategies for such interrelated goals as environmental protection, growth management and efficient infrastructure.” (ORS 285C.055).

**WHO BENEFITS:** Businesses within enterprise zones in two cities meeting statute qualifications – Burns in Harney county and Lakeview in Lake county. As of July 2008, no business qualified for this exemption.

**EVALUATION:** Not evaluated.

### 2.031 FOOD PROCESSING EQUIPMENT

Oregon Statute: 307.455, 307.462  
Sunset Date: 06-30-2011  
Year Enacted: 2005, Modified in 2007 (HB 3201)

2007–08 Assessed Value of Property Exempted: \$62 million

	Loss	Shift
2007–09 Revenue Impact:	\$2,100,000	\$300,000
2009–11 Revenue Impact:	\$2,700,000	\$400,000

**DESCRIPTION:** Newly acquired machinery or equipment used by food processing businesses is exempt from property taxation for five years. The machinery or equipment may be either new or used, as long as it is newly acquired by the food processor.

Food processing businesses are those that freeze, can, dehydrate, concentrate, preserve, process or repack fruit, vegetables, nuts legumes, or seafood in any procedure that occurs before to sale by the processor. Equipment used for egg processing was added to the exemption under ORS 307.462 in 2007, although this addition is limited by the approval of taxing district. Producers of alcoholic beverages are ineligible. Qualified machinery is certified by the Oregon Department of Agriculture.

**PURPOSE:** “The Legislative Assembly declares that a property tax exemption for qualified real property machinery and equipment encourages continued operation and expansion of the food processing industry in this state.” (ORS 307.453).

**WHO BENEFITS:** Food processors that acquire machinery and equipment. Approximately 30 businesses per year utilize this exemption.

**EVALUATION:** *by the Department of Agriculture*

Oregon small to mid size food processors are at a competitive disadvantage in a world marketplace with many large retail buyers. This incentive helps offset costs and aids in economic retention, development, and competitiveness of Oregon based food processors and related jobs.

## 2.032 FARM MACHINERY AND EQUIPMENT (PROPERTY TAX)

Oregon Statute: 307.394

Sunset Date: None

Year Enacted: 1973

2007–08 Assessed Value of Property Exempted: \$2.7 billion

	Loss	Shift
2007–09 Revenue Impact:	\$55,800,000	\$10,700,000
2009–11 Revenue Impact:	\$60,400,000	\$11,600,000

**DESCRIPTION:** Machinery and equipment classified as personal property and used in farm operations involving crops, livestock, poultry, fur-bearing animals, bees, dairying, animal husbandry, or other agricultural or horticultural products are exempt from property tax.

The revenue impacts of the tax expenditures for 2.033, Mobile Field Incinerators, 2.040, Center Pivot Irrigation Equipment, 2.041, Other Farm/Aquaculture/Egg Equipment, and 2.042, Field Burning Smoke Management Equipment, are included here.

**PURPOSE:** The statute that allows this expenditure does not explicitly state a purpose. Presumably, the purpose is 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:** *by the Department of Agriculture*

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

Property Tax  
Full Exemption

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.

### 2.033 MOBILE FIELD INCINERATORS

Oregon Statute: 307.390

Sunset Date: None

Year Enacted: 1971

2007–08 Assessed Value of Property Exempted: Included in 2.032, Farm Machinery and Equipment (Property Tax)

	Loss	Shift
2007–09 Revenue Impact:	Included in 2.032	Included in 2.032
2009–11 Revenue Impact:	Included in 2.032	Included in 2.032

**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 tax expenditure 2.032, Farm Machinery and Equipment (Property Tax).

**PURPOSE:** The statute that allows this expenditure does not explicitly state a purpose. Presumably, the purpose is 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:** *by the Department of Agriculture*  
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.



## 2.034 CROPS, PLANTS, AND FRUIT TREES

Oregon Statute: 307.320

Sunset Date: None

Year Enacted: 1957

2007-08 Assessed Value of Property Exempted: \$728 million

	Loss	Shift
2007-09 Revenue Impact:	\$15,200,000	\$2,900,000
2009-11 Revenue Impact:	\$16,400,000	\$3,200,000

**DESCRIPTION:** Deciduous trees, shrubs, plants, crops, cultured Christmas trees, and cultivated hardwood trees growing on agricultural land are exempt from local property taxation. When crops and plants are harvested and unsold as of the assessment date, they are treated as inventory subject to the exemption described in tax expenditure 2.014, Inventory. Agricultural products held for use in farming operations are exempt as described in tax expenditure 2.035, Agricultural Products Held by the Farmer.

**PURPOSE:** The statute that allows this expenditure does not explicitly state a purpose. Presumably, the purpose is to improve the financial viability of agriculture by reducing the property tax burden and to ease administration by eliminating the filing of personal property tax returns for farmers.

**WHO BENEFITS:** Owners of deciduous trees, shrubs, plants, crops, cultured Christmas trees, and cultivated hardwood trees growing on agricultural land. Oregon has about four million acres of harvested cropland. About two thirds of that acreage is used for production of grains or hay. The remainder is in tree fruit or berry production as perennial crops, or annual crops.

**EVALUATION:** *by the Department of Agriculture*

This exemption is accomplishing its purpose. Commodities of this nature represent standing crop inventory or perennial stock, 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.

## 2.035 AGRICULTURAL PRODUCTS HELD BY THE FARMER

Oregon Statute: 307.325

Sunset Date: None

Year Enacted: 1965

2007-08 Assessed Value of Property Exempted: \$3 million

	Loss	Shift
2007-09 Revenue Impact:	\$100,000	Less than \$50,000
2009-11 Revenue Impact:	\$100,000	Less than \$50,000

Property Tax  
Full Exemption

**DESCRIPTION:** Agricultural products in the possession of the farmer who produced them or acquired them for use in the farm operation are exempt from property tax. These products are grain, seed, hay, fruit, vegetables, nuts, hops, wool, fish, livestock, fur-bearing animals, bees, poultry, butter, cheese, milk (evaporated, condensed or concentrated), mint, bivalve mollusks, and vermiculture supplies and products.

Most products held by farmers are considered inventories because they are being held for ultimate sale and are exempt under tax expenditure 2.014, Inventory. This provision exempts those products not covered by the inventory exemption if they are held for use on the farm rather than for ultimate sale.

**PURPOSE:** The statute that allows this expenditure does not explicitly state a purpose. Presumably, the purpose is 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 used 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:** *by the Department of Agriculture*

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.

**2.036 NURSERY STOCK**

Oregon Statute: 307.315  
Sunset Date: None  
Year Enacted: 1971

2007–08 Assessed Value of Property Exempted: \$333 million

	Loss	Shift
2007–09 Revenue Impact:	\$7,000,000	\$1,300,000
2009–11 Revenue Impact:	\$7,500,000	\$1,500,000

**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:** The statute that allows this expenditure does not explicitly state a purpose. Presumably, the purpose is to improve the financial viability of the nursery industry by reducing the property tax burden.

**WHO BENEFITS:** About 2,000 farms in Oregon growing nursery crops. Most of these farms are in Western Oregon, concentrated in the Willamette Valley.

**EVALUATION:** *by the Department of Agriculture*

This tax expenditure is accomplishing its purpose. The exemption of nursery stock is consistent with the exemption provided for other farm commodities described in tax expenditure 2.034, Crops, Plants, and Fruit Trees, and with the exemption of inventories in nonagricultural industries described in tax expenditure 2.014, Inventory. 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.

## 2.037 LEASED STATE AND LOCAL FARMING AND GRAZING LAND

Oregon Statute: 307.110(3)(b)

Sunset Date: None

Year Enacted: 1971

2007-08 Assessed Value of Property Exempted: Included in 2.071, State and Local Property

	Loss	Shift
2007-09 Revenue Impact:	Included in 2.071	Included in 2.071
2009-11 Revenue Impact:	Included in 2.071	Included in 2.071

**DESCRIPTION:** In general, when public property is held under contract of sale or is leased to a private individual or business, it is considered taxable. However, land owned by state or local government that is 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 property taxes. 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 (Oregon Laws, 1971, Chapter 431).

**PURPOSE:** The statute that allows this expenditure does not explicitly state a purpose. Presumably, the purpose is to provide property tax relief to farmers and livestock owners, and to avoid the difficulty of valuing the property with its restrictions.

**WHO BENEFITS:** Farmers and ranchers who lease state and local land. The expenditure also benefits state and local governments, who in exchange receive land maintenance, which may be more valuable than the potential rent due to other management issues associated with small, isolated parcels.

**EVALUATION:** *by the Department of Agriculture*

This expenditure effectively achieves its purpose. It produces benefits to local communities through the increased economic activities associated with the livestock industry. The increased economic activities provide additional tax resources for Eastern Oregon counties, and the grazing leases provide revenue to the School Trust Fund.

Without this expenditure, it is likely that costs would exceed benefits due to the substantial costs needed to administer the lands in comparison to the returns to the state. Additionally, this exemption may avoid an issue of “double taxation” since part of the grazing lease income to the state is shared with local governments.

### 2.038 LEASED FEDERAL GRAZING LAND

Oregon Statute: 307.060  
Sunset Date: None  
Year Enacted: 1961

2007–08 Assessed Value of Property Exempted: Included in 2.085, Federal Property

	Loss	Shift
2007–09 Revenue Impact:	Included in 2.085	Included in 2.085
2009–11 Revenue Impact:	Included in 2.085	Included in 2.085

- DESCRIPTION:** In general, when public property is held under contract of sale or is leased to a private individual or business, it is considered taxable. However, federal land leased primarily for agricultural purposes from a federal wildlife conservation agency or used primarily for livestock grazing is exempt from local property taxation. The Bureau of Land Management and the Forest Service establish grazing fees based on animal unit months (AUM) rather than acres. An animal unit month is defined as the amount of forage needed to sustain one cow for one month. Part of the fee income paid to the federal government is shared with local governments.
- PURPOSE:** The statute that allows this expenditure does not explicitly state a purpose. Presumably, the purpose is 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.
- EVALUATION:** Not evaluated.

### 2.039 SHELLFISH GROWING ON STATE LAND

Oregon Statute: 622.290  
Sunset Date: None  
Year Enacted: 1969

2007–08 Assessed Value of Property Exempted: \$1 million

	Loss	Shift
2007–09 Revenue Impact:	Less than \$50,000	Less than \$50,000
2009–11 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, clams, and mussels under permit from the Department of Agriculture is exempt from local property taxation. Annual cultivation fees and use taxes are paid in-lieu of property taxes and lease fees. For 2007, there was approximately \$1.9 million in oyster production on 15,000 acres.
- PURPOSE:** The statute that allows this expenditure does not explicitly state a purpose. Presumably, the purpose is to encourage shellfish production and to avoid the difficulty of valuing the property with its restrictions.

**WHO BENEFITS:** Shellfish growers using state-owned land. State land is leased for growing in Coos, Douglas, Lincoln, and Tillamook counties. Commercial 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 \$19,666 in fees in 2007. The in-lieu fees were for leasing 14,604 acres and producing 52,772 total gallons of oysters. The fees support the department’s oversight of the oyster leasing program.

**EVALUATION:** Not evaluated.

## 2.040 CENTER PIVOT IRRIGATION EQUIPMENT

Oregon Statute: 307.398  
Sunset Date: None  
Year Enacted: 1973

2007–08 Assessed Value of Property Exempted: Included in 2.032, Farm Machinery and Equipment (Property Tax)

	Loss	Shift
2007–09 Revenue Impact:	Included in 2.032	Included in 2.032
2009–11 Revenue Impact:	Included in 2.032	Included in 2.032

**DESCRIPTION:** Center pivot irrigation equipment used in farm operations is exempt from property taxation. The revenue impact for this tax expenditure is contained in 2.032, Farm Machinery and Equipment (Property Tax).

**PURPOSE:** The statute that allows this expenditure does not explicitly state a purpose. Presumably, the purpose is 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:** *by the Department of Agriculture*  
See evaluation for 2.032, Farm Machinery and Equipment (Property Tax).

Property Tax  
Full Exemption

## 2.041 OTHER FARM / AQUACULTURE / EGG EQUIPMENT

Oregon Statute: 307.397  
Sunset Date: None  
Year Enacted: 1973

2007–08 Assessed Value of Property Exempted: Included in 2.032, Farm Machinery and Equipment (Property Tax)

	Loss	Shift
2007–09 Revenue Impact:	Included in 2.032	Included in 2.032
2009–11 Revenue Impact:	Included in 2.032	Included in 2.032

**DESCRIPTION:** Certain machinery and equipment used in farm operations is exempt from property taxation. Under this section of statute, the following are exempt:

- Frost control systems
- Trellises for hops and other agricultural purposes
- Hop harvesting equipment
- In-water racks and other equipment for raising bivalve mollusks
- Equipment used in production and preparation of eggs for market

The revenue impact for this provision is included under 2.032, Farm Machinery and Equipment (Property Tax).

**PURPOSE:** The statute that allows this expenditure does not explicitly state a purpose. Presumably, the purpose is 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:** *by the Department of Agriculture*

See evaluation for 2.032, Farm Machinery and Equipment (Property Tax).

## 2.042 FIELD BURNING SMOKE MANAGEMENT EQUIPMENT

Oregon Statute: 307.391  
Sunset Date: None  
Year Enacted: 1973

2007–08 Assessed Value of Property Exempted: Included with 2.032, Farm Machinery and Equipment (Property Tax)

	Loss	Shift
2007–09 Revenue Impact:	Included with 2.032	Included with 2.032
2009–11 Revenue Impact:	Included with 2.032	Included with 2.032

**DESCRIPTION:** Radio communications equipment, meteorological equipment, or other tangible personal property used in connection with the operation of the field burning smoke management program (administered by the Oregon Department of Agriculture) is exempt from property taxation. The goal of the smoke management program is to

offer maximum opportunities for open field burning, propane flaming, and stack burning with minimal smoke impacts on the public. The field burning equipment itself would be exempt under tax expenditure 2.032, Farm Machinery and Equipment (Property Tax), as long as the burning was conducted for the purpose of soil maintenance for farming use.

- PURPOSE:** The statute that allows this expenditure does not explicitly state a purpose. Presumably, the purpose is to reduce the cost of ownership of equipment used in conjunction with the field burning smoke management program.
- WHO BENEFITS:** All farmers who own the specified equipment receive benefits from this provision. Roughly 160 farmers burn fields; and at a minimum they are required to have a radio to receive burning information.
- EVALUATION:** *by the Department of Agriculture*  
See evaluation for 2.032, Farm Machinery and Equipment (Property Tax).

## 2.043 NONPROFIT SEWAGE TREATMENT FACILITIES

Oregon Statute: 307.118  
Sunset Date: None  
Year Enacted: 1997

2007–08 Assessed Value of Property Exempted: Minimal

	Loss	Shift
2007–09 Revenue Impact:	Less than \$50,000	Less than \$50,000
2009–11 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:** The statute that allows this expenditure does not explicitly state a purpose. Presumably, the purpose is to assist nonprofit sewage treatment facilities.
- WHO BENEFITS:** There appears to be one entity in the state qualified for this tax relief: the Mapleton Commercial Area Owners' Association. The beneficiaries of this legislation are the owners of the homes and businesses that are members of the Mapleton Commercial Area Owners' Association.
- EVALUATION:** *by the Department of Environmental Quality*  
This legislation provides an economic benefit for communities that elect to manage their wastewater treatment needs through formation of a nonprofit corporation. This form of organization is rare; the law covered one such organization when it was passed. Because the existing law does not cover other privately owned community

Property Tax  
Full Exemption

sewer systems in the state, such as trailer and recreational vehicle parks, it has limited applicability to Oregon businesses.

## 2.044 PROPERTY USED FOR GOLF COURSE AND EFFLUENT

Oregon Statutes: Note after 307.118

Sunset Date: 06-30-2021

Year Enacted: 2001

2007-08 Assessed Value of Property Exempted: \$2 million

	Loss	Shift
2007-09 Revenue Impact	Less than \$50,000	Less than \$50,000
2009-11 Revenue Impact	\$100,000	Less than \$50,000

**DESCRIPTION:** This property tax exemption is for a nonprofit corporation that leases land from a municipality and uses the land both as a golf course and for the discharge of wastewater or sewage effluent. This exemption originally applied only to land, but the 2003 Legislature extended the exemption to include buildings or other improvements. It allows any unpaid property taxes and interest due to be waived beginning on or after July 1, 1998. An application must have been filed with the county assessor for this tax exemption on or before July 1, 2002.

**PURPOSE:** The statute that allows this expenditure does not explicitly state a purpose. Presumably, the purpose is to provide property tax relief for wastewater or sewage treatment plants that also include golf course land leased from a municipality. Formerly, the nonprofit corporation had to own the wastewater treatment facility.

**WHO BENEFITS:** Two golf courses benefit from this exemption. One of the golf courses is in Douglas County; the other is in Deschutes County.

**EVALUATION:** Not evaluated.

## 2.045 RIPARIAN LAND

Oregon Statute: 308A.362

Sunset Date: None

Year Enacted: 1981

2007-08 Assessed Value of Property Exempted: \$5 million

	Loss	Shift
2007-09 Revenue Impact:	\$100,000	Less than \$50,000
2009-11 Revenue Impact:	\$100,000	Less than \$50,000

**DESCRIPTION:** Land designated as riparian land by the State Department of Fish and Wildlife is exempt from property taxation. Riparian land is privately-owned stream beds and the land under adjacent vegetation influenced by the proximity to water, but which does not extend more than 100 feet from the stream bank. The 1981 Legislature declared



“it is in the best interest of the state 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.”

The following types of designated riparian land qualify for the exemption:

- Lands located outside urban growth boundaries and zoned as forest or agricultural (including range land) in compliance with statewide planning goals.
- Lands that were outside an urban growth boundary (UGB) and zoned as forest or agricultural (including range land) as of July 1, 1997, but are no longer outside an UGB or so zoned. The landowner must apply for riparian designation within five years of the change.
- Lands within city and urban growth boundaries may qualify if the city and county authorize the exemption (ORS 308A.360).

The Department of Fish and Wildlife can designate land as riparian habitat land if the owner has developed and implemented a plan for continued protection of the land using approved rehabilitation techniques. The department cannot approve more than 200 miles (increased from 100 miles in 1997) of private stream bank in any one county per year.

The exemption continues until withdrawn by the owner or use is incompatible with riparian use. Upon withdrawal or disqualification, an additional tax equal to the sum of the tax benefit for each year exempt (up to five years) is due.

The exempt value is based on farm use assessed value as the alternative to riparian exemption. When land is specially assessed as farm, forest, or open space before riparian designation, any additional tax for a change in designation to riparian is abated.

**PURPOSE:** To “prevent the forced conversion of riparian environments to more intensive uses as a result of economic pressures caused by the assessment of those lands....at values incompatible with their protection as riparian lands and that tax exemption must be granted to permit the continued availability of riparian environments...” (ORS 308A.353).

**WHO BENEFITS:** Owners of land that has been designated by the Department of Fish and Wildlife as riparian land.

As of August 2008, the Department of Fish and Wildlife had enrolled 1,269.41 acres (158 landowners) in the program along roughly 91 miles of streams.

**EVALUATION:** *by the Department of Fish and Wildlife*

This expenditure, as amended in Oregon Laws 1997, Chapter 811, Section 2, may be more effective than it was previously. However, the usage and related expenditure data are not conclusive.

With the 1997 statute changes and increased efforts to save Oregon salmon runs, the Riparian Habitat Land Exemption has become more widely used, but a number of features of the provision may limit its effectiveness. First, the land that qualifies for the exemption is already taxed at relatively low levels as farm or forest land, so the exemption provides a relatively small reduction in taxes. Second, the program limits the amount of new riparian land that can be certified annually before July 1, 2004, to no more than 200 miles of stream bank per county. Removing the latter restriction

Property Tax  
Full Exemption

and modifying the provisions to allow for larger tax reductions could make the program more effective but at a higher cost. The 2001 legislative change to allow participation by cities could significantly increase participation in the program. This has not occurred however, as none of the cities and counties have adopted enabling ordinances.

## 2.046 ENVIRONMENTALLY SENSITIVE LOGGING EQUIPMENT

Oregon Statute: 307.827 and 307.831

Sunset Date: 06-30-2012

Year Enacted: 1999

2007–08 Assessed Value of Property Exempted: \$119 million

	Loss	Shift
2007–09 Revenue Impact:	\$2,400,000	\$500,000
2009–11 Revenue Impact:	\$2,400,000	\$500,000

**DESCRIPTION:** Environmentally sensitive logging equipment may be exempt from property taxes if it was manufactured eight years or less before the assessment date for the tax year in which the exemption is claimed. Property exempt under this provision includes machinery and equipment that is:

- Used in logging or forest management operations; or
- Specifically designed for activities related to water quality or fish and wildlife habitat protection in the forest; or
- An excavator used in logging road maintenance, reconstruction or improvements, including the closing or obliterating of existing forest roads.

In addition, all skyline and swing yarders that are capable of full log suspension are exempt from property taxation.

**PURPOSE:** "...to facilitate the transition of older logging equipment to newer equipment designed and manufactured to be as environmentally sensitive as current technology can provide, consistent with the need to match the equipment to the specifics of the site being harvested" (ORS 307.824).

**WHO BENEFITS:** Loggers who switch to more environmentally friendly logging equipment. In 2007-08, there were 458 exemptions in 21 counties.

**EVALUATION:** *by the Department of Fish and Wildlife*

The effectiveness of this exemption has not been evaluated because its potential benefits to fish habitat are indirect. Yet log suspension in riparian zones, less ground and soil compaction and less sedimentation provide immediate improvements to aquatic habitat that fish depend on. The level of habitat improvement is expected to increase in proportion to the extent that the use of environmentally sensitive equipment replaces the use of less sensitive methods.

## 2.047 CRAB POTS

Oregon Statute: 508.270  
Sunset Date: None  
Year Enacted: 1969

2007-08 Assessed Value of Property Exempted: \$8 million

	Loss	Shift
2007-09 Revenue Impact:	\$200,000	Less than \$50,000
2009-11 Revenue Impact:	\$200,000	Less than \$50,000

- DESCRIPTION:** Crab pots used by an owner with a commercial fishing license used with a commercially licensed boat are exempt from property tax if proof of required licensing is furnished to the assessor by August 1 of the assessment year.
- PURPOSE:** The statute that allows this expenditure does not explicitly state a purpose. Presumably, the purpose is to provide tax relief to crab fishing operations. The exemption makes the treatment of crab fishing operations more consistent with those of other types of fishing.
- WHO BENEFITS:** Owners or operators of commercial crab fishing vessels. For the 2008-09 crab fishing season, owners/operators of over 400 vessels have crab permits. Approximately 150,000 crab pots are expected to be used, which is at the maximum limit set by the Oregon Fish and Wildlife Commission. This limit has been in effect since the 2006-07 crab season.
- EVALUATION:** *by the Department of Fish and Wildlife*  
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.

## 2.048 FEDERAL STANDING TIMBER UNDER CONTRACT

Oregon Statute: 307.050  
Sunset Date: None  
Year Enacted: 1965

2007-08 Assessed Value of Property Exempted: \$140 million

	Loss	Shift
2007-09 Revenue Impact:	\$2,900,000	\$600,000
2009-11 Revenue Impact:	\$2,900,000	\$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, federal standing timber is exempt from property tax even if held under a contract of sale. The volume of federal timber under contract was roughly 1,033 million board feet in the first quarter of 2008.
- PURPOSE:** The statute that allows this expenditure does not explicitly state a purpose. Presumably, taxing timber under contract would be contrary to the tax treatment of

Property Tax  
Full Exemption

private standing timber in Oregon, which under current law is treated as a crop, not as real property.

**WHO BENEFITS:** Companies buying federal standing timber for harvest. This includes both large and small companies that either do not have private timber supplies or who supplement their own supplies with federal timber.

**EVALUATION:** *by the Department of Forestry*

This expenditure is effective in achieving its purpose. It makes the treatment of federal timber under contract consistent with that of other standing timber.

## 2.049 STATE AND LOCAL STANDING TIMBER UNDER CONTRACT

Oregon Statute: 307.100

Sunset Date: None

Year Enacted: 1965

2007-08 Assessed Value of Property Exempted: \$59 million

	Loss	Shift
2007-09 Revenue Impact:	\$1,200,000	\$200,000
2009-11 Revenue Impact:	\$1,200,000	\$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, 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 348 million board feet in 2007. The volume of local timber under contract is unknown but is thought to be small.

**PURPOSE:** The statute that allows this expenditure does not explicitly state a purpose. Presumably, the purpose is to treat timber under contract like other private standing timber in Oregon, which under current law is treated as a crop, not as real property.

**WHO BENEFITS:** Companies buying state or local standing timber for harvest. This includes both large and small companies that either do not have private timber supplies or who supplement their own supplies.

**EVALUATION:** *by the Department of Forestry*

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.

## 2.050 WESTERN PRIVATE STANDING TIMBER

Oregon Statute: 321.272

Sunset Date: None

Year Enacted: 1977

2007–08 Assessed Value of Property Exempted: \$17 billion

	Loss	Shift
2007–09 Revenue Impact:	\$348,600,000	\$67,100,000
2009–11 Revenue Impact:	\$348,600,000	\$67,100,000

**DESCRIPTION:** Privately-owned standing timber in western Oregon is exempt from local property taxes. Western Oregon includes Benton, Clackamas, Clatsop, Columbia, Coos, Curry, Douglas, Hood River, Jackson, Josephine, Lane, Lincoln, Linn, Marion, Multnomah, Polk, Tillamook, Washington, and Yamhill counties.

**PURPOSE:** The statute that allows this expenditure does not explicitly state a purpose. Presumably, the purpose is to improve the financial viability of timber production by eliminating the property tax burden.

**WHO BENEFITS:** Private timber owners in western Oregon.

**EVALUATION:** *by the Department of Forestry*

Before 1977, both land and timber were taxed as property. In some cases this led to premature harvesting to lower property tax burden. To encourage holding timber to longer rotation ages, the property tax on the value of the timber was eliminated, but a yield tax on timber harvest was retained. In 1993, in recognition of the now crop nature of growing timber and the substantial investment it requires, the tax on the crop (privilege tax) was eliminated.

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.

Property Tax  
Full Exemption

## 2.051 EASTERN PRIVATE STANDING TIMBER

Oregon Statute: 321.829  
Sunset Date: None  
Year Enacted: 1961

2007–08 Assessed Value of Property Exempted: \$1.6 billion

	Loss	Shift
2007–09 Revenue Impact:	\$33,500,000	\$6,400,000
2009–11 Revenue Impact:	\$33,500,000	\$6,400,000

**DESCRIPTION:** Privately-owned standing timber in Eastern Oregon is exempt from local property taxation. Eastern Oregon includes Baker, Crook, Deschutes, Gilliam, Grant, Harney, Jefferson, Klamath, Lake, Malheur, Morrow, Sherman, Umatilla, Union, Wallowa, Wasco and Wheeler counties.

**PURPOSE:** The statute that allows this expenditure does not explicitly state a purpose. Presumably, the purpose is to improve the financial viability of timber production by eliminating the property tax burden.

**WHO BENEFITS:** Private timber owners in eastern Oregon.

**EVALUATION:** *by the Department of Forestry*

Before 1977 in Western Oregon and 1961 in Eastern Oregon, both land and timber were taxed as property. In some cases this led to premature harvesting to lower property tax burden. To encourage holding timber to longer rotation ages, the property tax on the value of the timber was eliminated, but a yield tax on timber harvests was retained. In 1993, in recognition of the now crop nature of growing timber and the substantial investment it requires, the tax on the crop (privilege tax) was eliminated.

## 2.052 PRIVATE FARM AND LOGGING ROADS

Oregon Statute: 308.236  
Sunset Date: None  
Year Enacted: 1963

2007-08 Assessed Value of Property Exempted: \$1.3 billion

	Loss	Shift
2007–09 Revenue Impact:	\$26,300,000	\$5,100,000
2009–11 Revenue Impact:	\$26,300,000	\$5,100,000

**DESCRIPTION:** Farm, grazing, and logging roads on private land are exempt from local property taxation. Exempt 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. 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.

- PURPOSE:** The statute that allows this expenditure does not explicitly state a purpose. Presumably, the purpose may have been to avoid the difficulty of putting a value on these roads, most of which are logging roads.
- 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:** Not evaluated.

## 2.053 FOREST FIRE PROTECTION ASSOCIATION

Oregon Statute: 307.125  
Sunset Date: None  
Year Enacted: 1957

2007–08 Assessed Value of Property Exempted: \$12 million

	Loss	Shift
2007–09 Revenue Impact:	\$200,000	Less than \$50,000
2009–11 Revenue Impact:	\$200,000	Less than \$50,000

- DESCRIPTION:** All property of forest protection districts, organizations, associations and agencies is exempt from property taxation if the property is used exclusively for forest protection and fire suppression under ORS Chapter 477.
- PURPOSE:** The statute that allows this expenditure does not explicitly state a purpose. Presumably, the purpose is to help keep the cost of protecting timber assets low.
- WHO BENEFITS:** Forest protection associations. Most of the property of forest protection entities has been deeded over to the Department of Forestry, and the associations work under contract or cooperative agreement with the department. Currently twelve forest protection associations exist in the state. The three largest associations operate in Douglas County, Coos and Curry counties, and northern Klamath County.
- EVALUATION:** *by the Department of Forestry*
- 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.

Property Tax  
Full Exemption

## 2.054 INACTIVE MINERAL INTERESTS

Oregon Statute: 308.115  
Sunset Date: None  
Year Enacted: 1997

2007-08 Assessed Value of Property Exempted: \$7 million

	Loss	Shift
2007–09 Revenue Impact:	\$100,000	Less than \$50,000
2009–11 Revenue Impact:	\$100,000	Less than \$50,000

**DESCRIPTION:** Mineral interests owned separately from surface interests are exempt from local property tax if the property is not being mined.

**PURPOSE:** The statute that allows this expenditure does not explicitly state a purpose. Presumably, the purpose is to eliminate the administrative burden of assessing these accounts.

**WHO BENEFITS:** Owners of mineral interests who are not actively mining those interests.

**EVALUATION:** Not evaluated.

## 2.055 LEASED STATE LAND BOARD LAND

Oregon Statute: 307.168  
Sunset Date: None  
Year Enacted: 1982

2007-08 Assessed Value of Property Exempted: \$73 million

	Loss	Shift
2007–09 Revenue Impact:	\$1,500,000	\$300,000
2009–11 Revenue Impact:	\$1,600,000	\$300,000

**DESCRIPTION:** In general, when public property is held under contract of sale or is leased to a private individual or business, it is considered taxable. However, certain land leased from the State Land Board or Department of State Lands is exempt from property taxation. Eligible land includes submerged, submersible, and grazing land but excludes mines, quarries or minerals, and buildings or improvements.

The State Land Board receives about \$3 million in gross lease revenue per year from grazing land and waterways for the Common School Fund.

**PURPOSE:** The statute that allows this expenditure does not explicitly state a purpose. Presumably, the purpose is to provide property tax relief to livestock owners and to avoid the difficulty of valuing the property with its restrictions.

**WHO BENEFITS:** Lessees benefit through reduced costs.

**EVALUATION:** *by the Department of State Lands*

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.

## 2.056 SMALL WATERCRAFT

Oregon Statute: 830.790(3)

Sunset Date: None

Year Enacted: 1959

2007-08 Assessed Value of Property Exempted: \$1.1 billion

	Loss	Shift
2007-09 Revenue Impact:	\$28,600,000	\$4,700,000
2009-11 Revenue Impact:	\$28,000,000	\$4,600,000

**DESCRIPTION:** Certain boats requiring original or renewal certificate of number or registration from the State Marine Board are paying fees that are in-lieu of any other taxes or fees. Effectively, no property taxes are imposed. An exception under this statute is boats that are centrally assessed.

**PURPOSE:** The statute that allows this expenditure does not explicitly state a purpose. Presumably, the purpose is to avoid administrative problems dealing with a very mobile property. It would be very difficult to ascertain the value of small boats, which can depreciate rapidly depending on make, model, use, and care.

**WHO BENEFITS:** As of December 2007, there were 184,147 boats registered in Oregon. Nearly 80 percent of these boats are less than 20 feet in length.

**IN-LIEU:** Fees for registration and title were \$4.7 million in 2007. Registration fees are based on a flat fee of \$3.00 per foot/two years. No fee is required for boats owned by eleemosynary organizations which are operated primarily as a part of organized activities for the purpose of teaching youths scout craft, camping, seamanship, self-reliance, patriotism, courage and kindred virtues. Boating programs are funded entirely by user fees.

**EVALUATION:** Not evaluated.

Property Tax  
Full Exemption

## 2.057 MINING CLAIMS ON FEDERAL LAND

Oregon Statute: 307.080  
Sunset Date: None  
Year Enacted: 1889

2007-08 Assessed Value of Property Exempted: \$6 million

	Loss	Shift
2007–09 Revenue Impact:	\$100,000	Less than \$50,000
2009–11 Revenue Impact:	\$100,000	Less than \$50,000

**DESCRIPTION:** Unpatented mining claims on federal property are exempt from local property taxation. Any improvements or equipment on the claim are taxable. Unpatented mining claims are private claims to public land without the federal government having conveyed title.

**PURPOSE:** The statute that allows this expenditure does not explicitly state a purpose. Presumably, the purpose is to reduce the administrative burden associated with assigning value to mining claims which are intangible in nature.

**WHO BENEFITS:** In 2007-08, there were 5,533 mining claims on Bureau of Land Management land in Oregon. Claims are usually between 20 and 160 acres, but the number of claims varies a great deal over time.

**EVALUATION:** *by the Department of Revenue*

The exemption of mining claims on federal land is inconsistent with the treatment of other taxable activity taking place on property owned by an exempt entity. In most other circumstances, such property would be taxed. The rationale for this exemption may be that mining claims are intangible in nature, and intangible property is typically exempt from local property taxation.

## 2.058 NONPROFIT PUBLIC PARK USE LAND

Oregon Statute: 307.115  
Sunset Date: None  
Year Enacted: 1971

2007-08 Assessed Value of Property Exempted: \$6 million

	Loss	Shift
2007–09 Revenue Impact:	\$200,000	Less than \$50,000
2009–11 Revenue Impact:	\$200,000	Less than \$50,000

**DESCRIPTION:** Nonprofit corporation property used for public park or recreation purposes is exempt from property taxation if the following conditions are met:

- The purpose of the corporation is to acquire park or recreation property; and
- The property is used for public park or public recreation purposes and cannot be used for the production of income; and
- Any net earnings of the corporation must not benefit any private individual; and

- 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: 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 that enhance the value of neighboring property; 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 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:** The statute that allows this expenditure does not explicitly state a purpose. Presumably, the purpose is to encourage development of parks by private corporations as an alternative to publicly owned parks. Private development may be possible when public development is not.

**WHO BENEFITS:** Roughly 30 privately owned parks are exempt under this provision.

**EVALUATION:** *by the Oregon Parks and Recreation Department*

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.

## 2.059 NATURAL GAS PIPELINE EXTENSION

Oregon Statute: 307.107

Sunset Date: None

Year Enacted: 2007 (HB 3046)

2007-08 Assessed Value of Property Exempted: Minimal

	Loss	Shift
2007-09 Revenue Impact:	Less than \$50,000	Less than \$50,000
2009-11 Revenue Impact:	Less than \$50,000	Less than \$50,000

**DESCRIPTION:** All property (real, personal, tangible and intangible) used for a natural gas pipeline extension project is exempt from property taxation if

- Project is partially financed by Oregon Unified International Trade Fund; and
- Length of pipeline does not exceed 115 miles; and

Property Tax  
Full Exemption

- Owner of the property is a local government.

**PURPOSE:** The statute that allows this expenditure does not explicitly state a purpose. Presumably, the purpose is to clarify that under certain conditions government-owned pipeline is exempt if leased.

**WHO BENEFITS:** NW Natural leases 76 miles of pipeline owned by Coos County.

**EVALUATION:** Not evaluated.

**2.060 RAILROAD RIGHT OF WAY USED FOR ALTERNATIVE TRANSPORT**

Oregon Statute: 307.205  
Sunset Date: None  
Year Enacted: 1977

2007–08 Assessed Value of Property Exempted: \$0

	Loss	Shift
2007–09 Revenue Impact:	\$0	\$0
2009–11 Revenue Impact:	\$0	\$0

**DESCRIPTION:** Real property owned by a railroad is exempt from property tax if the property is temporarily and exclusively used for public alternative transportation. A claim must be filed with the county assessor by April 1 of each year.

**PURPOSE:** The statute that allows this expenditure does not explicitly state a purpose. Presumably, the purpose is 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 currently known to qualify. Formerly exempt routes have been sold or transferred to public ownership.

**EVALUATION:** Not evaluated.

## 2.061 MOTOR VEHICLES AND TRAILERS

Oregon Statute: 803.585

Sunset Date: None

Year Enacted: 1919

2007–08 Assessed Value of Property Exempted: \$30.8 billion

	Loss	Shift
2007–09 Revenue Impact:	\$821,700,000	\$134,800,000
2009–11 Revenue Impact:	\$883,700,000	\$144,900,000

- DESCRIPTION:** Most vehicles are exempt from property taxation. The exemption covers virtually all vehicles that transport people or goods over public roads including cars, trucks, buses, most travel trailers, campers, and motorcycles.
- Travel trailers include park trailers less than 8½ feet wide. Although travel trailers are normally exempt from property taxation, an owner may have it assessed for property taxation if the trailer is used as a permanent home or for purposes other than recreation (ORS 308.880). No registration is needed in this case.
- Fixed-load vehicles that are not used primarily to transport people or property over public roads are generally taxable. ORS 801.285 lists five fixed-load vehicles that are exempt, including self-propelled mobile cranes.
- Owners of exempt vehicles are required to pay registration fees in-lieu of property taxes.
- PURPOSE:** The statute that allows this expenditure does not explicitly state a purpose. Presumably, the purpose is avoid administrative problems of dealing with mobile property.
- WHO BENEFITS:** In 2007 there were about 3.3 million registered cars and pickups and about 0.9 million other registered vehicles and trailers in Oregon.
- IN-LIEU:** The two-year registration fee for cars and pickups is \$54; for motorcycles it is \$30. The four-year new car registration fee is simply double the two-year amount. The fee for large trucks and buses varies by registered weight. Other on- and off-road vehicles have different fees for various time periods. The in-lieu registration fees are forecasted to be \$152 million in 2007-09 and \$156 million in 2009-11.
- EVALUATION:** Not evaluated.

Property Tax  
Full Exemption

## 2.062 ODOT LAND UNDER USE PERMIT

Oregon Statute: 307.110(3)(c)  
Sunset Date: None  
Year Enacted: 1981

2007–09 Assessed Value of Property Exempted: Minimal

	Loss	Shift
2007–09 Revenue Impact:	Less than \$50,000	Less than \$50,000
2009–11 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:** The statute that allows this expenditure does not explicitly state a purpose. Presumably, the purpose is to lower the cost for taxpayers using ODOT property under a use permit, and to avoid the administrative difficulty of valuing this property.
- WHO BENEFITS:** People using property with use restrictions under permit.
- IN LIEU:** In August 2008, ODOT had 224 active permits that provide approximately \$10,380 in annual administrative fees. By permitting this use, ODOT saves maintenance and weed control costs.
- EVALUATION:** *by the Department of Transportation*  
This provision is effective in achieving its purpose. It reduces costs to both ODOT and county governments.

## 2.063 NONPROFIT WATER ASSOCIATIONS

Oregon Statute: 307.210  
Sunset Date: None  
Year Enacted: 1937

2007-08 Assessed Value of Property Exempted: \$7 million

	Loss	Shift
2007–09 Revenue Impact:	\$100,000	Less than \$50,000
2009–11 Revenue Impact:	\$200,000	Less than \$50,000

- DESCRIPTION:** Property of mutual or cooperative water associations is exempt from taxation if:
- The association is nonprofit; and
  - The primary purpose of the association is to store, convey, and distribute water to its members for domestic use or irrigation; and

- No more than 15 percent of the members are commercial establishments using water for commercial purposes; and
- No more than 25 percent of the total annual volume of water furnished by the association is used by commercial establishments for commercial purposes.

Property exempt under this provision includes land, improvements, fixtures, equipment, supplies, dams, and dikes.

An association seeking to claim this exemption must file an application with the county assessor. Associations do not need to reapply each year as long as the ownership and use of the property remain unchanged from the previous tax year.

**PURPOSE:** The statute that allows this expenditure does not explicitly state a purpose. Presumably, the purpose is to encourage the distribution of water in areas not supplied by publicly-owned water systems.

**WHO BENEFITS:** Approximately 400 water associations are exempt.

**EVALUATION:** *by the Public Utility Commission*

The Public Utility Commission of Oregon (Commission) currently regulates seven non-profit water associations that meet the definition stated above. Based on ORS 757.063, this number could potentially increase if members of non-profit water associations petition the Commission for regulation. Commission policy has been to not assign a rate of return on rate base. As such, the associations do not earn net income (profit) maintaining their non-profit status. As a result, the tax exemption theoretically encourages the distribution of water in areas not supplied by publicly owned water systems by allowing rates to be lower than if a profit and tax expense (income and property) were included in rates.

## 2.064 NONPROFIT ELECTRICAL DISTRIBUTION ASSOCIATIONS

Oregon Statute: 308.805

Sunset Date: None

Year Enacted: 1943

2007–08 Assessed Value of Property Exempted: \$559 million

	Loss	Shift
2007–09 Revenue Impact:	\$15,300,000	\$2,500,000
2009–11 Revenue Impact:	\$16,200,000	\$2,600,000

**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.

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,

Property Tax  
Full Exemption

conductors, transformers, services, meters, street lights, easements, generators, communication equipment, lines leased to government agencies, tools, supplies, and office furniture and equipment.

Exempt associations must pay the lesser of (1) a tax in-lieu of the property tax, at 4 percent on gross revenue minus power costs or (2) property tax at the Measure 5 limits plus a bond rate. Gross revenue includes all revenue from the operation of electric distribution systems except line lease payments from government agencies.

Proceeds from these payments are distributed to the counties in proportion to the system’s wire miles in each county. Within each county, 66.7 percent goes to the county and 33.3 percent to the county school fund.

**PURPOSE:** The statute that allows this expenditure does not explicitly state a purpose. Presumably, the purpose is to avoid the difficulty of assessing electrical lines and to encourage the distribution of electricity in areas not supplied by for-profit companies because of the distribution cost.

**WHO BENEFITS:** Nineteen cooperatives are exempt under this provision.

**IN-LIEU:** In 2007-08, the 4 percent in-lieu tax on gross revenue was less than property taxes for 18 of the 19 cooperatives. The total gross revenue tax paid by these cooperatives was \$6.0 million.

**EVALUATION:** *by the Public Utility Commission*

This provision appears to be effective in achieving its purpose, but an in-depth evaluation of the program is not possible because these cooperatives are not regulated. The Public Utility Commission does not have any financial or other information about these companies.

All 19 electric cooperatives in the state qualify for the exemption. Eighteen of these were charged the in-lieu tax in 2007-08. 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.

**2.065 NONPROFIT TELEPHONE ASSOCIATIONS**

Oregon Statute: 307.220

Sunset Date: None

Year Enacted: 1941

2007–08 Assessed Value of Property Exempted: \$0

	Loss	Shift
2007–09 Revenue Impact:	\$0	\$0
2009–11 Revenue Impact:	\$0	\$0

**DESCRIPTION:** Certain telephone system property of a mutual or cooperative telephone association is exempt from property taxation if:



- The association is nonprofit; and
- The sole purpose of the association is the operation of a telephone system for the use of its members; and
- The association does not own, lease, or have an interest in the switchboard exchange; and
- The system has a cash value of less than \$2,500.

Property exempt under this provision includes improvement, fixtures, equipment and supplies. Land and buildings are not exempt.

**PURPOSE:** The statute that allows this expenditure does not explicitly state a purpose. Presumably, the purpose is to encourage telephone service in rural areas.

**WHO BENEFITS:** Nonprofit telephone associations will have lower costs due to this property tax exemption and should pass these along to their customers in the form of lower rates. Currently no one uses this exemption.

**EVALUATION:** *by the Public Utility Commission*

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.

## 2.066 PRIVATE SERVICE TELEPHONE EQUIPMENT

Oregon Statute: 307.230

Sunset Date: None

Year Enacted: 1941

2007–08 Assessed Value of Property Exempted: Minimal

	Loss	Shift
2007–09 Revenue Impact:	Less than \$50,000	Less than \$50,000
2009–11 Revenue Impact:	Less than \$50,000	Less than \$50,000

**DESCRIPTION:** Certain telephone property that serves only the system owner’s property is exempt from property taxation if the individual is not engaged in public service operations, and the system’s value does not exceed \$1,500. Property exempt under this provision includes improvements, fixtures, equipment, and supplies used for the construction, maintenance, and operation of the telephone system.

**PURPOSE:** The statute that allows this expenditure does not explicitly state a purpose. Presumably, the purpose is to reduce the administrative burden associated with assigning value to private service telephone equipment.

**WHO BENEFITS:** Owners of private service telephone equipment. Very few taxpayers are using this exemption.

Property Tax  
Full Exemption

EVALUATION: *by the Public Utility Commission*

This provision does not appear to be achieving its purpose. No specific information exists that would allow a thorough evaluation of this exemption. Given the recent advances in telephone technology, it seems unlikely that much, if any, of the type of equipment that qualifies for this exemption is still in use.

## 2.067 FCC LICENSES

Oregon Statute: 307.126  
Sunset Date: None  
Year Enacted: 2001

2007–08 Assessed Value of Property Exempted: \$903 million

	Loss	Shift
2007–09 Revenue Impact:	\$23,700,000	\$3,900,000
2009–11 Revenue Impact:	\$23,700,000	\$3,900,000

DESCRIPTION: The value of the Federal Communications Commission (FCC) licenses held by utility companies is exempt from property taxation and may not be included in the real or tangible personal property value of these companies.

PURPOSE: The statute that allows this expenditure does not explicitly state a purpose. Presumably, the purpose is 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 are exempt under tax expenditure 2.068, Intangible Personal Property.

EVALUATION: *by the Public Utility Commission*

This tax expenditure meets the stated purpose of removing the FCC licenses from property taxation, but no specific information is available to determine whether Oregon customers of the affected companies have benefited, e.g., through lower rates.

## 2.068 INTANGIBLE PERSONAL PROPERTY

Oregon Statute: 307.030  
Sunset Date: None  
Year Enacted: 1935

2007–08 Assessed Value of Property Exempted: \$409.5 billion

	Loss	Shift
2007–09 Revenue Impact:	\$11,059,400,000	\$1,814,000,000
2009–11 Revenue Impact:	\$12,426,300,000	\$2,038,200,000

**DESCRIPTION:** Certain intangible personal property is exempt from local property taxation. Intangible personal property includes:

- Financial property such as interest-bearing accounts, stocks, and bonds
- Business records in various media forms
- Business intangibles like goodwill, patents, trademarks, and copyrights

Intangible personal property of centrally assessed companies such as communications, energy, railroads, and airlines is included in the taxable value of these companies. For these companies, only the intangible value of the Federal Communications Commission (FCC) licenses is exempt; see tax expenditure 2.067, FCC Licenses, for more information.

**PURPOSE:** The statute that allows this expenditure does not explicitly state a purpose. Presumably, the purpose is to reduce the administrative burden associated with identifying and assigning value to intangible personal property.

**WHO BENEFITS:** The exemption benefits virtually every household and business in Oregon.

**EVALUATION:** Not evaluated.

## 2.069 PERSONAL PROPERTY FOR PERSONAL USE

Oregon Statute: 307.190  
Sunset Date: None  
Year Enacted: 1854

2007–08 Assessed Value of Property Exempted: \$32.5 billion

	Loss	Shift
2007–09 Revenue Impact:	\$864,400,000	\$141,800,000
2009–11 Revenue Impact:	\$912,600,000	\$149,700,000

**DESCRIPTION:** Tangible personal property held by the owner for personal use is exempt from property tax. Examples of personal property for personal use are household goods, furniture, appliances, personal effects, clothing, recreational goods, and entertainment equipment.

The exemption does not apply to any property that is:

- Wholly or partially used in the ordinary course of a trade or business.

Property Tax  
Full Exemption

- Used for the production of income or solely for investment.
- Required to be licensed or registered.
- A floating home, boathouse, or manufactured structure.

**PURPOSE:** The statute that allows this expenditure does not explicitly state a purpose. Presumably, the purpose is to reduce the administrative burden associated with assigning value to various personal property items.

**WHO BENEFITS:** The exemption benefits all households.

**EVALUATION:** Not evaluated.

## 2.070 BEVERAGE CONTAINERS REQUIRING DEPOSIT

Oregon Statute: 307.402

Sunset Date: None

Year Enacted: 1983

2007–08 Assessed Value of Property Exempted: \$1 million

	Loss	Shift
2007–09 Revenue Impact:	Less than \$50,000	Less than \$50,000
2009–11 Revenue Impact:	Less than \$50,000	Less than \$50,000

**DESCRIPTION:** All beverage containers that have a refund value (requiring a deposit), as specified in the Bottle Bill (ORS 459A.700 - 459A.740), 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. Distributors must pay stores the 5-cent refund value for each container returned for recycling. Distributors keep the deposits on the containers that are not returned for the refund. Deposit containers for carbonated soft drinks, soda water, mineral waters, and beer or other malt beverages may be glass, metal, or plastic. The 2007 Legislature expanded the Bottle Bill to include a refundable deposit for all bottled water and flavored water containers under three liters effective January 1, 2009. Container market value varies by type of container and size. The revenue impact estimate assumes inventory at bottlers, distributors, and retail stores to be about four days of sales.

**PURPOSE:** The statute that allows this expenditure does not explicitly state a purpose. Presumably, the purpose is to eliminate the tax compliance burden of enumerating the containers returned.

**WHO BENEFITS:** The beneficiaries of this exemption are bottlers, distributors, and retail stores that temporarily hold beverage containers requiring a deposit.

**EVALUATION:** Not evaluated.

## 2.071 STATE AND LOCAL PROPERTY

Oregon Statute: 307.090

Sunset Date: None

Year Enacted: 1854

2007–08 Assessed Value of Property Exempted: \$56.4 billion

	Loss	Shift
2007–09 Revenue Impact:	\$1,502,300,000	\$246,400,000
2009–11 Revenue Impact:	\$1,593,800,000	\$261,400,000

### 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 tax expenditures in this report:

- 2.003, Leased Student Housing Publicly Owned;
- 2.004, Higher Education Parking Space;
- 2.006, Leased Healthcare Property;
- 2.017, Leased Docks and Airports;
- 2.018, Leased Publicly Owned Shipyard Property;
- 2.028, Fairground Leased Storage Space;
- 2.037, Leased Public Farming and Grazing Land;
- 2.039, Oyster Growing on State Land;
- 2.049, State and Local Standing Timber Under Contract;
- 2.055, Leased State Land Board Land;
- 2.062, ODOT Land Under Use Permit.

### PURPOSE:

The statute that allows this expenditure does not explicitly state a purpose. Presumably, the purpose is to avoid reciprocal taxation among public entities; to avoid taxing public services that are funded through the tax.

Property Tax  
Full Exemption

WHO BENEFITS: State and local governments in Oregon. Counties report approximately 45,000 properties throughout Oregon.

IN-LIEU: The following types of property make in lieu payments to local taxing districts:

- City Property Used to Produce Energy (ORS 307.090(2));
- Fish and Wildlife Commission Lands (ORS 496.340);
- State Timber Land (ORS 530.110–530.115);
- Common School Fund Lands (ORS 327.410–327.420).

EVALUATION: Not evaluated.

## 2.072 BEACH LANDS

Oregon Statute: 307.450

Sunset Date: None

Year Enacted: 1969

2007–08 Assessed Value of Property Exempted: Not Available

	Loss	Shift
2007–09 Revenue Impact:	Not Available	Not Available
2009–11 Revenue Impact:	Not Available	Not Available

DESCRIPTION: Beach lands are exempt from property taxation. However, improvements are not exempt. Generally, beach lands are those along the Pacific Ocean between the extreme low tide and the vegetation line. While much of this land is publicly owned, some is privately owned, but in most cases it has severe restrictions on development (ORS 390.605 to 390.729). While this tax expenditure covers all beach land, regardless of ownership, the publicly owned portion of beach land would be exempt under tax expenditure 2.071, State and Local Property, if this provision did not exist.

PURPOSE: The statute that allows this expenditure does not explicitly state a purpose. Presumably, the purpose is to preserve public access to ocean beaches and to clarify that ocean beaches, even if privately owned, are exempt from property taxation.

WHO BENEFITS: Owners of beach front property and others who use Oregon beaches.

EVALUATION: Not evaluated.

## 2.073 LOCAL GOVERNMENT PUBLIC WAYS

Oregon Statute: 307.200

Sunset Date: None

Year Enacted: 1895

2007–08 Assessed Value of Property Exempted: Not Available

	Loss	Shift
2007–09 Revenue Impact:	Not Available	Not Available
2009–11 Revenue Impact:	Not Available	Not Available

**DESCRIPTION:** Privately held land that is subject to a designated public right-of-way is exempt from taxation. Affected land is land “within the boundary of any county road, and all dedicated streets and alleys in any incorporated or unincorporated city or town... .” The property owners do not have private use of the land. The land is not assessed and is not tracked on the assessment or tax roll.

Land subject to this exemption has clear economic value, but it is unclear if it carries direct value in the context of how property is valued in the property tax system. The value of the right-of-way may be captured in the increased value of adjoining lands and properties.

**PURPOSE:** The statute that allows this expenditure does not explicitly state a purpose. Presumably, the purpose is to compensate owners for the loss of private use of the land and to recognize the difficulty associated with placing a value on the land.

**WHO BENEFITS:** Owners of designated public right-of-way land.

**EVALUATION:** Not evaluated.

## 2.074 PACIFIC NORTHWEST AC INTERTIE EXEMPTION

Oregon Statute: 307.090(3)(b)

Sunset Date: None

Year Enacted: 2005

2007–08 Assessed Value of Property Exempted: \$41 million

	Loss	Shift
2007–09 Revenue Impact:	\$1,100,000	\$200,000
2009–11 Revenue Impact:	\$1,200,000	\$200,000

**DESCRIPTION:** Tangible and intangible property owned by a city or public entity of a state other than Oregon is exempt from property taxes under certain conditions. This exemption applies to property rights or property interests in or related to the Pacific Northwest AC (alternating current) Intertie. The city or entity must not own other real property in Oregon. The Pacific Northwest—Pacific Southwest Intertie connects Washington, Oregon, and California. It allows the transmission of electricity during high seasons from the Pacific Northwest to the Pacific Southwest and vice versa.

Property Tax  
Full Exemption

**PURPOSE:** The statute that allows this expenditure does not explicitly state a purpose. Presumably, the purpose is to promote more efficient use of electricity by providing favorable conditions for members of the Pacific Northwest AC Intertie.

**WHO BENEFITS:** Three public utilities owned by a city or county in the State of Washington.

**EVALUATION:** Not evaluated.

## 2.075 TRIBAL LAND BEING PLACED IN U.S. TRUST

Oregon Statute: 307.181  
Sunset Date: 06-30-2012  
Year Enacted: 1993

2007-08 Assessed Value of Property Exempted: \$23 million

	Loss	Shift
2007-09 Revenue Impact:	\$500,000	\$100,000
2009-11 Revenue Impact:	\$500,000	\$100,000

**DESCRIPTION:** Land acquired by an Indian tribe is exempt from property taxation if the land is within ancient tribal boundaries and is in the process of being placed in a U.S. trust. The exemption continues until the land is placed in trust, up to a maximum of five tax years.

**PURPOSE:** The statute that allows this expenditure does not explicitly state a purpose. Presumably, the purpose is to allow 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. Bureau of Indian Affairs requires the land be free of liens as a condition for the trust.

**WHO BENEFITS:** Indian tribes wishing to transfer property into U.S. trust. In October 2008, there were 9,406 acres in process of being placed in U.S. trust.

**EVALUATION:** Not evaluated.

## 2.076 CHARITABLE, LITERARY, AND SCIENTIFIC ORGANIZATIONS

Oregon Statute: 307.130  
Sunset Date: None  
Year Enacted: 1854, Modified in 2007 (HB 3537)

2007-08 Assessed Value of Property Exempted: \$3.5 billion

	Loss	Shift
2007-09 Revenue Impact:	\$91,900,000	\$15,100,000
2009-11 Revenue Impact:	\$97,500,000	\$16,000,000

**DESCRIPTION:** Property owned or under contract of sale by literary, benevolent, charitable organizations or scientific institutions is exempt from property taxation. To qualify, the organization or institution must:



- Be a nonprofit corporation; and
- Provide a charitable gift to the public without expectation of payment; and
- Occupy and use the property in a manner that furthers the organization’s charitable purpose.

Shelter workshops and retail stores selling donated or consigned goods to support a welfare program or not-for-profit housing 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)

Legislation in 2007 exempted from taxation real and personal property of retail stores owned by non-profit entities if the retail stores deal exclusively in donated inventory and the proceeds from the stores’ sales are used to financially support a non-for-profit housing program.

**PURPOSE:** The statute that allows this expenditure does not explicitly state a purpose. Presumably, the purpose is to recognize the social benefits of some nonprofit organizations by providing tax relief.

**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. Approximately 5,000 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.

## 2.077 FRATERNAL ORGANIZATIONS

Oregon Statute: 307.136  
Sunset Date: None  
Year Enacted: 1961

2007–08 Assessed Value of Property Exempted: \$295 million

	Loss	Shift
2007–09 Revenue Impact:	\$7,800,000	\$1,300,000
2009–11 Revenue Impact:	\$8,300,000	\$1,400,000

**DESCRIPTION:** Property used for fraternal lodge work, entertainment, or recreational purposes is exempt from property taxation. Fraternal organization property remains exempt even while being rented or leased to other persons so long as the rent does not exceed expenses for heat, lights, water, janitorial services and supplies. Parking lots are exempt as long as there is no charge for at least 355 days each year. The fraternal organization must file an application with the county assessor to claim the exemption.

To qualify, a fraternal organization must:

- Be organized as a nonprofit; and
- Be established under the lodge system with ritualistic form of work and representative form of government; and

Property Tax  
Full Exemption

- Support some benevolent or charitable activity; and
- Not distribute any income to its officers, members, or employees except for reasonable compensation for services; and
- Not be a college fraternity or sorority.

**PURPOSE:** The statute that allows this expenditure does not explicitly state a purpose. Presumably, the purpose is to recognize the social benefits of fraternal organizations by providing tax relief.

**WHO BENEFITS:** Approximately 1,200 properties are exempt. Qualifying organizations include the State Grange, American Legion, Veterans of Foreign Wars, Eagles, Elks, Masons, Moose, Odd Fellows, Knights of Pythias, and Knights of Columbus.

**EVALUATION:** Not evaluated.

## 2.078 RELIGIOUS ORGANIZATIONS

Oregon Statute: 307.140

Sunset Date: None

Year Enacted: 1854

2007–08 Assessed Value of Property Exempted: \$3.1 billion

	Loss	Shift
2007–09 Revenue Impact:	\$82,900,000	\$13,600,000
2009–11 Revenue Impact:	\$89,600,000	\$14,700,000

**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:** The statute that allows this expenditure does not explicitly state a purpose. Presumably, the purpose is to recognize the social benefits of religious organizations.

**WHO BENEFITS:** Approximately 7,900 properties are exempt.

**EVALUATION:** Not evaluated.

## 2.079 CEMETERIES, BURIAL GROUNDS, AND MAUSOLEUMS

Oregon Statute: 307.150  
Sunset Date: None  
Year Enacted: 1854

2007–08 Assessed Value of Property Exempted: \$180 million

	Loss	Shift
2007–09 Revenue Impact:	\$4,800,000	\$800,000
2009–11 Revenue Impact:	\$5,200,000	\$900,000

**DESCRIPTION:** Burial grounds, tombs, and rights of burial are exempt from property taxation. Also, land (not exceeding 30 acres) and buildings of crematory associations are exempt. Buildings to store maintenance equipment are included in the exemption. To qualify, a claim must be filed with the county assessor. Family burial grounds are exempt without application.

This statute exempts both nonprofit and for-profit cemetery and crematory associations, as well as family burial grounds. Cemeteries owned by cities, counties, or cemetery districts are exempt by tax expenditure 2.071, State and Local Property. Cemeteries owned and maintained by religious organizations are exempt by tax expenditure 2.078, Religious Organizations.

**PURPOSE:** The statute that allows this expenditure does not explicitly state a purpose. Presumably, the purpose is implementation of traditional public policy to not tax cemeteries.

**WHO BENEFITS:** For 2007–08, almost 1,100 properties were exempt. Over half of the exempt value is located in Multnomah County.

**EVALUATION:** Not evaluated.

## 2.080 EXEMPT LEASE FROM TAXABLE OWNER

Oregon Statute: 307.112  
Sunset Date: None  
Year Enacted: 1977, Modified in 2007 (SB 653)

2007–08 Assessed Value of Property Exempted: \*

	Loss	Shift
2007–09 Revenue Impact:	*	*
2009–11 Revenue Impact:	*	*

\* Included in other ORS Chapter 307 property exemption tax expenditure listed below.

**DESCRIPTION:** Property that is leased (or subleased as amended by 2007 Legislature) to an entity that qualifies for a property tax exemption is exempt from property taxation. Eligible entities are institutions, organizations, and public bodies (other than the state of Oregon). To qualify, the property must be used for a qualifying purpose, and the rent

Property Tax  
Full Exemption

charged must be below market value in reflection of the exemption. The lessee must file an application with the county assessor to receive this exemption.

Related statutes and tax expenditures are:

- (ORS 307.090) 2.071, State and Local Property;
- (ORS 307.130) 2.076, Charitable, Literary, and Scientific Organizations;
- (ORS 307.136) 2.077, Fraternal Organizations;
- (ORS 307.140) 2.078, Religious Organizations;
- (ORS 307.145) 2.001, Academies, Day Care, and Student Housing;
- (ORS 307.147) 2.007, Senior Services Centers.

**PURPOSE:** The statute that allows this expenditure does not explicitly state a purpose. Presumably, the purpose is to extend equal treatment to exempt organizations whether they rent, lease, or sublease property.

**WHO BENEFITS:** Exempt organizations and local governments.

**EVALUATION:** This exemption extends the other Chapter 307 exemptions listed in the description. See the evaluations for those related expenditures.

**2.081 EXEMPT LEASE FROM EXEMPT OWNER**

Oregon Statute: 307.166  
Sunset Date: None  
Year Enacted: 1973

2007–08 Assessed Value of Property Exempted: \*

	Loss	Shift
2007–09 Revenue Impact:	*	*
2009–11 Revenue Impact:	*	*

\* Included in other ORS Chapter 307 property exemption tax expenditures.

**DESCRIPTION:** Property that is leased or rented to an entity that qualifies for a property tax exemption (under ORS Chapter 307) from an owner who also qualifies for an exemption is exempt from property tax. Eligible entities are institutions, organizations, and public bodies. To qualify, the property must be used for a qualifying purpose, and the rent charged must not exceed the cost of repairs and maintenance. The lessee must file an application with the county assessor to claim the exemption.

Related statutes and tax expenditures are:

- (ORS 307.090) 2.071, State and Local Property;
- (ORS 307.130) 2.076, Charitable, Literary, and Scientific Organizations;
- (ORS 307.136) 2.077, Fraternal Organizations;

- (ORS 307.140) 2.078, Religious Organizations;
- (ORS 307.145) 2.001, Academies, Day Care, and Student Housing;
- (ORS 307.147) 2.007, Senior Services Centers.

**PURPOSE:** The statute that allows this expenditure does not explicitly state a purpose. Presumably, the purpose is to extend equal treatment to exempt organizations whether they rent, lease, or sublease property.

**WHO BENEFITS:** Exempt organizations and local governments.

**EVALUATION:** This exemption extends the other Chapter 307 exemptions listed in the description. See the evaluations for those related expenditures.

## 2.082 CITY-OWNED SPORTS FACILITIES

Oregon Statutes: 307.171  
Sunset Date: None  
Year Enacted: 2001

2007-08 Assessed Value of Property Exempted: \$24 million

	Loss	Shift
2007-09 Revenue Impact	\$1,000,000	\$100,000
2009-11 Revenue Impact	\$1,100,000	\$100,000

**DESCRIPTION:** In general, when public property is held under contract of sale or is leased to a private individual or business, it is considered taxable. However, this provision exempts any sports facilities owned by a city with a population of at least 500,000 from taxation, even if leased to or operated by a taxable entity.

**PURPOSE:** The statute that allows this expenditure does not explicitly state a purpose. Presumably, the purpose is 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.

Property Tax  
Full Exemption

### 2.083 CONVENTION FACILITIES

Oregon Statutes: 263.290  
Sunset Date: None  
Year Enacted: 1985

2007-08 Assessed Value of Property Exempted: \$0

	Loss	Shift
2007-09 Revenue Impact	\$0	\$0
2009-11 Revenue Impact	\$0	\$0

**DESCRIPTION:** Any real or personal property acquired, owned, leased, controlled, used, or occupied by a sports and convention facilities commission established under ORS 263.210 is exempt from property taxation. The commission must be created by a ballot measure and established as a municipal corporation.

**PURPOSE:** The statute that allows this expenditure does not explicitly state a purpose. Presumably, the purpose is to ensure the property of these municipal corporations is not taxed.

**WHO BENEFITS:** There are no known beneficiaries of this statute.

**EVALUATION:** Not evaluated.

### 2.084 LLC OWNED BY NON-PROFIT CORPORATION

Oregon Statute: 307.022  
Sunset Date: None  
Year Enacted: 2005

2007-08 Assessed Value of Property Exempted: \*

	Loss	Shift
2007-09 Revenue Impact:	*	*
2009-11 Revenue Impact:	*	*

\* Included in other ORS Chapter 307 property exemption tax expenditures.

**DESCRIPTION:** A Limited Liability Company (LLC) that is wholly owned by a non-profit corporation qualifies for a special assessment or property tax exemption if the non-profit corporations would qualify. The LLC's property qualifies for special assessment or exemption if it is exclusively using the property consistent with the non-profit corporation's purposes.

The provision applies to tax years beginning on or after July 1, 2006.

**PURPOSE:** The statute that allows this expenditure does not explicitly state a purpose. Presumably, the purpose is to allow non-profit owners of property to structure their property ownership in a way that provides the limited liability protection of an LLC while still providing the owner a property tax benefit.

WHO BENEFITS: Non-profit corporations that would qualify for a property tax exemption or special assessment that own property through wholly owned LLCs.

EVALUATION: Not evaluated.

## 2.085 FEDERAL PROPERTY

Oregon Statute: 307.040  
Sunset Date: None  
Year Enacted: 1848

2007-08 Assessed Value of Property Exempted: \$62.3 billion

	Loss	Shift
2007–09 Revenue Impact:	\$1,658,000,000	\$272,000,000
2009–11 Revenue Impact:	\$1,759,000,000	\$288,500,000

DESCRIPTION: Property of the United States and its agencies is exempt from property tax when taxation is prohibited by federal law. Federal property held under contract of sale or lease by a private party is generally taxable.

The Oregon Legislature exempted some leasehold interests of federal land that otherwise would be taxable. Refer to the following exemptions in this report:

- 2.022, Federal Land Under Recreation Facility;
- 2.024, Federal Land Under Summer Homes;
- 2.038, Leased Federal Grazing Land;
- 2.048, Federal Standing Timber Under Contract;
- 2.057, Mining Claims on Federal Land.

PURPOSE: To comply with federal law.

WHO BENEFITS: The United States owns about 30 million acres in Oregon, or 48 percent of the land. The exempt value includes federal structures and equipment, land, and sawtimber. Most of the value is standing timber. In 2007–08, there were about 21,200 exemptions reported by Oregon counties.

IN-LIEU: The federal government makes payments in-lieu of property taxes to local governments for certain types of federal land, for example:

- Federal forest land;
- Land subject to the Payments In-Lieu Of Taxes Act of 1976;
- Coos Bay Wagon Road lands;
- Public land resource sales;

Property Tax  
Full Exemption

- BLM grazing lands;
- U.S. mineral leases.

EVALUATION: *by the Department of Revenue*

This expenditure achieves its purpose of compliance with federal law.

## 2.086 INDIAN PROPERTY ON RESERVATION

Oregon Statute: 307.180

Sunset Date: None

Year Enacted: 1854

2007-08 Assessed Value of Property Exempted: Not Available

	Loss	Shift
2007-09 Revenue Impact:	Not Available	Not Available
2009-11 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. Indian reservation lands held by Indians who have severed their tribal relations are exempt from property tax if the land was obtained by purchase or inheritance. Lands owned or held by Indians in severalty on an Indian reservation and their personal property on the reservation are exempt only when provided by federal law.

PURPOSE: To comply with the status of Indians under federal law before statehood.

WHO BENEFITS: Ten tribes have land located in 15 counties. Reservation and Land in Trust acreage totals approximately 875,000 acres in Oregon.

EVALUATION: *by the Department of Revenue*

This expenditure achieves its purpose of compliance with federal law.



## 2.087 AMTRAK PASSENGER RAILROAD

Oregon Statute: 308.515

Sunset Date: None

Year Enacted: 1983

2007-08 Assessed Value of Property Exempted: \$26 million

	Loss	Shift
2007-09 Revenue Impact:	\$700,000	\$100,000
2009-11 Revenue Impact:	\$700,000	\$100,000

**DESCRIPTION:** National Railroad Passenger Corporation (Amtrak) property is exempt from property tax as long as federal law exempts the company from paying any state or local taxes. Amtrak does not own land or structures in Oregon but leases or pays fees for use. If taxed, the value would likely be computed using an allocation formula based on share of passenger miles traveled in Oregon.

**PURPOSE:** To comply with federal law.

**WHO BENEFITS:** Amtrak benefits by not paying property taxes.

**EVALUATION:** *by the Department of Revenue*

This expenditure achieves its purpose of compliance with federal law.

## 2.088 FRATERNITIES, SORORITIES, AND COOPERATIVES

Oregon Statute: 307.471

Sunset Date: None

Year Enacted: 1973

2007–08 Assessed Value of Property Exempted: \$23 million

	Loss	Shift
2007–09 Revenue Impact:	\$300,000	\$100,000
2009–11 Revenue Impact:	\$300,000	\$100,000

**DESCRIPTION:** Certain property owned by a qualified nonprofit corporation, such as a fraternity, sorority, or cooperative housing organization, is exempt from property taxes imposed by schools, educational service districts, and community colleges. The property must be rented exclusively to students who attend an accredited educational institution and student occupancy must be nondiscriminatory. An application is required to claim the exemption. If an exempt property loses qualified status, the owner is required to notify the assessor. If notification is not provided and the property is disqualified, additional taxes equal to the tax benefit of the exemption for all exempted prior years plus interest and a 20-percent penalty on the tax amount shall be assessed. Tax expenditure 2.003, Leased Student Housing Publicly Owned, covers similar property owned by a public college.

**PURPOSE:** The statute that allows this expenditure does not explicitly state a purpose. Presumably, the purpose is to help keep college housing costs to a minimum and provide equitable treatment with those students living on campus in publicly owned dormitories; see 2.003, Leased Student Housing Publicly Owned, for more information

**WHO BENEFITS:** About 80 accounts are exempt and are located primarily in Benton, Lane, Multnomah, and Yamhill counties.

**EVALUATION:** *by the Oregon University System*

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.

## 2.089 RURAL HEALTH CARE FACILITIES

Oregon Statutes: 307.804(2)

Sunset Date: None

Year Enacted: 2001

2007-08 Assessed Value of Property Exempted: \$2 million

	Loss	Shift
2007-09 Revenue Impact	Less than \$50,000	Less than \$50,000
2009-11 Revenue Impact	Less than \$50,000	Less than \$50,000

**DESCRIPTION:** Real and personal property of a rural health care facility may be 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 exemption is available only in a county where the county governing body has passed a resolution authorizing the exemption and then only from the taxes of taxing districts that elect to participate by also passing a resolution or ordinance.

**PURPOSE:** The statute that allows this expenditure does not explicitly state a purpose. Presumably, the purpose is to promote health care in rural areas.

**WHO BENEFITS:** Owners of health care facilities in rural Oregon. Only one county, Clatsop, has adopted a resolution and only some taxing districts elected to participate. 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.

**EVALUATION:** Not evaluated.

## 2.090 LONG-TERM CARE FACILITIES

Oregon Statute: 307.811

Sunset Date: None

Year Enacted: 1999

2007-08 Assessed Value of Property Exempted: \$3 million

	Loss	Shift
2007-09 Revenue Impact:	\$100,000	Less than \$50,000
2009-11 Revenue Impact:	\$100,000	Less than \$50,000

**DESCRIPTION:** A property tax exemption is allowed for real and personal property that is used solely in the operations of a long-term care facility that has been certified for the tax year as an essential community provider long-term care facility. Qualifying long-term care facilities are: nursing facilities, assisted living facilities, residential care facilities, and adult foster homes. The owner of the facility must file with the county assessor a copy of a certificate issued by the Senior and People with Disabilities Department of

Property Tax  
Partial Exemption

the Oregon Department of Human Services. Adult foster homes must have an average residency rate of at least 60 percent of residents eligible for Medicaid, whereas all other qualifying facilities must have a residency rate of 50 percent. The facility will only receive a property tax exemption from those taxing districts granting the exemption.

**PURPOSE:** ORS 307.808 states that "...owners of long term care facilities that devote substantial proportions of those facilities to providing long term care to residents eligible for medical services under Medicaid provide an essential community service. The Legislative Assembly declares that a property tax exemption will enable these essential community provider long term care facilities to increase the quality of care provided to facility residents."

**WHO BENEFITS:** One facility in Eastern Oregon receives this exemption.

**EVALUATION:** *by the Department of Human Services*

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.

## 2.091 STRATEGIC INVESTMENT PROGRAM (SIP)

Oregon Statute: 307.123

Sunset Date: None

Year Enacted: 1993, Modified in 2007 (SB 954)

2007–08 Assessed Value of Property Exempted: \$3.3 billion

	Loss	Shift
2007–09 Revenue Impact:	\$97,900,000	\$16,100,000
2009–11 Revenue Impact:	\$103,900,000	\$17,000,000

**DESCRIPTION:** The 1993 Legislature authorized the Strategic Investment Program (SIP) to increase Oregon’s ability to attract capital-intensive industry, particularly high-technology firms.

Partial property tax exemption is allowed for 15 years for eligible projects if the real market value of the new investment is equal to or exceeds \$100 million (\$25 million in rural areas). The assessed value of the property below this threshold in the first year is subject to taxes; the remainder, in excess of the threshold, is exempt. The exemption threshold then increases 3 percent a year during the exemption period.

Approval of an SIP project necessitates a county public hearing, written agreement between the business firm and the county and city, and formal action by the county governing body. The Oregon Economic and Community Development Commission makes the final determination for the project to receive SIP tax treatment.

Alternatively, a counties may request that the Oregon Economic and Community Development Commission establish a strategic investment zone, in which eligible

projects are then subject to standardized local requirements and streamlined approval, in contrast to local negotiation of a unique agreement each time and case-by-case approval of the county. No such zone has been designated yet.

The business firm must also enter into a first-source hiring agreement with local publicly funded job training providers and pay an annual community service fee (see IN-LIEU below) in addition to other requirements under the local agreement. The investments must benefit a traded-sector industry, which is one that sells goods or services in markets with national or international competition, including but not limited to manufacturing.

The 2003 Legislature added lower limits for rural areas. In the 2007 Session, SB 954 provided for a sharing of the personal income taxes generated from eligible firms under SIP out of the State's General Fund from 2011 to 2020. Fifty percent of an estimated amount of tax revenue will be deposited into the Shared Services Fund and distributed under the same formula, as agreed locally among taxing districts.

**PURPOSE:** "...to improve employment in areas where eligible projects are to be located and [the Legislative Assembly] urges business firms that will benefit from an eligible project to hire employees from the region in which the eligible project is to be located whenever practicable." (ORS 285C.603).

**WHO BENEFITS:** There are six ongoing SIP projects -- two in Multnomah County and four in Washington County. One project dominates the program and has been approved for a large addition to its SIP beginning in the 2007-09 biennium. All of the ongoing projects have been investments in large, high-technology semiconductor fabrication facilities.

Three rural SIP projects were approved in 2006 and two in 2007 and should begin to receive exemptions during the 2009-11 biennium. These projects are in different industries and include proposed developments in Clatsop, Union and Sherman counties.

**IN-LIEU:** Businesses that have value exempt under SIP pay a "community service fee" each year equal to 25 percent of the property taxes that would have been imposed otherwise in the form of annual community services fees. The fee is capped at a maximum of \$2 million (\$500,000 in rural areas).

In addition, ECDD collects applications fees equal to:

- \$10,000 (\$5,000 in rural areas) upon application; and
- \$50,000 (\$10,000 in rural areas) when project is determined to be eligible for exemption. Fifty percent of this fee goes to Department of Revenue for administrative purposes and the rest is deposited in the Oregon Community Development Fund.

**EVALUATION:** *by the Economic and Community Development Department*

The program appears to achieve its goal of leveling the proverbial playing field and thus encouraging extraordinarily large, highly capital-intensive investment in Oregon, particularly in high-technology and renewable energy 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 both state and local officials have seen evidence that this program was crucial for Oregon locations being chosen as the site for exceptionally large investments in new property and for

keeping key existing industries in the state. The fact that local officials have thoughtfully approved 15 applications under the program suggests that these local officials consider these tax expenditures to have a net positive value on their communities. In addition, a very sizable increase in state income tax and corporate excise tax revenues might be attributed to this program.

Economists have a range of opinions as to whether or not industrial investment tax incentives such as this are beneficial to local, regional and national economies. Some contend that such incentives merely benefit participating companies, who receive lower tax bills at the expense of the participating jurisdictions that either receive lower tax revenue or must charge existing taxpayers more than otherwise. Other experts would show how both participants gain from well structured arrangements, with companies paying more reasonable taxes in communities that place a higher value than other communities on obtaining the companies' jobs, local purchases and other benefits, and that these incentives generally stimulate growth and competitiveness.

With the 2003 Law (HB 2299), lower rural threshold of \$25 million was added, so that the program might see greater diversity in terms of geography and industry types, and to provide an alternative to enterprise zones for relative huge projects in rural areas. SIP offers a more flexible tool and politically better process compared to enterprise zone tax incentives in cases of certain very large and controversial developments. For rural areas, this could be a vital new tool, and even outside of rural areas, \$25 million still signifies an unusually large, and special project. Recent events indicate that this rural version of SIP is having the desired effect.

In the 2007-08 tax year, there were three ongoing SIP projects—massively large, semiconductor-fabrication facilities—one in Multnomah County and two in Washington County (by the same company, which has received a third approval on future property). Other semiconductor investments from the 1990s have since had their project property values depreciate to less than the SIP taxable portion. Until rather recently, the program consisted entirely of these high-technology, Portland-area investments. In any event, the one company's operations in Hillsboro may be expected to overwhelmingly dwarf all other users of this program, combined for many years to come, with investments that are far and away incomparable to the capital needs of most any other industry.

In 2008 and 2009, several "rural" projects will begin exemption periods. By the standards of almost every other industry, these are huge investments. They are found in several counties, and represent a few different industrial sectors (papermaking, biotech). Recently completed and proposed projects are increasing occurring in the field of electricity generation from renewable energy, namely, wind-power farms along the Interstate-84 corridor. Cumulatively, these wind energy investments are already in the billions of dollars.

Since 1994, local/state government had approved 15 projects totaling more than \$46 billion; half of these (all semiconductor plants) had started exemptions by 2007. Seven additional projects (all wind farms) are at different points of completing applications with county governments and the Economic and Community Development Department.

Over the 12 tax years through the 2007–08, SIP businesses saved about \$478 million in property taxes, again with notable concentration in Hillsboro. Nevertheless, with the taxes collected on the taxable portion of these facilities, as well as the statutory community service fee and other local, additional requirements these same companies have paid \$169 million to local governments in direct relation to their SIP project. This compares favorably – many times over – with the taxes and other revenue arising from other types of residential, commercial or industrial developments that would have comparable impacts on public services. This pattern is set to continue with other uses of the program, as additional fees are a common feature of wind-farm agreements with counties along the Columbia River.

Such figures also do not take into account the property taxes paid after business firms have stopped enjoying any benefit under SIP, as well as other investments made by these firms, their suppliers and so forth. Moreover, there are not only the taxes generated by the direct employment at an SIP facility, but also the indirect and induced employment.

## 2.092 VERTICAL HOUSING DEVELOPMENT ZONE

Oregon Statute: 307.864

Sunset Date 12-31-2015

Year Enacted: 2001, Renumbered in 2007

2007-08 Value of Property Exempted: \$1.2 million

	Loss	Shift
2007-09 Revenue Impact:	Less than \$50,000	Less than \$50,000
2009-11 Revenue Impact:	Less than \$50,000	Less than \$50,000

**DESCRIPTION:** A partial property tax exemption is available for qualified residential housing combined with nonresidential uses in a vertical housing development zone. A vertical housing development zone is a designated area sponsored by a city or county that has been approved by the Oregon Housing and Community Services Department (OHCS).

The qualified project must consist of a multiple-story building or group of buildings including at least one multiple-story building, containing nonresidential and residential space in any proportion. The partial property tax exemption depends on the number of “equalized” floors, calculated by the ratio of residential to nonresidential space. If the project consists of one equalized floor of residential housing, it is 20 percent exempt; with two equalized floors, it is 40 percent exempt; with three equalized floors, it is 60 percent exempt; and with four or more equalized floors, the project is 80 percent exempt. The exemption lasts for a maximum of 10 years. If any of the residential floors are converted to commercial space, the project may receive a reduced exemption or be disqualified.

Property Tax  
Partial Exemption

A project may be new construction or rehabilitation of an existing building. The land on which a project is located may be included in the partial exemption if the project restricts participation (at least a portion) of the residential units to low-income persons or families (defined as income 80 percent or less of median income, adjusted for family size). Land adjacent to or surrounding the low-income residential project contained in separate tax lots, excess, or surplus land that is not necessary for the project is not eligible for partial exemption.

The vertical housing development project partial exemption does not apply to the taxes of any taxing district that elects not to participate.

**PURPOSE:** The statute that allows this expenditure does not explicitly state a purpose. Presumably, the purpose is to encourage investment in and rehabilitation of properties in targeted areas of a city or community, to augment the availability of appropriate housing, and to revitalize communities.

**WHO BENEFITS:** Property owners of approved projects receive short-term partial property tax exemptions. In 2008, seven projects have been approved.

**EVALUATION:** *by the Housing and Community Services Department*

This is a relatively new program and there has not been adequate time to assess the success of the Program. Before OHCS administration of the program, nine local jurisdictions implemented vertical housing zones. Three projects in two of these zones have now been completed. Since OHCS received the program in 2006 two more zones have been approved and four more projects have been certified. Another project is in the final stages of certification.

Once projects begin requesting the partial exemption from the assessor in the newly established zones, the local jurisdictions will be able to provide input as to whether the partial property tax exemption was successful in bringing revitalization to the community. There has not been adequate time to assess if the partial property tax exemption provided by this program is the most fiscally effective means of providing local jurisdictions with a tool to incentivize developers to build in areas where they typically may not build.

## 2.093 NEW HOUSES IN DISTRESSED AREA

Oregon Statute: 307.664

Sunset Date: None (Construction period expires 06-30-2015)

Year Enacted: 1989

2007–08 Assessed Value of Property Exempted: \$229 million

	Loss	Shift
2007–09 Revenue Impact:	\$3,300,000	\$900,000
2009–11 Revenue Impact:	\$3,500,000	\$1,000,000

**DESCRIPTION:** A city may grant a property tax exemption for newly constructed owner-occupied single-unit housing in a distressed area. 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. Homes built in designated distressed urban areas can be exempt from property tax for up to 10 successive tax years. Only the



value of the dwelling is exempt; the land remains taxable. A manufactured structure is eligible if it meets the definition of “needed housing” contained in ORS 197.307 (5) (a) to (f).

Approved property is exempt from city property taxes. The exemption also applies to the taxes of all districts who pass resolutions supporting the exemption and when the total combined rate of taxation of the city and agreeing taxing districts equals at least 51 percent.

To qualify for the exemption, the single family housing must meet all the following guidelines:

- Be constructed after January 1, 1990, and before July 1, 2015,
- Be used as a dwelling for one person or family,
- Have a value that is no more than 120 percent of the median sales price of single family homes located in the city.

To grant an exemption, a city must do all the following:

- Adopt a resolution or ordinance,
- Designate a distressed area,
- Adopt standards and guidelines,
- Approve applications,
- Certify approved exemptions to the assessor.

The property owner must file an application with the city to claim the exemption. A change of use will disqualify the property from the program. Upon disqualification, an additional tax equal to the tax benefit in the last year exempt, multiplied by the number of years exempt (10 maximum), is due.

**PURPOSE:** To “stimulate the construction of new single-unit housing in distressed urban areas in this state in order to improve in those areas the general life quality, to promote residential infill development on vacant or underutilized lots, to encourage home ownership and to reverse declining property values” (ORS 307.654).

**WHO BENEFITS:** Most of these accounts are in the Portland area. In 2008, there were 2,411 accounts with this exemption in Multnomah County.

**EVALUATION:** *by the Housing and Community Services Department*

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.

## 2.094 REHABILITATED HOUSING

Oregon Statute: 308.459

Sunset Date: 12-31-2016

Year Enacted: 1975, Sunset extended in 2007 (SB 777)

2007–08 Assessed Value of Property Exempted: \$20 million

	Loss	Shift
2007–09 Revenue Impact:	\$600,000	\$100,000
2009–11 Revenue Impact:	\$600,000	\$100,000

### DESCRIPTION:

A city or county may exempt from property tax any value that is attributed to the rehabilitation of housing or conversion of buildings for housing (single or multi-family) for 10 years. To be eligible for the partial exemption:

- If the housing is at least 25 years old at the time of application, it may qualify if it has undergone rehabilitation during or after September 1975, and before January 2017. The rehabilitation must have cost at least 5 percent of the assessed value of the property before rehabilitation.
- Regardless of the age of the housing, it may qualify if it has undergone rehabilitations after October 1989, and before January 2017, that cost at least 50 percent of the assessed value of the property before rehabilitation.

In addition, the property must:

- Fail to comply with one or more standards of applicable building or housing codes; and
- Be residential units of which at least 50 percent are for non-transient occupants; and
- 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; and

- Adopt standards for eligible rehabilitation including, if desired, negotiation of rents charged during the exemption period; and
- Accept both preliminary and final applications; and
- Approve or disapprove applications, giving reasons for its actions; and
- Certify approved exemptions to the assessor.

A property's value is frozen at its value before rehabilitation for 10 years. However, if the owners of the property participate in a low-income rental assistance contract with a government agency, the city may extend the limited assessment through December 31 of the assessment year during which the termination date of the contract falls. Qualified property is generally exempt only from city or county taxes. However, if districts representing at least 51 percent of the taxes on the property pass resolutions supporting the exemption, then the exemption applies to the taxes of all districts.

**PURPOSE:** To “encourage the rehabilitation of existing units in substandard condition and the conversion of transient accommodation to permanent residential units and the conversion of non-residential structures to permanent residential units in order to make these units sound additions to the housing stock of the state” (ORS 308.453).

**WHO BENEFITS:** Multnomah County reported 82 rehabilitation properties in 2008, which shows a decrease from the 137 properties in 2004. Multi-family housing accounts for a substantial share of the value exempted.

**EVALUATION:** *by the Housing and Community Services Department*

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; see tax expenditure 2.093, New Houses in Distressed Area, for more information.

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.

## 2.095 MULTI-FAMILY RENTAL HOUSING IN CITY CORE

Oregon Statute: 307.612  
 Sunset Date: 12-31-2011  
 Year Enacted: 1975

2007–08 Assessed Value of Property Exempted: \$351 million

	Loss	Shift
2007–09 Revenue Impact:	\$10,500,000	\$1,600,000
2009–11 Revenue Impact:	\$11,300,000	\$1,700,000

**DESCRIPTION:** Cities and Counties may grant a property tax exemption for multiple-family rental housing (excluding land) in core, light rail station, and transit oriented areas for up to 10 successive years. 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; and
- Designate the eligible area; and
- Adopt standards for eligible developments including existing use of property, design, rents, and long-term public benefits; and
- Provide and accept applications; and
- Hold public hearings to determine whether proposed projects would be built without property tax benefits; and
- Approve or disapprove applications, giving reasons for its actions.

Approved property is exempt from city or county property taxes. The exemption also applies to the taxes of all districts that pass resolutions supporting the exemption and when the total combined rate of taxation of the city or county and agreeing taxing districts equals at least 51 percent. The exemption does not include the land or any improvements not part of the multiple-unit housing, but may include parking constructed as part of the multiple-unit housing construction, addition or conversion. In the case of a structure to which improvements are added or the structure is converted, only the addition or conversion value is exempt. Construction is to be completed by January 1, 2012, but an extension is possible.

Any city over 300,000 in population (i.e., Portland) may include urban renewal land and land near the central business district within its eligible core area.

For additional provisions associated with this exemption see 2.096, Low-Income Multi-Unit Housing.

**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:** For 2007-08, Multnomah County reported 385 exempt properties, Lane County reported 103 exempt properties, and Douglas County reported one exempt property.

EVALUATION: *by the Housing and Community Services Department*

This expenditure achieves its purpose. This is a relatively older tax exemption program that offers a long track record to judge its success. The exemption offers an incentive for developers to construct or convert to rental housing developments they would not otherwise construct or convert in city downtown core areas. The burden of proof falls on the developers as to whether any given development would have been built without the benefit of the exemption. This point must be demonstrated through a series of public hearings. The exemption is popular, but the process for either seeking or receiving qualification for the exemption is expensive and time consuming. Salem, for example, still presently has only one property that has this exemption for a total of 92 units (Salem has had a total of three since the exemption was created). The exemption expires in 2001. Two attempts have been made in the last few years to gain approval for a housing development in Salem's Downtown Urban Renewal District. The first time, the city approved the project but the county had not adopted a resolution supporting the exemption. The second proposal was withdrawn with the developer citing the time and expense involved in the process as being too prohibitive. Eugene has seven properties that are exempt under this program.

The process for obtaining the exemption is cumbersome. The city of Portland charges \$5,000 per application to help offset the costs associated with qualifying a property for the exemption. The city holds three hearings on the application and must ultimately adopt a city ordinance to approve it. The Portland Development Commission and the city of Portland both get involved in detailed analysis and negotiations to ensure the exempted property provides such public benefits as: 1) reduction of rents, 2) a limited rate of return on investment to the developer and the subsequent owner of only 10–12 percent per year, and 3) public art, landscaping, child care, or set-asides of land for public parks. Although developments need only 10 units or more to qualify for the exemption; the complexity of the process makes it impractical for all but large developments. Therefore, the exemption tends to exclude smaller projects and less sophisticated housing developers.

No limit exists for how expensive the exempted units may be as long as the overall development is located in a qualifying geographical area, would not be so located without the exemption, and serves some public purpose. The hearings process is designed to ensure that these requirements are met, but the Portland hearings have rarely attracted any significant public input. As a result, exemptions have been entered on the Portland City Council's consent calendar for relatively summary disposition. The proposed project in Salem, on the other hand, attracted a great deal of opposition, primarily because the plan was for high-end condominiums on the riverfront.

The exemption seems to perform a solid public purpose, but is subject to a locally designed approval process.

## 2.096 LOW-INCOME MULTI-UNIT HOUSING

Oregon Statute: 307.612

Sunset Date: 01-01-2012

Year Enacted: 1999

2007–08 Assessed Value of Property Exempted: Included in 2.095, Multi-Family Rental Housing in City Core.

	Loss	Shift
2007–09 Revenue Impact:	Included in 2.095	Included in 2.095
2009–11 Revenue Impact:	Included in 2.095	Included in 2.095

**DESCRIPTION:** This tax expenditure is an addition to the tax expenditure 2.095, Multi-Family Rental Housing in City Core. For 10 years, a city may exempt from property tax any building operated as low-income rental housing under a low-income assistance contract with the state or federal government, or a facility that has been converted into multiple-unit housing for low-income residents in a city or county that has adopted an ordinance.

An exemption is allowed only when the city or county has designated an area in which exemptions may be granted and has approved the exemption application. This exemption does not include the land associated with the multi-unit housing. Applications must have been received for tax years beginning July 1, 2000, or later, and received through January 1, 2012.

**PURPOSE:** The statute that allows this expenditure does not explicitly state a purpose. Presumably, the purpose is to provide an incentive to maintain or expand the supply of low-cost rental housing.

**WHO BENEFITS:** Owners of low-income rental housing complexes, who otherwise may have been forced to cease renting to low-income tenants.

**EVALUATION:** *by the Housing and Community Services Department*

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.

## 2.097 NEW HOUSING FOR LOW-INCOME RENTAL

Oregon Statutes: 307.517 and 307.518

Sunset Date: 12-31-2009

Year Enacted: 1989

2007–08 Assessed Value of Property Exempted: \$46 million

	Loss	Shift
2007–09 Revenue Impact:	\$1,400,000	\$200,000
2009–11 Revenue Impact:	\$1,400,000	\$200,000

**DESCRIPTION:** Newly constructed rental housing occupied by low-income persons or held for future development as low-income rental housing is exempt from property taxes for 20 years if the property is:

- Located in a city or county that adopts state statutes; and
- Built after the city or county adopts state statutes, and completed before January 1, 2010; and
- Approved by the city or county upon application; and
- Rented only to persons with income at or below 60 percent of area median income based on U.S. Department of Housing and Urban Development criteria; and
- Rented at rates that reflect the full property tax reduction.

The owner may be either a for-profit business or nonprofit entity. Leasehold interests qualify if the lease requires payment of property tax or the rent reflects the exemption tax savings. In addition, low-income rental residences owned by a nonprofit public benefit or religious corporation under state law (rather than as a federal 501(c)(3) nonprofit) are exempt provided the corporation uses 90 percent of its rental income for repair, purchase, or onsite daycare services for the residents.

Approved property is exempt only from city or county taxes. To exempt all property tax, districts levying 51 percent or more of the taxes on the property must pass a resolution to approve the exemption.

**PURPOSE:** To encourage for-profit businesses to develop low-income housing by providing an exemption similar to that available to nonprofit organizations in cities adopting an exemption program under ORS 307.541; see tax expenditure 2.098, Nonprofit Low-Income Rental Housing.

**WHO BENEFITS:** For 2007-08, counties reported approximately 75 properties exempt, most being located within Lane County.

**EVALUATION:** *by the Housing and Community Services Department*

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

Property Tax  
 Partial Exemption

criteria, it receives the benefit of the exemption. It is relatively easy to administer once in place. However, some jurisdictions have not adopted the authorizing provisions because the extent of their ability to add constraints to existing criteria for granting exemptions has not been clearly established. An amendment clarifying the ability of local governments to add additional criteria or to shorten the length of the exemption would be of value in encouraging more local governments to adopt and use this exemption.

The taxing entity typically requires an annual report of tenant income levels and the rental rates being charged in exempted developments. This helps ensure fulfillment of the requirement that the project rental rates reflect the full property tax reduction and prevents possible abuse of the exemption by developers or development owners.

After the 20-year exemption, the entire property comes onto the tax rolls at its full assessed value. Tenants, property owners, and local governments benefit in the long term.

Since Measure 50 took effect in 1997, property tax exemptions have caused actual revenue losses to local governments. Before Measure 50, exemptions did not decrease local tax revenues because other property tax payers paid at a higher tax rate to compensate. Despite the loss to local governments caused by Measure 50, local governments have elected to increase the exempted value significantly since Measure 50.

This exemption enables local governments to contribute to providing affordable housing in their communities without raising additional revenue and spending it on affordable housing. The administrative costs of this exemption are likely less than would be incurred through a direct program developed to achieve this objective. This exemption fits well with other direct and indirect spending programs for affordable housing assistance. The exemption is both fiscally effective and an efficient means of achieving its public goal.

OHCS recommends that this exemption which is scheduled to sunset December 31, 2009 be extended. This resource is especially important given the current economic conditions which have increased the demand for affordable rental housing and have made obtaining resources for developing that housing more difficult.

**2.098 NONPROFIT LOW-INCOME RENTAL HOUSING**

Oregon Statute: 307.541  
 Sunset Date: 06-30-2014  
 Year Enacted: 1985

2007–08 Assessed Value of Property Exempted: \$363 million

	Loss	Shift
2007–09 Revenue Impact:	\$10,800,000	\$1,700,000
2009–11 Revenue Impact:	\$11,700,000	\$1,800,000

DESCRIPTION: A city or county may exempt low-income rental housing owned or being purchased by a nonprofit corporation from property tax. The property must be in use as housing



or must be held for that purpose. Qualifying nonprofit corporations must be exempt from federal income tax [Section 501(c)(3) or (4) of the Internal Revenue Code] and upon liquidation distribute remaining assets to other tax-exempt charitable organizations or the state of Oregon.

Qualified property is exempt only from city or county taxes. To exempt all property taxes, districts levying 51 percent or more of the taxes on the property must pass resolutions to approve the exemption.

The nonprofit corporation must certify that the income levels are below 60 percent of median family income guidelines and describe how the exemption will benefit project residents. No restriction exists on whether the housing is newly constructed, an existing structure, or a rehabilitated structure.

Each year the nonprofit corporation must file an application with the appropriate governing body to claim the exemption. The exemption is only allowed for tax years beginning on or after January 1, 1985, and before July 1, 2014.

This expenditure is similar to 2.097, New Housing for Low-Income Rental. The qualifications differ somewhat for each expenditure, but for nonprofit organizations, they may likely qualify under either requirement.

PURPOSE:	The statute that allows this expenditure does not explicitly state a purpose. Presumably, the purpose is to encourage nonprofit organizations to help fill the need for low-income housing.
WHO BENEFITS:	Nonprofit organizations benefit directly. The tenants of the housing benefit to the extent that below-market rate rental housing is available. For 2007-08, counties reported approximately 600 properties, most located in Multnomah County.
EVALUATION:	<i>by the Housing and Community Services Department</i> This expenditure achieves its purpose. The exemption is intended to enable community development corporations and other qualifying local nonprofit organizations to provide affordable rental housing for low income households they would otherwise be unable to provide. To qualify for this popular program, the nonprofit submits an application each year for a one-year exemption, renewable indefinitely before the exemption's sunset date as long as the organization, tenants, and property continue to meet the qualifying criteria. The exemption is simple to administer because the criteria are clear: 1) the benefiting organization must be a qualified nonprofit, 2) the benefiting tenants must have qualifying income levels, and 3) the property must consist of qualifying rental housing. Having met these requirements, a nonprofit will receive its exemption. The tax expenditure appears to be both a fiscally effective and efficient means of achieving its goal. These exemptions can be counted as matching funds by the state and other local participating jurisdictions to enable the expenditure of HUD Home Investment Partnerships funds.

## 2.099 DISABLED WAR VETERANS OR THEIR SPOUSES

Oregon Statute: 307.250

Sunset Date: None

Year Enacted: 1921

2007–08 Assessed Value of Property Exempted: \$830 million

	Loss	Shift
2007–09 Revenue Impact:	\$22,200,000	\$3,600,000
2009–11 Revenue Impact:	\$24,000,000	\$3,900,000

**DESCRIPTION:** Eligible war veterans or their surviving spouses may have a portion of their homestead or personal property’s assessed value exempt from property taxes. The taxpayer must own and live on the property. A war veteran must have disabilities of 40 percent or more as certified by The United States Department of Veterans Affairs or any branch of the United States Armed Forces. A surviving spouse of a war veteran must remain unmarried to qualify. War veterans can be certified disabled by a private licensed physician, however they must have total gross income of not more than 185 percent of federal poverty guidelines to qualify for this exemption. For 2007-08, the exemption amount was \$15,450, however if the war veteran had service-connected disabilities the exemption amount was \$18,540. These amounts increase by 3 percent each year. In 2007, the filing criteria of this exemption (ORS 307.260) were revised by HB 2237.

Qualified nonprofit homes for the elderly as defined in 2.100, War Veterans in Nonprofit Elderly Housing, can claim this exemption for their eligible residents if they pass the tax benefit through to these residents in terms of lower rentals (ORS 307.260). The revenue impacts reported here include those real property exemptions for eligible war veterans or their surviving spouses who live in these qualified nonprofit homes for the elderly.

**PURPOSE:** The statute that allows this expenditure does not explicitly state a purpose. Presumably, the purpose is 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:** For 2007-08, counties reported that approximately 37,000 properties inhabited by eligible war veterans or their surviving spouses claimed this exemption.

**EVALUATION:** *by the Department of Veterans’ Affairs*

This tax expenditure achieves its purpose by providing an additional income benefit to disabled war veterans and surviving spouses of war 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.

## 2.100 WAR VETERANS IN NONPROFIT ELDERLY HOUSING

Oregon Statute: 307.370

Sunset Date: None

Year Enacted: 1969

2007–08 Assessed Value of Property Exempted: \$3 million

	Loss	Shift
2007–09 Revenue Impact:	\$100,000	Less than \$50,000
2009–11 Revenue Impact:	\$100,000	Less than \$50,000

**DESCRIPTION:** Qualified nonprofit homes for the elderly can claim the real property exemption 2.099, Disabled War Veterans or Their Spouses for their eligible residents if they pass the tax benefit through to these individuals in terms of lower rentals. Besides the real property veteran's or surviving spouse's exemption, all personal property used in the operation of nonprofit homes for the elderly is exempt from property taxation. The revenue impacts reported here, account for the exempt value of personal property of the nonprofit homes only. The revenue impacts that account for the exempt real property is included in tax expenditure 2.099, Disabled War Veterans or Their Spouses.

To qualify for this exemption:

- The home must be exclusively occupied and used in the operation of a nonprofit home for elderly persons; and
- The home must receive at least 95 percent of its operating revenue (excluding investment income) from residents for living, medical, recreational and social service costs; and
- The home cannot allow any of its net earnings to benefit any private individual; and
- The organization provides in its articles 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 tax expenditure 2.111, Nonprofit Housing for the Elderly. However, this exemption relates to the value of the personal property exemption. A claim for exemption must be filed with the county assessor.

**PURPOSE:** The statute that allows this expenditure does not explicitly state a purpose. Presumably, the purpose is 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:** In 2007-08, several counties reported that only a small number of nonprofit homes for the elderly claimed this exemption for their personal property.

**EVALUATION:** *by the Department of Veterans' Affairs*

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 2.099, Disabled War Veterans or Their Spouses. This benefit may allow disabled

veterans and surviving spouses to remain independent and reduce their use of other social programs.

However, there are only about 15 such nonprofit homes for the elderly where disabled veterans and spouses can receive a rent reduction. It would appear that the number of veterans and spouses who can take advantage of this program is quite limited. In addition, we did not have the information to verify that the rent reductions were passed through to the eligible veterans and spouses, although a verification mechanism is in place. According to statute, each nonprofit corporation must provide information to the county assessor to show that the appropriate rent credit was given to each applicable resident.

## 2.101 POLLUTION CONTROL FACILITIES

Oregon Statute: 307.405

Sunset Date: 12-31-2007

Year Enacted: 1967

2007–08 Assessed Value of Property Exempted: \$2 million

	Loss	Shift
2007–09 Revenue Impact:	\$100,000	Less than \$50,000
2009–11 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 was eligible for a property tax exemption.

The Environmental Quality Commission certified the facility cost and the exemption percentage. The exemption lasts 20 years from the date of certification. Sunset date in this case means a deadline for certification.

A pollution control facility was any land, structure, machinery, equipment, or device that prevented, controlled, or reduced air, water, noise, or nonpoint source pollution, solid or hazardous waste, or recycled or disposed of used oil. In most cases, the percentage allocable to pollution control depended on whether the owner earns any income from the facility. Thus, if a pollution control facility, in addition to reducing pollution, had some useful end product, then only a portion of the construction of the facility might be allocated to pollution control.

The program provided 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 compensated cooperatives and nonprofits for installing facilities required by the Department of Environmental Quality or by the U.S. Environmental Protection Agency; defined as “principal purpose facilities.”

This exemption was a companion to the income tax credit described in tax expenditure 1.440, Pollution Control. For-profit companies were eligible for the income tax credit, while nonprofits and cooperatives were eligible for the property tax exemption.

**PURPOSE:** To “assist in the prevention, control and reduction of air, water and noise pollution and solid waste, hazardous wastes and used oil in this state by providing tax relief...” (ORS 468.160).

**WHO BENEFITS:** In 2007-08, there were 22 pollution control facilities located in five counties.

**EVALUATION:** Not evaluated.

## 2.102 ETHANOL PRODUCTION FACILITIES

Oregon Statute: 307.701  
Sunset Date: 06-30-2008  
Year Enacted: 1993

2007–08 Assessed Value of Property Exempted: \$0

	Loss	Shift
2007–09 Revenue Impact:	\$0	\$0
2009–11 Revenue Impact:	\$0	\$0

**DESCRIPTION:** The real and personal property of an ethanol production facility was partially exempt from taxation. The exemption was for 50 percent of the assessed value of the property determined under ORS 308.146. The exemption could be claimed for five assessment years. For the exemption to apply, the following conditions must have been met:

- The facility was first in the process of construction, erection, or installation as a new facility after July 1, 1993; and
- The facility was 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 was claimed, the facility was 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 have been filed with the county assessor. If production or certification does not occur within the time allowed, the property was not exempt for any tax year. Any prior exemption must be repaid by adding the property to the role as omitted property. No exemption is granted after sunset date.

**PURPOSE:** The statute that allowed this expenditure did not explicitly state a purpose. Presumably, the purpose was to encourage ethanol production in Oregon to alleviate dependence on foreign oil, as well as to encourage an alternative method to dispose of agricultural waste.

**WHO BENEFITS:** Developers of ethanol production facilities benefited. Facilities functioning in 2007-08 that could benefit from this provision were exempt under other statutes.

**EVALUATION:** Not evaluated.

## 2.103 ALTERNATIVE ENERGY SYSTEMS

Oregon Statute: 307.175

Sunset Date: 06-30-2012

Year Enacted: 1975, Modified in 2007 (HB 3488)

2007-08 Assessed Value of Property Exempted: \$66 million

	Loss	Shift
2007–09 Revenue Impact:	\$1,800,000	\$300,000
2009–11 Revenue Impact:	\$2,000,000	\$300,000

**DESCRIPTION:** Solar, geothermal, wind, water, fuel cell, or methane gas energy systems used for heating, cooling, or generating electricity are 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 only case when energy-supplying entity can qualify is if the system is a net metering facility or other system primarily designed to offset onsite electricity use.

**PURPOSE:** The statute that allows this expenditure does not explicitly state a purpose. Presumably, the purpose 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 23,000 residential properties and more than 600 businesses in Oregon have installed solar or other renewable energy systems since the program began.

**EVALUATION:** *by the Department of Energy*

It is difficult to measure the impact the tax exemption has made on the number of households and businesses installing equipment that uses solar, wind, hydro, or geothermal energy. The predominant incentives that have encouraged such installations have been the tax credits described in 1.445, Alternative Energy Devices (Residential), and 1.447, Business Energy Facilities, 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.

## 2.104 WATERCRAFT CENTRALLY ASSESSED

Oregon Statute: 308.256

Sunset Date: None

Year Enacted: 1925

2007–08 Assessed Value of Property Exempted: Not Available\*

	Loss	Shift
2007–09 Revenue Impact:	Not Available*	Not Available*
2009–11 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.*

<b>DESCRIPTION:</b>	<p>Some watercraft used outside Oregon are partially exempted from property taxation. The watercraft of water transportation companies (barges, tugboats, excursion boats, etc.) involved in transportation of people or goods on inland waters (including border rivers and coastal bays) are centrally assessed for property taxation by the Department of Revenue. Also, the department assesses watercraft of centrally assessed utilities. 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. Interstate ferries also fall within this exemption.</p> <p>A related provision, 2.113, Watercraft Locally Assessed, allows for special assessment of some other types of commercial watercraft.</p>
<b>PURPOSE:</b>	<p>The statute that allows this expenditure does not explicitly state a purpose. Presumably, the purpose is to apportion to Oregon the taxable value of watercraft based on their use in Oregon.</p>
<b>WHO BENEFITS:</b>	<p>Only a small number of centrally assessed water transportation companies qualify for the exemption.</p>
<b>EVALUATION:</b>	<p>Not evaluated.</p>

## 2.105 HISTORIC PROPERTY

Oregon Statute: 358.505

Sunset Date: 06-30-2010

Year Enacted: 1975, Modified in 2007 (SB 416)

2007-08 Assessed Value of Property Exempted: \$1 billion

	Loss	Shift
2007–09 Revenue Impact:	\$26,000,000	\$4,300,000
2009–11 Revenue Impact:	\$19,800,000	\$3,200,000

**DESCRIPTION:** Qualified historic property can be specially assessed at a frozen value for 15 years. The specially assessed value is the assessed value at the time of application for special assessment. Applications for special assessment must be approved by the State Historical Preservation Officer; local governments can disallow property from special assessment. Applicants must pay a fee and file a plan for proposed rehabilitation and maintenance. Property may not be classified and specially assessed if the application is filed on or after July, 1 2010.

In effect, the assessed value cannot exceed the assessed value at the time of application; increased value from improvements or inflation is exempt for 15 years.

Property is disqualified from this special assessment at the end of the 15 year period, but can qualify for a second 15 year period if reapplication is approved and the local government (city, or county if not located in a city) opts to allow it (by resolution). Approval of reapplication of commercial property requires plans for significant investment in seismic upgrades, energy conservation, or disability access. Following the second 15 year period, the property can no longer qualify.

If the historic property is disqualified, either at the owner's request or from failure to meet the requirements, the tax savings from having a frozen value must be repaid. The additional tax and interest is equal to the sum of the tax benefit received for each year of special assessment as historic property. In addition, if the owner fails to notify the assessor when the property becomes disqualified, the additional tax is increased by a penalty of 15 percent. However, if the property is destroyed by fire or act of God or transferred to a tax-exempt owner, or transferred to a new owner who expressly assents to and continues to implement the preservation plan in effect, no additional tax or penalty is charged. Also, if an owner invests five times the amount of the interest imposed following disqualification in the historic building, they do not have to repay the back taxes.

**PURPOSE:** To "...maintain, preserve and rehabilitate properties of Oregon historical significance..." (ORS 358.475).

**WHO BENEFITS:** In 2007-08 there are 780 historic properties participating in the program. Commercial projects account for 46 percent of all projects. This is up from 37 percent last year. As might be expected, commercial projects also represent a much higher percentage of the total assessed value (72 percent). Participating properties are in almost every county, but they are concentrated in Multnomah County, accounting for 37 percent of all projects and 80 percent of the total assessed value.

**EVALUATION:** *by the Oregon Parks and Recreation Department*

This expenditure has been very successful in achieving its purpose, but the substantial reduction in property taxes caused by Measures 5 and 50 in the 1990s reduced the incentive for taxpayers to participate in the program. Despite a mild



resurgence of new projects during the 2004-2007 economic upswing, the average number of new projects was still less than half of the 140 average experienced during the program's heyday of the late 1980s and early 1990s.

Oregon's program is the nation's oldest tax incentive for the preservation of historic property. The incentive attracts both commercial and residential clients, representing all economic groups. The benefit, originally enacted as an anti-demolition incentive, has been used to save hundreds of significant abandoned or economically underutilized historic properties and to revitalize whole areas in communities. Direct investment in rehabilitation, stabilization, or expansion of the work force in historic urban commercial areas, re-use of existing infrastructure, and stabilization or expansion of the existing tax base are all measurable benefits of the expenditure. Other benefits include the preservation of the tangible remnants of Oregon's history, the enhancement of Oregon's quality of life, and the economic development and tourism benefits.

The economic benefits of the program more than offset the costs to local government. Rehabilitation activity might have occurred without the incentive, but certainly not at the pace or extent that has been exhibited in the past. This is especially true of commercial projects, where the incentive is often critical to making projects feasible for business owners and developers.

Despite this success, many potential recipients will not utilize the benefit, particularly in areas of the state with flat economies. Mostly, this is because the effectiveness of the incentive has been greatly reduced by Ballot Measures 5 and 50.

As a result of Measure 50, specially-assessed property owners have seen further reductions in savings because taxable assessed values are no longer directly tied to real market values. Without the potential for double-digit valuation increases on an individual property, the value of the benefit to the owner is reduced. Potential savings are also reduced because improvements classified as minor construction do not change a property's assessed value.

In addition, depending on each particular property's circumstances, the operation of Measure 50 can establish a higher assessed value after the property completes the 15 year special assessment period than the property would have had if it had not been specially assessed. The higher assessed values continue into the future and can erase the tax benefit enjoyed during the special assessment period. This situation, though not common, occurs with properties located in areas that have undergone substantial increases in property values. It has emerged as a problem only in the past year or two.

Despite the reduction in benefits, this program continues to provide an attractive incentive for historic building owners. Though the benefit has diminished over time, it still helps offset the high costs of restoring and maintaining some of Oregon's significant historic architecture.

The program has a heavier administrative burden than it should, partly due to the fact that it has been around for 30 years and has been amended a number of times. But overall it still functions quite well.

In terms of other ways to achieve the goals of this program, a direct expenditure, namely grants for restoration, could accomplish some of the purposes, but there would most likely not be a sufficient level of funding to accommodate all worthy projects. Plus, in a competitive grant selection process, it is likely that the

Property Tax  
 Partial Exemption

applications from smaller and more rural projects would be edged out by more sophisticated and comprehensive applications from urban areas where professional expertise is more readily available.

Another incentive option is a state investment tax credit. A percentage of restoration costs (20 percent, in most states with such an incentive) is applied to the owner's state income tax. The benefit is directly proportional to the owner's investment (which is not true with the current property tax freeze program), and the program would be easier to administer because it would not entail monitoring for 15 years. Thus far, the Governor's Office has not supported the investment tax credit proposal.

**2.106 AIRCRAFT**

Oregon Statutes: 308.558 and 308.565 (5)  
 Sunset Date: None  
 Year Enacted: 1987

2007–08 Assessed Value of Property Exempted: \$404 million

	Loss	Shift
2007–09 Revenue Impact:	\$10,500,000	\$1,700,000
2009–11 Revenue Impact:	\$10,200,000	\$1,700,000

- DESCRIPTION:** Generally, aircraft are exempt from property taxation but pay registration fees to the Department of Aviation. Aircraft owned by commercial airlines that weigh less than 75,000 pounds are 40-percent exempt. Transportation company aircraft weighing 75,000 pounds or more are fully taxable and are centrally assessed by the Department of Revenue in proportion to the company's business in Oregon.
- PURPOSE:** The statutes that allow this expenditure do not explicitly state a purpose. Presumably, the purpose is to avoid administrative problems of assessing the value of mobile property.
- WHO BENEFITS:** The Department of Aviation registers about 6,450 aircraft that are exempt from property tax. In addition, a few air transportation companies own aircraft under 75,000 pounds that are taxed at 60 percent of their assessed value.
- IN-LIEU:** The annual registration fee varies from \$37 for a sailplane to \$187 for a turbojet. Registration fees as an in-lieu payment were about \$438,000 in 2007.
- EVALUATION:** Not evaluated.

## 2.107 RAILROAD RIGHT OF WAY IN WATER DISTRICT

Oregon Statute: 264.110  
Sunset Date: None  
Year Enacted: 1943

2007–08 Assessed Value of Property Exempted: \$10 million

	Loss	Shift
2007–09 Revenue Impact:	Less than \$50,000	Less than \$50,000
2009–11 Revenue Impact:	Less than \$50,000	Less than \$50,000

**DESCRIPTION:** Railroad right of way, improvements, and rolling stock are exempt from property tax imposed by a water supply district formed after June 9, 1943.

**PURPOSE:** The statute that allows this expenditure does not explicitly state a purpose. Presumably, the purpose is to avoid taxing a property owner that would not significantly benefit from a water district's services and might otherwise oppose a district's formation.

**WHO BENEFITS:** Railroad companies that have property in water supply districts.

**EVALUATION:** Not evaluated.

## 2.108 RAILROAD RIGHT OF WAY IN HIGHWAY LIGHTING DISTRICT

Oregon Statute: 372.190  
Sunset Date: None  
Year Enacted: 1947

2007–08 Assessed Value of Property Exempted: Minimal

	Loss	Shift
2007–09 Revenue Impact:	Less than \$50,000	Less than \$50,000
2009–11 Revenue Impact:	Less than \$50,000	Less than \$50,000

**DESCRIPTION:** Railroad rights of way are exempt from property tax imposed by a highway lighting district unless the right of way is at a grade crossing.

**PURPOSE:** The statute that allows this expenditure does not explicitly state a purpose. Presumably, the purpose is to avoid assessing a property owner that would not significantly benefit from a lighting district's services and might otherwise oppose a district's formation.

**WHO BENEFITS:** Railroad companies that have property in highway lighting districts. There are very few highway lighting districts in Oregon.

**EVALUATION:** Not evaluated.

Property Tax  
 Partial Exemption

## 2.109 RAILROAD RIGHT OF WAY IN RURAL FIRE DISTRICT

Oregon Statute: 478.010(2)(d)  
 Sunset Date: None  
 Year Enacted: 1969

2007–08 Assessed Value of Property Exempted: \$156 million

	Loss	Shift
2007–09 Revenue Impact:	\$500,000	Less than \$50,000
2009–11 Revenue Impact:	\$600,000	Less than \$50,000

**DESCRIPTION:** Railroad right of way, improvements, and rolling stock are exempt from property tax imposed by a rural fire protection district unless the railroad consents to be taxed.

**PURPOSE:** The statute that allows this expenditure does not explicitly state a purpose. Presumably, the purpose is to avoid assessing a property owner that would not significantly benefit from a rural fire district and might otherwise oppose a district’s formation.

**WHO BENEFITS:** Railroad companies that have property in fire districts are the beneficiaries.

**EVALUATION:** Not evaluated.

## 2.110 HOMESTEAD EXEMPTION FOR FEDERAL ACTIVE DUTY MILITARY SERVICEMEMBERS

Oregon Statute: 307.286  
 Sunset Date: None  
 Year Enacted: 2005, Modified in 2007 (HB 2023)

2007–08 Assessed Value of Property Exempted: \$72.5 million

	Loss	Shift
2007–09 Revenue Impact:	\$3,500,000	\$600,000
2009–11 Revenue Impact:	\$2,100,000	\$300,000

**DESCRIPTION:** Oregon residents who are serving in the Oregon National Guard, military reserve forces, or organized militia of any other state may apply for an Oregon property tax exemption on their homestead of up to \$60,000 in assessed value if:

- They serve on active duty under Title 10 of the United States Code or are deployed under the Emergency Management Assistance Compact (EMAC) for at least one day of the tax year (July 1 - June30) claimed; and
- They serve at least 178 consecutive days on active duty, regardless of where they serve.

If the qualified service member dies while performing the service, the person occupying the service member’s home may file for the exemption.

The usual tour of duty for call-ups is 15-24 months, so most taxpayers who qualify will be able to claim the exemption in two or three consecutive years. The amount of the exemption increases by 3 percent each year.

The 2007 Legislature expanded eligibility for this exemption and allowed newly eligible individuals to file retroactive applications for the exemption. The 2007-09 revenue impact includes the effect of these retroactive applications.

**PURPOSE:**

The statute that allows this expenditure does not explicitly state a purpose. Presumably, the purpose is to assist Oregon households where a member has been called away from home to active military service during the year.

**WHO BENEFITS:**

Members of the Oregon National Guard, Armed Forces Reserves, or organized militia who spend extended periods on federal active duty service during the tax year or members of their households.

**EVALUATION:**

*by the Military Department*

This tax expenditure alleviates property tax burdens for members of the Oregon National Guard and Reserve members of the United States Armed Forces who are deployed on federal active duty for 178 days or more. The direct recipients are the service members and their families, who often are impacted financially and emotionally during long deployments. It serves as valuable acknowledgement of the sacrifices service members and their families make in honored service to the nation.

## 2.111 NONPROFIT HOUSING FOR THE ELDERLY

Oregon Statute: 308.490

Sunset Date: None

Year Enacted: 1969

2007–08 Assessed Value of Property Exempted: Minimal

	Loss	Shift
2007–09 Revenue Impact:	Less than \$50,000	Less than \$50,000
2009–11 Revenue Impact:	Less than \$50,000	Less than \$50,000

**DESCRIPTION:** The assessed value of a home for the elderly operated by a nonprofit corporation may only be calculated using certain appraisal methods. These methods may not take into account replacement cost, but rather include: the amount of money for which the property may be exchanged in a reasonable period of time, the gross income that could be reasonably expected from the property if leased or rented, and the relative supply and demand for such properties. Use of the gross income method for these properties generally results in lower assessed values than would be arrived at using a replacement cost approach. These lower assessed values result in decreased taxes on these properties.

The nonprofit corporation must be organized and operated to provide permanent residential, recreational, and social facilities primarily for the elderly and receive 95 percent of its gross operating revenue from payments for housing, medical, and recreation services received in its facilities.

**PURPOSE:** To encourage housing for the elderly. The statutory policy is to recognize “benefits inherent in operation of these homes, especially in the housing and care furnished to elderly persons for whom this state and its political subdivisions otherwise might be responsible...” (ORS 308.490(1)).

**WHO BENEFITS:** Nonprofit organizations that own elderly residence facilities receive the direct benefit from this expenditure. Qualifying facilities may serve a wide range of tenants, and these tenants may have any income level because there is no tenant income requirement.

**EVALUATION:** *by the Housing and Community Services Department*

Whether this tax expenditure achieves its purpose is difficult to determine without more information. Unlike many other housing-related tax expenditure programs, this does not involve local government decision-making, but rather contemplates that nonprofit owners of qualified housing will deal directly with local assessors. The tax expenditure is intended to encourage owners to provide housing for the elderly that they might not otherwise be able to provide. The program benefits the owner directly through reduced property taxes and the occupants indirectly by ensuring that this form of housing is available to them, presumably at a reduced rate from market rents commensurate with the tax savings. No verification mechanism is in place to ensure this result. Additionally, those active in the provision of affordable housing in the state of Oregon claim this program is not significant in state or local efforts to provide affordable housing.

## 2.112 MULTI-UNIT RENTAL HOUSING

Oregon Statutes: 308.704

Sunset Date: None

Year Enacted: 2001

2007–08 Assessed Value of Property Exempted: \$66 million

	Loss	Shift
2007–09 Revenue Impact:	\$2,000,000	\$300,000
2009–11 Revenue Impact:	\$2,100,000	\$300,000

**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.

Upon application to the assessor by the owner before April 1 of the assessment year applied for, the owner may select a special assessment calculation method. If the application is submitted between April 1 and December 31, a late fee must accompany the application. The special assessed value may be calculated either by using:

- An annual net operating income approach and a capitalization rate; or
- An adjustment of market value based on the ratio of the average rent of restricted income rental units to the average rent of similar units that do not have tenant income qualifications and limited rents.

The assessed value is then determined as the lesser of the special assessed value, real market value, or maximum assessed value. In the first year applied for, the maximum assessed value equals the special assessed value multiplied by the ratio of maximum assessed value to real market value of properties in the same area with the same property class as the specially assessed property.

**PURPOSE:** The statute that allows this expenditure does not explicitly state a purpose. Presumably, the purpose is 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 is limited to farming.

**WHO BENEFITS:** For 2007-08, most counties report at least one property with approximately 480 properties statewide.

**EVALUATION:** *by the Housing and Community Services Department*

It is anticipated that this expenditure will achieve its purpose. The community of affordable housing developers, consisting of both for-profit and nonprofit organizations, were experiencing economic hardships with the valuation of properties based on the cost of development. The restricted rental incomes of the affordable housing developments throughout the state did not generate enough cash flow to

cover property taxes based on valuations related to cost of development. Owners of some newly created developments were forced to access operating reserves as a short-term gap to meet the additional property tax expenses. Without the relief offered through this special assessment, affordable housing developments were at risk of technical or actual default with their primary lenders. Without the relief, these same lenders would be less willing to underwrite new loans without additional subsidies from government entities thereby reducing the number of new affordable units that could be deployed.

## 2.113 WATERCRAFT LOCALLY ASSESSED

Oregon Statute: 308.256

Sunset Date: None

Year Enacted: 1925

2007-08 Assessed Value of Property Exempted: \$59 million

	Loss	Shift
2007–09 Revenue Impact:	\$1,600,000	\$300,000
2009–11 Revenue Impact:	\$1,600,000	\$300,000

**DESCRIPTION:** Oregon private commercial watercraft not involved in transporting people or goods for hire are specially assessed for property tax by county assessors.

- Ships and vessels used on inland waters are specially assessed at 40 percent of assessed value.
- Ships and vessels used on the high seas or between the high seas and inland ports (coastal fishing boats for example) are taxed at 4 percent of assessed value. Off-shore self-propelled oil drilling rigs are also taxed at 4 percent.
- All watercraft under construction or undergoing major remodeling are exempt. Major remodeling exists if the cost exceeds 10 percent of the value of the watercraft before remodeling.

Some types of commercial watercraft are not exempt, and are taxed at 100 percent of assessed value. These include dredges, museum ships, restaurant ships, any vessel used for deep-sea fish reduction or processing (but not canning), and non-Oregon private commercial boats of non-centrally assessed companies. Non-commercial watercraft are included in 2.056, Small Watercraft.

**PURPOSE:** The statute that allows this expenditure does not explicitly state a purpose. Presumably, the purpose is to provide tax relief to Oregon commercial fishermen.

**WHO BENEFITS:** The Department of Fish and Wildlife issued commercial fishing boat licenses to 1,321 Oregon residents and 414 nonresidents in 2007. This is the major portion of exempt value.

**EVALUATION:** *by the Department of Fish and Wildlife*

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.



## 2.114 WILDLIFE HABITAT

Oregon Statute: 308A.400

Sunset Date: None

Year Enacted: 1993

2007–08 Assessed Value of Property Exempted: \$45 million

	Loss	Shift
2007–09 Revenue Impact:	\$900,000	\$200,000
2009–11 Revenue Impact:	\$1,000,000	\$200,000

**DESCRIPTION:** Owners of property zoned as exclusive farm use or mixed farm and forest use or forest use may apply to participate in a wildlife habitat conservation management plan, if the land is clearly identifiable as containing significant wildlife habitat. Application is made to the Department of Fish and Wildlife. By entering into such a plan, the property owner receives the benefit of having the property valued as the farm or forest land special assessment without being required to meet all the farm or forest land special assessment qualifications. See 2.119, Farm Land; 2.116, Western Private Forestland; or 2.117, Eastern Private Forestland, for descriptions of the assessment methods.

Wildlife habitat special assessment is only available in counties or cities that have requested to be in the program. Management plans must be developed in conjunction with a cooperating agency such as the Department of Fish and Wildlife, the Oregon State University Extension Service, or others. The plans must be approved by the Department of Fish and Wildlife. Once approved, the land is assessed at either its farm use or forestland value. If land becomes disqualified, an additional tax may be required.

Once property is assessed under wildlife habitat special assessment, the property may roll back into the original farm or forest use special assessment without penalty if certain conditions are met. Likewise, farm or forest use specially assessed property may roll into the wildlife habitat special assessment without penalty for leaving the farm or forest use.

**PURPOSE:** To encourage “the protection and preservation of wildlife resources ... by recognizing wildlife habitat conservation and management as a legitimate land use.” (ORS 308A.403)

**WHO BENEFITS:** The direct beneficiaries are landowners who voluntarily enter into a wildlife habitat conservation and management plan approved by the Department of Fish and Wildlife. As of August 2008, there are approximately 280 landowners taking part in the program. Land under the program includes over 68,550 acres.

**EVALUATION:** *by the Department of Fish and Wildlife*

In 2007, the department completed a staff survey evaluation of the program. In general, the department believes the program is protecting wildlife habitat as intended. In districts where the counties are participating, the districts unanimously felt that the WHCMP is a positive program that helps assure landowner obligation to manage their properties with wildlife habitat protection, restoration, and enhancement as the main priority. The districts liked the coordination between the department and landowners, who believe the program makes significant improvements in their land management practices to benefit wildlife. Other benefits include creating more partnerships with local non-profits, watershed councils and SWCD’s. Staff also identified a number of concerns with the program. For districts with counties that

had opted out of the program, low participation was the main concern. For districts with participating counties, the lack of dedicated staff was the main issue. It represents an unfunded mandate that requires staff to redirect limited time away from other important priorities. The department may need to conduct a serious program evaluation to determine if future staff participation is appropriate. All of the high-participation districts felt that the program was not meeting its potential due to the lack of staff primarily at the field level, but also at headquarters level. Some districts felt that for the program to function fully, it would need a dedicated district staff person. All of the high-participation districts responded that they did not have time to adequately monitor the approved plans, recruit new landowners, or work with interested landowners to develop plans. One district identified that many landowners do not have the financial means to achieve optimal WHCMP goals. Therefore, the department approved plans that participants could implement, which was typically far short of what could be accomplished using outside funds. Other comments included inconsistency in enrollment requirements and vague conservation plans, especially older plans. There is currently no mechanism to update these plans. Some districts identified that some plan holders were not continuing promised maintenance.

The provisions for exemption were not fully extended to forestland until adoption of the same 2001 act. Before that time, a pilot program was established for agricultural land in Marion and Polk counties by a 1993 legislative act. The scope of the program was expanded to lands zoned for exclusive farm use or mixed farm and forest use throughout the entire state by a 1997 act, but not made mandatory for the counties. The 2001 act also gave counties the option to affirmatively “opt out” of the program until January 2003. If counties did not opt out by that date, they are in the program. As of January 2003, 22 of the 36 counties had opted out of the program. The 2003 Legislature amended the statute so that cities and counties may request the department designate areas as eligible for wildlife habitat special assessment. In 2005-07, Washington County has opted back into the program. Benton County has added some areas as eligible for wildlife habitat special assessment.

An indication of the effectiveness of the exemption is suggested by results to date in Oregon Department of Fish and Wildlife’s (ODFW) Deschutes Watershed District, which includes Deschutes County. According to ODFW data, some 104 landowners and 4,264 acres have been enrolled in the program in that county

## 2.115 FOREST HOMESITES

Oregon Statute: 308A.253  
Sunset Date: None  
Year Enacted: 1989

2007–08 Assessed Value of Property Exempted: \$415 million

	Loss	Shift
2007–09 Revenue Impact:	\$8,600,000	\$1,700,000
2009–11 Revenue Impact:	\$9,200,000	\$1,800,000

DESCRIPTION: "Homesite" means up to one acre of land including all tangible improvements to the land under and adjacent to a dwelling and other structures, customarily provided in conjunction with the dwelling. It does not include the value of the home built on the

land. A forest homesite being used in conjunction with specially assessed forest land has a special assessed property value. However, the housing structure is assessed the same as any other house.

A forest homesite used in conjunction with growing and harvesting trees must be on a parcel of more than 10 acres of highest and best use or designated forestland. The homesite specially assessed value is the value of one acre, calculated as the average real market value for all contiguous bare forestland (on a per acre basis) under the same ownership, plus up to \$4,000 for land improvements. Land improvements include a well and septic system necessary for a homesite.

**PURPOSE:** The statute that allows this expenditure does not explicitly state a purpose. Presumably, the purpose is 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:** For 2007-08, counties reported approximately 10,000 forest homesites.

**EVALUATION:** *by the Department of Forestry*  
Extending special forest assessments to forest homesites reinforces the effects of special assessments for forestland.

## 2.116 WESTERN PRIVATE FORESTLAND

Oregon Statute: 321.354

Sunset Date: None

Year Enacted: 1977

2007-08 Assessed Value of Property Exempted: \$2.2 billion

	Loss	Shift
2007-09 Revenue Impact:	\$47,000,000	\$9,000,000
2009-11 Revenue Impact:	\$53,900,000	\$10,400,000

**DESCRIPTION:** Forestland is considered either highest and best use forestland or designated forestland and is specially assessed. Value is determined for these specially assessed properties by the potential of the land to grow timber. Each acre of land is assigned one of seven productivity classes based on the rate of growth of standing timber or the potential to grow timber.

### **Highest and Best Use Forestland**

The counties identify the highest and best use forestland within their county. These properties receive a special assessment value without the potential of additional taxes due upon change in classification. For these lands, the special assessment value equals the real market value. Therefore, there is no tax expenditure associated with them.

### **Designated Forestland**

These properties have a highest and best use as something other than forest use. The owners of these properties have applied to the county for special designation as forestland. The application contains a signed statement that the owner intends to use this property for the primary purpose of growing and harvesting trees. Lands that do

Property Tax  
Special Assessment

not continue to meet the requirements of this program will be disqualified and be required to repay up to five years tax based on the difference between the tax at special assessment value and the tax at real market value of the property.

Small forestland owners (those that own between 10 and 5,000 acres of forestland) have the option of participating in the program described in 2.118, Small Tract Forestland Option.

- PURPOSE:** The statute that allows this expenditure does not explicitly state a purpose. Presumably, the purpose is to promote the retention of forestland in forest use.
- WHO BENEFITS:** Owners of forestland. There are approximately 6 million acres of private forestland in Western Oregon.
- EVALUATION:** *by the Department of Forestry*
- The program encourages retention of forestland for forest use. Owners must meet stocking standards of the Forest Practices Act or have a management plan to meet requirements. Owners pay assessment based on 100 percent of the value of land as forestland, so no severance tax is due at harvest.
- Forestland owners delay timber harvests for an indeterminate period. During this period, noncommercial values that accrue to the public are maintained and increased, notably wildlife habitat, clean air, clean water, visual quality, etc.

## 2.117 EASTERN PRIVATE FORESTLAND

Oregon Statute: 321.833  
Sunset Date: None  
Year Enacted: 1971

2007-08 Assessed Value of Property Exempted: \$151 million

	Loss	Shift
2007–09 Revenue Impact:	\$3,100,000	\$600,000
2009–11 Revenue Impact:	\$3,200,000	\$600,000

**DESCRIPTION:** Forestland is considered either highest and best use forestland or can be designated forestland and is specially assessed. Value is determined for these specially assessed properties by the potential of the land to grow timber. Each acre of land is assigned one of seven productivity classes based on the rate of growth of standing timber or the potential to grow timber.

### Highest and Best Use Forestland

The counties identify the highest and best use forestland within their county. These properties receive specially assessment value without the potential of additional taxes due upon change in classification. For these lands, the special assessment value equals the real market value. Therefore, there is no tax expenditure associated with them.

### Designated Forestland

These properties have a highest and best use as something other than forest use. The owners of these properties have applied to the county for special designation as

forestland. The application contains a signed statement that the owner intends to use this property for the primary purpose of growing and harvesting trees. Lands that do not continue to meet the requirements of this program will be disqualified and be required to repay up to five years tax based on the difference between the tax at special assessment value and the real market value of the property.

Small forestland owners (those that own between 10 and 5,000 acres of forestland) have the option of participating in the program described in 2.118, Small Tract Forestland Option.

- PURPOSE:** The statute that allows this expenditure does not explicitly state a purpose. Presumably, the purpose is to promote the retention of forestland in forest use.
- WHO BENEFITS:** Owners of the forestland property. There are approximately 2 million acres of private forestland in Eastern Oregon.
- EVALUATION:** *by the Department of Forestry*
- The program encourages retention of forestland for forest use. Owners must meet stocking standards of the Forest Practices Act or have a management plan to meet requirements. Owners pay assessments based on 100 percent of the value of land as forestland, so no severance tax is due at harvest.
- Forestland owners delay timber harvests for an indeterminate period. During this period, noncommercial values, which accrue to the public, are maintained and increased, notably wildlife habitat, clean air and clean water, visual quality, etc.

## 2.118 SMALL TRACT FORESTLAND OPTION

Oregon Statute: 321.722  
Sunset Date: None  
Year Enacted: 2003

2007-08 Assessed Value of Property Exempted: \$1.2 billion

	Loss	Shift
2007–09 Revenue Impact:	\$26,100,000	\$5,000,000
2009–11 Revenue Impact:	\$37,600,000	\$7,200,000

- DESCRIPTION:** Owners of 10 to 4,999 acres of forestland are provided the option of:
- 1.) having their land specially assessed under 2.116, Western Private Forestland, or 2.117 Eastern Private Forestland; or
  - 2.) participating in the Small Tract Forestland Program. Under this program, forestland receives a specially assessed value equal to 20 percent of the specially assessed forestland value that designated forestland receives. When the timber is harvested, participants pay a severance tax.
- This expenditure relates to the special assessment.
- PURPOSE:** "...recognize the long-term nature of the forest crop and foster the public policy of this state to encourage the growing and harvesting of timber;...match the incidence of taxation with the realization of the economic benefits of harvest... (ORS 321.703)

Property Tax  
Special Assessment

**WHO BENEFITS:** Owners of small tracts of timberland who select this optional tax treatment.

**IN-LIEU:** Participants in the Small Tract Forestland Program are subject to a severance tax paid when timber is harvested from the subject forestland. The severance tax is designed to offset the expenditure impact caused by valuing the forestland at 20 percent versus 100 percent. The severance tax rates are indexed annually in proportion to annual changes in small tract forestland assessed value.

**EVALUATION:** *by the Department of Forestry*

This is a new program, but it is very similar in form to the old land and privilege tax system. Like the old program, the land is assessed at 20 percent of its specially assessed value as forestland, and the remainder of the tax is collected at harvest when the landowner has cash flow. The severance tax differs from the old privilege tax in that it is based on volume harvested not the value of the trees. This will greatly simplify administration and reduce complexity for woodland owners in determining the tax owed. At the same time, it offers to landowners that harvest infrequently an option to pay most of their property tax at harvest when they have a cash flow from the resource lands they own.

## 2.119 FARMLAND

Oregon Statute: 308A.050

Sunset Date: None

Year Enacted: 1967

2007–08 Assessed Value of Property Exempted: \$11.9 billion

	Loss	Shift
2007–09 Revenue Impact:	\$247,300,000	\$47,600,000
2009–11 Revenue Impact:	\$262,400,000	\$50,500,000

**DESCRIPTION:** Land used exclusively for farming may be specially assessed at its value for farm use instead of its value in its “highest and best use” (ORS 308A.128)

Farm use value is determined by an income approach. Under this approach, the present value for farm use is calculated using income generated (before property taxes) from comparable properties. This value is converted to present value using the local property tax rate plus the five-year average interest rate charged the Farm Credit Service (formally Federal Land Bank) on loans for Oregon farm properties,

Farm activity may involve crops, livestock, poultry, fur-bearing animals, honeybees, dairies, animal husbandry, aquatic species, and cultured Christmas trees. Farm use land may also include a woodlot of 20 acres or less, wasteland, land under farm buildings, and ponds. The farmer must intend to make a profit using accepted farming practices.

Eligible farmland is in one of two categories: exclusive farm use farmland inside an exclusive farm use (EFU) zone and nonexclusive farm use farmland outside an exclusive farm use (non-EFU) zone. The farm use value of EFU and non-EFU farmland is determined the same way. However, the eligibility and disqualification procedures are different.

Special assessment of EFU farmland is automatic if the land is in an exclusive farm use zone and is in a qualifying farm use. No application is needed. EFU farmland becomes disqualified if it is not for farm use, the land is approved for non-farm use allowed in ORS Chapter 215, or the land is rezoned to a non-EFU zone. If land is disqualified, an additional tax may be required. The additional tax is equal to the difference between the taxes assessed against the land in each of the prior years (up to a maximum) of special assessment. The maximum number of years is 10 for land outside an urban growth boundary and five if inside an urban growth boundary. However, if a disqualifying zone change occurs that is not requested by the owner, no additional tax is imposed.

An application must be filed for special assessment of non-EFU farmland. In addition to being farm use, non-EFU farmland 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 6.5 acres or less, the minimum gross income is \$650 per acre; for farms of more than 6.5 acres, but less than 30 acres, the minimum income required is \$100 per acre; and for Farms of 30 acres or more, the income requirement is \$3,000.

If land is disqualified, additional taxes may be required. The additional tax is equal to the difference between the taxes assessed against the land and the taxes that would otherwise have been assessed against the land in prior year (up to five) of special assessment. If land is disqualified for current special assessment because the gross income test is not met, the additional taxes are deferred as long as the land remains in limited farm use and one year of additional taxes is abated (forgiven) for each year the land remains in limited farm use.

**PURPOSE:** “The Legislative Assembly recognizes that agriculture and related land uses contribute significantly to Oregon’s character and economy. The Legislative Assembly finds that providing the means for agriculture to continue and prosper is in the interest of all citizens of this state, who benefit directly or indirectly from agriculture production and stewardship of farmlands and ranchlands. Valuation of farm properties based upon the market data from sales for investment or other purposes not connected with bona fide farm use encourages the conversion of agriculture land to other uses. The identification of agricultural land for farm use, as provided by law, substantially limits alternative use of such land and justifies the valuation of that land based on its agricultural production capability. Therefore, it is the declared intent of the Legislative Assembly that bona fide farm properties be assessed for ad valorem property tax purposes at a value that is exclusive of values attributable to urban influences of speculative purposes>” (ORS 308A.050)

**WHO BENEFITS:** Owners of farmland benefit directly. In 2007-08, approximately 135,000 accounts comprising roughly 13.5 million acres of land were assessed at farm use value reported by counties. Fifteen percent of the acreage is in Western Oregon and 85 percent is in Eastern Oregon.

**EVALUATION:** *by the Department of Land Conservation and Development*

The Special farm use assessment of land zones for exclusive farm use is one of the essential tools to achieve Oregon’s Agricultural Land Use Policy to preserve the maximum amount of agriculture land in large acreages. The assessment is the primary incentive offered to encourage owners of rural farmlands to hold such lands in exclusive farm use zones (see ORS 215.243). The other primary tool is regulatory: EFU zoning of rural farmland (i.e., agricultural land that is outside UGBs). The effective protection of agricultural land requires well-coordinated special assessment and land use programs.

The special farm use assessment program can conflict with other aspects of Oregon’s land use programs—in both urban and rural areas. Inside UGBs it can discourage timely development by lowering an owner’s holding costs, encouraging speculation, and tying up land that is otherwise planned for urban development. Outside UGBs, the requirement to apply for special assessment and meet a minimum income test is a disincentive to property owners to rezone appropriate areas for rural residential development, making development in exclusive farm use zones (where this is no application or income requirement) more attractive to those seeking a rural homesite. This can put pressure on counties to permit more low-density rural residential housing in EFU zones.

The exemption can also raise potential conflicts with the state’s urban land use policies for EFU-zoned land applied inside UGBs. Oregon cities are required to have a 20-year supply of land inside their UGBs for future housing, employment, streets, parks, schools, and other urban land needs (relevant requirements are found in Statewide Planning Goals 9 (Economic Development), 10 (Housing) and 14 (Urbanization); ORS 197.296; and Oregon Administrative Rules chapter 660, divisions 7, 8, and 9). Land inside the UGB may retain EFU zoning until it is needed for urban development, but this land must be *available* for urban development. The special assessment program provides an incentive to keep urbanizable land in farm use, which means that this land may *not* actually be available for urbanization. This can put pressure on cities to expand their UGBs onto rural EFU lands when existing farmland inside the UGB is withheld from development.

## 2.120 FARM HOMESITES

Oregon Statute: 308A.253

Sunset Date: None

Year Enacted: 1987

2007–08 Assessed Value of Property Exempted: \$1.1 billion

	Loss	Shift
2007–09 Revenue Impact:	\$22,800,000	\$4,400,000
2009–11 Revenue Impact:	\$24,200,000	\$4,700,000

**DESCRIPTION:** “Homesite” means up to one acre of land including all tangible improvements to the land under and adjacent to a dwelling and other structures, customarily provided in conjunction with the dwelling. It does not include the value of homes built on the land. A farm homesite being used in conjunction with specially assessed farmland has a special assessed property value. However, the housing structure is assessed the same as any other house.

An income test is required for homesites in nonexclusive farm use (non-EFU) areas. For this reason, very few specially assessed homesites are in these areas.

The homesite specially assessed value is calculated as the average per acre real market value, as defined in ORS 308.205, for the contiguous bare farmland under the same ownership plus up to \$4,000 for land improvements. Land improvements would include a well and septic system necessary for a homesite. If disqualified, no



additional tax is imposed unless the homesite is established as a non-farm dwelling under ORS 215.236,

- PURPOSE:** The statute that allows this expenditure does not explicitly state a purpose. Presumably, the purpose is to preserve the agricultural economy of the state by encouraging farmers to live on their property.
- WHO BENEFITS:** For 2007-08, counties reported approximately 31,000 homesites
- EVALUATION:** *by the Department of Land Conservation and Development*  
Extending special farm assessments to farm homesites reinforces the effects of special assessment for 2.119, Farmland.

## 2.121 OPEN SPACE LAND

Oregon Statute: 308A.300  
Sunset Date: None  
Year Enacted: 1971

2007-08 Assessed Value of Property Exempted: \$52 million

	Loss	Shift
2007–09 Revenue Impact:	\$1,100,000	\$200,000
2009–11 Revenue Impact:	\$1,200,000	\$200,000

**DESCRIPTION:** Open space land is specially assessed for property tax as though its current highest and best use is open space use rather than an alternative use. The exempt value is the difference between value in an alternative highest and best use and the specially assessed value which considers only the value under its current open space use. Improvements on open space land do not receive special assessment (Chapter 493, 1971).

Open space land is any land designated as open space in an official comprehensive land use plan or any land that, if preserved in its present use, would accomplish one of the following:

- Conserve and enhance natural or scenic resources;
- Protect air, streams, or water supply;
- Promote conservation of soils, wetlands, beaches, or tidal marshes;
- Conserve landscaped areas, such as golf courses;
- Enhance the value of neighboring parks, forests, wildlife preserves, or other open space;
- Enhance recreation opportunities;
- Preserve historic sites;
- Promote orderly urban or suburban development;
- 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:** “The legislature hereby declares that it is in the best interest of the state to maintain, preserve, conserve and otherwise continue in existence adequate open space lands and the vegetation thereon to assure continued public health by counteracting pollutants and to assure the use and enjoyment of natural resources and scenic beauty for the economic and social well-being of the state and its citizens. The Legislature further declares that it is in the public interest to prevent the forced conversion of open space land to more intensive uses as the result of economic pressures caused by the assessment thereof for purposes of property taxation at values incompatible with their preservation as such open space land, and that assessment practices must be so designed as to permit the continued availability of open space lands for these purposes, and it is the intent of ORS 308A.300 to 308A.330 to so provide.” (ORS 308A.303)

**WHO BENEFITS:** Approximately 400 properties are reported by county assessors.

**EVALUATION:** *by the Oregon Parks and Recreation Department*

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.

## 2.122 CONSERVATION EASEMENTS

Oregon Statute: 308A.456

Sunset Date: None

Year Enacted: 2007 (SB 514)

2007-08 Assessed Value of Property Exempted: \$2 million

	Loss	Shift
2007–09 Revenue Impact:	\$100,000	Less than \$50,000
2009–11 Revenue Impact:	\$100,000	Less than \$50,000

**DESCRIPTION:** Qualifying property owners can execute an easement on all or a portion of their property. The owner executes and records an easement on their property that exclusively commits that property for a designated conservation purpose. The easement is placed in the hands of a qualifying public entity or other qualifying holder who is responsible for ensuring the property is managed consistent with the

easement. Following certification to the county assessor the property that is the subject of the easement is specially assessed either as forest or farm land.

PURPOSE:

To encourage the protection of natural, scenic or open space land to ensure its availability for agriculture, forest, recreational or open space use, protecting natural resources, maintaining or enhancing air or water quality or preserving the historical, architectural, archaeological or cultural aspects of real property. ORS 271.715

WHO BENEFITS:

Landowners who set aside land for conservation and those already enrolled in other special assessment programs that wish to transfer land to this program without penalty. Most of the property under this special assessment program is anticipated to be transferred from existing special assessment programs.

EVALUATION:

*by the Department of Fish and Wildlife*

This program offers another advantage to holding land in conservation easements for landowners as they can get special assessments as farm or forest land and the accompanying tax benefits. As such, wildlife and fish benefit from the existence of more habitat on these private lands. The people of Oregon and visitors enjoy the experience of hunting, fishing, and viewing wildlife that is enhanced through the existence of more lands set aside for conservation. In areas where habitat is degraded, nearby conservation lands can be critical in maintaining species integrity.

## 2.123 DESTROYED OR DAMAGED PROPERTY

Oregon Statute: 308.425 and 308.428

Sunset Date: None

Year Enacted: 1971, Modified in 2007 (HB 2230, HB 2231, and SB 697)

2007–08 Assessed Value of Property Affected: Minimal

	Loss	Shift
2007–09 Revenue Impact:	\$200,000	Less than \$50,000
2009–11 Revenue Impact:	\$200,000	Less than \$50,000

**DESCRIPTION:** Under ORS 308.425, if property is destroyed or damaged during the tax year by fire or an act of God, then the property tax is prorated on a monthly basis. If property is totally destroyed, the tax is 1/12 of the total tax for each month or part of a month in the tax year before destruction. If the property is damaged, the tax is 1/12 of the total tax for each month before damage plus a percentage of the monthly tax for each month in the tax year that the property remains damaged. The percentage is the ratio of the value after damage to the value before damage.

Note: This is not an exemption but rather a proration of tax equivalent to a reduced value after the assessment date. The property owner must apply to receive the proration. Relief cannot be granted for a property when the person seeking relief is convicted of arson for the same property.

Under ORS 308.428, if property is destroyed or damaged during the first half of the year by fire or an act of God, the owner may apply to have the property assessed as of July 1 of the year. Normally, property is assessed as of January 1.

**PURPOSE:** The statutes that allow this expenditure do not explicitly state a purpose. Presumably, the purpose is to provide tax relief to those with a total or partial loss of use of the property due to fire or natural causes.

**WHO BENEFITS:** Property owners whose property is destroyed or damaged by fire or natural causes during the tax year.

**EVALUATION:** Not evaluated.

## CHAPTER 3. GAS, USE, AND JET FUEL TAXES

Fuels used in motor vehicles (gasoline and use) and airplanes (aviation gasoline and jet fuel) are taxed in Oregon. Use fuels are fuels other than gasoline or jet fuel used in motor vehicles, such as diesel, propane, and natural gas. Gasoline, use, and jet fuel taxes are one of two components of transportation taxes in Oregon; the other is the weight-mile tax (see Chapter 4). In general, vehicles are subject to only one of these two components. Gross revenue from the gasoline, use, and jet fuel taxes, accounted for by the Department of Transportation, is forecast to be \$827.6 million in the 2007-09 biennium and \$876.5 million for the 2009-11 biennium.

Most of the gasoline and use fuel tax revenue is dedicated to the construction and maintenance of roads in Oregon. Aviation gasoline and jet fuel tax revenue is used to fund aviation programs.

### Gasoline Tax

In 1919, Oregon became the first state to institute a user tax on gasoline. Currently, the state of Oregon and the federal government impose taxes of 24 cents and 18.4 cents per gallon, respectively, for a total tax rate of 42.4 cents per gallon. The federal tax rate for gasohol is 18.4 cents per gallon. In addition to the state and federal taxes, two Oregon counties and 18 cities also assess local gasoline taxes, ranging from 1 to 5 cents per gallon. The state tax is paid to the Oregon Department of Transportation (ODOT) by the approximately 154 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 biodiesel, 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 and biodiesel, respectively, for a total tax rate of 48.4 cents per gallon. There are approximately 742 licensed retailers in the state who submit payments to ODOT for taxes collected from consumers of use fuels. In addition, there are another 1,387 users operating more than 7,620 vehicles who have obtained ODOT Use Fuel user licenses and pay the tax directly to the state rather than paying at the pump. The use fuel tax does not apply to trucks subject to weight-mile taxes. Some consumers of use fuels are exempted from the use fuel tax and may claim refunds for the tax paid. See refunds discussion below.

### Gasoline and Other Fuel Tax Refunds

The state gasoline and use fuel taxes are intended to assess users of public roadways for a fair share of the related construction and maintenance costs for roads. State law allows an exception from these taxes in cases where the user does not benefit from the facilities or services funded by the imposed tax, or where an alternate method of payment has been established in lieu of the tax. Examples of these uses include: use of gasoline for cleaning or dyeing, in power take-off equipment, in stationary gasoline engines, or for other uses that do not propel vehicles on public highways. Gasoline or other fuel used on private property is treated similarly. Refunds may be claimed for taxes paid on gasoline or other fuels used in these ways. Finally, some consumers of gasoline or other fuels for highway transportation use may claim refunds when specifically allowed in statute. These highway use refunds are considered to be tax expenditures and are described in the following pages. Additional information about refunds is available from ODOT at [www.odot.state.or.us/fsbpublic/ftg/refunds.htm](http://www.odot.state.or.us/fsbpublic/ftg/refunds.htm).

## **Aviation Fuel Tax**

This tax is assessed in the same manner as the gasoline tax, but at a rate of nine cents per gallon for all fuels except jet fuel. A lower rate of one cent per gallon applies to jet fuel. When consumers purchase gasoline for use as aircraft fuel, they may be required to pay the full Oregon gasoline tax rate of 24 cents per gallon at the time of purchase. In such cases, statute allows consumers to claim a refund of the extra 15 cents per gallon of tax paid.

### 3.001 FOREST PRODUCTS—GASOLINE

Oregon Statute: 319.320(1)(b, d)

Sunset Date: None

Year Enacted: 1945

	Total
2007–09 Revenue Impact:	\$0
2009–11 Revenue Impact:	\$0

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

In some cases, construction of a specific roadway is necessary for the removal of forest products. This provision allows counties to contract with the users of a roadway for the maintenance and improvement of that specific section of roadway.

**PURPOSE:** The statute that allows this expenditure does not explicitly state a purpose. Presumably, the rationale for this expenditure is that in most cases, the fuel and weight-mile taxes pay for the general use of the transportation system where tracking user damage to identifiable areas is difficult. In this case, however, the section of roadway over which heavy loads are moved is easily identified, and cost to the user can be more directly allocated to a specific section of roadway.

**WHO BENEFITS:** Nobody has used this provision recently. Potential beneficiaries include businesses that transport forest products to the extent that any required road maintenance costs are surpassed by the amount of refunds.

**EVALUATION:** *by the Department of Transportation*

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.

### 3.002 FOREST PRODUCTS—OTHER THAN GASOLINE

Oregon Statute: 319.831(1)(c, g)

Sunset Date: None

Year Enacted: 1965

	Total
2007–09 Revenue Impact:	\$0
2009–11 Revenue Impact:	\$0

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

In some cases, construction of a specific roadway is necessary for the removal of forest products. This provision allows counties to contract with the users of a roadway for the maintenance and improvement of that specific section of roadway.

**PURPOSE:** The statute that allows this expenditure does not explicitly state a purpose. Presumably, the rationale for this expenditure is that in most cases, the fuel and weight-mile taxes pay for the general use of the transportation system where tracking user damage to identifiable areas is difficult. In this case, however, the section of roadway over which heavy loads are moved is easily identified, and cost to the user can be more directly allocated to a specific section of roadway.

**WHO BENEFITS:** Nobody has used this provision recently. Potential beneficiaries include businesses that transport forest products to the extent that any required road maintenance costs are surpassed by the amount of refunds.

**EVALUATION:** *by the Department of Transportation*

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.



### 3.003 FUEL FOR AIRCRAFT DEPARTING U.S.

Oregon Statutes: 319.330(2)

Sunset Date: None

Year Enacted: 1959

	Total
2007–09 Revenue Impact:	\$400,000
2009–11 Revenue Impact:	\$400,000

**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:** The statute that allows this expenditure does not explicitly state a purpose. Presumably, the purpose is to promote international airline travel to and from Oregon, and to make it attractive for airlines with international flights to operate from Oregon airports.

**WHO BENEFITS:** The immediate beneficiaries are airlines—both domestic and international—whose aircraft use fuel to travel to and from foreign destinations.

**EVALUATION:** *by the Department of Aviation*

It is estimated that a very small portion of international air travel originates to or from Oregon. However, ODOT's refund data and the June 2008 Jet Fuel Tax forecast estimates refunds for 2007-09 at \$360,000 and refunds for 2009-11 at \$380,000.

### 3.004 PUBLIC SERVICES

Oregon Statutes: 319.831(1)(e-f), (h-k)

Sunset Date: None

Year Enacted: 1961

	Total
2007–09 Revenue Impact:	\$11,000,000
2009–11 Revenue Impact:	\$11,200,000

**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 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.

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 4.004, Government Owned or Operated

Vehicles. However, it should be noted that vehicles would not be subject to both taxes. Vehicles that were subject to the weight-mile tax on any portion of their use would be exempt from taxation of use fuel for that part, and vice versa.

**PURPOSE:** The statute that allows this expenditure does not explicitly state a purpose. Presumably, the purpose is to avoid reciprocal taxation among public entities; to avoid taxing public services that are funded through the tax (in particular, road maintenance services).

**WHO BENEFITS:** Beneficiaries include the state government, over 240 incorporated cities and towns, 36 counties, 227 school districts, 22 educational service districts, approximately 270 rural fire protection districts, and various other local districts and federal agencies.

**EVALUATION:** *by the Department of Transportation*

This expenditure achieves its purpose. Cities, counties, and the state use diesel fuel substantially in conjunction with the construction and maintenance of roads. Revenues generated through the tax on such fuels are dedicated for this purpose and this provision reduces the processing of funds before returning them to public agencies to be used for this purpose. This is an effective continuation of established policies that avoid reciprocal taxation among public entities.

### 3.005 PUBLIC TRANSPORTATION

Oregon Statutes: 267.200 and 267.570(2)  
 Sunset Date: None  
 Year Enacted: 1969

	Total
2007–09 Revenue Impact:	\$3,900,000
2009–11 Revenue Impact:	\$4,000,000

**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.

Virtually all transit vehicles are powered by diesel or other fuel and are therefore exempt from both the use fuel and weight-mile taxes. These vehicles are included in the revenue impact reported here and in the weight-mile tax expenditure 4.005, Public Mass Transit Vehicles. 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 of use fuel and vice versa.

**PURPOSE:** The statutes that allow this expenditure do not explicitly state a purpose. Presumably, the purpose is to lower the cost of providing public transportation services.

**WHO BENEFITS:** Three mass transit districts, seven transportation districts, and one county service district in the state provide public transportation service.

**EVALUATION:** *by the Department of Transportation*

This expenditure achieves its purpose. Without this exemption, fares could be higher, which would decrease ridership, particularly by those from lower income groups and/or those with limited mobility.



## CHAPTER 4. WEIGHT-MILE TAX

The weight-mile tax is one of two components of transportation taxes in Oregon; the other is the Gas, Use, and Jet Fuel Taxes (see Chapter 3). In general, vehicles are subject to only one of these two components. Heavy vehicles that are generally subject to the weight-mile tax are not subject to the use fuel tax. Revenue from the weight-mile tax is forecast to be \$469.7 million in the 2007-09 biennium and \$486.7 million in the 2009-11 biennium. This tax revenue is dedicated to the construction and maintenance of roads in Oregon.

This tax is imposed on heavy vehicles according to a combination of the number of axles and/or combined weight of the vehicle and the number of miles driven. Studies show that, although fuel consumption increases with vehicle size and weight, it does not increase proportionately with cost responsibility. Above 26,000 pounds registered weight, the overall weight and axle loads become important factors in determining requirements for the strength of pavements, bridges, and other structures. Therefore, a diesel fuel tax would not be an accurate measure of cost responsibility for heavy vehicles.

The tax rate schedule changes as the weight of the vehicle increases from 26,001 pounds to 105,500 pounds, and as 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 declared weights between 26,001-80,000 pounds (Tax Table A) and those operated under special permit with registered weights between 80,001-105,500 pounds (Tax Table B). The tax tables and additional information are posted at [www.oregon.gov/ODOT/MCT/FORMS.shtml#Taxes\\_\\_\\_Fees](http://www.oregon.gov/ODOT/MCT/FORMS.shtml#Taxes___Fees).

Since 1947, the weight-mile tax schedules have been adjusted as the result of updated cost responsibility studies and revenue measures passed by the Legislature. The Office of Economic Analysis is responsible for producing the Highway Cost Allocation Study. The most recent edition of this study is available at [www.oregon.gov/DAS/OEA/highway.shtml](http://www.oregon.gov/DAS/OEA/highway.shtml).

### 4.001 FARMING OPERATIONS

Oregon Statutes: 825.017(4), 825.017(15), and 825.024

Sunset Date: None

Year Enacted: 1983

	Total
2007–09 Revenue Impact:	\$1,700,000
2009–11 Revenue Impact:	\$1,800,000

**DESCRIPTION:** Vehicles used in conjunction with farming operations are exempt from the payment of weight-mile taxes. This includes implements of husbandry, low-speed vehicles, and farm related equipment as referenced in the three Oregon statutes cited.

Implements of husbandry are those vehicles and trailers used exclusively in agricultural operations. The definition for farm-related equipment is more inclusive and identifies uses incidental to farming operations such as transportation of supplies and equipment, as well as the personal use of vehicles by the farmer and the farmer’s family or employees. Low-speed vehicles must be designed for off-road use, and no more than 15 percent of their mileage can be on the road.

Vehicles registered as farm equipment are used primarily off the road system, and in most cases, the transportation of such vehicles on the road is incidental to their use. Over 60 percent of the vehicles operated in conjunction with farming weigh less than 26,000 pounds and are not subject to weight-mile taxation. This provision applies only to those farm vehicles that exceed 26,000 pounds.

It should be noted that farm vehicles are subject to fuel taxes unless they are operated off the road system, in which case a refund is allowed under ORS 319.320(3). Because farm vehicles over 26,000 pounds pay fuel tax, they are not subject to weight-mile tax. Therefore, the revenue impact reported here is the difference between what they pay in fuel tax and what they would pay under the higher weight-mile tax rates.

**PURPOSE:** The statutes that allow this expenditure do not explicitly state a purpose. Presumably, the purpose is to relieve farmers of the recordkeeping necessary to comply with the weight-mile tax and to recognize the partial or seasonal use of the transportation system by these users.

**WHO BENEFITS:** There are approximately 39,500 farming operations in the state and about 43,400 registered farm vehicles.

**EVALUATION:** *by the Department of Transportation*

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.

## 4.002 FOREST PRODUCTS ON COUNTY ROADS

Oregon Statute: 825.017(8)

Sunset Date: None

Year Enacted: 1977

	Total
2007–09 Revenue Impact:	\$0
2009–11 Revenue Impact:	\$0

**DESCRIPTION:** Under certain conditions, vehicles used for the removal of forest products on a public road are exempt from the payment of weight-mile taxes. An agreement with the Oregon Board of Forestry, the state forester, or an agency of the United States must authorize the use of the road and require the user to pay for or perform the construction or maintenance of the county road. In some cases, construction of a specific roadway is necessary for the removal of forest products. This provision allows counties to contract with the users of a roadway for the maintenance and improvement of the specific section of roadway used.

**PURPOSE:** The statute that allows this expenditure does not explicitly state a purpose. Presumably, the rationale for this expenditure is that 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 the cost imposed by the user can be more directly allocated to a specific section of roadway.

**WHO BENEFITS:** No one has used this provision recently. Potential beneficiaries include businesses that transport forest products to the extent that any required road maintenance costs are surpassed by the amount exempt.

**EVALUATION:** *by the Department of Transportation*

This expenditure is ineffective in achieving its purpose as the costs of construction or maintenance of a typical 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 U.S. 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.

### 4.003 ELEMENTARY AND SECONDARY SCHOOLS

Oregon Statute: 825.017(1)

Sunset Date: None

Year Enacted: Pre-1953

	Total
2007–09 Revenue Impact:	\$2,000,000
2009–11 Revenue Impact:	\$2,100,000

**DESCRIPTION:** Vehicles used by, or under contract with, any elementary or secondary school district are exempt from the payment of weight-mile taxes when engaged exclusively in transporting students to or from school or authorized school activities or those activities sponsored by the State Board of Higher Education.

Some of these 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 3.004, Public Services, which has information for schools and Education Service Districts. However, it should be noted that vehicles would not be subject to both taxes. Vehicles that were subject to the weight-mile tax would be exempt from taxation on use fuel and vice-versa.

**PURPOSE:** The statute that allows this expenditure does not explicitly state a purpose. Presumably, the rationale is that weight-mile taxation is generally applied to for-hire commercial vehicles. School buses are either owned by a school district or a contractor supplying services to a school district and are therefore not for-hire vehicles. This provision reduces the record keeping and audit cost of the refund application process.

**WHO BENEFITS:** There are about 230 school districts operating more than 1,200 elementary and secondary schools. This provision applies only to school buses that exceed 26,000 pounds, the threshold weight for the weight-mile tax. Approximately 60 percent of the miles traveled by school buses are in weight classes equal to or less than 26,000 pounds.

**EVALUATION:** *by the Department of Transportation*  
 This expenditure achieves its purpose. It reduces the cost of public education in Oregon by reducing the cost to school districts that would be necessitated by paying the weight-mile tax as well as complying with the record keeping and other compliance costs of the tax.



**4.004 GOVERNMENT OWNED OR OPERATED VEHICLES**

Oregon Statutes: 825.017(11) and 825.017(13)

Sunset Date: None

Year Enacted: Pre-1953

	Total
2007–09 Revenue Impact:	\$9,000,000
2009–11 Revenue Impact:	\$9,300,000

**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 U.S. mail on rural or star routes by contract or employed by the U.S. Postal Service.

Some of these vehicles are exempt from both the fuel and weight-mile taxes. However, it should be noted that these 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. The revenue impact reported here is the difference between what these vehicles would pay in weight mile taxes and what they pay in fuel taxes.

**PURPOSE:** The statutes that allow this expenditure do not explicitly state a purpose. Presumably, the purpose is 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 state government, 240 incorporated cities and towns, 36 counties, and the Postal Service. As noted above, some public service vehicles are exempt from both the use fuel and weight-mile taxes.

**EVALUATION:** *by the Department of Transportation*

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 before 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.

### 4.005 PUBLIC MASS TRANSIT VEHICLES

Oregon Statute: 825.017(12)

Sunset Date: None

Year Enacted: 1977

	Total
2007–09 Revenue Impact:	\$2,400,000
2009–11 Revenue Impact:	\$2,600,000

**DESCRIPTION:** Vehicles owned or operated by a mass transit district are exempt from weight-mile taxes. Mass transit districts are units of government and transit vehicles are owned by units of government.

Virtually all transit vehicles are powered by diesel or other fuels besides gasoline and are therefore 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 3.005, Public Transportation. However, it should be noted that these 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. The revenue impact reported here is what these vehicles would pay if subject to the weight-mile tax.

**PURPOSE:** The statute that allows this expenditure does not explicitly state a purpose. Presumably, the purpose is to lower the cost of providing public transportation services.

**WHO BENEFITS:** Three mass transit districts, seven transportation districts, and one county service district in the state provide public transportation service.

**EVALUATION:** *by the Department of Transportation*  
 This expenditure achieves its purpose. Without this exemption, fares could be higher, which would decrease ridership, particularly by those from lower income groups and/or those with limited mobility.

### 4.006 FIRE PROTECTION

Oregon Statute: 825.017(18)

Sunset Date: None

Year Enacted: 1977

	Total
2007–09 Revenue Impact:	Less than \$50,000
2009–11 Revenue Impact:	Less than \$50,000

**DESCRIPTION:** Vehicles used for the purposes of forest protection and fire suppression are exempt from weight-mile taxes when directed by the state forester. This exemption also applies to the vehicles being moved to or from the work area.

It should be noted that fire protection vehicles are subject to fuel taxes. Because they pay fuel taxes, they are not subject to the 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 rates. It should further be noted that many fire protection vehicles are owned by units of government and are exempt from weight-mile taxes under 4.004, Government Owned or Operated Vehicles, however this exemption also applies to privately owned fire protection vehicles.

**PURPOSE:** The statute that allows this expenditure does not explicitly state a purpose. Presumably, the purpose is to lower the cost of providing fire protection services normally provided through public services, and to station additional water supply trucks near logging operations when deemed necessary by forestry officials.

**WHO BENEFITS:** Non-government owners of fire protection vehicles. Very few are using this exemption.

**EVALUATION:** *by the Department of Transportation*

This expenditure appears to achieve its purpose. These fire protection vehicles are very few in number and operate primarily off the highway system; they would not be subject to taxation, with the exception of the provision that allows movement to and from the work area. This provision is effective, as the cost associated with record keeping and weight-mile audit would likely exceed any revenue generated. This is a minimal investment in supporting activities to protect Oregon's forest resources.

#### 4.007 CHARITABLE ORGANIZATIONS

Oregon Statute: 825.017(14)

Sunset Date: None

Year Enacted: 1977

	Total
2007–09 Revenue Impact:	\$100,000
2009–11 Revenue Impact:	\$100,000

**DESCRIPTION:** Vehicles owned, or under contract with, a charitable organization are exempt from the payment of weight-mile taxes when engaged exclusively in performing transportation necessary to the operation of the charitable organization.

It should be noted that vehicles used by charitable organizations are subject to fuel taxes. Because they pay fuel taxes, they are not subject to the 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 rates.

**PURPOSE:** The statute that allows this expenditure does not explicitly state a purpose. Presumably, the purpose is to help support services provided by charitable organizations that fulfill a socially desirable function.

**WHO BENEFITS:** Charitable organizations operating vehicles that are registered by weight. Very few are using this exemption.

**EVALUATION:** *by the Department of Transportation*

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 weight-mile tax rate schedules.

## Weight-Mile Tax

Charitable organizations are excluded from all provisions of Chapter 825 of the ORS, which include operating authority and regulatory requirements before 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.

## CHAPTER 5. CIGARETTE TAX

Cigarette distributors are required to pay a tax for the distribution of each cigarette in Oregon. Any cigarette that has once been imposed of this tax is not imposed any additional tax for subsequent distributions. Currently, the tax rate is \$.059 per cigarette or \$1.18 per pack of 20 cigarettes. The tax is distributed as follows: 18.6 percent to the General Fund; 72.6 percent to the Oregon Health Plan; 1.9 percent to cities; 1.9 percent to counties; 1.9 percent to the Oregon Department of Transportation; and 2.9 percent to the Tobacco-Use Reduction Account.

Cigarette tax revenue for the 2007-09 biennium is forecast to be \$430.9 million and will be distributed as follows: \$80.0 million to the General Fund; \$313.4 million to the Oregon Health Plan; \$12.5 million to the Tobacco-Use Reduction Account; and \$25.0 million to cities, counties, and public transit. For the 2009-11 biennium, revenues are expected to be \$393.9 million.

The Oregon cigarette tax began in 1966. Generally, the tax is paid through the use of tax stamps that are purchased by the 46 Oregon licensed cigarette distributors. Distributors may pay the tax at the time they purchase the stamps or defer the payment until the 20th of the month following the purchase.

### 5.001 SMALL QUANTITY BY CONSUMERS

Oregon Statute: 323.060  
 Sunset Date: None  
 Year Enacted: 1965

	Total
2007–09 Revenue Impact:	Less than \$50,000
2009–11 Revenue Impact:	Less than \$50,000

**DESCRIPTION:** The use or consumption of untaxed cigarettes transported into Oregon as a single lot or shipment of no more than 199 cigarettes is not taxed. This exemption also applies to cigarettes obtained at exempted federal installations when the quantity obtained is no more than 199 cigarettes at one time.

**PURPOSE:** The statute that allows this expenditure does not explicitly state a purpose. Presumably, the purpose is to avoid the administrative and compliance costs of taxing these small shipments.

**WHO BENEFITS:** Individuals who transport small quantities of untaxed cigarettes into Oregon or obtain them at federal installations.

**EVALUATION:** Not evaluated.

### 5.002 FEDERAL AND VETERAN INSTITUTIONS

Oregon Statute: 323.055  
 Sunset Date: None  
 Year Enacted: 1965

	Total
2007–09 Revenue Impact:	Less than \$50,000
2009–11 Revenue Impact:	Less than \$50,000

**DESCRIPTION:** Oregon cigarette taxes are not imposed on the sale of cigarettes to United States Army, Air Force, Navy, Marine Corps, or Coast Guard exchanges and commissaries; Navy or Coast Guard ships’ stores; the U.S. Department of Veterans Affairs; or ships’ stores maintained under federal bond. Also, the sale or gift of federally tax-free cigarettes delivered directly from the manufacturer to a veterans’ home, hospital, or domiciliary care facility are not taxed.

**PURPOSE:** To comply with federal law.

**WHO BENEFITS:** Members of the U.S. Armed Forces that purchase cigarettes at federal institutions.

**EVALUATION:** *by the Department of Revenue*  
 This expenditure achieves its purpose of compliance with federal law.

**5.003 RESERVATION CIGARETTE SALES**

Oregon Statute: 323.401

Sunset Date: None

Year Enacted: 1979

	Total
2007–09 Revenue Impact:	\$2,800,000
2009–11 Revenue Impact:	\$2,500,000

**DESCRIPTION:** The governing body of any federally recognized Indian reservation in Oregon may enter into a refund agreement with the Department of Revenue. The agreement may provide for a refund of any cigarette tax collected on sales of cigarettes to tribal members.

**PURPOSE:** To comply with federal law.

**WHO BENEFITS:** Eight of the nine governing bodies of federally recognized Indian tribes in Oregon have entered into cigarette tax refund agreements.

**EVALUATION:** *by the Department of Revenue*

This expenditure achieves its purpose of compliance with federal law.





## **CHAPTER 6. OTHER TOBACCO PRODUCTS TAX**

A tax is imposed on the sale, storage, use, consumption, handling, or distribution of tobacco products other than cigarettes at the rate of 65 percent of the wholesale sales price. Examples of “other tobacco products” are cigars, and tobacco for chewing and smoking in a pipe. The tax is imposed on the distributor at the time the distributor imports, produces, or ships the tobacco products into Oregon. There are currently 183 distributors.

Other tobacco products’ tax revenue for the 2007-09 biennium is forecast to be \$65.0 million and will be distributed as follows: \$34.8 million to the General Fund; \$27.1 million to the Oregon Health Plan; and \$3.0 million to the Tobacco-Use Reduction Account. For the 2009-11 biennium, receipts are expected to be \$63.7 million.

### 6.001 FEDERAL INSTALLATIONS

Oregon Statute: 323.515  
 Sunset Date: None  
 Year Enacted: 1985

	Total
2007–09 Revenue Impact:	Less than \$50,000
2009–11 Revenue Impact:	Less than \$50,000

**DESCRIPTION:** The tobacco-products tax does not apply to tobacco products that are stored in a bonded warehouse and that are untaxed under the provisions of Chapter 52 of the Internal Revenue Act of 1954, as amended. The tax also does not apply to tobacco products that are sold to United States Army, Air Force, Navy, Marine Corps, or Coast Guard exchanges and commissaries; Navy or Coast Guard ships’ stores; U.S. Department of Veterans Affairs; or ships’ stores maintained under federal bond.

**PURPOSE:** To comply with federal law.

**WHO BENEFITS:** Members of the United States Armed Forces that purchase tobacco products at federal installations.

**EVALUATION:** *by the Department of Revenue*  
 This expenditure achieves its purpose of compliance with federal law.

### 6.002 RESERVATION TOBACCO SALES

Oregon Statute: 323.615  
 Sunset Date: None  
 Year Enacted: 1985

	Total
2007–09 Revenue Impact:	Less than \$50,000
2009–11 Revenue Impact:	Less than \$50,000

**DESCRIPTION:** The governing body of any federally recognized Indian reservation in Oregon may enter into a refund agreement with the Department of Revenue. The agreement may provide for a refund of any tobacco tax collected under the Tobacco Products Tax Act in connection with the sale to tribal members, and use, storage, or consumption of tobacco products by tribal members.

**PURPOSE:** To comply with federal law.

**WHO BENEFITS:** As of FY 2007-08, no governing body of federally recognized Indian tribes in Oregon has entered into tax refund agreements from sales of other tobacco products.

**EVALUATION:** *by the Department of Revenue*  
 This expenditure achieves its purpose of compliance with federal law.

## CHAPTER 7. BEER AND WINE TAX

A tax is imposed upon the privilege of engaging in business as a manufacturer or as an importing distributor of malt beverages or wines. The Oregon Liquor Control Commission (OLCC) collects the tax. The tax rate for manufacturing or importing malt beverages is \$2.60 per barrel of 31 gallons. The tax rate for manufacturing or importing wine is 67 cents per gallon on wines with 14 percent or less alcohol by volume, and 77 cents per gallon on wines with more than 14 percent but not more than 21 percent alcohol by volume. Two cents of the wine tax goes to the Wine Advisory Board. Fifty percent of the remaining beer and wine taxes go to Mental Health and Drug Abuse Prevention Account, and the other 50 percent into the Oregon Liquor Control Commission Account and distributed as described below.

Beverages with more than 21 percent alcohol are exclusively distributed and sold 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 revenue is forecast to be \$30.9 million for the 2007–09 biennium and \$35.6 million for the 2009–11 biennium.

## 7.001 SMALL WINERIES

Oregon Statute: 473.050(5)

Sunset Date: None

Year Enacted: 1977

	Total
2007–09 Revenue Impact:	\$2,200,000
2009–11 Revenue Impact:	\$2,500,000

**DESCRIPTION:** This provision allows all U. S. 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.

**PURPOSE:** The statute that allows this expenditure does not explicitly state a purpose. Presumably, the purpose is to encourage the development of the Oregon wine industry.

**WHO BENEFITS:** Small wineries benefit in that they are able to sell their product more competitively. It is estimated that 3.3 million gallons will be claimed as tax exempt during the 2007–09 biennium. This is expected to increase to 3.7 million gallons exempted in the 2009–11 biennium.

**EVALUATION:** *by the Liquor Control Commission*

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 506 wineries in the state, and the industry is still growing. Nearly all of Oregon’s wineries are small enough to qualify for the full tax exemption. Oregon wines have continued to show overall growth.

Oregon has gained the reputation of a quality wine-producing state, which has added to the image and livability of the state and promotes tourism and hospitality. The growth of the Oregon wine industry has also caused growth in secondary markets such as vineyards, label design, bottling, and marketing.

Because of the exemption, the industry decided to dedicate some of the tax savings to establish and maintain the Oregon Wine Board. The board divides its resources between research and development and industry promotion. If this were not the case, the industry would be asking the Legislature for funding from General Fund dollars.

Due to the lack of public investors, this appears to be the only practical way to encourage the growth of the wine industry.

## 7.002 WINE MARKETING ACTIVITIES

Oregon Statutes: 473.047

Sunset Date: None

Year Enacted: 2001

	Total
2007-09 Revenue Impact:	\$0
2009-11 Revenue Impact:	\$0

**DESCRIPTION:** This provision allows a credit against the wine tax for certain marketing activities as defined by the Oregon Wine Board. The marketing activities must not promote any specific brand or winery and must be approved by the Oregon Wine Board. The total credit is limited by an amount equal to 28 percent of the cost of qualified marketing activities. In addition, the total credit is limited by the sum of the tax owed on wine sales of the first 40,000 gallons in Oregon and 25 percent of the tax owed on wine sales over 40,000 gallons. The total credit may not exceed the tax liability of the manufacturer or importing distributor of wine.

**PURPOSE:** The statute that allows this expenditure does not explicitly state a purpose. Presumably, the purpose is to encourage the development of the Oregon wine industry.

**WHO BENEFITS:** Large wineries, some small wineries and the Oregon wine industry. Small wineries (wineries producing less than 100,000 gallons a year) that sell less than 40,000 gallons a year, do not pay privilege tax because they are already exempt by 7.001, Small Wineries.

**EVALUATION:** *by the Liquor Control Commission*  
No winery has claimed the credit through June 30, 2008.



## **CHAPTER 8. 911 EMERGENCY COMMUNICATIONS TAX**

The Oregon 911 Emergency Communication Tax is imposed on each paying subscriber who has telecommunication services with access to the 911 emergency reporting system. The tax is applied to each line. For cellular, wireless, or other radio common carrier, the tax is applied per device.

The tax was enacted in 1981 to help local governments pay for establishing, operating, or improving a 911 emergency reporting system. Originally, the tax was 3 percent of the monthly rate charged for basic exchange access services. In 1991, that rate was increased to 5 percent. Since October 1, 1995 the rate has been 75 cents per line per month and applies to all forms of wired and wireless telecommunications services. The tax is paid quarterly by the telecommunication utilities and service providers, who collect the tax from phone subscribers on their monthly billings. Under current law, the tax will sunset at the end of 2013.

Telephone exchange tax revenue is forecast to be \$80.8 million for the 2007–09 biennium and \$89.1 million for the 2009–11 biennium. Net revenue from the tax is distributed to cities and counties on a per capita basis, to be used for their 911 systems.

### 8.001 STATE AND LOCAL SUBSCRIBERS

Oregon Statutes: 401.794

Sunset Date: None (The emergency communication tax sunsets 12-31-2013.)

Year Enacted: 1981

	Total
2007–09 Revenue Impact:	\$4,900,000
2009–11 Revenue Impact:	\$5,300,000

**DESCRIPTION:** State and local governments are exempt from the 911 emergency communications tax. This includes regional housing authorities.

In 2007, the 911 emergency communication tax was extended until December 31, 2013. (HB 2369)

**PURPOSE:** The statute that allows this expenditure does not explicitly state a purpose. Presumably, the purpose is to avoid reciprocal taxation among public entities; to avoid taxing public services that are funded through the tax.

**WHO BENEFITS:** State and local governments. There are approximately 260,000 employees in state and local government.

**EVALUATION:** Not evaluated.

### 8.002 FEDERAL SUBSCRIBERS

Oregon Statutes: 401.794

Sunset Date: None (The emergency communication tax sunsets 12-31-2013.)

Year Enacted: 1981

	Total
2007–09 Revenue Impact:	\$500,000
2009–11 Revenue Impact:	\$600,000

**DESCRIPTION:** The federal government is exempt from the 911 emergency communication 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 law.

In 2007, the 911 emergency communication tax was extended until December 31, 2013. (HB 2369)

**PURPOSE:** To comply with federal law.

**WHO BENEFITS:** The federal government as well as foreign government offices and exempt federally chartered corporations. There are about 30,000 federal employees in Oregon.

**EVALUATION:** *by the Department of Revenue*

This expenditure achieves its purpose of compliance with federal law.



**8.003 INDIAN RESERVATION SUBSCRIBERS**

Oregon Statutes: 401.794

Sunset Date: None (The emergency communication tax sunsets 12-31-2013.)

Year Enacted: 1981

	Total
2007–09 Revenue Impact:	\$500,000
2009–11 Revenue Impact:	\$500,000

**DESCRIPTION:** Tribal members on federally recognized reservations in Oregon are exempt from the 911 emergency communication tax. They must be enrolled members of the tribe located on the reservation.

In 2007, the 911 emergency communication tax was extended until December 31, 2013. (HB 2369)

**PURPOSE:** To comply with federal law.

**WHO BENEFITS:** Tribal members on nine federally recognized reservations in Oregon using telephones with access to the 911 service.

**EVALUATION:** *by the Department of Revenue*

This expenditure achieves its purpose of compliance with federal law.



## CHAPTER 9. FOREST PRODUCTS HARVEST TAX

A tax of a specified rate per thousand board feet is assessed on timber owners when timber is harvested from private and public lands. The tax revenue is used primarily to support forestry research, to support the Oregon Department of Forestry in its efforts to fight forest fires and administer Oregon's Forest Practices Act, and to support forest-related education through the Oregon Forest Resource Institute.

In 2007, a tax rate of \$2.6906 per thousand board feet of timber harvested was set by the Legislature to be in effect for calendar years 2008 and 2009. Of this amount, \$0.92 provides support for forestry research; \$1.1456 funds administration of Oregon's Forest Practices Act; and \$0.625 benefits fire protection. An additional tax of \$0.89 per thousand board feet of timber harvested provides support for the Oregon Forest Resources Institute. The Institute's board of directors may increase this component of the tax annually to reflect inflation. The 2008 total tax rate of \$3.5806 per thousand board feet is an increase over the tax rate in effect during the 2007 calendar year of \$2.61 per thousand board feet of timber harvested.

Forest products harvest tax revenue is forecast to be \$23.0 million or the 2007–09 biennium. Revenue is forecast to be \$11.2 million for the 2009–11 biennium.

**9.001 FIRST 25,000 BOARD FEET**

Oregon Statute: 321.015(5)

Sunset Date: None (partial sunset of tax on 12-31-2009)

Year Enacted: 1953

Exemption: 72 million board feet in calendar year 2007

	Total
2007–09 Revenue Impact:	\$500,000
2009–11 Revenue Impact:	\$200,000

**DESCRIPTION:** This exemption provides that the first 25,000 board feet of forest products harvested by each taxpayer each year are exempt from the forest products harvest tax.

In 2007, the tax rates were changed for the portion of the forest products harvest tax supporting forestry research, administering Oregon’s Forest Practices Act and fire protection. These rates will sunset on December 31, 2009. (HB 2115)

**PURPOSE:** The statute that allows this expenditure does not explicitly state a purpose. Presumably, the purpose is to provide tax relief to timber harvesters who, on an annual basis, harvest a small amount of timber.

**WHO BENEFITS:** All timber harvesters qualify for this exemption. Because the exemption represents a larger share of total timber harvested for small harvesters, they receive the largest benefit in percentage terms. In calendar year 2007, about 4,000 harvesters benefited from this exemption.

**EVALUATION:** *by the Department of Forestry*  
Harvest taxes provide effective mechanism for funding programs important to the state and woodland owners.

## CHAPTER 10. ELECTRIC COOPERATIVE TAX

Mutual and cooperative electrical associations are subject to a tax on gross earnings that is in-lieu of all other taxes on transmission and distribution lines. The associations must be nonprofit and the principle purpose must be to distribute electricity to its members. (See expenditure 2.064, Nonprofit Electrical Distribution Associations.)

Per ORS 308.807, associations must pay the lesser of :

- An in-lieu of property tax at 4 percent on gross earnings minus power costs; or
- The sum of (a) the real market value of the transmission and distribution lines multiplied by the maximum school tax rate allowable under ORS 310.150, plus (b) the real market value of the transmission and distribution lines multiplied by \$10 per \$1,000 of real market value, and (c) the real market value of the transmission and distribution lines multiplied by the tax rate of the county for exempt bonded indebtedness as defined in ORS 310.140.

For the 2007–2008 tax year, 18 associations paid the gross earnings tax, and one paid the tax described in the second calculation.

The distribution of proceeds depends on which calculation method is used. If the first method is used, proceeds from the tax on gross earnings are distributed to the counties in proportion to the system's wire miles in each county. These payments are distributed one-third to the county school fund and two-thirds to the county general fund. If the second calculation method is used, payments are deposited in the unsegregated tax collections account and distributed according to the percentage distribution schedule in ORS 311.390.

Total collections in the 2007–09 biennium are expected to be \$13.9 million. For the 2009–11 biennium, revenues of \$15.9 million are forecast.

## 10.001 REVENUE FROM GOVERNMENT LEASED LINES

Oregon Statute: 308.805

Sunset Date: None

Year Enacted: 1969

	Total
2007–09 Revenue Impact:	\$100,000
2009–11 Revenue Impact:	\$100,000

- DESCRIPTION:** Revenue received by nonprofit mutual and cooperative electric distribution associations for leasing lines to the government is exempt from the gross earnings tax calculation for the electric cooperative tax.
- PURPOSE:** The statute that allows this expenditure does not explicitly state a purpose. Presumably, the purpose is to exempt government from paying the tax.
- WHO BENEFITS:** There are 19 cooperatives in Oregon subject to the tax; four of them received this exemption.
- EVALUATION:** Not evaluated.

## CHAPTER 11. HAZARDOUS SUBSTANCES FEE

A fee is imposed on the possession of hazardous substances at business facilities in Oregon, including substances manufactured, stored, or used at the facility. The state Fire Marshal sets the fee each year based on guidelines established in law (ORS 453.402), the type and quantity of the hazardous chemical and a statutory maximum. Any chemical substance or waste for which a material safety data sheet is required by the 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 hazardous substance fee began in 1989. Its purpose is to provide community planners, emergency responders, and the public with information on hazardous substances in their communities; to minimize the use and dangers of hazardous substances; to fund the Oregon Community Right to Know programs; and to provide funding for the Orphan Site Account. The Orphan Site Account is part of the Hazardous Substance Remedial Action Fund established under ORS 465.381 and is used to clean up contaminated sites where the responsible party is unknown, unwilling, or unable to undertake the cleanup.

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 zero to \$9,000 per site but not more than \$25,000 for a single company. The collections for the Orphan Site Account cannot exceed \$1 million per year.

Total receipts from the tax are forecast to be \$5.5 million for the 2007–09 biennium and \$5.6 million for the 2009–11 biennium.

### 11.001 STATE AND LOCAL GOVERNMENT PROPERTY

Oregon Statute: 453.402(4)(e)

Sunset Date: None

Year Enacted: 1989

	Total
2007–09 Revenue Impact:	Not Available
2009–11 Revenue Impact:	Not Available

- DESCRIPTION:** State and local government property is exempt from paying the hazardous substances fee. This fee contributes to the Orphan Site Account, which is used to finance the cleanup of contaminated sites where the responsible party is unknown, unwilling, or unable to undertake the cleanup.
- PURPOSE:** The statute that allows this expenditure does not explicitly state a purpose. Presumably, the purpose is to reflect the fact that the Orphan Site Account may not be used to pay the state’s remedial action costs at facilities owned by the state.
- WHO BENEFITS:** State and local governments.
- EVALUATION:** Not evaluated.

### 11.002 SUBSTANCE PROHIBITED FROM TAX BY FEDERAL LAW

Oregon Statute: 453.402(4)(d)

Sunset Date: None

Year Enacted: 1989

	Total
2007–09 Revenue Impact:	Not Available
2009–11 Revenue Impact:	Not Available

- DESCRIPTION:** Oregon law states that, “Any substance or activity which the constitution or laws of the United States prohibit the state from taxing” are exempt from the Hazardous Substances Fee. It is not clear, however, whether the federal constitution or laws prohibit the taxation of any specific substance or activity.
- PURPOSE:** To comply with federal law.
- WHO BENEFITS:** Businesses possessing hazardous substances prohibited from state taxation by federal law.
- EVALUATION:** *by the Department of Revenue*  
This expenditure achieves its purpose of compliance with federal law.



## CHAPTER 12. DRY CLEANING FEES

A fee is imposed on dry cleaning facility owners/operators for the privilege of operating an active dry cleaning facility. A fee is also imposed on the sale or transfer of dry cleaning solvents within the state for the benefit of the general public. The dry cleaning fees became effective January 1, 1996. The purpose of the fees is to create a cleanup fund that will ensure the cleanup of contaminated sites resulting from solvent spills at dry cleaning facilities. Since January 1, 2004, the dry cleaning fees program has been administered by the Department of Environmental Quality.

As of January 2002, the annual fee assessed on dry cleaning facilities is comprised of a risk fee and an environmental fee:

- Dry cleaning facilities that utilized any solvent before January 1, 1998 pay a \$500 fee. There is an additional fee of \$500 for any dry cleaning facility that has utilized or utilizes perchloroethylene during any part of the annual fee period.
- Dry cleaning facilities also pay an annual environmental fee based upon projected gross sales (on dry cleaning services only) for the current fee period. This fee is 1 percent of the gross revenue of dry cleaning services that the facility generates in the annual fee period.

The fee on the sale or transfer of dry cleaning solvents is \$10 per gallon of perchloroethylene and \$2 per gallon of other dry cleaning solvents. Distributors pay the fee on dry cleaning solvents quarterly.

There are approximately 280 dry cleaning facilities and 100 dry stores subject to the dry cleaning facilities fee. Receipts for the dry cleaning program are forecast to be \$1.5 million in the 2007–09 biennium and \$1.4 million in the 2009–11 biennium.

## 12.001 UNIFORM SERVICE OR LINEN SUPPLY FACILITY

Oregon Statute: 465.200(6)(b)

Sunset Date: None

Year Enacted: 1995

	Total
2007–09 Revenue Impact:	Less than \$50,000
2009–11 Revenue Impact:	Less than \$50,000

**DESCRIPTION:** The dry cleaning facility fee is not imposed on any uniform service or linen supply facilities.

**PURPOSE:** The statute that allows this expenditure does not explicitly state a purpose. Presumably, the purpose is to reduce the tax burden on uniform services and linen supply facilities.

**WHO BENEFITS:** Companies operating uniform service or linen supply facilities.

**EVALUATION:** *by the Economic and Community Development Department*

Because these facilities do not generally serve the public, but rather furnish uniforms and linen to institutional users including hospitals, restaurants, repair companies, and other business operations, the absence of such a fee is not likely to influence where uniform service and linen supply facilities locate. The lack of a fee 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 fee were assessed.

## 12.002 PRISONS

Oregon Statute: 465.200(6)(c)

Sunset Date: None

Year Enacted: 1995

	Total
2007–09 Revenue Impact:	\$0
2009–11 Revenue Impact:	\$0

**DESCRIPTION:** The dry cleaning facility fee is not imposed on any prison or other penal institution.

**PURPOSE:** The statute that allows this expenditure does not explicitly state a purpose. Presumably, the purpose is to recognize the principle that state governments typically do not tax their own agencies.

**WHO BENEFITS:** There are no prisons in Oregon with dry cleaning operations.

**EVALUATION:** Not evaluated.

**12.003 FACILITY ON U.S. MILITARY BASE**

Oregon Statute: 465.200(6)(a)

Sunset Date: None

Year Enacted: 1995

	Total
2007–09 Revenue Impact:	\$0
2009–11 Revenue Impact:	\$0

**DESCRIPTION:** The dry cleaning facility fee 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:** There are no military bases in Oregon with dry cleaning operations.

**EVALUATION:** *by the Department of Revenue*

This expenditure achieves its purpose of compliance with federal law.



## CHAPTER 13. PETROLEUM LOAD FEE

The petroleum load fee is paid by importers of petroleum products into Oregon. The fee rate is set by the state Fire Marshal and is currently \$4.00 per load of 100 or more gallons. The fee will increase to \$6.00 per load effective July 1, 2009. 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. It is used to clean up contaminated sites where the responsible party is unknown, unwilling, or unable to undertake the cleanup. Revenues from the fee must be used to clean up spills on the state's roads and in roadside rest areas.

Receipts from the petroleum load fee are forecast to be \$2.3 million for the 2007–09 biennium and \$3.5 million for the 2009–11 biennium.

### 13.001 PRODUCT PROHIBITED FROM TAX BY FEDERAL LAW

Oregon Statute: 465.111

Sunset Date: None

Year Enacted: 1989

	Total
2007–09 Revenue Impact:	Not Available
2009–11 Revenue Impact:	Not Available

**DESCRIPTION:** Oregon law states that, “Any petroleum product which the Constitution or laws of the United States prohibit the state from taxing” is exempt from the Petroleum Loading Tax. It is not clear, however, whether the federal constitution or laws prohibit the taxation of any specific petroleum product.

**PURPOSE:** To comply with federal law.

**WHO BENEFITS:** Importers of petroleum products prohibited from state taxation by federal law.

**EVALUATION:** *by the Department of Revenue*

This expenditure achieves its purpose of compliance with federal law.

## **CHAPTER 14. OIL AND GAS PRIVILEGE TAX**

A privilege tax is levied on the production of oil and gas within Oregon at a rate of 6 percent of the gross value at the well. Receipts are forecast to be \$700,000 for the 2007-09 biennium and \$590,000 for the 2009-11 biennium. Net revenue derived from this tax is paid into the Common School Fund.

### 14.001 FIRST \$3,000 IN GROSS SALES VALUE

Oregon Statute: 324.080

Sunset Date: None

Year Enacted: 1981

	Total
2007–09 Revenue Impact:	Less than \$50,000
2009–11 Revenue Impact:	Less than \$50,000

- DESCRIPTION:** An exemption from the tax levied on oil or gas production is granted for the first \$3,000 in gross sales value of the gross production each calendar quarter from each well.
- PURPOSE:** The statute that allows this expenditure does not explicitly state a purpose. Presumably, the purpose is to encourage development of oil and gas reserves.
- WHO BENEFITS:** Two producers of natural gas in Oregon with a total of 21 reported wells in Columbia County. There are no producing oil wells in Oregon.
- EVALUATION:** *by the Department of Geology and Mineral Industries*  
 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.

### 14.002 STATE AND LOCAL INTERESTS

Oregon Statute: 324.090(1)

Sunset Date: None

Year Enacted: 1981

	Total
2007–09 Revenue Impact:	\$0
2009–11 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 privilege tax.
- PURPOSE:** The statute that allows this expenditure does not explicitly state a purpose. Presumably, the purpose is to adhere to the principle that governments typically do not tax themselves.
- WHO BENEFITS:** State and local government.
- EVALUATION:** Not evaluated.



**14.003 CREDIT FOR PROPERTY TAXES PAID**

Oregon Statute: 324.090(2)

Sunset Date: None

Year Enacted: 1981

	Total
2007–09 Revenue Impact:	Less than \$50,000
2009–11 Revenue Impact:	Less than \$50,000

**DESCRIPTION:** A credit is allowed against the oil and gas privilege tax for 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:** The statute that allows this expenditure does not explicitly state a purpose. Presumably, the purpose is to avoid double taxation of the value of oil and gas extracted.

**WHO BENEFITS:** Two producers of natural gas in Oregon with a total of 21 reported wells in Columbia County. There are no producing oil wells in Oregon.

**EVALUATION:** *by the Department of Geology and Mineral Industries*

This credit effectively avoids the double taxation of oil and gas resources that would occur if mining companies paid both property taxes and privilege taxes. If the companies were taxed through both the property tax and the privilege tax, the companies would pay tax twice on the same property.



## CHAPTER 15. MEDICAL PROVIDER TAXES

The 2003 Legislature created four new taxes, collectively referred to here as the Medical Provider Taxes. These four taxes are: (1) hospital tax, (2) long-term care facility tax, (3) medicaid managed care tax, and (4) tax on programs of all-inclusive care for elderly persons (repealed in 2007). These taxes are used to finance Medicaid services and leverage additional federal funds. Only the hospital and long-term care facility taxes are discussed here because they are the only ones with tax expenditures.

### **Hospital tax**

The assessment on each hospital subject to this tax is imposed at a rate determined by the director of the Department of Human Services (DHS) and is revised as needed. The tax rate used is the best estimate of the rate needed to fund identified services and costs. The rate may not exceed 1.5 percent of net revenue of each hospital. For the period beginning January 1, 2008, the tax rate is 0.63 percent. The tax applies to net revenues earned by hospitals before the earlier of October 1, 2009 or the date the tax no longer qualifies for federal matching funds. Net proceeds from this tax are deposited in the Hospital Quality Assurance Fund. These revenues are to be used to partially fund an Oregon Health Plan (OHP) standard hospital benefit, to increase Medicaid rates to certain hospitals, and to restore the practice of allowing OHP eligibility retroactively, after medical costs have already been incurred. Other potential uses for these funds include expanding, continuing or modifying hospital services for persons 19 years of age or older with incomes below the federal poverty guidelines who do not have federal Medicare coverage. Hospital tax receipts are forecast to be \$82.5 million for the 2007-09 biennium and \$10.5 million for the 2009-11 biennium.

### **Long-term care facility tax**

The assessment for this tax equals the rate times the number of patient days at the long-term care facility for a calendar quarter. The Oregon Department of Human Services director establishes an annual assessment rate that applies for a 12-month period beginning July 1. The rate was initially \$8.25, and has increased to \$14.85 as of July 2008. The assessment is imposed in calendar quarters beginning before July 1, 2014. Net proceeds from this tax are deposited in the Long-Term Care Facility Quality Assurance Fund. These revenues are intended to increase nursing facility reimbursement rates and improve the financial stability of the nursing home industry. Long-term care facility tax receipts are forecast to be \$76.7 million for the 2007-09 biennium and \$82.8 million for the 2009-11 biennium.

### 15.001 TYPE A AND B HOSPITALS

Oregon Statute: Note following 409.750, Section 2(1)

Sunset Date: None (Tax sunsets 09-30-2009 or at cessation of federal matching funds.)

Year Enacted: 2003, Modified in 2007 (HB 3057)

	Shift*
2007–09 Revenue Impact:	\$14,700,000
2009–11 Revenue Impact:	\$4,200,000

\* *There is no loss in revenue because Department of Human Services sets the tax rate to achieve specific funding goals. However, the tax liability of exempt hospitals is shifted to non-exempt hospitals.*

**DESCRIPTION:** Type A and B hospitals in Oregon are waived from paying the hospital provider tax. Also waived are hospitals that provide only psychiatric care. Type A hospitals have fewer than 50 beds and are more than 30 miles from another hospital. Type B hospitals have fewer than 50 beds and are less than 30 miles from another hospital. Type A and B hospitals are paid on a cost to charge ratio for Medicaid clients.

In general, to obtain federal matching funds the hospital tax must be broad based—it must apply to all hospitals. Exceptions to this rule may be granted by The Centers for Medicare and Medicaid Services under certain circumstances. The Centers for Medicare and Medicaid Services approved the Department of Human Services (DHS) requested waiver of Type A and B hospitals and psychiatric hospitals from the broad-based tax requirement on August 17, 2004.

**PURPOSE:** The statute that allows this expenditure does not explicitly state a purpose. Presumably, the purpose is to provide tax relief to Type A and B hospitals and the Oregon State Hospital from the hospital provider tax assessment.

**WHO BENEFITS:** Psychiatric hospitals and 32 Type A and Type B hospitals.

**EVALUATION:** *by the Department of Human Services*

The hospital provider tax assessment is used to create a pool of State Other Funds revenue, along with the Federal matching of those funds, to be used to enhance payments to Diagnosis Related Group hospitals for treating Medicaid clients and providing hospital benefits for up to 25,000 Oregon Health Plan Standard clients. Type A & B hospitals are reimbursed at 100 percent of the hospital specific cost to charge ratio for Medicaid clients. If a hospital provider tax is assessed, DHS is unable to increase reimbursement above 100 percent without losing federal matching dollars. If the tax expenditure were discontinued, the costs for Type A & B hospitals would increase and Medicaid would not be able to reimburse hospitals for this additional cost. Current statutes afford these hospitals preferential reimbursement recognizing their importance to rural Oregon. Additional costs would strain their financial health.

**15.002 VETERANS AFFAIRS AND PEDIATRIC SPECIALTY HOSPITALS**

Oregon Statute: Note following 409.750, Section 2(6)

Sunset Date: None (Tax sunsets 09-30-2009 or at cessation of federal matching funds.)

Year Enacted: 2003, Modified in 2007 (HB 3057)

	Shift*
2007–09 Revenue Impact:	\$3,900,000
2009–11 Revenue Impact:	\$1,100,000

\* *There is no loss in revenue because Department of Human Services sets the tax rate to achieve specific funding goals. However, the tax liability of exempt hospitals is shifted to non-exempt hospitals.*

**DESCRIPTION:** Hospitals operated by the U.S. Department of Veterans Affairs and pediatric specialty hospitals providing care to children at no charge are exempt from the hospital tax.

**PURPOSE:** To comply with federal law. The U.S. Department of Veterans Affairs is a federal entity and not subject to state taxation, and exempt pediatric specialty hospitals that provide care to children at no charge.

**WHO BENEFITS:** U.S. Department of Veterans Affairs and certain pediatric specialty hospitals in Oregon.

**EVALUATION:** *by the Department of Human Services*

The hospital provider tax assessment is used to create a pool of State Other Funds revenue, along with the federal matching of those funds, to be used to enhance payments to Diagnosis Related Group hospitals for treating Medicaid clients and providing hospital benefits for up to 25,000 Oregon Health Plan Standard clients. Department of Veterans Affairs Hospital and pediatric specialty hospitals that provide free care are exempt from taxation because DHS does not pay for services provided by the facilities and the facilities would not receive enhanced reimbursement if they were taxed.

**15.003 OREGON VETERANS' HOME**

Oregon Statute: Note after 409.750, Section 18(1)

Sunset Date: None (Tax sunsets 06-30-2014)

Year Enacted: 2003, Modified in 2007 (HB 3057)

	Shift*
2007–09 Revenue Impact:	\$1,500,000
2009–11 Revenue Impact:	\$1,500,000

\* *There is no loss in revenue because Department of Human Services sets the tax rate to achieve specific funding goals. However, the tax liability of exempt long-term care facilities is shifted to non-exempt long-term care facilities.*

**DESCRIPTION:** The Oregon Veterans' Home is exempt from the long-term care facility tax. It is state owned and privately managed.

Medical Provider Taxes

**PURPOSE:** The statute that allows this expenditure does not explicitly state a purpose. Presumably, the purpose is to avoid taxing a state owned entity.

**WHO BENEFITS:** The Oregon Veterans’ Home and its residents and the spouses of residents.

**EVALUATION:** Not evaluated.

**15.004 NURSING FACILITIES**

Oregon Statute: Note after 409.750, Section 18(2)  
 Sunset Date: None (Tax sunsets 06-30-2014)  
 Year Enacted: 2003, Modified in 2007 (HB 3057)

	Shift*
2007–09 Revenue Impact:	\$11,100,000
2009–11 Revenue Impact:	\$11,500,000

*\* There is no loss in revenue because Department of Human Services sets the tax rate to achieve specific funding goals. However, the tax liability of exempt long-term care facilities is shifted to non-exempt long-term care facilities.*

**DESCRIPTION:** Two types of nursing facilities are exempt from the long-term care facility tax: nursing facilities that are part of continuing care retirement communities; and nursing facilities in which a high percentage (more than 85 percent) of the residents are Medicaid clients.

**PURPOSE:** The statute that allows this expenditure does not explicitly state a purpose. Presumably, the purpose is to meet the federal regulatory hold harmless provisions. Continuing care retirement centers, which generally do not participate in Medicaid, and facilities with a high percentage of Medicaid clients must be excluded from taxation.

**WHO BENEFITS:** Nursing facilities in retirement communities and those with a significant reliance on Medicaid payments.

**EVALUATION:** Not evaluated.

## CHAPTER 16. LODGING TAX

The 2003 Oregon Legislature passed into law House Bill 2267 to establish a state lodging tax. The revenue this tax generates funds Oregon Tourism Commission programs. House Bill 2197, passed in 2005, expanded the definition of “transient lodging,” and also expanded the list of those who must pay the tax. The tax is one percent of the fee charged to the customer for overnight lodging.

The lodging tax was designed to be a tourism/travel-related tax, with a tax base that encompassed tourism/travel-related transient lodging. The statutory implementation of the lodging tax encompasses a wider base of transient lodging, and then excludes certain non-travel/non-tourism lodging. For example, overnight stays in hospitals and other medical facilities would be subject to the tax if statutory exemption did not exist. Lodging tax receipts are forecast to be \$22.6 million for the 2007-09 biennium and \$24.8 million for the 2009-11 biennium.

## 16.001 EXEMPT DWELLING UNITS

Oregon Statute: 320.308

Sunset Date: None

Year Enacted: 2003

	Total
2007–09 Revenue Impact:	Not Available
2009–11 Revenue Impact:	Not Available

**DESCRIPTION:** Certain facilities and dwelling units used for temporary lodging are exempt from the state lodging taxation. Exempt facilities/units include:

- Health care facilities licensed by the Department of Human Services;
- Mental health and substance abuse treatment facilities;
- Units used for temporary occupancy for less than 30 days per year;
- Emergency shelters funded through a government agency;
- Nonprofit facilities;
- Units occupied by the same person for over 30 consecutive days.

The exclusion of nonprofit facilities represents a small expenditure, though revenue impact estimates are not available.

The lodging tax was enacted with the intent for the tax base to comprise tourism/travel related transient lodging providers. Its statutory implementation included all transient lodging, and provided for the exclusion of non-travel/non-tourism related lodging.

**PURPOSE:** The statute that allows this expenditure does not explicitly state a purpose. Presumably, the purpose is to implement a tourism/travel-related lodging tax program that does not apply to the exempted facilities.

**WHO BENEFITS:** Individuals who make use of exempt lodging facilities and the organizations that operate such facilities.

**EVALUATION:** Not evaluated.



**16.002 FEDERAL EMPLOYEES ON FEDERAL BUSINESS**

Oregon Administrative Rule: 150-320.305

Sunset Date: None

Year Enacted: 2006

	Total
2007–09 Revenue Impact:	Less than \$50,000
2009–11 Revenue Impact:	Less than \$50,000

**DESCRIPTION:** Federal employees on federal business who pay for lodging with a credit card billed directly to a federal government agency are exempt from the lodging tax.

**PURPOSE:** To comply with federal law that prohibits states from taxing the federal government.

**WHO BENEFITS:** The federal government.

**EVALUATION:** *by the Department of Revenue*

This expenditure achieves its purpose of compliance with federal law.



## **CHAPTER 17. LOCAL CONSTRUCTION TAXES**

The 2007 Oregon Legislature passed into law Senate Bill 1036 allowing school districts to impose a tax on new construction measured by the square footage of the new construction. The tax rates are limited to \$1 per square foot for residential construction and 50 cents per square foot for other construction, with a maximum of \$25,000 per structure. The limitations will be updated based on an average construction cost index for years beginning on or after June 30, 2009. School districts may use construction tax proceeds for construction purposes only.

Other local districts may impose a construction tax in limited circumstances. Permissible taxes are limited to those that were in effect or were the subject of a public hearing before May 1, 2007. All others are not allowed until January 2, 2018. Proceeds from local construction taxes currently in effect may be used for construction or transportation.

## 17.001 EXEMPT CONSTRUCTION

Oregon Statute: 320.173

Sunset Date: None

Year Enacted: 2007 (SB 1036)

	Total
2007–09 Revenue Impact:	Not Available
2009–11 Revenue Impact:	Not Available

**DESCRIPTION:** Certain types of construction may not be subjected to local construction taxes. Exempt construction includes:

- Private school improvements;
- Public improvements defined by ORS 279A.010;
- Affordable housing meeting certain criteria;
- Public or private hospital improvements;
- Improvements to religious facilities primarily used for worship or education associated with worship;
- Agricultural buildings as defined by ORS 455.315 (2)(a).

**PURPOSE:** The statute that allows this expenditure does not explicitly state a purpose. Presumably, the purpose is to provide tax relief to these types of construction from the imposition of a local construction tax.

**WHO BENEFITS:** Purchasers or developers of exempted building types.

**EVALUATION:** Not evaluated.

## CHAPTER 18. INHERITANCE TAX

The Oregon inheritance tax and the federal estate tax have undergone considerable change. Both are taxes on the transfer of wealth and, for much of recent history, Oregon's inheritance tax was tied directly to the federal estate tax in a form referred to as a "pick-up tax." That is, Oregon's inheritance tax was equal to the maximum state inheritance tax credit allowed against the federal estate tax. This was a somewhat simultaneous determination in that Oregon's tax is the maximum federal estate tax credit and the credit against federal estate tax is the Oregon inheritance tax.

In 2001, federal legislation substantially changed the estate tax, including a phase-out of the state inheritance tax credit over several years. As this maximum credit phased out, Oregon and any other state that used the "pick-up tax" faced a reduction of revenue from this source.

In 2003, Oregon made a fixed link between the federal estate tax and Oregon inheritance taxes by tying Oregon's inheritance tax determination to the Internal Revenue Code as in effect on December 31, 2000 (HB 3072). For deaths occurring on or after January 1, 2003, Oregon's filing requirement is different from the federal requirements. This means that estates may have to file an Oregon return even if no federal return is due. The tax is equal to the maximum state death tax credit allowed on the 2000 federal return.

To calculate the state inheritance tax, the taxpayer must first calculate their maximum state death tax credit from the 2000 federal inheritance tax return. The federal schedule for this credit is based on the size of the taxpayer's federal taxable estate. The credit is calculated using graduated percentages, reaching a maximum rate of 16 percent for the largest estates. The credit calculated from this schedule is the amount the taxpayer's estate owes Oregon.

Receipts for this source are very volatile, depending on the circumstances of a small number of taxpayers. There has been revenue growth in recent years reflecting, in part, Oregon's population growth as well as growth in value of assets comprising estates. Receipts from the inheritance tax are expected to be \$197.6 million in 2007-09 and \$186.1 million in 2009-11.

## 18.001 NATURAL RESOURCE AND FISHING PROPERTY

Oregon Statute: 118.140 as amended by Oregon Laws 2008, Chapter 28

Sunset Date: None

Year Enacted: 2007 (HB 3201), Modified in 2008 (HB 3618)

	Total
2007–09 Revenue Impact:	\$1,000,000
2009–11 Revenue Impact:	\$1,300,000

**DESCRIPTION:** Estates with natural resource and commercial fishing properties may claim credits when filing for estate taxes. The credit schedule is highest at \$7.5 million and lowest at \$15 million. It requires material participation, holding of the property in the same classification for five out of eight years before and following death. The natural resource property must comprise at least 50 percent of the total estate value.

Farm use property, forest use property, and farm or forest homesites qualify as natural resource property. Property used in commercial fishing operations or in the processing and marketing of those operations also qualifies.

**PURPOSE:** The statute that allows this expenditure does not explicitly state a purpose. According to the Staff Measure Summary describing HB3618, ‘The policy goal is to preserve small natural resource based businesses by allowing family owners to pass businesses onto future generations.’

**WHO BENEFITS:** Family members of decedents who owned exempted property at the time of death. There is not sufficient history to know the number of estates affected by this, but it is thought to be relatively few.

**EVALUATION:** *by the Department of Agriculture*

Approximately 18 people have utilized this credit according to the Oregon Farm Bureau. The intent of the credit, as explained by its proponents, is to offset all estate taxes owed on qualifying natural resources estates values up to \$7.5 million and scaled down after that to the \$15 million value. Some estates that filed in 2007 and refiled in 2008 still were assessed taxes even though the estate was valued at less than \$7.5 million.

These assets represent lifetime investment and “savings” of a family business that may be forced into selling off assets to pay estate taxes without this credit. The credit is an effective method to offset taxes owed in order to preserve working farm, forest, and other natural resource businesses across the state.

## 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:

Mark Beilby	Research Analyst
Jean-Marie Clay	Research Assistant
Natasha Collins	Economist
Xann Culver	Research Analyst
Kyle Easton	Research Analyst
Craig Fischer	Research Manager
Mary Fitzpatrick	Economist
Jon Hart	Senior Economist

The following agencies evaluated the effectiveness of the tax expenditures and provided other important information:

Agriculture, Department of	Senior and People with Disabilities
Aviation, Department of	Land Conservation and Development, Dept. of
Budget and Management Division	Library, Oregon State
Consumer and Business Services, Department of	Liquor Control Commission, Oregon
Economic and Community Development Department	Military Department, Oregon
Education, Department of	Oregon Health Plan Policy and Research
Employment Department	Oregon Lottery
Energy, Department of	Oregon University System
Environmental Quality, Department of	Public Utility Commission of Oregon
Oregon Film and Video	Parks and Recreation Department
Fish and Wildlife, Department of	Rural Health, Office of
Forestry Department, Department of	Secretary of State, Oregon
Geology and Mineral Industries, Department of	State Lands, Department of
Housing and Community Services, Oregon	Transportation, Oregon Department of
Human Services, Department of	Veterans' Affairs, Department of
Children, Adults, and Families	



## **APPENDIX C: TAX PROGRAMS WITHOUT TAX EXPENDITURES**

Amusement Device Tax

Real Estate Recording Tax





## APPENDIX D: NEW, MODIFIED, OR EXPIRED TAX EXPENDITURES

This appendix contains a list of tax expenditures that have been created, modified or removed since the publication of the *2007–09 Tax Expenditure Report*. Although most of the tax expenditures reflected here were created or changed during Oregon’s 2007 Legislative session, a small number are on this list because the Department has changed its interpretation of whether certain provisions represent tax expenditures or because they were included or excluded from the previous publication in error. The *2007–09 Tax Expenditure Report* provides descriptions of the removed items.

The following table does not include the creation, modification, or expiration of expenditures that result from Oregon’s connection to the federal definition of taxable income.

### NEW TAX EXPENDITURES

1.314	Income	Subtraction	Payments for Closure of Manufactured Dwelling Park
1.316	Income	Subtraction	Film Production Labor Rebate
1.324	Income	Subtraction	Legislative Per Diem and Allowance
1.327	Income	Subtraction	TRICARE Payments
1.422	Income	Credit	Small Corporation Tax Credit
1.434	Income	Credit	Mobile Home Park Closure
1.443	Income	Credit	Diesel Truck Engines (Retrofit and Repower)
1.450	Income	Credit	Biofuel Consumer Credit
1.451	Income	Credit	Biodiesel Used in Home Heating
1.452	Income	Credit	Production or Collection of Biomass
1.463	Income	Credit	TRICARE Health Care Providers
1.464	Income	Credit	Oregon Veterans' Home Physician
2.030	Property	Full	Businesses Transferring or Leasing Property
2.059	Property	Full	Natural Gas Pipeline Extension
2.122	Property	Special	Conservation Easements
16.002	Lodging	Exclusion	Federal Employees on Federal Business
17.001	Local Construction Tax	Exclusion	Exempt Construction
18.001	Inheritance	Credit	Natural Resource and Fishing Property

### MODIFIED TAX EXPENDITURES

1.302	Income	Subtraction	Oregon 529 College Savings Network
1.309	Income	Subtraction	Municipal Bond Interest
1.310	Income	Subtraction	Small City Business Development
1.311	Income	Subtraction	Individual Development Accounts (Exclusion and Subtraction)
1.313	Income	Subtraction	Capital Gains from Manufactured Dwelling Park Sale
1.326	Income	Subtraction	Military Active Duty Pay
1.404	Income	Credit	Earned Income Credit
1.414	Income	Credit	Film Production Development Contributions
1.421	Income	Credit	Public University Venture Development Fund
1.424	Income	Credit	Working Family Child Care
1.428	Income	Credit	Child Care Division Contributions
1.431	Income	Credit	Oregon Affordable Housing Lender's Credit
1.432	Income	Credit	Individual Development Account Contribution (Credit)
1.442	Income	Credit	Diesel Truck Engines (New)
1.444	Income	Credit	Fish Screening Devices
1.445	Income	Credit	Alternative Energy Devices (Residential)
1.447	Income	Credit	Business Energy Facilities
1.453	Income	Credit	Reforestation
1.460	Income	Credit	Personal Exemption

## Appendix D

1.503	Income	Other	Single Sales Factor Corporate Apportionment
2.010	Property	Full	Enterprise Zone Businesses
2.011	Property	Full	Long-Term Rural Enterprise Zone (Property Tax)
2.013	Property	Full	Rural Renewable Energy Development Zone
2.024	Property	Full	Federal Land Under Summer Homes
2.031	Property	Full	Food Processing Equipment
2.076	Property	Full	Charitable, Literary, and Scientific Organizations
2.080	Property	Full	Exempt Lease from Taxable Owner
2.094	Property	Partial	Rehabilitated Housing
2.103	Property	Partial	Alternative Energy Systems
2.105	Property	Partial	Historic Property
2.110	Property	Partial	Homestead Exemption for Federal Active Duty Military Servicemembers
2.123	Property	Other	Destroyed or Damaged Property
8.001	911 Emergency Communications Tax	Exclusion	State and Local Subscribers
8.002	911 Emergency Communications Tax	Exclusion	Federal Subscribers
8.003	911 Emergency Communications Tax	Exclusion	Indian Reservation Subscribers
9.001	Forest Products Harvest	Exclusion	First 25,000 Board Feet
15.001	Medical Provider	Exclusion	Type A and B Hospitals
15.002	Medical Provider	Exclusion	Veterans Affairs and Pediatric Specialty Hospitals
15.003	Medical Provider	Exclusion	Oregon Veterans' Home
15.004	Medical Provider	Exclusion	Nursing Facilities
17.001	Local Construction Tax	Exclusion	Exempt Construction
18.001	Inheritance	Credit	Natural Resource and Fishing Property

### REMOVED TAX EXPENDITURES

Income	Subtraction	Domestic Partner Benefits	Tax base redefined
Income	Credit	Involuntary Manufactured Dwelling Moves	Statute Repealed
Income	Credit	Oregon Capital Corporation Investments	Statute Repealed
Property	Full	Centrally Assessed Electricity Generating Facility in an Enterprise Zone	Expired
Property	Full	Transfer of Land from Cemetery to School	Previously included in error.

## APPENDIX E: PERSONAL AND CORPORATION INCOME TAX EXPENDITURES

### Personal Income Tax Expenditures

Tax Expenditure	Program or Function	Year Enacted	Oregon Statute	Revenue Impact (\$ Thousands)		
				2007–09	2009–11	
<i>Federal Exclusions</i>						
1.001	Scholarship and Fellowship Income	Education	1954	316.048	13,200	14,700
1.002	Interest on Education Savings Bonds	Education	1988	316.048	Less than 50	Less than 50
1.003	Earnings on Education Savings Accounts	Education	1997	316.048	800	800
1.004	Qualified Tuition Programs (Federal)	Education	1996	316.048	5,800	8,100
1.005	Public Assistance Benefits	Human Services	Pre-1955	316.048	19,400	20,800
1.006	Certain Foster Care Payments	Human Services	1982	316.048	5,200	6,000
1.007	Employee Adoption Benefits	Human Services	1996	316.048	100	100
1.008	Cafeteria Plan Benefits	Human Services	1974	316.048	292,200	359,000
1.009	Employer Paid Medical Benefits	Human Services	1918	316.048	1,009,800	1,190,700
1.010	Compensatory Damages	Human Services	Pre-1955	316.048	11,300	11,600
1.011	Prescription Drug Insurance (Part D)	Human Services	2003	316.048/317.013	37,900	46,900
1.012	Hospital Insurance (Part A)	Human Services	1965	316.048	192,200	234,500
1.013	Supplementary Medical Insurance (Part B)	Human Services	1970	316.048	136,300	161,800
1.014	Pension Contributions and Earnings	Human Services	1921	316.048	868,500	983,400
1.015	Special Benefits for Disabled Coal Miners	Human Services	1969	316.048	Less than 50	Less than 50
1.016	Social Security Benefits (Federal)	Human Services	1938	316.048	431,300	481,700
1.017	Income Earned Abroad by U.S. Citizens	Economic/Community	1926	316.048	30,400	33,700
1.018	Magazine, Paperback, and Record Returns	Economic/Community	1978	316.048/317.013	200	200
1.019	Cash Accounting, Other than Agriculture	Economic/Community	1916	316.048/317.013	6,300	7,100
1.020	Regional Economic Development Incentives	Economic/Community	1993	316.048/317.013	0	0
1.023	Cancellation of Debt for Non-Farmers	Economic/Community	Pre-1955	316.048/317.013	1,300	1,500
1.024	Imputed Interest Rules	Economic/Community	1964	316.048/317.013	3,000	3,700
1.025	Employer Paid Group Life Insurance Premiums	Economic/Community	1920	316.048	22,400	23,300
1.026	Employer Paid Accident and Disability Insurance	Economic/Community	1954	316.048	24,900	27,600
1.027	Employer Provided Dependent Care	Economic/Community	1981	316.048	22,500	21,700
1.028	Miscellaneous Fringe Benefits	Economic/Community	1984	316.048	59,700	67,400
1.029	Employee Meals and Lodging (Non- Military)	Economic/Community	1918	316.048	8,000	8,600
1.030	Employee Stock Ownership Plans	Economic/Community	1974	316.048/317.013	7,200	8,300
1.031	Employee Awards	Economic/Community	1986	316.048	1,500	1,600
1.032	Employer Provided Education Benefits	Economic/Community	1997	316.048	7,100	5,500
1.033	Spread on Acquisition of Stock	Economic/Community	1981	316.048	2,700	1,900
1.034	Capital Gains on Home Sales	Economic/Community	1997	316.048	317,000	353,100
1.035	Veteran's Benefits and Services	Economic/Community	1917	316.048	38,000	41,700
1.036	Military and Dependents CHAMPUS/TRICARE Insurance	Economic/Community	1925	316.048	32,700	38,700
1.037	Agriculture Cost-Sharing Payments	Natural Resources	1978	316.048/317.013	200	200
1.038	Cancellation of Debt for Farmers	Natural Resources	1986	316.048	1,100	1,100
1.039	Energy Conservation Subsidies (Federal)	Natural Resources	1992	316.048	200	200
1.041	Employer Paid Transportation Benefits	Transportation	1992	316.048	31,500	33,400
1.042	Life Insurance Investment Income	Consumer and Business Services	1913	316.048/317.013	213,900	226,800
1.043	Workers' Compensation Benefits (Non- Medical)	Consumer and Business Services	1918	316.048	22,900	24,300
1.044	Workers' Compensation Benefits (Medical)	Consumer and Business Services	1918	316.048	70,500	83,900

## Appendix E

### Personal Income Tax Expenditures

Tax Expenditure	Program or Function	Year Enacted	Oregon Statute	Revenue Impact (\$ Thousands)		
				2007–09	2009–11	
1.048	Certain Disaster Mitigation Payments.	Consumer and Business Services	2005	316.048/317.013	Less than 50	Less than 50
1.049	Gain on Nondealer Installment Sales	Tax Administration	1921	316.048/317.013	15,300	8,900
1.050	Gain on Like-Kind Exchanges	Tax Administration	1921	316.048/317.013	21,900	22,600
1.051	Allowances for Federal Employees Abroad	Government	1943	316.048	4,700	5,300
1.052	Interest on Oregon State and Local Debt	Government	1913	316.048	78,700	87,000
1.053	Capital Gains on Inherited Property	Social Policy	1921	316.048	741,400	796,800
1.054	Gain on Involuntary Conversions in Disaster Areas	Social Policy	1996	316.048	Less than 50	Less than 50
1.055	Voluntary Employees' Beneficiary Associations	Social Policy	1928	316.048	15,300	16,200
1.056	Rental Allowances for Ministers' Homes	Social Policy	1921	316.048	4,500	5,200
1.057	Discharge of Certain Student Loan Debt	Social Policy	1984	316.048	200	200
1.058	Military Disability Benefits	Social Policy	1942	316.048	800	800
1.059	Benefits and Allowances of Armed Forces Personnel	Social Policy	1925	316.048	26,600	29,600
1.060	Capital Gains on Gifts	Social Policy	1921	316.048	77,600	82,200
1.061	Restitution Payments for Holocaust Survivors	Social Policy	2001	316.048	Less than 50	Less than 50
1.062	Survivor Annuities	Social Policy	1997	316.048	200	200
<i>Federal Adjustments</i>						
1.101	Teacher Classroom Expenses	Education	2002	316.048	1,600	1,400
1.102	Interest on Student Loans	Education	1997	316.048	20,700	23,300
1.103	Qualified Higher Education Expenses	Education	2001	316.048	19,000	15,100
1.104	Self-Employment Health Insurance	Human Services	1986	316.048	84,800	106,900
1.105	Health Savings Accounts	Human Services	1996	316.048	5,100	9,900
1.106	IRA Contributions and Earnings	Human Services	1974	316.048	130,400	159,000
1.107	SEP/SIMPLE Plan Contributions and Earnings	Human Services	1962	316.048	73,700	93,600
1.108	Moving Expenses	Economic/Community	1964	316.048	4,900	5,300
1.109	Overnight-travel Expenses of National Guard and Reserve Members	Social Policy	2003	316.048	200	400
<i>Federal Deductions</i>						
1.201	Charitable Contributions: Education	Education	1917	316.695/317.013	52,400	57,600
1.202	Charitable Contributions: Health	Human Services	1917	316.695/317.013	39,000	41,400
1.203	Medical and Dental Expenses	Human Services	1942	316.695	175,800	228,700
1.204	Removal of Architectural Barriers	Human Services	1976	316.048/317.013	Less than 50	Less than 50
1.205	Accelerated Depreciation of Buildings	Economic/Community	1954	316.048/317.013	8,200	8,400
1.206	Accelerated Depreciation of Equipment	Economic/Community	1954	316.048/317.013	119,800	106,200
1.209	Section 179 Expensing Allowances	Economic/Community	1959	316.048/317.013	21,400	6,100
1.210	Amortization of Business Start-Up Costs	Economic/Community	1980	316.048/317.013	5,900	6,700
1.212	Ordinary Treatment of Losses from Small Business Corporation Stock	Economic/Community	1958	316.048	Less than 50	Less than 50
1.213	Renewal Community Tax Incentives	Economic/Community	2000	316.048/317.013	0	0
1.215	Accelerated Depreciation of Rental Housing	Economic/Community	1954	316.048/317.013	36,100	44,900
1.216	Property Taxes	Economic/Community	1913	316.695	296,600	323,500
1.217	Home Mortgage Interest	Economic/Community	1913	316.695	884,500	905,100
1.218	Cash Accounting for Agriculture	Natural Resources	1916	316.048/317.013	100	100

## Personal Income Tax Expenditures

Tax Expenditure	Program or Function	Year Enacted	Oregon Statute	Revenue Impact (\$ Thousands)	
				2007-09	2009-11
1.219 Soil and Water Conservation Expenditures	Natural Resources	1954	316.048/317.013	400	600
1.220 Fertilizer and Soil Conditioner Costs	Natural Resources	1960	316.048/317.013	1,300	1,100
1.221 Costs of Raising Dairy and Breeding Cattle	Natural Resources	1916	316.048/317.013	1,100	1,100
1.222 Sale of Stock to Farmers' Cooperatives	Natural Resources	1998	316.048/317.013	Less than 50	Less than 50
1.224 Intangible Development Costs for Fuels	Natural Resources	1978	316.695/317.013	1,700	1,100
1.225 Depletion Costs for Fuels	Natural Resources	1962	316.695/317.013	2,800	2,900
1.226 Tertiary Injectants	Natural Resources	1980	316.695/317.013	Less than 50	Less than 50
1.228 Expensing Timber Growing Costs	Natural Resources	1986	316.048/317.013	1,100	1,100
1.229 Expensing and Amortization of Reforestation Costs	Natural Resources	1980	316.048/317.013	1,100	1,100
1.230 Development Costs for Nonfuel Minerals	Natural Resources	1951	316.048/317.013	200	200
1.231 Depletion Costs for Nonfuel Minerals	Natural Resources	1913	316.048/317.374	600	600
1.232 Mining Reclamation Reserves	Natural Resources	1984	316.048/317.013	100	100
1.233 Energy Efficient Commercial Property	Natural Resources	2006	316.048/317.013	900	1,100
1.234 Advanced Mine Safety Equipment	Natural Resources	2006	316.048/317.014	Less than 50	Less than 50
1.235 Redevelopment Costs in Contaminated Areas	Natural Resources	1997	316.048/317.013	1,700	200
1.239 Magazine Circulation Expenditures	Tax Administration	1950	316.048/317.013	100	100
1.241 Completed Contract Rules	Tax Administration	1986	316.048/317.013	1,900	2,600
1.242 Casualty and Theft Losses	Social Policy	1913	316.695	2,000	1,800
1.243 Local Income Taxes	Social Policy	1913	316.695	0	0
1.244 Charitable Contributions: Other	Social Policy	1917	316.695/317.013	267,400	293,300
1.245 Creation or Acquisition of Musical Compositions	Social Policy	2005	316.048/317.013	Less than 50	Less than 50
<i>Oregon Subtractions</i>					
1.301 Land Donated to Schools	Education	1999	316.852/317.488	Less than 50	Less than 50
1.302 Oregon 529 College Savings Network	Education	1999	316.699	8,500	10,500
1.303 Scholarship Awards Used for Housing Expenses	Education	1999	316.846	400	400
1.304 Physicians in "Medically Disadvantaged" Areas	Human Services	1973	316.076	0	0
1.305 Additional Deduction for Elderly or Blind	Human Services	1989	316.695(7)	9,100	8,800
1.306 Additional Medical Deduction for Elderly	Human Services	1991	316.695 (1)(d)(B)	107,100	127,000
1.307 Social Security Benefits (Oregon)	Human Services	1985	316.054	330,300	356,600
1.308 Donations of Art by the Artist	Economic/Community	1979	316.838	100	100
1.309 Municipal Bond Interest	Economic/Community	1987	316.056	200	200
1.310 Small City Business Development	Economic/Community	2001	316.778/317.391	100	200
1.311 Individual Development Accounts (Exclusion and Subtraction)	Economic/Community	1999	316.848	Less than 50	Less than 50
1.313 Capital Gains from Manufactured Dwelling Park Sale	Economic/Community	2005	316.153	Less than 50	Less than 50
1.314 Payments for Closure of Manufactured Dwelling Park	Economic/Community	2007	316.795/317.092	200	200
1.315 Service in Vietnam on Missing Status	Economic/Community	1973	316.074	0	0
1.316 Film Production Labor Rebate	Economic/Community	2005	316.698/317.394	100	100
1.317 Underground Storage Tank Grants	Natural Resources	1991	316.834/317.383	0	0
1.318 Energy Conservation Subsidies (Oregon)	Natural Resources	1981	316.744/317.386	Less than 50	Less than 50
1.320 Income Earned in Border River Areas	Tax Administration	2001	316.127	Not Available	Not Available
1.321 Oregon State Lottery Prizes	Government	1985	461.560	2,100	2,100
1.322 Income Earned in "Indian Country"	Government	1977	316.777	4,100	4,600

Appendix E

**Personal Income Tax Expenditures**

Tax Expenditure	Program or Function	Year Enacted	Oregon Statute	Revenue Impact (\$ Thousands)	
				2007–09	2009–11
1.323 Federal Pension Income	Government	1998	316.680(1)(f)	124,000	126,600
1.324 Legislative Per Diem and Allowance	Government	1967	171.072	100	100
1.325 Federal Income Tax Deduction	Social Policy	1929	316.680(1)(b)/316.695	649,400	749,200
1.326 Military Active Duty Pay	Social Policy	1969	316.680(1)(c) and (k)/316.789/316.791	29,300	36,500
1.327 TRICARE Payments	Social Policy	2007	316.680	800	1,900
1.328 Interest and Dividends on U.S. Obligations	Federal Law	1970	316.680	52,300	59,400

*Oregon Credits*

1.401 Youth Apprenticeship Sponsorship	Education	1991	315.254	0	0
1.403 Employer Provided Scholarships	Education	2001	315.237	Less than 50	Less than 50
1.404 Earned Income Credit	Human Services	1997	315.266	48,100	55,600
1.405 Qualified Adoption Expense	Human Services	1999	315.274	Less than 50	Less than 50
1.406 Rural Medical Practice	Human Services	1989	315.613/315.616/315.619	13,300	13,000
1.407 Volunteer Rural Emergency Medical Technicians	Human Services	2005	315.622	300	200
1.408 Costs in-lieu of Nursing Home Care	Human Services	1979	316.148	Less than 50	Less than 50
1.409 Long-Term Care Insurance	Human Services	1999	315.610	13,700	15,200
1.410 Disabled Child	Human Services	1985	316.099	5,900	7,000
1.411 Elderly or Permanently Disabled	Human Services	1969	316.087	100	100
1.412 Loss of Limbs	Human Services	1973	316.079	Less than 50	Less than 50
1.413 Severe Disability	Human Services	1985	316.758/316.765	7,100	8,100
1.414 Film Production Development Contributions	Economic/Community	2003	315.514	7,900	10,000
1.417 Long-term Rural Enterprise Zone (Income Tax)	Economic/Community	1997	317.124	Not Available	Not Available
1.418 Reservation Enterprise Zone (Income Tax)	Economic/Community	2001	285C.309	Less than 50	Less than 50
1.419 Electronic Commerce Enterprise Zone (Income Tax)	Economic/Community	2001	315.507	1,100	1,200
1.420 Water Transit Vessel Manufacturing	Economic/Community	2005	315.517	Less than 50	Less than 50
1.421 Public University Venture Development Fund	Economic/Community	2005	315.521	500	600
1.423 Child and Dependent Care	Economic/Community	1975	316.078	17,400	16,900
1.424 Working Family Child Care	Economic/Community	1997	315.262	44,000	44,700
1.425 Employer Provided Dependent Care Assistance	Economic/Community	1987	315.204	1,900	1,900
1.426 Employer Provided Dependent Care Facilities	Economic/Community	1987	315.208	Incl. in 1.425	Incl. in 1.425
1.427 First Break Program	Economic/Community	1995	315.259	Less than 50	Less than 50
1.428 Child Care Division Contributions	Economic/Community	2001	315.213	1,000	1,000
1.429 Farmworker Housing Construction	Economic/Community	1989	315.164	2,100	2,200
1.432 Individual Development Account Contribution (Credit)	Economic/Community	1999	315.271	10,300	13,000
1.433 Individual Development Account Withdrawal (Credit)	Economic/Community	2005	315.272	Less than 50	Less than 50
1.434 Mobile Home Park Closure	Economic/Community	2007	Note: 316.116/OR Laws 2007, Chap 906, Sect. 16-18	2,000	2,000
1.435 Crop Gleaning	Natural Resources	1977	315.156	200	200
1.436 Alternatives to Field Burning	Natural Resources	1975	315.304	200	Less than 50
1.437 Farm Machinery and Equipment (Income Tax)	Natural Resources	2001	315.119/315.123	Less than 50	Less than 50

## Personal Income Tax Expenditures

Tax Expenditure	Program or Function	Year Enacted	Oregon Statute	Revenue Impact (\$ Thousands)	
				2007–09	2009–11
1.438 Riparian Lands Removed from Farm Production	Natural Resources	2001	315.113	Less than 50	Less than 50
1.439 Pollution Prevention	Natural Resources	1995	315.311	Less than 50	0
1.440 Pollution Control	Natural Resources	1967	315.304	5,800	3,500
1.441 Reclaimed Plastics	Natural Resources	1985	315.324	Less than 50	Less than 50
1.442 Diesel Truck Engines (New)	Natural Resources	2003	Note: 315.356	500	600
1.443 Diesel Truck Engines (Retrofit and Repower)	Natural Resources	2007	Note: 315.356	1,400	3,800
1.444 Fish Screening Devices	Natural Resources	1989	315.138	Less than 50	Less than 50
1.445 Alternative Energy Devices (Residential)	Natural Resources	1977	316.116	25,400	28,700
1.446 Alternative Fuel Stations	Natural Resources	2001	317.115	Less than 50	Less than 50
1.447 Business Energy Facilities	Natural Resources	1979	315.354	68,600	143,800
1.450 Biofuel Consumer Credit	Natural Resources	2007	315.465	600	1,100
1.451 Biodiesel Used in Home Heating	Natural Resources	2007	315.469	200	600
1.452 Production or Collection of Biomass	Natural Resources	2007	315.141	3,600	7,100
1.453 Reforestation	Natural Resources	1979	315.104	300	300
1.454 Sewer Connection	Natural Resources	1987	316.095	Less than 50	0
1.459 Political Contributions	Government	1969	316.102	15,200	15,800
1.460 Personal Exemption	Social Policy	1985	316.085	925,200	974,700
1.461 Oregon Cultural Trust	Social Policy	2001	315.675	4,900	5,500
1.462 Retirement Income	Social Policy	1991	316.157	1,500	1,200
1.463 TRICARE Health Care Providers	Social Policy	2007	315.628	1,900	4,300
1.464 Oregon Veterans' Home Physician	Social Policy	2007	315.624	Less than 50	Less than 50
<i>Other</i>					
1.501 Foreign Resident Filing Status	Economic/Community	1999	316.027	1,600	1,700
1.504 Income Averaging for Farmers	Natural Resources	2001	314.297	200	300
1.505 Capital Gains from Farm Property	Natural Resources	2001	318.020/317.063	4,100	4,600
1.508 Title 10 Active Duty Death	Social Policy	2005	314.088	Less than 50	Less than 50

## Corporation Income Tax Expenditures

Tax Expenditure	Program or Function	Year Enacted	Oregon Statute	Revenue Impact (\$ Thousands)	
				2007-09	2009-11
<i>Federal Exclusions</i>					
1.011 Prescription Drug Insurance (Part D)	Human Services	2003	316.048/317.013	37,900	46,900
1.018 Magazine, Paperback, and Record Returns	Economic/Community	1978	316.048/317.013	200	200
1.019 Cash Accounting, Other than Agriculture	Economic/Community	1916	316.048/317.013	6,300	7,100
1.020 Regional Economic Development Incentives	Economic/Community	1993	316.048/317.013	0	0
1.021 Income of Controlled Foreign Corporations	Economic/Community	1909	317.013	28,600	33,400
1.022 Extraterritorial Income Exclusion	Economic/Community	2000	317.013	Less than 50	0
1.023 Cancellation of Debt for Non-Farmers	Economic/Community	Pre-1955	316.048/317.013	1,300	1,500
1.024 Imputed Interest Rules	Economic/Community	1964	316.048/317.013	3,000	3,700
1.030 Employee Stock Ownership Plans	Economic/Community	1974	316.048/317.013	7,200	8,300
1.037 Agriculture Cost-Sharing Payments	Natural Resources	1978	316.048/317.013	200	200
1.040 Earnings of Certain Environmental Settlement Funds	Natural Resources	2005	316.048	Less than 50	Less than 50
1.042 Life Insurance Investment Income	Consumer and Business Services	1913	316.048/317.013	213,900	226,800
1.045 Credit Union Income	Consumer and Business Services	1951	317.080(1)	7,500	8,300
1.046 Structured Settlement Accounts	Consumer and Business Services	1982	317.013	Less than 50	Less than 50
1.047 Contributions in Aid of Construction for Utilities	Consumer and Business Services	1996	317.013	200	200
1.048 Certain Disaster Mitigation Payments.	Consumer and Business Services	2005	316.048/317.013	Less than 50	Less than 50
1.049 Gain on Nondealer Installment Sales	Tax Administration	1921	316.048/317.013	15,300	8,900
1.050 Gain on Like-Kind Exchanges	Tax Administration	1921	316.048/317.013	21,900	22,600
<i>Federal Deductions</i>					
1.201 Charitable Contributions: Education	Education	1917	316.695/317.013	52,400	57,600
1.202 Charitable Contributions: Health	Human Services	1917	316.695/317.013	39,000	41,400
1.204 Removal of Architectural Barriers	Human Services	1976	316.048/317.013	Less than 50	Less than 50
1.205 Accelerated Depreciation of Buildings	Economic/Community	1954	316.048/317.013	8,200	8,400
1.206 Accelerated Depreciation of Equipment	Economic/Community	1954	316.048/317.013	119,800	106,200
1.207 Deferral of Certain Financing Income of Foreign Corporations	Economic/Community	1997	317.013	8,200	400
1.208 Research and Development Costs	Economic/Community	1954	316.048/317.013	13,100	19,700
1.209 Section 179 Expensing Allowances	Economic/Community	1959	316.048/317.013	21,400	6,100
1.210 Amortization of Business Start-Up Costs	Economic/Community	1980	316.048/317.013	5,900	6,700
1.211 Construction Funds of Shipping Companies	Economic/Community	1936	317.319	400	400
1.213 Renewal Community Tax Incentives	Economic/Community	2000	316.048/317.013	0	0
1.214 Deduction of Certain Film and Television Production Costs	Economic/Community	2004	317.013	400	0
1.215 Accelerated Depreciation of Rental Housing	Economic/Community	1954	316.048/317.013	36,100	44,900
1.218 Cash Accounting for Agriculture	Natural Resources	1916	316.048/317.013	100	100
1.219 Soil and Water Conservation Expenditures	Natural Resources	1954	316.048/317.013	400	600
1.220 Fertilizer and Soil Conditioner Costs	Natural Resources	1960	316.048/317.013	1,300	1,100
1.221 Costs of Raising Dairy and Breeding Cattle	Natural Resources	1916	316.048/317.013	1,100	1,100
1.222 Sale of Stock to Farmers' Cooperatives	Natural Resources	1998	316.048/317.013	Less than 50	Less than 50
1.223 Small Refiner Expensing of Sulfur Compliant Equipment	Natural Resources	2004	317.013	Less than 50	Less than 50
1.224 Intangible Development Costs for Fuels	Natural Resources	1978	316.695/317.013	1,700	1,100



## Corporation Income Tax Expenditures

Tax Expenditure	Program or Function	Year Enacted	Oregon Statute	Revenue Impact (\$ Thousands)	
				2007–09	2009–11
1.225 Depletion Costs for Fuels	Natural Resources	1962	316.695/317.013	2,800	2,900
1.226 Tertiary Injectants	Natural Resources	1980	316.695/317.013	Less than 50	Less than 50
1.227 Deferral of Capital Gains From FERC Restructuring Requirements	Natural Resources	2004	317.013	900	200
1.228 Expensing Timber Growing Costs	Natural Resources	1986	316.048/317.013	1,100	1,100
1.229 Expensing and Amortization of Reforestation Costs	Natural Resources	1980	316.048/317.013	1,100	1,100
1.230 Development Costs for Nonfuel Minerals	Natural Resources	1951	316.048/317.013	200	200
1.231 Depletion Costs for Nonfuel Minerals	Natural Resources	1913	316.048/317.374	600	600
1.232 Mining Reclamation Reserves	Natural Resources	1984	316.048/317.013	100	100
1.233 Energy Efficient Commercial Property	Natural Resources	2006	316.048/317.013	900	1,100
1.234 Advanced Mine Safety Equipment	Natural Resources	2006	316.048/317.014	Less than 50	Less than 50
1.235 Redevelopment Costs in Contaminated Areas	Natural Resources	1997	316.048/317.013	1,700	200
1.236 Life Insurance Company Reserves	Consumer and Business Services	1984	317.655(2)(f) and (g)	8,900	9,800
1.237 Additions to Bad Debt Reserves of Small Financial Institutions	Consumer and Business Services	1947	317.310	Less than 50	Less than 50
1.238 Property and Casualty Insurance Company Reserves	Consumer and Business Services	1986	317.655(2)(f,g)	15,400	16,000
1.239 Magazine Circulation Expenditures	Tax Administration	1950	316.048/317.013	100	100
1.240 Net Operating Loss Limitation	Tax Administration	1954	317.478/317.479	2,200	2,200
1.241 Completed Contract Rules	Tax Administration	1986	316.048/317.013	1,900	2,600
1.244 Charitable Contributions: Other	Social Policy	1917	316.695/317.013	267,400	293,300
1.245 Creation or Acquisition of Musical Compositions	Social Policy	2005	316.048/317.013	Less than 50	Less than 50

*Oregon Subtractions*

1.301 Land Donated to Schools	Education	1999	316.852/317.488	Less than 50	Less than 50
1.310 Small City Business Development	Economic/Community	2001	316.778/317.391	100	200
1.312 Out-of-State Financial Institutions	Economic/Community	1999	317.057	Less than 50	Less than 50
1.313 Capital Gains from Manufactured Dwelling Park Sale	Economic/Community	2005	316.153	Less than 50	Less than 50
1.314 Payments for Closure of Manufactured Dwelling Park	Economic/Community	2007	316.795/317.092	200	200
1.316 Film Production Labor Rebate	Economic/Community	2005	316.698/317.394	100	100
1.317 Underground Storage Tank Grants	Natural Resources	1991	316.834/317.383	0	0
1.318 Energy Conservation Subsidies (Oregon)	Natural Resources	1981	316.744/317.386	Less than 50	Less than 50
1.319 Wet Marine and Transportation Policies	Consumer and Business Services	1995	317.080(8)	400	400

*Oregon Credits*

1.401 Youth Apprenticeship Sponsorship	Education	1991	315.254	0	0
1.402 Contributions of Computer Equipment	Education	1985	317.151	Less than 50	Less than 50
1.403 Employer Provided Scholarships	Education	2001	315.237	Less than 50	Less than 50
1.409 Long-Term Care Insurance	Human Services	1999	315.610	13,700	15,200
1.414 Film Production Development Contributions	Economic/Community	2003	315.514	7,900	10,000
1.415 Qualified Research Activities	Economic/Community	1989	317.152	14,900	18,200
1.416 Qualified Research Activities (Alternative)	Economic/Community	1989	317.154	Incl. in 1.415	Incl. in 1.415
1.417 Long-term Rural Enterprise Zone (Income Tax)	Economic/Community	1997	317.124	Not Available	Not Available

## Corporation Income Tax Expenditures

Tax Expenditure	Program or Function	Year Enacted	Oregon Statute	Revenue Impact (\$ Thousands)	
				2007-09	2009-11
1.418 Reservation Enterprise Zone (Income Tax)	Economic/Community	2001	285C.309	Less than 50	Less than 50
1.419 Electronic Commerce Enterprise Zone (Income Tax)	Economic/Community	2001	315.507	1,100	1,200
1.420 Water Transit Vessel Manufacturing	Economic/Community	2005	315.517	Less than 50	Less than 50
1.421 Public University Venture Development Fund	Economic/Community	2005	315.521	500	600
1.422 Small Corporation Tax Credit	Economic/Community	2007	Note: 317.092 (OR Laws 2007, Chap. 4)	24,800	0
1.425 Employer Provided Dependent Care Assistance	Economic/Community	1987	315.204	1,900	1,900
1.426 Employer Provided Dependent Care Facilities	Economic/Community	1987	315.208	Incl. in 1.425	Incl. in 1.425
1.427 First Break Program	Economic/Community	1995	315.259	Less than 50	Less than 50
1.428 Child Care Division Contributions	Economic/Community	2001	315.213	1,000	1,000
1.429 Farmworker Housing Construction	Economic/Community	1989	315.164	2,100	2,200
1.430 Farmworker Housing Lender's Credit	Economic/Community	1989	317.147	800	800
1.431 Oregon Affordable Housing Lender's Credit	Economic/Community	1989	317.097	14,000	20,600
1.432 Individual Development Account Contribution (Credit)	Economic/Community	1999	315.271	10,300	13,000
1.435 Crop Gleaning	Natural Resources	1977	315.156	200	200
1.436 Alternatives to Field Burning	Natural Resources	1975	315.304	200	Less than 50
1.437 Farm Machinery and Equipment (Income Tax)	Natural Resources	2001	315.119/315.123	Less than 50	Less than 50
1.438 Riparian Lands Removed from Farm Production	Natural Resources	2001	315.113	Less than 50	Less than 50
1.439 Pollution Prevention	Natural Resources	1995	315.311	Less than 50	0
1.440 Pollution Control	Natural Resources	1967	315.304	5,800	3,500
1.441 Reclaimed Plastics	Natural Resources	1985	315.324	Less than 50	Less than 50
1.442 Diesel Truck Engines (New)	Natural Resources	2003	Note: 315.356	500	600
1.443 Diesel Truck Engines (Retrofit and Repower)	Natural Resources	2007	Note: 315.356	1,400	3,800
1.444 Fish Screening Devices	Natural Resources	1989	315.138	Less than 50	Less than 50
1.446 Alternative Fuel Stations	Natural Resources	2001	317.115	Less than 50	Less than 50
1.447 Business Energy Facilities	Natural Resources	1979	315.354	68,600	143,800
1.448 Energy Conservation Lender's Credit	Natural Resources	1981	317.112	Less than 50	Less than 50
1.449 Weatherization Lender's Credit	Natural Resources	1977	317.111	Less than 50	Less than 50
1.452 Production or Collection of Biomass	Natural Resources	2007	315.141	3,600	7,100
1.453 Reforestation	Natural Resources	1979	315.104	300	300
1.455 Mile-Based or Time-Based Motor Vehicle Insurance	Consumer and Business Services	2003	Note: 317.122	Less than 50	Less than 50
1.456 Fire Insurance	Consumer and Business Services	1969	317.122(1)	8,500	10,200
1.457 Workers' Compensation Assessments	Consumer and Business Services	1995	317.122(2)	2,000	1,800
1.458 Oregon Life and Health IGA Assessments	Consumer and Business Services	1975	734.835	100	100
1.461 Oregon Cultural Trust	Social Policy	2001	315.675	4,900	5,500
<i>Other</i>					
1.502 Public Warehouse Sales Throwback Exemption	Economic/Community	2005	314.665	Less than 50	Less than 50
1.503 Single Sales Factor Corporate Apportionment	Economic/Community	2003	314.650/317.660	79,100	89,900

## Corporation Income Tax Expenditures

Tax Expenditure	Program or Function	Year Enacted	Oregon Statute	Revenue Impact (\$ Thousands)	
				2007-09	2009-11
1.505 Capital Gains from Farm Property	Natural Resources	2001	318.020/317.063	4,100	4,600
1.506 Apportionment for Certain Forest Product Companies	Natural Resources	2003	314.650(2)	0	0
1.507 Apportionment for Utility and Telecommunication Companies	Consumer and Business Services	2001	314.280	900	900



## Index of Tax Expenditures by Title

Tax Expenditure Name	Tax Expenditure Number	Tax Program
Academies, Day Care, and Student Housing	2.001	Property
Accelerated Depreciation of Buildings	1.205	Income
Accelerated Depreciation of Equipment	1.206	Income
Accelerated Depreciation of Rental Housing	1.215	Income
Additional Deduction for Elderly or Blind	1.305	Income
Additional Medical Deduction for Elderly	1.306	Income
Additions to Bad Debt Reserves of Small Financial Institutions	1.237	Income
Advanced Mine Safety Equipment	1.234	Income
Agricultural Products Held by Farmer	2.035	Property
Agriculture Cost-Sharing Payments	1.037	Income
Aircraft	2.106	Property
Aircraft Being Repaired	2.020	Property
Allowances for Federal Employees Abroad	1.051	Income
Alternative Energy Devices (Residential)	1.445	Income
Alternative Energy Systems	2.103	Property
Alternative Fuel Stations	1.446	Income
Alternatives to Field Burning	1.436	Income
Amortization of Business Start-Up Costs	1.210	Income
Amtrak Passenger Railroad	2.087	Property
Apportionment for Certain Forest Product Companies	1.506	Income
Apportionment for Utility and Telecommunication Companies	1.507	Income
Beach Lands	2.072	Property
Benefits and Allowances of Armed Forces Personnel	1.059	Income
Beverage Containers Requiring Deposit	2.070	Property
Biodiesel Used in Home Heating	1.451	Income
Biofuel Consumer Credit	1.450	Income
Business Energy Facilities	1.447	Income
Business Personal Property Cancellation	2.015	Property
Businesses Transferring or Leasing Property	2.030	Property
Cafeteria Plan Benefits	1.008	Income
Cancellation of Debt for Farmers	1.038	Income
Cancellation of Debt for Non-Farmers	1.023	Income
Capital Gains from Farm Property	1.505	Income
Capital Gains from Manufactured Dwelling Park Sale	1.313	Income
Capital Gains on Gifts	1.060	Income
Capital Gains on Home Sales	1.034	Income
Capital Gains on Inherited Property	1.053	Income
Cargo Containers	2.016	Property
Cash Accounting for Agriculture	1.218	Income
Cash Accounting, Other than Agriculture	1.019	Income
Casualty and Theft Losses	1.242	Income
Cemeteries, Burial Grounds, and Mausoleums	2.079	Property
Center Pivot Irrigation Equipment	2.040	Property
Certain Disaster Mitigation Payments.	1.048	Income
Certain Foster Care Payments	1.006	Income
Charitable Contributions: Education	1.201	Income
Charitable Contributions: Health	1.202	Income
Charitable Contributions: Other	1.244	Income
Charitable Organizations	4.007	Weight-Mile

# Index

## Index of Tax Expenditures by Title

Tax Expenditure Name	Tax Expenditure Number	Tax Program
Charitable, Literary, and Scientific Organizations	2.076	Property
Child and Dependent Care	1.423	Income
Child Care Division Contributions	1.428	Income
City-Owned Sports Facility	2.082	Property
Commercial Buildings Under Construction	2.008	Property
Compensatory Damages	1.010	Income
Completed Contract Rules	1.241	Income
Conservation Easements	2.122	Property
Construction Funds of Shipping Companies	1.211	Income
Construction-in-Process in an Enterprise Zone	2.009	Property
Contributions in Aid of Construction for Utilities	1.047	Income
Contributions of Computer Equipment	1.402	Income
Convention Facilities	2.083	Property
Costs in-lieu of Nursing Home Care	1.408	Income
Costs of Raising Dairy and Breeding Cattle	1.221	Income
Crab Pots	2.047	Property
Creation or Acquisition of Musical Compositions	1.245	Income
Credit for Property Taxes Paid	14.003	Oil and Gas Privilege
Credit Union Income	1.045	Income
Crop Gleaning	1.435	Income
Crops, Plants, and Fruit Trees	2.034	Property
Deduction of Certain Film and Television Production Costs	1.214	Income
Defense Contractor With Federal Property	2.023	Property
Deferral of Capital Gains From FERC Restructuring Requirements	1.227	Income
Deferral of Certain Financing Income of Foreign Corporations	1.207	Income
Employer Provided Dependent Care Assistance	1.425	Income
Employer Provided Dependent Care Facilities	1.426	Income
Depletion Costs for Fuels	1.225	Income
Depletion Costs for Nonfuel Minerals	1.231	Income
Destroyed or Damaged Property	2.123	Property
Development Costs for Nonfuel Minerals	1.230	Income
Diesel Truck Engines (New)	1.442	Income
Diesel Truck Engines (Retrofit and Repower)	1.443	Income
Disabled Child	1.410	Income
Disabled War Veterans or Their Spouses	2.099	Property
Discharge of Certain Student Loan Debt	1.057	Income
Donations of Art by the Artist	1.308	Income
Earned Income Credit	1.404	Income
Earnings of Certain Environmental Settlement Funds	1.040	Income
Earnings on Education Savings Accounts	1.003	Income
Eastern Private Forestland	2.117	Property
Eastern Private Standing Timber	2.051	Property
Elderly or Permanently Disabled	1.411	Income
Electronic Commerce Enterprise Zone (Income Tax)	1.419	Income
Electronic Commerce Enterprise Zone (Property Tax)	2.012	Property
Elementary and Secondary Schools	4.003	Weight-Mile
Employee Adoption Benefits	1.007	Income
Employee Awards	1.031	Income
Employee Meals and Lodging (Non-Military)	1.029	Income
Employee Stock Ownership Plans	1.030	Income

## Index of Tax Expenditures by Title

Tax Expenditure Name	Tax Expenditure Number	Tax Program
Employer Paid Accident and Disability Insurance	1.026	Income
Employer Paid Group Life Insurance Premiums	1.025	Income
Employer Paid Medical Benefits	1.009	Income
Employer Paid Transportation Benefits	1.041	Income
Employer Provided Dependent Care	1.027	Income
Employer Provided Education Benefits	1.032	Income
Employer Provided Scholarships	1.403	Income
Energy Conservation Lender's Credit	1.448	Income
Energy Conservation Subsidies (Federal)	1.039	Income
Energy Conservation Subsidies (Oregon)	1.318	Income
Energy Efficient Commercial Property	1.233	Income
Enterprise Zone Businesses	2.010	Property
Environmentally Sensitive Logging Equipment	2.046	Property
Ethanol Production Facility	2.102	Property
Exempt Construction	17.001	Local Construction Tax
Exempt Dwelling Units	16.001	Lodging
Exempt Lease from Exempt Owner	2.081	Property
Exempt Lease from Taxable Owner	2.080	Property
Expensing and Amortization of Reforestation Costs	1.229	Income
Expensing Timber Growing Costs	1.228	Income
Extraterritorial Income Exclusion	1.022	Income
Facility on U.S. Military Base	12.003	Dry Cleaning
Fairground Leased Storage Space	2.028	Property
Farm Homesites	2.120	Property
Farm Labor Housing and Day Care Facilities	2.027	Property
Farm Land	2.119	Property
Farm Machinery and Equipment (Income Tax)	1.437	Income
Farm Machinery and Equipment (Property Tax)	2.032	Property
Farmworker Housing Construction	1.429	Income
Farmworker Housing Lender's Credit	1.430	Income
Farming Operations	4.001	Weight-Mile
FCC Licenses	2.067	Property
Federal and Veteran Institutions	5.002	Cigarette
Federal Employees on Federal Business	16.002	Lodging
Federal Income Tax Deduction	1.325	Income
Federal Installations	6.001	Other Tobacco Products
Federal Land Under Recreation Facility	2.022	Property
Federal Land Under Summer Homes	2.024	Property
Federal Pension Income	1.323	Income
Federal Property	2.085	Property
Federal Standing Timber Under Contract	2.048	Property
Federal Subscribers	8.002	911 Emergency Communications Tax
Fertilizer and Soil Conditioner Costs	1.220	Income
Field Burning Smoke Management Equipment	2.042	Property
Film Production Development Contributions	1.414	Income
Film Production Labor Rebate	1.316	Income
Fire Insurance	1.456	Income
Fire Protection	4.006	Weight-Mile
First \$3,000 in Gross Sales Value	14.001	Oil and Gas Privilege

# Index

## Index of Tax Expenditures by Title

Tax Expenditure Name	Tax Expenditure Number	Tax Program
First 25,000 Board Feet	9.001	Forest Products Harvest
First Break Program	1.427	Income
Fish Screening Devices	1.444	Income
Food Processing Equipment	2.031	Property
Foreign Resident Filing Status	1.501	Income
Forest Fire Protection Association	2.053	Property
Forest Homesites	2.115	Property
Forest Products -- Gasoline	3.001	Gas and Use Fuel
Forest Products -- Other than Gasoline	3.002	Gas and Use Fuel
Forest Products on County Roads	4.002	Weight-Mile
Fraternal Organizations	2.077	Property
Fraternities, Sororities, and Cooperatives	2.088	Property
Fuel for Aircraft Departing U.S.	3.003	Gas and Use Fuel
Gain on Involuntary Conversions in Disaster Areas	1.054	Income
Gain on Like-Kind Exchanges	1.050	Income
Gain on Nondealer Installment Sales	1.049	Income
Government Owned or Operated Vehicles	4.004	Weight-Mile
Health Savings Accounts	1.105	Income
Higher Education Parking Space	2.004	Property
Historic Property	2.105	Property
Home Mortgage Interest	1.217	Income
Homestead Exemption for Federal Active Duty Military Servicemembers	2.110	Property
Hospital Insurance (Part A)	1.012	Income
Housing Authority Rental Units	2.025	Property
Imputed Interest Rules	1.024	Income
Inactive Mineral Interests	2.054	Property
Income Averaging for Farmers	1.504	Income
Income Earned Abroad by U.S. Citizens	1.017	Income
Income Earned in "Indian Country"	1.322	Income
Income Earned in Border River Areas	1.320	Income
Income of Controlled Foreign Corporations	1.021	Income
Indian Property on Reservation	2.086	Property
Indian Reservation Subscribers	8.003	911 Emergency Communications Tax
Individual Development Account Contribution (Credit)	1.432	Income
Individual Development Account Withdrawal (Credit)	1.433	Income
Individual Development Accounts (Exclusion and Subtraction)	1.311	Income
Industry Apprenticeship/Training Trust	2.029	Property
Intangible Development Costs for Fuels	1.224	Income
Intangible Personal Property	2.068	Property
Interest and Dividends on U.S. Obligations	1.328	Income
Interest on Education Savings Bonds	1.002	Income
Interest on Oregon State and Local Debt	1.052	Income
Interest on Student Loans	1.102	Income
Inventory	2.014	Property
IRA Contributions and Earnings	1.106	Income
Land Donated to Schools	1.301	Income
Leased Docks and Airports	2.017	Property
Leased Federal Grazing Land	2.038	Property
Leased Health Care Property	2.006	Property
Leased Public Farming and Grazing Land	2.037	Property



## Index of Tax Expenditures by Title

Tax Expenditure Name	Tax Expenditure Number	Tax Program
Leased Publicly Owned Shipyard Property	2.018	Property
Leased State Land Board Land	2.055	Property
Leased Student Housing Publicly Owned	2.003	Property
Legislative Per Diem and Allowance	1.324	Income
Life Insurance Investment Income	1.042	Income
Life Insurance Company Reserves	1.236	Income
LLC Owned by Nonprofit Corporation	2.084	Property
Local Government Public Ways	2.073	Property
Local Income Taxes	1.243	Income
Long-Term Care Facilities	2.090	Property
Long-Term Care Insurance	1.409	Income
Long-term Rural Enterprise Zone (Income Tax)	1.417	Income
Long-Term Rural Enterprise Zone (Property Tax)	2.011	Property
Loss of Limbs	1.412	Income
Low-Income Multi-Unit Housing	2.096	Property
Magazine Circulation Expenditures	1.239	Income
Magazine, Paperback, and Record Returns	1.018	Income
Medical and Dental Expenses	1.203	Income
Mile-Based or Time-Based Motor Vehicle Insurance	1.455	Income
Military Active Duty Pay	1.326	Income
Military and Dependents CHAMPUS/TRICARE Insurance	1.036	Income
Military Disability Benefits	1.058	Income
Mining Claims on Federal Land	2.057	Property
Mining Reclamation Reserves	1.232	Income
Miscellaneous Fringe Benefits	1.028	Income
Mobile Field Incinerators	2.033	Property
Mobile Home Park Closure	1.434	Income
Motor Vehicles and Trailers	2.061	Property
Moving Expenses	1.108	Income
Multi-Family Rental Housing in City Core	2.095	Property
Multi-Unit Rental Housing	2.112	Property
Municipal Bond Interest	1.309	Income
Natural Gas Pipeline Extension	2.059	Property
Natural Resource and Fishing Property	18.001	Inheritance
Net Operating Loss Limitation	1.240	Income
New Houses in Distressed Area	2.093	Property
New Housing for Low-Income Rental	2.097	Property
Nonprofit Elderly Housing State Funded	2.026	Property
Nonprofit Electrical Distribution Associations	2.064	Property
Nonprofit Housing for the Elderly	2.111	Property
Nonprofit Low-Income Rental Housing	2.098	Property
Nonprofit Public Park Use Land	2.058	Property
Nonprofit Sewage Treatment Facilities	2.043	Property
Nonprofit Telephone Associations	2.065	Property
Nonprofit Water Associations	2.063	Property
Nursery Stock	2.036	Property
Nursing Facilities	15.004	Medical Provider
Pacific Northwest AC Intertie Exemption	2.074	Property
ODOT Land Under Use Permit	2.062	Property

# Index

## Index of Tax Expenditures by Title

Tax Expenditure Name	Tax Expenditure Number	Tax Program
Open Space Land	2.121	Property
Ordinary Treatment of Losses from Small Business Corporation Stock	1.212	Income
Oregon 529 College Savings Network	1.302	Income
Oregon Affordable Housing Lender's Credit	1.431	Income
Oregon Cultural Trust	1.461	Income
Oregon Life and Health IGA Assessments	1.458	Income
Oregon State Lottery Prizes	1.321	Income
Oregon Veterans' Home	15.003	Medical Provider
Oregon Veterans' Home Physician	1.464	Income
Other Farm/Aquaculture/Egg Equipment	2.041	Property
Out-of-State Financial Institution	1.312	Income
Overnight-travel Expenses of National Guard and Reserve Members	1.109	Income
Payments for Closure of Manufactured Dwelling Park	1.314	Income
Pension Contributions and Earnings	1.014	Income
Personal Exemption	1.460	Income
Personal Property for Personal Use	2.069	Property
Physicians in "Medically Disadvantaged" Areas	1.304	Income
Political Contributions	1.459	Income
Pollution Control	1.440	Income
Pollution Control Facilities	2.101	Property
Pollution Prevention	1.439	Income
Prescription Drug Insurance (Part D)	1.011	Income
Prisons	12.002	Dry Cleaning
Private Farm and Logging Roads	2.052	Property
Private Libraries for Public Use	2.005	Property
Private Service Telephone Equipment	2.066	Property
Product Prohibited from Tax by Federal Law	13.001	Petroleum Loading
Production or Collection of Biomass	1.452	Income
Property and Casualty Insurance Company Reserves	1.238	Income
Property Taxes	1.216	Income
Property Used for Golf Course and Effluent	2.044	Property
Public Assistance Benefits	1.005	Income
Public Mass Transit Vehicles	4.005	Weight-Mile
Public Services	3.004	Gas and Use Fuel
Public Transportation	3.005	Gas and Use Fuel
Public University Venture Development Fund	1.421	Income
Public Warehouse Sales Throwback Exemption	1.502	Income
Qualified Adoption Expense	1.405	Income
Qualified Higher Education Expenses	1.103	Income
Qualified Research Activities	1.415	Income
Qualified Research Activities (Alternative)	1.416	Income
Qualified Tuition Programs (Federal)	1.004	Income
Railroad Cars Being Repaired	2.021	Property
Railroad Right of Way in Highway Lighting District	2.108	Property
Railroad Right of Way in Rural Fire District	2.109	Property
Railroad Right of Way in Water District	2.107	Property
Railroad Right of Way Used for Alternative Transport	2.060	Property
Reclaimed Plastics	1.441	Income
Redevelopment Costs in Contaminated Areas	1.235	Income
Reforestation	1.453	Income

## Index of Tax Expenditures by Title

Tax Expenditure Name	Tax Expenditure Number	Tax Program
Regional Economic Development Incentives	1.020	Income
Rehabilitated Housing	2.094	Property
Religious Organizations	2.078	Property
Removal of Architectural Barriers	1.204	Income
Renewal Community Tax Incentives	1.213	Income
Rental Allowances for Ministers' Homes	1.056	Income
Research and Development Costs	1.208	Income
Reservation Cigarette Sales	5.003	Cigarette
Reservation Enterprise Zone (Income Tax)	1.418	Income
Reservation Tobacco Sales	6.002	Other Tobacco Products
Restitution Payments for Holocaust Survivors	1.061	Income
Retirement Income	1.462	Income
Revenue from Government Leased Lines	10.001	Electric Cooperative
Riparian Habitat Land	2.045	Property
Riparian Lands Removed from Farm Production	1.438	Income
Rural Health Care Facilities	2.089	Property
Rural Medical Practice	1.406	Income
Rural Renewable Energy Development Zone	2.013	Property
Sale of Stock to Farmers' Cooperatives	1.222	Income
Scholarship and Fellowship Income	1.001	Income
Scholarship Awards Used for Housing Expenses	1.303	Income
Section 179 Expensing Allowances	1.209	Income
Self-Employment Health Insurance	1.104	Income
Senior Services Centers	2.007	Property
SEP/SIMPLE Plan Contributions and Earnings	1.107	Income
Service in Vietnam on Missing Status	1.315	Income
Severe Disability	1.413	Income
Sewer Connection	1.454	Income
Shellfish Growing on State Land	2.039	Property
Ship Repair Facility Materials	2.019	Property
Single Sales Factor Corporate Apportionment	1.503	Income
Small City Business Development	1.310	Income
Small Corporation Tax Credit	1.422	Income
Small Quantity by Consumers	5.001	Cigarette
Small Refiner Expensing of Sulfur Compliant Equipment	1.223	Income
Small Tract Forestland Option	2.118	Property
Small Watercraft	2.056	Property
Small Wineries	7.001	Beer and Wine
Social Security Benefits (Federal)	1.016	Income
Social Security Benefits (Oregon)	1.307	Income
Soil and Water Conservation Expenditures	1.219	Income
Special Benefits for Disabled Coal Miners	1.015	Income
Spread on Acquisition of Stock	1.033	Income
State and Local Government Property	11.001	Hazardous Substances
State and Local Interests	14.002	Oil and Gas Privilege
State and Local Property	2.071	Property
State and Local Standing Timber Under Contract	2.049	Property
State and Local Subscribers	8.001	911 Emergency Communications Tax
Strategic Investment Program (SIP)	2.091	Property

Index

**Index of Tax Expenditures by Title**

Tax Expenditure Name	Tax Expenditure Number	Tax Program
Structured Settlement Accounts	1.046	Income
Student Housing Furnishings	2.002	Property
Substance Prohibited from Tax by Federal Law	11.002	Hazardous Substances
Supplementary Medical Insurance (Part B)	1.013	Income
Survivor Annuities	1.062	Income
Teacher Classroom Expenses	1.101	Income
Tertiary Injectants	1.226	Income
Title 10 Active Duty Death	1.508	Income
Tribal Land Being Placed in U.S. Trust	2.075	Property
TRICARE Health Care Providers	1.463	Income
TRICARE Payments	1.327	Income
Type A and B Hospitals	15.001	Medical Provider
Underground Storage Tank Grants	1.317	Income
Uniform Service or Linen Supply Facility	12.001	Dry Cleaning
Vertical Housing Development Zone	2.092	Property
Veterans Affairs and Pediatric Specialty Hospitals	15.002	Medical Provider
Veteran's Benefits and Services	1.035	Income
Voluntary Employees' Beneficiary Associations	1.055	Income
Volunteer Rural Emergency Medical Technicians	1.407	Income
War Veterans in Nonprofit Elderly Housing	2.100	Property
Water Transit Vessel Manufacturing	1.420	Income
Watercraft Centrally Assessed	2.104	Property
Watercraft Locally Assessed	2.113	Property
Weatherization Lender's Credit	1.449	Income
Western Private Forestland	2.116	Property
Western Private Standing Timber	2.050	Property
Wet Marine and Transportation Policies	1.319	Income
Wildlife Habitat	2.114	Property
Wine Marketing Activities	7.002	Beer and Wine
Workers' Compensation Assessments	1.457	Income
Workers' Compensation Benefits (Medical)	1.044	Income
Workers' Compensation Benefits (Non-Medical)	1.043	Income
Working Family Child Care	1.424	Income
Youth Apprenticeship Sponsorship	1.401	Income

