

State of Oregon

1999–2001

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Tax Expenditure Report

Budget and Management Division
Department of Administrative Services

Research Section
Department of Revenue

GOVERNOR'S MESSAGE

To the Citizens of Oregon –

I am pleased to submit the second comprehensive State of Oregon Tax Expenditure Report. It compiles tax expenditures of all kinds- exclusions, deductions, exemptions, subtractions, deferrals, preferential tax rates, and credits.

Over the last 20 years the face of Oregon's economy and public finance system has changed with new industry and the passage of ballot measures 5, 47, and 50. Due to these dramatic changes, I have initiated a tax review effort to look at changes that would help Oregon achieve social, economic and environmental goals. It is equally important that a thorough examination of Oregon's tax expenditures occur in order to insure that they are being used effectively to reach the same goals. This report provides the vehicle for that examination.

Taxes continue to be an important issue to Oregonians and full disclosure of how well the system is working is something all Oregon citizens deserve. This report provides a factual basis for a healthy debate on the fairness and efficiency of our tax system.

Sincerely,

A handwritten signature in black ink, appearing to read "John Kitzhaber". The signature is fluid and cursive, with the first name "John" being the most prominent part.

John A. Kitzhaber, M.D.
Governor, State of Oregon

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INTRODUCTION

The 1995 Budget Accountability Act (the Act) requires that the Governor, with the assistance of the Department of Revenue and the Department of Administrative Services, produce a tax expenditure report every biennium, along with the Governor's Recommended Budget. The report was first prepared in 1996 for the 1997–99 biennium. This report covers expenditures for the 1999–01 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 293 tax expenditures contained within fifteen Oregon tax programs. Since tax expenditures impart special treatment to groups of taxpayers, it is necessary to begin with a clear definition of the 'normal' tax base from which that special treatment departs. Descriptions of the tax bases for each of the fifteen tax programs begin each chapter. There may be differences of opinion about what this 'normal' tax base ought to be. Where there was uncertainty about whether a particular provision should be considered a tax expenditure, it was included in an effort to be as comprehensive as possible.

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

Purpose of the Tax Expenditure Report

The Act declares the necessity of

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

inappropriate tax expenditures, resulting in greater accountability by state government and a lowering of the tax burden on all taxpayers.

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

In preparing this report, as well as the previous one, it was not always possible to obtain data on the expenditures. Information about the recipients of certain tax expenditures is quite limited and a comprehensive analysis of all 293 tax expenditures is not possible given limited resources. A significant number of tax expenditures were presented in the 1997–99 report with complete information, and this 1999–01 report builds on that base. The primary objective of future reports will be to improve upon the work done so far and to increase the number of expenditures for which complete information and analysis is presented.

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 1999–01 biennium; an index of all tax expenditures by tax program (Table 1); an index of all tax expenditures by program/function (Table 2); and detailed descriptions of each tax expenditure (Chapters 1–15).

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

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

Appendices A to C include the full text of the Budget Accountability Act, a list of agencies that evaluated the tax expenditures, and a list of Oregon tax programs that do not contain tax expenditures. Appendix D lists the tax expenditures that are new, modified, or have expired since this report was last published. Because Tables 1 and 2 combine the estimates for both personal and corporation income tax expenditures, Appendix E provides a table of corporation income tax expenditures and a table of personal income tax expenditures.

Program/Function Categories

Each tax expenditure has been assigned to one of ten program/function categories. Wherever possible, an expenditure was categorized as one of the budget program areas used in the Governor's Recommended Budget: Education, Human Resources, Economic and Community Development, Natural Resources, and

Transportation. Those that did not fit one of these program areas were assigned to one of five function categories: Insurance and Financial, Tax Administration, Government, Social Policy, and Federal Law. Since some tax expenditures can fit neatly into more than one category, those who wish to sum the revenue impacts by program or function should be careful that they agree with these assignments or change them accordingly. The tax expenditures are listed by program/function in Table 2.

Evaluations

The evaluations of whether these tax expenditures achieve their purpose were conducted by personnel in over thirty state agencies (see Appendix B). Agencies were asked to evaluate tax expenditures if the expenditure directly related to their program responsibility or if they had appropriate knowledge of the subject matter.

Revenue Impacts

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

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

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

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

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

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

Acknowledgments

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

SUMMARY

This report describes 293 individual tax expenditures currently specified in Oregon law. Of those, 101 are related to local property taxes and 152 to Oregon's personal and corporation income taxes. The remaining 40 are related to various other state tax programs.

Eighty-seven of the 152 income tax expenditures result from Oregon's connection to the federal income tax code. By adopting the federal definition of taxable income, Oregon also adopts all of the exclusions and deductions from income that are part of the federal personal and corporation income taxes. Since 1997, Oregon automatically connects to the federal definition of taxable income. This connection greatly reduces the costs for taxpayers to comply with Oregon tax law and simplifying tax administration. Oregon could "disconnect" from individual provisions in the federal tax code, but doing so would also increase compliance and administration costs and could create confusion.

For the 1997-99 biennium total tax expenditures will result in the "spending" of about \$19.9 billion through Oregon's tax code. Over the same period the State of Oregon and local taxing districts will collect roughly \$16.0 billion in taxes for spending on various state and local programs. This indicates that governments in Oregon "spend" more through special provisions in the tax code than they do through direct outlays.

The table below shows estimates of tax expenditures by tax program for the 1997-99 and 1999-01 biennia. The table also shows estimates of the total revenues raised in 1997-99 by each tax. The largest tax expenditures occur in the property tax, where aggregate tax expenditures of over \$14 billion per biennium are more than twice the amount of revenue actually raised. The largest property tax expenditures are the exemption of intangible personal property (\$7.7 billion), the exemption of federal property (\$2.8 billion), and the exemption for privately-owned standing timber in western Oregon (\$1.0 billion).

OREGON REVENUES AND TAX EXPENDITURES				
BY TAX PROGRAM				
(Millions of Dollars)				
Tax Program	Number of Tax Expenditures	Estimated Revenues	Estimated Tax Expenditures	
		1997-99	1997-99	1999-01
Incom (Total)	152	\$7,769.5	\$5,178.8	\$5,430.8
Federal Exclusions	53		\$2,166.1	\$2,410.3
Feder Deductions	34		\$1,103.7	\$1,211.9
Oregon Substractions	20		\$1,032.2	\$888.6
Oregon Credits	45		\$876.8	\$920.0
Property	101	\$5,076.8	\$14,666.4	\$15,933.2
Gas and Use fuel	4	\$773.0	\$5.1	\$5.2
Weight-Mile	7	\$128.0	\$10.5	\$10.5
Cigarette & Other Tobacco	6	\$413.3	\$0.5	\$0.5
Insurence	7	\$113.6	\$31.4	\$17.5
Beer and Wine	1	\$25.3	\$1.5	\$1.5
Other State Taxes	15	\$1,444.2	\$4.6	\$4.7
All Taxes	293	\$16,043.7	\$19,898.7	\$21,403.8

For income taxes (personal and corporation), tax expenditures in 1997-99 total over \$5 billion, roughly 67 percent of actual tax collections. The largest expenditures are for Oregon's personal exemption credit (\$717 million), the deduction of home mortgage interest (\$525 million), and the deduction for pension contributions and earnings (\$523 million).

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 1999-01

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.

Full Sunsets

Income Tax

1.095	Capital Gains from Oregon Reinvestment	ORS 316.874	Sunsets 12/31/99
	Governor's Recommendation: Extend sunset.		
1.127	First Break Program	ORS 315.259	Sunsets 12/31/00
	Governor's Recommendation: Extend sunset.		
1.131	Low Income Housing Lenders' Credit	ORS 317.097	Sunsets 1/1/00
	Governor's Recommendation: Extend sunset.		
1.134	Pollution Prevention Credit	ORS 315.311	Sunsets 12/31/99
	Governor's Recommendation: Extend sunset.		

Property Tax

2.028	New Housing for Low Income Rental	ORS 307.517/307.518	Sunsets 1/1/00
	Governor's Recommendation: Extend sunset.		
2.064	Natural Heritage Conservation Areas	ORS 307.550	Sunsets 12/31/99
	Governor's Recommendation: Extend sunset.		

Partial Sunsets

Income Tax

1.092	Additional Medical Deduction for Elderly--minimum age for eligibility increases by one year each biennium until it reaches 62 for the 1999 tax year.		
	Governor's Recommendation: No change.		

Table 1: Index of Tax Expenditures by Tax Program

Tax Expenditure	Program or Function	Year Enacted	Oregon Statute	Revenue Impact (\$ Thousands)	
				1997-99	1999-01
INCOME TAX					
<i>Federal Exclusions</i>					
1.001 Scholarship and Fellowship Income	Education	1954	316.048	5,900	6,700
1.002 Interest on Education Savings Bonds	Education	1988	316.048	100	100
1.003 Earnings on Education IRAs	Education	1997	316.048	2,400	5,300
1.004 Public Assistance Benefits	Human Resources	1930s	316.048	6,300	7,100
1.005 Certain Foster Care Payments	Human Resources	1982	316.048	100	100
1.006 Employee Adoption Benefits	Human Resources	1996	316.048	Less than 50	Less than 50
1.007 Cafeteria Plan Benefits	Human Resources	1974	316.048	42,500	53,400
1.008 Employer Paid Medical Benefits	Human Resources	1918	316.048	369,900	424,000
1.009 Pension Contributions and Earnings	Human Resources	1921	316.048	523,200	565,900
1.010 Hospital Insurance (Part A)	Human Resources	1965	316.048	98,600	123,200
1.011 Supplementary Medical Insurance (Part B)	Human Resources	1970	316.048	43,600	57,300
1.012 Social Security Benefits (Federal)	Human Resources	1938	316.048	166,600	176,800
1.013 Accelerated Depreciation of Buildings	Economic/Community	1954	316.048/317.013	17,100	10,400
1.014 Accelerated Depreciation of Equipment	Economic/Community	1954	316.048/317.013	167,200	185,700
1.015 Income Earned Abroad by U.S. Citizens	Economic/Community	1926	316.048	12,900	14,900
1.016 Income of Foreign Sales Corporations	Economic/Community	1984	317.013	7,400	8,900
1.017 Inventory Property Sales Source-Rule Exception	Economic/Community	1921	317.013	17,400	18,500
1.018 Magazine, Paperback, and Record Returns	Economic/Community	1978	316.048/317.013	100	100
1.019 Cash Accounting, Other than Agriculture	Economic/Community	1916	316.048/317.013	800	800
1.020 Regional Economic Development Incentives	Economic/Community	1993	316.048/317.013	Less than 50	Less than 50
1.021 Income of Controlled Foreign Corporations	Economic/Community	1909	317.013	5,600	6,200
1.022 Employer Paid Group Life Insurance Premiums	Economic/Community	1920	316.048	13,200	14,500
1.023 Employer Paid Accident and Disability Insurance	Economic/Community	1954	316.048	1,400	1,400
1.024 Employer Provided Dependent Care	Economic/Community	1981	316.048	6,600	8,100
1.025 Miscellaneous Fringe Benefits	Economic/Community	1984	316.048	41,800	47,400
1.026 Employee Meals and Lodging (Non-Military)	Economic/Community	1918	316.048	4,900	5,700
1.027 Employee Stock Ownership Plans	Economic/Community	1974	316.048/317.013	3,900	4,400
1.028 Employee Awards	Economic/Community	1986	316.048	700	700
1.029 Employer Provided Death Benefits	Economic/Community	1951	316.048	100	100
1.030 Employer Provided Education Benefits	Economic/Community	1997	316.048	1,700	1,100
1.031 Accelerated Depreciation of Rental Housing	Economic/Community	1954	316.048/317.013	9,900	9,600
1.032 Capital Gains on Home Sales	Economic/Community	1997	316.048	59,000	63,700
1.033 Veteran's Benefits and Services	Economic/Community	1917	316.048	15,000	15,900
1.034 Agriculture Cost-Sharing Payments	Natural Resources	1978	316.048/317.013	100	100
1.035 Cancellation of Debt for Farmers	Natural Resources	1986	316.048	700	700
1.036 Energy Conservation Subsidies	Natural Resources	1992	316.048	(In 1.100)	(In 1.100)
1.037 Contributions in Aid of Construction for Utilities	Transportation	1996	317.013	200	200
1.038 Employer Paid Transportation Benefits	Transportation	1992	316.048	17,000	17,000
1.039 Life Insurance Investment Income	Insurance and Financial	1913	316.048/317.013	153,100	163,500
1.040 Workers' Compensation Benefits	Insurance and Financial	1918	316.048	26,800	29,000
1.041 Credit Union Income	Insurance and Financial	1951	317.013	3,600	4,100
1.042 Life Insurance Company Reserves	Insurance and Financial	1984	317.013	8,800	10,100
1.043 Imputed Interest Rules	Tax Administration	1964	316.048/317.013	1,500	1,500
1.044 Gain on Non-Dealer Installment Sales	Tax Administration	1921	316.048/317.013	5,100	5,100
1.045 Gain on Like-Kind Exchanges	Tax Administration	1921	316.048/317.013	3,900	3,900
1.046 Allowances for Federal Employees Abroad	Government	1943	316.048	400	400
1.047 Interest on Oregon State and Local Debt	Government	1913	316.048	78,900	83,700
1.048 Capital Gains on Inherited Property	Social Policy	1921	316.048	194,400	225,100
1.049 Capital Gains on Gifts	Social Policy	1921	316.048	19,300	20,700

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

Tax Expenditure	Program or Function	Year Enacted	Oregon Statute	Revenue Impact (\$ Thousands)	
				1997-99	1999-01
1.050 Gain on Involuntary Conversions in Disaster Areas	Social Policy	1996	316.048	100	100
1.051 Voluntary Employees Beneficiary Association	Social Policy	1928	316.048	3,500	3,900
1.052 Rental Allowances for Ministers' Homes	Social Policy	1921	316.048	2,100	2,500
1.053 Military Disability Benefits	Social Policy	1942	316.048	700	700
<i>Federal Deductions</i>					
1.054 Interest on Student Loans	Education	1997	316.048	400	1,100
1.055 Charitable Contributions: Education	Education	1917	316.695/317.013	26,700	28,800
1.056 Charitable Contributions: Health	Human Resources	1917	316.695/317.013	20,200	21,800
1.057 Medical and Dental Expenses	Human Resources	1942	316.695	63,300	67,100
1.058 Self-Employment Health Insurance	Human Resources	1986	316.048	5,700	6,000
1.059 Medical Savings Accounts (Federal)	Human Resources	1996	316.048	400	1,100
1.060 IRA Contributions and Earnings	Human Resources	1974	316.048	72,100	88,100
1.061 Keogh Plan Contributions and Earnings	Human Resources	1962	316.048	28,200	31,900
1.062 Removal of Architectural Barriers	Human Resources	1976	316.695/317.013	100	100
1.063 Research and Development Costs	Economic/Community	1954	316.695/317.013	12,200	14,200
1.064 Section 179 Expensing Allowances	Economic/Community	1959	316.695/317.013	5,300	5,700
1.065 Amortization of Business Start-Up Costs	Economic/Community	1980	316.695/317.013	2,200	2,200
1.066 Construction Funds of Shipping Companies	Economic/Community	1936	317.013	500	500
1.067 Moving Expenses	Economic/Community	1964	316.048	1,100	1,200
1.068 Homeowner Property Taxes	Economic/Community	1913	316.695	164,500	183,400
1.069 Home Mortgage Interest	Economic/Community	1913	316.695	525,100	567,900
1.070 Cash Accounting for Agriculture	Natural Resources	1916	316.695/317.013	1,800	2,500
1.071 Soil and Water Conservation Expenditures	Natural Resources	1954	316.695/317.013	300	300
1.072 Fertilizer and Soil Conditioner Costs	Natural Resources	1960	316.695/317.013	300	300
1.073 Costs of Raising Dairy and Breeding Cattle	Natural Resources	1916	316.695/317.013	800	1,000
1.074 Redevelopment Costs in Contaminated Areas	Natural Resources	1997	316.048/317.013	0	600
1.075 Multi-Period Timber Growing Costs	Natural Resources	1986	316.695/317.013	8,300	8,400
1.076 Development Costs - Nonfuel Minerals	Natural Resources	1951	316.695/317.013	100	100
1.077 Depletion Costs for Nonfuel Minerals	Natural Resources	1913	316.695/317.013	1,600	1,600
1.078 Mining Reclamation Reserves	Natural Resources	1984	316.695/317.013	200	200
1.079 Bad Debt Reserves of Financial Institutions	Insurance and Financial	1947	317.013	100	100
1.080 Small Life Insurance Company	Insurance and Financial	1984	317.013	500	500
1.081 Unpaid Loss Reserves	Insurance and Financial	1986	317.013	13,100	14,700
1.082 Blue Cross/Blue Shield and Other Nonprofits	Insurance and Financial	1986	317.013	Not Available	Not Available
1.083 Magazine Circulation Expenditures	Tax Administration	1950	316.695/317.013	200	200
1.084 Net Operating Loss Limitation	Tax Administration	1954	317.013	2,300	2,300
1.085 Completed Contract Rules	Tax Administration	1986	316.695/317.013	1,000	1,000
1.086 Casualty and Theft Losses	Social Policy	1913	316.695	1,300	1,300
1.087 Charitable Contributions: Other	Social Policy	1917	316.695/317.013	143,800	155,700
<i>Oregon Subtractions</i>					
1.088 JOBS Plus Participants	Human Resources	1995	316.680(1)(f)	Less than 50	Less than 50
1.089 Medical Savings Accounts (Oregon)	Human Resources	1997	316.743	Less than 50	Less than 50
1.090 Physicians in "Medically Disadvantaged" Areas	Human Resources	1973	316.076	0	0
1.091 Additional Deduction for Elderly or Blind	Human Resources	1989	316.695(8)	17,100	16,000
1.092 Additional Medical Deduction for Elderly	Human Resources	1991	316.695 (1)(d)(B)	42,600	45,800
1.093 Social Security Benefits (Oregon)	Human Resources	1985	316.054	130,200	143,500
1.094 Donations of Art by the Artist	Economic/Community	1979	316.838	100	100
1.095 Capital Gains from Oregon Reinvestment	Economic/Community	1995	316.874	1,000	600
1.096 Local Private Activity Bond Interest	Economic/Community	1987	316.056	400	400
1.097 Service in Vietnam on Missing Status	Economic/Community	1973	316.074	0	0
1.098 Oil Heat Tank Cleanup Costs	Natural Resources	1991	316.746	100	0

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

Tax Expenditure	Program or Function	Year Enacted	Oregon Statute	Revenue Impact (\$ Thousands)	
				1997-99	1999-01
1.099 Underground Storage Tank Cleanup Grants	Natural Resources	1991	316.834/317.383	150	Less than 50
1.100 Cash Payments for Energy Conservation	Natural Resources	1981	316.744/317.386	3,600	160
1.101 Wet Marine and Transportation Policies	Insurance and Financial	1995	317.080(6)	100	400
1.102 Income Earned in "Indian Country"	Government	1977	316.777	2,400	2,700
1.103 Federal Pension Income	Government	1998	OR Supreme Court	306,000	101,000
1.104 Oregon State Lottery Prizes	Government	1985	461.560	43,400	43,100
1.105 Federal Income Tax Deduction	Social Policy	1929	316.680/316.695	430,900	475,500
1.106 Military Active Duty Pay	Social Policy	1969	316.680/316.789	4,100	4,200
1.107 Interest and Dividends on U.S. Obligations	Federal Law	1970	316.680	50,000	55,100

Oregon Credits

1.108 Child Development Program Contributions	Education	1991	315.234	Less than 50	Less than 50
1.109 Youth Apprenticeship Sponsorship	Education	1991	315.254	0	0
1.110 Contributions of Computer Equipment	Education	1985	317.151	200	200
1.111 Earned Income Credit	Human Resources	1997	315.266	15,200	17,100
1.112 Bone Marrow Transplant Expense	Human Resources	1991	315.604	Less than 50	Less than 50
1.113 Rural Medical Practice	Human Resources	1989	316.143	9,400	9,900
1.114 Costs in lieu of Nursing Home Care	Human Resources	1979	316.147-316.149	Less than 50	Less than 50
1.115 Disabled Child	Human Resources	1985	316.099	2,000	2,300
1.116 Elderly or Permanently Disabled	Human Resources	1969	316.087	200	200
1.117 Loss of Limbs	Human Resources	1973	316.079	Less than 50	Less than 50
1.118 Severe Disability	Human Resources	1985	316.758	3,500	4,200
1.119 Oregon Capital Corporation Investments	Economic/Community	1987	315.504	0	0
1.120 Qualified Research Activities	Economic/Community	1989	317.152	16,800	17,800
1.121 Qualified Research Activities (Alternative)	Economic/Community	1989	317.154	(In 1.120)	(In 1.120)
1.122 Investment in Rural Enterprise Zone (Income Tax)	Economic/Community	1997	Note: 285B.689	0	Not Available
1.123 Child and Dependent Care	Economic/Community	1975	316.078	11,900	11,900
1.124 Working Family Child Care	Economic/Community	1997	315.262	6,900	7,000
1.125 Dependent Care Assistance	Economic/Community	1987	315.204	3,300	3,500
1.126 Dependent Care Facilities	Economic/Community	1987	315.208	(In 1.125)	(In 1.125)
1.127 First Break Program	Economic/Community	1995	315.259	Less than 50	Less than 50
1.128 Farm-Worker Housing Construction	Economic/Community	1989	315.164	2,000	2,000
1.129 Farm-Worker Housing Lender's Credit	Economic/Community	1989	317.147	100	100
1.130 Involuntary Mobile Home Moves	Economic/Community	1991	316.153	Not Available	Not Available
1.131 Low Income Housing Lenders' Credit	Economic/Community	1989	317.097	4,200	4,800
1.132 Crop Gleaning	Natural Resources	1977	315.156	50	50
1.133 Alternatives to Field Burning	Natural Resources	1975	468.150	(In 1.135)	(In 1.135)
1.134 Pollution Prevention	Natural Resources	1995	315.311	900	600
1.135 Pollution Control	Natural Resources	1967	315.304	19,600	18,400
1.136 Reclaimed Plastics	Natural Resources	1985	315.324	200	300
1.137 Sewer Connection	Natural Resources	1987	316.095	6,000	3,000
1.138 Fish Gleaning (Seafood) Credit	Natural Resources	1985	315.148	0	0
1.139 Fish Habitat Improvement	Natural Resources	1981	315.134	Less than 50	Less than 50
1.140 Fish Screening Devices	Natural Resources	1989	315.138	50	50
1.141 Alternative Energy Devices (Residential)	Natural Resources	1977	316.116	1,500	6,000
1.142 Business Energy Facilities	Natural Resources	1979	315.354	18,000	6,400
1.143 Energy Conservation Lender's Credit	Natural Resources	1981	317.112	100	Less than 50
1.144 Geothermal Heating System Connection	Natural Resources	1979	316.086	Less than 50	Less than 50
1.145 Reforestation	Natural Resources	1979	315.104	700	700
1.146 Fire Insurance Credit	Insurance and Financial	1969	317.122(1)	1,600	1,600
1.147 Assessments on Workers' Compensation	Insurance and Financial	1995	317.122(2)	1,200	1,100
1.148 Assessments Paid to Oregon IGA: General	Insurance and Financial	1977	734.575	700	300
1.149 Assessments Paid to Oregon Life and Health IGA	Insurance and Financial	1975	734.835	15,000	11,200

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

Tax Expenditure	Program or Function	Year Enacted	Oregon Statute	Revenue Impact (\$ Thousands)	
				1997-99	1999-01
1.150 Political Contributions	Government	1969	316.102	8,100	8,300
1.151 Personal Exemption Credit	Social Policy	1985	316.085	716,900	775,400
1.152 Retirement income	Social Policy	1991	316.157	10,500	5,600
PROPERTY TAX					
2.001 Academies, Day Care, Student Housing	Education	1957	307.145	3,300	3,600
2.002 Fraternities, Sororities, Coops	Education	1973	307.460	440	470
2.003 Student Housing Furnishings	Education	1957	307.195	60	60
2.004 Leased Student Housing Publicly Owned	Education	1947	307.110(3)(a)	8,800	9,300
2.005 Higher Education Parking Space	Education	1989	307.095(3)	2,700	2,900
2.006 Private Libraries for Public Use	Education	1854	307.160	Less than 50	Less than 50
2.007 Senior Services Centers	Human Resources	1993	307.147	80	80
2.008 Senior Deferral Program	Human Resources	1963	311.668	-8,700	-1,400
2.009 Enterprise Zone Businesses	Economic/Community	1985	285B.698	45,100	33,800
2.010 Investment in Rural Enterprise Zone (Property Tax)	Economic/Community	1997	Note: 285B.689	0	Not Available
2.011 Commercial Buildings Under Construction	Economic/Community	1959	307.340	25,000	18,100
2.012 Key Industry Strategic Investment	Economic/Community	1993	307.123	21,800	17,100
2.013 Inventory	Economic/Community	1969	307.400(3)(f)	273,000	308,000
2.014 Personal Property Less Than \$10,000	Economic/Community	1979	308.250(2)	8,200	8,500
2.015 Cargo Containers	Economic/Community	1979	307.850	900	1,100
2.016 Docks & Airports Leased from Port District	Economic/Community	1947	307.120	4,400	4,800
2.017 Leased Publicly-Owned Shipyard Property	Economic/Community	1995	307.110(3)(h)	2,300	2,500
2.018 Ship Repair Facility Materials	Economic/Community	1957	308.256(7)	0	0
2.019 Aircraft Being Repaired	Economic/Community	1995	308.559	50	50
2.020 Railroad Cars Being Repaired	Economic/Community	1973	308.665	Less than 50	Less than 50
2.021 Recreation Facility on Federal Land	Economic/Community	1975	307.182	1,200	1,300
2.022 Defense Contractor With Federal Property	Economic/Community	1965	307.065	0	0
2.023 Industry Apprenticeship/Training Trust	Economic/Community	1983	307.580	100	110
2.024 Fairground Leased Storage Space	Economic/Community	1987	307.110(3)(d)	Less than 50	Less than 50
2.025 New Houses in Distressed Area	Economic/Community	1989	458.020	1,400	1,700
2.026 Rehabilitated Housing	Economic/Community	1975	308.459	600	600
2.027 Multi-Family Rental Housing in City Core	Economic/Community	1975	307.630	2,100	2,400
2.028 New Housing for Low Income Rental	Economic/Community	1989	307.517/307.518	450	500
2.029 Housing Authority Rental Units	Economic/Community	1991	456.225	12,700	14,000
2.030 Nonprofit Low Income Rental Housing	Economic/Community	1985	307.541	2,700	3,400
2.031 Nonprofit Housing for the Elderly	Economic/Community	1969	308.490	Not Available	Not Available
2.032 Nonprofit Elderly Housing State Funded	Economic/Community	1977	307.242	1,500	1,800
2.033 Farm Labor Housing and Daycare Centers	Economic/Community	1973	307.485	380	400
2.034 Summer Homes on Federal Land	Economic/Community	1975	307.183/307.184	1,200	1,200
2.035 War Veterans and Their Spouses	Economic/Community	1921	307.250	9,300	10,100
2.036 War Veterans in Nonprofit Elderly Housing	Economic/Community	1969	307.370	140	160
2.037 Farm Land	Natural Resources	1967	308.370	104,600	110,900
2.038 Farm Homesites	Natural Resources	1987	308.377	4,500	4,900
2.039 Farm Machinery and Equipment	Natural Resources	1973	307.400(3)	35,000	38,700
2.040 Mobile Field Incinerators	Natural Resources	1971	307.390	Less than 50	Less than 50
2.041 Crops, Plants, Fruit Trees	Natural Resources	1957	307.320	22,000	24,700
2.042 Farm Animals and Bees	Natural Resources	1969	307.400(1)	26,900	30,300
2.043 Agricultural Products Held by Farmer	Natural Resources	1965	307.325	(In 2.041)	(In 2.041)
2.044 Nursery Stock	Natural Resources	1971	307.315	9,000	10,800
2.045 Leased Public Farming and Grazing Land	Natural Resources	1971	307.110(3)(b)	(In 2.087)	(In 2.087)
2.046 Leased Federal Grazing Land	Natural Resources	1961	307.060	(In 2.098)	(In 2.098)
2.047 Oyster Growing on State Land	Natural Resources	1969	622.290	Less than 50	Less than 50
2.048 Pollution Control Facilities	Natural Resources	1967	307.405	1,000	1,100
2.049 Nonprofit Sewage Treatment Facilities	Natural Resources	1997	307.118	Less than 50	Less than 50

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

Tax Expenditure	Program or Function	Year Enacted	Oregon Statute	Revenue Impact (\$ Thousands)	
				1997-99	1999-01
2.050 Riparian Habitat Land	Natural Resources	1981	308.796	Less than 50	Less than 50
2.051 Ethanol Production Facility	Natural Resources	1993	307.701	0	0
2.052 Alternative Energy Systems	Natural Resources	1975	307.175	3,300	3,700
2.053 State and Local Standing Timber Under Contract	Natural Resources	1965	307.100	2,100	2,100
2.054 Western Private Forest Land	Natural Resources	1977	321.352	54,300	57,500
2.055 Western Private Standing Timber	Natural Resources	1977	321.272	1,044,000	1,107,000
2.056 Western Small Tract Option	Natural Resources	1961	321.720	4,400	4,600
2.057 Eastern Private Forest Land	Natural Resources	1971	321.810	4,600	4,900
2.058 Eastern Private Standing Timber	Natural Resources	1961	321.420	203,000	215,000
2.059 Forest Homesites	Natural Resources	1989	308.229	1,200	1,300
2.060 Federal Standing Timber Under Contract	Natural Resources	1965	307.050	9,000	7,800
2.061 Private Farm and Logging Roads	Natural Resources	1963	308.236	32,100	34,100
2.062 Forest Fire Protection Association	Natural Resources	1957	307.125	210	220
2.063 Inactive Mineral Interests	Natural Resources	1997	308.115	70	130
2.064 Natural Heritage Conservation Areas	Natural Resources	1983	307.550	0	0
2.065 Leased State Land Board Land	Natural Resources	1982	307.168	320	340
2.066 Crab Pots	Natural Resources	1969	508.270	240	260
2.067 Pleasure Boats	Natural Resources	1959	830.790	41,400	45,800
2.068 Watercraft Locally Assessed	Natural Resources	1925	308.256	2,000	2,300
2.069 Watercraft Centrally Assessed	Natural Resources	1925	308.515	130	140
2.070 Nonprofit Public Park Use Land	Natural Resources	1971	307.115	130	140
2.071 Open Space Land	Natural Resources	1971	308.765	360	390
2.072 Historic Property	Natural Resources	1975	358.505	9,000	10,000
2.073 Nonprofit Water Associations	Natural Resources	Pre-1953	307.210	280	300
2.074 Nonprofit Electrical Distribution Associations	Transportation	Pre-1953	308.805	6,900	7,200
2.075 Nonprofit Telephone Associations	Transportation	Pre-1953	307.220	Less than 50	Less than 50
2.076 Private Service Telephone Equipment	Transportation	Pre-1953	307.230	Less than 50	Less than 50
2.077 Railroad Way Used for Alternative Transport	Transportation	1977	307.205	0	0
2.078 Railroad Right of Way in Water District	Transportation	1943	264.110	100	100
2.079 Railroad Way in Highway Lighting District	Transportation	Pre-1953	372.190	Not Available	Not Available
2.080 Railroad Right of Way in Rural Fire District	Transportation	1969	478.010(2)(d)	400	500
2.081 Motor Vehicles and Trailers	Transportation	1919	803.585	463,000	510,000
2.082 Aircraft	Transportation	1987	308.558/308.565	6,400	7,000
2.083 ODOT Land Under Use Permit	Transportation	1981	307.110(3)(c)	Less than 50	Less than 50
2.084 Intangible Personal Property	Tax Administration	1935	307.030	7,669,000	8,465,000
2.085 Personal Property for Personal Use	Tax Administration	1854	307.190	422,000	466,000
2.086 Beverage Containers Requiring Deposit	Tax Administration	1983	307.402	120	130
2.087 State and Local Property	Government	1854	307.090	642,000	681,000
2.088 Beach Lands	Government	1969	307.450	Not Available	Not Available
2.089 Public Ways	Government	1895	307.200	498,000	528,000
2.090 Tribal Land Being Placed in U.S. Trust	Government	1993	307.180	Less than 50	Less than 50
2.091 Exempt Lease from Taxable Owner	Social Policy	1977	307.112	(In other categories)	
2.092 Exempt Lease from Exempt Owner	Social Policy	1973	307.166	(In other categories)	
2.093 Destroyed Property	Social Policy	1971	308.425	Not Available	Not Available
2.094 Charitable, Literary, Scientific	Social Policy	1854	307.130	45,200	48,900
2.095 Fraternal Organizations	Social Policy	1961	307.136	6,200	6,600
2.096 Religious Organizations	Social Policy	1854	307.140	63,000	69,500
2.097 Cemeteries, Burial Grounds, Mausoleums	Social Policy	1854	307.150	4,500	5,000
2.098 Federal Property	Federal Law	1848	307.040	2,803,000	2,972,000
2.099 Indian Property on Reservation	Federal Law	1854	307.180	Not Available	Not Available
2.100 Mining Claims on Federal Land	Federal Law	1889	307.080	Not Available	Not Available
2.101 Amtrak Passenger Railroad	Federal Law	1983	308.515	200	210

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

Tax Expenditure	Program or Function	Year Enacted	Oregon Statute	Revenue Impact (\$ Thousands)	
				1997-99	1999-01
GAS AND USE FUEL TAX					
3.001 Forest Products -- Gasoline	Natural Resources	Pre-1953	319.320(1)(d)	0	0
3.002 Forest Products -- Other than Gasoline	Natural Resources	1965	319.831(1)(g)	0	0
3.003 Public Services	Government	1961	319.831(1)(e-f)	2,800	2,800
3.004 Public Transportation	Government	1969	267.200/267.570(2)	2,300	2,400
WEIGHT-MILE TAX					
4.001 Farming Operations	Natural Resources	1983	825.017(4,18)/825.024	2,100	2,100
4.002 Forest Products on County Roads	Natural Resources	1977	825.017(8)	0	0
4.003 Elementary and Secondary Schools	Government	Pre-1953	825.017(1)	300	300
4.004 Government Owned or Operated Vehicles	Government	Pre-1953	825.017(11,13)	4,900	4,900
4.005 Mass Transit Vehicles	Government	1977	825.017(12)	3,200	3,200
4.006 Fire Protection	Government	1977	825.017(23)	Less than 50	Less than 50
4.007 Charitable Organizations	Social Policy	1977	825.017(15)	Less than 50	Less than 50
INSURANCE TAXES					
5.001 Annuity Policies Exempted	Insurance and Financial	1967	731.816	19,900	12,200
5.002 Wet Marine and Transportation Policies	Insurance and Financial	1967	731.816	800	400
5.003 Educational and Scientific Institutions	Insurance and Financial	1967	731.816	Not Available	Not Available
5.004 Assessment on Workers' Compensation	Insurance and Financial	1965	731.832	7,600	3,600
5.005 Assessments paid to OR IGA: General	Insurance and Financial	1977	734.575	100	Less than 50
5.006 Assessments paid to OR Life and Health IGA	Insurance and Financial	1975	734.835	2,900	1,300
5.007 Assessments paid to OR IGA: Fire	Insurance and Financial	1977	734.575	100	Less than 50
CIGARETTE TAX					
6.001 Gift Packets	Economic/Community	1965	323.045	Less than 50	Less than 50
6.002 Small Quantity by Consumers	Tax Administration	1965	323.060	Less than 50	Less than 50
6.003 Federal and Veteran Institutions	Federal Law	1965	323.055	Not Available	Not Available
6.004 Reservation Cigarette Sales	Federal Law	1979	323.401	500	500
OTHER TOBACCO PRODUCTS TAX					
7.001 Federal Installations	Federal Law	1985	323.515	Not Available	Not Available
7.002 Reservation Tobacco Sales	Federal Law	1985	323.615	Less than 50	Less than 50
BEER AND WINE TAX					
8.001 Small Wineries	Economic/Community	1977	473.050(5)	1,500	1,500
TELEPHONE EXCHANGE ACCESS (911) TAX					
9.001 State and Local Subscribers	Government	1981	Note: 401.790	3,200	3,300
9.002 Federal Subscribers	Federal Law	1981	Note: 401.790	500	500
9.003 Indian Reservation Subscribers	Federal Law	1981	Note: 401.790	100	100
FOREST PRODUCTS HARVEST TAX					
10.001 First 25,000 Board Feet	Natural Resources	1953	321.015(5)	700	700

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

Tax Expenditure	Program or Function	Year Enacted	Oregon Statute	Revenue Impact (\$ Thousands)	
				1997-99	1999-01
ELECTRIC COOPERATIVE TAX					
11.001 Revenue from Government Leased Lines	Natural Resources	1969	308.805	60	60
HAZARDOUS SUBSTANCES TAX					
12.001 State and Local Government Property	Government	1989	453.402(4)(e)	Not Available	Not Available
12.002 Substance Prohibited from Tax by Federal Law	Federal Law	1989	453.402(4)(d)	Not Available	Not Available
DRY CLEANING TAX					
13.001 Dry Store Selling Less than \$50,000	Economic/Community	1995	465.200(6)(d)	Less than 50	Less than 50
13.002 Uniform Service or Linen Supply Facility	Natural Resources	1995	465.200(6)(b)	Less than 50	Less than 50
13.003 Prisons	Government	1995	465.200(6)(c)	0	0
13.004 Facility on U.S. Military Base	Federal Law	1995	465.200(6)(a)	Less than 50	Less than 50
PETROLEUM LOADING TAX					
14.001 Product Prohibited from Tax by Federal Law	Federal Law	1989	465.111	Not Available	Not Available
OIL AND GAS SEVERANCE TAX					
15.001 First \$3,000 in Gross Sales Value	Natural Resources	1981	324.080	Less than 50	Less than 50
15.002 Credit for Property Taxes Paid	Natural Resources	1981	324.090(2)	Less than 50	Less than 50
15.003 State and Local Interests	Government	1981	324.090(1)	0	0

TABLE 2: INDEX OF TAX EXPENDITURES BY PROGRAM/FUNCTION

Tax Expenditure	Type	Year Enacted	Oregon Statute	Revenue Impact	
				(\$ Thousands)	
				1997-99	1999-01
EDUCATION					
<i>Income Tax</i>					
1.001 Scholarship and Fellowship Income	Exclusion	1954	316.048	5,900	6,700
1.002 Interest on Education Savings Bonds	Exclusion	1988	316.048	100	100
1.003 Earnings on Education IRAs	Exclusion	1997	316.048	2,400	5,300
1.054 Interest on Student Loans	Deduction	1997	316.048	400	1,100
1.055 Charitable Contributions: Education	Deduction	1917	316.695/317.013	26,700	28,800
1.108 Child Development Program Contributions	Credit	1991	315.234	Less than 50	Less than 50
1.109 Youth Apprenticeship Sponsorship	Credit	1991	315.254	0	0
1.110 Contributions of Computer Equipment	Credit	1985	317.151	200	200
<i>Property Tax</i>					
2.001 Academies, Day Care, Student Housing	Full	1957	307.145	3,300	3,600
2.002 Fraternities, Sororities, Coops	Partial	1973	307.460	440	470
2.003 Student Housing Furnishings	Full	1957	307.195	60	60
2.004 Leased Student Housing Publicly Owned	Full	1947	307.110(3)(a)	8,800	9,300
2.005 Higher Education Parking Space	Full	1989	307.095(3)	2,700	2,900
2.006 Private Libraries for Public Use	Full	1854	307.160	Less than 50	Less than 50
HUMAN RESOURCES					
<i>Income Tax</i>					
1.004 Public Assistance Benefits	Exclusion	1930s	316.048	6,300	7,100
1.005 Certain Foster Care Payments	Exclusion	1982	316.048	100	100
1.006 Employee Adoption Benefits	Exclusion	1996	316.048	Less than 50	Less than 50
1.007 Cafeteria Plan Benefits	Exclusion	1974	316.048	42,500	53,400
1.008 Employer Paid Medical Benefits	Exclusion	1918	316.048	369,900	424,000
1.009 Pension Contributions and Earnings	Exclusion	1921	316.048	523,200	565,900
1.010 Hospital Insurance (Part A)	Exclusion	1965	316.048	98,600	123,200
1.011 Supplementary Medical Insurance (Part B)	Exclusion	1970	316.048	43,600	57,300
1.012 Social Security Benefits (Federal)	Exclusion	1938	316.048	166,600	176,800
1.056 Charitable Contributions: Health	Deduction	1917	316.695/317.013	20,200	21,800
1.057 Medical and Dental Expenses	Deduction	1942	316.695	63,300	67,100
1.058 Self-Employment Health Insurance	Deduction	1986	316.048	5,700	6,000
1.059 Medical Savings Accounts (Federal)	Deduction	1996	316.048	400	1,100
1.060 IRA Contributions and Earnings	Deduction	1974	316.048	72,100	88,100
1.061 Keogh Plan Contributions and Earnings	Deduction	1962	316.048	28,200	31,900
1.062 Removal of Architectural Barriers	Deduction	1976	316.695/317.013	100	100
1.088 JOBS Plus Participants	Subtraction	1995	316.680(1)(f)	Less than 50	Less than 50
1.089 Medical Savings Accounts (Oregon)	Subtraction	1997	316.743	Less than 50	Less than 50
1.090 Physicians in "Medically Disadvantaged" Areas	Subtraction	1973	316.076	0	0
1.091 Additional Deduction for Elderly or Blind	Subtraction	1989	316.695(8)	17,100	16,000
1.092 Additional Medical Deduction for Elderly	Subtraction	1991	316.695 (1)(d)(B)	42,600	45,800
1.093 Social Security Benefits (Oregon)	Subtraction	1985	316.054	130,200	143,500
1.111 Earned Income Credit	Credit	1997	315.266	15,200	17,100
1.112 Bone Marrow Transplant Expense	Credit	1991	315.604	Less than 50	Less than 50
1.113 Rural Medical Practice	Credit	1989	316.143	9,400	9,900

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

Tax Expenditure	Type	Year Enacted	Oregon Statute	Revenue Impact (\$ Thousands)	
				1997-99	1999-01
1.114 Costs in lieu of Nursing Home Care	Credit	1979	316.147-316.149	Less than 50	Less than 50
1.115 Disabled Child	Credit	1985	316.099	2,000	2,300
1.116 Elderly or Permanently Disabled	Credit	1969	316.087	200	200
1.117 Loss of Limbs	Credit	1973	316.079	Less than 50	Less than 50
1.118 Severe Disability	Credit	1985	316.758	3,500	4,200

Property Tax

2.007 Senior Services Centers	Full	1993	307.147	80	80
2.008 Senior Deferral Program	Deferral	1963	311.668	-8,700	-1,400

ECONOMIC AND COMMUNITY DEVELOPMENT

Income Tax

1.013 Accelerated Depreciation of Buildings	Exclusion	1954	316.048/317.013	17,100	10,400
1.014 Accelerated Depreciation of Equipment	Exclusion	1954	316.048/317.013	167,200	185,700
1.015 Income Earned Abroad by U.S. Citizens	Exclusion	1926	316.048	12,900	14,900
1.016 Income of Foreign Sales Corporations	Exclusion	1984	317.013	7,400	8,900
1.017 Inventory Property Sales Source-Rule Exception	Exclusion	1921	317.013	17,400	18,500
1.018 Magazine, Paperback, and Record Returns	Exclusion	1978	316.048/317.013	100	100
1.019 Cash Accounting, Other than Agriculture	Exclusion	1916	316.048/317.013	800	800
1.020 Regional Economic Development Incentives	Exclusion	1993	316.048/317.013	Less than 50	Less than 50
1.021 Income of Controlled Foreign Corporations	Exclusion	1909	317.013	5,600	6,200
1.022 Employer Paid Group Life Insurance Premiums	Exclusion	1920	316.048	13,200	14,500
1.023 Employer Paid Accident and Disability Insurance	Exclusion	1954	316.048	1,400	1,400
1.024 Employer Provided Dependent Care	Exclusion	1981	316.048	6,600	8,100
1.025 Miscellaneous Fringe Benefits	Exclusion	1984	316.048	41,800	47,400
1.026 Employee Meals and Lodging (Non-Military)	Exclusion	1918	316.048	4,900	5,700
1.027 Employee Stock Ownership Plans	Exclusion	1974	316.048/317.013	3,900	4,400
1.028 Employee Awards	Exclusion	1986	316.048	700	700
1.029 Employer Provided Death Benefits	Exclusion	1951	316.048	100	100
1.030 Employer Provided Education Benefits	Exclusion	1997	316.048	1,700	1,100
1.031 Accelerated Depreciation of Rental Housing	Exclusion	1954	316.048/317.013	9,900	9,600
1.032 Capital Gains on Home Sales	Exclusion	1997	316.048	59,000	63,700
1.033 Veteran's Benefits and Services	Exclusion	1917	316.048	15,000	15,900
1.063 Research and Development Costs	Deduction	1954	316.695/317.013	12,200	14,200
1.064 Section 179 Expensing Allowances	Deduction	1959	316.695/317.013	5,300	5,700
1.065 Amortization of Business Start-Up Costs	Deduction	1980	316.695/317.013	2,200	2,200
1.066 Construction Funds of Shipping Companies	Deduction	1936	317.013	500	500
1.067 Moving Expenses	Deduction	1964	316.048	1,100	1,200
1.068 Homeowner Property Taxes	Deduction	1913	316.695	164,500	183,400
1.069 Home Mortgage Interest	Deduction	1913	316.695	525,100	567,900
1.094 Donations of Art by the Artist	Subtraction	1979	316.838	100	100
1.095 Capital Gains from Oregon Reinvestment	Subtraction	1995	316.874	1,000	600
1.096 Local Private Activity Bond Interest	Subtraction	1987	316.056	400	400
1.097 Service in Vietnam on Missing Status	Subtraction	1973	316.074	0	0
1.119 Oregon Capital Corporation Investments	Credit	1987	315.504	0	0
1.120 Qualified Research Activities	Credit	1989	317.152	16,800	17,800
1.121 Qualified Research Activities (Alternative)	Credit	1989	317.154	(In 1.120)	(In 1.120)
1.122 Investment in Rural Enterprise Zone (Income Tax)	Credit	1997	Note: 285B.689	0	Not Available
1.123 Child and Dependent Care	Credit	1975	316.078	11,900	11,900
1.124 Working Family Child Care	Credit	1997	315.262	6,900	7,000
1.125 Dependent Care Assistance	Credit	1987	315.204	3,300	3,500
1.126 Dependent Care Facilities	Credit	1987	315.208	(In 1.125)	(In 1.125)

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

Tax Expenditure	Type	Year Enacted	Oregon Statute	Revenue Impact	
				(\$ Thousands)	
				1997-99	1999-01
1.127 First Break Program	Credit	1995	315.259	Less than 50	Less than 50
1.128 Farm-Worker Housing Construction	Credit	1989	315.164	2,000	2,000
1.129 Farm-Worker Housing Lender's Credit	Credit	1989	317.147	100	100
1.130 Involuntary Mobile Home Moves	Credit	1991	316.153	Not Available	Not Available
1.131 Low Income Housing Lenders' Credit	Credit	1989	317.097	4,200	4,800

Property Tax

2.009 Enterprise Zone Businesses	Full	1985	285B.698	45,100	33,800
2.010 Investment in Rural Enterprise Zone (Property Tax)	Full	1997	Note: 285B.689	0	Not Available
2.011 Commercial Buildings Under Construction	Full	1959	307.340	25,000	18,100
2.012 Key Industry Strategic Investment	Partial	1993	307.123	21,800	17,100
2.013 Inventory	Full	1969	307.400(3)(f)	273,000	308,000
2.014 Personal Property Less Than \$10,000	Full	1979	308.250(2)	8,200	8,500
2.015 Cargo Containers	Full	1979	307.850	900	1,100
2.016 Docks & Airports Leased from Port District	Full	1947	307.120	4,400	4,800
2.017 Leased Publicly-Owned Shipyard Property	Full	1995	307.110(3)(h)	2,300	2,500
2.018 Ship Repair Facility Materials	Full	1957	308.256(7)	0	0
2.019 Aircraft Being Repaired	Full	1995	308.559	50	50
2.020 Railroad Cars Being Repaired	Full	1973	308.665	Less than 50	Less than 50
2.021 Recreation Facility on Federal Land	Partial	1975	307.182	1,200	1,300
2.022 Defense Contractor With Federal Property	Full	1965	307.065	0	0
2.023 Industry Apprenticeship/Training Trust	Full	1983	307.580	100	110
2.024 Fairground Leased Storage Space	Full	1987	307.110(3)(d)	Less than 50	Less than 50
2.025 New Houses in Distressed Area	Part/Full	1989	458.020	1,400	1,700
2.026 Rehabilitated Housing	Part/Full	1975	308.459	600	600
2.027 Multi-Family Rental Housing in City Core	Part/Full	1975	307.630	2,100	2,400
2.028 New Housing for Low Income Rental	Part/Full	1989	307.517/307.518	450	500
2.029 Housing Authority Rental Units	Full	1991	456.225	12,700	14,000
2.030 Nonprofit Low Income Rental Housing	Part/Full	1985	307.541	2,700	3,400
2.031 Nonprofit Housing for the Elderly	Special	1969	308.490	Not Available	Not Available
2.032 Nonprofit Elderly Housing State Funded	Full	1977	307.242	1,500	1,800
2.033 Farm Labor Housing and Daycare Centers	Full	1973	307.485	380	400
2.034 Summer Homes on Federal Land	Partial	1975	307.183/307.184	1,200	1,200
2.035 War Veterans and Their Spouses	Partial	1921	307.250	9,300	10,100
2.036 War Veterans in Nonprofit Elderly Housing	Partial	1969	307.370	140	160

Cigarette Tax

6.001 Gift Packets	Exclusion	1965	323.045	Less than 50	Less than 50
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Beer and Wine Tax

8.001 Small Wineries	Exclusion	1977	473.050(5)	1,500	1,500
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Dry Cleaning Tax

13.001 Dry Store Selling Less than \$50,000	Exclusion	1995	465.200(6)(d)	Less than 50	Less than 50
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NATURAL RESOURCES

Income Tax

1.034 Agriculture Cost-Sharing Payments	Exclusion	1978	316.048/317.013	100	100
1.035 Cancellation of Debt for Farmers	Exclusion	1986	316.048	700	700

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

Tax Expenditure	Type	Year Enacted	Oregon Statute	Revenue Impact (\$ Thousands)	
				1997-99	1999-01
1.036 Energy Conservation Subsidies	Exclusion	1992	316.048	(In 1.100)	(In 1.100)
1.070 Cash Accounting for Agriculture	Deduction	1916	316.695/317.013	1,800	2,500
1.071 Soil and Water Conservation Expenditures	Deduction	1954	316.695/317.013	300	300
1.072 Fertilizer and Soil Conditioner Costs	Deduction	1960	316.695/317.013	300	300
1.073 Costs of Raising Dairy and Breeding Cattle	Deduction	1916	316.695/317.013	800	1,000
1.074 Redevelopment Costs in Contaminated Areas	Deduction	1997	316.048/317.013	0	600
1.075 Multi-Period Timber Growing Costs	Deduction	1986	316.695/317.013	8,300	8,400
1.076 Development Costs - Nonfuel Minerals	Deduction	1951	316.695/317.013	100	100
1.077 Depletion Costs for Nonfuel Minerals	Deduction	1913	316.695/317.013	1,600	1,600
1.078 Mining Reclamation Reserves	Deduction	1984	316.695/317.013	200	200
1.098 Oil Heat Tank Cleanup Costs	Subtraction	1991	316.746	100	0
1.099 Underground Storage Tank Cleanup Grants	Subtraction	1991	316.834/317.383	150	Less than 50
1.100 Cash Payments for Energy Conservation	Subtraction	1981	316.744/317.386	3,600	160
1.132 Crop Gleaning	Credit	1977	315.156	50	50
1.133 Alternatives to Field Burning	Credit	1975	468.150	(In 1.135)	(In 1.135)
1.134 Pollution Prevention	Credit	1995	315.311	900	600
1.135 Pollution Control	Credit	1967	315.304	19,600	18,400
1.136 Reclaimed Plastics	Credit	1985	315.324	200	300
1.137 Sewer Connection	Credit	1987	316.095	6,000	3,000
1.138 Fish Gleaning (Seafood) Credit	Credit	1985	315.148	0	0
1.139 Fish Habitat Improvement	Credit	1981	315.134	Less than 50	Less than 50
1.140 Fish Screening Devices	Credit	1989	315.138	50	50
1.141 Alternative Energy Devices (Residential)	Credit	1977	316.116	1,500	6,000
1.142 Business Energy Facilities	Credit	1979	315.354	18,000	6,400
1.143 Energy Conservation Lender's Credit	Credit	1981	317.112	100	Less than 50
1.144 Geothermal Heating System Connection	Credit	1979	316.086	Less than 50	Less than 50
1.145 Reforestation	Credit	1979	315.104	700	700

Property Tax

2.037 Farm Land	Special	1967	308.370	104,600	110,900
2.038 Farm Homesites	Special	1987	308.377	4,500	4,900
2.039 Farm Machinery and Equipment	Full	1973	307.400(3)	35,000	38,700
2.040 Mobile Field Incinerators	Full	1971	307.390	Less than 50	Less than 50
2.041 Crops, Plants, Fruit Trees	Full	1957	307.320	22,000	24,700
2.042 Farm Animals and Bees	Full	1969	307.400(1)	26,900	30,300
2.043 Agricultural Products Held by Farmer	Full	1965	307.325	(In 2.041)	(In 2.041)
2.044 Nursery Stock	Full	1971	307.315	9,000	10,800
2.045 Leased Public Farming and Grazing Land	Full	1971	307.110(3)(b)	(In 2.087)	(In 2.087)
2.046 Leased Federal Grazing Land	Full	1961	307.060	(In 2.098)	(In 2.098)
2.047 Oyster Growing on State Land	Full	1969	622.290	Less than 50	Less than 50
2.048 Pollution Control Facilities	Partial	1967	307.405	1,000	1,100
2.049 Nonprofit Sewage Treatment Facilities	Full	1997	307.118	Less than 50	Less than 50
2.050 Riparian Habitat Land	Full	1981	308.796	Less than 50	Less than 50
2.051 Ethanol Production Facility	Partial	1993	307.701	0	0
2.052 Alternative Energy Systems	Partial	1975	307.175	3,300	3,700
2.053 State and Local Standing Timber Under Contract	Full	1965	307.100	2,100	2,100
2.054 Western Private Forest Land	Special	1977	321.352	54,300	57,500
2.055 Western Private Standing Timber	Full	1977	321.272	1,044,000	1,107,000
2.056 Western Small Tract Option	Special	1961	321.720	4,400	4,600
2.057 Eastern Private Forest Land	Special	1971	321.810	4,600	4,900
2.058 Eastern Private Standing Timber	Full	1961	321.420	203,000	215,000
2.059 Forest Homesites	Special	1989	308.229	1,200	1,300
2.060 Federal Standing Timber Under Contract	Full	1965	307.050	9,000	7,800
2.061 Private Farm and Logging Roads	Full	1963	308.236	32,100	34,100

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

Tax Expenditure	Type	Year Enacted	Oregon Statute	Revenue Impact (\$ Thousands)	
				1997-99	1999-01
2.062 Forest Fire Protection Association	Full	1957	307.125	210	220
2.063 Inactive Mineral Interests	Full	1997	308.115	70	130
2.064 Natural Heritage Conservation Areas	Full	1983	307.550	0	0
2.065 Leased State Land Board Land	Full	1982	307.168	320	340
2.066 Crab Pots	Full	1969	508.270	240	260
2.067 Pleasure Boats	Full	1959	830.790	41,400	45,800
2.068 Watercraft Locally Assessed	Partial	1925	308.256	2,000	2,300
2.069 Watercraft Centrally Assessed	Partial	1925	308.515	130	140
2.070 Nonprofit Public Park Use Land	Full	1971	307.115	130	140
2.071 Open Space Land	Special	1971	308.765	360	390
2.072 Historic Property	Partial	1975	358.505	9,000	10,000
2.073 Nonprofit Water Associations	Full	Pre-1953	307.210	280	300
<i>Gas and Use Fuel Tax</i>					
3.001 Forest Products -- Gasoline	Exclusion	Pre-1953	319.320(1)(d)	0	0
3.002 Forest Products -- Other than Gasoline	Exclusion	1965	319.831(1)(g)	0	0
<i>Weight-Mile Tax</i>					
4.001 Farming Operations	Exclusion	1983	825.017(4,18)/825.024	2,100	2,100
4.002 Forest Products on County Roads	Exclusion	1977	825.017(8)	0	0
<i>Forest Products Harvest Tax</i>					
10.001 First 25,000 Board Feet	Exclusion	1953	321.015(5)	700	700
<i>Electric Cooperative Tax</i>					
11.001 Revenue from Government Leased Lines	Exclusion	1969	308.805	60	60
<i>Dry Cleaning Tax</i>					
13.002 Uniform Service or Linen Supply Facility	Exclusion	1995	465.200(6)(b)	Less than 50	Less than 50
<i>Oil and Gas Severance Tax</i>					
15.001 First \$3,000 in Gross Sales Value	Exclusion	1981	324.080	Less than 50	Less than 50
15.002 Credit for Property Taxes Paid	Credit	1981	324.090(2)	Less than 50	Less than 50
TRANSPORTATION					
<i>Income Tax</i>					
1.037 Contributions in Aid of Construction for Utilities	Exclusion	1996	317.013	200	200
1.038 Employer Paid Transportation Benefits	Exclusion	1992	316.048	17,000	17,000
<i>Property Tax</i>					
2.074 Nonprofit Electrical Distribution Associations	Full	Pre-1953	308.805	6,900	7,200
2.075 Nonprofit Telephone Associations	Full	Pre-1953	307.220	Less than 50	Less than 50
2.076 Private Service Telephone Equipment	Full	Pre-1953	307.230	Less than 50	Less than 50
2.077 Railroad Way Used for Alternative Transport	Full	1977	307.205	0	0
2.078 Railroad Right of Way in Water District	Partial	1943	264.110	100	100
2.079 Railroad Way in Highway Lighting District	Partial	Pre-1953	372.190	Not Available	Not Available

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

Tax Expenditure	Type	Year Enacted	Oregon Statute	Revenue Impact (\$ Thousands)	
				1997-99	1999-01
2.080 Railroad Right of Way in Rural Fire District	Partial	1969	478.010(2)(d)	400	500
2.081 Motor Vehicles and Trailers	Full	1919	803.585	463,000	510,000
2.082 Aircraft	Part/Full	1987	308.558/308.565	6,400	7,000
2.083 ODOT Land Under Use Permit	Full	1981	307.110(3)(c)	Less than 50	Less than 50

INSURANCE AND FINANCIAL

Income Tax

1.039 Life Insurance Investment Income	Exclusion	1913	316.048/317.013	153,100	163,500
1.040 Workers' Compensation Benefits	Exclusion	1918	316.048	26,800	29,000
1.041 Credit Union Income	Exclusion	1951	317.013	3,600	4,100
1.042 Life Insurance Company Reserves	Exclusion	1984	317.013	8,800	10,100
1.079 Bad Debt Reserves of Financial Institutions	Deduction	1947	317.013	100	100
1.080 Small Life Insurance Company	Deduction	1984	317.013	500	500
1.081 Unpaid Loss Reserves	Deduction	1986	317.013	13,100	14,700
1.082 Blue Cross/Blue Shield and Other Nonprofits	Deduction	1986	317.013	Not Available	Not Available
1.101 Wet Marine and Transportation Policies	Subtraction	1995	317.080(6)	100	400
1.146 Fire Insurance Credit	Credit	1969	317.122(1)	1,600	1,600
1.147 Assessments on Workers' Compensation	Credit	1995	317.122(2)	1,200	1,100
1.148 Assessments Paid to Oregon IGA: General	Credit	1977	734.575	700	300
1.149 Assessments Paid to Oregon Life and Health IGA	Credit	1975	734.835	15,000	11,200

Insurance Taxes

5.001 Annuity Policies Exempted	Exclusion	1967	731.816	19,900	12,200
5.002 Wet Marine and Transportation Policies	Exclusion	1967	731.816	800	400
5.003 Educational and Scientific Institutions	Exclusion	1967	731.816	Not Available	Not Available
5.004 Assessment on Workers' Compensation	Credit	1965	731.832	7,600	3,600
5.005 Assessments paid to OR IGA: General	Credit	1977	734.575	100	Less than 50
5.006 Assessments paid to OR Life and Health IGA	Credit	1975	734.835	2,900	1,300
5.007 Assessments paid to OR IGA: Fire	Credit	1977	734.575	100	Less than 50

TAX ADMINISTRATION

Income Tax

1.043 Imputed Interest Rules	Exclusion	1964	316.048/317.013	1,500	1,500
1.044 Gain on Non-Dealer Installment Sales	Exclusion	1921	316.048/317.013	5,100	5,100
1.045 Gain on Like-Kind Exchanges	Exclusion	1921	316.048/317.013	3,900	3,900
1.083 Magazine Circulation Expenditures	Deduction	1950	316.695/317.013	200	200
1.084 Net Operating Loss Limitation	Deduction	1954	317.013	2,300	2,300
1.085 Completed Contract Rules	Deduction	1986	316.695/317.013	1,000	1,000

Property Tax

2.084 Intangible Personal Property	Full	1935	307.030	7,669,000	8,465,000
2.085 Personal Property for Personal Use	Full	1854	307.190	422,000	466,000
2.086 Beverage Containers Requiring Deposit	Full	1983	307.402	120	130

Cigarette Tax

6.002 Small Quantity by Consumers	Exclusion	1965	323.060	Less than 50	Less than 50
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Table 2: Index of Tax Expenditures by Program/Function (cont.)

Tax Expenditure	Type	Year Enacted	Oregon Statute	Revenue Impact		
				1997-99	1999-01	
GOVERNMENT						
<i>Income Tax</i>						
1.046 Allowances for Federal Employees Abroad	Exclusion	1943	316.048	400	400	
1.047 Interest on Oregon State and Local Debt	Exclusion	1913	316.048	78,900	83,700	
1.102 Income Earned in "Indian Country"	Subtraction	1977	316.777	2,400	2,700	
1.103 Federal Pension Income	Subtraction	1998	OR Supreme Court	306,000	101,000	
1.104 Oregon State Lottery Prizes	Subtraction	1985	461.560	43,400	43,100	
1.150 Political Contributions	Credit	1969	316.102	8,100	8,300	
<i>Property Tax</i>						
2.087 State and Local Property	Full	1854	307.090	642,000	681,000	
2.088 Beach Lands	Full	1969	307.450	Not Available	Not Available	
2.089 Public Ways	Full	1895	307.200	498,000	528,000	
2.090 Tribal Land Being Placed in U.S. Trust	Full	1993	307.180	Less than 50	Less than 50	
<i>Gas and Use Fuel Tax</i>						
3.003 Public Services	Exclusion	1961	319.831(1)(e-f)	2,800	2,800	
3.004 Public Transportation	Exclusion	1969	267.200/267.570(2)	2,300	2,400	
<i>Weight-Mile Tax</i>						
4.003 Elementary and Secondary Schools	Exclusion	Pre-1953	825.017(1)	300	300	
4.004 Government Owned or Operated Vehicles	Exclusion	Pre-1953	825.017(11,13)	4,900	4,900	
4.005 Mass Transit Vehicles	Exclusion	1977	825.017(12)	3,200	3,200	
4.006 Fire Protection	Exclusion	1977	825.017(23)	Less than 50	Less than 50	
<i>Telephone Exchange Access (911) Tax</i>						
9.001 State and Local Subscribers	Exclusion	1981	Note: 401.790	3,200	3,300	
<i>Hazardous Substances Tax</i>						
12.001 State and Local Government Property	Exclusion	1989	453.402(4)(e)	Not Available	Not Available	
<i>Dry Cleaning Tax</i>						
13.003 Prisons	Exclusion	1995	465.200(6)(c)	0	0	
<i>Oil and Gas Severance Tax</i>						
15.003 State and Local Interests	Exclusion	1981	324.090(1)	0	0	
SOCIAL POLICY						
<i>Income Tax</i>						
1.048 Capital Gains on Inherited Property	Exclusion	1921	316.048	194,400	225,100	
1.049 Capital Gains on Gifts	Exclusion	1921	316.048	19,300	20,700	
1.050 Gain on Involuntary Conversions in Disaster Areas	Exclusion	1996	316.048	100	100	
1.051 Voluntary Employees Beneficiary Association	Exclusion	1928	316.048	3,500	3,900	
1.052 Rental Allowances for Ministers' Homes	Exclusion	1921	316.048	2,100	2,500	

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

Tax Expenditure	Type	Year Enacted	Oregon Statute	Revenue Impact (\$ Thousands)	
				1997-99	1999-01
1.053 Military Disability Benefits	Exclusion	1942	316.048	700	700
1.086 Casualty and Theft Losses	Deduction	1913	316.695	1,300	1,300
1.087 Charitable Contributions: Other	Deduction	1917	316.695/317.013	143,800	155,700
1.105 Federal Income Tax Deduction	Subtraction	1929	316.680/316.695	430,900	475,500
1.106 Military Active Duty Pay	Subtraction	1969	316.680/316.789	4,100	4,200
1.151 Personal Exemption Credit	Credit	1985	316.085	716,900	775,400
1.152 Retirement income	Credit	1991	316.157	10,500	5,600

Property Tax

2.091 Exempt Lease from Taxable Owner	Full	1977	307.112	(In other categories)	
2.092 Exempt Lease from Exempt Owner	Full	1973	307.166	(In other categories)	
2.093 Destroyed Property	Partial	1971	308.425	Not Available	Not Available
2.094 Charitable, Literary, Scientific	Full	1854	307.130	45,200	48,900
2.095 Fraternal Organizations	Full	1961	307.136	6,200	6,600
2.096 Religious Organizations	Full	1854	307.140	63,000	69,500
2.097 Cemeteries, Burial Grounds, Mausoleums	Full	1854	307.150	4,500	5,000

Weight-Mile Tax

4.007 Charitable Organizations	Exclusion	1977	825.017(15)	Less than 50	Less than 50
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FEDERAL LAW

Income Tax

1.107 Interest and Dividends on U.S. Obligations	Subtraction	1970	316.680	50,000	55,100
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Property Tax

2.098 Federal Property	Full	1848	307.040	2,803,000	2,972,000
2.099 Indian Property on Reservation	Full	1854	307.180	Not Available	Not Available
2.100 Mining Claims on Federal Land	Full	1889	307.080	Not Available	Not Available
2.101 Amtrak Passenger Railroad	Full	1983	308.515	200	210

Cigarette Tax

6.003 Federal and Veteran Institutions	Exclusion	1965	323.055	Not Available	Not Available
6.004 Reservation Cigarette Sales	Credit	1979	323.401	500	500

Other Tobacco Products Tax

7.001 Federal Installations	Exclusion	1985	323.515	Not Available	Not Available
7.002 Reservation Tobacco Sales	Exclusion	1985	323.615	Less than 50	Less than 50

Telephone Exchange Access (911) Tax

9.002 Federal Subscribers	Exclusion	1981	Note: 401.790	500	500
9.003 Indian Reservation Subscribers	Exclusion	1981	Note: 401.790	100	100

Hazardous Substances Tax

12.002 Substance Prohibited from Tax by Federal Law	Exclusion	1989	453.402(4)(d)	Not Available	Not Available
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Table 2: **Index of Tax Expenditures by Program/Function (cont.)**

Tax Expenditure	Type	Year Enacted	Oregon Statute	Revenue Impact (\$ Thousands)	
				1997-99	1999-01
<i>Dry Cleaning Tax</i>					
13.004 Facility on U.S. Military Base	Exclusion	1995	465.200(6)(a)	Less than 50	Less than 50
<i>Petroleum Loading Tax</i>					
14.001 Product Prohibited from Tax by Federal Law	Exclusion	1989	465.111	Not Available	Not Available

CHAPTER 1. INCOME TAX (PERSONAL AND CORPORATION)

Personal Income Tax

The personal income tax, sometimes called the “individual” income tax, is the State of Oregon’s largest source of revenue. For the 1995–97 biennium \$6.3 billion, or 82 percent, of General Fund revenues came from the individual income tax.

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

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

The other important effect of connecting to the federal definition of taxable income is that doing so implicitly adopts many of the tax expenditures that exist in the federal tax code. Any special provisions allowed at the federal level that reduce taxable income will flow through to Oregon’s tax and result in lower Oregon tax collections. There currently are 75 of these special federal provisions—exclusions and deductions—that flow through to Oregon’s personal income tax. Because federal tax credits are applied after the calculation of federal taxable income, federal credits do not flow through to Oregon’s tax.

For the 1997–99 biennium, the connection to the federal definition of taxable income reduces Oregon personal income tax revenue by nearly \$3.0 billion. While Oregon could “disconnect” from the federal tax code (or parts of it) to collect some of that potential revenue, doing so would increase compliance costs for taxpayers and administrative costs for the State of Oregon.

In addition to the tax expenditures resulting from exclusions and deductions in the federal tax code, there are 19 subtractions in Oregon law that further reduce taxable income. In 1997–99 these subtractions reduce tax revenue by about \$1.0 billion. For federal exclusions and deductions, as well as Oregon subtractions, the provisions reduce taxable income more for taxpayers in higher tax rate brackets, generally helping high-income taxpayers the most. In addition, only taxpayers who itemize their deductions receive the benefits of most federal deductions, again helping mostly high-income taxpayers.

Once taxable income is calculated, tax liabilities (prior to credits) are calculated by applying the tax rates. Oregon’s personal income tax has three rate brackets: 5, 7, and 9 percent. In 1993 the brackets were indexed to reflect changes in the U.S. Consumer Price Index. For 1998 the brackets are:

Income Tax

<i>Single and Separate Returns</i>		<i>Joint and Head of Household Returns</i>	
<u>Taxable Income</u>	<u>Tax before Credits</u>	<u>Taxable Income</u>	<u>Tax before Credits</u>
Not over \$2,300	5% of taxable income	Not over \$4,600	5% of taxable income
\$2,300 to \$5,800	\$115 + 7% of income over \$2,300	\$4,600 to \$11,600	\$230 + 7% of income over \$4,600
Over \$5,800	\$360 + 9% of income over \$5,800	Over \$11,600	\$720 + 9% of income over \$11,600

Oregon's personal income tax contains 34 credits. The personal exemption credit is available to all taxpayers and increases each year based on growth in the Portland Consumer Price Index. For 1998 the credit is \$132. The other 33 credits are designed to provide tax relief for specific groups of taxpayers. None of the credits is "refundable," meaning that taxpayers can use the credit only up to the amount of their tax liabilities. If the credit is larger than the tax liability, the share of the credit that exceeds the tax liability goes unused or, for some credits, can be used in later years. In 1997–99, credits reduce Oregon personal income tax revenue by roughly \$800 million.

Corporation Income Tax

Oregon's corporation income tax is a tax on corporate profits where net income is the measure of profitability. The tax is actually two taxes: the corporation excise tax and the corporation income tax. The excise tax is paid by corporations that are "doing business" in Oregon, and the income tax is paid by corporations that have income originating in Oregon but that are not considered to be "doing business" here. Ninety-nine percent of all corporations pay the excise tax, and just one percent pay the income tax. Because the taxes are nearly identical and the tax base is net income, we refer to both taxes simply as the corporation income tax. The corporation income tax is the second largest source of revenue for the state General Fund. For the 1995–97 biennium, corporation income taxes were \$684 million, or 8.9 percent of General Fund revenues.

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

Oregon uses federal taxable income with some modifications as its tax base. As with the personal income tax, connecting to the federal tax code reduces compliance costs for taxpayers, makes administration of the tax easier for the State of Oregon, and implicitly adopts many of the tax expenditures that exist in the federal tax code. For the 1997–99 biennium, the connection to the federal definition of taxable income reduces Oregon corporation income tax revenue by roughly \$244 million. There are only three Oregon-specific subtractions that can further reduce the taxable income of corporations, and they have a negligible effect in reducing corporate taxes. After Oregon taxable income is calculated, the tax rate of 6.6 percent is applied to arrive at the tax liability (prior to credits).

There are 29 credits available on the corporation income tax. None is refundable, but most allow unused credit amounts to be carried forward and used in later years. In 1997–99 these credits reduce corporation tax revenue by roughly \$79 million.

Beginning in 1997, foreign insurance companies become subject to the corporation income tax, rather than the insurance gross premium tax, and are exempt from all local government taxes other than property taxes. For more details, see the introduction to Chapter 5 Insurance Taxes.

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
1997–99 Revenue Impact:	Not Applicable	\$5,900,000	\$5,900,000
1999–01 Revenue Impact:	Not Applicable	\$6,700,000	\$6,700,000

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 degrees.

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

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

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

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

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

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 at certain institutions in the same year in which they are redeemed. Qualified higher education expenses include tuition and fees, but not room and board expenses. In 1997, a full exclusion was allowed if income was less than \$50,850 if single and \$65,850 if married. The exclusion phased out through incomes of \$76,250 (single) and \$106,250 (married) at which point no exclusion was allowed.

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

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

EVALUATION: It is too early to determine if this tax expenditure achieves its purpose. While this exclusion expands the opportunities for investing in higher education by providing a targeted incentive, its financial impact to date has been minimal; however, given the long-term nature of this investment for children who may not be attending college for ten more years, this is not surprising. *[Evaluated by the System of Higher Education.]*

1.003 EARNINGS ON EDUCATION IRAs

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
1997–99 Revenue Impact:	Not Applicable	\$2,400,000	\$2,400,000
1999–01 Revenue Impact:	Not Applicable	\$5,300,000	\$5,300,000

DESCRIPTION: Taxpayers may establish trust or custodial accounts for the exclusive purpose of paying the qualified higher education expenses of a named beneficiary. Annual contributions are limited to \$500 per beneficiary and may not be made after the beneficiary reaches age 18. The contribution limit is phased out for contributors with income between \$95,000 and \$100,00 if single (\$150,000 and \$160,000 if married).

Earnings on contributions to the accounts are not subject to tax. Distributions from the accounts may be excludable 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, then a distribution from an education IRA is allowed but the exclusion is not granted. Tax-free and penalty-free transfers or rollovers from an education IRA of one beneficiary to an education IRA of another beneficiary are allowed provided that the new beneficiary is a family member of the old beneficiary.

PURPOSE: To encourage higher education by reducing the cost.

WHO BENEFITS: Families or individuals who assume responsibility for paying tuition for themselves, or beneficiaries such as children or grandchildren.

EVALUATION: It is too early to determine the impact of this tax expenditure. This exclusion expands the opportunities for investing in higher education by providing a tax avoidance incentive. The financial impact has been minimal to date; however the impact will be more evident as beneficiaries begin to attend college in the future. This method of savings has been nationally proclaimed to assist families as they seek to access post-secondary opportunities. *[Evaluated by the System of Higher Education.]*

1.004 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: 1930s

	Corporation	Personal	Total
1997–99 Revenue Impact:	Not Applicable	\$6,300,000	\$6,300,000
1999–01 Revenue Impact:	Not Applicable	\$7,100,000	\$7,100,000

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

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

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

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

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

1.005 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
1997–99 Revenue Impact:	Not Applicable	\$100,000	\$100,000
1999–01 Revenue Impact:	Not Applicable	\$100,000	\$100,000

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

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

WHO BENEFITS: Foster care providers.

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

1.006 EMPLOYEE ADOPTION BENEFITS

Internal Revenue Code Section: 23 and 137

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

Federal Law Sunset Date: 12-31-01

Year Enacted in Federal Law: 1996

	Corporation	Personal	Total
1997–99 Revenue Impact:	Not Applicable	Less than \$50,000	Less than \$50,000
1999–01 Revenue Impact:	Not Applicable	Less than \$50,000	Less than \$50,000

DESCRIPTION: Benefits received under employer-sponsored adoption assistance programs are excluded from personal taxable income. The maximum exclusion is \$5,000 per child or \$6,000 in the case of a child with special needs. Expenses may be incurred over several years. Employer-provided adoption assistance must be received under an established employer-sponsored adoption assistance program. The exclusion is phased out at incomes between \$75,000 and \$115,000.

PURPOSE: To encourage and facilitate adoption.

WHO BENEFITS: Adoptive parents.

EVALUATION: Nationally and within Oregon, considerable focus has been placed on achieving permanent homes for children who are waiting in foster care. This includes the Adoption and Safe Families Act at the federal level and Oregon’s SB 689.

Some employers have developed programs to encourage and support their employees in adopting waiting children. This is one of several programs which provide incentives to adoption, and it is difficult to measure the direct impact of this specific program. However, it is one of the few ways in which private, non-governmental resources are contributing to a national goal.

Since the exclusion is phased out at higher income levels, it encourages and sometimes makes it possible for lower income families to adopt. This exclusion is not, however, limited to those who adopt U.S. children, and is not limited to the adoption of the “harder to place” children. International adoptions, private adoptions, and independent adoptions, if covered by the specific employer adoption assistance program, could also claim this exclusion.

This exclusion does not significantly decrease revenue to Oregon but does improve the ability of Oregon families to adopt children needing permanent homes. *[Evaluated by the Office for Services to Children and Family.]*

1.007 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
1997–99 Revenue Impact:	Not Applicable	\$42,500,000	\$42,500,000
1999–01 Revenue Impact:	Not Applicable	\$53,400,000	\$53,400,000

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

PURPOSE: To encourage employers to include a flexible benefits package as part of a compensation package; and employees to utilize such non-taxable qualified benefit options.

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

EVALUATION: This tax expenditure achieves its purpose and offers employees flexibility not present when an employer simply offers health insurance coverage. Employees are free to choose the option that is most beneficial to them, whether non-taxed health benefits or taxed monetary compensation. When choosing benefits, employees often receive benefit packages that are worth more than the foregone cash amount due to the advantages of group-based purchasing. Employers also benefit from the choice of health benefits instead of cash payments. [*Evaluated by Oregon Health Plan Policy & Research.*]

1.008 EMPLOYER PAID MEDICAL BENEFITS

Internal Revenue Code Sections: 105 and 106

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

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1918

	Corporation	Personal	Total
1997–99 Revenue Impact:	Not Applicable	\$369,900,000	\$369,900,000
1999–01 Revenue Impact:	Not Applicable	\$424,000,000	\$424,000,000

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

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

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

EVALUATION: This tax expenditure has achieved its purpose. While not entirely responsible for the fact that 66 percent of Oregon workers received employer offered health benefits, it is a major incentive for employers to offer such benefits.

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

1.009 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
1997–99 Revenue Impact:	Not Applicable	\$523,200,000	\$523,200,000
1999–01 Revenue Impact:	Not Applicable	\$565,900,000	\$565,900,000

DESCRIPTION: Employer contributions to pension plans are not included in the employee’s personal taxable income in the year of contribution. Certain amounts contributed by employees are excluded from income as well. Taxation on contributions and earnings are deferred until distribution, when withdrawals are included in taxable income. The estimated tax benefit is a net figure, i.e. the revenue foregone in a given year offset by the amount of tax paid on withdrawals in that year.

PURPOSE: To promote saving for retirement and to tax income when it is received.

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

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

1.010 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
1997–99 Revenue Impact:	Not Applicable	\$98,600,000	\$98,600,000
1999–01 Revenue Impact:	Not Applicable	\$123,200,000	\$123,200,000

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

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

WHO BENEFITS: Recipients of the medical services provided through Part A of Medicare.

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

1.011 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
1997–99 Revenue Impact:	Not Applicable	\$43,600,000	\$43,600,000
1999–01 Revenue Impact:	Not Applicable	\$57,300,000	\$57,300,000

DESCRIPTION: For those who elect to pay the required monthly premiums (\$43.80 in 1997), Part B of Medicare covers certain doctors' services, outpatient services, and other medical services for people who are age 65 and over or who are disabled. The portion of the program's costs that are paid with governmental general revenues are not included in the personal

taxable income of recipients. Currently, these costs account for 75 percent of the program's costs. Under current law, annual increases in the Part B premium is limited to the percentage increase in the social security cost of living allowance.

PURPOSE: To ensure the consistent treatment with non-taxed social security benefits.

WHO BENEFITS: Recipients of the medical services provided through Part B of Medicare.

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

1.012 SOCIAL SECURITY BENEFITS (FEDERAL)

Internal Revenue Code Section: (various and multiple Revenue Rulings)

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

Federal Law Sunset Date: None

Year Enacted: 1938

	Corporation	Personal	Total
1997–99 Revenue Impact:	Not Applicable	\$166,600,000	\$166,600,000
1999–01 Revenue Impact:	Not Applicable	\$176,800,000	\$176,800,000

DESCRIPTION: Only a portion of social security and railroad retirement benefits are considered nontaxable at the federal level while the state of Oregon extends the tax exemption to the full amount of benefits. As a result there are two tax expenditures pertaining to these benefits. This tax expenditure pertains to those benefits that are exempt at the federal level. The tax expenditure pertaining to the portion of benefits that are taxed at the federal level but are exempt in Oregon is Social Security Benefits (Oregon) (1.093).

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

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

- PURPOSE:** The Congressional Research Service cited three reasons for the original exclusion: (1) congress did not intend for these benefits to be taxed, (2) the benefits were intended to be in the form of “gifts” and (3) taxing these benefits would defeat their intended purposes.
- WHO BENEFITS:** The number of Oregon taxpayers who receive some nontaxable social security and railroad retirement benefits has ranged from approximately 120,000 to 137,000 between 1990 and 1996. In 1996, the average amount of benefit was slightly over \$7,000.
- EVALUATION:** This tax expenditure achieves its purpose; however, the issue continues to be the focus of significant national discussions and debate. While this tax exclusion provides the recipients with more disposable income, there are severe concerns over the viability of the social security benefits system in the long term. Current retirement index data forecasts that current retirement programs and savings patterns of persons aged 30–48 are not adequate to maintain these individuals at a living standard commensurate with their current living standards. Projections suggest that the rate of retirement savings must increase three fold from present standards in order to accomplish this future parity. The inability to achieve this parity will cause greater numbers of people to look to government service programs to assist them. The present population of those age 30–48 is substantial and this program could have a dramatic impact when they reach the retirement age. [*Evaluated by the Senior and Disabled Services Division.*]

1.013 ACCELERATED DEPRECIATION OF BUILDINGS

Internal Revenue Code Sections: 167 and 168

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

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1954

	Corporation	Personal	Total
1997–99 Revenue Impact:	\$10,100,000	\$7,000,000	\$17,100,000
1999–01 Revenue Impact:	\$6,200,000	\$4,200,000	\$10,400,000

- 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 represents the impact of depreciation methods accelerated over the straight-line method.
- PURPOSE:** To promote investment in business buildings.
- WHO BENEFITS:** This expenditure directly benefits owners of buildings used in a trade or business. Indirect beneficiaries include employees, customers, and the building construction and demolition industry.
- EVALUATION:** This expenditure appears to achieve its purpose. By reducing the cost of new and young buildings below what it would be under straight-line depreciation, this tax expenditure tends to increase the supply of new or younger buildings relative to older buildings. In doing so, it may reduce the financial incentive to remodel and re-use older buildings in favor of demolishing them and replacing them with new buildings. Therefore, the exemption may favor industrial modernization and high-density development. [*Evaluated by the Economic Development Department.*]

1.014 ACCELERATED DEPRECIATION OF EQUIPMENT

Internal Revenue Code Sections: 167 and 168

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

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1954

	Corporation	Personal	Total
1997–99 Revenue Impact:	\$117,700,000	\$49,500,000	\$167,200,000
1999–01 Revenue Impact:	\$130,500,000	\$55,200,000	\$185,700,000

DESCRIPTION: In general, taxpayers may deduct from corporation and personal taxable income the depreciation of equipment based on a “straight line” method where equal amounts are deducted in each period. This tax expenditure represents the impact of depreciation methods accelerated over the straight-line method.

PURPOSE: To promote investment in business equipment.

WHO BENEFITS: Owners of equipment used in a trade or business benefit directly. Indirect beneficiaries include employees, customers, and the equipment manufacturing industry.

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

1.015 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
1997–99 Revenue Impact:	Not Applicable	\$12,900,000	\$12,900,000
1999–01 Revenue Impact:	Not Applicable	\$14,900,000	\$14,900,000

DESCRIPTION: U.S. citizens who live abroad may exclude from personal taxable income up to \$70,000 earned from private sector employment overseas. The limitation increases in increments of \$2,000 each year beginning in 1998, until it reaches \$80,000 in 2002. Individuals can also exclude certain expenditures for overseas housing.

PURPOSE: To encourage U.S. exports by encouraging U.S. citizens to work abroad. It is argued that U.S. citizens working abroad play an important role in promoting the sale of U.S. goods abroad. The exclusion is also to compensate for higher living costs overseas, and to compensate for the fact that the individual living overseas may pay taxes to the foreign country that are often higher than U.S. taxes.

WHO BENEFITS: Individuals who live and work abroad, and indirectly the companies they work for, and the consumers of their products or services.

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

1.016 INCOME OF FOREIGN SALES CORPORATIONS

Internal Revenue Code Sections: 921–927 and 991–997

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

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1984

	Corporation	Personal	Total
1997–99 Revenue Impact:	\$7,400,000	Not Applicable	\$7,400,000
1999–01 Revenue Impact:	\$8,900,000	Not Applicable	\$8,900,000

DESCRIPTION: This provision permits U.S. exporters to exempt a portion of their export income from corporate taxable income. To qualify, exports must be sold through specially defined Foreign Sales Corporations that are organized in a foreign country and that meet certain requirements designed to ensure a minimal presence in a foreign location.

PURPOSE: To encourage U.S. firms to export and secondarily to locate their operations in the United States rather than abroad.

WHO BENEFITS: Corporations engaged in exporting goods, and indirectly their suppliers, customers, and employees.

EVALUATION: This expenditure may be effective in encouraging Oregon exports. It is unclear the degree to which exports would decline without this provision. [*Evaluated by the Economic Development Department.*]

1.017 INVENTORY PROPERTY SALES SOURCE-RULE EXCEPTION

Internal Revenue Code Sections: 861–863 and 865

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

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1921

	Corporation	Personal	Total
1997–99 Revenue Impact:	\$17,400,000	Not Applicable	\$17,400,000
1999–01 Revenue Impact:	\$18,500,000	Not Applicable	\$18,500,000

DESCRIPTION: In general, for U.S. corporations that have foreign operations, the income from sales of personal property must be considered U.S. rather than foreign-source income. This tax expenditure provides an exception to that rule for inventory property, which may be sourced in the country where the sale occurs. This special provision governing the source of income from inventory sales interacts with the foreign tax credit provisions in a way that can effectively exempt a portion of a firm’s export income from corporate taxable income.

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

WHO BENEFITS: Corporations involved in the sale of exports benefit directly. Indirect beneficiaries include their suppliers, customers, and employees.

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

1.018 MAGAZINE, PAPERBACK, AND RECORD RETURNS

Internal Revenue Code Section: 458

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

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1978

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

DESCRIPTION: Generally, if a buyer returns goods to the seller, the seller’s income is reduced in the year in which the items are returned. An exception has been granted to publishers and distributors of magazines, paperbacks, and records, who may exclude from corporate or personal taxable income in one year the sale of goods that are returned after the close of that year. This allows publishers and distributors to sell more copies to wholesalers and retailers than they expect will be sold to consumers.

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

- PURPOSE:** To encourage the purchase of printed materials and promote the business of those involved in publishing and distributing those materials.
- WHO BENEFITS:** Publishers and distributors of magazines, paperbacks and records benefit directly. Indirect beneficiaries include their suppliers, customers, and employees.
- EVALUATION:** This expenditure appears to achieve its purpose by promoting increased sales of materials. The removal of this provision might cause irritating back-orders of popular materials and reduce sales of published materials due to an insufficient number of copies to allow for conspicuous display. However, the provision probably also encourages the over-printing of copies and the resultant waste. *[Evaluated by the Economic Development Department.]*

1.019 CASH ACCOUNTING, OTHER THAN AGRICULTURE

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

	Corporation	Personal	Total
1997–99 Revenue Impact:	\$100,000	\$700,000	\$800,000
1999–01 Revenue Impact:	\$100,000	\$700,000	\$800,000

- DESCRIPTION:** Certain small businesses and personal service corporations are allowed to use the cash method of accounting, rather than the accrual method, for tax purposes. This effectively defers corporation and personal income tax by allowing qualifying businesses to record income when it is received rather than when it is earned.
- PURPOSE:** To simplify record keeping for small businesses and to eliminate an additional drain on the working capital of small businesses.
- WHO BENEFITS:** Small businesses and personal service corporations benefit directly. Some of the benefits are probably passed along to the small businesses' employees, customers, and suppliers.
- EVALUATION:** This expenditure achieves its purpose by helping to reduce working capital constraints often faced by small business. Startup businesses often fail for lack of sufficient investment monies to maintain an adequate level of working capital. Ongoing successful businesses can have temporary unforeseen downturns or periods of rapid growth that can use up precious working capital and threaten the business' survival. This expenditure helps small businesses by allowing them to pay income tax only on income received rather than on income promised in the future due to a sale in the present. This provision also simplifies the record keeping of small businesses by allowing them to recognize costs and income for tax purposes in the same manner as for their own record keeping.

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

1.020 REGIONAL ECONOMIC DEVELOPMENT INCENTIVES

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

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

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1993

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

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

In 1997 new legislation expanded the program. Two additional empowerment zones can be established with the same tax incentives as the original zones. In addition, 20 new empowerment zones can be designated which receive partial tax benefits.

Oregon currently has no empowerment zones, but does have two enterprise communities, one rural and one urban. In addition, Oregon has requested the designation of two potential empowerment zones under the new expanded program. Enterprise communities receive expanded tax exempt financing for zone businesses. (Empowerment zone businesses receive additional tax incentives including wage credits and equipment expensing allowances.) Tax exempt bonds for any one community cannot exceed \$3 million.

PURPOSE: To revitalize economically distressed areas.

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

EVALUATION: This expenditure appears to achieve its purpose. Research indicates that enterprise zones in general have been fairly successful at stimulating economic recovery in high-need areas. Removing the Oregon tax exempt status of these bonds would reduce their attractiveness to potential bondholders and increase the rate that bond issuers would expect to pay for financing, which in turn would reduce benefits. *[Evaluated by the Economic Development Department.]*

1.021 INCOME OF CONTROLLED FOREIGN CORPORATIONS

Internal Revenue Code Sections: 11(d), 882, and 951–964
Oregon Statute: 317.013 (Connection to federal corporation taxable income)
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1909

	Corporation	Personal	Total
1997–99 Revenue Impact:	\$5,600,000	Not Applicable	\$5,600,000
1999–01 Revenue Impact:	\$6,200,000	Not Applicable	\$6,200,000

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

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

WHO BENEFITS: U.S. multinational firms benefit directly, while their suppliers, customers, and employees benefit indirectly.

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

1.022 EMPLOYER PAID GROUP LIFE INSURANCE PREMIUMS

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

	Corporation	Personal	Total
1997–99 Revenue Impact:	Not Applicable	\$13,200,000	\$13,200,000
1999–01 Revenue Impact:	Not Applicable	\$14,500,000	\$14,500,000

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

- PURPOSE:** To encourage employers and employees to incorporate life insurance benefits into compensation packages.
- WHO BENEFITS:** Employees who do not have to purchase their own life insurance and the dependents of employees who would not otherwise be insured. Employers may benefit by paying lower wages than would be paid if these benefits were not offered. Higher income individuals are more likely than lower income individuals to benefit from this exclusion because they are more likely to have this benefit.
- EVALUATION:** This tax expenditure achieves its purpose and is an effective way of providing employee security. It is an important component of the total benefits package in terms of attracting and retaining Oregon workers. In the increasingly competitive national labor market there is merit in retaining incentives that are available in other states. In addition, the tax expenditure is structured so that it does not discriminate in favor of select employees. The life insurance itself provides heirs with a greater sense of stability and reduces the potential for future public assistance. [*Evaluated by the Employment Department.*]

1.023 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
1997–99 Revenue Impact:	Not Applicable	\$1,400,000	\$1,400,000
1999–01 Revenue Impact:	Not Applicable	\$1,400,000	\$1,400,000

- 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. Higher income individuals are more likely than lower income individuals to benefit from this exclusion because they are more likely to have this benefit.
- EVALUATION:** This tax expenditure achieves its purpose and is an effective way of providing employee security. As is the case with Employer Paid Group Life Insurance (1.022), it is an important component of the total benefits package in terms of attracting and retaining Oregon workers. In the increasingly competitive national labor market there is merit in retaining incentives that are available in other states. In addition, the tax expenditure is structured so that it does not discriminate in favor of select employees. Accident, disability and supplemental unemployment benefits allow an employee to maintain a standard of living through short term transitions. [*Evaluated by the Employment Department.*]

1.024 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
1997–99 Revenue Impact:	Not Applicable	\$6,600,000	\$6,600,000
1999–01 Revenue Impact:	Not Applicable	\$8,100,000	\$8,100,000

DESCRIPTION: Employer payments for dependent care through a dependent care assistance program, and employee contributions (up to \$5,000 per year) to a dependent care account are not included in the employee's personal taxable income.

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

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

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

For employer-provided benefits, the typical practice is that the benefit is part of a cafeteria plan (1.007 Cafeteria Plan Benefits) in which employees can choose from various taxable or non-taxable benefits. Consequently, those choosing this option would be meeting specific needs so the tax expenditure is well-targeted. It also has the potential for reducing the need for public funds in providing the needed care. Further, in the increasingly competitive national labor market there is merit in retaining the incentives that are available in other states. While any one benefit may not appear significant by itself, it is an important piece in the total benefits package in terms of attracting and retaining Oregon workers. [*Evaluated by the Employment Department.*]

1.025 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
1997–99 Revenue Impact:	Not Applicable	\$41,800,000	\$41,800,000
1999–01 Revenue Impact:	Not Applicable	\$47,400,000	\$47,400,000

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.

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. Employers may benefit by paying lower wages than would be paid if these benefits were not offered.

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

1.026 EMPLOYEE MEALS AND LODGING (Nonmilitary)

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
1997–99 Revenue Impact:	Not Applicable	\$4,900,000	\$4,900,000
1999–01 Revenue Impact:	Not Applicable	\$5,700,000	\$5,700,000

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 those occupations or sectors in which the provision of meals and/or lodging is common.

EVALUATION: This tax expenditure achieves its purpose and provides a benefit to both the employer and the employee. In many cases provided meals and lodging are a condition of hire. An example is the individual who is hired to tend an oil derrick in the Gulf of Mexico. It is not

practical to have the individual ferry back and forth between the derrick and shore when a shift changes. The employee has no option but to accept the room and board if they wish to take the job. In the case of apartment house managers, free apartment rent is likely a significant factor in accepting the position. This tax expenditure simplifies the book-keeping process associated with tracking this benefit. [*Evaluated by the Employment Department.*]

1.027 EMPLOYEE STOCK OWNERSHIP PLANS

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

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

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1974

	Corporation	Personal	Total
1997–99 Revenue Impact:	\$3,600,000	\$300,000	\$3,900,000
1999–01 Revenue Impact:	\$4,100,000	\$300,000	\$4,400,000

DESCRIPTION: An Employee Stock Ownership Plan (ESOP) is a defined-contribution plan that is required to primarily invest in the stock of the sponsoring employer. These plans contain several tax exemptions. Employer contributions may be deducted from corporation taxable income as a business expense. An employer may also deduct dividends paid on stock held by an ESOP if the dividends are paid to plan participants. Employees are not taxed on employer contributions or the earnings on invested funds until they are distributed. A benefit is also available to certain lenders. Qualified lenders may exclude from taxable income 50 percent of the interest earned on an ESOP loan if the ESOP owns over 50 percent of the company's stock. Under certain circumstances, a stockholder may defer the recognition of the gain from the sale of stock to an ESOP. The estimated tax benefit is a net figure, i.e. the revenue foregone in a given year offset by the amount of tax paid on distributions in that year.

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

WHO BENEFITS: Employers and employees of participating companies.

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

1.028 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
1997–99 Revenue Impact:	Not Applicable	\$700,000	\$700,000
1999–01 Revenue Impact:	Not Applicable	\$700,000	\$700,000

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

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

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

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

1.029 EMPLOYER PROVIDED DEATH BENEFITS

Internal Revenue Code Section: 101(b) Reg. §1.101.2
Oregon Statute: 316.048 (Connection to federal personal taxable income)
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1951

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

DESCRIPTION: The first \$5,000 paid by or on behalf of an employer due to an employee's (or former employee's) death is excluded from the personal taxable income of the employee's beneficiaries or estate. This pertains only to certain noninsured employer-provided death benefits. (Employers may provide insured death benefits of up to \$50,000 tax free.)

PURPOSE: To treat these benefits identical to those paid by insurance companies.

WHO BENEFITS: Beneficiaries of employees who receive noninsured employer-provided death benefits.

EVALUATION: This tax expenditure achieves its purpose and maximizes the amount of transitional money for those who may not otherwise have a benefit available. It reduces the need for public assistance while families pull their lives together during difficult times. These benefits are often used as seed money for training or as a temporary cushion for living expenses. This tax expenditure is of particular importance to those who lack life insurance. [*Evaluated by the Employment Department.*]

1.030 EMPLOYER PROVIDED EDUCATION BENEFITS

Internal Revenue Code Section: 127

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

Federal Law Sunset Date: 5-31-00

Year Enacted in Federal Law: 1997

	Corporation	Personal	Total
1997–99 Revenue Impact:	Not Applicable	\$1,700,000	\$1,700,000
1999–01 Revenue Impact:	Not Applicable	\$1,100,000	\$1,100,000

DESCRIPTION: Employer provided educational assistance benefits, up to \$5,250 annually, are excluded from the personal taxable income of the recipient. For the exclusion to apply, certain requirements must be satisfied. Educational assistance includes the payment of tuition, fees, books, supplies and equipment; it excludes items such as meals, lodging and transportation. The exclusion does not apply to education pertaining to sports, games or hobbies.

Prior law contained an exclusion for employer provided assistance for undergraduate and graduate education. That exclusion expired. This expenditure extends the exclusion for employer provided undergraduate assistance only.

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

WHO BENEFITS: Employees receiving employer provided educational assistance. Employers may benefit by paying a lower wage than would be paid if these benefits were not offered. Employers also benefit from a better educated and trained work force.

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

1.031 ACCELERATED DEPRECIATION RENTAL HOUSING

Internal Revenue Code Sections: 167 and 168

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

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1954

	Corporation	Personal	Total
1997–99 Revenue Impact:	\$4,700,000	\$5,200,000	\$9,900,000
1999–01 Revenue Impact:	\$4,600,000	\$5,000,000	\$9,600,000

DESCRIPTION: In general, taxpayers may deduct from corporation and personal taxable income the depreciation of rental housing based on a “straight line” method where equal amounts are deducted in each period. This tax expenditure represents the impact of depreciation methods accelerated over the straight-line method.

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

WHO BENEFITS: Owners of rental housing.

EVALUATION: This expenditure appears to achieve its purpose. As described by Congressional Research Service, accelerated depreciation is intended as “a general stimulus to investment.” There are likely instances where the tax deferral represented by accelerated depreciation provides a critical incentive to developers and investors in making decisions regarding construction or purchase of rental property. However, rental housing is not the only item that receives some form of preferential tax treatment. It is difficult to ascertain the fiscal effectiveness.

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

1.032 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
1997–99 Revenue Impact:	Not Applicable	\$59,000,000	\$59,000,000
1999–01 Revenue Impact:	Not Applicable	\$63,700,000	\$63,700,000

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

This expenditure replaces two tax expenditure provisions from prior law, the “deferral of capital gains on sales of principal residences,” and “exclusion of capital gains on sales of residences for persons aged 55 and over”.

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

WHO BENEFITS: Homeowners

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

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

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

As previously noted, this law replaces a commonly used deferral, and one time capital gains exclusion for taxpayers aged 55 or older. The 1997 law increases the amount eligible for exclusion from \$125,000 to \$250,000 (\$500,000 if married filing a joint return).

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

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

1.033 VETERANS' BENEFITS AND SERVICES

38 U.S. Code Section 3101

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

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1917

	Corporation	Personal	Total
1997–99 Revenue Impact:	Not Applicable	\$15,000,000	\$15,000,000
1999–01 Revenue Impact:	Not Applicable	\$15,900,000	\$15,900,000

DESCRIPTION: All benefits paid by the Veterans Administration 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 and their families receiving benefits from the Veterans Administration. In addition to the on-going benefits described above, the Oregon Department of Veterans' Affairs recently opened the first Veterans Retirement Home in Oregon. Located in The Dalles, 151 veterans will reside in the retirement home when it is fully occupied.

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

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

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

1.034 AGRICULTURE COST-SHARING PAYMENTS

Internal Revenue Code Section: 126

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

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1978

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

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

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

WHO BENEFITS: Because these payments cannot be used to make improvements that increase the income-earning capacity of the property, the major beneficiaries are the general public to the extent they value conservation and improvements in the environment.

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

Nearly all conservation-related cost-sharing programs in the state require or expect match dollars or in-kind services for each project. The match dollars and in-kind service dollars often exceed a 2:1 ratio. In this respect the program is working well. Additionally, it is likely that many of the conservation improvement projects that are presently being done on private land would not be possible without the assistance of the tax expenditure. The federal program for improving land or restoring it to its pre-storm condition, the Emergency Watershed Protection program, requires that a landowner provide 25 percent of the cost of the improvement or restoration work. The federal agencies that oversee the program are the Natural Resources Conservation Service of the U.S. Department of Agriculture and the U.S. Army Corps of Engineers. All Emergency Watershed Protection projects require a local sponsor which, in Oregon, has been the local soil and water conservation districts. The Emergency Watershed Protection projects that have been conducted, in response to the February 1996 flood, have all been successful. [*Evaluated by the Department of Agriculture.*]

1.035 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
1997–99 Revenue Impact:	Not Applicable	\$700,000	\$700,000
1999–01 Revenue Impact:	Not Applicable	\$700,000	\$700,000

DESCRIPTION: The cancellation of debt for farmers is not included in taxable income. For other industries, the cancellation of debt is considered income that is taxable.

PURPOSE: To reduce the tax burden on farmers 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.

EVALUATION: This tax expenditure achieves its purpose. There is little likelihood that farmers experiencing financial difficulty would have the ability to pay taxes on the canceled debt without selling the income-generating asset (i.e., the land) that is the livelihood of the operator. Unmeasurable benefits are stability in rural communities during severe economic downturns in the agriculture industry.

The benefits are well-targeted. It is unlikely that a qualified insolvent or bankrupt farmer would not utilize the exemption, and since the exemption is applicable only to producers who are in bankruptcy or insolvent, it is unlikely that any benefits are going to unintended recipients. *[Evaluated by the Department of Agriculture.]*

1.036 ENERGY CONSERVATION SUBSIDIES

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
1997–99 Revenue Impact:	Not Applicable	Included in 1.100	Included in 1.100
1999–01 Revenue Impact:	Not Applicable	Included in 1.100	Included in 1.100

DESCRIPTION: Residential energy customers can exclude from personal taxable income subsidies provided by electric and gas utilities for the purchase or installation of an energy conservation device. The part of the program that applied to businesses was repealed in 1996. Oregon legislation excluding these subsidies from taxation was enacted in 1981, so these payments would be exempt from Oregon’s income tax even in the absence of the federal exclusion.

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

WHO BENEFITS: Energy users who install conservation devices.

EVALUATION: See the evaluation of 1.100 Cash Payments for Energy Conservation.

1.037 CONTRIBUTIONS IN AID OF CONSTRUCTION FOR UTILITIES

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

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

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1996

	Corporation	Personal	Total
1997–99 Revenue Impact:	\$200,000	Not Applicable	\$200,000
1999–01 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 installing facilities to service housing subdivisions, industrial parks, etc.

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

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

WHO BENEFITS: Oregon water utilities and ultimately their customers benefit because the utilities are better able to attract capital through contributions in aid of construction rather than from debt or equity financing sources.

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

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

1.038 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
1997–99 Revenue Impact:	Not Applicable	\$17,000,000	\$17,000,000
1999–01 Revenue Impact:	Not Applicable	\$17,000,000	\$17,000,000

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. The Transportation Equity Act for the 21st Century (P.L. 105–178) passed in June 1998 includes several changes in qualified transportation benefits. Effective in tax year 1998, employees are allowed to elect taxable cash compensation in lieu of qualified transportation fringe benefits. Effective in taxable year 1999, the maximum exclusion for parking will be increased from \$155 to \$175 per month and the maximum exclusion for transit and commuter transportation will be increased from \$60 to \$65 per month. The maximum exclusion amounts will be indexed for inflation in five dollar increments after 1999. The exclusion for transit and commuter transportation will increase to \$100 per month in 2002.

PURPOSE: To codify the standard practice of not taxing this benefit. The ceiling was established for parking benefits in order to limit that long standing subsidy. The exclusions for mass transit and commuter transportation were introduced to encourage mass commuting.

WHO BENEFITS: The subsidy provides benefits to both employees (more are employed and they receive higher total compensation) and to their employers (who have lower wage costs). The parking exclusion is more likely to benefit higher income individuals than do the transit and vanpool subsidies.

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

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

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

1.039 LIFE INSURANCE INVESTMENT INCOME

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

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

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1913

	Corporation	Personal	Total
1997–99 Revenue Impact:	\$5,400,000	\$147,700,000	\$153,100,000
1999–01 Revenue Impact:	\$6,000,000	\$157,500,000	\$163,500,000

DESCRIPTION: The investment income of life insurance and annuity contracts is not included in corporation or personal taxable income as it accrues or when it is received by beneficiaries upon the death of the insured.

PURPOSE: To promote the welfare of insurance beneficiaries.

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

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

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

1.040 WORKERS' COMPENSATION BENEFITS

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
1997–99 Revenue Impact:	Not Applicable	\$26,800,000	\$26,800,000
1999–01 Revenue Impact:	Not Applicable	\$29,000,000	\$29,000,000

DESCRIPTION: Workers' compensation benefits to disabled workers, and to their families in cases of work-related death, are not included in personal taxable income. Benefits received through private accident, health, or disability insurance are not considered income and also are not taxed. The figure above is for workers' compensation only.

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

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

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

1.041 CREDIT UNION INCOME

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

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

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

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1951

	Corporation	Personal	Total
1997–99 Revenue Impact:	\$3,600,000	Not Applicable	\$3,600,000
1999–01 Revenue Impact:	\$4,100,000	Not Applicable	\$4,100,000

DESCRIPTION: Credit unions without capital stock and organized and operated for mutual purposes and without profit are exempt from corporation income taxation.

PURPOSE: Prior to 1951, the income of mutual banks, savings and loans, and credit unions were not taxed. In 1951, the exemption from mutual banks and savings and loans was removed, but credit unions retained their exemption. The rationale for the continued exemption for credit unions was not made explicit in the legislation. According to the Congressional Research Service, the reason may be that credit unions serve a unique niche in financial markets. They are non-profit cooperatives organized by people with a common bond that distinguishes them from the general public. They also are thought to be more likely to provide services to low-income individuals at rates lower than other financial institutions.

WHO BENEFITS: Members of credit unions, primarily by receiving services at lower rates than are available from other financial institutions. In Oregon the exemption affects 126 credit unions who have \$55.8 billion in total assets and include over a million people as members.

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

1.042 LIFE INSURANCE COMPANY RESERVES

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

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

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1984

	Corporation	Personal	Total
1997–99 Revenue Impact:	\$8,800,000	Not Applicable	\$8,800,000
1999–01 Revenue Impact:	\$10,100,000	Not Applicable	\$10,100,000

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

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

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

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

1.043 IMPUTED INTEREST RULES

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

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

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1964

	Corporation	Personal	Total
1997–99 Revenue Impact:	\$100,000	\$1,400,000	\$1,500,000
1999–01 Revenue Impact:	\$100,000	\$1,400,000	\$1,500,000

DESCRIPTION: For debt instruments that do not bear a market rate of interest, the Internal Revenue Service assigns or “imputes” a market rate to them to estimate interest payments for tax purposes. The imputed interest must be included as income to the recipient and is deducted by the payer. There are several exceptions to the general rules for imputing interest on these debt instruments. Debt associated with the sale of property when the total sales price is no more than \$250,000, the sale of farms or small businesses by individuals when the sales price is no more than \$1 million, and the sale of a personal residence are not subject to the imputation rules at all. Debt instruments for amounts not exceeding an inflation-adjusted maximum (currently about \$3 million), given in exchange for real property, may not have imputed to them an interest rate greater than nine percent. This tax expenditure is the revenue loss caused by these exceptions.

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

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

EVALUATION: According to the Congressional Research Service, the imputed interest rules relating to property sales were enacted to prevent taxpayers from overstating the price, and understating the interest rate, to take advantage of the lower tax rate on capital gains. The Tax Reform Act of 1986 removed the preferential treatment of capital gains, greatly reducing such abuses. The Taxpayer Relief Act of 1997, however, reduced the tax rates for capital gains, so the imputed interest rules are again viewed as a needed tool to discourage taxpayers from overstating the price and understating the interest rate when selling property. *[Evaluated by the Department of Revenue.]*

1.044 GAIN ON NON-DEALER INSTALLMENT SALES

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

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

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1921

	Corporation	Personal	Total
1997–99 Revenue Impact:	\$2,300,000	\$2,800,000	\$5,100,000
1999–01 Revenue Impact:	\$2,300,000	\$2,800,000	\$5,100,000

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

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

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

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

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

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

1.045 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
1997–99 Revenue Impact:	\$1,800,000	\$2,100,000	\$3,900,000
1999–01 Revenue Impact:	\$1,800,000	\$2,100,000	\$3,900,000

DESCRIPTION: Like-kind exchanges are exchanges of properties that are of the same general type, but that may be of very different quality and use, such as real estate. No gain or loss is recognized as corporation or personal taxable income on the exchange so no tax is paid.

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

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

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

1.046 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
1997–99 Revenue Impact:	Not Applicable	\$400,000	\$400,000
1999–01 Revenue Impact:	Not Applicable	\$400,000	\$400,000

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

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

WHO BENEFITS: Federal civilian employees working abroad.

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

1.047 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
1997–99 Revenue Impact:	Not Applicable	\$78,900,000	\$78,900,000
1999–01 Revenue Impact:	Not Applicable	\$83,700,000	\$83,700,000

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

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

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

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 (1.096 Local Private Activity Bond Interest).

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 1996, approximately 64,000 Oregon taxpayers received roughly \$440 million in interest on Oregon state or local government debt obligations, or an average of \$6,850 per return. Investors holding such debt instruments may claim this income tax-free. However, financial markets compensate for the tax-free status of state and local government debt by reducing the rate of return on that debt. Therefore, the primary beneficiaries are the State of Oregon and local governments, whose cost of borrowing is reduced.

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

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

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

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

1.048 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
1997–99 Revenue Impact:	Not Applicable	\$194,400,000	\$194,400,000
1999–01 Revenue Impact:	Not Applicable	\$225,100,000	\$225,100,000

DESCRIPTION: When property is transferred upon death, any capital gains accrued but not recognized on the property during the decedent’s ownership are excluded from personal taxable income. The new basis for the heir is set to the market value on the date of the decedent’s death.

PURPOSE: To provide tax relief to heirs who inherit property. A rationale may be that estates are subject to taxation at the federal level.

WHO BENEFITS: Heirs who inherit property.

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

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

1.049 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
1997–99 Revenue Impact:	Not Applicable	\$19,300,000	\$19,300,000
1999–01 Revenue Impact:	Not Applicable	\$20,700,000	\$20,700,000

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

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

WHO BENEFITS: Donors and recipients of gifts.

EVALUATION: Not Evaluated.

1.050 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
1997–99 Revenue Impact:	Not Applicable	\$100,000	\$100,000
1999–01 Revenue Impact:	Not Applicable	\$100,000	\$100,000

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

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

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

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

EVALUATION: Not Evaluated.

1.051 VOLUNTARY EMPLOYEES' BENEFICIARY ASSOCIATIONS

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

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

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1928

	Corporation	Personal	Total
1997–99 Revenue Impact:	Not Applicable	\$3,500,000	\$3,500,000
1999–01 Revenue Impact:	Not Applicable	\$3,900,000	\$3,900,000

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

PURPOSE: To promote the provision of life, sickness, accident, and other insurance and fringe benefits and treat VEBA benefits identical to employer provided benefits.

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

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

1.052 RENTAL ALLOWANCES FOR MINISTERS' HOMES

Internal Revenue Code Section: 107

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

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1921

	Corporation	Personal	Total
1997–99 Revenue Impact:	Not Applicable	\$2,100,000	\$2,100,000
1999–01 Revenue Impact:	Not Applicable	\$2,500,000	\$2,500,000

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

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

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

EVALUATION: Not Evaluated.

1.053 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
1997–99 Revenue Impact:	Not Applicable	\$700,000	\$700,000
1999–01 Revenue Impact:	Not Applicable	\$700,000	\$700,000

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

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

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

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

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

Income Tax
Federal Exclusions

WHO BENEFITS: For veterans joining on or before September 24, 1975, those who retire on disability. For all others, only those who retire due to a combat-related injury. During fiscal years 1995 and 1996, eight Oregon National Guard soldiers and airmen received this benefit with total compensation paid just over \$112,000. It is not precisely known how many Oregon veterans from other branches of the military receive this benefit.

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

1.054 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
1997–99 Revenue Impact:	Not Applicable	\$400,000	\$400,000
1999–01 Revenue Impact:	Not Applicable	\$1,100,000	\$1,100,000

DESCRIPTION: A taxpayer may deduct interest on qualified higher education loans. The maximum deduction is \$1,000 in 1998, \$1,500 in 1999, \$2,000 in 2000 and \$2,500 in 2001 and succeeding years. The deduction is allowed only with respect to interest paid on a qualified loan during the first five years in which interest payments are required. Months during which the loan is in deferral or forbearance do not count against the five-year period. The deduction is not allowed to individuals who may be claimed as a dependent on another taxpayer's return.

A qualified education loan is any indebtedness incurred to pay for qualified higher education expenses, such as tuition, fees, and room and board. The expenses must be reduced by amounts received from tax-free education benefits. The deduction is phased out for taxpayers with income between \$40,000 and \$55,000 (if single) or \$60,000 and \$75,000 (if married). While the maximum deduction amount is not indexed for inflation, the phase out ranges will be indexed for inflation starting in 2003.

PURPOSE: To encourage higher education by reducing the costs.

WHO BENEFITS: Taxpayers who are repaying qualified higher education loans.

EVALUATION: It is too early to determine the impact of this tax expenditure. It should provide incentive for those concerned about loan repayment costs. [*Evaluated by the System of Higher Education.*]

1.055 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
1997–99 Revenue Impact:	\$5,000,000	\$21,700,000	\$26,700,000
1999–01 Revenue Impact:	\$5,400,000	\$23,400,000	\$28,800,000

DESCRIPTION: Contributions to educational organizations are allowed as itemized deductions from personal taxable income of amounts up to 50 percent of adjusted gross income. Corporations can deduct from corporate taxable income contributions up to 10 percent of pre-tax income. Taxpayers who donate property may deduct the current market value of the property, up to 30 percent of adjusted gross income, and do not need to pay tax on any capital gains realized on the property.

Income Tax
Federal Deductions

- PURPOSE:** To encourage donations to qualifying educational organizations.
- WHO BENEFITS:** In 1996, roughly 425,000 Oregonians took a deduction for charitable contributions worth a total of nearly \$944 million, of which \$116 million went to educational organizations. The average total charitable deduction was \$2,200.
- EVALUATION:** This tax expenditure achieves its purpose. Declining public support for public higher education has led to an increasing demand for private support. Public and private institutions of higher education have experienced an increased need for charitable support for their operations to supplement their normal operating revenues in an attempt to control the rate of increase in tuition. Endowments created through such giving enable institutions to develop on-going income to underwrite operating and capital expenses. Individuals often feel a strong sense of identification with a local institution or their alma mater. This tax deduction provides an economic incentive for individuals to act on those feelings and make monetary contributions. It also encourages businesses to make donations because they benefit from a well-educated and appropriately skilled work force. [*Evaluated by the System of Higher Education.*]

1.056 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
1997–99 Revenue Impact:	\$3,800,000	\$16,400,000	\$20,200,000
1999–01 Revenue Impact:	\$4,100,000	\$17,700,000	\$21,800,000

- DESCRIPTION:** Contributions to health organizations are allowed as itemized deductions from personal taxable income of amounts up to 50 percent of adjusted gross income. Corporations can deduct from corporate taxable income contributions up to 10 percent of pre-tax income. Taxpayers who donate property may deduct the current market value of the property and do not need to pay tax on any capital gains realized on the property.
- PURPOSE:** To encourage donations to designated health organizations.
- WHO BENEFITS:** In 1996, approximately 425,000 Oregonians took a deduction for charitable contributions worth a total of nearly \$944 million, of which \$87 million went to health organizations. The average total charitable deduction was \$2,200.
- EVALUATION:** This tax expenditure achieves its purpose. Most of the tax advantages are received by those in the higher income ranges because this expenditure is only available to those who itemize deductions. However, given that this tax expenditure is expected to equal \$12.7 million dollars for the 1997–99 biennium, it can be expected that a good portion of the donated funds and equipment will provide direct and indirect benefits to all state residents, either in the form of lower costs for health services, or access to services or equipment that previously may not have otherwise been available. [*Evaluated by Oregon Health Plan Policy & Research.*]

1.057 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
1997–99 Revenue Impact:	Not Applicable	\$63,300,000	\$63,300,000
1999–01 Revenue Impact:	Not Applicable	\$67,100,000	\$67,100,000

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

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

WHO BENEFITS: There were 88,200 Oregonians who took this deduction in 1996 with an average deduction of about \$5,070.

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

1.058 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
1997–99 Revenue Impact:	Not Applicable	\$5,700,000	\$5,700,000
1999–01 Revenue Impact:	Not Applicable	\$6,000,000	\$6,000,000

DESCRIPTION: Self-employed individuals may take 45 percent of amounts paid for health insurance in 1998 as an adjustment from personal taxable income. The adjustment increases to 60 percent in 1999, 70 percent in 2002, and 100 percent in 2003 and thereafter. The insurance must be for themselves, their spouses, or their dependents. The adjustment is limited to the taxpayer's earned income.

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

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

WHO BENEFITS: In 1996, there were approximately 55,300 full-year residents who claimed this adjustment, with an average adjustment amount of \$720. The number of claimants increased about six percent from 1995 when 52,100 full-year residents claimed an average adjustment of \$710. In 1994, the number of claimants was unusually low because the federal law had Federal Law Sunset Date at the end of 1993. The adjustment was then reinstated in 1995 and made retroactive for 1994.

EVALUATION: While the use of this tax policy has appeared to have declined in recent years (1994 compared to 1993), equity of treatment under the tax code between the self-employed and others engaged in the workforce is an important health policy issue. Maintaining and expanding the percentage of citizens who receive health insurance coverage through the workplace is vital for long-term stability of publicly sponsored health programs and access to necessary medical treatment. Accelerating the percentage of health insurance costs that the self-employed can deduct from personal taxable income, while reducing government revenues, will increase equity of treatment in a rapidly changing workforce and potentially reduce pressure for expanded public health coverage programs. [*Evaluated by Oregon Health Plan Policy & Research.*]

1.059 MEDICAL SAVINGS ACCOUNTS (FEDERAL)

Internal Revenue Code Section: 220

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

Federal Law Sunset Date: 12/31/00

Year Enacted in Federal Law: 1996

	Corporation	Personal	Total
1997–99 Revenue Impact:	Not Applicable	\$400,000	\$400,000
1999–01 Revenue Impact:	Not Applicable	\$1,100,000	\$1,100,000

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

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

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

WHO BENEFITS: The self-employed and employees receiving employer-sponsored health benefits (and their respective spouses and dependents, as applicable) who desire this form of health benefit coverage. Employers may benefit by offering additional choice of health benefit plans in the recruitment and retention of employees.

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

1.060 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
1997–99 Revenue Impact:	Not Applicable	\$72,100,000	\$72,100,000
1999–01 Revenue Impact:	Not Applicable	\$88,100,000	\$88,100,000

DESCRIPTION: Taxpayers who make contributions to an Individual Retirement Account (IRA) may subtract amounts up to \$2,000 from personal taxable income. For individuals participating in an employer-provided retirement plan, the amount of the subtraction is phased out at certain income ranges. In 1998, some deductibility is allowed as long as income is under \$60,000 on a joint return or under \$40,000 on a single return. These income limits increase over the next several years until they reach \$100,000 for joint returns (in 2007) and \$60,000 for single returns (in 2005). Taxes on IRA earnings are deferred until distribution. Withdrawals from IRAs are included in taxable income.

Deductible contributions of up to \$2,000 per year are also allowed for spouses of individuals who participate in an employer-sponsored retirement plan. This deduction is phased out for taxpayers with income between \$150,000 and \$160,000.

Federal legislation in 1997 created a new nondeductible IRA called the Roth IRA. Contributions are not tax deductible. The contribution amount is limited to \$2,000 per year for an individual, and is phased out for incomes between \$150,000 and \$160,000 for joint returns (\$95,000 and \$110,000 for single returns). Qualified distributions from a Roth IRA are not taxed. Accounts must be held at least five years in order for distributions to qualify for the tax exemption. Individuals with income of \$100,000 or less may convert an IRA into a Roth IRA.

The new legislation also allows penalty-free withdrawals from all IRAs for qualified higher education expenses and up to \$10,000 of first-time homebuyer expenses.

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

WHO BENEFITS: The number of full-year residents claiming an adjustment for contributions has steadily fallen from 97,700 in 1990 to 79,200 in 1996. During this same time period, the average adjustment rose from \$1,400 to \$1,490.

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

1.061 KEOGH PLAN CONTRIBUTIONS AND EARNINGS

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

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

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1962

	Corporation	Personal	Total
1997–99 Revenue Impact:	Not Applicable	\$28,200,000	\$28,200,000
1999–01 Revenue Impact:	Not Applicable	\$31,900,000	\$31,900,000

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

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

WHO BENEFITS: The number of full-year residents making contributions to Keogh plans has increased from about 12,400 in 1990 to 17,800 in 1996. The average adjustment has ranged from approximately \$7,500 to \$7,700. In 1996, it was \$7,560.

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

1.062 REMOVAL OF ARCHITECTURAL BARRIERS

Internal Revenue Code Section: 190

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

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1976

	Corporation	Personal	Total
1997–99 Revenue Impact:	\$100,000	Less than \$50,000	\$100,000
1999–01 Revenue Impact:	\$100,000	Less than \$50,000	\$100,000

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

PURPOSE: To encourage the modification of business facilities to a more barrier-free environment for both employees and customers.

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

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

1.063 RESEARCH AND DEVELOPMENT COSTS

Internal Revenue Code Section: 174

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

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1954

	Corporation	Personal	Total
1997–99 Revenue Impact:	\$12,200,000	Less than \$50,000	\$12,200,000
1999–01 Revenue Impact:	\$14,200,000	Less than \$50,000	\$14,200,000

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

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

WHO BENEFITS: Firms with certain research and experimental expenditures.

EVALUATION: This expenditure appears to achieve its purpose. In conjunction with the Oregon tax credit (1.120 Qualified Research Activities), it benefits research intensive companies such as the recently expanding high-tech industry. The following benefits can be identified:

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

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

1.064 SECTION 179 EXPENSING ALLOWANCES

Internal Revenue Code Section: 179

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

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1959

	Corporation	Personal	Total
1997–99 Revenue Impact:	\$2,900,000	\$2,400,000	\$5,300,000
1999–01 Revenue Impact:	\$3,200,000	\$2,500,000	\$5,700,000

DESCRIPTION: In general, the cost of business property must be deducted from personal and corporation income as it depreciates over its useful life. This expenditure allows a taxpayer to deduct as an expense up to \$17,500 of the cost of qualifying property in the year it is purchased. The amount that can be expensed is phased out if the taxpayer purchases more than \$200,000 of property during the year. This phase out directs much of the benefit to smaller businesses.

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

WHO BENEFITS: Firms with tangible personal property purchases below \$217,500 are the direct beneficiaries. A portion of the benefits to the businesses are likely passed along to the businesses' employees, customers, and suppliers.

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

1.065 AMORTIZATION OF BUSINESS START-UP COSTS

Internal Revenue Code Section: 195

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
1997–99 Revenue Impact:	\$100,000	\$2,100,000	\$2,200,000
1999–01 Revenue Impact:	\$100,000	\$2,100,000	\$2,200,000

DESCRIPTION: Generally, costs incurred before the beginning of a business are not deductible. However, under this tax provision a taxpayer may elect to deduct from personal or corporation taxable income eligible start-up expenditures over a period of at least five years. An expenditure must satisfy two requirements to qualify for this treatment. First, it must be paid in connection with creating or investigating a trade or business before the taxpayer begins an active business. Second, it must be an expenditure that would have been deductible for an active business.

Income Tax
Federal Deductions

- PURPOSE:** To encourage the formation of new businesses, and to reduce the controversy over how these start-up costs were supposed to be treated for tax purposes.
- WHO BENEFITS:** New businesses that incur start-up costs. As new businesses are formed, these businesses may create employment opportunities for Oregon residents who become indirect beneficiaries of the tax expenditure.
- EVALUATION:** This expenditure appears to achieve its purpose by putting new businesses on a more even playing field with existing businesses. Many new businesses have insufficient income from which to benefit by a deduction of all their startup costs in the first year or two. Established businesses that are expanding, on the other hand, are more likely to have sufficient income to benefit by deducting their expansion expenses in one year. An indirect benefit is increased free market competition. Finally, the “cost” of this provision is quite likely more than recovered by the increased economic activity and improved distribution of income encouraged by this provision. [*Evaluated by the Economic Development Department.*]

1.066 CONSTRUCTION FUNDS OF SHIPPING COMPANIES

Internal Revenue Code Section: 7518
Oregon Statute: 317.013 (Connection to federal corporation deductions)
Federal Law Sunset Date: None
Year Enacted in Federal Law: 1936

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

- DESCRIPTION:** U.S. operators of vessels in foreign, Great Lakes, or noncontiguous domestic trade, or in U.S. fisheries, may each establish a capital construction fund into which they may make certain deposits. Such deposits are deductible from corporate taxable income, and income tax on the earnings of the deposits in the fund is deferred. When tax-deferred deposits and their earnings are withdrawn from a fund, no tax is due if the money is used to construct, acquire, lease, or pay off the debt on a qualifying vessel.
- PURPOSE:** To encourage domestic ship-building and registry under the U.S. flag, and to ensure an adequate supply of shipping capability for national security.
- WHO BENEFITS:** U.S. ship-building firms.
- EVALUATION:** The estimated revenue impacts above imply that about \$7 million of deposits and their earnings were withdrawn for qualifying capital expenditures. While we cannot easily determine the additional amount of money that has been spent for these purposes as a result of the existence of this tax expenditure, it is likely that this provision has some stimulative impact. [*Evaluated by the Economic Development Department.*]

1.067 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
1997–99 Revenue Impact:	Not Applicable	\$1,100,000	\$1,100,000
1999–01 Revenue Impact:	Not Applicable	\$1,200,000	\$1,200,000

DESCRIPTION: Taxpayers may take qualified moving expenses as an adjustment to personal taxable income. The expenses include costs of moving household goods and traveling expenses while moving. The move must be in conjunction with a new job or business at least 50 miles farther away than one's current job. Congress limited the deductible amount in 1993 but made the deduction available to taxpayers who take the standard deduction.

PURPOSE: To provide tax relief for people where moving expenses are an employee business expense necessary to earn income.

WHO BENEFITS: Employees incurring moving expenses related to a new job or business. The number of taxpayers claiming this adjustment in 1996 was slightly down from 1995, falling from approximately 14,600 to 14,500. The average moving expense adjustment in 1996 was roughly \$1,850.

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

1.068 HOMEOWNER 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
1997–99 Revenue Impact:	Not Applicable	\$164,500,000	\$164,500,000
1999–01 Revenue Impact:	Not Applicable	\$183,400,000	\$183,400,000

DESCRIPTION: Property taxes paid by owner-occupants on their primary and secondary residences are deductible from personal taxable income for taxpayers that itemize deductions. Starting in 1991 the deduction is subject to phase-out for high-income taxpayers. The phase-out is indexed to inflation, and in 1995 started at an income of \$121,200 (\$60,600 for married filing separately).

PURPOSE: To promote home ownership by reducing the after-tax cost. According to Congressional Research Service, under the original 1913 Federal income tax law nearly all State and local taxes were deductible. The rationale was that such payments reduced disposable income “in a mandatory way,” and thus affected the taxpayer’s ability to pay federal income tax. Congress has since eliminated the deductibility of many taxes, such as local excise taxes and sales taxes.

WHO BENEFITS: In 1996, about 460,000 Oregon taxpayers claimed \$952 million in itemized deductions for the property taxes paid on their residences (average deduction was \$2,073), for an average Oregon tax benefit of about \$180 per return. Taxpayers with incomes greater than \$40,000 accounted for 60 percent of the itemized property tax returns, while about 72 percent of tax benefits went to those higher income taxpayers.

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

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

1.069 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
1997–99 Revenue Impact:	Not Applicable	\$525,100,000	\$525,100,000
1999–01 Revenue Impact:	Not Applicable	\$567,900,000	\$567,900,000

DESCRIPTION: Mortgage interest paid by owner-occupants on their primary and secondary residences is deductible from personal taxable income for taxpayers who itemize deductions. Interest may be deducted on loans up to \$1,000,000 for the purchase of the residence (\$500,000 in the case of a married individual filing a separate return), and on loans up to \$100,000 (\$50,000 for married individuals filing separately) for home equity loans. These dollar limitations do not apply, however, to qualified indebtedness acquired on or before October 13, 1987. Starting in 1991 the deduction is subject to phase-out for high-income taxpayers. The phase-out is indexed to inflation, and in 1995 started at an income of \$121,200 (\$60,600 for married filing separately).

This deduction qualifies as a tax expenditure because other interest that can be deducted, such as interest paid to acquire investments or interest allocable to a trade or business, is limited to circumstances where income generated by the investments is taxable. In this case, the interest payments are not used to finance any taxable activity.

- PURPOSE:** To promote home ownership. According to the Congressional Research Service, initial enactment of the mortgage interest deduction in 1913 was part of the deduction for all types of interest, which in those days were almost exclusively business related. The original purpose was not, therefore, to encourage home ownership. In recent years the deduction has, however, been defended on those grounds.
- WHO BENEFITS:** In 1996, about 430,000 taxpayers claimed a total of \$2.8 billion of itemized deductions for home mortgage interest (average deduction was \$6,400), for an average Oregon tax benefit of about \$400 per return. Taxpayers with incomes greater than \$40,000 accounted for 62 percent of the itemized home mortgage returns, while about 73 percent of tax benefits went to those higher income taxpayers.
- EVALUATION:** Generally, this expenditure appears to achieve its purpose. It is likely that for some individuals, the deductibility of mortgage interest is the determining factor in an economic decision to purchase a home. The Congressional Research Service points out that the rate of home ownership in the United States is not significantly higher than in countries such as Canada that do not provide a mortgage interest deduction under their income tax. However, other factors may impact the housing market differently in the United States.

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

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

1.070 CASH ACCOUNTING FOR AGRICULTURE

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

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

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1916

	Corporation	Personal	Total
1997–99 Revenue Impact:	\$300,000	\$1,500,000	\$1,800,000
1999–01 Revenue Impact:	\$500,000	\$2,000,000	\$2,500,000

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

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

WHO BENEFITS: Small farmers.

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

1.071 SOIL AND WATER CONSERVATION EXPENDITURES

Internal Revenue Code Section: 175

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

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1954

	Corporation	Personal	Total
1997–99 Revenue Impact:	Not Available	Not Available	\$300,000
1999–01 Revenue Impact:	Not Available	Not Available	\$300,000

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

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

WHO BENEFITS: Farmers who engage in projects that conserve soil and water.

EVALUATION: This expenditure appears to be achieving its purposes. Most soil and water conservation cost-sharing and payment programs were incorporated into the 1996 Farm Bill, and oversight is primarily by the Natural Resources Conservation Service. The Conservation Reserve Program and Wetland Reserve Program allow farmers to set aside land that is either highly erodible or which should be protected as wetland, without the farmers having to suffer a significant loss of income.

The 1996 Farm Bill also created a new program, the Environmental Quality Incentives Program (EQIP), which combines the functions of the previous Agricultural Conservation Program and the Water Quality Incentives Program. EQIP changes somewhat who is eligible for cost-sharing funds, the limits on the amount of incentive payments available, and who makes the decision on how the funds are distributed. Numerous public meetings have been held around the United States to obtain input on these programs. [*Evaluated by the Department of Agriculture.*]

1.072 FERTILIZER AND SOIL CONDITIONER COSTS

Reg. S1.180-1 and S1.180-2

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

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1960

	Corporation	Personal	Total
1997–99 Revenue Impact:	Not Available	Not Available	\$300,000
1999–01 Revenue Impact:	Not Available	Not Available	\$300,000

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.

PURPOSE: To promote activities that maintain and improve the fertility of the soil, and to reduce the tax burden on farmers.

WHO BENEFITS: Generally, farmers who invest in projects to fertilize and condition their soil.

EVALUATION: The effectiveness of the federal fertilizer and soil conditioners cost-sharing program is difficult to determine, and the program has an uncertain future. Historically the Agricultural Stabilization and Conservation Service (ASCS), under the United States Department of Agriculture, has managed this program for farmers as part of its Agricultural Conservation Practices program. Farmers participating in the program were able to grow clover and plow it under as “green manure” in addition to other types of soil amendments, and get cost-sharing payments from ASCS. [*Evaluated by the Department of Agriculture.*]

1.073 COSTS OF RAISING DAIRY AND BREEDING CATTLE

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

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

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1916

	Corporation	Personal	Total
1997–99 Revenue Impact:	Less than \$50,000	\$800,000	\$800,000
1999–01 Revenue Impact:	Less than \$50,000	\$1,000,000	\$1,000,000

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

PURPOSE: To reduce the tax burden on farmers.

WHO BENEFITS: Farmers who raise dairy and breeding cattle.

EVALUATION: This expenditure achieves its purpose. The ability to expense the purchase reduces the complication of accounting and expenses associated with record keeping. The cash method of accounting fits the treatment of animals better than the accrual method because the value of the animals can vary significantly from year to year, first increasing, then falling. Under the accrual method, producers would have to depreciate the purchase amount of the animals over some set amount of time. The impact would be increased record keeping requirements and a mismatch between the actual value of the animals and the value used for tax purposes. [*Evaluated by the Department of Agriculture.*]

1.074 REDEVELOPMENT COSTS IN CONTAMINATED AREAS

Internal Revenue Code Section: 198

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

Federal Law Sunset Date: 12-31-00

Year Enacted in Federal Law: 1997

	Corporation	Personal	Total
1997–99 Revenue Impact:	\$0	\$0	\$0
1999–01 Revenue Impact:	\$500,000	\$100,000	\$600,000

DESCRIPTION: Certain environmental remediation expenditures that would otherwise be deducted over a number of years can be fully deducted from taxable personal or corporate income in the year the expenditures were made. The expenditures must be incurred in connection with the abatement or control of hazardous substances at qualified contaminated sites (“brownfields”) that are located within targeted areas.

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

WHO BENEFITS: The brownfields tax incentive primarily benefits taxpayers that purchase property that has already been contaminated. Taxpayers who cause contamination can already, under a 1994 IRS ruling, deduct certain environmental cleanup expenditures. The tax incentive permits taxpayers not causing the contamination to deduct remediation expenditures on property located in the target areas. It may also allow taxpayers responsible for the contamination to deduct remediation-related expenditures that would otherwise be chargeable to a capital account. Because the tax incentive promotes environmental cleanup efforts that might otherwise not be undertaken, it also benefits the general public, especially the communities in the targeted areas. These include Enterprise Communities, Empowerment Zones and certain other areas with high poverty rates.

EVALUATION: DEQ has received several requests for information on this tax incentive in its initial year, but has not yet received a request for certification. The Department believes that this may be due to the lead time required for investment in applicable properties, investigation and cleanup. Activity will likely increase in subsequent years. The revenue impacts assume no project are undertaken in the 1997–99 biennium. *[Evaluated by the Department of Environmental Quality.]*

1.075 MULTI-PERIOD TIMBER GROWING COSTS

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

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

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1986

	Corporation	Personal	Total
1997–99 Revenue Impact:	\$ 7,200,000	\$1,100,000	\$8,300,000
1999–01 Revenue Impact:	\$7,300,000	\$1,100,000	\$8,400,000

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

WHO BENEFITS: Taxpayers who have timber growing expenses that are not connected with a timber harvest or reforestation activity. According to the Congressional Research Service, nationally about 80 percent of the benefits accrue to corporations, and 20 percent to non-corporate timber growers. In Oregon the percentage benefiting corporations may be even greater because the proportion of Oregon private timberlands that is owned by corporations is larger than the national average.

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

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

1.076 DEVELOPMENT COSTS: NONFUEL MINERALS

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

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

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1951

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

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

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

WHO BENEFITS: Mining companies.

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

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

1.077 DEPLETION COSTS FOR NONFUEL MINERALS

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

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

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1913

	Corporation	Personal	Total
1997–99 Revenue Impact:	\$900,000	\$700,000	\$1,600,000
1999–01 Revenue Impact:	\$900,000	\$700,000	\$1,600,000

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. Cost depletion is considered the standard method for tax purposes. Because percentage depletion is based on the market value of the minerals recovered, it generally exceeds cost depletion, which is limited to the total capital investment. To the extent that percentage depletion exceeds cost depletion, this provision is a tax expenditure.

Income Tax
Federal Deductions

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

WHO BENEFITS: Mining companies using the percentage depletion method.

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

1.078 MINING RECLAMATION RESERVES

Internal Revenue Code Section: 468

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

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1984

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

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

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

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

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

1.079 BAD DEBT RESERVES OF FINANCIAL INSTITUTIONS

Internal Revenue Code Sections: 585, 593, and 596

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

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1947

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

DESCRIPTION: Small banks and savings and loans can use a reserve method of accounting in calculating write-offs for bad debts. Under a reserve method, payments are made into a reserve account to cover bad debts in the future. These payments can be deducted from corporate taxable income. This differs from large commercial banks, which can only write off bad debts at the time they become worthless. The effect of the reserve method is to allow future bad debts to be written off against current income. In effect, this defers taxes, lowering the effective tax rate on the financial institution.

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

WHO BENEFITS: Small banks and savings and loans.

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

1.080 SMALL LIFE INSURANCE COMPANIES

Internal Revenue Code Section: 806

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

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1984

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

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

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

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

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

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

1.081 UNPAID LOSS RESERVES

Internal Revenue Code Sections: 832(b)(5) and 846

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

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1986

	Corporation	Personal	Total
1997–99 Revenue Impact:	\$13,100,000	Not Applicable	\$13,100,000
1999–01 Revenue Impact:	\$14,700,000	Not Applicable	\$14,700,000

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

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

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

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

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

1.082 BLUE CROSS/BLUE SHIELD AND OTHER NONPROFITS

Internal Revenue Code Section: 883

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

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1986

	Corporation	Personal	Total
1997–99 Revenue Impact:	Not Available*	Not Applicable	Not Available*
1999–01 Revenue Impact:	Not Available*	Not Applicable	Not Available*

* In certain cases, revenue numbers are not provided for tax expenditures that may affect at most a few taxpayers. This includes tax expenditures that do not currently affect any Oregon taxpayer, but could at a later date.

DESCRIPTION: Blue Cross and Blue Shield health insurance companies in existence on August 16, 1986, and other nonprofit health insurers that meet strict community service standards, are allowed a special deduction from corporate taxable income of up to 25 percent of the excess of the year’s health-related claims over their accumulated surplus at the beginning of the year. These organizations are also allowed a full deduction for unearned premiums, unlike other property and casualty insurance companies.

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

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

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

1.083 MAGAZINE CIRCULATION EXPENDITURES

Internal Revenue Code Section: 173

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

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1950

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

DESCRIPTION: Publishers of periodicals are permitted to deduct from corporation and personal taxable income expenditures to establish, maintain, or to increase circulation in the year that the expenditures are made. Normally, those expenses pertaining to establishing and developing circulation would have to be capitalized. The tax expenditure is the difference between the current deduction of costs and the recovery that would have been allowed if these expenses were capitalized and deducted over time.

PURPOSE: To reduce the cost of tax compliance by eliminating the problem of distinguishing between expenditures to maintain circulation and those to establish or develop circulation.

WHO BENEFITS: Publishers of periodicals

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

1.084 NET OPERATING LOSS LIMITATION

Internal Revenue Code Section: 381(l)(5)

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

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1954

	Corporation	Personal	Total
1997–99 Revenue Impact:	\$2,300,000	Not Applicable	\$2,300,000
1999–01 Revenue Impact:	\$2,300,000	Not Applicable	\$2,300,000

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

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

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

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

1.085 COMPLETED CONTRACT RULES

Internal Revenue Code Section: 460

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

Federal Law Sunset Date: None

Year Enacted in Federal Law: 1986

	Corporation	Personal	Total
1997–99 Revenue Impact:	\$900,000	\$100,000	\$1,000,000
1999–01 Revenue Impact:	\$900,000	\$100,000	\$1,000,000

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

PURPOSE: The original purpose was that long-term contracts involved so many uncertainties that profit or loss could not be determined until the contract was complete.

WHO BENEFITS: Construction and manufacturing companies.

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

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

1.086 CASUALTY AND THEFT LOSSES

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

	Corporation	Personal	Total
1997–99 Revenue Impact:	Not Applicable	\$1,300,000	\$1,300,000
1999–01 Revenue Impact:	Not Applicable	\$1,300,000	\$1,300,000

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

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

WHO BENEFITS: Approximately 3,000 taxpayers claimed \$36 million in casualty and theft losses that were not covered by insurance in 1996. The average deduction was \$12,100. Usage of this deduction in 1995 and 1996 was significantly higher than in 1994 due to the floods.

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

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

1.087 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
1997–99 Revenue Impact:	\$5,100,000	\$138,700,000	\$143,800,000
1999–01 Revenue Impact:	\$5,600,000	\$150,100,000	\$155,700,000

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

PURPOSE: To encourage donations to designated charitable organizations.

WHO BENEFITS: In 1996, nearly 425,000 Oregonians took a deduction for charitable contributions worth a total of nearly \$944 million, of which \$741 million went to charitable organizations not classified as education or health. The average total contribution was \$2,200.

EVALUATION: Not Evaluated

1.088 JOBS PLUS PARTICIPANTS

Oregon Statute: 316.680(1)(f)

Sunset Date: None

Year Enacted: 1995

	Corporation	Personal	Total
1997–99 Revenue Impact:	Not Applicable	Less than \$50,000	Less than \$50,000
1999–01 Revenue Impact:	Not Applicable	Less than \$50,000	Less than \$50,000

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

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

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

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

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

1.089 MEDICAL SAVINGS ACCOUNTS (OREGON)

Oregon Statute: 316.743

Sunset Date: None

Year Enacted: 1997

	Corporation	Personal	Total
1997–99 Revenue Impact:	Not Applicable	Less than \$50,000	Less than \$50,000
1999–01 Revenue Impact:	Not Applicable	Less than \$50,000	Less than \$50,000

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

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

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

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

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

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

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

1.090 PHYSICIANS IN “MEDICALLY DISADVANTAGED” AREAS

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

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

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

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

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

EVALUATION: Not Evaluated

1.091 ADDITIONAL DEDUCTION FOR ELDERLY OR BLIND

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

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

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

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

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

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

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

1.092 ADDITIONAL MEDICAL DEDUCTION FOR ELDERLY

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

Sunset Date: None

Year Enacted: 1991

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

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

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

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

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

1.093 SOCIAL SECURITY BENEFITS (OREGON)

Oregon Statute: 316.054

Sunset Date: None

Year Enacted: 1985

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

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

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

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

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

1.094 DONATIONS OF ART BY THE ARTIST

Oregon Statute: 316.838

Sunset Date: None

Year Enacted: 1979

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

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

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

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

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

1.095 CAPITAL GAINS FROM OREGON REINVESTMENT

Oregon Statute: 316.874

Sunset Date: 12-31-99

Year Enacted: 1995

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

* Revenue impact takes into account the sunset.

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

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

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

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

The revenue impact reported for 1999–01 takes into account the sunset scheduled for 12-31-99. The revenue impact for 1999–01 would be \$1,200,000 if the sunset were extended.

PURPOSE: To promote investment in Oregon companies and to prevent the movement of capital out of Oregon to avoid Oregon income tax on capital gains.

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

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

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

1.096 LOCAL PRIVATE ACTIVITY BOND INTEREST

Oregon Statute: 316.056

Sunset Date: None

Year Enacted: 1987

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

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

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

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

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

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

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

1.097 SERVICE IN VIETNAM ON MISSING STATUS

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

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

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

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

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

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

1.098 OIL HEAT TANK CLEANUP COSTS

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

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

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

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

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

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

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

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

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

1.099 UNDERGROUND STORAGE TANK CLEANUP GRANTS

Oregon Statutes: 316.834 and 317.383

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

Year Enacted: 1991

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

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

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

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

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

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

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

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

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

1.100 CASH PAYMENTS FOR ENERGY CONSERVATION

Oregon Statutes: 316.744 and 317.386

Sunset Date: None

Year Enacted: 1981

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

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

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

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

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

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

1.101 WET MARINE AND TRANSPORTATION POLICIES

Oregon Statute: 317.080(6)

Sunset Date: None

Year Enacted: 1995

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

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

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

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

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

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

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

EVALUATION: Not Evaluated

1.102 INCOME EARNED IN “INDIAN COUNTRY”

Title 4, U.S. Code Section 109

Oregon Statute: 316.777

Sunset Date: None

Year Enacted: 1977

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

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

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

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

EVALUATION: Not Evaluated

1.103 FEDERAL PENSION INCOME

Oregon Statute: Oregon Supreme Court decision (*Vogl v. Dept. of Revenue*)

Sunset Date: None

Year Enacted: 1998

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

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

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

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

PURPOSE: To comply with court ruling.

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

EVALUATION: Not Evaluated.

1.104 OREGON STATE LOTTERY PRIZES

Oregon Statute: 461.560

Sunset Date: None

Year Enacted: 1985

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

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

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

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

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

1.105 FEDERAL INCOME TAX DEDUCTION

Oregon Statutes: 316.680 and 316.695

Sunset Date: None

Year Enacted: 1929

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

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

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

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

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

1.106 MILITARY ACTIVE DUTY PAY

Oregon Statutes: 316.680 and 316.789

Sunset Date: None

Year Enacted: 1969

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

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

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

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

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

1.107 INTEREST AND DIVIDENDS ON U.S. OBLIGATIONS

Oregon Statute: 316.680

Sunset Date: None

Year Enacted: 1970

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

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

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

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

EVALUATION: Not Evaluated

1.108 CHILD DEVELOPMENT PROGRAM CONTRIBUTIONS

Oregon Statute: 315.234

Sunset Date: 12-31-01

Year Enacted: 1991

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

DESCRIPTION: A credit against corporation or personal income taxes is allowed for contributions made to school district child development or student-parent programs approved by the state Department of Education. Child development programs consist of both an education and day care component; student-parent programs provide day care and education to the children of students while providing education for the student-parents. There are limits of 20 child development programs and 20 student-parent programs for the state. The credit equals 50 percent of the contribution, but may not exceed \$5,000 for each program location. The taxpayer must reduce the amount of any deduction taken for charitable contributions by the amount of any credit received. The credit is non-refundable.

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

WHO BENEFITS: Taxpayers who make contributions to child development or student-parent programs as well as the school districts. There are 19 approved programs that serve children ages zero to five, the majority of whom are from low income families.

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

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

1.109 YOUTH APPRENTICESHIP SPONSORSHIP

Oregon Statute: 315.254

Sunset Date: This program changed structure in 1993 from a credit to direct wage reimbursement

Year Enacted: 1991

	Corporation	Personal	Total
1997–99 Revenue Impact:	\$0	\$0	\$0
1999–01 Revenue Impact:	\$0	\$0	\$0

DESCRIPTION: Originally, a business tax credit against corporation and personal income tax was allowed for employers who sponsored students 16 years of age or older participating in the Youth Apprenticeship program. The amount of the credit was equal to the wages paid to the student up to \$2,500 for any one tax year. In 1993, the program changed from a tax credit to a partial wage reimbursement structure. Consequently, businesses no longer use this credit.

PURPOSE: To provide occupational skill training for students.

WHO BENEFITS: This credit is not currently utilized.

EVALUATION: This tax expenditure has not achieved its purpose because the program has never been well-utilized. While it was moderately successful for some eligible students, the “registered youth apprenticeships” were never developed in significant numbers. Consequently, the number of students and employers who could participate in this program was severely limited. A significant obstacle to success was the inability to guarantee movement from youth apprenticeships to adult apprenticeships. This program was eliminated after the 1993–95 biennium. If it had been continued as a tax credit it may well have had a noticeable impact. [*Evaluated by the Department of Education.*]

1.110 CONTRIBUTIONS OF COMPUTER EQUIPMENT

Oregon Statute: 317.151

Sunset Date: 1-1-04

Year Enacted: 1985

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

DESCRIPTION: A credit against corporation income taxes is allowed for contributions of computers and scientific equipment or a research donation to an institution of higher education or a post-secondary school located in Oregon. Beginning in 1998, recipients may include pre-kindergarten through high schools. The amount of the credit is equal to 10 percent of the fair market value of the equipment donated. Donations of money under a contract for scientific or engineering research or donations of a contract for maintenance of computer or scientific equipment also qualify for the credit. The credit is not refundable but unused credit amounts due to insufficient tax liability may be used in later years, for up to five years. This credit is in lieu of any deduction based on the contribution. If a contract is agreed upon prior to January 1, 2004, but the donation is given after that date, the credit is still allowed.

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

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

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

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

1.111 EARNED INCOME CREDIT

Oregon Statute: 315.266

Sunset Date: None

Year Enacted: 1997

	Corporation	Personal	Total
1997-99 Revenue Impact:	Not Applicable	\$15,200,000	\$15,200,000
1999-01 Revenue Impact:	Not Applicable	\$17,100,000	\$17,100,000

DESCRIPTION: A personal income tax credit is allowed families that are eligible for the federal earned income credit. The state credit is equal to five percent of the federal earned income credit and is nonrefundable. No carryover is allowed for amounts that exceed tax liability. The federal earned income credit phases out for taxpayers earning over about \$30,000. The Oregon credit became effective tax year 1997.

PURPOSE: To increase after-tax incomes of lower income working families and individuals, particularly those with children. Also to provide an incentive to work for those with little or no earned income.

WHO BENEFITS: Families currently or formerly at risk of receiving public assistance with income above the level where taxation begins would benefit from the earned income credit. In 1997, about 179,000 taxpayers claimed the credit. Because many of the families claiming the credit do not have sufficient tax liability to use the full amount of the credit, on average only 55 percent of the credit was taken in 1997.

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

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

1.112 BONE MARROW TRANSPLANT EXPENSE

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

	Corporation	Personal	Total
1997–99 Revenue Impact:	Less Than \$50,000	Less Than \$50,000	Less Than \$50,000
1999–01 Revenue Impact:	Less Than \$50,000	Less Than \$50,000	Less Than \$50,000

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

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

PURPOSE: To promote donations of bone marrow.

WHO BENEFITS: Employers who incur expenses related to the development and operation of an employee bone marrow donation program. Patients in need of bone marrow transplants are also intended beneficiaries of this policy through increased availability of transplant tissue.

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

1.113 RURAL MEDICAL PRACTICE

Oregon Statute: 316.143

Sunset Date: 12-31-01

Year Enacted: 1989

	Corporation	Personal	Total
1997-99 Revenue Impact:	Not Applicable	\$9,400,000	\$9,400,000
1999-01 Revenue Impact:	Not Applicable	\$9,900,000	\$9,900,000

DESCRIPTION: An annual credit for \$5,000 against personal income taxes is allowed for up to ten years to certain rural medical providers. Eligible providers include physicians, physician assistants, nurse practitioners, certified registered nurse anesthetists, podiatrists, dentists and optometrists. The requirements for eligibility vary by type of provider. At least 60% of the provider's practice, in terms of time, must be spent in the rural area to qualify for the credit. "Rural" means any area ten or more miles from a population center of 30,000 or more. Currently, there are five such population centers: the Portland area, Salem, Eugene-Springfield, Medford, or Corvallis-Albany. Annual certification by the Office of Rural Health is necessary to claim the credit.

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

WHO BENEFITS: For the 1997 tax year, 666 physicians, 199 nurse practitioners, 60 physician assistants, 48 nurse anesthetists, 47 dentists, eight podiatrists, and five optometrists qualified for the credit, for a total of 1,033 practitioners. The average rural medical tax credit recipient practices in a town with a population of 2,130. These practitioners serve approximately 486,000 Oregonians. The people in the rural communities are the ultimate beneficiaries of this program.

EVALUATION: This tax expenditure achieves its purpose by directly meeting the economic needs of the practitioners for whom it was intended. A retention survey by the Office of Rural Health in 1994 indicated that four of the top five concerns of rural practitioners were economic issues, e.g., lower income than their urban counterparts and rising office overhead. The key question in determining the success of this tax credit is whether new practitioners have been attracted to Oregon's rural communities. In fact, Oregon shows a net gain of 370 practitioners in rural areas since 1990. It has been most successful in attracting nurse practitioners, their number growing from 61 in 1990 to 199 in 1997. Physicians are not far behind, with a net increase of 159 doctors since 1990, or almost 30 percent. The program has attracted 25 additional physician assistants and netted six new certified registered nurse anesthetists. Since 1995, nine new dentists and one additional podiatrist are taking advantage of this benefit.

Retention of rural physicians was an additional factor in passing this legislation. Despite the retirement or death of more than 25 percent of the original 416 participating physicians, 258 are still practicing in their rural communities. Recent licensure data from the Oregon Board of Medical Examiners (BME) confirm the success of this program.

Trends first observed in 1996 have been borne out by the 1998 data. Policymakers were alarmed by the 22.2 percent loss of physicians in small (<15,000 population) eastern Oregon counties between 1986 and 1988. Not only have those physicians been replaced, but 1998 figures show a 45.3 percent gain in physician numbers in these counties since 1990.

This tax expenditure is a fiscally effective method of achieving its purpose because it operates with minimal administrative burden. 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 currently covered by charging each applicant a \$25 processing fee. A direct payment alternative might be both cumbersome and more costly because the benefit is currently limited to the first \$5,000 of taxpayer liability but cannot exceed that liability. Consequently, many recipients may not receive the full \$5,000 credit. The Office of Rural Health is currently surveying its tax credit recipients to determine the exact proportion who claim the full credit, as well as other evaluative measures.

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 is associated with the creation of 17.8 local jobs. For Oregon, the 159 additional doctors since 1990 translates into approximately \$54.6 million returned to local economies and over 2,830 jobs created. [*Evaluated by the Office of Rural Health.*]

1.114 COSTS IN LIEU OF NURSING HOME CARE

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

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

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

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

WHO BENEFITS: There were only two claimants in 1995.

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

1.115 DISABLED CHILD

Oregon Statute: 316.099

Sunset Date: None

Year Enacted: 1985

	Corporation	Personal	Total
1997-99 Revenue Impact:	Not Applicable	\$2,000,000	\$2,000,000
1999-01 Revenue Impact:	Not Applicable	\$2,300,000	\$2,300,000

DESCRIPTION: Every taxpayer in Oregon receives one personal exemption credit for himself or herself, one for a spouse, and one for each dependent. An additional personal exemption credit is allowed for each dependent child who is disabled. "Disabled child" is defined as a child up to age 18 who is eligible for early intervention services, or who is diagnosed for special education purposes as being autistic, mentally retarded, multi-disabled, visually impaired, hearing impaired, deaf-blind, orthopedically impaired, other health impaired, or as having serious emotional disturbance or traumatic brain injury. The State Board of Education is charged with adopting rules further defining disabled child.

The amount of the personal exemption credit (and hence the disabled child credit) is indexed each year to changes in the Portland Consumer Price Index, and equaled \$128 in 1997 and \$132 in 1998. The credit is non-refundable.

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

WHO BENEFITS In 1997, about 8,600 Oregon taxpayers claimed disabled child credits, with an average credit of \$126. Because the credit is non-refundable, taxpayers may only use the credit for amounts up to their tax liability. The average credit of \$126, which is below the 1997 allowed credit of \$128, indicates that some taxpayers did not benefit from the full credit amount.

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

1.116 ELDERLY OR PERMANENTLY DISABLED

Oregon Statute: 316.087

Sunset Date: None

Year Enacted: 1969

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

DESCRIPTION: A credit against personal income taxes of up to 40 percent of the federal elderly or permanently disabled credit is allowed to the taxpayer. Taxpayers claiming a retirement income credit, however, are ineligible to claim the elderly or permanently disabled credit. The federal credit is available to individuals who are 65 or older, or who have retired on disability and are permanently and totally disabled. The federal credit equals 15 percent of : \$5,000 in the case of a single individual or on a joint return where only one spouse is qualified, \$7,500 on joint returns where both spouses are qualified, or \$3,750 for married persons filing separately. For taxpayers under 65, the base cannot exceed the taxpayer's disability income. For all taxpayers, the base amount is reduced by one-half of the excess of income over \$7,500 for single filers, \$10,000 for joint filers, or \$5,000 for separate filers. The base amount is also reduced by any federally nontaxed social security benefits or veteran's benefits. The credit is non-refundable.

PURPOSE: To provide additional tax relief for lower income seniors and disabled persons with little tax-exempt retirement or disability income.

WHO BENEFITS: The number of Oregon taxpayers claiming this credit in 1990 was about 2,700, with an average credit of \$75. In 1997, the number of claimants was approximately 1,500 while the average credit was \$105.

EVALUATION: This tax expenditure achieves its purpose and, coupled with other tax benefits, allows for greater disposable income to meet the often more costly needs of the eligible individuals. This credit provides the targeted individuals with the additional financial capacity that may allow them to maintain their independence and not rely on direct state services. On the other hand, there is a concern that either the credit is too restrictive or that the complexity of determining eligibility is preventing some individuals from claiming the credit. [*Evaluated by the Senior and Disabled Services Division.*]

1.117 LOSS OF LIMBS

Oregon Statute: 316.079
Sunset Date: None
Year Enacted: 1973

	Corporation	Personal	Total
1997–99 Revenue Impact:	Not Applicable	Less than \$50,000	Less than \$50,000
1999–01 Revenue Impact:	Not Applicable	Less than \$50,000	Less than \$50,000

DESCRIPTION: A personal income tax credit of \$50 is allowed for taxpayers with permanent and complete loss of function of at least two limbs (up to \$100 on a joint return). The credit is non-refundable. All taxpayers eligible for this credit are also eligible for Severe Disability (1.118).

PURPOSE: To provide additional tax relief to taxpayers disabled by the loss of the use of two limbs.

WHO BENEFITS: Taxpayers who have suffered the loss of the use of at least two limbs. In 1996, approximately 300 taxpayers claimed this credit.

EVALUATION: This tax expenditure achieves its purpose. As with other, similar tax breaks, this credit is well-targeted and helps meet the often more costly needs of the eligible individuals. It provides additional financial assistance that carries with it the potential for individuals to maintain their self-reliance and not turn to state-funded direct service programs. While a tax credit is clearly beneficial, there is a concern that those who qualify for this credit may not earn sufficient income to fully utilize it. *[Evaluated by the Senior and Disabled Services Division.]*

1.118 SEVERE DISABILITY

Oregon Statute: 316.758
Sunset Date: None
Year Enacted: 1985

	Corporation	Personal	Total
1997–99 Revenue Impact:	Not Applicable	\$3,500,000	\$3,500,000
1999–01 Revenue Impact:	Not Applicable	\$4,200,000	\$4,200,000

DESCRIPTION: Every taxpayer in Oregon receives 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 equaled \$128 in 1997 and \$132 in 1998.

Severe disability is defined as either: a) the loss of use of one or more lower extremities; b) the loss of use of both hands; or c) as having a physical or mental condition that limits the abilities of the person to earn a living, maintain a household or provide personal transportation without employing special orthopedic or medical equipment or outside help. The credit is non-refundable.

PURPOSE: To provide additional tax relief to severely disabled taxpayers and their spouses.

WHO BENEFITS: Both the number of taxpayers claiming this credit and the average amount claimed increased steadily from 1990 to 1997. In 1990, there were approximately 7,800 claimants with an average credit of \$75. In 1997 nearly 16,000 taxpayers claimed an average credit of \$125. Because the credit is non-refundable, taxpayers may only use the credit for amounts up to their tax liability. The average credit of \$125, which is below the 1997 allowed credit of \$128, indicates that some taxpayers did not benefit from the full credit amount.

EVALUATION: This tax expenditure appears to achieve its purpose. It puts additional money in the hands of the eligible individuals. While a tax credit is clearly beneficial, there is a concern that those who qualify for this credit may not earn sufficient income to fully utilize it. Creating an income cap may provide an equitable way for the benefits to be enhanced to very low income people. [*Evaluated by the Senior and Disabled Services Division.*]

1.119 OREGON CAPITAL CORPORATION INVESTMENTS

Oregon Statute: 315.504
Sunset Date: None
Year Enacted: 1987

	Corporation	Personal	Total
1997-99 Revenue Impact:	\$0	\$0	\$0
1999-01 Revenue Impact:	\$0	\$0	\$0

DESCRIPTION: A credit against corporation or personal income taxes is allowed for cash investment in the capitalization of the Oregon Capital Corporation. The credit is 20 percent of the amount of cash investment. To qualify for the credit, the Oregon Capital Corporation must have been certified by the Division of Finance and Securities. Since the qualifications were never met, this expenditure has no effect.

PURPOSE: To encourage investment in the Oregon Capital Corporation, which was in turn, intended to provide funding for capital investments in Oregon businesses (ORS 284.755) in order to promote economic growth in Oregon.

WHO BENEFITS: The Oregon Capital Corporation never came into existence. The qualifications were never met. In particular, the Corporation had to have at least \$40 million in funds by January 1, 1989, which was not achieved.

EVALUATION: Not Evaluated

1.120 QUALIFIED RESEARCH ACTIVITIES

Oregon Statute: 317.152

Sunset Date: 12-31-01

Year Enacted: 1989

	Corporation	Personal	Total
1997–99 Revenue Impact:	\$16,800,000	Not Applicable	\$16,800,000
1999–01 Revenue Impact:	\$17,800,000	Not Applicable	\$17,800,000

DESCRIPTION: A credit against corporation income taxes is allowed equal to five percent of the amount that qualified research activities in Oregon exceed a base amount. The base amount and the determination of the excess parallel the calculations in a similar federal research credit (IRC §41) with the following restrictions: a) only qualified research expenses and basic research payments in Oregon are considered, and b) qualified expenses and payments are limited to the fields of advanced computing, advanced materials, biotechnology, electronic device technology, and environmental technology.

The base amount is calculated so that the credit rewards increases in qualified research activities. The base amount is either the percent that qualified research activities were of gross receipts in the 1984–88 period, or for companies that weren't conducting research for at least three of those years, the base amount equals three percent of the average of gross receipts over the last four years. Qualified research activities include "research expenses" either in-house or by contract, and "basic research payments" to colleges, universities and certain other nonprofit organizations.

The credit is limited to \$500,000 and is non-refundable. Beginning in 1993, credits that cannot be used because of insufficient tax liability in the current year can be used in later years, for up to five years.

Taxpayers have the option of claiming this credit or the credit under ORS 317.154, (1.121 Qualified Research Activities (Alternative)).

PURPOSE: To promote and increase research activities in Oregon in the fields of advanced computing, advanced materials, biotechnology, electronic device technology, and environmental technology.

WHO BENEFITS: Beneficiaries include the companies taking the credit and indirectly, their suppliers, customers, and employees. The revenue impact reported here also includes any credits under ORS 317.154. In 1996 there were about 80 taxpayers claiming a total of \$8 million in credit.

EVALUATION: This expenditure appears to achieve its purpose. Based on the revenue impacts above, the qualified research activities would amount to roughly \$130 million per year over the base amount. Some of this spending is likely attributable to this provision. The following benefits can be identified as follows:

- Research and development (R&D) tax benefits might convince companies to relocate to Oregon.
- Encourages existing companies to put more efforts into research and development. Product introduction cycles for products such as personal computers and high definition television and telecommunication products are getting shorter and shorter. They demand R&D commitments.

- Encourages small companies to explore new niche technology opportunities, and enhances their ability to attract joint R&D capital.
- Encourages companies to utilize existing state research institutes to assist with R&D activities.

This last point is an issue in Oregon. Recent data indicate that corporate R&D dollars to state research institutes are very small compared to other states. This could be an indication that state research facilities are not well equipped to assist or are not responsive to industry needs, or that corporations fail to engage Oregon's research facilities for some other reason.

This expenditure is more efficient than a direct spending program because it allows individual companies to determine if R&D activities are efficient under the current tax structure. The expenditure does favor one group of industries over another, but these do appear to be the industries most likely to use the credit. [*Evaluated by the Economic Development Department.*]

1.121 QUALIFIED RESEARCH ACTIVITIES (ALTERNATIVE)

Oregon Statute: 317.154

Sunset Date: 12-31-01

Year Enacted: 1989

	Corporation	Personal	Total
1997-99 Revenue Impact:	Included in 1.120	Not Applicable	Included in 1.120
1999-01 Revenue Impact:	Included in 1.120	Not Applicable	Included in 1.120

DESCRIPTION: A credit against corporation income taxes is allowed for qualified research expenses in Oregon that exceed ten percent of Oregon sales. The credit is limited to five percent of the amount that qualified expenses exceed ten percent of Oregon sales. The expenses that qualify for the credit are the same as those that qualify under ORS 317.152, except that basic research payments are not included.

The credit is limited to the lesser of: a) \$500,000, or b) \$10,000 times the number of percentage points that the qualified research expenses exceed ten percent of Oregon sales. The credit is non-refundable. Beginning in 1995, credits that cannot be used because of insufficient tax liability in the current year can be used in later years, for up to five years.

Taxpayers have the option of claiming this credit or the credit under ORS 317.152 (1.120 Qualified Research Activities). Some companies may not qualify for the credit under ORS 317.152 because they do not have the necessary increase in research activities. This alternative still allows them to qualify for the credit if they conduct a large proportion of their research activities in Oregon relative to the proportion of their sales in Oregon.

PURPOSE: To promote research activities in Oregon in the fields of advanced computing, advanced materials, biotechnology, electronic device technology, and environmental technology. Also, to continue a research credit in Oregon even if the federal credit is allowed to sunset.

WHO BENEFITS: The revenue impact of the credit is included in Qualified Research Activities (1.120). It is not known whether anyone uses this alternative credit.

EVALUATION: See evaluation under Qualified Research Activities (1.120). [*Evaluated by the Economic Development Department.*]

1.122 INVESTMENT IN RURAL ENTERPRISE ZONE (INCOME TAX)

Oregon Statute: Note following ORS 285B.689 (OR Laws 1997, Ch. 835, Sec. 40)

Sunset Date: 12-31-02

Year Enacted: 1997

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

DESCRIPTION: Corporations who make certain large investments in a non-urban enterprise zone are eligible for a credit on the corporate income tax, if approved by the Governor. The investment must be approved for the related tax expenditure for property tax (2.010 Investment in Rural Enterprise Zone (Property Tax)). To be eligible for the property tax exemption, the investment must be located in a county with chronic unemployment, the investment must exceed \$50 million, the firm must hire at least 100 full-time employees within five years, and the average wage must be at least 50 percent above the county average.

The corporate income tax credit is equal to 62.5 percent of the taxpayer's payroll and employee benefit costs at the facility. The credit applies only to liabilities above \$1 million, and is allowed for 15 years. The credits can be carried forward up to 5 years after the 15-year period expires. The taxpayer is exempt from corporate income taxes relating to the facility until the tax year after the facility is placed in service. Thirty percent of any taxes paid by the taxpayer receiving the credit is distributed to the local city or county sponsor.

The revenue estimate is very uncertain at this point. First, it is not clear whether any company will choose to use this expenditure in the near future. Second, the time period required to implement this type of large investment is long enough that any revenue impact would probably not apply until the 2001–03 biennium.

PURPOSE: To encourage investment in non-urban areas of chronic unemployment.

WHO BENEFITS: This provision is intended to benefit non-urban enterprise zones and their surrounding residents in counties with chronic unemployment. In addition to the residents receiving benefits, other beneficiaries include the participating companies, their suppliers, customers, and employees.

EVALUATION: At this time, no company has used this provision. However, at least two companies are working on business development plans that involve the use of this provision. It is possible, and perhaps likely that if Oregon did not have this provision, one or both of these projects would be relocated to another state or other less distressed location within Oregon that better matches the company's siting preferences. Therefore, this provision appears to be having the intended effect on investment in Oregon.

Some issues to consider with this credit include the possibility that it may encourage competition among states. It may also be perceived as creating an inequity in the tax system or of shifting the tax burden from one group of taxpayers to another. *[Evaluated by the Economic Development Department.]*

1.123 CHILD AND DEPENDENT CARE

Oregon Statute: 316.078
Sunset Date: None
Year Enacted: 1975

	Corporation	Personal	Total
1997–99 Revenue Impact:	Not Applicable	\$11,900,000	\$11,900,000
1999–01 Revenue Impact:	Not Applicable	\$11,900,000	\$11,900,000

DESCRIPTION: A personal income tax credit is allowed to certain taxpayers for employment-related dependent care expenses. This credit parallels a similar federal credit in the calculation of the base amount of eligible employment-related expenses. The Oregon credit amount (which is a percentage of these eligible expenses) differs, however, from the amount allowed under the federal credit.

Eligible employment-related expenses are those necessary for the taxpayer to be gainfully employed and include expenses for household services and for the care of dependents. Qualifying individuals are either children under 13, other dependents who are physically or mentally incapable of caring for themselves, or the taxpayer’s spouse if incapable of caring for oneself. The eligible expenses are limited in a given year to \$2,400 when there is only one qualifying individual in the household, and to \$4,800 when there are two or more qualifying individuals. In both cases this limit is reduced by any non-taxable payments received from an employer under a dependent care assistance program. Eligible expenses are limited to the individual’s earned income (for unmarried individuals), or to the lower of either spouse’s earned income (for married individuals).

The credit equals a percentage of eligible employment-related dependent care expenses. The percentage amount declines from 30 percent for taxpayers with income less than \$5,000 to zero percent for taxpayers with income above \$45,000. The credit is non-refundable but unused credit amounts due to insufficient tax liability may be used in later years, for up to five years.

PURPOSE: To provide tax relief to working taxpayers who must incur dependent care expenses to stay in the work force.

WHO BENEFITS: The number of Oregon resident taxpayers who benefit from this credit has declined from about 66,000 in 1990 to 59,000 taxpayers in 1996. The average benefit has increased slightly each year, from \$126 in 1990 to \$142 in 1996. In 1997, however, the number of claimants fell to about 57,000 and the average benefit fell to \$104. This is a result of the two new credits that started in 1997, the Earned Income Credit (1.111) and the Working Family Child Care (1.124). With the reduced tax liability as a result of these new credits, some taxpayers were unable to use the full amount of their Child and Dependent Care credit.

EVALUATION: This tax expenditure achieves its purpose and meets a need when other forms of non-taxable care are not available through the employer. It contributes to the taxpayer’s ability to remain gainfully employed and, to an extent, competitive with other mem-

bers of the workforce. It promotes productivity and a high quality workforce by lessening the burden associated with obtaining dependent care. It also provides an economic boost for families with children and dependents. [*Evaluated by the Employment Department.*]

1.124 WORKING FAMILY CHILD CARE

Oregon Statute: 315.262

Sunset Date: None

Year Enacted: 1997

	Corporation	Personal	Total
1997-99 Revenue Impact:	Not Applicable	\$6,900,000	\$6,900,000
1999-01 Revenue Impact:	Not Applicable	\$7,000,000	\$7,000,000

DESCRIPTION: A personal income tax credit is allowed for child care expenses for low income families who have at least \$6,000 of earned income for the year. The credit is calculated as a declining percentage of qualified child care expenses, and is nonrefundable. Taxpayers under 150 percent of federal poverty level are allowed 40 percent of expenses, the maximum credit. The credit phases out for taxpayers over 200 percent of federal poverty level. No carryover is allowed for amounts that exceed tax liability. The credit became effective for tax year 1997.

PURPOSE: To provide tax relief to low income working taxpayers who must incur dependent care expenses to stay in the work force.

WHO BENEFITS: The average credit claimed by roughly 17,000 taxpayers in 1997 was \$558. This credit has exceeded the estimated amount that would be claimed by taxpayers. The revenue impact was predicted to be \$14 million for the biennium but the first year taxpayers claimed over \$9 million for this credit. However, many of the families do not have sufficient tax liability to benefit from the full amount of the credit. On average, only 36 percent of the credit could be used. The average benefit in 1997 was just over \$200 per taxpayer.

EVALUATION: This credit has been very successful in its first year in assisting low income families with their child care expenses. Low-income working parents who pay for child care receive financial assistance to ensure that they can join and stay in the workforce. Employers who hire these working parents may benefit from a more dependable workforce. Parents who are in training or in school receive assistance to pay for child care while they get training to enhance their skills and help them up the wage continuum. The credit could be more successful if it were refundable. [*Evaluated by Employment Department.*]

1.125 DEPENDENT CARE ASSISTANCE

Oregon Statute: 315.204
Sunset Date: 12-31-01
Year Enacted: 1987

	Corporation	Personal	Total
1997-99 Revenue Impact:	\$3,300,000	Not Available	\$3,300,000
1999-01 Revenue Impact:	\$3,500,000	Not Available	\$3,500,000

DESCRIPTION: Employers providing dependent care assistance or dependent care information and referral services to their employees are allowed a credit to either personal or corporation income tax. The credit equals 50 percent of the costs the employer paid for dependent care (but no more than \$2,500 per employee) and 50 percent of the cost of providing information and referral services. The employer may not take the credit if the provision of dependent care services is part of salary reduction plan. Credits unclaimed due to insufficient tax liability may be used in later years, for up to five years. Note that the revenue impact figures include the impact of the dependent care facilities credit listed in Dependent Care Facilities (1.126).

PURPOSE: To encourage employers to provide dependent care services and referrals to their employees.

WHO BENEFITS: In 1990, there were 14 corporations that claimed either the Dependent Care Assistance (1.125) or the Dependent Care Facilities (1.126) credits; by 1996 that number had increased to 24. The average credit increased from \$9,000 to \$67,000 over the same time period.

EVALUATION: This tax expenditure achieves its purpose and is an incentive to involve employers in addressing the issue of dependent care-which includes children, the elderly, and those with special needs. Employers have potential gains from relieving employees' anxiety associated with ensuring that dependents receive proper daycare. This tax expenditure promotes an environment where dependent care is not strictly an employee's "problem" but a necessary component of maintaining a high-quality, productive workforce. It also provides a vehicle for employers to attract quality employees on a competitive basis with other states. *[Evaluated by the Employment Department.]*

1.126 DEPENDENT CARE FACILITIES

Oregon Statute: 315.208
Sunset Date: 12-31-01
Year Enacted: 1987

	Corporation	Personal	Total
1997-99 Revenue Impact:			Included in 1.125
1999-01 Revenue Impact:			Included in 1.125

DESCRIPTION: Employers providing dependent care facilities for their employees are allowed a credit to either personal or corporation income tax. The credit equals the lessor of: 1) 50 percent of the facility cost, or 2) an amount equal to \$2,500 times the number of full-time equivalent employees. The facility must be certified by the Child Care Division of the Employment Department.

One-tenth of the credit is claimed in each of ten consecutive years beginning with the year the facility is completed. The credit is discontinued before the ten-year period is completed if facility use is discontinued. Credits unclaimed due to insufficient tax liability may be used in later years, for up to five years.

PURPOSE: To encourage employers to provide daycare facilities near the place of employment.

WHO BENEFITS: In 1990, there were 14 corporations that claimed either the Dependent Care Assistance (1.125) or the Dependent Care Facilities (1.126) credits; by 1996 that number had increased to 24. The average credit increased from \$9,000 to \$67,000 over the same time period.

EVALUATION: This tax expenditure achieves its purpose and is an expansion of Dependent Care Assistance (1.125). It is another method of involving employers in the issue of daycare by encouraging them to provide a child care facility for their employees. The quality of the facility must be maintained at a level to be certified by the Child Care Division. In addition to the benefits cited in Dependent Care Assistance (1.125), there are distinct advantages to having daycare facilities near the place of employment. For example, parents are able to visit their children during breaks which helps relieve the anxiety associated with placing them in daycare. *[Evaluated by the Employment Department.]*

1.127 FIRST BREAK PROGRAM

Oregon Statute: 315.259

Sunset Date: 12-31-00

Year Enacted: 1995

	Corporation	Personal	Total
1997–99 Revenue Impact:	Not Available	Not Available	Less than \$50,000
1999–01 Revenue Impact:	Not Available	Not Available	Less than \$50,000 *

* Revenue impact takes into account the sunset.

DESCRIPTION: A credit against corporation or personal income taxes is allowed for wages paid to a “qualified youth” hired by the taxpayer. A qualified youth is an individual who is 14 to 17 years old and has been identified to participate in the First Break Program by a community-based organization because the individual is “gang-involved” or “gang-affected,” or who is at risk of becoming gang-involved or gang-affected according to rules adopted by the Employment Department. The credit amount is equal to 50 percent of the wages paid to the qualifying youth or \$1,000, whichever is less. An employer can claim an additional credit of 50 percent of wages paid or \$1,000, whichever is less, if the employee is employed continuously for at least 18 months and the employer incurred at least \$400 in expenses providing training to the employee. Statute limits the total number of certificates issued to 1,500. The first year credits can be claimed is calendar year 1998.

PURPOSE: To encourage the provision of employment and training opportunities for youths who are involved in gangs or affected by gang activity.

WHO BENEFITS: Employers who provide employment and training to youth who are involved in gangs or affected by gang activity. As of October 1998, zero certificates had been issued and only three community-based organizations were recruiting employers for the program.

EVALUATION: It is too soon to determine if this expenditure achieves its purpose; it is for tax years beginning on or after January 1, 1998. According to HB 2256 (1995) Section 4, the Employment Department will analyze the program's effectiveness in discouraging gang involvement by youth and in promoting job-skill and educational development of youth. The reports shall also include an analysis of the tax and revenue implications of the program. The Department shall present the reports to those committees of the 1999 and 2001 Legislative Assemblies to which revenue matters are assigned. *[Evaluated by the Employment Department.]*

1.128 FARM WORKER HOUSING CONSTRUCTION

Oregon Statute: 315.164

Sunset Date: 12-31-01

Year Enacted: 1989

	Corporation	Personal	Total
1997-99 Revenue Impact:	\$1,800,000	\$200,000	\$2,000,000
1999-01 Revenue Impact:	\$1,800,000	\$200,000	\$2,000,000

DESCRIPTION: A credit against corporation or personal income taxes is allowed for constructing or rehabilitating housing for farm workers. For projects begun on or after January 1, 1990 and completed before January 1, 1996, the credit equals 50 percent of the eligible costs (construction, finance, excavation and permit costs, but not land costs) actually paid or incurred by the taxpayer. The credit is taken in five equal installments for five consecutive years beginning when the project is completed. A number of changes apply for projects completed January 1, 1996 and after: 1) the taxpayer must obtain a letter of credit approval from the Department of Consumer and Business Services; 2) the credit is reduced to 30 percent of eligible costs; and 3) the total of all eligible costs approved each year cannot exceed \$3.3 million.

The taxpayer need not be the owner or operator of the housing at the time it is used. The credit is also available to individuals or businesses who build or rehabilitate the housing and then sell it before it becomes operational. The housing must be located in Oregon.

The housing must meet certain qualifications for the taxpayer to be eligible for the credit. Rehabilitation projects must restore housing to a condition where it meets building code requirements. In the case where the taxpayer will not own the property while it is occupied, the project must comply with all safety and health laws. In the case where the taxpayer is the operator of the housing, the housing must be inspected by the Department of Consumer and Business Services prior to occupancy. The housing must also be registered, if required, as a camp with the Bureau of Labor and Industries, and must be operated by someone farm worker endorsed as a farm worker camp operator. The credit is forfeited if the taxpayer is the owner and the housing fails to continue to meet health and safety standards during its occupation.

The credit is non-refundable. 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.

PURPOSE: To promote construction and rehabilitation of safe and healthful housing for farm workers. There is currently a shortage of such housing.

WHO BENEFITS: Taxpayers who construct or rehabilitate housing for farm workers, which may include growers, investors, builders, developers and others. In 1996 there were 14 corporation

income tax claimants for a total credit of \$1,300,000. The amount of credits claimed has grown steadily since 1990, when three taxpayers claimed only \$3,000 of credits.

Since 1992 the credit has been used to provide safe, affordable housing for more than 1500 farm workers and family members, who are the indirect beneficiaries of the credit. Other indirect benefits are the creation of partnerships between corporate entities sponsoring the housing and the agriculture industry, and the credits can be counted as leverage in the use of HUD Home Investment Partnership Funds when combined in the development financing.

EVALUATION: This expenditure achieves its purpose. It has been only in recent years that progress has been made in developing adequate housing for Oregon's farm worker population. This progress is due in large part to the availability of the farm worker tax credits. If the tax expenditure were eliminated, financing of offsite farm worker housing would be impeded and a primary incentive to improve or construct onsite housing would be eliminated. Major supporters of better farm worker housing include migrant health clinics, who see the effects of unsanitary conditions.

There is a direct tie between the provision of farm worker housing and the health of Oregon's agricultural industry. This industry must compete on a regional, national and even international basis for its labor force. It can be argued that to remain competitive in this market, Oregon must continue its efforts to improve the supply of decent and affordable housing for its farm labor force. Because agriculture is Oregon's largest industry, with gross sales totaling \$3 billion annually, and because crops dependent on the labor of farm workers account for over one-third of this amount, the impact on Oregon's economy is significant. There are an estimated 150,000 farm workers and family members in Oregon, either migrant or year-round workers. Adequate on-farm housing is sufficient to house less than 10 percent of the farm workers and families in the state. Most of the remaining 90 percent of the population live in rural communities throughout the state, with two-thirds of their housing being unsafe, unsanitary and overcrowded. (Oregon Farm Labor Housing Survey, Oregon Housing Agency, 1991). In a survey of its farm worker patients, Salud Medical Clinic in Woodburn found that ten percent have no housing at all, living in orchards, cars or along river banks.

There are several direct spending programs, both at the state level and at the national level, which are used to develop affordable housing. This tax credit integrates well with these programs, since a chief factor in the award of funds under the other programs is the ability to match those funds. The availability of the farm worker tax credit allows Oregon to compete particularly well for federal dollars. Of significance are the rural development 514 and 516 programs designated for farm worker housing. Before the advent of the farm worker tax credit, Oregon's usage of US Department of Agriculture labor housing fund was almost nonexistent.

However, the 1995 legislative change that imposed a cap on the amount of credits caused demand to be greater than the supply of credits. The first come, first served statutory change needs to be eliminated in favor of an evaluation assigning credits to the most effective projects ready to proceed. *[Evaluated by the Housing and Community Services Department.]*

1.129 FARM WORKER HOUSING LENDER'S CREDIT

Oregon Statute: 317.147

Sunset Date: 12-31-01

Year Enacted: 1989

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

DESCRIPTION: A credit against corporation income taxes is allowed for commercial lending institutions financing construction or rehabilitation of farm worker housing projects. The credit equals 50 percent of the interest received on loans made to finance only the direct costs associated with constructing or rehabilitating farm worker housing. The lender must receive certification from the borrower that upon completion the project will comply with all health and safety standards. The housing must be located in Oregon and the interest rate on the loan cannot be above 13_ percent. The credit may be claimed over the term of the loan or for ten years, whichever is less.

The credit is non-refundable. Credits that cannot be used because of insufficient tax liability in the current year are lost. They cannot be carried forward to later years.

PURPOSE: To promote construction and rehabilitation of safe and healthful housing for farm workers. There is currently a shortage of such housing.

WHO BENEFITS: Lending institutions that make loans for farm worker housing projects. To the extent that the credit program results in loans made at less-than-market interest rates, the borrower captures some of the benefit. The amount of credits claimed varies widely from year to year. In 1994, three taxpayers claimed \$6,000 in credits, while \$259,000 in credits was claimed by eight taxpayers in 1995. In 1996 the amount of credit fell to \$51,000 claimed by six taxpayers.

The farm workers and their families who are provided with safe, affordable housing are the indirect beneficiaries of the credit

EVALUATION: This expenditure achieves its purpose. Lenders historically did not make loans for farm worker housing. The credit has provided an incentive to get lenders to make these loans, at the same time furthering a partnership between these taxpayers and the agricultural industry. The tax credit is typically passed along to the borrower in the form of a lower interest rate, thereby making possible a project which would otherwise not be cost effective.

Prior to the passage of the credits, even if lenders were willing to make such loans, conventional interest rates were generally too high to make such housing cost-effective. If the tax expenditure were eliminated, there would likely be a reduction in farm worker housing units built each year.

While more lenders are making loans for farm worker housing, these have been primarily larger lenders who can invest the time and money to investigate this relatively new program. Smaller lenders are potential recipients who may need to be educated about the benefits of the credit.

There are several direct spending programs, both at the state level and at the national level, which are used to develop affordable housing. This tax credit integrates well with these programs, since none of these direct spending programs alone provide

enough spending programs to be leveraged with a conventional loan subsidized by the lender's tax credit allows these direct 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" and are occupations like "aquiculture" 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 accessed and the housing, whether using LIHTC and HOME funds or Rural Development Funds would not be built anyway. *[Evaluated by the Housing and Community Services Department.]*

1.130 INVOLUNTARY MOBILE HOME MOVES

Oregon Statute: 316.153
Sunset Date: 12-31-01
Year Enacted: 1991

	Corporation	Personal	Total
1997-99 Revenue Impact:	Not Applicable	Not Available	Not Available
1999-01 Revenue Impact:	Not Applicable	Not Available	Not Available

DESCRIPTION: A credit against personal income tax is allowed for certain owners of mobile homes who are forced to move due to the closure of their mobile home park. To qualify for the credit, the taxpayer must have a federal adjusted gross income under \$30,000 in the year of the move, and the mobile home must have a fair market value of less than \$50,000.

The credit equals the lesser of \$1,500 or the actual relocation costs net of any reimbursement paid by the landlord. The credit is taken in three equal amounts for the three consecutive tax years beginning with the year of the move. (That is, the maximum credit is \$500 per year for three years.) A taxpayer may claim the credit for only one involuntary move. The credit is non-refundable. Any credit that cannot be claimed because of insufficient tax liability may be carried forward up to five years.

PURPOSE: To provide tax relief to mobile home residents who are forced to relocate because of the closure of their mobile home park. These moves sometimes cost up to \$5,000.

WHO BENEFITS: Mobile home owners who must involuntarily move their mobile homes.

EVALUATION: It is not clear whether this tax expenditure is effective. In theory, this program reduces the tax burden on mobile home residents who are being required to relocate and will incur significant costs. Other taxpayers who relocate in conjunction with a new job or business can deduct qualified moving expenses (1.067 Moving Expenses). Although the circumstances are different for mobile home residents who are forced to move, this credit provides a similar tax break. *[Evaluated by the Housing and Community Services Department.]*

1.131 LOW INCOME HOUSING LENDER'S CREDIT

Oregon Statute: 317.097

Sunset Date: 1-1-00

Year Enacted: 1989

	Corporation	Personal	Total
1997-99 Revenue Impact:	\$4,200,000	Not Applicable	\$4,200,000
1999-01 Revenue Impact:	\$4,800,000	Not Applicable	\$4,800,000 *

* Revenue impact takes into account the sunset.

DESCRIPTION: This provision, also referred to as the Oregon Affordable Housing Credit, allows a credit against corporation income taxes for lending institutions that make loans at below-market interest rates for the construction, development, or rehabilitation of low-income housing. The amount of the credit is the difference between the finance charge on the loan and the finance charge that would have been charged had a similar loan been made at market interest rates. The credit cannot exceed four 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. The total amount of outstanding loans that may be certified by the Housing and Community Services Department must not exceed \$100 million. This cap was increased by the 1997 Legislature, and is effective for tax year 1998.

The revenue impact reported for 1999-01 takes into account the sunset scheduled for 1-1-00. The revenue impact for 1999-01 would be \$4,900,000 if the sunset were extended.

PURPOSE: To promote the construction and rehabilitation of low-income housing.

WHO BENEFITS: In 1996, 15 corporation income taxpayers claimed approximately \$1.5 million in credits, and 14 taxpayers claimed \$2.0 million in credits in 1997. The amount of credits claimed has grown steadily since 1990 when two taxpayers claimed only \$34,000 of credits. The program requires all savings in interest to be directly credited as rent reductions. To the extent that the low interest rate reduces the rent paid by low income households, the households also benefit. An indirect benefit is the community good will derived from lender participation in the program and the interest savings can be counted as match when utilizing HUD HOME Investment Partnership funds.

EVALUATION: This expenditure achieves its purpose. Without the credit program, rents would be 15-25 percent higher, which would decrease the number of units available for low and very low income persons. Without this incentive, these low income housing projects would not be financially feasible.

The credit is used with many other direct spending programs such as grants. The credit is applied to the permanent financing after all direct spending programs have been incorporated into the overall project financing. By using the credit in this manner, the maximum benefit is passed on to the tenants for a

“bottom line” benefit. A direct spending program would likely be more costly.
[Evaluated by the Housing and Community Services Department.]

1.132 CROP GLEANING

Oregon Statute: 315.156
Sunset Date: None
Year Enacted: 1977

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

DESCRIPTION: Taxpayers may take a credit against personal or corporation income taxes for crop donations to gleaning cooperatives. The credit equals 10 percent of the wholesale market price of the crop. Credits that cannot be used because of insufficient tax can be used in later years, for up to three years.

PURPOSE: To encourage donations of food crops to gleaning cooperatives so that the crops do not go to waste.

WHO BENEFITS: Farmers who donate crops to gleaning cooperatives. The benefit goes primarily to smaller, non-corporate farms. The gleaning cooperatives also benefit by receiving produce that would otherwise go unharvested.

EVALUATION: This expenditure achieves its purpose. It provides an effective incentive for farmers to donate crops to gleaning cooperatives. Without the incentive a few donations would still occur, but not at the same level as with the incentive. Increasing the credit would likely encourage more donations. [Evaluated by the Department of Agriculture.]

1.133 ALTERNATIVES TO FIELD BURNING

Oregon Statute: 468.150
Sunset Date: 12-31-01
Year Enacted: 1975

	Corporation	Personal	Total
1997–99 Revenue Impact:			Included in 1.135
1999–01 Revenue Impact:			Included in 1.135

DESCRIPTION: This provision was added to the Pollution Control Facilities Credit in 1975. It allows a credit against corporation or personal income taxes for up to fifty percent of acquisition or construction costs for equipment and facilities as alternatives to grass seed and cereal grain straw open field burning. The credit is taken in equal amounts over the life of the facility. The credit is allowed only for the fraction of use as an alternative to field burning and the applicant must demonstrate a reduction in acreage burned. The revenue impact of this provision is included in that for the Pollution Control credit (1.135).

PURPOSE: To encourage reduction in the practice of open field burning while developing and utilizing alternative methods of field sanitation and alternative methods of using and marketing grass seed and cereal grain straw.

WHO BENEFITS: This provision reduces the substantial costs for growers investing in equipment, facilities, and land for gathering, densifying, processing, handling, storing, transporting, and incorporating grass straw or straw-based products which result in reduction of open field burning; propane flammers or mobile field sanitizers that reduce air quality impacts; and drainage tile installations which result in a reduction of grass seed acreage under production.

EVALUATION: This expenditure appears to achieve its purpose. The key question is whether the credit caused a decrease in open field burning, propane flaming, and stack burning, or whether the reduction was simply compliance with the statutory phasedown enacted in 1991. During the phasedown period of 1991–95, growers open field burned just 55 percent of the allowable acreage, compared to 80 percent prior to 1991. This suggests the incentive provided by the expenditure resulted in less open field burning.

Some in the industry have argued, however, that credit programs are not the most effective way of stimulating investment in alternatives to field burning because many farms have little or no tax liability for the credit to offset. Some have stated that no-interest or low-interest loans would stimulate more of the target group to invest in alternatives.

Even though the industry is facing a crucial period in the phasedown schedule, continued reductions in field burning, increased acreage in production, high yields, and the results of recent research all indicate that the alternatives to field burning are satisfactory. The key to maintaining the phasedown limitation of 40,000 acres is the continued development of the infrastructure to process straw to the potential markets of pulp and paper and structural boards. *[Evaluated by the Department of Agriculture.]*

1.134 POLLUTION PREVENTION

Oregon Statute: 315.311

Sunset Date: 12-31-99

Year Enacted: 1995

	Corporation	Personal	Total
1997–99 Revenue Impact:	Not Available	Not Available	\$900,000
1999–01 Revenue Impact:	Not Available	Not Available	\$600,000 *

* Revenue impact takes into account the sunset.

DESCRIPTION: This provision, referred to in statute as the Emission-Reducing Production Technology Credit, allows a tax credit against corporation or personal income taxes for investments in technologies and processes that prevent emissions of perchloroethylene, chromium, and halogenated solvents. The credit amount is equal to 10 percent of the costs of the technologies or processes as certified by the Environmental Quality Commission. The credit is not refundable, and unused credit amounts can be carried forward for three years. No reduction in depreciable basis is required.

The revenue impact reported for 1999–01 takes into account the sunset scheduled for 12-31-99. The revenue impact for 1999–01 would be \$1,000,000 if the sunset were extended.

PURPOSE: “The Legislative Assembly find that it is desirable to determine whether a tax credit program that encourages businesses to utilize technologies and processes that prevent the creation of pollutants should be offered.” (Chapter 746, Oregon Laws 1995, Section 29)

WHO BENEFITS: Taxpayers investing in technologies or processes that prevent emissions of the specified pollutants. Much of the benefit goes to the dry-cleaning industry, which is a large user of perchloroethylene. For discussion of additional tax expenditures related to the dry-cleaning industry, see Chapter 13.

EVALUATION: This expenditure is effective in achieving its purpose. It could be improved by expanding the awareness of the program, thereby reaching the potential credit recipients who are not taking advantage of the credit. It could also be improved by expanding the list of eligible technologies or processes that prevent the creation of pollutants. The maximum amount available for tax relief through the pilot is \$2,600,000. As of June 30, 1998, 21 Oregon businesses had received certification for pollution prevention tax credits totaling \$460,000. [*Evaluated by the Department of Environmental Quality.*]

1.135 POLLUTION CONTROL

Oregon Statute: 315.304

Sunset Date: 12-31-03

Year Enacted: 1967

	Corporation	Personal	Total
1997–99 Revenue Impact:	\$18,100,000	\$1,500,000	\$19,600,000
1999–01 Revenue Impact:	\$17,000,000	\$1,400,000	\$18,400,000

DESCRIPTION: Allows a credit against corporation or personal income taxes equal to 50 percent of the cost of pollution control facilities. The taxpayer must have the investment certified by the Department of Environmental Quality. The application must be made within two years of completion of the facility. Both the facilities themselves and the allowable costs are certified by the Environmental Quality Commission. Facilities are certified for the credit under one of the following categorizations:

- Air or water pollution control,
- Noise pollution control,
- Solid waste, hazardous waste, or used oil control.

To qualify, the principal purpose of the facility must be to meet government pollution control standards, or the sole purpose must be to prevent, control or reduce a significant quantity of pollution. Facilities can include structures, land, machinery, or reconstruction and improvements to land or existing structures. Certain items are specifically excluded by statute, including asbestos abatement, septic tanks and human waste facilities, office buildings, parking lots, landscaping and automobiles.

The credit is available to either the owner or lessee of the facility, but not to both. The amount of credit is one half of the certified cost of the facility multiplied by the

certified percentage allocable to pollution control, divided by the number of years of the facility's useful life (where the maximum useful life for calculating the credit is ten years).

The credit is non-refundable. Any credit unclaimed in a particular year because of insufficient tax liability may be used in later years, for up to three years.

Nonprofit corporations and cooperatives qualify for a 20-year property tax exemption on the facility in lieu of the income tax credit. (See 2.048 Pollution Control Facilities).

PURPOSE: “. . . to assist in the prevention, control and reduction of air, water and noise pollution and solid waste, hazardous wastes and used oil in this state by providing tax relief with respect to Oregon facilities constructed to accomplish such prevention, control and reduction.” (ORS 468.160)

WHO BENEFITS: Businesses that invest in pollution control equipment and facilities. Most of the benefit goes to large corporations in manufacturing industries, including wood processing, steel and other metals processing, electronics, and food processing. Tax return data suggest that many corporations that qualify for the credit cannot fully use it because they have little or no tax liability to offset. In 1995, 149 corporations claimed the credit averaging about \$79,000 per taxpayer.

EVALUATION: The expenditure has been partially successful in achieving its purpose as an incentive to promote the installation of some pollution control equipment that otherwise would not have been installed. Twenty-five percent of all tax credits approved since 1995 were for this type of facility.

The expenditure also provided a reward to many taxpayers for activities that they are required to do anyway. Seventy-five percent of approved tax credits were for principal purpose facilities.

Another benefit of this program is to improve the relationship between business entities and regulatory entities. This benefit could be accomplished by enhanced compliance with regulatory requirements and the agency counseling small businesses in the benefits of pollution control. While this part of the program is very valuable, it is difficult to determine if that goal is being achieved.

Since the program's inception, over 3500 facilities have received pollution control tax credit certificates totaling about \$500 million. [*Evaluated by the Department of Environmental Quality.*]

1.136 RECLAIMED PLASTICS

Oregon Statute: 315.324

Sunset Date: 12-31-01

Year Enacted: 1985

	Corporation	Personal	Total
1997-99 Revenue Impact:	\$150,000	\$50,000	\$200,000
1999-01 Revenue Impact:	\$250,000	\$50,000	\$300,000

DESCRIPTION: Allows a credit against corporation or personal income taxes equal to 50 percent of an investment in personal property or equipment that is either: a) used to manufacture products from reclaimed plastics, or b) necessary to collect, transport, or process reclaimed plastic. The taxpayer must apply to the Environmental Quality Commission and have the investment certified to qualify for the credit. The process involves obtaining both a preliminary certification before making the investment (though the Environmental Quality Commission may waive this requirement), and a final certification upon project completion. The Environmental Quality Commission may grant preliminary certification to no more than \$1.5 million in total investments each year.

The credit is available to either the owner of the business or to a lessee who conducts the business, but not to both. If claimed by more than one taxpayer, the aggregate certified investment costs as allocated may not exceed the total certified cost of the investment. The credit is equal to 10 percent of the cost of the investment in each of the five years beginning with the year the investment is certified. Thus the total credit equals 50 percent of the cost of the investment. The credit is non-refundable. Any credit unclaimed in a particular year because of insufficient tax liability may be used in later years, for up to five years.

PURPOSE: “. . . to assist in the prevention, control and reduction of solid waste in this state.”
ORS 468.456

The tax credit is designed to promote investments in plastic recycling by reducing the cost of making those investments.

WHO BENEFITS: The direct recipients of the reclaimed plastic tax credit are businesses that collect or process recyclable plastic, manufacture a product from reclaimed plastic, or own and lease equipment to plastic recyclers. The benefits from this tax credit also flow through to other persons and companies in the plastic recycling chain. These benefits include reduced charges for recycling service or reduced cost of reclaimed plastic feedstock and products. In addition, the public benefits from the recovery of waste plastic.

EVALUATION: This expenditure is achieving its purpose. The level of waste plastic collection and processing is greater because of the tax credit. It has a major influence on the development of new recycling facilities, and it has influenced advances in plastic recycling that would not have taken place without the incentive provided by the tax credit.

The credit could be improved by promoting the program better to the plastics industry, emphasizing benefits to reclaimed plastic product manufacturers. *[Evaluated by the Department of Environmental Quality.]*

1.137 SEWER CONNECTION

Oregon Statute: 316.095
Sunset Date: 7-1-95
Year Enacted: 1987

	Corporation	Personal	Total
1997-99 Revenue Impact:	Not Applicable	\$6,000,000	\$6,000,000
1999-01 Revenue Impact:	Not Applicable	\$3,000,000	\$3,000,000

DESCRIPTION: Allows a credit against personal income tax to certain homeowners who connect their homes to a sewer system. The credit equals \$160 per year for five consecutive years. The credit is non-refundable. Any credit that cannot be claimed because of insufficient tax liability may be used in later years, for up to eight years. Because this credit sunset in 1995, all current credit claims are for sewer connections that were made prior to 1995.

To qualify for the credit, the connection must be made after January 1, 1985 and must be required by either: a) an order or rule issued or adopted by the Environmental Quality Commission (EQC) before July 1, 1989; b) an intergovernmental agreement between the EQC and a local government entered into before July 1, 1989; or c) a health hazard annexation ordered by the Assistant Director for Health after January 1, 1988 and before July 1, 1995. Because a number of approved projects have not yet been completed, connections qualifying for the credit are expected to continue into the 1997-99 biennium. But because the bulk of connections have already been made, the total number of credits claimed in a particular year will decline as homeowners' five-year credit periods are completed. Because no new projects can be approved after July 1, 1995, connections qualifying for the credit will eventually cease and total credits will fall to zero.

PURPOSE: To compensate homeowners for the costs of connecting to sewer systems when connection is required by the Environmental Quality Commission. The Environment Quality Commission requires connections to protect the health of the public.

WHO BENEFITS: Homeowners who connect their homes to a sewer system under order or rule of the Environmental Quality Commission. Most of these connections have been in east Multnomah County.

EVALUATION: Not Evaluated

1.138 FISH GLEANING (SEAFOOD) CREDIT

Oregon Statute: 315.148
Sunset Date: 12-31-93
Year Enacted: 1985

	Corporation	Personal	Total
1997-99 Revenue Impact:	\$0	\$0	\$0
1999-01 Revenue Impact:	\$0	\$0	\$0

DESCRIPTION: Provides a credit against personal or corporation income taxes to commercial fishermen and to fish processors for contributions of certain fish to gleaning cooperatives or recipient members of Oregon Food Share. Credit equals five percent of fair market value to the fisherman, and five percent of fair market to the fish processor.

Credits that cannot be used because of insufficient tax liability can be used in later years, for up to five years. The credit was allowed to sunset in 1993, so the tax expenditure shown above represents only prior-year credits carried forward. The year 1998 is the final year these carryforwards can be used.

PURPOSE: To encourage contribution of weigh-backs (food fish taken by commercial fishermen that are not marketable) to the Oregon Food Share and to gleaning cooperatives so that the fish are not wasted.

WHO BENEFITS: Fishermen and fish processors who donate weigh-backs to the Oregon Food Share or to gleaning cooperatives. The credit was little, if ever used.

EVALUATION: The legislature chose to allow the credit to sunset in 1993 after nobody expressed interest in using it. [*Evaluated by the Department of Fish and Wildlife.*]

1.139 FISH HABITAT IMPROVEMENT

Oregon Statute: 315.134

Sunset Date: 1-1-98

Year Enacted: 1981

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

DESCRIPTION: Provides a credit against personal or corporation income taxes to taxpayers who undertake projects that improve fish habitat. The credit equals 25 percent of the cost of the fish habitat improvement project. Projects required under existing state or federal law are ineligible. The project must be certified by the State Department of Fish and Wildlife both before and after completion. Credit is taken when project is certified as completed. Credits that cannot be claimed because of insufficient tax liability can be used in later years, for up to five years.

A maximum of \$100,000 in projects are eligible for preliminary certification each year. According to the Department of Fish and Wildlife, projects are infrequent and total less than \$5,000 in a typical year.

The credit was allowed to sunset as of January 1, 1998, so the tax expenditure shown above represents only prior-year credits carried forward. The year 2002 is the final year these carryforwards can be used.

PURPOSE: “To maintain, preserve, conserve and rehabilitate riparian lands to assure the protection of the soil, water, fish and wildlife resources of the state for the economic and social well-being of the state and its citizens.” [SB 397, 1981 Session]

WHO BENEFITS: Taxpayers who invest in fish habitat improvement projects. Relatively few projects have been undertaken, primarily by wood products companies and individual landowners. The general public also benefits, particularly individuals connected with recreational or commercial fishing, if the projects result in improved fish habitat and increased fish populations.

EVALUATION: Although the credit had been used infrequently, it appears to be effective in promoting projects that improve fish habitat. The previous annual limit (\$100,000) on certifiable costs was reached in applications for calendar year 1996. However, after the legislature failed to remove the sunset clause, applications for calendar year 1997 had an aggregate cost of only \$65,000. The number of applications declined from 12 in 1996 to seven in 1997, with six of the seven 1997 applications coming from entities that had not previously applied.

Since this expenditure has sunset, the Oregon Department of Fish and Wildlife has submitted a legislative concept to extend the sunset clause, and increase the limit on certifiable costs.

There are several possible reasons why the credit was not used extensively in the past. First, the whole salmon restoration process was not moving forward with the momentum it now has. Second, many landowners were probably not aware of the credit. Third, some landowners may have undertaken habitat improvement projects in association with nonprofit organizations, and treated expenditures and donations as charitable contributions. We think this may have happened with companies that participated in restoration projects since 1994 under the North Coast Salmonid Project (Oregon Wildlife Heritage Foundation). Unfortunately, there are no data to describe the relative importance of these explanations. The Oregon Department of Fish and Wildlife still believes that interest in using the credit will increase if our legislative concept is enacted, and if the governor's Oregon Plan (for salmon restoration) continues to receive the kind of priority it presently appears to have. *[Evaluated by the Department of Fish and Wildlife.]*

1.140 FISH SCREENING DEVICES

Oregon Statute: 315.138
Sunset Date: None
Year Enacted: 1989

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

DESCRIPTION: Allows a credit against personal and corporation income tax for installing a fish screening device, by-pass device, or fishway when required to do so by law (except where the device is part of a federally regulated hydroelectric project). These projects are primarily on agricultural land to keep fish from entering irrigation canals. Devices which are financed by the Water Development Fund are ineligible for the credit. The credit for each device installed equals the lesser of half of the taxpayer's net certified installation costs, or \$5,000.

The device must be certified by the State Department of Fish and Wildlife to be eligible for the credit. There is a preliminary certification prior to installation, and a final certification upon final completion. The credit is claimed in the year of final certification. The credit is non-refundable. Credits unclaimed because of insufficient tax liability can be used in later years, for up to five years.

PURPOSE: Fish screening devices and by-passes prevent fish from entering irrigation diversions and allow fish to swim around dams and other obstructions. In many cases the Oregon Department of Fish and Wildlife may require these devices to be installed. The credit

recognizes that taxpayers in general benefit from the installation of fish screening devices and by-pass devices.

WHO BENEFITS: Taxpayers who install fish screening devices. The general public also benefits, particularly individuals connected with recreational or commercial fishing, if the projects result in improved fish habitat and increased fish populations. In the 1995–97 biennium the Department of Fish and Wildlife certified 141 screens with potential tax credit of \$47,785. (There were an additional 33 screens installed using "watershed health" funding that were not eligible for this credit.) For the first half of the 1997–99 biennium, some 60 screens have been certified. The tax credits associated with these screens amount to \$27,084 in aggregate.

EVALUATION: This expenditure appears to be effective in achieving its purpose. The use of the credit has been increasing because the amount of fish screening is increasing as the law requiring the installation of screens on irrigation diversions gains acceptance among irrigators. It seems unlikely the current level of screening activity would be going on without the legislation that created the program in its latest form. A direct spending program might be able to achieve similar results, but likely at higher costs. [*Evaluated by the Department of Fish and Wildlife.*]

1.141 ALTERNATIVE ENERGY DEVICES (RESIDENTIAL)

Oregon Statute: 316.116

Sunset Date: 12-31-01

Year Enacted: 1977

	Corporation	Personal	Total
1997–99 Revenue Impact:	Not Applicable	\$1,500,000	\$1,500,000
1999–01 Revenue Impact:	Not Applicable	\$6,000,000	\$6,000,000

DESCRIPTION: A credit against personal income taxes is allowed to taxpayers who install certain alternative energy devices. Prior to January 1, 1996, the devices could be either solar, wind, hydro, or geothermal devices, or groundwater heat pumps. Starting January 1, 1996 the credit is limited to solar devices, groundwater heat pumps, and ground loop systems. The devices may be used for: i) space heating or cooling, ii) electric energy generation, iii) domestic water heating, or iv) swimming pool, spa, or hot tub heating. In 1997 the legislature added energy efficient appliances to the list of qualifying devices. In all cases the device must be used in a principal or second residence. Devices for space heating must meet at least 15 percent of the building space heating load. Electric energy generating devices must supply at least 50 percent of the building electrical load. Starting January 1, 1998, premium-efficient appliances, premium-efficient duct systems, and alternative fuel vehicles and fueling stations became eligible for the credit.

Effective January 1, 1998, the credit for solar and geothermal systems equals 60 cents multiplied by the first-year energy savings in kilowatt-hours, up to a maximum of \$1,500 per dwelling served. For swimming pool, spa, or hot tub heating, the credit equals 15 cents multiplied by the first-year energy savings in kilowatt-hours, up to 50 percent of the device cost but not more than \$1,500 in total.

In 1998 the credit for premium-efficient appliances equals 48 cents multiplied by the first-year energy savings in kilowatt-hours, not to exceed \$1,200 or 25 percent of

the cost of the appliance. In 1999 and after, the appliance credit is reduced to 40 cents per kilowatt-hour saved, not to exceed \$1,000 or 25 percent of the appliance cost.

For alternative fuel devices, the maximum credit is 25 percent of the cost not to exceed \$750.

Except for alternative fuel vehicles, the taxpayer must be the owner or the contract buyer of the dwelling where the device is installed. The taxpayer must pay for all or part of the qualifying device. Renters may claim the credit only for a qualifying solar device, geothermal device or alternative-fuel fueling/charging system. A builder who owns a home built for speculative sale may claim a tax credit for an alternative-fuel fueling/charging system. The taxpayer must have the device certified by the Office of Energy or, for solar water heating, geothermal, or duct systems, a contractor certified by the Office of Energy may provide the certification. The credit is non-refundable. Any credit unclaimed in a particular year because of insufficient tax liability may be used in later years, for up to five years.

PURPOSE: This credit was established during the energy crisis of the 1970s. The credit is designed to promote the use of renewable energy resources by lowering their effective cost for residential use. A related purpose is to promote the renewable resource industry so that advances in technology can be brought to market.

WHO BENEFITS: Until 1998, nearly all of the devices installed by homeowners had been passive solar collectors used for space and water heating. In 1998, more than 10,000 credits are expected to be approved for premium-efficient appliances.

EVALUATION: This credit has been successful in achieving both of its purposes. Since 1978, more than 21,000 renewable energy systems have been installed in Oregon—primarily as a result of the tax credit. Energy cost savings to Oregon households from the program have exceeded one million dollars per year. Eighteen solar and twenty geothermal contractors have been certified by the Office of Energy which administers the program. Starting in 1998, with the addition of energy efficient appliances added to the list of qualifying devices, the use of the credit is expected to increase dramatically.

One indicator of the credit's effectiveness is past experience. For example, when a federal tax credit expired and the state credit phased down to \$500, the number of solar heating systems installed in Oregon plummeted. Influence in the marketplace is another indicator. Appliance dealers report substantial increases in energy-efficient appliance sales tied to the tax credit.

The credit is based on the efficiency of the system rather than system cost. This feature encourages the development of more efficient systems. The only alternatives to the credit are incentives offered by a few utilities. Ending the credit would discourage investment in renewable resources and could seriously harm Oregon's solar and geothermal industry. [*Evaluated by the Office of Energy.*]

1.142 BUSINESS ENERGY FACILITIES

Oregon Statute: 315.354

Sunset Date: 12-31-01

Year Enacted: 1979

	Corporation	Personal	Total
1997–99 Revenue Impact:	\$15,500,000	\$2,500,000	\$18,000,000
1999–01 Revenue Impact:	\$5,400,000	\$1,000,000	\$6,400,000

DESCRIPTION: Allows a credit against corporation or personal income taxes for investments made by businesses either: a) to produce energy from renewable resources, b) to conserve energy, c) for recycling projects if the recycling projects are not otherwise required, d) to convert a fleet vehicle to run on alternative fuel, or d) for transportation demand reduction projects such as telecommuting and transit pass programs. Renewable resource facilities must produce energy or reduce energy consumption by using solar, wind, hydro, geothermal, industrial waste, or biomass sources. Energy conservation measures must reduce energy consumption by 10 percent or more, and may be used for space heating, lighting, or industrial process. Recycling measures do not need to save energy.

The credit equals a total of 35 percent of the certified cost of the facility, and is taken over a five-year period. The credit is 10 percent of certified cost for each of the first two years after final certification, and then five percent of certified cost for each of the next three years. The credit is non-refundable. Any credit unclaimed in a particular year because of insufficient tax liability may be used in later years, for up to three years.

The program was crafted to ensure the credit stimulates investments in energy efficiency projects rather than rewarding businesses for what they would have done without the credit. Eligible projects must have paybacks of more than one year. They are awarded only to projects or portions that significantly exceed standard practice. Projects that are required by state or federal law are not eligible. Because the credit is taken over five years, credit claims would continue for up at least five years if the credit were allowed to sunset.

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)

The ultimate goal of the tax credit program, along with other energy efficiency programs, is to protect Oregon’s environment by lessening the need for new power plants and reducing the use of fossil fuels. An important additional benefit is the reduction in energy costs for Oregon households and businesses.

WHO BENEFITS: Businesses investing in measures that produce energy, reduce the consumption of energy, or recycle. A variety of businesses, including manufacturers, food processors, lumber companies, farmers and ranchers, service industries, retailers, and rental housing owners participate in the program. At least three quarters of the projects have been undertaken by small businesses. In 1995 this credit was claimed by 223 corporation income taxpayers for an average of \$28,000 per taxpayer.

EVALUATION: Three adjustments affect the revenue impact: residual commitments from previous years, lag factor from when the project is approved to when the tax credit is claimed, and a significant attrition rate from approval to actual credits taken. Based on the average of these effects over the last five years, the estimated impact of **new projects** for the 1999–01 biennium is \$1,909,000.

This credit has been very effective in achieving its purpose. To date, more than 5,000 tax credits have been awarded to manufacturers and commercial businesses for their investments in conservation measures, renewable resources, energy-efficient plant modernization, waste heat recovery systems, and recycling projects. Businesses generally require short payback periods for their investments, but the credit has proven successful in making energy investments attractive. At least part of its popularity is due to the process that is streamlined and responsive to customer needs.

By reducing operating costs, the credit boosts the productivity and competitiveness of Oregon businesses. All told, the credit has cut the energy costs of businesses investing in energy projects by more than \$90 million a year. As more and more firms adopt the innovations encouraged by the credit, the productivity gains endure over the long term. [*Evaluated by the Office of Energy.*]

1.143 ENERGY CONSERVATION LENDER’S CREDIT

Oregon Statute: 317.112

Sunset Date: 12-31-01

Year Enacted: 1981

	Corporation	Personal	Total
1997–99 Revenue Impact:	\$100,000	Not Applicable	\$100,000
1999–01 Revenue Impact:	Less than \$50,000	Not Applicable	Less than \$50,000

DESCRIPTION: A credit is allowed against corporation income taxes to commercial lending institutions financing energy conservation measures for wood or oil heated dwellings. The institutions must charge no more than a 6.5 percent interest rate on the loan. The credit equals the difference between the interest that would be earned if the loan was made at the usual rate of interest (or alternatively at an upper limit rate established by the state Office of Energy) and the interest actually earned at the 6.5 percent rate.

The loan amount cannot exceed \$5,000 per dwelling (or \$2,000 per dwelling for nonprofit homes for the elderly) and the term cannot exceed ten years. The loan must be used by the dwelling owner for energy conservation measures, including: weather-stripping, caulking, insulation, storm windows and doors, double glazed windows, and efficient oil furnaces. The owner must get an energy audit before getting the loan. The credit is non-refundable. Any credit unclaimed in a particular year because of insufficient tax liability may be carried forward up to fifteen years.

PURPOSE: 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: Homeowners and owners of rental housing qualifying for energy conservation loans. Lenders may capture some of the benefit if the credit allows them to make profitable loans that they otherwise could not have made. Because the credit goes to lending in-

stitutions, not to homeowners, tax data do not tell us the characteristics of the homeowners who receive the benefits of this provision. Currently six lending institutions are making energy conservation loans, but the bulk of the loans are made by just two of them.

EVALUATION: This credit has been very effective at achieving its purpose. The lender's credit is a key 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. Without this loan, households that heat with oil or wood would have no access to subsidized low-interest financing for energy saving measures. Households that heat with electricity and natural gas have access to subsidized low-interest financing through their utilities. Improving the efficiency of oil and wood heat homes helps achieve the Oregon Benchmarks for affordable housing and better air quality. (A number of Oregon communities have violated federal air quality standards because of wood smoke.)

Since 1982, nearly 4,400 SHOW loans have been made for energy conservation measures. Oregon households save about one million gallons of oil each year and cut household energy bills by more than \$700,000 per year. The loan acts as an incentive rather than a reward. Customer surveys have shown that financing is critical for more costly home energy improvements such as storm windows or furnaces. Administrative costs are kept low because the loan is offered through participating banks. The program also operates more efficiently through a streamlined "loan-by-phone" application process.

The number of credits is expected to decline in the coming years because businesses and homeowners can borrow money at market rates that are similar to the rates they would get under this program at this time, and because the number of homes heated by oil and wood has declined significantly in recent years. [*Evaluated by the Office of Energy.*]

1.144 GEOTHERMAL HEATING SYSTEM CONNECTION

Oregon Statute: 316.086

Sunset Date: 1-1-96

Year Enacted: 1979

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

DESCRIPTION: A credit is allowed against personal income taxes equal to 25 percent of the cost of connecting a principal residence to a geothermal heating system run by a geothermal heating district. The credit may not exceed \$1,000. The credit is non-refundable. Any credit unclaimed in a particular year because of insufficient tax liability may be used in later years, for up to five years. The credit was allowed to sunset on January 1, 1996, so the tax expenditure shown above represents only prior-year credits carried forward. The year 2000 is the final year these carryforwards can be used.

Eligible costs include those associated with acquiring and installing connecting pipes, fixtures, and equipment necessary to allow a dwelling to use the services of a geothermal heating district. The dwelling can be either owner-occupied or operated as a rental.

PURPOSE: To promote the use of geothermal energy as an alternative to non-renewable energy sources. The Alternative Energy Devices credit (1.141) applies to geothermal energy devices, but not to connections to a geothermal district.

WHO BENEFITS: Taxpayers connecting their homes to a geothermal heating system run by a geothermal heating district. The city of Klamath Falls runs the only existing geothermal heating district. There are approximately ten residential properties connected to this system. Some of these properties have more than one dwelling.

EVALUATION: This credit has not been very successful at achieving its purpose. If this type of tax credit were re-instituted, it would likely spur no new connections to the Klamath Falls geothermal heating district. The opportunities for further connections are limited. Further, the costs of developing additional geothermal energy resources make them uneconomic at this time, so a credit for connecting to geothermal sources is likely to be unused. *[Evaluated by the Office of Energy.]*

1.145 REFORESTATION

Oregon Statute: 315.104

Sunset Date: 12-31-01

Year Enacted: 1979

	Corporation	Personal	Total
1997-99 Revenue Impact:	\$600,000	\$100,000	\$700,000
1999-01 Revenue Impact:	\$600,000	\$100,000	\$700,000

DESCRIPTION A credit is allowed against personal or corporation income tax equal to 30 percent of the qualified cost of reforesting under-productive commercial forest land. To qualify, the taxpayer must have the state Department of Forestry preliminarily certify the project after planting is completed. The taxpayer can claim 15 percent of the qualified costs in the year of preliminary certification. After two growing seasons, the Department of Forestry must certify that the plantings are established. The taxpayer may then claim the remaining 15 percent of the initial cost, plus 30 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, and if the project is not established because of reasons within the taxpayer's control, the credit previously claimed on preliminary certification must be returned.

The taxpayer must own at least five acres of commercial Oregon forest land and the taxpayer's portion of project cost must be at least \$500 for the project to qualify for the credit. Qualified costs include costs actually incurred for site preparation, tree planting and other necessary silviculture treatments (such as moisture, erosion and animal damage control). Qualified costs exclude costs associated with reforestation projects required under the Forest Practices Act, any portion of cost paid through federal or state cost sharing programs, and costs for growing Christmas trees, ornamental trees, or shrubs. Generally, costs associated with short rotation hardwoods (such as cottonwoods) are not eligible. Taxpayers owning no more than 2,000 acres of forest land in western Oregon (and no more than 5,000 acres in eastern Oregon) may, however, elect to claim the credit, but they must then pay the timber privilege tax at the time of harvest.

The credit is non-refundable. Any credit unclaimed in a particular year because of insufficient tax liability may be used in later years, for up to three years. This applies to the credits allowed on both preliminary and final certification.

PURPOSE: To increase the public benefits that come from forested lands by promoting reforestation of commercial forest lands that do not currently have commercial trees growing on them, such as brush lands and marginal pasture lands. These lands are typically mixed in with or adjacent to land that currently is being used to grow timber.

WHO BENEFITS: Taxpayers who make expenditures to reforest under-productive commercial forest lands. About half of the beneficiaries are small, non-industrial timber growers, and half are larger industrial (mostly corporate) owners. The bulk of the credit, however, goes to the large industrial timber growers because they reforest much more of this type of forest land than do individual growers.

EVALUATION: This expenditure is achieving its purpose, but slowly. About 3500 acres of brush and understocked forest lands have been converted since the credit was increased to 30 percent in 1987. Forested lands produce far more and far better public benefits (fish and wildlife habitat and carbon sequestration through the tree's use of carbon dioxide to produce wood volume are two notable benefits) than do brushlands. The cost per acre for this conversion to the state averages about \$50/acre with projected tax returns from these lands at over \$400/acre on land that is converted to full stocking over a 50 year period. Considering positive effects to the environment and increase in future tax revenues this has a good return on investment. [*Evaluated by the Forestry Department.*]

1.146 FIRE INSURANCE CREDIT

Oregon Statute: 317.122(1)
Sunset Date: None
Year Enacted: 1969

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

DESCRIPTION Property and casualty insurers who write fire insurance policies pay both the corporation excise tax and the fire insurance tax that provides funding to the Office of State Fire Marshal. These insurers are then allowed a credit against the corporation excise tax for the fire insurance premium taxes paid under ORS 731.820.

Prior to 1/1/97 this expenditure pertained only to domestic insurers. Foreign insurers did not have an equivalent credit for the gross premium tax. With the repeal of the gross premium tax, all insurers are eligible to claim a credit against the corporation excise tax for their fire insurance taxes paid.

PURPOSE: To reduce the burden of taxes on property and casualty insurers who write fire insurance policies in Oregon.

WHO BENEFITS: Property and casualty insurers and their policyholders.

EVALUATION: Fire insurance premium taxes are used to fund the Office of State Fire Marshal (see the summary of insurance taxes at the beginning of Chapter 5). This credit has the effect of shifting part of that funding from the insurance industry to the state General Fund. If the credit were repealed, then the cost of fire insurance to policyholders might increase. *[Evaluated by the Department of Consumer and Business Services.]*

1.147 ASSESSMENTS ON WORKERS' COMPENSATION

Oregon Statute: 317.122(2)

Sunset Date: None

Year Enacted: 1995

	Corporation	Personal	Total
1997-99 Revenue Impact:	\$1,200,000	Not Applicable	\$1,200,000
1999-01 Revenue Impact:	\$1,100,000	Not Applicable	\$1,100,000

DESCRIPTION Workers' compensation insurers pay both the corporation excise tax and an assessment that provides funding to administer the Oregon Workers' compensation system. These insurers are then entitled to a credit against corporation excise taxes for assessments paid on workers' compensation premiums under ORS 656.612.

This expenditure became effective January 1, 1997. Prior to that date, foreign insurers claimed this credit against the gross premium tax as reported in 5.004 Assessments on Workers' Compensation. The revenue impacts reported here account for the phase-out of the gross premium tax.

PURPOSE: To reduce the burden of taxes and assessments on workers' compensation insurers, who already pay an assessment at a rate higher than the corporation excise tax.

WHO BENEFITS: Workers' compensation insurers and employers and employees.

EVALUATION: This expenditure has been effective as a credit against the gross premium tax, and is expected to remain effective under the corporation excise tax. The workers' compensation assessment provides funds used to administer the entire Oregon Workers' Compensation system. This includes occupational safety and health issues handled by OR-OSHA. OR-OSHA has worked very successfully to reduce accident rates to Oregon workers and thereby reduce costs to employers and harm to workers. Funds are also used to regulate the insurance industry to assure fair rates are charged employers and benefits are paid timely and accurately to injured workers. The system also includes mechanisms to assure timely resolution of disputes to guarantee injured workers receive benefits for legitimate injuries in an expedient manner.

Two Oregon Benchmarks are directly impacted by the activities carried out as a result of this credit, 213 and 225. Small business startups per 1,000 population are impacted by maintaining a safe and healthy work environment and by maintaining a reasonably priced workers' compensation system. Oregon's ranking among states in workers' compensation costs has improved from 8th in 1990 to 34th in 1996. Both benchmarks have been positively impacted as a result of this credit.

This credit has the effect of a partial funding of administrative program costs by the General Fund. If the credit were repealed then the cost of the workers' compensation insurance to policyholders might increase. *[Evaluated by the Department of Consumer and Business Services.]*

1.148 ASSESSMENTS PAID TO OREGON IGA: GENERAL

Oregon Statute: 734.575

Sunset Date: None

Year Enacted: 1977

	Corporation	Personal	Total
1997-99 Revenue Impact:	\$700,000	Not Applicable	\$700,000
1999-01 Revenue Impact:	\$300,000	Not Applicable	\$300,000

DESCRIPTION: Property and casualty insurers pay both the corporation excise tax and an assessment to a guaranty association that is used to cover the cost of claims against insurers who have gone out of business. These insurers are then entitled to a credit against the corporation excise taxes for assessments paid to Oregon Insurance Guaranty Association (OIGA) at the rate of 20 percent per year for each of the five years following the year in which the assessment was paid.

Prior to 1/1/97 this expenditure pertained only to domestic insurers, while foreign insurers had an equivalent credit against gross premium tax. With the repeal of the gross premium tax, all insurers are eligible to claim a credit against the corporation excise tax for assessments paid to OIGA. The expenditure relating to gross premium tax is reported in 5.005 Assessments Paid to Oregon IGA: General. The revenue impacts reported here account for the phase-out of the gross premium tax.

PURPOSE: This provision allows the cost of claims against insolvent insurers, initially paid by fellow insurance companies, to be absorbed by the General Fund.

WHO BENEFITS: Property and casualty insurers and their policyholders.

EVALUATION: This expenditure achieves its purpose. This type of credit is common throughout the United States. It allows insurers to recover the costs of the assessment they pay to the guaranty association, which in turn is used to cover the cost of claims against insolvent insurers. Although the credit is not a prerequisite for the existence of the guaranty association, the credit does, in effect, transfer the cost of claims against insolvent insurers from the insurance industry to the state General Fund. By allowing the assessments to be claimed as credits over five years, the cost to the General Fund is spread out over five years. In effect, this gives the General Fund a five-year interest free loan equal to the total assessment levied. Without this credit, General Fund revenue would be subject to more erratic fluctuations as insurer insolvencies call for funds to pay claims. [*Evaluated by the Department of Consumer and Business Services.*]

1.149 ASSESSMENTS PAID TO OREGON LIFE AND HEALTH IGA

Oregon Statute: 734.835

Sunset Date: None

Year Enacted: 1975

	Corporation	Personal	Total
1997–99 Revenue Impact:	\$15,000,000	Not Applicable	\$15,000,000
1999–01 Revenue Impact:	\$11,200,000	Not Applicable	\$11,200,000

DESCRIPTION: Life insurance companies pay both the corporation excise tax and an assessment to a guaranty association that is used to cover the cost of claims against insurers who have gone out of business. These insurers are then entitled to a credit against the corporation excise taxes for assessments paid to Oregon Life and Health Insurance Guaranty Association (OLHIGA) at the rate of 20 percent per year for each of the five years following the year in which the assessment was paid.

Prior to 1/1/97 this expenditure pertained only to domestic insurers, while foreign insurers had an equivalent credit against gross premium tax. With the repeal of the gross premium tax, all insurers are eligible to claim a credit against the corporation excise tax for assessments paid to OLHIGA. The expenditure relating to gross premium tax is reported in 5.006 Assessments Paid to Oregon Life and Health IGA. The revenue impacts reported here account for the phase-out of the gross premium tax.

PURPOSE: This provision allows the cost of claims against insolvent insurers, initially paid by fellow insurance companies, to be absorbed by the General Fund.

WHO BENEFITS: Life insurance companies and their policyholders.

EVALUATION: This expenditure achieves its purpose. This type of credit is common throughout the United States. It allows insurers to recover the costs of the assessment they pay to the guaranty association, which in turn is used to cover the cost of claims against insolvent insurers. Although the credit is not a prerequisite for the existence of the guaranty association, the credit does, in effect, transfer the cost of claims against insolvent insurers from the insurance industry to the state General Fund. By allowing the assessments to be claimed as credits over five years, the cost to the General Fund is spread out over five years. In effect, this gives the General Fund a five-year interest free loan equal to the total assessment levied. Without this credit, General Fund revenue would be subject to more erratic fluctuations as insurer insolvencies call for funds to pay claims. *[Evaluated by the Department of Consumer and Business Services.]*

1.150 POLITICAL CONTRIBUTIONS

Oregon Statute: 316.102

Sunset Date: None

Year Enacted: 1969

	Corporation	Personal	Total
1997–99 Revenue Impact:	Not Applicable	\$8,100,000	\$8,100,000
1999–01 Revenue Impact:	Not Applicable	\$8,300,000	\$8,300,000

DESCRIPTION: A credit may be claimed against personal income taxes for the amount of qualified political contributions, not to exceed \$50 (or \$100 on a joint return). Qualified political contributions include voluntary cash contributions to a major or minor political party, to candidates for office in an election in the state (includes federal candidates), or to political action committees (PACs) operating exclusively for promoting or opposing ballot measures in an election in the state. For certain state office candidates, the credit can only be taken for contributions to those candidates who have voluntarily limited their campaign expenditures to comply with the campaign spending reform passed in the 1994 Ballot Measure 9. The credit is non-refundable. Credits that cannot be used because of insufficient tax liability in the current year cannot be used in later years.

PURPOSE: To increase public participation in the political process.

WHO BENEFITS: Taxpayers who make cash contributions to political candidates or political action committees. The number of full-year resident taxpayers who claim this credit fluctuates from year to year, increasing in even-numbered years and declining in odd-numbered years. In 1996, about 68,000 Oregon full-year residents claimed the credit, down from 76,000 in 1994. The percentage of residents claiming the credit increased from 4.9 percent in 1990 to 5.9 percent in 1994, but then declined to 5.0 percent in 1996. The credit tends to be used more by higher income taxpayers. In 1996, 74 percent of the total value of the credit was claimed by taxpayers with incomes greater than \$40,000.

EVALUATION: It is difficult to determine whether this expenditure has been effective in achieving its purpose. The credit amount is relatively small at \$100 on a joint return. The data provided by the Department of Revenue does indicate an increase in the percentage of Oregon full-year residents claiming the credit growing from 4.9 percent in 1990 to 5.0 percent in 1996. However, the increase in political contributions could also be attributed to the increased number of ballot measures, the increased interest in the content of the ballot measures, such as property tax relief, public employee's retirement, etc., and closely contested political races.

Because the tax credit is allowed only for contributions to candidates who have voluntarily limited their campaign expenditures, candidates have a statutory incentive for submitting to the limits. Tax credit eligibility is the only concrete incentive candidates have to limit their campaign expenditures.

We are unable to determine if a tax expenditure is the most fiscally effective means of increasing public participation in the political process other than to say the tax credit is relatively low compared to the amount of contributions an individual could make. *[Evaluated by the Secretary of State.]*

1.151 PERSONAL EXEMPTION

Oregon Statute: 316.085

Sunset Date: None

Year Enacted: 1985

	Corporation	Personal	Total
1997–99 Revenue Impact:	Not Applicable	\$716,900,000	\$716,900,000
1999–01 Revenue Impact:	Not Applicable	\$775,400,000	\$775,400,000

DESCRIPTION: Every taxpayer in Oregon receives a minimum of one personal exemption credit on Oregon's personal income tax. In addition to a credit for him or herself, taxpayers get an additional credit for each dependent. On joint returns, each spouse receives a credit. Individuals who can be claimed as a dependent on another's return cannot claim a credit on their own return. The amount of the credit was \$128 in 1997 and \$132 in 1998; it is indexed to inflation.

PURPOSE: To provide a minimum level of tax-free income for all Oregonians.

WHO BENEFITS: All personal income taxpayers in Oregon, except those who are claimed on another taxpayer's return. The benefit rises with increases in family size. The number of personal exemptions increased from about 2,680,000 in 1990 to 3,000,000 in 1997. The credit per exemption, indexed for inflation, increased from \$98 to \$128 in that same period. The credit is non-refundable and cannot be carried forward, so taxpayers whose tax liability is less than their exemption do not receive the full benefit of the credit. About 14 percent of the credit goes unused each year due to insufficient tax liabilities. The total Oregon exemption credit increased from \$227 million in 1990 to \$331 million in 1996.

EVALUATION: The credit achieves its purpose of providing a level of tax-free income for all Oregonians, and because the credit is granted for each taxpayer and dependent, the credit increases with family size. Because this tax relief is in the form of a credit rather than a deduction, it provides more tax relief, relative to incomes, to lower income taxpayers, increasing the progressivity of Oregon's income tax. [*Evaluated by the Department of Revenue.*]

1.152 RETIREMENT INCOME

Oregon Statute: 316.157

Sunset Date: None

Year Enacted: 1991

	Corporation	Personal	Total
1997–99 Revenue Impact:	Not Applicable	\$10,500,000	\$10,500,000
1999–01 Revenue Impact:	Not Applicable	\$5,600,000	\$5,600,000

DESCRIPTION: Taxpayers who are 61 or older are allowed a credit against personal income taxes equal to nine percent of their net pension income. The minimum age requirement increases to 62 for 1999 and thereafter.

Net pension income includes all retirement income included in federal taxable income. This includes private, state and local government, 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 bene-

fits, which are not taxed by Oregon. Net pension income qualifying for the credit is limited. For joint filers the limit equals \$15,000 minus the social security benefits received minus household income (not considering social security benefits) over \$30,000. For taxpayers who do not file a joint return, the limit is \$7,500 minus social security benefits minus household income (not considering social security benefits) over \$15,000.

Prior to 1989, Oregon allowed deductions for some types of public retirement income, rather than a credit. Oregon state and local public pensions were exempt from tax, and some federal pensioners could deduct up to \$5,000. No deduction was allowed for other retirement income, including all private pensions. In 1989, the U.S. Supreme Court ruled in *Davis vs. Michigan* that this type of deduction was illegal since it discriminated against federal government retirees (compared to state and local government retirees). In 1991 the Legislature eliminated all deductions for government retirement income and introduced this credit to offset some of the increased resulting tax liability and to achieve equity among retirement income recipients.

The revenue impacts reported here include the effect of exempting federal pension income beginning with tax year 1998 (1.103 Federal Pension Income). Because federal pensioners will no longer be paying Oregon taxes on federal pension income, they will also be using this retirement credit much less.

PURPOSE: To retain some preferential treatment of retirement income without discriminating among the sources of that income.

WHO BENEFITS: The number of taxpayers claiming the credit has declined from about 53,000 in 1991 to 27,000 in 1997. The average credit claimed in 1997 was \$285.

EVALUATION: This tax expenditure appears to achieve its purpose. It provides added financial security to those eligible and contributes to their ability to remain self-sufficient. By encouraging financial independence, this provision reduces demand for other state-funded services and saves the state money. This tax expenditure will become increasingly important as the population distribution changes. Current forecasts indicate that current retirement savings are not nearly sufficient to support future retirees in their accustomed lifestyles. Because this tax provision is relatively new, it should be monitored to determine if the established threshold level should be modified in the future. *[Evaluated by the Senior and Disabled Services Division.]*

CHAPTER 2: PROPERTY TAX

The property tax is the second largest tax in Oregon, providing most of the revenue for non-school local governments and roughly one quarter of the revenue for school districts. Total property taxes imposed, including taxes for urban renewal agencies, totaled \$4.8 billion in the 1995–97 biennium.

Oregon's property tax system underwent a major transformation in 1997–98 as the voter-approved Measure 50 was implemented. Measure 50 cut property taxes and made three fundamental changes to the structure of the property tax system: first, it replaced most tax levies with permanent tax rates; second, it rolled back the assessed value of every property in the state to 90 percent of its 1995–96 assessed value; and third, it limited the future growth in each property's assessed value to three percent per year.

For a more detailed description of Oregon's property tax system under Measure 50, see the Oregon Department of Revenue publication [Oregon Property Tax Statistics, Fiscal Year 1997–98](#).

Property Tax Expenditures

The tax base for the property tax is considered to be all property in Oregon. Tax expenditures occur when certain property is removed from the assessment roll, and thus excluded from taxation. There are three types of property tax expenditures: full exemption, partial exemption, and special assessment. A property tax expenditure may exempt a property's entire value from taxation, referred to as a full exemption, or may exempt only a portion of value. These partial exemptions exist in several different forms. For example, a program may exempt only improvement value, but the land value continues to be taxed. Other properties may be exempt from their city tax rate but pay all other property taxes. Partial exemptions also result when taxable value is frozen at a point in time, and all additions to value are exempt from taxation.

A final type of property tax expenditure is known as a special assessment. Specially assessed properties are valued using an assessment technique which results in a lower taxable value than would be the case if the usual assessment practice were used. In effect, this results in a partial exemption from property tax.

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 permanent rates represent nearly 80 percent of all property taxes, under Measure 50 the revenue losses due to property tax exemptions are much larger than the shifts.

For a number of the property tax expenditures, revenue impacts are higher now than they were in the tax expenditure report of two years ago. This is due primarily to the changes caused by Measure 50. This increase occurred because most tax rates can no longer rise when value is exempted from taxation, so most of the revenue impact that was a tax shift under the pre-Measure 50 system became a revenue loss under Measure 50. For provisions that exempt very large amounts of value from taxation, the loss under Measure 50 often is larger than the shift that occurred under the old system. Under the old system, the revenue impact for the shift component was moderated by the adjustment of rates to large value changes. Under Measure 50 the perma-

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ment rates cannot adjust, so not only does the old shift impact now become revenue loss, but the total revenue impact is larger.

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 “shift” component is not included in the revenue impacts reported here. For all property tax expenditures, the detailed descriptions report both the revenue loss and shift separately, while Tables 1 and 2 report the total of the loss and shift.

2.001 ACADEMIES, DAY CARE, AND STUDENT HOUSING

Oregon Statute: 307.145

Sunset Date: None

Year Enacted: 1957

1997–98 Assessed Value of Property Exempted: \$106.0 Million

	Loss	Shift	Total
1997–99 Revenue Impact:	\$2,800,000	\$500,000	\$3,300,000
1999–01 Revenue Impact:	\$3,000,000	\$600,000	\$3,600,000

DESCRIPTION: Property owned by a charitable or religious organization for child care facilities, schools, academies, or student housing accommodations is exempt from property taxation, if not exempt under ORS 307.130 as literary or scientific (2.094 Charitable, Literary, and Scientific). Child care facilities must be certified by the Child Care Division of the Employment Department. To qualify, the property must be used exclusively for, or in immediate connection with educational purposes. The organization must file an application with the county assessor to claim the exemption.

PURPOSE: To broaden the application of Charitable, Literary, and Scientific (2.094) to certain school and child care property.

WHO BENEFITS: Approximately 250 schools and day care properties in 11 counties were exempt in 1996. Nearly 56 percent of the accounts and 72 percent of the value of exempted property are in Clackamas, Multnomah and Washington counties.

EVALUATION: This tax expenditure is partially used by organizations that qualify through the Oregon Pre-kindergarten program and achieves its purpose for at least those organizations. It reduces costs of the Oregon Prekindergarten program which helps lay the groundwork for a child's intellectual, emotional, social and physical development; it helps children get a good start in life by supporting strong parenting, appropriate education, adequate nutrition and health care. The Oregon Pre-kindergarten program serves children who are below the federal poverty level. Studies have shown that participation in a quality preschool program increases the chances of a child successfully completing school and holding a job while decreasing the chances of dropping out of school and needing public assistance. Money invested in our youth through this program means less money will be required later for more costly programs.

It is a fiscally effective method of achieving its purpose. [*Evaluated by the Department of Education.*]

2.002 FRATERNITIES, SORORITIES, AND COOPERATIVES

Oregon Statute: 307.460

Sunset Date: None

Year Enacted: 1973

1997–98 Assessed Value of Property Exempted: \$28.4 Million

	Loss	Shift	Total
1997–99 Revenue Impact:	\$390,000	\$50,000	\$440,000
1999–01 Revenue Impact:	\$420,000	\$50,000	\$470,000

DESCRIPTION: Property owned by a qualified nonprofit corporation, fraternity, sorority, or cooperative housing organization, which is rented exclusively to students who attend an accredited education institution is exempt from property taxes levied by schools, educational service districts, and community colleges. To qualify, the organization must be incorporated as nonprofit and student occupancy must be non-discriminatory. If an exempt property loses its qualification, additional taxes equal to the tax benefit of the exemption for all exempt years plus interest and a 20 percent penalty are due. This statute covers fraternities, sororities, and cooperatives owned by private parties. The exemption for leased student housing covers student housing owned by a public college.

PURPOSE: To help keep college housing costs to a minimum and provide equitable treatment with those students living on campus in publicly owned dormitories (2.004 Leased Student Housing Publicly Owned).

WHO BENEFITS: About 135 accounts are exempt and are located primarily in Benton, Lane and Yamhill counties.

EVALUATION: This tax expenditure achieves its purpose and contributes to containing the costs of higher education. Fraternities, sororities, and cooperatives are not-for-profit organizations. They are also important traditional components in the housing supply for colleges and universities. These organizations provide the second largest option for campus student housing (dormitories are the first). Consequently, this exemption is valuable in supporting higher education.

It is a fiscally effective means of achieving its purpose. *[Evaluated by the System of Higher Education.]*

2.003 STUDENT HOUSING FURNISHINGS

Oregon Statute: 307.195

Sunset Date: None

Year Enacted: 1957

1997–98 Assessed Value of Property Exempted: \$2.0 Million

	Loss	Shift	Total
1997–99 Revenue Impact:	\$50,000	\$10,000	\$60,000
1999–01 Revenue Impact:	\$50,000	\$10,000	\$60,000

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.

PURPOSE: To help keep college housing costs to a minimum by giving personal property of fraternities, sororities, and co-ops the same exempt status as personal property used in public school dorms.

WHO BENEFITS: About 135 accounts are exempt and are located primarily in Benton, Lane and Yamhill counties.

EVALUATION: This tax expenditure achieves its purpose and is an extension of Fraternities, Sororities, and Cooperatives (2.002). As with real property taxes, the tax exemption on personal property for not-for-profit student housing is a valuable provision in minimizing housing costs for students.

It is a fiscally effective means of achieving its purpose. *[Evaluated by the System of Higher Education.]*

2.004 LEASED STUDENT HOUSING PUBLICLY OWNED

Oregon Statute: 307.110(3)(a)

Sunset Date: None

Year Enacted: 1947

1997–98 Assessed Value of Property Exempted: \$286.5 Million

	Loss	Shift	Total
1997–99 Revenue Impact:	\$7,400,000	\$1,400,000	\$8,800,000
1999–01 Revenue Impact:	\$7,800,000	\$1,500,000	\$9,300,000

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, 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 state system of higher education and leased by publicly owned schools to students.

PURPOSE: To help keep college housing costs to a minimum by treating state higher education dormitories the same as other public property (2.087 State and Local Property).

Property Tax

WHO BENEFITS: Approximately 10,000 students who lease dorm rooms or apartments from eight state colleges and universities.

EVALUATION: This tax expenditure achieves its purpose and is critical to minimizing the cost of student housing. Housing costs are one of the major expenses to students, particularly at a time when their income generation is limited and generally committed to education expenses. Exempting these properties from taxes is a tremendous contribution in facilitating access to higher education.

This is probably the most fiscally effective means of addressing this particular issue.
[*Evaluated by the System of Higher Education.*]

2.005 HIGHER EDUCATION PARKING SPACE

Oregon Statute: 307.095 (3)

Sunset Date: 7-1-02

Year Enacted: 1989

1997–98 Assessed Value of Property Exempted: \$89.3 Million

	Loss	Shift	Total
1997–99 Revenue Impact:	\$2,300,000	\$400,000	\$2,700,000
1999–01 Revenue Impact:	\$2,400,000	\$500,000	\$2,900,000

DESCRIPTION: In general, when public property is held under contract of sale or is leased to a private individual or business, it is considered taxable. However, state property owned by the State System of Higher Education and rented to employees and students for parking use is exempt from property tax. University spaces rented to the general public for a fee are taxable.

PURPOSE: To help keep college costs to a minimum.

WHO BENEFITS: All eight higher education campuses have rented student and employee parking. Some are paved lots and others are parking structures built with bond revenue. Most of the value is in Portland at Oregon Health Sciences University and Portland State.

EVALUATION: This tax expenditure achieves its purpose and is an additional element in providing access to higher education. Reducing the cost of parking for students, who generally have a severely limited income, is another means of providing financial assistance to students attending colleges and universities. Applying this exemption to all parking eliminates the administrative costs of separately tracking student and employee parking. [*Evaluated by the System of Higher Education.*]

2.006 PRIVATE LIBRARIES FOR PUBLIC USE

Oregon Statute: 307.160

Sunset Date: None

Year Enacted: 1854

1997–98 Assessed Value of Property Exempted: \$600,000

	Loss	Shift	Total
1997–99 Revenue Impact:	Less than \$50,000	Less than \$50,000	Less than \$50,000
1999–01 Revenue Impact:	Less than \$50,000	Less than \$50,000	Less than \$50,000

DESCRIPTION: Private property used as a library open to the public is exempt from property taxation. The exemption includes the real property, books, and furnishings dedicated to library use. Privately-owned libraries open to the general public use the exemption while publicly owned libraries are exempt as public property (2.087 State and Local Property). The owner must file an application with the county assessor to claim the exemption (ORS 307.162).

PURPOSE: To broaden the application of the literary and scientific institution exemption to public or private libraries, treating them as places of learning similar to schools.

WHO BENEFITS: Seven libraries use this exemption within Jackson, Jefferson, Lane, Multnomah and Polk counties.

EVALUATION: It is not clear, given the information available, whether this expenditure is accomplishing its purpose or not. The key policy issue is whether it serves the public interest to have these private libraries receive a tax exemption in return for services they provide to the public. The libraries that use this exemption range from a library in rural Lane County that provides services not available otherwise, to libraries in communities with tax funded county libraries. The Jefferson County Library is a private, non-profit corporation that contracts with Jefferson County to provide county-wide library service. Because of this contract, the arrangement is in keeping with the statutory definition of a public library (ORS 357.410(2)) and does not duplicate other services provided in the county. In both the Jefferson County and Lane County cases, an argument can be made that there is a clear public interest in granting the tax exemption.

With the other libraries, two issues arise. Some of the libraries may not be dependent on ORS 307.160 for an exemption as they may be able to qualify for other exemptions under ORS Chapter 307. Secondly, some of these libraries are located in areas already served by tax funded public libraries. It is harder to argue that granting tax exemptions to these libraries is in the public interest.

Given that eliminating the exemption could potentially disrupt the library service in rural Lane County, and the uncertainty around whether the other libraries are dependent on this exemption, the State Library Board recommends no changes be made to ORS 307.160. *[Evaluated by the State Library.]*

2.007 SENIOR SERVICES CENTERS

Oregon Statute: 307.147

Sunset Date: None

Year Enacted: 1993

1997–98 Assessed Value of Property Exempted: \$2.7 Million

	Loss	Shift	Total
1997–99 Revenue Impact:	\$70,000	\$10,000	\$80,000
1999–01 Revenue Impact:	\$70,000	\$10,000	\$80,000

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. Property use or activities that do not qualify include fund raising, retail sales, or living quarters. The nonprofit organization must file an application with the county assessor to claim the exemption.

PURPOSE: To expand upon Charitable, Literary, and Scientific (2.094).

WHO BENEFITS: Eighteen properties in Coos, Curry, Douglas and Josephine counties.

EVALUATION: There is insufficient information at this time to determine if this tax expenditure achieves its purpose. While it does exempt properties that do not meet the requirements of Charitable, Literary, and Scientific (2.094), one concern is the restriction placed on fund raising. This condition often translates into a choice for senior service centers between fund raising and this property tax exemption. It is not likely that many centers will opt for the exemption over the fund raising so questions of applicability and efficiency of this tax expenditure arise. [*Evaluated by the Senior and Disabled Services Division.*]

2.008 SENIOR DEFERRAL PROGRAM

Oregon Statute: 311.668

Sunset Date: None

Year Enacted: 1963

	Loss	Shift	Total
1997–99 Revenue Impact:	Not Applicable	Not Applicable	- \$8,700,000
1999–01 Revenue Impact:	Not Applicable	Not Applicable	- \$1,400,000

DESCRIPTION: Oregon homeowners age 62 or over may delay paying property taxes on their residences. Instead, the state pays the property taxes and charges the homeowners an annual interest rate of six percent. The state must be repaid, with interest, when the owner dies, sells the property, or moves. To qualify for the program, the taxpayer must have a total household income of \$24,500 or less for the preceding year, and to remain in the program the taxpayer must have federal adjusted gross income of \$29,000 or less in subsequent years.

The Department of Revenue maintains records on the amount of tax deferred in each year as well as the amount repaid, with interest, each year. The reported tax benefit is the difference between deferrals and repayments in a given year. In years when repayments are greater than deferrals, the tax benefit is reported as a negative number. The benefit of the program is an interest rate subsidy to the extent that market interest rates on loans exceed the six percent charged by the state. It is extremely difficult, however, to estimate the

value of an interest subsidy that extends over many years. The tax benefit is measured as the current-period difference between deferrals and repayments, which is a more useful measure from a budgeting perspective.

- PURPOSE:** To defer the property tax burden on low-income seniors in recognition that many may not have the resources to pay their taxes until they sell their homes.
- WHO BENEFITS:** There were 10,823 low-income senior homeowners who chose to defer their local property taxes for the 1997–98 fiscal year. These deferrals translated into \$13,067,836 in local property taxes that were paid by the state. The average amount of local property taxes paid was \$1,207. Currently, the total amount of deferred taxes owed to the state is \$100,653,399.
- EVALUATION:** This tax expenditure achieves its purpose. It provides a mechanism by which elderly people might have an option to assist themselves during retirement years if other mechanisms of retirement were not adequate. While most elderly people have a strong aversion to drawing down the equity in their homes to pay for retirement, it should be noted that current retirement index data forecasts that current retirement programs and saving patterns of persons aged 30 to 48 are not adequate to maintain these individuals at a living standard commensurate with their current living standards. Projections suggest that the rate of retirement savings must increase three-fold from present levels to accomplish this future parity. The inability to achieve this parity will cause greater numbers of people to look at government service programs to assist them. The present population of 30–48 is substantial and will have a dramatic impact when they reach the retirement age. Therefore, this program will have greater importance in the years to come. One concern centers on the state’s ability to sustain this program into the future as the eligible taxpayer base grows. [*Evaluated by the Senior and Disabled Services Division.*]

2.009 ENTERPRISE ZONE BUSINESSES

Oregon Statute: 285B.698
 Sunset Date: 6-30-09
 Year Enacted: 1985

1997–98 Assessed Value of Property Exempted: \$1.4 Billion

	Loss	Shift	Total
1997–99 Revenue Impact:	\$38,000,000	\$7,100,000	\$45,100,000
1999–01 Revenue Impact:	\$28,500,000	\$5,300,000	\$33,800,000

DESCRIPTION: Qualified property owned or leased by a qualified business firm in an enterprise zone is exempt from property tax for three years. The exemption period may be increased to four or five years by a city or county zone sponsor if specified employment, wage requirements or other sponsor conditions are met. The qualified property must be used to produce income and an application has to be for more than \$25,000 of investment.

Cities and counties apply for enterprise zones and the Director of the Economic Development Department approves designated zones. Zone designations cannot exceed 37 in number. There are urban and nonurban zones. An enterprise zone designation terminates after ten years. A firm may continue to qualify subsequent expansions up to ten years after the zone terminates if certain criteria are met. New zones shall be designated by the Director of the Economic Development Department as existing zones are terminated.

The following property of a qualified firm qualifies: a) a new building costing \$25,000 or more; b) an existing building addition or modification costing \$25,000 or more; c) real

or personal machinery and equipment moved into a zone from outside the county; and d) a building leased from a governmental body.

A business firm is qualified if the firm:

- Receives at least 75 percent of its annual gross receipts within the zone from activities which provide products or services (assembly, fabrication, storage, etc.) for other businesses;
- Owns or leases property within a zone that is part of the business operation;
- Increases employment by ten percent if an existing firm or hires one or more employees if a new firm;
- Does not substantially decrease employment outside the zone and does not decrease employment inside the zone in years two and three of the exemption period.

In certain zones, hotels, motels, and destination resorts qualify. Retail operations located at the same site and owned or operated by the same firms as the hotel, motel or resort also qualify as long as their primary function is to serve the hotel and motel guests.

Property is disqualified if it is moved outside the zone or the firm curtails operations or closes. When property is disqualified, all prior exempt taxes must be repaid.

PURPOSE: The purpose of enterprise zone exemptions is to “stimulate employment, business and industrial growth” in areas “that need the particular attention of government to help attract private business investment ... by providing tax incentives in those areas” (ORS 285B.665).

WHO BENEFITS: There are 37 enterprise zones in 26 counties. In 1997–98, about 170 businesses in these zones benefited from the exemption. Ten businesses accounted for over 80 percent of the total tax benefit. The majority of the exempt value consisted of manufacturing facilities, ranging from electronics to wood products to food processing, as well as a number of other types. There were about 15 hotels or motel exempt, but they comprise a small proportion of the total value. Beneficiaries include the companies’ owners, employees, customers, suppliers and the communities in which they reside.

EVALUATION: This expenditure achieves its purpose. The program has been associated with numerous job-creating investments by mostly in-state companies, as well as some companies attracted from out-of-state, that have benefited Oregon and its economy. The program stimulates the creation of roughly 1,450 jobs each year. These jobs are located in economically depressed areas, and have been effective in improving the quality of life of residents in these areas either directly, by providing a job, or indirectly by paying needed local taxes for local government services. Other benefits to the economy include non-property taxes paid, lower unemployment, higher wages, as well as indirect stimulation such as construction work and orders for suppliers. Although a few zones have been unable to attract new investment, most have been effective.

Issues of equity arise with respect to those who directly benefit from a tax incentive program. Such inequity is justified by the overall benefits that accrue indirectly from economic development. In addition, these zones are relatively common, their benefits are the same throughout the state, and the typical zone covers all property within an area. These characteristics allow a wide spectrum of businesses to participate.

This expenditure is also fiscally effective. The administration is simple, inexpensive, and minimizes the possibility of abuse. Initially the program faced cumbersome statutory provisions but those have been revised. The short time frame of the exemption, three to five years, keeps the cost of the program modest. One alternative to this property tax exemption would be an income tax credit, but that might be more difficult to administer and some firms would be unable to benefit due to lack of tax liability.

A final issue is whether enterprise zone investments would have been made even without this tax incentive. Indisputably, some would have. However, a substantial number of zone investments would not have occurred at all, or would have been significantly delayed, smaller, or less likely to survive their first few years, without the exemption. In addition, this program directs the investment to the areas of the state that are most needy. [*Evaluated by the Economic Development Department.*]

2.010 INVESTMENT IN RURAL ENTERPRISE ZONE (PROPERTY TAX)

Oregon Statute: Note following 285B.689 (OR Laws 1997, Ch. 835, Sec. 38)

Sunset Date: 12-31-02

Year Enacted: 1997

1997–98 Assessed Value of Property Exempted: \$0

	Loss	Shift	Total
1997–99 Revenue Impact:	\$0	\$0	\$0
1999–01 Revenue Impact:			Not Available

DESCRIPTION: The value of all property and improvements of certain large investments in a non-urban enterprise zone is exempt from property tax for up to 15 years. The investment must be located in a county with chronic unemployment, the investment must exceed \$50 million, the firm must hire at least 100 full-time employees within five years, and the average wage must be at least 50 percent above the county average.

A business applies for certification with the city or county sponsoring the enterprise zone, and with the county assessor in which the zone is located. The following conditions must be met for approval:

- The governing body of the county or city has adopted a resolution approving the tax exemption;
- The business has committed to meet the investment and hiring requirements;
- The business has a written agreement with the sponsoring city or county that may include additional requirements, including contributions for local services or infrastructure; and
- The facility is located in a county with chronic unemployment, as defined in statute.

If a certified business fails to meet the requirements of the program, all prior exempt taxes must be repaid.

Properties receiving the property tax exemption are also eligible to receive a corporate income tax credit (1.122 Investment in Rural Enterprise Zone (Income Tax)), if approved by the governor.

The revenue estimate is very uncertain at this point. First, it is not clear whether any company will choose to use this expenditure in the near future. Second, the time period required to implement this type of large investment is long enough that any revenue impact would probably not apply until the 2001–03 biennium.

PURPOSE: To encourage investment in non-urban areas of chronic unemployment.

WHO BENEFITS: This provision is intended to benefit “non-urban” enterprise zones and the surrounding residents in counties with chronic unemployment. In addition to the residents receiving benefits, other beneficiaries include the participating companies, their suppliers, customers, and employees.

EVALUATION: At this time, no company has used this provision. However, at least two companies are working on business development plans that involve the use of this provision. It is possible, and perhaps likely that if Oregon did not have this provision, one or both of these projects would be relocated to another state or other less distressed location within Oregon that better matches the company’s siting preferences. Therefore, this provision appears to be having the intended effect on investment in Oregon.

Some issues to consider with this exemption include the possibility that it may encourage competition among states. It may also be perceived as creating an inequity in the tax system or of shifting the tax burden from one group of taxpayers to another. *[Evaluated by the Economic Development Department.]*

2.011 COMMERCIAL BUILDINGS UNDER CONSTRUCTION

Oregon Statute: 307.340

Sunset Date: None

Year Enacted: 1959

1997–98 Assessed Value of Property Exempted: \$900 Million

	Loss	Shift	Total
1997–99 Revenue Impact:	\$21,100,000	\$3,900,000	\$25,000,000
1999–01 Revenue Impact:	\$15,300,000	\$2,800,000	\$18,100,000

DESCRIPTION: Certain commercial and industrial buildings are exempt from property taxation while they are under construction. A new structure or addition is exempt from property taxation if, on the January 1 assessment date, it:

- is under construction,
- is not and has not been used or occupied,
- is being built for the purpose of earning income,

- is not to be occupied for at least one year after beginning construction if a nonmanufacturing facility, and
- is not centrally assessed property.

The exemption cannot be claimed for more than two years. Machinery and equipment at the building site also qualifies if it is to be installed in the structure. The property is listed for assessment but the assessment is canceled if proof that the property meets the above requirements is furnished to the assessor by April 1 of the assessment year.

PURPOSE: To allow business facilities to be operating before property taxes are actually due.

WHO BENEFITS: About 20 properties in eight counties were exempt in 1997–98. The location and amount can fluctuate substantially from year to year as major construction projects take place. The 1997–98 exempt value was nearly double that in 1995–96. Over one-half of the value exempt in 1997–98 was in Multnomah county.

EVALUATION: This expenditure achieves its purpose by allowing new investments to delay paying property taxes until they are actually earning income. Economic consequences are also relevant. New construction and investments might be significantly deterred by the additional up-front cost of paying property taxes on partially finished but unused property.

This expenditure is also fiscally effective. Alternatives to this expenditure would be to refund such taxes through direct payments or credits on other taxes. The administrative burdens and complexity of these alternatives suggest that the current cancellation is the most fiscally effective means of achieving the purpose.

This program, however, seems to be greatly under-utilized, probably because it is not widely known and administrative technicalities have limited its accessibility. *[Evaluated by the Economic Development Department.]*

2.012 KEY INDUSTRY STRATEGIC INVESTMENT

Oregon Statute: 307.123

Sunset Date: None

Year Enacted: 1993

1997–98 Assessed Value of Property Exempted: \$590 Million

	Loss	Shift	Total
1997–99 Revenue Impact:	\$18,400,000	\$3,400,000	\$21,800,000
1999–01 Revenue Impact:	\$14,400,000	\$2,700,000	\$17,100,000

DESCRIPTION: The assessed value above \$100 million of certain investment projects is exempt from property tax for up to 15 years. The Oregon Economic Development Commission determines whether a project is eligible for the tax exemption. The State Treasurer may authorize and issue revenue bonds to finance the project (ORS 285B.383).

A key industry is defined in statute as an industry that sells goods or services in markets with national or international competition and that makes a major contribution to the Oregon economy. Examples are forest products, agricultural products, high technology, primary and fabricated metals, fisheries, interstate and international tourism, film and video production, graphic communications, biotechnology, software, environmental services, plastics, and aerospace (ORS 285B.280(3)).

Property Tax

The key industry business must enter into a first-source hiring agreement with a publicly funded training provider. The business must pay an annual community services fee equal to the lesser of (a) 25 percent of the equivalent property tax on the exempt value or (b) \$2 million. The county and city (if located in a city) where the project is located share the annual fee by mutual agreement. The county and city must have an agreement with a business applicant about any special requirements before the county requests a project (ORS 285B.386).

PURPOSE: The purpose is to allow Oregon to compete with other states for major investment projects by establishing an upper limit on property taxes for an investment project. These projects tend to have a very high investment per employee (i.e. they are capital intensive) and property taxes may be significantly higher than the cost of government services associated with the business and its employees.

WHO BENEFITS: Three projects have been approved by Washington County and two projects by Multnomah County. One of the projects initially approved has since negotiated with the city and county to discontinue their agreement's obligations and benefits. Three projects were exempt under this program in 1996–97, while the fourth project came into this program in 1998–99. It is often the case that the investment still under construction may be exempt initially as commercial facilities under construction (2.011). All the firms participating in this program are high technology industry businesses. In 1996–97, the businesses qualifying for this exemption paid approximately \$1.3 million in annual community services fees.

EVALUATION: The program appears to achieve its goal of encouraging capital-intensive investment in Oregon, particularly in high technology industries. A key question in evaluating this expenditure is whether or not the investments receiving tax benefits under this program would have been made without the program. That question cannot be answered with certainty, but there is evidence that both state and local officials have felt that such a program was necessary to increase the likelihood that Oregon locations would be chosen as the sites for capital-intensive investments in key industries. The fact that local officials have approved five applications under the program indicates that local officials believe these tax expenditures have a net positive value to their communities. If the investment would not have been made in Oregon without the program, there is also a likely increase in state corporation income tax.

Economists have a range of opinions as to whether or not industrial investment tax incentives such as this are beneficial to local, regional, and national economies. Some claim that such incentives simply benefit the participating companies who receive lower tax bills at the expense of the participating jurisdictions that either receive lower tax revenue or must charge existing taxpayers more than otherwise. Other economists claim that both participants gain from the arrangement, with companies paying more reasonable taxes in communities that place a higher value than other communities on obtaining the companies' jobs, local purchases, and other benefits. [*Evaluated by the Economic Development Department.*]

2.013 INVENTORY

Oregon Statute: 307.400(3)(f)

Sunset Date: None

Year Enacted: 1969

1997–98 Assessed Value of Property Exempted: \$8.8 Billion

	Loss	Shift	Total
1997–99 Revenue Impact:	\$230,000,000	\$43,000,000	\$273,000,000
1999–01 Revenue Impact:	\$260,000,000	\$48,000,000	\$308,000,000

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, and finished goods, but not machinery and equipment used to produce these goods.

This definition was expanded in 1973 to include farm machinery and equipment (2.039 Farm Machinery and Equipment).

PURPOSE: The purpose is to eliminate the tax compliance burden of enumerating inventory, to provide tax relief to small merchants, and to eliminate behavior specifically aimed at reducing inventories on the date of assessment, especially when that behavior negatively affects the economy.

WHO BENEFITS: Manufacturing, wholesale and retail trade businesses benefit from exempt inventory. Because the value of inventory varies by industry, some types of businesses benefit from this exemption relatively more than others. In addition, the value of the exemption in some industries is dependent on the specific assessment date in effect.

In a competitive market, businesses that receive the tax exemption will pass most or all of this tax savings on to their customers. There may also be some residual benefit from this tax savings passed on to the businesses' employees and suppliers.

EVALUATION: This expenditure achieves its purpose. For most types of businesses (particularly manufacturers, wholesalers, and retailers), inventory represents the largest category of business assets. Therefore a property tax on inventory would tend to impact most businesses to a greater extent than existing ad valorem taxes on personal and real property.

Virtually every state provides some form of property tax exemption for inventory. From this perspective, the Oregon exemption allows the state's businesses to be on equal footing with competitors located in other states. The provision's elimination of the burden of enumerating inventory for tax purposes eliminates a potentially large and unnecessary cost on businesses, especially small businesses, and leaves business freer to plan its inventory based on sound business practices. [*Evaluated by the Economic Development Department.*]

2.014 PERSONAL PROPERTY LESS THAN \$10,000

Oregon Statute: 308.250(2)

Sunset Date: None

Year Enacted: 1979

1997–98 Assessed Value of Property Exempted: \$270 Million

	Loss	Shift	Total
1997–99 Revenue Impact:	\$6,900,000	\$1,300,000	\$8,200,000
1999–01 Revenue Impact:	\$7,200,000	\$1,300,000	\$8,500,000

DESCRIPTION: Starting in the 1997–98 tax year, if a taxpayer has less than \$10,000 worth of business personal property in a county in a given year, the property tax assessment is canceled for that year (prior to 1997–98 the threshold was \$3,000). An initial return must be filed with the assessor who then cancels the tax. After an initial cancellation a taxpayer may file an annual statement declaring that the value continues to be less than \$10,000.

PURPOSE: To reduce the filing burden for many small businesses and avoid the administrative processing and collection costs for returns where this cost may be more than the tax owed.

WHO BENEFITS: This exemption benefits small businesses directly, and indirectly benefits the suppliers, customers, and employees of those businesses. About 65,000 accounts (about one third of all personal property accounts) were less than \$10,000 in 1997–98. The average tax reduction was approximately \$60 per account.

EVALUATION: This exemption is effective in reducing the filing burden for small business, and is consistent with Oregon’s desire to encourage entrepreneurial activity in the state. The average tax reduction is exceedingly small and probably, by itself, does not make much difference to the operation of the small business. However, the reduced filing burden, in combination with the modest tax exemption, may help encourage small businesses to form and remain in business.

The exemption probably does not reduce administrative costs for county assessors’ offices, since the assessor must continue to track these accounts and revalue them each year with additions and deletions considered. [*Evaluated by the Economic Development Department.*]

2.015 CARGO CONTAINERS

Oregon Statute: 307.850

Sunset Date: 7-1-02

Year Enacted: 1979

1997–98 Assessed Value of Property Exempted: \$30.4 Million

	Loss	Shift	Total
1997–99 Revenue Impact:	\$800,000	\$100,000	\$900,000
1999–01 Revenue Impact:	\$900,000	\$200,000	\$1,100,000

- DESCRIPTION:** Cargo containers primarily used for cargo transportation on ocean going ships are exempt from property tax. Cargo containers must be designed for more than one mode of transport, be strong enough for repeated use, and be fitted with handling devices. To claim the exemption, the owner or person in control of the containers must file an application with the local assessor. The exemption in effect applies only to containers used in domestic trade. A 1979 U.S. Supreme Court decision exempts containers used in foreign commerce under the Foreign Commerce provisions of the U.S. Constitution.
- PURPOSE:** To help Oregon ports remain competitive with Washington and California which exempt all cargo containers. The statute reinstated the status quo of not taxing cargo containers after an Attorney General Opinion determined that cargo containers were taxable personal property.
- WHO BENEFITS:** The equivalent of roughly 10,000 twenty-foot containers on average are estimated to be in the state. The tax benefit estimate reported above includes the value of all 10,000 of these containers. Almost all of these are used in foreign commerce and thus would be exempt even without this specific statute. Containers used in domestic trade would probably have their value apportioned between Oregon and other states.
- EVALUATION:** Because most of the containers covered by this exemption would also be exempt from Oregon property tax due to their use in foreign commerce, the effectiveness of this exemption cannot reasonably be based on an evaluation of the exemption's impact on cargo container traffic. However, this exemption may be effective in eliminating a tax bias against the domestic use of cargo containers.
[Evaluated by the Economic Development Department.]

2.016 DOCKS AND AIRPORTS LEASED FROM PORT DISTRICT

Oregon Statute: 307.120

Sunset Date: None

Year Enacted: 1947

1997–98 Assessed Value of Property Exempted: \$140.5 Million

	Loss	Shift	Total
1997–99 Revenue Impact:	\$3,700,000	\$700,000	\$4,400,000
1999–01 Revenue Impact:	\$4,000,000	\$800,000	\$4,800,000

DESCRIPTION: In general, when public property is held under contract of sale or is leased to a private individual or business, it is considered taxable. However, public dock property that is used for berthing ships or barges, or handling, loading and unloading cargo from ships is exempt from property tax. Dock property that is leased by a private entity and used for storage of cargo that is in transshipment is assessed an in-lieu-of-tax payment so long as there is no change to the cargo. Dock property that is leased or used for any other purpose is not exempt. Each year the lessee must file an application with the county assessor to claim the exemption.

Port district or city-owned airport property serving less than 300,000 inhabitants that is leased and used by private individuals remains exempt so long as rent proceeds are used for airport maintenance.

PURPOSE: To exempt public dock property that is leased or rented by private individuals for certain purposes, probably to be more competitive with other states.

WHO BENEFITS: Exempt value of leased port property that is subject to an in-lieu payment is \$80 million. This property is in nine counties, but Multnomah County accounts for about 90 percent of the exempt value. Assessors report another \$60 million of exempt value that is either dock property not subject to in-lieu payments or airport property. Beneficiaries include those who use docks and airports directly and those affected by the increased level of business activity in port districts that, without this exemption, might not have occurred.

IN LIEU: The in-lieu-of-tax payment is one quarter of one percent of the assessed value of the property and is distributed to the school districts. About \$224,000 of in lieu tax was paid to school districts in 1995–96, primarily in Multnomah County.

EVALUATION: This exemption is likely to shift a portion of the local property tax burden from owners and users of dock and airport property to owners of other property. However, increased economic activity due to this exemption may more than compensate for this tax shift by raising the level of corporate income taxes paid in Oregon. [*Evaluated by the Economic Development Department.*]

2.017 LEASED PUBLICLY-OWNED SHIPYARD PROPERTY

Oregon Statute: 307.110(3)(h)

Sunset Date: 7-1-10

Year Enacted: 1995

1997–98 Assessed Value of Property Exempted: \$65.5 Million

	Loss	Shift	Total
1997–99 Revenue Impact:	\$1,900,000	\$400,000	\$2,300,000
1999–01 Revenue Impact:	\$2,100,000	\$400,000	\$2,500,000

DESCRIPTION: In general, when public property is held under contract of sale or is leased to a private individual or business, it is considered taxable. However, publicly owned shipyard property leased by a sole contractor for ship repair, lay-up, conversion, or construction is exempt from property tax. The shipyard must be capable of dry-docking ocean-going 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 one percent.

The exemption first applied to tax year 1995–96. The owner of the property must contact the county assessor to claim the exemption.

PURPOSE: To promote the Port of Portland shipyard by making it more competitive with other shipyards for contracting ship repair and construction work.

WHO BENEFITS: Lessee of Port of Portland shipyard. The revenue impact reported here is based on the value of the entire shipyard (less any subleased property) since the entire shipyard is exempt under this statute. However, the value of the actual property occupied by the sole contractor has historically been only about ten percent of the value of the entire shipyard. In the past, much of the shipyard has not been leased.

EVALUATION: This exemption appears to be effective. Using this exemption as a negotiating tool, the Port of Portland has successfully leased its shipyard property for the past two years despite strong competition from shipyard properties outside Oregon. Port officials believe that this exemption was an important factor in the success of this lease. [*Evaluated by the Economic Development Department.*]

2.018 SHIP REPAIR FACILITY MATERIALS

Oregon Statute: 308.256(7)

Sunset Date: None

Year Enacted: 1957

1997–98 Assessed Value of Property Exempted: \$0

	Loss	Shift	Total
1997–99 Revenue Impact:	\$0	\$0	\$0
1999–01 Revenue Impact:	\$0	\$0	\$0

DESCRIPTION: Materials and parts held by shipyards and ship repair facilities as of January 1 are exempt from property tax if by April 1 the parts and materials are physically attached or become part of watercraft undergoing major remodeling, renovation, conversion, or repair. The parts and materials are initially assessed, but assessors must cancel the assessment if documentary proof of qualification for exemption is provided prior to April 1.

The value of watercraft under construction or undergoing major remodeling is also exempt, as described in 2.068 Watercraft Locally Assessed.

PURPOSE: To help Oregon shipyards compete with shipyards in other states.

WHO BENEFITS: This exemption predates the full exemption of inventory (2.013 Inventory). Most, if not all, of the material exempted by this statute would probably be considered inventory. Assessors report no exempt value.

EVALUATION: Not Evaluated

2.019 AIRCRAFT BEING REPAIRED

Oregon Statute: 308.559

Sunset Date: None

Year Enacted: 1995

1997–98 Assessed Value of Property Exempted: \$1.4 Million

	Loss	Shift	Total
1997–99 Revenue Impact:	\$40,000	\$10,000	\$50,000
1999–01 Revenue Impact:	\$40,000	\$10,000	\$50,000

DESCRIPTION: Aircraft of an airline transportation company undergoing major work at an Oregon facility are exempt from property tax. The Oregon value of an airline company is normally determined by first valuing the entire company. The Oregon portion of that value is then determined based on an allocation formula which 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 in Oregon in the allocation formula, and thus reduces the Oregon property value for an airline doing aircraft repair in Oregon.

Major work includes scheduled maintenance, repairs, renovation and conversion in which the total labor expended for the work exceeds 10 hours. The exemption first applied in tax year 1996–97.

PURPOSE: To promote the aircraft repair industry, promote the aircraft maintenance center in Portland (Pamcorp), and to provide an aircraft repair exemption comparable to the exemption for rail cars under repair (2.020).

WHO BENEFITS: Airline companies who do aircraft repair in Oregon. There is currently only one facility operating. The Portland aircraft maintenance facility is not operating, and Pamcorp is no longer in existence.

EVALUATION: This exemption was created at least partly to encourage the location of a major aircraft repair facility in Oregon. The prospective facility was to be managed by a firm named Pamcorp. However, despite the fact that buildings were built to house this activity, Pamcorp did not succeed in operating the facility and is no longer in business. In this respect, the exemption has not yet succeeded in achieving its desired result. The exemption is being used by a much smaller regional aircraft maintenance facility and may in the future more fully achieve its original desired result. *[Evaluated by the Economic Development Department.]*

2.020 RAILROAD CARS BEING REPAIRED

Oregon Statute: 308.665

Sunset Date: None

Year Enacted: 1973

1997–98 Assessed Value of Property Exempted: \$200,000

	Loss	Shift	Total
1997–99 Revenue Impact:	Less than \$50,000	Less than \$50,000	Less than \$50,000
1999–01 Revenue Impact:	Less than \$50,000	Less than \$50,000	Less than \$50,000

DESCRIPTION: Railroad cars owned by private car companies and undergoing major work are exempt from property taxation. “Major work” includes remodeling, renovation, conversion or repairs if the total labor exceeds ten hours. A railroad car is exempt from the time it awaits transportation to a repair facility to the time it is returned from a repair facility. Documentary proof of qualification for exemption must be furnished to the Department of Revenue. Private car companies have “major work” done at two companies in Oregon.

PURPOSE: To promote the railroad car repair industry, and to have a railroad repair exemption comparable to the exemption for ship repair (2.068 Watercraft Locally Assessed).

WHO BENEFITS: Private railroad car companies.

EVALUATION: This expenditure may reduce the disadvantage to using Oregon sites for rail car repair compared to some other potential rail car repair sites in the United States where the rail cars being repaired may not be subject to property tax. Makes Oregon marginally more competitive with such areas. The expenditure probably slightly increases the number of rail cars repaired in Oregon. *[Evaluated by the Economic Development Department.]*

2.021 RECREATION FACILITY ON FEDERAL LAND

Oregon Statute: 307.182

Sunset Date: 7-1-02

Year Enacted: 1975

1997–98 Assessed Value of Property Exempted: \$50.6 Million

	Loss	Shift	Total
1997–99 Revenue Impact:	\$1,000,000	\$200,000	\$1,200,000
1999–01 Revenue Impact:	\$1,100,000	\$200,000	\$1,300,000

DESCRIPTION: Federal government land remains exempt from property tax when occupied and used by a commercial recreation facilities operator under a permit. Examples are ski resorts and lake marinas on federal land. Only the land is exempt. All real and personal property improvements are taxable to the person 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 purpose is to provide tax relief to compensate for the cost of permit fees, the financial problems of the industry at the time the exemption was passed, and the difficulty of valuing the property with its restrictions. The exemption may also avoid “double taxation” since 25 percent of the fee income to the Forest Service is shared with counties.

WHO BENEFITS: The Forest Service has almost 16,000 acres under permit for 41 ski and lake recreational areas in 16 counties. Fees paid to the Forest Service for these permits totaled a little over \$1 million in 1994, mostly for ski areas. One-quarter of this amount, or about \$266,000 was shared with the counties.

EVALUATION: This expenditure achieves its purpose. Recreation areas that benefit from this legislation are on Forest Service land via a Special Use Permit. This permit, while long-term, is very restrictive and not at all like a typical private landlord-tenant arrangement. These restrictions make it very difficult to establish a value on the property. In addition, removal of the property tax exemption for recreation facilities on federal lands would subject these areas to some level of double taxation unless other adjustments were also made. [*Evaluated by the Economic Development Department.*]

2.022 DEFENSE CONTRACTOR WITH FEDERAL PROPERTY

Oregon Statute: 307.065

Sunset Date: None

Year Enacted: 1965

1997–98 Assessed Value of Property Exempted: \$0

	Loss	Shift	Total
1997–99 Revenue Impact:	\$0	\$0	\$0
1999–01 Revenue Impact:	\$0	\$0	\$0

DESCRIPTION: Property that is owned by the federal government and in the possession of a private contractor upon an agreement with an Armed Forces agency is exempt from property tax. The property must be in use under a federal defense or space contract to assemble or manufacture a product.

PURPOSE: The purpose of the exemption is unknown. It may be to clarify that the property is not taxable because of its federal ownership status, and to help promote the defense industry in Oregon.

WHO BENEFITS: No property could be identified as currently exempt.

EVALUATION: This expenditure appears to be consistent with the treatment of other federal property, since this property is titled to the federal government even though in the possession of a contractor. The exemption should provide some incentive for Oregon companies to pursue federal defense contracts. Given Oregon's minimal stature in receiving federal contracts, Oregon's companies could greatly increase their sales from such contracts without the concentration and dependency on federal contracts that has led to booms and busts in other parts of the country. *[Evaluated by the Economic Development Department.]*

2.023 INDUSTRY APPRENTICESHIP/TRAINING TRUST

Oregon Statute: 307.580

Sunset Date: None

Year Enacted: 1983

1997–98 Assessed Value of Property Exempted: \$3.1 Million

	Loss	Shift	Total
1997–99 Revenue Impact:	\$80,000	\$20,000	\$100,000
1999–01 Revenue Impact:	\$90,000	\$20,000	\$110,000

DESCRIPTION: All real and personal property owned, being purchased, or leased by an industry apprenticeship or training trust is exempt from property taxation if:

- the trust is organized only for assisting or implementing training programs according to Chapter 660, Apprentices and Trainees;
- the property is used exclusively and actively in training;
- the trust is exempt from federal income taxes;
- the trust does not discriminate.

PURPOSE: To provide equity between training trusts and other private schools. (Trusts cannot qualify for an exemption under other statutes because they are not incorporated and are prevented from doing so by federal regulation.)

WHO BENEFITS: Training trusts in five counties.

EVALUATION: There is insufficient information at this time to determine if this tax expenditure achieves its purpose although it appears to allow for a greater use of funds in developing the workforce to meet the challenges of the future. *[Evaluated by the Employment Department.]*

2.024 FAIRGROUND LEASED STORAGE SPACE

Oregon Statute: 307.110 (3)(d)

Sunset Date: None

Year Enacted: 1987

1997–98 Assessed Value of Property Exempted: Not Available

	Loss	Shift	Total
1997–99 Revenue Impact:	Less than \$50,000	Less than \$50,000	Less than \$50,000
1999–01 Revenue Impact:	Less than \$50,000	Less than \$50,000	Less than \$50,000

DESCRIPTION: In general, when public property is held under contract of sale or is leased to a private individual or business, it is considered taxable. This tax expenditure provides an exception to that general rule. County or state fairground land or buildings utilized for horse stalls or for storage of recreational vehicles or farm machinery and equipment are exempt from property tax.

PURPOSE: To promote fairs by allowing fair boards to earn more revenue throughout the off season to support fairs. Boards can charge higher rent because the renter pays no property taxes.

WHO BENEFITS: County fairs benefit from this exemption. The State Fair does not have any leased property that is exempt under this statute.

EVALUATION: Not Evaluated

2.025 NEW HOUSES IN A DISTRESSED AREA

Oregon Statute: 458.020

Sunset Date: 7-1-03

Year Enacted: 1989

1997–98 Assessed Value of Property Exempted: \$37.6 Million

	Loss	Shift	Total
1997–99 Revenue Impact:	\$1,200,000	\$200,000	\$1,400,000
1999–01 Revenue Impact:	\$1,400,000	\$300,000	\$1,700,000

DESCRIPTION: A new single family housing unit built in a distressed area can be exempt from property tax for ten years. Only the value of the dwelling is exempt while the land remains taxable. A distressed area is designated by the city and may include deteriorated, unsafe, or abandoned structures that are detrimental to the safety and health of the community. A city can designate up to 20 percent of its land area as distressed.

Approval by the city will exempt only the city taxes. To exempt all property taxes, districts representing 51 percent of the taxes on the property must also agree to the exemption.

To qualify for the exemption, the single family dwelling must: 1) be constructed after January 1, 1990 and before July 1, 2003; 2) be used as a dwelling for one person or family; and 3) have a value that is no more than 120 percent of the median sales price of single family homes located in the city.

To grant an exemption, a city must: 1) adopt a resolution or ordinance; 2) designate a distressed area; 3) adopt standards and guidelines; 4) approve or disapprove applications; and 5) certify approved exemptions to the assessor.

The property owner must file an application with the city to claim the exemption. A change of use will disqualify the property from the program. Upon disqualification an additional tax equal to the tax benefit in the last year exempt times the number of years exempt (10 maximum) is due.

- PURPOSE:** To “stimulate the construction of new single family residences in distressed urban areas in this state in order to improve in those areas the general life quality, to promote residential infill development on vacant or underutilized lots, to encourage home ownership and to reverse declining property values” (ORS 458.010).
- WHO BENEFITS:** Since the beginning of the program in 1990, 769 qualifying houses have been built in Portland. The number of properties doubled in the three years between 1995–96 and 1998–99. The average exempt property value per house is \$58,000, for a tax benefit per house of about \$1,000 per year.
- EVALUATION:** This expenditure achieves its purpose. The program is relatively efficient to administer in comparison with other types of housing funding. There is no need to channel funding through different layers of government and minimal need to establish larger bureaucratic mechanisms to develop program guidelines or to review for program eligibility. The home either qualifies, or it doesn’t. The exemption is intended to provide an incentive for builders to build housing they would not otherwise build in distressed areas by providing to the purchaser of a qualifying home a full property tax exemption on the building for 10 years. Whether any given home would or would not have been built without the benefit of the exemption is difficult to determine. The popularity of the program with builders suggests that the exemption functions well.

A major advantage of tax exemptions over a direct expenditure is the ability to tie the exemption to the specific project with little risk to the City. If the project is not constructed the assistance is not tied up pending the fate of the project in the way a direct budgeted funding commitment would be. In other words, there is no lost opportunity of funds committed to a project that is not constructed; nor is there any lost revenue.

Additionally, the program provides an additional incentive that helps to design the housing product 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 which carries a ten year sunset date. Local programs can be designed with a variety of monitoring and evaluative controls. [*Evaluated by the Housing and Community Services Department.*]

2.026 REHABILITATED HOUSING

Oregon Statute: 308.459

Sunset Date: 7-1-08

Year Enacted: 1975

1997–98 Assessed Value of Property Exempted: \$17.6 Million

	Loss	Shift	Total
1997–99 Revenue Impact:	\$500,000	\$100,000	\$600,000
1999–01 Revenue Impact:	\$500,000	\$100,000	\$600,000

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 ten years. To be eligible for the partial exemption, the property (land and improvements) must:

- Be at least 25 years old in 1986 and have undergone rehabilitation that cost at least five percent of the assessed value of the property before rehabilitation, or have undergone rehabilitation between 1989 and 1998 that cost at least 50 percent of the assessed value of the property before rehabilitation;
- be in substantial compliance with applicable building or housing codes;
- be residential units of which at least 50 percent are for nontransient occupants;
- be in a designated distressed area if owner occupied; and
- be approved for exemption by the city or county.

To grant an exemption, a city or county must:

- adopt the procedures in the statutes;
- adopt standards for eligible rehabilitation including, if desired, negotiation of rents charged during the exemption period;
- accept both preliminary and final applications;
- approve or disapprove applications, giving reasons for its actions; and
- certify approved exemptions to the assessor.

Property is frozen at its value before rehabilitation for ten years. However, if the property is participating in a low income rental assistance contract with a government agency the value freeze may continue for the duration of the contract. Qualified property is exempt only from city or county taxes. If districts representing at least 51 percent of the taxes on the property pass resolutions supporting the exemption, then the exemption applies to the taxes of all districts.

If use of the property changes, an additional tax equal to the sum of the tax benefits in the years exempt, up to a maximum of ten years, is due.

PURPOSE: To “encourage the rehabilitation of existing units in substandard condition and the conversion of transient accommodation to permanent residential units and the conversion of non-residential structures to permanent residential units in order to make these units sound additions to the housing stock of the state” (ORS 308.453).

WHO BENEFITS: Portland had 192 rehabilitation properties in 1998–99, down slightly from the 222 properties in 1995–96. Multi-family housing accounted for over 80 percent of the total exempt value. On average almost sixty percent of the value of this housing was exempt.

EVALUATION: This expenditure achieves its purpose. This is a relatively older tax exemption program, and 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 (2.025 New Houses in Distressed Area).

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 assess 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 ten year exemption, the property comes back onto the tax rolls at its new, higher value, increasing revenues to the taxing jurisdictions. Tenants, property owners and local governments all benefit in the long term. When looking at the increased use of this exemption in the Portland area alone, it is easy to see the magnitude of change has occurred in large part to this exemption program. It has the added advantage of being easy to access and easy to administer. Determination of a home or development’s qualification for the exemption is easily made. This tax exemption appears to be both a fiscally effective and an efficient means of achieving its public purpose. [*Evaluated by the Housing and Community Services Department.*]

2.027 MULTI-FAMILY RENTAL HOUSING IN CITY CORE

Oregon Statute: 307.630

Sunset Date: 7-1-06

Year Enacted: 1975

1997–98 Assessed Value of Property Exempted: \$62.7 Million

	Loss	Shift	Total
1997–99 Revenue Impact:	\$1,800,000	\$300,000	\$2,100,000
1999–01 Revenue Impact:	\$2,000,000	\$400,000	\$2,400,000

DESCRIPTION: A city may exempt from property tax the value of multiple family rental housing (excluding land) in its downtown area for up to ten years or, if rent is subsidized by the state or federal government, for a longer period. Housing includes newly constructed housing and conversions to housing. To grant an exemption a city must:

- adopt the procedures in the statutes;
- designate the eligible core area;
- adopt standards for eligible developments including existing use of property, design, rents, and long-run public benefits;

- provide and accept applications;
- hold public hearings to determine whether proposed projects could be built without property tax benefits; and
- approve or disapprove applications, giving reasons for its actions.

Approved property is exempt from city property taxes. If districts representing at least 51 percent of the taxes on the property pass resolutions supporting the exemption, then the exemption applies to the taxes of all districts. The exemption may be granted for up to ten years. However, land cannot be exempt and for multi-unit conversions only the added conversion value is exempt. Construction is to be completed by July 1, 2006, but an extension is possible.

Any city over 300,000 in population (i.e., Portland) may include urban renewal land and land near the central business district within its eligible core area.

Additional taxes for up to ten years are due if the use of the property is changed to condominiums or the owner has benefited from exemption when the property should not have been exempt.

The 1995 Legislature made several changes to this program, which became effective July 1, 1997. In addition to core areas, cities may designate light rail station areas or transit oriented areas. Counties may designate light rail station areas or transit oriented areas but not core areas. Portland chose to adopt this provision as a separate program titled Property Tax Exemption for New Transit Supportive Residential or Mixed Use Development.

- PURPOSE:** To “stimulate the construction of rental housing in the core areas of Oregon’s urban centers to improve the balance between the residential and commercial nature of those areas...” and to have city programs emphasizing the “development of vacant or underutilized sites in the core areas...” with “rental rates accessible to a broad range of the general public” (ORS 307.600).
- WHO BENEFITS:** The cities of Portland, Salem and Eugene have a core area multi-family rental housing program. About ten properties are exempt in Portland, one in Salem and seven in Eugene. The total number of housing units built in Portland since the beginning of this program is 1,415. No qualifying transit supported developments were completed during 1997.
- EVALUATION:** This expenditure achieves its purpose. This is a relatively older tax exemption program, and 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 and receiving qualification for the exemption is expensive and time consuming. Salem, for example, still presently has only one property that has this exemption for a total of 92 units (Salem has had a total of 3 since the exemption was created). The exemption expires in 2001. Two attempts have been made in the last few years to gain approval for a housing development in Salem’s Downtown Urban Renewal District. The first time, the city approved the project but the county had not adopted a resolution supporting the exemption. The second proposal was withdrawn with the developer

citing the time and expense involved in the process as being too prohibitive. Eugene has 7 properties that are exempt under this program.

The process for obtaining the exemption is cumbersome. The city of Portland charges \$5,000 per application to help offset the costs associated with qualifying a property for the exemption. The city holds three hearings on the application and must ultimately adopt a city ordinance to approve it. The Portland Development Commission and the city of Portland both get involved in detailed analyzes 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 ten units or more to qualify for the exemption, the complexity of the process makes it impractical for all but large developments. Therefore, the exemption tends to exclude smaller projects and less sophisticated housing developers.

No limit exists for how expensive the exempted units may be as long as the overall development is located in a qualifying geographical area, would not be so located without the exemption, and serves some public purpose. The hearings process is designed to ensure that these requirements are met, but the Portland hearings have rarely attracted any significant public input. As a result, exemptions have been entered on the Portland City Council’s consent calendar for relatively summary disposition. The proposed project in Salem, on the other hand, attracted a great deal of opposition, primarily because the plan was for high end condominiums on the riverfront.

The exemption seems to perform a solid public purpose, but is subject to a locally designed approval process. [*Evaluated by the Housing and Community Services Department.*]

2.028 NEW HOUSING FOR LOW INCOME RENTAL

Oregon Statutes: 307.517 and 307.518

Sunset Date: 1-1-00

Year Enacted: 1989

1997–98 Assessed Value of Property Exempted: \$12.9 Million

	Loss	Shift	Total
1997–99 Revenue Impact:	\$380,000	\$70,000	\$450,000
1999–01 Revenue Impact:	\$420,000	\$80,000	\$500,000 *

* Revenue impact takes into account the sunset.

DESCRIPTION: Newly constructed rental housing units occupied by low income persons is exempt from property tax (both land and improvements) for 20 years if the property is:

- located in a city or county that adopts state statutes;
- built after the city or county adopts state statutes;
- approved by the city or county upon application;
- rented only to persons with income less than 60 percent of median income;
- 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(c3) nonprofit) are exempt provided the corporation uses 90 percent of its rental income for repair, purchase, or onsite daycare services for the residents.

Approved property is exempt only from city or county taxes. To exempt all property tax, districts levying 51 percent or more of the taxes on the property must pass a resolution to approve the exemption.

The property owner or lessee must file an application with the appropriate governing body to claim the exemption. Disqualification occurs if the property is not used as required. If disqualified, additional taxes equal to the sum of the tax benefits for the years exempt (up to ten years) is due.

The revenue impact for 199–01 takes into account the sunset scheduled for 1-1-00, although the 199–01 revenue impact would still be \$500,000 if the sunset were extended.

PURPOSE: The exemption is to encourage for-profit businesses to develop low income housing by providing an exemption similar to what is available to nonprofits in cities adopting an exemption program under ORS 307.541. The exemption is to help meet the need for low income housing especially after a decline in federal funding.

WHO BENEFITS: About 30 properties in Baker City, Bend, Corvallis, Eugene, North Plains and Roseburg are exempt under this provision. About half the exempt value is in Eugene. There may be a few properties in other cities.

EVALUATION: This expenditure is critical to the viability of many low income housing developments; it achieves its stated purpose. The exemption reduces the operating expenses for the provider of low income housing, thereby resulting in lower rents. Without this assistance in lowering rents, some Oregonians could not afford decent housing; in some cases, this housing would not be built.

Where a taxing jurisdiction has adopted the authorizing provisions, the process by which it grants the exemption is quite straightforward; if a development meets the criteria, it receives the benefit of the exemption. It is relatively easy to administer once in place. However, some jurisdictions have not adopted the authorizing provisions because the extent of their ability to add constraints to existing criteria for granting exemptions has not been clearly established. An amendment clarifying the ability of local governments to add additional criteria or to shorten the length of the exemption would be of value, in encouraging more local governments to adopt and use this exemption.

The taxing entity typically requires an annual report of tenant income levels and the rental rates being charged in exempted developments. This helps ensure fulfillment of the requirement that the project rental rates reflect the full property tax reduction and prevents possible abuse of the exemption by developers or development owners.

After the 20-year exemption, the entire property comes onto the tax rolls at its full assessed value. Tenants, property owners, and local governments benefit in the long term.

The impact of Ballot Measure 50 on this exemption is unclear as of yet. Measure 50 may discourage local governments from using this exemption in the future. Under Measure 50, property tax exemptions cause actual revenue losses to local governments. Prior to Measure 50, exemptions did not decrease local tax revenues because other property tax payers paid at a higher tax rate to compensate.

This exemption enables local governments to contribute to providing affordable housing in their communities without raising additional revenue and spending it on affordable housing. The administrative costs of this exemption are likely less than would be incurred through a direct program developed to achieve this objective. This exemption fits well with other direct and indirect spending programs for affordable housing assistance. The exemption is both fiscally effective and an efficient means of achieving its public goal. *[Evaluated by the Housing and Community Services Department.]*

2.029 HOUSING AUTHORITY RENTAL UNITS

Oregon Statute: 456.225
 Sunset Date: None
 Year Enacted: 1991

1997–98 Assessed Value of Property Exempted: \$362 Million

	Loss	Shift	Total
1997–99 Revenue Impact:	\$10,700,000	\$2,000,000	\$12,700,000
1999–01 Revenue Impact:	\$11,800,000	\$2,200,000	\$14,000,000

DESCRIPTION: Property that is owned or leased by housing authorities is exempt from all state and local taxes and special assessments. Property held in a partnership with private partners is also exempt so long as the housing authority is the general partner or manager of the property and the property is used for housing low-income persons.

The 1997 Legislature expanded the definition of housing project to include certain leased commercial facilities. This allows housing authorities to own commercial facilities which can then be leased to private operators.

The housing authority must file an application with the county assessor to claim the exemption on property that is leased.

PURPOSE: The exemption recognizes housing authority property to be “public property used for essential public and governmental purposes” (ORS 456.225) and gives it the same exempt status as other public property. The exemption also facilitates authorities providing lower rents to low income renters.

WHO BENEFITS: In 1997, Oregon’s 22 housing authorities rented about 12,300 units of housing to approximately 26,500 low or very low income people, including an elderly population, a disabled population, single parents and their children, children being the largest single population element among those served. HUD definition of very low income is those who earn 50% or less of median income. Low income is defined as those who earn 80% or less of median income.

Property Tax

- IN LIEU: A housing authority can agree to make payments in lieu of tax payments for improvements, services and facilities furnished by local governments, such as streets, lighting, water and sewer, but the payments cannot exceed estimated costs for these services.
- EVALUATION: This expenditure achieves its purpose. The exemption itself has been around for at least ten years and has been amended at the instigation of the housing authorities. It is believed, however, that the statute was required in the beginning (in, or along with, the federal Housing Act of 1937. Oregon's first housing authority was chartered in 1938) by the federal government of the states that wanted to contract with the federal government for housing development dollars. Since then, the exemption has proven to be a critical component of housing authorities' ability to provide housing affordable to very low income tenants. The exemption has been extensively used and heavily relied upon to allow housing authorities to provide more units of housing and units at more affordable rates to very low income tenants.

The exemption achieves affordable rents in the following two ways. First, approximately 50 percent of housing authority tenants pay a rent of 30 percent of their income. That is the maximum they can pay under federal law in public housing—that is, federally subsidized, housing authority owned housing. The balance of their rent is paid by the federal government through the housing authority. Tenant rent cannot be increased if the cost of their housing unit is increased. The benefit of the property tax exemption in these units is that the housing authorities can make more units available to a larger number of tenants than if there were no exemption.

Second, approximately 50 percent of the tenants live in housing owned by housing authorities but not subsidized by the old federal public housing subsidies. Instead, this housing has been financed through a mix of commercial loans and “off market” financing sources including federal Low Income Housing Tax Credits, the Oregon Housing Fund, and the property tax exemption. In these housing developments, rent is not restricted to 30 percent of income. Even though the tenants are low income, their rents are directly related to construction and operating costs. The property tax exemption is a substantial part of making these units affordable to low income households.

The people who benefit from this expenditure have average household incomes of approximately \$8,000 annually, and many have little or no income at all. Clearly, fewer of them would have affordable housing, and some no housing at all, without this exemption. This exemption successfully achieves its purpose. The process for providing the exemption is very straightforward and easily administered; upon demonstration of a housing authority's qualifying relationship to a given piece of property, the exemption is granted. It is unlikely that local jurisdictions would prefer to collect taxes and use them in a direct spending program to achieve the low income housing development that this exemption make possible. The exemption is also the most fiscally effective means of achieving its purpose. *[Evaluated by the Housing and Community Services Department.]*

2.030 NONPROFIT LOW INCOME RENTAL HOUSING

Oregon Statute: 307.541

Sunset Date: 7-1-04

Year Enacted: 1985

1997–98 Assessed Value of Property Exempted: \$68.7 Million

	Loss	Shift	Total
1997–99 Revenue Impact:	\$2,300,000	\$400,000	\$2,700,000
1999–01 Revenue Impact:	\$2,900,000	\$500,000	\$3,400,000

DESCRIPTION: A city or county may exempt from property tax (both land and improvements) low income rental housing owned or being purchased by a nonprofit corporation. Qualifying 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 rehabilitated structure.

Each year the nonprofit corporation must file an application with the appropriate governing body to claim the exemption. No specific limitation exists as to the number of years a given property may receive the exemption, except that the program is scheduled to sunset in 2004.

PURPOSE: To encourage the provision of affordable low income rental housing. The intent is for nonprofit organizations to help fill the need for low income housing especially after federal housing subsidy cutbacks.

WHO BENEFITS: About 15 nonprofit organizations in the Portland area had 430 exempt properties in 1998–99. A few properties in other cities are also exempt.

EVALUATION: This expenditure achieves its purpose. The exemption is intended to enable community development corporations and other qualifying local nonprofit organizations to provide affordable rental housing for low income households they would otherwise be unable to provide. To qualify for this popular program, the nonprofit submits an application each year for a one year exemption renewable indefinitely before the exemption's sunset date so long as the organization, tenants, and property continue to meet the qualifying criteria. The exemption is simple to administer because the criteria are clear: 1) the benefiting organization must be a qualified nonprofit; 2) the benefiting tenants must have qualifying income levels; and 3) the property must consist of qualifying rental housing. Having met these requirements, a nonprofit will receive its exemption. The tax expenditure appears to be both a fiscally effective and efficient means of achieving its goal. These exemptions can be counted as matching funds by the state and other local participating jurisdictions to enable the expenditure of HUD Home Investment Partnerships funds. [*Evaluated by the Housing and Community Services Department.*]

2.031 NONPROFIT HOUSING FOR THE ELDERLY

Oregon Statute: 308.490

Sunset Date: None

Year Enacted: 1969

1997–98 Assessed Value of Property Exempted: Not Available

	Loss	Shift	Total
1997–99 Revenue Impact:			Not Available
1999–01 Revenue Impact:			Not Available

DESCRIPTION: The assessed value of a home for the elderly operated by a nonprofit corporation may be reduced by using only certain appraisal methods for determining value. (These homes qualify under ORS 307.375; see 2.036 War Veterans in Nonprofit Elderly Housing.) For assessment purposes nonprofit homes for the elderly shall be valued by considering only the income and market data approaches. The cost approach to value shall not be considered. Reliance on the income approach generally results in lower assessed values, and thus lower property tax.

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: The purpose is 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: About 15 homes are specially assessed.

EVALUATION: Whether this tax expenditure achieves its purpose is difficult to determine without more information. Unlike many other housing-related tax expenditure programs, this does not involve local government decision making, but rather contemplates that nonprofit owners of qualified housing will deal directly with local assessors. The tax expenditure is intended to encourage owners to provide housing for the elderly that they might not otherwise be able to provide. The program benefits the owner directly through reduced property taxes and the occupants indirectly by assuring that this form of housing is available to them, presumable at a reduced rate from market rents commensurate with the tax savings. No verification mechanism is in place to assure this result. Additionally, those active in the provision of affordable housing in the state of Oregon claim this program is not significant in state or local efforts to provide affordable housing. [*Evaluated by the Housing and Community Services Department.*]

2.032 NONPROFIT ELDERLY HOUSING STATE FUNDED

Oregon Statute: 307.242

Sunset Date: None

Year Enacted: 1977

1997–98 Assessed Value of Property Exempted: \$44.7 Million

	Loss	Shift	Total
1997–99 Revenue Impact:	Not Applicable	Not Applicable	\$1,500,000
1999–01 Revenue Impact:	Not Applicable	Not Applicable	\$1,800,000

DESCRIPTION: Homes for the elderly built or acquired after January 1, 1977, by private nonprofit corporations (ORS 307.375 qualifications) that receive subsidies under certain federal and state housing programs are exempt from property taxation. 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 any 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.

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: The statutory policy is to "assist private nonprofit corporations to provide permanent housing, recreational and social facilities, and care to elderly persons." (ORS 307.241). The exemption reduced the cost of new elderly housing to qualify for federal Housing and Urban Development National Housing Act funds. At the time, providing the nonprofit corporation a tax exemption accomplished this at about the same cost of providing Homeowners and Renters Refund Program (HARRP) tax relief to eligible occupants. While the HARRP program was phased out in 1991, the state funded tax relief for these elderly housing projects still remains.

WHO BENEFITS: The state paid 1997–98 property taxes of \$747,000 for 32 homes with about 1,540 units. Homes are in 16 counties with 10 of the 32 in Multnomah county. Between 1995–96 and 1997–98, four additional homes were added, and two more will be added for 1998–99.

Funds are appropriated as part of the Elderly Rental Relief program. Since the state pays the property taxes, there is no revenue loss to local taxing districts. There is also no revenue shift among property taxpayers.

EVALUATION: Generally, this expenditure appears to achieve its purpose. The effect of the state funded tax relief is to reduce housing project operating expenses, thereby reducing the rents to project occupants. Tenants otherwise would have to support the property taxes through the monthly rent they pay. The average monthly rent reduction is about \$40 per unit. This may have been significant figure when the program was conceived, but represents less than ten percent of current comparable apartment (only) rent or approximately 2 percent of assisted living monthly costs.

Because eligible project sponsorship or ownership is limited to nonprofit corporations, it is assumed the full benefit of the tax relief is passed on to the project tenants. This assumption cannot be confirmed as no mechanism is in place to monitor project operating budgets to assure this result.

It is also assumed that the elderly households that reside in eligible housing projects have limited incomes which warrant the benefit of this rent reduction. There is no review which 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, 6) notify applicant that the taxes have been paid. An alternative to the annual application could be a statement of compliance from the qualifying nonprofit, if verification is required.

An alternate means to provide an equal benefit to the project residents would be a rent subsidy program. Administration of a rent subsidy program would be more administratively burdensome than the existing subsidy, however.

A direct property tax exemption may be a more efficient means to provide a like benefit to the project tenants. However, local taxing districts (such as cities and schools) would not receive compensating income if a direct property tax exemption were implemented in lieu of the tax relief program. This revenue loss would be relatively small when considered in the context of the overall scope of exemptions and special assessments. *[Evaluated by the Housing and Community Services Department.]*

2.033 FARM LABOR HOUSING AND DAYCARE CENTERS

Oregon Statute: 307.485

Sunset Date: None

Year Enacted: 1973

1997–98 Assessed Value of Property Exempted: \$12.3 Million

	Loss	Shift	Total
1997–99 Revenue Impact:	\$320,000	\$60,000	\$380,000
1999–01 Revenue Impact:	\$340,000	\$60,000	\$400,000

DESCRIPTION: Eligible farm labor camps and associated day care centers are exempt from property tax. An eligible farm labor camp is a place where housing (which may be apartments), sleeping places or camping grounds are owned and operated by a nonprofit corporation in compliance with applicable health codes. Housing can be provided to agricultural workers not currently employed if employed when work is available. Housing can also be for workers' families. An eligible day care center must be owned or operated by a nonprofit corporation and operated in conjunction with an eligible farm labor camp.

Owners of exempt farm labor housing must make in-lieu-of tax payments to the county treasurer equal to ten percent of yearly net rentals. A claim for exemption must be made each year with the county assessor. The assessor, in turn, forwards applications to the Department of Revenue, the State Fire Marshal, Children's Services Division, and the local health officer for approval. A health inspection of the housing must be made each year.

PURPOSE: To encourage low cost housing for farm workers by nonprofit corporations. Charging rental fees would otherwise make the housing taxable even though owned by a nonprofit.

WHO BENEFITS: Direct recipients are the nonprofit owners and operators of farm labor housing and associated day care centers. The farm workers and their families who live in the housing are the indirect beneficiaries of the credit. In 1997–98 there were about 50 farm labor housing properties exempt in eight counties with about 80 percent of the value in Hood River, Malheur, Umatilla and Washington counties. Eleven nonprofit corporations operate the housing.

IN LIEU: Nonprofit corporations operating farm labor housing do not usually have a net income after depreciation is taken into account, and hence generally make no in lieu payment. When payments are made, they are usually small. Any funds collected are distributed to taxing districts where the exempt property is located.

EVALUATION: This expenditure achieves its purpose. Without the tax exemption the daycare facilities may not be built or rehabilitated at all. Assuming that the difference between (a) the amount of property taxes that would be owed without this statute and (b) the amount of the payment in lieu of taxes that in fact is paid under the statute, is passed along to the residents, then the benefit of the tax expenditure is easily calculated by the amount of the reduced rent or day care cost.

While an administrative improvement would be to eliminate the requirement that an application be filed every year, it is probably the trigger mechanism needed for the annual health and safety inspections. *[Evaluated by the Housing and Community Services Department.]*

2.034 SUMMER HOMES ON FEDERAL LAND

Oregon Statutes: 307.183 and 307.184
 Sunset Date: 7-1-02
 Year Enacted: 1975

1997–98 Assessed Value of Property Exempted: \$37.7 Million

	Loss	Shift	Total
1997–99 Revenue Impact:	\$1,000,000	\$200,000	\$1,200,000
1999–01 Revenue Impact:	\$1,000,000	\$200,000	\$1,200,000

DESCRIPTION: Land under summer homes that is owned by the Forest Service or Bureau of Land Management and used by permit or lease is exempt from property tax. The summer home, other buildings or structures and improvements to the land (water or septic systems, electric service and landscaping) are all taxable to the lessee.

PURPOSE: To provide tax relief to compensate for the cost of permit fees, and to avoid the difficulty of valuing the property with its restrictions. The exemption reinstates the status quo of no land lease taxation after a court decision in 1971 found such land taxable. The exemption may also avoid “double taxation” since 25 percent of the fee income to the Forest Service is shared with counties.

Property Tax

WHO BENEFITS: In 1994 the Forest Service had 1,639 homesite permits totaling 616 acres in 17 counties. Clackamas County was the leading location with 558 homesites totaling 140 acres. Fees paid to the Forest Service for these permits totaled about \$1,270,000 in 1994, or about \$776 per permit. One quarter of this amount, or about \$318,000 was shared with the counties.

EVALUATION: Not Evaluated

2.035 WAR VETERANS AND THEIR SPOUSES

Oregon Statute: 307.250

Sunset Date: None

Year Enacted: 1921

1997–98 Assessed Value of Property Exempted: \$302.2 Million

	Loss	Shift	Total
1997–99 Revenue Impact:	\$7,800,000	\$1,500,000	\$9,300,000
1999–01 Revenue Impact:	\$8,500,000	\$1,600,000	\$10,100,000

DESCRIPTION: Eligible war veterans or their surviving spouses qualify for a \$8,250 property tax exemption on their homestead or personal property. Those eligible include:

- any war veteran certified to be at least 40 percent disabled by the U.S. Veterans Administration;
- any war veteran who is certified to be at least 40 percent disabled by a licensed physician and whose total gross income is less than (a) \$8,037 if no spouse or dependent child, (b) \$10,527 if spouse or dependent child and (c) \$10,527 plus \$1,301 for the third and each additional dependent family member; and
- any surviving spouse of a war veteran (whether or not the veteran was disabled), as long as the spouse remains unmarried.

The exemption increases to \$11,000 for veterans and their surviving spouses if the war veteran had service-connected disabilities of 40 percent or more as certified by the U.S. Veterans Administration. No gross income limit applies in the case of service-connected disability.

A war veteran is defined in ORS 174.105 as anyone who served in the Armed Forces of the United States at least 90 days during World War I, World War II, or the Korean War, or served at least 210 days anytime after 1955.

The exemption amounts listed above became effective in 1997–98, after being increased by the 1995 Legislature. Starting in 1998–99, the exemption amount for service-connected disabilities increases by 3 percent per year. To claim these exemptions, an application must be filed each year with the county assessor.

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

WHO BENEFITS: In 1997–98 about 33,900 veterans or their spouses received the exemption. The average exemption was about \$8,900 and the average tax reduction was about \$135.

The revenue impacts reported here include those real property exemptions for veterans who live in qualified nonprofit homes for the elderly (2.036 War Veterans in Nonprofit Elderly Housing).

EVALUATION: This tax expenditure has achieved its purpose by providing an additional income benefit to disabled veterans and surviving spouses of all veterans. In many cases, if it were not for this benefit, the veteran or spouse may lose their home or become dependent on social assistance programs. This additional spendable income also helps the local economy.

The expenditure is fiscally effective. It allows disabled veterans and surviving spouses to remain independent and reduces their use of other social programs. [*Evaluated by the Department of Veterans' Affairs.*]

2.036 WAR VETERANS IN NONPROFIT ELDERLY HOUSING

Oregon Statute: 307.370

Sunset Date: None

Year Enacted: 1969

1997–98 Assessed Value of Property Exempted: \$4.1 Million

	Loss	Shift	Total
1997–99 Revenue Impact:	\$120,000	\$20,000	\$140,000
1999–01 Revenue Impact:	\$130,000	\$30,000	\$160,000

DESCRIPTION: Veterans or their widows who are residents of nonprofit homes for the elderly do not qualify for the veteran’s property tax exemption (2.035) because they do not own their living units. However, qualified nonprofit homes for the elderly can claim the veteran’s real property tax exemption for their residents if they pass the tax benefit through to the eligible individuals. To qualify the home must:

- be nonprofit;
- receive at least 95 percent of their operating revenue (excluding investment income) from residents for living, medical, recreational and social service costs;
- not allow any of its net earnings to benefit any private individual; and
- provide that, if the corporation is dissolved, any remaining assets revert to the state or to an exempt, religious, charitable, scientific, literary, or educational organization.

These are the same homes described under 2.031 Nonprofit Housing for the Elderly. A claim for exemption must be filed with the county assessor.

Besides the real property veteran’s exemption, all personal property of nonprofit homes for the elderly is exempt from property taxation. The exempt value reported here is for personal property of the nonprofit homes only. The real property veteran’s exemption is included in War Veterans and their Spouses (2.035).

PURPOSE: To extend veteran property tax exemption benefits to those not owning a home but living in a nonprofit home for elderly persons. In addition, the personal property exemption is to encourage housing for the elderly.

WHO BENEFITS: About 15 homes have personal property exempt.

EVALUATION: This expenditure only partially achieves its purpose. It does allow disabled veterans and spouses who are living in nonprofit homes for the elderly to receive a rent reduction equivalent to the tax reduction for those who own their homes, as described in War Veterans and their Spouses (2.035). This benefit may allow disabled veterans and surviving spouses to remain independent and reduces their use of other social programs.

However there are only about 15 such nonprofit homes for the elderly where disabled veterans and spouses can receive a rent reduction. It would appear that the number of veterans and spouses who can take advantage of this program is quite limited. In addition, we did not have the information to verify that the rent reductions were passed through to the eligible veterans and spouses, although a verification mechanism is in place. According to statute, each nonprofit corporation must provide information to the county assessor to show that the appropriate rent credit was given to each applicable resident. [*Evaluated by the Department of Veterans' Affairs.*]

2.037 FARM LAND

Oregon Statute: 308.370

Sunset Date: None

Year Enacted: 1967

1997–98 Assessed Value of Property Exempted: \$4.4 Billion

	Loss	Shift	Total
1997–99 Revenue Impact:	\$88,400,000	\$16,200,000	\$104,600,000
1999–01 Revenue Impact:	\$93,800,000	\$17,100,000	\$110,900,000

DESCRIPTION: Under local property tax law, land used exclusively for farming may be specially assessed at its value for farm use instead of its value in its “highest and best use” (ORS 308.345 to 308.407). Legitimate farm activity may involve crops, livestock, poultry, fur-bearing animals, honeybees, dairies, animal husbandry, aquatic species, and cultured Christmas trees. Farm use land may also include a woodlot of 20 acres or less, wasteland, land under farm buildings, and ponds. The farmer must intend to make a profit using accepted farming practices. See ORS 215.203 for the definition of farm use.

Farm use land is specially assessed at its “value for farm use” and not its value in other use. Farm use value is normally determined by an income approach. Under this approach income generated (before property taxes) from comparable properties is capitalized into a present value for farm use. The capitalization rate is the average interest rate charged over the last five years by the Farm Credit Service (formally Federal Land Bank) on loans for Oregon farm properties. The Department of Revenue calculates the rate each year.

Eligible farm land is in one of two categories:

- Zoned farm land—inside an exclusive farm use (EFU) zone;
- Unzoned farm land—outside an exclusive farm use zone (non-EFU).

The farm use value of zoned and unzoned farm land is determined the same way. However, the eligibility and disqualification procedures are different.

Zoned Farm Land

Special assessment of zoned farm land is automatic if the land is in farm use. No application is needed. Zoned land becomes disqualified if it is not being used as a farm or the land is rezoned to a non-farm use. If land is disqualified, an additional tax may be required. The additional tax is equal to the sum of the tax benefit received in each of the prior years (up to a maximum) of special assessment. The maximum number of years is 10 for land outside an urban growth boundary and five if inside an urban growth boundary. However, if a disqualifying zone change is not requested by the owner, no additional tax is imposed.

Unzoned Farm Land

An application must be filed for special assessment of unzoned farm land. In addition to being in farm use, unzoned farm land must be part of a farm unit that earns a minimum gross income from farm use in three of the last five years. For farms of more than 6 but less than 30 acres, the minimum income required is \$100 per acre. For farms of less than 6 acres, the minimum income is \$650, and for farms of 30 acres or more, the requirement is \$3,000.

If land is disqualified additional taxes may be required. The additional taxes are equal to the sum of all tax benefits received in prior years (up to five) of special assessment. If land is disqualified for current special assessment because the gross income tax is not met, the additional taxes are deferred as long as the land remains in farm use and one year of additional taxes is forgiven for each year the land remains in farm use.

- PURPOSE:** To preserve the agricultural economy of the state, to protect natural resources and open space, to prevent urban growth and development influences from increasing land values to the point where farming is no longer an economically viable use of the land, and to limit expansion of urban development into rural areas.
- WHO BENEFITS:** Farmers benefit directly. Oregon residents in general also benefit through a healthy agricultural economy, through the preservation of natural resources and open space, and through more efficient development patterns. About 15.6 million acres of land is assessed at farm use value with 16 percent in western Oregon and 84 percent in eastern Oregon. Of this total, about 82 percent is zoned farm use land and 18 percent is unzoned.
- EVALUATION:** The special farm use assessment of land zoned for exclusive farm use has played an essential part in achieving Oregon's Agricultural Land Use Policy to preserve the maximum amount of agricultural land in large blocks. It is the primary incentive offered to encourage owners of rural lands to hold such lands in exclusive farm use zones. (See ORS 215.243). The effective protection of agricultural land requires well-coordinated special assessment and land use programs.

However, the unzoned special farm use assessment program can conflict with Oregon’s land use program in both urban and rural areas. In urban areas, it discourages timely development by lowering an owner’s holding costs and encouraging speculation. In rural areas, the requirement to apply for special assessment and meet a minimum income is a disincentive to property owners to rezone appropriate areas for rural residential development and also makes development in exclusive farm use areas (where there is no application or income requirement) more attractive to those seeking a rural homesite. *[Evaluated by the Department of Land Conservation and Development.]*

2.038 FARM HOMESITES

Oregon Statute: 308.377

Sunset Date: None

Year Enacted: 1987

1997–98 Assessed Value of Property Exempted: \$148.5 Million

	Loss	Shift	Total
1997–99 Revenue Impact:	\$3,800,000	\$700,000	\$4,500,000
1999–01 Revenue Impact:	\$4,100,000	\$800,000	\$4,900,000

DESCRIPTION: A farm homesite being used in conjunction with specially assessed farm land has a special assessed property value. The homesite maximum value is calculated as the average per acre assessed value for the contiguous bare farm land under the same ownership plus up to \$4,000 for land improvements. Land improvements would include a well and septic system necessary for a homesite. The homesite is limited to one acre. If disqualified, no additional tax is imposed.

PURPOSE: To improve the financial viability of farming by reducing the property tax burden, and to reduce the incentive to convert productive farm land to urban uses.

WHO BENEFITS: The number of farm homesites in Oregon is estimated at about 30,000. This includes homesites used for a combination of farm and forestry. The average value exempted is about \$5,000 per homesite.

The value per acre of farm land tends to decrease as the farm acreage increases. Thus hobby farm homesite special values under this statute are likely to be higher than the homesite special value for larger farms.

EVALUATION: Extending special farm assessments to farm homesites reinforces the effects of special assessments for farm land evaluated in 2.037. *[Evaluated by the Department of Land Conservation and Development.]*

2.039 FARM MACHINERY AND EQUIPMENT

Oregon Statute: 307.400 (3)

Sunset Date: None

Year Enacted: 1973

1997–98 Assessed Value of Property Exempted: \$1.5 Billion

	Loss	Shift	Total
1997–99 Revenue Impact:	\$29,600,000	\$5,400,000	\$35,000,000
1999–01 Revenue Impact:	\$32,700,000	\$6,000,000	\$38,700,000

DESCRIPTION: Machinery and equipment used in farm operations involving crops, livestock, poultry, fur-bearing animals, bees, dairying, animal husbandry, or other agricultural or horticultural products are exempt from local property taxation. Specifically included are components of center pivot irrigation systems, frost control systems, trellises, hop harvesting equipment, oyster racks and other in-water structures used to raise bi-valve mollusks, equipment used in the egg industry, and meteorological and radio communication equipment used in monitoring field burning smoke.

PURPOSE: To improve the financial viability of farming.

WHO BENEFITS: All farmers who own machinery and equipment receive benefits from this provision.

EVALUATION: This expenditure appears to be achieving its purpose. Agricultural machinery is extremely expensive, and farmers spend more on machinery per worker than any other industry. Profit margins are very tight and prices fluctuate dramatically from year to year. Placing a fixed tax on equipment that may or may not bring a return to the owner in any given year creates a financial burden on the producers.

Arguably, many small producers could not afford a tax on personal property, and the costs of filing personal property tax returns would be an additional burden. The current tax exemption appears a more appropriate treatment of this particular situation than direct spending. Producers would likely argue that it is working as is and should not be altered. *[Evaluated by the Department of Agriculture.]*

2.040 MOBILE FIELD INCINERATORS

Oregon Statute: 307.390

Sunset Date: None

Year Enacted: 1971

1997–98 Assessed Value of Property Exempted: \$700,000

	Loss	Shift	Total
1997–99 Revenue Impact:	Less than \$50,000	Less than \$50,000	Less than \$50,000
1999–01 Revenue Impact:	Less than \$50,000	Less than \$50,000	Less than \$50,000

DESCRIPTION: Mobile field incinerators owned by farmers and used exclusively for sanitizing grass seed fields by means other than open-field burning are exempt from property tax. Incinerators must be purchased within five years after they are certified by the Department of Environmental Quality. The Oregon Department of Agriculture currently manages field burning operations in Oregon.

Property Tax

- PURPOSE:** To encourage pollution control by the use of mobile field incinerators in place of open field burning of grass straw.
- WHO BENEFITS:** The Department of Agriculture is aware of only one mobile field incinerator currently in use. Because of the high costs of operation, it is unlikely more will be built.
- EVALUATION:** This expenditure is not achieving the purpose for which it was intended. The current technology of mobile field incinerators appears too expensive to be a viable alternative to other approaches used to sanitize grass seed fields. Barring a major technological advance that reduces its cost, the use of mobile field incinerators is likely to cease completely. *[Evaluated by the Department of Agriculture.]*

2.041 CROPS, PLANTS, AND FRUIT TREES

Oregon Statute: 307.320
Sunset Date: None
Year Enacted: 1957

1997–98 Assessed Value of Property Exempted: \$911.7 Million

	Loss	Shift	Total
1997–99 Revenue Impact:	\$18,600,000	\$3,400,000	\$22,000,000
1999–01 Revenue Impact:	\$20,900,000	\$3,800,000	\$24,700,000

- DESCRIPTION:** Deciduous trees, shrubs, plants, crops, cultured Christmas trees, and cultivated hardwood trees growing on agricultural land are exempt from local property taxation.
- PURPOSE:** To improve the financial viability of farming by reducing the property tax burden and to eliminate the filing of personal property tax returns for farmers. The statute was passed to maintain the status quo of not taxing these plants after a court case found them taxable.
- WHO BENEFITS:** Oregon has about 2.8 million acres of harvested cropland (excluding Christmas trees). Roughly a third of the exempt value is for vineyards, berries and fruit and nut trees, a third for annual row and other crops, and a third for Christmas trees.
- EVALUATION:** This exemption is accomplishing its purpose. Commodities of this nature represent standing crop inventory and may be, at any given time, unmarketable by industry standards. Given the vagaries of weather, etc. they may never reach marketability.
- It is our view that this expenditures is the most fiscally effective means of achieving its purpose. *[Evaluated by the Department of Agriculture.]*

2.042 FARM ANIMALS AND BEES

Oregon Statute: 307.400(1)

Sunset Date: None

Year Enacted: 1969

1997–98 Assessed Value of Property Exempted: \$1.1 Billion

	Loss	Shift	Total
1997–99 Revenue Impact:	\$22,700,000	\$4,200,000	\$26,900,000
1999–01 Revenue Impact:	\$25,600,000	\$4,700,000	\$30,300,000

DESCRIPTION: Livestock, poultry, fur-bearing animals, and bees are exempt from local property taxation.

PURPOSE: To eliminate the burden of enumerating livestock inventories and filing personal property tax returns, to provide tax relief to small farmers, and to eliminate behavior specifically aimed at reducing livestock inventories on the date of assessment.

WHO BENEFITS: Most of the exempt value for farm animals is for calves and cattle. About 17,000 farms in Oregon raise some cattle.

EVALUATION: This tax expenditure is successful in achieving its purpose. It has provided some relief to small farmers and eliminates the incentive to move animals to market specifically for inventory reduction purposes. This allows small operators to market at the most advantageous time for them, taking into account market factors and the condition of the animals. This, in turn, stabilizes the effect on other businesses supported by the small farmer.

The tax expenditure is the most fiscally effective means of achieving its purpose because the business is so volatile and cyclical, and values can vary dramatically within a year's time. [*Evaluated by the Department of Agriculture.*]

2.043 AGRICULTURAL PRODUCTS HELD BY FARMER

Oregon Statute: 307.325

Sunset Date: None

Year Enacted: 1965

1997–98 Assessed Value of Property Exempted: Included in 2.041 Crops, Plants, and Fruit Trees

	Loss	Shift	Total
1997–99 Revenue Impact:			Included in 2.041
1999–01 Revenue Impact:			Included in 2.041

DESCRIPTION: Agricultural products in the possession of the farmer who produced them or acquired them for use in the farm operation are exempt from local property taxation. These products are grain, seed, hay, fruit, vegetables, nuts, hops, wool, fish, poultry held for sale, butter, cheese, evaporated, condensed or concentrated milk, mint, and bivalve mollusks. Most products held by farmers are considered inventories and are exempt under the inventory exemption of the property tax. This provision exempts those products not covered by the inventory exemption, which is a relatively small amount.

Property Tax

- PURPOSE:** To improve the financial viability of farming. The statute was passed to maintain the status quo of not taxing these products.
- WHO BENEFITS:** Farmers, primarily those who hold products produced for their own use. This includes those who raise hay and other feed for their own animals.
- EVALUATION:** This exemption is accomplishing its purpose. It reduces the tax burden on farming, and it makes the treatment of farm products consistent with inventories in other industries. Given the vagaries of the weather, some of these products may never reach maturity and harvest. In addition, it would be extremely difficult to place a value on standing crops because, at any given time, different crops will be at different stages of maturity. *[Evaluated by the Department of Agriculture.]*

2.044 NURSERY STOCK

Oregon Statute: 307.315
Sunset Date: None
Year Enacted: 1971

1997–98 Assessed Value of Property Exempted: \$367.1 Million

	Loss	Shift	Total
1997–99 Revenue Impact:	\$7,600,000	\$1,400,000	\$9,000,000
1999–01 Revenue Impact:	\$9,100,000	\$1,700,000	\$10,800,000

- DESCRIPTION:** Nursery stock in the hands of growers or wholesalers is exempt from local property taxation. The stock can be bare root, balled, in containers, or in or upon the ground. Nursery stock includes ornamental plants, trees, and shrubs grown or kept for propagation or sale as defined in ORS 571.005(5).
- PURPOSE:** To improve the financial viability of the nursery industry by reducing the property tax burden. The statute was passed to maintain the status quo of not taxing nursery stock and to treat it the same as farm plants and crops.
- WHO BENEFITS:** Farms in Oregon growing some nursery crops number about 2,000. Most of these farms are in western Oregon and are concentrated in the Willamette Valley.
- EVALUATION:** This tax expenditure is accomplishing its purpose. The exemption of nursery stock is consistent with the exemption provided for other farm commodities (2.041) and with the exemption of inventories in non-agricultural industries (2.013). Any change, such as the elimination of this exemption, resulting in an increase in market price would reduce the competitiveness of Oregon-grown nursery stock in the national and international marketplaces. The current tax expenditure is the most effective means of achieving this purpose. *[Evaluated by the Department of Agriculture.]*

2.045 LEASED PUBLIC FARMING AND GRAZING LAND

Oregon Statute: 307.110 (3)(b)

Sunset Date: None

Year Enacted: 1971

1997–98 Assessed Value of Property Exempted: Included in 2.087 State and Local Property

	Loss	Shift	Total
1997–99 Revenue Impact:			Included in 2.087
1999–01 Revenue Impact:			Included in 2.087

DESCRIPTION: In general, when public property is held under contract of sale or is leased to a private individual or business, it is considered taxable. However, state or local government land leased or rented by persons for agricultural or grazing uses who do not pay a cash rent or share of the crop is exempt from local property taxation. In some cases, the lessee performs a service in return farming or grazing rights. For example, a farmer might use public land for agricultural purposes and in return agree to keep other state or locally-owned land mowed (Chapter 431, 1971).

PURPOSE: To encourage leasing of small parcels of government land (that would be exempt anyway if not leased) to avoid government land maintenance costs.

WHO BENEFITS: Farmers and ranchers who lease state and local land. The expenditure also benefits state and local governments, who in exchange receive land maintenance, which may be more valuable than the potential rent and other management issues associated with small, isolated parcels.

EVALUATION: This expenditure effectively achieves its purpose. It produces benefits to local communities through the increased economic activities associated with the livestock industry. The increased economic activities provide additional tax resources for Eastern Oregon counties, and the grazing leases provide revenue to the School Trust Fund.

Without this expenditure, it is likely that costs would exceed benefits due to the substantial costs needed to administer the program in comparison to the returns to the state. Additionally, this exemption may avoid an issue of “double taxation” since part of the grazing lease income to the state is shared with local governments. [*Evaluated by the Department of Agriculture.*]

2.046 LEASED FEDERAL GRAZING LAND

Oregon Statute: 307.060

Sunset Date: None

Year Enacted: 1961

1997–98 Assessed Value of Property Exempted: Included in 2.098 Federal Property

	Loss	Shift	Total
1997–99 Revenue Impact:			Included in 2.098
1999–01 Revenue Impact:			Included in 2.098

DESCRIPTION: Federal land leased primarily for agricultural purposes from a federal wildlife conservation agency or used primarily for livestock grazing is exempt from local property taxation. The Bureau of Land Management leases grazing land based on animal unit months (AUM) rather than acres. An animal unit month is defined as the amount of grazing land needed to sustain a cow for a month.

PURPOSE: To provide property tax relief to livestock owners and to avoid the difficulty of valuing the property with its restrictions. The exemption reinstates the status quo after a court decision in 1961 found such land taxable. The exemption also avoids “double taxation” since part of the fee income to the federal government is shared with local governments.

WHO BENEFITS: Farmers and ranchers who lease federal land for grazing. The expenditure may also benefit local communities through increased economic activity. In 1995, the Bureau of Land Management issued permits and leases for 857,000 AUMs.

EVALUATION: This expenditure appears to be achieving its purpose. It provides direct benefits to livestock owners, and without the expenditure the administrative costs of the taxing the property would likely exceed the benefits. *[Evaluated by the Department of Agriculture.]*

2.047 OYSTER GROWING ON STATE LAND

Oregon Statute: 622.290

Sunset Date: None

Year Enacted: 1969

1997–98 Assessed Value of Property Exempted: \$1.1 Million

	Loss	Shift	Total
1997–99 Revenue Impact:	Less than \$50,000	Less than \$50,000	Less than \$50,000
1999–01 Revenue Impact:	Less than \$50,000	Less than \$50,000	Less than \$50,000

DESCRIPTION: In general, when public property is held under contract of sale or is leased to a private individual or business, it is considered taxable. However, state land being used for the private cultivation of oysters is exempt from local property taxation. Annual cultivation fees and use taxes are in lieu of property taxes and lease fees. The cultivation fee is four dollars per acre (increased from two dollars in 1997) and the use tax is ten cents per gallon (increased from five cents) if the oysters are sold shucked or ten cents per bushel if they are sold in the shell. The value of oyster production on these lands was an estimated \$1.1 million in 1997. The total acreage of submersed state estuary land has been rather stable for the past five years. Production of shucked oysters harvested, about sixteen thousand gallons per year, has remained about the same as well.

- PURPOSE:** To provide tax relief to oyster growers and to avoid the difficulty of valuing the property with its restrictions. The exemption maintained the status quo after attempts were made to tax oyster beds.
- WHO BENEFITS:** Oyster growers who raise oysters on state-owned land. State land is leased for oyster growing in Coos, Douglas, Lincoln, and Tillamook counties. Commercial oyster lease holders range from individuals with only a few acres under lease to large companies with several hundred to a thousand acres.
- IN LIEU:** The Department of Agriculture collected \$11,422 in fees in 1997–98. The in lieu fees were for leasing 3,607 acres and producing 28,256 gallons of oysters.
- EVALUATION:** The tax expenditure seems to be effective in achieving its purpose. The expenditure is particularly helpful to growers who are just getting started in the business and to those with small lease holdings. It takes several grow-out years before oysters can be harvested. The tax expenditure helps make it possible for growers to make it through the unproductive years. [*Evaluated by the Department of Agriculture.*]

2.048 POLLUTION CONTROL FACILITIES

Oregon Statute: 307.405

Sunset Date: 12-31-03

Year Enacted: 1967

1997–98 Assessed Value of Property Exempted: \$32.4 Million

	Loss	Shift	Total
1997–99 Revenue Impact:	\$800,000	\$200,000	\$1,000,000
1999–01 Revenue Impact:	\$900,000	\$200,000	\$1,100,000

DESCRIPTION: A pollution control facility owned or leased by a cooperative or nonprofit corporation and used in connection with its trade or business is eligible for a property tax exemption.

The Environmental Quality Commission certifies the facility cost and the exemption percentage. The exemption lasts 20 years from the date of certification.

A pollution control facility is any land, structure, machinery, equipment, or device that prevents, controls or reduces air, water, or noise pollution, solid or hazardous waste, or recycles or disposes of used oil. In most cases the percentage allocable to pollution control depends on whether the owner earns any income from the facility. Thus, if an air, water, or noise pollution control facility, in addition to reducing pollution, has some useful end product, then only a portion of the construction of the facility might be allocated to pollution control.

This exemption is a companion to the Pollution Control credit (1.135) on the income tax. For-profit companies are eligible for the income tax credit, while non-profits and cooperatives are eligible for the property tax exemption.

Property Tax

PURPOSE: The purpose is to “assist in the prevention, control and reduction of air, water and noise pollution and solid waste, hazardous wastes and used oil in this state by providing tax relief...” (ORS 468.160). The tax relief helps to offset the cost of government imposed requirements for reducing pollution and to encourage the reduction of pollution even if not required.

WHO BENEFITS: The program provides an incentive to cooperatives and non-profits for installing pollution control facilities not required under current law; defined as “sole purpose facilities.” The program also compensates cooperatives and non-profits for installing facilities required by the Department of Environmental Quality or by the U.S. Environmental Protection Agency; defined as “principal purpose facilities.”

Most of the exempt value was approved before 1983. Only about \$1.2 million has been approved since for-profit businesses were denied the choice of a property tax exemption. Thus the amount exempt is likely to decline over time.

EVALUATION: This expenditure has limited success in achieving its purpose. It attempts to provide, for cooperatives and non-profits, an incentive similar to the income tax credit available to for-profit businesses. (See 1.135.) Since 1995, no cooperatives or non-profits have applied for a tax credit. As with the income tax credit, some of the investment qualifying for the property tax exemption is likely a result of the incentive, but most investments would have occurred anyway because they are required by law. [*Evaluated by the Department of Environmental Quality.*]

2.049 NONPROFIT SEWAGE TREATMENT FACILITIES

Oregon Statute: 307.118

Sunset Date: None

Year Enacted: 1997

1997–98 Assessed Value of Property Exempted: \$200,000

	Loss	Shift	Total
1997–99 Revenue Impact:	Less than \$50,000	Less than \$50,000	Less than \$50,000
1999–01 Revenue Impact:	Less than \$50,000	Less than \$50,000	Less than \$50,000

DESCRIPTION: Passed by the 1997 legislature, HB 3495 created an exemption from property taxes 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; refunding and abating any taxes paid for the 1996 and 1997 tax years, and provides an exemption for future tax years. The nonprofit corporation must have been in existence as of January 1, 1997, and the corporation and plant must have been in operation on July 1, 1997. The exemption was created for the Mapleton Commercial Area Owners’ Association in Lane County, and it is unlikely any other facilities qualify for the exemption.

PURPOSE: To assist a specific sewage treatment facility.

WHO BENEFITS: There appears to only be one entity in the state qualified for this tax relief, the Mapleton Commercial Area Owners’ Association. The beneficiaries of this legislation are the owners of the three homes and 17 businesses comprising the membership of the Mapleton Commercial Area Owners’ Association.

EVALUATION: This legislation was designed to provide an economic benefit to one nonprofit business association. This it accomplishes. However, this subsidy serves no public policy purpose and raises issues of fairness with other privately owned sewage treatment works not so benefited.

Mapleton is an unincorporated area of Lane County with a small community sewer system collecting domestic wastes from three homes and 17 businesses. Typically, a system with the scale and function of Mapleton's would be owned and operated by some type of local government. In unincorporated areas, the operation would usually be through one of several forms of special purpose districts with an independent, elected legislative board or a county service district overseen by the Board of County Commissioners. Having a sewer utility run by a private nonprofit corporation is odd, perhaps unique.

The inferred reason for such an organizational form is to maintain control in the hands of the owners of the 17 businesses, and to free the organization from the accountability and controls imposed on governmental organizations. That is, if the utility were owned by a special district, it would be responsible to a board elected from and by residents of the district. The business owners are likely not residents, and so would lose control if a district were formed. Likewise, any governmental form of organization would require submission of audited annual financial statements to the Secretary of State, as well as governing board compliance with the open meetings law, governmental ethics, and the public records law. As a nonprofit corporation, they are not subject to any of those governmental requirements, nor is rate setting regulated by the Public Utility Commission. They also have better access to protection from creditors through chapter 7 and chapter 11 bankruptcy protection than is available to a municipal corporations.

There are many other privately owned community sewer systems in the state. A number of destination resorts own their own systems, some of which are quite large. Additionally, there are scores (maybe hundreds) of trailer and recreational vehicle parks. They just aren't organized as nonprofits. If they can save money by changing their organizational form without losing control, they may. They may also seek to amend this law to extend its benefits more broadly.

Originally, choosing to organize as a private nonprofit corporation did impose one cost. This was liability to pay ad valorem property taxes on the real and personal property of the corporation. HB 3495 eliminates this liability to pay property taxes. [*Evaluated by the Department of Environmental Quality.*]

2.050 RIPARIAN HABITAT LAND

Oregon Statute: 308.796

Sunset Date: 7-1-04

Year Enacted: 1981

1997–98 Assessed Value of Property Exempted: \$200,000

	Loss	Shift	Total
1997–99 Revenue Impact:	Less than \$50,000	Less than \$50,000	Less than \$50,000
1999–01 Revenue Impact:	Less than \$50,000	Less than \$50,000	Less than \$50,000

DESCRIPTION: Land designated as riparian land by the State Department of Fish and Wildlife is exempt from local property taxation. Riparian land is defined as privately-owned stream beds and the land under adjacent vegetation that is influenced by water, but which does not extend more than 100 feet from the streambank. Only riparian land zoned as forest or agricultural and range lands in compliance with statewide planning goals and located outside urban growth boundaries may qualify. The Department of Fish and Wildlife can designate land if the owner has developed and implemented a plan for continued protection of the land using approved rehabilitation techniques. The Department cannot approve more than 200 miles (increased from 100 miles in 1997) of private streambank in any one county.

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.

The exemption ends July 1, 2004. All exempt riparian land will be taxable in the 2004–05 tax year.

PURPOSE: To maintain riparian habitat in a healthy condition to control erosion, improve water quality, and prolong streamflow. It is also to “prevent the forced conversion of riparian environments to intensive uses as a result of economic pressures caused by the assessment....at values incompatible with their protection as riparian lands....” (ORS 308.793).

WHO BENEFITS: Owners of riparian land that has been designated by the Department of Fish and Wildlife. The general public also benefits if the program is effective in improving riparian habitat.

As of August of 1996 the Department of Fish and Wildlife had approved 750 acres along roughly 60 miles of streams. One hundred and ten landowners participate. About 75 percent of the acres are in 14 western counties and 25 percent in six eastern counties.

EVALUATION: This expenditure, as amended in SB 774 in 1997, may be more effective than it was previously. However, the usage and data around this expenditure are not conclusive. The exemption is likely still a less effective incentive for promoting the improvement of riparian habitat than is the Fish Habitat Improvement credit (1.139) available under the income tax. For this reason, the Department of Fish and Wildlife has concentrated its efforts on promoting the Fish Habitat Improvement credit.

With increased efforts to save Oregon salmon runs, the Riparian Habitat Land exemption might 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 land, so the exemption provides a relatively small reduction in taxes. Second, land inside urban growth boundaries is excluded from the program. And third, the program limits the amount of riparian land that can be certified to not more than 200 miles of streambank per county. Removing the latter two restrictions, and modifying the provisions to allow for larger tax reductions, would make the program more effective. [Evaluated by the Department of Fish and Wildlife.]

2.051 ETHANOL PRODUCTION FACILITY

Oregon Statute: 307.701

Sunset Date: 7-1-08

Year Enacted: 1993

1997–98 Assessed Value of Property Exempted: \$0

	Loss	Shift	Total
1997–99 Revenue Impact:	\$0	\$0	\$0
1999–01 Revenue Impact:	\$0	\$0	\$0

DESCRIPTION: An ethanol production facility is 50 percent exempt from local property taxation for five years if:

- construction begins after July 1, 1993,
- production begins within four years of the first July 1 exemption, and
- the State Dept. of Agriculture certifies the facility produces ethanol capable of blending with gasoline.

An application must be filed with the county assessor. If production or certification does not occur within the time allowed, the property is not exempt for any tax year. Any prior exemption must be repaid by adding the property to the role as omitted property.

PURPOSE: To encourage ethanol production in Oregon in order to alleviate dependence on foreign oil, as well as to encourage an alternative method to dispose of agricultural waste. In 1993 the exemption was shifted from a fuel tax exemption to a property tax exemption in order to focus the incentive on ethanol produced in Oregon. The shift also allowed the state to maintain an incentive without cutting revenue to the highway fund with a fuel tax exemption.

WHO BENEFITS: Currently no ethanol production facilities exist in Oregon.

EVALUATION: This exemption has not been effective in achieving its purpose. A few businesses have explored the possibility of building a fuel-grade ethanol plant in Oregon, but none have done so. Given the current market, an ethanol facility is likely not an economic venture even with the property tax exemption and other incentives provided by the state and federal government. (Those incentives include tax credits, low-interest loans, and a federal gasoline tax reduction for ethanol blends.) If an ethanol facility is to become economic in the near future, it would require more government subsidies to bring down building and operating costs or a change in market conditions or technology to make ethanol production profitable. [Evaluated by the Office of Energy.]

2.052 ALTERNATIVE ENERGY SYSTEMS

Oregon Statute: 307.175

Sunset Date: 7-1-02

Year Enacted: 1975

1997–98 Assessed Value of Property Exempted: \$109.2 Million

	Loss	Shift	Total
1997–99 Revenue Impact:	\$2,800,000	\$500,000	\$3,300,000
1999–01 Revenue Impact:	\$3,100,000	\$600,000	\$3,700,000

DESCRIPTION: Solar, geothermal, wind, water, or methane gas energy systems used for heating, cooling, or generating electricity are partially exempt from local property tax. The amount of exemption is the difference between the value of property equipped with the alternative system and its value if it were not equipped with the system. The exemption applies to all property (residential, business, etc.) except property of businesses whose primary activity is supplying energy.

PURPOSE: The exemption is to encourage the use of alternative sources of energy by providing a tax incentive. Alternative energy systems often have greater up-front costs than energy systems such as natural gas or electric.

WHO BENEFITS: There are roughly 20,000 alternative energy properties: 19,000 residential properties and 1,000 businesses with solar or other renewable systems in place.

EVALUATION: It is difficult to measure the impact the tax exemption has made on the number of households and businesses installing equipment that uses solar, wind, hydro, or geothermal energy. The predominant incentives that have encouraged such installations have been the Business Energy Tax Credit (1.142) and the Alternative Energy Tax Credit (1.141) available under the income tax. The property tax exemption may work in tandem with those credits. Without the exemption, homeowners and businesses might hesitate to invest in a system that would increase their assessed valuation.

We have no evidence that residential and commercial appraisers account for the property tax exemption in their valuations of property and related equipment. Many of the qualifying business alternative energy systems are complex heat recovery or biomass boiler systems for which the assessment of component value is difficult. [*Evaluated by the Office of Energy.*]

2.053 STATE AND LOCAL STANDING TIMBER UNDER CONTRACT

Oregon Statute: 307.100

Sunset Date: None

Year Enacted: 1965

1997–98 Assessed Value of Property Exempted: \$90 Million

	Loss	Shift	Total
1997–99 Revenue Impact:	\$1,800,000	\$300,000	\$2,100,000
1999–01 Revenue Impact:	\$1,800,000	\$300,000	\$2,100,000

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, state or local government standing timber is exempt from property taxation even if held under a contract of sale. Unless exempted, the timber would fall under the general rule that state and local government property held under contract of sale by a private buyer is taxable.

PURPOSE: The exemption was to maintain the status quo after a court decision allowing taxation. Taxing timber under contract would be contrary to the tax treatment of other standing timber in Oregon, which under current law is treated as a crop, not as real property.

WHO BENEFITS: The volume of state timber under contract was about 242 million board feet in 1996. The volume of local timber under contract is unknown but is thought to be small.

EVALUATION: This expenditure is effective in achieving its purpose. It makes the treatment of state and local timber under contract consistent with that of other standing timber. [*Evaluated by the Forestry Department.*]

2.054 WESTERN PRIVATE FOREST LAND

Oregon Statute: 321.352

Sunset Date: None

Year Enacted: 1977

1997–98 Assessed Value of Property Exempted: \$2.3 Billion

	Loss	Shift	Total
1997–99 Revenue Impact:	\$45,900,000	\$8,400,000	\$54,300,000
1999–01 Revenue Impact:	\$48,600,000	\$8,900,000	\$57,500,000

DESCRIPTION: Privately owned forest land in Western Oregon is subject to local property taxation using a special value. Beginning in 1995–96 land values are set statutorily by site class (from \$1 to \$720 per acre). The special assessment value is 20 percent of the statutory, resulting in an exemption of 80 percent. For subsequent years the statutory values are indexed by 50 percent of a 7-year moving average change in log purchase values. Subsequent year special assessment values are 20 percent of the indexed values.

A privilege tax on the timber value is imposed at time of harvest in lieu of the property taxes exempted under this special assessment. Note that the privilege tax is in lieu of the tax on timber land, not the timber itself. In Oregon, timber is treated as a crop and exempt from local property taxes. The privilege tax rate 3.2 percent.

Property Tax

Privilege tax revenue is distributed by formula to local taxing districts. The formula allocates revenue based on the tax rate, value of timber harvested, and the forest land assessed value in the district.

PURPOSE: To promote the retention of forest land in forest use and to remove the incentive for earlier harvest that annual taxation creates. The current purpose is to tax forest land “based on the value of the forest land in timber production,” and to collect “the majority of the tax ... at the time of harvest.” (ORS 321.259(5))

WHO BENEFITS: Private forest land owners. There are approximately 5.6 million acres of private forest land in western Oregon.

IN LIEU: Recent privilege tax collections are as follows:

1991–92	\$48.9 million
1992–93	\$45.3 million
1993–94	\$56.3 million
1994–95	\$61.6 million
1995–96	\$49.9 million
1996–97	\$40.9 million
1997–98	\$34.6 million

EVALUATION: This expenditure appears to be achieving its purpose. The tax treatment of private timber land in concert with land-use planning promotes the retention of forest land in forest uses. It is debatable whether the tax treatment or the land-use planning provisions are more important in achieving the purpose. What seems evident is that the combination is working to retain the land in forest use. [*Evaluated by the Forestry Department.*]

2.055 WESTERN PRIVATE STANDING TIMBER

Oregon Statute: 321.272

Sunset Date: None

Year Enacted: 1977

1997–98 Assessed Value of Property Exempted: \$43.9 Billion

	Loss	Shift	Total
1997–99 Revenue Impact:	\$883,000,000	\$161,000,000	\$1,044,000,000
1999–01 Revenue Impact:	\$936,000,000	\$171,000,000	\$1,107,000,000

DESCRIPTION: Privately owned standing timber in Western Oregon is exempt from local property taxes.

PURPOSE: To promote retention of forest land in forest uses and to remove the incentive for earlier harvest that annual taxation creates. Currently, timber is treated as a crop (not taxed) rather than as real property, and 80 percent of the tax on land is postponed until the time of harvest when it is collected as a severance tax on the value of timber harvested.

WHO BENEFITS: Private timber owners benefit directly. The general public benefits indirectly because, due to the current tax treatments, forest land owners delay timber harvests for an indeterminate period. During this period, non-commercial values which accrue to the public are maintained and increased, notably wildlife habitat, clean air and water, visual quality, etc.

EVALUATION: The purpose of holding off on pre-mature harvests of private timber appears to be being achieved. When the Douglas-fir stumpage market rose sharply in 1993–94, there was an increase in the harvest of 80+ year old timber in Western Oregon. However, the available inventory of that age timber exceeded the harvest, so there are still 80+ year old stands in private ownership, suggesting that higher stumpage prices do not cause harvesting of pre-mature trees. There are indications that the bulk of the timber harvests are of 60+ year old timber, and that the total private timber harvest, while declining very slightly since the late 1950s, has been essentially level through the past 5–7 years.

Information is lacking on the effectiveness of other methods of discouraging pre-mature timber harvests. Regulatory methods would likely be exceedingly expensive to administer, and variable tax rates would require nearly confiscatory levels for young timber in order to be effective. [*Evaluated by the Forestry Department.*]

2.056 WESTERN SMALL TRACT OPTION

Oregon Statute: 321.720

Sunset Date: None

Year Enacted: 1961

1997–98 Assessed Value of Property Exempted: \$184.5 Million

	Loss	Shift	Total
1997–99 Revenue Impact:	\$3,700,000	\$700,000	\$4,400,000
1999–01 Revenue Impact:	\$3,900,000	\$700,000	\$4,600,000

DESCRIPTION: Owners of more than ten and less than 5,000 acres of timber in Western Oregon may be taxed for property tax purposes under the Western Oregon Small Tract Optional Tax (WOSTOT), which sets assessed values on timber land based on the productivity, rather than a measure related to market value, of the land. Prior to 1997–98, participants paid tax on the combined value of the land and the standing timber. Starting in the 1997–98 tax year only the land is taxed. Owners must elect this option before the average size of their timber becomes eight inches in diameter at breast height.

The land is classified in one of five possible site classes based on the productivity of the land. Until 1997–98, the site class values were based on income using a statutory 17 percent capitalization rate. The site class value applied both to the land and timber and became the assessed value in the normal property tax process. Starting in 1997–98, site class values are set by statute rather than by an income capitalization approach, and the values apply only to the land: the value of the timber was exempted from the property tax. Because the statutory site class values are below those that typically resulted from the income capitalization approach, the result is lower taxes for WOSTOT participants. WOSTOT participants pay property taxes on 100 percent of the values established by statute, while other private timber harvesters pay on 20 percent of the statutory value. WOSTOT participants, however, are exempt from the timber privilege taxes paid by other private timber owners at the time of harvest.

PURPOSE: The special assessment is to give small land owners the option of a property tax assessed value based on productivity. The intent is to encourage small owners to hold their timber to maturity before harvest. The pre-1977 tax system forced “smaller owners with predominantly young growth holdings to harvest their timber before it has properly matured because of the constantly increasing taxes imposed on the timber and the lack of sufficient annual income from mature timber to meet the overall tax burden.” (ORS 321.710).

Property Tax

WHO BENEFITS: Owners of small tracts of timberland who select this optional tax treatment. In 1997 small tract acreage was 170,000. About 45 percent of the acreage is in Clackamas, Lane and Washington counties.

EVALUATION: This expenditure appears to be effective in providing an option for small timber owners. The bulk of forest landowners pays property taxes on 20 percent of the value of the land alone in each year, and on the remainder of the value as part of the severance tax payments at the time of harvest. With the changes made in by the 1997 legislature, WOSTOT participants pay the tax on 100 percent of the value of the land, but are exempt from the privilege tax at time of harvest. The class of landowner for whom the WOSTOT program makes sense tend to harvest a small amount of timber each year, or at least at closely spaced intervals if not annually. This group of landowners tends to manage its forests quite intensively, and likely produces (per acre) more timber than the “model” forest. The WOSTOT results in similar property taxes as under the “standard” property tax program for forest lands, but grants an exemption from the timber privilege tax. It appears to be working as a method to reduce taxes for some small timber land owners.

The requirements that pertain to WOSTOT require some level of inspection, which requires an additional level of government expenditure over that required for the “standard” system (which has inspection provisions for the State Forester, but these have not been funded). It is likely that the WOSTOT is thus not the “cheapest” system, but as the name suggests, an “Optional” or alternative one, and it appears to be a working, positive incentive to more efficiently grow crops of timber on non-industrial forest land. [*Evaluated by the Forestry Department.*]

2.057 EASTERN PRIVATE FOREST LAND

Oregon Statute: 321.810

Sunset Date: None

Year Enacted: 1971

1997–98 Assessed Value of Property Exempted: \$190.0 Million

	Loss	Shift	Total
1997–99 Revenue Impact:	\$3,900,000	\$700,000	\$4,600,000
1999–01 Revenue Impact:	\$4,100,000	\$800,000	\$4,900,000

DESCRIPTION: Privately owned forest land in Eastern Oregon is subject to local property taxation using a special value. Beginning in 1995–96 land values are set statutorily at \$42 per acre. The special assessment value is 20 percent of the statutory value (\$8.40 per acre), resulting in an exemption of 80 percent. For subsequent years the statutory values are indexed by 50 percent of a 5-year moving average change in log purchase values. Subsequent year special assessment values are 20 percent of the indexed values.

A privilege tax on the timber value is imposed at time of harvest in lieu of the property taxes exempted under the special assessment. The tax applies at time of harvest rather than annually and is based on the value of the harvested tree. The privilege tax rate is 1.8 percent.

The revenue is distributed by formula to local tax districts with timber as an offset to district property tax levies. The formula allocates revenue based on the frozen 1964 timber values and district property tax rates.

PURPOSE: To promote the retention of forest land in forest use and to remove the incentive for earlier harvest that annual taxation creates. The current purpose is to tax forest land “based on the value of the forest land in timber production,” and to collect “the majority of the tax ... at the time of harvest.” (ORS 321.259(5))

WHO BENEFITS: Private forest land owners. There are approximately 1.5 million acres of private forest land in eastern Oregon.

IN LIEU: Recent privilege tax collections are as follows:

1991–92	\$4.5 million
1992–93	\$6.5 million
1993–94	\$7.9 million
1994–95	\$6.8 million
1995–96	\$5.2 million
1996–97	\$2.9 million
1997–98	\$2.7 million

EVALUATION: This expenditure appears to be achieving its purpose. The tax treatment of private timber land in concert with land-use planning promotes the retention of forest land in forest uses. It is debatable whether the tax treatment or the land-use planning provisions are more important in achieving the purpose. What seems evident is that the combination is working to retain the land in forest use. [*Evaluated by the Forestry Department.*]

2.058 EASTERN PRIVATE STANDING TIMBER

Oregon Statute: 321.420

Sunset Date: None

Year Enacted: 1961

1997–98 Assessed Value of Property Exempted: \$8.6 Billion

	Loss	Shift	Total
1997–99 Revenue Impact:	\$172,000,000	\$31,000,000	\$203,000,000
1999–01 Revenue Impact:	\$182,000,000	\$33,000,000	\$215,000,000

DESCRIPTION: Privately owned standing timber in Eastern Oregon is exempt from local property taxation.

PURPOSE: To promote retention of forest land in forest uses and to remove the incentive for earlier harvest that annual taxation creates. Currently, timber is treated as a crop (not taxed) rather than as real property, and 80 percent of the tax on land is postponed until the time of harvest when it is collected as a severance tax on the value of timber harvested. The severance tax approach was used for eastern Oregon earlier than western because by 1961 most large old growth eastern timber stands had been cut and the growing cycle is longer.

Property Tax

WHO BENEFITS: Private timber owners benefit directly. The general public benefits indirectly because, due to the current tax treatments, forest land owners delay timber harvests for an indeterminate period. During this period, non-commercial values which accrue to the public are maintained and increased, notably wildlife habitat, clean air and water, visual quality, etc.

EVALUATION: The purpose of holding off on pre-mature harvests of private timber appears to be being achieved. Information is lacking on the effectiveness of other methods of discouraging pre-mature timber harvests. Regulatory methods would likely be exceedingly expensive to administer, and variable tax rates would require nearly confiscatory levels for young timber in order to be effective. [*Evaluated by the Forestry Department.*]

2.059 FOREST HOMESITES

Oregon Statute: 308.229

Sunset Date: None

Year Enacted: 1989

1997–98 Assessed Value of Property Exempted: \$40.5 Million

	Loss	Shift	Total
1997–99 Revenue Impact:	\$1,000,000	\$200,000	\$1,200,000
1999–01 Revenue Impact:	\$1,100,000	\$200,000	\$1,300,000

DESCRIPTION: A forest homesite being used in conjunction with growing and harvesting trees on forest land has a special property tax value. The homesite must be on a parcel of more than 10 acres and be on land zoned for forest or farm use. The homesite maximum value is the average per acre assessed value for the contiguous bare forest land under the same ownership plus up to \$4,000 for land improvements. Land improvements include a well and septic system necessary for a homesite. The homesite is limited to one acre.

PURPOSE: To improve the financial viability of growing and harvesting trees on forest land by reducing the cost of taxation. The special assessment grants forest homesites the same treatment as farm homesites.

WHO BENEFITS: The number of forest homesites specially assessed is estimated at 8,000 excluding homesites used for both farm and forestry (see 2.038 Farm Homesites). The average value exempted is about \$5,000 per homesite.

EVALUATION: Extending special forest assessments to forest homesites reinforces the effects of special assessments for forest land. [*Evaluated by the Forestry Department.*]

2.060 FEDERAL STANDING TIMBER UNDER CONTRACT

Oregon Statute: 307.050

Sunset Date: None

Year Enacted: 1965

1997–98 Assessed Value of Property Exempted: \$401.0 Million

	Loss	Shift	Total
1997–99 Revenue Impact:	\$7,600,000	\$1,400,000	\$9,000,000
1999–01 Revenue Impact:	\$6,600,000	\$1,200,000	\$7,800,000

DESCRIPTION: Federal standing timber is exempt from property tax even if held under a contract of sale. Unless exempted, the timber would fall under the general rule that federal property held under contract of sale by a private buyer with right of use is taxable.

PURPOSE: The exemption was probably to maintain the status quo after a court decision allowing taxation. Taxing timber under contract would be contrary to the tax treatment of other 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 own their own timber or who supplement their own supplies with federal timber.

EVALUATION: This expenditure is effective in achieving its purpose. It makes the treatment of federal timber under contract consistent with that of other standing timber. [*Evaluated by the Forestry Department.*]

2.061 PRIVATE FARM AND LOGGING ROADS

Oregon Statute: 308.236

Sunset Date: None

Year Enacted: 1963

1997–98 Assessed Value of Property Exempted: \$1.4 Billion

	Loss	Shift	Total
1997–99 Revenue Impact:	\$27,100,000	\$5,000,000	\$32,100,000
1999–01 Revenue Impact:	\$28,800,000	\$5,300,000	\$34,100,000

DESCRIPTION: Farm, grazing and logging roads on private land are exempt from local property taxation. Roads include culverts, drains, fill, surfacing, and bridges. The land under the roads is taxable. The exemption does not apply to principal exterior timber access roads, which are two lane improved roads that are continuously maintained and connect a timber conversion center or public highway to a principal forest area.

PURPOSE: The purpose was probably to avoid the difficulty of putting a value on these roads, most of which are logging roads. Many logging roads are built specifically to allow timber to be harvested. Once the harvest is finished, the roads have little or no value. Some logging roads, however, are used for forest management and fire suppression on an ongoing basis, so they maintain value long after they are built.

Property Tax

WHO BENEFITS: Owners of farm and timber land where roads have been built. Most of the value exempt under this provision is logging roads. Logging roads are expensive to build because they must accommodate heavy logging equipment and are usually built in hilly or mountainous terrain. Farm roads are generally on flat land and involve little cost to build.

EVALUATION: This expenditure is effective in avoiding the difficulty of putting a value on these roads. [Evaluated by the Forestry Department.]

2.062 FOREST FIRE PROTECTION ASSOCIATION

Oregon Statute: 307.125

Sunset Date: None

Year Enacted: 1957

1997–98 Assessed Value of Property Exempted: \$6.8 Million

	Loss	Shift	Total
1997–99 Revenue Impact:	\$180,000	\$30,000	\$210,000
1999–01 Revenue Impact:	\$190,000	\$30,000	\$220,000

DESCRIPTION: All property of forest and vegetation protection groups is exempt from local property taxation if the property is used exclusively for fire suppression or forest protection. ORS Chapter 477 provides for the establishment of a variety of forest and vegetation protection groups. These groups include forest protection districts, cooperative agreements between the State Forester and Forest Protective Associations, and joint or separate agreements between state and federal agencies and local governments, corporations, landowner organizations, and similar groups.

PURPOSE: To treat these groups the same as publicly owned fire departments and to help keep the cost of protecting timber assets low.

WHO BENEFITS: The forest fire protection associations. Most of the property of fire protection associations has been deeded over to the Department of Forestry and the associations work under contract with the Department. Currently there are three fire protection associations operating in the state, one in Douglas County, one in Coos County, and one serving multiple counties in eastern Oregon.

EVALUATION: This provision is effective in achieving its purpose. The costs of providing forest fire prevention and suppression varies between districts due to the fuel and weather conditions that prevail on the lands protected, and the risks and hazards that exist. It appears that this tax treatment provides the equity desired, as the purely administrative costs do not appear to be different among the various districts, whether association or State-operated. Because the expenses of these associations are largely borne by the forest landowner, the associations would likely raise the assessments to landowners if this property were not exempt. [Evaluated by the Forestry Department.]

2.063 INACTIVE MINERAL INTERESTS

Oregon Statute: 308.115

Sunset Date: None

Year Enacted: 1997

1997–98 Assessed Value of Property Exempted: \$0

	Loss	Shift	Total
1997–99 Revenue Impact:	\$60,000	\$10,000	\$70,000
1999–01 Revenue Impact:	\$110,000	\$20,000	\$130,000

DESCRIPTION: Mineral interests owned separately from surface interests are exempt from local property tax if the property is not being mined. The exemption first applies in tax year 1998–99.

PURPOSE: To eliminate the administrative burden of assessing those accounts, when the administrative cost might be higher than the tax generated.

WHO BENEFITS: Owners of mineral interests who are not actively mining those interests.

EVALUATION: This expenditure has been effective in reducing the administrative costs of county assessment offices. Initially, additional work was required to remove these accounts from the tax rolls, but once that work is completed no significant administration is needed for these accounts. *[Evaluated by the Department of Revenue]*

2.064 NATURAL HERITAGE CONSERVATION AREAS

Oregon Statute: 307.550

Sunset Date: 12-31-99

Year Enacted: 1983

1997–98 Assessed Value of Property Exempted: \$0

	Loss	Shift	Total
1997–99 Revenue Impact:	\$0	\$0	\$0
1999–01 Revenue Impact:	\$0	\$0	\$0 *

* Revenue impact takes into account the sunset.

DESCRIPTION: Property that has retained its natural character and is valuable as habitat for plant and animal species, for the study and appreciation of natural features as a living museum for educational purposes, scientific research, and nature interpretation is exempt from local property taxation.

To be eligible the property must (1) be identified in an instrument of dedication, and (2) be managed in compliance with a plan approved by the State Land Board. The owner must file an application with the county assessor to claim the exemption. Owners of land zoned for Exclusive Farm Use, which has been subject to deferred taxes, can designate and manage it as a Natural Heritage Conservation Area without having to pay the normal penalty for converting that land to another use.

Property Tax

If the property is not managed as agreed, the land is disqualified and additional taxes equal to the tax benefit during the last five years exempt are due. Additional taxes are not due if the Advisory Council determines the property is no longer needed or if fire or other natural disaster destroys the property.

PURPOSE: The exemption is to promote the protection of natural areas “through the voluntary cooperation of private landowners and public land managers” (ORS 273.566).

WHO BENEFITS: No privately owned land is currently exempt under this statute. Conservancy groups receive an exemption on property for charitable, literary, and scientific use (2.094), which is less restrictive.

EVALUATION: This exemption does not appear to be achieving its purpose, at least for private, for-profit lands. The provision has the same goal as a conservation easement, but is more easily revocable. For that reason, it appears that this provision does not provide a strong enough incentive to result in much participation. No privately owned land is currently exempt under this statute. In recent years the Natural Heritage Advisory Council has received a few inquiries regarding the exemption, but no applications have been made. *[Evaluated by the Division of State Lands.]*

2.065 LEASED STATE LAND BOARD LAND

Oregon Statute: 307.168

Sunset Date: None

Year Enacted: 1982

1997–98 Assessed Value of Property Exempted: \$13.5 Million

	Loss	Shift	Total
1997–99 Revenue Impact:	\$270,000	\$50,000	\$320,000
1999–01 Revenue Impact:	\$290,000	\$50,000	\$340,000

DESCRIPTION: In general, when public property is held under contract of sale or is leased to a private individual or business, it is considered taxable. However, land leased from the State Land Board or Division of State Lands is exempt from local property taxation. Eligible land includes submerged, submersible, and grazing land but excludes mines, quarries or minerals, and buildings or improvements.

PURPOSE: The exemption is to maintain the status quo of leased State Land Board land, after a 1982 Supreme Court decision ruled that certain land leased from the Board to a private party was taxable.

WHO BENEFITS: The State Land Board has about \$1.5 million in lease revenue per year from grazing land and waterways for the Common School Fund. The primary beneficiaries are Oregon’s K–12 public schools, so the main effect of taxation would likely be to reduce potential lease income to the Common School Fund. Lessees may also benefit from the tax exemption, but it has been argued that lessees are unaffected because they would attempt to keep their out-of-pocket expenses the same by asking for reduced lease rates if lessees were required to pay taxes.

EVALUATION: This exemption is effective in achieving its purpose. As trustee of the Common School Fund, the state manages lands owned by the Fund in order to maximize revenue, consistent with long-term resource stewardship. Exempting leased Common School lands from taxation can help increase lease income, and therefore furthers the primary trust obligation. *[Evaluated by the Division of State Lands.]*

2.066 CRAB POTS

Oregon Statute: 508.270

Sunset Date: None

Year Enacted: 1969

1997–98 Assessed Value of Property Exempted: \$7.9 Million

	Loss	Shift	Total
1997–99 Revenue Impact:	\$200,000	\$40,000	\$240,000
1999–01 Revenue Impact:	\$220,000	\$40,000	\$260,000

DESCRIPTION: Crab pots used by an owner with a commercial fishing license used with a commercially licensed boat are exempt from property tax. The value of the crab pots is entered on the tax roll but the assessment is canceled if proof of the required licensing is furnished to the assessor by August 1 of the assessment year.

PURPOSE: To provide tax relief to crab fishing operations after an Attorney General opinion determined that crab pots were not an integral part of a commercial fishing boat (taxed at four percent of value), but should be taxed as personal property (taxed at 100 percent of value). The exemptions makes the treatment of crab fishing operations more consistent with those of other types of fishing, where the fishing gear is considered an integral part of the fishing vessel and taxed at four percent of value.

WHO BENEFITS: About 125,000 commercial crab pots are used in the coastal counties. Non-commercial crab pots are exempt as personal property for personal use (2.085).

EVALUATION: This expenditure has effectively achieved its purpose. It provides tax relief to crab fishing operations and it makes the property tax treatment of crabbing operations consistent with that of other types of fishing. [*Evaluated by the Department of Fish and Wildlife.*]

2.067 PLEASURE BOATS

Oregon Statute: 830.790

Sunset Date: None

Year Enacted: 1959

1997–98 Assessed Value of Property Exempted: \$1.3 Billion

	Loss	Shift	Total
1997–99 Revenue Impact:	\$34,900,000	\$6,500,000	\$41,400,000
1999–01 Revenue Impact:	\$38,600,000	\$7,200,000	\$45,800,000

DESCRIPTION: Pleasure boats requiring certificates from the State Marine Board are exempt from property taxation. Owners instead pay fees to the Marine Board. Floating homes and boat houses are taxable.

PURPOSE: The exemption is an extension of the personal property for personal use exemption to boats (similar to that for motor vehicles) and to avoid administrative problems dealing with a very mobile property.

Property Tax

WHO BENEFITS: In 1997 about 197,000 boats were registered in Oregon as pleasure boats.

IN LIEU: Fees for registration as an in lieu payment were increased in 1997 and will be about \$5.6 million in the 1997–99 biennium. Certificate fees range from \$15 to \$25 for boats up to 20 feet in length. The fee for boats 20 or more feet is \$30 plus an additional two dollars per foot for each foot over 20 feet.

EVALUATION: This exemption effectively achieves its purpose. This exemption is an extension of the personal property for personal use exemption, much the same as personal use motor vehicles are exempt. The exemption avoids the administrative problems that are inherent in assessing property taxes on mobile personal property that tends to decrease in value over time. [*Evaluated by the Marine Board.*]

2.068 WATERCRAFT LOCALLY ASSESSED

Oregon Statute: 308.256

Sunset Date: None

Year Enacted: 1925

1997–98 Assessed Value of Property Exempted: \$65.5 Million

	Loss	Shift	Total
1997–99 Revenue Impact:	\$1,700,000	\$300,000	\$2,000,000
1999–01 Revenue Impact:	\$1,900,000	\$400,000	\$2,300,000

DESCRIPTION: Oregon private commercial watercraft not involved in transporting people or goods for hire and not numbered or registered by the State Marine Board (i.e., those with Coast Guard marine documents) are specially assessed for property tax by county assessors.

- Ships and vessels used on inland waters are 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 assessed at four percent of assessed value. Off-shore self-propelled oil drilling rigs are also assessed at four percent.
- All watercraft under construction or undergoing major remodeling are exempt. Major remodeling exists if the cost exceeds 10 percent of the value of the watercraft before remodeling.

Watercraft that are not “ships” or “vessels”, such as dredges, museum ships, and restaurant ships, are assessed at 100 percent of assessed value. In addition, any vessel used for deep-sea fish reduction or processing (but not canning) is assessed at 100 percent of assessed value.

Non-Oregon private commercial boats of non-centrally assessed companies might be taxable (at 100 percent of value) if they are used significantly in Oregon. However, it is difficult to prove a tax situs in Oregon for non-Oregon boats.

Floating homes and houseboats are taxed at 100 percent of assessed value.

PURPOSE: The exemption is probably an attempt to relate the taxable value to value attributable to use in Oregon.

WHO BENEFITS: The Department of Fish and Wildlife issues commercial fishing licenses to about 2,000 boats. This is the major portion of exempt value. The Department of Revenue assists some counties in valuing centrally assessed companies that have ocean-going watercraft to be locally assessed. The exempt value is primarily in the coastal counties and along the Columbia River. Several watercraft construction (generally barges) and repair businesses are in operation but the value of watercraft under construction or being remodeled is unknown.

EVALUATION: Not Evaluated

2.069 WATERCRAFT CENTRALLY ASSESSED

Oregon Statute: 308.515

Sunset Date: None

Year Enacted: 1925

1997–98 Assessed Value of Property Exempted: \$4.1 Million

	Loss	Shift	Total
1997–99 Revenue Impact:	\$110,000	\$20,000	\$130,000
1999–01 Revenue Impact:	\$120,000	\$20,000	\$140,000

DESCRIPTION: The watercraft of water transportation companies (barges, tugboats, excursion boats, etc.) involved in transportation of people or goods on inland waters (including border rivers and coastal bays) are centrally assessed for property taxation by the Department of Revenue. Also, the watercraft of other centrally assessed utilities are assessed by the Department. To the extent that watercraft of these businesses are used on the high seas or outside Oregon, they are exempt. Trips between inland ports and high seas are treated as high seas’ use. These watercraft are taxable to the extent they are used on Oregon inland waters, even if a certificate fee is paid.

Interstate ferries also are exempt.

PURPOSE: The exemption is probably an attempt to relate the taxable value to value attributable to use in Oregon.

WHO BENEFITS: Two centrally assessed companies have exempt watercraft.

EVALUATION: Not Evaluated

2.070 NONPROFIT PUBLIC PARK USE LAND

Oregon Statute: 307.115

Sunset Date: None

Year Enacted: 1971

1997–98 Assessed Value of Property Exempted: \$4.2 Million

	Loss	Shift	Total
1997–99 Revenue Impact:	\$110,000	\$20,000	\$130,000
1999–01 Revenue Impact:	\$120,000	\$20,000	\$140,000

DESCRIPTION: Nonprofit corporation property used for public park or recreation purposes is exempt from property taxation if the following conditions are met:

- The purpose of the corporation is to acquire park or recreation property;
- The property is used for public park or public recreation purposes and cannot be used for the production of income;
- Any net earnings of the corporation must not benefit any private individual;
- Upon dissolution, any remaining assets must revert to the state or a local government; and
- The land use must accomplish one of the purposes listed in the statute. These purposes are the same as those in the open space law except that one additional purpose is provided—“promote the reservation of land for public parks, recreation, or wildlife refuge purposes.”

The nonprofit corporation must file an application with the county assessor to claim the exemption. The city or county governing body having jurisdiction will act on the application. This exemption is for 10 years and is renewable by re-application.

PURPOSE: To encourage development of parks by private corporations as an alternative to publicly owned parks. Private development may be possible when public development is not.

WHO BENEFITS: There currently are 18 properties that were exempt under this provision, 12 in Multnomah County and 6 in Union County. Most of the benefit went to the property owners in Multnomah County.

EVALUATION: This exemption appears to be effective in achieving its purpose. The exemption encourages the preservation of open space and park land. Little information exists which 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 which contribute to the public good by non-government entities. *[Evaluated by the Parks and Recreation Department.]*

2.071 OPEN SPACE LAND

Oregon Statute: 308.765

Sunset Date: None

Year Enacted: 1971

1997–98 Assessed Value of Property Exempted: \$14.9 Million

	Loss	Shift	Total
1997–99 Revenue Impact:	\$300,000	\$60,000	\$360,000
1999–01 Revenue Impact:	\$330,000	\$60,000	\$390,000

DESCRIPTION: Open space land is specially assessed for property tax as though its current highest and best use is open space use rather than an alternative use. The difference between assessed value in an alternative use and specially assessed value is exempt. 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 which, if preserved in its present use, would accomplish one of the following:

- conserve and enhance natural or scenic resources;
- protect air, streams, or water supply;
- promote conservation of soils, wetlands, beaches, or tidal marshes;
- conserve landscaped areas, such as golf courses;
- enhance the value of neighboring parks, forests, wildlife preserves, or other open space;
- enhance recreation opportunities;
- preserve historic sites;
- promote orderly urban or suburban development; or
- retain land in its natural state under conditions required by the legislative body granting the open space classification.

Open space land may be changed from one open space use to another without paying back taxes. However, if land is withdrawn from open space classification, any tax benefits received from open space classification in previous years must be paid back plus eight 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 308.770).

PURPOSE: To preserve open space and its vegetation for public health and enjoyment. The exemption is also to prevent the forced conversion to more intensive use because of high property taxes based on an alternative use value.

WHO BENEFITS: Assessors report 360 open space properties, many of which are golf courses. When appraising open space land the assessor cannot consider what the property might be worth if used for some purpose other than its current use. For example, in appraising a golf course in an urban area the assessor cannot value the land by looking at the value of surrounding land used for home sites. The course must be appraised as a golf course (its current use), not as home sites (its highest and best use). One way to do that would be to look at sales of other golf courses. Another might be to examine the income earned from the course.

EVALUATION: This exemption appears to achieve its purpose. The exemption encourages the preservation of open space and park land. Little information exists which 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 which contribute to the public good by non-government entities. *[Evaluated by the Parks and Recreation Department.]*

2.072 HISTORIC PROPERTY

Oregon Statute: 358.505

Sunset Date: 7-1-02

Year Enacted: 1975

1997–98 Assessed Value of Property Exempted: \$292.6 Million

	Loss	Shift	Total
1997–99 Revenue Impact:	\$7,600,000	\$1,400,000	\$9,000,000
1999–01 Revenue Impact:	\$8,400,000	\$1,600,000	\$10,000,000

DESCRIPTION: Any growth in value of qualified historic property above its assessed value at the time of application for historic property classification is exempt from property tax for up to 15 years. In effect, the assessed value is frozen at the time of application and increased value from improvements or inflation is exempt for 15 years. Beginning in 1996–97, business property can qualify for a second 15-year exemption if a renovation plan is accepted for seismic upgrade, energy conservation, or disability access.

For tax year 1994–95 and before, historic property qualified for exemption if (a) the real property was currently listed in the National Register of Historic Places, (b) the owner filed an application with the State Historic Preservation Officer and (c) the State Historic Preservation Officer approved the application. The property continues to qualify if it meets minimum standards of maintenance set by the State Historic Preservation Officer and is open to the public at least one day a year.

Beginning in 1996–97, the program for new participants is limited to properties requiring rehabilitation as opposed to normal maintenance. New applicants must file a preservation plan with the State Historic Preservation Officer describing proposed rehabilitation, in addition to the requirements listed above.

The preservation plan must be carried out for the property to continue to qualify. Properties already in the program before 1995–96 are not required to have a preservation plan.

If the historic property is disqualified, the tax savings from having a frozen value must be repaid. The additional tax is equal to the sum of the tax benefit received for each year of special assessment as historic property. In addition, if the owner fails to notify the assessor when the property becomes disqualified, the additional tax is increased by a penalty of 15 percent. However, if the property is destroyed by fire or Act of God or transferred to a tax exempt owner, no additional tax or penalty is charged.

- PURPOSE:** As stated in statute, the exemption is to “maintain, preserve and rehabilitate properties of Oregon historical significance” (ORS 358.475).
- WHO BENEFITS:** About 1600 historic properties qualify for the exemption. Frozen value is about 60 percent commercial (including multi-family residential) and 40 percent single family residential property. Qualified properties are in almost every county but are concentrated in Multnomah County, where nearly three-quarters of the exempt value resides.
- EVALUATION:** This expenditure has been very successful in achieving its purpose, but the substantial reduction in property taxes caused by Measures 5 and 50 have reduced the incentive for taxpayers to participate in the program.

Oregon's program is the nation's oldest tax incentive for the preservation of historic property. The incentive attracts both commercial and residential clients, representing all economic groups. The benefit, originally enacted as an anti-demolition incentive, has been used to save hundreds of significant abandoned or economically underutilized historic properties, and to revitalize whole areas in communities. Direct investment in rehabilitation, stabilization or expansion of the work force in historic urban commercial areas, re-use of existing infrastructure, and stabilization or expansion of the existing tax base are all measurable benefits of the expenditure. Other benefits include the preservation of the tangible remnants of Oregon's history; the enhancement of Oregon's quality of life; and the economic development and tourism benefits.

The economic benefits of the program more than offset the costs to local government. Rehabilitation activity might have occurred without the incentive, but certainly not at the pace or extent that has been exhibited in the past. Despite this success, there are many potential recipients who will not utilize the benefit, particularly in areas of the state with flat economies. Mostly, this is due to the fact that the effectiveness of the incentive has been greatly reduced by Ballot Measures 5 and 50. Under Measure 5, consequent reductions in property tax rates meant an additional percentage reduction in the potential tax savings that would accrue to a property owner. In some areas, the negative impact of that measure was partially offset by the high inflation rate of robust 1990's valuation increases.

As a result of Measure 50, we anticipate that specially-assessed property owners will see potential further reductions in savings since taxable assessed values are no longer tied to real market values. Without the potential for double digit valuation increases on an individual property, the value of the benefit to the owner will likely be reduced. Potential savings are also likely to be reduced since improvements classified as minor construction will not change a property's assessed value. In addition, because of 1995 legislative changes requiring a commitment to a specific time-framed list of rehabilitation work items, it is now possible that rehabilitation expenditures will exceed more frequently the potential tax savings over the 15 year benefit period.

As a result of both ballot measures, applications for Special Assessment have declined for the past two years. The State Historic Preservation Office received only 42 applications in tax year 1997–98, representing the third lowest number of applicants since the program's inception. In the long run, the effect of both tax law changes could be a decrease in both residential and commercial rehabilitation efforts and also an increase in demolition requests for income-producing properties.

Given the administrative costs versus the anticipated tax savings, it could be said that the program in its current form no longer provides an adequate state incentive for assisting owners of National Register properties in preserving and rehabilitating them in the public

interest, particularly on the residential side. Many states are now enacting investment tax credit programs for residential and commercial property that are based on successful federal models for income-producing property. Such a program in Oregon would impact the General Fund instead of local property tax revenues. *[Evaluated by the Parks and Recreation Department.]*

2.073 NONPROFIT WATER ASSOCIATIONS

Oregon Statute: 307.210

Sunset Date: None

Year Enacted: Pre-1953

1997–98 Assessed Value of Property Exempted: \$11.9 Million

	Loss	Shift	Total
1997–99 Revenue Impact:	\$240,000	\$40,000	\$280,000
1999–01 Revenue Impact:	\$250,000	\$50,000	\$300,000

DESCRIPTION: All water system property of mutual or cooperative water associations is exempt from property taxation if:

- the association is nonprofit;
- the sole purpose of the association is to distribute water to its members for domestic use or irrigation;
- no more than 15 percent of the members use the water for private commercial purposes; and
- no more than 25 percent of the water is used for private commercial purposes.

Eligible associations must be certified by the Department of Revenue (ORS 307.240).

PURPOSE: The exemption is probably to encourage central water supplies and to treat privately owned water supply systems the same as publicly owned water systems.

WHO BENEFITS: About 400 water associations are exempt.

EVALUATION: Not Evaluated

2.074 NONPROFIT ELECTRICAL DISTRIBUTION ASSOCIATIONS

Oregon Statute: 308.805

Sunset Date: None

Year Enacted: Pre-1953

1997–98 Assessed Value of Property Exempted: \$287.8 Million

	Loss	Shift	Total
1997–99 Revenue Impact:	\$5,800,000	\$1,100,000	\$6,900,000
1999–01 Revenue Impact:	\$6,100,000	\$1,100,000	\$7,200,000

DESCRIPTION: The “transmission and distribution lines” of a mutual or cooperative electrical association are exempt from local property taxation if:

- the association is nonprofit and
- the principle purpose of the association is to distribute electricity to its members (ORS 308.805 to 308.820).

The exemption for “transmission and distribution lines” includes all property that is energized or energizable and all property supporting or integrated with energized or energizable property. This includes but is not limited to substations, poles, conductors, transformers, services, meters, street lights, easements, generators, communication equipment, lines leased to government agencies, tools, supplies, and office furniture and equipment.

Exempt associations must pay the lesser of (1) an in-lieu-of property tax at four percent on gross revenue minus power costs or (2) property tax at the Measure 5 limits plus a bond rate. Gross revenue includes all revenue from the operation of electric distribution systems except line lease payments from government agencies.

PURPOSE: To avoid the difficulty of assessing electrical lines and to encourage the distribution of electricity in areas that were not supplied by for-profit companies because of the distribution cost.

WHO BENEFITS: Eighteen cooperatives scattered around the state are exempt. Theoretically, the benefits of this exemption would flow through to the members of the cooperative in the form of lower electric rates; in theory, it might permit otherwise unprofitable service area to receive electric service. As the school rate limit fully phases in some cooperatives may start paying property taxes as the lesser amount and not be exempt.

IN LIEU: The four percent in lieu tax on gross revenue was less than property taxes for all cooperatives in 1995, and the gross revenue tax raised revenue of \$2.6 million. Proceeds are distributed to the counties in proportion to the system’s wire miles in each county. Within each county, 67.7 percent goes to the county and 33.3 percent to the County School Fund.

EVALUATION: This provision appears to be effective in achieving its purpose, but an in-depth evaluation of the program is not possible because these cooperatives are not regulated, so the Public Utility Commission does not have any financial or other information about these companies.

Eighteen of nineteen electric cooperatives in the state qualify for the exemption. Because they are exempt, their distribution lines need not be assessed for property tax purposes, resulting in savings for the state. Imposing taxes on these cooperatives would likely result in higher electricity rates for their customers. If that were to happen, it may be that for-profit private utilities could then offer electricity at rates lower than the cooperatives, but without more information it is not possible to evaluate that possibility. *[Evaluated by the Public Utility Commission.]*

2.075 NONPROFIT TELEPHONE ASSOCIATIONS

Oregon Statute: 307.220

Sunset Date: None

Year Enacted: Pre-1953

1997–98 Assessed Value of Property Exempted: Negligible

	Loss	Shift	Total
1997–99 Revenue Impact:	Less than \$50,000	Less than \$50,000	Less than \$50,000
1999–01 Revenue Impact:	Less than \$50,000	Less than \$50,000	Less than \$50,000

DESCRIPTION: All telephone system property except land and buildings of a mutual or cooperative telephone association are exempt from property taxation if:

- the association is nonprofit;
- the sole purpose of the association is the operation of a telephone system for the use of its members;
- the association does not own, lease, or have an interest in the switchboard exchange; and
- the system has a cash value of less than \$2,500.

PURPOSE: The exemption is probably to encourage telephone service in rural areas.

WHO BENEFITS: Direct recipients of the tax expenditure are the members of the nonprofit association. Only eight nonprofit associations qualified for the exemption in 1995–96 and no associations qualified in 1997–98.

EVALUATION: This expenditure does not appear to be achieving its purpose. Because of technological advances in telephone communications, the equipment that qualifies for this exemption appears to be obsolete. According to information from the Department of Revenue, the number of taxpayers qualifying for the exemption has been declining steadily. All telephone associations reported paying property taxes in 1997–98; each had switching equipment exceeding \$300,000 and no system would have a cash value less than \$2,500. *[Evaluated by the Public Utility Commission.]*

2.076 PRIVATE SERVICE TELEPHONE EQUIPMENT

Oregon Statute: 307.230

Sunset Date: None

Year Enacted: Pre-1953

1997–98 Assessed Value of Property Exempted: Negligible

	Loss	Shift	Total
1997–99 Revenue Impact:	Less than \$50,000	Less than \$50,000	Less than \$50,000
1999–01 Revenue Impact:	Less than \$50,000	Less than \$50,000	Less than \$50,000

DESCRIPTION: Any telephone property (not land) that serves only the system owner's property is exempt from property taxation if the individual is not engaged in public service operations and the system's value does not exceed \$1500. Property includes improvements, fixtures, equipment and supplies used for the construction, maintenance and operation of the individual's telephone system.

PURPOSE: The exemption is probably to help individuals in remote areas connect to a telephone system.

WHO BENEFITS: Direct recipients of the tax expenditure are persons who install telephone communication systems which serve only property owned or operated by that person. It is unknown whether any taxpayers currently qualify for the exemption. Since it is more likely that a telephone system's value is over the \$1,500 cap, there would likely be few beneficiaries.

EVALUATION: This provision does not appear to be achieving its purpose. No specific information exists that would allow a thorough evaluation of this exemption, but given the recent advances in telephone technology, it seems unlikely that much, if any, of the type of equipment that qualifies for this exemption is still in use. The Public Utility Commission recommends elimination of this tax exemption. [*Evaluated by the Public Utility Commission.*]

2.077 RAILROAD WAY USED FOR ALTERNATIVE TRANSPORT

Oregon Statute: 307.205

Sunset Date: None

Year Enacted: 1977

1997–98 Assessed Value of Property Exempted: \$0

	Loss	Shift	Total
1997–99 Revenue Impact:	\$0	\$0	\$0
1999–01 Revenue Impact:	\$0	\$0	\$0

DESCRIPTION: Real property owned by a railroad is exempt from local property taxation if the property is temporarily and exclusively used for public alternative transportation. A claim must be filed with the county assessor by April 1.

PURPOSE: To encourage railroads to allow their abandoned right-of-way to be used for such things as public light-rail systems or bicycle paths.

Property Tax

WHO BENEFITS: No railroad right of way is known to qualify. Formerly exempt routes have been sold or transferred to public ownership.

EVALUATION: Not Evaluated

2.078 RAILROAD RIGHT OF WAY IN WATER DISTRICT

Oregon Statute: 264.110

Sunset Date: None

Year Enacted: 1943

1997–98 Assessed Value of Property Exempted: \$37.2 Million

	Loss	Shift	Total
1997–99 Revenue Impact:	\$30,000	\$70,000	\$100,000
1999–01 Revenue Impact:	\$30,000	\$70,000	\$100,000

DESCRIPTION: Railroad right of way, improvements, or rolling stock are exempt from property tax imposed by a water supply district. Water supply districts can levy up to one-fourth of one percent on taxable property for its operating purposes plus a levy for bonds. When calculating the rate, railroad property must be excluded unless the railroad expressly consents to its inclusion.

PURPOSE: The purpose is probably to avoid taxing a property owner that would not significantly benefit from a water district's services and might otherwise oppose a district's formation.

WHO BENEFITS: About 64 water supply districts exist in 19 counties, but the number with railroad property in the district is unknown.

EVALUATION: Not Evaluated

2.079 RAILROAD WAY IN HIGHWAY LIGHTING DISTRICT

Oregon Statute: 372.190

Sunset Date: None

Year Enacted: Pre-1953

1997–98 Assessed Value of Property Exempted: Not Available

	Loss	Shift	Total
1997–99 Revenue Impact:			Not Available
1999–01 Revenue Impact:			Not Available

DESCRIPTION: Railroad rights of way are exempt from property taxes imposed by a highway lighting district unless the right of way is at a grade crossing. Highway means any public road or street. A highway lighting district can levy on any reasonable basis but the assessment cannot exceed one dollar per front foot of property abutting a lighted highway. The one dollar limit can be exceeded for initial construction and installation costs.

PURPOSE: The purpose is probably to avoid assessing a property owner that would not significantly benefit from a lighting district's services and might otherwise oppose a district's formation.

WHO BENEFITS: Lighting districts impose a special assessment rather than a tax levy.

EVALUATION: Not Evaluated

2.080 RAILROAD RIGHT OF WAY IN RURAL FIRE DISTRICT

Oregon Statute: 478.010 (2)(d)

Sunset Date: None

Year Enacted: 1969

1997–98 Assessed Value of Property Exempted: \$133 Million

	Loss	Shift	Total
1997–99 Revenue Impact:	\$380,000	\$20,000	\$400,000
1999–01 Revenue Impact:	\$480,000	\$20,000	\$500,000

DESCRIPTION: Railroad right of way, improvements, or rolling stock are exempt from property tax by a rural fire protection district unless the railroad consents to be taxed. A rural fire protection district has a rate limit of 1.25 percent for bonds, but no limit for operating levies. (Chapter 667, 1969)

PURPOSE: Unknown.

WHO BENEFITS: There are 265 rural fire districts but the number with railroad property is unknown.

EVALUATION: Not Evaluated

2.081 MOTOR VEHICLES AND TRAILERS

Oregon Statute: 803.585

Sunset Date: None

Year Enacted: 1919

1997–98 Assessed Value of Property Exempted: \$15.0 Billion

	Loss	Shift	Total
1997–99 Revenue Impact:	\$390,000,000	\$73,000,000	\$463,000,000
1999–01 Revenue Impact:	\$430,000,000	\$80,000,000	\$510,000,000

DESCRIPTION: Generally, vehicles pay registration fees and are exempt from property taxation. The exemption covers virtually all vehicles that transport people or goods over public roads including cars, trucks, buses, most travel trailers, campers, and motorcycles.

Although travel trailers are normally exempt from property taxation, an owner may have it assessed for property taxation if the trailer is used as a permanent home or for other than recreation (ORS 308.880). No registration is needed in this case.

Property Tax

There are exceptions to vehicles being exempt. Many fixed load vehicles are fully taxable. Generally, these vehicles are not designed or used primarily to transport people or property over public roads. The definition in ORS 801.285 is difficult to apply in some cases so the statute lists 64 specific types of fixed load vehicles (cement spreaders, scoopmobiles, backhoes, etc.). In addition, the statute lists five fixed load vehicles that are exempt, including self-propelled mobile cranes.

Manufactured structures are also taxable. Like fixed load vehicles, they are not used primarily to transport people or property over public roads.

PURPOSE: To tax motor vehicles based on their share of the cost of maintaining a transportation system. This also avoids administrative problems dealing with very mobile property that could easily be moved out of state on assessment day in order to avoid taxation.

WHO BENEFITS: In 1997 there were about 2.8 million registered cars and pickups and about 0.6 million other registered vehicles and trailers in Oregon.

Article IX, Section 3a of the Constitution dedicates taxes on motor vehicles to roads. This restriction would remain, even if motor vehicles were subject to property taxes. Since some local taxing districts are not involved with road construction or maintenance, they could not use the property tax revenues from this source.

IN LIEU: The registration fee for cars and pickups is \$30 per biennium; motorcycles is \$9. The fee for large trucks and buses varies by registered weight. Other on and off road vehicles have different fees for various time periods. The in lieu registration fees will be about \$111 million for cars and pickups and \$48 million for all other vehicles in the 1999–01 biennium. Part of this revenue is distributed to local districts for road construction and maintenance.

EVALUATION: This expenditure achieves its purpose. The principle of assessing those who benefit from highway facilities and services for a fair share of the cost has a long history and is well supported by current methods of assessing user fees. Article IX, section 3a of the Constitution further emphasizes this principle by dedicating all such revenues to be used exclusively for the construction and maintenance of highways. The user fee principle suggests that people should be taxed based on their use of highway services. Value related taxation would upset that user fee principle by taxing vehicles based on value, which might be unrelated to their use of highway services. [*Evaluated by the Department of Transportation.*]

2.082 AIRCRAFT

Oregon Statutes: 308.558 and 308.565

Sunset Date: None

Year Enacted: 1987

1997–98 Assessed Value of Property Exempted: \$206.5 Million

	Loss	Shift	Total
1997–99 Revenue Impact:	\$5,400,000	\$1,000,000	\$6,400,000
1999–01 Revenue Impact:	\$5,900,000	\$1,100,000	\$7,000,000

- DESCRIPTION:** Generally, aircraft are exempt from property taxation, but pay registration fees to the Oregon Department of Transportation (ORS 837.040–.045). Aircraft owned by air transportation companies (commercial airlines) which 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 their business in Oregon.
- PURPOSE:** To tax aircraft based on their share of the cost of maintaining aircraft facilities and services. It also avoids administrative problems dealing with a very mobile property, that could easily be moved out of state on assessment day in order to avoid taxation.
- WHO BENEFITS:** The Aeronautics Division registers about 4,200 aircraft that are exempt from property tax. In addition, a few air transportation companies own aircraft under 75,000 pounds that are 40 percent exempt.
- IN LIEU:** The annual registration fee varies from \$37 for a sailplane to \$187 for a turbojet. Registration fees as an in lieu payment will be about \$524,000 in the 1999–01 biennium.
- EVALUATION:** This expenditure achieves its purpose. The user fee principle noted for motor vehicles (2.081) is similar in concept to the current means of assessing those that benefit from the use of aircraft facilities and services. The user fee principle is believed to be the most equitable practice for assessing fair cost. There are currently various means of assessing those that use airport facilities, such as aircraft registration, fuels tax, tie down fees, and parking fees. Value related taxation would upset the user fee principle.
- Another method for taxing aircraft that was considered in the past was an assessment for the use of Oregon air space. However, it was never implemented because it was believed to be too cumbersome a process and too costly to enforce. *[Evaluated by the Department of Transportation.]*

2.083 ODOT LAND UNDER USE PERMIT

Oregon Statute: 307.110 (3)(c)

Sunset Date: None

Year Enacted: 1981

1997–98 Assessed Value of Property Exempted: Not Available

	Loss	Shift	Total
1997–99 Revenue Impact:	Less than \$50,000	Less than \$50,000	Less than \$50,000
1999–01 Revenue Impact:	Less than \$50,000	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 exemption allows ODOT to permit the use of small, uneconomic real property parcels where the benefit derived is equal to or greater than the expected revenue if it were to be leased or rented. By permitting this use, ODOT saves maintenance and weed control costs. Parcels with marginal value under a lease or rental agreement would otherwise require administrative costs on the part of the state and counties for the assessment and payment of property taxes that would exceed revenue generated.

WHO BENEFITS: ODOT has about 340 active permits that provide approximately \$17,000 in annual administrative fees. This permit system relieves ODOT of the maintenance responsibility, and eliminates the need for county governments to assess property that would in many cases raise very little revenue.

EVALUATION: This provision is effective in achieving its purpose. It reduces costs to both ODOT and county governments. *[Evaluated by the Department of Transportation.]*

2.084 INTANGIBLE PERSONAL PROPERTY

Oregon Statute: 307.030

Sunset Date: None

Year Enacted: 1935

1997–98 Assessed Value of Property Exempted: \$248.3 Billion

	Loss	Shift	Total
1997–99 Revenue Impact:	\$6,466,000,000	\$1,203,000,000	\$7,669,000,000
1999–01 Revenue Impact:	\$7,137,000,000	\$1,328,000,000	\$8,465,000,000

DESCRIPTION: Intangible personal property is exempt from local property taxation. ORS 307.020 defines intangible personal property to include (a) financial property such as interest-bearing accounts, stocks, and bonds; (b) business records in various media forms; and (c) business intangibles like goodwill, patents, trademarks, and copyrights. Business intangibles of centrally-assessed utilities such as communications, energy, railroads, and airlines are included in the taxable value of these companies because of the unitary method by which such utilities are appraised.

PURPOSE: The exemption avoids administrative problems and avoids the inequities that would arise from low compliance.

Intangibles are very mobile and easily concealed. Assessors could not easily identify intangibles without information from financial institutions. A taxpayer could avoid the tax by moving intangibles out of state, converting to tax exempt bonds, or simply not reporting.

WHO BENEFITS: The exemption benefits virtually every household and business in Oregon.

EVALUATION: The experience of most states that impose taxes on intangible personal property is that the taxes are difficult to administer effectively and equitably. Taxes on intangibles are relatively easy to avoid for most intangible assets by simply locating them in a state that does not impose an intangibles tax. In addition, tax compliance tends to be low because many taxpayers are unaware of the tax and enforcement is difficult.

The exemption achieves its purpose of avoiding administrative costs, but it also is likely to create some economic inefficiencies by favoring the ownership of intangible property over tangible property.

The issue of taxation of the intangible property of centrally-assessed utilities received considerable attention during the past two legislative sessions. With deregulation of the telecommunications and energy industries, these industries are concerned about paying taxes on intangible property that future competitors would not pay. A critical element of this discussion has centered on the definition of 'intangible property.' [*Evaluated by the Department of Revenue.*]

2.085 PERSONAL PROPERTY FOR PERSONAL USE

Oregon Statute: 307.190

Sunset Date: None

Year Enacted: 1854

1997–98 Assessed Value of Property Exempted: \$13.7 Billion

	Loss	Shift	Total
1997–99 Revenue Impact:	\$356,000,000	\$66,000,000	\$422,000,000
1999–01 Revenue Impact:	\$393,000,000	\$73,000,000	\$466,000,000

DESCRIPTION: Tangible personal property held by the owner for personal use, benefit, or enjoyment is exempt from property tax. Examples of personal property for personal use are household goods, furniture and appliances, personal effects and clothing, and recreational and entertainment equipment.

The exemption does not apply to any property:

- wholly or partially used in the ordinary course of a trade or business;
- used for the production of income or solely for investment;
- required to be licensed or registered; or
- that is a floating home, boathouse, or manufactured structure.

Property Tax

PURPOSE: The exemption facilitates administration by eliminating the tax on numerous items troublesome to value. As the variety and amount of personal property increased over time, identifying and valuing the property became an increasingly difficult job.

WHO BENEFITS: The exemption benefits all households. Those households with more personal property receive a proportionately greater benefit.

EVALUATION: This exemption achieves its purpose of avoiding the administrative difficulties of valuing the personal property of individuals. The exemption also creates, however, some inequities by treating personal property and real property differently and by treating the personal property of individuals and businesses differently (business personal property is taxed). In addition, it can slow economic growth by altering purchasing decisions.
[*Evaluated by the Department of Revenue.*]

2.086 BEVERAGE CONTAINERS REQUIRING DEPOSIT

Oregon Statute: 307.402

Sunset Date: None

Year Enacted: 1983

1997–98 Assessed Value of Property Exempted: \$4.0 Million

	Loss	Shift	Total
1997–99 Revenue Impact:	\$100,000	\$20,000	\$120,000
1999–01 Revenue Impact:	\$110,000	\$20,000	\$130,000

DESCRIPTION: All beverage containers that have a refund value (requiring a deposit) are exempt from property tax. These containers are not considered inventory if owned by the distributor. The containers are not ‘sold’ with the contents but are intended to be returned for a refund. Deposit containers for carbonated soft drinks and beer may be glass, metal, or plastic. Value will vary somewhat by type of container and size. The estimate assumes inventory at bottlers, distributors, and retail stores to be about one month of sales.

PURPOSE: The purpose of the exemption is to avoid the difficulty of assigning a value to this property, which is constantly changing as the containers are redeemed by purchases, collected by retailers, stored by distributors, then recycled.

WHO BENEFITS: Distributors of beverages sold in containers requiring a deposit.

EVALUATION: It would be virtually impossible to effectively tax the value of these containers, which are constantly moving through the chain of manufacturing, distribution, consumption, and recycling.

2.087 STATE AND LOCAL PROPERTY

Oregon Statute: 307.090

Sunset Date: None

Year Enacted: 1854

1997–98 Assessed Value of Property Exempted: \$21.0 Billion

	Loss	Shift	Total
1997–99 Revenue Impact:	\$541,000,000	\$101,000,000	\$642,000,000
1999–01 Revenue Impact:	\$574,000,000	\$107,000,000	\$681,000,000

DESCRIPTION: State and local government property is exempt from property taxation. State or local government property held under contract of sale or lease by a private party is taxable. For example, office buildings owned by the State of Oregon and used for public purposes are exempt, but space in those same buildings, if leased to a private company, is taxable.

Common School Fund land is exempt even if leased for private use. Article 8, Section 2 of the Oregon Constitution requires that all proceeds from certain lands granted to the state be dedicated to the Common School Fund. According to the Attorney General, this means such lands are not taxable. The land involved includes some state forest land, farm land leased in Eastern Oregon, and submerged or submersible lands on the coast.

The Oregon Legislature exempted some leasehold interests that otherwise would be taxable state and local property. Refer to the following exemptions in this report:

- Leased Student Housing Publicly Owned (2.004),
- Higher Education Parking Space (2.005),
- Docks and Airports Leased from Port District (2.016),
- Leased Publicly-Owned Shipyard Property (2.017),
- Fairground Leased Storage Space (2.024),
- Leased Public Farming and Grazing Land (2.045),
- Oyster Growing on State Land (2.047),
- State and Local Standing Timber Under Contract (2.053),
- Leased State Land Board Land (2.065), and
- ODOT Land Under Use Permit (2.083).

PURPOSE: To avoid state government paying property tax to local governments, and local governments paying property tax to each other.

WHO BENEFITS: This provision's primary effect is to transfer tax burdens from one group of taxpayers to another. In general, state income taxpayers will benefit from lower income taxes, but property taxpayers in local jurisdictions with lots of state-owned property will pay higher local property taxes.

Property Tax

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–.115),
- Common School Fund Lands (ORS 327.410–.420).

EVALUATION: The exemption of state and local government property from property taxes has achieved its purpose of avoiding the taxation of one government by another, but many economists have argued that this purpose may not be a sensible one. In arguing for this exemption, most governments point out that taxing government property is simply a transfer of funds between different government entities. This is not strictly correct. To the extent that governments consume services provided by other governments (police and fire protection, streets and sidewalks, the demand for park space, etc.), this exemption represents a subsidy that must be paid for by other taxpayers. The exemption also disrupts the role that taxes play as prices in the economy, leading to both inequities and reduced economic growth. [*Evaluated by the Department of Revenue.*]

2.088 BEACH LANDS

Oregon Statute: 307.450

Sunset Date: None

Year Enacted: 1969

1997–98 Assessed Value of Property Exempted: Not Available

	Loss	Shift	Total
1997–99 Revenue Impact:			Not Available
1999–01 Revenue Impact:			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.(Chapter 601, 1969).

PURPOSE: The exemption is part of 1969 legislation to preserve public access to ocean beaches and is intended to clarify that ocean beaches, even if privately owned, are exempt from property taxation.

WHO BENEFITS: The state owns the beach land between ordinary high tide and extreme low tide. The “dry sand” land between ordinary high tide and the vegetation line (16 feet elevation) can be privately owned. Of the 362 mile coastline, 262 miles has dry sand beach. Dry sand beach of 116 miles is privately owned and 146 miles is publicly owned. The State Parks and Recreation Department administers the 76 miles the state owns.

EVALUATION: Privately owned beach lands are typically portions of privately owned lots that include both beach and non-beach land. The beach portion is not taxed, but it also has severe restrictions on development. It is likely, however, that undeveloped beach land contributes to the value of the non-beach portions of ocean-front lots, so the value of the beach portion is, in effect, taxed indirectly. [*Evaluated by the Department of Revenue.*]

2.089 PUBLIC WAYS

Oregon Statute: 307.200

Sunset Date: None

Year Enacted: 1895

1997–98 Assessed Value of Property Exempted: \$16.3 Billion

	Loss	Shift	Total
1997–99 Revenue Impact:	\$420,000,000	\$78,000,000	\$498,000,000
1999–01 Revenue Impact:	\$445,000,000	\$83,000,000	\$528,000,000

DESCRIPTION: All dedicated streets, alleys, and county roads are exempt from local property taxation if used for transportation. About 84,000 miles of public highways, roads, and streets exist in the state. This converts to roughly 354,000 acres. Approximately 87 percent of the acreage is rural land. The value of the land itself varies widely, generally being of much higher value in urban areas than in rural areas. Most of the exempt value is, however, the value of the road surface itself, not the land under it.

PURPOSE: The exemption is a clarification of the exemptions for State and Local Property (2.087) and Federal Property (2.098).

WHO BENEFITS: It is not clear who benefits. Because these roads are owned by federal, state, and local governments, taxation would result in both higher costs and higher revenues for the government entities. This would result in higher taxes for some taxpayers and lower taxes for others, but identifying the winners and losers would be very difficult.

EVALUATION: The exemption of public ways is an extension of the general exemption of government-owned property and, therefore, is based on the same rationale: that governments should not tax other levels of government. While many economists argue that the failure of governments to tax other governments in exchange for services provided can slow economic growth, it is unlikely that the failure to tax the value of public ways has much effect. *[Evaluated by the Department of Revenue.]*

2.090 TRIBAL LAND BEING PLACED IN U.S. TRUST

Oregon Statute: 307.180

Sunset Date: 7-1-02

Year Enacted: 1993

1997–98 Assessed Value of Property Exempted: \$500,000

	Loss	Shift	Total
1997–99 Revenue Impact:	Less than \$50,000	Less than \$50,000	Less than \$50,000
1999–01 Revenue Impact:	Less than \$50,000	Less than \$50,000	Less than \$50,000

DESCRIPTION: Land acquired by an Indian tribe is exempt from local property taxation if the land is within ancient tribal boundaries and is in the process of being placed in a U.S. trust. The exemption continues until the land is placed in trust, up to a maximum of five years.

Property Tax

PURPOSE: The exemption allows land to be free of a property tax lien during the application time for placement in U.S. trust without cost to a tribe. The U.S. government requires the land be free of liens as a condition for the trust.

WHO BENEFITS: In 1994, a few properties were exempt in four counties. Some of these exempt properties will be placed in trust before the sunset. Other properties will likely become exempt before the sunset.

EVALUATION: Not Evaluated

2.091 EXEMPT LEASE FROM TAXABLE OWNER

Oregon Statute: 307.112

Sunset Date: None

Year Enacted: 1977

1997-98 Assessed Value of Property Exempted: *

	Loss	Shift	Total
1997-99 Revenue Impact:			*
1999-01 Revenue Impact:			*

* Included in various other categories of exempt property.

DESCRIPTION: Property that is leased to a qualified exempt organization or local government, other than the state of Oregon or federal government, from an otherwise taxable owner is exempt from local property taxation. Eligible organizations are literary, benevolent, charitable, scientific and religious organizations, private schools, day cares and housing authorities.

To qualify, (1) the property must be used for a qualifying purpose, and (2) it must be expressly agreed in the lease or lease-purchase agreement that the rent has been established to reflect the exemption, and (3) the rent charged must be below market rent.

PURPOSE: The exemption gives leased property used for an exempt purpose the same status as property owned by the lessee.

WHO BENEFITS: Exempt organizations and local governments, but it is difficult to identify who and where they are. The Department of Revenue advises counties to include the value of exempt leased property in the same category as the lessees' owned property. How much leased value is included with that owned is unknown. Multnomah County identifies about \$115 million in value leased by exempt organizations from taxable owners.

EVALUATION: The evaluations for the various exemptions that are included in this category are presented separately elsewhere.

2.092 EXEMPT LEASE FROM EXEMPT OWNER

Oregon Statute: 307.166

Sunset Date: None

Year Enacted: 1973

1997–98 Assessed Value of Property Exempted: *

	Loss	Shift	Total
1997–99 Revenue Impact:			*
1999–01 Revenue Impact:			*

* Included in various other categories of exempt property.

DESCRIPTION: Property that is leased or rented to a qualified exempt organization or public body from an owner who is also a qualified exempt organization or public body is exempt from property tax.

To qualify (1) the property must be used for a qualifying purpose, and (2) the rent charged must not exceed the cost of repairs, maintenance, amortization and upkeep.

The lessee must file an application with the county assessor to claim the exemption.

PURPOSE: The exemption gives leased property used for an exempt purpose the same status as property owned by the lessee.

WHO BENEFITS: Exempt organizations, but it is difficult to identify who and where they are. The Department of Revenue advises counties to include the value of exempt leased property in the same category as the lessees' owned property. How much leased value is included with that owned is unknown. Multnomah County identifies about \$30 million in this category.

EVALUATION: The evaluations for the various exemptions that are included in this category are presented separately elsewhere.

2.093 DESTROYED PROPERTY

Oregon Statute: 308.425

Sunset Date: None

Year Enacted: 1971

1997–98 Assessed Value of Property Exempted: Not Available

	Loss	Shift	Total
1997–99 Revenue Impact:			Not Available
1999–01 Revenue Impact:			Not Available

DESCRIPTION: If property is destroyed or damaged during the tax year by fire or an act of God, then the property tax is prorated on a monthly basis. If property is totally destroyed, the tax is 1/12 of the total tax for each month in the tax year prior to destruction. If the property is damaged, the tax is 1/12 of the total tax for each month prior to damage plus a percent of the monthly tax for each month the property is damaged. The percentage is the ratio of the value after damage to the value before damage.

Property Tax

This is not an exemption but a reduction in tax equivalent to a reduced value after the assessment date. An application must be made to receive the proration. Relief cannot be granted for a property when the person seeking relief is convicted of arson for the same property.

PURPOSE: The initial purpose was probably to grant tax relief to those with a total or partial loss of use of the property due to fire or other natural causes. The proration approach passed in 1991 is to comply with 1990 Ballot Measure 5 which requires the tax to not exceed a limit based on the minimum value during the tax year.

WHO BENEFITS: No data are available, but the value of reduced taxes is probably small.

EVALUATION: This provision is not an exemption, but a method for adjusting a property's assessed value to reflect loss in value from partial or complete destruction. [*Evaluated by the Department of Revenue.*]

2.094 CHARITABLE, LITERARY, AND SCIENTIFIC

Oregon Statute: 307.130

Sunset Date: None

Year Enacted: 1854

1997–98 Assessed Value of Property Exempted: \$1.5 Billion

	Loss	Shift	Total
1997–99 Revenue Impact:	\$38,100,000	\$7,100,000	\$45,200,000
1999–01 Revenue Impact:	\$41,200,000	\$7,700,000	\$48,900,000

DESCRIPTION: Property owned or being purchased by literary, benevolent, charitable organization or scientific institutions is exempt from local property taxation. To qualify the organization or institution must (1) be incorporated and organized nonprofit, (2) provide a charitable gift to the public without expectation of payment, and (3) occupy and use the property in a manner that furthers the organization's charitable purpose. Sheltered workshops and retail stores selling donated or consigned goods to support a welfare program are exempt. Parking lots are exempt as long as there is no charge for at least 355 days each year.

The organization or institution must file an application with the county assessor to claim the exemption (ORS 307.162).

PURPOSE: To subsidize organizations providing property and services that serve a socially valuable function.

WHO BENEFITS: This exemption applies to many nonprofit organizations. Examples are some hospitals, social services, museums, youth and athletic groups, summer camps, and conservation groups. About 2,700 properties are exempt but the number of organizations is unknown because the same organization may have property in more than one county.

EVALUATION: Not Evaluated

2.095 FRATERNAL ORGANIZATIONS

Oregon Statute: 307.136

Sunset Date: None

Year Enacted: 1961

1997–98 Assessed Value of Property Exempted: \$200.2 Million

	Loss	Shift	Total
1997–99 Revenue Impact:	\$5,200,000	\$1,000,000	\$6,200,000
1999–01 Revenue Impact:	\$5,600,000	\$1,000,000	\$6,600,000

DESCRIPTION: Property used for fraternal lodge work, entertainment, or recreational purposes is exempt from local property taxation. Fraternal organization property remains exempt even while being rented or leased to other persons so long as the rent does not exceed out of pocket expenses for heat, lights, water and janitorial services and supplies. Parking lots are exempt as long as there is no charge for at least 355 days each year.

To qualify, a fraternal organization must: (1) be organized as a nonprofit; (2) be established under the lodge system with ritualistic form of work and representative form of government; (3) support some benevolent or charitable activity; (4) not distribute any income to its officers, members, or employees except for reasonable compensation for services; and (5) not be a college fraternity or sorority.

The fraternal organization must file an application with the county assessor to claim the exemption.

PURPOSE: To subsidize organizations providing property and services that serve a socially valuable function.

WHO BENEFITS: About 700 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

2.096 RELIGIOUS ORGANIZATIONS

Oregon Statute: 307.140

Sunset Date: None

Year Enacted: 1854

1997–98 Assessed Value of Property Exempted: \$2.0 Billion

	Loss	Shift	Total
1997–99 Revenue Impact:	\$53,100,000	\$9,900,000	\$63,000,000
1999–01 Revenue Impact:	\$58,600,000	\$10,900,000	\$69,500,000

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.

Property Tax

The religious organization must file an application with the county assessor to claim the exemption (ORS 307.162).

PURPOSE: To recognize the social benefits of religious organizations and restrict the financial burdens imposed by taxation.

WHO BENEFITS: Approximately 6,900 religious properties are exempt. The number of properties with religious structures rather than schools, cemeteries, etc. is unknown.

EVALUATION: Not Evaluated

2.097 CEMETERIES, BURIAL GROUNDS, AND MAUSOLEUMS

Oregon Statute: 307.150

Sunset Date: None

Year Enacted: 1854

1997–98 Assessed Value of Property Exempted: \$145.6 Million

	Loss	Shift	Total
1997–99 Revenue Impact:	\$3,800,000	\$700,000	\$4,500,000
1999–01 Revenue Impact:	\$4,200,000	\$800,000	\$5,000,000

DESCRIPTION: Burial grounds, tombs, and rights of burial are exempt from property taxation. Also, land (not exceeding 30 acres) and buildings of crematory associations are exempt. Buildings to store maintenance equipment are included in the exemption. To qualify, a claim must be filed with the county assessor. Family burial grounds are exempt without application.

If use of the exempt property changes to a non-exempt use, then additional taxes equal to the tax benefit received for the years exempt (up to 10) is due.

This statute exempts both non-profit and for-profit cemetery and crematory associations, as well as family burial grounds. Cemeteries owned by cities, counties, or districts are exempt under ORS 307.090 (2.087 State and Local Property), while cemeteries owned and maintained by religious organizations fall under ORS 307.140 (2.096 Religious Organizations).

PURPOSE: The exemption was probably an implementation of traditional public policy to not tax cemeteries.

WHO BENEFITS: Assessors report about 1,000 exempt properties. Over half of the exempt value is located in Multnomah County.

EVALUATION: Not Evaluated

2.098 FEDERAL PROPERTY

Oregon Statute: 307.040

Sunset Date: None

Year Enacted: 1848

1997–98 Assessed Value of Property Exempted: \$91.7 Billion

	Loss	Shift	Total
1997–99 Revenue Impact:	\$2,363,000,000	\$440,000,000	\$2,803,000,000
1999–01 Revenue Impact:	\$2,506,000,000	\$466,000,000	\$2,972,000,000

DESCRIPTION: Property of the United States and its agencies is exempt from property tax when taxation is prohibited by federal law. Federal property held under contract of sale or lease by a private party is taxable.

The Oregon legislature exempted some leasehold interests that otherwise would be taxable federal land. Refer to the following exemptions in this report:

- Recreation Facility on Federal Land (2.021),
- Summer Homes on Federal Land (2.034),
- Leased Federal Grazing Land (2.046)
- Federal Standing Timber Under Contract (2.060), and
- Mining Claims on Federal Land (2.100).

PURPOSE: To clarify and comply with federal law.

WHO BENEFITS: The United States owns about 30 million acres in Oregon, or 48 percent of the land. The exempt value includes federal structures and equipment, land, and sawtimber. Over 90 percent of the value is standing timber.

IN LIEU: The federal government makes in-lieu payments to local governments for the following types of federal land:

Federal Oregon and California Railroad (O & C) Lands,
 Federal Forest Land,
 Payments In-Lieu-Of Taxes Act of 1976,
 Coos Bay Wagon Road Lands,
 Public Land Resource Sales,
 BLM Grazing Lands,
 U.S. Mineral Leases.

EVALUATION: Not Evaluated

2.099 INDIAN PROPERTY ON RESERVATION

Oregon Statute: 307.180

Sunset Date: None

Year Enacted: 1854

1997–98 Assessed Value of Property Exempted: Not Available

	Loss	Shift	Total
1997–99 Revenue Impact:			Not Available
1999–01 Revenue Impact:			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 (except lands held by them by purchase or inheritance). Lands owned or held by Indians in severalty on an Indian reservation, and their personal property on the reservation, are exempt only when provided by federal law.

PURPOSE: The exemption is probably to comply with the status of Indians under federal law before statehood.

WHO BENEFITS: Seven reservations are located in 12 counties. Reservation acreage is 842,555 acres. Three tribes do not currently have reservations.

EVALUATION: Not Evaluated

2.100 MINING CLAIMS ON FEDERAL LAND

Oregon Statute: 307.080

Sunset Date: None

Year Enacted: 1889

1997–98 Assessed Value of Property Exempted: Not Available

	Loss	Shift	Total
1997–99 Revenue Impact:			Not Available
1999–01 Revenue Impact:			Not Available

DESCRIPTION: Unpatented mining claims on federal property are exempt from local property taxation. Any improvements or equipment on the claim are taxable. Unpatented mining claims are private claims to public land without the federal government having conveyed title.

PURPOSE: The exemption is probably to recognize that the federal government is still the owner of the land.

WHO BENEFITS: About 17,000 mining claims exist on Bureau of Land Management land. Claims can overlap so the total acreage is unknown. The value of mining claims is also unknown.

EVALUATION: The exemption of mining claims on federal land is inconsistent with the treatment of other taxable activity taking place on property owned by an exempt entity. In most other circumstances, such property would be taxed. The rationale for this exemption may be rooted in the fact that mining claims are intangible in nature, and intangible property is typically exempt from local property taxation. *[Evaluated by the Department of Revenue.]*

2.101 AMTRAK PASSENGER RAILROAD

Oregon Statute: 308.515

Sunset Date: None

Year Enacted: 1983

1997–98 Assessed Value of Property Exempted: \$6.7 Million

	Loss	Shift	Total
1997–99 Revenue Impact:	\$170,000	\$30,000	\$200,000
1999–01 Revenue Impact:	\$180,000	\$30,000	\$210,000

DESCRIPTION: National Railroad Passenger Corporation (Amtrak) property is exempt from property tax as long as federal law prohibits the company from paying property taxes. Amtrak does not own land or structures in Oregon, but leases or pays fees for use. The value of personal property (engines and cars) is uncertain. Oregon's value would likely depend on an allocation formula using factors like share of passenger miles.

PURPOSE: To comply with federal law.

WHO BENEFITS: Most likely Amtrak passengers, who pay lower fares because Amtrak's costs are lower.

EVALUATION: Not Evaluated

CHAPTER 3. GAS AND USE FUEL TAXES

Fuels used in motor vehicles and airplanes are taxed in Oregon. These fuels include gasoline, use fuels and jet fuel. Use fuels are fuels other than gasoline used in motor vehicles, such as diesel, propane and natural gas. Gas and use fuel taxes are one of two components of transportation taxes in Oregon; the other is the weight-mile tax. In general, vehicles are subject to one tax or the other, but never both taxes. Heavy vehicles that are generally subject to the weight-mile tax are therefore not subject to the use fuel tax.

Revenue from the motor vehicle and use fuel taxes totaled \$777 million in the 1995–97 biennium, and is projected to be \$809 million for the 1999–01 biennium. This tax revenue is dedicated to the construction and maintenance of roads in Oregon.

Gasoline Tax

In 1919 Oregon was the first state to institute a use tax on gasoline. Currently, the state of Oregon and the federal government impose taxes of 24 cents and 18.4 cents per gallon respectively, for a total tax rate of 42.4 cents per gallon. The state tax is paid to the Oregon Department of Transportation by the approximately 200 wholesale fuel dealers in the state. The tax is then passed on to the consumer in the price paid at the pump.

These 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 state tax paid on gasoline 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 this tax.

Use Fuel Tax

In 1943 Oregon imposed a tax on fuels other than gasoline used in motor vehicles. Diesel is the primary fuel, but other fuels used in motor vehicles such as propane and natural gas are also taxed. Currently, the state of Oregon and the federal government impose taxes of 24 cents and 24.4 cents per gallon of diesel respectively, for a total tax rate of 48.4 cents per gallon. There are approximately 500 retailers in the state who submit payments to the Oregon Department of Transportation for taxes collected from roughly 1,500 users. In addition, there are another 1,600 users who pay the tax directly to the state rather than paying at the pump. The use fuel tax does not apply to trucks subject to weight-mile taxes.

These taxes are intended to assess users of public roadways for a fair share of the related construction and maintenance costs for roads. Oregon statutes allow an exception from use fuel taxes for cases where the user does not benefit from the facilities or services funded by the imposed tax, for vehicles operated in public services, or where an alternate method of payment has been established in lieu of this tax.

Jet Fuel Tax

This tax is assessed in the same manner as the gasoline tax, at a rate of one-half of one cent per gallon.

3.001 FOREST PRODUCTS—GASOLINE

Oregon Statute: 319.320(1)(d)

Sunset Date: None

Year Enacted: Pre-1953

	Total
1997–99 Revenue Impact:	\$0
1999–01 Revenue Impact:	\$0

DESCRIPTION: Under certain conditions, a refund is allowed for tax paid on motor vehicle fuels (gasoline) when used for the removal of forest products on a public road. An agreement with the State Board of Forestry, the State Forester or an agency of the United States must authorize the use of the road and require the user to pay for or perform the construction or maintenance of the county road. In some cases, construction of specific roadway is necessary for the removal of forest products. This provision allows counties to contract with the users of a roadway for the maintenance and improvement of that specific section of roadway.

PURPOSE: In most cases, the fuel and weight-mile taxes pay for the general use of the transportation system where tracking user damage to identifiable areas is difficult. In this case, however, the section of roadway over which heavy loads are moved is easily identified, and cost to the user can be more directly allocated to a specific section of roadway.

WHO BENEFITS: Potential beneficiaries include the 36 county governments and roadway users, but none of them uses it.

IN LIEU: Financial responsibility for the construction and maintenance of the roadway in use is contracted with the county court and county commissioners in lieu of paying fuels tax.

EVALUATION: This expenditure is ineffective in achieving its purpose as the costs of construction or maintenance of the county road would be higher than that of fuels tax. Removal of forest products are typically performed on roads other than state highways, county roads, or city streets, and a tax refund is allowed for fuels used for this purpose under ORS 319.320(b). A review of fuels tax refunds shows that, in the case of removal of forest products, fuels used on county road constitutes only a very small volume relative to total fuel consumption. Therefore, users typically pay tax for fuels used on county and other public roads and claim refunds for fuels used off road.

Furthermore, virtually no one knows about this provision. The public works department of counties with major timber operations, the Forest Service, and timber industry representatives were contacted. There was only one case identified where this provision had been exercised and it was approximately 30 years ago. [*Evaluated by the Department of Transportation.*]

3.002 FOREST PRODUCTS—OTHER THAN GASOLINE

Oregon Statute: 319.831(1)(g)

Sunset Date: None

Year Enacted: 1965

	Total
1997–99 Revenue Impact:	\$0
1999–01 Revenue Impact:	\$0

- DESCRIPTION:** Under certain conditions, a refund is allowed for tax paid on fuels other than gasoline when used for the removal of forest products on a public road. An agreement with the State Board of Forestry, the State Forester or an agency of the United States must authorize the use of the road and require the user to pay for or perform the construction or maintenance of the county road. In some cases, construction of specific roadway is necessary for the removal of forest products. This provision allows counties to contract with the users of a roadway for the maintenance and improvement of that specific section of roadway.
- PURPOSE:** In most cases, the fuel and weight-mile tax pays for the general use of the transportation system where tracking user damage to identifiable areas is difficult. In this case, however, the section of roadway over which heavy loads are moved is easily identified, and cost to the user can be more directly allocated to a specific section of roadway.
- WHO BENEFITS:** Potential beneficiaries include the 36 county governments and roadway users, but none of them uses it.
- IN LIEU:** Financial responsibility for the construction and maintenance of the roadway in use is contracted with the county court and county commissioners in lieu of paying fuels tax.
- EVALUATION:** This expenditure is ineffective in achieving its purpose as the costs of construction or maintenance of the county road would be higher than that of fuels tax. Removal of forest products are typically performed on roads other than state highways, county roads or city streets, and a tax refund is allowed for fuels used for this purpose under ORS 319.831(c). A review of fuels tax refunds shows that, in the case of removal of forest products, fuels used on county road constitutes only a very small volume relative to total fuel consumption. Therefore, users typically pay tax for fuels used on county and other public roads and claim refunds for fuels used off road.
- Furthermore, virtually no one knows about this provision. The public works department of counties with major timber operations, the Forest Service, and timber industry representatives were contacted. There was only one case identified where this provision had been exercised and it was approximately 30 years ago. [*Evaluated by the Department of Transportation.*]

3.003 PUBLIC SERVICES

Oregon Statutes: 319.831(1)(e) and 319.831(1)(f)

Sunset Date: None

Year Enacted: 1961

	Total
1997–99 Revenue Impact:	\$2,800,000
1999–01 Revenue Impact:	\$2,800,000

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.) Under Oregon statute, incorporated cities and towns are allowed an exemption for any use, while counties may claim an exemption for use in conjunction with road construction and maintenance. Agencies of the United States are exempt under federal law.

PURPOSE: To avoid reciprocal taxation among public entities when the tax revenue would be used for the same purpose as the activity being taxed (road construction and maintenance).

WHO BENEFITS: Beneficiaries include 240 incorporated cities and towns, 36 counties, and various federal agencies. Some public service vehicles are exempt from both the use fuel and weight-mile taxes. Those vehicles are included in the revenue impact reported here, and are also included in the weight mile tax expenditure Government Owned or Operated Vehicles (4.004). However, it should be noted that vehicles would not be subject to both taxes. Vehicles that were subject to weight-mile tax would be exempt from taxation on use fuel, and vice versa.

EVALUATION: This expenditure achieves its purpose. Cities and counties, who are the major beneficiary of this provision, use diesel fuel largely in conjunction with the construction and maintenance of roads. Revenue generated through the tax on such fuels are dedicated for this purpose, and this provision reduces the processing of funds prior to returning them to public agencies to be used for this purpose. Due to the tax-exempt status of cities and counties, the filing of periodical tax reports from all cities and counties in this regard have been waived since 1967. As a result, the costs associated with the application for and payment of refunds are eliminated. Therefore, this provision is an effective continuation of established policies that avoid the reciprocal taxation of governing agencies. *[Evaluated by the Department of Transportation.]*

3.004 PUBLIC TRANSPORTATION

Oregon Statutes: 267.200 and 267.570(2)

Sunset Date: None

Year Enacted: 1969

	Total
1997–99 Revenue Impact:	\$2,300,000
1999–01 Revenue Impact:	\$2,400,000

DESCRIPTION: A refund is allowed for any tax paid on fuels other than gasoline when used in the operation of mass transit and transportation districts. Transit and transportation districts are treated the same as municipalities for purposes of claiming this exemption.

PURPOSE: To lower the cost of providing public transportation services.

WHO BENEFITS: There are three mass transit districts and six transportation districts in the state. Ultimately, the beneficiaries would be transit riders if cost savings lead to lower fares. Some transit vehicles are exempt from both the use fuel and weight-mile taxes. Those vehicles are included in the revenue impact reported here, and are also included in the weight mile tax expenditure Mass Transit Vehicles (4.005). However, it should be noted that vehicles would not be subject to both taxes. Vehicles that were subject to weight-mile tax would be exempt from taxation on use fuel, and vice versa.

EVALUATION: This expenditure achieves its purpose. Without this exemption, fares could be higher, which would decrease ridership, particularly those from lower income groups. [*Evaluated by the Department of Transportation.*]

CHAPTER 4. WEIGHT-MILE TAX

The weight-mile tax is one of two components of transportation taxes in Oregon; the other is the gas and use fuel taxes. In general, vehicles are subject to one tax or the other, but never both taxes. Heavy vehicles which are generally subject to the weight-mile tax are therefore not subject to the use fuel tax. Revenue from the weight-mile tax totaled \$408 million in the 1995–97 biennium, and is projected to be \$447 million for the 1999–01 biennium. This tax revenue is dedicated to the construction and maintenance of roads in Oregon.

This tax is imposed on heavy vehicles, in lieu of paying fuel tax, according to a combination of the number of axles and/or combined weight of the vehicle, and the number of miles driven. Studies show that, although fuel consumption increases with vehicle size and weight, it does not increase proportionately with cost responsibility. Above 26,000 pounds registered weight, the overall weight and axle loads become important factors in determining requirement for the strength of pavements, bridges, and other structures. Therefore, fuel tax is not a proper measure of cost responsibility for heavy vehicles.

The tax rate schedule changes as: (1) the weight of the vehicle increases from 26,000 pounds to 105,500 pounds; and (2) the number of axles increases. Within each weight or axle group, a truck pays the stated amount multiplied by the number of miles the truck travels each year on Oregon public roads. The weight-mile tax schedules are based on results of cost responsibility studies which determine the fair share that heavy vehicles should pay for the maintenance, operation, and improvement of the state's highway system.

The tax rates consist of separate schedules for vehicles with registered weights between 26,001-80,000 pounds and those operated under special permit with registered weights between 80,001-105,500 pounds. Within each schedule, vehicles are separated into groups in 2,000 pounds increments. The tax rates per mile for vehicles with registered weights between 26,001-80,000 range from 4.15 cents to 13.65 cents. The tax rates for vehicles with registered weights between 80,001-105,500 are based on both the weight and number of axles. There are separate rates for five, six, seven, eight and nine or more-axle vehicles. Since lower average weight per axle reduces pavement wear, the tax rate decreases as number of axle increases within this group. For example, vehicles with five axles weighing 96,001-98,000 pounds pay 19.2 cents per mile, the highest weight-mile tax rate; vehicles of the same weight group pay only 12.2 cents per mile if they have nine or more axles.

Since 1947, the weight-mile tax schedules have been adjusted 12 times as the result of updated cost responsibility studies and revenue measures passed by the legislature. The most recent revision occurred on January 1, 1996, when the weight-mile rates were reduced by an average of 6.2 percent to reflect the results of the 1994 Cost Responsibility Study. The next Cost Responsibility Study is expected to be completed by March 15, 1999.

4.001 FARMING OPERATIONS

Oregon Statutes: 825.017(4), 825.017(18), and 825.024

Sunset Date: None

Year Enacted: 1983

Total	
1997–99 Revenue Impact:	\$2,100,000
1999–01 Revenue Impact:	\$2,100,000

DESCRIPTION: Vehicles being used in conjunction with farming operations are exempt from the payment of weight-mile taxes. This includes implements of husbandry, low speed vehicles, and farm related equipment as referenced in the three Oregon statutes cited.

Implements of husbandry are those vehicles and trailers used exclusively in agricultural operations. The definition for farm related equipment is more inclusive than for implements of husbandry and identifies uses incidental to farming operations such as transportation of supplies and equipment, as well as the personal use of vehicles by the farmer and his family or employees. Low speed vehicles must be designed for off-road use and no more than 15 percent of their mileage can be on the road.

Vehicles registered as farm equipment are used primarily off the road system, and in most cases, the transportation of such vehicles on the road is incidental to their use. Approximately two thirds of the vehicles operated in conjunction with farming weigh less than 26,000 pounds and are not subject to weight-mile taxation. This provision applies only to those farm vehicles that exceed 26,000 pounds.

PURPOSE: These laws may have been initiated in recognition of the importance of farming activities to the economy of the state.

WHO BENEFITS: There are approximately 37,500 farming operations in the state, and about 43,400 registered farm vehicles. The average benefit is about \$24 annually per farm.

It should be noted that all farm vehicles are subject to fuel tax unless they are operated off the road system, in which case a refund is allowed under ORS 319.320(3). Since farm vehicles over 26,000 pounds pay fuel tax, they are not subject to weight-mile tax. Therefore, the revenue impact reported here is the difference between what they pay in fuel tax and what they would pay under the higher weight-mile tax.

EVALUATION: This expenditure appears to achieve its purpose. However, the benefit per farm is very small, and probably does not provide a competitive edge for farming in Oregon. Of course, larger farming operations benefit according to the amount of equipment in operation. The reduction in the revenue impact since the 1997–99 Tax Expenditure Report is due mainly to the decrease in the heavy vehicle responsibility share of the road user tax revenues from 38.7 percent to 37.7 percent effective in 1996. *[Evaluated by the Department of Transportation.]*

4.002 FOREST PRODUCTS ON COUNTY ROADS

Oregon Statute: 825.017(8)

Sunset Date: None

Year Enacted: 1977

	Total
1997-99 Revenue Impact:	\$0
1999-01 Revenue Impact:	\$0

- DESCRIPTION:** Under certain conditions, vehicles being used for the removal of forest products on a public road are exempt from the payment of weight-mile taxes. An agreement with the State Board of Forestry, the State Forester, or an agency of the United States must authorize the use of the road and require the user to pay for or perform the construction or maintenance of the county road. In some cases, construction of specific roadway is necessary for the removal of forest products. This provision allows counties to contract with the users of a roadway for the maintenance and improvement of the specific section of roadway used.
- PURPOSE:** In most cases, the fuels and weight-mile taxes pay for the general use of the transportation system where tracking user damage to identifiable areas is difficult. In this case, however, the section of roadway over which heavy loads are moved is easily identified, and cost to the user can be more directly allocated to a specific section of roadway.
- WHO BENEFITS:** Potential beneficiaries include the 36 county governments and roadway users, but none of them use it.
- IN LIEU:** Financial responsibility for the construction and maintenance of the roadway in use is contracted with the county court and county commissioners in lieu of paying the weight-mile tax.
- EVALUATION:** This expenditure is ineffective in achieving its purpose as the costs of construction or maintenance of the county road would be higher than that of weight-mile tax.
- Furthermore, virtually no one knows about this provision. The public works department of counties with major timber operations, the Forest Service, and timber industry representatives were contacted. There was only one case identified where this provision had been exercised and it was approximately 30 years ago. *[Evaluated by the Department of Transportation.]*

4.003 ELEMENTARY AND SECONDARY SCHOOLS

Oregon Statute: 825.017(1)

Sunset Date: None

Year Enacted: Pre-1953

Total	
1997-99 Revenue Impact:	\$300,000
1999-01 Revenue Impact:	\$300,000

DESCRIPTION: Vehicles being used by, or under contract with, any elementary or secondary school district are exempt from the payment of weight-mile taxes when engaged exclusively in transporting students to or from school or authorized school activities, or those activities sponsored by the State Board of Higher Education.

PURPOSE: Weight-mile taxation is generally applied to for-hire commercial vehicles. School buses are either owned by a school district or contractor supplying services to a school district and are not for-hire vehicles. This provision reduces the record keeping and audit cost of the refund application process.

WHO BENEFITS: In 1997-98 there were 199 school districts operating 1,237 elementary and secondary schools. This provision applies only to those school buses that exceed 26,000 pounds. Approximately 70 percent of the miles traveled by school buses are in weight classes equal to or less than 26,000 pounds.

It should be noted that school buses are subject to fuel tax. Since they pay fuel tax, they are not subject to weight-mile tax. Therefore, the revenue estimate reported here is the difference between what they pay in fuel tax and what they would pay under the higher weight-mile tax.

EVALUATION: This expenditure achieves its purpose. Although the direct benefit to schools is relatively small, this provision also reduces record keeping costs. The reduction in the revenue impact since the 1997-99 Tax Expenditure Report is due mainly to the decrease in the heavy vehicle responsibility share of the road user tax revenues from 38.7 percent to 37.7 percent effective in 1996. [*Evaluated by the Department of Transportation.*]

4.004 GOVERNMENT OWNED OR OPERATED VEHICLES

Oregon Statutes: 825.017(11) and 825.017(13)

Sunset Date: None

Year Enacted: Pre-1953

Total	
1997-99 Revenue Impact:	\$4,900,000
1999-01 Revenue Impact:	\$4,900,000

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;

- involved in transportation of United States mail on rural or star routes by contract or employed by the Postal Service.

PURPOSE: To avoid reciprocal taxation among public entities when the tax revenue would be used largely for the same purpose as the activity being taxed (road construction and maintenance).

WHO BENEFITS: Beneficiaries include 240 incorporated cities and towns, 36 counties, and the Postal Service. Some public service vehicles are exempt from both the use fuel and weight-mile taxes. Those vehicles are included in the revenue impact reported here, and are also included in the fuels tax expenditure Public Services (3.003). However, it should be noted that vehicles would not be subject to both taxes. Vehicles that were subject to weight-mile tax would be exempt from taxation on use fuel, and vice versa.

EVALUATION: This expenditure achieves its purpose. Cities and counties, who are the major beneficiary of this provision, operate equipment subject to this tax largely in conjunction with the construction and maintenance of roads. Revenue generated through this tax is dedicated for this purpose, and this provision reduces the processing of funds prior to returning them to public agencies to be used for this purpose. This is an effective continuation of established policies that avoid the reciprocal taxation of governing agencies. The reduction in the revenue impact since the 1997–99 Tax Expenditure Report is due mainly to the decrease in the heavy vehicle responsibility share of the road user tax revenues from 38.7 percent to 37.7 percent effective in 1996. [*Evaluated by the Department of Transportation.*]

4.005 MASS TRANSIT VEHICLES

Oregon Statute: 825.017(12)
 Sunset Date: None
 Year Enacted: 1977

Total	
1997–99 Revenue Impact:	\$3,200,000
1999–01 Revenue Impact:	\$3,200,000

DESCRIPTION: Vehicles owned or operated by a mass transit district are exempt from weight-mile taxes.

PURPOSE: To lower the cost of providing public transportation services.

WHO BENEFITS: There are three mass transit districts in Oregon. Ultimate beneficiary would be transit riders if cost savings lead to lower fares. Some transit vehicles are exempt from both the use fuel and weight-mile taxes. Those vehicles are included in the revenue impact reported here, and are also included in the fuels tax expenditure Public Transportation (3.004). However, it should be noted that vehicles would not be subject to both taxes. Vehicles that were subject to weight-mile tax would be exempt from taxation on use fuel, and vice versa.

Weight-Mile Tax

EVALUATION: This expenditure achieves its purpose. Without this exemption, fares could be higher, which would decrease ridership, particularly those from lower income groups. *[Evaluated by the Department of Transportation.]*

4.006 FIRE PROTECTION

Oregon Statute: 825.017(23)

Sunset Date: None

Year Enacted: 1977

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

DESCRIPTION: Vehicles used for the purposes of forest protection and fire suppression are exempt from weight-mile taxes when directed by the State Forester. This exemption also applies to the vehicles being moved to or from the work area. The primary purpose of this law is to station additional water supply trucks near logging operation when deemed necessary by the forestry officials.

PURPOSE: To lower the cost of providing fire protection services normally provided through public services.

WHO BENEFITS: The timber industry, forest owners, and fire fighters. It should be noted that fire protection vehicles are subject to fuel tax. Since they pay fuel tax, they are not subject to weight-mile tax. Therefore, the revenue estimate reported here is the difference between what they pay in fuel tax and what they would pay under the higher weight-mile tax.

EVALUATION: This expenditure appears to achieve its purpose. These fire protection vehicles are very few in numbers and operate primarily off the highway system and would not be subject to taxation, with the exception of the provision that allows movement to and from the work area. This provision is effective as the cost associated with record keeping and weight-mile audit would likely exceed any revenue generated. This is a minimal investment in supporting activities to protect Oregon's forest resources. *[Evaluated by the Department of Transportation.]*

4.007 CHARITABLE ORGANIZATIONS

Oregon Statute: 825.017(15)

Sunset Date: None

Year Enacted: 1977

Total	
1997-99 Revenue Impact:	Less Than \$50,000
1999-01 Revenue Impact:	Less Than \$50,000

DESCRIPTION: Vehicles owned, or under contract with, a charitable organization are exempt from the payment of weight-mile taxes when engaged exclusively in performing transportation necessary to the operation of the charitable organization.

PURPOSE: To help support public services provided by organizations that fulfill a socially desirable function. The elimination of such services would further burden existing social services provided by government agencies.

WHO BENEFITS: There are approximately 9,100 charitable organizations registered in the state. It should be noted that vehicles used by charitable organizations are subject to fuel tax. Since they pay fuel tax, they are not subject to weight-mile tax. Therefore, the revenue estimate reported here is the difference between what they pay in fuel tax and what they would pay under the higher weight-mile tax.

EVALUATION: Although the benefit in this case is relatively small, this provision is believed to be effective in achieving its purpose. There are relatively few vehicles being operated by charitable organizations that exceed the 26,000 pounds lower limit of the rate schedules.

Charitable organizations are excluded from all provisions of Chapter 825 of the ORS which include operating authority and regulatory requirements prior to deregulation. At this time this exemption was passed, the exclusion from those provisions of Chapter 825 would have granted such organizations greater operating freedom, and may have been the original incentive to provide this exemption. [*Evaluated by the Department of Transportation.*]

CHAPTER 5. INSURANCE TAXES

Formerly, the major insurance tax in Oregon was the gross premium tax, which was based on premiums written for insurance policies in Oregon. This tax has been repealed and there is a five-year transition period to the corporation excise tax. The tax expenditures reported here reflect the effects of the transition. During the next two biennia, the major insurance taxes will be the corporation excise tax, a retaliatory tax, and a transition tax, all of which are based on insurance business conducted in the state of Oregon. In addition, property and casualty insurers (both in-state and out-of-state) are subject to the fire insurance tax, which is based on premiums written for fire insurance policies in Oregon. General Fund revenue from combined insurance taxes was \$141.1 million for the 1995–97 biennium.

Corporation Excise, Retaliatory, and Transition Taxes

All authorized insurers are subject to the corporation excise tax. Foreign insurers (domiciled in other states) and alien insurers (domiciled in other countries) are also subject to another tax known as the retaliatory tax, collected by the Insurance Division of the Department of Consumer and Business Affairs. Both foreign and alien insurers are subject to precisely the same tax provisions as discussed below for foreign insurers.

The retaliatory tax measures the tax burden that would be imposed on an Oregon insurer in another state given the same premium written in that state during the year. If the foreign state's tax laws would have imposed a larger tax on a similar Oregon insurer, then the difference between the Oregon tax and the other state's tax is charged the foreign insurer. This difference is the retaliatory tax.

Foreign insurers are also subject to a temporary tax known as the transition tax for calendar years 1997–01. Prior to 1997, foreign insurers paid a premium tax in lieu of the excise tax. When insurer tax laws were changed to the current system, this temporary tax was instituted to compensate for an expected reduction in total tax revenue collected under the new law. The transition tax compares the current total tax to what would have been imposed under the old law and then collects the difference, reduced 20% per year until it expires December 31, 2001.

Fire Insurance Tax

Property and casualty insurers are subject to a fire insurance tax of one percent on net direct premiums written for coverage of fire risks in Oregon. This tax is in addition to the gross premium tax described above. The purpose of the tax is to finance the Office of State Fire Marshal. This tax will continue to be paid even after the expiration of the transition tax law in 2001. Fire insurance tax collections for 1997–98 were \$4.3 million.

5.001 ANNUITY POLICIES EXEMPTED

Oregon Statute: 731.816
 Sunset Date: None
 Year Enacted: 1967

Total	
1997-99 Revenue Impact:	\$19,900,000
1999-01 Revenue Impact:	\$12,200,000

DESCRIPTION: Monies received from an annuity policy are exempt from the gross premium tax. There is no equivalent credit under the corporation excise tax. The revenue impacts reported account for the phase-out of the gross premium tax.

PURPOSE: To recognize that annuities are not the same as insurance policies, but rather are investment instruments.

WHO BENEFITS: Life insurance companies that sell annuities, and the purchasers of annuities.

EVALUATION: ORS 731.816 was repealed. Effective January 1, 1997 the gross premium tax is being phased out over a five-year period. *[Evaluated by the Department of Consumer and Business Services.]*

5.002 WET MARINE AND TRANSPORTATION POLICIES

Oregon Statute: 731.816
 Sunset Date: None
 Year Enacted: 1967

Total	
1997-99 Revenue Impact:	\$800,000
1999-01 Revenue Impact:	\$400,000

DESCRIPTION: Premiums received for wet marine and transportation policies are exempt from the gross premium tax. These insurers instead pay a tax based on underwriting profits under ORS 731.824.

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

Effective January 1, 1997 the gross premium tax is being phased out over a five-year period. However, this expenditure will continue under the corporation excise tax, as reported in Wet Marine and Transportation Policies (1.101). The revenue impacts reported account for the phase-out of the gross premium tax.

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

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

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

EVALUATION: ORS 731.816 was repealed. Effective January 1, 1997 the gross premium tax is being phased out over a five-year period. [*Evaluated by the Department of Consumer and Business Services.*]

5.003 EDUCATIONAL AND SCIENTIFIC INSTITUTIONS

Oregon Statute: 731.816

Sunset Date: None

Year Enacted: 1967

Total	
1997–99 Revenue Impact:	Not Available
1999–01 Revenue Impact:	Not Available

DESCRIPTION: Annuity policies issued by non-profit organizations to benefit educational and scientific institutions are exempt from the gross premium tax.

PURPOSE: Presumably to encourage and protect annuities for grants and scholarships for science and education.

WHO BENEFITS: Non-profit insurers of educational and scientific institutions, and those institutions.

EVALUATION: ORS 731.816 was repealed. Effective January 1, 1997 the gross premium tax is being phased out over a five-year period. [*Evaluated by the Department of Consumer and Business Services.*]

5.004 ASSESSMENTS ON WORKERS' COMPENSATION

Oregon Statute: 731.832

Sunset Date: None

Year Enacted: 1965

Total	
1997–99 Revenue Impact:	\$7,600,000
1999–01 Revenue Impact:	\$3,600,000

DESCRIPTION: Workers' compensation insurers pay both the gross premium tax and an assessment that provides funding to administer the Oregon Workers' compensation system. These insurers are then entitled to a credit against the gross premium tax on workers' compensation premiums for assessments paid on workers' compensation premiums under ORS 656.612

Effective January 1, 1997, the gross premium tax is repealed and is being phased-out over a five-year period. However, this credit will continue under the corporation excise tax, as reported in 1.147 Assessments on Workers' Compensation. The revenue impacts reported account for the phase-out of the gross premium tax.

PURPOSE: To reduce the burden of taxes and assessments on workers' compensation insurers, who already pay an assessment at a rate higher than the gross premium tax rate.

WHO BENEFITS: Workers' compensation insurers and employers and employees.

EVALUATION: This expenditure achieves its purpose. The workers' compensation assessment provides funds used to administer the entire Oregon Workers' Compensation system. This includes occupational safety and health issues handled by the Oregon Occupational Safety and Health Division (OR-OSHA). OR-OSHA has worked very successfully to reduce accident rates to Oregon workers and thereby reduce costs to employers and harm to workers. Funds are also used to regulate the insurance industry to assure fair rates are charged employers and benefits are paid timely and accurately to injured workers. The system also includes mechanisms to assure timely resolution of disputes to guarantee injured workers receive benefits for legitimate injuries in an expedient manner.

Two Oregon Benchmarks are directly impacted by the activities carried out as a result of this credit, 213 and 225. Small business startups per 1,000 population are impacted by maintaining a safe and healthy work environment and by maintaining a reasonably priced workers' compensation system. Oregon's ranking among states in workers' compensation costs has improved from 8th in 1990 to 34th in 1996. Both benchmarks have been positively impacted as a result of this credit.

This credit has the effect of a partial funding of administrative program costs by the General Fund. If the credit were repealed then the cost of the workers' compensation insurance to policyholders might increase. *[Evaluated by the Department of Consumer and Business Services.]*

5.005 ASSESSMENTS PAID TO OREGON IGA: GENERAL

Oregon Statute: 734.575

Sunset Date: None

Year Enacted: 1977

	Total
1997-99 Revenue Impact:	\$100,000
1999-01 Revenue Impact:	Less than \$50,000

DESCRIPTION: Property and casualty insurers pay both the gross premium tax and an assessment to a guaranty association that is used to cover the cost of claims against insurers who have gone out of business. These insurers are then entitled to a credit against the gross premium taxes for assessments paid to Oregon Insurance Guaranty Association (OIGA) at the rate of 20 percent per year for each of the five years following the year in which the assessment was paid.

Effective January 1, 1997, the gross premium tax is repealed and is being phased-out over a five-year period. However, this credit will continue under the corporation excise tax as reported in 1.148 Assessments Paid to Oregon IGA: General. The revenue impacts reported reflect the phase-out of the gross premium tax.

PURPOSE: This provision allows the cost of claims against insolvent insurers, initially paid by fellow insurance companies, to be absorbed by the General Fund.

WHO BENEFITS: Property and casualty insurers and their policyholders.

EVALUATION: This expenditure achieves its purpose. This type of credit is common throughout the United States. It allows insurers to recover the costs of the assessment they pay to the guaranty association, which in turn is used to cover the cost of claims against insolvent insurers. Although the credit is not a prerequisite for the existence of the guaranty association, the credit does, in effect, transfer the cost of claims against insolvent insurers from the insurance industry to the state General Fund. By allowing the assessments to be claimed as credits over five years, the cost to the General Fund is spread out over five years. In effect, this gives the General Fund a five-year interest free loan equal to the total assessment levied. Without this credit, General Fund revenue would be subject to more erratic fluctuations as insurer insolvencies call for funds to pay claims. *[Evaluated by the Department of Consumer and Business Services.]*

5.006 ASSESSMENTS PAID TO OREGON LIFE AND HEALTH IGA

Oregon Statute: 734.835

Sunset Date: None

Year Enacted: 1975

	Total
1997–99 Revenue Impact:	\$2,900,000
1999–01 Revenue Impact:	\$1,300,000

DESCRIPTION: Life insurance companies pay both the gross premium tax and an assessment to a guaranty association that is used to cover the cost of claims against insurers who have gone out of business. These insurers are then entitled to a credit against the gross premium taxes for assessments paid to Oregon Life and Health Insurance Guaranty Association (OLHIGA) at the rate of 20 percent per year for each of the five years following the year in which the assessment was paid.

Effective January 1, 1997, the gross premium tax is repealed and is being phased-out over a five-year period. However, this credit will continue under the corporation excise tax as reported in 1.149 Assessments Paid to Oregon Life and Health IGA. The revenue impacts reported account for the phase-out of the gross premium tax.

PURPOSE: This provision allows the cost of claims against insolvent insurers, initially paid by fellow insurance companies, to be absorbed by the General Fund.

WHO BENEFITS: Life insurance companies and their policyholders.

EVALUATION: This expenditure achieves its purpose. This type of credit is common throughout the United States. It allows insurers to recover the costs of the assessment they pay to the guaranty association, which in turn is used to cover the cost of claims against insolvent insurers. Although the credit is not a prerequisite for the existence of the guaranty association, the credit does, in effect, transfer the cost of claims against insolvent insurers from the insurance industry to the state General Fund. By allowing the assessments to be claimed as credits over five years, the cost to the General Fund is spread out over five years. In effect, this gives the General Fund a five-year interest free loan equal to the total assessment levied. Without this credit, General Fund revenue would be subject to more erratic fluctuations as insurer insolvencies call for funds to pay claims. *[Evaluated by the Department of Consumer and Business Services.]*

5.007 ASSESSMENTS PAID TO OREGON IGA: FIRE

Oregon Statute: 734.575

Sunset Date: None

Year Enacted: 1977

	Total
1997–99 Revenue Impact:	\$100,000
1999–01 Revenue Impact:	Less than \$50,000

DESCRIPTION: Property and casualty insurers who write fire insurance policies pay the gross premium tax, the fire insurance premium tax, and as assessment to a guaranty association that is used to cover the cost of claims against insurers who have gone out of business. These insurers are then entitled to a credit against the fire insurance premium taxes for assessments paid to Oregon Insurance Guaranty Association (OIGA) at the rate of 20 percent per year for each of the five years following the year in which the assessment was paid.

OIGA assessments are first credited against the corporation excise tax (1.148 Assessments Paid to Oregon IGA: General) or the gross premium tax (5.005 Assessments Paid to Oregon IGA: General). If there is not enough tax liability to offset the full assessment, then insurers may use the remainder of these assessments to offset against the fire insurance premium tax.

PURPOSE: This provision allows the cost of claims against insolvent insurers, initially paid by fellow insurance companies, to be absorbed by the General Fund.

WHO BENEFITS: Property and casualty insurers and their policyholders.

EVALUATION: Although the gross premium tax is repealed, the fire insurance premium tax will continue. Therefore, this credit will continue.

This expenditure achieves its purpose. This type of credit is common throughout the United States. It allows insurers to recover the costs of the assessment they pay to the guaranty association, which in turn is used to cover the cost of claims against insolvent insurers. Although the credit is not a prerequisite for the existence of the guaranty association, the credit does, in effect, transfer the cost of claims against insolvent insurers from the insurance industry to the state General fund. By allowing the assessments to be claimed as credits over five years, the cost to the General Fund is spread out over five years. In effect, this gives the General Fund a five-year interest free loan equal to the total assessment levied. Without this credit, General Fund revenue would be subject to more erratic fluctuations as insurer insolvencies call for funds to pay claims. *[Evaluated by the Department of Consumer and Business Services.]*

CHAPTER 6. CIGARETTE TAX

Cigarette distributors are required to pay a tax for the distribution of each cigarette in this state. Each cigarette is subject to taxation for exactly one distribution. Currently, the tax rate is \$.034 per cigarette, or \$.68 per pack of 20 cigarettes. Of the \$.68 per pack, \$.58 is a permanent tax and \$.10 is a temporary tax that was enacted by the legislature in 1993 to fund the Oregon Health Plan. The \$.58 per pack is distributed as follows: \$.22 goes to the General Fund, \$.27 to the Oregon Health Plan, \$.02 to cities, \$.02 to counties, \$.02 to the Oregon Department of Transportation, and \$.03 toward tobacco use reduction. The temporary \$.10 per pack tax dedicated to the Health Plan was extended in the 1997 session to expire January 1, 2000.

Cigarette tax revenues for the 1995–97 biennium were distributed as follows: \$182.0 million to the General Fund, \$34.8 million to other funds (substantially the Oregon Health Plan), and \$11.4 million each to cities, counties, and the Oregon Department of Transportation.

The Oregon cigarette tax began in 1966. The tax is paid through the use of tax stamps that are purchased by the 65 Oregon licensed cigarette distributors. Distributors may pay the tax at the time they purchase the stamps or defer the tax until the 20th of the month following the purchase.

6.001 GIFT PACKETS

Oregon Statute: 323.045
 Sunset Date: None
 Year Enacted: 1965

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

DESCRIPTION: Cigarette taxes do not apply to cigarettes that are distributed as free samples in packets of five or fewer cigarettes.

PURPOSE: To promote the cigarette industry.

WHO BENEFITS: Cigarette manufacturers, distributors, retailers, and smokers.

EVALUATION: This exemption appears to achieve its purpose as an incentive for the cigarette industry to promote its products. *[Evaluated by the Economic Development Department.]*

6.002 SMALL QUANTITIES BY CONSUMERS

Oregon Statute: 323.060
 Sunset Date: None
 Year Enacted: 1965

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

DESCRIPTION: The use or consumption of previously untaxed cigarettes transported to this state in a single lot or shipment of 200 or fewer cigarettes is not taxed. This exemption also applies to all cigarettes obtained from exempted federal installations and veterans' institutions.

PURPOSE: To avoid the administrative and compliance costs of taxing these small shipments.

WHO BENEFITS: Individuals who transport small quantities of tax free cigarettes into Oregon.

EVALUATION: Administratively, it would be virtually impossible to enforce the taxation of small quantities of cigarettes brought into Oregon by consumers. *[Evaluated by the Department of Revenue.]*

6.003 FEDERAL AND VETERAN INSTITUTIONS

Oregon Statute: 323.055

Sunset Date: None

Year Enacted: 1965

Total	
1997–99 Revenue Impact:	Not Available
1999–01 Revenue Impact:	Not Available

DESCRIPTION: 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 and Navy or Coast Guard ships' stores, the United States 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 encourage the consumption of cigarettes and to provide an incentive for the armed forces and Veterans Administration to purchase cigarettes in Oregon. This supports the economic activity surrounding their distribution and retailing. Also, these taxpayers are deserving of a subsidy for their present or past service to their country.

WHO BENEFITS: Cigarette sellers, primarily wholesalers.

EVALUATION: Because there is only a very small Armed Forces presence in Oregon, this exemption is likely to have little or no impact. [*Evaluated by the Department of Revenue.*]

6.004 RESERVATION CIGARETTE SALES

Oregon Statute: 323.401

Sunset Date: None

Year Enacted: 1979

Total	
1997–99 Revenue Impact:	\$500,000
1999–01 Revenue Impact:	\$500,000

DESCRIPTION: The Department of Revenue refunds to the governing body of any Indian reservation any cigarette tax collected on sales of cigarettes to Indians upon the reservation and paid into the State Treasury.

PURPOSE: To comply with federal laws that limit the ability of states to tax Indians.

WHO BENEFITS: Cigarette retailers on reservations.

EVALUATION: Not Evaluated

CHAPTER 7. OTHER TOBACCO PRODUCTS TAX

A tax is imposed on the sale, storage, use, consumption, handling, or distribution of tobacco products other than cigarettes at the rate of 65 percent of the wholesale sales price. The tax is imposed on the distributor at the time the distributor imports, produces, or ships the tobacco products to retailers in Oregon. There are currently approximately 190 distributors.

General Fund revenues from this tax were \$23.8 million for the 1995–97 biennium.

7.001 FEDERAL INSTALLATIONS

Oregon Statute: 323.515
 Sunset Date: None
 Year Enacted: 1985

Total	
1997-99 Revenue Impact:	Not Available
1999-01 Revenue Impact:	Not Available

DESCRIPTION: The tobacco products tax does not apply to tobacco products which are stored in a bonded warehouse and which are untaxed under the provisions of chapter 52 of the Internal Revenue Act of 1954, as amended, or which are sold to United States Army, Air Force, Navy, Marine Corps, or Coast Guard exchanges and commissaries and Navy or Coast Guard ships' stores, and United States Department of Veterans' Affairs, or ships' stores maintained under federal bond.

PURPOSE: To encourage the consumption of tobacco and to provide an incentive for the armed forces and Veterans Administration to purchase cigarettes in Oregon. This supports the economic activity surrounding their distribution and retailing. Also, these taxpayers are deserving of a subsidy for their present or past service to their country.

WHO BENEFITS: Sellers of other tobacco products, primarily wholesalers

EVALUATION: Because there is only a very small Armed Forces presence in Oregon, this exemption is likely to have little or no impact. [*Evaluated by the Department of Revenue.*]

7.002 RESERVATION TOBACCO SALES

Oregon Statute: 323.615
 Sunset Date: None
 Year Enacted: 1985

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

DESCRIPTION: The Department of Revenue refunds to the governing body of any Indian reservation any tobacco tax collected under the Tobacco Products Tax Act in connection with the sale, use, storage, or consumption of tobacco products on the Indian reservation.

PURPOSE: To comply with federal laws that limit the ability of states to tax Indians.

WHO BENEFITS: Sellers of other tobacco products on reservations.

EVALUATION: Not Evaluated

CHAPTER 8. BEER AND WINE TAX

A tax is imposed upon the privilege of engaging in business as a manufacturer or as an importing distributor of malt beverages or wines. The Oregon Liquor Control Commission (OLCC) collects the tax. The tax rate for manufacturing or importing malt beverages is \$2.60 per barrel of 31 gallons. The tax rate for manufacturing or importing wine is 67 cents per gallon on wines with 14 percent or less alcohol by volume and 77 cents per gallon on wines with more than 14 percent but not more than 21 percent alcohol by volume. Two cents of the wine tax goes to the Wine Advisory Board. Fifty percent of the remaining beer and wine taxes go to Mental Health and Drug Abuse Prevention, and the other fifty percent into the Oregon Liquor Control Commission Account (and distributed as described below).

Beverages with more than 21 percent alcohol are exclusively imported by the state of Oregon. Net revenue from the sale of these beverages and from the portion of the wine and malt beverage tax that goes into the OLCC Account are distributed as follows: 56 percent to the General Fund, 10 percent to counties (by population), 20 percent to cities (by population), and 14 percent to cities (by formula).

Beer and wine tax receipts were \$23.1 million for the 1995–97 biennium.

8.001 SMALL WINERIES

Oregon Statute: 473.050(5)

Sunset Date: None

Year Enacted: 1977

	Total
1997-99 Revenue Impact:	\$1,500,000
1999-01 Revenue Impact:	\$1,500,000

DESCRIPTION: Allows all United States wine manufacturers producing less than 100,000 gallons annually to exempt the first 40,000 gallons sold each year in Oregon from the wine tax. It is estimated that 2,200,000 gallons will be claimed as tax exempt during the 1997-99 biennium. This is expected to increase to 2,300,000 gallons exempted in the 1999-01 biennium.

PURPOSE: To provide tax relief to small wineries.

WHO BENEFITS: The small wineries benefit in that they are able to sell their product more competitively. In addition, secondary industries such as vineyards, label design, bottling and marketing benefit from the exemption. Nearly all of Oregon's 120 wineries are small enough to qualify for the full tax exemption.

EVALUATION: This tax exemption achieves its purpose. It was enacted to help small Oregon wineries get established, and allows these wineries enough profit to stay in business until they become large enough to compete with the established, high volume wineries. In 1977, when the exemption was enacted, there were approximately 10 licensed wineries. Today, there are over 120 wineries in the state and the industry is still growing. Nearly all of Oregon's wineries are small enough to qualify for the full tax exemption. While overall wine consumption is declining, Oregon wines have continued to show modest growth. Based on growth projections provided by the Oregon Wine Advisory Board, 1996 sales are estimated to be three percent higher than in 1995.

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 vine yards, label design, bottling, and marketing.

Because of the exemption, the industry decided to dedicate some of the tax savings to establish and maintain the Wine Advisory Board. The Board divides its resources between research and development and industry promotion. If this were not the case, the industry would be asking the legislature for funding from General Fund dollars.

Due to the lack of public investors, this appears to be the only practical way to encourage the growth of the wine industry. [*Evaluated by the Liquor Control Commission.*]

CHAPTER 9. TELEPHONE EXCHANGE ACCESS (911) TAX

The Oregon telephone exchange access (911) tax is imposed on each retail subscriber who has telecommunication services with access to the 911 emergency reporting system. The tax is applied to each circuit. For cellular, wireless, or other radio common carrier, the tax is applied per instrument.

The tax was enacted in 1981 to help local governments pay for establishing, operating, or improving a 911 system. Originally, the tax was three percent of the monthly rate charged for basic exchange access services. In 1991, that rate was increased to five percent. Since October 1, 1995, the rate has been 75 cents per line per month, and applies to all forms of wired and wireless telecommunications services. The tax is paid quarterly by the telecommunication utilities and service providers, who collect the tax from phone subscribers on their monthly billings.

Receipts were \$38.7 million for the 1995–97 biennium. Net revenue from the tax is distributed to cities and counties on a per capita basis, to be used for their 911 systems.

9.001 STATE AND LOCAL SUBSCRIBERS

Oregon Statutes: Note following 401.790 (OR Laws 1981, Ch. 533, Sec. 11)

Sunset Date: None

Year Enacted: 1981

Total	
1997-99 Revenue Impact:	\$3,200,000
1999-01 Revenue Impact:	\$3,300,000

DESCRIPTION: State and local governments are exempt from the telephone access (911) excise tax. This includes regional housing authorities.

PURPOSE: The exemption is probably to avoid the administrative costs of taxing government to fund government services.

WHO BENEFITS: Because this exemption results in lower costs for some governments but lower revenues for others, it is not clear who, if anyone, benefits.

EVALUATION: Typically, governments are exempt from taxation because, it is argued, such taxation simply represents a transfer of resources between governments. This argument ignores the role taxes play as prices for services provided by the public sector. The failure to tax governments for services they receive can introduce inefficiencies in the economy. In the case of 911 services, these inefficiencies are likely to be small. *[Evaluated by the Department of Revenue.]*

9.002 FEDERAL SUBSCRIBERS

Oregon Statutes: Note following 401.790 (OR Laws 1981, Ch. 533, Sec. 11)

Sunset Date: None

Year Enacted: 1981

Total	
1997-99 Revenue Impact:	\$500,000
1999-01 Revenue Impact:	\$500,000

DESCRIPTION: The federal government is exempt from the telephone access (911) excise 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 excise taxes by federal statute.

PURPOSE: The exemption complies with federal law.

WHO BENEFITS: Because this exemption results in lower costs for some governments but lower revenues for others, it is not clear who, if anyone, benefits.

EVALUATION: Not Evaluated

9.003 INDIAN RESERVATION SUBSCRIBERS

Oregon Statutes: Note following 401.790 (OR Laws 1981, Ch. 533, Sec. 11)

Sunset Date: None

Year Enacted: 1981

	Total
1997-99 Revenue Impact:	\$100,000
1999-01 Revenue Impact:	\$100,000

DESCRIPTION: Indians on federally recognized reservations are exempt from the telephone access (911) excise tax. They must be enrolled members of the tribe located on the reservation.

PURPOSE: The exemption complies with federal law.

WHO BENEFITS: Tribal members using 911 service.

EVALUATION: Not Evaluated

CHAPTER 10. FOREST PRODUCTS HARVEST TAX

A privilege tax of a specified rate per thousand board feet is assessed on timber owners when timber is harvested from private and public lands. The tax revenue is used to support forestry research, as well as to support the Oregon Department of Forestry in its efforts to fight forest fires and administer Oregon's Forest Practices Act.

The first 25,000 board feet of forest products harvested annually by any taxpayer during each calendar year are excluded from taxation. For calendar year 1998, the tax rate was initially set at \$4.01 per thousand board feet, of which \$.55 goes for research, \$.50 for fire protection, \$.70 to administer Oregon's Forest Practices Act, \$.51 to the Oregon Forest Resources Institute, and \$1.75 for watershed improvement. The \$1.75 for watershed improvement was contingent in certain fish species not being listed on the Endangered Species List. With the listing of the coho salmon as endangered, the \$1.75 was repealed, reducing the total rate to \$2.26 per thousand board feet.

Receipts from the forest products harvest tax was \$16.0 million for the 1995–97 biennium.

10.001 FIRST 25,000 BOARD FEET

Oregon Statute: 321.015(5)

Sunset Date: None

Year Enacted: 1953

1997 Exemption: 165 Million board feet

Total	
1997–99 Revenue Impact:	\$700,000
1999–01 Revenue Impact:	\$700,000

DESCRIPTION: The first 25,000 board feet harvested by a taxpayer each year are exempt from the Forest Products Harvest Tax.

PURPOSE: To provide tax relief to small timber harvesters.

WHO BENEFITS: All timber harvesters qualify for this exemption. Because the exemption represents a larger share of total timber harvested for small harvesters, small harvesters receive the largest benefit in percentage terms. In 1997, about 9,500 harvesters filed returns, with 6,600 of those reporting that they harvested during the year.

EVALUATION: This provision effectively provides tax relief for small-scale timber harvesters. However, it also provides that relief to all other timber harvesters. It is thus not targeted well, as it includes a much larger group for which it provides tax relief. It would be more fiscally effective to limit the exemption only to small harvesters or to eliminate it altogether. *[Evaluated by the Forestry Department.]*

CHAPTER 11. ELECTRIC COOPERATIVE TAX

Mutual and cooperative electrical associations are subject to a tax on gross earnings that is in lieu of all other taxes on transmission and distribution lines. The associations must be nonprofit and the principle purpose must be to distribute electricity to its members. (See expenditure 2.074 Nonprofit Electrical Distribution Associations.)

Associations must pay the lesser of :

- (1) an in-lieu-of property tax at four percent on gross earnings minus power costs, or
- (2) the sum of (a) the real market value of the transmission and distribution lines multiplied by the maximum school tax rate allowable under ORS 310.150, plus (b) the real market value of the transmission and distribution lines multiplied by \$10 per \$1,000 of real market value, and (c) the real market value of the transmission and distribution lines multiplied by the tax rate of the county for exempt bonded indebtedness as defined in ORS 310.140.

In 1997–98, all associations paid the gross earnings tax rather than property tax. In 1998–99, 18 of the associations paid the gross earnings tax and one paid the tax described in the second calculation.

Proceeds are distributed differently depending on which calculation method is used. If the first method is used, proceeds from the tax on gross earnings are distributed to the counties in proportion to the system's wire miles in each county. These payments are distributed one-third to the county school fund and two-thirds to the county general fund. If the second calculation method is used, payments are deposited in the unsegregated tax collections account and distributed according to the percentage distribution schedule in ORS 311.390.

11.001 REVENUE FROM GOVERNMENT LEASED LINES

Oregon Statute: 308.805

Sunset Date: None

Year Enacted: 1969

	Total
1997-99 Revenue Impact:	\$60,000
1999-01 Revenue Impact:	\$60,000

DESCRIPTION: Revenue received by nonprofit mutual and cooperative electric distribution associations for leasing lines to the government is not included in their gross earnings tax calculation for the electric cooperative tax.

PURPOSE: Presumably to allow a lower lease rate for governments, in effect exempting the governments from paying the tax.

WHO BENEFITS: In 1995, nineteen cooperatives scattered around the state paid the gross earnings tax, and five of the nineteen received this exemption.

EVALUATION: This expenditure achieves its purpose of ensuring there is no *de facto* taxation of government agencies through the fees charged for power line use. If the exemption were eliminated, either we would be taxing another government agency through the pass-through of a tax, or it would require the electric cooperatives to raise electrical rates in low-density, rural areas. [*Evaluated by the Office of Energy.*]

CHAPTER 12. HAZARDOUS SUBSTANCES TAX

A tax is imposed on the possession of hazardous substances at facilities in the state, including substances manufactured, stored, or used at the facility. Any chemical substance or waste for which a material safety data sheet is required by Department of Consumer and Business Services is considered a hazardous substance. Excluded from this category are crude oil and petroleum products, solid waste, or hazardous waste under ORS 466.005. The tax rate is set by the State Fire Marshal, subject to a statutory maximum.

The hazardous substance tax began in 1989. Its purpose is to minimize the use and dangers of hazardous substances, to fund the Oregon Community Right to Know programs, and to provide funding for the Orphan Site Account. The Orphan Site Account is part of the Hazardous Substance Remedial Action Fund established under ORS 465.381 and is used to clean up contaminated sites where the responsible party is unknown, unwilling, or unable to undertake the cleanup.

The level of the tax is set each year by the State Fire Marshal based on guidelines established in law (ORS 453.402). For funding the Community Right to Know and Protection Act, the fee can range from \$25 to \$2,000 per site. For funding the Toxics Use Reduction and Hazardous Waste Reduction Act, the fee can range from \$25 to \$2,000 per site. For funding the Orphan Site Account, the fee can range from \$0 to \$9,000 per site, but not more than \$25,000 for a single company. The collections for the Orphan Site Account cannot exceed \$1 million per year.

Total receipts from the tax were \$4.4 million for the 1995–97 biennium.

12.001 STATE AND LOCAL GOVERNMENT PROPERTY

Oregon Statute: 453.402(4)(e)
 Sunset Date: None
 Year Enacted: 1989

Total	
1997–99 Revenue Impact:	Not Available
1999–01 Revenue Impact:	Not Available

- DESCRIPTION:** State and local government property is exempt from paying the hazardous substances fee that contributes to the Orphan Site Account, which is used to finance the cleanup of contaminated sites where the responsible party is unknown or is unwilling or unable to undertake the cleanup.
- PURPOSE:** To compensate for the fact that the Orphan Site Account may not be used to pay the state’s remedial action costs at facilities owned by the state.
- WHO BENEFITS:** State and local governments, and by extension, taxpayers.
- EVALUATION:** This exemption is to recognize that the Orphan Site Account is not used to clean up hazardous substances on property owned by state or local governments. [*Evaluated by the Department of Revenue.*]

12.002 SUBSTANCE PROHIBITED FROM TAX BY FEDERAL LAW

Oregon Statute: 453.402(4)(d)
 Sunset Date: None
 Year Enacted: 1989

Total	
1997–99 Revenue Impact:	Not Available
1999–01 Revenue Impact:	Not Available

- DESCRIPTION:** Oregon law states that “Any substance or activity which the Constitution or laws of the United States prohibit the state from taxing” are exempt from the Hazardous Substances Tax. It is not clear, however, whether the federal constitution of laws prohibit the taxation of any specific substance or activity. Some federal agencies have refused to pay this tax, claiming “sovereign immunity.”
- PURPOSE:** To comply with federal law.
- WHO BENEFITS:** The federal government, and by extension, taxpayers.
- EVALUATION:** Not Evaluated

CHAPTER 13. DRY CLEANING TAX

The dry cleaning tax was passed by the 1995 and became effective January 1996. It is imposed on the privilege of operating an active dry cleaning facility for the benefit of the general public within the state, and on the sale or transfer of dry cleaning solvents within the state. The purpose of the tax is to create a cleanup fund that will ensure the cleanup of contamination resulting from dry cleaning facilities. The legislation also granted a limited exemption from liability for solvent releases to dry cleaning owners and operators.

The tax is comprised of two parts: an annual fee and a tax on the use of cleaning solvents. The annual fee is a \$1,000 for each dry cleaning facility and \$500 for each “dry store” with over \$50,000 annual sales of dry cleaning services. Dry stores are defined as those that send the clothing to another location for the actual cleaning.

The tax on dry cleaning solvents is composed of two fees that increase at three percent annually. The 1998 fees were \$12.73 per gallon on the sale of Perchloroethylene Solvent (Perc) and \$2.54 per gallon on the sale of other dry cleaning solvents. In addition, \$4.00 per gallon is added to the solvent sales fees each October 1, beginning in 1998, when revenues from the annual operating fees and solvent sales fees over the prior 12 months are less than \$1 million. When calculating the three percent annual increase in the solvent sales fees, this \$4.00 per gallon is not included. The result of the fee increases is that the total solvent sales fees increased to \$16.73 and \$6.54 per gallon on October 1, 1998, and they will increase three percent on January 1, 1999 to \$17.11 and \$6.61 per gallon.

As of October 1998, five in-state distributors of Perc collect the sales portion of the tax from 341 dry cleaners and pay it to the Department of Revenue quarterly. Each dry cleaner also paid the \$1000 annual fee, but only 37 of 83 dry stores were required to pay the \$500 annual fee.

Receipts for fiscal years ending 1997 and 1998 were less than \$700,000 each year.

13.001 DRY STORE SELLING LESS THAN \$50,000

Oregon Statute: 465.200(6)(d)

Sunset Date: None

Year Enacted: 1995

Total	
1997–99 Revenue Impact:	Less than \$50,000
1999–01 Revenue Impact:	Less than \$50,000

DESCRIPTION: The dry cleaning tax is not imposed on any facility engaged in dry cleaning operations only as a dry store and selling less than \$50,000 per year of dry cleaning services. A dry store is a facility that does not include machinery using dry cleaning solvents. Examples are pick up stores, drop off stores, call stations, and pickup and delivery services not otherwise operated by a dry cleaning facility.

PURPOSE: The likely purpose of this exemption is to avoid putting an undue financial and regulatory burden on small businesses.

WHO BENEFITS: Businesses operating dry stores selling less than \$50,000 per year, as well as their customers, employees, and suppliers. There are about 46 such dry store facilities in Oregon.

EVALUATION: This tax expenditure originated in 1995, and it is too early to evaluate its effectiveness. It seems reasonable that small dry stores, as described above, do not represent a substantial environmental threat. However, it seems that this exemption may provide some incentive, however slight, for companies with large dry store operations to attempt to avoid the tax by restructuring their operations into several smaller dry store operations or for new companies to find ways to be exempt. An analysis to examine whether such impacts have occurred would be prudent several years after implementation of this legislation. [*Evaluated by the Economic Development Department.*]

13.002 UNIFORM SERVICE OR LINEN SUPPLY FACILITY

Oregon Statute: 465.200(6)(b)

Sunset Date: None

Year Enacted: 1995

Total	
1997–99 Revenue Impact:	Less than \$50,000
1999–01 Revenue Impact:	Less than \$50,000

DESCRIPTION: The dry cleaning tax is not imposed on any uniform service or linen supply facilities.

PURPOSE: The intent of the dry cleaning tax, as stated in statute, is to impose the tax on facilities serving the general public. This exemption presumably is to recognize that uniform services and linen supply facilities are likely to serve other businesses, not the general public.

WHO BENEFITS: Companies operating uniform service or linen supply facilities, as well as their customers, employees, and suppliers benefit from the absence of tax payments. According to the Department of Environmental Quality, there are only a handful of these types of dry cleaning facilities, but they tend to have much larger operations than the typical dry cleaner.

EVALUATION: Not Evaluated

13.003 PRISONS

Oregon Statute: 465.200(6)(c)

Sunset Date: None

Year Enacted: 1995

	Total
1997–99 Revenue Impact:	\$0
1999–01 Revenue Impact:	\$0

DESCRIPTION: The dry cleaning tax is not imposed on any prison or other penal institution.

PURPOSE: To recognize the principle that state governments typically do not tax their own agencies.

WHO BENEFITS: State government, and by extension taxpayers, through reduced administrative costs.

EVALUATION: This exemption would only have had a minimal effect on state operating costs when the law was enacted since prison dry cleaning operations at that time were very small. Since then, as a result of pollution problems, the Department of Corrections has closed their dry cleaning operations (in 1996) and has removed the equipment. Therefore, this exemption has zero revenue impact in the biennia considered. *[Evaluated by the Department of Revenue.]*

13.004 FACILITY ON U.S. MILITARY BASE

Oregon Statute: 465.200(6)(a)

Sunset Date: None

Year Enacted: 1995

	Total
1997–99 Revenue Impact:	Less than \$50,000
1999–01 Revenue Impact:	Less than \$50,000

DESCRIPTION: The dry cleaning tax is not imposed on dry cleaning facilities on U.S. military bases.

PURPOSE: To comply with federal law that prohibits states from taxing the federal government.

WHO BENEFITS: The federal government, and by extension taxpayers.

EVALUATION: Due to the minimal military presence in Oregon, this expenditure likely has very little revenue impact. *[Evaluated by the Department of Revenue.]*

CHAPTER 14. PETROLEUM LOADING TAX

The petroleum loading tax is paid by in-state distributors of petroleum products. The tax rate is set by the State Fire Marshal and is currently \$4.75 per load of 100 or more gallons. Products subject to the tax are petroleum products obtained from distilling and processing crude oil and 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 tax 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 programs, and to provide up to \$1 million each year to fund the Orphan Site Account. The Orphan Site Account is part of the Hazardous Substance Remedial Action Fund established under ORS 465.381 and is used to clean up contaminated sites where the responsible party is unknown, unwilling, or unable to undertake the cleanup. Revenues from the tax must be used to clean up spills on the state's roads and in roadside rest areas.

Receipts from the petroleum loading tax were \$2.4 million for the 1995-97 biennium.

14.001 PRODUCT PROHIBITED FROM TAX BY FEDERAL LAW

Oregon Statute: 465.111

Sunset Date: None

Year Enacted: 1989

Total	
1997-99 Revenue Impact:	Not Available
1999-01 Revenue Impact:	Not Available

DESCRIPTION: Oregon law states that “Any petroleum product which the Constitution or laws of the United States prohibit the state from taxing” is exempt from the Petroleum Loading Tax. It is not clear, however, whether the federal constitution or laws prohibit the taxation of any specific petroleum product.

PURPOSE: To comply with federal law.

WHO BENEFITS: The federal government, and by extension, taxpayers.

EVALUATION: Not Evaluated

CHAPTER 15. OIL AND GAS SEVERANCE TAX

A privilege tax of six percent of the gross value at the well is levied on the production of oil and gas within Oregon. Receipts were \$250,000 for the 1995–97 biennium. Net revenue derived from this tax is paid into the Common School Fund.

15.001 FIRST \$3,000 IN GROSS SALES VALUE

Oregon Statute: 324.080
 Sunset Date: None
 Year Enacted: 1981

Total	
1997–99 Revenue Impact:	Less than \$50,000
1999–01 Revenue Impact:	Less than \$50,000

- DESCRIPTION:** An exemption from the tax levied on oil or gas severance is granted upon the first \$3,000 in gross sales value of the gross production each calendar quarter from each well.
- PURPOSE:** To encourage development of oil and gas reserves and to prolong production activities at the end of a well’s life when production is low.
- WHO BENEFITS:** Oil and gas producers. There currently are two producers of natural gas in Oregon, with a total of 11 wells in Columbia County. There are no producing oil wells in Oregon.
- EVALUATION:** This provision is effective in encouraging gas producers to conserve the resource by reducing taxes throughout the life of the well production. As wells play out, decisions must be made regarding when to shut down. With this incentive, “end-of-well-life” technologies become economic and more gas can be taken from each well. The exemption promotes efficient production of the resource. [*Evaluated by the Department of Geology and Mineral Industries.*]

15.002 CREDIT FOR PROPERTY TAXES PAID

Oregon Statute: 324.090(2)
 Sunset Date: None
 Year Enacted: 1981

Total	
1997–99 Revenue Impact:	Less than \$50,000
1999–01 Revenue Impact:	Less than \$50,000

- DESCRIPTION:** A credit is allowed against the oil and gas severance tax for all property taxes imposed. This includes taxes on any property rights attached to the right to produce oil and gas, producing oil and gas leases, and machinery and equipment used in the operation of the well.
- PURPOSE:** Probably to avoid double taxation of the value of oil and gas extracted.
- WHO BENEFITS:** Oil and gas producers. There currently are two producers of natural gas in Oregon, with a total of 11 wells in Columbia County. There are no producing oil wells in Oregon.
- EVALUATION:** This credit effectively avoids the double taxation of oil and gas resources that would occur if mining companies paid both property taxes and severance taxes. If the companies were taxed through both the property tax and the severance tax, the company would pay tax twice on the same property. [*Evaluated by the Department of Geology and Mineral Industries.*]

15.003 STATE AND LOCAL INTERESTS

Oregon Statute: 324.090(1)

Sunset Date: None

Year Enacted: 1981

		Total
1997-99 Revenue Impact:		\$0
1999-01 Revenue Impact:		\$0

DESCRIPTION: Any royalty or other interest in oil or gas owned by the state or local government is exempt from the oil and gas severance tax.

PURPOSE: To adhere to the principle that governments typically do not tax themselves.

WHO BENEFITS: State government, and by extension taxpayers, through lower administrative costs.

EVALUATION: Oregon state and local governments currently do not have any oil or gas interests in the state, so this exemption has no effect. [*Evaluated by the Department of Revenue.*]

APPENDIX A: OREGON STATUTE REQUIRING TAX EXPENDITURE REPORT

68th OREGON LEGISLATIVE ASSEMBLY—1995 Regular Session

Oregon Laws 1995, Chapter 746

SECTION 61. Sections 62, 63, and 65 of this Act may be cited as the Budget Accountability Act.

SECTION 62. (1) The Legislative Assembly hereby declares that the ability to make fiscally sound and effective spending decisions has been enhanced by requiring agencies and programs to develop performance measures and to evaluate all General Fund, State Lottery Fund and other expenditures in accordance with these performance measures. Fiscal pressure on this state requires even greater accountability and necessitates a review of the fairness and efficiency of all tax deductions, tax exclusions, tax subtractions, tax exemptions, tax deferrals, preferential tax rates and tax credits. These types of tax expenditures are similar to direct government expenditures because they provide special benefits to favored individuals or businesses, and thus result in higher tax rates for all individuals.

(2) The Legislative Assembly further finds that 76 percent of property in this state is exempt from property taxation and that income tax expenditures total billions of dollars per biennium. An accurate and accountable state budget should reflect the true costs of tax expenditures and should fund only those tax expenditures that are effective and efficient uses of limited tax dollars.

(3) The Legislative Assembly declares that it is in the best interest of this state to have prepared a biennial report of tax expenditures that will allow the public and policy makers to identify and analyze tax expenditures and to periodically make criteria-based decisions on whether the expenditures should be continued. The tax expenditure report will allow tax expenditures to be debated in conjunction with on-line budgets and will result in the elimination of inefficient and inappropriate tax expenditures, resulting in greater accountability by state government and a lowering of the tax burden on all taxpayers.

SECTION 63. As used in ORS 291.202 to 291.222, “tax expenditure” means any law of the Federal Government or this state that exempts, in whole or in part, certain persons, income, goods, services or property from the impact of established taxes, including but not limited to tax deductions, tax exclusions, tax subtractions, tax exemptions, tax deferrals, preferential tax rates and tax credits.

SECTION 64. ORS 291.202 is amended to read:

291.202. (1) Except as otherwise provided in ORS 291.222, the Governor shall prepare in each even-numbered year [*a budget report*] for the biennium beginning July 1 of the following year:

- (a) A budget report; and
- (b) A tax expenditure report.

(2) The Oregon Department of Administrative Services shall advise and assist the Governor in the preparation of the budget report and tax expenditure report and shall perform such duties in connection therewith as the Governor requires.

(3) The Department of Revenue shall advise and assist the Governor in the preparation of the tax expenditure report.

SECTION 65. (1) Not later than November 10 of each even-numbered year, the Governor shall cause the tax expenditure report to be compiled and prepared for printing.

(2) In the tax expenditure report, the Governor shall:

- (a) List each tax expenditure;
- (b) Identify the statutory authority for each tax expenditure;
- (c) Describe the purpose of each tax expenditure;
- (d) Estimate the amount of revenue loss caused by each tax expenditure for the coming biennium;
- (e) List the actual amount of revenue loss in the preceding biennium for each tax expenditure or an estimate if the actual amount cannot be determined;

(f) Determine whether each tax expenditure is the most fiscally effective means of achieving each purpose of the tax expenditure;

(g) Determine whether each tax expenditure has successfully achieved the purpose for which the tax expenditure was enacted and currently serves, including an analysis of the persons that are benefited by the expenditure; and

(h) Categorize each tax expenditure according to the programs or functions each tax expenditure supports.

SECTION 66. ORS 291.210 is amended to read:

291.210. (1) The Oregon Department of Administrative Services, in connection with its direct studies of the operations, plans and needs of state agencies and of the existing and prospective sources of income, shall prepare a tentative budget plan **and tentative tax expenditure report** for the two fiscal years for which a budget report [is] **and tax expenditure report** are required to be prepared.

(2) **The Department of Revenue shall advise and assist in the preparation of the tentative tax expenditure report.**

SECTION 67. ORS 291.214 is amended to read:

291.214. The Governor, during the preparation of the budget report and before its submission to the Legislative Assembly, shall:

(1)(a) Examine the budget forms filed by the various agencies [*The Governor*] **and** may make or cause to be made such further investigations by the Oregon Department of Administrative Services, with such hearings before the Governor or any state agency, as the Governor deems advisable, and may make such changes or revisions in policy and program and in specific details of the tentative budget report **or tentative tax expenditure report** as the Governor finds warranted ; **and** [.]

(b) **Identify each tax expenditure that has a full or partial sunset that, if allowed to take effect, will have a fiscal impact on the state or on school districts for the next biennium, and shall prepare a recommendation as to each tax expenditure identified under this paragraph that indicates the Governor's opinion on whether the full or partial sunset of the tax expenditure should be allowed to take effect as scheduled or should be revised to a different date.**

(2) **As used in this section:**

(a) **“Full sunset” means any provision that completely eliminates an existing tax expenditure on a specified date.**

(b) **“Partial sunset” means any provision that reduces the amount of an existing tax expenditure or that alters the eligibility requirements for the expenditure as of a specified date.**

SECTION 67a. **If Senate Bill 251 becomes law, section 19, chapter 610, Oregon Laws 1995 (Enrolled Senate Bill 251) (amending ORS 291.214), is repealed.**

SECTION 68. ORS 291.216 is amended to read:

291.216. (1) Not later than November 10 of each even-numbered year the Governor shall cause the budget report to be compiled and prepared for printing.

(2) The budget report shall include a budget message prepared by the Governor, including recommendations of the Governor with reference to the fiscal policy of the state government for the coming biennium, describing the important features of the budget plan, embracing a general budget summary setting forth the aggregate figures of the budget report so as to show a balanced relation between the total proposed expenditures and the total anticipated income, with the basis and factors on which the estimates are made, the amount to be borrowed, and other means of financing the estimated expenditures for the ensuing biennium, compared with the corresponding figures for at least the last completed biennium and the current biennium.

(3) The budget plan shall be supported by explanatory schedules or statements, classifying the expenditures reported therein, both past and proposed, by organization units, objects and funds, and the income by organization units, sources and funds, and the proposed amount of new borrowing as well as proposed new tax or revenue sources, including a single comprehensive list of all proposed increases in fees, licenses and assessments assumed in the budget plan.

(4) The budget plan shall be submitted for all dedicated funds, as well as the state General Fund, and shall include the estimated amounts of federal and other aids or grants to state agencies or activities provided for any purpose whatever, together with estimated expenditures therefrom.

(5) The budget report shall embrace the detailed estimates of expenditures and revenues. It shall include statements of the bonded indebtedness of the state government, showing the actual amount of the debt service for at least the past biennium, and the estimated amount for the current biennium and the ensuing biennium, the debt

authorized and unissued, the condition of the sinking funds and the borrowing capacity. **It shall contain the Governor's recommendations concerning tax expenditures identified under ORS 291.214.** It shall also contain any statements relative to the financial plan which the Governor may deem desirable or which may be required by the legislature.

(6) The budget plan shall use the estimated revenues under ORS 291.342 for the fiscal year in which the plan is submitted as the basis for total anticipated income under subsection (2) of this section, subject to such adjustment as may be necessary to reflect accurately projections for the next biennium.

(7) As supplemental information to the budget report, the Governor shall publish an existing level tentative budget plan for the two fiscal years for which the budget report is required. This summary budget shall reflect only existing revenues estimated under subsection (6) of this section; subject to such adjustment as may be necessary to reflect accurately projections for the next biennium. The supplemental information to the budget report shall be submitted at the same time as the budget report.

SECTION 69. ORS 291.218 is amended to read:

291.218. Except when the Governor under whose supervision the budget report [*has*] **and the tax expenditure report have** been prepared will be succeeded in office in January next following:

(1) The Oregon Department of Administrative Services shall have as many copies of the approved budget report **and the tax expenditure report** printed as the Governor directs.

(2) Not later than December 1 of each even-numbered year, the Governor shall transmit a copy [*thereof*] **of each report** to each member of the legislature who is to serve during the next session.

(3) Upon request, the Governor shall distribute copies free of charge, under such regulations as the Governor may establish, to public libraries, schools and state officials. The Governor shall make copies available to the general public at a reasonable charge for each copy.

SECTION 70. ORS 291.220 is amended to read:

291.220. The Governor, upon request, shall furnish the Legislative Assembly any further information required concerning the budget report **and the tax expenditure report.** The Oregon Department of Administrative Services, upon request, shall furnish a representative to assist the Legislative Assembly, its Joint Committee on Ways and Means, appointed under ORS 171.555, and the

Legislative Revenue Officer in the consideration of the budget report, **the tax expenditure report** and any accompanying measures.

SECTION 71. ORS 291.222 is amended to read:

291.222. If the Governor under whose supervision the budget report **and tax expenditure report have** [*has*] been prepared will be succeeded in office in January next following:

(1) The Oregon Department of Administrative Services shall make available to the Governor-elect so much as the Governor-elect requests of the information upon which the tentative budget report **and tentative tax expenditure report are** [*is*] based, and upon completion of [*the tentative budget*] **each** report shall supply the Governor-elect with a copy [*thereof*] **of each report** but shall not cause the tentative budget report **or tentative tax expenditure report** to be printed and distributed. The department shall also make available to the Governor-elect all facilities of the department reasonably necessary to permit the Governor-elect to review and become familiar with the tentative budget report **or tentative tax expenditure report.**

(2) After a review of the tentative budget report **or tentative tax expenditure report** the Governor-elect may prepare revisions and additions thereto. The **Oregon Department of Administrative Services and the Department of Revenue** shall assist, upon request, in the preparation of such revisions or additions.

(3) The **Oregon Department of Administrative Services** shall have **printed** as many copies of the revised budget report [*printed*] **and revised tax expenditure report** as the Governor-elect requests.

(4) (a) Not later than the convening of the next Legislative Assembly the **Oregon Department of Administrative Services** shall transmit a copy of a summary of the revised budget report containing the revenue and expenditure recommendations of the Governor-elect and **a summary of the revised tax expenditure report estimating the amount of revenue loss caused by each tax expenditure.**

(b) Not later than February 1, **the Oregon Department of Administrative Services** shall transmit a copy of the revised budget report **and revised tax expenditure report** to each member of the Legislative Assembly.

(5) Upon request, the department shall distribute copies of the revised budget report **and revised tax expenditure report** free of charge, under such regulations as it may establish, to public libraries, schools and state officials. It shall

make copies of the revised budget report **and revised tax expenditure report** available to the general public at a reasonable charge for each copy.

SECTION 72. ORS 173.820 is amended to read:

173.820. Pursuant to policies and directions of the appointing authority, the Legislative Revenue Officer shall:

(1) Upon written request of a member of the Legislative Assembly or any committee thereof, prepare or assist in the preparation of studies and reports and provide information and research assistance on matters relating to taxation and to the revenue of this state and to any other relevant matters.

(2) **(a)** Ascertain facts concerning revenues and make estimates concerning state revenues ; **and** [.]

(b) Ascertain facts and make recommendations to the Legislative Assembly concerning the Governor's tax expenditure report.

(3) Prepare analyses of and recommendations on the fiscal impact of all revenue measures before the Legislative Assembly and of all other measures affecting the revenue of this state.

(4) Perform such duties as may be directed by joint or concurrent resolution of the Legislative Assembly.

(5) Adopt rules relating to the submission, processing and priorities of requests. Rules adopted under this subsection shall be in conformance with any applicable rule of the House of Representatives or the Senate. Requests made by joint or concurrent resolution of the Legislative Assembly shall be given priority over other requests received or initiated by the Legislative Revenue Officer. Rules adopted under this subsection shall be reviewed and approved by the appointing authority prior to their adoption.

(6) Seek the advice and assistance of political subdivisions of this state, governmental

agencies and any interested persons, associations or organizations in the performance of the duties of the Legislative Revenue Officer.

(7) Enter into such contracts as considered necessary by the appointing authority to carry out the functions of the Legislative Revenue Officer.

(8) Perform such other duties as may be prescribed by law.

SECTION 73. ORS 176.110 is amended to read:

176.110. (1) The person elected to the office of Governor may take any action prior to the date the official term of office commences that is necessary to enable the Governor to exercise on such date the powers and duties of the office of Governor.

(2) The Governor-elect shall cause the budget report **and the tax expenditure report** for the biennium beginning July 1 of the year in which the Governor takes office to be compiled and prepared for printing as required in ORS 291.222.

(3) All necessary expenses of the Governor-elect incurred in carrying out the provisions of this section shall be audited by the Secretary of State and paid from any funds appropriated for this purpose in the same manner as other claims against the state are paid.

SECTION 74. Sections 63 and 65 of this Act are added to and made a part of ORS 291.202 to 291.222.

SECTION 75. If Senate Bill 719 becomes law, sections 61 to 74 of this Act are repealed.

Approved by the Governor July 19, 1995
Filed in the office of Secretary of State July 21, 1995
Effective date September 9, 1995

APPENDIX B: CONTRIBUTORS

This report was developed by the following members of the Department of Revenue Research Section, with assistance from numerous Department of Revenue and other state agency personnel:

Chris Allanach	Tax Economist
Linda Ames	Tax Economist
Craig Fischer	Research Manager
Greg Kramer	Research Analyst
Jill Meyer	Clerical Support
Brian Reeder	Tax Economist
Kay Souter	Tax Economist

The following agencies evaluated the effectiveness of the tax expenditures and provided other important information:

Agriculture, Department of	Land Conservation and Development, Dept. of
Budget and Management Division	Lottery, Oregon State
Consumer and Business Services Department	Liquor Control Commission
Economic Development Department	Marine Board
Education, Department of	Military Department
Employment Department	Oregon Health Plan Policy and Research
Energy, Office of	Public Utility Commission
Environmental Quality, Department of	Parks and Recreation Department
Fish and Wildlife, Department of	Rural Health, Office of
Forestry Department	Secretary of State
Geology and Mineral Industries, Department of	State Lands Division
Higher Education, System of	Library, Oregon State
Housing and Community Services Department	Transportation, Department of
Human Resources, Department of	Treasury, Oregon State
Adult and Family Services Division	Veterans' Affairs, Department of
Senior and Disabled Services Division	
State Office for Services to Children and Families	

APPENDIX C: TAX PROGRAMS WITHOUT TAX EXPENDITURES

Amusement Device Tax

Gift and Inheritance Taxes

Real Estate Recording Tax

Timber Severance Taxes

APPENDIX D: NEW, MODIFIED OR EXPIRED TAX EXPENDITURES

The following tax expenditures are new, modified, or have expired since the 1997–99 Tax Expenditure Report. Tax expenditures are created or expire for several reasons, including changes in federal law that occurred since the last publication, changes in Oregon law during the 1997 Legislative session, and expenditures with sunset provisions that were allowed to expire. For detailed descriptions of the expired expenditures, refer to the *1997–99 Tax Expenditure Report*. For detailed descriptions of new or modified expenditures, refer to the detail in this publication.

NEW TAX EXPENDITURES

1.003	Income Tax	Exclusion	Earnings on Education IRAs
1.006	Income Tax	Exclusion	Employee Adoption Benefits
1.030	Income Tax	Exclusion	Employer Provided Education Benefits
1.032	Income Tax	Exclusion	Capital Gains on Home Sales
1.037	Income Tax	Exclusion	Contributions in Aid of Construction for Utilities
1.050	Income Tax	Exclusion	Gain on Involuntary Conversions in Disaster Areas
1.054	Income Tax	Deduction	Interest on Student Loans
1.059	Income Tax	Deduction	Medical Savings Accounts (Federal)
1.074	Income Tax	Deduction	Redevelopment Costs in Contaminated Areas
1.089	Income Tax	Subtraction	Medical Savings Accounts (Oregon)
1.103	Income Tax	Subtraction	Federal Pension Income
1.111	Income Tax	Credit	Earned Income Credit
1.122	Income Tax	Credit	Investment in Rural Enterprise Zone (Income Tax)
1.124	Income Tax	Credit	Working Family Child Care
2.010	Property Tax	Full Exemption	Investment in Rural Enterprise Zone (Property Tax)
2.049	Property Tax	Full Exemption	Nonprofit Sewage Treatment Facilities
2.063	Property Tax	Full Exemption	Inactive Mineral Interests

MODIFIED TAX EXPENDITURES

1.015	Income Tax	Exclusion	Income Earned Abroad by U.S. Citizens
1.020	Income Tax	Exclusion	Regional Economic Development Incentives
1.047	Income Tax	Exclusion	Interest on Oregon State and Local Debt
1.058	Income Tax	Deduction	Self-Employment Health Insurance
1.060	Income Tax	Deduction	IRA Contributions and Earnings
1.104	Income Tax	Subtraction	Oregon State Lottery Prizes
1.110	Income Tax	Credit	Contributions of Computer Equipment
1.113	Income Tax	Credit	Rural Medical Practice
1.131	Income Tax	Credit	Low Income Housing Lenders' Credit
2.009	Property Tax	Full Exemption	Enterprise Zone Businesses
2.014	Property Tax	Full Exemption	Personal Property Less Than \$10,000
2.026	Property Tax	Part/Full Exemption	Rehabilitated Housing
2.028	Property Tax	Part/Full Exemption	New Housing for Low Income Rental
2.029	Property Tax	Full Exemption	Housing Authority Rental Units
2.030	Property Tax	Part/Full Exemption	Nonprofit Low Income Rental Housing
2.036	Property Tax	Partial Exemption	War Veterans in Nonprofit Elderly Housing
2.037	Property Tax	Special Assessment	Farm Land
2.050	Property Tax	Full Exemption	Riparian Habitat Land
2.052	Property Tax	Partial Exemption	Alternative Energy Systems
2.056	Property Tax	Special Assessment	Western Small Tract Option
2.072	Property Tax	Partial Exemption	Historic Property
2.091	Property Tax	Full Exemption	Exempt Lease from Taxable Owner
8.001	Beer and Wine Tax	Exclusion	Small Wineries

EXPIRED TAX EXPENDITURES

Income Tax	Exclusion	Residential Capital Gains - Taxpayers over 55
Income Tax	Exclusion	Interest Allocation Rules
Income Tax	Exclusion	Capital Gains on Home Sales (Deferral)
Income Tax	Exclusion	Structured Settlement Accounts
Income Tax	Exclusion	Small Property Insurance Company
Income Tax	Exclusion	Insurance Provided by Certain Associations
Income Tax	Credit	Weatherization Lender's Credit
Property Tax	Special Assessment	Single Family House in Higher Use Zone
Property Tax	Partial Exemption	Down Zoned Property
Property Tax	Full Exemption	Rural Telephone Exchanges
Property Tax	Partial Exemption	Fallout Shelters

APPENDIX E: PERSONAL AND CORPORATION INCOME TAX EXPENDITURES

Personal Income Tax Expenditures

Tax Expenditure	Program or Function	Year Enacted	Oregon Statute	Revenue Impact (\$ Thousands)	
				1997-99	1999-01
<i>Federal Exclusions</i>					
1.001 Scholarship and Fellowship Income	Education	1954	316.048	5,900	6,700
1.002 Interest on Education Savings Bonds	Education	1988	316.048	100	100
1.003 Earnings on Education IRAs	Education	1997	316.048	2,400	5,300
1.004 Public Assistance Benefits	Human Resources	1930s	316.048	6,300	7,100
1.005 Certain Foster Care Payments	Human Resources	1982	316.048	100	100
1.006 Employee Adoption Benefits	Human Resources	1996	316.048	Less than 50	Less than 50
1.007 Cafeteria Plan Benefits	Human Resources	1974	316.048	42,500	53,400
1.008 Employer Paid Medical Benefits	Human Resources	1918	316.048	369,900	424,000
1.009 Pension Contributions and Earnings	Human Resources	1921	316.048	523,200	565,900
1.010 Hospital Insurance (Part A)	Human Resources	1965	316.048	98,600	123,200
1.011 Supplementary Medical Insurance (Part B)	Human Resources	1970	316.048	43,600	57,300
1.012 Social Security Benefits (Federal)	Human Resources	1938	316.048	166,600	176,800
1.013 Accelerated Depreciation of Buildings	Economic/Community	1954	316.048/317.013	7,000	4,200
1.014 Accelerated Depreciation of Equipment	Economic/Community	1954	316.048/317.013	49,500	55,200
1.015 Income Earned Abroad by U.S. Citizens	Economic/Community	1926	316.048	12,900	14,900
1.018 Magazine, Paperback, and Record Returns	Economic/Community	1978	316.048/317.013	Not Available	Not Available
1.019 Cash Accounting, Other than Agriculture	Economic/Community	1916	316.048/317.013	700	700
1.020 Regional Economic Development Incentives	Economic/Community	1993	316.048/317.013	Less than 50	Less than 50
1.022 Employer Paid Group Life Insurance Premiums	Economic/Community	1920	316.048	13,200	14,500
1.023 Employer Paid Accident and Disability Insurance	Economic/Community	1954	316.048	1,400	1,400
1.024 Employer Provided Dependent Care	Economic/Community	1981	316.048	6,600	8,100
1.025 Miscellaneous Fringe Benefits	Economic/Community	1984	316.048	41,800	47,400
1.026 Employee Meals and Lodging (Non-Military)	Economic/Community	1918	316.048	4,900	5,700
1.027 Employee Stock Ownership Plans	Economic/Community	1974	316.048/317.013	300	300
1.028 Employee Awards	Economic/Community	1986	316.048	700	700
1.029 Employer Provided Death Benefits	Economic/Community	1951	316.048	100	100
1.030 Employer Provided Education Benefits	Economic/Community	1997	316.048	1,700	1,100
1.031 Accelerated Depreciation of Rental Housing	Economic/Community	1954	316.048/317.013	5,200	5,000
1.032 Capital Gains on Home Sales	Economic/Community	1997	316.048	59,000	63,700
1.033 Veteran's Benefits and Services	Economic/Community	1917	316.048	15,000	15,900
1.034 Agriculture Cost-Sharing Payments	Natural Resources	1978	316.048/317.013	Not Available	Not Available
1.035 Cancellation of Debt for Farmers	Natural Resources	1986	316.048	700	700
1.036 Energy Conservation Subsidies	Natural Resources	1992	316.048	(In 1.100)	(In 1.100)
1.038 Employer Paid Transportation Benefits	Transportation	1992	316.048	17,000	17,000
1.039 Life Insurance Investment Income	Insurance and Financial	1913	316.048/317.013	147,700	157,500
1.040 Workers' Compensation Benefits	Insurance and Financial	1918	316.048	26,800	29,000
1.043 Imputed Interest Rules	Tax Administration	1964	316.048/317.013	1,400	1,400
1.044 Gain on Non-Dealer Installment Sales	Tax Administration	1921	316.048/317.013	2,800	2,800
1.045 Gain on Like-Kind Exchanges	Tax Administration	1921	316.048/317.013	2,100	2,100
1.046 Allowances for Federal Employees Abroad	Government	1943	316.048	400	400
1.047 Interest on Oregon State and Local Debt	Government	1913	316.048	78,900	83,700
1.048 Capital Gains on Inherited Property	Social Policy	1921	316.048	194,400	225,100

Appendix E

Personal Income Tax Expenditures (cont.)

Tax Expenditure	Program or Function	Year Enacted	Oregon Statute	Revenue Impact (\$ Thousands)	
				1997-99	1999-01
1.049 Capital Gains on Gifts	Social Policy	1921	316.048	19,300	20,700
1.050 Gain on Involuntary Conversions in Disaster Areas	Social Policy	1996	316.048	100	100
1.051 Voluntary Employees Beneficiary Association	Social Policy	1928	316.048	3,500	3,900
1.052 Rental Allowances for Ministers' Homes	Social Policy	1921	316.048	2,100	2,500
1.053 Military Disability Benefits	Social Policy	1942	316.048	700	700
<i>Federal Deductions</i>					
1.054 Interest on Student Loans	Education	1997	316.048	400	1,100
1.055 Charitable Contributions: Education	Education	1917	316.695/317.013	21,700	23,400
1.056 Charitable Contributions: Health	Human Resources	1917	316.695/317.013	16,400	17,700
1.057 Medical and Dental Expenses	Human Resources	1942	316.695	63,300	67,100
1.058 Self-Employment Health Insurance	Human Resources	1986	316.048	5,700	6,000
1.059 Medical Savings Accounts (Federal)	Human Resources	1996	316.048	400	1,100
1.060 IRA Contributions and Earnings	Human Resources	1974	316.048	72,100	88,100
1.061 Keogh Plan Contributions and Earnings	Human Resources	1962	316.048	28,200	31,900
1.062 Removal of Architectural Barriers	Human Resources	1976	316.695/317.013	Less than 50	Less than 50
1.063 Research and Development Costs	Economic/Community	1954	316.695/317.013	Less than 50	Less than 50
1.064 Section 179 Expensing Allowances	Economic/Community	1959	316.695/317.013	2,400	2,500
1.065 Amortization of Business Start-Up Costs	Economic/Community	1980	316.695/317.013	2,100	2,100
1.067 Moving Expenses	Economic/Community	1964	316.048	1,100	1,200
1.068 Homeowner Property Taxes	Economic/Community	1913	316.695	164,500	183,400
1.069 Home Mortgage Interest	Economic/Community	1913	316.695	525,100	567,900
1.070 Cash Accounting for Agriculture	Natural Resources	1916	316.695/317.013	1,500	2,000
1.071 Soil and Water Conservation Expenditures	Natural Resources	1954	316.695/317.013	Not Available	Not Available
1.072 Fertilizer and Soil Conditioner Costs	Natural Resources	1960	316.695/317.013	Not Available	Not Available
1.073 Costs of Raising Dairy and Breeding Cattle	Natural Resources	1916	316.695/317.013	800	1,000
1.074 Redevelopment Costs in Contaminated Areas	Natural Resources	1997	316.048/317.013	0	100
1.075 Multi-Period Timber Growing Costs	Natural Resources	1986	316.695/317.013	1,100	1,100
1.076 Development Costs - Nonfuel Minerals	Natural Resources	1951	316.695/317.013	Not Available	Not Available
1.077 Depletion Costs for Nonfuel Minerals	Natural Resources	1913	316.695/317.013	700	700
1.078 Mining Reclamation Reserves	Natural Resources	1984	316.695/317.013	Not Available	Not Available
1.083 Magazine Circulation Expenditures	Tax Administration	1950	316.695/317.013	Not Available	Not Available
1.085 Completed Contract Rules	Tax Administration	1986	316.695/317.013	100	100
1.086 Casualty and Theft Losses	Social Policy	1913	316.695	1,300	1,300
1.087 Charitable Contributions: Other	Social Policy	1917	316.695/317.013	138,700	150,100
<i>Oregon Subtractions</i>					
1.088 JOBS Plus Participants	Human Resources	1995	316.680(1)(f)	Less than 50	Less than 50
1.089 Medical Savings Accounts (Oregon)	Human Resources	1997	316.743	Less than 50	Less than 50
1.090 Physicians in "Medically Disadvantaged" Areas	Human Resources	1973	316.076	0	0
1.091 Additional Deduction for Elderly or Blind	Human Resources	1989	316.695(8)	17,100	16,000
1.092 Additional Medical Deduction for Elderly	Human Resources	1991	316.695 (1)(d)(B)	42,600	45,800
1.093 Social Security Benefits (Oregon)	Human Resources	1985	316.054	130,200	143,500
1.094 Donations of Art by the Artist	Economic/Community	1979	316.838	100	100
1.095 Capital Gains from Oregon Reinvestment	Economic/Community	1995	316.874	1,000	600
1.096 Local Private Activity Bond Interest	Economic/Community	1987	316.056	400	400
1.097 Service in Vietnam on Missing Status	Economic/Community	1973	316.074	0	0
1.098 Oil Heat Tank Cleanup Costs	Natural Resources	1991	316.746	100	0
1.099 Underground Storage Tank Cleanup Grants	Natural Resources	1991	316.834/317.383	150	Less than 50

Personal Income Tax Expenditures (cont.)

Tax Expenditure	Program or Function	Year Enacted	Oregon Statute	Revenue Impact (\$ Thousands)	
				1997-99	1999-01
1.100 Cash Payments for Energy Conservation	Natural Resources	1981	316.744/317.386	3,600	160
1.102 Income Earned in "Indian Country"	Government	1977	316.777	2,400	2,700
1.103 Federal Pension Income	Government	1998	OR Supreme Court	306,000	101,000
1.104 Oregon State Lottery Prizes	Government	1985	461.560	43,400	43,100
1.105 Federal Income Tax Deduction	Social Policy	1929	316.680/316.695	430,900	475,500
1.106 Military Active Duty Pay	Social Policy	1969	316.680/316.789	4,100	4,200
1.107 Interest and Dividends on U.S. Obligations	Federal Law	1970	316.680	50,000	55,100
<i>Oregon Credits</i>					
1.108 Child Development Program Contributions	Education	1991	315.234	Less than 50	Less than 50
1.109 Youth Apprenticeship Sponsorship	Education	1991	315.254	0	0
1.111 Earned Income Credit	Human Resources	1997	315.266	15,200	17,100
1.112 Bone Marrow Transplant Expense	Human Resources	1991	315.604	Less than 50	Less than 50
1.113 Rural Medical Practice	Human Resources	1989	316.143	9,400	9,900
1.114 Costs in lieu of Nursing Home Care	Human Resources	1979	316.147-316.149	Less than 50	Less than 50
1.115 Disabled Child	Human Resources	1985	316.099	2,000	2,300
1.116 Elderly or Permanently Disabled	Human Resources	1969	316.087	200	200
1.117 Loss of Limbs	Human Resources	1973	316.079	Less than 50	Less than 50
1.118 Severe Disability	Human Resources	1985	316.758	3,500	4,200
1.119 Oregon Capital Corporation Investments	Economic/Community	1987	315.504	0	0
1.123 Child and Dependent Care	Economic/Community	1975	316.078	11,900	11,900
1.124 Working Family Child Care	Economic/Community	1997	315.262	6,900	7,000
1.125 Dependent Care Assistance	Economic/Community	1987	315.204	Not Available	Not Available
1.126 Dependent Care Facilities	Economic/Community	1987	315.208	(In 1.125)	(In 1.125)
1.127 First Break Program	Economic/Community	1995	315.259	Not Available	Not Available
1.128 Farm-Worker Housing Construction	Economic/Community	1989	315.164	200	200
1.130 Involuntary Mobile Home Moves	Economic/Community	1991	316.153	Not Available	Not Available
1.132 Crop Gleaning	Natural Resources	1977	315.156	50	50
1.133 Alternatives to Field Burning	Natural Resources	1975	468.150	(In 1.135)	(In 1.135)
1.134 Pollution Prevention	Natural Resources	1995	315.311	Not Available	Not Available
1.135 Pollution Control	Natural Resources	1967	315.304	1,500	1,400
1.136 Reclaimed Plastics	Natural Resources	1985	315.324	50	50
1.137 Sewer Connection	Natural Resources	1987	316.095	6,000	3,000
1.138 Fish Gleaning (Seafood) Credit	Natural Resources	1985	315.148	0	0
1.139 Fish Habitat Improvement	Natural Resources	1981	315.134	Less than 50	Less than 50
1.140 Fish Screening Devices	Natural Resources	1989	315.138	50	50
1.141 Alternative Energy Devices (Residential)	Natural Resources	1977	316.116	1,500	6,000
1.142 Business Energy Facilities	Natural Resources	1979	315.354	2,500	1,000
1.144 Geothermal Heating System Connection	Natural Resources	1979	316.086	Less than 50	Less than 50
1.145 Reforestation	Natural Resources	1979	315.104	100	100
1.150 Political Contributions	Government	1969	316.102	8,100	8,300
1.151 Personal Exemption Credit	Social Policy	1985	316.085	716,900	775,400
1.152 Retirement income	Social Policy	1991	316.157	10,500	5,600

Appendix E

Corporation Income Tax Expenditures

Tax Expenditure	Program or Function	Year Enacted	Oregon Statute	Revenue Impact (\$ Thousands)	
				1997-99	1999-01
<i>Federal Exclusions</i>					
1.013 Accelerated Depreciation of Buildings	Economic/Community	1954	316.048/317.013	10,100	6,200
1.014 Accelerated Depreciation of Equipment	Economic/Community	1954	316.048/317.013	117,700	130,500
1.016 Income of Foreign Sales Corporations	Economic/Community	1984	317.013	7,400	8,900
1.017 Inventory Property Sales Source-Rule Exception	Economic/Community	1921	317.013	17,400	18,500
1.019 Cash Accounting, Other than Agriculture	Economic/Community	1916	316.048/317.013	100	100
1.020 Regional Economic Development Incentives	Economic/Community	1993	316.048/317.013	Less than 50	Less than 50
1.021 Income of Controlled Foreign Corporations	Economic/Community	1909	317.013	5,600	6,200
1.027 Employee Stock Ownership Plans	Economic/Community	1974	316.048/317.013	3,600	4,100
1.031 Accelerated Depreciation of Rental Housing	Economic/Community	1954	316.048/317.013	4,700	4,600
1.034 Agriculture Cost-Sharing Payments	Natural Resources	1978	316.048/317.013	Not Available	Not Available
1.037 Contributions in Aid of Construction for Utilities	Transportation	1996	317.013	200	200
1.039 Life Insurance Investment Income	Insurance and Financial	1913	316.048/317.013	5,400	6,000
1.041 Credit Union Income	Insurance and Financial	1951	317.013	3,600	4,100
1.042 Life Insurance Company Reserves	Insurance and Financial	1984	317.013	8,800	10,100
1.043 Imputed Interest Rules	Tax Administration	1964	316.048/317.013	100	100
1.044 Gain on Non-Dealer Installment Sales	Tax Administration	1921	316.048/317.013	2,300	2,300
1.045 Gain on Like-Kind Exchanges	Tax Administration	1921	316.048/317.013	1,800	1,800
<i>Federal Deductions</i>					
1.055 Charitable Contributions: Education	Education	1917	316.695/317.013	5,000	5,400
1.056 Charitable Contributions: Health	Human Resources	1917	316.695/317.013	3,800	4,100
1.062 Removal of Architectural Barriers	Human Resources	1976	316.695/317.013	100	100
1.063 Research and Development Costs	Economic/Community	1954	316.695/317.013	12,200	14,200
1.064 Section 179 Expensing Allowances	Economic/Community	1959	316.695/317.013	2,900	3,200
1.065 Amortization of Business Start-Up Costs	Economic/Community	1980	316.695/317.013	100	100
1.066 Construction Funds of Shipping Companies	Economic/Community	1936	317.013	500	500
1.070 Cash Accounting for Agriculture	Natural Resources	1916	316.695/317.013	300	500
1.071 Soil and Water Conservation Expenditures	Natural Resources	1954	316.695/317.013	Not Available	Not Available
1.072 Fertilizer and Soil Conditioner Costs	Natural Resources	1960	316.695/317.013	Not Available	Not Available
1.073 Costs of Raising Dairy and Breeding Cattle	Natural Resources	1916	316.695/317.013	Less than 50	Less than 50
1.074 Redevelopment Costs in Contaminated Areas	Natural Resources	1997	316.048/317.013	0	500
1.075 Multi-Period Timber Growing Costs	Natural Resources	1986	316.695/317.013	7,200	7,300
1.076 Development Costs - Nonfuel Minerals	Natural Resources	1951	316.695/317.013	Not Available	Not Available
1.077 Depletion Costs for Nonfuel Minerals	Natural Resources	1913	316.695/317.013	900	900
1.078 Mining Reclamation Reserves	Natural Resources	1984	316.695/317.013	Not Available	Not Available
1.079 Bad Debt Reserves of Financial Institutions	Insurance and Financial	1947	317.013	100	100
1.080 Small Life Insurance Company	Insurance and Financial	1984	317.013	500	500
1.081 Unpaid Loss Reserves	Insurance and Financial	1986	317.013	13,100	14,700
1.082 Blue Cross/Blue Shield and Other Nonprofits	Insurance and Financial	1986	317.013	Not Available	Not Available
1.083 Magazine Circulation Expenditures	Tax Administration	1950	316.695/317.013	Not Available	Not Available
1.084 Net Operating Loss Limitation	Tax Administration	1954	317.013	2,300	2,300
1.085 Completed Contract Rules	Tax Administration	1986	316.695/317.013	900	900
1.087 Charitable Contributions: Other	Social Policy	1917	316.695/317.013	5,100	5,600

Corporation Income Tax Expenditures

Tax Expenditure	Program or Function	Year Enacted	Oregon Statute	Revenue Impact (\$ Thousands)	
				1997-99	1999-01
<i>Oregon Subtractions</i>					
1.099 Underground Storage Tank Cleanup Grants	Natural Resources	1991	316.834/317.383	Less than 50	Less than 50
1.100 Cash Payments for Energy Conservation	Natural Resources	1981	316.744/317.386	Less than 50	Less than 50
1.101 Wet Marine and Transportation Policies	Insurance and Financial	1995	317.080(6)	100	400
<i>Oregon Credits</i>					
1.108 Child Development Program Contributions	Education	1991	315.234	Less than 50	Less than 50
1.109 Youth Apprenticeship Sponsorship	Education	1991	315.254	0	0
1.110 Contributions of Computer Equipment	Education	1985	317.151	200	200
1.112 Bone Marrow Transplant Expense	Human Resources	1991	315.604	Less than 50	Less than 50
1.119 Oregon Capital Corporation Investments	Economic/Community	1987	315.504	0	0
1.120 Qualified Research Activities	Economic/Community	1989	317.152	16,800	17,800
1.121 Qualified Research Activities (Alternative)	Economic/Community	1989	317.154	(In 1.120)	(In 1.120)
1.122 Investment in Rural Enterprise Zone (Income Tax)	Economic/Community	1997	Note: 285B.689	0	Not Available
1.125 Dependent Care Assistance	Economic/Community	1987	315.204	3,300	3,500
1.126 Dependent Care Facilities	Economic/Community	1987	315.208	(In 1.125)	(In 1.125)
1.127 First Break Program	Economic/Community	1995	315.259	Not Available	Not Available
1.128 Farm-Worker Housing Construction	Economic/Community	1989	315.164	1,800	1,800
1.129 Farm-Worker Housing Lender's Credit	Economic/Community	1989	317.147	100	100
1.131 Low Income Housing Lenders' Credit	Economic/Community	1989	317.097	4,200	4,800
1.132 Crop Gleaning	Natural Resources	1977	315.156	Less than 50	Less than 50
1.133 Alternatives to Field Burning	Natural Resources	1975	468.150	(In 1.135)	(In 1.135)
1.134 Pollution Prevention	Natural Resources	1995	315.311	Not Available	Not Available
1.135 Pollution Control	Natural Resources	1967	315.304	18,100	17,000
1.136 Reclaimed Plastics	Natural Resources	1985	315.324	150	250
1.138 Fish Gleaning (Seafood) Credit	Natural Resources	1985	315.148	0	0
1.139 Fish Habitat Improvement	Natural Resources	1981	315.134	Less than 50	Less than 50
1.140 Fish Screening Devices	Natural Resources	1989	315.138	Less than 50	Less than 50
1.142 Business Energy Facilities	Natural Resources	1979	315.354	15,500	5,400
1.143 Energy Conservation Lender's Credit	Natural Resources	1981	317.112	100	Less than 50
1.145 Reforestation	Natural Resources	1979	315.104	600	600
1.146 Fire Insurance Credit	Insurance and Financial	1969	317.122(1)	1,600	1,600
1.147 Assessments on Workers' Compensation	Insurance and Financial	1995	317.122(2)	1,200	1,100
1.148 Assessments Paid to Oregon IGA: General	Insurance and Financial	1977	734.575	700	300
1.149 Assessments Paid to Oregon Life and Health IGA	Insurance and Financial	1975	734.835	15,000	11,200