2016 Expiring Tax Credits

(Pursuant to 2013 HB 2002)

RESEARCH REPORT # 2-15

February 2015

Legislative Revenue Office
State Capitol Building
900 Court Street NE, Room 143
Salem, Oregon 97301
(503) 986-1266

https://www.oregonlegislature.gov/lro

Table of Contents

State of Oregon **Research Report**

LEGISLATIVE REVENUE OFFICE
900 Court St NE Rm 143
Salem, Oregon 97301

(503) 986-1266

Research Report #2-15 **February 2015**

Report on Expiring Tax Credits

Introduction

With the creation of the first comprehensive Tax Expenditure Report in 1996, (1995 HB 2255) the state of Oregon has had a single source that identifies existing tax expenditures (e.g. exemptions, deductions, and credits) for the major taxes imposed in Oregon. This report, which has been a companion document for the Governor's Proposed Budget since the 1997-99 biennium, identified a total of 43 personal and corporate income tax credits in 1996. By the time the 2009-11 Tax Expenditure Report was created, the number of credits had grown to 64. Of this total, 25 did not have a sunset date, 11 had already sunset, and the remaining 28 had one of ten sunset dates ranging from 2010 to 2023.

This report is the result of HB 2002 from the 2013 Legislature. It contains three main sections: an overview of tax expenditures, an overview of the tax credit review process, and an analysis of the tax credits scheduled to sunset in 2016. The tax expenditure overview provides a brief concept discussion of tax expenditures in general and some specific context for the tax credits that are the primary focus of this report. It contains information from the Governor's 2015-17 Tax Expenditure Report. The second section describes the Legislature's review process for expiring tax credits. This process was first established in 2011 and was modified in 2013. While the exact process for 2015 is not yet known, current expectations are that it will be of a similar structure. The third and primary section of the report is the analysis of the expiring tax credits to be reviewed during the 2015 legislative session.

I. Tax Expenditures

The concept of tax expenditures has been part of the public finance lexicon since 1967 when the U.S. Treasury first created a list of tax preferences and concessions as part of a broader discussion and debate about tax reform. In its simplest form, tax expenditures are provisions of law that represent a departure from a normative tax structure. The concept of "normative" refers to a general set of principles that leads to a collective understanding of the appropriate tax base, in the case here it is the income tax. That being said, there may be disagreement about whether or not specific provisions in law are tax expenditures or simply not part of the base system. A portion of the debate on the topic revolves around the interpretation of "normative". A federal "tax expenditure budget" has been produced since the 1970s and a number of states now produce one, in one form or another.

Kleinbard (2010) has described three kinds of federal tax expenditures contained within the Internal Revenue Code. First, fixed-dollar subsidies are tax expenditures that have a dollar cap per fiscal year. These provisions are legislatively structured to spend no more than a statutory dollar amount. Once that cap is reached, no additional subsidies are granted. The other two types are temporary and permanent uncapped subsidies. These are provisions of tax law that are structured such that if a taxpayer meets the statutory qualifications, they are able to benefit from the subsidy. The amount claimed in a given year is not limited by law. The only difference between the latter two is those that have statutory sunsets and those that don't.

This same taxonomy can also be applied to Oregon tax expenditures with one additional caveat. Oregon-specific tax expenditures are those that are written into the Oregon Revised Statutes and can be categorized in the manner described above. The caveat is that Oregon's income tax is tied to federal tax law, specifically the definition of Federal Taxable Income (FTI). The policy choice of tying to federal law implicitly adopts all federal income tax expenditures. For example, a federal deduction reduces the FTI for taxpayers. Because the Oregon income tax calculation begins with FTI, the deduction is already included.

The result is that there is a broader perspective when referring to Oregon tax expenditures. They consist of two groups – tax expenditures specified in federal law and those specified in Oregon law. Any analysis of those specified in federal law eventually incorporates the myriad advantages and disadvantages of connecting to federal income tax law.

The table below contains summary figures from the most recent report, with income tax expenditures totaling roughly $12.8 billion for the 2015-17 biennium. A common context for this figure is the state's General Fund (GF), which is projected to be $15.7 billion in 2015-17. Given their relative magnitudes, much attention is paid to the possibility of making incremental changes to all income tax expenditures as a way to increase funding for GF programs. The reality is that the public policy nuances of making such changes are varied and, in some cases, quite complicated.

2015-17 Income Tax Expenditures

Type	Revenue Impact $M	Note
Federal		
Exclusions	$6,575	Information not reported on tax returns
Adjustments	$285	93% are IRAs, self-employment health insurance, and health savings accounts
Deductions	$2,270	95% are mortgage interest, property taxes, charities, and medical expenses
Oregon		
Subtractions	$1,797	92% are federal tax, Social Security, federal pensions, and elderly medical expenses
Credits	$1,679	82% are the personal exemption credit and the former business energy tax credit.
Other	$209	98% is the lower rate structure for certain pass-through income
Total	$12,816	

Source: 2015-17 Tax Expenditure Report; includes impact of current law sunsets.

According to the 2015-17 Tax Expenditure Report (TER), there are 204 income tax expenditures totaling $12.8 billion during the 2015-17 biennium. In the table above, these provisions are separated into six categories, three federal and three Oregon. Roughly 71 percent ($9.1 billion) of the total cost is attributable to our connection to federal tax policy. The largest category, by far, are exclusions which amount to $6.6 billion. As their name implies, these tax expenditures represent items that are not reported on any tax return. Of the 29 percent ($3.7 billion) that is Oregon specific policy, $1.8 billion are subtractions and $1.7 billion are credits.

When tax policy analysis intersects with budget analysis the result often leads to a review of tax expenditures using one of two common approaches. The first is to focus on specific policies embodied within specific tax expenditures. The intricacies of that policy are explored, analyzed, and possible modifications are debated. The second approach is to make proportional changes to all or groups of tax expenditures.

The table on the following page attempts to build on the previous table and divide the full $12.8 billion impact into separate pieces. There are a handful of policies pertaining to either the structure of the income tax or specific tax credits that make up a significant share of the overall revenue impact. It can be instructive to understand how their impacts fit within the total impact. The table shows how the $12.8 billion total is reduced to $1.3 billion when some of the more prominent policies are considered separately.

The first and largest group ($6.6 billion) is federal exclusions. Because Oregon's income tax is tied to federal law, the policies are implicitly adopted by the state. As previously stated, they represent information that is not reported on a tax return. When discussing the possibility of disconnecting from these provisions of federal tax policy, administrative issues for various stakeholders become the focal point. The individual merits of any particular federal exclusion can certainly be analyzed and debated. But the unique administrative issues that they have in common are often part of that discussion. Considering these provisions separately as a special category reduces the total cost to $6.2 billion ($12.8 billion - $6.6 billion).

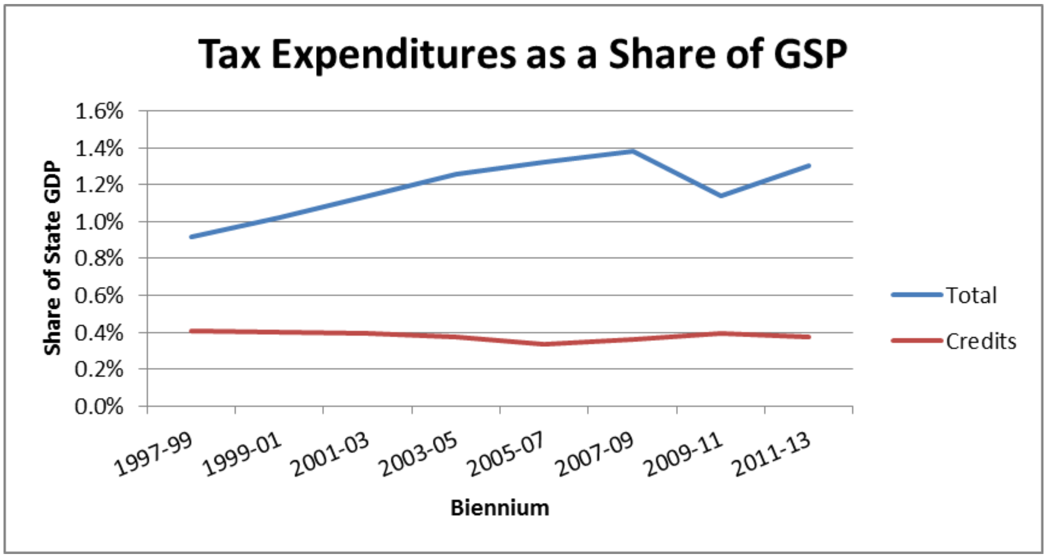
Next, 11 specific federal and state-level tax expenditures are listed, along with two "sub-category" items: business expenses and expired tax credits. The single largest item is the Home Mortgage Interest deduction at just under one billion dollars. Several ideas have been explored in the economic literature on if and how to change the deduction. There are two provisions that the Legislature may not change, namely Social Security Income and Federal Pension Income which together total just under $800 million. The Medical Subtraction for the Elderly and the Tax Rates for Pass-Thru Income were recently modified during the 2013 Special Legislative Session.

The Business Expenses and Expired Tax Credits are each a collection of similar tax expenditures. The two items with the largest impacts in the former group are the accelerated depreciation of equipment and research & development costs. Each of these provisions deals with the issues of expensing and depreciating business costs. The latter group consists of tax credits that have already been eliminated. These costs will fall to zero over time as carryforwards are depleted.

Type of Tax Expenditure	2015-17 Revenue Impact ($M)
Total	$12,816
Federal Exclusions	-$6,575
Federal Deductions	
Home Mortgage Interest	-$962
Home Property Taxes	-$425
Charitable Contributions	-$500
Medical Expenses	-$232
IRA Contributions and Earnings	-$150
Business Expenses	-$149
Self-Employed Health Insurance	-$80
Oregon Subtractions	
Social Security Income	-$651
Federal Pension Income	-$130
Medical Subtraction for Elderly	-$117
Oregon Credits	
Personal Exemption	-$1,149
Expired Tax Credits	-$176
Other	
Tax Rates for Pass-Thru Income	-$205
Subtotal	$1,315
Federal Tax Subtraction	-$731
Credits under review	-$354
Remaining provisions	$231

If all these items are moved to separate policy considerations, the total is reduced from $12.8 billion to $1.3 billion. Of this amount, roughly 55 percent is the federal tax subtraction ($731 million) and 27 percent is tax credits that are currently part of the six-year review process ($354 million). The remaining 19 percent amounts to $231 million.

The chart below provides some context for the growth in tax expenditures over time compared to Gross State Product (GSP). The total of income tax expenditures accounted for 0.9 percent in 1997-99. This share grew through 2007-09 before falling in 2009-11 and then bouncing back in 2011-13. Tax credits were more stable and have actually declined over time as a share of GSP. Tax credits as a share of GSP grew between 2005-07 and 2009-11 before declining again in 2011-13.



II. Tax Credit Review Process

In 2009, the Legislature passed and the Governor signed HB 2067. This bill organized the active credits into three groups according to broad policy goals and placed a sunset date on all but three tax credits.[1] The three groups were scheduled to sunset on January 1 of 2012, 2014, or 2016, so that an organized review could occur during the legislative session just prior to their scheduled sunset. The 2011 Legislature conducted the first such review, which encompassed twenty tax credits. Ultimately, the Legislature allowed nine to sunset on January 1, 2012. One tax credit had its sunset date accelerated into 2011 with the proceeds used for a direct spending program. Five credits were extended without any modifications and four were extended with modifications. Finally, one other tax credit was divided into three separate tax credits according to their policy objectives.

Building on this work, the Legislature passed, and the Governor signed into law, HB 2002 in 2013 which requires a detailed report on sunsetting tax credits. For reference purposes, the table below contains a brief summary of recent tax legislation focusing on tax credits. Collectively, this legislation is the basis of what some researchers have described as ‘framework legislation’ for the policy analysis and review of indirect spending. (Kleinbard 2010) These bills have culminated in a process to understand and evaluate what some would refer to as Oregon’s tax expenditure budget. Theoretically, such a process would include all tax expenditures, but Oregon is currently focused on state tax credits.

[1] The three credits without a sunset date are the personal exemption credit, the credit for taxes paid to another state, and the claim of right income credit. At the time the tax credit review process was established, all three of these tax credits were considered part of the normative tax base.

Session	Bill	Description
2007	HB 3201	Created or modified nine tax credits; paid for by phasing-down the personal exemption tax credit
2009	HB 2067	Organized tax credits into three groups with distinct sunset dates to facilitate their future review
2010	HB 3680	Made significant policy changes to the Business Energy Tax Credit
2011	HB 3672	Tax credit omnibus bill: nine tax credits extended and/or modified; one tax credit divided into three tax credits; one tax credit sunset date accelerated; and nine tax credits allowed to sunset
2013	HB 3367	Tax credit omnibus bill: seven credits extended without modification; two credits extended with modifications; four credits allowed to sunset
2013	HB 2002	Requires biennial report on sunsetting tax credits.

For each of the 2011 and 2013 legislative sessions, the process has varied somewhat. In a broad sense, however, the tax credit sunset review process has consisted of three stages: (1) the interim process; (2) the policy committee process; and (3) the Joint Tax Credit Committee process. The interim process involves updating information on the tax credits that are scheduled for the formal review process during the legislative session. It also includes a review of credits with a later sunset date if they meet criteria for early consideration. This stage ends with the pre-session filing of bills extending the sunset date by six years – a default time period intended as a placeholder.

The second stage begins with legislative leadership assigning the tax credit bills to relevant policy committees with subsequent referrals to the Joint Committee on Tax Credits. There are two such extension bills (House and Senate versions) for each credit that simply extend the sunset date. (Proponents of a given policy may have a version drafted that includes modifications if they are able to find a sponsor.) The intent is that each committee reviews the purpose of each credit and evaluates its effectiveness in achieving that purpose. Sample questions have typically been provided to promote discussion. (The questions from the 2013 Session are included in Appendix D.) Possible committee actions include: allowing the credit to sunset by simply taking no action on the bill, extending the sunset date without policy changes, extending the sunset date with other policy changes, or replacing the credit with a more effective policy tool. All but the first option would result in a recommendation to the Joint Committee on Tax Credits. The objective is that each policy committee provides some degree of policy guidance to the Joint Committee for any continuation of desired tax credits.

Upon receiving tax credit bills referred from policy committees, the work of the Joint Committee on Tax Credits is intended to mirror the Ways & Means budget process. The “base” spending level is the amount of spending presented in the Governor’s proposed budget, an amount set by legislative leadership, or some combination thereof. One example is that this base could be the estimated credit revenue base – the revenue impact of straight credit extensions – within the overall revenue and budget situation. Consultation among legislative leadership, the Ways &

Means Co-chairs, and the House and Senate Revenue Chairs may result in a tax credit budget for the upcoming biennium.

The Joint Committee evaluates credits based on policy committee input, recommendations, and prioritization, while considering general tax policy criteria. The Committee collectively considers all bills affecting the existing tax credits as well as any new credits proposed during the session. Some may be allowed to sunset as scheduled; some could have their sunset date accelerated; and others could be extended and/or modified. Examples of potential modifications include: separating a single tax credit into multiple tax credits to clarify policy intent, merging multiple tax credits into a single tax credit to improve efficiency within the tax system, adding some form of means-testing, and sunsetting a tax credit early to raise revenue that can then be redirected to a different program with similar policy goals.

Taken together, the costs of the tax credits on which the committee is expected to act in 2015 are summarized in the table below. The first row ("Current law with sunset") shows the cost of the tax credits with the sunset date as it is in law at the beginning of the session. These estimates reflect costs for which the state has already committed resources. The largest share of these impacts is due to the child care tax credits (43%). The health-related tax credits account for another 25% of the total. The second row ("Cost of sunset extension") shows the revenue impact of extending the sunset dates of the tax credits by six years. The third row ("Current law and sunset extension") shows the projected costs with the sunset dates extended six years without other policy changes.

Revenue Impact ($M)	2013-15	2015-17	2017-19	2019-21
Current law with sunset	$143.6	$106.8	$47.9	$17.8
Cost of sunset extension	$0.0	$64.0	$134.7	$153.3
Current law and sunset extension	$143.6	$170.8	$182.6	$171.1

One topic of perennial interest is how the indirect spending compares to the direct spending of the General Fund dollars. In some cases there are direct parallels in the form of complementary policy goals that lend themselves to such analysis. In others, however, it is less clear, and attempts at such analysis may not be as fruitful. One example of the former is child care. The state offers tax credits to offset the cost of child care, and there are also direct subsidy payments for low-income Oregonians that serve the same function. An example of the latter could be the Individual Development Account tax credits. The purpose of these credits appears to be to promote financial independence and there may be no corresponding or complementary direct payment programs.

Despite the potential difficulties, interest in the comparison of tax expenditures and direct spending remains. One acknowledgment of this interest is incorporated into the Tax Expenditure

Report. Each tax expenditure in the report is assigned a program area or function. The possible categories are intended to mirror, to the extent practicable, the categorization used in the direct spending budget process. To that end, the following table shows the cost of tax credits by budget program area.

Estimated 2015-17 Tax Expenditures

Program Area	All Income Tax Expenditures	All Tax Credits	Sunsetting Tax Credits
Consumer and Business Services	$354.3	$7.5	$0.0
Economic/Community	$3,020.1	$138.1	$67.5
Education	$159.4	$0.1	$0.0
Federal Law	$47.8	$0.0	$0.0
Government	$237.3	$8.8	$0.0
Human Services	$5,596.4	$142.4	$37.3
Natural Resources	$248.6	$224.6	$2.0
Social Policy*	$2,935.5	$1,157.7	$0.0
Tax Administration	$182.5	$0.0	$0.0
Transportation	$33.9	$0.0	$0.0
Total	**$12,815.8**	**$1,679.2**	**$106.8**

Source: 2015-17 Tax Expenditure Report

* The personal exemption credit accounts for $1,149 million of the total.

One aspect of tax credit analysis that has not yet been an explicit part of this process is how Oregon tax credits interact with federal tax law. This report moves that discussion forward by incorporating some analysis, primarily within the area of stacking credits. This is simply an attempt to understand the impact on taxpayers when federal and Oregon tax credits are available for the same reason. One area that is beyond the scope of the current report is the purchase of transferrable tax credits. It is not entirely clear how the sale of such assets should be treated at the federal level and to what extent the purchase of state tax credits may be claimed as a federal deduction. A better understanding of how state and federal law interact would help clarify the potential policy implications at the state level.

III. Tax Credits with 2016 Sunset

This section of the report contains detailed information on each tax credit scheduled to sunset in 2016. In total, there are 18 such tax credits. To provide some context, the table below shows the cost to the biennial budget for the last, current, and following two biennia. These estimates are for current law; the declining cost estimates reflect the current sunset dates. The table reflects how this section is structured. The tax credits are categorized into program areas: health, child care, disability, business investment, financial independence, and other. Child care incentives comprise the largest group, with roughly 45 percent of the total cost for the 2013-15 biennium. The single largest tax credit in terms of cost is the Working Family Child Care credit. For the biennium, it cost just over $43 million.

Tax Credit Costs Under Current Law and Costs to Extend Sunset Dates

Tax Credit	Biennium ($M) Cost Under Current Law 2013-15	2015-17	2017-19	2019-21	Cost To Extend Sunset Date 2013-15	2015-17	2017-19	2019-21
Health Care								
Rural Medical Providers	$16.9	$16.1	$12.4	$5.0	$0.0	$0.8	$4.9	$8.5
Costs in-lieu of Nursing Home Care	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Long-Term Care Insurance	$19.2	$10.2	$0.0	$0.0	$0.0	$10.6	$22.5	$23.8
Oregon Life and Health IGA Assessments	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
TRICARE for Health Care Providers	$0.0	$0.0	$0.0	$0.0	$0.0	$3.3	$4.7	$5.1
Oregon Veterans' Home Physician	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Child Care								
Child and Dependent Care	$16.6	$8.8	$0.9	$0.2	$0.0	$7.8	$15.7	$16.3
Working Family Child Care	$43.2	$21.7	$0.0	$0.0	$0.0	$21.8	$43.5	$43.4
Employer Provided Dependent Care Assistance	$1.2	$1.2	$0.7	$0.1	$0.0	$0.0	$0.5	$0.9
Office of Child Care Contributions	$1.0	$0.6	$0.1	$0.0	$0.0	$0.5	$1.0	$1.0
Disability								
Child with a Disability	$10.2	$5.7	$0.0	$0.0	$0.0	$6.2	$13.8	$15.5
Elderly or Permanently Disabled	$0.1	$0.1	$0.0	$0.0	$0.0	$0.1	$0.1	$0.1
Loss of Limbs	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Severe Disability	$10.8	$5.9	$0.0	$0.0	$0.0	$6.2	$13.6	$14.8
Business Investment								
Qualified Low-Income Community Investments	$9.3	$28.8	$32.0	$5.4	$0.0	$0.0	$0.0	$9.0
Public University Venture Development Fund	$0.7	$0.7	$0.3	$0.0	$0.0	$0.0	$0.3	$0.7
Financial Independence								
Individual Development Account Contributions	$13.7	$7.2	$0.2	$0.0	$0.0	$6.6	$13.6	$13.8
Individual Development Account Withdrawals	$0.3	$0.1	$0.0	$0.0	$0.0	$0.1	$0.3	$0.3
Other								
Transportation Projects (Bus Passes)	$1.6	$2.0	$1.4	$0.2				
TOTAL	**$144.9**	**$109.0**	**$48.0**	**$10.9**	**$0.0**	**$64.0**	**$134.7**	**$153.3**

The remainder of the report consists of separate reviews for each tax credit. This review consists of four parts: a presumed policy purpose, a description of the credit and its historical revenue impact, a policy analysis, and a discussion of other issues. The policy purpose is generally not in statute but is based on documentation from the implementing legislation. Generally, the purposes are inferred from historical records. On occasion, Oregon statute provides a clear statement of the policy intent. The description provides detail on how the tax credit works under current law and includes the historical revenue impact. The policy analysis describes academic research on relevant incentives if available, provides some discussion of the history, and an analysis of available data. Often the primary source of data is tax returns. The review of items such as a summary of similar incentives in other states and administrative costs conclude each tax credit analysis in an Other Issues section.

HB 2002 requires this report to provide information on the public policy purpose or goal of each tax credit. The most basic of this information is simply the stated public policy purpose. Also required is information on the expected timeline for achieving that purpose, the best means of measuring its achievement, and whether or not the use of a tax credit is an effective and efficient way to achieve that goal. In general, however, Oregon statute does not contain policy purposes or goals for tax credits. Consequently, statute does not (generally) identify timelines or metrics related to such goals. In the few cases where statute does provide a purpose or a goal, it is included in this report. The more common approach has been to rely on bill documentation and written testimony for the implementing legislation. This information is the basis for the purpose statements included in this report.

HB 2002 requires that this report contain, among other things, an analysis of each credit regarding the extent to which each is an effective and efficient way to achieve the desired policy goals. Ideally, the best analytical approach would be to identify metrics for each desired outcome, measure them over time, and then estimate the degree to which each credit contributes to the success of obtaining those goals. However, a lack of clearly stated purposes presents several challenges to ultimately measuring or estimating their effectiveness. The information provided in this report is intended to be a step toward a more comprehensive analysis. To improve the effectiveness of this report, legislators should clarify policy objectives for each tax credit as much as possible.

The importance of a clear objective is that it effectively provides direction for the framework of policy analysis. While many of Oregon’s tax credits do constitute an incentive to encourage a certain kind of behavior, several of them do not. For example, one goal of the long-term care insurance credit may be to have all Oregonians covered by that kind of insurance. This framework establishes the context for evaluating the impact of the tax credit, with clear metrics, in achieving that goal. A timeline for reaching the 100 percent coverage level can be proposed, evaluated, and modified. On the other hand, the disability tax credits are not incentives. One purpose of these tax credits is to simply provide some level of financial assistance for particular taxpayers, presumably related to issues of horizontal equity. The analytical framework is fundamentally different from those credits that are incentives. Many of the tax credits have different characteristics that may lend themselves to more, or less, analytical review. This report attempts to describe those frameworks in the discussions on policy analysis. Often, this analysis is provided for tax credits individually. There are, however, certain credits that appear to have such similar goals that they are best analyzed collectively.

Health Care

This section focuses on policies that are intended to improve the health of Oregonians and improve the function of the health care market in Oregon. The six tax credits analyzed in this section focus on the provision of health care for Oregonians, sometimes with overlapping constituencies. Broadly speaking, the intent of these tax credits is to increase access to health care for rural Oregonians, to finance health care for the elderly, to increase access to medical care for Oregon military personnel and veterans, and to ensure the payment of life and health insurance claims.

Health Care Policy/Program	**2013-15 Legislatively Approved Budget ($M)**	
	GF	OF
Rural/Underserved		
Tax Credit		
Rural Medical Providers tax credit	$16.9	
Direct Spending		
Medicaid Primary Care Provider Loan Repayment Program		$4.0
Scholars for a Healthy Oregon Initiative	$2.5	
Oregon State Loan Forgiveness	$1.2	
Rural Medical Practitioners Insurance Subsidy Program	$8.0	
Elderly/Insurance		
Tax Credit		
Oregon life and health IGA assessments tax credit	< $0.1	
Costs in-lieu of nursing home care tax credit	< $0.1	
Long-term care insurance tax credit	$19.2	
Other Tax Expenditure		
Elderly Medical Subtraction	$82.0	
Direct Spending		
Oregon Project Independence	$20.9	
Military/Veterans		
Tax Credit		
TRICARE for health care providers tax credit	< $0.1	
Oregon Veterans' Home Physician tax credit	< $0.1	
Direct Spending		
Oregon Veterans' Homes	$34.6	

The Legislature also directly spends General Fund dollars on programs with related policy goals. However, given the lack of specific policy purposes, it is not always clear when direct spending programs are in alignment with indirect spending programs. Before turning to the tax credits, as well as to establish some context for the indirect spending, a brief description of related direct spending programs is provided here. The table below contains six examples of direct spending programs that, when considered with the tax credits, provide a broader context of the use of state resources to support these policy goals.

The four rural/underserved programs effectively reduce the cost of providing health care. Specifically, they reduce the cost of education and professional liability insurance. The Medicaid Primary Care Provider Loan Repayment Program (MPCLRP) awards up to $35,000 annually for three years to new providers who commit to serving Medicaid patients in underserved parts of the state. The Scholars for a Healthy Oregon Initiative covers tuition and fees for students in specific programs who agree to practice in qualifying parts of the state. The third medical education subsidy program, the Primary Health Care Loan Forgiveness Program, makes loans of up to $35,000 per year to students in rural training programs. For each year of service in a rural, underserved community, one year of loans is forgiven. The fourth program, the Rural Medical Practitioners Insurance Subsidy Program, effectively reduces the cost of professional liability insurance for qualified practitioners.

The Rural Medical Provider tax credit augments these policies by providing a subsidy that is not directly related to education costs. However, the primary requirement is that the service be provided in a rural area. The $5,000 tax credit effectively increases the wages or salary of qualified providers. Participation in any of the direct subsidy programs does not preclude individuals from receiving the tax credit.

The second health policy group focuses on insurance and elderly care. Oregon Project Independence (OPI) provides a direct benefit to individuals who are age 60 or older or have been diagnosed with Alzheimer’s disease or a related disorder. If they receive Medicaid assistance they are not eligible for the program. The average OPI benefit is just under $10,000. Whereas OPI provides benefits directly to individuals receiving care, the tax credit for Costs in-lieu of Nursing Home Care provides a tax benefit to the care provider. While the tax credit is much smaller ($250 per year), from a policy perspective it augments the OPI program. In 2013 the Legislature created the Elderly Medical Subtraction which is a means-tested policy that allows taxpayers above a certain age to deduction a limited amount medical expenses.

The Long-Term Care (LTC) and Oregon Life and Health Guaranty Association (OLHIGA) tax credits incorporate private sector insurance into the provision of health care in two different ways. The LTC credit subsidizes the cost of insurance so that certain medical care costs would be funded through the private sector, if necessary. The OLHIGA credit subsidizes the cost of mandatory membership by insurers that write life and health policies, which guarantees the payment of claims in the event an insurer becomes insolvent.

The third policy group is similar to the first except that it focuses on the military and their families. The Oregon Department of Veterans’ Affairs (ODVA) contracts with a third party manager for home operations and skilled nursing care at the Oregon Veterans’ Homes. The TRICARE and Veterans’ Home Physician tax credit complement this care by creating incentives for physicians to offer their services, either at one of the Homes or by accepting patients at their private practice.

Rural Medical Providers

ORS 315.613, 315.616 315.619	Year Enacted:	1989	Transferable:	No
	Length:	1-year	Means Tested:	No
	Refundable:	No	Carryforward:	None
TER 1.405	Kind of cap:	Taxpayer	Inflation Adjusted:	No

Policy Purpose

Bill documentation for the implementing legislation (1989 SB 438) states that the primary issue discussed was the "[f]light of physicians, physician's assistants and nurse practitioners from areas served by rural hospitals and the difficulty in finding replacements." This language suggests that the intent was a combination of the recruitment and retention of certain medical professionals in rural areas. One of the major points discussed was how to limit the eligibility of the tax credit to communities that were having or were expected to have problems with the adequate provision of medical care.

Bill documentation describes a "three-pronged attack" to address the problems and shortages of medical care in rural communities. Along with the tax credit, SB 438 implemented a loan repayment program with the State Scholarship Commission for practitioners who agreed to operate a practice in a rural area. The third piece of the policy was financial assistance for rural hospitals by requiring that they receive the same level of Medicaid reimbursement even if they weren't considered remote.

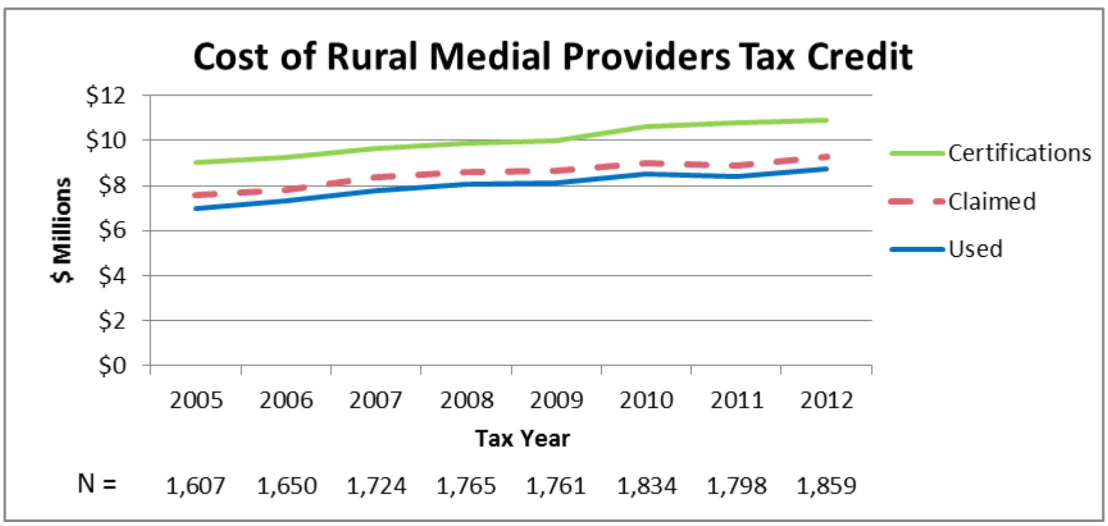
Description and Revenue Impact

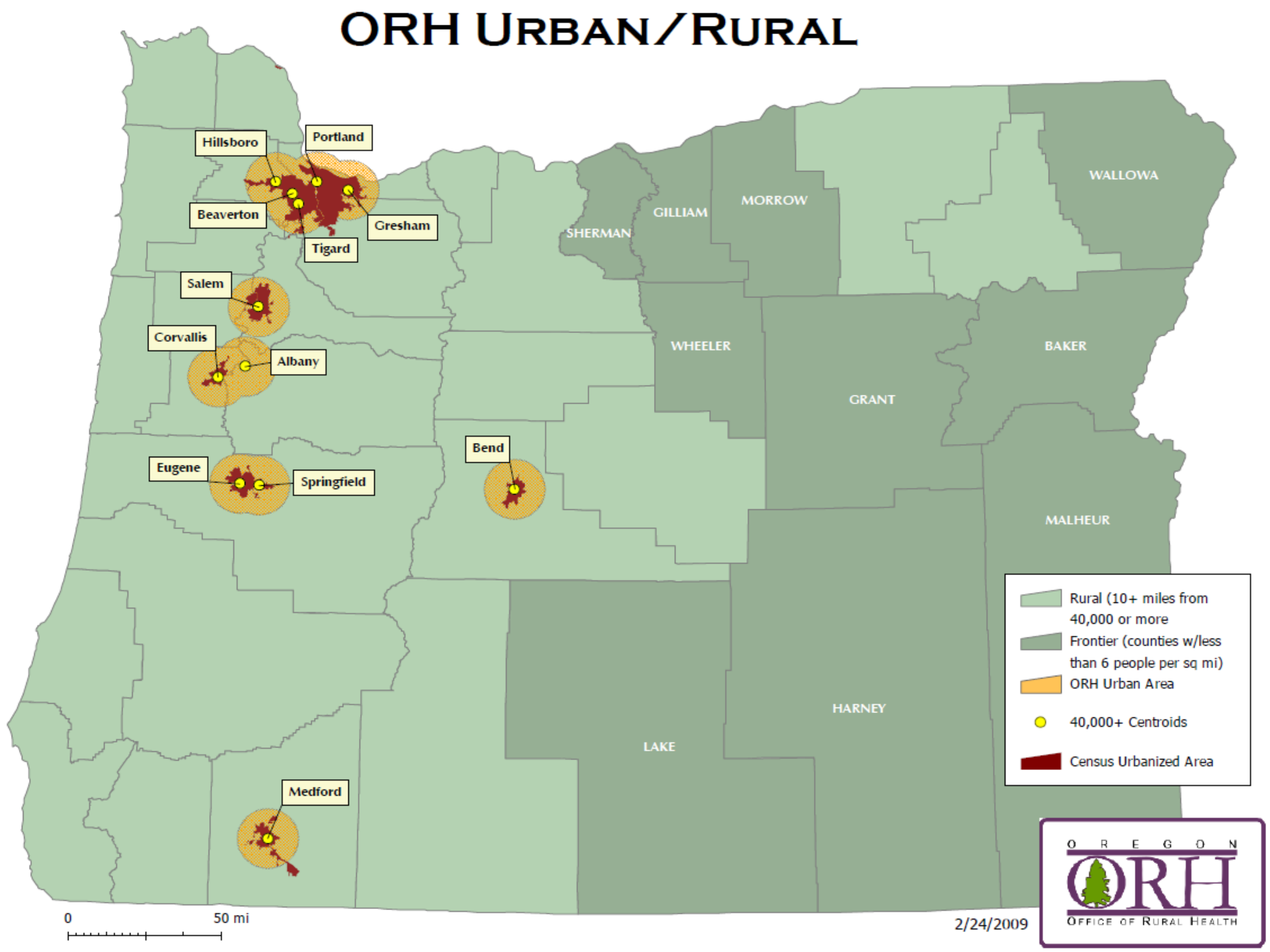
Certain medical providers are allowed a non-refundable tax credit of up to $5,000 against their personal income taxes. (The total credit amount can reach $10,000 if both taxpayers on a joint return qualify.) Eligible providers include physicians, physician assistants, nurse practitioners, certified registered nurse anesthetists, podiatrists, dentists, and optometrists. The requirements for eligibility vary by type of provider. To receive the credit the provider must work a minimum of 20 hours per week, averaged over the month, in a qualifying rural area. They must also be willing to serve a Medicare and medical assistance base equal to their county's population of such patients up to 20 percent for Medicare and 15 percent for medical assistance patients. For this program, rural is defined as any area at least ten miles from a major population center of 40,000 or more. Currently, there are six such population centers: the Portland Metropolitan Statistical Area (MSA), Salem, Eugene/Springfield, Medford, Bend, and Corvallis/Albany. In addition, physicians on staff at a hospital in an MSA are not eligible, with the exception of Florence in Lane County and Dallas in Polk County.

With a sunset date of January 1, 2016, no new providers will be allowed to claim the tax credit beginning with tax year 2016. However, providers who were eligible to claim the tax credit in tax year 2013 would be allowed to continue claiming the tax credit through tax year 2022.

On the following page, a map from the Office of Rural Health (ORH) shows the geographic areas covered by the tax credit. The areas that are considered urban fall within 10 miles of the Portland MSA, Salem, Corvallis/Albany, Eugene/Springfield, Bend, and Medford. All other parts of the state are places where medical professionals are eligible for the tax credit. The map also shows the frontier counties, where the population is fewer than six people per square mile.

The chart below shows potential and actual use of the credit since 2005. The green line shows the potential amount of tax credits that could have been claimed if every eligible person certified for the tax credit had claimed the maximum amount. The red dashed line shows the amount claimed on tax returns and the blue line shows the amount used to actually reduce tax liability. The amount used averaged 80 percent of the potential maximum and 94 percent of the amount claimed. Between 2005 and 2012, the amount claimed on tax returns grew 22 percent, from $7.6 million to $9.3 million – an annual average growth rate of 2.9 percent. The number of claimants grew nearly 16 percent, from 1,607 to 1,859 – an annual average growth rate of 2.1 percent. Roughly 160 tax returns each year were joint returns where both taxpayers were eligible for the tax credit.





www.ohsu.edu/ohsuedu/outreach/oregonruralhealth/data/definitions/index.cfm

Policy Analysis

The policy discussion at the time the tax credit was adopted focused on the loss of certain medical professionals from rural areas. The tax credit was part of a larger policy goal of mitigating that loss, which also included a direct subsidy (i.e. loan repayment) and an attempt to increase the Medicaid income (via reimbursement) for rural hospitals. Given such a focused goal, a direct measurement of the number of such professionals before and after the implementation of the policies would be a first step in evaluating the policy's degree of success or failure. A second step would be to estimate the impacts of each relevant policy separately.

As is often the case, estimating the impacts of individual policies is challenging. There are several factors that influence the decision-making process of medical professionals regarding where to practice, including wage level, quality of life, and access to certain amenities. In addition, this tax credit is not the only incentive currently in place designed to improve access to health care for rural Oregonians. The analytical challenge is to untangle each of these effects. Given current data restrictions, the goal here is to outline a potential analytical framework on which to build an ongoing tax credit analysis.

To evaluate the effectiveness of the tax credit in achieving the presumed goals of the policy, it is helpful to consider the following questions:

- Did the number of relevant medical providers serving rural communities increase (or not decline as much as was anticipated) since the policy has been in effect?
- If so, how much, if any, of the increase can be attributed to the tax credit?
- Is the design of the tax credit optimal to produce the greatest policy outcome?
- How many professionals would cease to provide care in these areas if the credit were allowed to sunset?

For consideration of the first question, some preliminary analysis can be done with data on the number of physicians practicing in each of the counties. According to data from the Office of Rural Health (ORH), there was an average of 1.2 physicians per 1,000 population in rural counties in 2001. By 2010, the average ratio had increased to 1.4; and by 2014 it was 1.7. By way of comparison, urban counties averaged twice that rate in 2001 with 2.4 physicians per 1,000 population. In 2010, the figure for urban counties was 2.7; by 2014 it had increased to 3.2. In 2001, the urban ratio ranged from 1.7 (Washington) to 4.2 (Multnomah); by 2014, the range extended from 2.2 (Marion) to 5.4 (Multnomah). For rural counties in 2001, the ratio ranged from 0 (Gilliam, Wheeler) to 2.5 (Hood River); by 2014, the ranges extended from 0 (Gilliam) to 3.9 (Hood River).

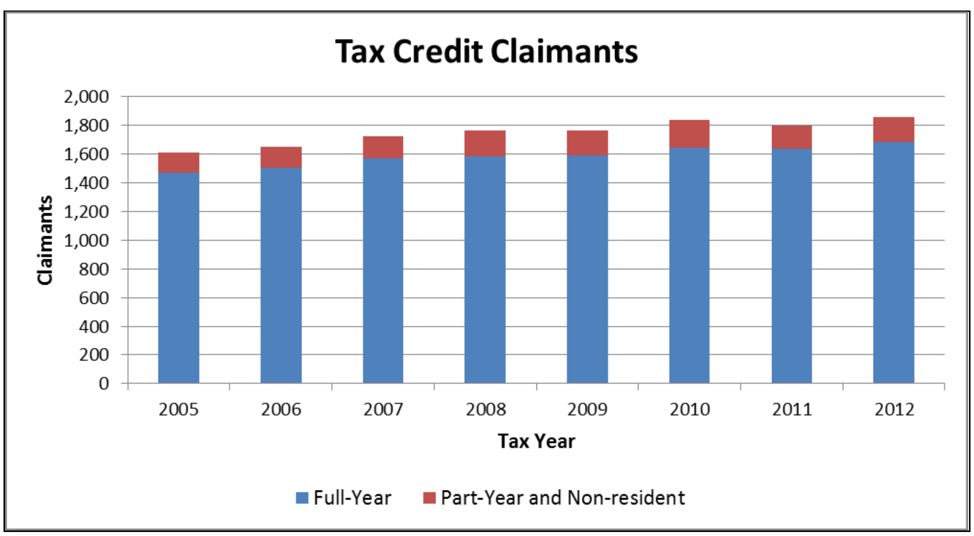
At first glance, it appears that between 2001 and 2010 rural counties maintained a physician-to-population ratio that was roughly half of the urban ratio; and by 2014 it had increased to roughly 55 percent. However, if two data outliers were removed, those gains disappear. First, Hood River is an outlier among rural counties with ratios that are more similar to the urban counties. Second, the Baker county ratio more than doubled between 2010 and 2014, increasing from 1.5 to 3.5. By removing these figures for Hood River and Baker counties, the physician-to-population ratio for rural counties was relatively flat at just under 50% of the urban ratio between 2001 and 2014.

In attempting to use such macro-level data, a central question is whether or not there is an ideal ratio. The full context for that question is adequate access to health care services for all Oregonians. While there is likely to be debate about the specifics and nuances that constitute “adequate”, common metrics including travel time from a patient’s home to medical offices, wait times to see an appropriate medical professional, and affordability of the services.

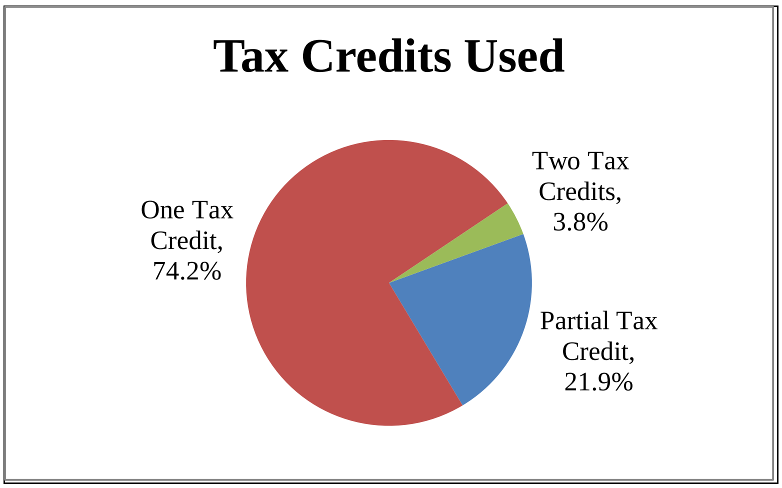
A first step in exploring the second question, which pertains to estimating the extent to which the tax credit has affected medical services provided in rural communities, is to understand the larger policy environment within which that policy is hoped to have an impact. The graph below is a timeline of when some related policies were enacted. These represent a small number of the factors that would need to be considered to isolate the true impact of the tax credit on the provision of rural medical services. A thorough analysis would require a time series of detailed data which, unfortunately, do not currently exist. In fact, in a recent report submitted to the Oregon Health Policy Board, the top recommendation is to focus on the need for data collection and subsequent analysis.

1989	2003	2010	2013
Medical Credit	Insurance Subsidy	Loan Forgiveness	Medical Loan School Loan

Despite these limitations, some preliminary analysis can be done using tax return data from the Department of Revenue (DOR) and certification data from the ORH. The first chart below shows the number of claimants as reported on tax returns between 2005 and 2012. Over this eight-year period, the total number of claimants grew from 1,607 to 1,859. Full-year filers accounted for roughly 90 percent of all filers, on average. The number of full-year claimants grew every year except for 2011; and total claimants grew every year except for 2009 and 2011.



The pie chart below shows the share of filers claiming the full $5,000 credit, those using only a portion of the credit, and those where both taxpayers on a joint return were eligible to use the tax credit. Taxpayers who are unable to use the full amount of the tax credit have a gross tax liability that is less than the amount of tax credits available to them. For some context, typical joint filers with two children and $85,000 of income in tax year 2015 will have a gross tax liability of just over $5,000. Since these taxpayers will use the personal exemption credits, they would not have enough gross tax to fully use the rural medical provider tax credit. From a marginal tax perspective, a tax credit worth $1,000 is roughly equivalent to an income tax deduction of $11,000.

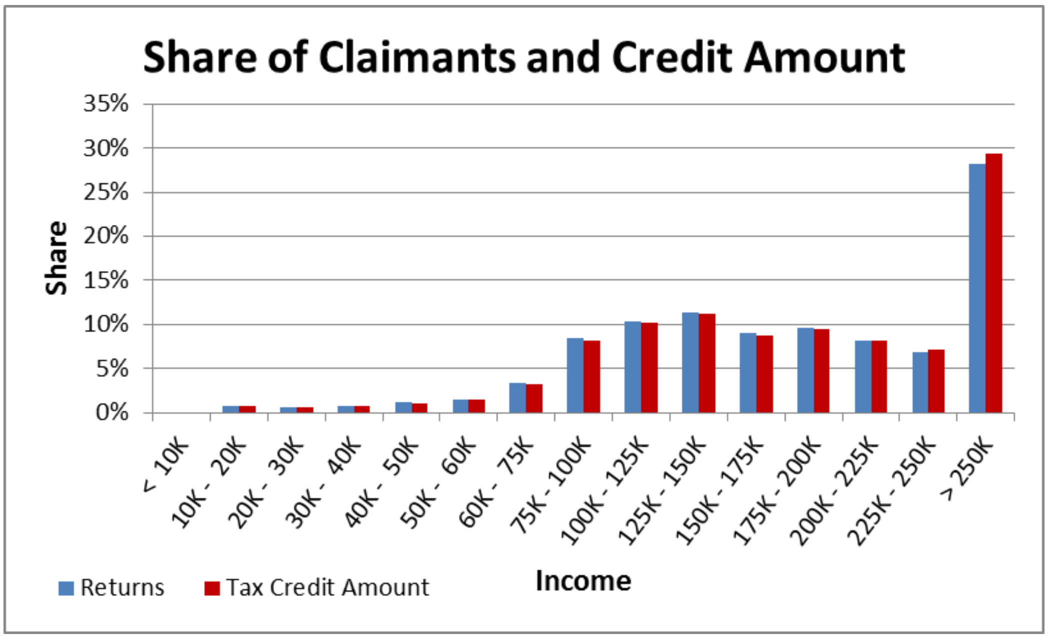


The third question identified above pertains to the structure of the tax credit. In an attempt to evaluate the optimal structure of the tax credit, it's important to acknowledge that this is an incentive where the beneficiaries of the tax credit (the medical providers) are distinct from the beneficiaries of the health policy (the rural Oregonians seeking health care services). The tax credit is a de facto increase in the wages paid to its recipients, thereby increasing the returns to labor with the hope of increasing the supply of labor for medical services. If the intent of the policy is more (or better) medical services provided to rural Oregonians, then measuring and evaluating that additional health care would be at the core of the policy analysis. Certainly, the cost of that additional health care would be of interest to stakeholders. And the analysis could include all aspects of those additional costs. For the sake of clarity it's important to keep such distinctions clear.

Despite the lack of definitive answers to these questions, a number of changes to the structure of the tax credit are possible. One key issue is how such changes affect the provision of health care in rural areas. One possible change is to means test the tax credit. Another would be to adjust the amount of tax credit according to the average wages of the particular medical professional claiming the tax credit and possibly make the credit refundable. Another possible change would be to link the amount of the tax credit to the share of the provider's practice located in a rural area or, perhaps, offer a larger credit for providers both living and working in a rural community.

Furthermore, there are two seemingly opposing effects of higher income levels for the providers. On the one hand, by using an incentive that is tied to the personal income tax, it will be of most value and likely have the largest impact among individuals with higher gross income tax liabilities. If the initial tax liability does not exist, then the tax credit will not serve as a sufficient incentive to induce the type of behavior that is the goal of the policy. On the other hand, higher incomes mean that the marginal value of a tax credit declines. A $5,000 tax credit may not provide a sufficient incentive to individuals above a certain level of income. However, a credit that is high enough to affect decision-making behavior may be cost prohibitive.

As for who currently claims the tax credit, the next chart shows the distribution of claimants and amount used for tax year 2012.[2] Roughly 27 percent of the claimants had income below $125,000 and 28 percent reported income greater than $250,000.



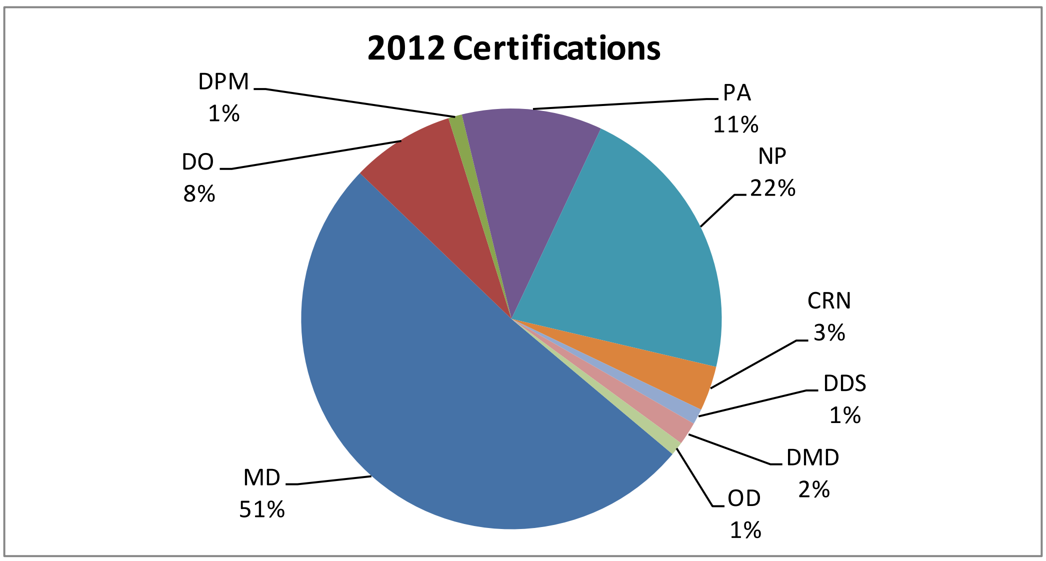
The following table and chart show the distribution of 2012 tax credit use across medical specialties. The most prominent beneficiaries are Medical Doctors who accounted for just over half of the certifications (1,070), claimants (943), and revenue impact ($4.6M). The second largest group is Nurse Practitioners, who accounted for just over 20 percent of certifications (454), claimants (414), and revenue impact ($1.8M).

[2] Claimant refers to a tax return.

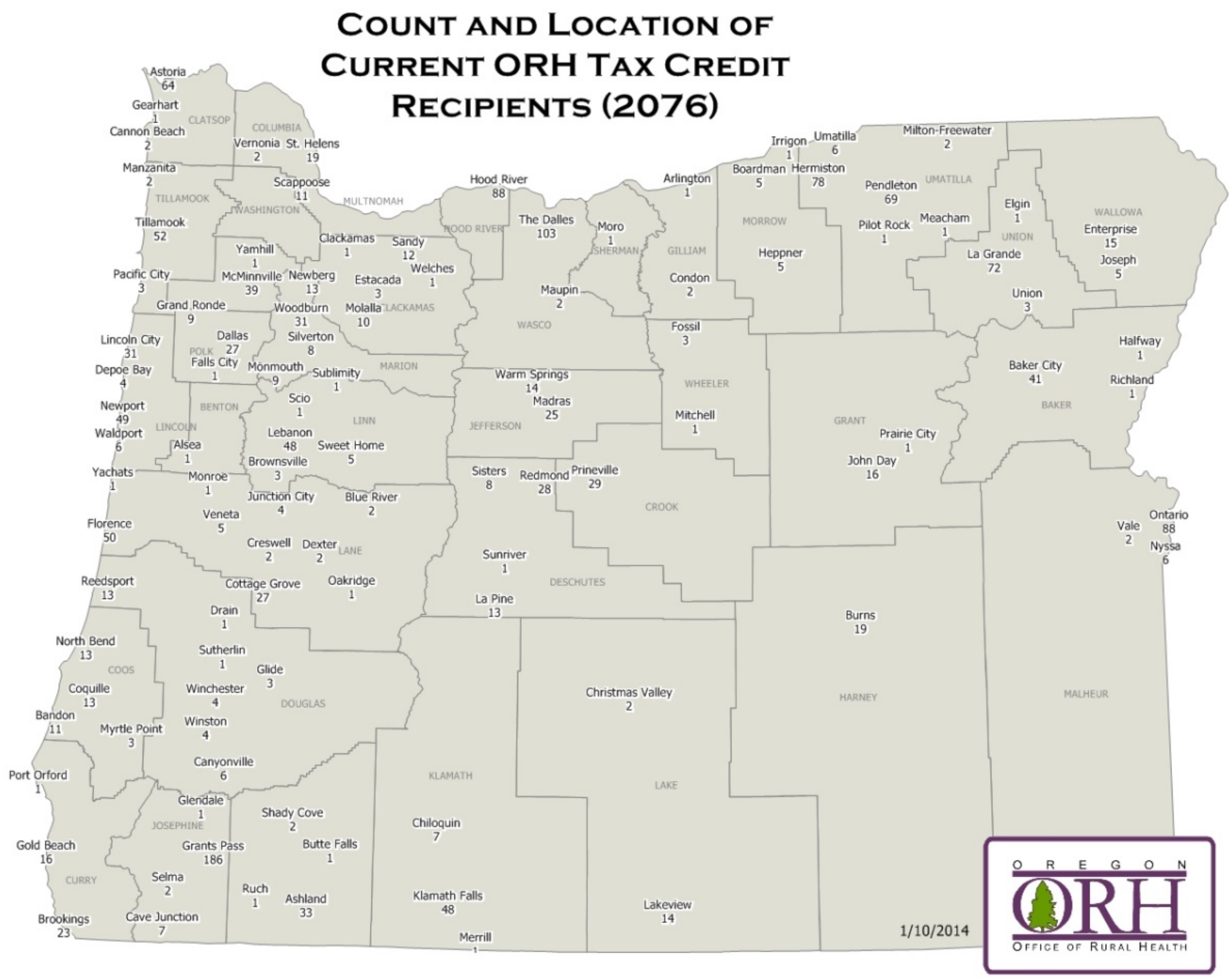
Certifications and Tax Credits

Tax Year 2012

	Number of Practitioners		Tax Credits ($M)		
	Certifications	Tax Claimants	Potential	Claimed	Used
MD	1,070	943	$5.6	$4.8	$4.6
DO	167	142	$0.9	$0.7	$0.7
DPM	22	21	$0.1	$0.1	$0.1
PA	226	201	$1.2	$1.0	$0.9
NP	454	414	$2.4	$2.1	$1.8
CRN	72	65	$0.4	$0.3	$0.3
DDS	25	18	$0.1	$0.1	$0.1
DMD	37	33	$0.2	$0.2	$0.2
OD	22	22	$0.1	$0.1	$0.1
Total	2,095	1,859	$10.9	$9.3	$8.8



The map on the following page is from the ORH and shows the count and location of tax credit recipients as of January 2014. One piece of information that would be interesting to add to the map is the count and location of individuals with medical licenses throughout the state.


COUNT AND LOCATION OF
CURRENT ORH TAX CREDIT
RECIPIENTS (2076)
Astoria 64
Gearhart 1
Cannon Beach 2
Manzanita 2
Tillamook 52
Pacific City 3
Grand Ronde 9
Lincoln City 31
Depoe Bay 4
Newport 49
Waldport 6
Yachats 1
Florence 50
Reedsport 13
North Bend 13
Coquille 13
Bandon 11
Myrtle Point 3
Port Orford 1
Gold Beach 16
Brookings 23
Cave Junction 7
Selma 2
Grants Pass 186
Glendale 1
Ruch 1
Ashland 33
Shady Cove 2
Butte Falls 1
Canyonville 6
Winston 4
Winchester 4
Glide 3
Sutherlin 1
Drain 1
Cottage Grove 27
Oakridge 1
Creswell 2
Dexter 2
Veneta 5
Junction City 4
Blue River 2
Monroe 1
Alsea 1
Brownsville 3
Lebanon 48
Sweet Home 5
Scio 1
Falls City 1
Dallas 27
Monmouth 9
Sublimity 1
Silverton 8
Woodburn 31
Molalla 10
McMinnville 39
Newberg 13
Yamhill 1
Estacada 3
Clackamas 1
Sandy 12
Welches 1
Scappoose 11
Vernonia 2
St. Helens 19
Hood River 88
The Dalles 103
Moro 1
Maupin 2
Warm Springs 14
Madras 25
Sisters 8
Redmond 28
Prineville 29
Sunriver 1
La Pine 13
Chiloquin 7
Klamath Falls 48
Merrill 1
Christmas Valley 2
Lakeview 14
Arlington 1
Condon 2
Fossil 3
Mitchell 1
Irrigon 1
Umatilla 6
Boardman 5
Hermiston 78
Heppner 5
Pendleton 69
Pilot Rock 1
Meacham 1
Milton-Freewater 2
Elgin 1
La Grande 72
Union 3
Enterprise 15
Joseph 5
Halfway 1
Baker City 41
Richland 1
Prairie City 1
John Day 16
Burns 19
Vale 2
Ontario 88
Nyssa 6
CLATSOP
COLUMBIA
TILLAMOOK
WASHINGTON
MULTNOMAH
HOOD RIVER
WASCO
SHERMAN
GILLIAM
MORROW
UMATILLA
UNION
WALLOWA
POLK
MARION
CLACKAMAS
LINCOLN
BENTON
LINN
JEFFERSON
WHEELER
GRANT
BAKER
CROOK
DESCHUTES
LANE
COOS
DOUGLAS
KLAMATH
LAKE
HARNEY
MALHEUR
JOSEPHINE
CURRY
1/10/2014
OREGON
ORH
OFFICE OF RURAL HEALTH

As for the fourth question, proponents would argue that allowing it to sunset would make it marginally more difficult to attract and retain qualified medical professionals to rural areas. If providers were practicing in an area as a direct result of the credit, then it is likely that some number of them will cease to do so if the credit were to sunset. However, this effect may be moderated by a certain level of inertia that comes from being invested in the life of a community, as a result of a brick and mortar business location or a residence. In addition, any exit by professionals is likely to happen gradually over time and be difficult to quantify outside of other influencing factors.

One option to better understand the impact of the tax credit would be to incorporate survey work of officials who are involved with the recruitment of medical professionals to rural areas, and who may collect information regarding decisions about where to practice and/or reside. It is also possible to survey medical professionals who currently claim the credit, to determine how many would change their practices if the credit were eliminated. While the usual concerns regarding self-reporting would be present, the information would still be of value.

In fact, in 2012 the ORH and the Oregon Rural Health Association conducted such a survey of tax credit recipients. Roughly 45 percent of respondents indicated that the tax credit was 'very important' in their decision to practice in rural Oregon. Another 33 percent responded that it was 'important'. About 15 percent said they did not consider the tax credit. Another interesting result is that by roughly a 3-to-1 margin, respondents felt it was a better tool for retention than for recruitment. Finally, if the credit were either limited to ten years or fully eliminated, roughly 40 percent of respondents said they would consider leaving their rural practice; another 30 percent said they would begin looking for other opportunities.

Other Issues

Policymakers and other stakeholders are also often interested in how other states address these policy issues. Several other states currently have or are considering a tax credit for rural medical providers. They are: Alabama, Georgia, Louisiana, New Mexico, Colorado (recently inactive), Maine and Oklahoma. When analyzed collectively, the information below summarizes the policy options used by these states in designing their specific credits. Appendix C contains a table with state level details.

Key Characteristics

- Amount of credit ranges from $3,000 to $5,000
- Non-refundable or refundable
- Carryforward or carryback allowed/disallowed
- Some variance by specialty, with larger credit for certain practitioners
- Contingent upon number of hours worked
- Includes limit on the number of years eligible to claim
- Requires connection to a small or rural hospital
- Varying definitions of rural
    - Community, county, or area
    - Number of people or people per square mile
    - Distance to a hospital or city of a certain size

The administrative and compliance costs of this credit are born by the ORH, the DOR, and taxpayers. There is an annual $45 fee that claimants must pay the ORH, which provides the office with roughly $160,000 per biennium for its budget. The cost to the taxpayer is $45 per year ($90 if a joint return with two eligible taxpayers) plus the marginal cost of maintaining the certification paperwork in case of a tax audit. The cost to the DOR appears to be minimal because the tax credit is certified by another agency. It is one of roughly 60 tax credits that may be claimed on the personal income return. The cost of added complexity to the tax system is also likely to be marginal. The largest share of the cost is likely born by ORH because they are required to process tax credit applications each year.

As the relative merits of the credit are considered, it is important to keep in mind the ultimate purpose behind the policy. Doing so provides an opportunity to revise the policy so that it becomes more effective in achieving its presumed goal. For example, while this tax credit is aimed specifically at increasing access in rural areas, there may be urban areas that also qualify under a definition of being "under-served". If the aim were to reach those areas as well, then the terms of the credit would need to be restructured.

Furthermore, it may be helpful to consider whether the aim of the policy is to cover as many communities as possible – even small, remote towns – or to cover as many people as possible – with a focus on higher density rural cities. Or it may be more important to focus on certain kinds of medical professionals. Also, policymakers may choose to consider the socioeconomic demographics, including poverty levels and health statistics associated with the population served, where larger tax credits may be provided to practitioners serving those communities meeting certain criteria.

In Summary:

Advantages	• May increase the supply of practitioners in rural areas though this is difficult to quantify
Disadvantages	• Likely provides a windfall to providers who only marginally add to supply
Potential Modifications	• Modify definition of rural • Adjust to inflation (roughly $9,600 in 2015) • Declining incentive over time • Means testing • Adjust value according to distance from an urban center • Adjust value according to specialty • Align with 'Frontier' designation • Limit the number of years it may be claimed

Costs in-lieu of Nursing Home Care

ORS 316.147, 316.148 316.149	Year Enacted:	1979	Transferable:	No
	Length:	1-year	Means Tested:	Yes
	Refundable:	No	Carryfoward:	None
TER 1.407	Kind of cap:	Taxpayer	Inflation Adjusted:	No

Policy Purpose

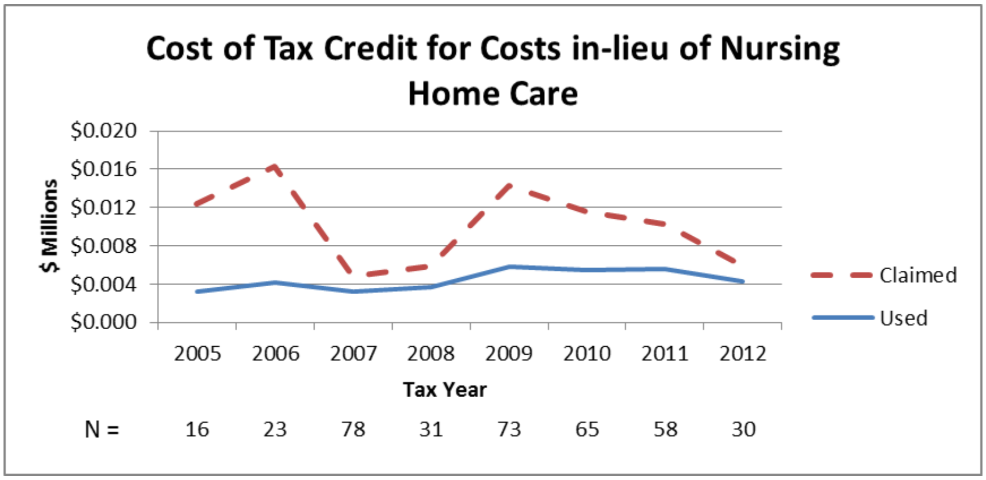
Bill documentation for the implementing legislation (1979 HB 2228) states that the tax credit "[a]llows…for supporting an elderly person who has a 'high risk' of entering a nursing home." A reasonable inference from this statement is that the intent is to provide financial assistance to taxpayers who help elderly people stay in a private home as long as possible. The structure of the credit indicates that it is focused on low income taxpayers helping low income seniors who are eligible for Oregon Project Independence.

Description and Revenue Impact

Individuals who incur expenses for the care of an individual who otherwise would be placed in a nursing home are allowed a nonrefundable tax credit against personal income taxes. The amount of the credit is the lesser of $250 or eight percent of expenses paid. Eligible taxpayers must have annual household income that is no more than $17,500. Also, the person receiving the care must:

- Be certified by the Department of Human Services;
- Not be in a nursing home, rehabilitation facility, or other long-term skilled care facility;
- Have household income of $7,500 or less;
- Be eligible for but not receiving home-care services under Oregon Project Independence;
- Receive no medical assistance from the state Seniors and Peoples with Disabilities Division; and
- Be at least 60 years of age.

The chart below shows credit usage between 2005 and 2012. While the graph shows a somewhat erratic history, the bottom line is that this credit is not heavily used. The average number of claimants during this time period was 47 per year. A total of roughly $10,000 was claimed on average, with only $4,000 actually reducing tax liability.



Policy Analysis

Two primary policy issues for this tax credit are as follows:

- Has the credit increased private in-home care for the elderly?
- How does the amount of the tax credit compare to likely expenses?

Given the current cost of health care, it seems unlikely this credit would make the difference between in-home care and nursing home care. The minimal use of this tax credit may suggest that it is not very effective as currently structured. The statutory link to Oregon Project Independence (OPI) and other Department of Human Services (DHS) programs suggests that policy makers intended this tax credit to complement other, similarly intended programs. A limiting factor could also be that the credit parameters are not indexed to inflation. Consequently, the monetary eligibility requirements and maximum credit have not changed since 1979. If they had been inflation adjusted, the maximum credit would have been roughly $815 in 2014. Taxpayers with incomes up to $56,925 would be eligible, and the person receiving care could have income up to $24,395. Also, the strong growth in health care costs in recent years only serves to magnify the low level of this incentive.

As currently structured, the amount of the credit is likely to be significantly lower than the anticipated expenses associated with caring for an older adult in one’s home. It may be conjectured as well that families meeting the income eligibility may not be in the best financial position to provide daily care to an aging adult. If OPI were to serve as a benchmark program, the tax credit would need to be significantly increased. As described above, average OPI benefits are $332 per month so the tax credit would need to be changed from $250 per year to $250 per month. Another potential cost driver is foregone wages as a result of caregiver demands.

Other Issues

Only two other states, Montana and New Mexico, appear to have a similar program that provides a tax credit for expenses related to caring for an elderly person in the home. Data on the structure of their credits is given in the table below.

Key Characteristics

- The credit may be a fixed-dollar amount or based on expenses incurred
- May depend on the number of qualifying family members
- Limited to very low-income taxpayers
- Limited to taxpayers of a certain age

The administrative costs associated with this tax credit are incurred by the DHS, DOR, and taxpayers. Given the small number of claimants, the administrative costs seem unlikely to be significant. By the same token, the administrative costs for such a small program may not be justified.

In Summary:

Advantages	• Offsets some of the costs related to in-home care
Disadvantages	• Small size
Potential Modifications	• Increase credit amount • Make refundable • Increase income limits for eligibility • Adjust all program parameters to inflation

Long-term Care Insurance

ORS 315.610	Year Enacted:	1999	Transferable:	No
	Length:	1-year	Means Tested:	No
	Refundable:	No	Carryfoward:	None
TER 1.408	Kind of cap:	Taxpayer	Inflation Adjusted:	No

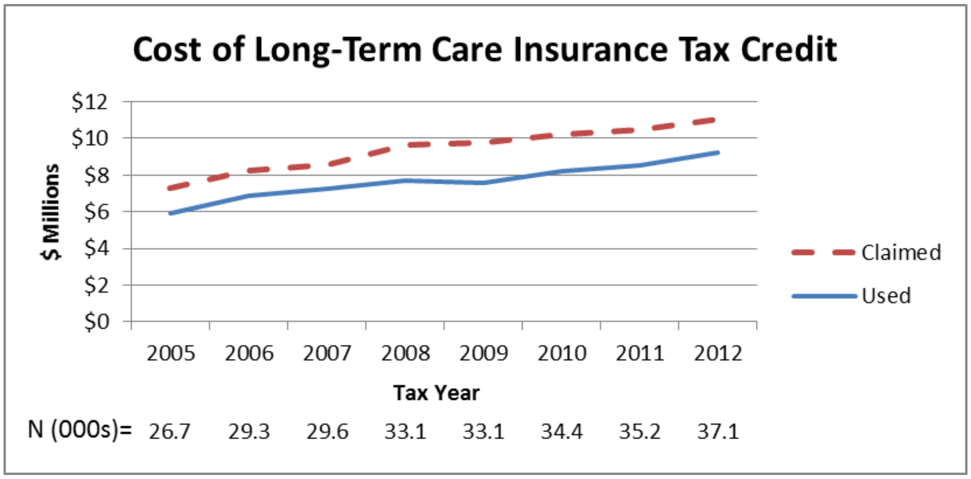
Policy Purpose

Bill documentation for the implementing legislation (1999 HB 2080) states that the intent of the credit is to "…reduce the reliance of elderly clients on Medicaid through the purchase of long-term care insurance." The tax credit effectively reduces the cost of such insurance and presumably encourages Oregon taxpayers to purchase it, particularly at younger ages. The goal of the expanded participation is to shift anticipated pressure of greater expenses from the public sector (i.e. Medicaid) to the private sector. It may also reduce the projected out-of-pocket expenses of the elderly. Testimony indicated that younger individuals underestimate both the likely need for and potential cost of long-term care. In so doing, they underestimate the risk of significant financial problems in the future.

Description and Revenue Impact

Individuals and businesses that pay premiums for long-term care insurance are allowed a credit against personal and corporate income taxes. The maximum income tax credit is the lesser of 15 percent of the premiums paid or $500 per insured person. For individuals, the credit is available for insurance purchased for the taxpayer, their dependents, or their parents. For businesses, the credit is available for insurance purchased for their Oregon-based employees. Eligible insurance is defined in ORS 743.652. If the amount paid for such premiums is taken as an itemized deduction on the federal return, then it must be added to income on the Oregon return to take the credit (to avoid a double benefit).

The chart below shows the usage history for the tax credit between 2005 and 2012. (The 2012 data are for personal income tax filers only.) During this time, the total amount claimed grew from $7.3 million to $11.1 million. The share that constituted reduced tax liability varied, but averaged 81 percent during this eight-year period. Of this total, nearly all of it was claimed by individuals. Corporations claimed an annual average of roughly $5,000.



Policy Analysis

Policy discussions at the time this tax credit was adopted appeared to focus on the gradual impact on the federally funded Medicaid program of an aging population. The ultimate goal would be to reduce the financial pressure on Medicaid by increasing participation in the private insurance market. The tax credit is simply a means to that end. In an evaluation of the effectiveness of the tax credit in achieving the presumed goals of the policy, it is helpful to consider the following questions:

- Has this credit increased the share of the population purchasing this insurance?
- Has the credit affected the type or amount of insurance purchased?
- Does the purchase of this insurance actually shift long-term care expenditures from the public sector to the private sector?
- Have there been measurable reductions in Medicaid expenditures tied to LTC insurance?

Given the presumed purpose of this tax credit, there are at least two ways to gauge its degree of success. The first metric would be to estimate the savings in Medicaid spending due to the (presumed) increase in the purchase of long-term care insurance (LTCI). Given the time frame at the core of this insurance and the fact that the tax credit is only 15 years old, it may still be too early to expect a significant cost savings. Also, making such estimates may be empirically challenging.

The second and more direct approach would be to estimate any increase in LTCI purchases attributable to the state tax credit. (In fact, this is a necessary first step in estimating the impact on Medicaid costs previously described.) To make these estimates, a good starting point is to build a time series of the purchase of LTCI both before and after the implementation of the credit.

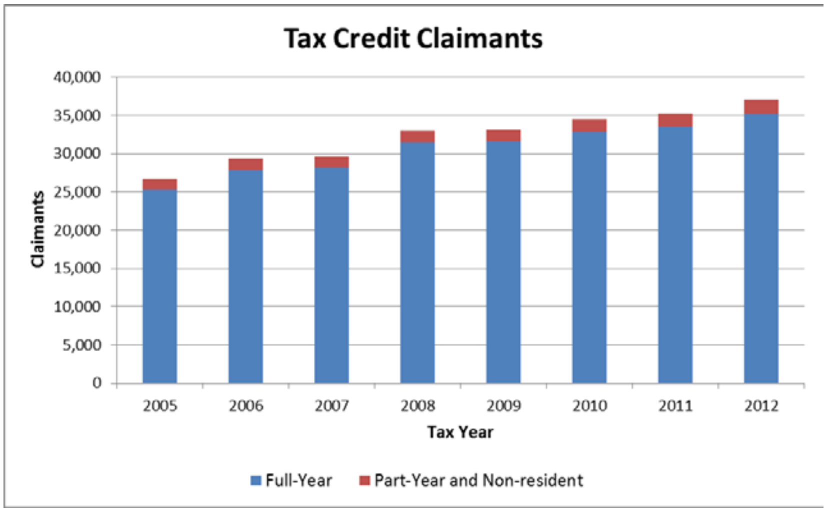
One factor to consider when examining the value of the tax credit is to understand its marginal value. Even without this tax credit, taxpayers may claim insurance premiums for long-term care as part of their itemized deductions. The tax credit of $500 is roughly equivalent to a deduction of $5,500 against Oregon income taxes. Consequently, the higher value of the tax credit is two-fold. First, is the extent to which the value of the tax credit is greater than the itemized deduction. Second, is the fact that the tax credit is available to taxpayers who do not itemize deductions.

There is a body of literature that examines various aspects of the long-term care insurance market. One study tried to estimate the impact of state tax incentives on take-up rates – the percentage of population purchasing the insurance. (Stevenson, et. al.) The authors found that take-up rates for LTCI in states with tax incentives were roughly one percent higher than in states without incentives. They also found that states with a tax credit saw an increase in these rates while states that offered a deduction did not see a statistically significant increase. They concluded that while there are a number of factors that affect the purchase of LTCI, state income tax credits have a slight positive impact.

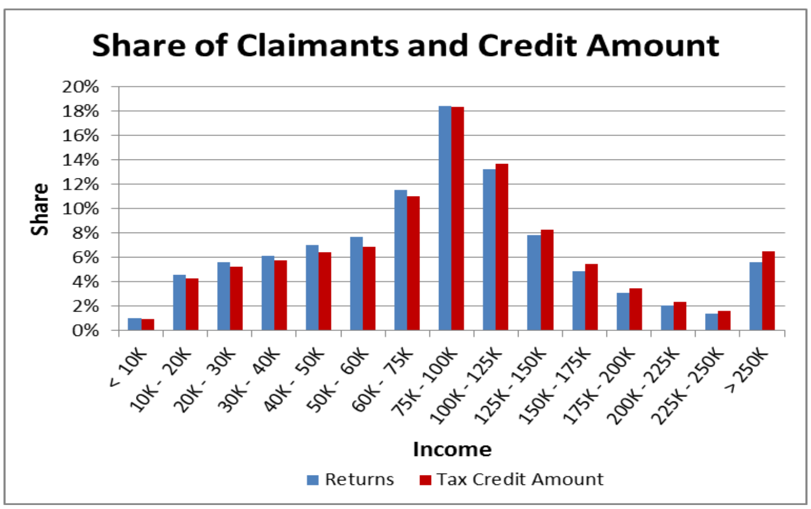
Another study sponsored by AARP (Baer and O'Brien) explored whether or not tax subsidies are an effective way of increasing the purchase of LTCI, if they are fair, and if they are worth the cost. They examined the federal deduction and concluded that many policy holders do not benefit from the deduction because of the AGI restrictions. The also looked at state incentives and found similar results – that the number of policy holders far exceeded the number of taxpayers claiming the incentive. They concluded that tax credits are more effective than deductions but that more work needs to be done on whether or not they are worth the cost.

Another study explored the impact of LTCI on Medicaid costs. (Goda) The author found differing impacts for high-income and low-income taxpayers in response to state tax incentives, and concluded that tax incentives are ineffective in reducing the costs of Medicaid. She found that states with tax incentives experienced significant growth in the number of policies purchased when compared to states without incentives. Taxpayers with the strongest response were individuals with higher income, higher education, and greater amounts of assets. She also found responses among lower income individuals were limited. With respect to Medicaid cost containment, the author found that every one dollar in state tax expenditures led to a $0.84 Medicaid savings.

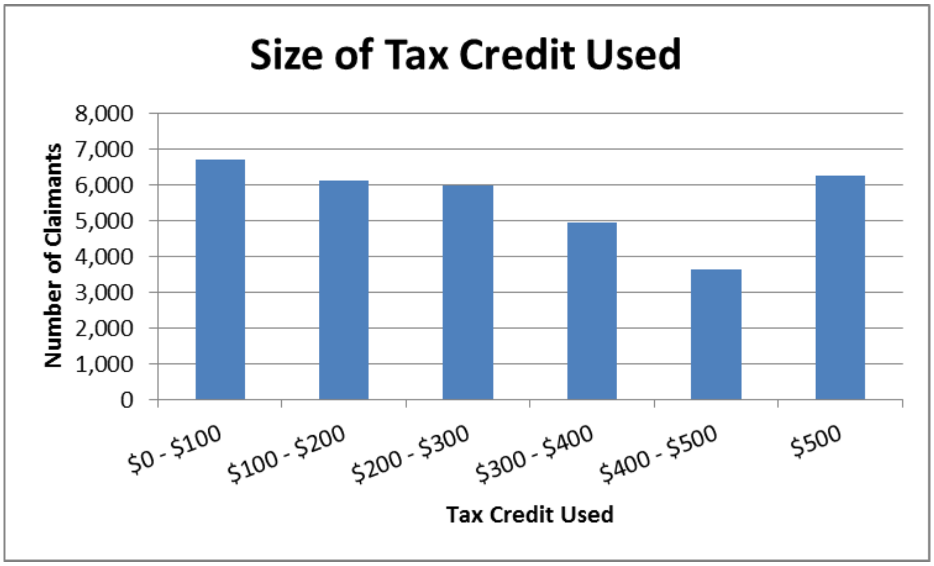
While current data limitations prevent a complete analytical review of the tax credit, existing tax return data are available for analysis. The chart below shows that the number of claimants has grown from roughly 26,700 in 2005 to just under 37,100 in 2012. Full-year filers regularly account for 95 percent of all claimants. The number of corporations claiming the credit was fewer than ten each year.



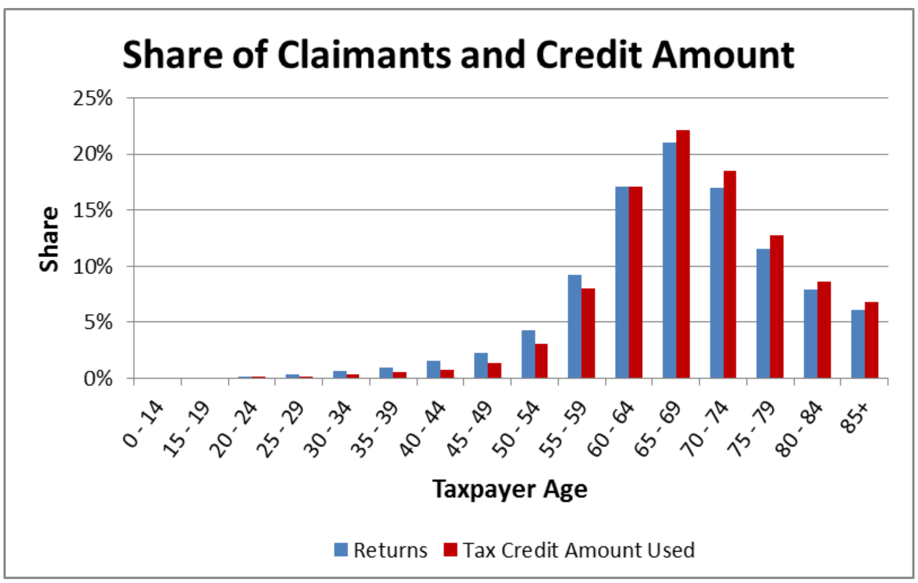
The next chart shows the distributions for the number of claimants and the amount claimed in tax year 2012. Just over half (51 percent) of the claimants had income between $60,000 and $150,000. Higher income taxpayers are able to use slightly more of the tax credit (due to higher gross tax liabilities), but the $500 cap ensures that the use is roughly equal among claimants. Taxpayers with incomes between $60,000 and $150,000 account for about 54 percent of the amount of credit used.



The chart below shows the distribution of the amount of the tax credit used. Of the 33,700 full-year filers claiming the tax credit in 2012, only 6,272 were able to use the maximum $500 amount. The share of the credit used to offset liability ranged from 25 percent for filers with incomes below $10,000 to almost 100 percent for filers with incomes above $125,000.



The next chart shows use of the tax credit by age of the taxpayer. Only 19 percent of the claimants are under the age of 60 and they use about 14 percent of the total amount of tax credits. According to the American Association for Long-Term Care Insurance, the younger the purchaser is, the less the insurance will cost over their lifetime. Most people start such planning between the ages of 52 and 64.



A number of other states have an income tax credit with presumably similar policy objectives. They include: Colorado, Maine, Maryland, Minnesota, New York, North Carolina, North Dakota and Virginia. The key characteristics of their plans are listed here:

Key Characteristics

- Credit is a percentage of premiums paid, up to a dollar cap
- Some are limited to taxpayers with lower incomes
- Credit amount can be larger for older taxpayers

- Usually limited to one contract per taxpayer, spouse, and dependents
- Usually tied to federal law
- If an employer, the credit is usually the least of a dollar cap, a percentage of costs, or a dollar cap per participating employee

Other Issues

The administrative costs of this tax credit are likely to be minimal. No certification is required, so the only state agency that incurs a cost is the DOR. Due in part to the large number of income tax credits that exist, the marginal cost of this tax credit is likely to be minimal. Taxpayers have the usual cost of maintaining records in the event of a tax return audit. In the long-run, if there is a cost savings to the Medicaid system because more people have private insurance than would have been the case without this tax credit, the DHS may experience slower growth in administrative costs, but this would likely be difficult to estimate.

In Summary:

Advantages	• May encourage people to purchase this insurance
Disadvantages	• Limitations on the size of the credit
Potential Modifications	• Adjust to inflation • Adjust incentive level for age of taxpayer • Adjust incentive level for quality of benefits

Oregon Life and Health IGA Assessments

ORS 734.835	Year Enacted:	1975	Transferable:	No
	Length:	5-year	Means Tested:	No
	Refundable:	No	Carryfoward:	None
TER 1.454	Kind of cap:	None	Inflation Adjusted:	No

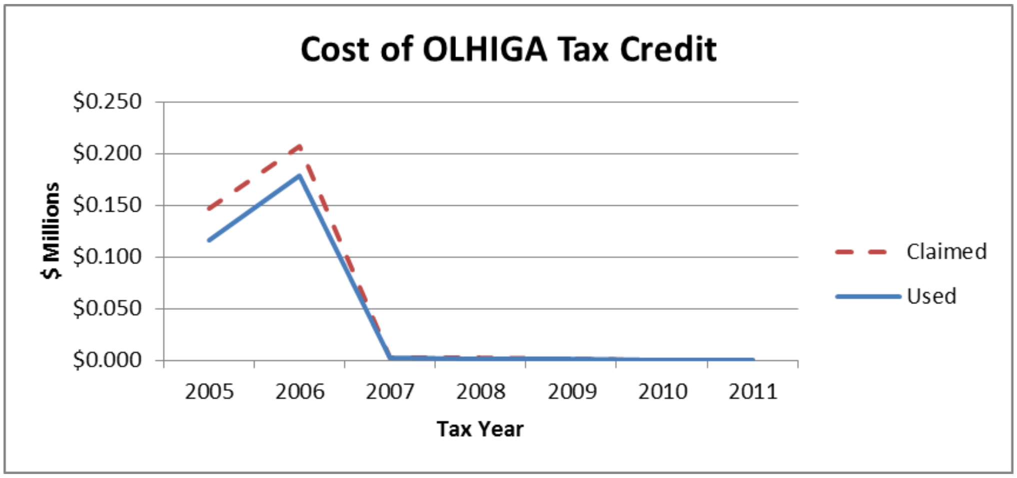
Policy Purpose

These assessments are used to pay claims against insurers who have gone out of business. Because the tax credit equals the amount of the assessment (taken uniformly over five years), a reasonable interpretation of its purpose is to subsidize the cost of these policies with General Fund resources.

Description and Revenue Impact

Insurance companies are allowed a credit against corporate income taxes for certain assessments paid to the Oregon Life and Health Insurance Guaranty Association (OLHIGA). Qualifying assessments are those that are used to cover the cost of claims against insurers who have gone out of business (these are known as class B assessments). The allowed credit is taken over five years and equals 20 percent of the assessment for each year beginning with the year in which the assessment was paid.

The chart below shows the historic use of this credit for tax years 2005 to 2011. (Data are not yet available for tax year 2012.) As shown in the chart, this credit has been rarely used in recent years. Between tax years 2000 and 2008, the number of claimants steadily declined from roughly 300 to about 20. Between 2009 and 2011, fewer than five corporations claimed the credit. Consequently, the revenue impact has averaged roughly $1,000 annually since 2007.



Policy Analysis

The Oregon Life & Health Insurance Guaranty Association was established in 1975 and is composed of all insurers licensed to sell life insurance, accident and health insurance, and individual annuities in Oregon. Membership is mandatory. In the event an insurer becomes insolvent, the Association pays claims to the policy beneficiaries. The cost of such claims is recouped by a matching assessment paid by each participating insurer. The insurers are then allowed to claim an annual corporate income tax credit that is equal to 20 percent of the assessment. The credit may be claimed for five years so that the entire assessment is covered.

The net effect of this structure is that General Fund resources are used to pay for these assessments. The decline in the number of claimants may be due to fewer insurance companies slipping into insolvency and, subsequently, no assessments being imposed. According to the Department of Consumer and Business Services (DCBS), an assessment of roughly $300,000 was made in early 2015. This was the first assessment in several years. Depending on the situations of the affected insurance companies, use of this tax credit may increase up to $60,000 per year for five years. If the assessment for any particular company is small enough, they may simply claim it as an expense in 2015 rather than claiming a relatively small credit for five years.

It appears that roughly 43 other states offer some kind of similar tax offset for guaranty fund assessments. In many states, insurance companies are subject to a premium tax instead of an income tax, so the offset would be against that tax and would not be an income tax credit, per se.

Other Issues

The administrative costs of this tax credit are born by the DCBS, the DOR, and insurance companies. Given the infrequent use of the tax credit, these costs are likely to be marginal and vary over time.

In Summary:

Advantages	• May reduce the cost of insurance policies
Disadvantages	• Recovery of the assessment is spread over five years
Potential Modifications	• Change the number of years over which the tax credit is claimed

TRICARE for Health Care Providers

ORS 315.628, 315.631	Year Enacted:	2007	Transferable:	No
	Length:	1	Means Tested:	No
	Refundable:	No	Carryfoward:	None
TER 1.459	Kind of cap:	Taxpayer	Inflation Adjusted:	No

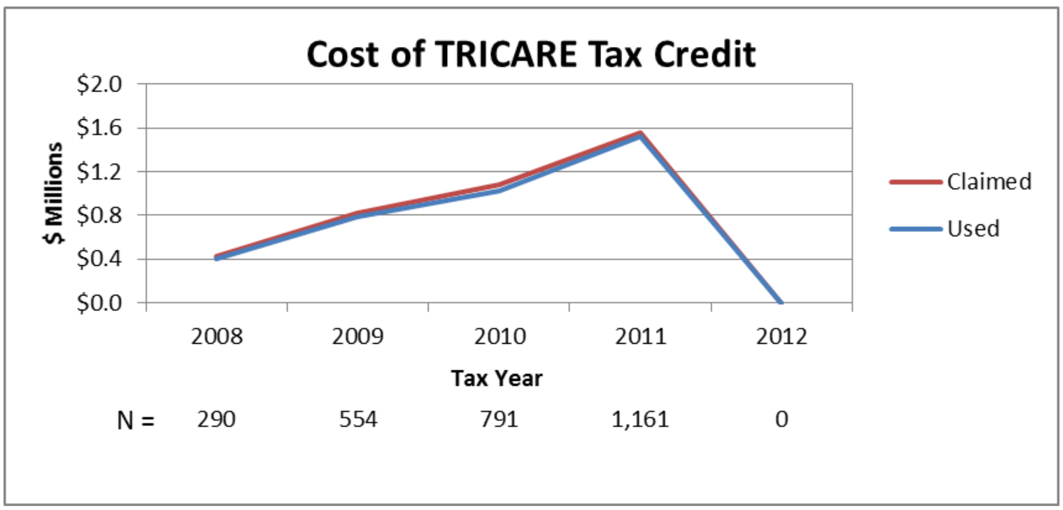
Policy Purpose

Testimony for the implementing legislation (2007 HB 3201) suggests that the tax credit is intended to increase the number of health care providers accepting TRICARE patients, thereby increasing access to health care for Oregon veterans. An argument for the higher, first-year tax credit was to offset the costs of training providers in navigating the TRICARE billing process. It was argued that TRICARE payments are tied to Medicare payments and such payments in Oregon are low compared to those of other states. Consequently, medical providers are limited in how much of their practice can be devoted to patients where TRICARE is the only payment option for patients.

Description and Revenue Impact

Health care providers who contract to provide services under the TRICARE military insurance program were allowed a tax credit against personal income taxes. An initial (one-year) credit of $2,500 is allowed for providers who first enter into a contract on or after January 1, 2007. Annual credits of $1,000 are allowed for subsequent tax years as long as the contract is continued. (Taxpayers who were contract providers prior to January 1, 2007 are only allowed the $1,000 credit.) To be eligible for the credit, providers must provide service for at least ten patients annually. If services are provided in a rural community – as defined by the Office of Rural Health – there is no minimum requirement. The Office of Rural Health is responsible for the eligibility criteria and tax credit certification. The maximum number of certified providers that may claim the credit was limited to 500 in 2008, 1,000 in 2009, 1,500 in 2010, and 2,000 in 2011. No additional providers were to be certified after 2011.

The chart below shows the revenue impact of the credit for tax years 2008 through 2012. The use of the credit increased from $400,000 in 2008 to $1.5 million in 2011. (Current statute has been interpreted to allow no certifications beginning with tax year 2012, so no tax credits have been used since 2011.) During that time the number of claimants increased from 290 to about 1,160. Despite this increase, the annual caps were not reached. Full-year filers represented 96 percent of all claimants during those four years.



Policy Analysis

Given the policy discussions at the time this tax credit was created, the key issue is whether or not the tax credit increased the number of providers accepting TRICARE insurance. TRICARE is a health care insurance program for active duty military, their dependents, and military retirees. It is likely to be most important for those who do not have access to military health facilities or the VA system.

Given the presumed policy purpose of this tax credit, the ideal way to measure its effectiveness is to compare the number of medical professionals who accepted TRICARE payments prior to the availability of the tax credit and after it was implemented. A recent report by the Government Accountability Office (GAO) found that roughly 33 percent of nonenrolled beneficiaries experienced problems finding a civilian provider who accepted TRICARE. [3] This percentage is a national figure and did vary by location. They also found that roughly 60 percent of civilian providers did accept TRICARE patients. The most common reason given for not accepting the insurance was lack of familiarity with the program.

At the time this credit was created, the Legislature also adopted a supplemental tax policy intended to enhance the monetary incentive for accepting this insurance. They created an income tax subtraction for medical providers in the amount of TRICARE payments received during the first two years of participating in the program. The subtraction was not used extensively (fewer than 50 claimants in 2011) and was allowed to sunset in 2012.

There appear to be no other states that offer a similar tax credit.

Other Issues

The administrative costs of this tax credit were born by the ORH, the DOR, and medical providers. With interpretation of current statute, the tax credit has not been used since 2011 so there should no current administrative costs.

In Summary:

Advantages	• May have increased access to medical care
Disadvantages	• Not currently in effect
Potential Modifications	• Allow more certifications • Adjust size of the tax credit

[3] TRICARE has three basic plans: Prime, Standard, and Extra. “Nonenrolled” refers to members who are not enrolled in the Prime program.

Oregon Veterans' Home Physician

ORS 315.624	Year Enacted:	2007	Transferable:	No
	Length:	1	Means Tested:	No
	Refundable:	No	Carryfoward:	None
TER 1.460	Kind of cap:	Taxpayer	Inflation Adjusted:	No

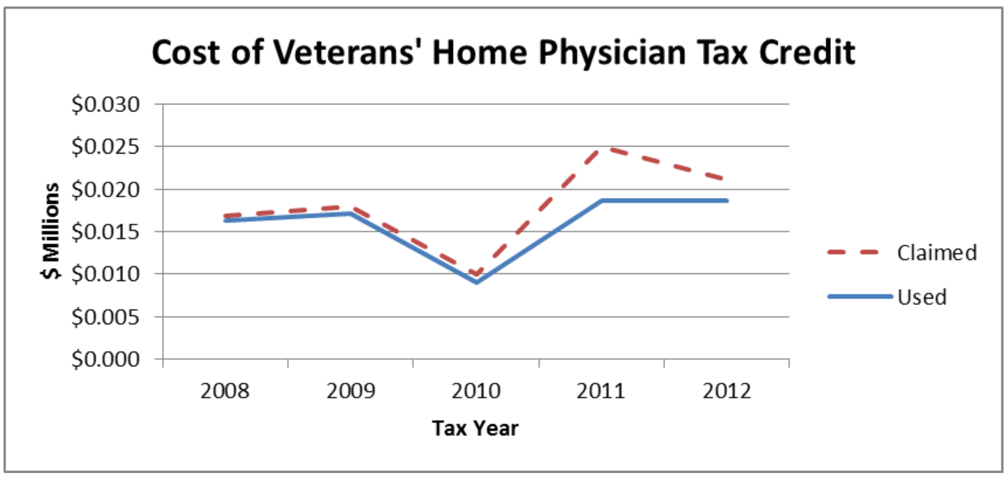
Policy Purpose

Testimony for the implementing legislation (2007 HB 3201) suggests that the tax credit is intended to increase the number of health care professionals providing long-term care to Oregon veterans, thereby increasing the number of veterans receiving such care. The credit effectively increases the take home pay for physicians providing the qualifying care. This may entice some physicians to provide these services who otherwise would not.

Description and Revenue Impact

Physicians who provide medical care to residents of an Oregon Veterans' Home are allowed a credit against personal income taxes. The credit is $1,000 for every eight residents to whom the physician provides care, up to $5,000. To qualify for the credit, a physician cannot miss more than five percent of scheduled visits with residents as verified by a letter from the Oregon Veterans' Home. The letter must be submitted with the corresponding tax return. A qualifying taxpayer may claim both this credit and the rural medical practitioner tax credit.

The chart below shows the use of this credit has varied between $10,000 and $25,000 per year between 2005 and 2012. During the first three years, more than 90 percent of the amount claimed was used to offset tax liability. For tax years 2011 and 2012, that figure fell to an average of 80 percent.



Policy Analysis

Given the policy discussions at the time this tax credit was created, the key issue is whether or not the tax credit increased the number of medical providers offering their services to patients and an Oregon Veterans' Home.

In 1995 the Legislature authorized the creation of two long-term care facilities for Oregon veterans. The first one opened in The Dalles in 1997. It has the capacity to care for up to 151 residents who require long-term skilled nursing care, Alzheimer's and dementia-related care, or inpatient/outpatient rehabilitative care. It applies to veterans, their spouses, and parents who have lost a child to war-time service. A second home opened in Lebanon in 2014 that can house up to 154 residents. Legislation in 2011 enabled a third to be built in Roseburg.

There appear to be no other states that offer a similar tax credit.

Other Issues

The administrative costs of this tax credit were born by the DOR, the Oregon Veterans' Home (tracking services) and medical providers. The marginal cost to DOR is likely to be minimal and the cost to taxpayers pertains to maintaining tax records in the event they are subject to an audit.

In Summary:

Advantages	• May increase access to health care for Oregon veterans
Disadvantages	• Individual cap • Non-refundable
Potential Modifications	• Adjust to inflation • Change the patient requirement

Child Care

Child care is a significant issue for families with young children in which there is only one parent or where both parents work outside the home. Often, child care can be a significant obstacle to parents maintaining full-time employment. As such, the topic receives a considerable amount of attention and resources, both private and public. In recent years, the issue of child care has dovetailed with increased research and greater understanding around the value and potential long-term impact of early childhood education. As the issue has gained prominence, programs such as Head Start have received greater attention.

This section of the report focuses on four tax credits related to the provision of child care. Also discussed are some direct spending programs with similar policy objectives. This is an area where the clarity of purpose for the tax credits is key. The goal of providing a safe environment for young children while parents are at work can easily transform into the larger objective of creating environments that are as stimulating and educational as possible. The potential cost differential between these two priorities can be significant. It would be valuable for the Legislature to provide additional guidance on the policy intent of the tax credits, both individually and collectively. For example, the quality of the child care provided is currently not an explicit parameter of any of the tax credits. Although it would, presumably, be reflected in the price of the child care.

The four tax credits reviewed in this section all support the provision of child care. Two of the tax credits are direct subsidies to the taxpayer for child care expenses. One is a subsidy provided to employers who assist their employees in accessing child care. The last one is a credit for contributions made to Oregon's Office of Child Care, whose mission is "[p]romoting safe, quality, affordable and accessible child care".

Child Care Policy/Program	2013-15 Legislatively Approved Budget ($M)	
	GF	OF
Child Care Funding		
Tax Credit		
Child and Dependent Care	$16.7	
Workiing Family Child Care	$43.2	
Employer Provided Dependent Care Assisatnce	$1.2	
Direct Spending		
Employment Related Daycare	$13.5	$110.1
Early learning programs		
Child Care Regulation		
Tax Credit		
Contributions to the Office of Child Care	$1.0	
Direct Spending		
Child Care Licensing and Quality		

Within the policy context of child care funding, there are several direct and indirect spending programs. The Employment Related Day Care (ERDC) program is a direct spending program that helps low-income families pay for child care. Individuals apply for eligibility to the Department of Human Services (DHS). The amount of the subsidy is determined by the family's income, the type of child care provided, and the number of hours needed. These payments are made directly by DHS to qualified providers. Due to funding limitations, there is a cap on the number of participating families. Recently, funding was available for up to roughly 8,500 families. Most of the funding for this program is from the federal government, through the Child Care Development Fund. The program is means tested and eligibility ends at 185 percent of the federal poverty level.

There are also early learning programs that receive direct funding and are, at least tangentially, related to child care. These programs focus on pre-school aged children that incorporate educational and developmental aspects beyond simply supervising care. Examples of such programs include Head Start, Oregon Pre K program, Early Intervention, Early Childhood Special Education, and certain programs with specific target groups such as those for teen parents, migrant workers, and children with special needs.

The first two indirect spending programs are tax credits that consist of a *direct* subsidy to consumers of child care services. The Oregon Child and Dependent Care credit is tied to the federal Child and Dependent Care tax credit. The Working Family Child Care credit is a refundable, Oregon tax credit for child care that is phased out for taxpayers with income above 250 percent of the federal poverty level. These two policies effectively constitute a reduction in the cost of child care. This reduction, however, is likely received in one lump sum at the time the taxpayers' Oregon tax return is filed. The third tax credit is a subsidy for employers who help their employees find appropriate child care services. In this case, the consumers of child care are the *indirect* recipients of the tax credit.

As for the regulation of child care providers, the Early Learning Division within the Department of Education provides licensing for and oversight of many child care providers. The goal of this regulation is to ensure that quality and safety standards are met. The division also provides some information and referral services. The Office of Child Care is located within the Early Learning Division with the purpose of "[p]romoting safe, quality, affordable and accessible child care".

The tax credit for contribution to the Office of Child Care is the one tax credit associated with the regulation of such services. Taxpayers are eligible for a tax credit that is a percentage of their contribution to the office. Recently, such revenue to the office has been used for professional development of providers, presumably leading to improved quality and providing some level of stability to the industry.

Child and Dependent Care

ORS 316.078	Year Enacted:	1975	Transferable:	No
	Length:	1	Means Tested:	Yes
	Refundable:	No	Carryfoward:	5 years
TER 1.421	Kind of cap:	Taxpayer	Inflation Adjusted:	No

Policy Purpose

Bill documentation for the implementing legislation (1975 HB 2008) states that the tax credit is for “employment related expenses”, referring to child and dependent care. It was set at eight dollars for every $100 deduction taken on the federal return for such expenses. The structure of the credit was changed in 1977 to a share of the corresponding federal tax credit. According to bill documentation, the changes were in response to substantial changes at the federal level with the Tax Reform Act of 1976.

There were significant changes made in 1989 that appear to constitute a shift from the indirect spending of a tax expenditure to the direct spending of an appropriation, while means testing the tax credit. The structure of the tax credit was changed substantially by making it a percentage of eligible expenses and limiting the tax credit to taxpayers with federal taxable income of no more than $45,000. The revenue gain from these changes was divided up among Adult and Family Services (to provide payments directly to providers), the State Scholarship Commission (to fund day care services for eligible undergraduate students) and the Commission for Child Care (to fund a resources and referral grant program).

Description and Revenue Impact

Taxpayers who claim the federal Child and Dependent Care tax credit are eligible for a similar Oregon credit against personal income taxes. Because the Oregon and federal credits are linked, it is helpful to understand the federal credit. It equals 35 percent of up to $3,000 of qualifying expenses for one child, or $6,000 of qualifying expenses for more than one child. This translates into a maximum federal credit of either $1,050 or $2,100, depending on the number of children. As income exceeds $15,000, the applicable percentage declines. Claimants with incomes over $43,000 qualify for the minimum federal credit of 20 percent of qualifying expenses, either $600 or $1,200.

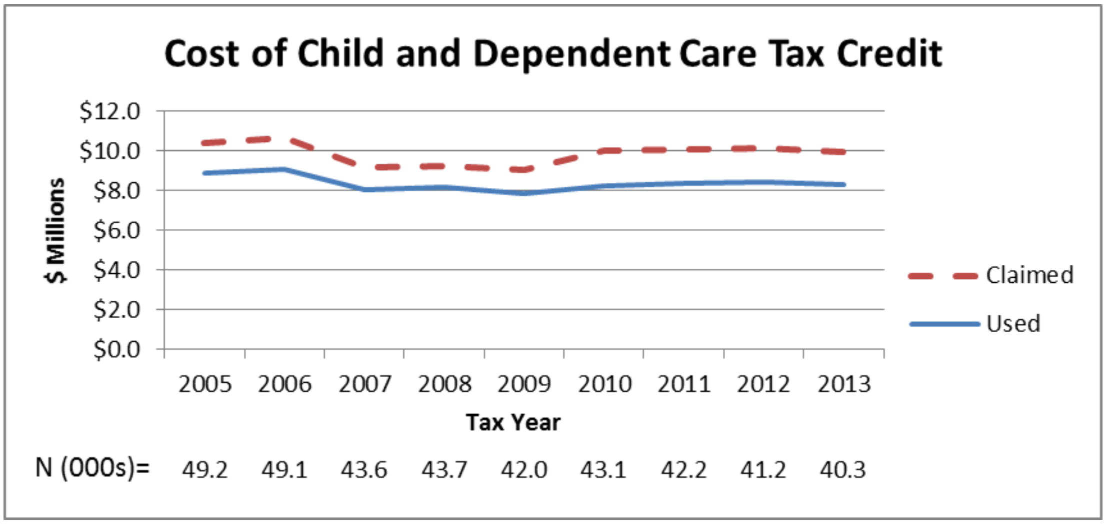
The federal credit is allowed to taxpayers who incur expenses related to the provision of care for at least one qualifying person so that the taxpayer is able to maintain employment. Eligible employment related expenses are those necessary for the taxpayer to be gainfully employed and include expenses for household services and for the care of qualifying dependents. Qualifying dependents are children under 13, other dependents who are physically or mentally incapable of caring for themselves, or the taxpayer’s spouse if incapable of caring for himself or herself. The amount of the federal credit is shown in the table below.

Federal AGI is		Share of eligible expenses allowed	Maximum Credit	
Over:	But not over:		One Dependent	At least Two Dependents
$0	$15,000	35%	$1,050	$2,100
$15,000	$17,000	34%	$1,020	$2,040
$17,000	$19,000	33%	$990	$1,980
$19,000	$21,000	32%	$960	$1,920
$21,000	$23,000	31%	$930	$1,860
$23,000	$25,000	30%	$900	$1,800
$25,000	$27,000	29%	$870	$1,740
$27,000	$29,000	28%	$840	$1,680
$29,000	$31,000	27%	$810	$1,620
$31,000	$33,000	26%	$780	$1,560
$33,000	$35,000	25%	$750	$1,500
$35,000	$37,000	24%	$720	$1,440
$37,000	$39,000	23%	$690	$1,380
$39,000	$41,000	22%	$660	$1,320
$41,000	$43,000	21%	$630	$1,260
$43,000	No limit	20%	$600	$1,200

Individuals who qualify for the federal child and dependent care tax credit also qualify for the related Oregon tax credit. The Oregon credit amount is a percentage of eligible expenses based on federal taxable income (see chart below). The dependent care expenses must be employment related and are limited to the lesser of $3,000 for one qualifying dependent and $6,000 for two or more qualifying dependents, or the individual's earned income (or the lower of either spouse's earned income). These limits are reduced by any nontaxable payments received from an employer through a dependent care assistance program. The amount of the Oregon credit is shown in the table below.

Federal taxable income is		Share of eligible expenses allowed	Maximum Credit		Mean AGI
Over:	But not over:		One Dependent	At least Two Dependents	
---	$5,000	30%	$900	$1,800	$26,739
$5,000	$10,000	15%	$450	$900	$32,506
$10,000	$15,000	8%	$240	$480	$38,334
$15,000	$25,000	6%	$180	$360	$51,595
$25,000	$35,000	5%	$150	$300	$64,064
$35,000	$45,000	4%	$120	$240	$76,227
$45,000	---	None	$0	$0	

The graph below shows relatively consistent use of the tax credit between 2005 and 2012. Use of the credit peaked in 2007 at roughly $10.7 million claimed and $9.1 million used. The amount fell in 2007 through the recession and returned to the roughly $10 million level in 2010. The share used by full-year filers was consistently 95 percent of the total during this time.



Policy Analysis

Because the policy objectives of the four tax credits included in this section are substantially similar, the impact analysis is provided once at the end of this section, following the tax credit for Contributions to the Office of Child Care.

Other Issues

Because this tax credit is based on a federal tax credit, many other states offer a similar credit. The policy levers chosen across the states are summarized here. A detailed table containing specific states is provided in Appendix C.

Key Characteristics

- Percentage of the federal credit
- Percent of eligible expenses
- Refundable or non-refundable
- Hard dollar cap
- Phase-down or phase-out different from the federal policy

Administrative costs are likely to be minimal because the federal policy is leveraged and the state credit is simply a percentage of the federal tax credit.

Working Family Child Care

ORS 315.262	Year Enacted:	1997	Transferable:	No
	Length:	1-year	Means Tested:	Yes
	Refundable:	Yes	Carryfoward:	NA
TER 1.422	Kind of cap:	None	Inflation Adjusted:	NA

Policy Purpose

Bill documentation for the implementing legislation (1997 SB 388) states that the Senate Committee on Revenue was concerned "…for families losing welfare benefits under current federal laws." Testimony provided at the time identified the following three goals: (1) reduce costs for low-income working families; (2) encourage low-wage earners to move from the $6 to $10 per hour wage level; and (3) encourage working families to purchase safe, high-quality child care.

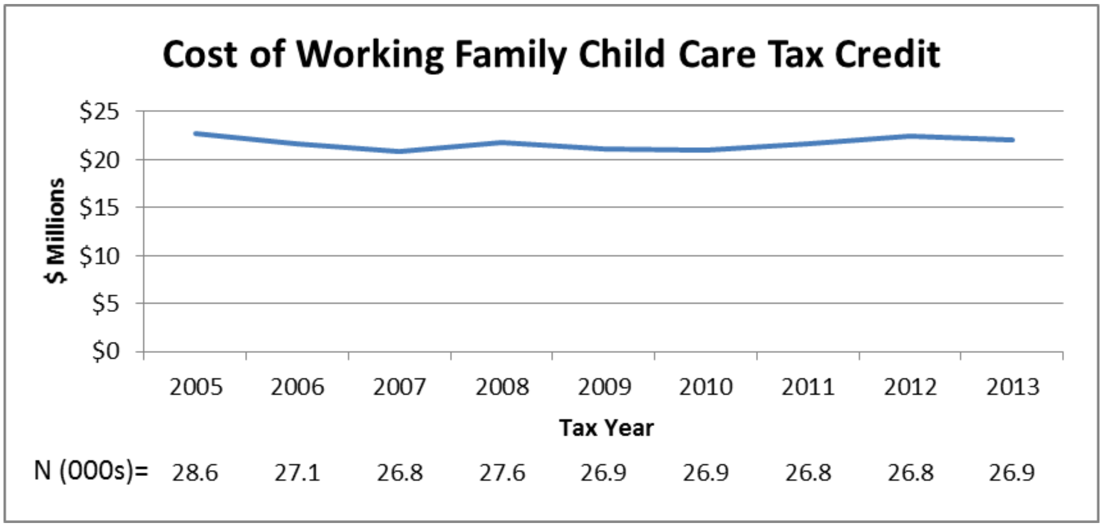
Description and Revenue Impact

Low-income working families are allowed a refundable credit against personal income taxes for qualifying child care expenses. To qualify, taxpayers must have a minimum amount of earned income from Oregon sources. Some limited investment income is allowed. For tax year 2014, the minimum earned income is $8,550 and the maximum amount of investment income is $3,350. The credit is calculated as a percentage of qualified child care expenses. The table below shows how the credit is phased out as income increases above the Federal Poverty Level (FPL), which is based on household size. For example, the 2014 FPL for a household of four is $23,850. So, taxpayers with income of up to $47,700 are eligible for a tax credit equal to 40 percent of their eligible child care expenses. Households of the same size but with income above $59,650 are not eligible for the tax credit.

AGI as a Share of FPL		Share of eligible expenses allowed
Over:	But not over:	
---	200%	40%
200%	210%	36%
210%	220%	32%
220%	230%	24%
230%	240%	16%
240%	250%	8%
250%	---	None

Qualifying child care expenses are those necessary for the taxpayer/spouse to be gainfully employed, seeking employment, or attending school part-time or full-time. The care must be for a child under 13, or a child with a disability as defined in ORS 316.099. A qualifying taxpayer may claim both this credit and the child and dependent care credit. Taxpayers may also claim the credit if they need child care because they have a qualifying disabled spouse. To qualify, the spouse's disability must prevent him/her from providing child care, working, seeking employment and attending school.

The use of this tax credit has also been very stable over time, averaging $22 million annually. In fact, since becoming refundable in 2003, the total impact has only varied between $20.9 million and $22.7 million per year. The number of full-year claimants has fallen from its peak of roughly 26,600 in tax years 2004 and 2005 to just above 25,100 in 2011 and 2012. Full-year filers account for 95 percent of the total.



Policy Analysis

See the end of the section (following the tax credit for Contributions to the Office of Child Care) for a complete analysis of this tax credit.

Other Issues

A number of other states have an income tax credit with presumably similar policy objectives. They include: Illinois, Iowa and Maine. Key characteristics of these tax credit and three such states are described here.

Key Characteristics

- Percentage of the eligible expenses
- Income limit
- Interaction with other, similar credits
- Claimant may be employer or employee

The primary administrative issues for this tax credit are incurred by the DOR. Relatively speaking, this credit may cost the DOR more than most tax credits because it is not tied to a similar federal credit or certified by another agency. Due to the inability to rely on other agency's administrative processes, there are special tax forms for the credit and substantial administrative costs to the DOR. Taxpayers incur the usual costs of retaining records in case of a tax audit.

Employer Provided Dependent Care Assistance

ORS 315.204	Year Enacted:	1987	Transferable:	No
	Length:	1	Means Tested:	No
	Refundable:	No	Carryfoward:	5-years
TER 1.423	Kind of cap:	Taxpayer	Inflation Adjusted:	No

Policy Purpose

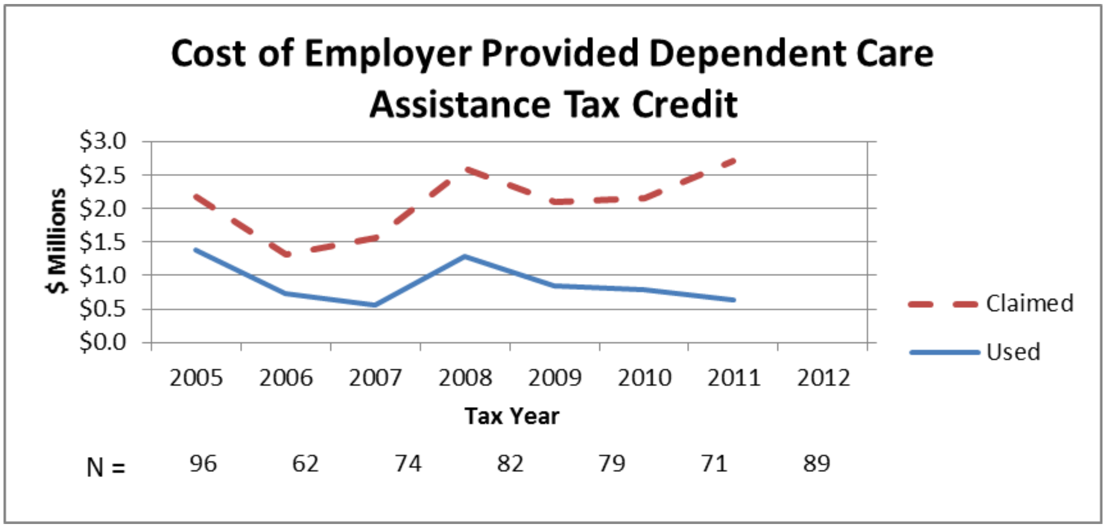
Bill documentation for the implementing legislation (1987 SB 743) states that "[i]ncentives are needed to encourage employers to provide day care assistance to their employees." The staff analysis states that the Senate Labor committee focused on the adequacy of the then-existing tax incentives. Two problems identified at the time were a lack of access to quality, affordable day care for parents with young children, and the limitations of a non-refundable tax credit for low-wage workers. Also cited was the change in federal law that allowed employers to deduct expenses related to the provision of child care. However, that legal change had apparently not led to adequate growth in the supply of child care providers.

There were two aspects to the original tax credit: (1) 50% of the employer's costs to provide dependent care referral services or dependent care assistance payments, up to $2,500 per employee; and (2) employer tax credit for construction or renovation of day care facilities for employees, up to the least of: 50% of cost, $2,500 times the number of employees, or $100,000. The credit was taken uniformly over ten years.

Description and Revenue Impact

Employers providing dependent care assistance or referral services to their employees are allowed a credit against personal or corporate taxes. The credit equals 50 percent of the eligible costs paid, up to $2,500 per employee, and 50 percent of the cost of providing referral services. The employer may not take the credit if the provision of dependent care services is part of a salary reduction plan. Claimants are required to obtain an annual certification by the Office of Child Care.

As shown in the graph below, the use of this tax credit has varied in recent years, while following a general trend downward. It has ranged from $0.2 million in 2011 to $1.4 million in 2005. Its use declined just prior to the economy slipping into recession but bounced back to the one million dollar level as the economy bottomed-out in 2008 and 2009. In the subsequent two years, its use continued to decline. This tax credit is primarily used by corporations, which historically had accounted for roughly 75 percent of all credits used.



Policy Analysis

See the end of the section (following the tax credit for Contributions to the Office of Child Care) for a complete analysis of this tax credit.

Other Issues

Administrative costs include the requirement that employers submit an application for certification to the Office of Child Care in the Department of Education each year they wish to claim the credit.

There appear to be no other states that offer this kind of tax credit.

Contributions to the Office of Child Care

ORS 315.213	Year Enacted:	2001	Transferable:	No
	Length:	1	Means Tested:	No
	Refundable:	No	Carryfoward:	4-years
TER 1.425	Kind of cap:	Program	Inflation Adjusted:	No

Policy Purpose

Bill documentation for the implementing legislation (2001 HB 2676) states that the tax credit is for "…contributions to the Child Care Division[4]…for the purpose of promoting child care…" The implementing bill identified criteria for the Child Care Division to use when identifying eligible child care providers and determining their allocation amounts.

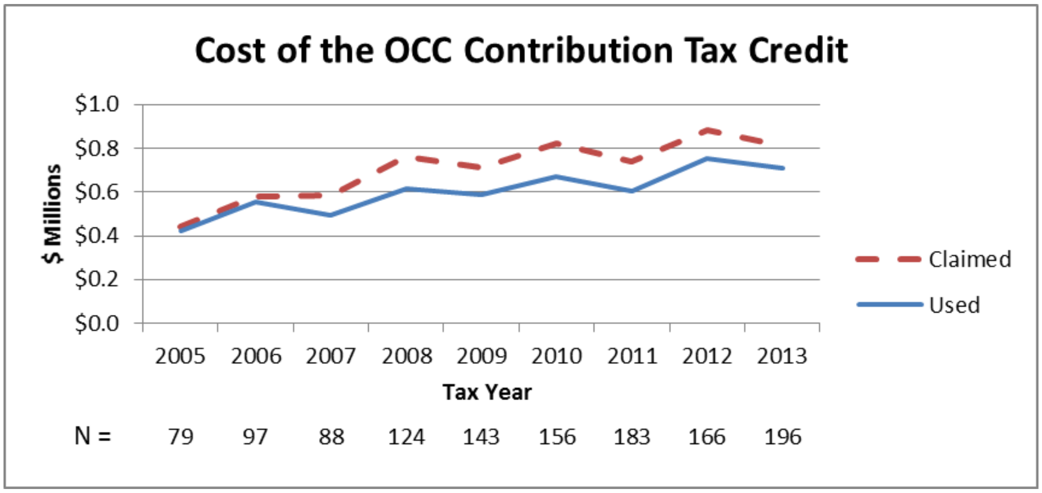
[4] The name was changed to the Office of Child Care by the 2013 Legislature and moved from the Employment Department to the Department of Education.

Discussed at the same time was a proposed corporate child care tax credit modeled after the low-income housing tax credit. Goals cited were to reduce costs to parents, increase provider revenue, and improve quality of care for children of low to moderate income parents.

Description and Revenue Impact

Individuals or businesses that make contributions to the Office of Child Care (OCC) of the Oregon Department of Education are allowed a credit against personal or corporate taxes. The credit is equal to 75 percent of the contribution amount and there is a program cap of $500,000 in tax credits per year. If a charitable contribution deduction is taken at the federal level, only the credit amount needs to be added back to Oregon taxable income. The OCC and selected community agencies distribute the money according to rules established by the Early Learning Council. A selected community agency is a nonprofit agency that provides services related to child care, children and families, community development, or similar services and is eligible to receive tax deductible contributions.

As shown in the chart below, use of this tax credit has gradually grown from $0.4 million in 2005 to just under $0.8 million in 2012. The reason the impact can exceed the annual program cap of $0.5 million is due to carryforwards. Unused tax credits from any one tax year may be carried forward and used in subsequent tax years for up to four years. This trend is reflected in the graph since the difference between the claimed and used amounts has grown over time. In recent years, 98 percent of the revenue impact has been from full-year filers.



Other Issues

The administrative costs of this tax credit are primarily incurred by the OCC as they accept donations and certify tax credits. The DOR and taxpayers have the customary marginal costs of processing, auditing, and record keeping, respectively.

There appear to be no other states that offer a similar tax credit.

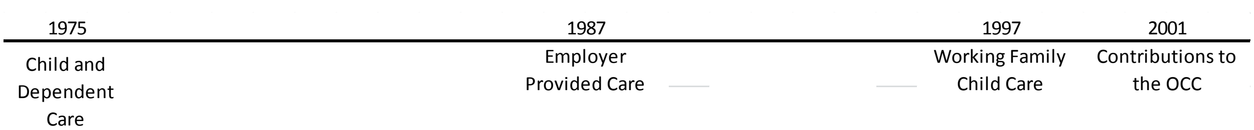
Policy Analysis (for all four tax credits)

There is an extensive amount of research that exists on various aspects of child care. The research ranges from the value of early education and how it may affect student performance throughout the school years, to the economic impacts of enabling parents to work. For many years the federal and state governments have offered a variety of subsidies that consist of both direct and indirect spending. Because the purposes of the four tax credits are so closely related, this analysis focuses on the impact of all four tax credit programs collectively.

One key issue that receives much attention is the cost of child care. In fact, the Oregon Secretary of State released a report in December, 2014 that highlights, in part, the difficulties Oregonians have in paying for child care. For context, both the U.S. Department of Health and Human Services and Oregon have adopted an affordability benchmark for child care that is 10 percent of income. A 2013 report by the National Association of Child Care Resources and Referral Agencies found that a married couple paid 19 percent of their income and a single mother paid 62 percent of her income for infant care in 2012.[5] The corresponding figures for care of a four-year-old were 14 percent and 47 percent.

The economic impact of the child care industry can be viewed as having three different components: the longer-term investment effects of the children benefitting from these services, when high quality, learning-centered care is a focus, the employment "enabling" effect for workers utilizing their services, and the direct impact of those businesses providing the service. The discussion here touches on the first two of these topics.

Policies to subsidize the cost of child care have been implemented with a variety of constructs. The broad policy intent has been a combination of two goals: (1) to reduce the cost of employment; and (2) to improve the quality of child care. There has been some research on the role that subsidies play in helping parents choose higher quality child care. Oregon's history, as reflected through the four incentives, provides an example of how policy focus has transformed over the years. The chart below shows the timeline for the adoption of the four tax credits.



The original credit was implemented as an offset to employment costs. By the late 1980s, stakeholders remained concerned about access to child care, and an emphasis on the quality of child care had emerged. There was a perceived need to increase access to child care that was both affordable and of high quality. The Oregon Legislature approached the issue by providing an employer-based incentive that included referral services and on-site care. One of the arguments for this approach is that it could help in recruitment and retention of high-quality employees, particularly in businesses with on-site child care. Some argued it could reduce the

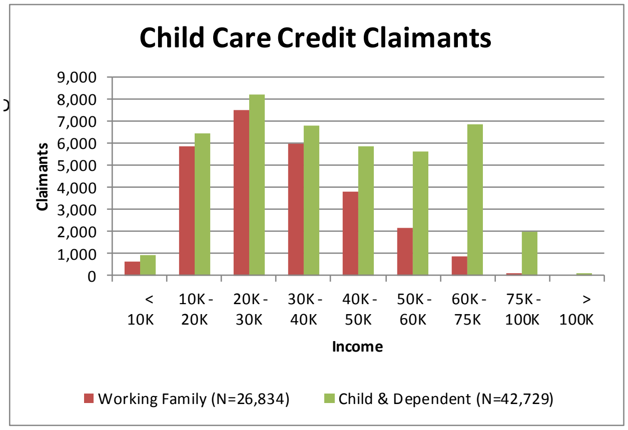
[5] The precise metric used was the average cost of child care in a center divided by the Oregon Median income.

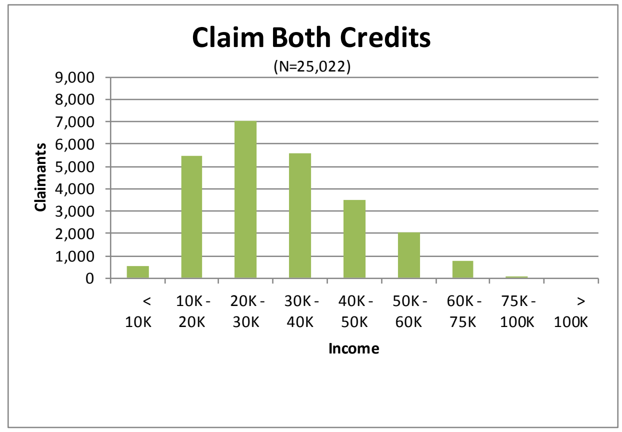
cost of direct wages paid by the employer if these were reduced as a result of the extra benefit provided to employees.

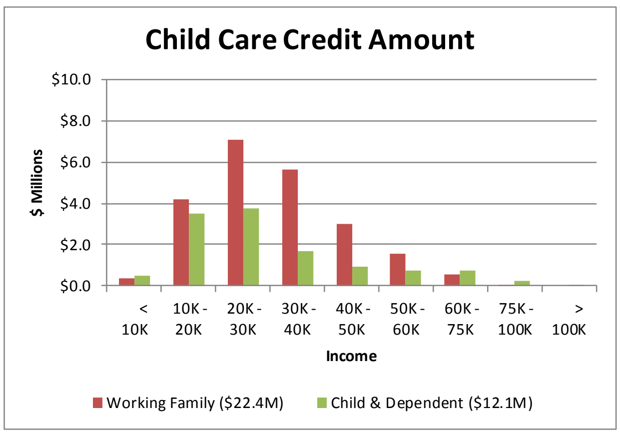
By the mid-1990s, the policy focus in the U.S. had shifted to moving people from welfare to work. Child care remained a significant obstacle in this pursuit. As low wage earners moved up the income scale they would lose the direct subsidy child care payments (as well as other direct benefits) so that, in some cases, their disposable income could remain relatively flat, or perhaps decline, despite a higher hourly wage.

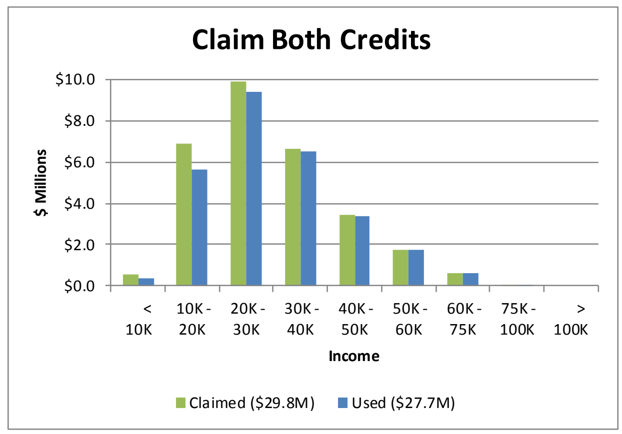
The Legislature responded to this by creating an additional tax credit for child care to be taken by parents. The Working Family Child Care Credit provided a credit for up to 40 percent of child care expenses; it was phased out for taxpayers with incomes above 200 percent of the Federal Poverty Level (FPL). The phase-out range was extended to 250 percent of FPL in 1999 and the credit was made refundable in 2003. There is no limit to the amount of eligible expenses.

The charts below show the use of the Child and Dependent Care (CDC) and Working Family Child Care (WFCC) tax credits for tax year 2012. The top two charts show the number of claimants; the one on the left shows the two credits separately. There were roughly 42,700 full year filers using the CDC and 26,800 filers using the WFCC. The graph reflects that the WFC phases out earlier than does the CDC. The graph on the right contains the roughly 25,000 filers who claimed both tax credits.



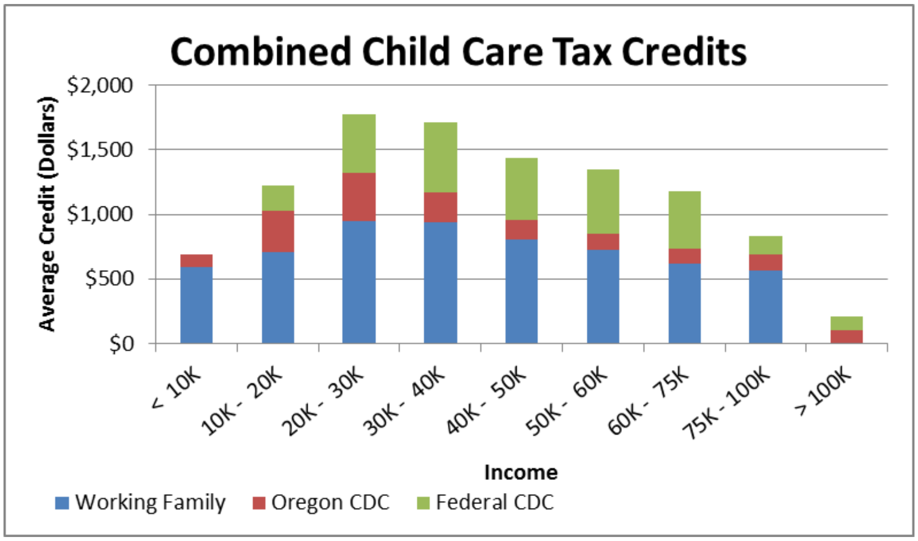






The bottom two graphs are analogous to the top two except they show the dollar amounts involved. The left chart shows that from filers with income below $60,000, more credits are issued for WFC. Higher income groups are ineligible for the WFC but are still able to claim some amount of CDC. The graph on the right shows the combined use of the two tax credits for those filers claiming both tax credits.

The following chart shows the average tax credit amounts for both the WFC and CDC, but also includes the federal Child and Dependent Care tax credit. When combined, they provide a more complete picture of the full tax credit subsidy provided to taxpayers with child care costs.



In 1993, the Child Care Division was created within the Employment Department. One primary purpose of the Division was to administer the federal funds received by Oregon pursuant to the Child Care and Development Block Grant Act of 1990. In 2013, the Legislature moved these functions again, this time to the Department of Education as part of the process of creating the Early Learning Division. This move reflects the general policy blending of child care and early education.

Notwithstanding the goal of improving access to higher quality child care, other research focuses on the use of these tax credits to increase employment among low-income Oregonians. Child care expenses can be a significant obstacle for some taxpayers who are deciding whether or not to enter the workforce. The literature refers to a “reservation wage”, which is basically the break-even point where going to work will exactly offset the cost of child care. If the income from working is below this wage, then working will actually reduce the parent’s income. Their wage would need to be higher than the reservation wage for work to be financially viable. Different kinds of incentives exist that would effectively increase the wage income. The policy goal of increasing employment among low-income individuals can be (partially) addressed by employment subsidies (e.g. the Earned Income Tax Credit) or child care subsidies (e.g. the Working Family Child Care Credit).

These four policies affect different kinds of taxpayers and result in some differentiation across the beneficiaries. The Child & Dependent Care and Working Family Child Care tax credits directly benefit the parents who are paying the child care expenses. In this case the beneficiaries of the tax credit and the spending policy are identical. In contrast, the beneficiaries of the tax credit for contributions to the Office of Child Care (OCC) are taxpayers who make qualifying contributions; they need not be consumers of child care services. However, the revenue raised by the OCC is presumably used to promote quality, affordable child care options. Ultimately, the beneficiaries of the policy are the families who consume child care services. The remaining credit is structured such that it benefits a different type of entity. Employers who offer qualifying assistance receive the direct benefit of the tax credit. Presumably, however, the families who utilize such services benefit from the assistance in accessing child care services.

In Summary:

Child and Dependent Care	
Advantages	• Leverages federal tax credit and federal dependency rules
Disadvantages	• Amount of limitation on eligible expenses
Potential Modifications	• Increase share of federal credit • Combine with the Working Family Child Care credit

Working Family Child Care	
Advantages	• Refundable
Disadvantages	• No limit on eligible expenses
Potential Modifications	• Change phase-out schedule • Limit eligible expenses • Combine with the Child and Dependent Care credit

Employer Provided Dependent Care Assistance	
Advantages	• Value to employees could exceed cost to employers
Disadvantages	• Potential variation in quality across employers
Potential Modifications	• Focus incentive to on-site child care

Contributions to the Office of Child Care	
Advantages	• Value to state exceeds cost
Disadvantages	• Program cap may not be sufficient to fund need
Potential Modifications	• Change tax credit rate • Change program cap • Change use of funds

Disability

This section focuses on policies related to people with a disability or who have a family member who is disabled. The four tax credits reviewed in this section share the common impact of providing financial assistance for taxpayers who have a disability or have family members with a disability. The analysis for these credits is fundamentally different from others in this report because these policies are not intended to affect behavior or encourage any particular action. The two direct spending programs are federal programs designed to provide financial assistance to qualifying individuals and their families. The table below identifies the six programs.

Both the Supplemental Social Security and Medicaid programs help low income aged, blind, and disabled people by providing a monthly cash benefit. In 2013, 10,739 Oregon children received an SSI benefit, mostly to families with income below $26,000. Also, 72,365 Oregon adults received SSI benefits. The overall average monthly SSI benefit was just over $500, which translates into roughly $6,000 annually.

Disability Tax Expenditures	2013-15 Legislatively Approved Budget ($M)	
	GF	OF
Tax Credit Programs		
Child with a Disability	$9.3	
Elderly or Permanently Disabled	$0.1	
Loss of Limbs	< $0.1	
Severe Disability	$9.6	
Direct Spending Programs		
Supplemental Social Security		
Medicaid		

The similarity with the four tax credits is that they also provide financial assistance to taxpayers. The magnitudes are much smaller than the two direct spending programs discussed above, but they are not limited to taxpayers with specified levels of income.

Child with a Disability

ORS 316.099	Year Enacted:	1985	Transferable:	No
	Length:	1	Means Tested:	No
	Refundable:	No	Carryfoward:	No
TER 1.404	Kind of cap:	Taxpayer	Inflation Adjusted:	Yes

Policy Purpose

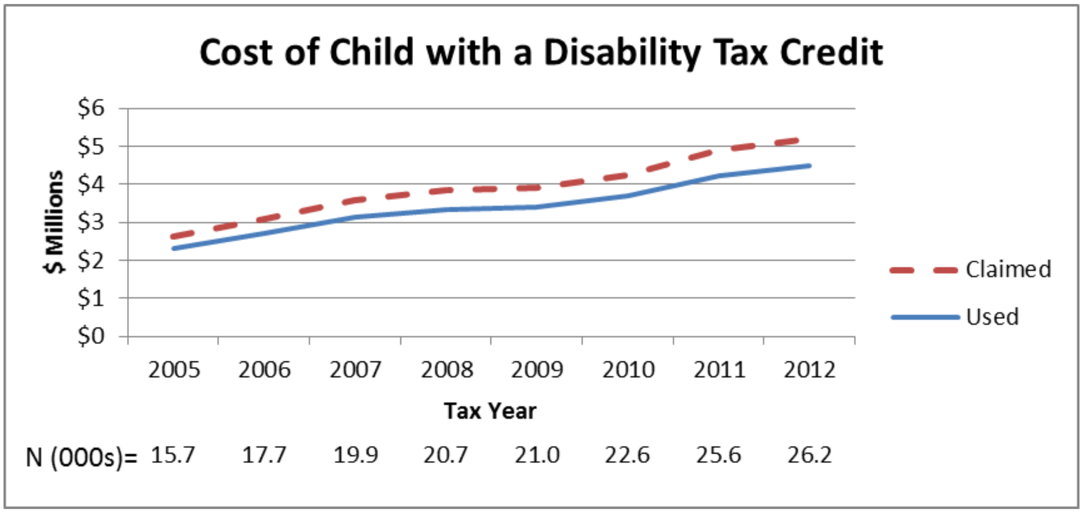
Because this provision is not an incentive to encourage a specific kind of behavior, a reasonable assumption is that the intent is to provide financial assistance and offset, in part, some of the costs associated with such disabilities. This approach could help promote the concept of horizontal equity within the tax system.

Description and Revenue Impact

Individuals and families are allowed an additional personal exemption credit for each dependent child who meets a statutory definition of disabled. Most taxpayers are allowed one personal exemption credit for himself/herself, a spouse, and for each dependent.[6] It is indexed to inflation and was $191 in 2014. This credit is in addition to those. A "child with a disability" is defined as a dependent child who is eligible for early intervention services, or who is diagnosed for special education purposes as being autistic, mentally retarded, multi-disabled, visually impaired, hearing impaired, deaf-blind, orthopedically impaired, other health impaired, or as having serious emotional disturbance or traumatic brain injury, in accordance with State Board of Education rules.

The graph below shows the use of this tax credit between 2005 and 2012, doubling from about $2.6 million to just over $5 million. That represents an average annual growth rate of 10.2 percent. The number of claimants grew from roughly 15,700 in 2005 to 26,200 in 2012, an annual average growth rate of 7.6 percent. The amount of tax credit claimed had a higher growth rate than the number of claimants because the tax credit is indexed to inflation. The number of claimants also grew as a share of total filers. In 2005, filers claiming this credit represented 0.9 percent of all filers. By 2012, that share had grown to 1.4 percent. On average, 87 percent of the tax credit claimed was used to offset tax liability.

[6] Taxpayers who are not allowed a personal exemption credit are those who are claimed as a dependent on someone else's tax return, single filers with adjusted gross income exceeding $100,000, and joint filers with adjusted gross income exceeding $200,000.



Policy Analysis

Because the policy objectives of the four tax credits included in this section are substantially similar, the impact analysis is provided once at the end of this section, following the tax credit for Severe Disability.

Other Issues

Because this tax credit is simply an additional personal exemption credit, administrative costs are likely to be minimal and marginal.

Elderly or Permanently Disabled

ORS 316.087	Year Enacted:	1969	Transferable:	No
	Length:	1	Means Tested:	Yes
	Refundable:	No	Carryfoward:	No
TER 1.409	Kind of cap:	Taxpayer	Inflation Adjusted:	No

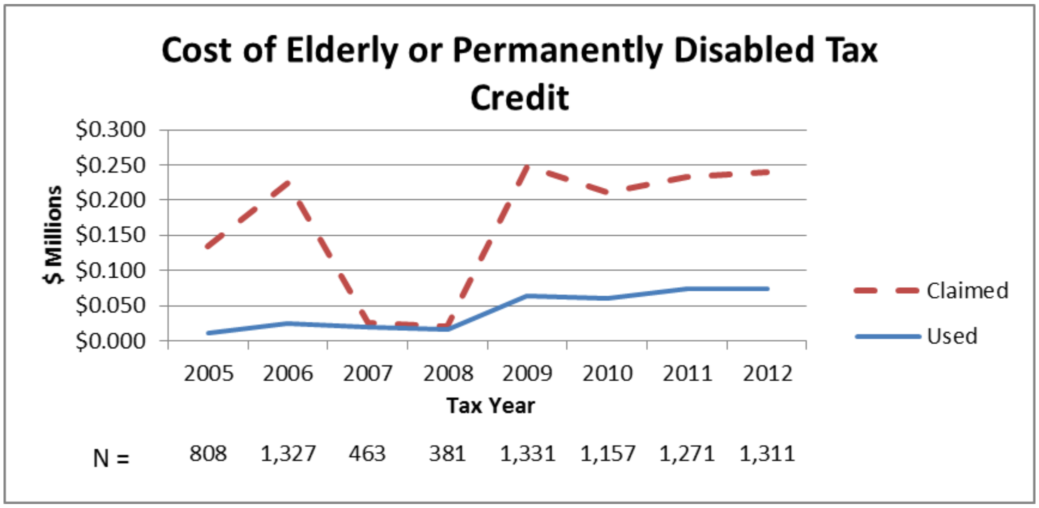
Policy Purpose

Because this provision is not an incentive to encourage a specific kind of behavior, a reasonable assumption is that the intent is to provide financial assistance to lower income elderly or permanently disabled taxpayers. This approach could help promote the concept of horizontal equity within the tax system.

Description and Revenue Impact

Individuals who claim the federal Elderly or Disabled Tax Credit are eligible for a similar Oregon credit against personal income taxes. The federal credit can be as much as $750 for single filers and $1,125 for joint filers, but is limited to the taxpayer's total tax less any foreign tax credits and child & dependent care tax credits claimed. (In 2012, the average credit claimed for the U.S. was $139.) The amount of the credit is 40 percent of the federal credit. Taxpayers claiming the state Retirement Income credit (TER 1.458) are ineligible to claim this credit.

The graph below shows the recent history of use of the tax credit. While the amount claimed has varied somewhat over time, the amount actually used to offset tax liability reflects a smoother growth trend. This tax credit is claimed by fewer than 1,500 taxpayers each year and accounts for a total tax reduction that was about $20,000 in 2005 and grew to about $75,000 in 2012. The average tax reduction was roughly $55.



Policy Analysis

See the end of the section (following the Severe Disability tax credit) for an analysis of this tax credit.

Loss of Limbs

ORS 316.079	Year Enacted:	1973	Transferable:	No
	Length:	1	Means Tested:	No
	Refundable:	No	Carryfoward:	No
TER 1.410	Kind of cap:	Taxpayer	Inflation Adjusted:	No

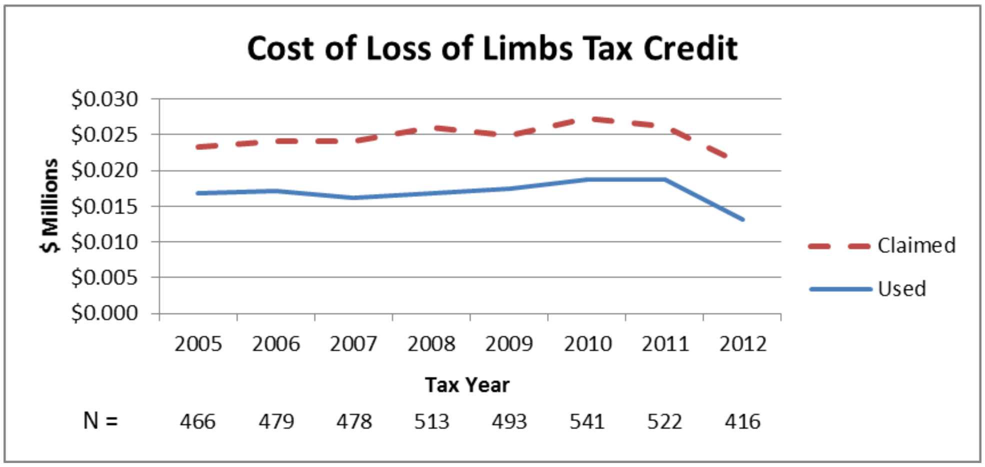
Policy Purpose

Because this provision is not an incentive to encourage a specific kind of behavior, a reasonable assumption is that the intent is to provide financial assistance to taxpayers who have lost the use of at least two limbs and help promote the concept of horizontal equity within the tax system.

Description and Revenue Impact

Individuals with a permanent and complete loss of function of at least two limbs are allowed a credit of $50 against personal income taxes, or $100 if both taxpayers on a joint return are eligible. Taxpayers eligible for this credit are also eligible for the severe disability tax credit.

The graph below shows the recent historic use of this tax credit. Up until 2012, use of the credit was relatively stable with roughly 500 taxpayers claiming about $25,000 in tax credits collectively each year. The usage rate was regularly about 70 percent. In 2012, however, the number of claimants fell by roughly 20 percent. The average tax reduction was $30.



Policy Analysis

See the end of the section (following the Severe Disability tax credit) for an analysis of this tax credit.

Severe Disability

ORS 316.758, 316.765	Year Enacted:	1985	Transferable:	No
	Length:	1	Means Tested:	No
	Refundable:	No	Carryfoward:	No
TER 1.411	Kind of cap:	Taxpayer	Inflation Adjusted:	Yes

Policy Purpose

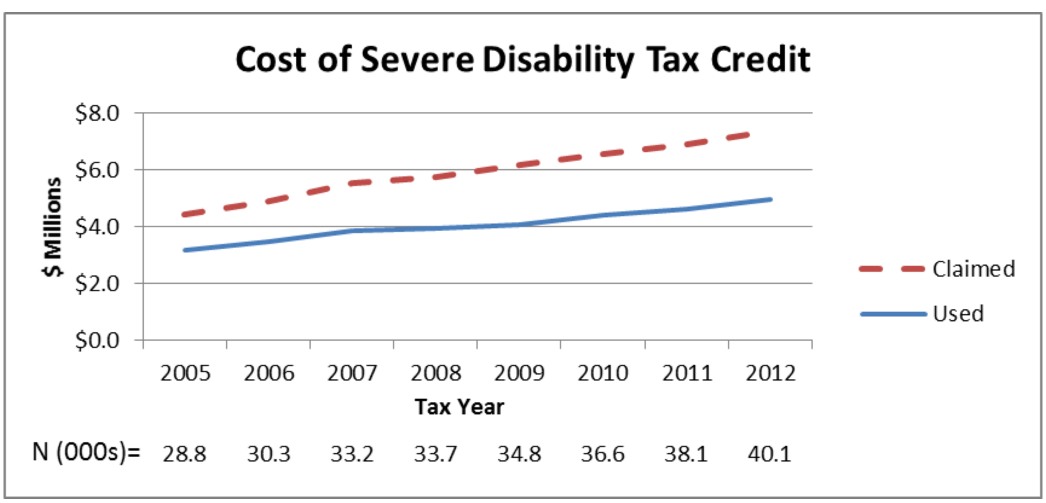
Because this provision is not an incentive to encourage a specific kind of behavior, a reasonable assumption is that the intent is to provide financial assistance and offset, in part, some of the costs associated with such disabilities and help promote the concept of horizontal equity within the tax system.

Description and Revenue Impact

Individuals with a severe disability are allowed an additional personal exemption credit against personal income taxes; up to two for qualifying joint filers. The credit is indexed to inflation and was $191 in 2014. Severe disability is defined by any of the following:

- The loss of use of one or more lower extremities
- The loss of use of both hands
- Permanent blindness
- 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 graph below shows the relatively stable growth of this tax credit between 2005 and 2012. The amount claimed grew from $4.4 million to just over $7.4 million – an annual average growth rate of 4.8 percent. The number of claimants grew from 28,800 to 40,100 over this seven year period. Similar to the tax credit for a Child with a Disability, this credit has grown as a share of total income tax filers. In 2005, 1.7 percent of taxpayers claimed this tax credit. By 2012, that percentage had grown to 2.2 percent.



Policy Analysis (for all four tax credits)

The analysis of these tax credits is fundamentally different from the analysis for other tax credits. These four tax credit are not incentives to encourage a certain kind of behavior. It seems the most likely explanation for these tax credits is to provide financial assistance and offset, is some way, costs associated with having a disability. Also, these policies could help promote the concept of horizontal equity within the tax system. There has been some research on the use of tax expenditures related to disabilities. Two such papers are briefly summarized here.

One paper focuses on the idea that tax expenditures for disabilities should focus on the differences in the ability-to-pay between disabled and non-disabled individuals. (Seto and Buhai) The authors argue that the low utilization of the federal tax credit for the elderly or disabled indicates that it should be repealed. They argue that credits for the costs of in-home care are more beneficial to individuals with disabilities. To that end, they also argue that a more equitable approach to structuring tax expenditures would be a focus on credits or deductions specifically for costs incurred due to a disability.

Other research has focused on the use of refundable tax credits. (Phillips) The author argues that switching from non-refundable tax credits to refundable tax credits will more effectively meet the needs of the disabled. Similarly, she argues that income exclusions and deductions are most valuable to taxpayers with higher incomes. The author describes the advantages of using the tax system as a benefit delivery system because it includes less of a stigma compared to direct payment welfare programs, and tax-based programs help shift health consumption toward a more privatized, home-based model of caregiving. She notes certain drawbacks including the lack of a direct budget allocation and less flexibility in meeting specific needs of the disabled.

Other Issues

The administrative costs are mostly born by the DOR and taxpayers. For the DOR the costs are likely to be marginal for the four credits and driven by the processing and auditing functions because the department is able to rely on federal rules for most of the credits. For taxpayers it will be record keeping for potential tax audits.

Other states do have similar tax credits. Some states leverage the federal elderly and disabled tax credit in a manner similar to Oregon’s tax credit. When reviewed collectively the general characteristics are described below. A more detailed table is provided in Appendix C.

Key Characteristics

- Often linked with a tax credit for elderly
- Clear definition/determination of disability, such as retirement on full and permanent disability, deaf, blind, loss of limb(s), or development disability
- Credit could be for disabled taxpayer or taxpayer taking care of a disabled person
- State credit could be simple percentage of federal credit.

In Summary:

Child with a Disability	
Advantages	• Efficiency of tie to personal exemption credit
Disadvantages	• Size compared to disability-related costs
Potential Modifications	• Connect credit amount to disability-related costs • Combine with other disability tax credits

Elderly or Permanently Disabled	
Advantages	• Efficiency of tie to the federal credit
Disadvantages	• Size compared to disability-related costs
Potential Modifications	• Connect credit amount to disability-related costs • Combine with other disability tax credits

Loss of Limbs	
Advantages	• Ease of administration
Disadvantages	• Size compared to disability-related costs
Potential Modifications	• Connect credit amount to disability-related costs • Combine with other disability tax credits

Severe Disability	
Advantages	• Efficiency of tie to personal exemption credit
Disadvantages	• Size compared to disability-related costs
Potential Modifications	• Connect credit amount to disability-related costs • Combine with other disability tax credits

Business Investment

Economic development is a perennial issue for state and local governments. Most, if not all, states have a state agency whose policy mission is to promote development within their state. They may have programs that encourage start-ups and entrepreneurship, perhaps by providing seed capital or low interest loans. They may also have programs that focus on existing businesses; these may be referred to as business retention or expansion programs. As for tax incentives, many states have tax exemptions or other special provisions relating to income, property, or sales taxes.

The focus of this section of the report is income tax credits that are related in some way to business investment. There are currently two such credits. The first is the Qualified Low-Income Community Investment Incentive, created in 2011. The second is the Public University Venture Development Fund tax credit that was created in 2005. The former is tied to a federal tax credit program while the latter is modeled after a Washington state program designed to translate university research into marketable business products or services. Also mentioned are a few direct spending programs that are designed to further the broad policy goal of business development in Oregon. The table below shows these two tax credit programs and four direct spending programs with the presumed goal of increasing investment in Oregon.

Business Investment Policy/Program	2013-15 Legislatively Approved Budget ($M)	
	GF	OF
Tax Credit Programs		
Qualified Low-Income Community Investments	$28.8	
Public University Venture Development Fund	$0.7	
Direct Spending Programs		
Oregon Business Development Fund		
Credit Enhancement Fund		
Capital Access Program		
Oregon Investment Council - Singature Research Centers	$13.8	

Three of the four direct spending programs are designed to leverage other private sector funds to increase the total amount of investment. The Oregon Business Development Fund (OBDF) is a revolving fund that is the source for below-market, fixed-rate loans to eligible businesses. The funds may be used for land, buildings, equipment, machinery, and permanent working capital. Eligible businesses must create or retain jobs and generally be a traded-sector business in manufacturing, processing, or distribution. Preferences are given to businesses in rural and distressed areas and to small businesses with fewer than 100 employees. This fund has closed about 20 loans, deployed $6.6 million and leveraged approximately $50 million in private financing.

The Credit Enhancement Fund (CEF) is a loan insurance program available to lenders that assist businesses in obtaining access to capital. The fund ensures the repayment of loans made by lenders that provide working capital or fixed-asset financing to businesses. It is open to most businesses and can help businesses finance the cost of cleaning a brownfield site or be used for loans to obtain fixed assets or working capital. This program has closed about 85 loans leveraging about $48 million in private funding.

The Capital Access Program (CAP) helps lenders make commercial loans to small businesses and provides capital for start-up or expansion. All types of loans and lines of credit are eligible. Lenders build a loan-loss reserve when they enroll a loan, and contributions to the reserve account are matched by the CAP program. This program is the smallest of the three. It has closed 32 loans, leveraging $2.7 million.

The Oregon Innovation Council's Signature Research Centers work with Oregon's four research universities in a partnership designed to: (1) commercialize the research & development being created on campus and in the private sector; and (2) increase the collaboration and capacity of the state's universities. The three centers are the Oregon Nanoscience & Microtechnologies Institute (ONAMI), the Oregon Built Environment & Sustainable Technologies Center (Oregon BEST), and Oregon Translational & Drug Discovery Institute (OTRADI).

The first of the two tax credits reviewed in this section is similar to the first three direct spending programs in that the policy goal is to increase capital to businesses. It leverages the fact that the due diligence and eligibility costs are incurred through participation in the federal program. Basically, entities that go through the federal competitive process and become eligible to receive federal tax credit allotments are also eligible to receive Oregon tax credit allocations. Due to the tie to the federal program, the Oregon Business Development Department does not have to go through the vetting process.

The second tax credit is modeled after a Washington program. It is intended to help commercialize research conducted at Oregon universities so that the schools are able to benefit from their research investments. It's a long-term strategy designed to address a shortcoming in particular investment markets. Part of the program includes repaying the state General Fund as receipts are realized. The universities are then able to benefit monetarily from their research.

Qualified Low-Income Community Investments

ORS 315.526, 315.529	Year Enacted:	2011	Transferable:	No
315.533, 315.536	Length:	7-years	Means Tested:	No
	Refundable:	No	Carryfoward:	5-years
TER 1.413	Kind of cap:	Program	Inflation Adjusted:	No

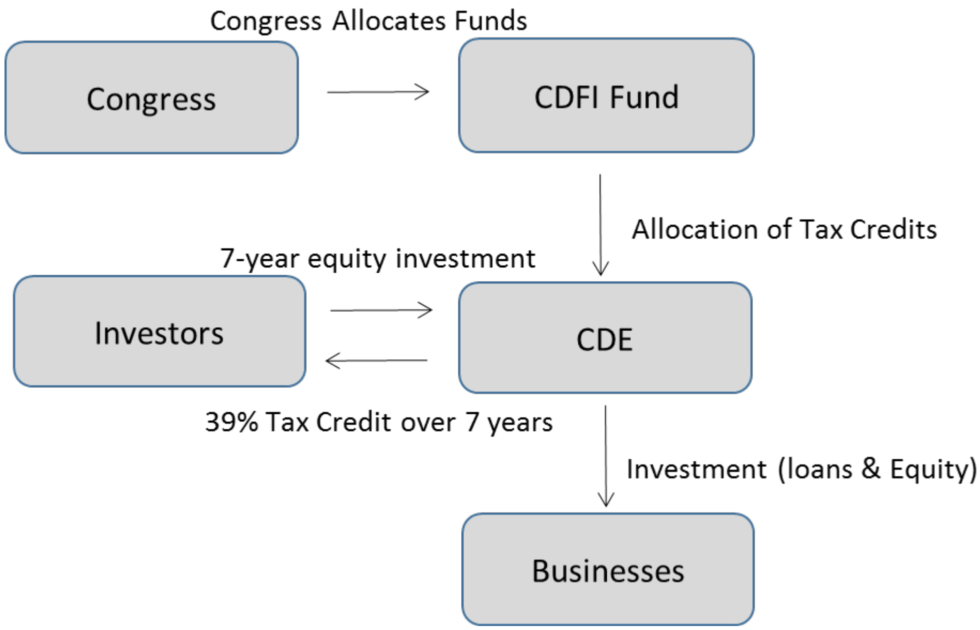
Policy Purpose

Bill documentation for the implementing legislation (2011 SB 817) states that the purpose of the tax credit "…is to increase private capital investments in Oregon small businesses operating in low-income communities." It is intended to achieve this by reducing the cost of financing business development in qualified regions of the state. Testimony indicated that the tax credit could be leveraged to increase private sector investment. Because this tax credit is tied to the federal New Markets Tax Credit (NMTC), the state can also leverage the competitive nature of the federal process. Proponents also argued that Oregon would see an increase in its share of federal NMTC investments. One aspect of the Oregon program is that smaller projects may receive Oregon funding even if, while eligible at the federal level, they are unable to obtain a federal allocation.

Description and Revenue Impact

Taxpayers who make a Qualified Equity Investment (QEI) are eligible for a credit against personal or corporate income taxes equal to 39 percent of the amount of the investment. This program is tied to the federal NMTC program. The flowchart on the following page outlines this federal process. Congress appropriates tax credits annually to the Community Development Financial Institutions (CDFI) Fund, and corporations or partnerships apply to the U.S. Treasury to become a certified Community Development Entity (CDE) and receive tax credit issuance rights, known as tax credit allocations. This is a competitive process and certified CDEs are not guaranteed an allocation of federal tax credits. Individuals and businesses (i.e. investors) then invest with the CDE to create the QEI, which makes Qualified Low-Income Community Investments (QLICIs) in Qualified Active Low-Income Community Businesses (QALICBs) become eligible to claim the federal tax credits. The CDEs collect and coordinate funds to invest the QEI in qualified businesses with eligible projects.

The Oregon program leverages the CDE certification process by allowing federally designated CDEs to receive an Oregon tax credit allocation. CDEs must receive a federal allocation of tax credits in the most recent award cycle to qualify for receiving Oregon tax credits. Ideally, the additional tax credits make Oregon investments relatively more appealing for potential investors so that they choose to direct more of their funds to Oregon. The result would be that a QALICB located in an Oregon community becomes the recipient of the investment dollars. (The investors, who ultimately claim the Oregon tax credits, would necessarily have some expected Oregon tax liability.) These investments are known as the QLICI. The tax credit equals 39 percent of the project cost up to the lesser of the CDE allocation or $8 million. As a result, the maximum tax credit in any QALICB is $3.12 million. The tax credit is taken over the seven years following the investment and according to the following schedule: zero percent in years one and two; seven percent in year three; and eight percent in years four through seven.



The maximum amount of tax credits that may be claimed by all Oregon taxpayers is $16 million per tax year. This cap translates into a maximum amount of Oregon NMTC project allocation of $200 million. The maximum amount of an Oregon NMTC project allocation invested in any single project is $8 million. Fifteen percent of the total $200 million project allocation, or $30 million, is reserved for clean energy projects that produce goods that directly reduce emissions of greenhouse gases or are designed as environmentally sensitive replacements for products in current use, or projects which have a primary purpose of improving the environment or reducing emissions of greenhouse gases. The credit applies to qualified investments made between July 1, 2012 and June 30, 2016.

The CDE must use at least 85 percent of the cash toward making capital or equity investments in, or loans to, a qualified active low-income community business located in Oregon. The investment must occur within 12 months of issuance of the tax credit. Low income communities are located in census tracts that have a poverty rate of 20 percent or more, or where the median income is below 80 percent of either the statewide median income or the metropolitan median income, whichever is lower.

Because this program is relatively new and no tax credits are allowed for the first two years following the eligible investments, tax return data are not yet available. The table below shows the estimated cost of the program for the current and subsequent biennia.

Tax Credits Used ($ Millions)				
2011-13	**2013-15**	**2015-17**	**2017-19**	**2019-21**
$0.0	$10.0	$27.3	$32.0	$8.4

Policy Analysis

Given the discussion at the time this tax credit policy was adopted, a number of policy issues would be the focus of an evaluation:

- Did investment in the designated communities increase?
- Did this subsidized investment crowd out unsubsidized investments?
- If investment did increase, was it followed by social, community, or economic gains?

Given the presumed policy purpose described above, the central question is whether or not this tax credit program has increased investment in qualified communities. The ideal framework for estimating the change, if any, in the amount of such investment would include a history of capital investment in the relevant communities and the tracking of that investment over time. Part of this work would involve an estimated baseline of the amount of capital investment that was expected to occur prior to the program's inception. Within this context, an analysis of the impact on small businesses and clean energy projects is important. This approach involves a great deal of data that are unfortunately not currently available.

An alternate approach might be to evaluate eligible investments on an individual basis to determine how vital the taxpayer's investment is to a given project and whether or not the investor would have made the investment without the available state tax credit. This would be a kind of financial litmus test that would consider whether the investors changed their behavior due to the credit and whether or not other sources of investment funding were available.

Since the inception of the federal program in 2000, proponents have argued that the program has been effective while others remain skeptical. There is not yet extensive literature on the impact of the program, but the General Accounting Office (GAO) has released several reports on the NMTC program and there has been some independent research. Some of this work is summarized here, followed by a brief analysis of data provided by the OBDD.

A 2007 report by the Government Accountability Office (GAO) found that investors had increased their investment in low-income communities due to participation in the federal tax credit program. They also found some indication that the source of these investments may be coming from adjustments within an investment portfolio (away from other areas) as opposed to overall higher levels of investments.

Research conducted in 2009 (Gurley-Calvez) relied on income tax data from 1997 to 2004 in an attempt to estimate the impact of the NMTC program on investment levels in low-income communities. The authors note the difficulty of evaluating this program at the community level due to the diversity of projects and geographic areas. As a first step, they simply looked at investments made by individuals and corporations. They found some evidence that at least a portion of the NMTC investment by individual investors constituted new investment, but the magnitude of the effects required further study. On the other hand, they found no evidence of new investment on the part of corporations. It was unclear if investment by corporations were simply a shift from investment in higher income communities or other low-income communities. The authors suggest that a comprehensive review of the program would involve estimates of the social and economic costs and benefits of the program.

According to a 2010 report by the New Markets Tax Credit Coalition, investment dollars are going to projects that are located in areas with unemployment rates that are 1.5 times the national average. They also describe that the allocation process favors CDEs with a track record of greater impacts and efficiency. As a result, the size, scope, and purpose of participating projects are determined by local decision makers.

A 2010 Government Accountability Office (GAO) report found that about 65 percent of the investments made between 2003 and 2009 were for real estate projects. They found that funds were used to support a variety of investments but they were unable to estimate project impacts due to a lack of relevant data. They acknowledged that impacts were likely to vary depending on the nature of specific projects.

Research conducted by Matthew Freedman in 2012 merged data from the CDFI Fund with data from the 2000 Decennial Census, the 2005-2009 American Community Survey (ACS), the Longitudinal Employer-Household Dynamics (LEHD) program and the Census Bureau to explore the impacts of the federal NMTC program. He used the 2000 data to generate a baseline which was then compared to the ACS data on neighborhoods for potential impacts resulting from NMTC subsidized investments. He found the program had positive, but modest, effects on the low-income communities where the investments occurred. He found lower poverty and unemployment rates in participating areas, while finding some evidence that these changes may have been driven by a change in the composition of residents rather than improved status of existing residents. Finally, he also found mixed evidence of increases in total private-sector investment and the quality of jobs.

Another GAO report, released in July 2014, found that the financial structures of these investments have become more complex and less transparent over time. They noted that this is likely driven by the coupling of this federal incentive with other federal, state, and local incentives. Between 2010 and 2012, roughly 62 percent of federal NMTC projects received other governmental (federal, state, or local) assistance.

While it is still too early to analyze tax return data for the use of these credits, the OBDD has provided information on the initial projects certified through June 30, 2014.[7] As per this report, a total of $140 million has been invested in 21 certified projects. A total of $32.5 million in federal tax credits and $31.7 million in Oregon tax credits were issued. The table below contains summary statistics on these projects.

[7] The program is now effectively full because the tax credit cap was reached in December 2014.

Quality Low-Income Community Investments

CDE	Number of Projects	Total Investments ($M)	Oregon Tax Credits ($M)	Jobs Created or Retained	Average Wage ($)	Total Wages ($M)
Advantage Capital	6	$14.7	$5.2	101	$40,499	$4.1
Enhanced Community Development	7	$45.6	$10.9	112	$42,518	$4.8
Non-Profit Funding	1	$10.9	$1.6	265	$25,700	$6.8
Stonehenge Community Development	2	$11.2	$3.1	79	$36,087	$2.9
Wells Fargo Community Development	1	$16.5	$1.6	138	$38,423	$5.3
Community Development Funding (CBO)	1	$8.0	$1.6	3	$53,000	$0.2
Albina Equity Fund I, LLC	1	$8.7	$1.6	3	$76,800	$0.2
Natinal Community Fund I, LLC	1	$10.5	$3.1	99	$28,516	$2.8
Ecotrust	1	$13.5	$3.1	93	$32,000	$3.0
Total	21	$139.7	$31.7	893	$33,596	$30.0

A total of nine CDEs invested in the 21 Oregon businesses with the top three accounting for roughly 60 percent of total investment. Enhanced Community Development (ECD) was the largest program investor in Oregon businesses at $45.6 million. Wells Fargo Community Development and Advantage Capital were second and third with $16.5 million and $14.7 million. ECD investors received the largest amount of Oregon tax credits with $10.9 million.

Tax Year	Tax Credits	Tax Liability
2014	$0.0	$1.8
2015	$0.0	$1.9
2016	$6.0	$1.9
2017	$6.8	$2.0
2018	$6.8	$2.0
2019	$6.8	$2.1
2020	$6.8	$2.1
Total	$33.3	$13.8

As reported to the OBDD, an estimated 893 jobs were either created or retained through these investments. Those roughly 900 jobs had an average annual salary of just under $33,600 resulting in a combined annual income of roughly $30 million. Assuming an effective personal income tax rate of six percent, that income translates into roughly $1.8 million in annual personal income taxes in the first year. The table to the right shows the estimated timeline of when the QLICI tax credits would be claimed and the personal income taxes collected from jobs created during the next seven years.[8] Presumably, the employment effect would be permanent and continue to result in personal income taxes paid to the state beyond this time period.

Program skeptics, however, would likely note that the information on jobs and wages is self-reported. Independent estimates are not available but might become available through data from the Oregon Employment Department. It is also important to consider the key question of whether

[8] Wages are assumed to grow at three percent annually as per the most recent economic forecast.

or not these investments would have occurred were it not for the Oregon tax credit. Unfortunately we do not have sufficient information to definitively answer that question.

The pros and cons of the reported data notwithstanding, the broader social impacts on the communities where these investments occur are, presumably, the ultimate focus of the policy. Greater investment is a means to an end. It may be the case that other benefits could be of equal or greater value, even if not easily quantified. As an example, the CDE Non-Profit Funding invested $10.9 million in the Oregon Child Development Coalition in Hillsboro. According to state records, this project was to build a new center with the capability of providing services for up to 288 Oregon Pre-Kindergarten children. These services are intended to create more teaching options in the areas of math, science, and reading.

Other Issues

Policymakers and other stakeholders are also often interested in how other states have crafted incentives for investments in either capital or labor. This issue is particularly broad and most states have policies to encourage investment within their borders. As for the particulars of this incentive program, several states have also leveraged the federal program in crafting their own policies. They are: Alabama, Alaska, Arkansas, Florida, Illinois, Kentucky, Louisiana, Maine, Mississippi, Nebraska, Nevada, and Ohio. When analyzed collectively, the information below summarizes the policy options used by these states in designing their specific credits. Appendix C contains a table with state level details.

Key Characteristics

- A program cap expressed in tax credits, allotments, or investments
- A project or business cap
- A credit percentage that ranges from 39 percent to 58 percent
- Variation in the number of years to claim the credit

The administrative costs of this tax credit are primarily born by the OBDD. The implementing legislation provided the department with .5 FTE funded at $102,000 (salary and other payroll expense). The actual total administrative cost for the 2013-15 biennium is currently projected to be just under $200,000 ($142,000 for salary and other payroll expense; and $58,000 for Attorney General and other costs). Experience with the program to date indicates that the current funding level is inadequate and the OBDD is likely to ask the Legislature to consider increasing that funding to a full FTE. As for costs incurred by the CDEs, when applying to the OBDD for a tax credit allotment, they are required to pay a nonrefundable fee of $20,000. The taxpayers claiming the credits also bear some administrative costs of record keeping in the event of an audit. Finally, the DOR bears some marginal cost of processing and auditing the tax credit.

In Summary:

Advantages	• Leverages federal program • Encourage additional federal NMTC investments in Oregon
Disadvantages	• Federal tax credit may be sufficient to encourage investment
Potential Modifications	• Change the tax credit percentage • Change the duration over which the credit may be claimed • Change the timing of the tax credits • Establish a competitive tax credit allocation process • Provide OBDD with authority to approve or deny projects

Public University Venture Development Funds

ORS 315.521	Year Enacted:	2005	Transferable:	No
	Length:	3-years	Means Tested:	No
	Refundable:	No	Carryfoward:	None
TER 1.420	Kind of cap:	Program	Inflation Adjusted:	No

Policy Purpose

While statute does not contain a public policy purpose or goal for the tax credit, it does state the purpose for Public University Venture Development Funds. The tax credit is simply a mechanism to provide capital for these funds. ORS 351.697(1) states that the purpose of these funds is to facilitate "…the commercialization of university research and development." Statute continues as follows:

> (2) The purposes of a university venture development fund are to provide:
> (a) Capital for university entrepreneurial programs;
> (b) Opportunities for students to gain experience in applying research to commercial activities;
> (c) Proof-of-concept funding for transforming research and development concepts into commercially viable products and services;
> (d) Entrepreneurial opportunities for persons interested in transforming research into viable commercial ventures that create jobs in this state; and
> (e) Tax credits for contributors to university research commercialization activities.

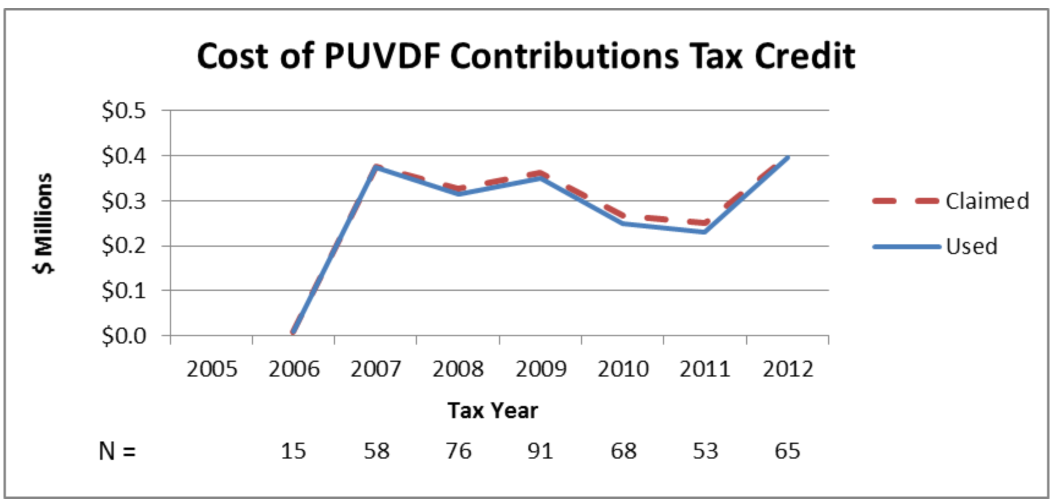
Statute identifies neither a timeline nor specific metrics for evaluating the policy.

Description and Revenue Impact

Individuals and businesses that make donations to Public University Venture Development Funds are allowed a tax credit against personal or corporate income taxes. The tax credit is equal to 60 percent of the amount donated and is taken over three years; the amount claimed in any one year is up to the lesser of $50,000 or 20 percent of the donation (i.e. one-third of the total tax credit). Oregon universities may establish university venture development funds to provide capital for affiliate research and development of commercially viable products and services. Either the university or its affiliate organizations may accept donations, issue credits and manage the monies in the funds. Typically, the university foundation has this role.

The university must transfer 20 percent of the income realized through its university venture development fund to the state General Fund, up to the amount of tax credits issued by the university as a result of contributions. Whenever the outstanding amount owed to the General Fund by the Oregon University System reaches $6 million ($2.4 million in the case of the Oregon Health and Science University) the issuance of further tax credit certificate must cease. The university may issue new tax credits to equal the transferred amount immediately upon deposit into the General Fund.

This tax credit has not been used extensively as of tax year 2012, as shown in the graph below. Very few corporations use the tax credit while an average of 70 personal income tax filers claim the credit. On average, just over $300,000 in tax credits are claimed and used each year.



Policy Analysis

As indicated in statute, the core function of this program is to provide a source of proof-of-concept funding for Oregon university research ideas that have the potential for commercialization. Generally speaking, it may take a decade for a research concept to go from a technological breakthrough to ultimate commercialization. As described in the introduction to this section, Oregon's Signature Research Centers support the commercialization of products conceived at Oregon's universities. Even with this support, stakeholders were of the opinion that there was a gap in the funding process. The PUVDFs were designed to eliminate this gap, focused on the entrepreneurship and proof-of-concept stages, and ensure sufficient financial support in the early stages of product development.

The administration of this program uses the concept of tax credit certificate authority. This is the amount of donations to a given fund that is the basis for calculating tax credit. The total amount of tax credit certificate authority for all funds is $14 million. This total translates into the statutory tax credit cap of $8.4 million, which is 60 percent of the $14 million. The administrative rules for this program allocate this authority across the schools. For example, Oregon State University has the largest share of authority with $5.35 million ($3.2 million in tax credits). The Oregon Health and Science University, University of Oregon, and Portland State University each have specific allocations. Eastern Oregon University, Oregon Institute of Technology, Southern Oregon University, and Western Oregon University collectively have authority of $0.5 million.

The table below provides a status of the program as of June 30, 2014. The information is based on university reports. In total, $5.9 million dollars in donations have been made. That total translates into $3.5 million dollars in tax credits issued. Of the $5.9 million received, a total of $3.4 million has been awarded to qualified projects. Also, income and royalties of $2.4 million have been received, all within the University of Oregon program. The General Fund has been repaid roughly $500,000.

Public University Venture Development Funds

	OSU	UO	OHSU	Others	Total
Deposits					
Fund Donations	$3.9	$1.2	$0.4	$0.4	$5.9
Income to the Fund	$0.0	$0.0	$0.0		$0.0
Income and Royalties from Disbursement	$0.0	$2.4	$0.0		$2.4
Withdrawals					
Disbursements and Grants	$2.3	$0.9	$0.2		$3.4
Transfers to the General Fund	$0.0	$0.5	$0.0		$0.5
Tax Credits					
Total Certificate Authority	$5.4	$3.3	$4.0	$1.4	$14.0
Total Credits Allowed	$3.2	$2.0	$2.4	$0.8	$8.4
Credits Issued	$2.3	$0.7	$0.2	$0.2	$3.5

One aspect to the program is that as universities repay the state General Fund (GF), they are allowed to issue additional tax credits equal to the amount of the transfer. The only university to do that so far is the University of Oregon. They transferred roughly $500,000 to the GF.

Consequently, they are allowed to issue an additional $500,000 in tax credits. Even though they have issued $0.7 million of their $2.0 million total, they are still able to issue up to $1.8 million in tax credits. Because the universities are required to repay the GF in this manner, there is an on-going nature to the tax credit issuance process.

Given the potentially long duration for a financial return on investment (ROI) to be realized, there is some question as to the optimal time frame for evaluating this particular tax credit. The ultimate test of whether or not this program works is measuring the ROI. Despite this ideal approach, initial information suggests there are differences in the returns across the funds as the UO has received $2.4 million in income and royalties on disbursements of $0.9 million. A key metric is to establish a reasonable expectation for how long it takes an idea to move from the proof-of-concept stage to actual commercialization where the return on investment would begin to be realized.

Other Issues

While this program was based on the Washington Commercialization Gap Fund (CGF), which is a partnership between the University of Washington Center for Commercialization and the Washington Research Foundation, using a tax credit as the source for funds appears to be unique. There appear to be no other states that offer such a tax credit.

The administrative costs for this program are largely born by the universities or their affiliate foundations that have created these funds. They solicit contributions, and receive, manage, and distribute money contributed to their funds. They also certify the tax credits. The university or foundation may charge an administrative assessment of up to three percent of the fund's average balance during the fiscal year. As with all tax credits, taxpayers and the DOR have costs associated with record keeping and processing & auditing, respectively.

In Summary:

Advantages	• Value of the donation exceeds the cost of the credit
Disadvantages	• Must be taken over three years
Potential Modifications	• Change the duration over which the credit may be claimed • Increase the tax credit cap

Financial Independence

Prior to the 1980s, the focus of public policy with respect to poverty was on supporting income and consumption. During the 1980s the focus of research shifted toward a better understanding of its root causes. One result of this shift was to incorporate policies that supported savings and investment. By the early 1990s, asset-based policies were beginning to gain attention as a possible long-term solution to poverty. Income transfers were still deemed necessary, but were considered a short-term solution. The concept of what we now know as Individual Development Accounts (IDAs) began to emerge. These are programs where low-income individuals participate in a financial education program to learn about saving and investing. They are encouraged to save/invest their own money by the possibility of receiving matching funds.

IDAs were becoming considered a valuable policy tool to help individuals move themselves and their families out of poverty. In 1993, Iowa was the first state to enact legislation that established IDAs in law. According to the Corporation for Enterprise Development, 40 states have created state IDA programs either in law or by policy. One challenge, however, has been to guarantee state appropriations for the programs. In fiscal year 2012, only 16 of the states had gathered funding for their program. Oregon is one state that has chosen to fund IDA programs by offering a tax credit to donors. Because these donations are made to a non-profit, the donations are likely to be deductible as a charitable gift. The state tax credit, however, provides a greater incentive.

The table below shows the two tax credits discussed in this section. The only direct spending program that appears to be related to these tax credits actually provides for their administrative support. This section discusses the two tax credit programs related to IDA accounts. The first and primary tax credit is the credit for IDA account donations. These donations are collected by Neighborhood Partnerships, the non-profit entity that is the managing entity for the IDA Initiative. They collect and manage funds, collect data, and provide a supervisory role to the individual initiative partners. The second tax credit reviewed here is for qualified withdrawals from an IDA account. IDA account holders are allowed a tax credit of up to $2,000 for funds that are withdrawn to pay the closing costs on the purchase of a primary residence.

Financial Independence	**2013-15 Legislatively Approved Budget ($M)**	
	GF	OF
Tax Credit Programs		
IDA Account Contributions	$13.7	
IDA Account Withdrawals	$0.3	
Direct Spending Programs		
Safety Net / IDA Administrative support	< $0.1	

Individual Development Account Contributions

ORS 315.271	Year Enacted:	1999	Transferable:	No
	Length:	1	Means Tested:	No
	Refundable:	No	Carryfoward:	3-years
TER 1.426	Kind of cap:	Program	Inflation Adjusted:	No

Policy Purpose

As summarized in the 2015-17 Tax Expenditure Report, the policy purpose of the tax credit is "…to fund an asset based prosperity strategy for low income Oregonians that promotes personal financial management, investment, and savings for key assets." Statute provides the policy purpose for the IDA program in ORS 458.675. (The full citation is included below.) Statute also suggests a periodic review of the program, but identifies neither a timeline nor specific metrics for such an evaluation.

The Legislative Assembly finds that:

(1) The problem of poverty will not be solved solely by government programs and income subsidies.

(2) Family economic well-being does not come solely from income, spending or consumption, but instead requires savings, investment and the accumulation of assets.

(3) It is appropriate for the state to institute an asset-based antipoverty strategy.

(4) The state has an opportunity to take advantage of private and federal resources by making the transition to an asset-based antipoverty strategy. Those resources include, but are not limited to, the Assets for Independence Act (42 U.S.C. 604) and the Workforce Investment Act (P.L. 105-220).

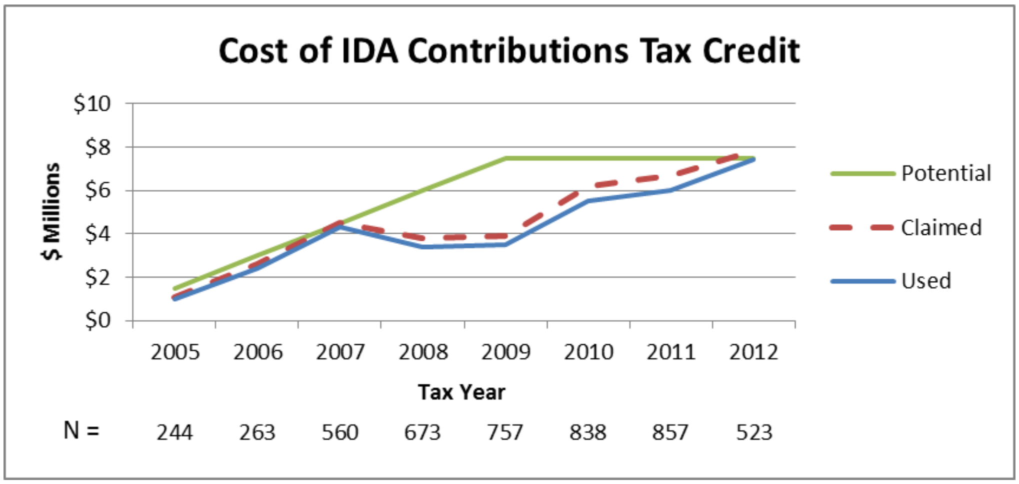
(5) Investment through an individual development account system will help lower income households obtain the assets they need to succeed. Communities and this state will experience resultant economic and social benefits accruing from the promotion of job training and higher education, home ownership and small business development.

(6) It is desirable for this state to enact legislation that enables an authorized fiduciary organization sufficient flexibility to receive private, state and federal moneys for individual development accounts. The Legislative Assembly should periodically review the provisions of ORS 458.675 to 458.700 to ensure that this state maximizes the receipt of available federal moneys for individual development accounts.

Description and Revenue Impact

Individuals or businesses donating to the state-selected nonprofit (currently the Neighborhood Partnership Fund) for individual development accounts (IDAs) are allowed a tax credit equal to the lesser of $75,000 or 75 percent of the amount donated. Contributions are applied toward matching IDA account holder savings and also toward program related expenses. The amount used to compute the credit must be added to Oregon taxable income if it were deducted when computing federal taxable income. The Housing and Community Services Department maintains a limit of $10 million on the total of all credit eligible contributions made each year.

The graph below shows the use of the tax credit on tax returns between 2005 and 2012. (Tax year 2012 is for personal income tax filers only.) The green line shows the potential that could have been claimed had the program cap been reached. Aside from the recession years of 2008 and 2009, the amount claimed for this tax credit has consistently grown during this time period from $1.0 million to $7.9 million. The average annual growth rate was 33 percent and the usage rate was 92 percent. While the data are for both personal and corporate income tax filers, very few corporations have claimed the tax credit in any given year.



Policy Analysis

Because the policy objectives of the two tax credits included in this section are so closely related, the policy analysis is provided once at the end of this section, following the tax credit for Individual Development Account withdrawals.

Other Issues

A few other states have implemented a tax credit to fund their IDA program. They are Arizona, Indiana, Maine, and South Carolina. The key characteristics of their tax credit programs are summarized below.

Key Characteristics

- The credit allowed is a percentage of the contribution or fixed amount
- Stipulates a maximum credit amount (annual or all years)
- A collective annual cap for all tax credit claimants
- Qualifying organization must meet stated criteria
- Credit amount could vary depending on the type of organization

The administrative costs for this program are primarily born by Neighborhood Partnerships, with some financial assistance from the state General Fund. For the 2013-15 biennium, roughly $13,000 was dedicated to these costs.

Individual Development Account Withdrawals

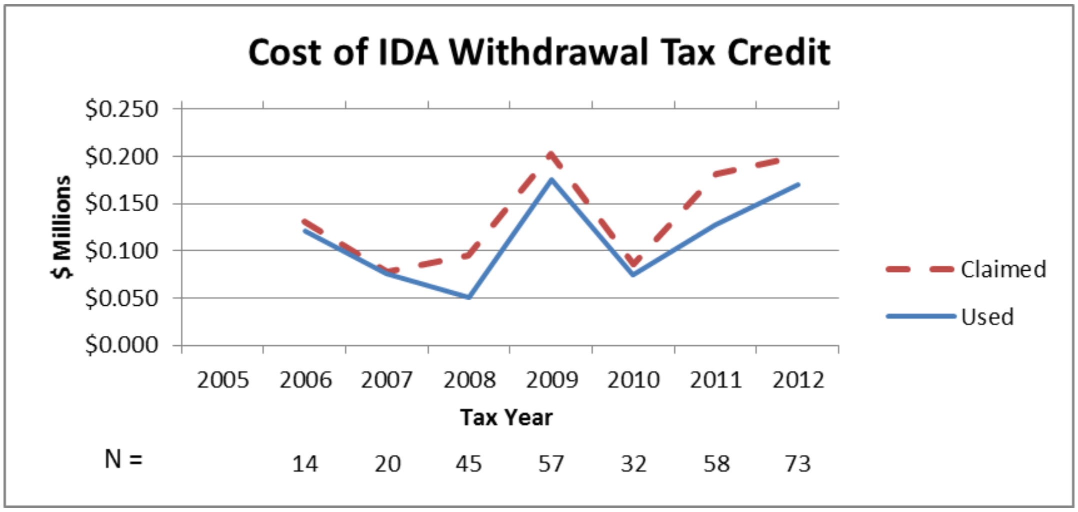
ORS 315.272	Year Enacted:	2005	Transferable:	No
	Length:	1	Means Tested:	No
	Refundable:	No	Carryfoward:	None
TER 1.427	Kind of cap:	None	Inflation Adjusted:	No

Policy Purpose

Testimony for the implementing legislation focused on Oregon’s home ownership rates that were lower than the U.S. average in 2005. Given the focus of the IDA program, a reasonable inference for the purpose of this tax credit is to increase home ownership among low-income Oregonians by offsetting, at least in part, some of the costs associated with purchasing a home.

Description and Revenue Impact

Individuals who make a qualified withdrawal from an Individual Development Account (IDA) are allowed a credit against personal income taxes. The funds must be used to pay for closing costs for the purchase of a primary residence. The amount of the credit is the lesser of the withdrawal, usual and reasonable closing costs, or $2,000.



Other Issues

It appears that no other state offers this kind of tax credit.

Policy Analysis (for both tax credits)

This tax credit program is another example of where there are two distinct groups of beneficiaries – those who benefit directly by using the tax credit to reduce their tax liability and IDA program participants who benefit from saving, and later, upon graduating, having their savings matched. The Oregon program was created in 1999 and has grown consistently over time. One key aspect to the program is that, while not in statute, the Housing and Community Services Department has maintained a limit on the amount of annual donations eligible for a tax credit. The limit was $4 million for 2006, $6 million for 2007, and $8 million for 2008. The limit increased to $10 million in 2009 where it remains today.

In general these programs are still relatively new but there has been some independent research conducted on their impacts. Some of that literature is summarized here. First, results of a report by Portland State University (PSU) are described. Since 2007, PSU has worked with Neighborhood Partnerships to report on program performances and outcomes. The most recent report covers accounts opened between January 2008 and December 2013. For context, statute defines eligible account holders. They must be an Oregon resident, at least 12 years old, a member of a lower income household, and have an established individual development account with a fiduciary organization selected by the Housing and Community Services Department. A lower income household is one whose income is no more than 80 percent of the median household income for the area or 200 percent of poverty level.

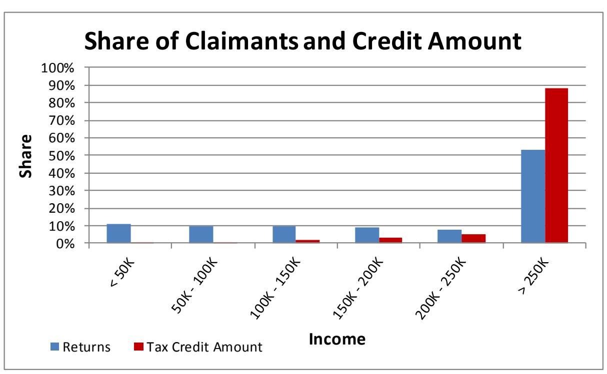
Program participants receive financial education, financial counseling, and training crafted to their specific goals. Once their specific goals for the program have been met, they are considered 'graduates'. The specific goals tend to include saving money for one or more of the following: the purchase of a primary residence (32 percent), education (37 percent), or a business start-up (27 percent). Other possible uses include home renovation (three percent) and employment related technology (one percent).

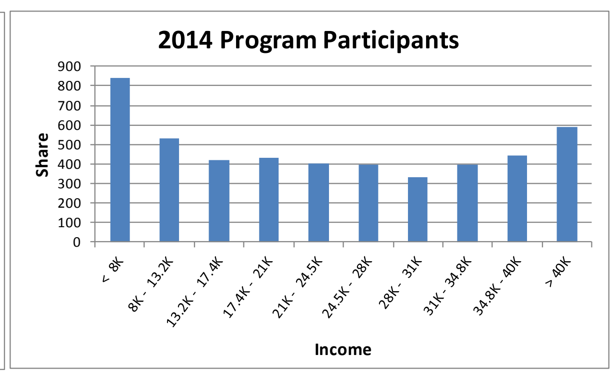
Between 2008 and 2013, the number of participants grew from 916 to 4,210. During this time, roughly $13.1 million in matching funds have been provided to 2,524 program graduates who had saved roughly $4.6 million. The program graduates saved an average of $1,849 over 23 months and benefited from an average match of $5,205.

As for independent academic research, one study estimated the impacts on homeownership between participants and nonparticipants. (Grinstein-Weiss, et. al.) The authors analyzed data from Tulsa, Oklahoma from 1998 to 2003. The study had a treatment group whose members participated in an IDA program and a control group whose members were not allowed to open an IDA. They found that participation in the IDA program accelerated homeownership by 7 to 11 percentage points after five years. However, after 10 years there was no significant difference between the two groups.

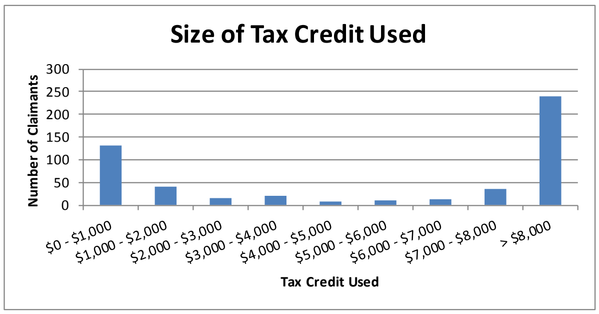
Another study compared the impacts of IDA programs in urban and rural areas. (Edwards and Bailey) They found that few state IDA policies include features that address the challenges of economic development in rural areas. The most common way has been to simply require that a portion of IDA program sites be located in rural areas. Their primary suggestion is that qualified uses of IDA funds should be expanded to include items such as automobiles for transportation to jobs and land-based infrastructure improvements. Another possibility they suggest is to expand eligible funds for IDA accounts to include Temporary Assistance for Needy Family (TANF) funds. This approach could be possible if the goals of the IDA and TANF programs were aligned.

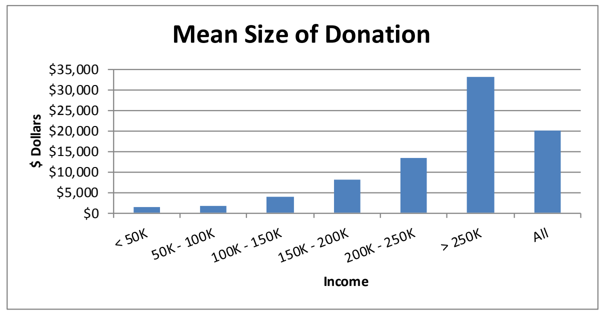
Turning to Oregon data, the following discussion examines data from Oregon tax returns and the Oregon IDA Initiative. The following two charts compare the income levels for 2012 tax credit recipients with those for 2014 program participants. In the chart on the left, which shows tax credit claimants, donors with income of at least $250,000 accounted for just over 50 percent of tax credit claimants and nearly 90 percent of the credit amount. The chart on the right shows income levels for program participants, 88 percent of whom had income of less than $40,000.





The next two charts show the distribution of credits claimed and the average size of donations by income category. The chart on the left shows that nearly 250 taxpayers claimed a tax credit of at least $8,000 in 2012. The second largest group is taxpayers who claimed a tax credit of less than $1,000; there were roughly 130 such taxpayers. The chart on the right shows that the average donation grew with income in 2012, which is not unexpected. Filers with at least $250,000 of income made an average donation of $33,000. This translated into an average tax credit of $24,750. Overall, the average donation was about $20,000 (a tax credit of $15,000).





In addition to the two tax credits discussed above, program recipients benefit from a number of tax expenditures to maximize their incentive and enhance their return on investment. There is an exclusion and subtraction that provides that contributions to and earnings from IDAs are not taxed by Oregon if used for approved purposes. The example provided below highlights the various aspects of preferential tax treatment within the IDA program.

1. Susan donates $100,000 to Neighborhood Partnerships for use as IDA matching funds. She gets an Oregon $75,000 personal income tax credit.
2. Carl has an IDA account to which he has deposited $1,000. He is allowed a personal income tax subtraction of $1,000.
3. Carl graduates from an IDA program and earns $5 interest and receives matching funds of $1,000. His account totals now $2,005. Neither the interest nor the matching funds are taxed by Oregon or the IRS while they accumulate in his account.
4. Carl uses the $2,005 to help buy a home. The $1,000 in matching funds is considered a gift and is therefore not taxable by the federal government or Oregon. Technically, the interest is taxable at the federal level but the amounts are often not large enough to trigger reporting requirements. He is also allowed an Oregon tax credit of $2,000 because he used the funds to purchase a home.

In Summary:

IDA Contributions	
Advantages	• Value of the donation exceeds the cost of the credit
Disadvantages	• Limitations on uses of funds
Potential Modifications	• Increase program cap • Expend eligible uses of funds • Incorporate urban/rural differences

IDA Withdrawals	
Advantages	• Potential long-term benefits to program participants
Disadvantages	• Cap may not cover qualified costs
Potential Modifications	• Expand eligible uses • Increase the cap

Other

Transportation Projects (Bus Passes)

ORS 315.336(2)	Year Enacted:	2011		Transferable:	Yes
	Length:	5 years		Means Tested:	No
	Refundable:	No		Carryfoward:	5-years
TER 1.445	Kind of cap:	Program		Inflation Adjusted:	No

Description and Revenue Impact

Individuals and businesses are allowed a tax credit for the provision of transit services to members of the public if the entity is either public or nonprofit and receives state or federal funding for those services. For tax year 2015, the credit is equal to 10 percent of certified costs. The credit for these types of projects was eliminated as part of the overhaul of the Business Energy Tax Credit in 2011. The phaseout schedule has been as follows:

- 25 percent from July 1, 2011 to December 31, 2012
- 20 percent from January 1, 2013 to December 31, 2013
- 15 percent from January 1, 2014 to December 31, 2014
- 10 percent from January 1, 2015 to December 31, 2015.

The 2011 Legislature decided to eliminate this credit and chose to phase it out over four years. For this reason, no analysis is provided here.

Bibliography

General

Burman, Leonard (2003), “Is the Tax Expenditure Concept Still Relevant?” National Tax Journal 56(3), pp. 613-627

Citizens for Tax Justice, “Judging Tax Expenditures”, 2009, http://www.ctj.org/pdf/judgingtep1109.pdf

Kleinbard, Edward (2010), “Tax Expenditure Framework Legislation”, National Tax Journal 63(2), pp. 353-382

Pew Center on the States, “Evidence Counts: Evaluating State Tax Incentives for Jobs and Growth”, 2012. http://www.pewtrusts.org/~/media/Assets/2012/04/12/Pew_Evaluating_State_Tax_Incentives_Report.pdf

Health Care

Baer, David and Ellen O’Brien, “Federal and State Income Tax Incentives for Private Long-Term Care Insurance,” November 2010, http://www.taxadmin.org/fta/rate/aarp_ltc_incentives.pdf

Daniels, Zina M. et. al. (2007), “Factors in Recruiting and Retaining Health Professionals for Rural Practice”, Journal of Rural Health 23(1). http://onlinelibrary.wiley.com/doi/10.1111/j.1748-0361.2006.00069.x/pdf

GAO, “TRICARE Multiyear Surveys Indicate Problems with Access to Care for Nonenrolled Beneficiaries,” GAO-13-364, April 2013, http://www.gao.gov/assets/660/653487.pdf

Goda, Gopi Shah, “The Impact of State Tax Subsidies for Private Long-Term Care Insurance on Coverage and Medicaid Expenditures,” November 2010, Stanford Institute for Economic Policy Research, http://web.stanford.edu/~gopi/statetaxincentivesforltci.pdf

Oregon Health Policy Board, “ Financial Incentive Programs in Oregon”, 2014

Stevenson, David G., Richard G. Frank, and Jocelyn Tau, “ Private Long-Term Care Insurance and State Tax Incentives,”, The Journal of Health Care Organization, Provision, and Financing, volume 46, Fall 2009, pp. 305-321. http://inq.sagepub.com/content/46/3/305.full.pdf

Child Care

Blau, David (2003). “Child Care Subsidy Programs,” Means-Tested Transfer Programs in the United States, National Bureau of Economic Research. http://www.nber.org/chapters/c10260.pdf

Elliot, Janis, Arthur Emlen, Karen Tvedt, and Bobbie Weber, (1999) "Research and Child Care Policy: A View from the States," Child Care Policy Research Issue Brief 1.

Light, Miles K., Carolyn Wagner, Gary Horvath, and Richard Wobbekind (2005). "The Economic Impact of Child Care in Colorado," Colorado Children's Campaign. http://www.coloradokids.org/issues/earlychildhood/ecepubs.html

Oregon Secretary of State, "Child Care in Oregon: Difficult to Afford; New Regulations May Improve Safety but Further Raise Costs," December 2014, http://sos.oregon.gov/audits/Documents/2014-25.pdf

Rahe, Mallory L., and Bruce Sorte, "The Economic Impact of Oregon's Child Care Industry: 2010 Edition," Child Care Division, Oregon Employment Department. http://www.oregon.gov/OCC/docs/Reports/child_care_econ_impact_2010.pdf

Ryan, Rebecca M., Anna Johnson, Elizabeth Rigby, and Jeanne Brooks-Gunn (2011), "The Impact of Child Care Subsidy Use on Child Care Quality," Early Childhood Research Quarterly 26(3); pp. 320-331. http://www.ncbi.nlm.nih.gov/pmc/articles/PMC3160790/pdf/nihms258065.pdf

Scott, Ellen K., Ann Shirley Leymon, and Miriam Abelson. "Assessing the Impacts of Oregon's 2007 Changes to Child-Care Subsidy Policy," http://health.oregonstate.edu/sites/default/files/sbhs/pdf/occrp-child-care-research-report-2011.pdf

Disability

Seto, Theodore P. and Sande L. Buhai, "Tax and Disability: Ability to Pay and the Taxation of Difference," University of Pennsylvania Law Review, Vol. 154, No. 5 (May 2006), pp. 1053-1145, https://www.law.upenn.edu/journals/lawreview/articles/volume154/issue5/SetoBuhai154U.Pa.L.Rev.1053(2006).pdf

Phillips, Lisa, "Disability, Poverty, and the Income Tax: The Case for Refundable Credits," Journal of Law and Social Policy, Volume 16, Article 4, January 2001, http://digitalcommons.osgoode.yorku.ca/cgi/viewcontent.cgi?article=1053&context=jlsp

Business Investment

Freedman, Matthew, "Teaching New Markets Old Tricks: The Effects of Subsidized Investment on Low-Income Neighborhoods", Journal of Public Economics, December 2012, v.96, 11-12, pages 1000-1014, http://digitalcommons.ilr.cornell.edu/cgi/viewcontent.cgi?article=1008&context=ldi

Gurley-Calvez, Tami, Thomas Gilbert, Katherine Harper, Donald Marples, and Kevin Daly, "Do Tax Incentives Affect Investment: An Analysis of the New Markets Tax Credit", 2009 Public Finance Review 47(4): 371-398, http://pfr.sagepub.com/content/37/4/371.short

New Markets Tax Credit Coalition, The New Markets Tax Credit 10th Anniversary Report, December 2010, http://nmtccoalition.org/wp-content/uploads/NMTCC-10th-Anniversary-Report.pdf

U.S. Government Accountability Office (GAO), Tax Policy: New Markets Tax Credit Appears to Increase Investment by Investors in Low-Income Communities, but Opportunities Exist to Better Monitor compliance, January 2007, GAO-07-296, http://www.gao.gov/new.items/d07296.pdf

U.S. Government Accountability Office (GAO), New Markets Tax Credit: The Credit Helps Fund a Variety of Projects in Low-Income Communities, but Could be Simplified, January 2010, GAO-10-334, http://www.gao.gov/products/GAO-10-334

U.S. Government Accountability Office (GAO), New Markets Tax Credit: Better Controls and Data are Needed to Ensure Effectiveness, July 2014, GAO-14-500, http://www.gao.gov/products/GAO-14-500

Urban Institute, New Markets Tax Credit (NMTC) Program Evaluation: Final Report, a report prepared for U.S. Department of the Treasury, Community Development Financial Institutions (CDFI) Fund, April 2013, http://www.urban.org/UploadedPDF/412958-new-markets-tax-final.pdf

Financial Independence

Edwards, Karen and Jon Bailey, "State-level Individual Development Account (IDA) Policy: Opportunities and Challenges for Rural Areas," 2006, Policy Report 06-01, Center for Social Development, http://www.usc.edu/dept/chepa/IDApays/publications/123.pdf

Grinstein-Weiss, Michal, Michael Sherraden, William Gale, William M. Rohe, Mark Schreiner, and Clinton Key, "Ten-Year Impacts of Individual Development Accounts on Homeownership: Evidence from a Randomized Experiment," March 2011, Brookings Institute, http://www.brookings.edu/~/media/research/files/papers/2011/3/04%20homeownership%20gale/0304_homeownership_gale.pdf

Portland State University, "Oregon IDA initiative Evaluation Report Executive Summary," August 2014, https://oregonidainitiative.org/impact-policy/evaluation/

Appendix A

77th OREGON LEGISLATIVE ASSEMBLY--2013 Regular Session

Enrolled

House Bill 2002

Sponsored by Representatives GALLEGOS, KOTEK; Representatives FAGAN, FREDERICK, GORSEK, GREENLICK, KOMP

CHAPTER ....

AN ACT

Relating to analysis of tax credit legislation.

Be It Enacted by the People of the State of Oregon:

SECTION 1. Section 2 of this 2013 Act is added to and made a part of ORS chapter 315.

SECTION 2. (1) Prior to the beginning of each odd-numbered year regular session, the Legislative Revenue Officer shall submit a report addressing each income or excise tax credit that is scheduled to expire during the next even-numbered year. The Legislative Revenue Officer shall submit the report to a committee of the Legislative Assembly related to re- venue, and may include information related to other tax credits in the report at the direction of an interim committee related to revenue. In preparing the report, the Legislative Revenue Officer shall seek input from the Department of Revenue, the Legislative Fiscal Officer and state agencies involved in administering any given credit.

(2) The report required in subsection (1) of this section shall set forth: (a)

The stated public policy purpose, if any, of the credit.

(b) The expected timeline for achieving the public policy purpose, if a timeline exists. (c)

The best means of measuring achievement of the public policy purpose.

(d) The taxpayers or other entities or individuals that directly benefit from allowance of the credit and whether the credit is intended to benefit particular targets.

(e) The effectiveness of the credit in benefiting its targets and any evidence that demonstrates its impact on its targets.

(f) The expected results if the credit is allowed to expire under current law and any potential results of making incremental changes in the value of the credit rather than allowing it to expire.

(g) Background information on the effect of similar credits allowed in other states.

(h) Information regarding whether use of a tax credit is an effective and efficient way to achieve the stated policy goal.

(i) The administrative and compliance costs associated with the credit.

(j) Analysis of whether a direct appropriation might achieve the stated public policy purpose of the credit more efficiently.

(k) What other incentives, including state or local subsidies or federal tax expenditures or subsidies, are available in this state that have a similar policy purpose.

Appendix B

Legislative History

This appendix contains the legislative history for each tax credit included in this report. Statutory changes can be technical in nature or policy-oriented. Text in bod indicates changes that are more policy-oriented.

Rural Medical Providers

Year	Bill	Chapter	Section	Policy
1989	SB 438	893	2-6a	Created: $5,000 for ten years if 60% of practice is rural; for tax years 1990-93; for physicians, physician assistants, and nurse practitioners
1991	**HB 2162**	**877**	**16-18**	**Modify hospital requirements, extend sunset to 1-1-95; clarify time calculation; add certified registered nurse anesthetists**
1995	**HB 2255**	**746**	**36-38**	**Establish qualification deadline of 12-31-01; add podiatric physicians & surgeons and dentists**
1997	**HB 3140**	**787**	**3**	**Add optometrist (up to five by 7-1-99)**
1999	**SB 530**	**459**	**1**	**Remove 10-year limit; add rural critical access hospital;**
1999	HB 2267	582	10	Change registered to licensed
1999	SB 1093	802	4	Grammar change
2001	HB 2206	509	12	Remove 2001 eligibility deadline; modified B hospital requirements
2003	HB 2424	46	39-40	Internal reference changes
2005				Moved from 316.143/144/146 to 315.613/616/619
2009	HB 2009	595	205	Reference change
2009	**HB 2067**	**913**	**25**	**Add sunset of 1-1-14 and grandfather clause if eligible in 2013**
2013	**HB 3367**	**750**	**10-11**	**Extend sunset date to 1-1-16; change 60% requirement to 20 hrs/wk; adds certain rural referral centers; adds eligibility requirement pertaining to Medicare and medical assistance patients being served**

Costs in-lieu of Nursing Home Care

Year	Bill	Chapter	Section	Policy
1979	HB 2228	494	2-4	Created; applies to 1980+
1991	SB 820	786	5	Reference update
1997	HB 2061	170	28	Reference update
2009	HB 2067	913	37	Add sunset of 1-1-16
2011	HB 3037	201	8-9	Update reference for Project Independence (replace "home care")

Long-term Care Insurance

Year	Bill	Chapter	Section	Policy
1999	HB 2080	1005	2	Created; applies to 2000+
2009	HB 2067	913	38	Add sunset of 1-1-16

Oregon Life and Health IGA Assessments

Year	Bill	Chapter	Section	Policy
1975	SB 577	251	14	Created
1995	HB 2855	786	9	Removed 'premium' (change in taxation of insurance companies)
2009	HB 2067	913	50	Added sunset of 1-1-16 (734.835 does not apply)

TRICARE for Health Care Providers

Year	Bill	Chapter	Section	Policy
2007	HB 3201	843	5, 6, 8	Created
2008	SB 1060	3	1	Clarifies the number of certificates to be issued
2009	HB 2067	913	51	Extend sunset to 1-1-16

Oregon Veterans' Home Physician

Year	Bill	Chapter	Section	Policy
2007	HB 3201	843	3, 9	Created with 1-1-12 sunset
2009	HB 2067	913	52	Extend sunset to 1-1-16

Child and Dependent Care

Year	Bill	Chapter	Section	Policy
1975	HB 2008	672	15a	Created: $8 for each $100 deducted on federal return pursuant to IRC 214
1977	**HB 2021**	**872**	**3**	**Change to 40% of the federal credit (IRC 44a)**
1979	SB 169	691	4	IRC update
1983	HB 2201	684	9	Reference change of 316.397 to 316.117
1985	HB 2011	802	4	IRC update (44a to 21) and date; wording change for common usage
1987	HB 2225	293	10	IRC update and add language "for employment -related expenses"
1989	HB 2209	625	7	IRC update
1989	**SB 750**	**1047**	**11**	**IRC update; added income phase-out and 5-year carryforward**
1991	HB 2164	457	2	IRC update
1993	HB 2058	726	28	IRC update
1997	SB 1144	839	6	IRC update
1999	HB 2137	90	8	IRC update
2001	HB 2272	660	36	IRC to rolling reconnect
2009	HB 2067	913	44	Sunset of 1-1-16 added

Working Family Child Care

Year	Bill	Chapter	Section	Policy
1997	SB 388	692	2	Created: up to 40% of expenses; phased out if income is 150% to 200% of FPL
1999	**SB 2**	**998**	**1**	**Increased phase-out range to income between 200% and 250% of FPL**
2001	HB 2777	114	32	Change shall to may
2001	**HB 2272**	**660**	**10**	**Indexed earned income requirement to inflation**
2001	**HB 2716**	**867**	**1**	**Made refundable beginning in 2003**
2003	HB 2424	46	33	Changed "licensed" to "certified"
2003	HB 3184	473	11	Refundable language moved to own statute; reference added
2005	HB 2451	49	1	Limited to Oregon residents or nonresidents with $6,000 of Oregon income
2005	SB 31	832	25	Tied the definition of qualifying child to the IRC definition
2007	SB 83	70	83	Wording change of "disabled" to "with a disability"
2007	HB 2752	868	1	Allowed if an at-home parent is disabled
2009	HB 2078	909	41	Clarify IRC references

Employer Provided Dependent Care Assistance

Year	Bill	Chapter	Section	Policy
1987	SB 734	682	2, 5, 8, 10	Created
1989	HB 2209	625	10, 20	Removed language on marital status under IRC 21€(3); IRC update
1991	HB 2164	457	6, 11	IRC change '89(k) & 129(d)(2)' to '129(d)'; IRC update
1991	HB 2162	877	13, 31	IRC update; clarifi applicaiblity of both types: assistance and referral services
1991	HB 2262	929	3	Extended sunset date to 1-1-02
1993	HB 2143	730	21-22	Moved to chapter 215; enacted in lieu of 316.134, 317.135, 318.175
1995	SB 581	79	163	Change 'day' to 'dependent' prior to 'care'
1997	SB 1144	839	65	IRC to rolling reconnect
2001	**HB 2676**	**674**	**1, 14**	**Extend susnet to 1-1-07; require employers to apply to the Child Care Division for certification**
2005	HB 2951	485	1	Extend sunset to 1-1-17
2009	HB 2067	913	46	Move sunset to 1-1-16
2013	HB 3234	624	77	Change Child Care Division to Office of Child Care

Contributions to the Office of Child Care

Year	Bill	Chapter	Section	Policy
2001	HB 2676	674	10, 13	Created with 1-1-07 sunset
2003	**HB 3184**	**473**	**8-9**	**Removed "or a selected community agency" (limit contributions to CCD); disallow dedution and credit; extend sunset to 1-1-09**
2007	HB 2810	880	1	Extend sunset to 1-1-13
2009	HB 2067	913	47	Extend sunset to 1-1-16
2013	HB 3234	624	79	Change Child Care Division to Office of Child Care

Child with a Disability

Year	Bill	Chapter	Section	Policy
1985	HB 2736	531	2	Created; applies to 1986+; Department of Education adopts rules
1987	HB 2225	293	15	Added "visually impaired" and "hearing impaired" to definition of "handicapped child"
1989	SB 368	224	50a	Replaced "handicapped" with "disabled"
1989	HB 2305	491	1	Replaced "Department of Education" with "State Board of Education"
1993	HB 3026	777	7	Added "or as having serious emotional disturbance or traumatic brain injury" to definition of "disabled child"
1993	HB 2443	813	6	Same as in HB 3026 -- why?
1999	SB 363	989	29	Deleted "serious" from the 1993 change
2001	HB 2777	114	35	Change "autistic" to "autism" to refledct modern usage
2005	SB 31	832	28	Tied to IRC 152 for definition of 'child'
2007	SB 83	70	84	Change "diabled child" to "child with a disability"
2009	HB 2067	913	39	Add sunset of 1-1-16

Elderly or Permanently Disabled

Year	Bill	Chapter	Section	Policy
1969	HB 1026	493	18	Created; equal to 25% of the retirement tax credit (federal?)
1971	HB 1283	736	2	Calculation change related to 316.067 "credit shall be considered to have been based or calculated on the subtracted income first"
1977	**HB 2021**	**872**	**4**	**Change to 15% of the federal elderly credit (IRC 37)**
1979	SB 169	691	5	IRC connection date update
1983	HB 2201	684	12	Reference update
1985	HB 2011	802	5	Add "or the permanently and totally disabled"; IRC 37 to 22; updated IRC connection date
1987	HB 2225	293	14	Change reference for IRC -- 1986 reform??
1987	**SB 835**	**545**	**1**	**Change 15% to 40% for 1987+; disallowed if claiming subtraction 316.680(1)(c) for retirement income**
1989	HB 2209	625	8	IRC connection date update
1991	HB 2164	457	3	IRC connection date update
1991	HB 2352	823	2	Disallow credit if claim the new retirement tax credit (instead of subtration)
1993	HB 2058	726	29	IRC connection date update
1997	SB 1144	839	9	IRC connection date update
1999	HB 2137	90	10	IRC connection date update
2001	HB 2272	660	37	IRC connection change to rolling reconnect
2009	HB 2067	913	40	Add sunset of 1-1-16

Loss of Limbs

Year	Bill	Chapter	Section	Policy
1973	HB 2312	120	2	Created
2009	HB 2067	913	41	Added sunset date of 1-1-16

Severe Disability

Year	Bill	Chapter	Section	Policy
1979	HB 3080	554	2-5	Created
1985	HB 2182	345	10-12	Replaced 'exemption' with 'credit'; formerly 316.135, 316.136, 316.137, 316.138
1987	HB 2409	158	50	Wording change for common usage
1987	HB 2225	293	28-30	Adds 'exemption' between 'personal' and 'credit'
1989	SB 368	224	51	Wording change for common usage
1995	HB 2200	54	12	Allows DOR to waive the substantiation requirement
2007	SB 83	70	85-87	Change 'is severly disabled' to 'has a severe disability'
2009	HB 2078	909	40	Adds tie to IRC 72(m)(7), definition of disabled
2009	HB 2067	913	42-43	Add sunset of 1-1-16 to 316.758 & 316.765 (Taxpayer and spouse)

Qualified Low-Income Community Investments

Year	Bill	Chapter	Section	Policy
2011	SB 817	732	1-2, 4-5	Created
2013	HB 2763	744	1	Added a 5-year carryforward for investments made after 1-1-14; clarified impact on insurance companies

Public University Venture Development Funds

Year	Bill	Chapter	Section	Policy
2005	SB 853	592	5	Created
2009	HB 2067	913	27	Added sunset of 1-1-16
2013	HB 3367	750	42-43	Clarified sunset such that it applies to the first year of the 3-year credit

Individual Development Account Contributions

Year	Bill	Chapter	Section(s)	Policy
1999	HB 3600	1000	12	Created; credit is $25,000 or 25% of donation
2001	**HB 3391**	**648**	**1**	**Change to $75,000 or 75% of donation**
2007	HB 2094	765	1, 9	Add sunset of 1-2-16; refined definitions; IRC update; full repeal on 1-2-16
2009	HB 2067	913	48	Extend donation sunset to 1-1-16

Individual Development Account Withdrawals

Year	Bill	Chapter	Section	Policy
2005	HB 3358	575	2	Created
2009	HB 2067	913	49	Added sunset of 1-1-16

Appendix C

Tax Credits in Other States

This appendix contains tables with details on tax credits in other states with policies similar to those discussed in this report.

Rural Medical Providers

	Credit Amount	Eligibility Requirements	Definitions
Alabama	• $5,000 for up to 5 years • Non-refundable	• Licensed physician • Must practice and reside in a rural community • Must have privileges at a rural hospital	• Rural is a community of up to 25,000 residents • Rural hospital must have an emergency room
Georgia	• $5,000 for up to 5 years • Non-refundable • No carryforward or carryback	• Practice in family, obstetrics, gynecology, pediatrics, internal medicine, or general surgery • Must have started after 7/1/1995 or have been absent for at least 3 years • Must practice and reside in a rural (or contiguous) county • Must have privileges at a rural hospital	• Rural is a county with no more than 65 people per square mile • Rural hospital is an acute-care hospital with no more than 100 beds located in a rural county
Louisiana	• $5,000 for up to 5 years • Non-refundable	• Medical doctors and dentists • Doctors must operate a rural practice • Dentists must establish a practice within a Dental Health Professional Shortage area.	• A rural practice is located more than 20 miles from another community hospital and located more than 20 miles from the nearest incorporated city with a population over 30,000

New Mexico	• Up to $3,000 or $5,000 depending on profession • Refundable	• Larger credit for physicians, osteopathic physicians, dentists, clinical psychologists, podiatrists, and optometrists • Smaller credit for dental hygienists, physician assistants, certified nurse midwives, certified registered nurse anesthetists, and clinical nurse specialists • Must provide health care for at least 2,080 during the year for the full credit; if between 1,040 and 2,080 hours, then eligible for 50% of the credit. • Practice located in an approved rural health care underserved area	•
Colorado	• Recently inactive due to fiscal problems • Amount is a function of student loans • Includes a recapture	• Must have outstanding educational loans • Open to physicians, physician assistants, nurse practitioners, certified nurse midwives, clinical nurse specialists, nurse aides, dentists, or dental hygienists • Must practice in a rural shortage area for 20 hours per week for three years • Must have privileges at a rural hospital	•
Maine	• Available for up to 5 years • Annual funding	• New practitioners in designated areas	•

Costs in-lieu of Nursing Home Care

	Credit Amount	Eligibility Requirements	Definitions
Montana	• $2,500 for one qualifying family member or $5,000 for two or more family members	• Income of taxpayer(s) providing care must be less than $15,000 if single or $30,000 if married	• Qualifying expenses include long-term care insurance
New Mexico	• $2,800 if unreimbursed expenses are at least $28,000	• Taxpayers must be at least age 65 • Must not be a dependent for medical care expenses	• Qualifying expenses include long-term care insurance

Long-Term Care Insurance

	Credit Amount	Eligibility Requirements	Definitions
Colorado	• 25% of premiums paid, up to $150; or $300 for joint filers with two separate policies • Non-refundable and no carryforward	• Must have federal taxable income below $50,000 ($100,000 if joint with two policies)	• Qualifying policies are limited to one per person
Maine	• Employer credit that is the least of $5,000, 20% of costs, or $100 per covered employee	•	•
Maryland	• A one-time credit allowed if not covered prior to 7-1-2000 • 100% of premiums up to $500 per person if	•	•

	age 40 or over; up to $350 per person if under age 40 • An employer credit that is the least of $5,000, 5% of costs, or $100 per covered employee		
Minnesota	• The lesser of 25% of premiums not deducted or $100 ($200 if married) • Non-refundable	•	• Qualifying policy must be eligible for federal deduction and have a lifetime benefit limit of at least $100,000
New York	• Credit is 20% if premiums paid, whether individual or a business	•	•
North Carolina	• 15% of premium costs up to $350 for each contract	• Must provide coverage for taxpayer, spouse, or dependent	• Qualified premiums are those defined in IRC 7702B
North Dakota	• 100% of premiums paid up to $250 ($500 if married)	•	• Must be a North Dakota Long-Term Care Partnership Program insurance plan
Virginia[9]	• 15% of premiums paid • 5-year carryforward	•	•

Child and Dependent Care

	Fixed Share	Fixed Share, with a cap	Phased-down/out Share	Percent of Expenses
Arkansas	20%			
California			50% to 34% (income < $100,000)	
Colorado			50% to 10%, (income < $60,000)	
Delaware	50%			

[9] Expired on December 31, 2013.

Georgia		30% up to $315/$630		
Hawaii				25% to 15%
Iowa			75% to 30% (income < $45,000)	
Kentucky		20% up to $210/$420		
Louisiana			50% to 10% if income < $60,000; 10% otherwise	
Maine	25%			
Maryland			32.5% to 3.25% (income < $25K/$50K)	
Minnesota			100%, phased out for income between $18,040 and $40,000	
Nebraska			90% to 25% if income > $29,000	
New Mexico				40% if income < $30,000*
New York			110% to 100% if income < $65,000; 20% otherwise	
Oklahoma		20% (if income < $100,000)		
Rhode Island	25%			
South Carolina				7%
Vermont	24% (refundable if income < $30,000)			

* The credit is reduced by the amount of the federal tax reduction due to the federal credit.

Working Family Child Care

	Credit Amount	Availability	Other
Illinois	25% of expenses, up to $500	Taxpayers who paid over $250 on K-12 supplies for their children	
Iowa	25% of the first $1,000 paid	Expenses for early childhood development expenses for each child between the age of 3 and 5	May not claim this credit and the Child and Dependent Care credit
Maine	20% of expenses paid by employer to provide full-time daycare; limit of $100 per child or $5,000 in total.		Investor credit for taxpayers investing in a child care site with the goal of attaining certification; if corporation, then 30% of expenses up to $9,000; if individual, up to $1,000 annually for ten years.

Disability tax credits

	Credit Amount	Eligibility
Arkansas	$26 if deaf, blind, over age 65; $500 if developmental disability	
Idaho	$100 per qualifying individual, up to $300	Family member age 65 or older or with a developmental disability
Louisiana	$100 if blind, deaf, mentally incapacitated, or lost the use of a limb	Taxpayer, spouse, or dependent
North Carolina	Up to $6,000 for tuition and special education	Dependent, disabled child
Indiana	Between $40 and $100 (single) or between $80 and $140 (joint)	Phased-out after income of $10,000
Maine	20% of the federal credit	
Vermont	24% of the federal credit	

Qualified Low-Income Community Investments

	Annual Cap ($M)	Transaction Cap $M	Credit Amount	Credit Schedule
Alabama	$20	$10	50%	0/8.3/8.3/8.3/8.3/8.3/8.3
Alaska	$40	NA		
Arkansas	$166	NA	58%	0/12/12/12/11/11
Florida	$33.6	$10	39%	0/0/7/8/8/8/8
Illinois	$25.6	$10	39%	0/0/7/8/8/8/8
Kentucky	$25.6	$10	39%	0/0/7/8/8/8/8
Louisiana	$122.2	NA	45%	14/14/8.5/8.5
Maine	NA	$40	39%	0/0/7/8/8/8/8
Mississippi	$62.5	$10	24%	8/8/8
Nebraska	$15	NA	39%	0/0/7/8/8/8/8
Nevada	$200	$50	58%	0/0/12/12/12/11/11
Ohio	$10	$1	39%	0/0/7/8/8/8/8

Individual Development Account Contributions

	Credit Amount	Qualifying Entity	
Arizona	$200/$400 (S/J) or $400/$800 (S/J). The larger credit is for foster care entities.	Charities helping low-income, chronically ill, or disabled residents. Five such entities are IDA programs	
Indiana	50% of contribution	A Community Development Corporation participating in an IDA program	
Maine	50% of contribution up to $25,000	Community Development Organization operating a Family Development Account Reserve Fund	Program fiscal year cap is $200,000
South Carolina	33% of investment	Community Development Corporation or Community Development Financial Institution	Program limit of $1M for any year and $5M for all years

Appendix D

Tax Credit Committee Policy Questions

When reviewing the tax credit sunset extension bills and proposed new credits, the Joint Committee on Tax Credits intends to address the follow questions:

- What is the public policy purpose of this credit? Is there an expected timeline for achieving this goal?

- Who (groups of individuals, types of organizations or businesses) directly benefits from this credit? Does this credit target a specific group? If so, is it effectively reaching this group?

- What is expected to happen if this credit fully sunsets? Could adequate results be achieved with a scaled down version of the credit? What would be the effect of reducing the credit by 50%?

- What background information on the effectiveness of this type of credit is available from other states?

- Is use of a tax credit an effective and efficient way to achieve this policy goal? What are the administrative and compliance costs associated with this credit? Would a direct appropriation achieve the goal of this credit more efficiently?

- What other incentives (including state or local subsides, federal tax expenditures or subsidies) are available that attempt to achieve a similar policy goal?

Could this credit be modified to make it more effective and/or efficient? If so, how?