

# REVENUE IMPACT OF PROPOSED LEGISLATION

74th Oregon Legislative Assembly

2008 Special Session

Legislative Revenue Office

<b>Bill Number:</b>	HB 3619-B
<b>Area:</b>	Income Taxes
<b>Economist:</b>	Warner / Allanach
<b>Date:</b>	2-20-2008

## Measure Description:

Allows the Department of Energy to establish by rule certain criteria relating to the credit for renewable energy resource equipment manufacturing facilities. These criteria are standards for: (1) what constitutes a single facility; (2) the minimum level of increased employment for an eligible facility; (3) indicators of financial viability of applicants for preliminary certification; (4) the likelihood of long-term success of an eligible facility; and (5) the likelihood that the applicant will base location or expansion decisions on the allowance of the tax credit. Increases the maximum certified cost of a manufacturing facility that receives a preliminary certification from \$20 million to \$40 million. Allows the director of the Department of Energy to certify a lesser amount if any of the following conditions exist at the time of precertification: (1) the last revenue forecast for a biennium indicates that resources available for the next biennium will be at least 3% less than appropriations from the GF for the current biennium; (2) a revenue forecast projects GF revenues in the current biennium will be at least 2% below what revenues were projected to be in the forecast on which the legislatively adopted budget was based; (3) the proposed facility does not meet the criteria for likelihood of success; (4) the proposed facility is not likely to meet the minimum employment gains required; (5) the applicant lacks the minimum level of financial viability; or (6) the applicant is unlikely to base a relocation or expansion decision on the allowance of this credit. Declares that a preliminary certification remains valid for five years after the date it is issued. Replaces the requirement that the director of the Department of Energy consult with the Public Utility Commission with permissive language that allows such consultation if the applicant is a public utility. Clarifies the revocation, or "clawback", provisions so that if a certificate is revoked, the person that obtained the certification from the Department of Energy (or any successor business) is responsible for reimbursing the state for any tax benefit received. If a manufacturing facility tax credit has been sold, the certified credit amount is to be collected by the Department of Revenue. Clarifies that the purchaser of these credits through the pass-thru program is held harmless by any certificate revocation. Applies to preliminary certifications approved on or after January 1, 2008.

Expands cap on Oregon Affordable Housing Lenders Credit from \$13 million per fiscal year to \$17 million. The increased cap first applies to the 2009 corporate tax year. The Housing and Community Services Department uses the credit to reduce finance costs for preserving and constructing housing for low income residents. The program is combined with other grants and federal subsidies to reduce housing costs. Increasing the cap is expected to retain federal subsidies that would otherwise be in danger of ending and stimulating construction activity primarily in the form of preserving existing structures.

Extends the deadline for inheritance tax returns from June 30, 2008 to September 1, 2008.

## Revenue Impact:

\$ Million	2007-08	2008-09	2007-09 Biennium	2009-11 Biennium	2011-13 Biennium
State General Fund	\$0	\$0	\$0	-\$3.0	-\$6.0

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## **Impact Explanation:**

The revenue impact in the above table is due solely to the Affordable Housing Lenders Credit. Increasing the cap can be expected to increase the revenue impact of the credit by \$4 million per year. However, the timing of the full impact depends on trends in corporate tax liability. The weaker the outlook for corporate profits the more the credit will be carried forward to future tax years. Under current law the credit can be carried forward 5 years.

The revenue impact estimate does not include anticipated indirect effects. The effects take two forms. The first is the retention of federal subsidies. The units targeted for preservation work with the expanded credit, account for \$31 million annually in federal subsidies. The subsidies represent income for Oregon residents, if the projects do not go forward and the units were put to another use, this would mean a loss of income to the state economy. The second indirect effect is through new construction activity stimulated by the credit. Based on previous experience with the credit, the Housing and Community Services Department estimates that the annual \$4 million increase in the credit will lead to rough \$100 million in new loans. These loans will be used to employ construction companies to rehabilitate existing housing. If the credit cap increase is approved, the increased construction activity is expected to begin in 2009 and continue through 2010. Construction activity associated with the projects is expected to be about \$9 million per year for each of the two years.

There is no revenue impact from the changes to the manufacturing facility tax credit. The changes generally address ambiguities in current law or administrative issues. The establishment of criteria for credit eligibility and the modified clawback provisions are not expected to affect income tax revenues. The increase in the maximum certified cost from \$20 million to \$40 million for eligible facilities does not affect revenue because it codifies current practices as per administrative rules for the Department of Energy. There is also no revenue impact to the change in the filing date for inheritance tax returns.