



Incorporate Hold Harmless Provision into SB 1531

Steve Robinson, February 3, 2012

My name is Steve Robinson, a policy analyst with Decision Metrics in Eugene.

I am here today to urge you to add an amendment to the federal reconnect bill that would hold harmless the General Fund from the explosive growth of federal tax expenditures, while at the same time protecting income taxpayers from any increase in their tax burdens from previous periods.

First, some key facts regarding the growth of income tax expenditures since the 1999-2001 biennium, gleaned from the pages of the state's own *Tax Expenditure Report*, and adjusted for the growth in statewide personal income:

- The average increase per biennium is **\$480 million**.
- The increase from 2009-11 to 2011-13 is an astounding **\$900 million**.
- In 1999-2001, income tax expenditures consumed **36 percent** of potential income tax revenues.
- By the current biennium, that figure had grown to **46 percent**, an **increase of 10 percent**.
- That increase blew a hole in the General Fund of **\$2.7 billion**.
- The additional loss of \$1 billion in Federal Funds expanded the total loss to **\$3.7 billion**.

These figures are for both federal and state tax expenditures together. The federal portion is about 80 percent of these amounts, and is growing over time.

The concept behind the Hold Harmless provision is simple. It would require the Department of Revenue to make a computation of the real growth in the federal portion of income tax expenditures from the previous biennium to the current one, and then to recover that amount from state itemized deductions in the next biennium.

Administration would be just as simple. This is the revised Form 40 with the required change on line 25:

| | | | |
|---|--|------|--------------------------|
| If you are claiming itemized deductions, fill in lines 21-25. If you are claiming the standard deduction, fill in line 26 only. | | | |
| 21 | Itemized deductions from federal Schedule A, line 29 | • 21 | <input type="text"/> .00 |
| 22 | Special Oregon medical deduction (age restricted, see instructions, page 17) | • 22 | <input type="text"/> .00 |
| 23 | Total Oregon itemized deductions. Add lines 21 and 22 | • 23 | <input type="text"/> .00 |
| 24 | State income tax claimed as an itemized deduction | • 24 | <input type="text"/> .00 |
| 25 | Net Oregon itemized deductions. Line 23 minus line 24. _____ times 76% | • 25 | <input type="text"/> .00 |
| OR | | | |
| 26 | Standard deduction from page 17 | • 26 | <input type="text"/> .00 |
| 27 | Total deductions. Line 25 or line 26, whichever is larger | • 27 | <input type="text"/> .00 |

} Either line 25 or 26

That's it: just one additional computation. For example, federal income tax expenditures grew an adjusted \$700 million last biennium, an unusually high amount. Itemized deductions are projected to cost \$2.9 billion in 2011-13. The requisite recapture would be 24 percent, yielding the 76% net figure in the example.

Both taxpayers and the General Fund are protected under the Hold Harmless provision, which **will not roll back** the past growth of federal income tax expenditures, but it **will prevent future growth** and protect General Fund revenues from further losses.

Competing Trends: Change since 1999-2001

