77th Legislative Assembly
JOINT COMMITTEE ON TAX CREDITS
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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?**
  - "The statute that allows this expenditure does not explicitly state a purpose. Presumably, the purpose is to encourage businesses to fund a greater share of education costs of their employees using a program they can tailor to their specific needs." - 2013-15 Tax Expenditure Report, State of Oregon
  - "Our mission is to assist Oregon students and their families in attaining a postsecondary education and to enhance the value, integrity, and diversity of Oregon's college programs." –Oregon Student Assistance Commission (O.S.A.C.)
  - Employers can provide scholarships for employees geared towards an education in their particular field of business. (E.g. U.S. Bank, they can provide an employee a scholarship, that employee in return can get an education in finance, business, economics, etc. geared towards a higher future with U.S. Bank).
  - No stated timeline for achieving this goal, which was enacted in 2001. However, the original sunset is set for 12-31-2013 (possible first timeline for achieving the goal). A new sunset of 2020 has also been proposed (possibly to extend timeline to achieve the 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?**
  -The students are who directly benefit from this credit, as it gives those without the opportunity to go to college the ability to do so.
  -It could also benefit the company who invest in an employee as overall they will be getting a more educated and well-rounded worker.
  -A few companies in Oregon who qualify and could benefit are: U.S. Bank, Papa's Pizza, University Club of Portland and various other businesses, Credit Unions, Utility Companies, Fishing-Related Jobs, Union Affiliates and many others. A full list can be found in the "source" link below.
  -Source: http://www.getcollegefunds.org/membership.html (ASAC Scholarship Application-Information).

- **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%?**
  -If this credit fully sunsets then the State would benefit in a revenue gain of a sum less than $50,000. Money that would be free to use for whatever the State chooses, but would no longer be available toward student scholarships via employer.
  -A scaled down version of the credit would most likely result in less scholarships being provided to students, and/or even less businesses using this tax credit.

-Reducing the credit by 50% could potentially eliminate any business' that currently use the tax credit. Over the last few bienniums fewer than five (5) businesses use the tax credit out of 35 that qualify. Including Credit Unions, Utilities, Fishing-Related Industries, Union Affiliates and Others less than five (5) out of 68 qualifying businesses use the tax credit.
-Thus, reducing the credit at all, or by 50% could effectively eliminate those that participate all together.

- **What background information on the effectiveness of this type of credit is available from other states?**
  -The IRS has similar deductibles to the Oregon Tax Credit. However, they do not have a specific credit for employers but rather for students and parents themselves. But, they do have guidelines and requirements that must be met subsequently to the requirements imposed by the Oregon Student Assistance Commission (OSAC). Those requirements are:
  1. The program must not be used to recruit or induce employees to continue their employment. The selection committee must be comprised of individuals totally independent and separate from the employer.
  2. The members may not be employees or former employees and should be knowledgeable in the educational field.
  3. Potential Recipients must be able to meet the admission requirement of and attend an eligible post-secondary institution.
  4. Recipient selection must be based on objective standards that are unrelated to employment of the recipient or to the employer's line of work.
  5. Once awarded, a scholarship may not be terminated if the employee is no longer employed.
  6. The course of study for which the scholarship is available must not be limited to those that would benefit the employer.
  7. Eligibility requirements must be related to the purpose of the scholarship program.
  8. If a minimum period of employment is required to qualify for employer-sponsored scholarship, this period may not exceed three years.

  -Pennsylvania (PA) also has similar credits, the Educational Improvement Tax Credit (EITC) and the Opportunity Scholarship Tax Credit (OSTC).

    -Education Improvement Tax Credit (EITC):
    - Tax Credits equal to 75% of its contribution and up to a maximum of $750,000 per taxable year may be claimed.
    - Tax Credit may be increased to 90% of the contribution, if business agrees to provide the same amount for two consecutive tax years.
    - For contributions to Pre-Kindergarten Scholarship Organizations a business may receive a tax credit equal to 100 percent of the first $10,000 contributed and up to 90% of the remaining amount contributed up to a maximum credit of $200,000 annually.
    - The qualifying student must also come from a household which makes less than $60,000 a year as of 2011.
    - Eligibility: Businesses authorized to do business in pensylvania who are subject to one or more of the following taxes become eligible:
      -Corporate Net Income Tax
      -Capital Stock Franchise Tax
      -Bank and Trust Company Shares Tax
      -Title Insurance Premiums Tax
      -Insurance Premiums Tax
      -Mutual Thrift Institution Tax
      -Insurance Company Law of 1921
      -Personal Income Tax of S corporation shareholder or Partnership partners.

    -Opportunity Scholarship Tax Credit (OSTC):
    - Tax credits may be applied against the tax liability of a business for the tax year in which the contribution was made. The tax credits awarded to businesses will be equal to 75% of their

contribution amount, which can be increased to 90% upon the business committing for two years. The total may not exceed $400,000 per taxable year.

-Differences: These two programs out of Pennsylvania provide scholarships from businesses to **ALL** students. Not to mention the budgets on these two bills are much higher than the tax credit for Oregon. -----
-Total program funding for the Fiscal Year 2012-2013 for the EITC is $30 million and for the OSTC it is $50 million.

- **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?**
  -If the policy goal is indeed to get more employed Oregonians a higher education, which they may not have receive, or had the funding to receive then a tax credit can be an effective and efficient way to achieve this policy goal.
  -Based on income tax return data from the Department of Revenue, between 30 and 35 personal income tax filers claim a total of $50,000 in tax credits each year (based on tax years 2008 to 2011). The annual average reduction in tax liability was just under $25,000. Aside from tax year 2010, in which $80,000 in tax credits were claimed and $30,000 were used to reduce liability, the use of the credit has been relatively stable. The estimated impact here assumes a continuation of this stability with little growth and perhaps a slight decline with the restriction pertaining to Oregon schools.
  -The alternative would be to increase the appropriation to U or O and OSU and the other state schools by the amount of the credit. From this perspective one benefit of the credit for the state is that only 50% of the scholarship donation is eligible for the credit. This does allow the state to double the value of the impact on revenue.

- **What other incentives (including state or local subsides, federal tax expenditures or subsidies) are available that attempt to achieve a similar policy goal?**
  -For Employer provided scholarships there appear to be none, although further research could yield a different result. It appears as if all Federal subsidies and tax credits apply more to an individual or those who support them (they say nothing about employers).

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