

Political Contribution Tax Credit: HB 2407

- Co-chairs and members of the committee, my name is Steve Robinson, and I am a policy analyst with Decision Metrics in Eugene. As you know by now, I tend to look at all tax expenditures with suspicion, knowing that so many of them simply serve to transfer money away from the General Fund and into the pockets of the people who can best afford to support General Fund programs like education, public safety and human services.

In the cases of the political contribution credit, I have many friends who are strongly in favor of the credit and feel that it helps them raise money to support the political campaigns they are interested in. As a campaign donor, treasurer and former elected official myself, I have made extensive use of this credit for the past 30 years running.

So rather than presuming this credit guilty until proven innocent – my usual approach – I wanted to be careful in analyzing how the credit is working, and whether it is effective **enough** in promoting our little laboratory of democracy here in Oregon to be worth keeping. So rather than saying up front where I ended up on HB 2407, I'd like to take you first through the analysis.

As usual, I'd like to share some data with you. • This graph shows the recent historical and projected future use of the credit from the DOR's personal income tax tables, using my usual method of discounting by statewide personal income so we can see apples alongside more apples. • As you'd expect, the numbers are higher in biennia with presidential elections, and lower for gubernatorial elections. • But the moving average for 4-year cycles is quite steady at around \$16.5 million per biennium, measured in the "2014" dollars we're using for the 2013-15 budget.

To rely on these numbers, we must assume a high level of compliance by Oregon taxpayers, because as you know, DOR no longer requires them to submit documentation for claiming the credit.

- The next set of numbers came from page 203 in your hymnal, AKA the Tax Expenditure Report. • In the year 2010, about 98,000 individuals claimed all or part of the credit. • The top 20% of income earners represented about half of the full-year filers taking the credit as well as over half – 58% to be exact – of the amount of the credit. • That's because those high earners claimed larger credits than others, about three times as much on average as the bottom tier. • Since 1990, about 5 percent of taxpayers claim the credit each year. • In 2010, only 2% of the bottom three tiers participated.

According to DOR, the political contribution credit • cost the General Fund \$14.9 million in 2011-13. If it is renewed without any changes, I estimate it will • cost about \$48.6 million during the coming three biennia.

It is difficult to get definitive results from examining ORESTAR data from the Elections Division, because of the large numbers of contributions aggregated as "Miscellaneous Cash Contributions \$100 and under." The following are my estimates after trying to clean up the data a bit and reconcile it with the Tax Expenditure Report.

- Here is the **percentage** distribution of original contributions as best I can determine it. The largest source – over a third – of political contributions in Oregon is business entities that write checks from company funds. The next largest is individuals, including of course some people contributing to business PACs from their personal accounts. This is the group that qualifies for the tax credit. A much smaller portion comes from organized labor, not including their political action committees. The rest comes from other sources – including other states.

- Here are the **dollar** figures in bar chart form, also showing contributions from PACs and political party committees. These groups pass through funds they collect from members, which we can't really include in the total because that would be double-counting. • Total original contributions topped \$56 million, and ORESTAR recorded \$78 million including the committee funds.

- So here's a quick summary. There were over 100,000 transactions recorded in 2012, including thousands of contributions less than \$100 aggregated into single transactions. I estimate individual contributions at \$15 million, of which 60% or so were not eligible for the tax credit because they exceeded \$50 or \$100.

- Looking at the DOR personal income tax tables for 2011, I determined that the top 5% of income earners took home 20% of the total credits, the next 15% garnered about 28%, so the top quintile got about 58% total. Most of the rest went to the next-highest earners.

- Since its inception in 1969, the political tax credit has cost the state nearly a third of a billion dollars in **current** terms, • assuming that 2011-13 was a typical biennium.

- A couple of years ago I participated in an effort by the Human Services Coalition of Oregon, or HSCO, to develop some criteria for evaluating tax expenditures. While I'm not speaking for HSCO today, I would like to review those criteria, both for looking at the political contribution credit, and in hopes that you as a committee will do a good job of using such objective criteria and actual supporting data, rather than just leaning on the assertions of the advocates of any particular position. I think you'll find the criteria hard to argue with, and in fact they closely resemble some of the questions you have asked the policy committees to grapple with as they decide whether to forward various credits on to you for renewal.

- First, we wanted to know whether a particular tax break even had a statutory policy goal it was intended to pursue. • A very common statement we find in the

TER is the following: *“The statute that allows this expenditure does not explicitly state a purpose. Presumably, ...”* and then DOR goes on to make an educated guess as to what the purpose actually was. The problem is, without a destination in mind, how do we know we’re on the right road?

- Next, related to the goal (if any), are there desired, measurable objectives against which the tax break program can be measured? Such objectives are even less evident in the TER than clear goals.
- I would recommend that if you find goals and objectives lacking for tax breaks that come before you, try to draft amendments to the statutes that correct this omission, and then use them to make an objective evaluation of whether the program is performing accordingly.
- If not, you would then have some options:

1. • Terminate the program
2. • Work with proponents to make immediate changes to address problems
3. • Ask proponents to come back in a future session with a “new, improved product”

- The next criterion asks whether a particular tax break is the most efficient **approach** to pursue the desired outcomes (again, assuming they are defined). I have heard you ask the right question in several previous meetings; that is, wouldn’t it be better to design a General Fund program to pursue this issue, and make that program compete alongside all the other critical priorities for funding?

- The criteria include some that address whether the program is **efficiently** designed.
- Are other programs pursuing the same goals?
- Do benefits exceed costs?
- Are the rewards big enough to motivate the desired response?
- Are most of the benefits simply windfalls – that is, rewards for doing what you’d be doing anyway? You have heard me complain before about tax breaks like the R&D credit and senior medical deduction that either just add a tiny Oregon benefit on top of a big federal one, or for some other reason is unlikely to motivate taxpayers to change their behavior at all. Without a behavior change, a tax break simply rewards people for being wealthy and doing what wealthy people do. Of course, if goals and objectives are lacking, efficiency is just about impossible to assess.

- We also wanted to make sure it’s clear • who benefits from the tax break and how much. The TER does a pretty good job laying out this information for many tax breaks, including the one we’re discussing today. But in most cases, not so much.

- And finally, we thought it was important to make sure a tax break program was being **administered** effectively. Here we’re talking about such things as transparency, enforcement, and making sure we keep a reasonable sunset in place.

- Let’s take a close look at how the political contribution credit stacks up against the HSCO criteria, which I’ve condensed somewhat.

• Is there a clear statement of goals or measurable objectives? • The TER has the usual disclaimer about the lack of a stated purpose, and • hazards a guess that your predecessors wanted to “increase participation.” But what does that really mean? To what end? Participation by whom? By the upper-income taxpayers who use the vast majority of the tax credit, or by the lower-income folks who are vastly under-represented in political influence? If we’re going to take \$50 million of public funds that could hire school teachers or leverage another \$100 million of federal funds to care for vulnerable seniors, let’s at least be clear about why we’re doing it. So I would say no, the program lacks clear goals and objectives.

• What about efficiency? • The Secretary of State is refreshingly candid on this point: we don’t know. I’m guessing that with clearer goals and objectives we could make a better evaluation. • You may be interested to know that the group Followthemoney.org tracks some state-level contributions. I picked some comparators and found that per-capita giving to statewide candidates is higher in Oregon than in our neighbors. It’s also higher than Texas or Florida, states that along with Washington • don’t have a personal income tax or, perforce, a credit like ours. This data lends limited credence to the idea that the credit may increase participation, although it does include business giving but **not** local candidates or issue campaigns.

• The credit does seem to be well-targeted and avoids redundancy with other state programs.

• Now, about avoiding negative result such as windfalls. According to my analysis of ORESTAR data, around 60% of all individual donors exceed the \$100 threshold amount in a given year, so they would be giving to campaigns or PACs even without the credit.

The program does seem to be finely honed, which it should be after 40-some years in operation.

Just a word about transparency and annual reporting. • This is how the state of Washington reports contributions and expenditures on the Public Disclosure Commission’s website. You can drill down for detailed information on individual candidates and committees for both current and past election cycles. It would be great to achieve this level of transparency in Oregon. The Elections Division, through ORESTAR, does allow anyone to search and download transactions if you know how to do it, but doesn’t provide this kind of summary data or other reporting on contributions and expenditures.

• The Secretary of State’s evaluation concludes *“It is difficult to determine whether this expenditure has been effective in achieving its purpose,”* citing the 5.1% participation rate since 1990. Somehow, we need to improve our metrics in order to be able to answer this very basic question.

- I understand that victorious candidates – like some people in this room – may harbor great fondness for the credit, which has been a unique feature of our political landscape for a long time. But in the context of the criteria I've presented, I suggest that it fails on several fronts and needs some specific changes.
- I keep harping on the lack of goals and objectives, but I think this is really important. I hope you will do the work of establishing these benchmarks not only for the political contribution credit, but also for the others that come before you. Once that work is done, it will become easier to decide whether a particular tax break is doing what you really want it to do.
- Second, I agree with the many groups and individuals who are recommending a means test to curtail the windfall element. • Eliminating the credit for earners over a reasonable threshold could save as much as half the cost of the credit, or \$25 million between now and the next sunset. I'm sure somebody could figure out a good way to deploy those funds, and at any point your future selves could decide whether to make any other tweaks in the measure. • I would not recommend a phase-out, which would just add unnecessary complexity to a benefit of just one thousandth of a taxpayer's income.
- And third, you might consider making the credit refundable. That would make it accessible to very low-income people. I wouldn't expect many to take advantage of it, because of the timing issue, but it's worth consideration for basic fairness.

In summary, the political contribution credit is expensive, and has cost the state hundreds of millions of dollars over the four decades it's been in place. I hope you will consider making some needed improvements before deciding to renew it.

Thanks for your attention today.