Oregon's 2013-15 Tax Expenditure Report

Presented by
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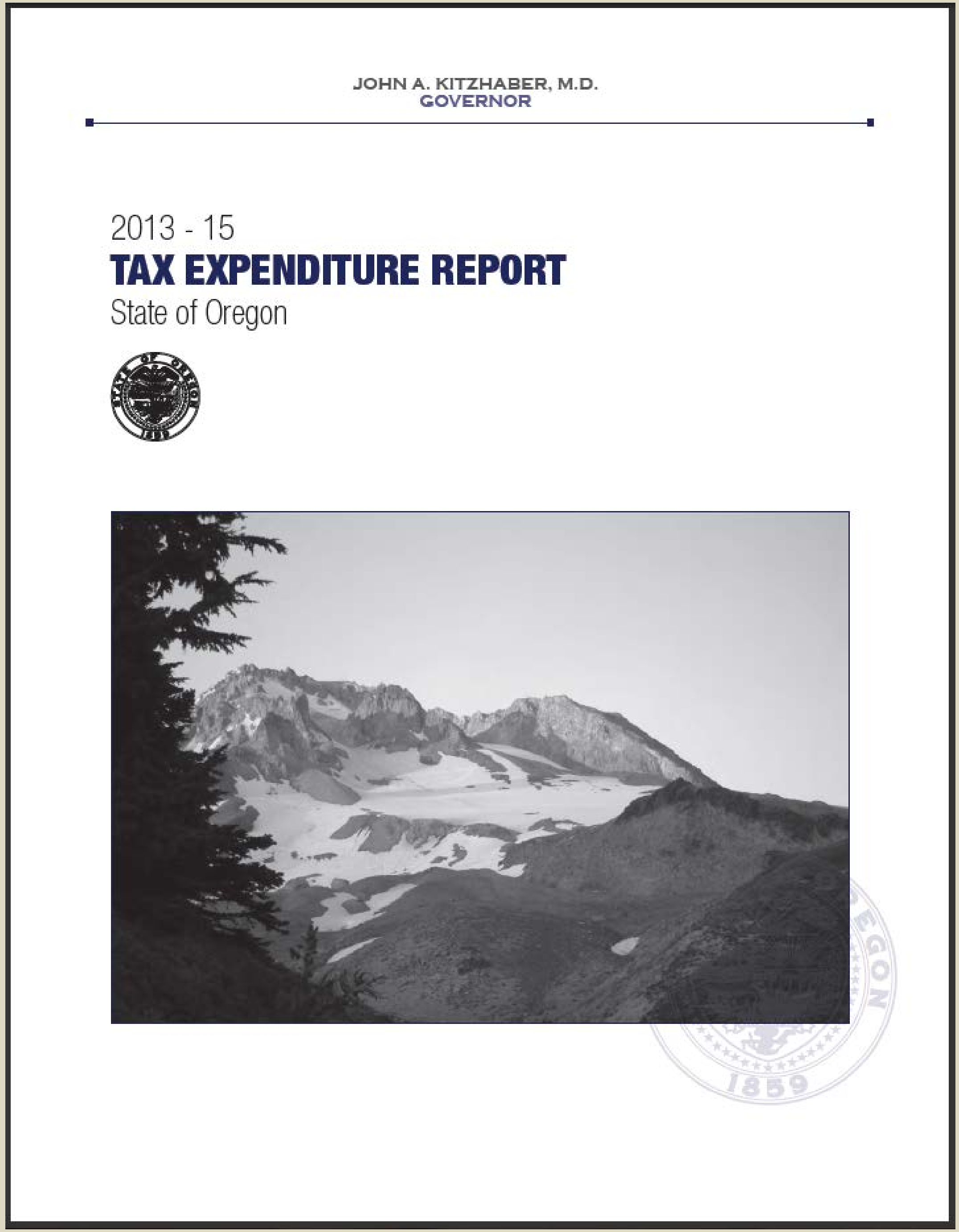
Oregon Department of Revenue,
Research Section

Senate Finance and Revenue
Committee Meeting,
February 6, 2013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GOVERNOR

2013 - 15
TAX EXPENDITURE REPORT
State of Oregon

Tax Expenditure Defined:

"…any law of the Federal Government or this state that exempts, in whole or in part, certain persons, income, goods, services or property from the impact of established taxes, including but not limited to tax deductions, tax exclusions, tax subtractions, tax exemptions, tax deferrals, preferential tax rates and tax credits."

Oregon Laws 1995, Chapter 746
(Appendix A of the report)

Four conceptual categories of tax expenditures

Relatively more feasible to choose between tax expenditure or direct spending	1. Provide economic incentives to encourage specific taxpayer behavior	2. Provide financial assistance to certain groups of taxpayers
Relatively immutable, may not be feasible to reduce or eliminate the tax expenditure	3. Prohibited by federal law	4. Simplifying or reducing the cost of tax administration

Oregon’s biennial Tax Expenditure Report is required by the **1995 Budget Accountability Act**.

The Act states that tax expenditures are similar to direct expenditures.

“The tax expenditure report will allow tax expenditures to be debated in conjunction with online budgets...”

Oregon Laws 1995, Chapter 746 (Appendix A of the report)
ORS 291.195

1.404 RURAL MEDICAL PRACTICE

Oregon Statute: 315.613, 315.616, and 315.619
Sunset Date: 12-31-2013 (for new certifications); 12-31-2023 (for those that qualify in 2013)
Year Enacted: 1989

	Corporation	Personal	Total
2011–13 Revenue Impact:	Not Applicable	$17,000,000	$17,000,000
2013–15 Revenue Impact:	Not Applicable	$16,900,000	$16,900,000

NOTE: The revenue impact estimate includes the effect of the sunset.

DESCRIPTION: A nonrefundable credit of up to $5,000 against personal income taxes is allowed to certain rural medical providers. They cannot carry forward any unused portion. The amount of the credit is prorated for nonresidents and part-year residents. Currently, no new certifications are allowed after 2013 when the credit is scheduled to sunset. However, those who are eligible for the credit in tax year 2013 have an extended sunset date. They can claim the credit for any tax year that they meet the eligibility requirements through 2023. The original statute covered physicians, physician assistants, and nurse practitioners. Certified registered nurse anesthetists were added in 1991, podiatrists and dentists in 1995, and optometrists in 1997.

The credit may be claimed each year as long as the health practitioners maintain their eligibility. Before 1999, there was a 10-year limit for claiming this credit.

The requirements for eligibility vary by type of provider. At least 60 percent of the provider's practice, in terms of time, must be spent in a qualifying rural area to receive the credit. For this provision, 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 area, Salem, Eugene/Springfield, Medford, Bend, and Corvallis/Albany. In addition, physicians on staff of a hospital in a metropolitan statistical area (MSA) are not eligible, with the exception of Florence in Lane County and Dallas in Polk County (2001 legislation).

Legislation in 2009 set the December 31, 2013 sunset date for this provision (for new certifications). The 2009 legislation also provided an extended sunset date of December 31, 2023 for providers who qualify for the credit during the 2013 tax year. These providers can continue to claim the credit through 2023 for any year they meet the eligibility requirements.

PURPOSE: The statutes that allow this expenditure do not explicitly state a purpose. Presumably, the purpose is to encourage the establishment and continuation of medical practices in underserved rural areas.

WHO BENEFITS: Medical professionals who qualify for this $5,000 tax credit. For the 2011 tax year, 2,009 practitioners were certified by the Office of Rural Health for the credit. The ultimate beneficiaries of this program are rural Oregonians who might otherwise have no health care available to them in their area. The table below shows usage of this credit for tax year 2010. Note that two joint personal income tax filers could each qualify for and claim the credit; this is why the average revenue impact of the credit is above the $5000 credit limit for individuals for one of the income group filer categories.

2010 Personal Income Tax Filers

Income Group of Full-Year Filers*	Number of Filers Using Credit	Average Revenue Impact of Credit	Revenue Impact ($ millions)	Percent of Revenue Impact by Income Group
Below $12,100	<10	$47	<$0.1	<0.1%
$12,100 - $25,000	<10	$180	<$0.1	<0.1%
$25,000 - $44,100	20	$1,594	<$0.1	0.4%
$44,100 - $77,000	130	$2,849	$0.4	4.7%
Above $77,000	1,470	$5,050	$7.4	94.8%
All Full-Year Filers	1,640	$4,774	$7.8	100.0%
Part-Year and Nonresident Filers	190	$3,123	$0.6	

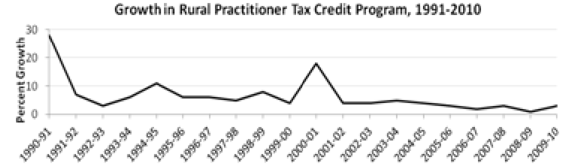
*Each income group contains 20 percent of the full-year filers (approximately 316,000)

EVALUATION: *by the Office of Rural Health*

This tax credit appears to have originally achieved its purpose by attracting new practitioners to rural communities and retaining existing practitioners. A year-by-year analysis of the Office of Rural Health's tax credit data base shows an impressive net gain of 1,494 practitioners in rural areas eligible for the tax credit since 1990.

The tax credit has been most successful in attracting new nurse practitioners to rural areas, and their figures have grown from 61 in 1990 to 425 for tax year 2010. Initially, Oregon experienced a remarkable gain in rural physicians and other practitioners, but that growth is slowing:

Growth in Rural Practitioner Tax Credit Program, 1991-2010



Reasons for the decreasing growth rate may include (1) a general shortage in health care workforce statewide; (2) aging of the overall workforce (the greatest concentration of physicians is now in the 51-60 age group — much higher than the rest of the population); and (3) perhaps most significantly, the tax credit has not increased for 20 years, while the medical consumer price index has risen substantially.

The marginal increases in recent years does not in any way indicate that adequate numbers of health care practitioners have been recruited to serve the needs of rural Oregonians. In 2009, urban Oregon had 335 physicians per 100,000 population. In rural Oregon, the measure was 135 per 100,000.

Organized by budget program or function

Statutory authority

Revenue loss estimates for current and subsequent biennia

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Purpose statement

Implicit, “presumably” 1.404 Rural Medical Practice

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Also implicit *Example:* 1.328 Interest and Dividends on U.S. Obligations

PURPOSE: To comply with federal law prohibiting states from taxing interest and dividends on U.S. government obligations.

Explicit *Example:* 1.417 Reservation Enterprise Zone (Income Tax)

PURPOSE: “To remove the tax disincentives that currently inhibit private business and industry from locating and operating enterprises within the boundaries of the rural Indian reservations of this state.“ (ORS 285C.303)

Provide information about the beneficiaries of the tax expenditure

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Evaluation

Does the tax expenditure accomplish its purpose?

Is the tax expenditure the most fiscally effective means of accomplishing its purpose?

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SUMMARY OF OREGON TAX PROGRAMS WITH TAX EXPENDITURES (Dollars in Millions)

Tax Program	Number	Estimated Revenues 2013-15 ($ in Millions)	Revenue Impact 2011-13 ($ in Millions)	Revenue Impact 2013-15 ($ in Millions)
Income (Personal and Corporate)	211	$14,487.7	$11,464.4	$12,496.7
Federal Exclusions	67		$5,602.8	$6,193.5
Federal Adjustments/Deductions	48		$2,548.0	$2,657.7
Oregon Subtractions	28		$1,580.3	$1,852.7
Oregon Credits	63		$1,600.7	$1,624.1
Other Oregon Provisions	5		$132.6	$168.7
Property	127	$10,700.0	$21,481.2	$23,513.7
Full Exemption	91		$20,734.3	$22,602.4
Partial Exemption	22		$270.4	$386.8
Special Assessment	13		$476.5	$524.5
Other Assessment	1		$0.0	$0.0
Gas and Use Fuel	5	$1,034.4	$19.2	$19.7
Weight-Mile	7	$581.9	$21.4	$23.2
Cigarette & Other Tobacco	5	$481.0	$2.7	$2.8
Beer and Wine	2	$36.3	$3.4	$3.7
Other State Taxes	16	$415.0	$10.4	$6.6
All Taxes	373	$27,736.3	$33,002.7	$36,066.4

Top 10 Income Tax Expenditures

Tax Expenditure	2013-15 Revenue Impact ($ Millions)	Percent of Total
Home Mortgage Interest	1,335	11%
Employer Paid Medical Benefits	1,308	10%
Pension Contributions and Earnings	1,199	10%
Personal Exemption	1,121	9%
Federal Income Tax Subtraction	864	7%
Social Security Benefits (Federal)	613	5%
Capital Gains on Inherited Property	562	4%
Social Security Benefits (Oregon)	535	4%
Property Taxes	383	3%
Cafeteria Plan Benefits	350	3%
Subtotal	8,269	66%
All Others	4,228	34%
Total	12,497	100%

Top 10 Property Tax Expenditures

Tax Expenditure	2013-15 Revenue Impact ($ Millions)	Percent of Total
Intangible Personal Property	13,687	58%
State and Local Property	2,434	10%
Federal Property	2,229	9%
Personal Property for Personal Use	1,339	6%
Motor Vehicles and Trailers	930	4%
Inventory	734	3%
Western Private Standing Timber	508	2%
Farmland	344	1%
Strategic Investment Program	322	1%
Charitable, Literary, and Scientific Organizations	158	1%
Subtotal	22,685	96%
All Others	829	4%
Total	23,514	100%

Notes on the Revenue Estimates

- Static estimates
- Interactions between expenditures
- Different than potential yield
- Loss and shift (property tax estimates)
- Based upon current law (both OR & Federal)

TAX EXPENDITURES SCHEDULED FOR SUNSET IN 2013–15

As part of the 1995 Budget Accountability Act, the governor is required to identify each tax expenditure that has a full or partial sunset occurring in the coming biennium and prepare a recommendation that indicates whether the full or partial sunset should be allowed to take effect. Below are those tax expenditures.

	PERSONAL AND CORPORATE TAX EXPENDITURE	TYPE	OREGON STATUTE	SUNSET	2013-15 REVENUE IMPACT ($000)	2013-15 COST TO EXTEND ($000)	GOVERNOR'S RECOMMENDATION
1.311	Investment of Severance Pay	Subtraction	316.856(2)	12/31/2013	Less than 100	Less than 100	Extend sunset
1.314	Mobile Home Park Capital Gain	Subtraction	Note: 316.791/Note: 317.401	12/31/2013	Less than 100	Less than 100	Extend sunset
1.401	Contributions of Computer Equipment	Credit	317.151	12/31/2013	Less than 100	Less than 100	Extend sunset
1.402	Employer Provided Scholarships	Credit	315.237	12/31/2013	Less than 100	Less than 100	Extend sunset
1.403	Earned Income Credit	Credit	315.266	12/31/2013	32,500	32,700	Extend sunset
1.404	Rural Medical Practice	Credit	315.613/315.616/315.619	12/31/2013	16,900	700	Extend sunset
1.405	Volunteer Rural Emergency Medical Technicians	Credit	315.622	12/31/2013	Less than 100	200	Extend sunset
1.419	Renewable Resource Equipment Manufacturing Facilities	Credit	315.341	12/31/2013	61,000	1,300	Extend sunset
1.427	Farmworker Housing Construction	Credit	315.164	12/31/2013	1,800	200	Extend sunset
1.428	Farmworker Housing Lender's Credit	Credit	317.147	12/31/2013	Less than 100	Less than 100	Extend sunset
1.433	Mobile Home Park Closure	Credit	Note: 316.116	12/31/2013	Less than 100	Less than 100	Extend sunset
1.454	Mile-Based or Time-Based Motor Vehicle Insurance	Credit	Note: 317.122	12/31/2014	N/A*	Less than 100	Extend sunset
1.458	Political Contributions	Credit	316.102	12/31/2013	6,900	7,500	Extend sunset
1.460	Oregon Cultural Trust	Credit	315.675	12/31/2013	3,300	3,300	Extend sunset
1.461	Retirement Income	Credit	316.157	12/31/2013	400	900	Extend sunset

FYs 2011-13 & 2013-15 Revenue Loss by Subject Area

(*Denotes Tax Expenditure in More than One Subject Area)

Subject Category	FY 2011-13 Revenue Loss ($000's)	FY 2013-15 Revenue Loss ($000's)
Agriculture		
Arts/Culture		
Charitable Organizations		
Economic Development		
Education		
Employee Benefit		
Energy		
Environment/Conservation		
Family Support		
Federal Law Prohibits		
Financials/Insurance		
Forestry		
Health Care		
Housing		
Lower Income Assistance		
Military		
Other Untaxed Income/Property		
Recreation		
Retirement		
Senior and Disabled		
State and local Government		
Tax Administration		
Transportation		
Utilities		

FYs 2011-13 & 2013-15 Revenue Loss by Subject Area

(*Denotes Tax Expenditure in More than One Subject Area)

Subject Category	FY 2011-13 Revenue Loss ($000's)	FY 2013-15 Revenue Loss ($000's)
Agriculture	486,100	530,100
Arts/Culture	38,700	36,200
Charitable Organizations	566,800	622,100
Economic Development	671,600	666,500
Education	170,300	172,300
Employee Benefit	1,764,400	2,012,600
Energy	256,100	286,500
Environment/Conservation	239,300	254,900
Family Support	82,600	84,000
Federal Law Prohibits	2,234,300	2,295,900
Financials/Insurance	26,800	29,800
Forestry	649,700	739,000
Health Care	2,576,400	2,922,100
Housing	1,592,900	1,777,100
Lower Income Assistance	172,600	139,900
Military	229,200	250,400
Other Untaxed Income/Property	3,056,000	3,223,100
Recreation	32,400	32,400
Retirement	1,239,200	1,484,600
Senior and Disabled	1,398,300	1,537,900
State and local Government	2,421,800	2,556,900
Tax Administration	15,409,000	17,041,200
Transportation	964,800	1,009,900
Utilities	35,100	35,600

Senior and Disabled		
Income		
1.016 - Social Security Benefits (Federal)	579,900	613,100
1.307 - Social Security Benefits (Oregon)	476,200	534,500
*1.203 - Medical and Dental Expenses	172,100	181,500
*1.306 - Additional Medical Deduction for Elderly	152,500	187,000
1.411 - Severe Disability	8,600	9,300
1.305 - Additional Deduction for Elderly or Blind	8,200	8,000
*1.204 - Removal of Architectural Barriers	600	600
1.410 - Loss of Limbs	Less than 100	Less than 100
*1.409 - Elderly or Permanently Disabled	Less than 100	Less than 100
Property		
2.007 - Senior Services Centers	200	200
*2.114 - Nonprofit Housing for the Elderly	Less than 100	Less than 100
*2.025 - Nonprofit Elderly Housing State Funded	0	3,700

Retirement		
Income		
1.014 - Pension Contributions and Earnings	998,100	1,199,400
1.323 - Federal Pension Income	127,600	127,600
1.106 - IRA Contributions and Earnings	105,500	149,700
*1.030 - Employee Stock Ownership Plans	6,700	7,500
1.461 - Retirement Income	1,300	400
1.059 - Deferral of Interest on Savings Bonds	Less than 100	Less than 100

http://www.oregon.gov/dor/STATS/Pages/tax-expenditure-report-2013-2015.aspx

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