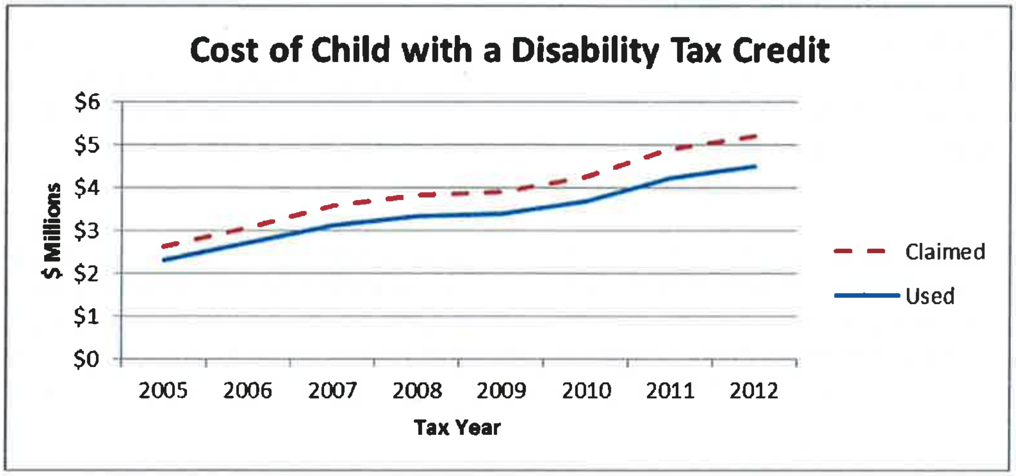


Policy Analysis

Because the policy objectives of the four tax credits included in this section are substantially similar, the impact analysis is provided once at the end of this section, following the tax credit for Severe Disability.

Other Issues

Because this tax credit is simply an additional personal exemption credit, administrative costs are likely to be minimal and marginal.

Elderly or Permanently Disabled

ORS 316.087	Year Enacted:	1969	Transferable:	No
	Length:	1	Means Tested:	Yes
	Refundable:	No	Carryfoward:	No
TER 1.409	Kind of cap:	Taxpayer	Inflation Adjusted:	No

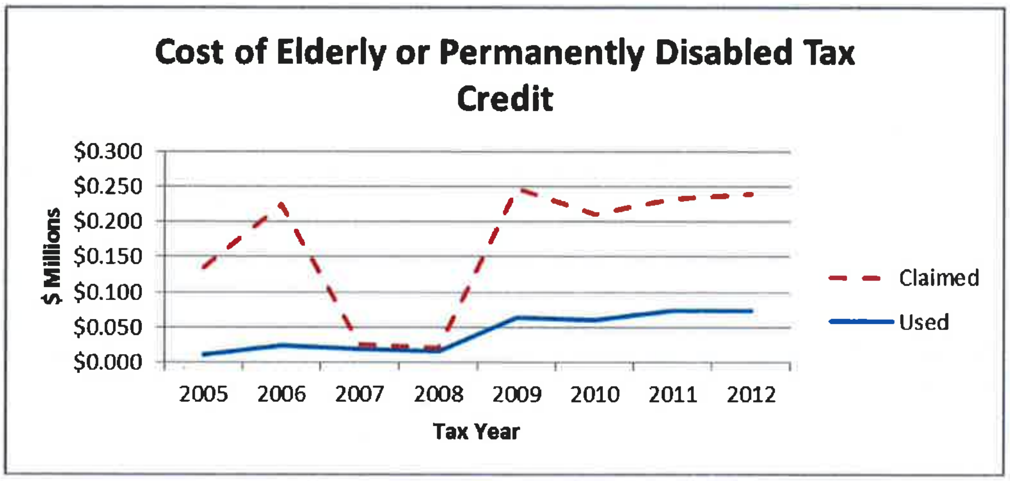
Policy Purpose

Because this provision is not an incentive to encourage a specific kind of behavior, a reasonable assumption is that the intent is to provide financial assistance to lower income elderly or permanently disabled taxpayers. This approach could help promote the concept of horizontal equity within the tax system.

Description and Revenue Impact

Individuals who claim the federal Elderly or Disabled Tax Credit are eligible for a similar Oregon credit against personal income taxes. The federal credit can be as much as $5,000 for single filers and $7,500 for joint filers. The amount of the credit is 40 percent of the federal credit. Taxpayers claiming the state Retirement Income credit (TER 1.458) are ineligible to claim this credit.

The graph below shows the recent history of use of the tax credit. While the amount claimed has varied somewhat over time, the amount actually used to offset tax liability reflects a smoother growth trend. This tax credit is claimed by fewer than 1,500 taxpayers each year and accounts for a total tax reduction that was about $20,000 in 2005 and grew to about $75,000 in 2012. The average tax reduction was roughly $55.



Policy Analysis

See the end of the section (following the Severe Disability tax credit) for an analysis of this tax credit.

Loss of Limbs

ORS 316.079	Year Enacted:	1973	Transferable:	No
	Length:	1	Means Tested:	No
	Refundable:	No	Carryfoward:	No
TER 1.410	Kind of cap:	Taxpayer	Inflation Adjusted:	No

Policy Purpose

Because this provision is not an incentive to encourage a specific kind of behavior, a reasonable assumption is that the intent is to provide financial assistance to taxpayers who have lost the use of at least two limbs and help promote the concept of horizontal equity within the tax system.

Policy Analysis (for all four tax credits)

The analysis of these tax credits is fundamentally different from the analysis for other tax credits. These four tax credit are not incentives to encourage a certain kind of behavior. It seems the most likely explanation for these tax credits is to provide financial assistance and offset, is some way, costs associated with having a disability. Also, these policies could help promote the concept of horizontal equity within the tax system. There has been some research on the use of tax expenditures related to disabilities. Two such papers are briefly summarized here.

One paper focuses on the idea that tax expenditures for disabilities should focus on the differences in the ability-to-pay between disabled and non-disabled individuals. (Seto and Buhai) The authors argue that the low utilization of the federal tax credit for the elderly or disabled indicates that it should be repealed. They argue that credits for the costs of in-home care are more beneficial to individuals with disabilities. To that end, they also argue that a more equitable approach to structuring tax expenditures would be a focus on credits or deductions specifically for costs incurred due to a disability.

Other research has focused on the use of refundable tax credits. (Phillips) The author argues that switching from non-refundable tax credits to refundable tax credits will more effectively meet the needs of the disabled. Similarly, she argues that income exclusions and deductions are most valuable to taxpayers with higher incomes. The author describes the advantages of using the tax system as a benefit delivery system because it includes less of a stigma compared to direct payment welfare programs, and tax-based programs help shift health consumption toward a more privatized, home-based model of caregiving. She notes certain drawbacks including the lack of a direct budget allocation and less flexibility in meeting specific needs of the disabled.

Other Issues

The administrative costs are mostly born by the DOR and taxpayers. For the DOR the costs are likely to be marginal for the four credits and driven by the processing and auditing functions because the department is able to rely on federal rules for most of the credits. For taxpayers it will be record keeping for potential tax audits.

Other states do have similar tax credits. Some states leverage the federal elderly and disabled tax credit in a manner similar to Oregon's tax credit. When reviewed collectively the general characteristics are described below. A more detailed table is provided in Appendix C.

Appendix D

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?

- 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?

- 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%?

- What background information on the effectiveness of this type of credit is available from other states?

- 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?

- What other incentives (including state or local subsides, federal tax expenditures or subsidies) are available that attempt to achieve a similar policy goal?

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